



GEORGIA
CAPITAL

GEORGIA CAPITAL INVESTOR DAY

12 November 2020



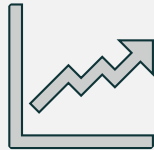
MACROECONOMIC OVERVIEW

Speaker: Nino Vakhvakhishvili
Chief economist, Georgia Capital

QUICK FACTS



GDP per capita:
US\$ 4,764



10-year real GDP growth:
4.8%



10-year average inflation:
3.7%



10-year average FDI:
8.5% of GDP

Preferential trading regimes: access to **2.8 billion costumers**



Moody's: Ba2 (stable); **S&P Global:** BB (stable); **FitchRating:** BB (negative)
Population: 3.7 m; **Gini coefficient:** 0.37; **Literacy:** 100%;

6TH FREEST ECONOMY AMONG 45 EUROPEAN COUNTRIES, 12TH FREEST ECONOMY IN THE WORLD



7th place in Ease of Doing Business | 2020
World Bank



2nd place in Starting a Business | 2020
World Bank



7th place in Protecting Minority Interests | 2020
World Bank



5th place in Registering Property | 2020
World Bank



5th place in Open Budget Index | 2019
International Budget Partnership



12th place in Economic Freedom Index
Heritage Foundation



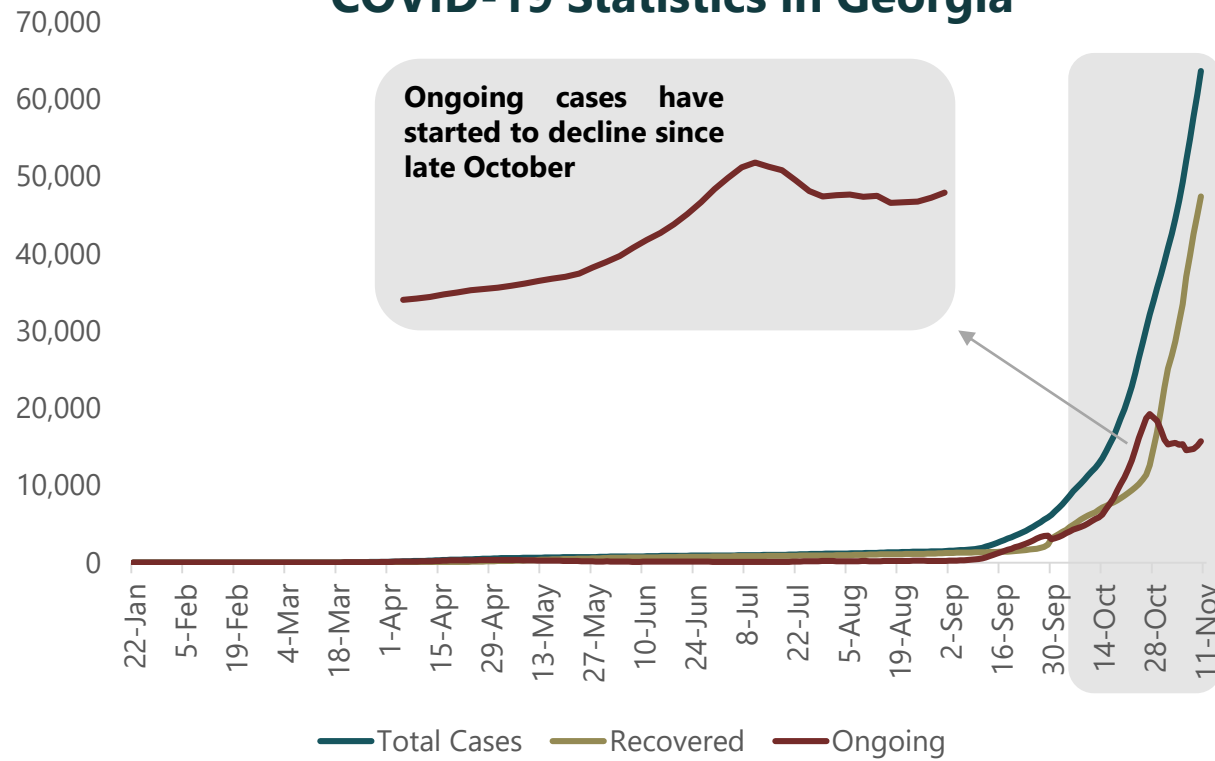
25th place in Business Bribery Risk
TRACE International

GEORGIA PASSES TEST TO MANAGE THE COVID-19 RELATED CRISIS

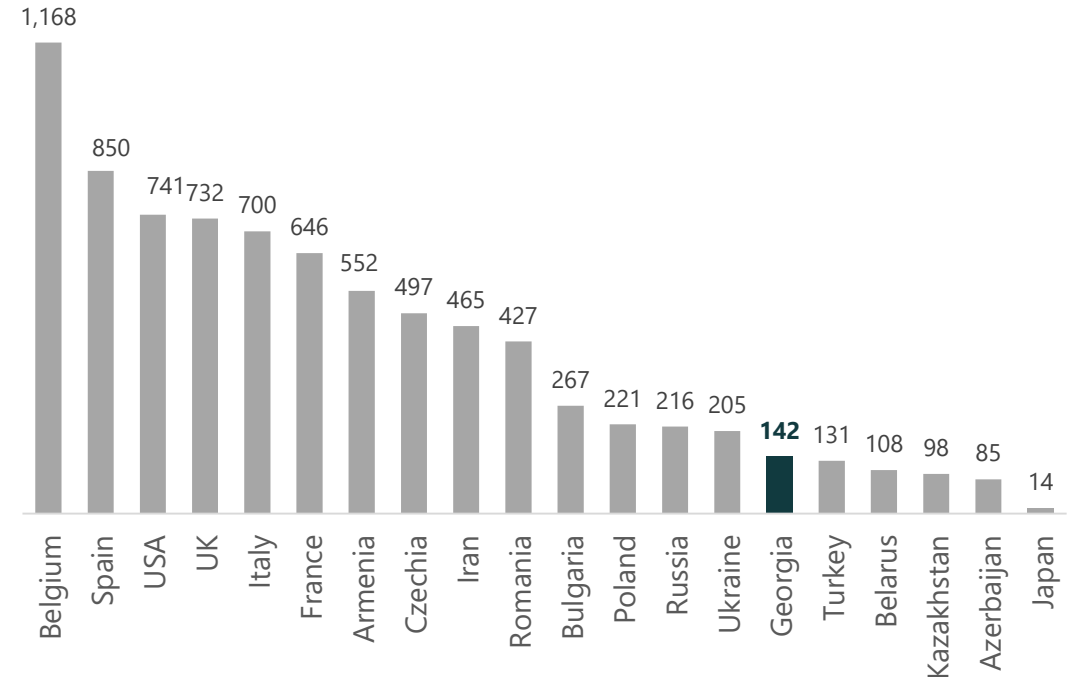


DESPITE EARLY SEPTEMBER SURGE, GEORGIA MAINTAINS A RELATIVELY SUCCESSFUL POSITION WHILST FIGHTING THE PANDEMIC

COVID-19 Statistics in Georgia



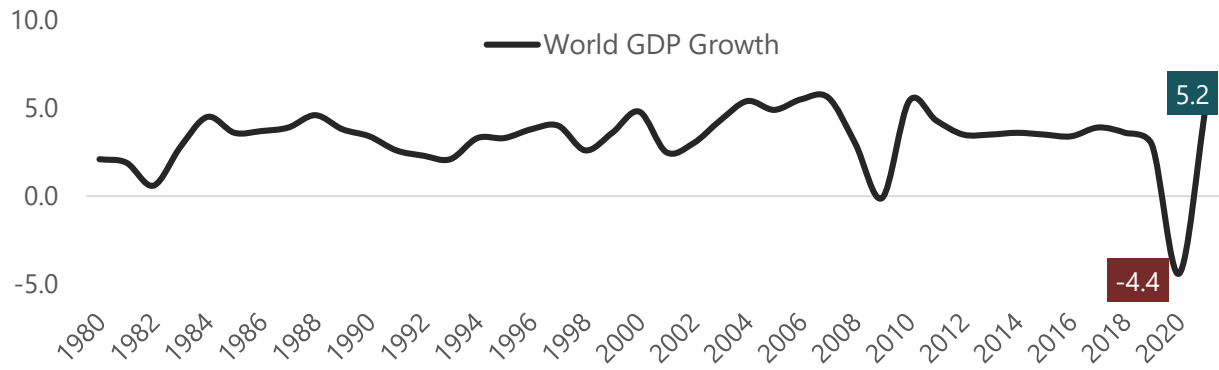
COVID-19 deaths per million persons



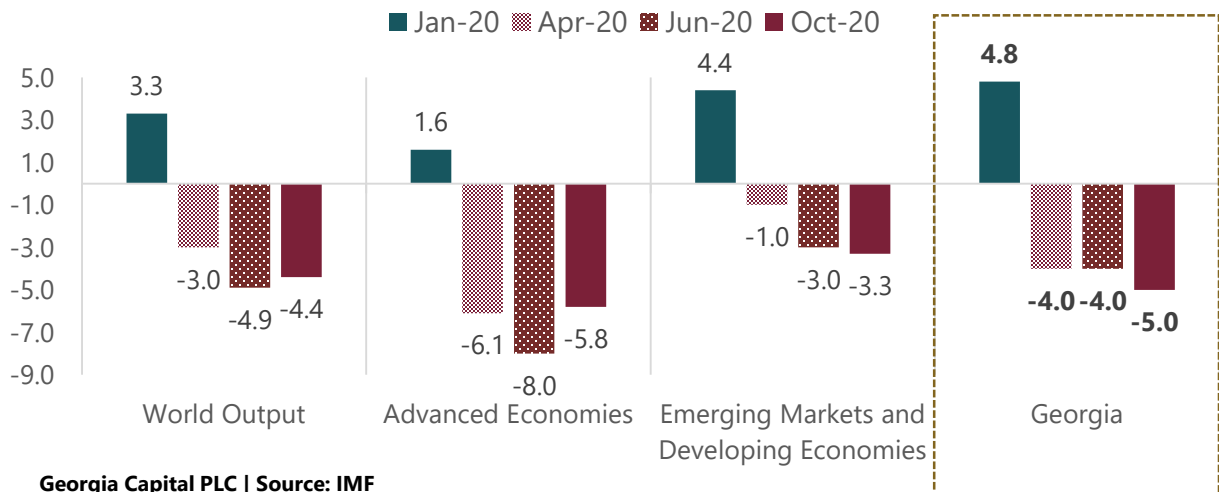
GEORGIA'S MEDIUM-TERM GROWTH IS FORECAST TO BE ONE OF THE HIGHEST IN THE REGION



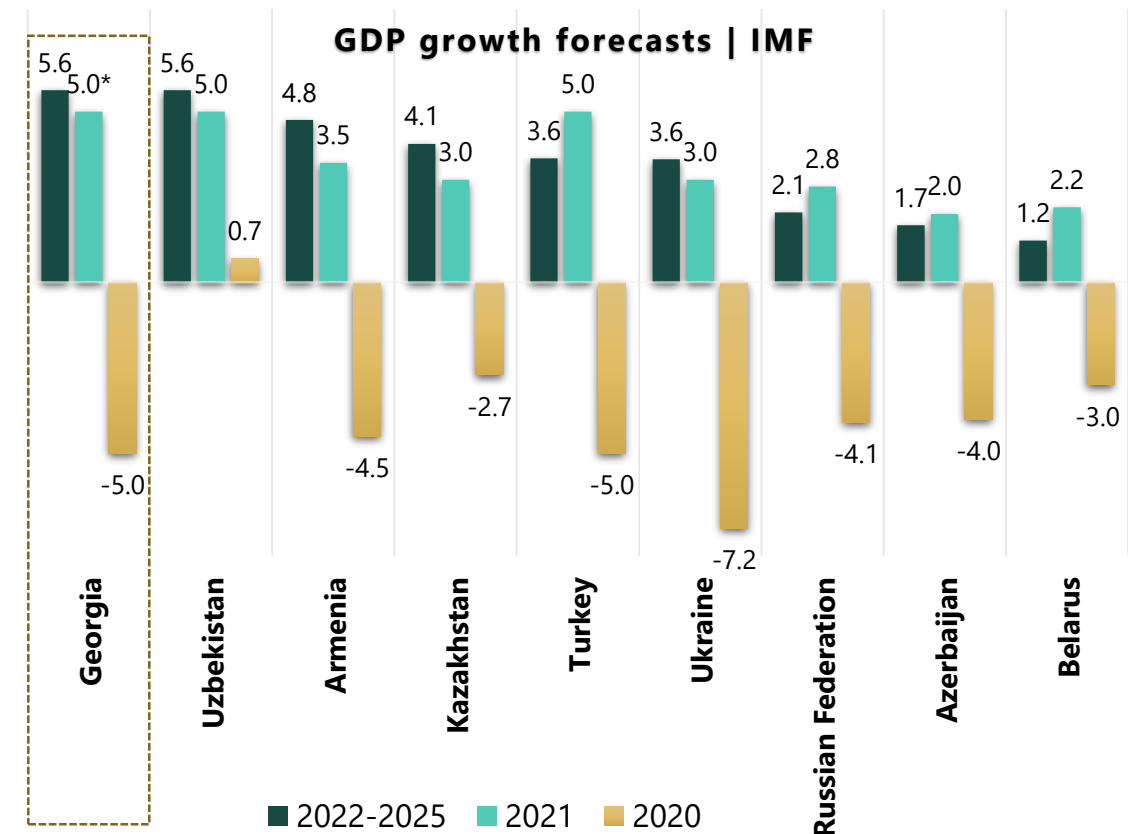
IMF: "A CRISIS LIKE NO OTHER"



IMF has moderated the projected fall of AEs in October, but downgraded the EM forecast, with the global recession now expected to be slightly lower



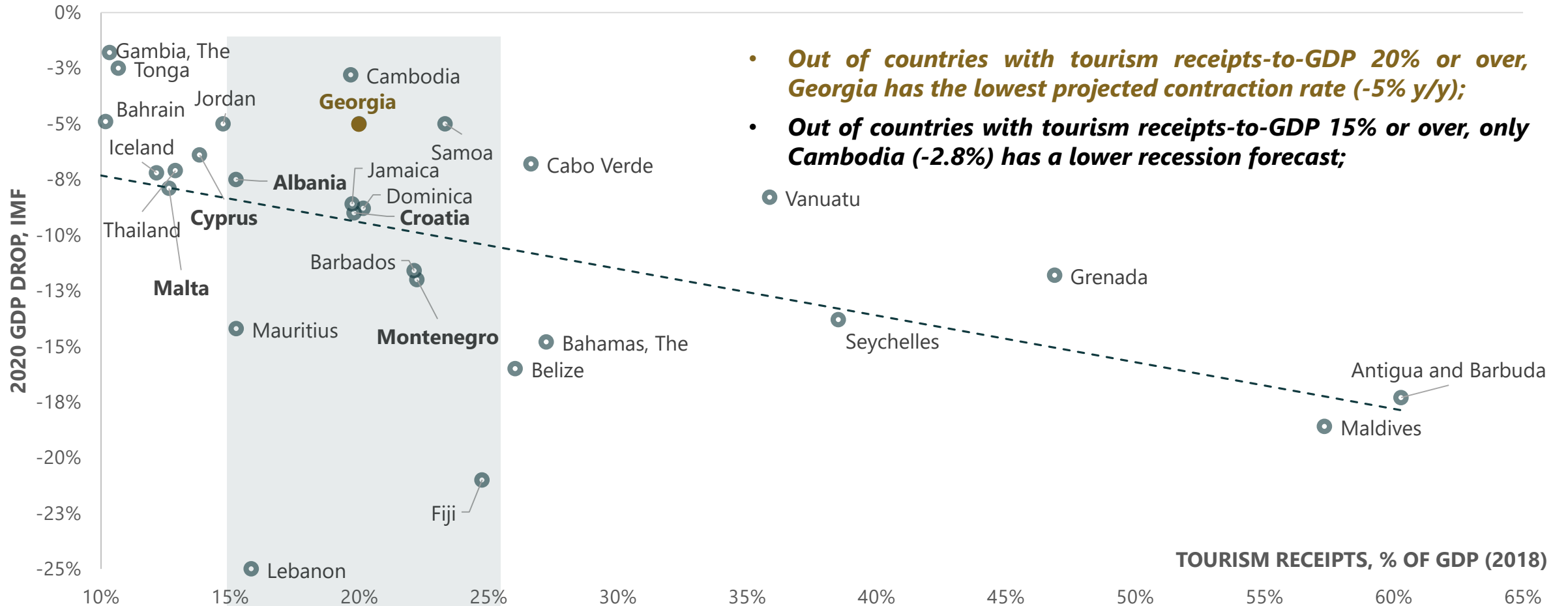
IMF expects the Georgian economy to fall by 5% in 2020 and rebound fast by 5% in 2021*, with one of the highest 5-year average growth in the region



*revised to 4.3% in 2021 after the 7th review on November 10, due to the regional conflict and COVID-19 uncertainty

GEORGIA IS EXPECTED TO TAKE A SMALLER HIT COMPARED TO OTHER TOURISM-DEPENDENT COUNTRIES;

DESPITE TOURISM RECEIPTS MAKING UP A SUBSTANTIAL PART OF THE GEORGIAN ECONOMY, PROJECTED CONTRACTION IS LOWER THAN PEERS

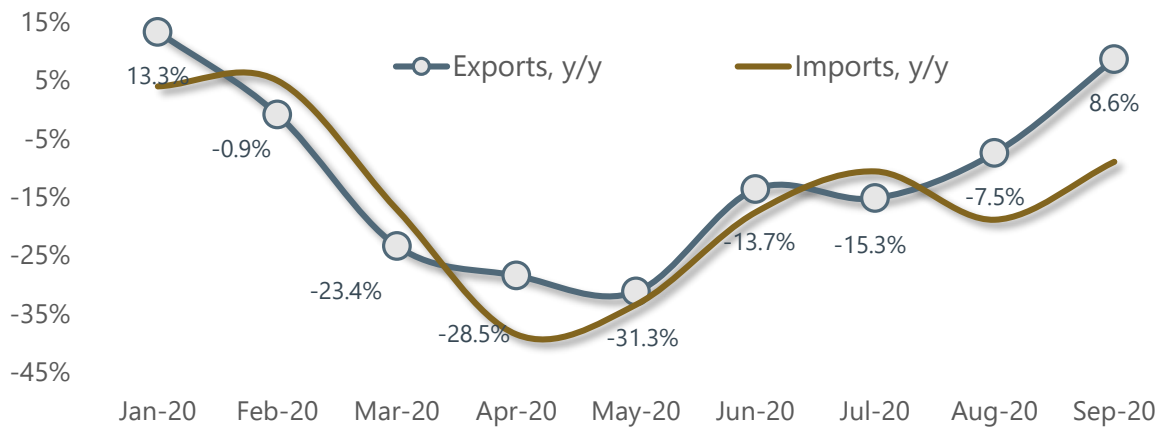
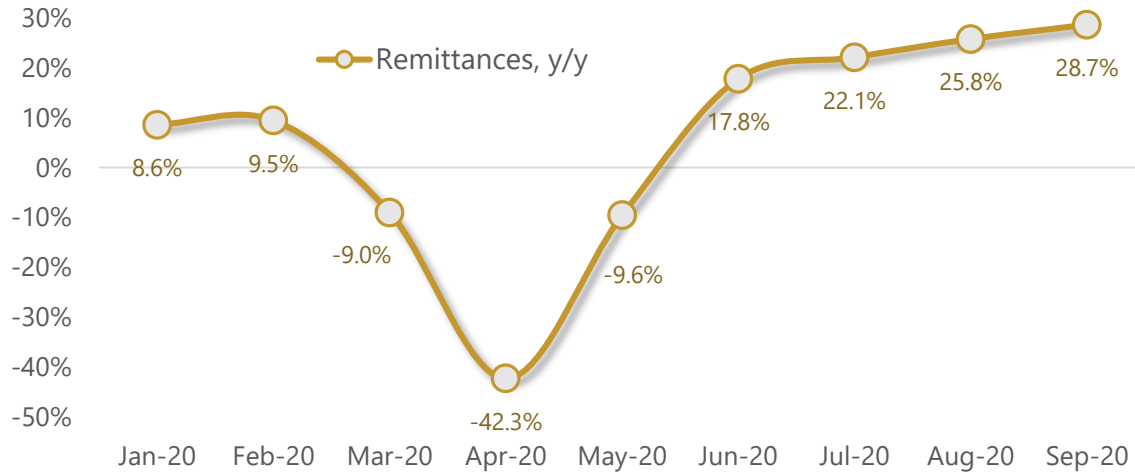


- **Out of countries with tourism receipts-to-GDP 20% or over, Georgia has the lowest projected contraction rate (-5% y/y);**
- **Out of countries with tourism receipts-to-GDP 15% or over, only Cambodia (-2.8%) has a lower recession forecast;**

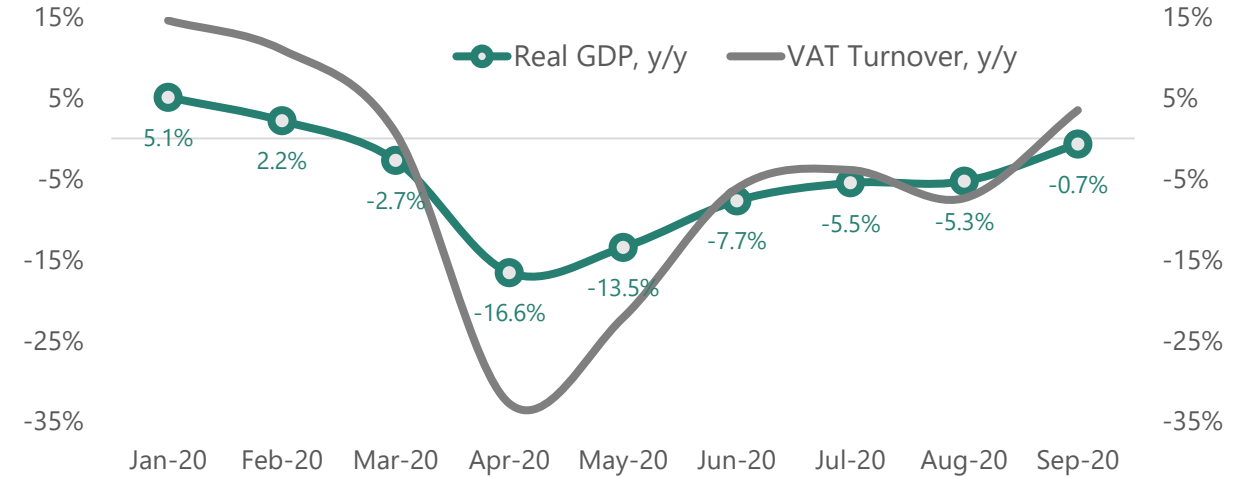
THE ECONOMY HAS BEEN RECOVERING EVERY MONTH SINCE APRIL



ECONOMIC RECOVERY UNDERWAY



REAL GDP GROWTH HAS IMPROVED EVERY MONTH SINCE THE APRIL LOW OF -16.6%



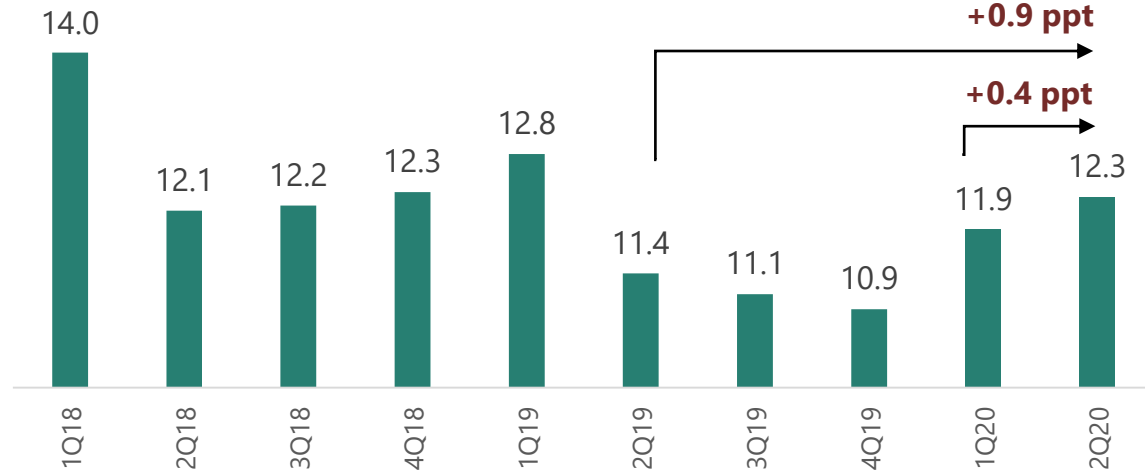
RECOVERY WAS SUPPORTED BY

- UNPRECEDENTED STIMULUS AROUND THE GLOBE
- STRONG INTERNATIONAL SUPPORT
- SIZEABLE FISCAL PACK
- SOUND MONETARY POLICY FRAMEWORK
- RECORD HIGH REMITTANCES
- DIVERSIFYING EXPORT MARKETS

THE LABOR MARKET HAS BEEN AFFECTED LESS SEVERELY THAN EXPECTED



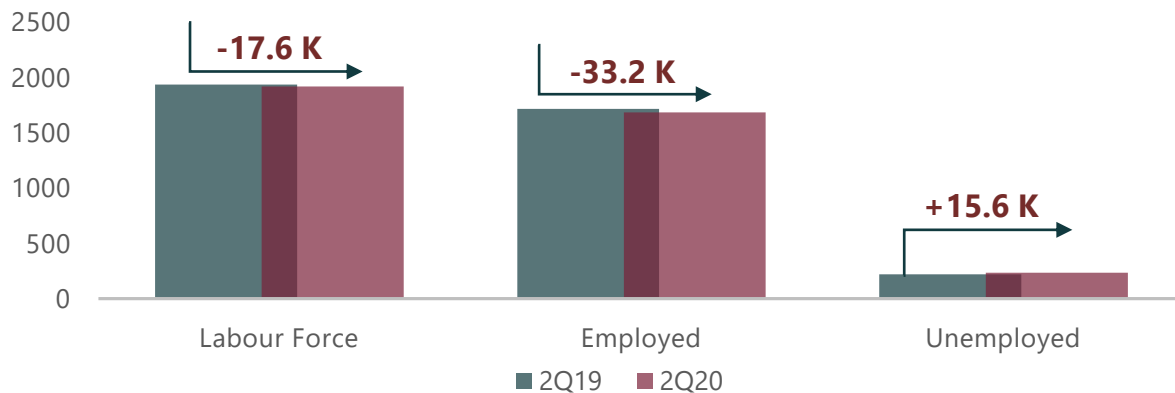
THE UNEMPLOYMENT RATE INCREASED BY 0.9 PPT COMPARED TO 2Q19



THE NUMBER OF HIRED EMPLOYEES AND SALARIES HAVE BOUNCED BACK AFTER FALLING IN APRIL-MAY



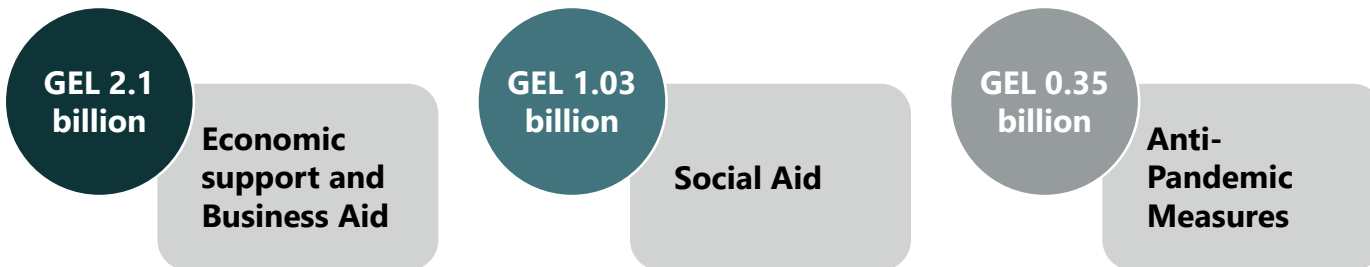
MORE THAN 15,000 PEOPLE BECAME UNEMPLOYED IN 2Q20



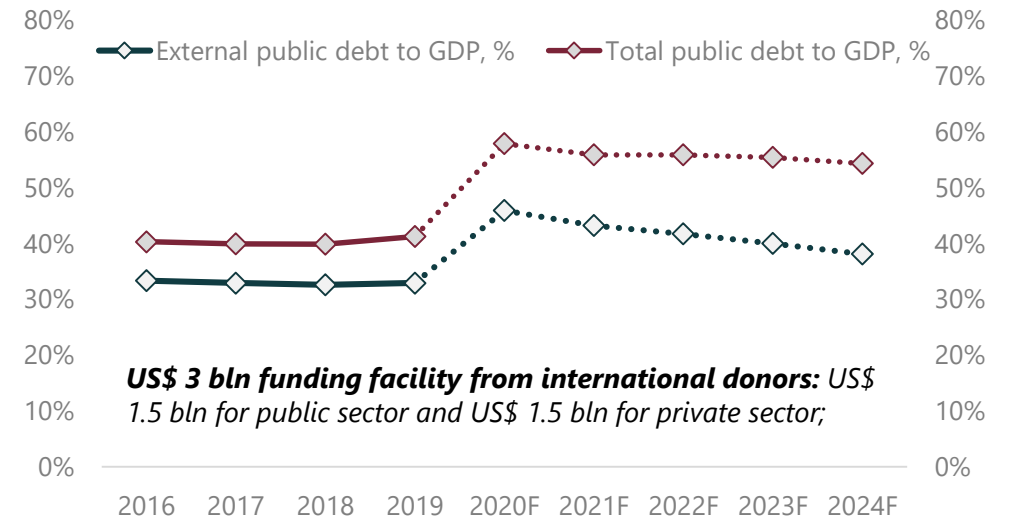
ACCUMULATED BUFFERS AND INTERNATIONAL SUPPORT HAVE ALLOWED THE GOVERNMENT TO LAUNCH SIZEABLE MEASURES TO COMBAT THE CRISIS



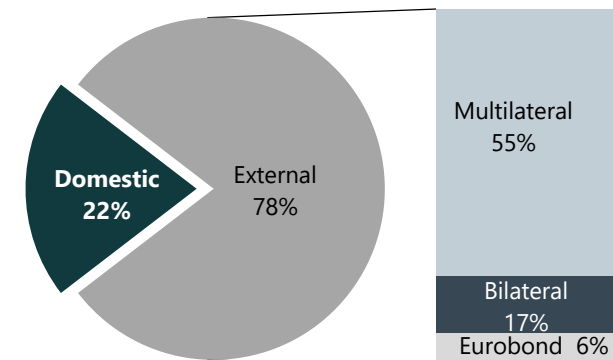
- Subsidies for utility bills, basic product prices and construction materials;
- **Loan restructuring for all businesses;**
- VAT returns and **long-term funds for banks;**
- Extra funding to support business, including a **credit guarantee scheme (GEL 2bln);**
- **Income tax waiver for low-income citizens** and tax deferrals for car importers;
- **Social aid programs** for low-income families, disabled people, self employed people and for people who lost jobs during the pandemic;
- Pension indexation from Jan- 21;
- GEL 200 transfers to all children below 18;
- Tourism sector: loan co-financing, income tax deferral and property tax exemption in 2020;
- Agriculture: subsidies for intermediate products, fuels and irrigation; loan and insurance co-financing; direct grants to farmers;
- **Construction: subsidies for mortgage interest payments, government guarantees for mortgages, additional housing purchases for refugees.**



LOW PUBLIC DEBT ENSURES A STRONG POSITION TO BORROW TO FIGHT THE PANDEMIC, WITH MOF EXPECTING PUBLIC DEBT TO RISE TO AROUND 58% OF GDP



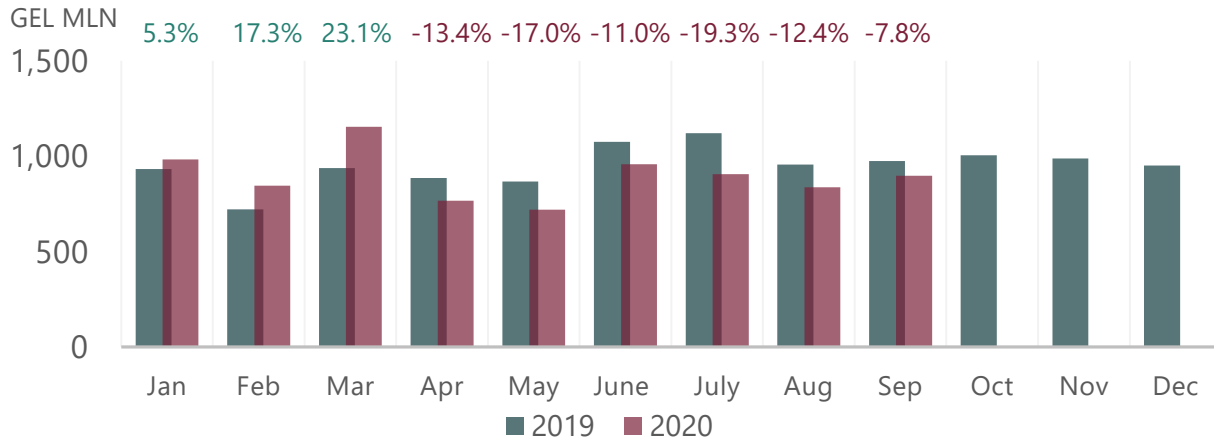
EXTERNAL DEBT REMAINS LARGELY CONCESSIONAL



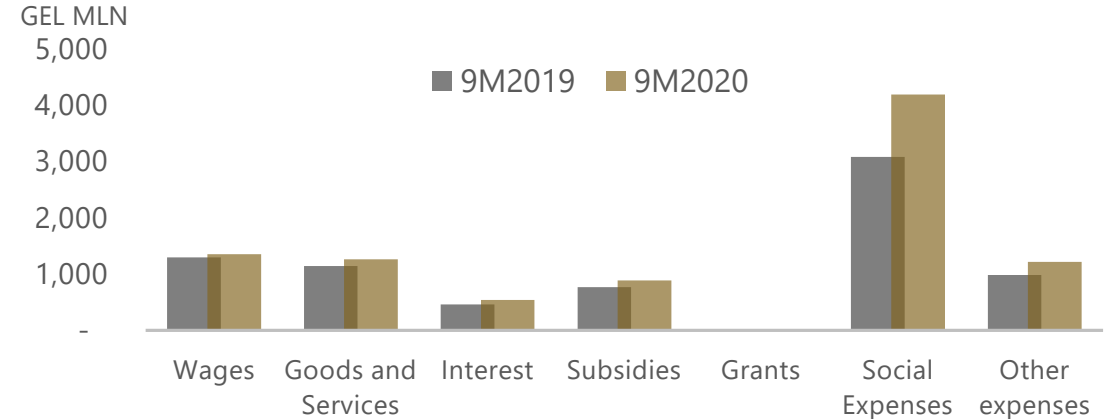
LAGGING REVENUES REFLECT TAX RELIEFS AND LOW ACTIVITY, WHILE EXPENDITURES GROWING ON THE BACK OF STIMULUS PACK



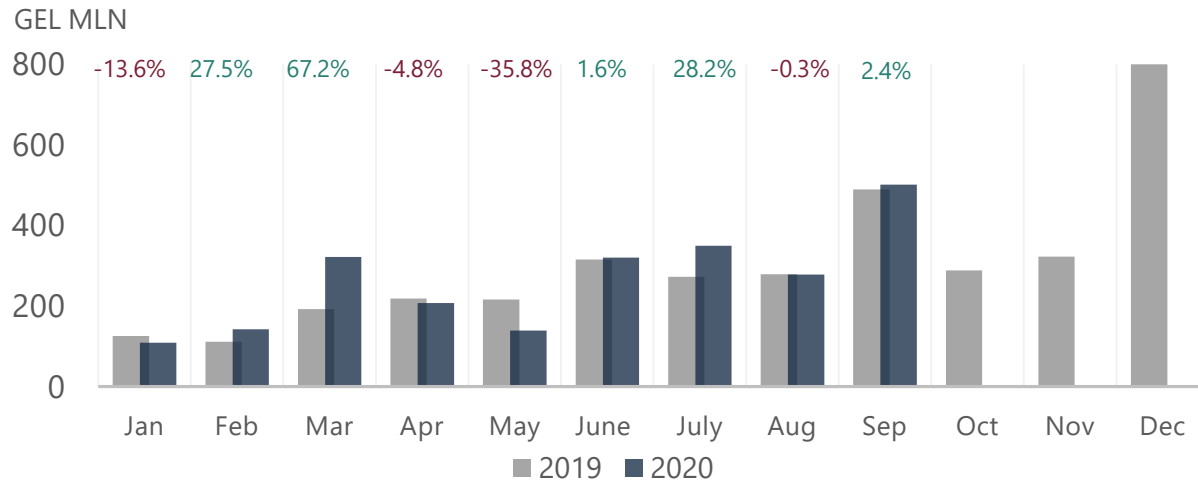
CONSOLIDATED BUDGET TAX REVENUES FELL BY 4.8% IN 9M2020



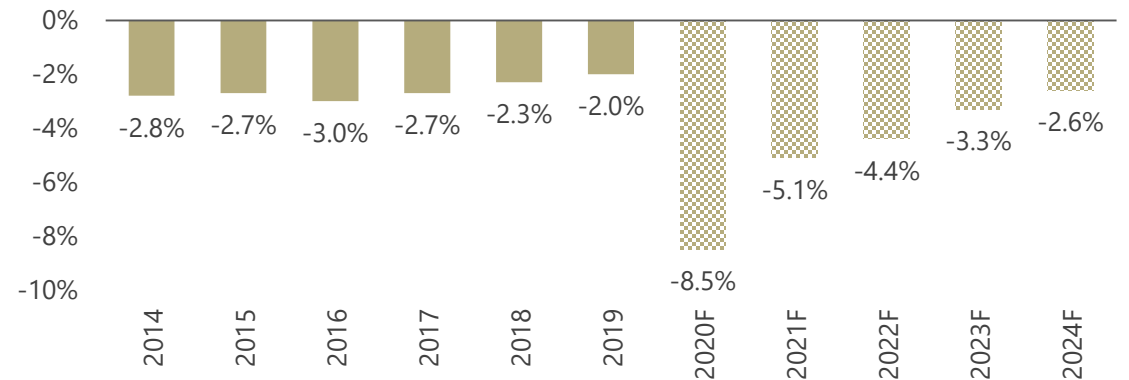
CONSOLIDATED BUDGET CURRENT EXPENDITURES GREW BY 22.2% IN 9M2020



CONSOLIDATED BUDGET CAPITAL EXPENDITURES GREW BY 6.7% IN 9M2020



OVERALL BALANCE (IMF MODIFIED) IS EXPECTED TO WIDEN AND TO RETURN TO 3% TARGET IN THREE YEARS



THE SOUND MONETARY POLICY FRAMEWORK HAS BEEN PLAYING A ROLE TO FIGHT THE CRISIS



NBG'S MEASURES IN RESPONSE TO COVID-19

Liquidity provision

- **Monetary policy rate reduced to 8%** and gradual exit from strict monetary policy announced (April 2020);
- Introducing **US\$ 400mln currency swap facility** for the financial sector to provide GEL liquidity;
- New liquidity instrument to support credit to SMEs;
- New swap instrument with EBRD to secure reliable access to GEL liquidity;

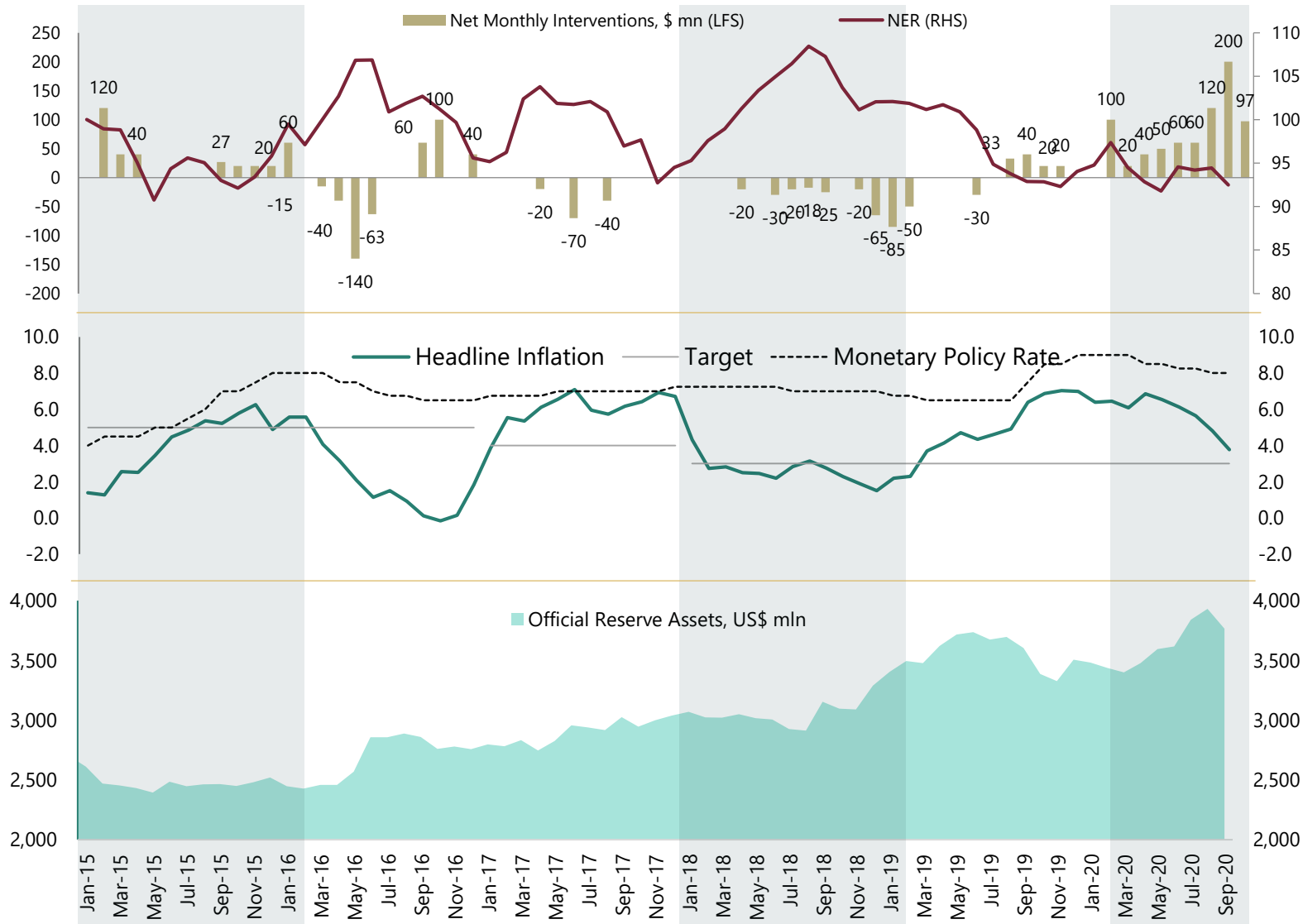
Supervisory measures

- Macroprudential measures were eased (LTV, PTI, etc.)
- Capital conservation buffer and a portion of currency induced credit risk buffer **total of Gel 1.6 billion were eased;**
- **Grace period was introduced** for loan repayment for three months;
- On-site inspection was suspended and a moratorium on new supervisory requirements was announced;

Other

- **Extending the IMF program** to get the IFIs' support;
- New mechanism for FX interventions ensuring more competition in the FX market;

ACCUMULATED BUFFERS, SOUND POLICIES AND RESILIENCE TO PREVIOUS SHOCKS CREATE ROOM FOR FURTHER SUPPORT IF NEEDED

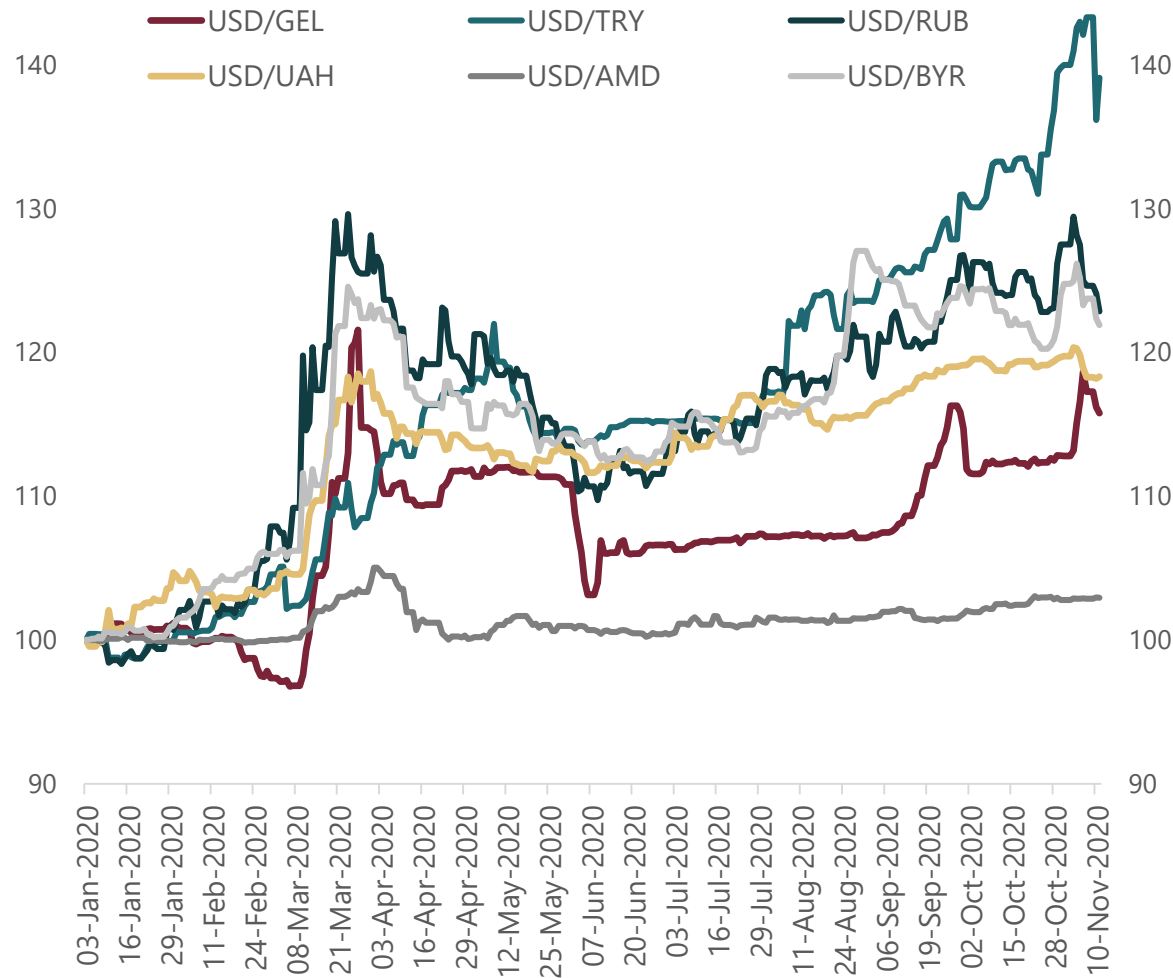


- COVID-19 response was significant with eased macroprudential measures, cutting the monetary policy rate and flexible exchange rate;
- NBG has already sold \$747 mln to provide FX liquidity to the market, including \$97 mln in November;
- Inflation has been slowing towards the target, despite the supply side shock, ensuring policy space, if needed;
- Reserve assets reached a historic high of \$3.9 bln at the end of August and fell slightly to \$3.8 bln by the end of October, providing ample cover.

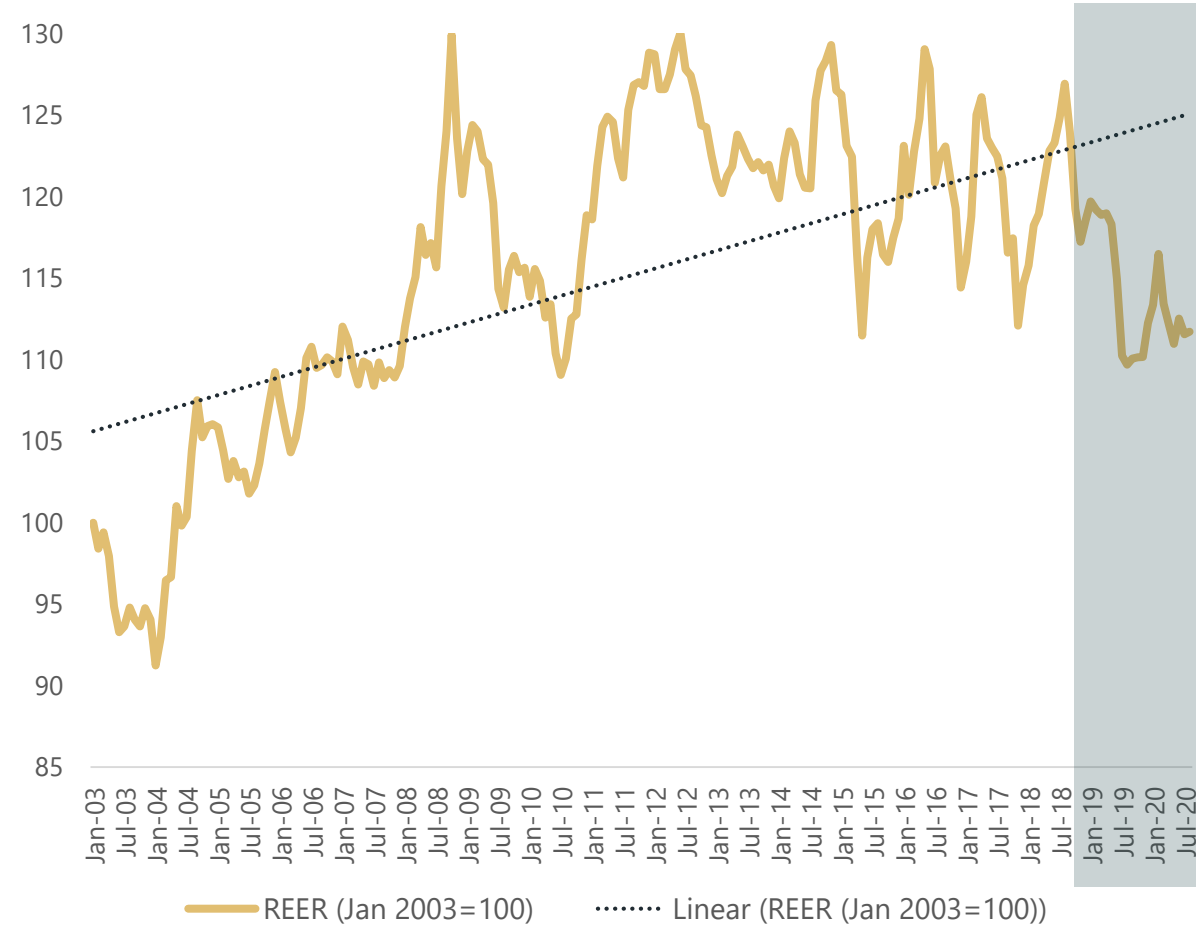
GEL PERFORMS BETTER COMPARED TO OTHER REGIONAL CURRENCIES



USD/GEL SENSITIVE BUT RELATIVELY STABLE



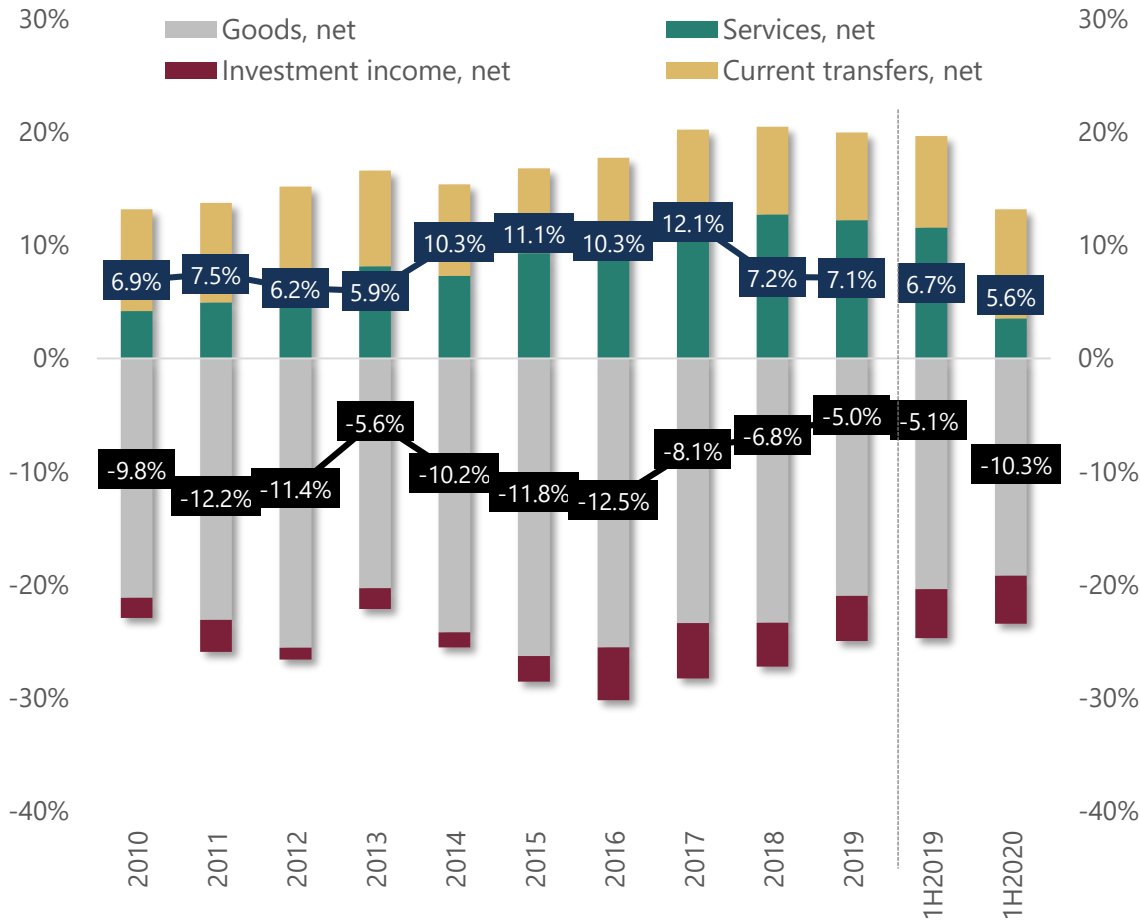
THE REAL EFFECTIVE EXCHANGE RATE HAS DEVIATED FROM THE LONG-TERM TREND FOR ALREADY TWO YEARS



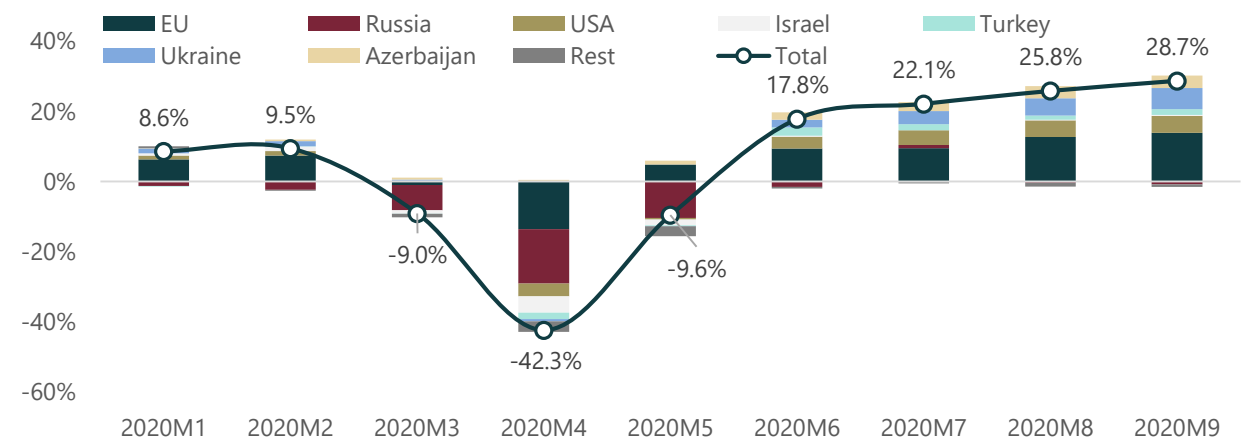
CAB MODERATE ON THE BACK OF RECORD HIGH REMITTANCES, EVAPORATING TOURISM REVENUES AND TRADE ADJUSTMENT



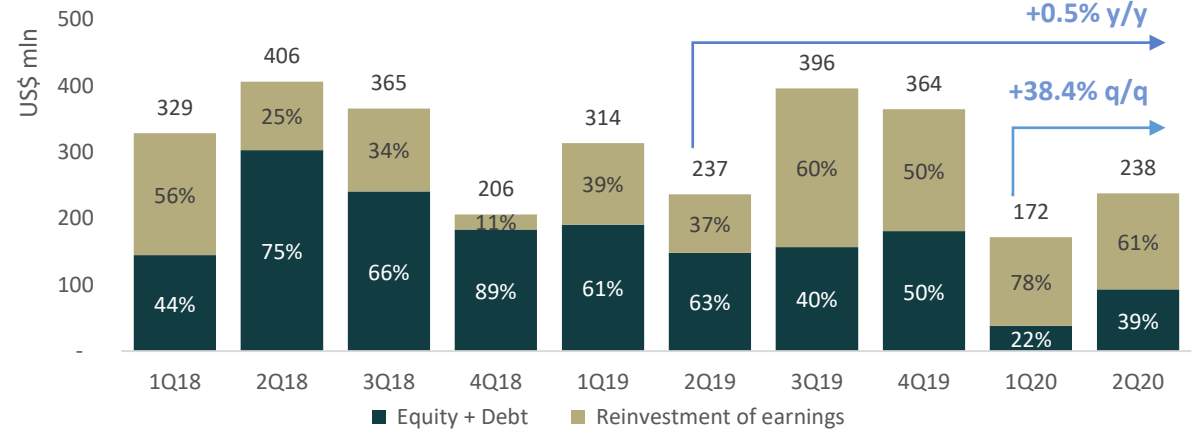
TOURISM SHORTFALL PARTIALLY COMPENSATED BY ADJUSTMENT IN OTHER CA COMPONENTS



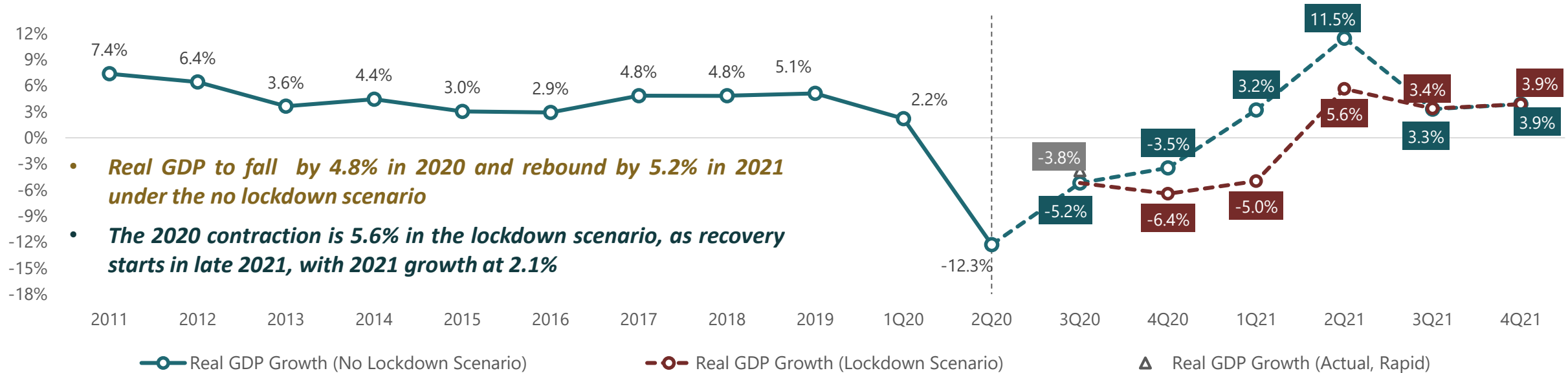
REMITTANCES HAVE RECOVERED QUICKLY AND CONTINUE TO INCREASE DOUBLE DIGITS



FDI INCREASED IN THE SECOND QUARTER DESPITE THE COVID-19 OUTBREAK



ECONOMY TO BOUNCE BACK QUICKLY ABSENT NEW LOCKDOWN, WITH SEPTEMBER RAPID ESTIMATE OUTPERFORMING FORECAST



	2020, % of 2019 level unless noted otherwise		2021, % of 2019 level unless noted otherwise	
	No Lockdown Scenario	Lockdown Scenario	No Lockdown Scenario	Lockdown Scenario
Tourism Revenues	16%	14.5%	27%	16.5%
Transfers (Net)	109%	105%	111%	106%
Goods Exports	89%	86%	99%	94%
Goods Imports	82.5%	81%	90%	86%
Fiscal Balance (% of GDP)	-8.5%	-8.5%	-4.8%	-4.8%

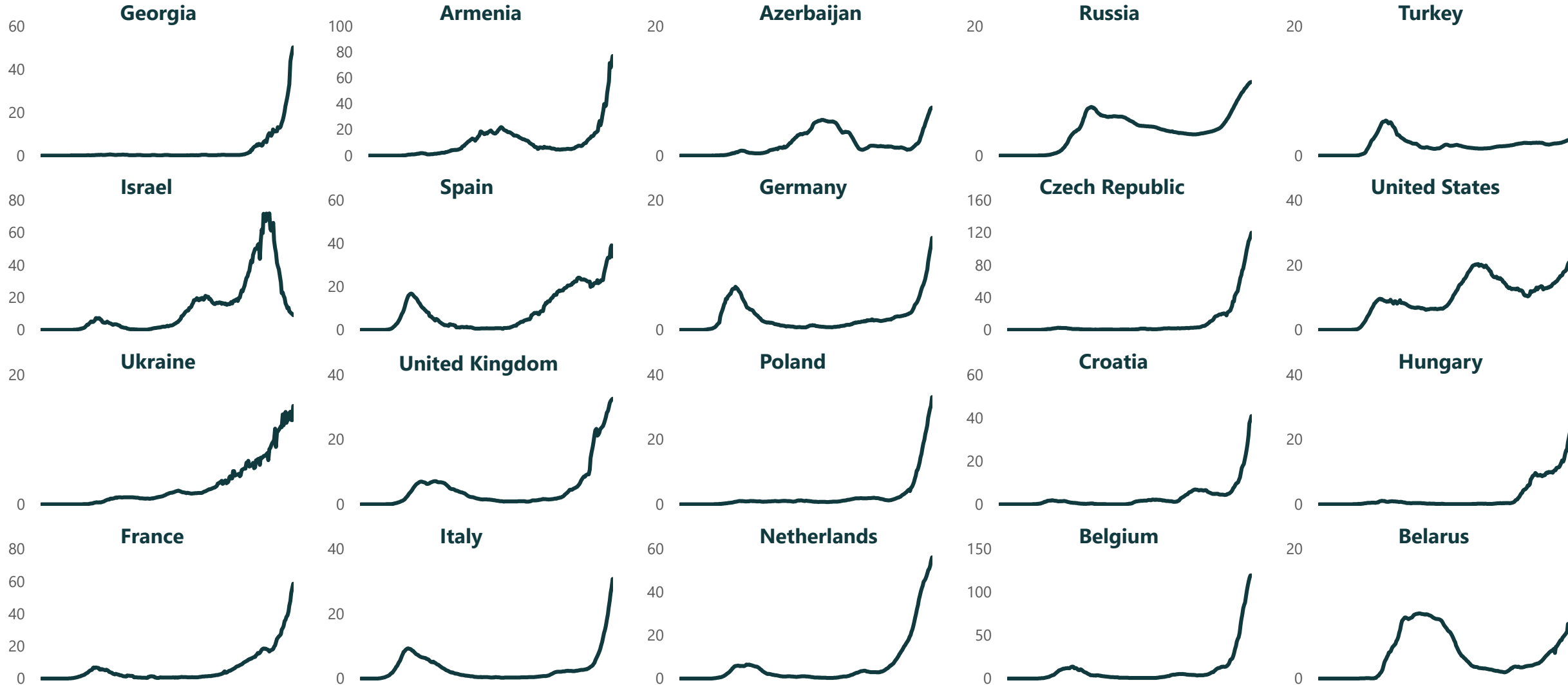
TODAY'S KEY MESSAGES



- 1 Georgia has passed the test in managing the COVID-19 related crisis;
- 2 Georgia's medium-term growth is forecasted to be one of the highest in the region;
- 3 Georgia is expected to take a smaller hit compared to other tourism-dependent countries;
- 4 The economy has been recovering every month since April and is expected to quickly return to positive growth in 2021 even in case of no major improvement in external conditions;
- 5 Accumulated buffers, sound policies and international support have allowed the government to launch sizeable measures to combat the crisis;
- 6 Room for further monetary and fiscal support, if needed, ensures path for resilient recovery;

APPENDIX

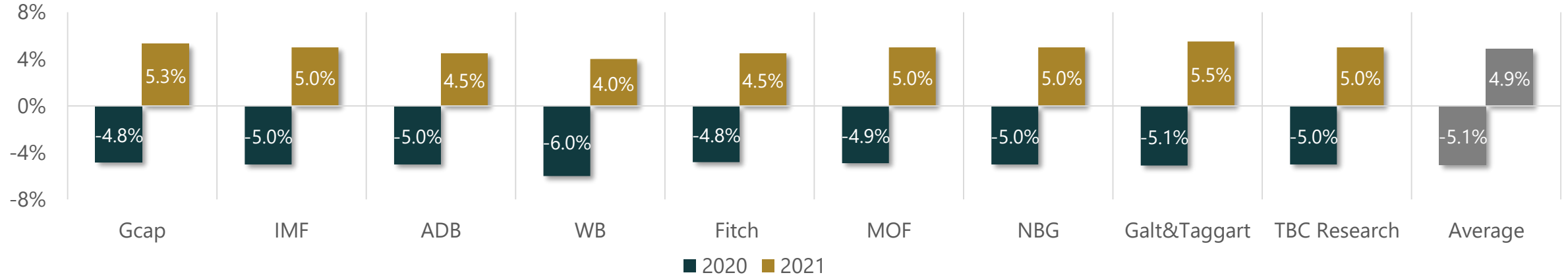
DAILY NEW CASES OF COVID-19 IN SELECTED COUNTRIES (PER 100,000 PERSONS, 7-DAY MA)



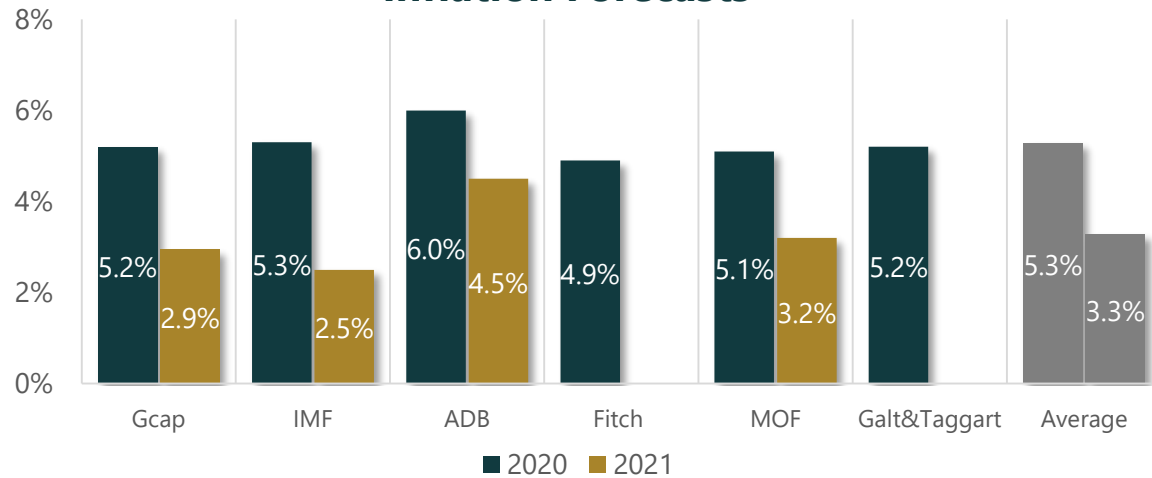
GEORGIAN ECONOMY FORECAST COMPARISON



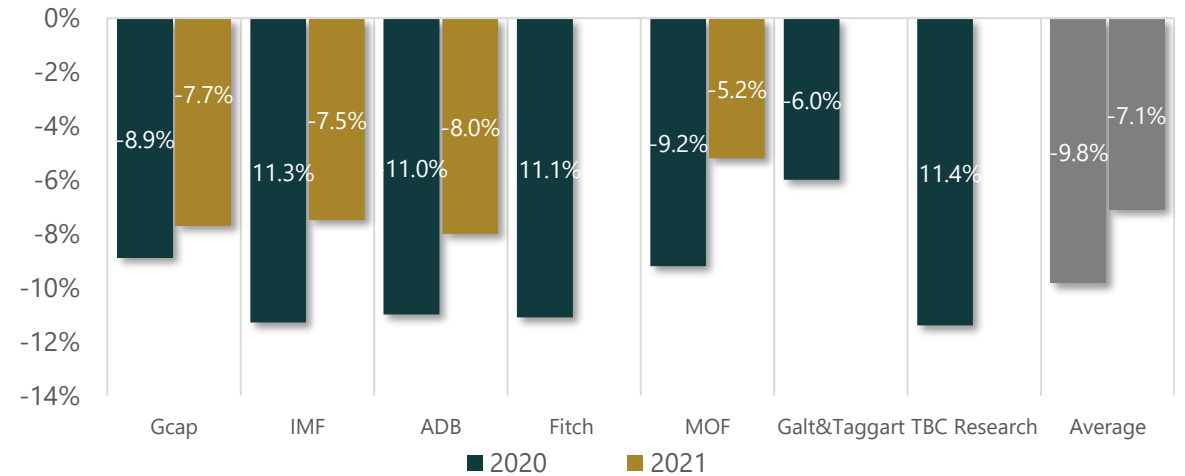
Real GDP Forecasts



Inflation Forecasts



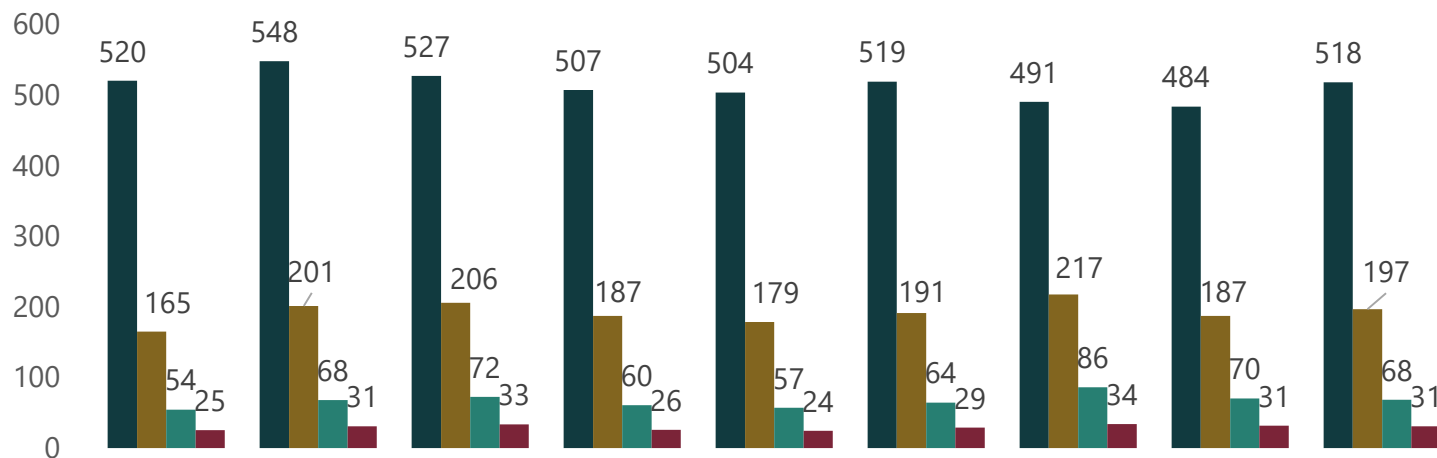
CAB Forecasts



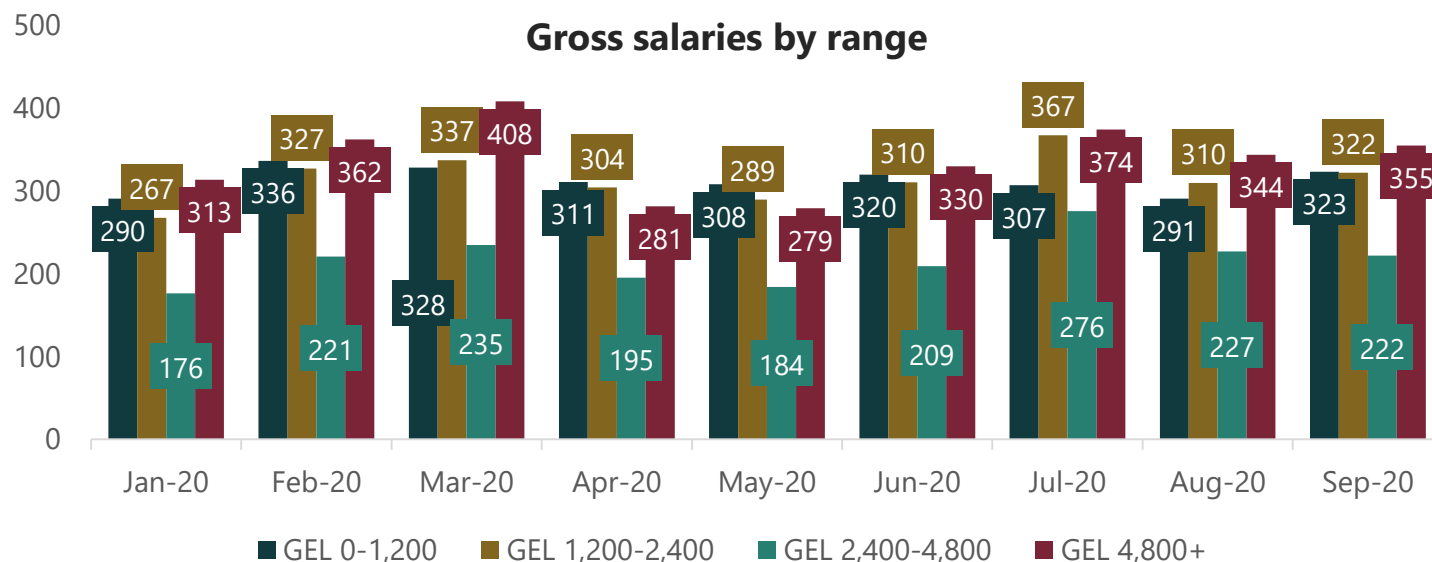
LOWEST EARNERS HIT THE HARDEST, BUT RECOVERED FAST



Number of hired employees by salary range

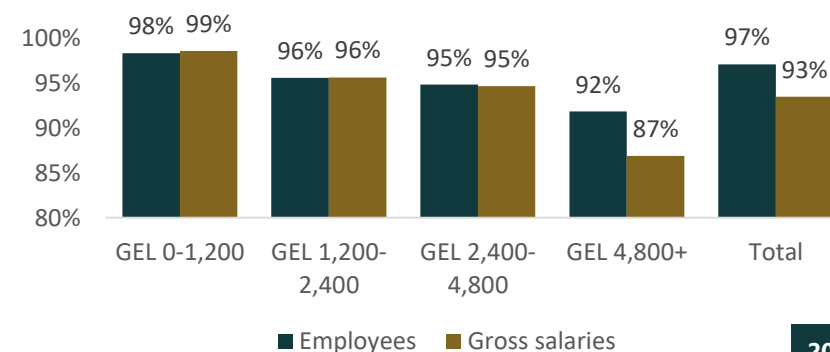


Gross salaries by range

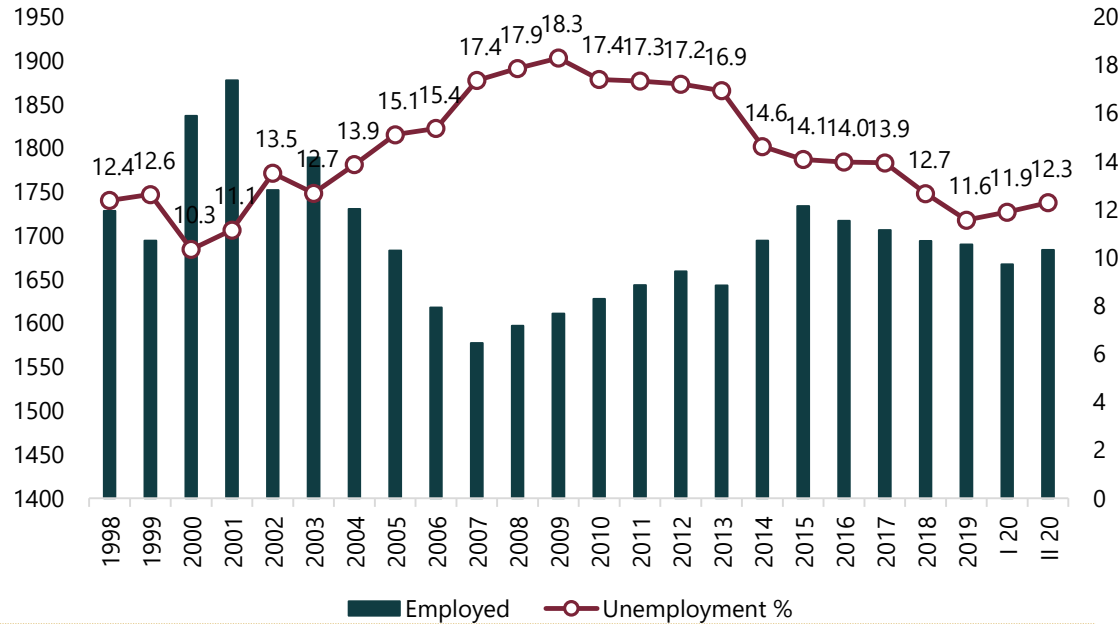


- A total gross salary of GEL 247 million was lost in two consecutive months of April and May, with the most vulnerable groups in the following salary ranges:
 - GEL 1,200-2,400, losing gross salary of GEL 48 million (19.2% of the total);
 - GEL 2,400-3,600 (GEL 30 million, 12%);
 - GEL 3,600-4,800 (GEL 21 million, 8.5%);
 - GEL 0-1,200 (GEL 20 million, 8.1%);
- The number of hired employees fell by 83,750 in three consecutive months of March-May, with the most jobs lost in the following salary ranges:
 - GEL 0-1,200 – 44,170 jobs (52.7%);
 - GEL 1,200-2,400 – 22,300 jobs (26.7%);
 - GEL 2,400-3,600 – 7,000 jobs (8.3%);
 - GEL 3,600-4,800 – 4,000 jobs (4.7%).

Recovery of hired employees and salaries – September/March



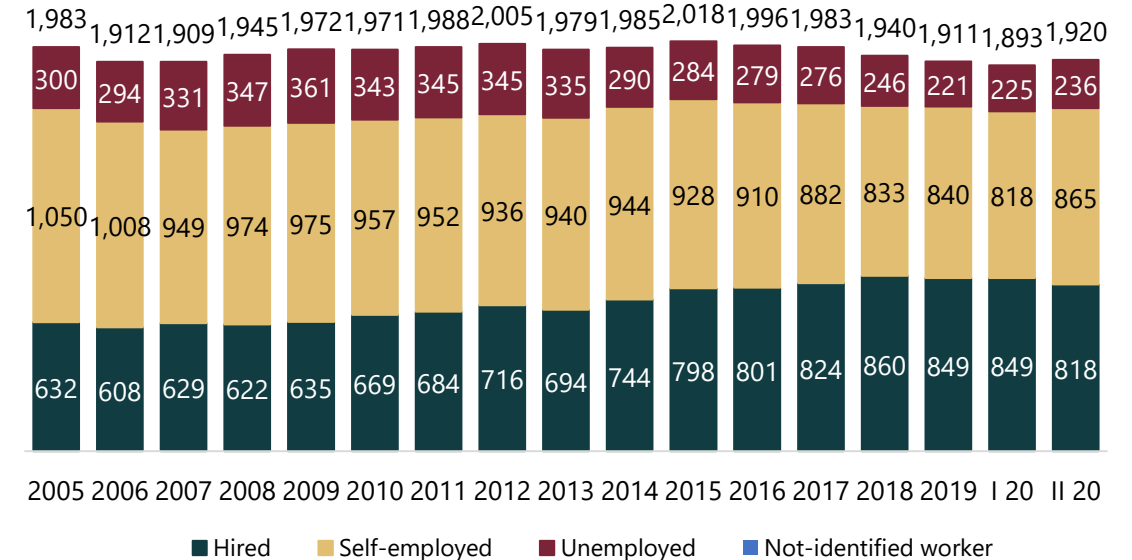
LABOR MARKET HAS BEEN AFFECTED LESS SEVERELY THAN EXPECTED



Employment Dynamics

The unemployment rate increased by 0.7 pp compared to end of 2019 to 12.3%

Average monthly nominal wages fell by 5.3% y/y in 2Q20 to GEL 1,176

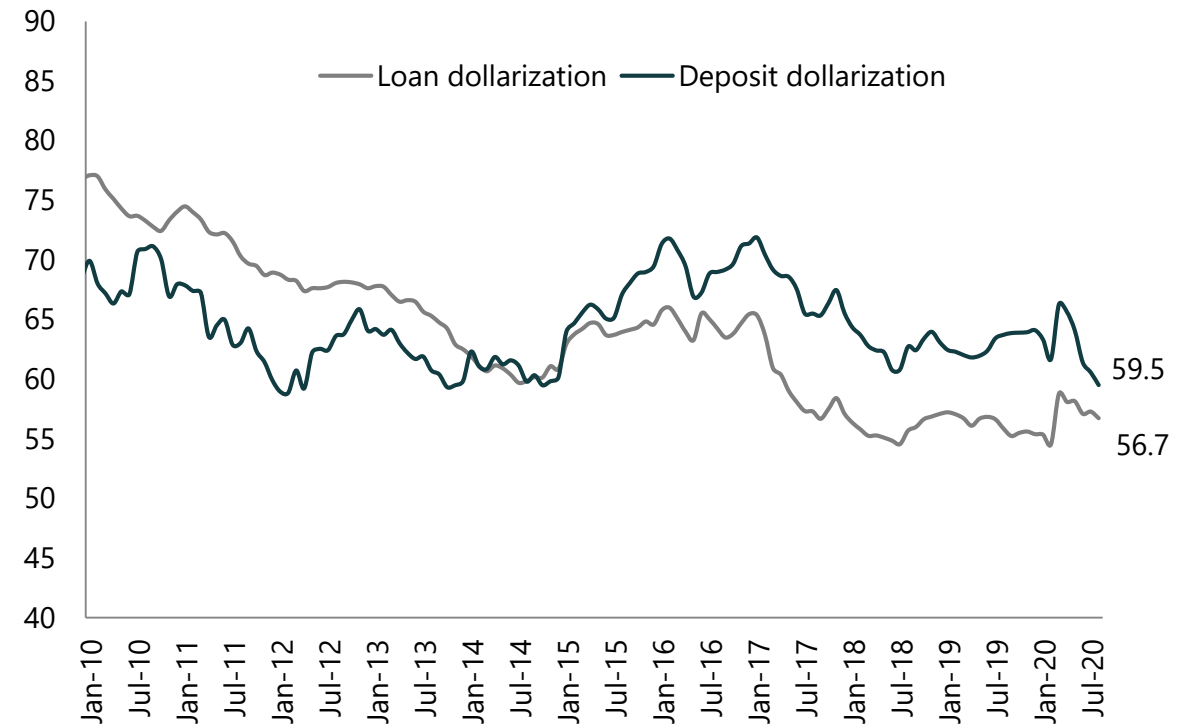
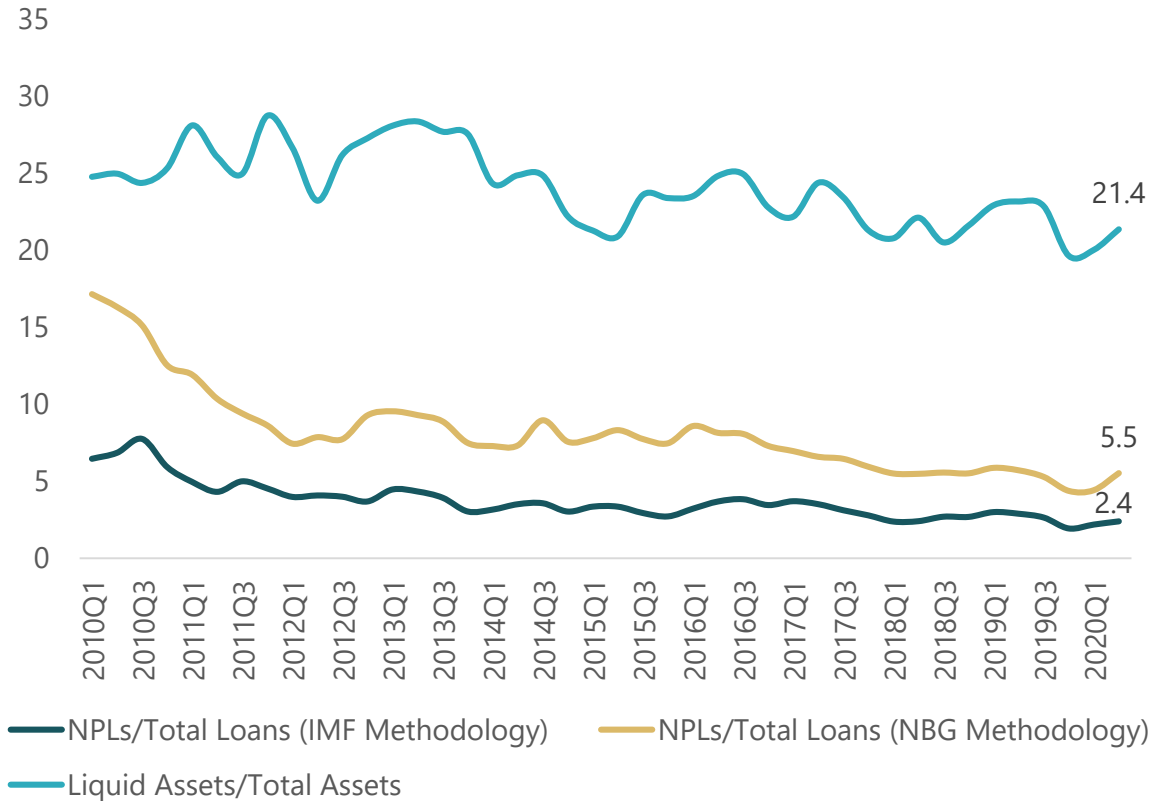


Labor Force Decomposition

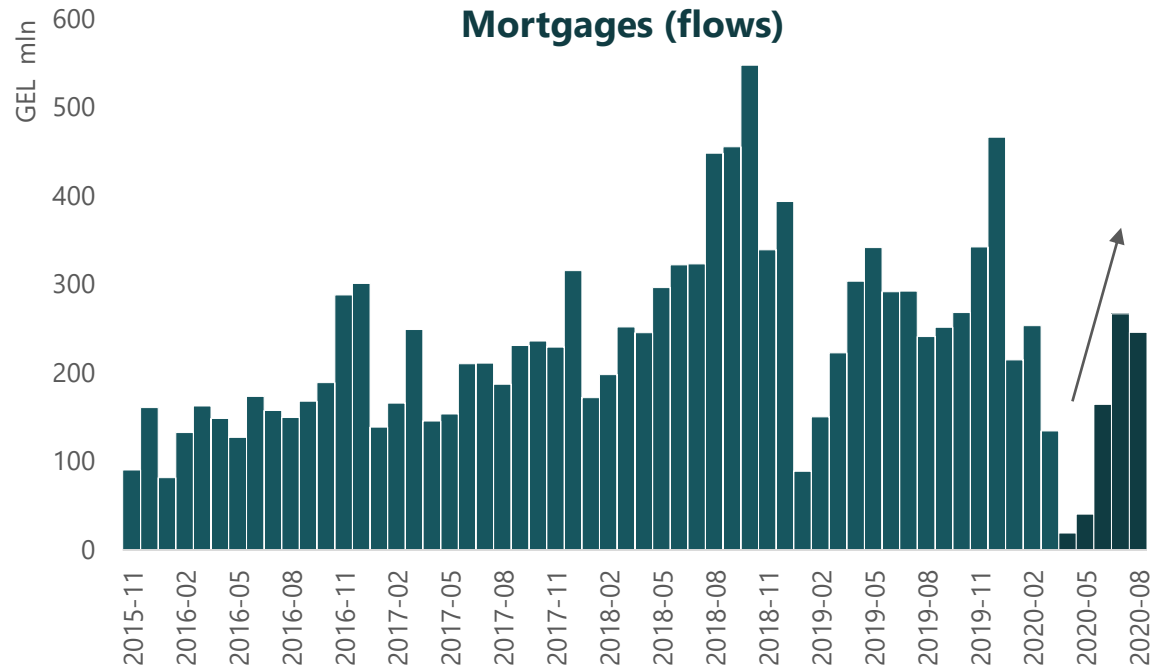
Number of hired employees went down by 30,000 in the 1st half of 2020

Number of unemployed people increased by 15,000 in the 1st half of 2020

FINANCIAL STABILITY INDICATORS STABLE, DOLLARIZATION DECLINING SINCE MARCH PEAK

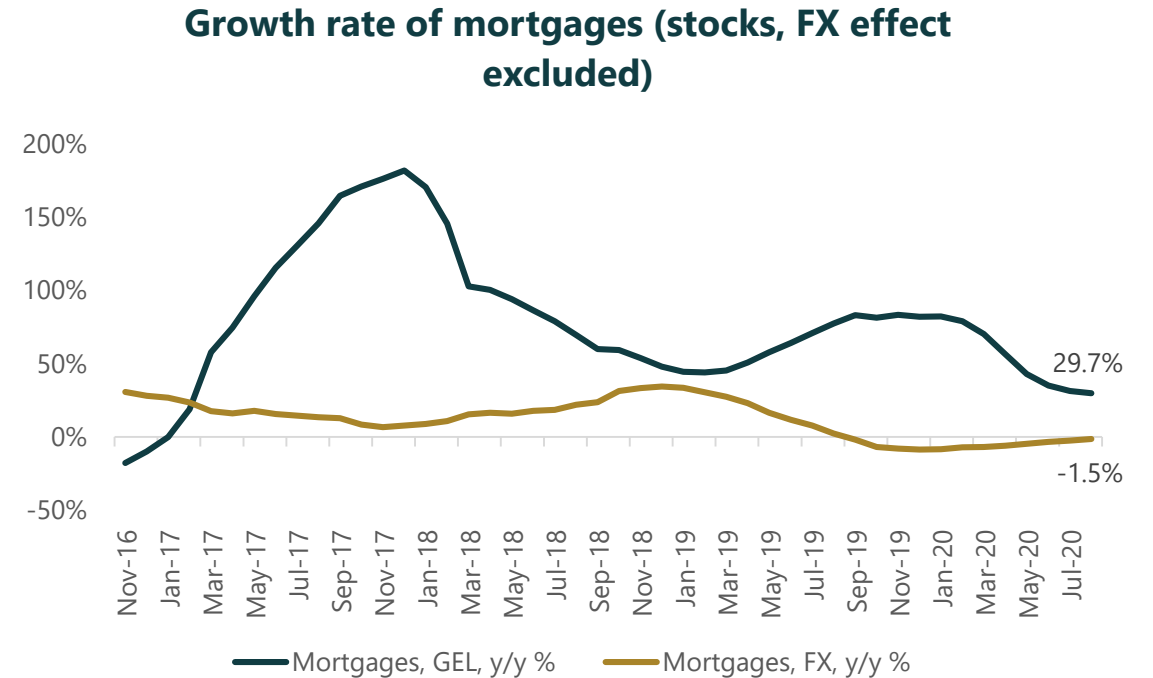


MORTGAGES RECOVERING, AIDED BY THE GOVERNMENT SUBSIDY PROGRAM



New mortgages have continued recovering since April low

The growth rate of mortgage flows was positive in August for the first time since February



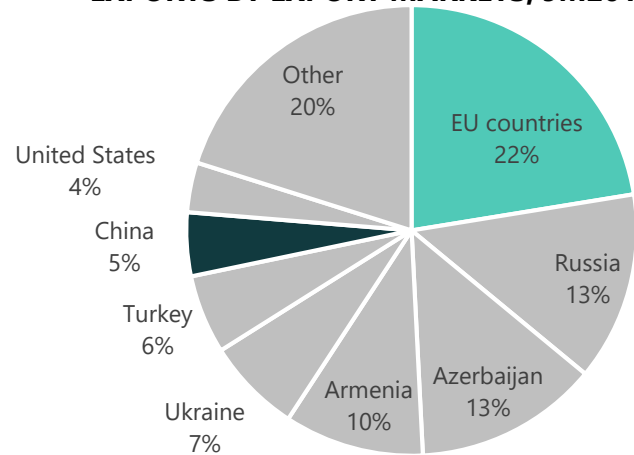
After decelerating every month since February, the growth rate of mortgage stocks increased again in August to 8.9%

The growth of mortgage stocks has been aided by recovery in FX mortgage loans

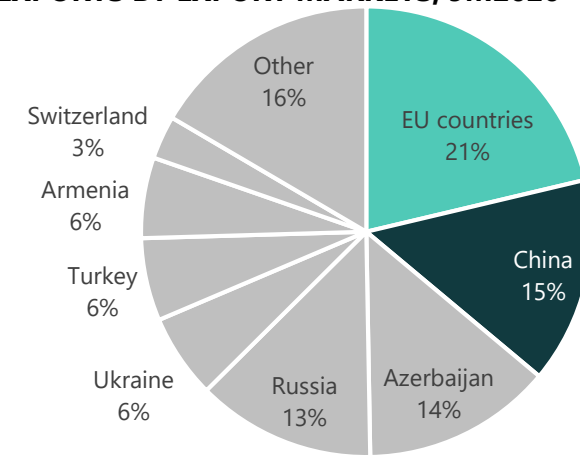
DIVERSIFYING EXPORT MARKETS HELPING FX INFLOWS AND ACCELERATING RECOVERY

CHINA HAS BECOME THE SECOND EXPORTING MARKET AND THE FIRST EXPORTING COUNTRY IN 2020, ON THE BACK OF FTA SIGNED IN 2018

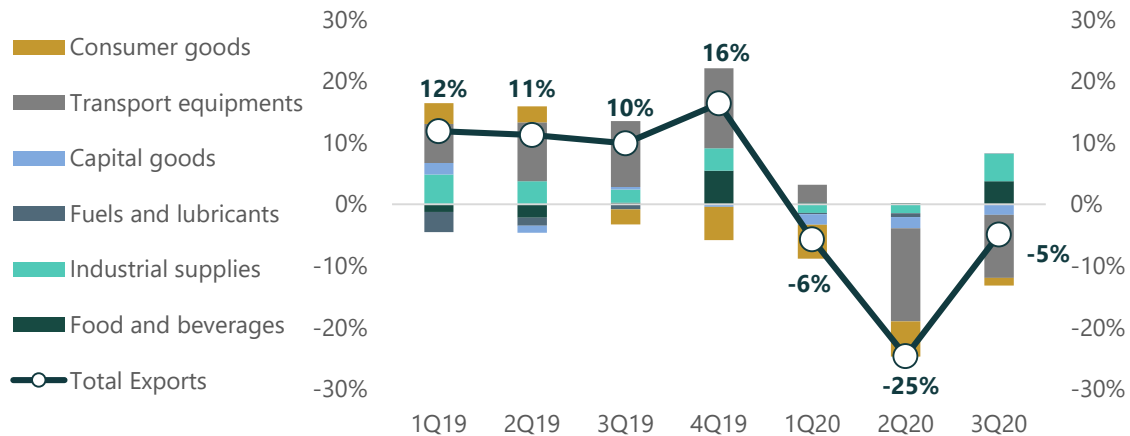
EXPORTS BY EXPORT MARKETS, 9M2019



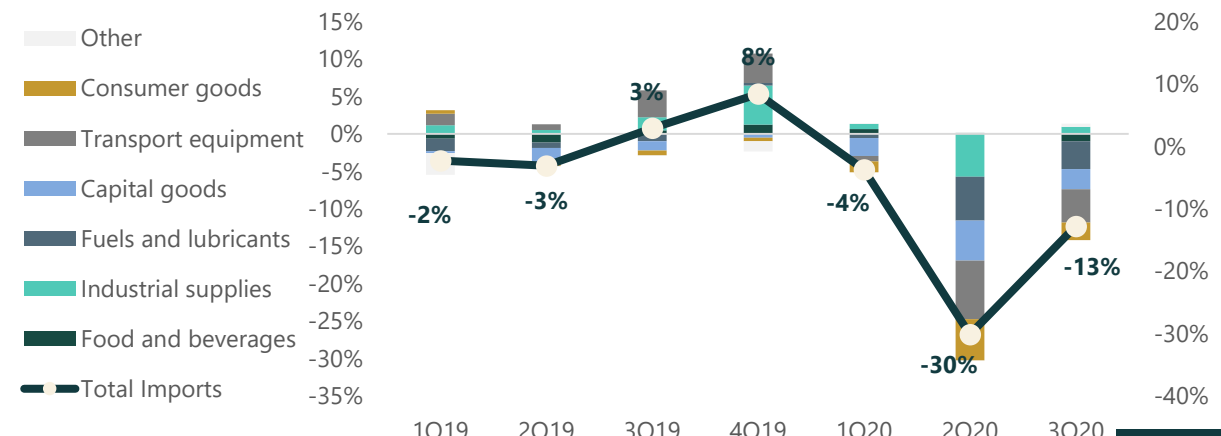
EXPORTS BY EXPORT MARKETS, 9M2020



EXPORT DECLINED BY US\$ 0.3BLN (OR BY 12.1% Y/Y) IN THREE QUARTERS OF 2020

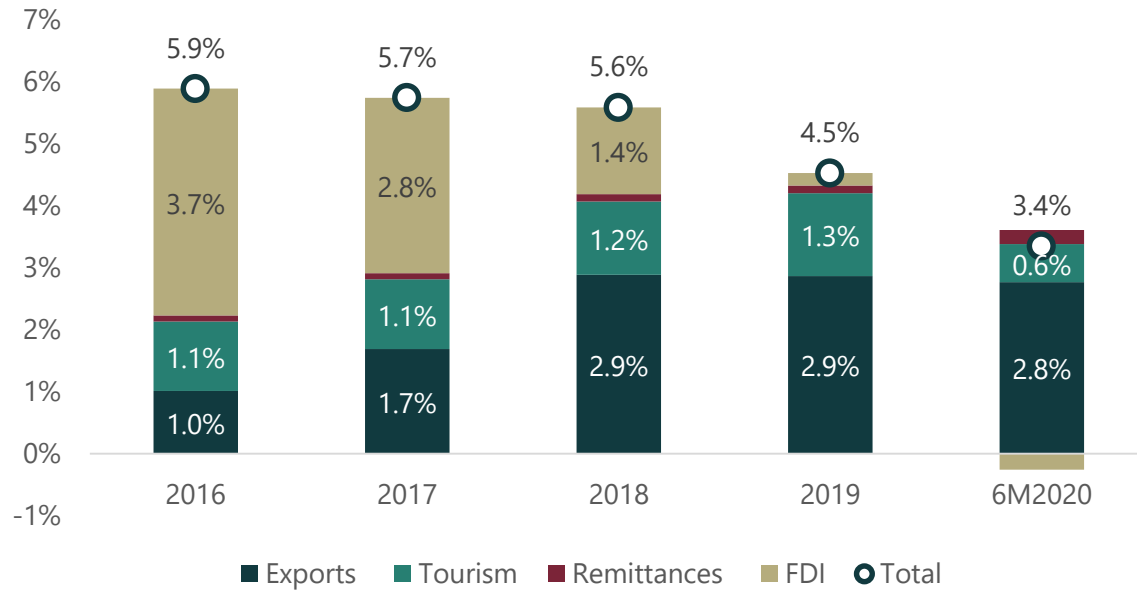


IMPORT DECLINED BY US\$ 1.1BLN (OR BY 15.9% Y/Y) IN THREE QUARTERS OF 2020

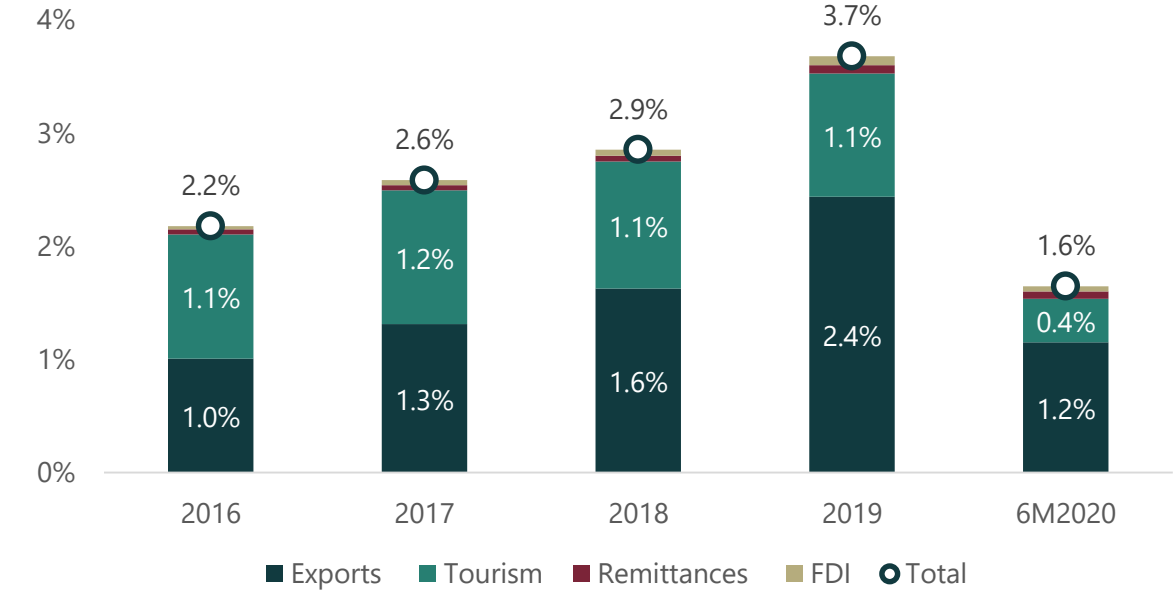


LIMITED EXPOSURE TO MITIGATE KARABAKH CONFLICT IMPACT

FOREIGN INFLOWS FROM AZERBAIJAN (% OF GDP)



FOREIGN INFLOWS FROM ARMENIA (% OF GDP)



- As FDI from Azerbaijan has fallen after the completion of major projects, the main contribution to the Georgian economy from both countries has switched to merchandise exports (mostly reexports) and tourist arrivals;
- As a result of limited exposure, the short run direct effect on the Georgian economy is not expected to be large, as we estimate a maximum impact of -0.2 pp on the 2020 economic growth rate and -0.5 pp in 2021 (assuming exports falling to peak COVID-19 crisis levels, net remittance outflows and no recovery in tourist arrivals);
- Imports from the two countries made up \$670 mln in 9M20 (\$342 mln from AZ and \$326 mln from ARM), as the trade balance has been negative with both countries throughout the past 5 years with the exception of Armenia in 2019, meaning bottlenecks in bilateral trade and the corresponding shrinkage of imports might result in an improvement of the trade deficit in nominal terms;
- Potential indirect spillovers (increase of risk premium, investor sentiment deterioration, economic prospect downgrades, etc.) cause of concern in the medium run.

Source: Geostat, NBG, internal calculations.

FORWARD LOOKING STATEMENTS



This presentation contains forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Georgia Capital PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, which could include, among other things: impact of COVID-19; regional instability; regulatory risk across a wide range of industries; investment risk; liquidity risk; portfolio company strategic and execution risks; currency fluctuations, including depreciation of the Georgian Lari, and macroeconomic risk; and other key factors that indicated could adversely affect our business and financial performance, which are contained in our past and future filings and reports and also the 'Principal Risks and Uncertainties' and Emerging Risks included in the 1H20 Results Announcement and Georgia Capital PLC's Annual Report and Accounts 2019. No part of this presentation constitutes, or shall be taken to constitute, an invitation or inducement to invest in Georgia Capital PLC or any other entity and must not be relied upon in any way in connection with any investment decision. Georgia Capital PLC and other entities undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this presentation should be construed as a profit forecast.