
The Tearsheet

1. **Ruling Party wins dubious election:** The ruling Georgian Dream (GD) formally won the October 26 parliamentary election with 53.9% of the vote, although the most credible exit polls put it at 40-45%. President Salome Zourabichvili – who broke with her former GD allies over the autocratic turn of GD leader Bidzina Ivanishvili last year – has denounced the results. However, we now expect that the fallout in terms of political stability will be minimal.
2. **Protests underwhelm amid opposition disunity:** Three of four major opposition groupings that crossed the 5% parliamentary threshold have said they will refuse to enter the parliament. However, a similar attempt after the 2020 elections was widely seen as having failed. While President Zourabichvili is seeking to refuse recognition of the results as well, GD will simply move to ignore them. The opposition did organize large protests outside parliament on 28 October but has not put forward a plan to sustain them. With no major opposition figurehead, the domestic unrest risk is likely to abate further.
3. **Key Georgian equities may reverse political-risk induced sell-off:** Georgia's key London-listed stocks – the Bank of Georgia, TBC Bank, and Georgia Capital Group – have in the last six months heavily sold off, respectively falling 21.9%, 22.8% and 25.29%. While these have sold off once again in the aftermath of the vote, we expect they will recover in the coming weeks as political risks abate – with the exception of TBC due to the fact that its two founders, who remain large shareholders, lead an opposition party.
4. **West speaks out, softly:** Georgia's key Western partners have issued garbled reactions to the vote – criticizing the election's process but indicating that they plan to accept the result. A few more outspoken members of the European People's Party and Congressmen from both sides of the aisle in the U.S. have issued stronger statements but many of these individuals did so in response to Georgia's 2020 election and subsequently failed to take any serious action. However, key aid from the U.S., UK, and EU has been suspended over the last month and renewal is unlikely in the short term.
5. **Response could change after U.S. election:** GD has sought to heavily align itself with former U.S. President Donald Trump and his allies in Europe – even inviting Viktor Orban to visit in the immediate aftermath of the election, which he rapidly accepted, arriving in Tbilisi on October 28. A Harris Administration would likely be more inclined to support Georgia's opposition and legislation in Congress (the MEGOBARI Act) as well as sanctioning Ivanishvili himself.

1. Georgian Dream's "Victory"

- GD's victory was the result of its strong over-performance in rural regions, with independent observers indicating that significant fraud likely took place in the Javakheti and Marneuli regions of south-eastern and south-western Georgia, which have large ethnic Armenian and Azeri population. Official results do show the government losing in the capital, Tbilisi, as expected, but also outperforming expectations in the country's second and third largest cities, Kutaisi and Batumi.
- There is a strong tradition in both Marneuli and Javakheti of voting for the country's ruling party, and GD did campaign in both far more intensely than the opposition. In our own visits to the latter region in September, we only observed activity by the ruling party.

- While independent analysis appears to show significant ballot stuffing and “carousel voting” in these regions, the GD’s increased presence has damaged the opposition’s arguments in challenging the election’s legitimacy amongst international partners.
- The Central Election Commission of Georgia was overhauled in the last year and is widely seen as stacked with GD loyalists. President Zourabichvili has also criticized this.
- The government also leaned on Ivanishvili’s wealth - more than a third of Georgia’s GDP and largely earned in Russia in the 1990s – to shift resources in its favor through actions such as booking up the country’s buses and sending them only to identified support areas in rural parts of the country.
- The opposition is highly fractured – none of the four opposition blocs that passed the 5% threshold received more than 11% of the vote, according to the official results.
- The former ruling party of now-jailed president Mikheil Saakashvili, the United National Movement (UNM) and its party-list allies won just 10.2% of the vote while the Coalition for Change - led by ex UNM politicians Nika Gvaramia and Nika Melia won 11.0%. The Strong Georgia coalition led by TBC bank founders Mamuka Khazaradze and Badri Japaridze won 8.8%. Finally, the Coalition for Georgia led by ex-GD prime minister Giorgi Gakharia won 7.8% of the vote.
- The weak performance of the UNM is particularly notable — as despite a serious scandal in 2012 leading the party to lose power to the then much-broader GD led coalition and its former leader Saakashvili, it still managed in 2020 to win 27% of the vote.
- The opposition would have won a majority in the parliament if GD had performed on the lower end of the exit polls but, nonetheless, the opposition parties remain fiercely divided. Gakharia had indicated he would refuse a coalition with the UNM and instead seek a technocratic government that would bring in new elections in 2025.
- The new parliament will elect a new president, as Georgia’s latest constitutional reform has abolished the direct election of the post. Zourabichvili has indicated she will refuse to recognize any such action.
- However, while many opposition figures have embraced her in recent months, she lacks broad public support (particularly as although she is of ethnic Georgian descent, she was educated and raised in France and first worked for the French Foreign Ministry before joining Georgian politics). Zourabichvili was herself only elected in 2018 with the strong backing of GD and Ivanishvili.
- Zourabichvili has been more explicit than much of the opposition in claiming that Ivanishvili was directly backed by Moscow and she has regularly referred to the ruling party for the last 18 months as the “Russian Dream.”
- While this has gained her some allies abroad, many European countries and U.S. politicians worry that such rhetoric would push Ivanishvili closer to Moscow – though we see Ivanishvili as more pro-his own interests than as a Russian proxy, which the opposition accuses him of being.

2. International Response

- U.S. Secretary of State Anthony Blinken issued a mealy-mouthed comment, stating that the “Georgian people embraced democracy (in the vote). Now Georgia’s political leaders must respect the rule of law, repeal legislation that undermines fundamental freedoms, address deficiencies in the electoral process and move Georgia towards its Euro-Atlantic future.”

- Blinken's statement avoids taking a clear position on what Washington's response will be, and the State Department's formal statement was no more explicit, though it did note that the "pre-election environment (was) marked by the ruling party's misuses of public resources, vote buying, and voter intimidation, all of which contributed to an uneven playing field and undermined public and international trust in the possibility of a fair outcome." It went on to state that international observers declared the result not to be free or fair but only called for an investigation of election-related violations without demanding one or stating that it would not recognize the result.
- The European Union High Commission for Foreign Affairs and European Parliament issued a joint statement that noted the uneven playing field and cited OSCE criticisms of the conduct of the vote but also stopped short of saying the irregularities de-legitimized the vote, only stating that they must be "clarified and addressed."
- The statement also indicated that Brussels would be willing to overlook the election's conduct if Georgia's government repeals the "foreign agents" law and "anti-LGBT propaganda" laws that it passed this year and which had led the EU to suspend Georgia's candidacy on July 9.
- Russia has endorsed the election result. The Kremlin also took efforts to indicate during the election that a GD victory would lead to continued improved relations between the two countries, including announcing a major liberalization of visa and work rights for Georgians less than a month before the vote. The changes would mean that Georgian citizens would have the best access to the Russian market of any country other than Belarus, although the two countries still do not formally have diplomatic relations.
- Russia, in the run-up to the vote, also dangled that it could re-open talks with Tbilisi about the Russian-occupied breakaway regions of South Ossetia and Abkhazia, which the Kremlin has recognized as "independent" since the 2008 Russian-Georgia War.
- However, no serious progress should be expected here despite Ivanishvili's pre-election comments that indicated a vote for GD would enable potential reconciliation. The Kremlin will be far more pre-occupied with the war in Ukraine and does not want to set any precedent that could challenge its declaration of Ukraine's Crimea and Donetsk and Luhansk regions as "independent" before annexing them.

3. Domestic fallout and market reaction

- The opposition staged a major rally in Tbilisi on the evening of 28 October but it fizzled out within hours whereas previous such protests, including this May over the passage of the aforementioned "foreign agents" law, were larger and more sustained. The opposition has not put forward a plan for further major protests, though they may still occur if Tbilisi's strong civil society takes up the mandate.
- The new GD government is likely to seek to take a more conciliatory tone towards its EU and U.S. partners, but we do not expect that its EU candidacy will be unfrozen, which over the medium term will lead to growing disenchantment domestically as this remains the top priority for the majority of Georgians in public polls.
- Georgia's economy has been not just a regional but a global outperformer in the last two years, largely driven by an influx of Russian currency from that country's sanctions-afflicted environment, as well as Russian IT and other high-skilled workers re-locating, often alongside their companies, to Tbilisi and Batumi. The IMF predicts real GDP growth at 7.6% this year, above its 7.5% in 2023 but down from 11.9% in 2022. Inflation had also

strongly come down in the last two years but has increased somewhat in the last six months as the Georgian lari sold off in line with political risks.

- The May passage of the “foreign agents” law triggered a major sell-off in Georgian equities that could be poised for a reversal as political risk, at least in the short term, decreases in the aftermath of the vote.
- In particular, the Bank of Georgia and Georgia Capital (which is invested across numerous sectors in the economy but also holds a stake in the Bank of Georgia) look well positioned to outperform. However, we are more negative on the prospects for Georgia’s TBC Bank as its founders have previously been targeted by the GD government with trumped-up embezzlement claims and may again be so targeted in the aftermath of the vote.

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