

NEWSLETTER

DEDOLARIZATION PLAN

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Georgian government has adopted a 10 point plan of De-Dolarizaion which aims to strengthen and stabilize the national currency, Georgian LARI.

10 POINT DE-DOLARIZATION PLAN

INCREASING ACCESS TO THE LONG TERM LOANS IN LARI

1 Commercial banks shall have sufficient liquid assets to transform short term deposits to long term loans. National Bank of Georgia (NBG) plans to increase flexibility of the transmission mechanism and widen the list of eligible collateral base.

2 According to International Monetary Fund (IMF) recommendation, NBG will introduce the Liquidity Coverage Ratio under Basel III with the national currency treated preferentially.

3 In order to develop capital markets the companies shall be able to issue long term bonds and raise capital. Georgian government together with NBG has prepared a common strategy and this strategy is being jointly implemented.

4 Mandatory precondition for the development of the capital markets is existence of the developed local government securities market. Georgian government together with NBG will continue to move to this direction.

In particular: Georgian government will:

a) issue so called "benchmark" bonds, main characteristic of which is predictability and a high liquidity. The market participants will know the calendar of its emission for the next 5 years;

b) introduce the 'primary dealers' institute. This means that the banks participating in the primary auctions of the government securities will be required to ensure liquidity of the secondary market for every participant of the market

5 The Implementation of Pension Reform will improve the social security provision and in the same time contribute to the economic growth by increasing the demand for long term instruments, which ultimately will ensure widening of the long term LARI resource.

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ABOUT PUBLICATION

This publication covers critically important legislative and tax changes that business should take into consideration for their daily operations and governance. Specifically the legislative changes following the 10 point plan for de-dollarization established by the Georgian government. Please contact BDO LLC to discuss these matters in the context of your particular circumstances.

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ADEQUATE SHARING OF FX RISKS

6 In order the borrowers to be hedged against foreign exchange (FX) risk, amendments in legislation is to be implemented. According to which, small size loans (loans below GEL 100,000 from Jan 1, 2017 and loans below GEL 200,000 from Jan 1, 2018) will be issued only in local currency.

7 Government of Georgia together with NBG developed a scheme to facilitate the conversion (to the local currency) of those loans that were issued before January 1, 2015 in US dollars. This will be a one-off social measure for those borrowers who were mostly impacted by the depreciation of the exchange rate.

8 In line with IMF recommendation, in the cases of lending to the unhedged borrower, NBG will use the macro-prudential instruments to ensure the availability of adequate buffers.

PRICING IN LARI

9 Amendments have been made to the organic law of Georgia on the National Bank of Georgia, according to which pricing of every goods and services in LARI become mandatory. For instance: a construction company will be required to quote apartments prices in LARI, but upon their desire the prices can also be indicated in any other currency.

10 Government of Georgia together with NBG, will promote the implementation of safe service for real estate transactions (so called "escrow" account service), which aims at avoiding risks and reduce cost of real estate transactions both for the sellers and buyers. The service will be implemented in cooperation with public registry and be optional for the consumers. This service will be additional stimulus for settlement of real estate operations in LARI.

LEGISLATIVE CHANGES IMPLEMENTED BASED ON THE 10 POINT DE-DOLARIZATION PLAN

AMENDMENTS TO THE CIVIL CODE

Article 625 has been amended and formulated as follows:

Article 625. The obligation of the person issuing the loan and the interest for the loan

1. "By the mutual agreement of the parties, interest for the loan could be determined. In the mortgaged loan agreements mutually agreed monthly interest rate shall be indicated.

2. In case of interest bearing loans as per the agreement of the parties, an annual effective rate on loan shall not exceed 100% including cases of extending the loan term/prolongation of loan. For the purpose of this article extending the existing loan term/prolonging the existing loan means issuing new loan within five working days from repaying the existing loan. Rules defined in this section shall not be applicable to section 3 of this article

3. The monthly interest rate determined by an agreement of the parties for a mortgage-backed loan agreements, except for a loans under GEL 1 000, including all expenses related to the usage of the loan (other than mortgage notarisation and mortgage registration expenses), must not exceed the one twelfth of the 2.5 double amount of the arithmetic average market interest rate of the previous calendar year of the loans issued by the commercial banks established monthly on the official web-page of the National Bank of Georgia, that is in force from the 1st March of the every year. According to this part on the ensured loans up to 1000 GEL is applied the request of the 2nd part of this article.

4. Unless otherwise determined by applicable legislation, provisions of section 3 of this article shall not apply to loan agreements made by commercial banks, microfinance organisation, non-bank depository organisations – credit unions and qualified credit institutions.

5. Unless otherwise determined by the applicable legislation, in case of loan sum of all commissions, any financial expenses, also penalty accrued per day for breach of any contractual provision or any form of financial sanction shall not exceed annual 150% of the remaining principal sum of the loan issued under the loan agreement.

6. For the purposes of this clause the definition of the effective interest rate is determined by the legal act of the National Bank of Georgia.

7. Unless otherwise determine by applicable legislation loans up to GEL 100,000 to natural persons shall be issued only in GEL. For the purpose of this article loan in any form linked or indexed to foreign currency shall not be deemed as issued in GEL.

8. Unless otherwise determined by applicable legislation, in case of monetary loan an issuer is prohibited to accrue on the loan refinancing commission and/or commission and/or penalty for early repayment (whether such earl repayment is made through borrower's own funds or via third parties resources) and/or any penalty sanctions which by its content/meaning constitutes early repayment commission/penalty for early repayment, provided that so accrued funds exceed 2% of the remaining principal of the loan".

Article 418 of Civil Code of Georgia has been amended and formulated as follows:

"Contractual parties are authorized to freely determine penalty, which may exceed the potential damage, unless the circumstances defined by section 8 of the article 625 the Civil Code."

Please see section 8 of the article 625 for the purpose of such exception.

The article 505¹ was added to the Civil Code of Georgia with the following content:

Article 505¹ the obligations of the seller in case of purchasing by instalments

In case the seller is an entrepreneur within the purchasing transaction by installments then the Seller shall comply with the requirements about the interest rates, commissions, penalty or any

Article 628¹ was added to the Civil Code of Georgia with the following content:

Article 628¹. The limitation related attraction of funds

1. If the entrepreneur or the group of interrelated entrepreneurs, attract(s) funds from more than 20 natural persons in any form, then the attracted amount from the each natural person must not be less than GEL 100 000 (hundred thousand) (or its equivalent in the foreign currency). If the entrepreneur or the group of interrelated entrepreneurs are subject to this obligation then then funds received from less than 20 natural persons and with amount less than GEL 100 000 (hundred thousand) (or its equivalent in the foreign currency) shall be returned within the term of one year after arising such obligation.

2. This article does not apply to the commercial banks, credit unions, brokerage companies and on public proposal of securities, also to the other representatives of financial sector defined by the legal act of national bank.

3. For the purposes of this article the interrelated group of entrepreneurs means, the interrelation of the entrepreneurs, when the entrepreneurs own the 50% or more of the share/stocks towards each other or/and in the enterprises of each other, in the head enterprises of each other (head organization) or/and its subsidiary or/and affiliated or/and joint enterprises.

Changes were made to the article 868 of Civil Code of Georgia and sections 7 and 8 were added with the following content:

"6. Upon the issuance of the bank credit the requirements provided by the article 625 must be kept in regard with the interest rates and the penalty or the financial sanctions of any form.

7. Unless otherwise determine by applicable legislation bank credits up to GEL 100,000 to natural persons shall be issued only in GEL. For the purpose of this article bank credits in any form linked or indexed to foreign currency shall not be deemed as issued in GEL.

EFFECTIVE DATE AND SCOPE

The aforementioned changes/amendments become effective from the 15, January of 2017 and shall not apply to the relationships arisen before entering this law into force apart from exceptions specified in those changes/amendments.

These exceptions are as follows:

► Requirements of the sections 2 and 5 of the articles 625 shall not apply to loans/bank credits issued before the effective date of this Law (Law about Changes) except the cases of any form of extension, restructuring and refinancing related to those loans/bank credits.

► Requirements of section 7 of the article 625 and section 8 of the article 868 shall not apply to the cases of extension, restructuring and refinancing of the agreements executed before the effective date of this Law (Law about Changes), if this is made by executing agreement with an initial issuer of a loan.

AMENDMENTS TO THE ORGANIC LAW OF GEORGIA ON THE NATIONAL BANK OF GEORGIA

Changes have been made to the Organic Law of Georgia on the National Bank of Georgia. In

particular, sections 2¹ and 2² were added to the article 34 with the following content:

2¹. Price in the offer or/and in the advisement about realization of Goods or/and provision of the Services made on the territory of Georgia made by an entrepreneur shall be expressed only in GEL.

2². The rule different from the aforementioned regulation may be determined on the basis of the relevant legal act of the National Bank of Georgia".

Similar amendments are made to the Law of Georgia on the Advertising. Furthermore, amendments were made to the Administrative Offences Code of Georgia, which determined the sanctions for violation of the aforementioned rule. See regulation of the Administrative Offences Code of Georgia below.

The article 64¹ was added to the Organic Law of Georgia on the National Bank of Georgia.

"On the basis of the relevant legal act of the National Bank of Georgia the following may be established in connection to the representatives of financial sector of Georgia:

a) The rule different from the one set forth in the sections 4 and 5 (except for interest) as well as the section 7 and 8 (regarding the prepayment commission) of the article 625 of Civil Code of Georgia and section of the article 868 of the Civil Code of Georgia;

b) The rule of provision of the necessary information to a consumer in the process of issuing the loan/bank credit or attracting of funds.

EFFECTIVE DATE AND SCOPE

Article 34 shall not be applied to the relations arisen before entering this Law (Law about changes) into force unless changes are made to the substantial condition of the relevant agreements concluded before the aforementioned effective date.

The article 641 added to the "Organic Law of Georgia on the National Bank of Georgia" shall enter into force from 15 January, 2017, while the clauses 2¹, 2² of the article 34 and the article 2 of the bill shall be effective from 1 July 2017.

AMENDMENTS TO THE LAW OF GEORGIA ON THE PROMISSORY NOTE

Changes were made to the Law of Georgia on the Promissory Note.

Article 1¹ was added to Georgian Law Promissory Note and this new article shall become effective from 15 January, 2017. According to this new article:

An entrepreneur, except for the commercial banks licensed under the legislation of Georgia and the non-banking depository institution – credit union, shall be prohibited to issue a promissory note for up to GEL 100 000 (one hundred thousand) (the equivalent in foreign currency) to a physical person. Restriction provided for in this clause shall not be applied if an entrepreneur issues the promissory note to less than 20 natural persons only.

AMENDMENTS TO THE LAW OF GEORGIA ON THE PROMISSORY NOTE

Changes were made to "Administrative Offences of Georgia" and article 153⁷ was added to the Code. These changes become effective from 1 July, 2017. According to the changes:

1. In case of breach of requirement to express price in GEL as specified in section 2¹ of article 34 of the "Organic Law on the National Bank of Georgia" a person making the offer or ordering an advertisement shall be provided with the relevant warning.

2. The same action conducted again shall be subject to the fine in the amount of GEL 1000.

3. Any subsequent action after the action specified in section 2 of this article will be the subject to the fine in the amount of GEL 5000



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