



Georgian Macro Overview

3Q19 and 9M19 Trading Update

10 x = 10 y

Forward looking statements



Disclaimer

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Sovereign ratings with stable outlook and favourable macro fundamentals



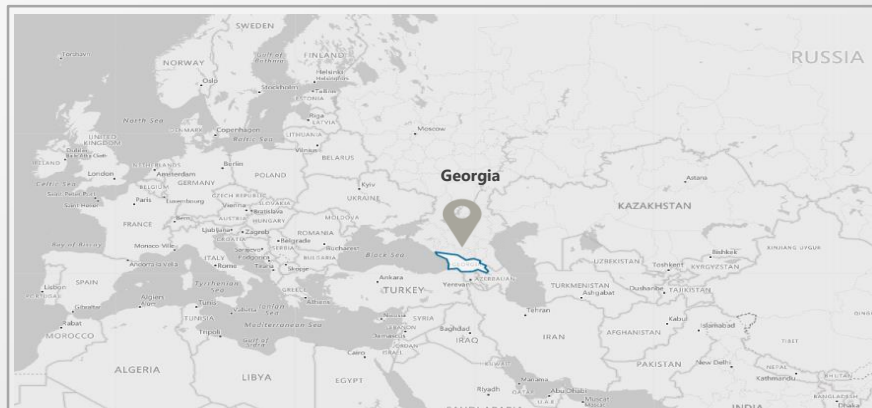
Key Ratings Highlights

Rating Agency	Rating	Outlook	Affirmed
MOODY'S	Ba2	Stable	September 2019
S&P Global	BB	Stable	October 2019
FitchRatings	BB	Stable	February 2019

Georgia is favorably placed among peers

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

General Facts



- Area: 69,700 sq km
- Population (2018): 3.7 million
- Capital: Tbilisi;
- Life expectancy: 73.5 years
- Official language: Georgian
- Literacy: 100%
- Currency (code): Lari (GEL)

Economy

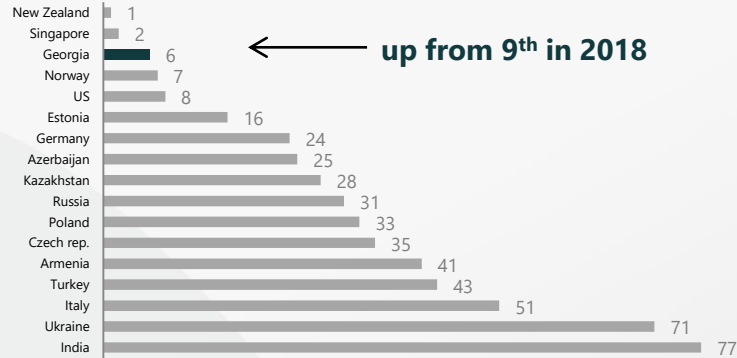
- Nominal GDP (Geostat) 2018: GEL 41.1 billion (US\$16.2 billion)
- Real GDP growth rate 2014-2018: 4.6%, 2.9%, 2.8%, 4.8%, 4.7%
- Real GDP 2007-2018 annual average growth rate: 4.5%
- GDP per capita 2018 (PPP, international dollar) IMF: 11,485
- Annual inflation (end of period) 2018: 1.5%
- External public debt to GDP 2018: 34.3%

Georgia's key economic drivers

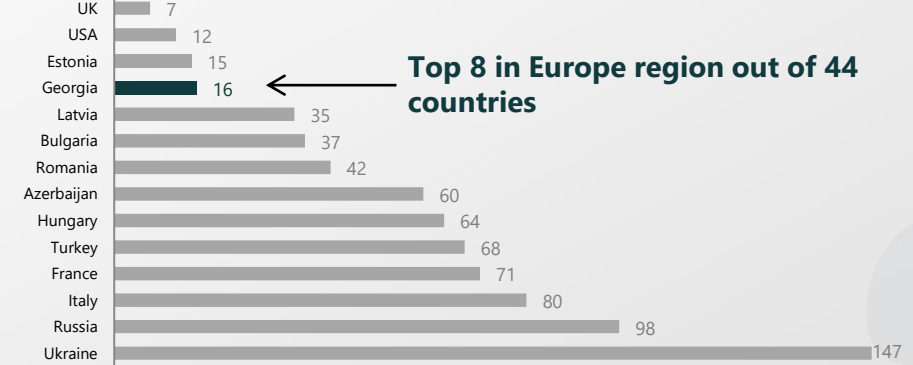
Liberal economic policy	<p>Top performer globally in WB Doing Business over the past 12 years</p> <ul style="list-style-type: none"> ▪ Liberty Act (effective January 2014) ensures a credible fiscal and monetary framework; ▪ Fiscal deficit/GDP capped at 3%; Public debt/GDP capped at 60%; ▪ Business friendly environment and low tax regime (attested by favourable international rankings);
Regional logistics and tourism hub	<p>A natural transport and logistics hub, connecting land-locked energy rich countries in the east and European markets in the west</p> <ul style="list-style-type: none"> ▪ 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. ▪ Tourism revenues on the rise: tourism inflows stood at US\$ 3.2 billion in 2018 and international travelers reached 8.7 million in 2018 (up 9.8% y-o-y), out of which tourist arrivals were up 17% y-o-y to 4.8 million visitors. ▪ Regional energy transit corridor accounting for 1.6% of the world's oil and gas transit volumes.
Strong FDI	<p>An influx of foreign investors on the back of the economic reforms have boosted productivity and accelerated growth</p> <ul style="list-style-type: none"> ▪ FDI stood at US\$ 1.3 billion (7.8% of GDP) in 2018. ▪ FDI averaged 9.8% of GDP in 2007-2018.
Support from international community	<p>Georgia and the EU signed an Association Agreement and DCFTA in June 2014</p> <ul style="list-style-type: none"> ▪ 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. ▪ Discussions commenced with the USA to drive inward investments and exports. ▪ Strong political support from NATO, EU, US, UN and member of WTO since 2000; Substantial support from DFIs, the US and EU.
Electricity transit hub potential	<p>Developed, stable and competitively priced energy sector</p> <ul style="list-style-type: none"> ▪ Only 20% of hydropower capacity utilized; 155 renewable (HPPs/WPPs/SPPs) energy power plants are in various stages of construction or development. ▪ Georgia imports natural gas mainly from Azerbaijan. ▪ 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. ▪ Additional 2,000 MW transmission capacity development in the pipeline, facilitating cross-border electricity trade and energy swaps to Eastern Europe.
Political environment stabilised	<ul style="list-style-type: none"> ▪ 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. ▪ New constitution amendments passed in 2013 to enhance governing responsibility of Parliament and reduce the powers of the Presidency. ▪ Continued economic relationship with Russia, although economic dependence is relatively low. ▪ 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. ▪ Direct flights between the two countries resumed in January 2010. However, they have been banned again since July 2019 following the decision from Russia. ▪ Member of WTO since 2000, allowed Russia's access to WTO; In 2013 trade restored with Russia. ▪ In 2018, Russia accounted for 13.0% of Georgia's exports and 10.3% of imports.

Institutional oriented reforms

Ease of Doing Business | 2019 (WB Doing Business Report)

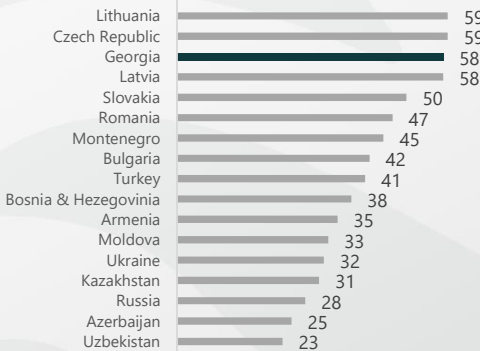


Economic Freedom Index | 2019 (Heritage Foundation)



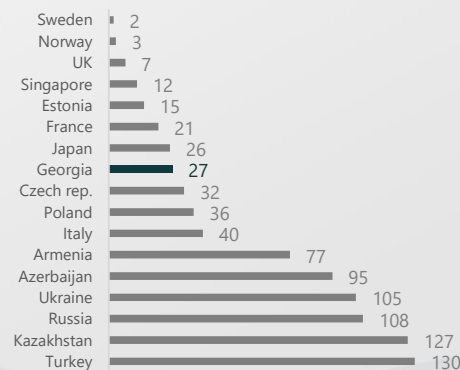
Corruption Perception Index | TI 2018

Higher index means lower corruption

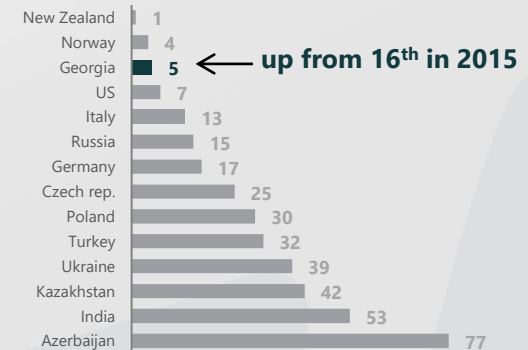


← Georgia is on a par with EU member states

Business Bribery Risk, 2018 | Trace International



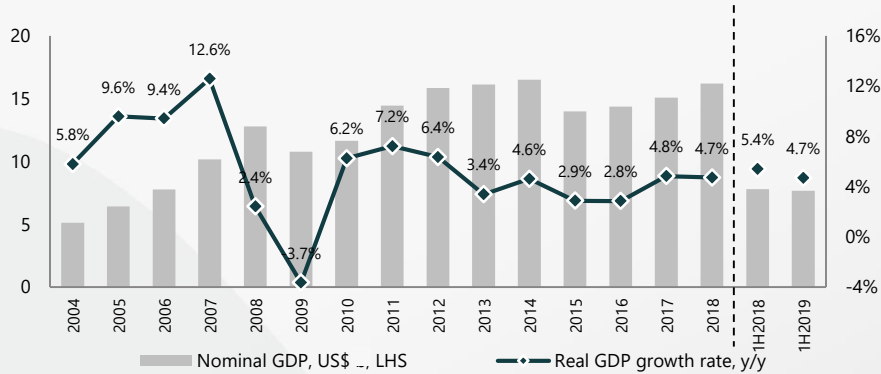
Open Budget Index, 2017 | International Budget Partnership



Diversified resilient economy

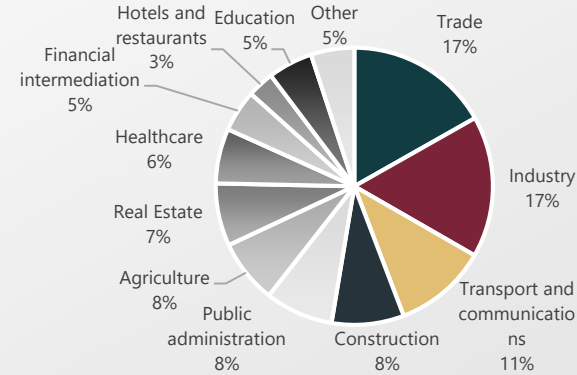
Gross domestic product

Source: Geostat



Diversified nominal GDP structure, 1H19

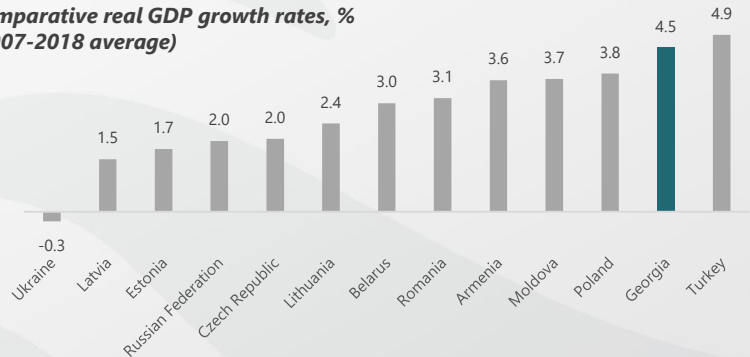
Source: Geostat



One of the Fastest Developing Economies in the Region

Source: IMF

Comparative real GDP growth rates, % (2007-2018 average)



Monthly Economic Activity Estimate, y-o-y growth

Source: Geostat

Economic activity increased by 5% y-o-y in Jan-Aug 2019¹

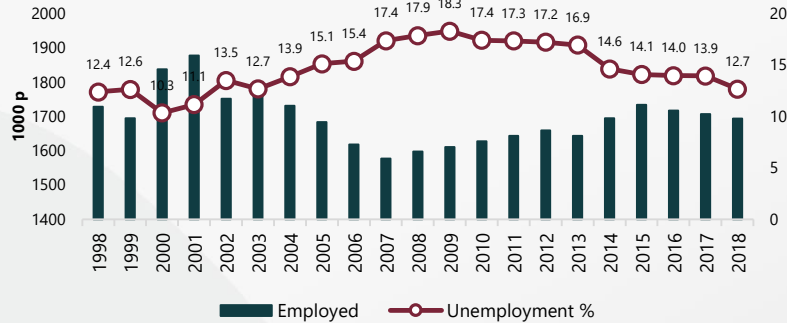


¹ preliminary data

Room for further job creation

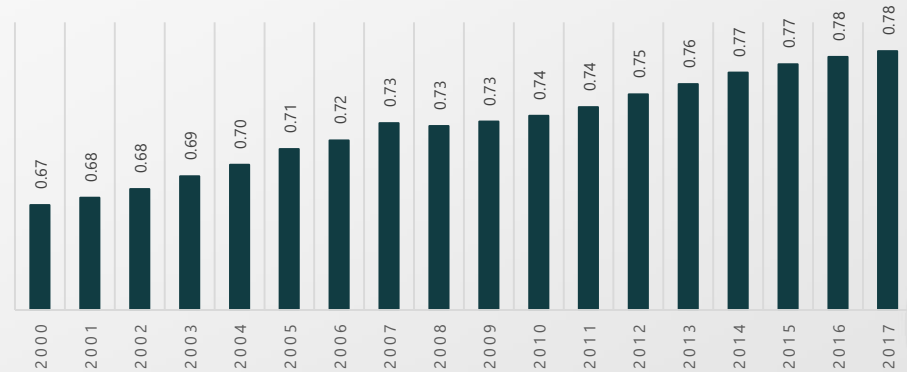
Unemployment rate down 1.3 ppts y-o-y to 12.7% in 2018

Sources: GeoStat



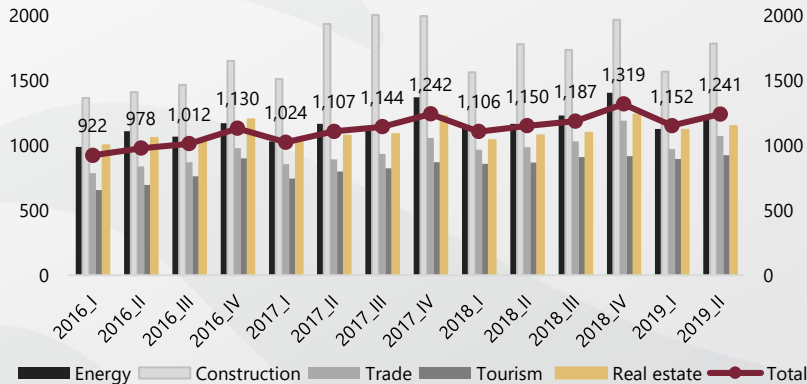
UNDP Human Development Index

Sources: UNDP



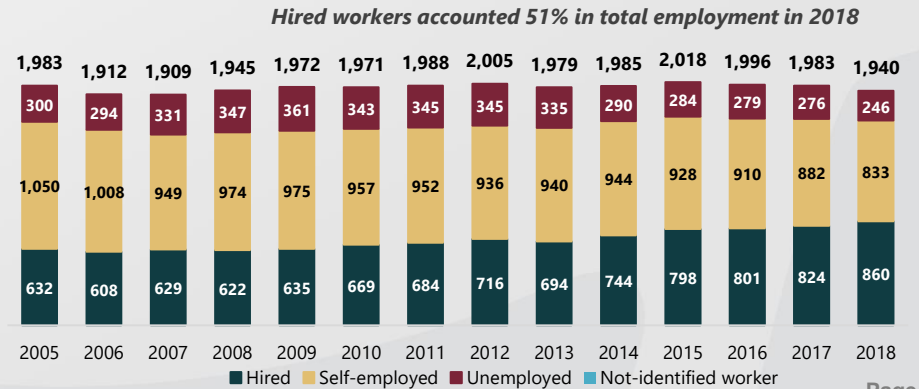
Average monthly nominal earnings in business sector

Sources: GeoStat



Labor force decomposition 2018

Sources: GeoStat

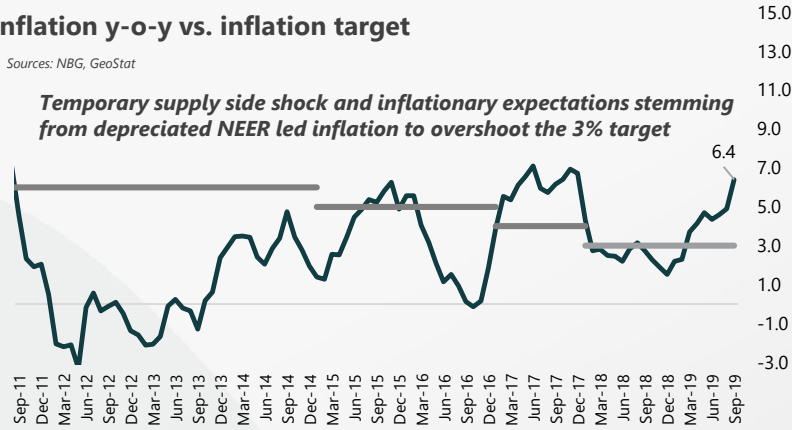


Inflation targeting since 2009

Inflation y-o-y vs. inflation target

Sources: NBG, GeoStat

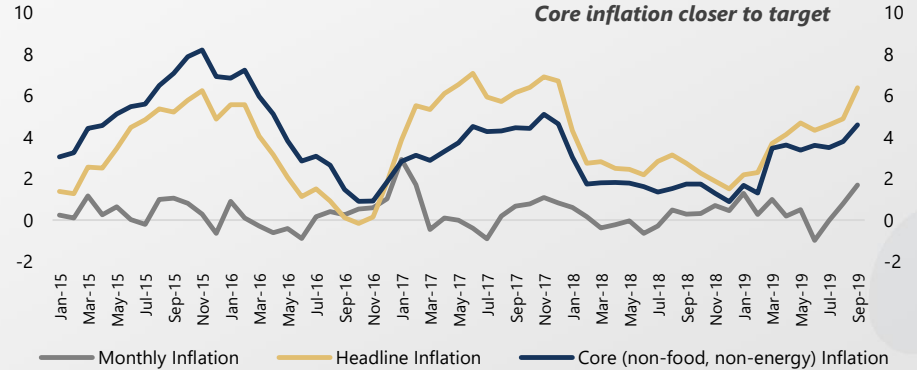
Temporary supply side shock and inflationary expectations stemming from depreciated NEER led inflation to overshoot the 3% target



Inflation y-o-y

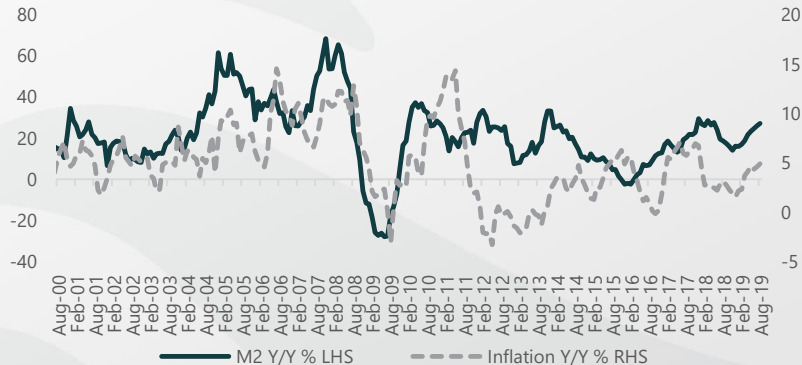
Sources: GeoStat

Core inflation closer to target



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

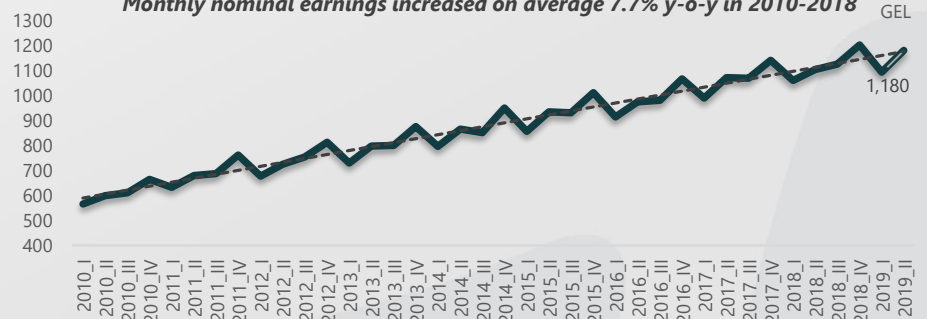
Sources: Geostat, NBG



Average monthly nominal earnings

Sources: Geostat

Monthly nominal earnings increased on average 7.7% y-o-y in 2010-2018

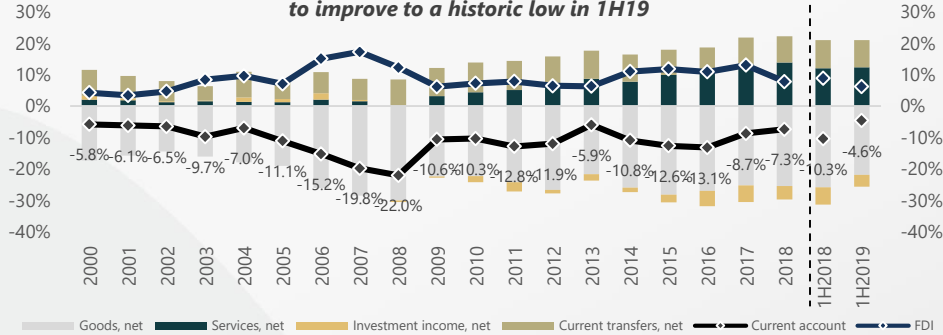


Current account deficit financed by FDI

Current account balance (% of nominal GDP)

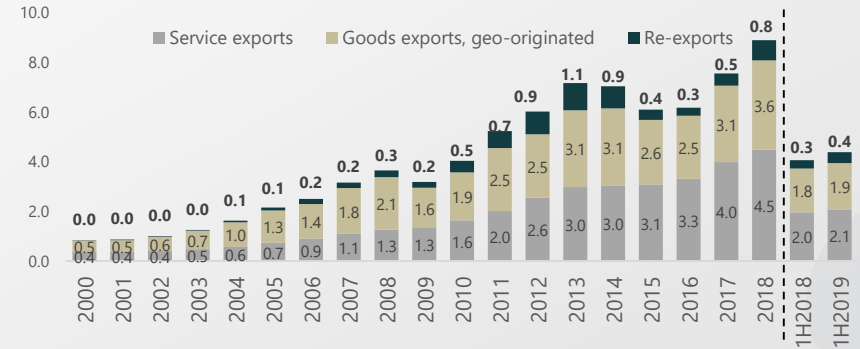
Sources: NBG

Double digit shrinking in the trade deficit helped CAB to improve to a historic low in 1H19



Exports and Re-exports, US\$ billion

Source: NBG



FDI and capital goods import

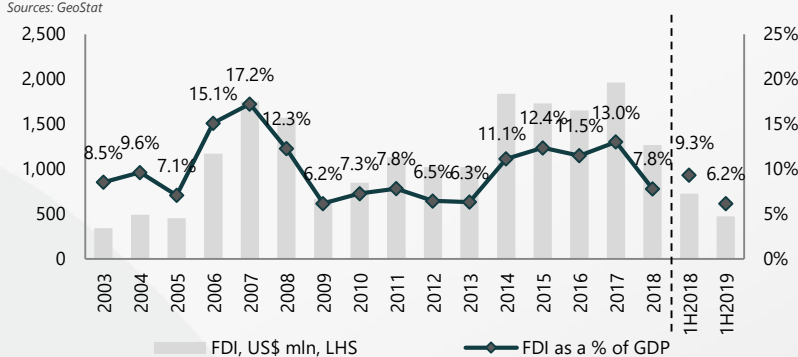
Source: GeoStat



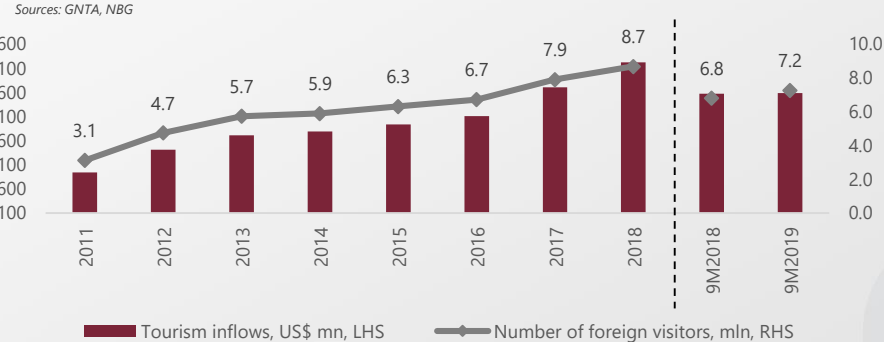
Diversified sources of capital



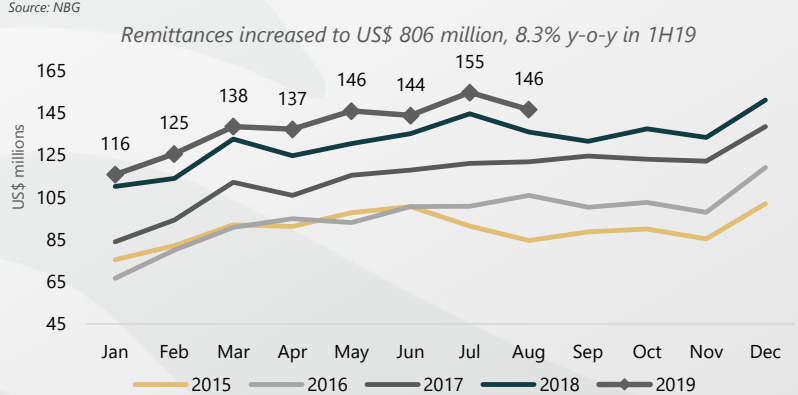
Strong foreign investor interest



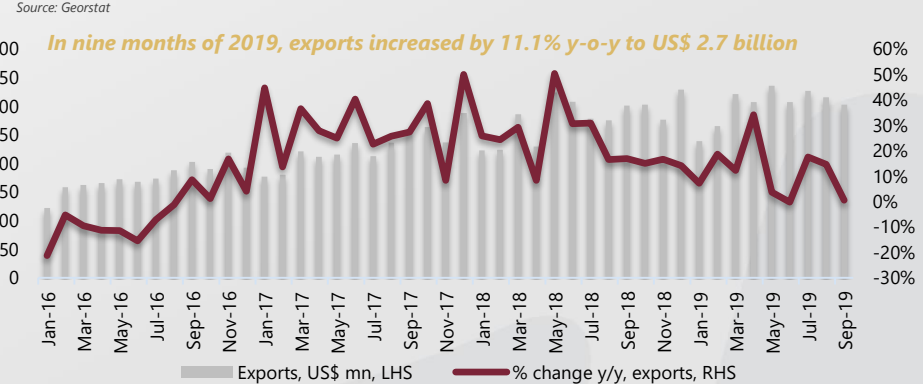
Visitors and tourism revenues



Remittances - steady source of external funding



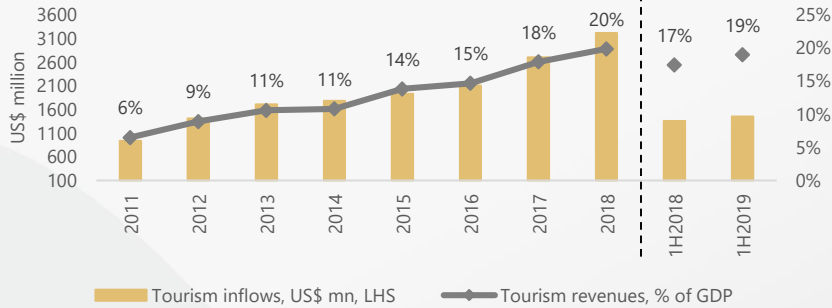
Export continues to support economic growth



Tourism sector on the rise

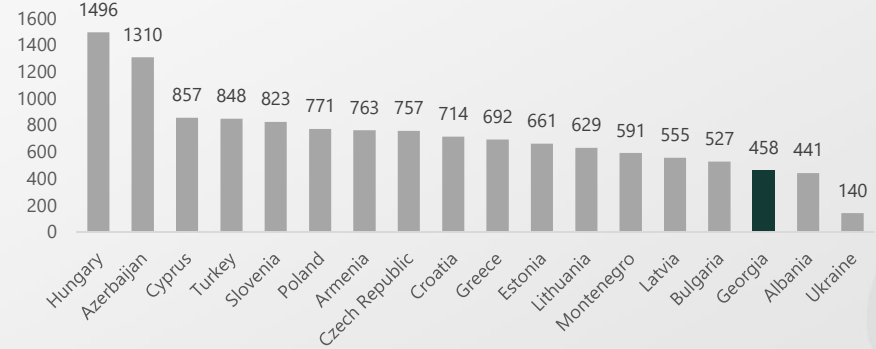
Tourism revenues to GDP

Sources: NBG, Geostat



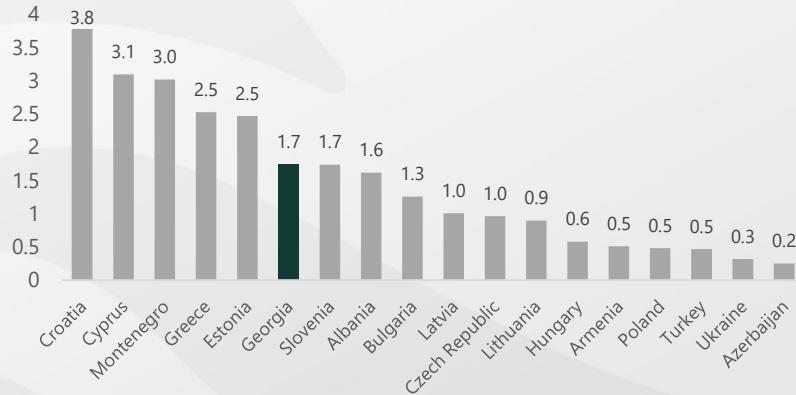
Spending per arrival, 2017

Source: WDI



Arrivals to country's population, 2017

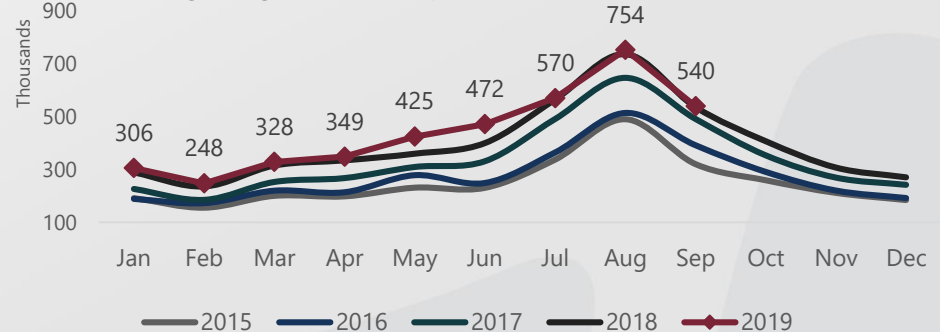
Source: WDI



Number of Tourists (overnight visitors)

Source: GNTA

In nine months of 2019, the number of overnight visitors increased by 5.8% y-o-y, including 1.4% growth in Q3 despite the Russian air travel ban

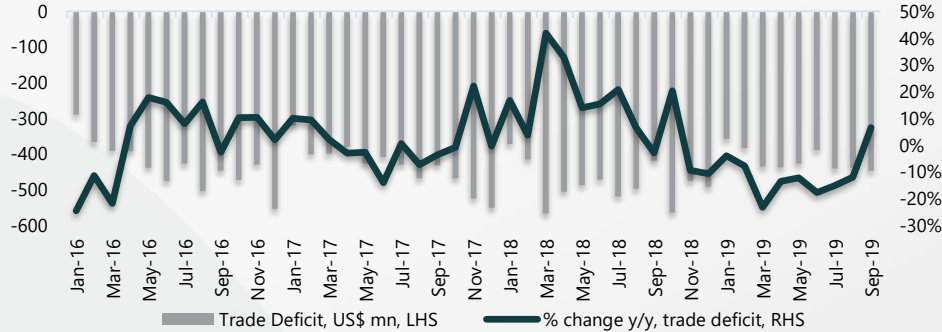


Diversified foreign trade

Goods' Trade Deficit

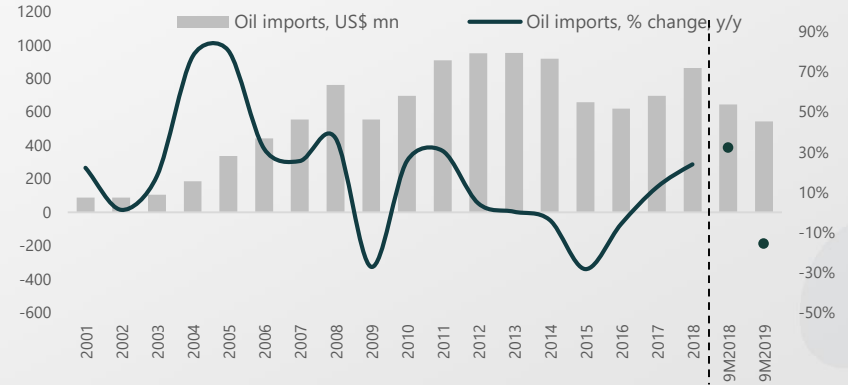
Source: GeoStat

Based on preliminary data in the first nine months of 2019, the trade deficit narrowed by 11.7 % y-o-y to US\$ 3.8 billion from US\$ 4.3 billion, further decreasing FX pressure.



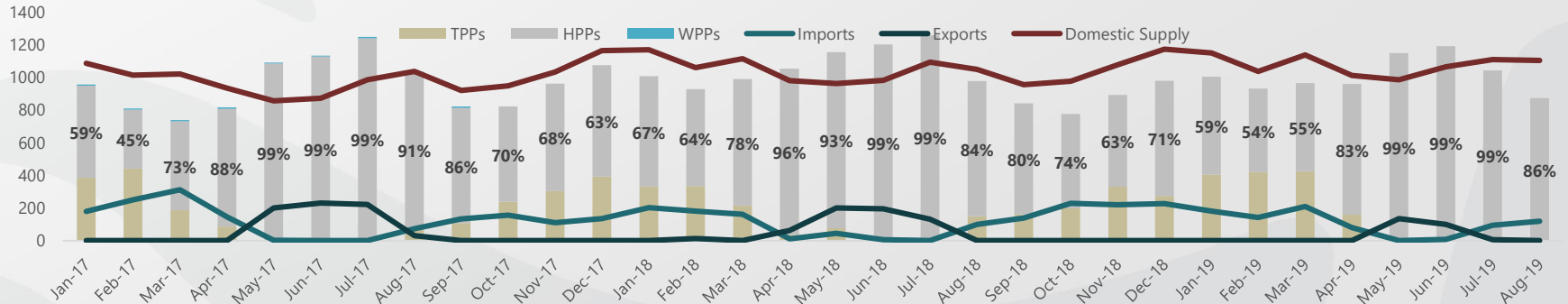
Oil imports

Source: GeoStat



Electricity generation and trade, GWH

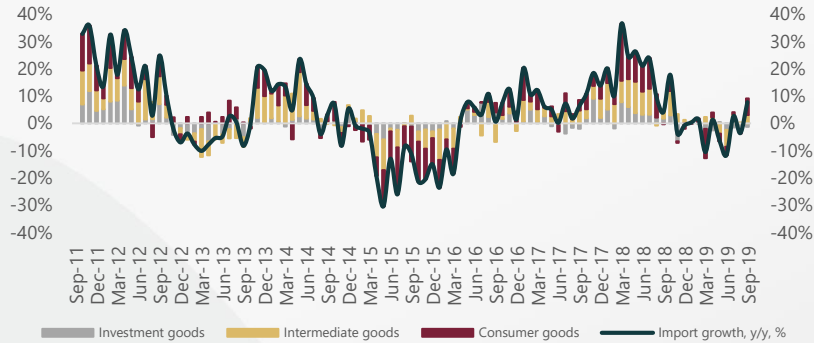
Source: ESCO



Diversified foreign trade

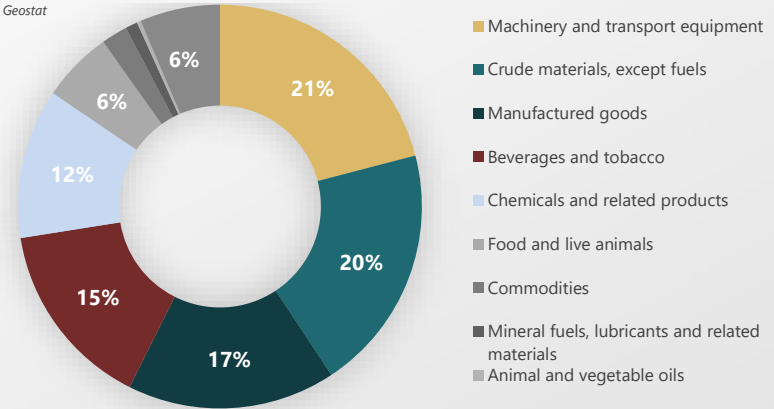
Imports of Goods, contribution to growth

Source: NBG



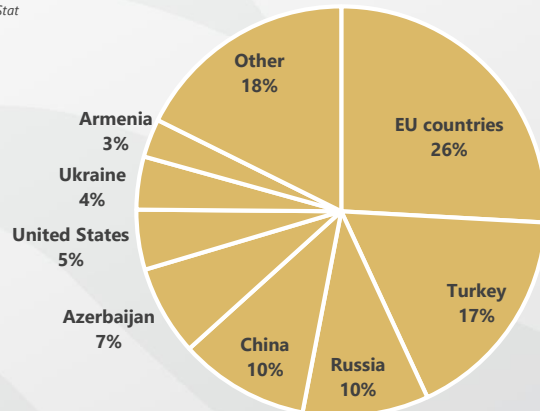
Foreign Demand, 1H19

Source: Geostat



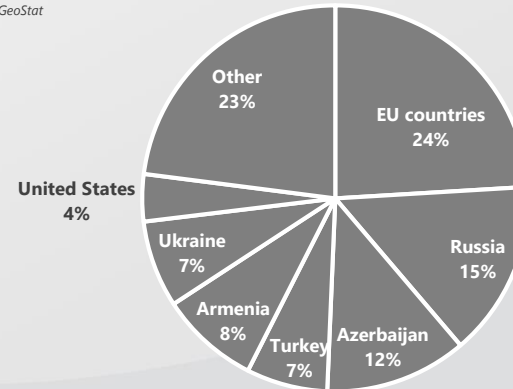
Importing countries, 1H19

Sources: GeoStat



Exporting countries, 1H19

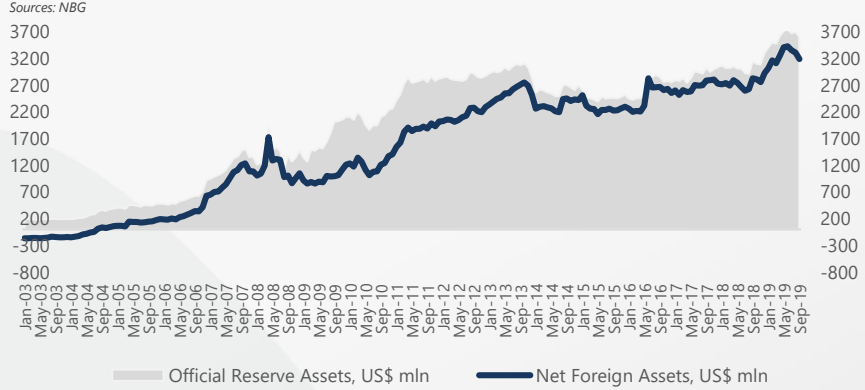
Sources: GeoStat



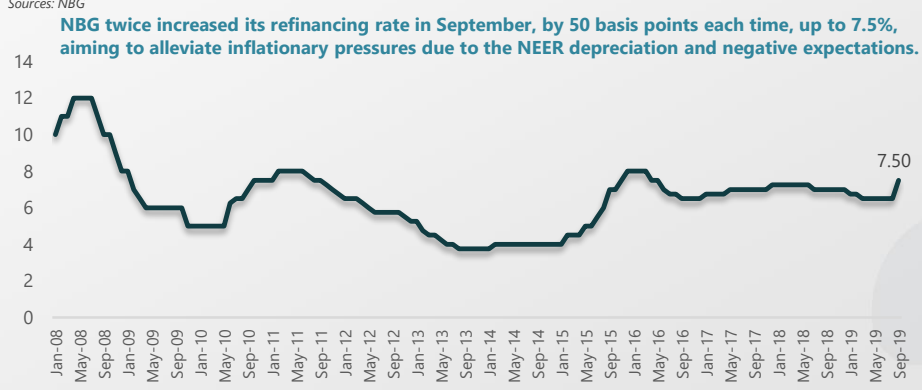
Prudent monetary policy ensures macro-financial stability



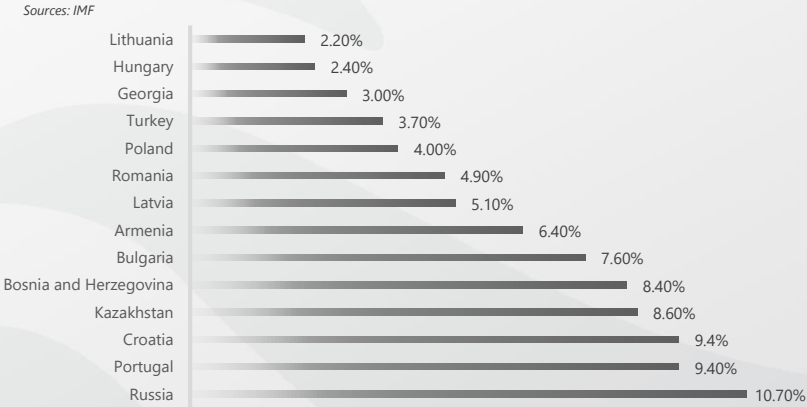
International reserves



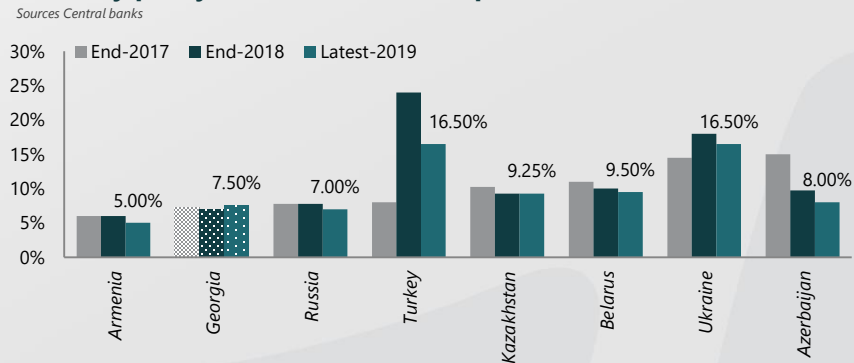
Monetary policy rate



Nonperforming loans to total gross loans, latest 2019



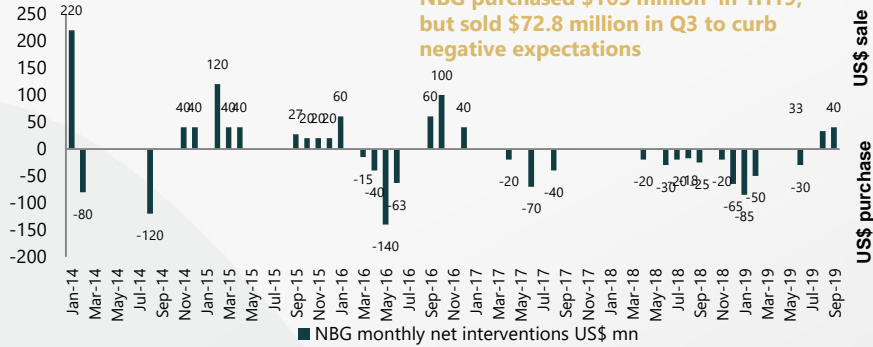
Monetary policy rate remains low vs. peers



Floating exchange rate - policy priority

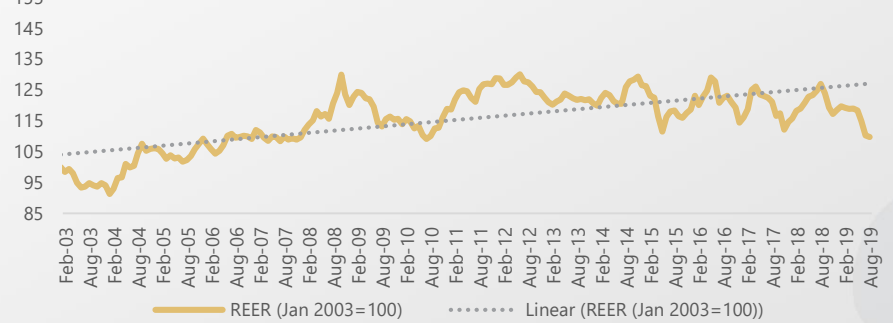
Central Bank's interventions

Sources: NBG



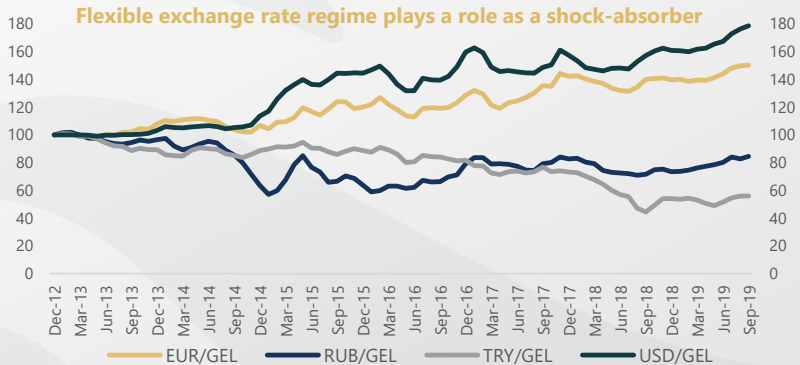
Real effective exchange rate (REER)

Sources: NBG



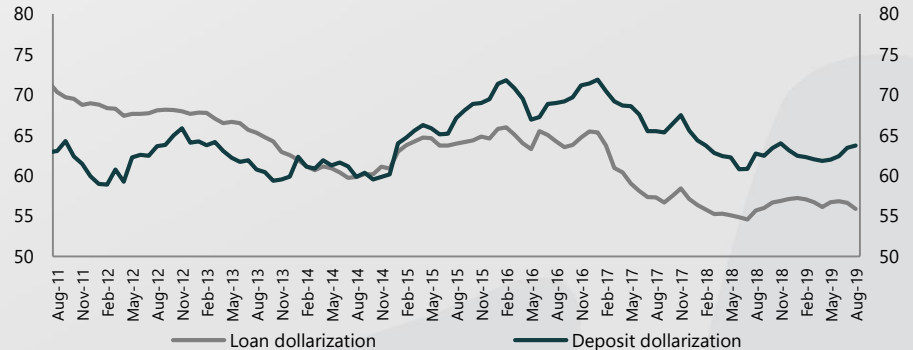
Bilateral exchange rate indices (Dec2012=100)

Sources: NBG



Dollarization ratios

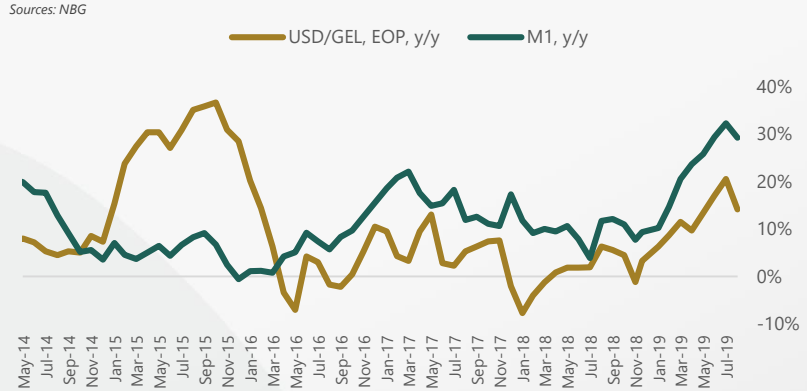
Source: NBG



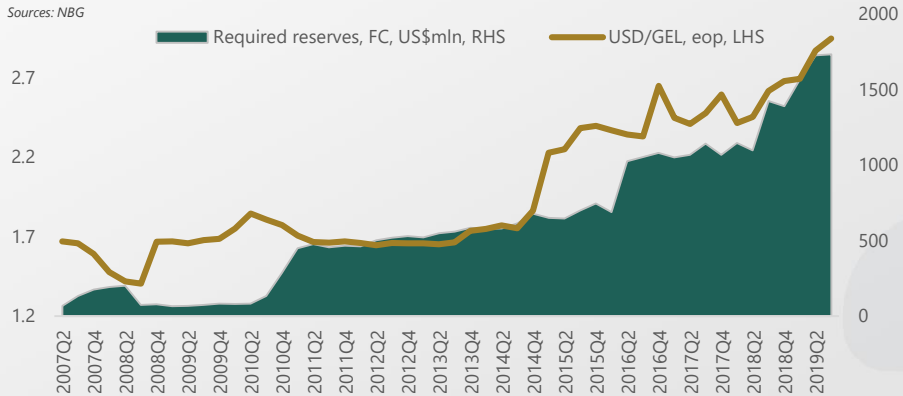
NBG regulations caused cost of GEL funds to decrease



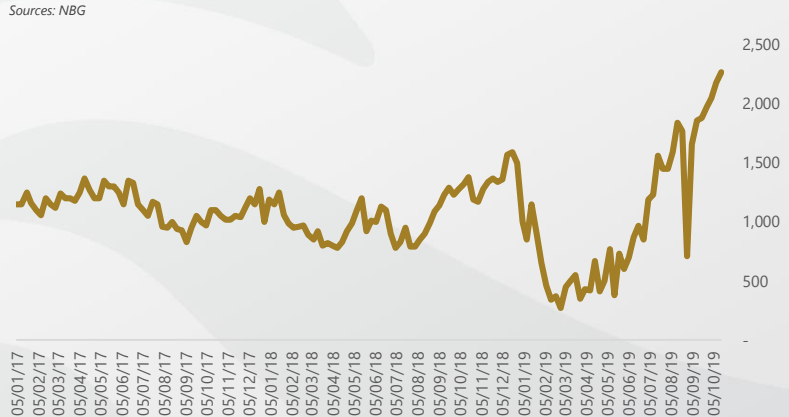
M1 money vs USD/GEL, y/y growth rates



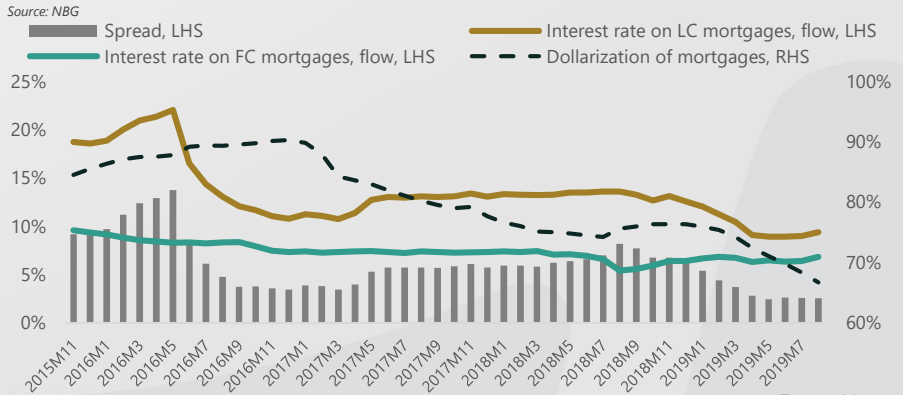
Required reserves



Refinancing loan, issued amount, GEL millions



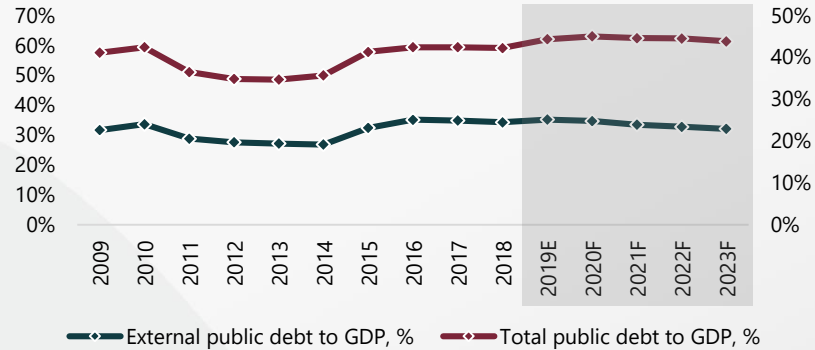
Interest rates on mortgage loans



Low public debt

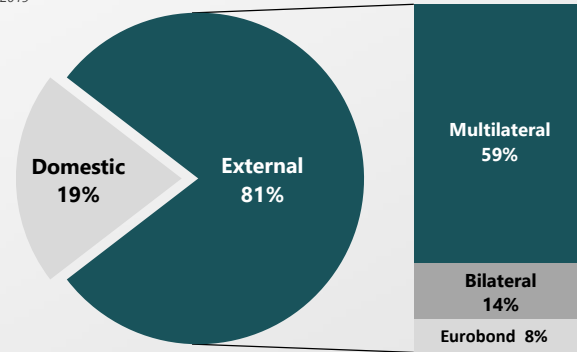
Public debt as % of GDP is capped at 60%

Sources: MOF



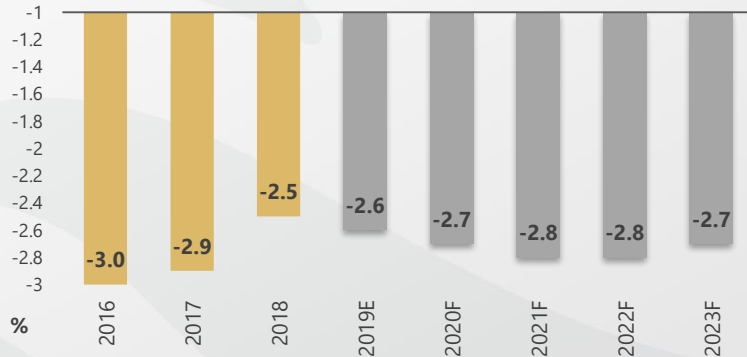
Breakdown of public debt

Source: MOF, as of August 2019



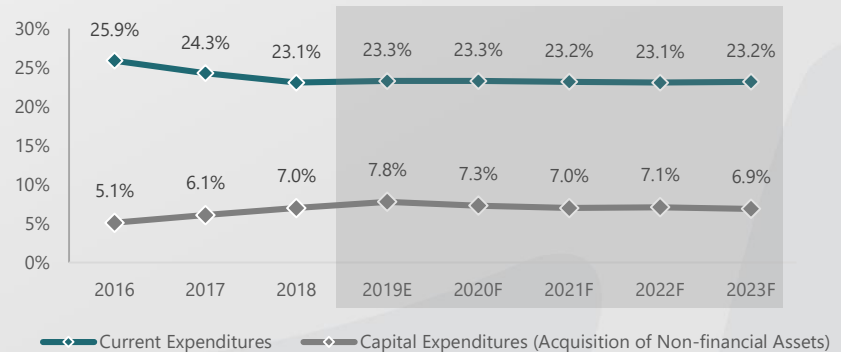
Modified Fiscal Deficit, % of GDP (IMF programme)

Source: MOF



Current vs Capital Expenditure, % of GDP

Source: MOF



Growth-oriented government reforms (2019-2020)

1 Structural Reforms

- **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
 - Development 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
- **Maximizing Government Effectiveness**
 - Modification of government support programs based on performance
 - Priority to utilize government assets in economic activity
 - Gradual government exit from strongly developed areas
- **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 100 million tons turnover annually
 - **Up to USD 2.5 billion** 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

