



# Fast growing Georgian economy

Macroeconomic overview: 1H18 results

# Forward looking statements



## Disclaimer

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# Sovereign ratings with stable outlook and favourable macro fundamentals



## Key Ratings Highlights

Rating Agency	Rating	Outlook	Affirmed
<b>MOODY'S</b>	Ba2	Stable	March 2018
<b>S&amp;P Global</b>	BB-	Stable	May 2018
<b>FitchRatings</b>	BB-	Positive	March 2018

## Georgia is favorably placed among peers

Country	Country Rating	Fitch Rating Outlook
Armenia	B+	Positive
Azerbaijan	BB+	Stable
Belarus	B	Stable
Czech Republic	A+	Positive
<b>Georgia</b>	<b>BB-</b>	<b>Positive</b>
Kazakhstan	BBB	Stable
Turkey	BB	Negative
Ukraine	B-	Stable

## General Facts



## Economy

- Nominal GDP (Geostat, preliminary) 2017: GEL 38.0 bln (US\$15.2 bln)
- Real GDP growth rate 2013-2017: 3.4%, 4.6%, 2.9%, 2.8%, 5.0%
- Real GDP 2007-17 annual average growth rate: 4.5%
- GDP per capita 2017 (PPP) per IMF: US\$ 10,644
- Annual inflation (e-o-p) 2017: 6.7%
- External public debt to GDP 2017: 35.4%

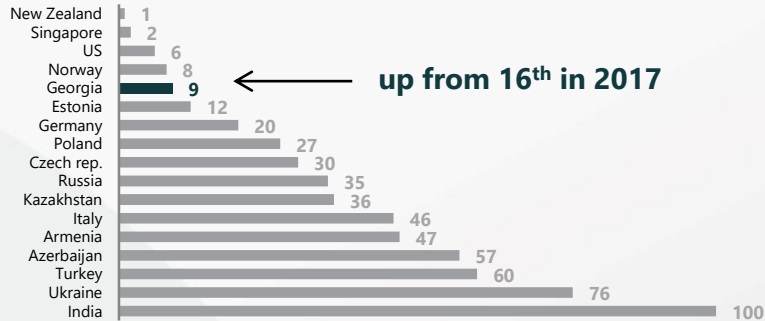
# Georgia's key economic drivers



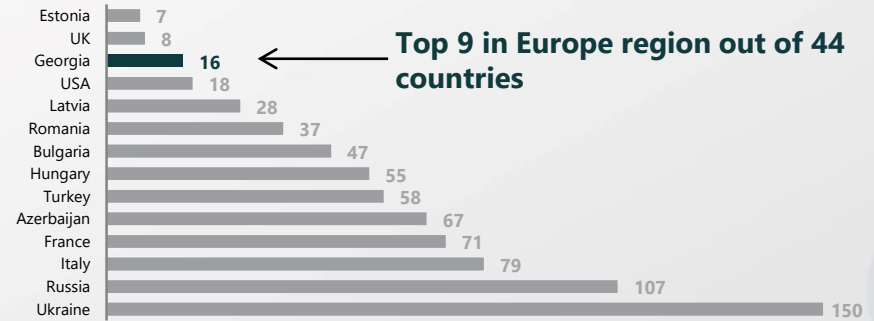
<b>Liberal economic policy</b>	<p><b>Top performer globally in WB Doing Business over the past 12 years</b></p> <ul style="list-style-type: none"><li>▪ Liberty Act (effective January 2014) ensures a credible fiscal and monetary framework:</li><li>▪ Public expenditure/GDP capped at 30%; Fiscal deficit/GDP capped at 3%; Public debt/GDP capped at 60%</li><li>▪ Business friendly environment and low tax regime (attested by favourable international rankings)</li></ul>
<b>Regional logistics and tourism hub</b>	<p><b>A natural transport and logistics hub, connecting land-locked energy rich countries in the east and European markets in the west</b></p> <ul style="list-style-type: none"><li>▪ Access to a market of 2.8bn customers without customs duties: Free trade agreements with EU, China, CIS and Turkey and GSP with USA, Canada, Japan, Norway and Switzerland; FTA with Hong Kong was signed in June 2018. FTA with India under consideration.</li><li>▪ Tourism revenues on the rise: tourism inflows stood at 18.1% of GDP in 2017 and arrivals reached 7.9 mln visitors in 2017 (up 18% y-o-y), out of which tourist arrivals were up 23% y-o-y to 4.1 mln visitors.</li><li>▪ Regional energy transit corridor accounting for 1.6% of the world's oil and gas transit volumes</li></ul>
<b>Strong FDI</b>	<p><b>An influx of foreign investors on the back of the economic reforms have boosted productivity and accelerated growth</b></p> <ul style="list-style-type: none"><li>▪ FDI stood at US\$ 1.9bln (12.3% of GDP) in 2017, up 16.2% y-o-y</li><li>▪ FDI averaged 10.0% of GDP in 2007-2017</li></ul>
<b>Support from international community</b>	<p><b>Georgia and the EU signed an Association Agreement and DCFTA in June 2014</b></p> <ul style="list-style-type: none"><li>▪ Visa-free travel to the EU is another major success in Georgian foreign policy. Georgian passport holders were granted free visa entrance to the EU countries from 28 March 2017</li><li>▪ Discussions commenced with the USA to drive inward investments and exports</li><li>▪ Strong political support from NATO, EU, US, UN and member of WTO since 2000; Substantial support from DFIs, the US and EU</li></ul>
<b>Electricity transit hub potential</b>	<p><b>Developed, stable and competitively priced energy sector</b></p> <ul style="list-style-type: none"><li>▪ Only 20% of hydropower capacity utilized; 145 renewable (HPPs/WPPs/SPPs) energy power plants are in various stages of construction or development</li><li>▪ Georgia imports natural gas mainly from Azerbaijan</li><li>▪ Significantly boosted transmission capacity in recent years, a new 400 kV line to Turkey and 500 kV line to Azerbaijan built, other transmission lines to Armenia and Russia upgraded</li><li>▪ Additional 2,000 MW transmission capacity development in the pipeline, facilitating cross-border electricity trade and energy swaps to Eastern Europe</li></ul>
<b>Political environment stabilised</b>	<ul style="list-style-type: none"><li>▪ Georgia underscored its commitment to European values by securing a democratic transfer of political power in successive parliamentary, presidential, and local elections and by signing an Association Agreement and free trade agreement with the EU</li><li>▪ New constitution amendments passed in 2013 to enhance governing responsibility of Parliament and reduce the powers of the Presidency</li><li>▪ Continued economic relationship with Russia, although economic dependence is relatively low</li><li>▪ Russia began issuing visas to Georgians in March 2009; Georgia abolished visa requirements for Russians – Russia announced the easing of visa procedures for Georgians citizens effective December 23, 2015</li><li>▪ Direct flights between the two countries resumed in January 2010</li><li>▪ Member of WTO since 2000, allowed Russia's access to WTO; In 2013 trade restored with Russia</li><li>▪ In 2017, Russia accounted for 14.5% of Georgia's exports and 10.0% of imports; just 3.5% of cumulative FDI over 2003-2017</li></ul>

# Institutional oriented reforms

## Ease of Doing Business | 2018 (WB-IFC Doing Business Report)

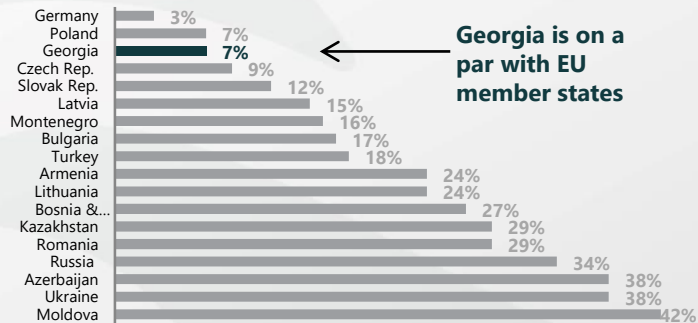


## Economic Freedom Index | 2018 (Heritage Foundation)

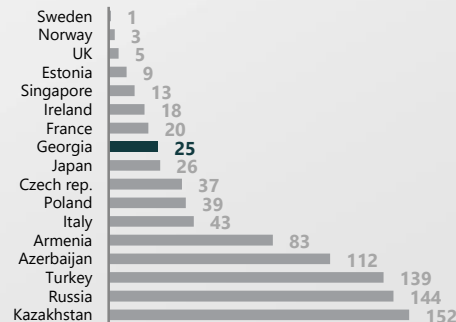


## Global Corruption Barometer | TI 2017

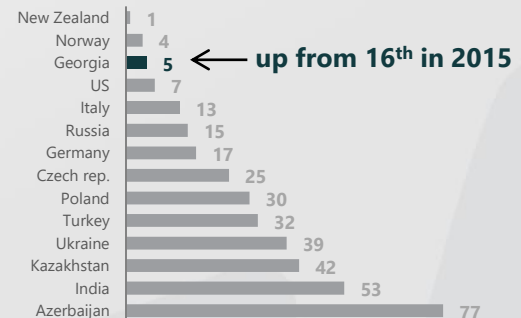
*% admitting having paid a bribe last year*



## Business Bribery Risk, 2017 | Trace International



## Open Budget Index, 2017 | International Budget Partnership

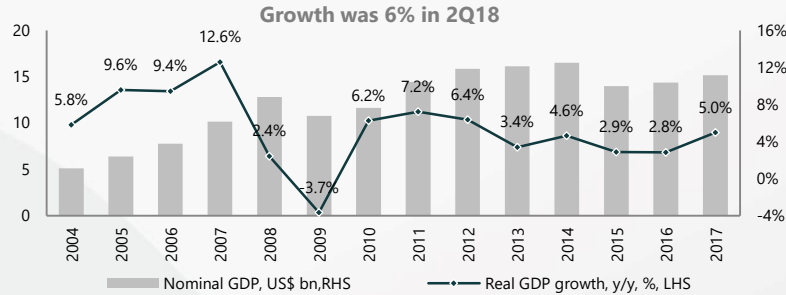


Sources: Transparency International, Heritage Foundation, World Bank, Trace International

# Diversified resilient economy

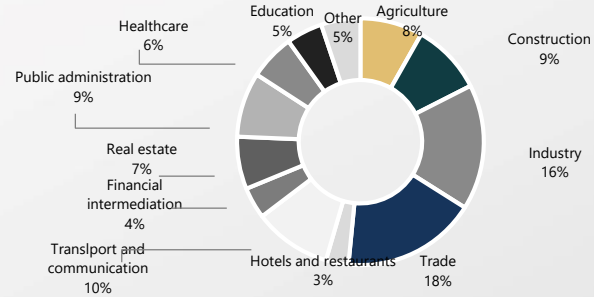
## Gross domestic product

Source: Geostat



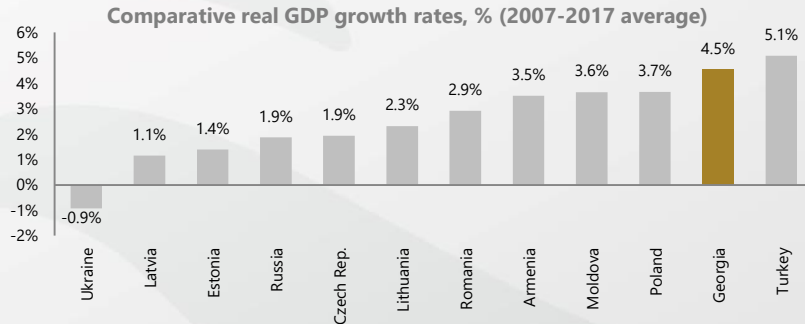
## Diversified nominal GDP structure, 2017

Source: Geostat



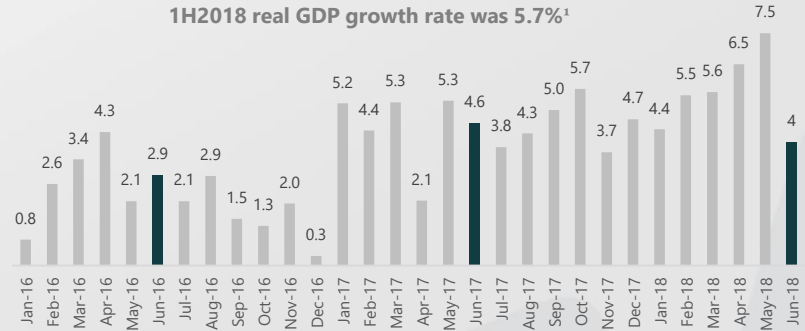
## One of the Fastest Developing Economies in the Region (2007-2017 average)

Sources: IMF



## Monthly Economic Activity Estimate, y/y growth

Sources: GeoStat

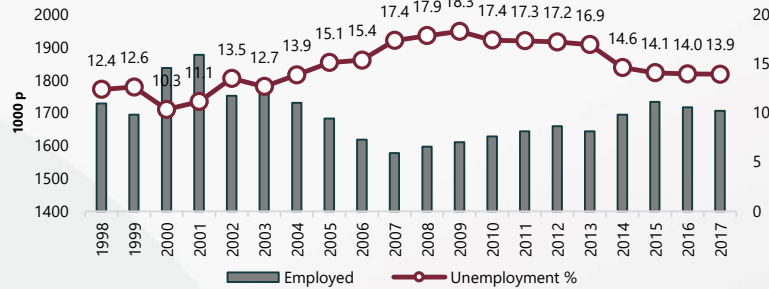


<sup>1</sup> preliminary data

# Room for further job creation

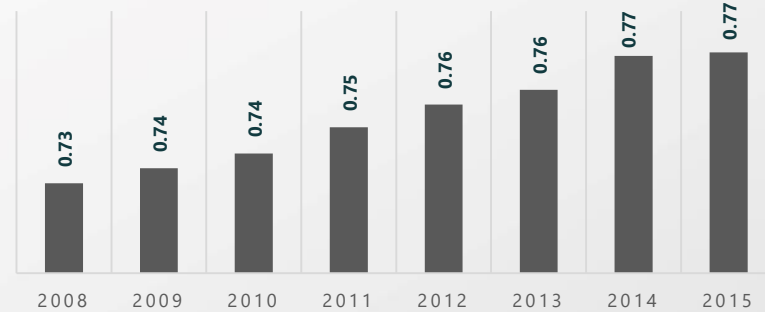
## Unemployment rate down 0.1ppts y/y to 13.9% in 2017

Sources: GeoStat



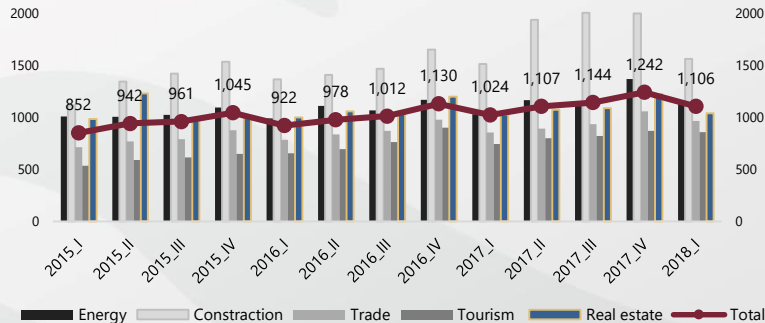
## UNDP Human Development Index

Sources: UNDP



## Average monthly nominal earnings in business sector

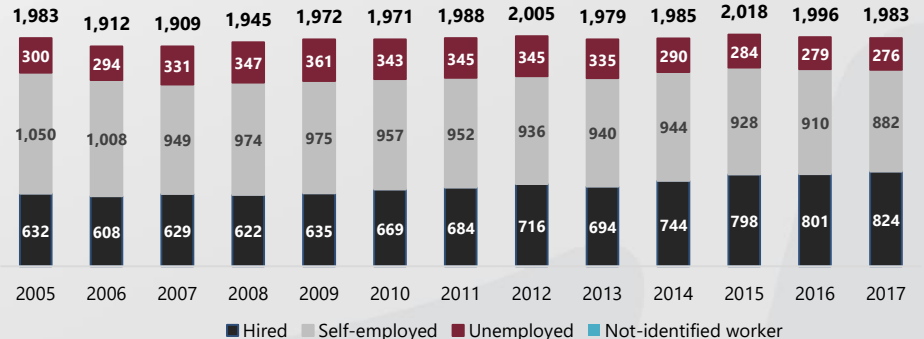
Sources: GeoStat



## Labor force decomposition 2017

Sources: GeoStat

Hired workers accounted 48% in total employment in 2017



# Inflation targeting since 2009

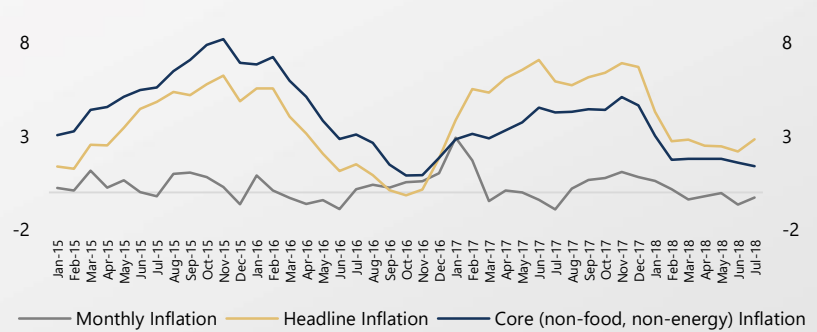
## Inflation y/y vs. inflation target

Sources: NBG, GeoStat



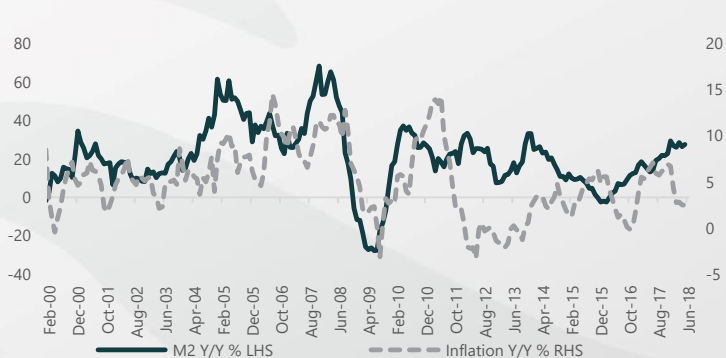
## Inflation y/y

Source: GeoStat



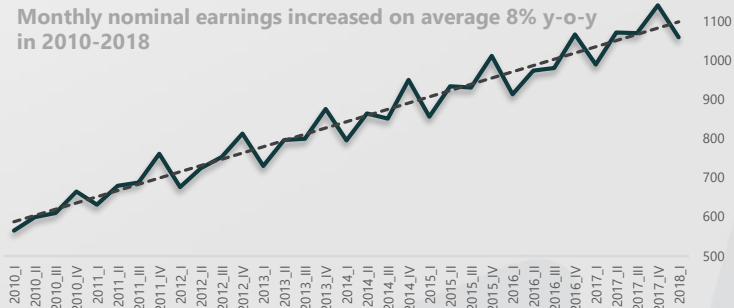
## M2 vs. inflation, y-o-y, %

Sources: Geostat, NBG



## Average monthly nominal earnings

Source: Geostat

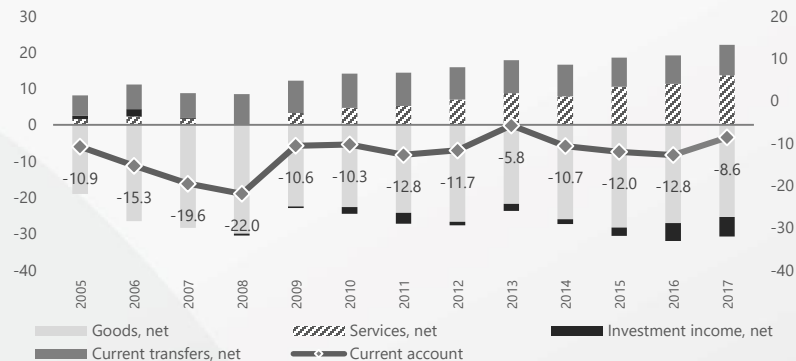




# Current account deficit supported by FDI

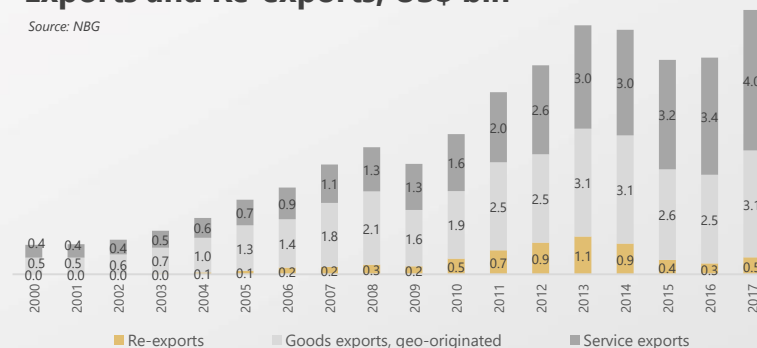
## Current account balance (% of nominal GDP)

Sources: NBG



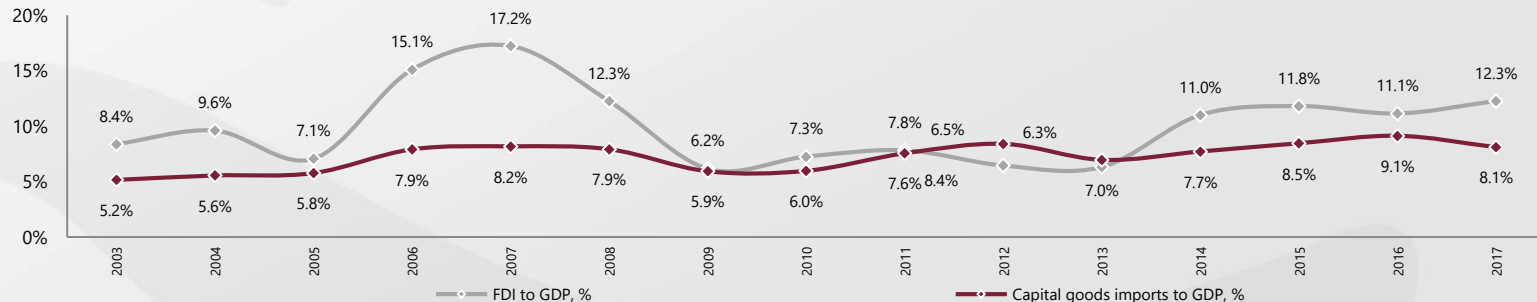
## Exports and Re-exports, US\$ bln

Source: NBG



## FDI and capital goods import

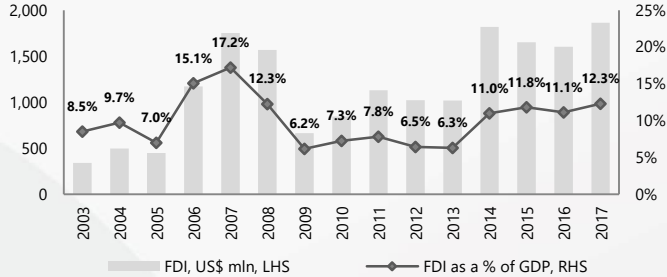
Source: GeoStat



# Diversified sources of capital

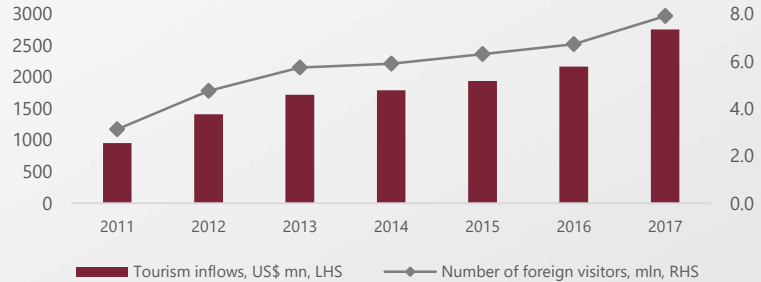
## Strong foreign investor interest

Sources: GeoStat



## Visitors and tourism revenues on the rise

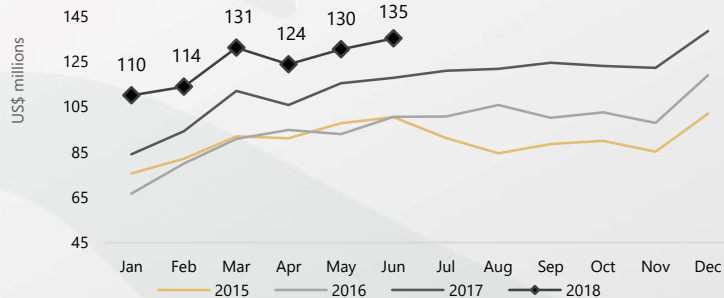
Sources: GNTA, NBG



## Remittances - steady source of external funding

Source: NBG

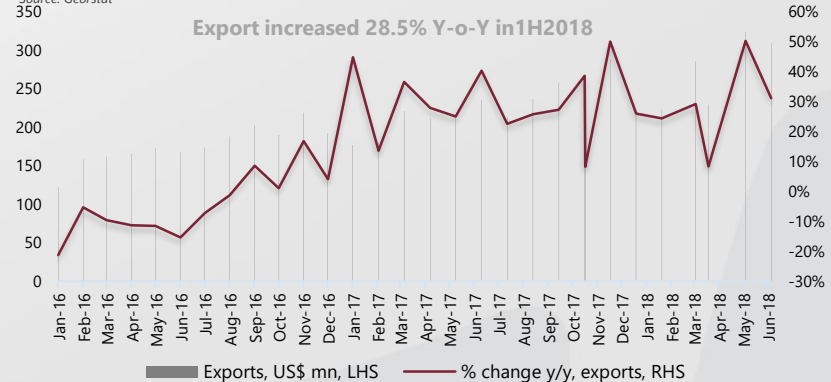
Remittances reached US\$ 744.4 mln in 1H2018, up 18.3% y/y



## Export continues to support economic growth

Source: Geostat

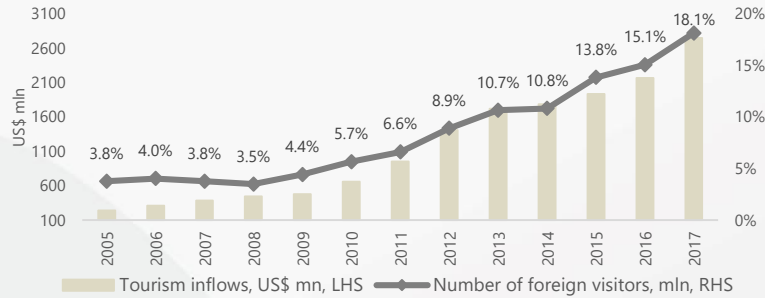
Export increased 28.5% Y-o-Y in 1H2018



# Tourism sector on the rise

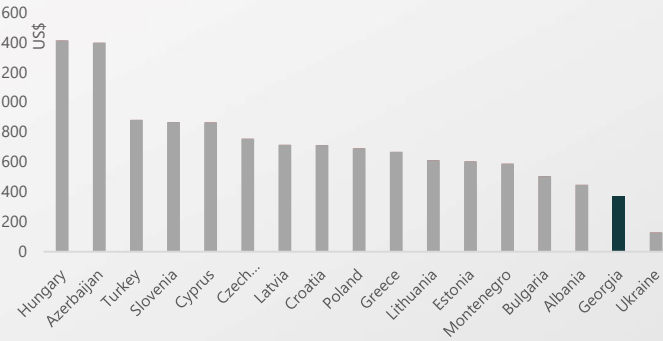
## Tourism revenues to GDP

Sources: NBG



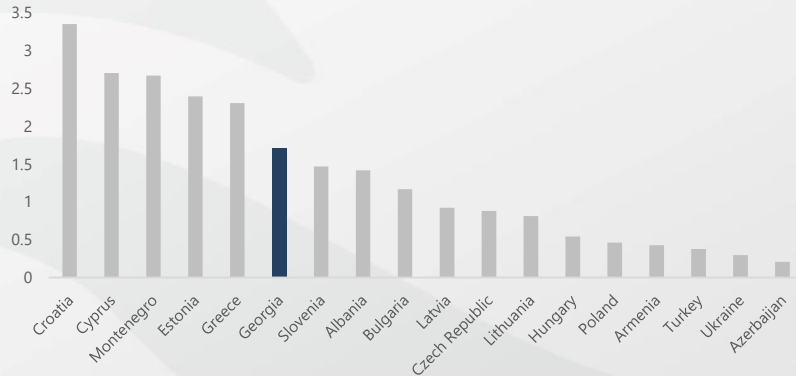
## Spending per arrival, 2016

Source: WDI



## Arrivals to country's population, 2016

Source: WDI



## Number of Tourists (overnight visitors)

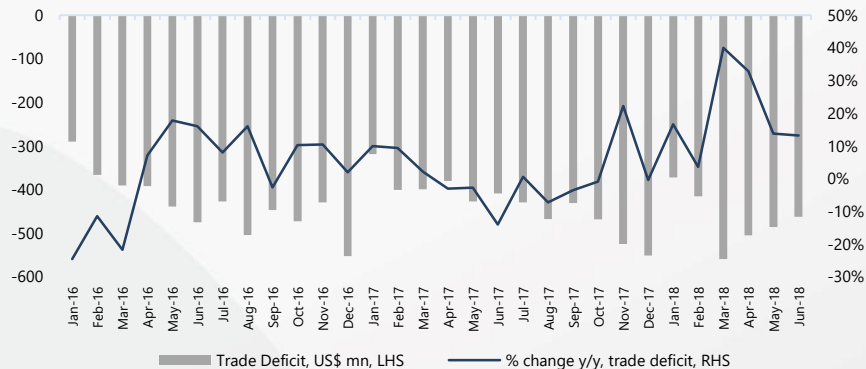
Source: GNTA



# Diversified foreign trade

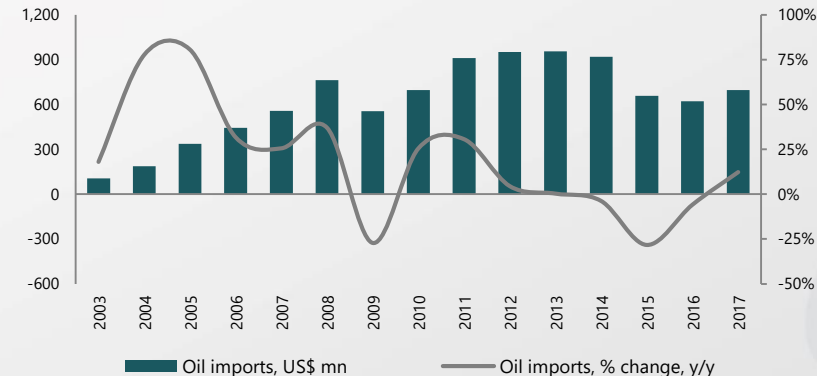
## Goods' Trade Deficit

Source: GeoStat



## Oil imports

Sources: GeoStat



## Electricity generation and trade, GWH

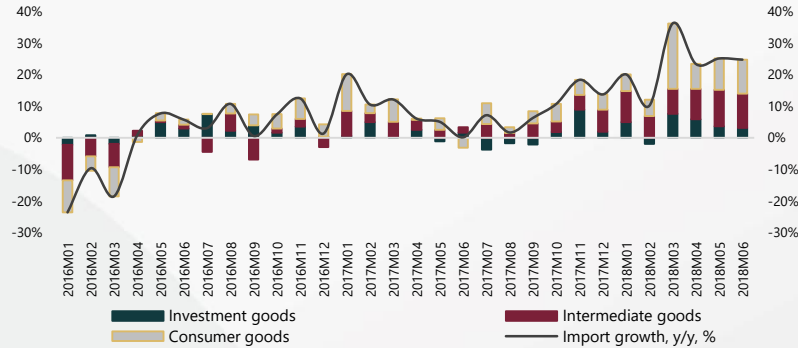
Source: ESCO



# Diversified foreign trade

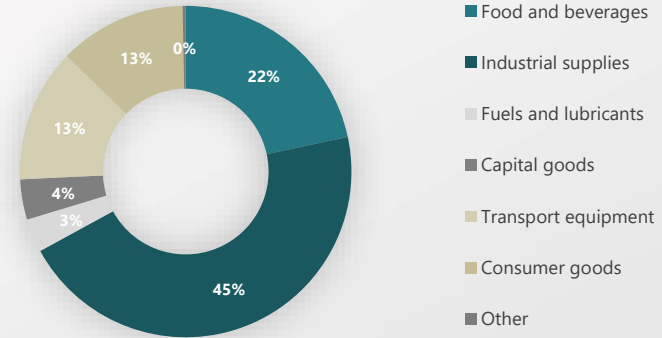
## Imports of Goods

Source: NBG



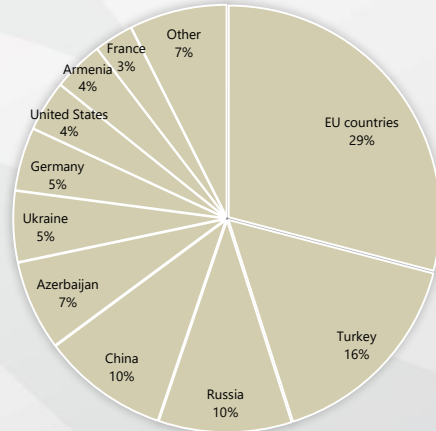
## Foreign Demand, 1H2018

Source: Geostat



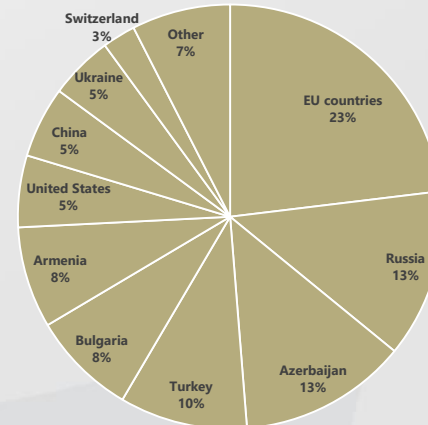
## Importing countries, 1H2018

Sources: GeoStat



## Exporting countries, 1H2018

Sources: GeoStat

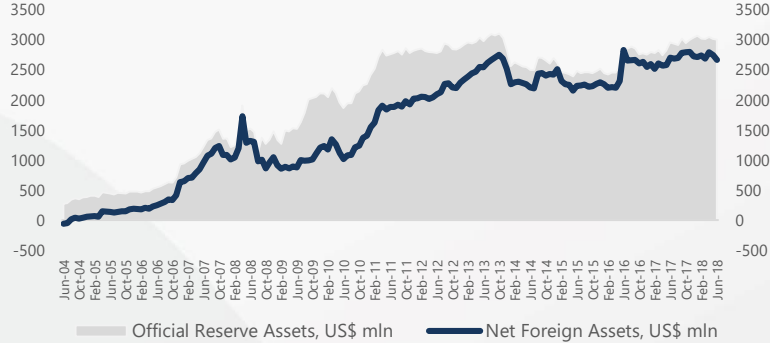


# Prudent monetary policy ensures macro-financial stability



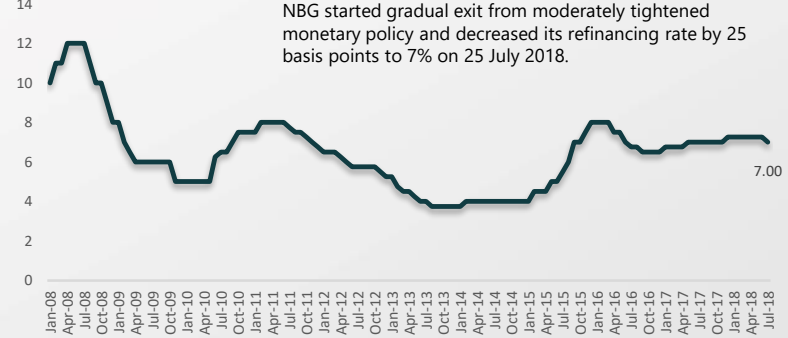
## International reserves

Sources: NBG



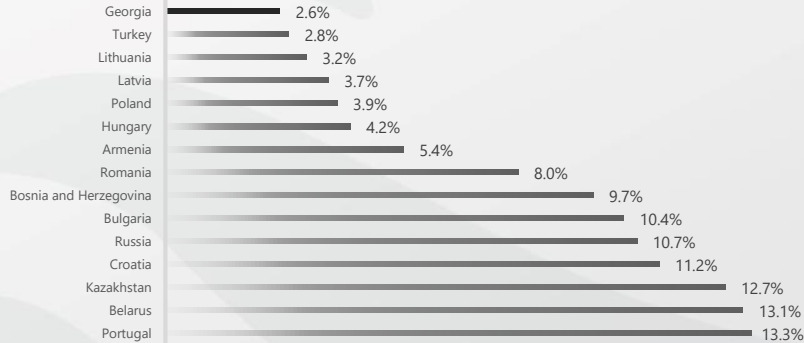
## Monetary policy rate

Sources: NBG



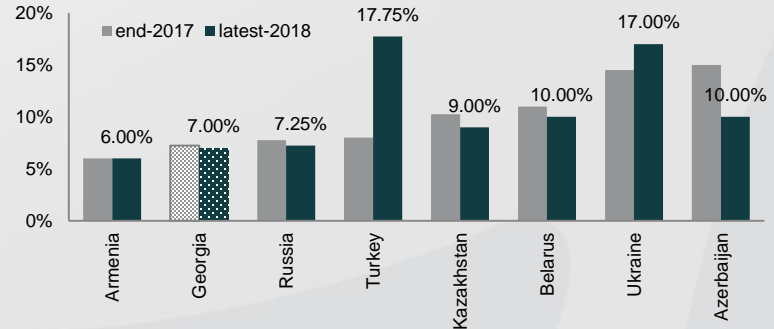
## Nonperforming loans to total gross loans, latest 2018

Sources: IMF



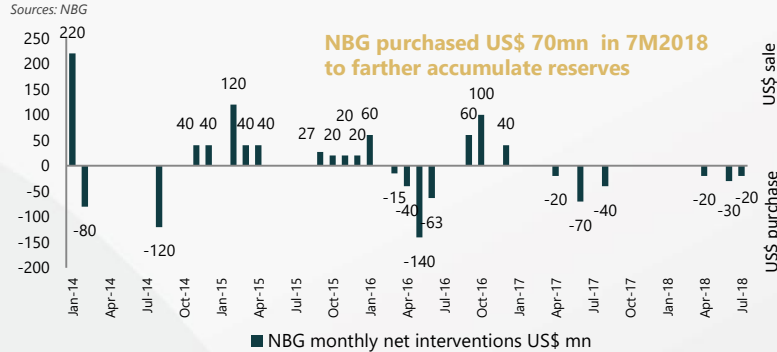
## Monetary policy rate remains low vs. peers

Sources: Central banks

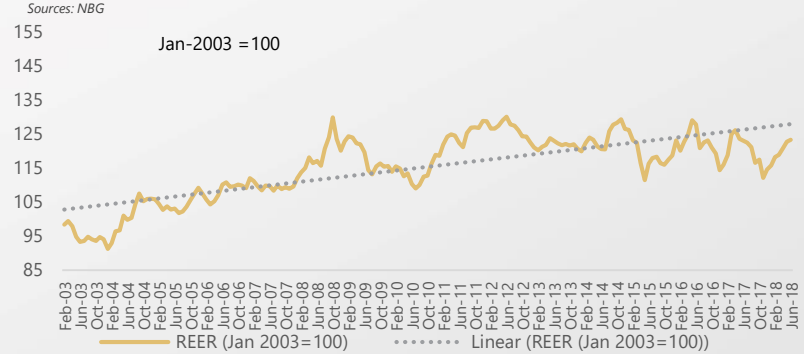


# Floating exchange rate - policy priority

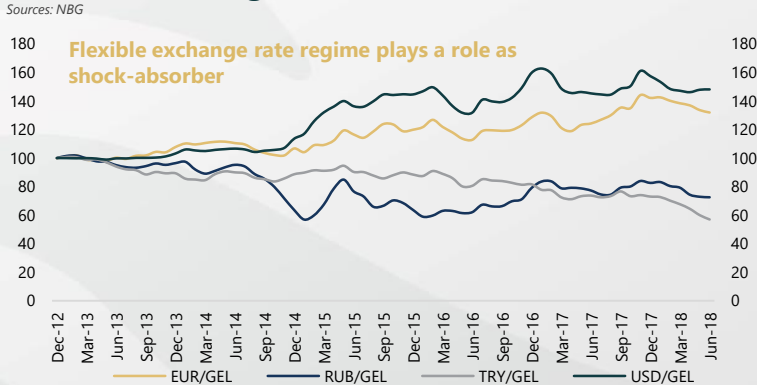
## Central Bank's interventions



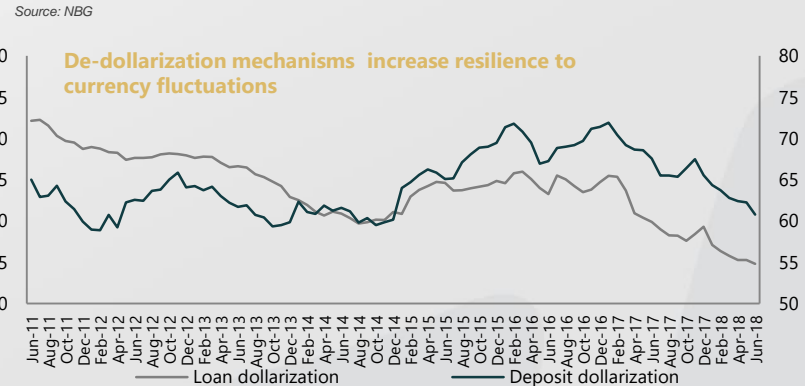
## Real effective exchange rate (REER)



## Bilateral exchange rate indices (Dec2012=100)



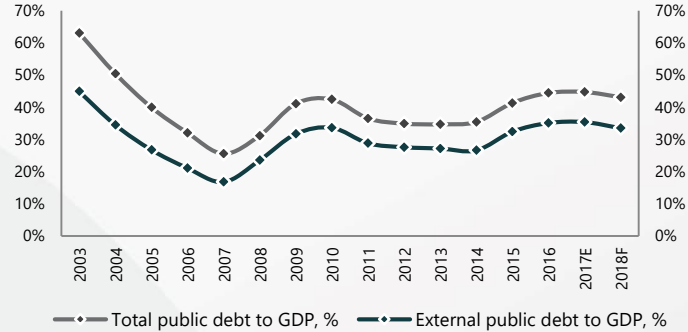
## Dollarization ratios



# Low public debt

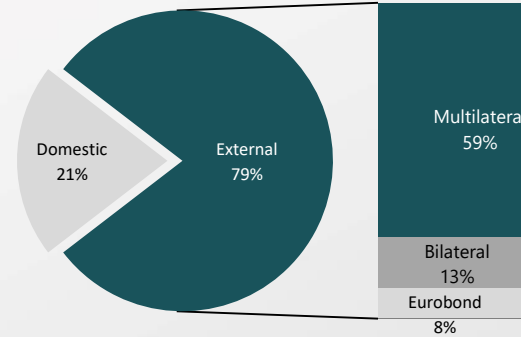
## Public debt as % of GDP is capped at 60%

Sources: MOF



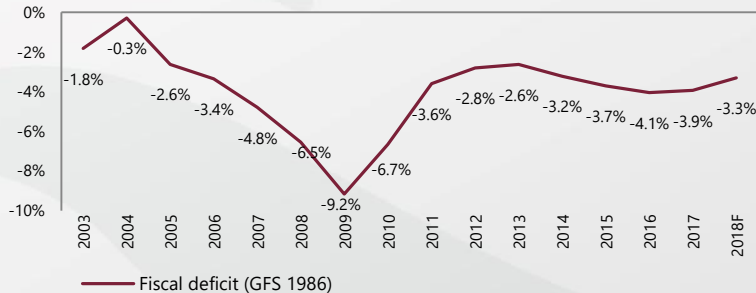
## Breakdown of public debt

Source: MOF, as of 31 December 2017



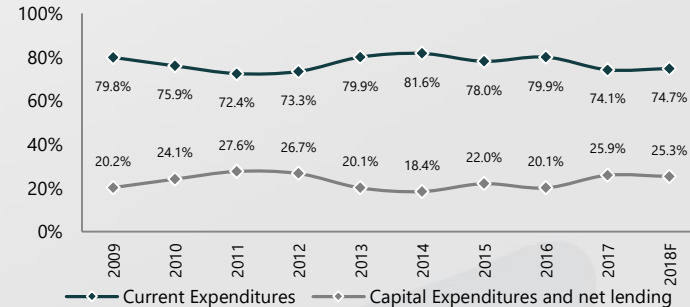
## Fiscal deficit

Source: MOF  
Note: Deficit calculated based on IMF's GFSM-1986 methodology



## Current vs Capital Expenditure

Source: MOF





# Growth-oriented government reforms (2018-2020)

## 1 Structural Reforms

- **Small government concept**
  - Optimization of government units and decrease bureaucracy expenses to get small, efficient and flexible government
  - Compensation of employees as a% of GDP will decrease and remain close to 3.9% of GDP
- **Tax Reform**
  - Favorable tax rates for SME development
  - Special tax regimes for regional offices of multinational companies
  - Enhancing easiness of tax compliance
- **Capital Market Reform**
  - Boosting stock exchange activities
  - Developing of local bond market
- **Pension Reform**
  - Introduction of private pension system
- **PPP Reform**
  - Introduction of transparent and efficient PPP framework
- **Public Investment Management Framework**
  - Improved efficiency of state projects
- **Law of Georgia on Entrepreneurs**
  - New law will be drafted reflecting requirements of Association Agreement between EU and Georgia
- **Responsible Lending**
  - Regulatory actions to support responsible lending
  - Decrease household over indebtedness
- **Association Agreement Agenda**

## 2 Promoting Transit & Tourism Hub

- **Roads**
  - Plan to finish all spinal projects by 2020 – East-West Highway, other supporting infrastructure
- **Rail**
  - Baku – Tbilisi Kars new railroad line
  - Railway modernization and integration in international transport systems
- **Maritime**
  - Anaklia deep water Black Sea port
    - Strategic location
    - Capable of accommodating Panamax type cargo vessels
    - High capacity – up to 100mln tons turnover annually
  - **Up to USD 2.5 bln** for the project completion;

## 3 Education

- **General Education Reform**
  - Maximising quality of teaching in secondary schools
- **Fundamental Reform of Higher Education**
  - Based on the comprehensive research of the labour market needs
- **Improvement of Vocational Education**
  - Increase involvement of the private sector in the professional education

