



GALT & TAGGART
CREATING OPPORTUNITIES

IT SECTOR IN GEORGIA

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IT sector in Georgia

CONTENT

Information and Communication Technologies sector (ICT) in Georgia

- Contribution of the sector to the economy and growth dynamics
- Export potential of the sector

IT sector in Georgia

- Sector revenue and export
- Employment and wages
- Workforce assessment
- IT companies
- Tax benefits
- Growth supporting factors
- Georgia in international rankings
- Sector potential

Annexes

KEY FINDINGS

Information and communication technology sector (ICT) has been the fastest-growing industry in Georgia since 2022, driven primarily by the IT sub-sector. The sector is focused on exports, which amounted to US\$ 892mn in 2023. The growth potential is high, as indicated by the comparison of exports per capita. In 2023, ICT exports per capita from Georgia stood at \$243, which is behind the levels of Armenia (\$362) and EU countries such as Portugal (\$442), Croatia (\$478), Slovenia (\$521), and Lithuania (\$818).

Turnover of the IT sector increased to GEL 2.4bn in 2023, of which GEL 2.1bn was generated by services export. The largest share of exports (26%) was directed to the USA, followed by UK (15%) and Malta (11%).

Factors contributing to the growth of the IT sector. The growth of the sector was initially boosted by tax incentives introduced in 2020. While, from 2022, the growth of the sector accelerated as a result of the relocation of international companies and IT specialists to Georgia after the Russia-Ukraine war. Other supporting factors include low internet prices, competitive co-working desk price and low living costs compared to other globally attractive locations. Attractiveness is also enhanced by acceptable environment for foreign specialists and favorable geographical location.

Workforce and wages. The number of employees in the IT sector in 2023 was 30.2 thousand people, according to our estimate, while the sector employed c.5,000 people in 2021. The average salary in this sector is GEL 6,940, which has doubled compared to 2021.

Number of companies. A total of 24,117 companies operate in the IT sector, with 72 companies classified as large and medium-sized enterprises. The majority of the remaining companies consist of foreign sole proprietors.

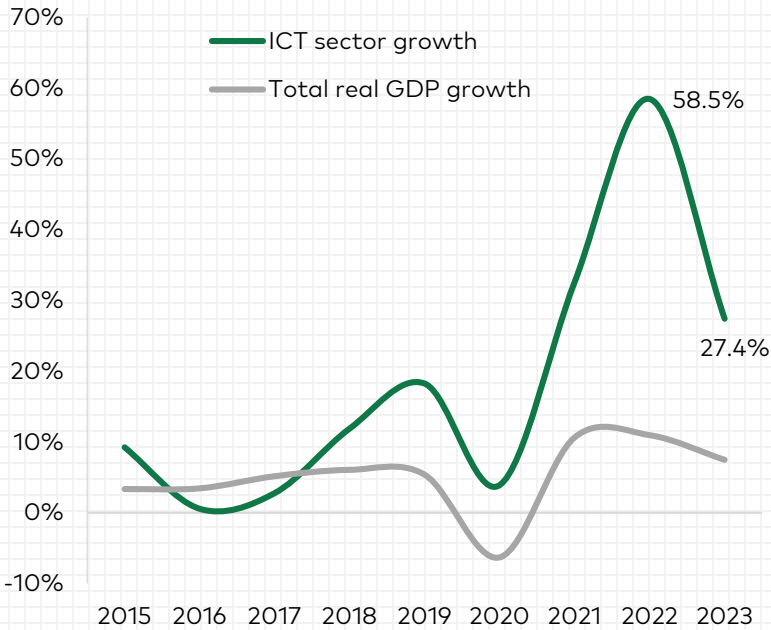
Challenges of the sector. The key challenges of the sector are the lack of qualified labor force (which are indicated in international indices) and low internet speed. Also, a possible outflow of specialists in the form of both migrants and locals.

The potential of the sector. Given the rapidly growing demand for IT services globally and the involvement of Georgian companies in global supply chains, the export potential is high and exports are expected to double in the medium term. Moreover, tapping into the local market enhances the industry's potential as the level of technology use by businesses in Georgia is low and significantly below the EU average. In order to utilize this potential, it is desirable to extend tax benefits on IT services provided in Georgia, which will accelerate economic growth and increase productivity.

ICT IN THE ECONOMY OF GEORGIA

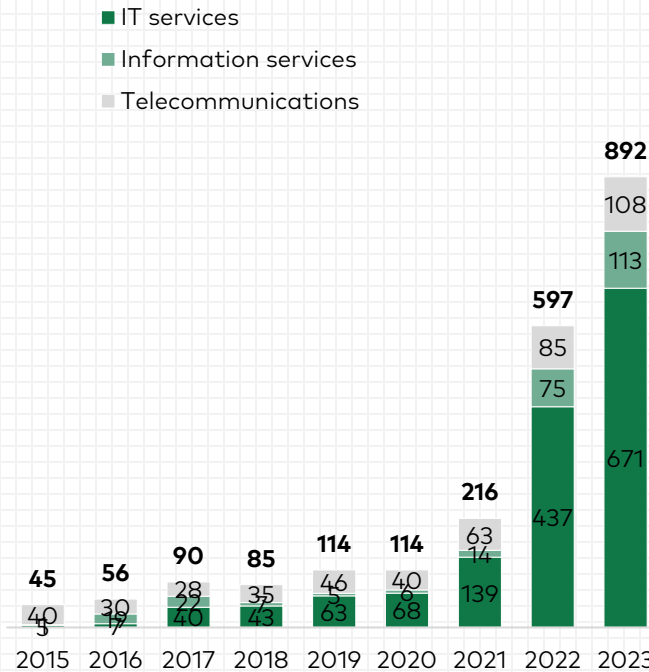
ICT is the fastest growing and export-oriented sector

Georgia's real GDP growth and ICT sector real growth



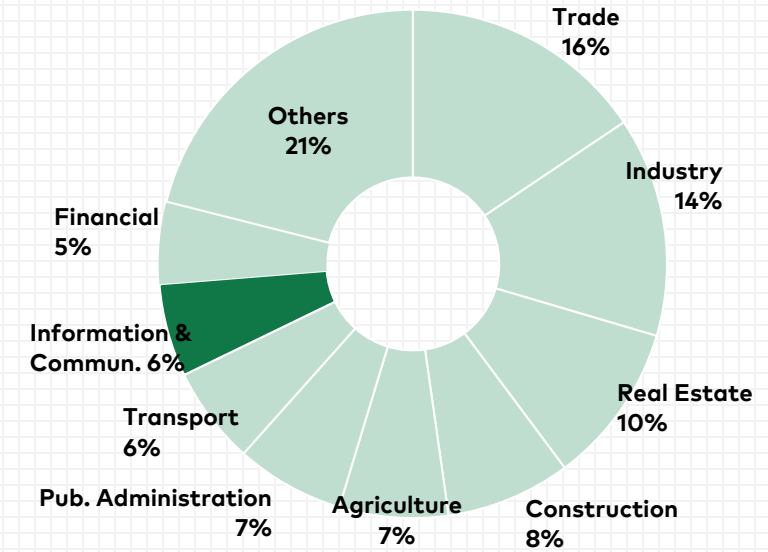
ICT sector is the fastest growing sector from 2022.

ICT sector export, \$ mn



The sector is export-oriented. Exports increased 4x over 2021-23 and stood at US\$ 892mn in 2023.

Economy by sectors, 2023

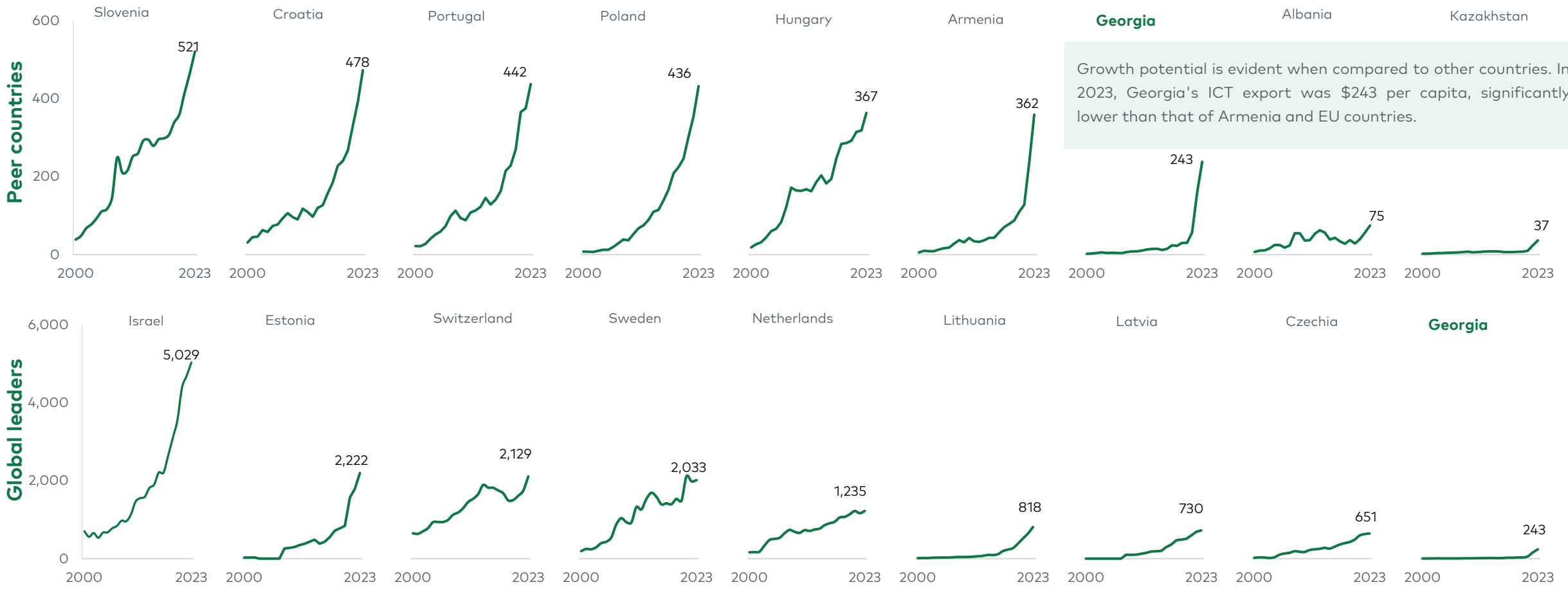


Due to its rapid growth, ICT has become the 8th largest sector of the economy.

EXPORT POTENTIAL

The export potential of ICT services remains largely untapped

ICT services export per capita - comparison with regional countries and global leaders, \$



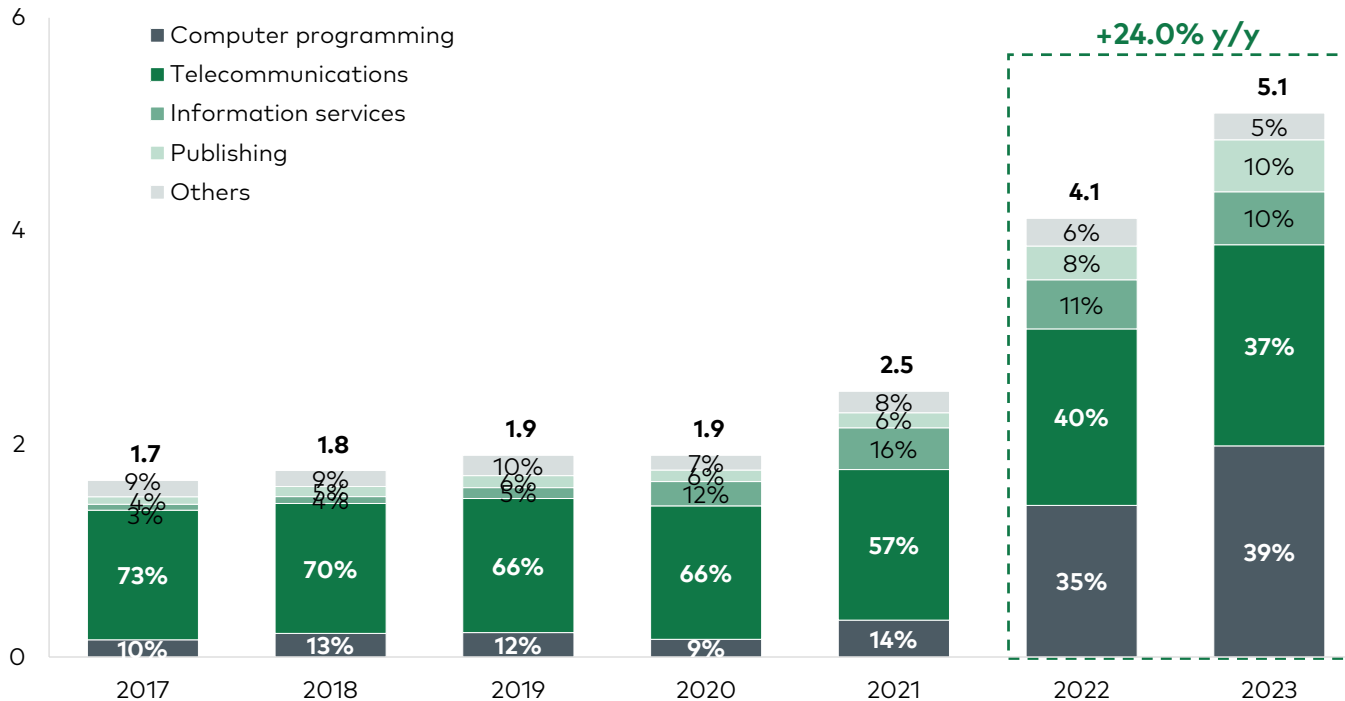
Growth potential is evident when compared to other countries. In 2023, Georgia's ICT export was \$243 per capita, significantly lower than that of Armenia and EU countries.

Source: World Bank, Galt & Taggart

SECTOR REVENUES

The main contributor to the growth of the ICT sector was the computer programming sub-sector

ICT sector revenue breakdown by sub-sectors, GEL bn



ICT sector growth accelerated significantly in 2022-23 and the turnover amounted to GEL 5.1bn in 2023. The main driver of growth was the computer programming sub-sector, namely:

- ● ● **Computer programming** sub-sector accounted for 39% of the total sector revenue in 2023, with CAGR of 51.9% over 2017-23.
- ● ● **Telecommunications** has traditionally been the largest sub-sector. However, in 2023 it moved to 2nd place, holding a 37% share.
- ● ● **Information services** sub-sector is around 10% of total ICT sector turnover and was the 2nd fastest growing sub-sector with a CAGR of 44.5% over 2017-23.
- ● ● **Publishing** sub-sector accounted for 10% of total ICT sector turnover and includes software and book publishing activities. The sector grew with a CAGR of 37.9% over 2017-23.

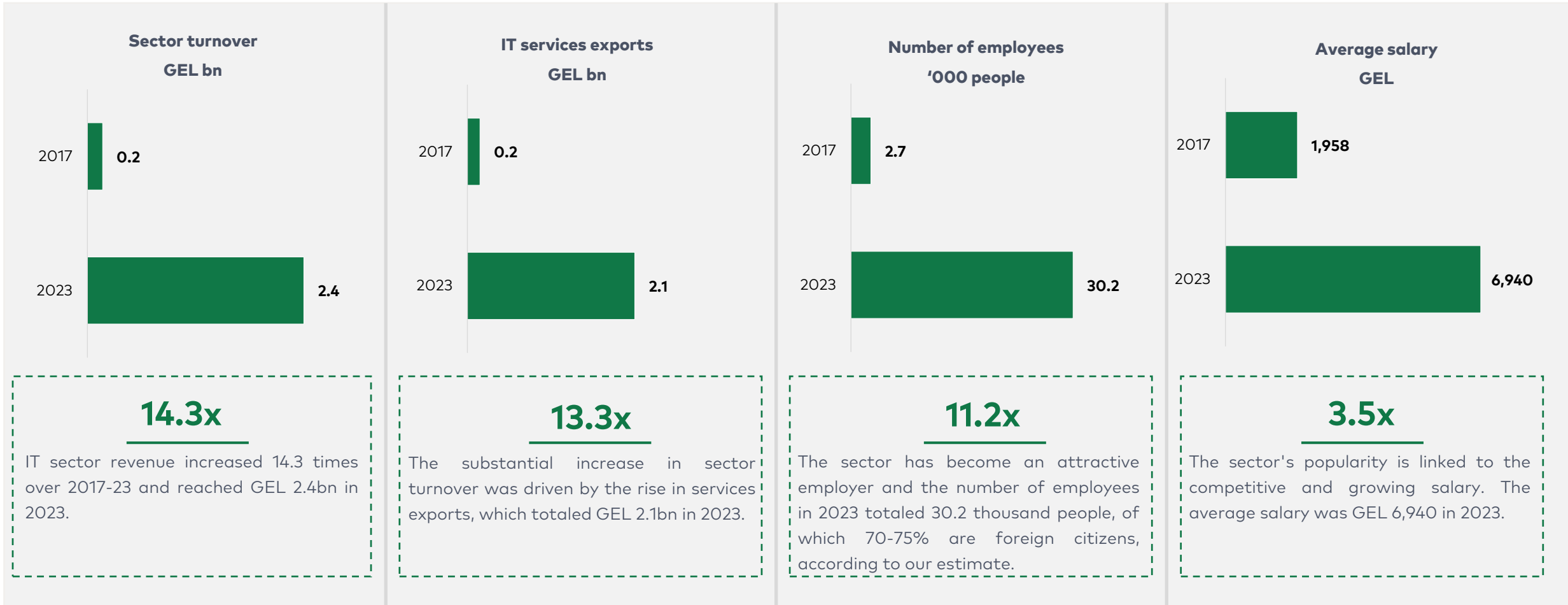


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IT sector

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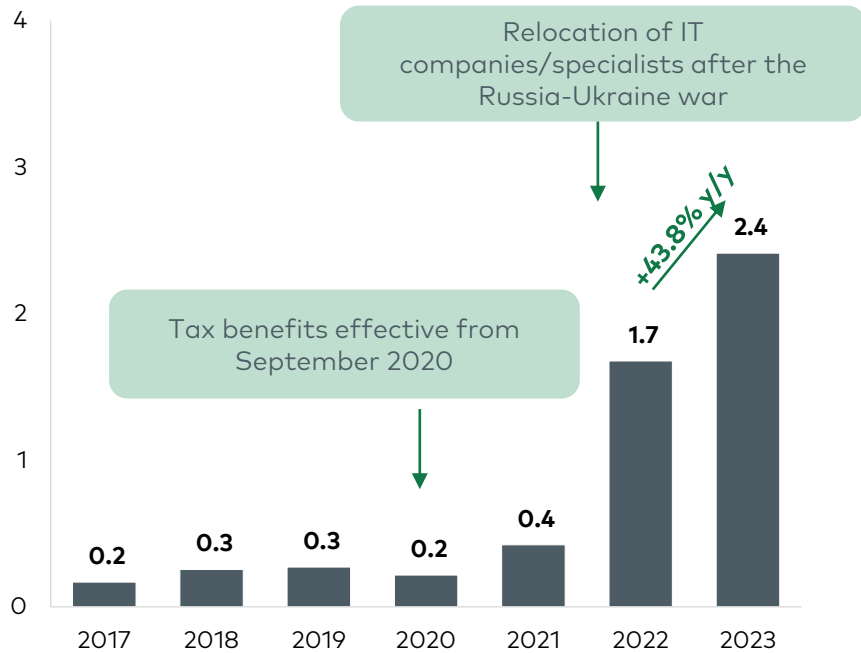
IT sector dynamics in 2017-23



REVENUE AND EXPORTS

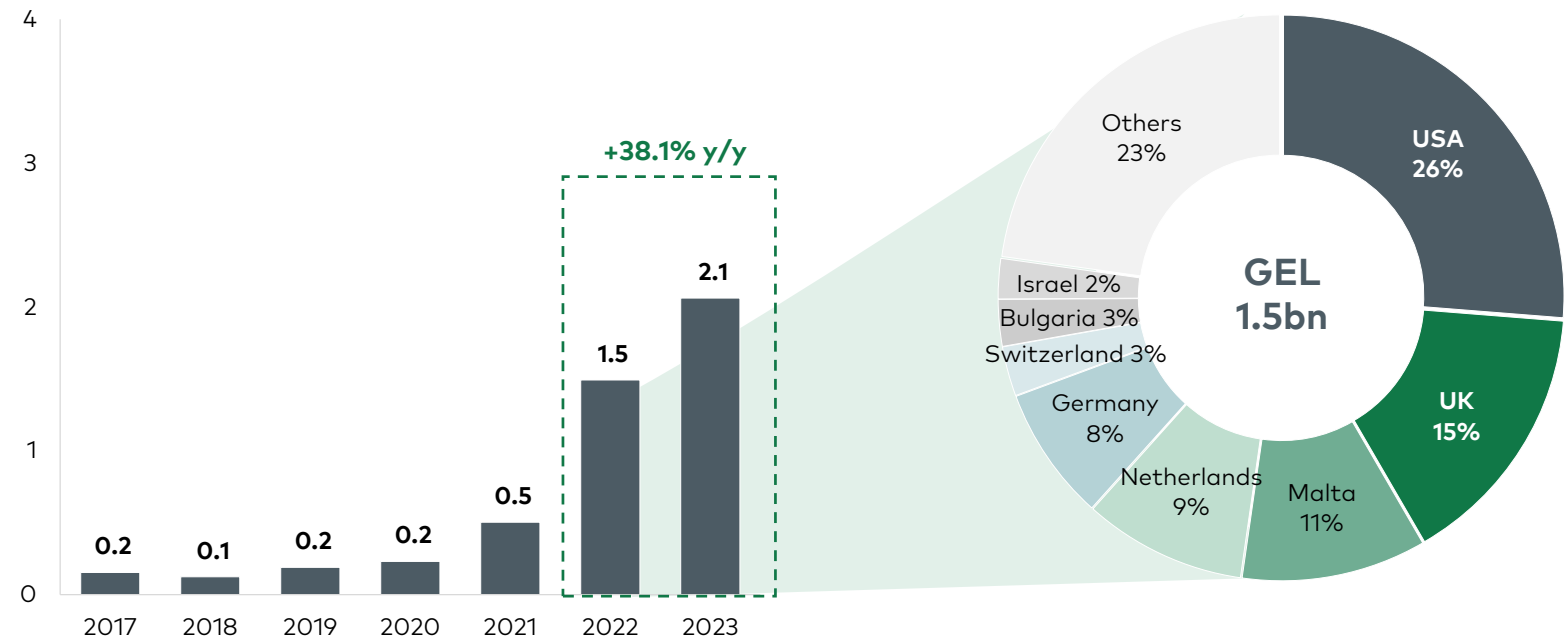
IT services export accounted for 85% of total IT sector revenues

IT sector revenues in Georgia, GEL bn



IT sector turnover has been on the rise since 2021, attributed to tax benefits and the relocation of IT companies following the Russia-Ukraine war.

IT services exports from Georgia, GEL bn

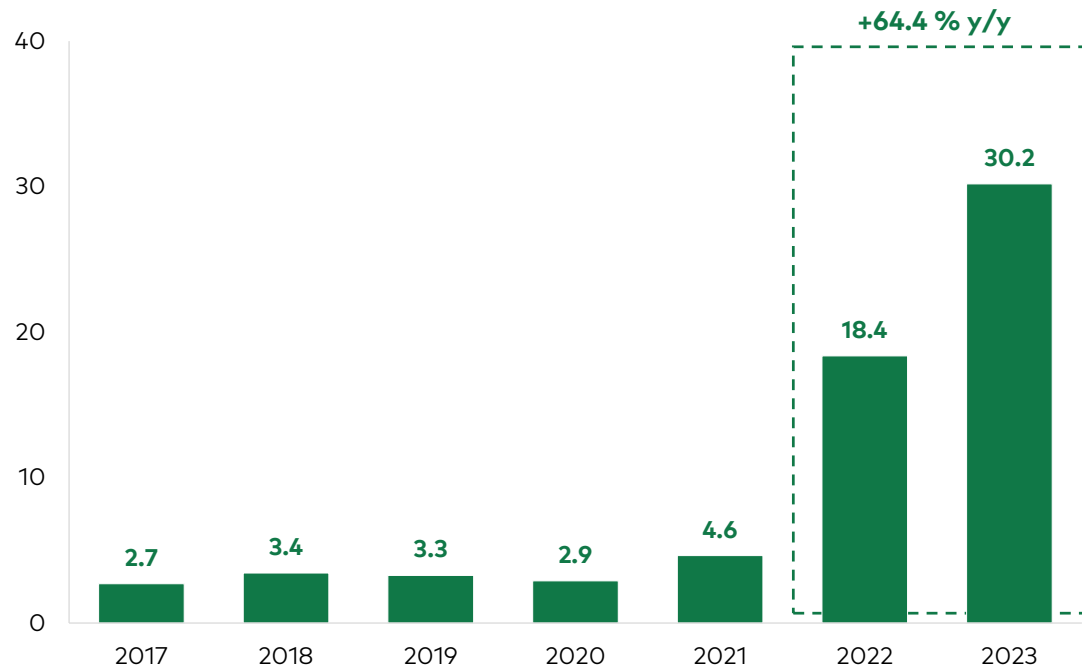


In 2023, 85.0% of IT sector revenues were generated by services exports. A 26% of exports were directed to the USA, 15% to the UK, 11% to Malta, and 9% to the Netherlands, based on 2022 data. The surge in exports is attributed to the relocation of international IT companies and specialists to Georgia.

EMPLOYMENT AND SALARIES

In 2022-23, employment has increased sharply and IT sector has become the highest paying sector

The number of employees in the IT sector , '000 people

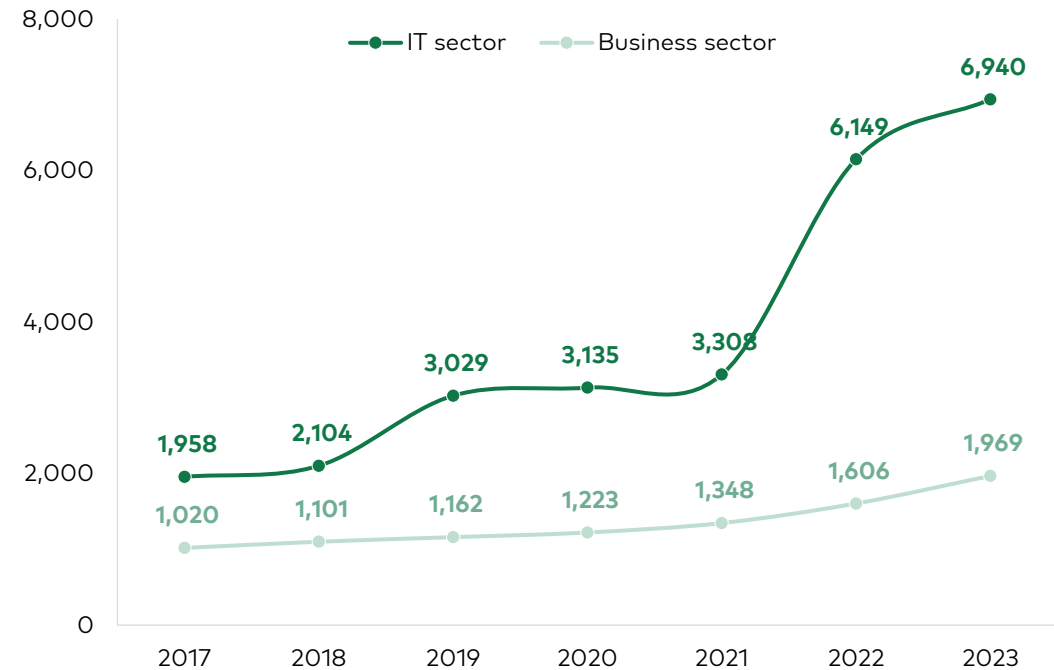


IT sector employment growth is related to the effect of migrants influx and the relocation of labor from other sectors. Based on our estimates, 70-75% of employees in the sector are foreign citizens.

Source: Geostat, Galt & Taggart

Note: 2023 is preliminary data

Average salary in IT sector and business sector, GEL

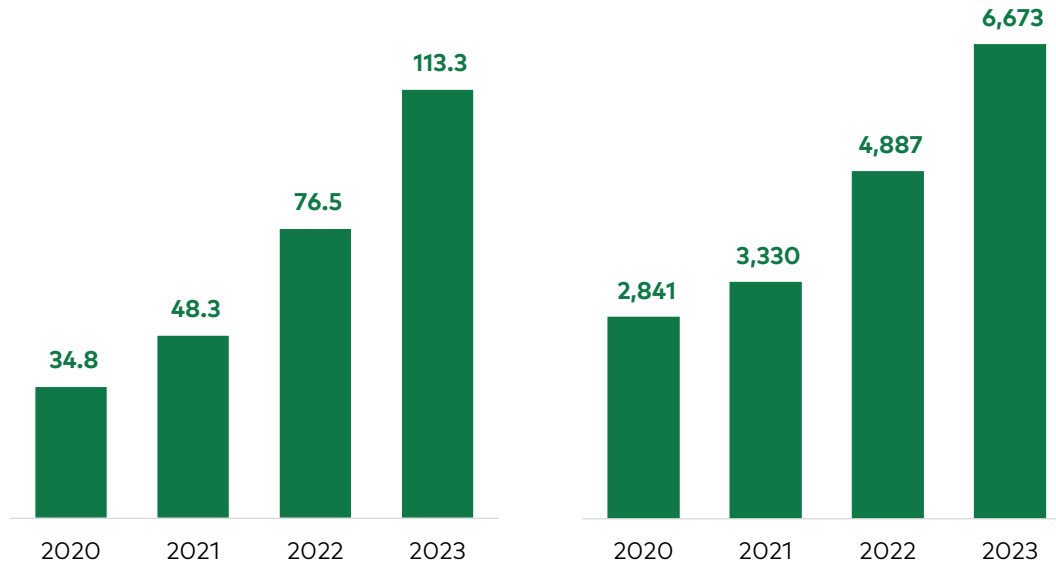


Average salary in IT sector was GEL 6,940 in 2023, which is 3.5x higher than the average salary in the business sector.

WORKFORCE ASSESSMENT

Number of IT specialists in the country is much higher than the figures given in the official employment statistics

Number of developers on Github from Georgia, '000

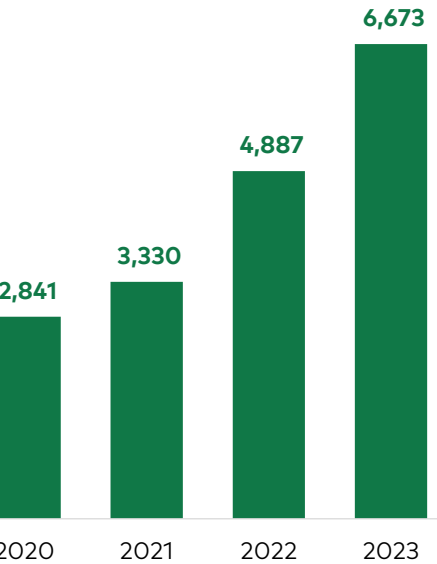


Number of developers on Github from Georgia has increased markedly and exceeded 110K as of 2023. This figure also reflects IT specialists employed in other sectors, so it can be considered as an approximate measure of the workforce in the country.

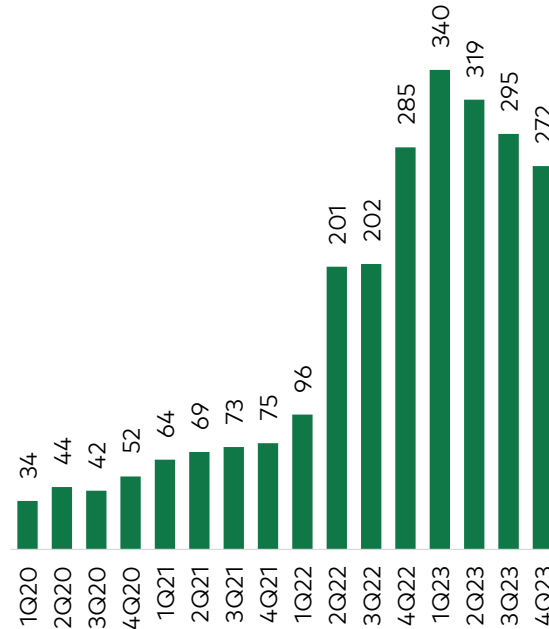
Source: Github (a platform for developer collaboration)

Note: The distribution of developers by programming language refers to the distribution of unique developers who wrote the code of the corresponding programming language at least once during the reporting period

Number of organizations on Github from Georgia

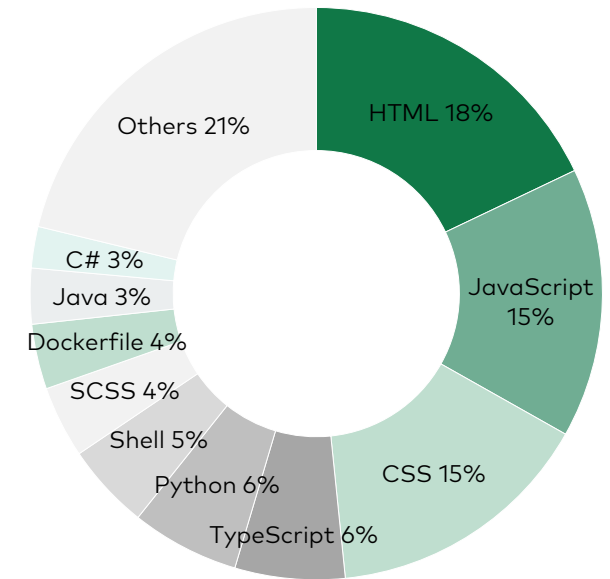


Number of codes uploaded on Github from Georgia, '000



The number of codes uploaded from Georgia reached its peak in the 1Q23, and the subsequent decrease can be related to the outflow of some migrants.

Distribution of developers on Github from Georgia by programming language, 2023

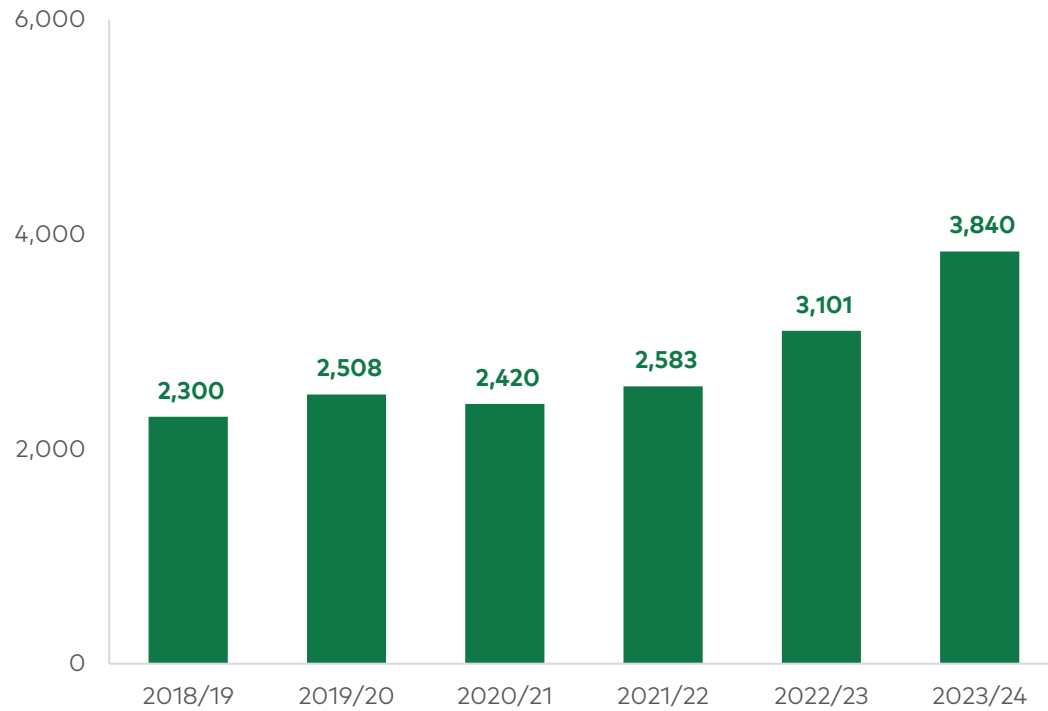


Most codes from Georgia uploaded on Github were written in HTML, followed by JavaScript and CSS.

TRAINING IT SPECIALISTS

IT profession is increasingly gaining popularity among university entrants

Number of enrolled students at the program of Computer Programming by academic year



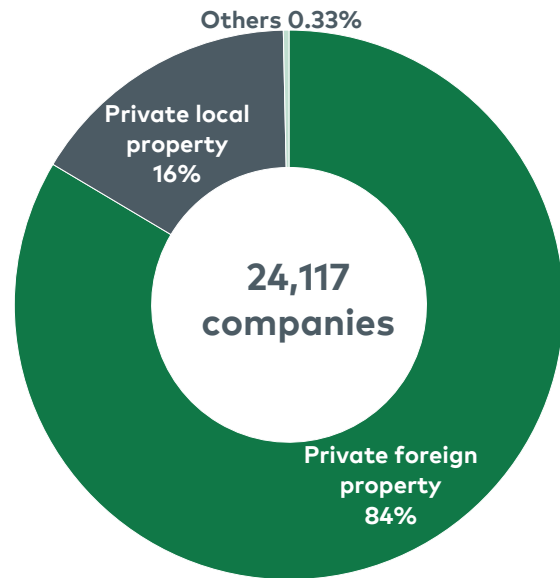
- ● ● Enrollments in IT programs are on the rise, after a temporary dip during the Covid pandemic.
- ● ● On average, over 3,000 students apply to the IT program each year. As of the 2023/24 academic year, **11,122** students are enrolled in IT programs.
- ● ● IT programs are offered at 21 universities in Georgia. Given the evolving dynamics of the field, there is a need to expand the number of training programs and courses available.
- ● ● In 2023, about 4,000 vacancies of programmer positions were announced, and demand is growing.



IT COMPANIES

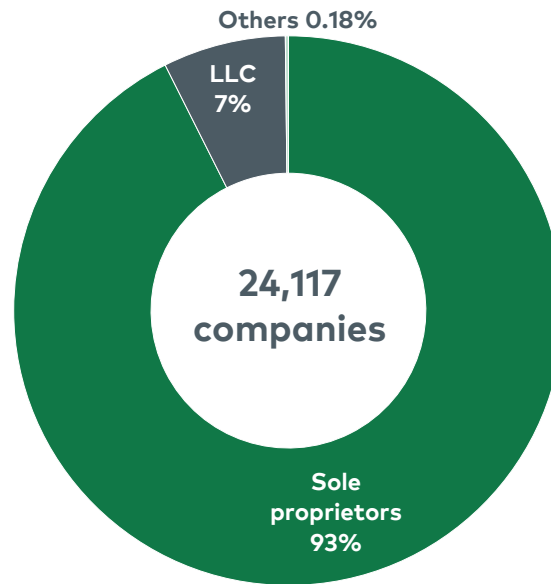
Foreign companies hold the largest share, while sole proprietors prevail

Distribution of companies by ownership type



As of May 2024, 24,117 IT companies operated in Georgia, with 84% of them originating from abroad.

Distribution of companies by legal form



93% of IT companies were sole proprietors. Most of them are migrants from Russia, Ukraine and Belarus.

Number of companies by size

Company size	Number
Large	7
Medium	65
Small	22,341
Size unknown	1,704
Total	24,117

Due to the large number of sole proprietors, the majority of IT companies are small-scale.

TAX BENEFITS

IT sector growth is linked to tax incentives and other government initiatives

Tax comparison: IT sector vs standard rate

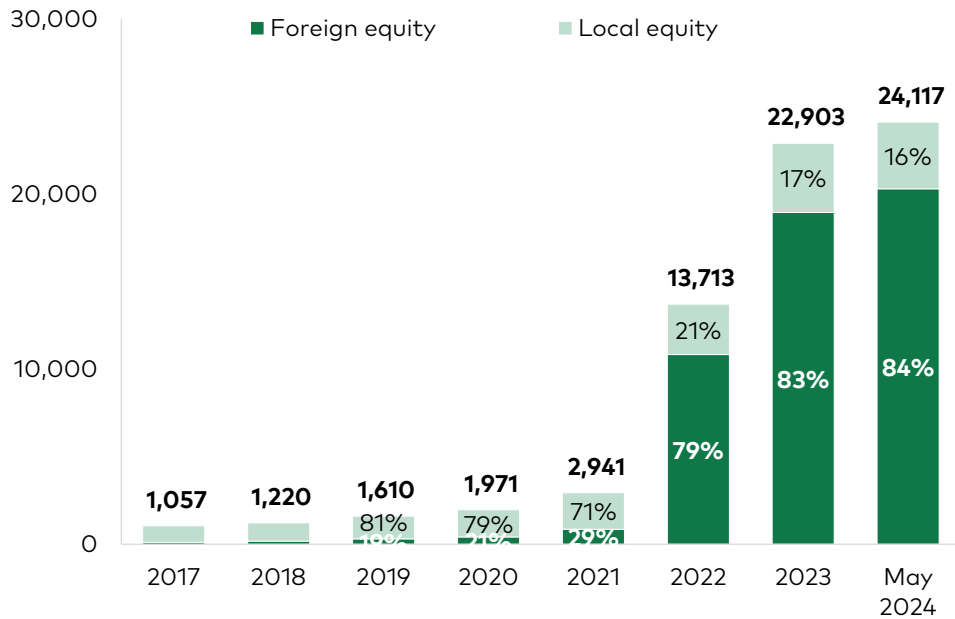


- ● ● Tax benefits are in place for international companies operating in the IT sector since September 2020 (see Annex 1 for more details).
- ● ● FDI grant from the government organization - "Invest in Georgia" (see Annex 2 for more details).
- ● ● IT professionals training program with the collaboration of "Do IT In Georgia" and GITA, with about 4,000 professionals trained. In-house trainings of companies.

INTERNATIONAL COMPANIES

Introduction of tax incentives encouraged the entry of international companies to Georgia

IT companies distribution by foreign and local equity



The number of large and medium-sized companies stood at 72, with 84% of IT companies having foreign origins.

International companies operating in Georgia



After introduction of tax incentives, international companies such as Epam, Lineate, Sweeft Digital and others, started operations in Georgia.

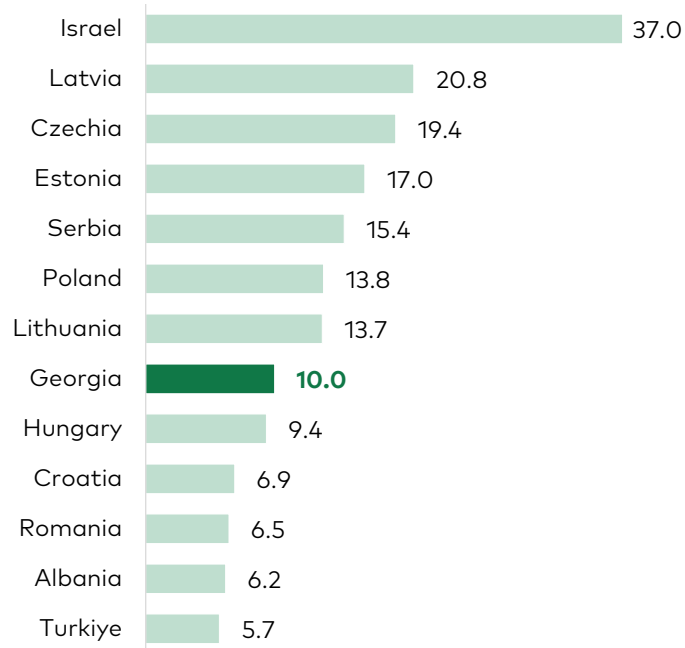
Revenues of top-10 IT companies in Georgia, 2022

Company name	Revenue GEL mn
Epam Systems Georgia	514.4
Exadel Georgia	30.1
Global Software Technology	28.0
Exactpro Systems Georgia	23.3
Software Country Georgia	21.3
InterMedia Technologies Georgia	19.8
Webiz International	17.8
IT Garage	17.5
SmartSoft	15.8
AzRy	14.9

OTHER SUPPORTING FACTORS

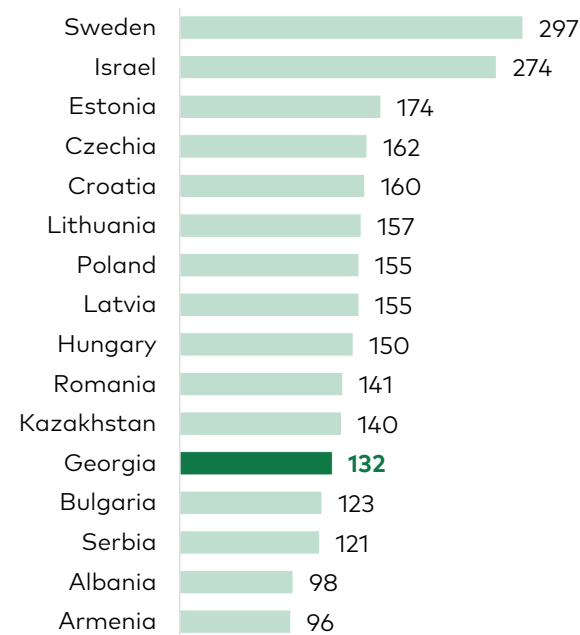
Low level of internet price, cost of living and other costs are attractive to international companies and IT specialists

Fixed Internet package price, 2022 \$



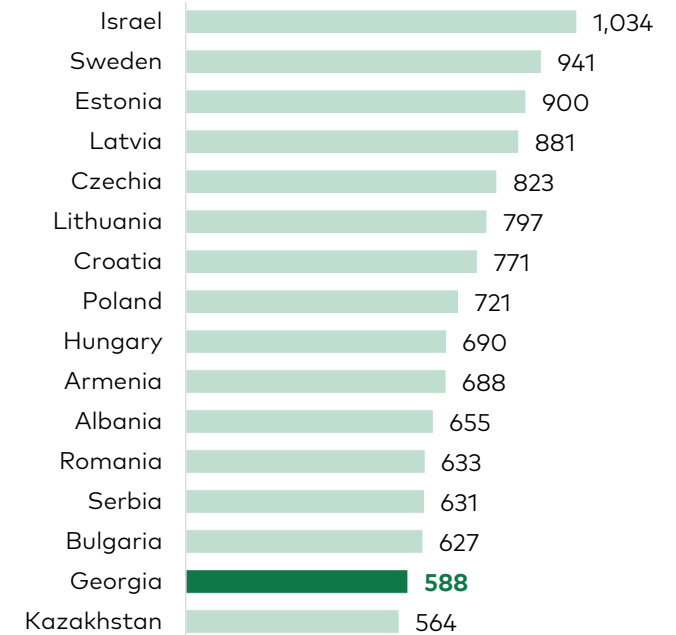
The price of fixed Internet is one of the most competitive in Georgia, although there is potential for improvement in terms of speed.

Average monthly price of working desk, 2022 \$



Price of co-working spaces is affordable in Georgia, which has been facilitated by a significant increase in supply in recent years.

Cost of living, 2023 \$



Cost of living in Georgia is low compared to other globally attractive locations and was \$588 as of 2023.

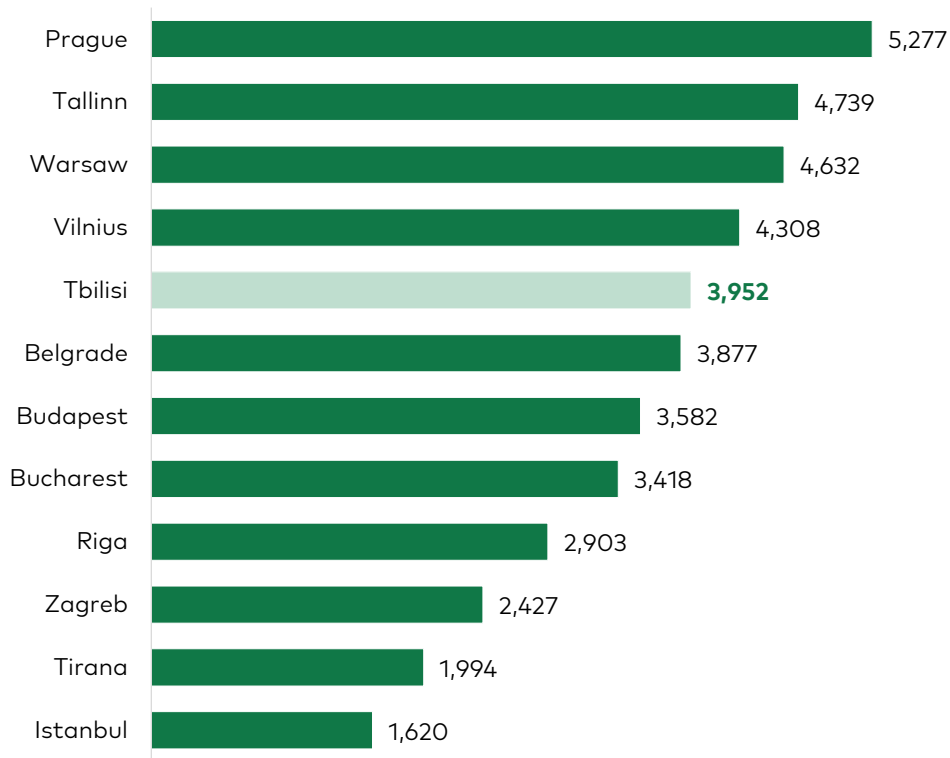
Source: ITU, Coworking insights, Numbeo

Note: Cost of living does not include rent

COMPARISON WITH OTHER COUNTRIES

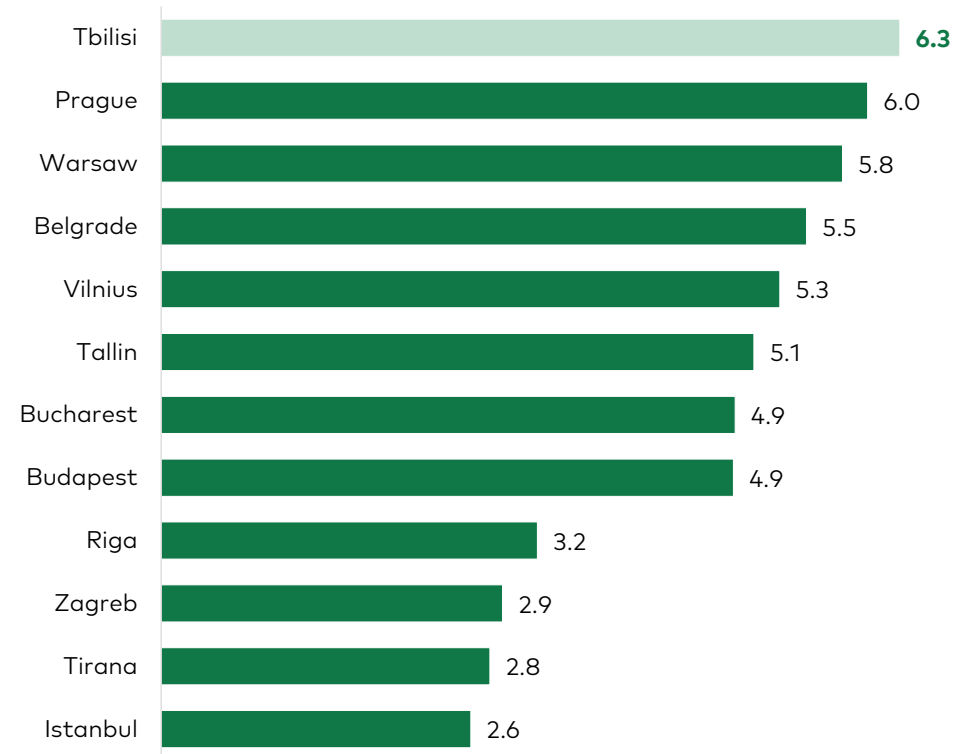
Competitive salaries and low living costs make Georgia an attractive destination

Average software engineer salary, \$



The average salary in Tbilisi exceeds the indicators of some European cities.

Ratio of average salary to cost of living



In addition, the cost of living in Tbilisi is relatively low, which makes it attractive for foreign workers.

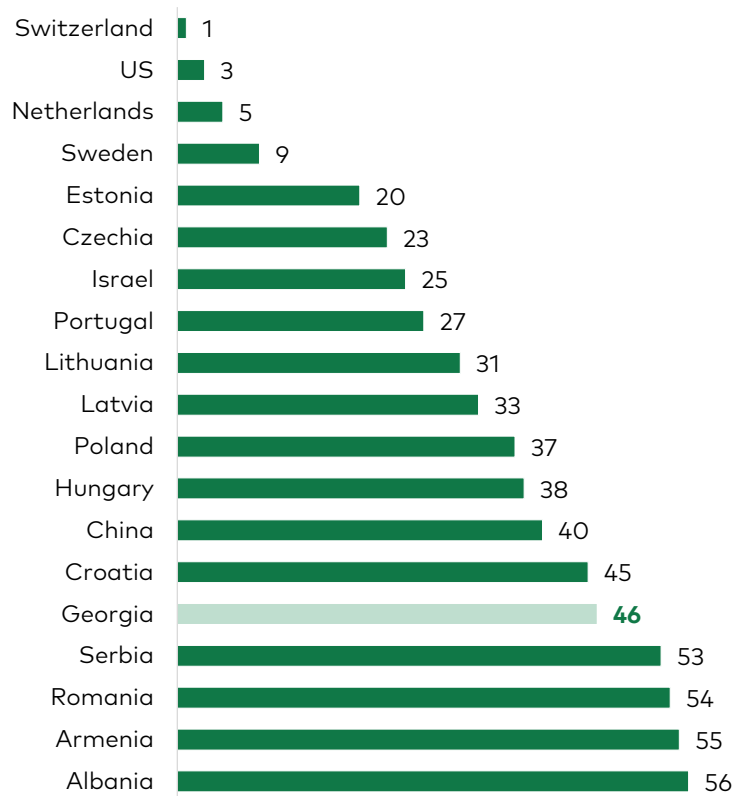
Source: Glassdoor, Numbeo, Galt & Taggart

Note: latest available data., Salary is given after income tax ; Cost of living does not include rent

GEORGIA IN THE INTERNATIONAL RANKINGS

Georgia has favorable positions in the indices of Global Talent Competitiveness and ICT Development

Global Talent Competitiveness Index, 2023

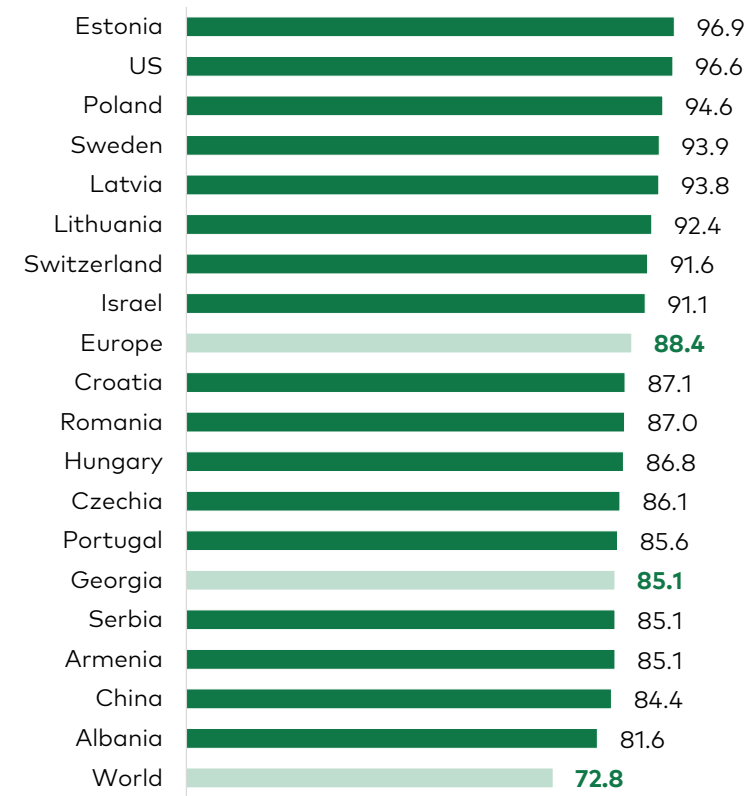


This index measures a country's ability to attract, develop and retain talent. In this index, Georgia ranks 46th out of 134 countries and is close to the indicators of Eastern European countries.

Source: INSEAD

Note: A total of 134 countries are rated - 1 is the best, 134 is the worst

ICT Development Index, 2023



This index assesses the state, implementation and use of ICT infrastructure. Out of 169 countries globally, Georgia's score (85.1) is higher than the world average (72.8) and lags behind the European average (88.4).

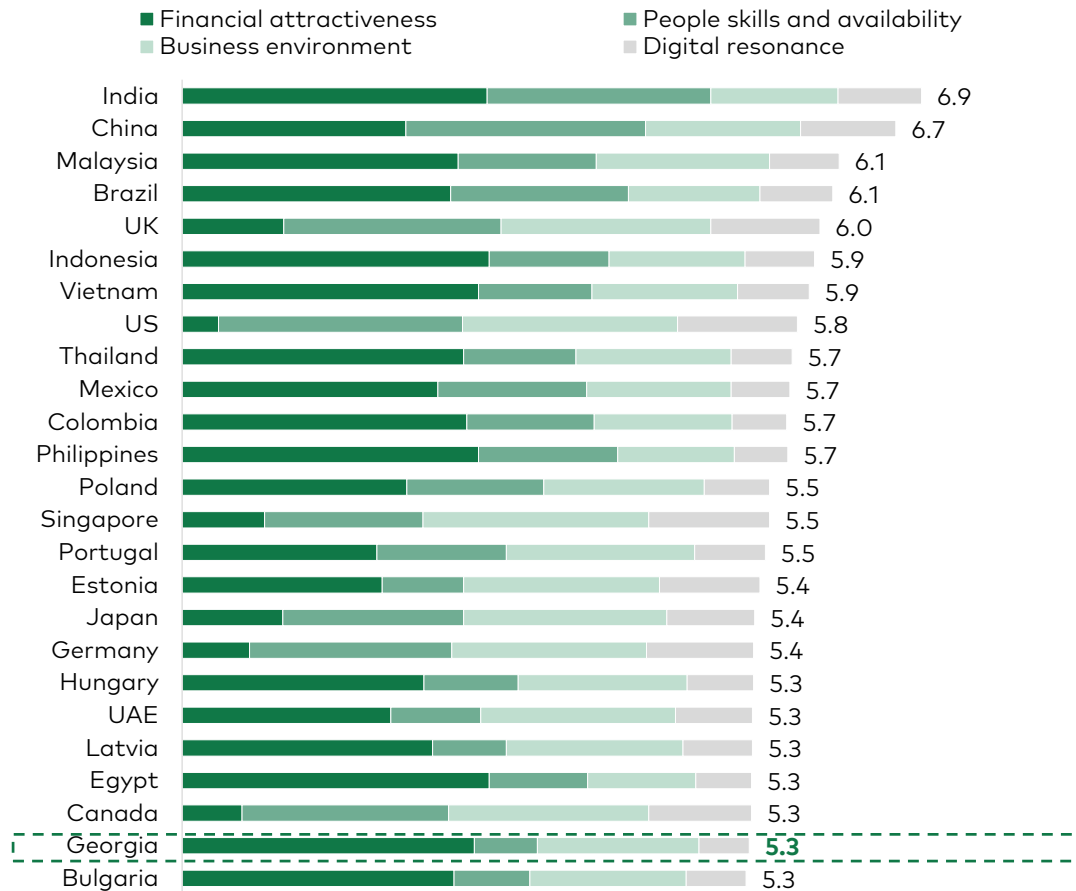
Source: ITU UN

Note: A total of 169 countries are evaluated - 100 are the best, 0 are the worst

GEORGIA IN THE INTERNATIONAL RANKINGS

Georgia's strengths on the global services map lie in its affordability and appealing business environment

Global Services Location Index, 2023



The Global Services Location Index (GSLI) of 2023 covers 78 countries and is based on 4 key indicators:

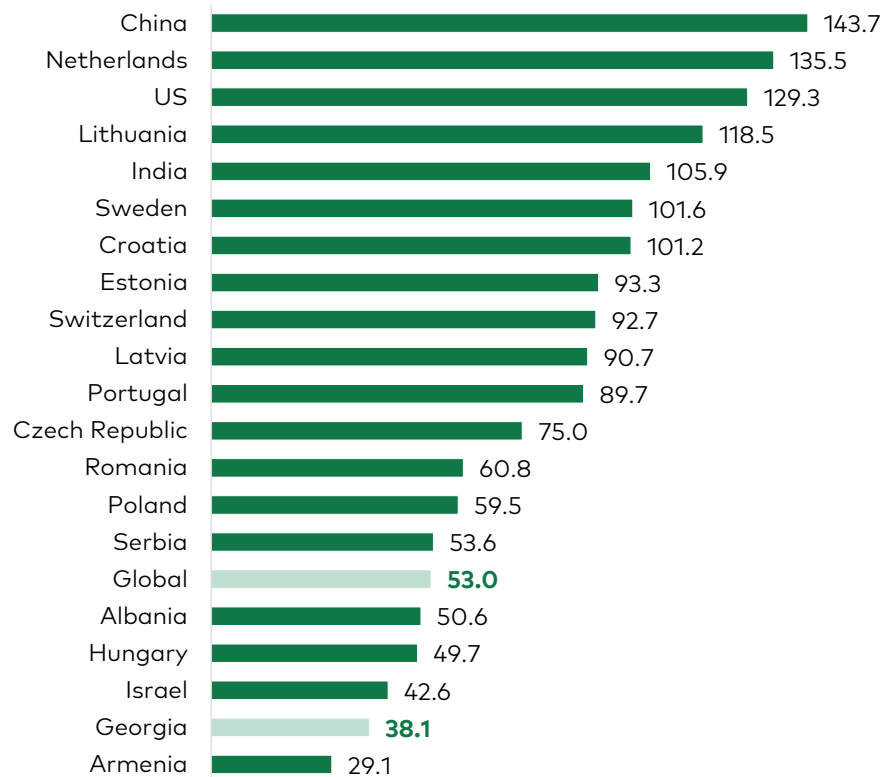
- 1. Financial attractiveness:** Labor and infrastructure costs
- 2. People skills and availability:** Quantity and quality of talent
- 3. Business environment:** Political, economic, regulatory and cultural aspects that affect the ease of doing business
- 4. Digital resonance:** The digital skills of the workforce and the adoption of digital technologies by businesses

Georgia ranks 24th out of 78 countries in this index. The main strength of the country is financial attractiveness and business environment, while the main weakness is digital development.

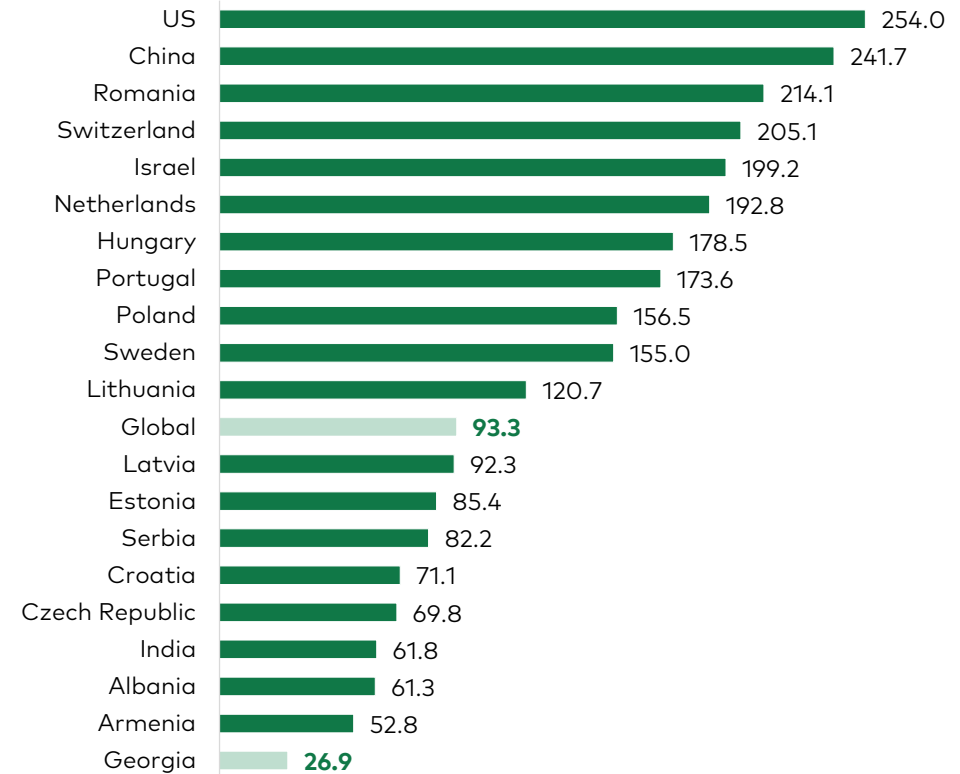
INTERNET SPEED

The speed of mobile and fixed Internet in Georgia needs enhancement

Mobile internet speed, Mbps 2024



Fixed internet speed, Mbps 2024

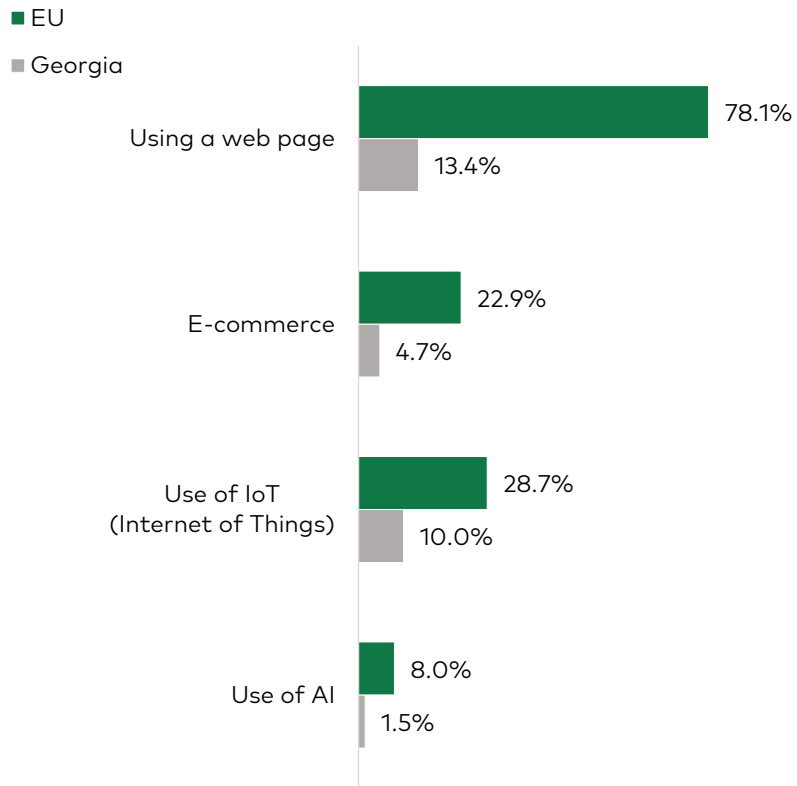


Georgia lags significantly behind European countries in terms of internet speed, both for mobile and fixed connections, posing a notable challenge for businesses. To enhance mobile internet speed, there is a pressing need for a more widespread adoption of 5G technology. Notably, Starlink has already entered Georgia, which provides access to high-speed internet.

LOCAL MARKET POTENTIAL

Use of technologies in Georgian companies is low and lags behind the EU average, indicating an untapped potential of the local market

Use of technology in enterprises, 2022



● ● ● The level of technology use by businesses in Georgia is low and significantly below the EU average. For example, only 13.4% of companies in Georgia have a website, while this figure is 78.1% in the EU. Use of e-commerce is also low in Georgia.

● ● ● Therefore, in addition to the export markets, there is a potential of the local market development and demand growth.

● ● ● Tax benefits are exclusively applicable to companies engaged only in export services, therefore limiting access to affordable IT services for Georgian businesses. Accordingly, extending tax benefits to services provided for the local market, will accelerate the country's digitization process and increase productivity.



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Annexes

ANNEX 1: Tax benefits

The status of an international company gives IT companies a preferential tax regime, namely:

- 5% Profit Tax (standard rate is 15%). Tax is levied only on distribution profit. Reinvested or retained profits are not taxed.
- 0% Dividends Tax (Instead of 5%).
- 5% Personal Income Tax (instead of 20%) + the standard 2%+2% pension contributions for employees who are legal residents of Georgia.
- 0% Property Tax (except land) if this property is intended for or used to carry out the permitted activities of the international company (instead of 1%).

Distribution of benefits:

- The applying company must have (both at the time of application and going forward) at least 98% of their annual revenue derived from activities within the IT sector and from abroad.
- The company seeking this status must be a Georgian enterprise operating for more than 2 years in the given sector.
- Or be a Georgian enterprise that represents a foreign (non-resident) enterprise. The nonresident enterprise must have operated for more than 2 years in the given sector.
- Or a Georgian enterprise (the applicant), owned by another enterprise (parent – Georgian or non-resident). The parent company must have 2+ years of experience in the given sector and more than 50% ownership of the Georgian enterprise.
- The Georgian enterprise may not be established in a free industrial zone.

- The Georgian enterprise must have physical presence in Georgia, meaning that the enterprise shall carry out basic income-generating activities from Georgia and have adequate human resources to carry out such activities, with the necessary qualifications.

Application process:

Applications must be made through the RS.ge (Revenue Service) online portal. The Revenue Service (RS) will take up to 10 business days to assess application. The Following documents are required at registration:

- Enterprise registration data (identification number, name, legal form). In the event that the nonresident enterprise that has the required 2+ years operation experience and the Georgian enterprise does not, the details of both enterprises will be needed.
- Legal and actual addresses (place of business) of the enterprise.
- The type of permitted activity business performs.
- The place from which services are rendered (i.e., Georgia).
- The date of submission of the application and the signature of an authorized representative.

ANNEX 2: Foreign direct investment support mechanism: FDI grant in Georgia

The Government of Georgia offers support to foreign investment projects with the cashback of 15% of capital expenditures and training costs. The program aims at promoting the growth of Foreign Direct Investments in the country as well as influx of knowledge and technology and the creation of new jobs in Georgia. The program is implemented by the agency LEPL Enterprise Georgia (Invest in Georgia).

Companies to which the grant program applies

Companies registered in Georgia, which represent subsidiaries of legal entities that have operations outside Georgia and invest foreign capital in the country.

Must meet specific criteria, including company registration under Georgian law, foreign ownership of at least 50% of voting shares, and investments in relevant sectors.

The company invests in one of the eligible sectors of economy defined by the program and require the parent company to have at least two years of relevant experience.

Sectors of the economy to which the grant program applies

- Manufacturing of electrical and electronic engineering products
- Manufacturing of aircraft parts and components
- Manufacture of vehicles and equipment, as well as their parts
- Export of business services/ business process outsourcing (BPO)
- Global Business Services (GBS)
- Information and communications technology (ICT)

- Developing Warehouses and logistic centers
- Aircraft repair and maintenance (MRO)

Grant Coverage

Within the framework of the program, FDI grant (cashback) is issued to reimburse following expenses: Capital expenses and workforce training and skills development costs.

Capital expenses are defined as: Any cost related to crating material and or intangible assets (excluding goodwill), which are used to produce goods, provide service and/or administrative purposes, and have useful life period of longer than 1 year.

Workforce training costs include salaries, training services, travel, accommodation and equipment purchase/rental.

The amount of Grant

The amount of the grant is set at 15% of the eligible costs.

To qualify for the cash, companies must meet investment commitments specific to their economic sector, ensuring both investment targets and job creation targets are met.

ANNEX 3: Definitions of IT jobs

Computer programming and consultancy services - The industry includes activities of providing expertise in the field of information technologies: software development, planning and designing computer systems that integrate computer hardware, on-site management of clients' computer systems and/or data processing facilities and other professional and technical computer-related activities.

Software Publishing - The industry includes: publishing of games, operating systems and business applications (including ERP systems)

Web-portals - This industry includes the operation of websites that use a search engine to generate and maintain extensive databases of Internet addresses and content in an easily searchable format and operation of other websites that act as portals to the Internet, such as media sites providing periodically updated content

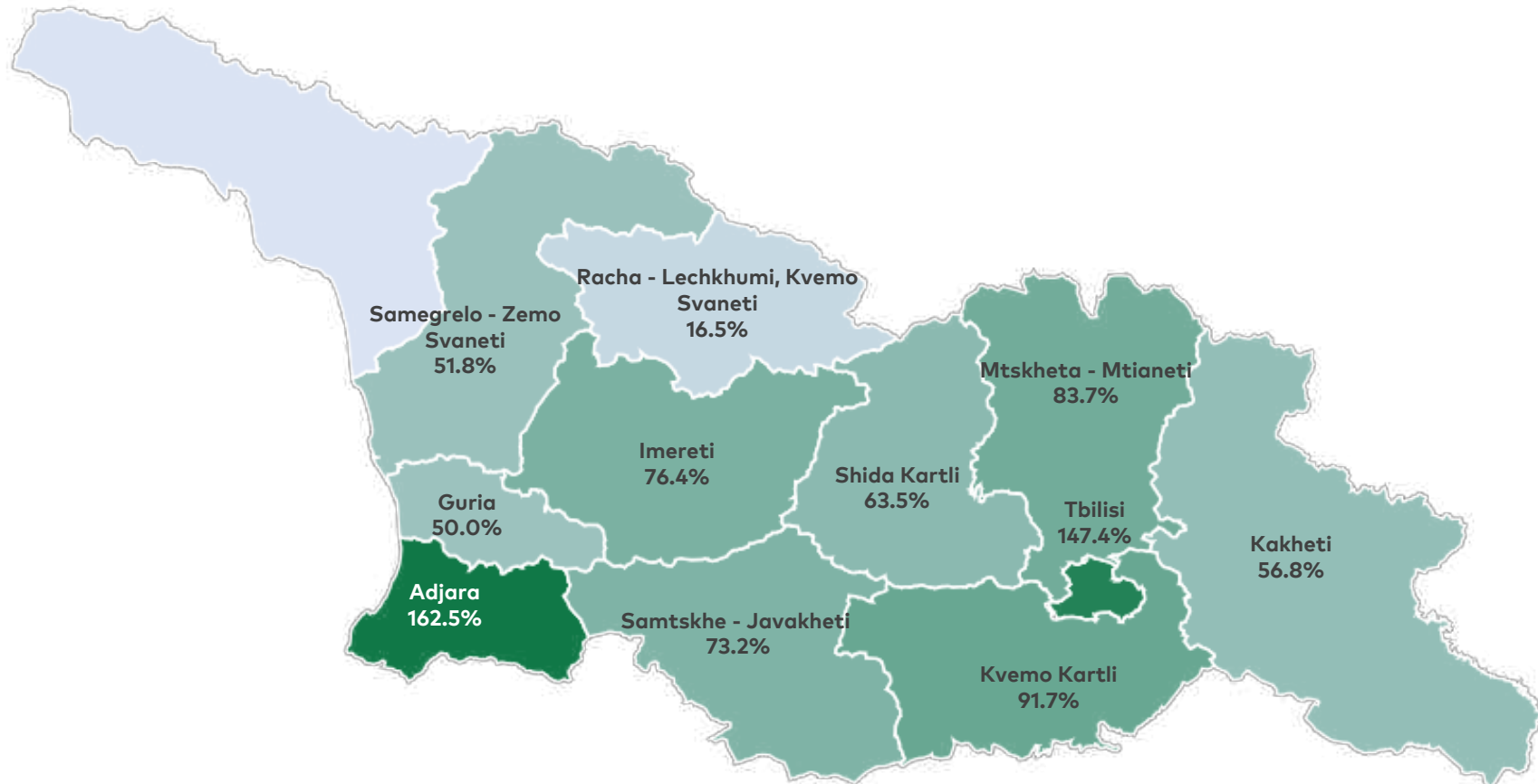
Data processing & hosting - The industry includes the provision of infrastructure for hosting, data processing services and related activities, Web hosting, streaming services, application hosting, application service provisioning and data processing activities.

Types of activities allowed for the entity with the international company status

- Production and / or delivery of digital products, including software support and delivery of updated versions;
- Website development and / or delivery;
- Web hosting, remote software and hardware support;
- Software and related updates;
- Visualization, provision of texts and information for ensuring availability of database;
- Remote system administration;
- Online delivery of allocated memory capacity;
- Access to software or download (including procurement / accounting software or antivirus software) and its updates;
- Banner ad blocking programs;
- Downloadable drivers, such as software that connects computers to peripherals (such as, i.e. printer);
- Automatic online installation of filters on websites;
- Automatic online installation of firewalls;
- Commercial and technical services by and/or for the shipowner

ANNEX 4: Access to fixed internet in Georgia

Fixed broadband penetration in Georgia, March 2024





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