



# GEORGIAN MACRO OVERVIEW

3Q21 & 9M21 results

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# CONTENTS

**01** COVID-19 UPDATE | GEORGIA

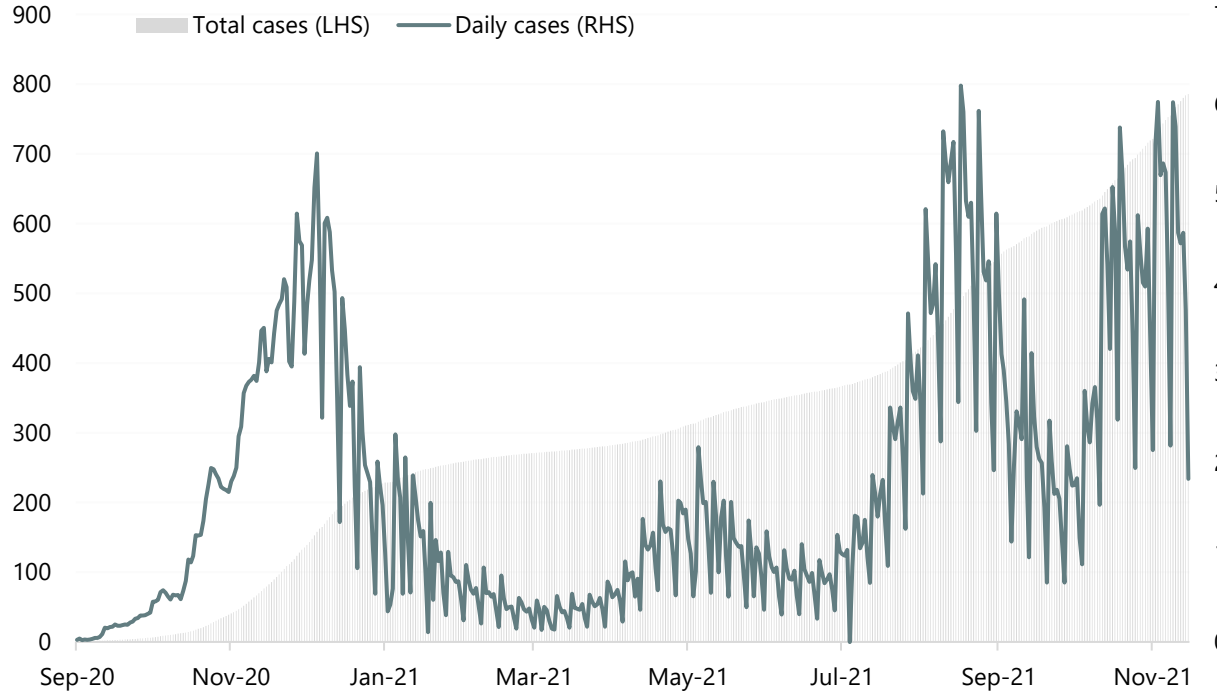
**02** 9M21 GEORGIAN MACRO OVERVIEW

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# COVID-19 STATISTICS

## COVID-19 CASES: DYNAMICS IN GEORGIA



**STATISTICS AS AT:**  
**15 NOVEMBER 21**

**CONFIRMED CASES:**  
**785,911**

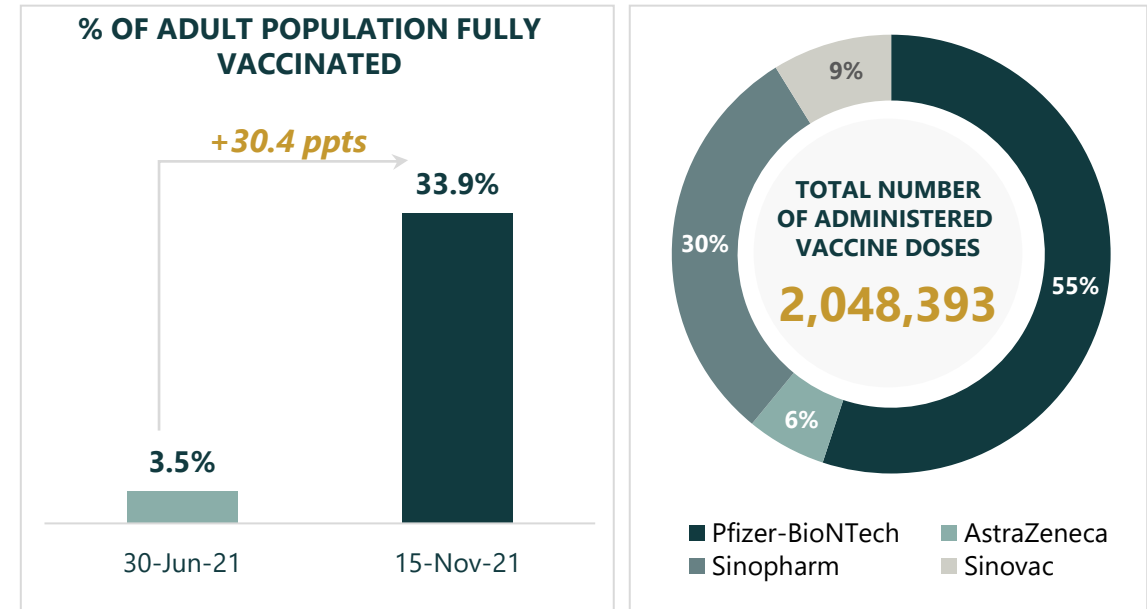
**AVERAGE DAILY CASES<sup>1</sup>:**  
**4,409**

**7-DAY POSITIVE RATE:** **9.52%**

**ACTIVE CASES:**  
**52,429**

**SHARE OF RECOVERIES:**  
**91%**

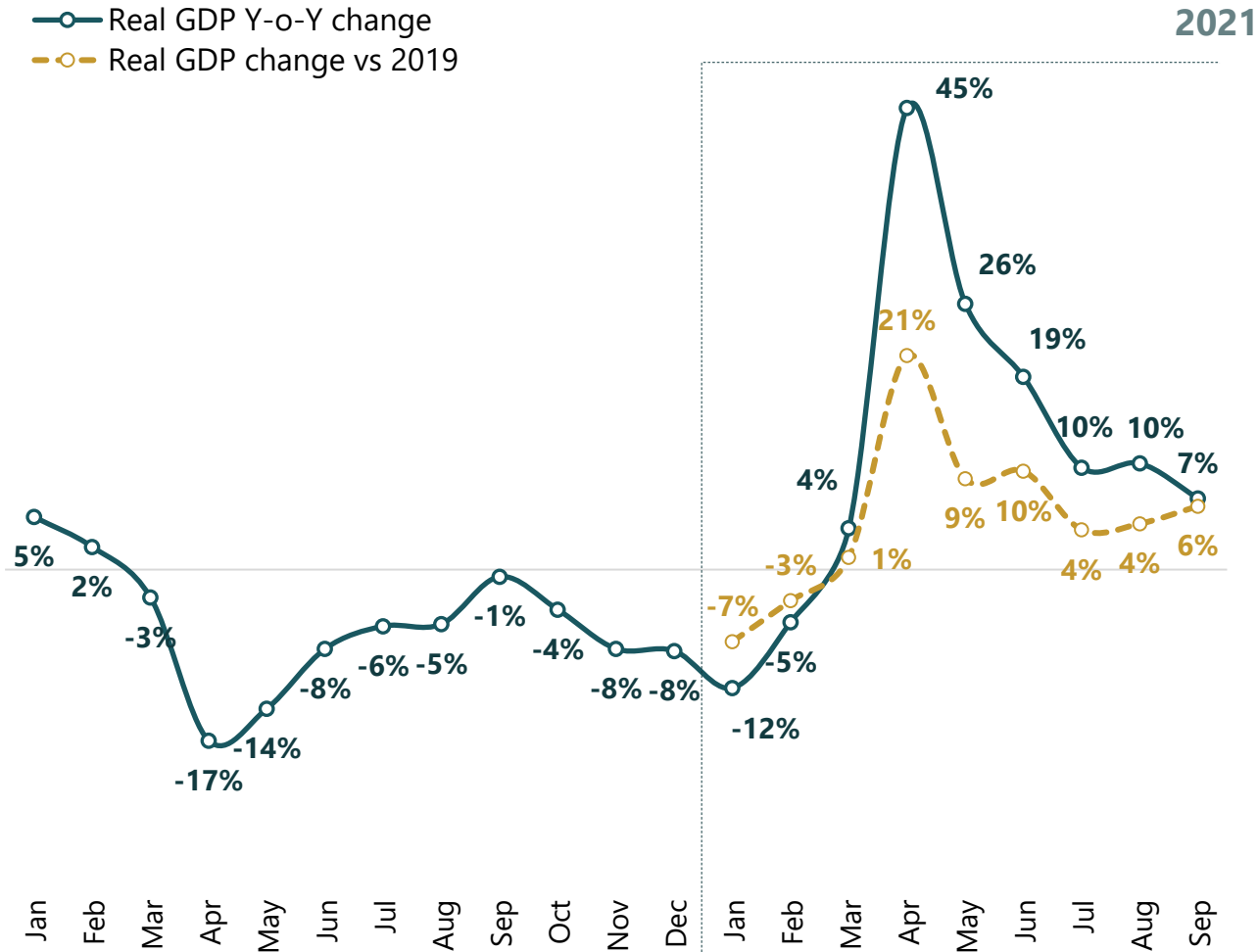
**37.9% OF TOTAL ADULT POPULATION HAS RECEIVED AT LEAST A SINGLE VACCINE DOSE, WHILE 33.9% IS FULLY VACCINATED AS OF 15 NOVEMBER 2021**



**NUMBER OF FULLY VACCINATED: 966,790**

- ACCORDING TO THE GOVERNMENT PLAN, GEORGIA TARGETS TO VACCINATE AT LEAST 60% OF THE ADULT POPULATION IN 2021
- "GREEN PASS" PROGRAMME TO COME INTO FORCE IN GEORGIA STARTING DECEMBER 1

# REAL GDP ON TRACK FOR DOUBLE-DIGIT GROWTH, UP 11.3% Y-O-Y IN 9M21

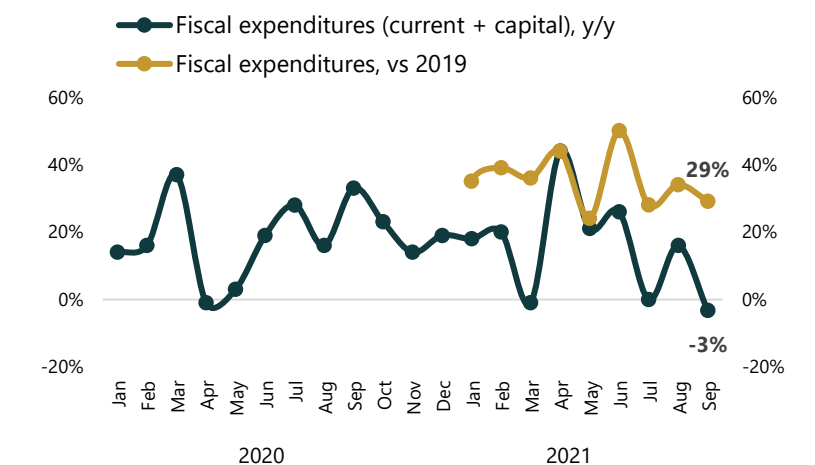
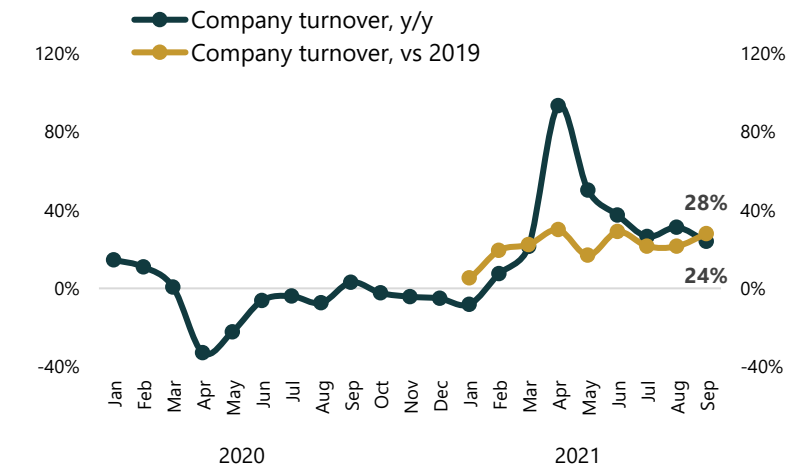
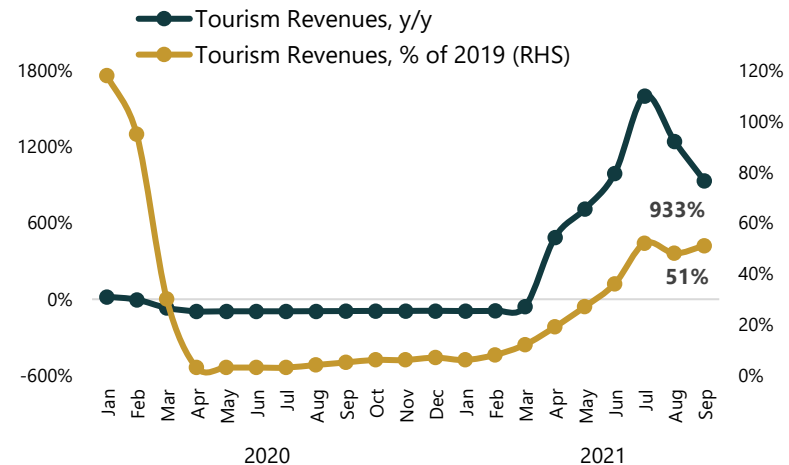
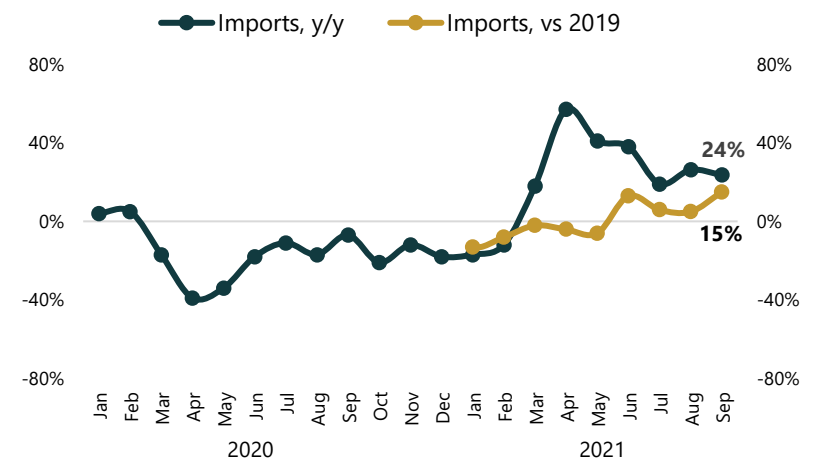
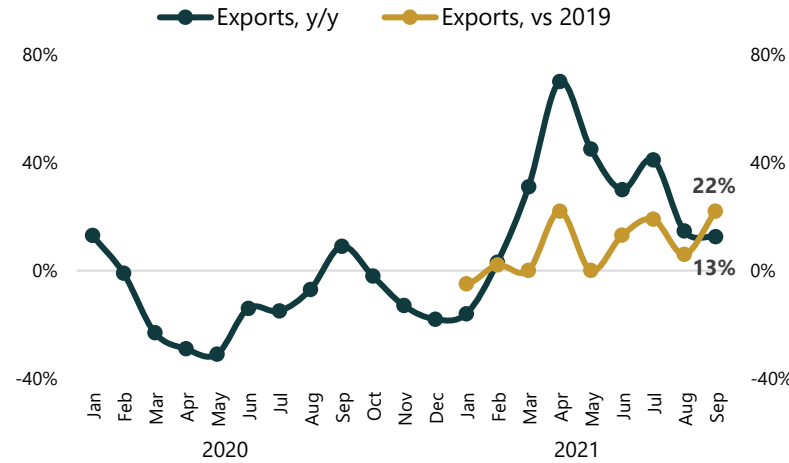
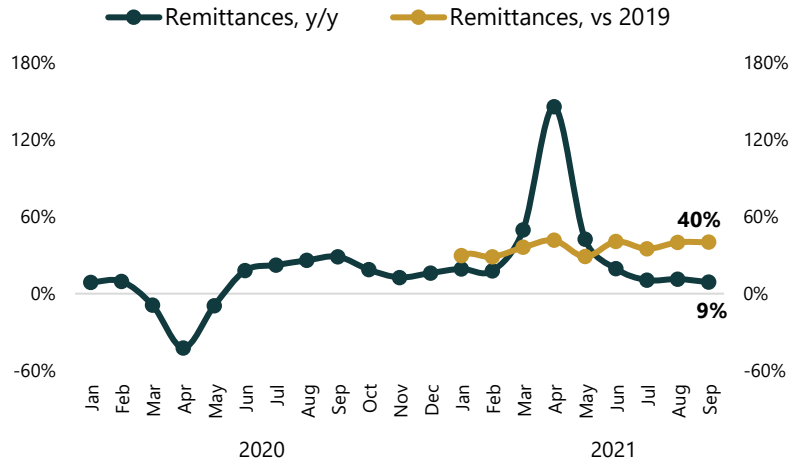


## REAL GDP UP 5.4% COMPARED TO 9M19

### KEY DRIVERS

- Expansionary fiscal policy boosting domestic demand and continuing to contribute significantly to GDP growth;
- Robust lending (up 15.8% Y-o-Y in September w/o the exchange rate effect) both in retail and business sectors;
- External recovery underway with solid FX inflows: record high remittances, merchandise exports exceeding 2019 levels and tourism revenues rebounding to half of 2019 levels since July 2021;
- Improving consumer and business sentiment supporting spending and investment decisions;
- Although the low base effect of 2020 remains in play, performance has been exceptional compared to 2019 as well.

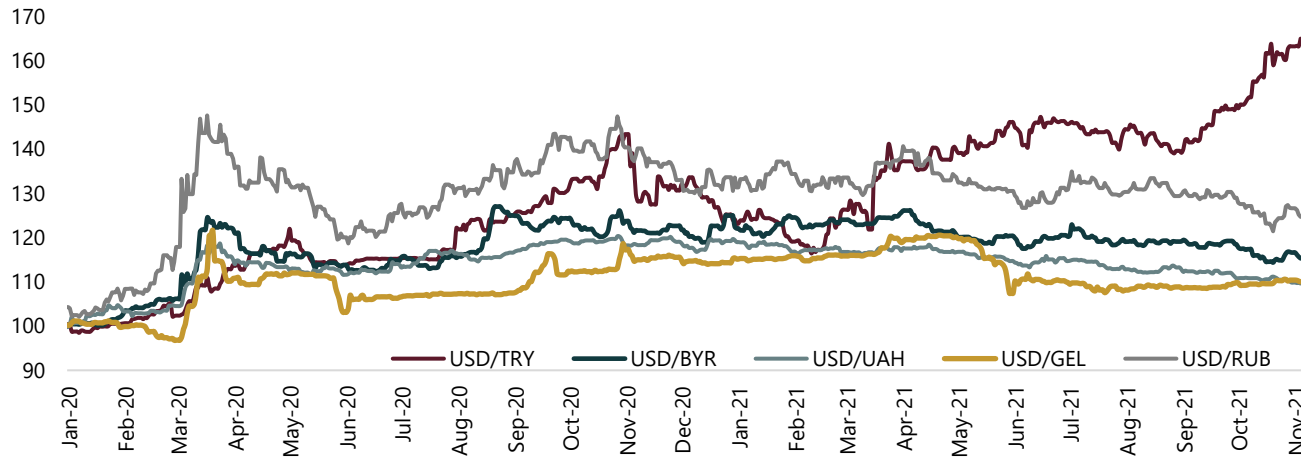
# FAST INDICATORS SHOW RECOVERY SUSTAINING PACE



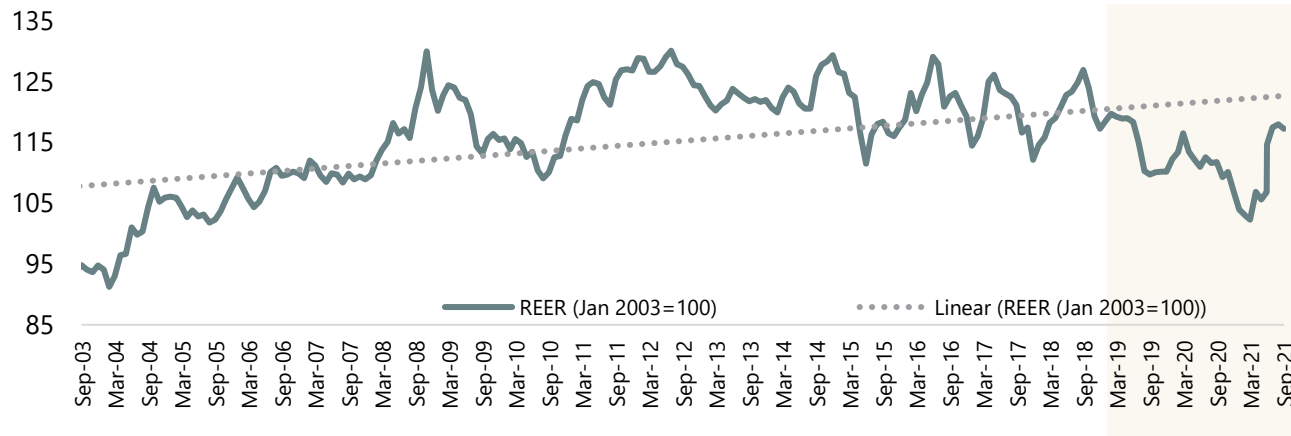
# GEORGIAN LARI - TOP PERFORMER IN THE REGION



AS OF 10 NOVEMBER, GEL HAS APPRECIATED BY 3.6% COMPARED TO THE BEGINNING OF THE YEAR AND BY 8.6% COMPARED TO THE YEAR-TO-DATE LOW



THE REAL EFFECTIVE EXCHANGE RATE HAS BEEN STRENGTHENING SINCE MAY 2021, BUT REMAINS BELOW THE LONG-TERM TREND



## GEL APPRECIATION DRIVERS

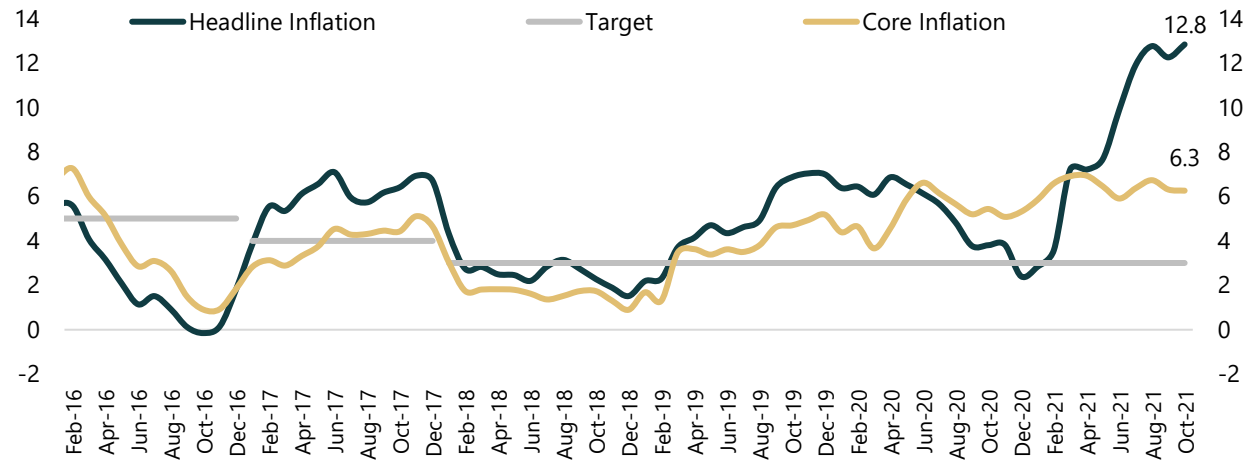
- Record high remittance inflows, increasing by 28% Y-o-Y in 9M21 (+36% compared to 9M19);
- Solid recovery in merchandise exports, exceeding 2019 levels by 9% in 9M21 (+24% Y-o-Y);
- Tourism revenues rebounding to half of 2019 levels for three consecutive months since July 2021, kickstarting positive expectations about tourism recovery;
- Tight monetary policy (NBG further increased the policy rate by 50 bps to 10% in August 2021), supporting stronger GEL and curbing negative expectations;
- Rebounding economic activity and significant interest rate differential aiding accelerated lending in foreign currency, as FX loans have been steadily increasing since April 2021;
- New regulation to reduce reserve requirements on funds attracted in foreign currency, assisting deposit larisation and higher demand on GEL.

# INFLATION TO DECELERATE FROM THE 2<sup>ND</sup> HALF OF 2022



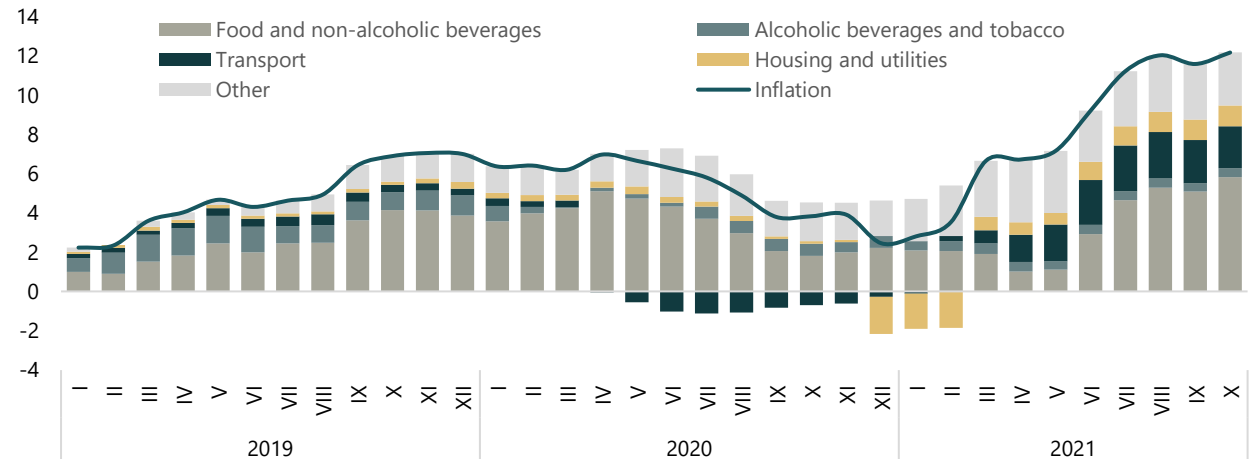
## Inflation Y-o-Y vs. inflation target

Sources: NBG, GeoStat



## Inflation components

Source: GeoStat



## SUPPLY SIDE PRESSURES PERSIST

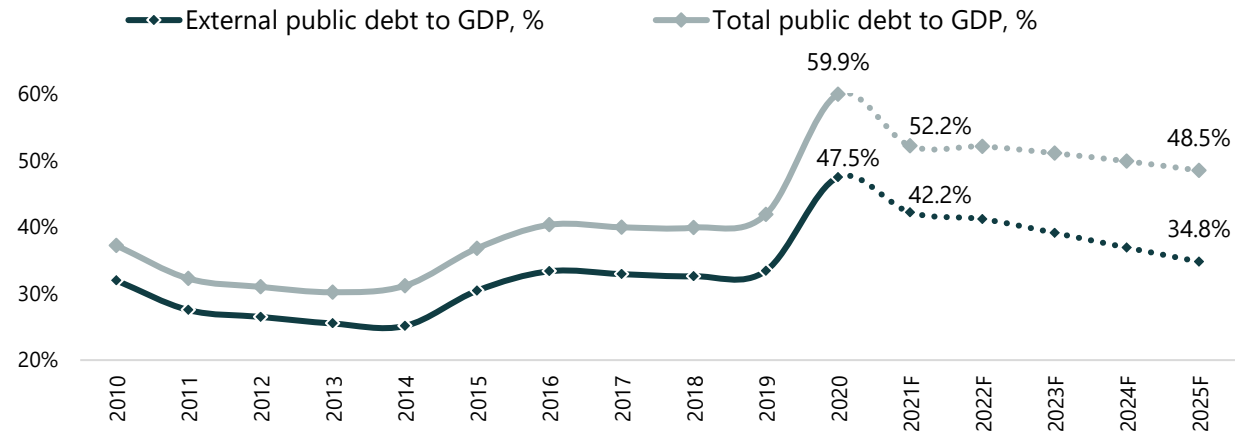
- We expect inflation to remain high throughout the year, and decelerate after peaking in the beginning of 2022, due to the base effect of utility subsidies;
- All major components contributed to increasing inflation in the past few months – the rising contribution of transport reflects high oil prices, while food inflation has accelerated due to global trends, and prices on utilities have risen since the new gas tariff in Tbilisi was approved in June 2021;
- Despite GEL strengthening, imported inflation has been by far the most significant driver of rising prices, with all of wheat, vegetables, dairy products, meat and sugar world prices further increasing in September, and surging gas prices expected to further add to global inflationary pressures;
- Supply side price pressures are no longer abated by weak domestic demand, as economic recovery has been rapid;
- In October, prices increased on 89% of goods/services in the consumer basket, with annual inflation of over 5% on 71% of goods/services and annual inflation of over 10% on 46% of good/services.

# DEBT AND FISCAL DEFICIT ON COURSE FOR CONSOLIDATION



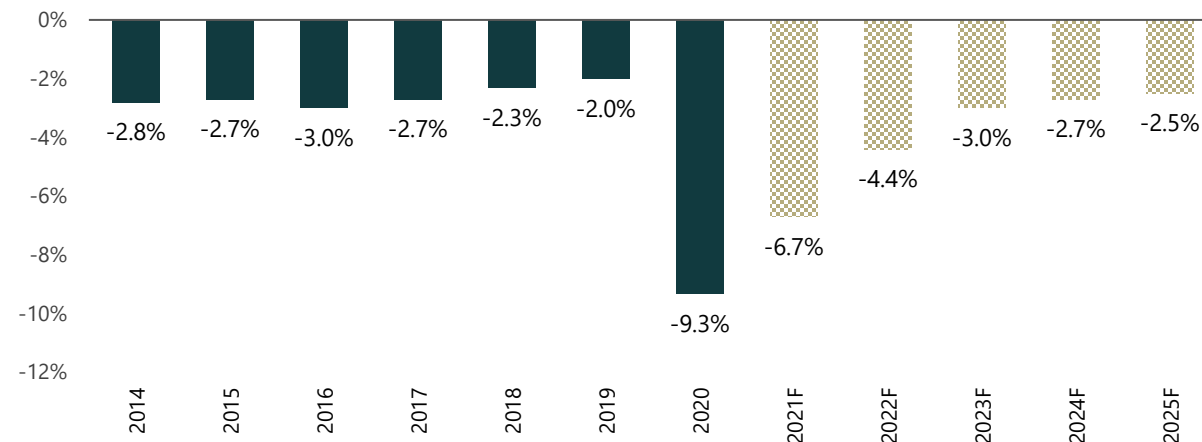
## Public debt

Sources: MoF



## Overall Balance (IMF Modified), % of GDP

Source: MoF



## FISCAL SUPPORT TO MODERATE

- Fiscal expenditures grew by 5% y/y in real terms in 9M21 (14% in nominal), including a 20% growth (30% in nominal) in 2Q21, contributing the most to the surge in consumption and, subsequently, GDP;
- Fiscal support has begun moderating since the 2<sup>nd</sup> half of 2021, as the fiscal deficit (overall balance) fell by 11.4% y/y in 9M21 (compared to a 57% increase y/y in 1H21);
- The 2022 budget draft law lays out a consolidation path to return to the fiscal rule bounds – public debt is projected to fall to 52.2% of GDP by the end of the year, while the overall fiscal deficit (IMF program definition) will return to the 3% ceiling by 2023;
- The operating deficit is set to switch to surplus again from 2021, i.e. revenues are expected to be greater than current expenditures;
- Current expenditures are planned to fall to 22% of GDP in 2022, a significant cut compared to 26.2% of GDP in 2020 and close to the pre-crisis level of 21.4% in 2019;
- Capital expenditures are set to remain high and reach 8.2% of GDP in 2022.



# CONTENTS

**01** COVID-19 UPDATE | GEORGIA

**02** 9M21 GEORGIAN MACRO OVERVIEW



# SOVEREIGN RATINGS WITH FAVOURABLE MACRO FUNDAMENTALS



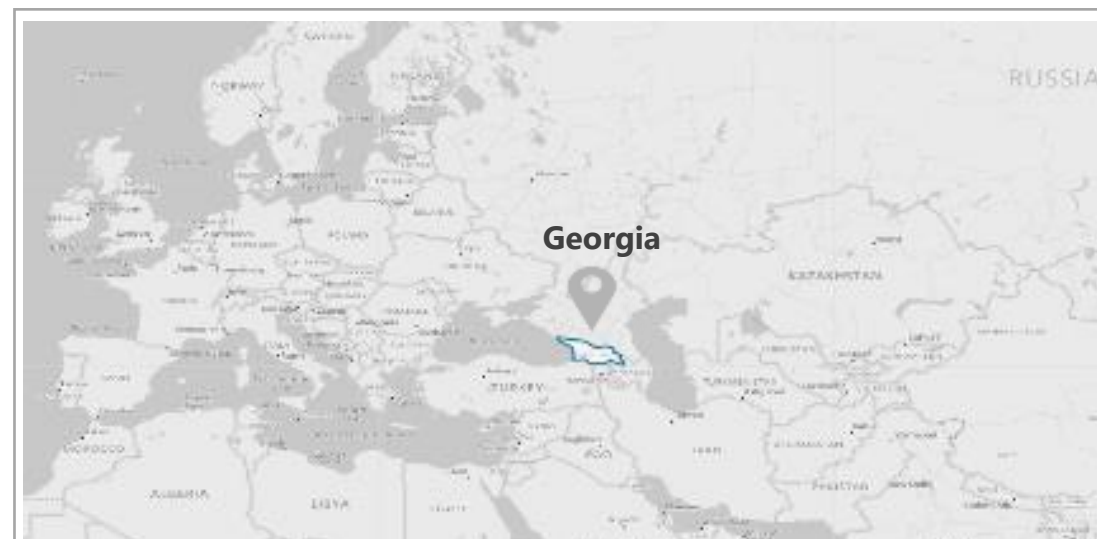
## Key Ratings Highlights

Rating Agency	Rating	Outlook	Affirmed
<b>MOODY'S</b>	Ba2	Stable	April 2021
<b>S&amp;P Global</b>	BB	Negative	February 2021
<b>Fitch Ratings</b>	BB	Stable	August 2021

## Georgia is favorably placed among peers

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

## General Facts



- Area: 69,700 sq. km
- Population (2020): 3.7 million
- Capital: Tbilisi;
- Life expectancy: 73.5 years
- Official language: Georgian
- Literacy: 100%
- Currency (code): Lari (GEL)

## Economy

- Nominal GDP (Geostat) 2020: GEL 49 billion (US\$15.9 billion)
- Real GDP growth rate 2020: -6.2%
- Real GDP 2011-2020 annual average growth rate: 3.6%
- GDP per capita 2020 (PPP, international dollar) IMF: 14,920
- Annual inflation 2020: 5.2%
- External public debt to GDP 2020: 47.5%

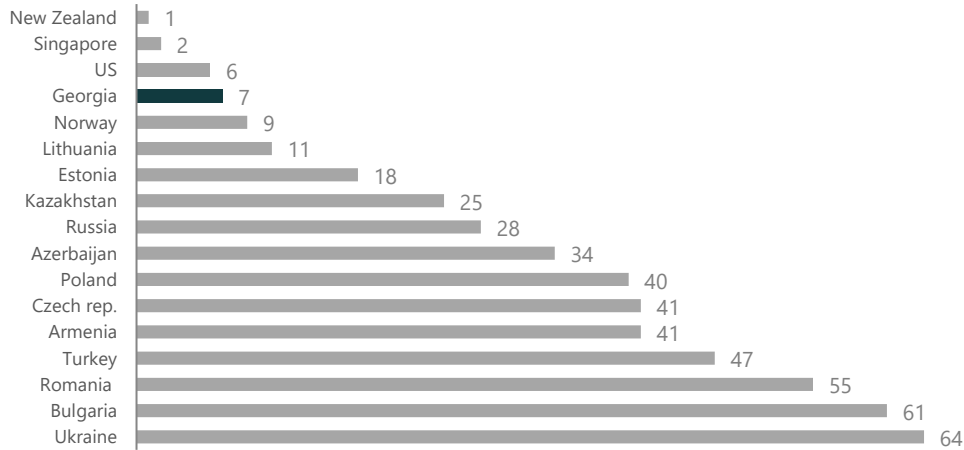
# GEORGIA'S KEY ECONOMIC DRIVERS



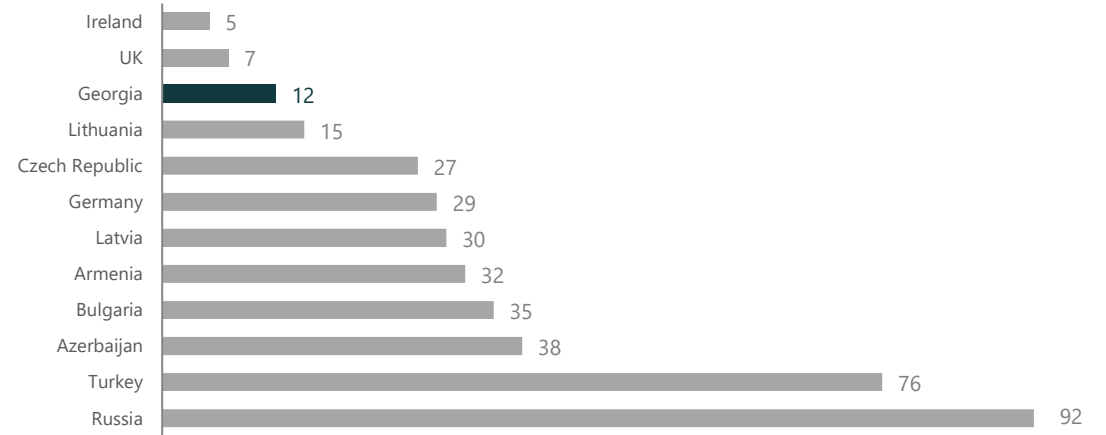
<p><b>Liberal economic policy</b></p>	<p><b>Top performer globally in WB Doing Business over the past 12 years</b></p> <ul style="list-style-type: none"> <li>Liberty Act (effective January 2014) ensures a credible fiscal framework; Fiscal deficit/GDP capped at 3%; Public debt/GDP capped at 60%.</li> <li>Following the emergency clause activation after the COVID-19 shock, the fiscal framework will return within the rule bounds in three years, as specified in the Liberty Act;</li> <li>Business friendly environment and low tax regime (attested by favourable international rankings);</li> </ul>
<p><b>Regional logistics and tourism hub</b></p>	<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 2.8 billion customers without customs duties: Free trade agreements with EU, China, Hong Kong, CIS and Turkey and GSP with USA, Canada, Japan, Norway and Switzerland; FTA with Israel and India under consideration.</li> <li>Tourism inflows fell sharply to US\$ 542 million in 2020 from US\$ 3.2 billion in 2019 due to COVID-19, but tourism is expected to bounce back once the pandemic is brought under control;</li> <li>Regional energy transit corridor accounting for 1.6% of the world's oil and gas transit volumes.</li> </ul>
<p><b>Strong FDI</b></p>	<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\$ 617 million (3.9% of GDP) in 2020 (FDI was lowered by a one-off transfer of ownership worth US\$ 340.5 million).</li> <li>FDI averaged 8.1% of GDP in 2010-2020.</li> </ul>
<p><b>Support from international community</b></p>	<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>
<p><b>Electricity transit hub potential</b></p>	<p><b>Developed, stable and competitively priced energy sector</b></p> <ul style="list-style-type: none"> <li>Only 20% of hydropower capacity utilized; 155 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>
<p><b>Political environment stabilised</b></p>	<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 Georgian's citizens effective December 23, 2015.</li> <li>Direct flights between the two countries resumed in January 2010. However, they have been banned again since July 2019 following the decision from Russia.</li> <li>Member of WTO since 2000, allowed Russia's access to WTO; In 2013 trade restored with Russia.</li> <li>In 2020, Russia accounted for 13% of Georgia's exports and 11% of imports.</li> </ul>

# INSTITUTIONAL ORIENTED REFORMS

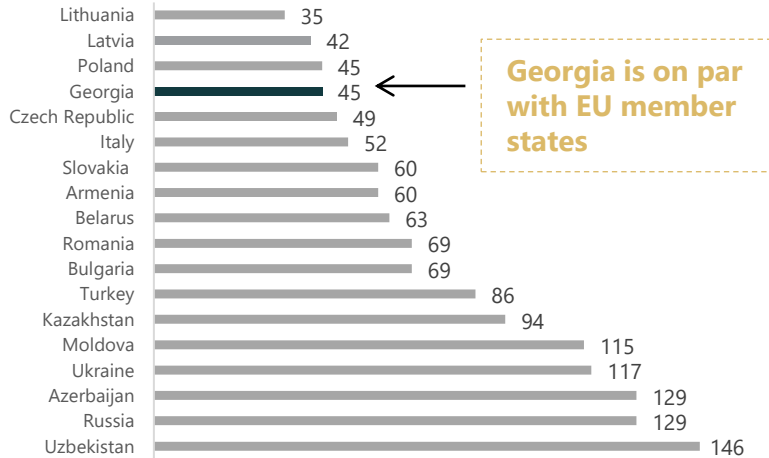
**Ease of Doing Business | 2020 (WB Doing Business Report)**



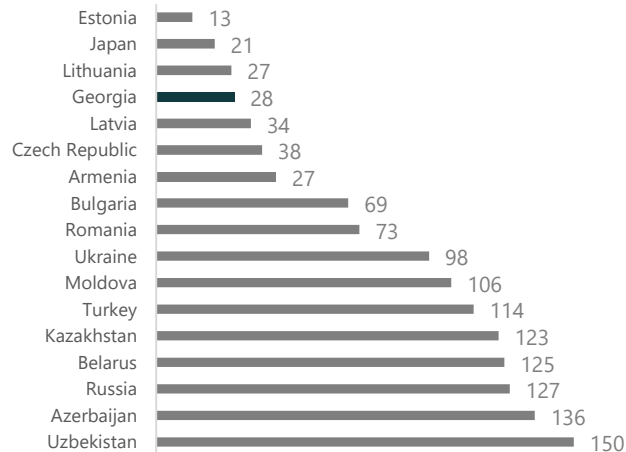
**Economic Freedom Index | 2021 (Heritage Foundation)**



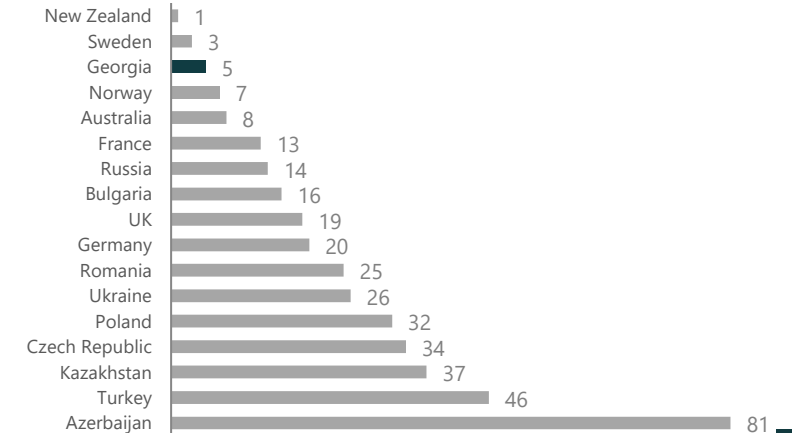
**Corruption Perception Index | 2020 (TI)**



**Business Bribery Risk, 2020 | Trace International**



**Open Budget Index, 2019 | International Budget Partnership**

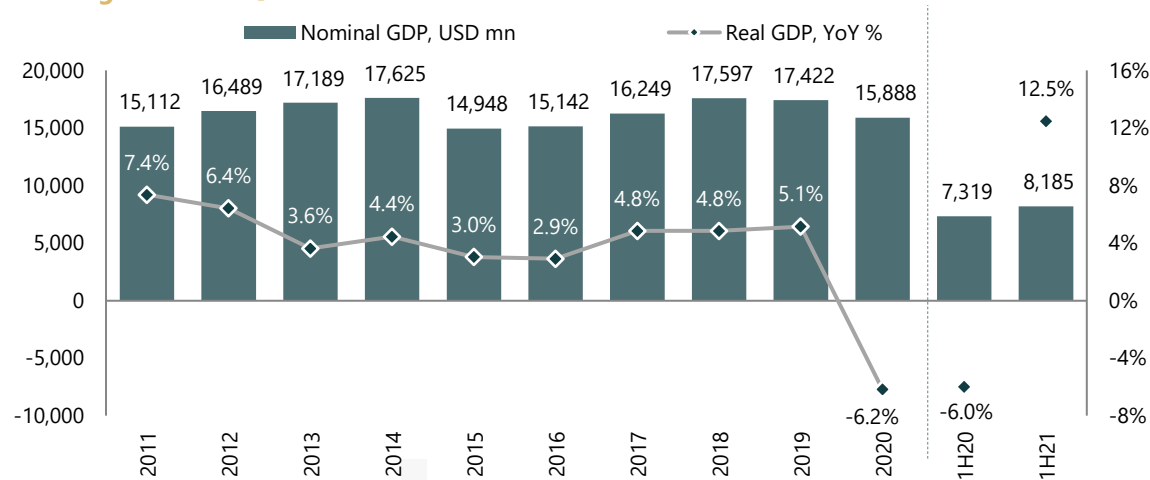


# PACE OF ECONOMIC RECOVERY IS HIGHER THAN EXPECTED



## Gross domestic product

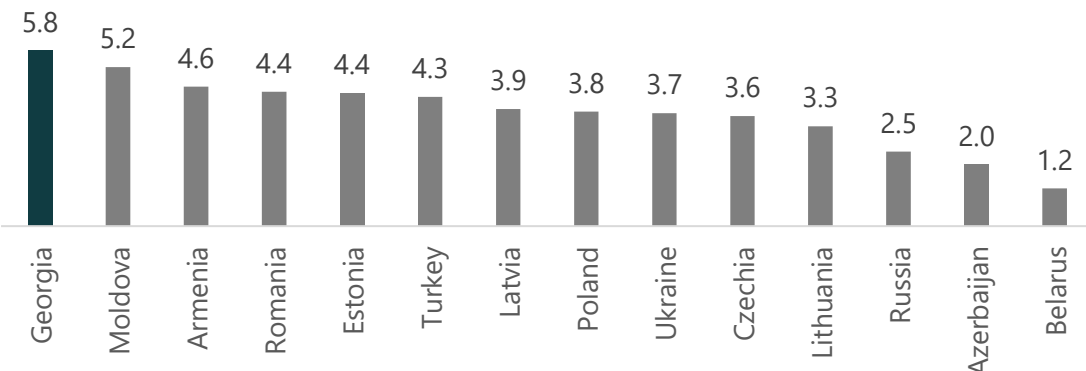
According to preliminary estimates, real GDP grew by 12.5% y-o-y in 1H21, including a 29.9% growth in 2Q21



Source: Geostat

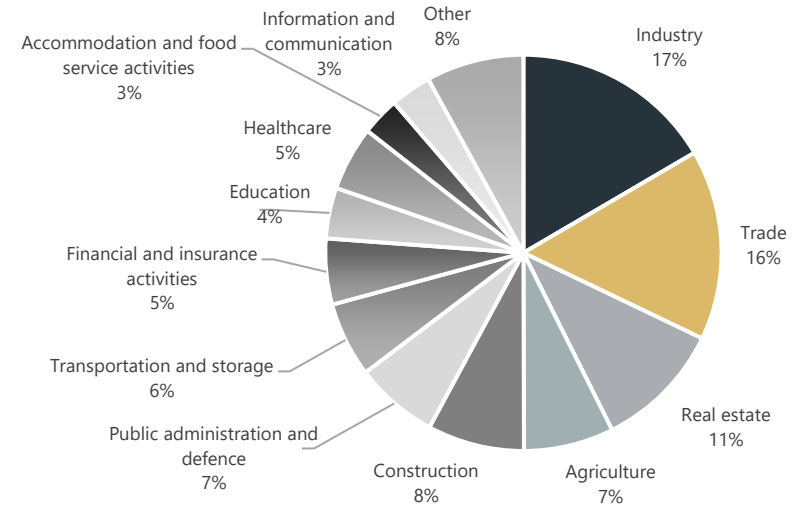
## Georgia's medium-term growth rate forecast increased from 5.1% to 5.8% in the IMF's latest World Economic Outlook (October 2021)

Comparative real GDP growth rates, % (2021-2026 average) | IMF



Source: IMF, WEO (October 2021)

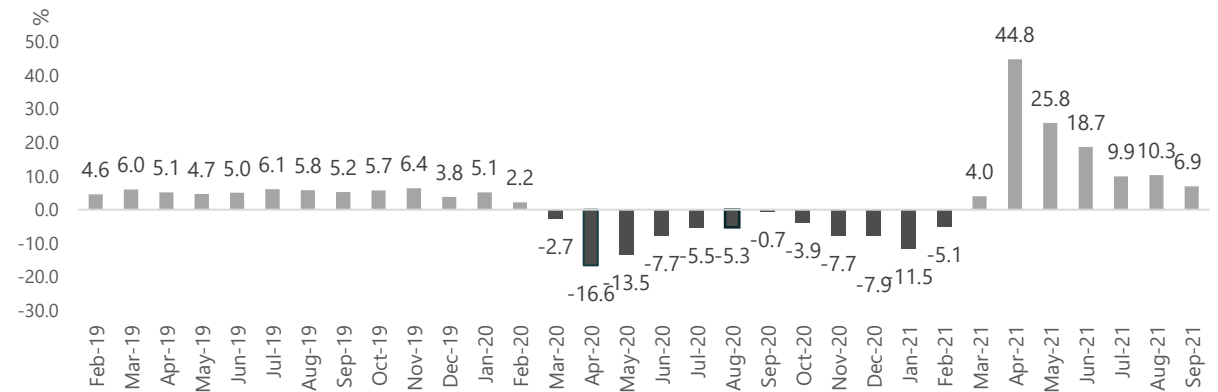
## Nominal GDP structure, 1H21



Source: Geostat

## Monthly Economic Activity Estimate, Y-o-Y growth

Flash estimates show the economy growing by 11.3% Y-o-Y in 9M21

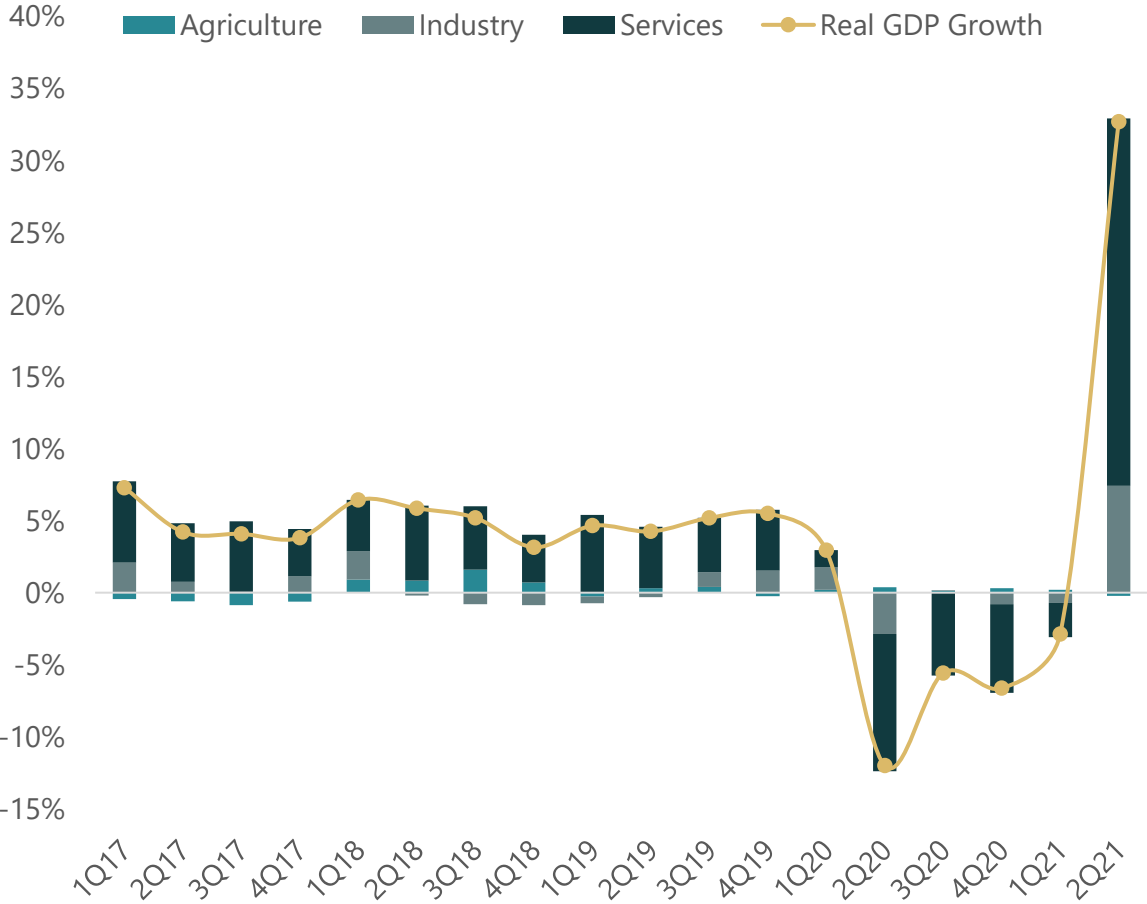


Source: Geostat

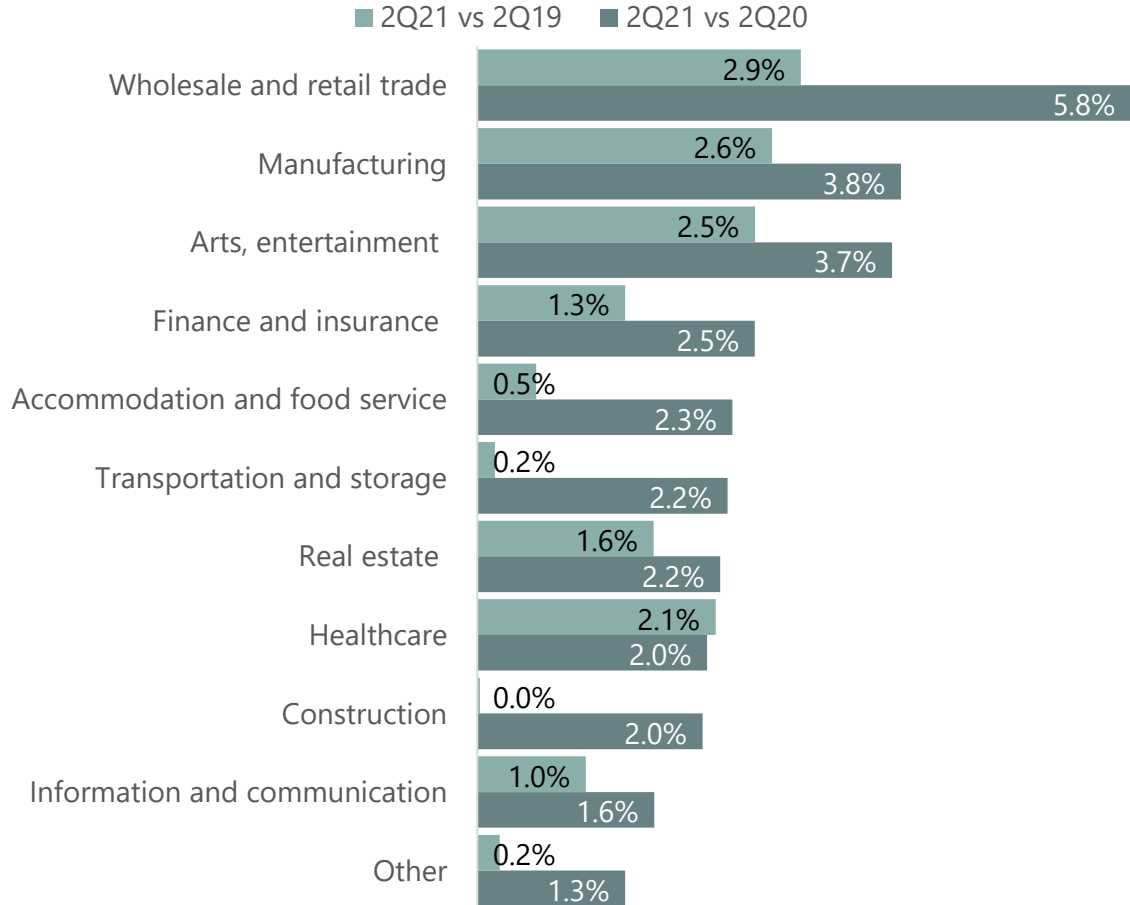
# SERVICE SECTOR MAJOR DRIVER OF 2Q21 REBOUND



## THE SERVICE SECTOR CONTRIBUTED BY 25.5 PERCENTAGE POINTS IN 2Q21 GROWTH



## CONTRIBUTIONS TO REAL GDP GROWTH



# SIGN OF RECOVERY IN WAGES WHILE EMPLOYMENT LAGS BEHIND



## Unemployment rate up to 22.1% in 2Q21

Sources: GeoStat



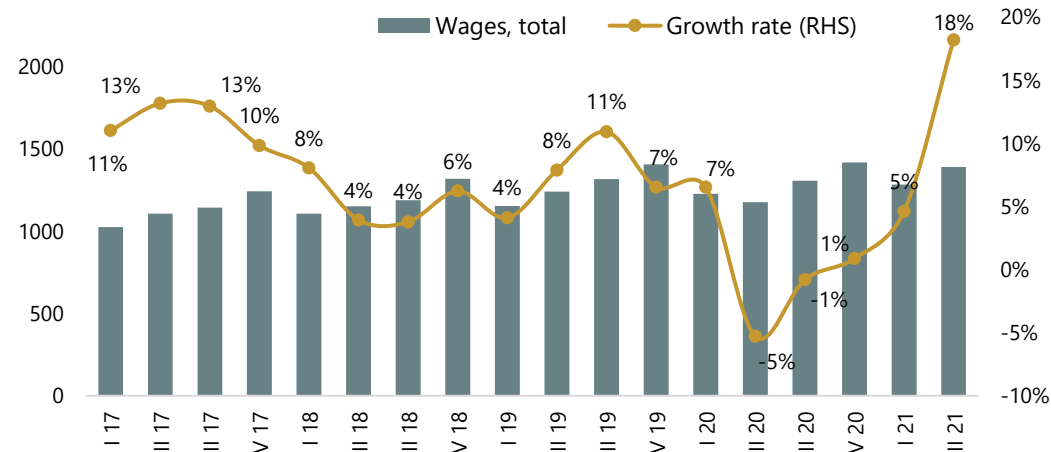
## UNDP Human Development Index

Sources: UNDP



## Average monthly nominal earnings in business sector

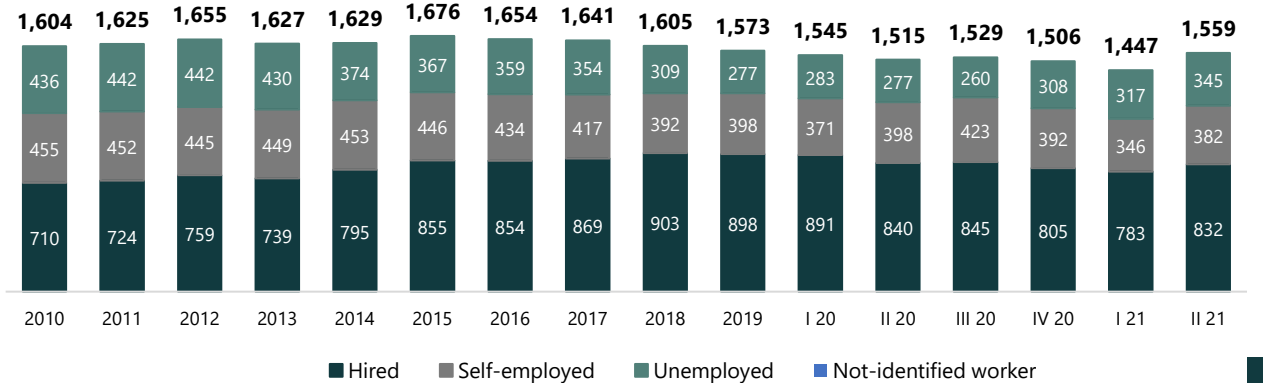
Sources: GeoStat



## Labour force decomposition

Sources: GeoStat

Number of hired workers increased by 49k q-o-q while the number of unemployed rose by 27k q-o-q, as the labour force grew by 112k q-o-q



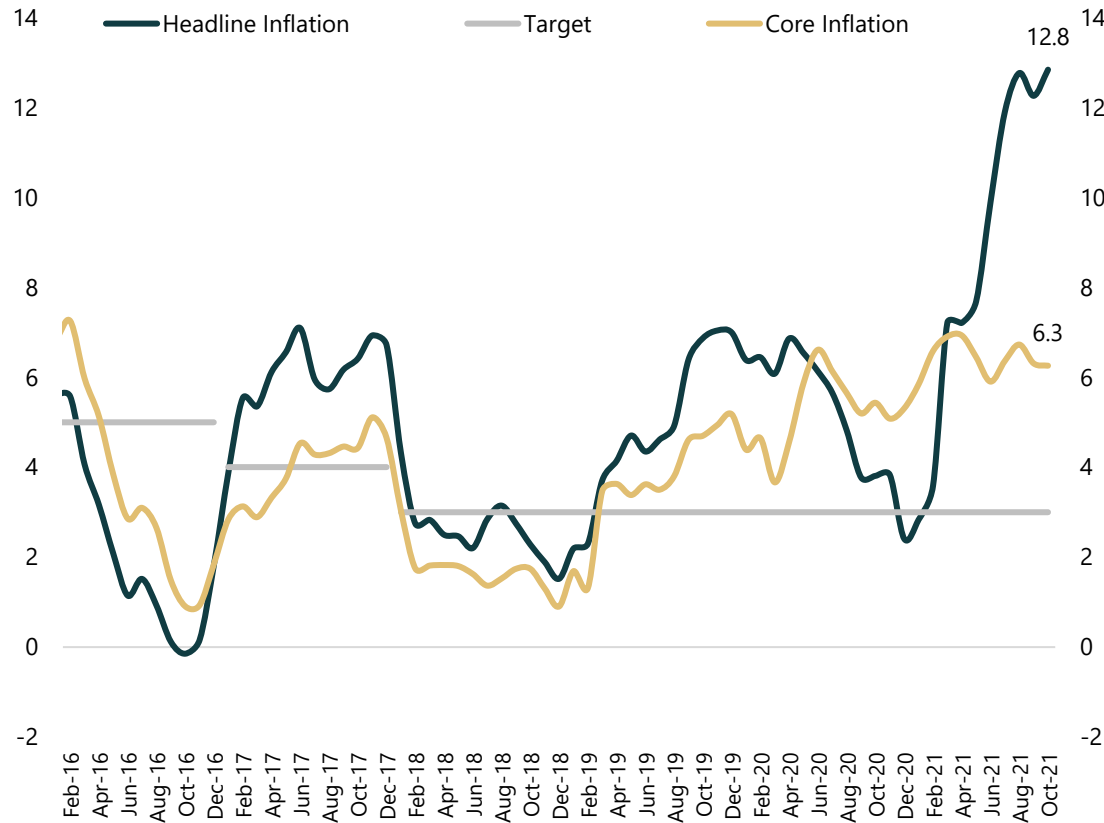
# INFLATION TO DECELERATE FROM THE 2<sup>ND</sup> HALF OF 2022



## Inflation Y-o-Y vs. inflation target

Sources: NBG, GeoStat

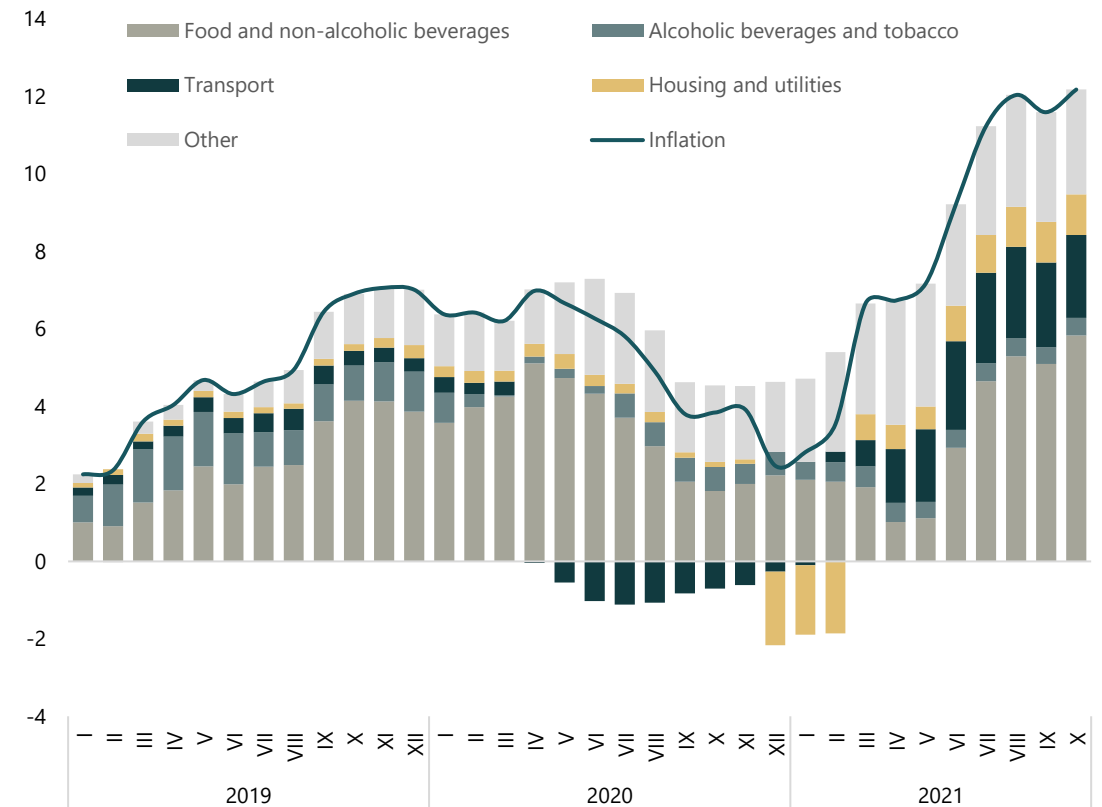
Inflation has picked up pace since May 2021 and reached 12.8% in October mostly on the back of supply side pressures such as global food and commodity prices. Core inflation has stabilized, pointing to gradual easing of underlying price pressures. We expect inflation to decelerate from the 2<sup>nd</sup> half of 2022



## Inflation components

Source: GeoStat

All major components contributed to increasing inflation in the past few months – the rising contribution of transport reflects high oil prices, while food inflation has accelerated due to global trends, and prices on utilities have risen since the new gas tariff in Tbilisi was approved in June 2021

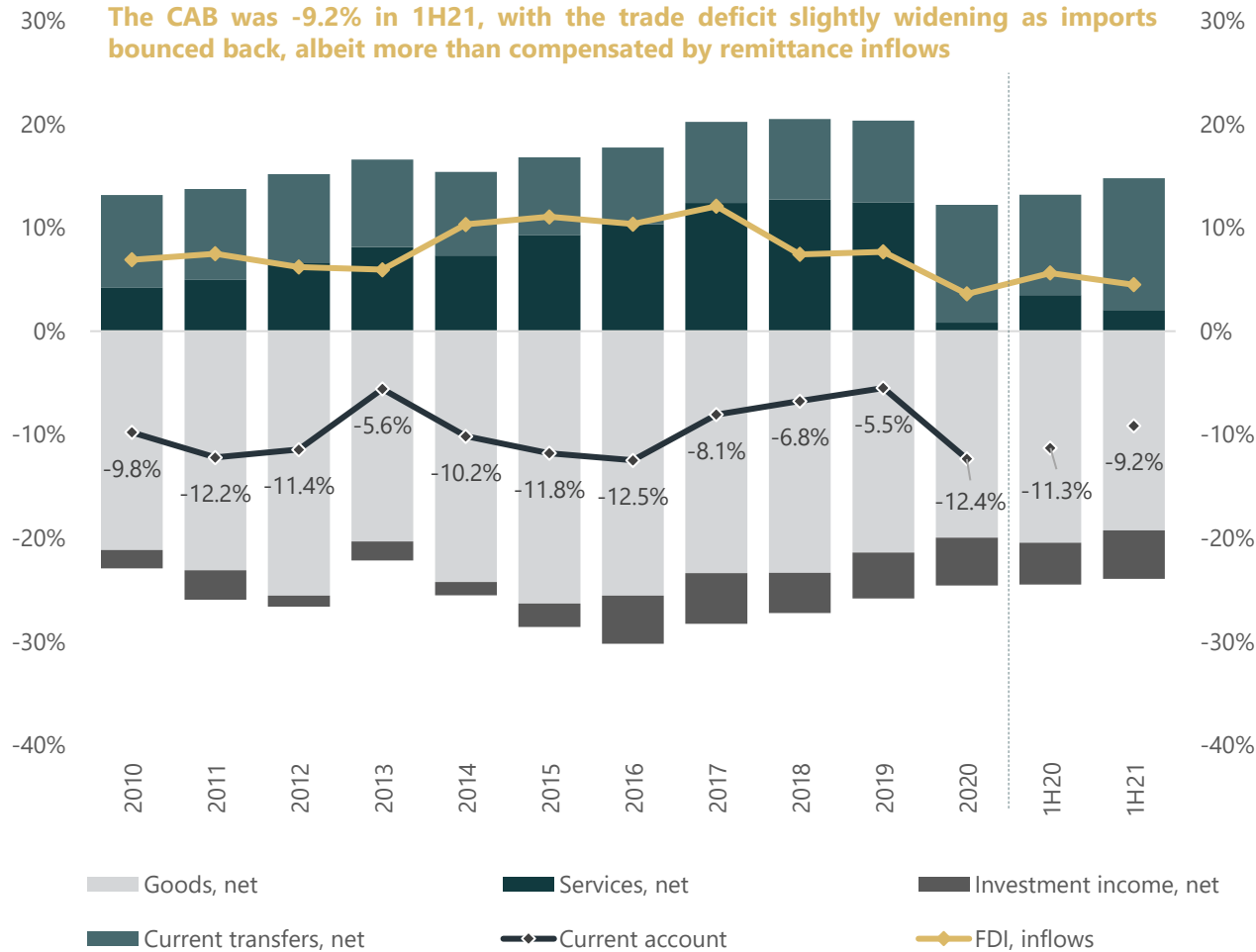




# CURRENT ACCOUNT BALANCE ADJUSTING AFTER RECORD LOWS

## Current account balance (% of nominal GDP)

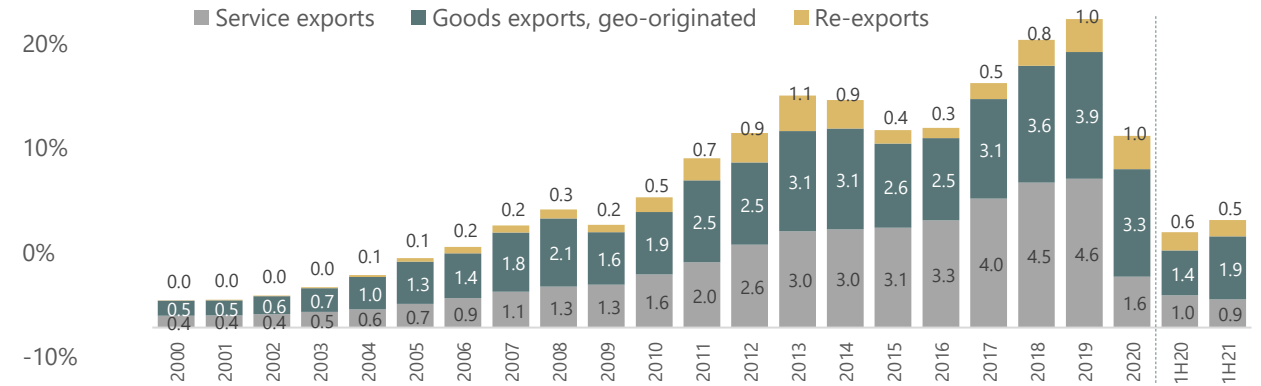
Sources: NBG



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

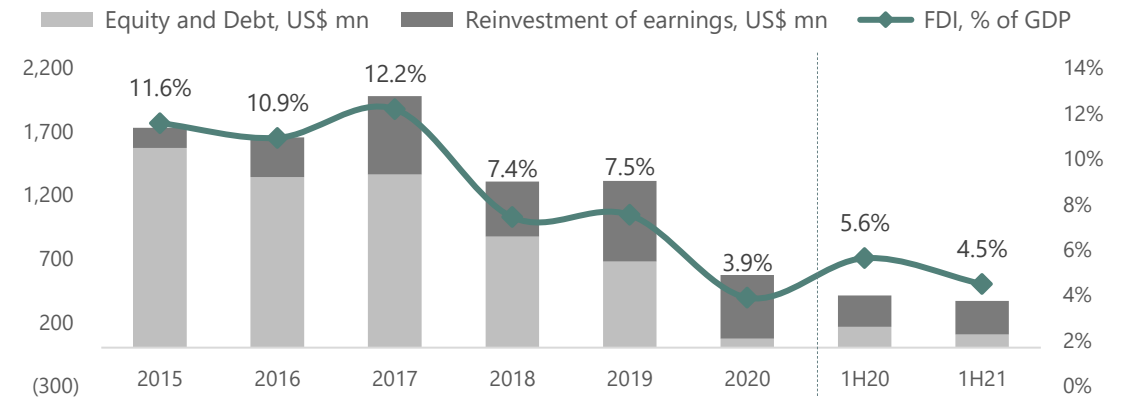
Source: NBG

While service exports plummeted due to COVID-19, Georgian-originated goods exports have proven resilient throughout the crisis and afterwards



## FDI (components and % of nominal GDP)

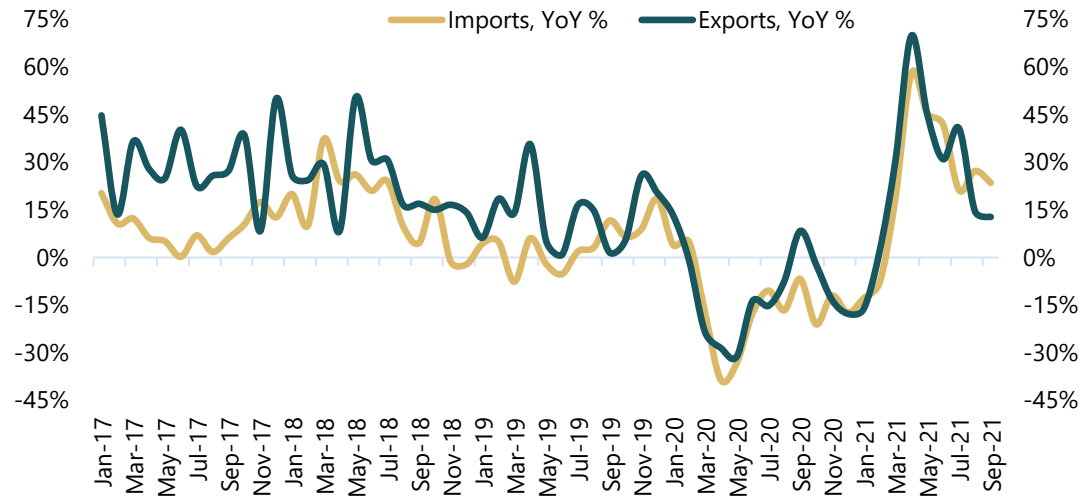
Source: Geostat



# DIVERSIFIED FOREIGN TRADE

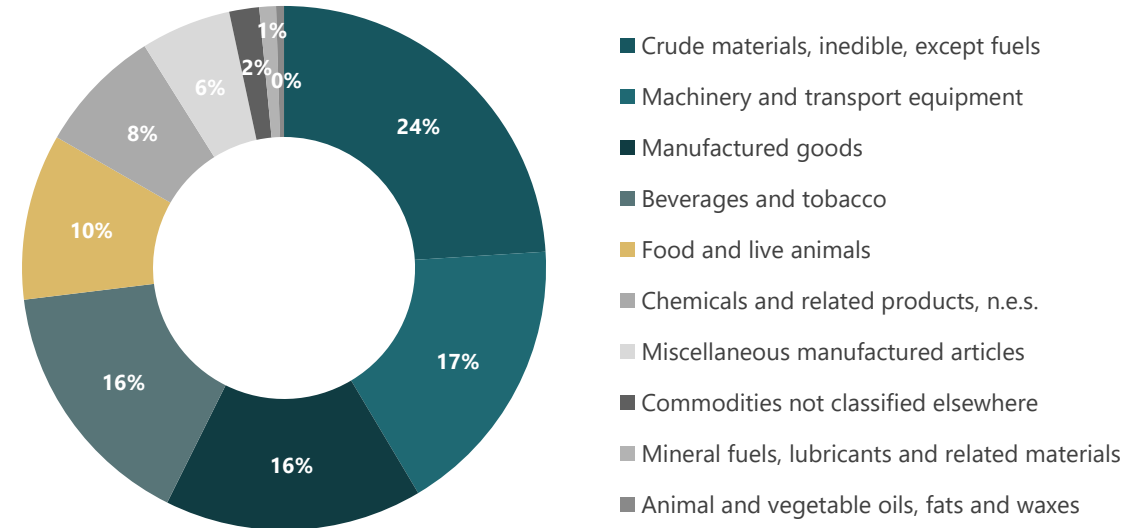
## Exports and imports of goods, Y-o-Y %

Source: Geostat



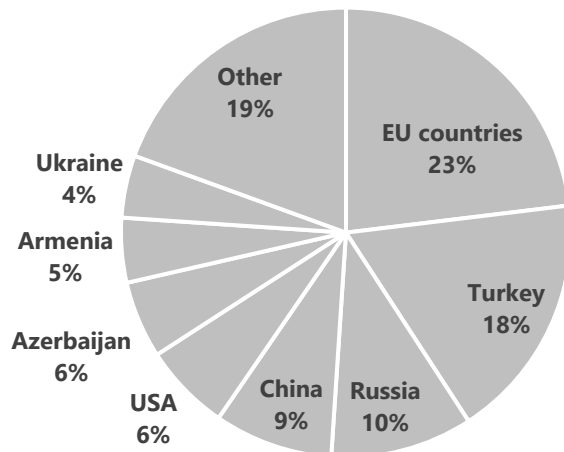
## Foreign Demand, 9M21

Source: Geostat



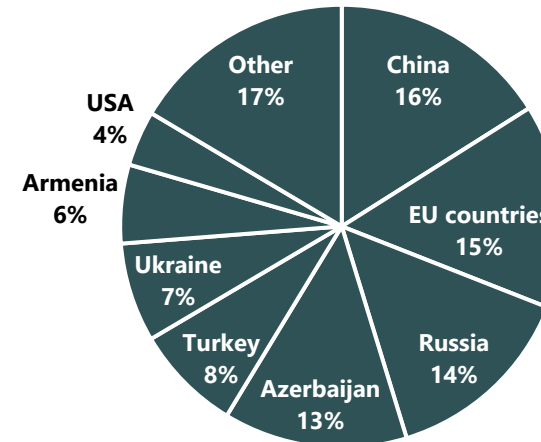
## Import countries, 9M21

Sources: GeoStat



## Export countries, 9M21

Sources: GeoStat



After emerging as the single largest destination country for Georgian exports since 2020, China has overtaken all EU countries together, accounting for 16% of total exports in 9M21

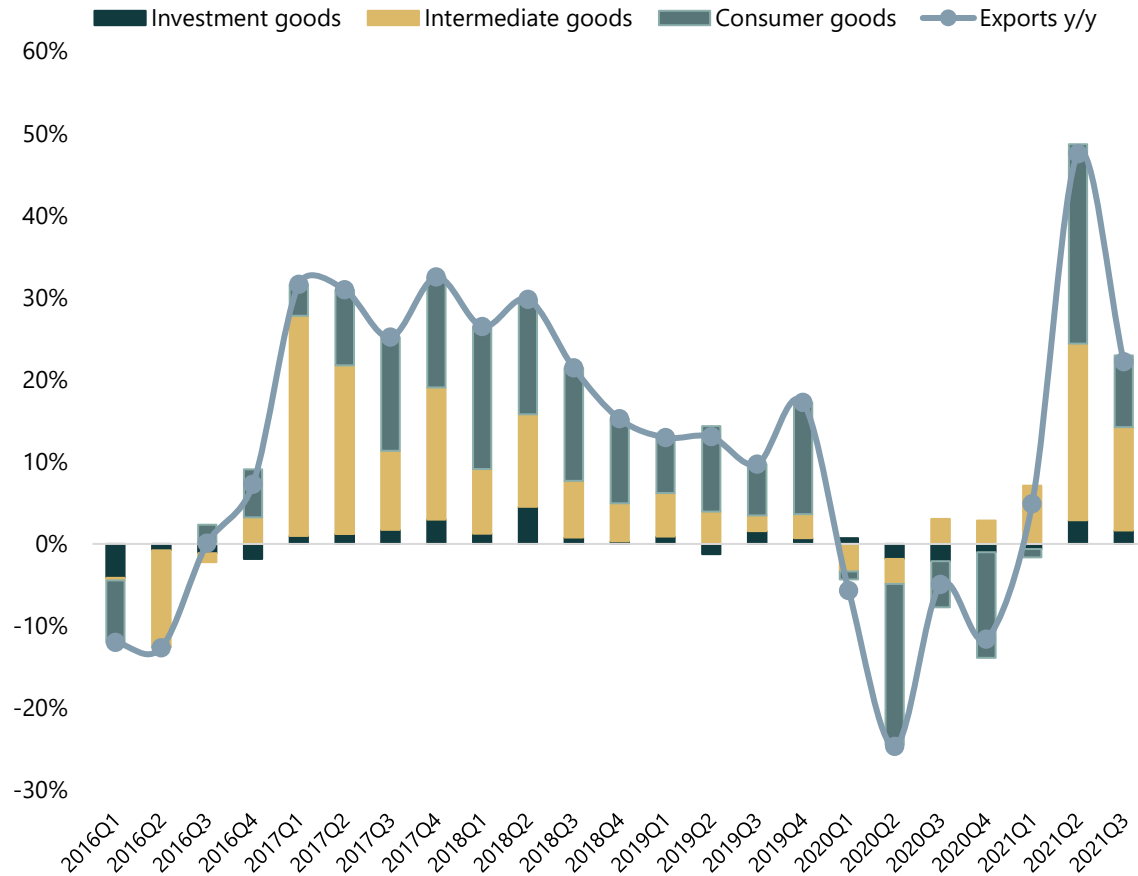
# TRADE WITH ALL TYPES OF GOODS BOUNCING BACK FAST



## Export of goods, contribution to growth

Source: NBG

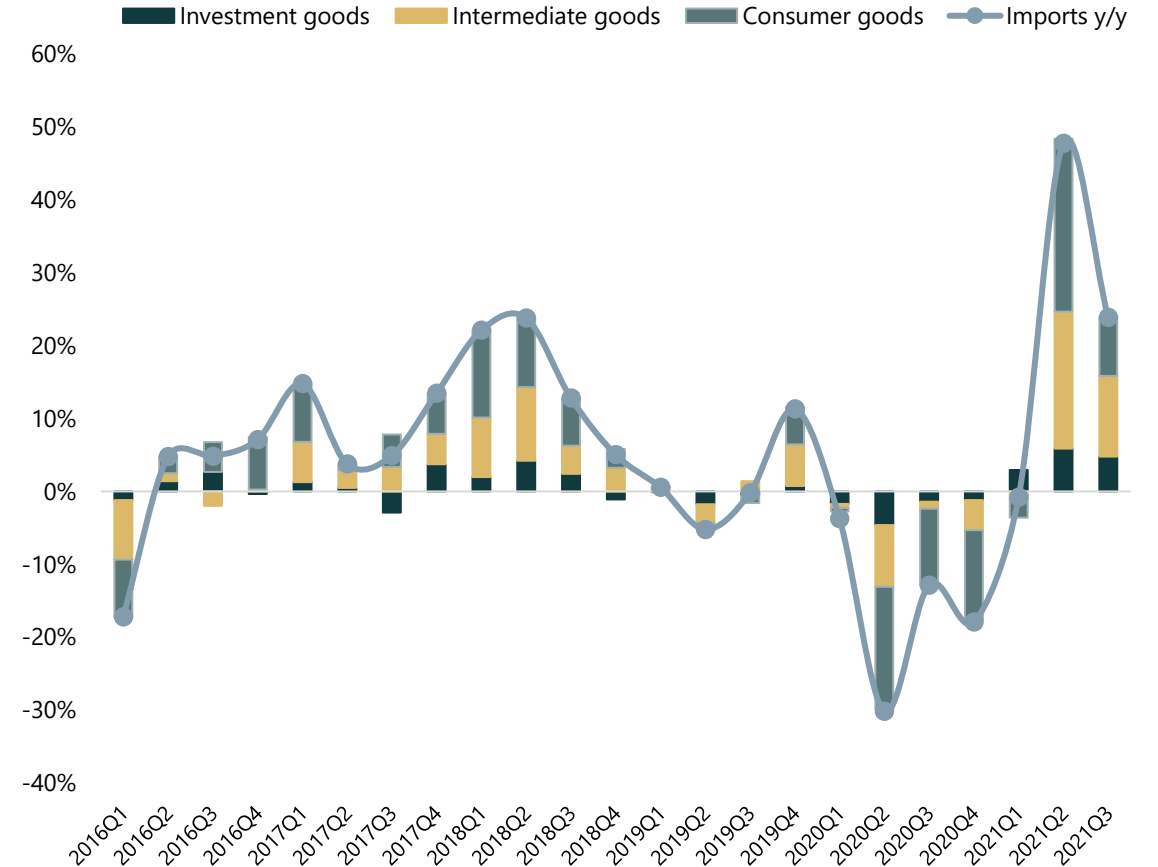
Exports of all types of goods increased in 3Q21, with exports of intermediate and consumer goods rising the largest



## Import of goods, contribution to growth

Source: Geostat

Similar to exports, imports of all types of goods increased in 3Q21, with imports of intermediate and consumer goods increasing most



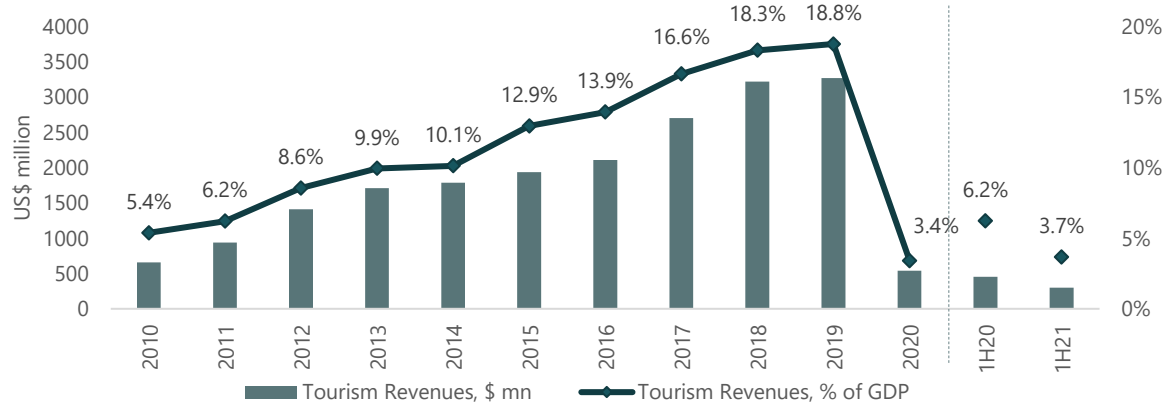
# REMITTANCES KEEP PACE WHILE TOURISM REVENUES HAVE BEGUN RECOVERY



## Tourism revenues to GDP

Sources: NBG, Geostat

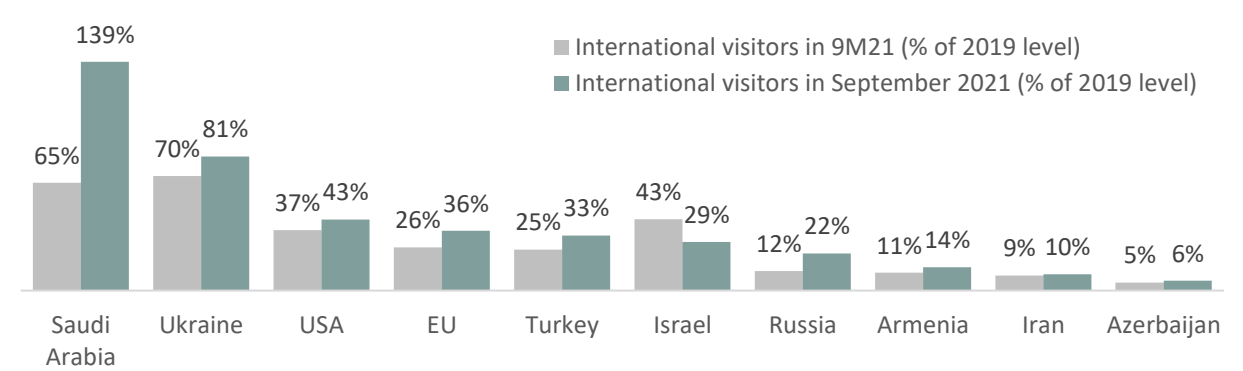
Tourism revenues rebounded to 50% of 2019 level in July-September 2021, as recovery has begun



## International visitors (by country)

Sources: GNTA

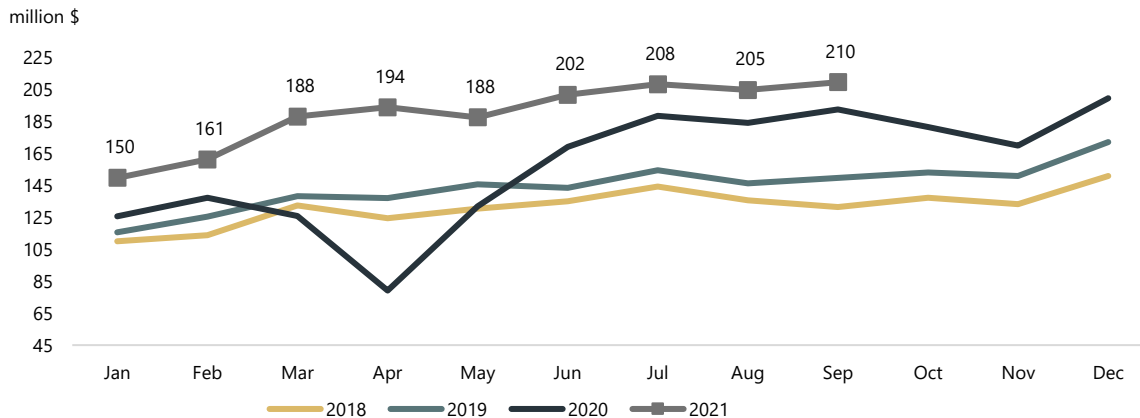
Number of travelers from Saudi Arabia, Ukraine, USA and EU have been recovering fastest



## Remittances at record high levels

Source: NBG

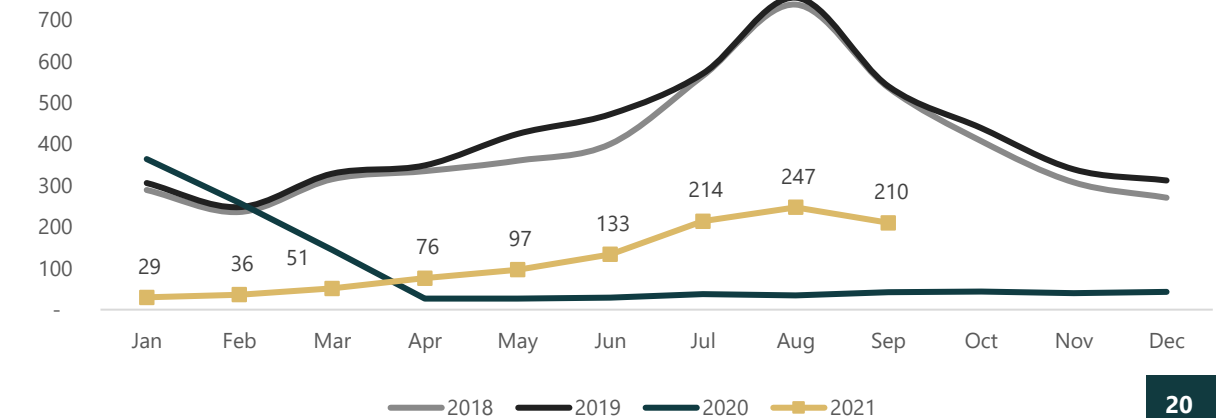
Remittance inflows continued growing at record levels, with 9M21 growth totaling 27.8% Y-o-Y



## Number of Tourists (overnight visitors)

Source: GNTA

The number of tourists grew by 13.7% Y-o-Y in 9M21, despite the number of total visitors falling by 18.5%

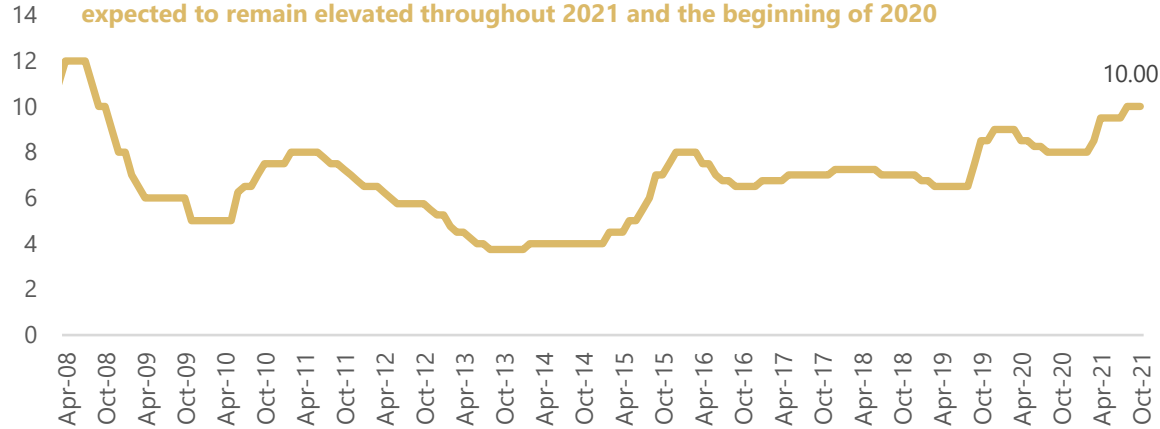


# APPROPRIATE MONETARY POLICY STANCE ENSURING MACROECONOMIC STABILITY

## Monetary policy rate

Sources: NBG

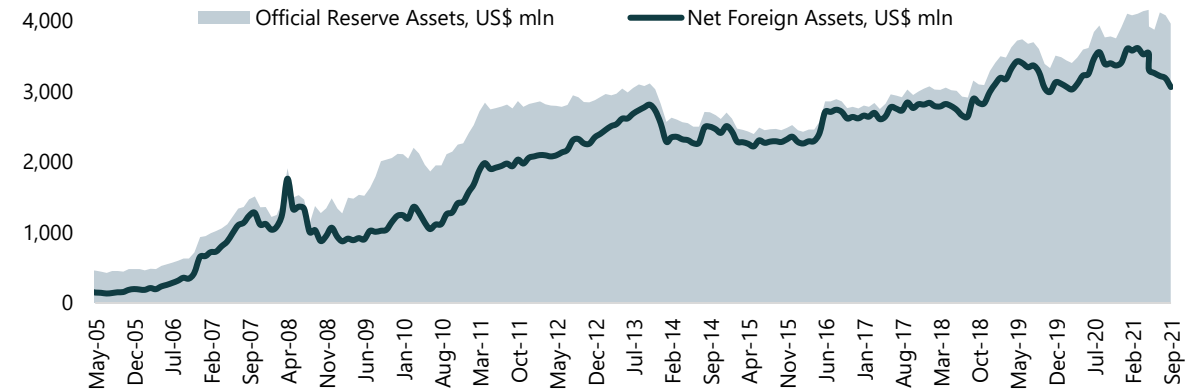
NBG further increased the monetary policy rate to 10% in August, as inflation is expected to remain elevated throughout 2021 and the beginning of 2020



## International Reserves

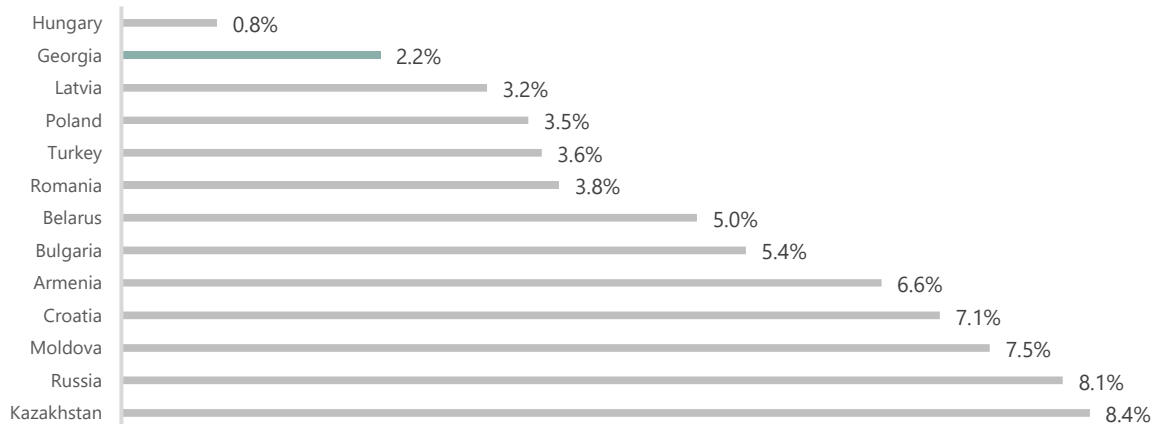
Sources: NBG

International reserves grew by 4.8% Y-o-Y to reach US\$ 4 billion by the end of October 2021, rising as a result of SDR allocation in August after a temporary fall due to closing of NBG swaps



## Nonperforming loans to total gross loans, latest 2021

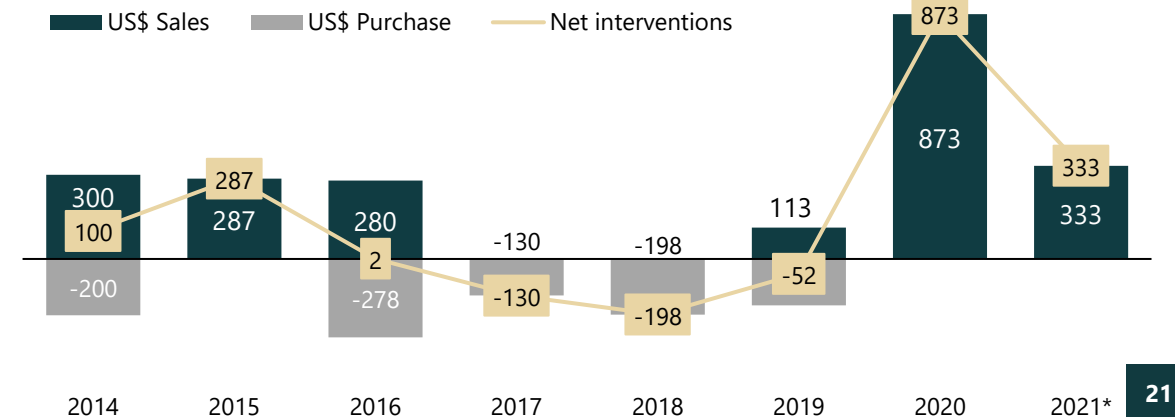
Sources: IMF



## Foreign exchange market interventions, \$US million

Sources: NBG

NBG has sold \$1.2 billion since March 2020 up to October 2021 on the foreign exchange market



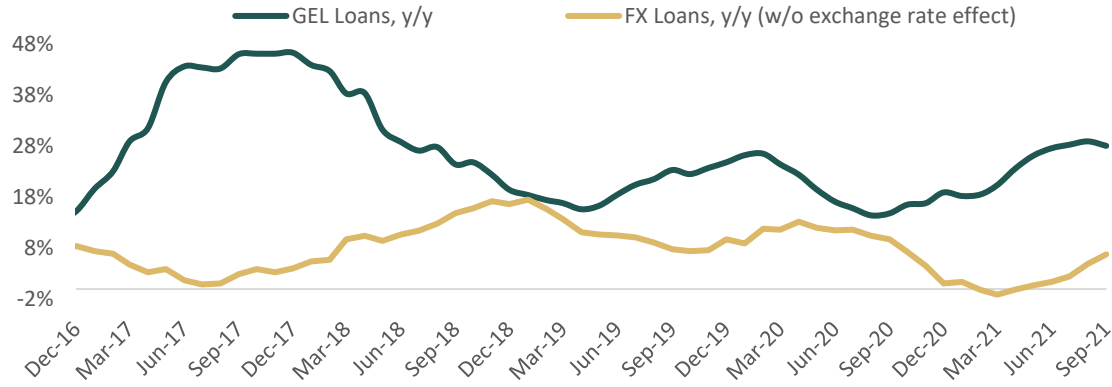
# FLOATING EXCHANGE RATE - POLICY PRIORITY



## Loans by currencies

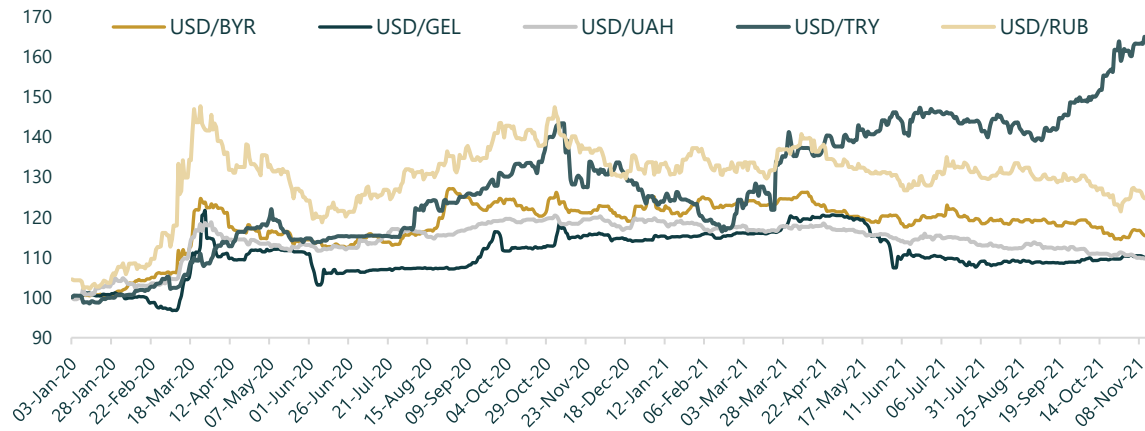
Sources: NBG

In parallel with the rebound in economic activity, both GEL and FX loans have started to increase since April, supporting GEL appreciation, with FX loan acceleration further aided by monetary tightening



## Exchange rate indices (1 January=100)

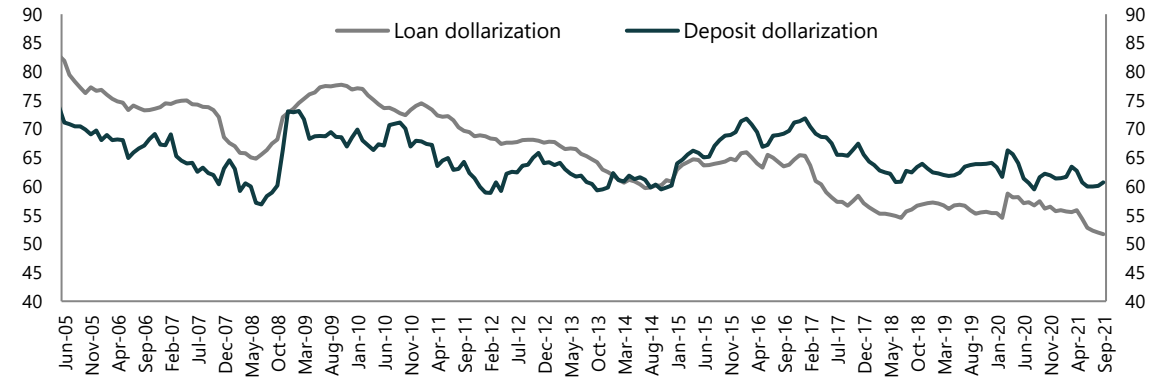
Sources: NBG



## Dollarization ratios

Source: NBG

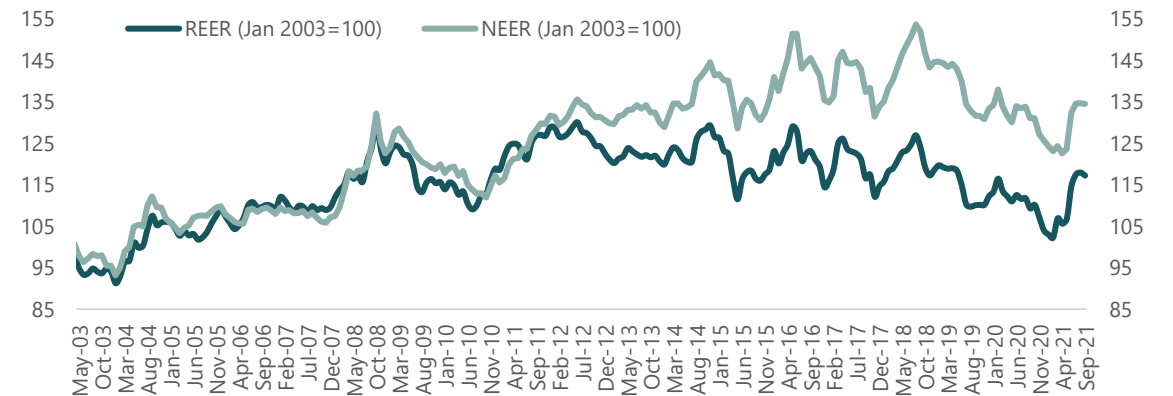
Both deposit and loan dollarization have fallen since May-June 2021, in parallel with GEL appreciation



## Real (REER) and nominal (NEER) effective exchange rates

Source: NBG

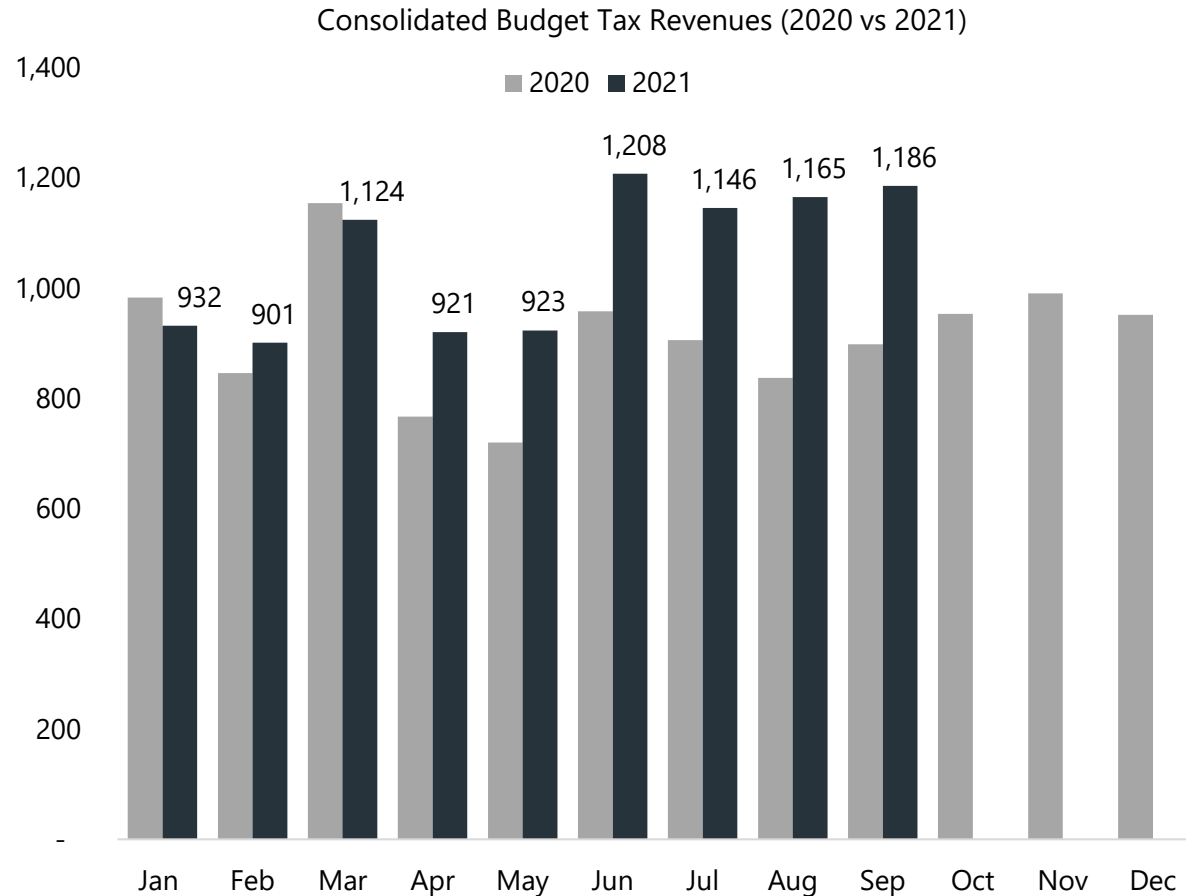
REER and NEER have been appreciating since May



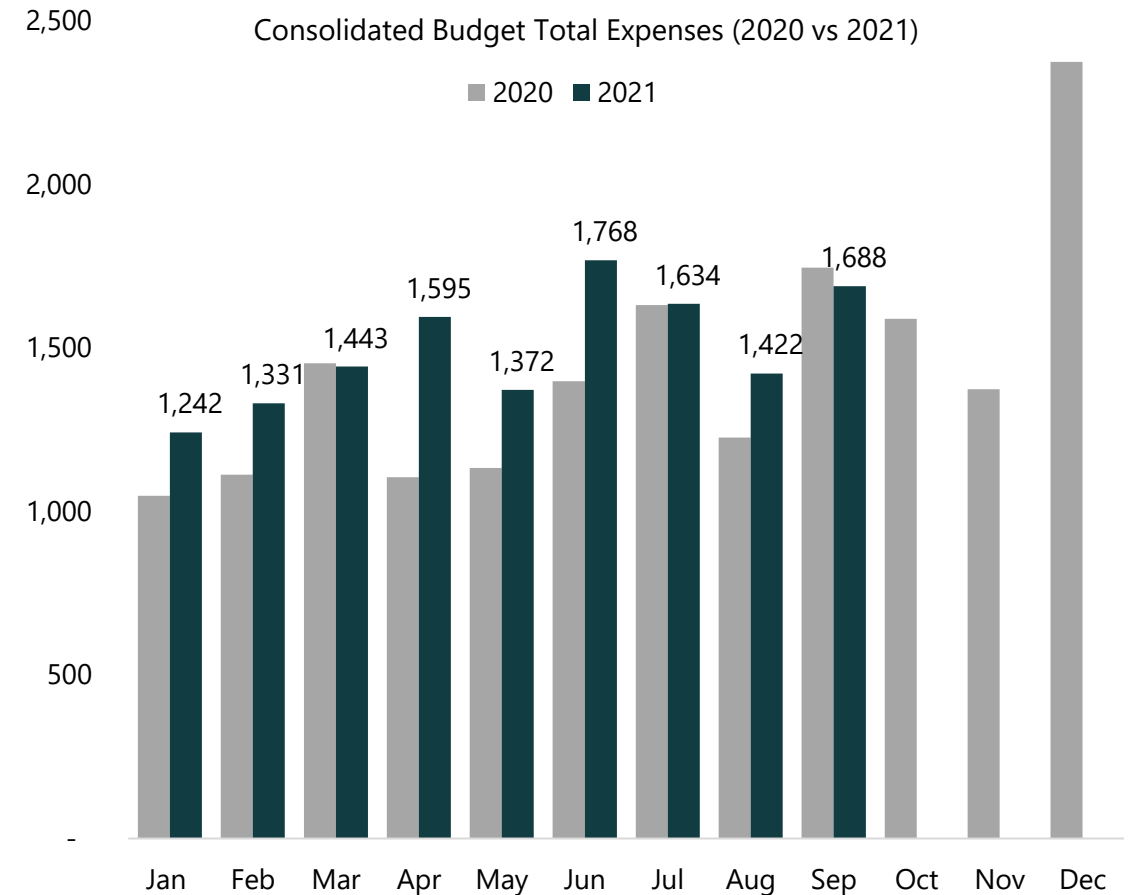
# REVENUES AND EXPENDITURES ON TRACK TO MEET ANNUAL PLAN



**TAX REVENUES INCREASED BY 17.8% Y-O-Y IN 9M21, WITH VAT REVENUES GROWING BY 25.7% AND INCOME TAX REVENUES GROWING BY 13.4%**



**TOTAL EXPENSES (CURRENT + CAPITAL) GREW BY 13.9% Y-O-Y IN 9M21, WITH CAPITAL EXPENDITURES RISING BY 10.5% Y-O-Y**



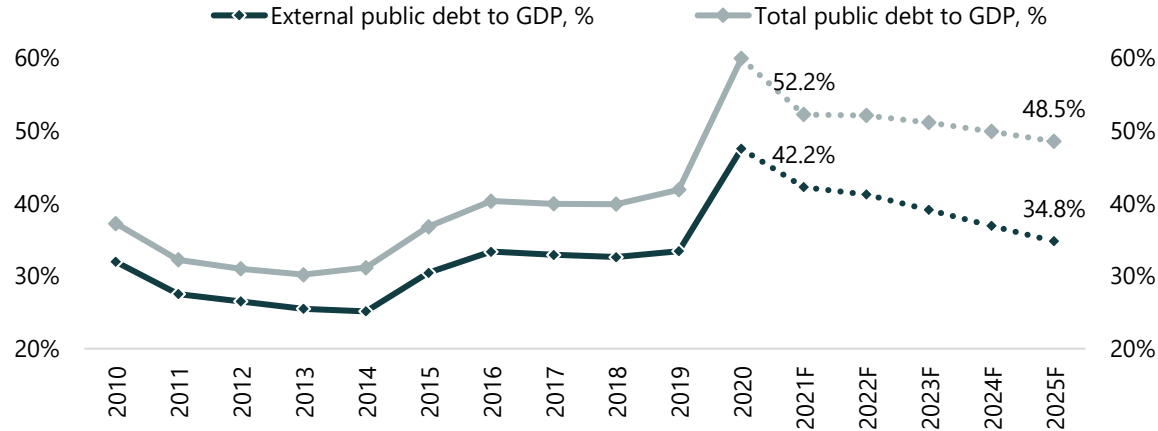
# DEBT AND FISCAL DEFICIT ON COURSE FOR CONSOLIDATION



## Public debt

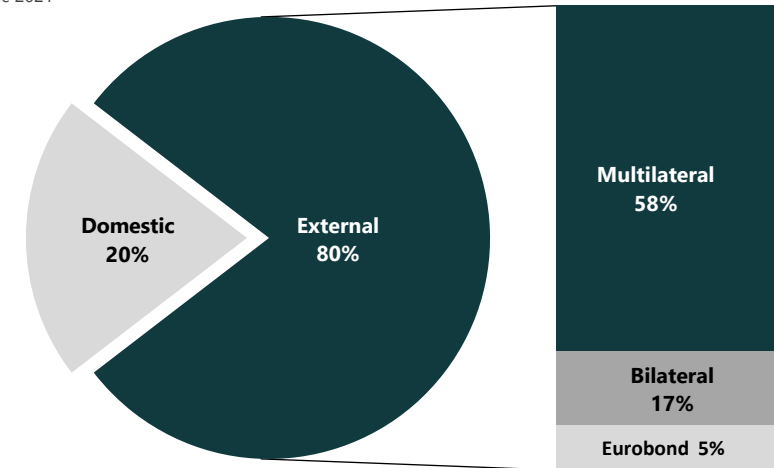
Sources: MOF

Public debt is expected to fall to 52% of GDP, with a consolidation plan in place for the medium run



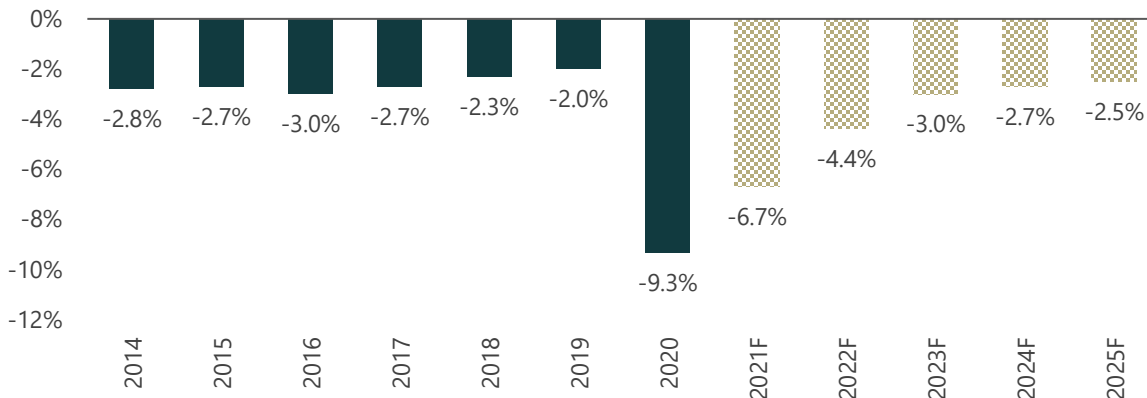
## Breakdown of public debt

Source: MOF, as of 30 June 2021



## Overall Balance (IMF Modified), % of GDP

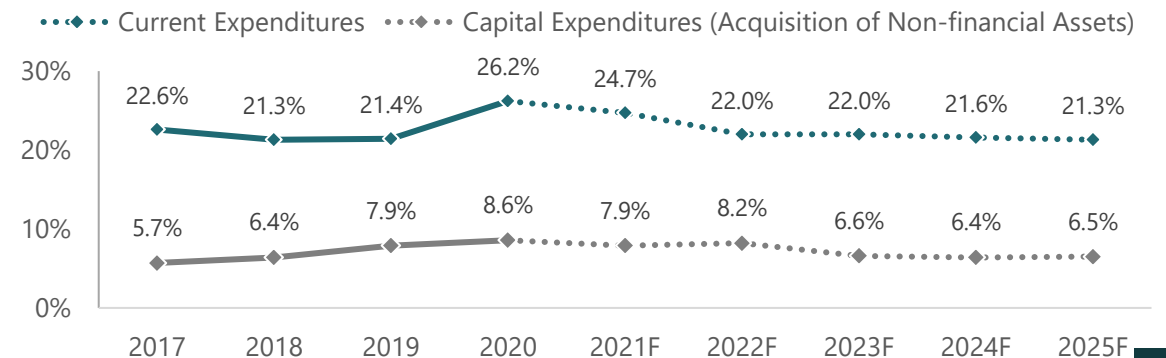
Source: MOF



## Current vs Capital Expenditure, % of GDP

Source: MOF

Expenditures to decelerate in the medium run, although capital expenditures set to remain elevated in 2021-2022





# 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, certain of which are beyond our control, 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 could adversely affect our business and financial performance, which are contained elsewhere in this presentation and in our past and future filings and reports and also the 'Principal Risks and Uncertainties' included in the 1H21 Results Announcement and in Georgia Capital PLC's Annual Report and Accounts 2020. 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.

## COMPANY INFORMATION

### Georgia Capital PLC

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Registered under number 10852406 in England and Wales

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London Stock Exchange PLC's Main Market for listed securities  
Ticker: "CGEO.LN"

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### Share price information

Shareholders can access both the latest and historical prices via the website  
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