



Fast growing Georgian economy

Macroeconomic overview: 3Q18 trading update

Forward looking statements



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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 2018
S&P Global	BB-	Stable	May 2018
FitchRatings	BB-	Positive	August 2018

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-	Positive
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\$ 10,741
- Annual inflation (e-o-p) 2017: 6.7%
- External public debt to GDP 2017: 35.0%

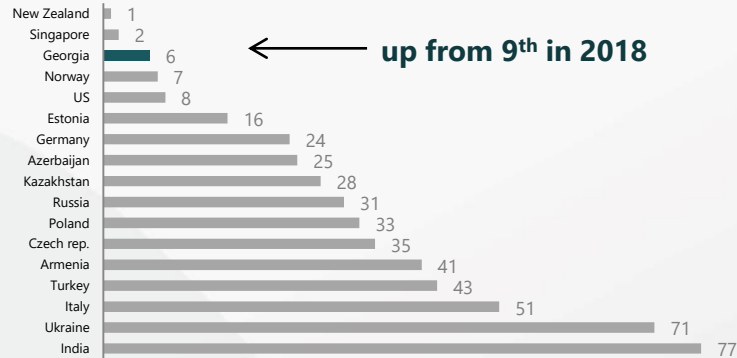
Georgia's key economic drivers



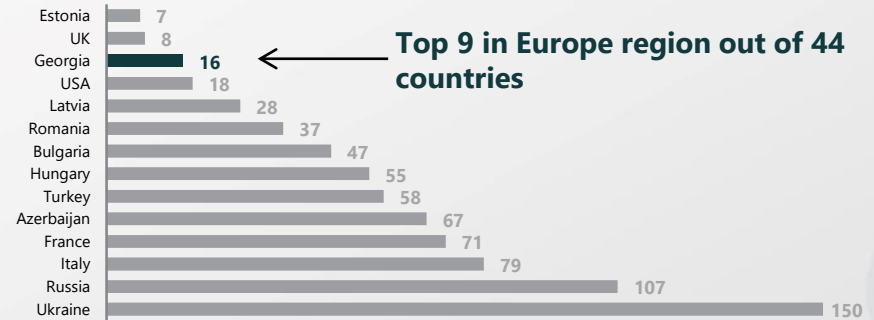
Liberal economic policy	<p>Top performer globally in WB Doing Business over the past 12 years</p> <ul style="list-style-type: none">Liberty Act (effective January 2014) ensures a credible fiscal and monetary framework:Public expenditure/GDP capped at 30%; Fiscal deficit/GDP capped at 3%; Public debt/GDP 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 2.8bn 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.Tourism revenues on the rise: tourism inflows stood at 18.1% of GDP in 2017 and arrivals reached 7.9 million visitors in 2017 (up 18% y-o-y), out of which tourist arrivals were up 23% y-o-y to 4.1 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\$ 1.9bln (12.5% of GDP) in 2017, up 21% y-o-yFDI averaged 10.0% of GDP in 2007-2017
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 2017Discussions commenced with the USA to drive inward investments and exportsStrong 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; 145 renewable (HPPs/WPPs/SPPs) energy power plants are in various stages of construction or developmentGeorgia imports natural gas mainly from AzerbaijanSignificantly 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 upgradedAdditional 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 EUNew constitution amendments passed in 2013 to enhance governing responsibility of Parliament and reduce the powers of the PresidencyContinued economic relationship with Russia, although economic dependence is relatively lowRussia 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, 2015Direct flights between the two countries resumed in January 2010Member of WTO since 2000, allowed Russia's access to WTO; In 2013 trade restored with RussiaIn 2017, Russia accounted for 14.5% of Georgia's exports and 10.0% of imports; just 3.5% of cumulative FDI over 2003-2017

Institutional oriented reforms

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

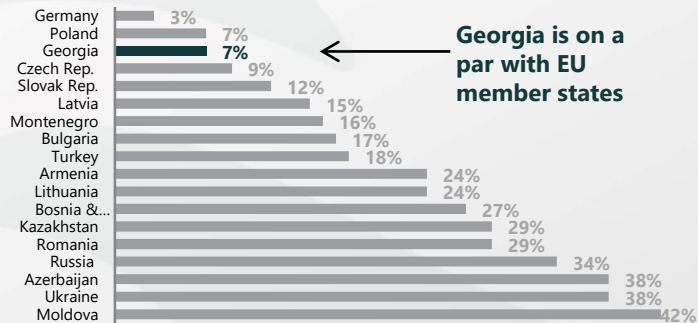


Economic Freedom Index | 2018 (Heritage Foundation)

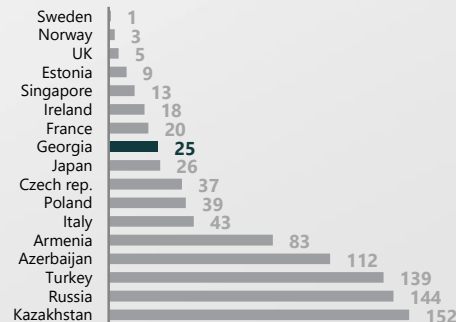


Global Corruption Barometer | TI 2017

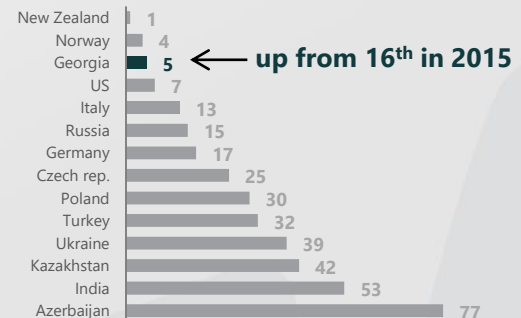
% admitting having paid a bribe last year



Business Bribery Risk, 2017 | Trace International



Open Budget Index, 2017 | International Budget Partnership

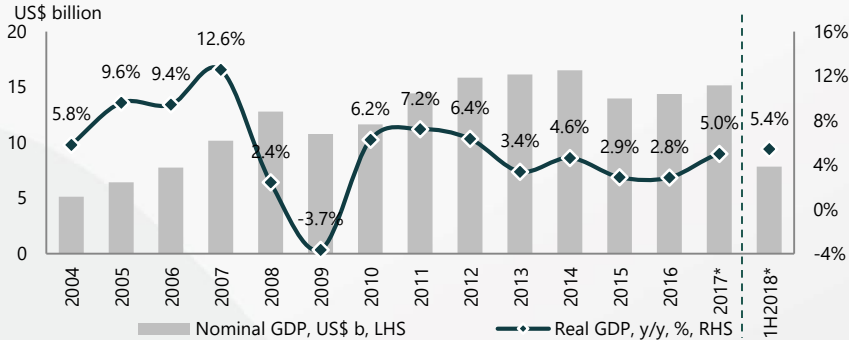


Sources: Transparency International, Heritage Foundation, World Bank, Trace International

Diversified resilient economy

Gross domestic product

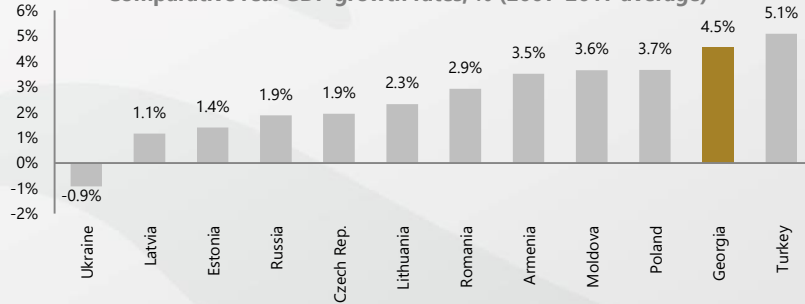
Source: Geostat



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

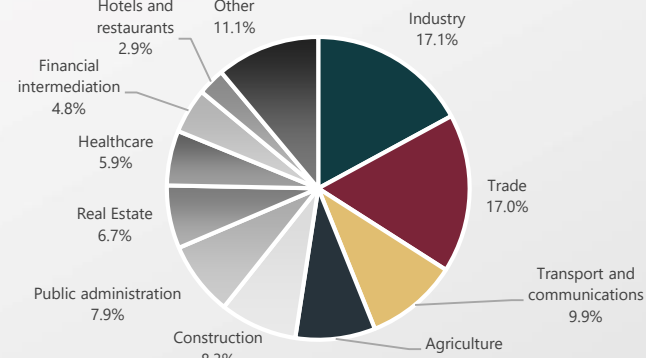
Sources: IMF

Comparative real GDP growth rates, % (2007-2017 average)



Diversified nominal GDP structure, 2018 Q2

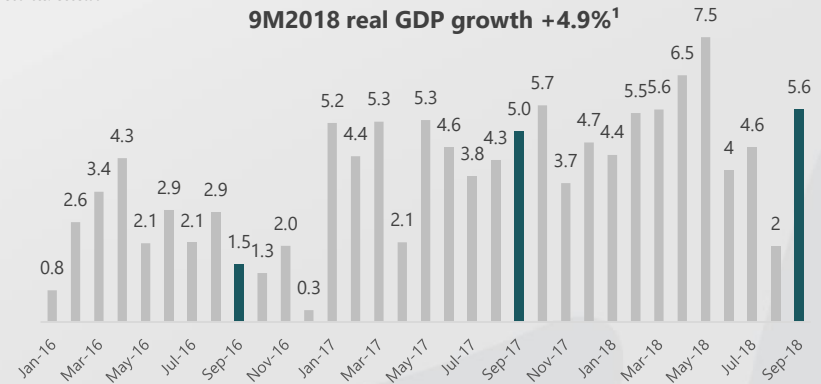
Source: Geostat



Monthly Economic Activity Estimate, y/y growth

Sources: GeoStat

9M2018 real GDP growth +4.9%¹

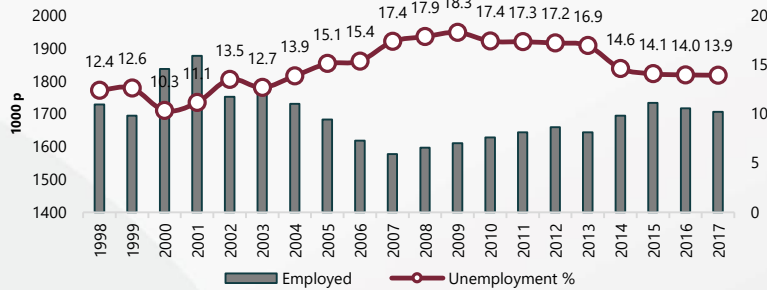


¹ preliminary data

Room for further job creation

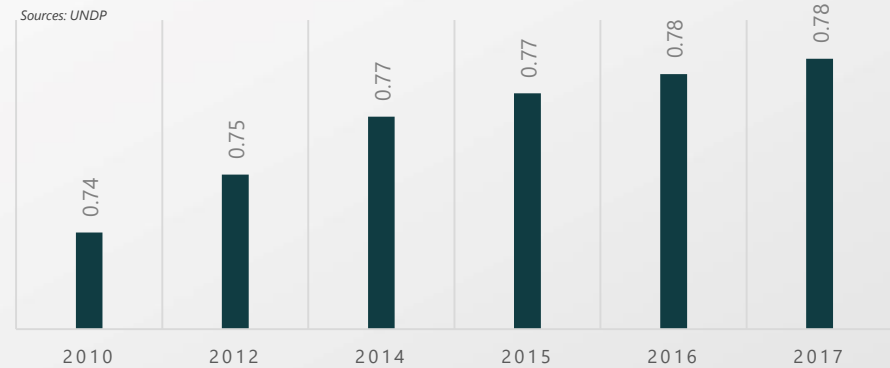
Unemployment rate down 0.1ppts y/y to 13.9% in 2017

Sources: GeoStat



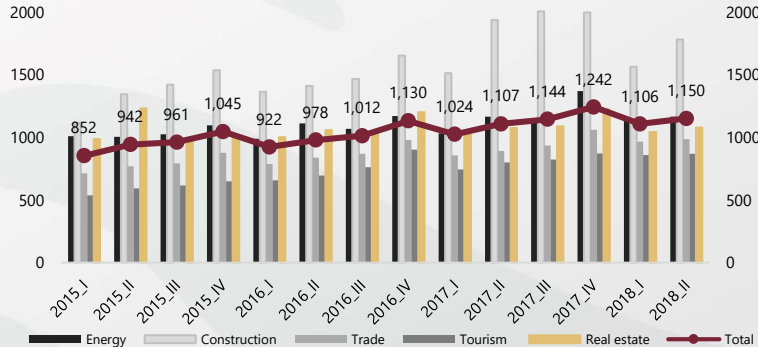
UNDP Human Development Index

Sources: UNDP



Average monthly nominal earnings in business sector

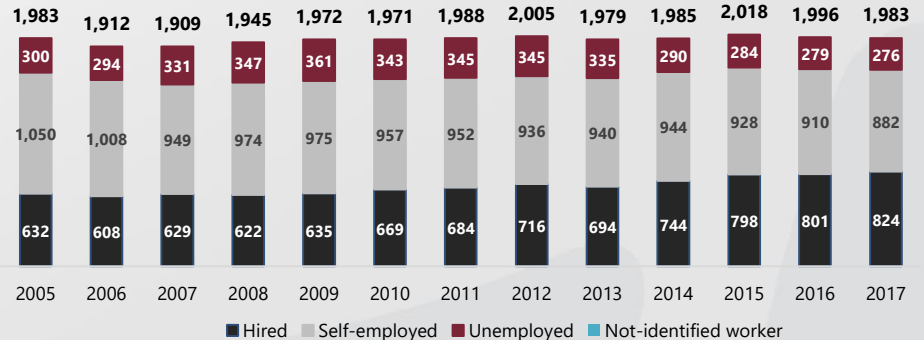
Sources: GeoStat



Labor force decomposition 2017

Sources: GeoStat

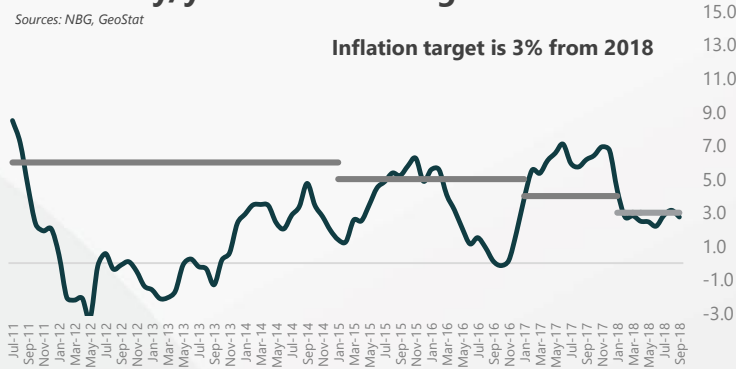
Hired workers accounted 48% in total employment in 2017



Inflation targeting since 2009

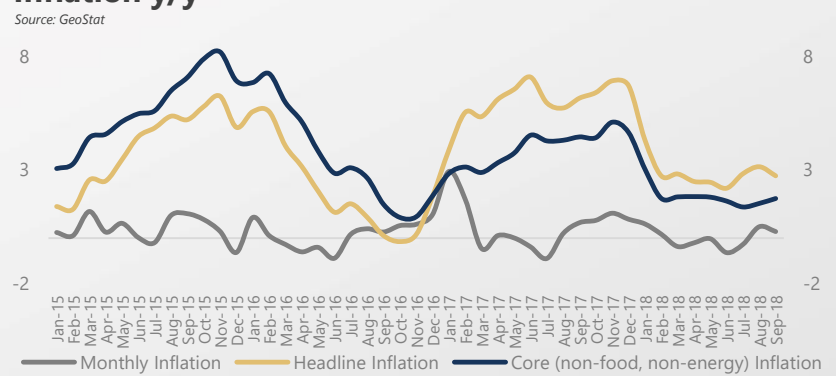
Inflation y/y vs. inflation target

Sources: NBG, GeoStat



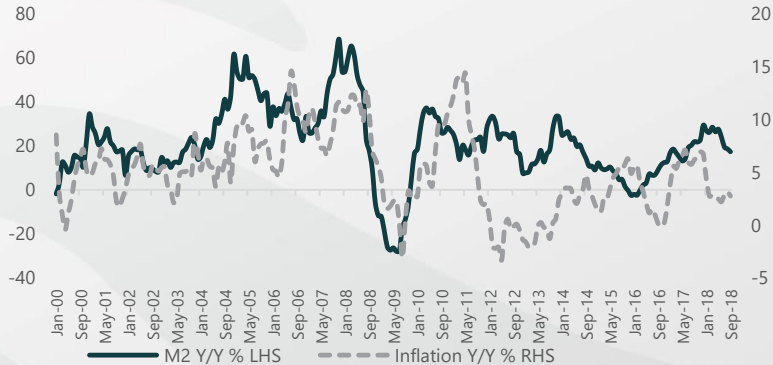
Inflation y/y

Source: GeoStat



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

Sources: Geostat, NBG



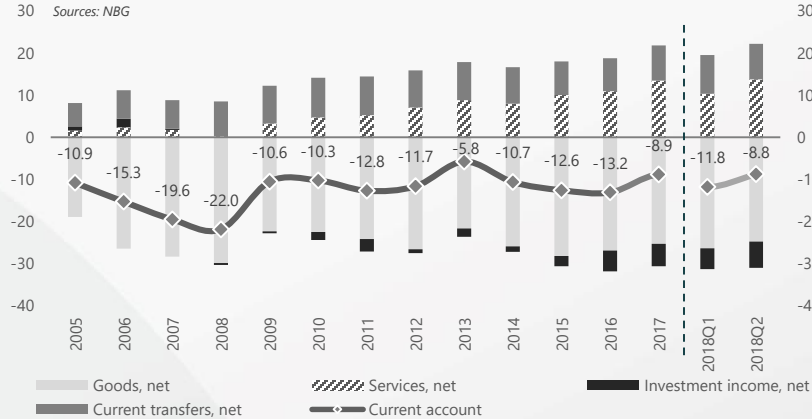
Average monthly nominal earnings

Source: Geostat



Current account deficit supported by FDI

Current account balance (% of nominal GDP)



Exports and Re-exports, US\$ bln



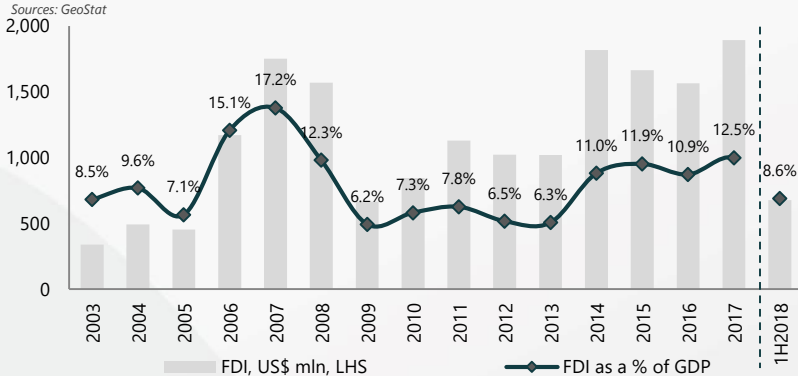
FDI and capital goods import

Source: GeoStat

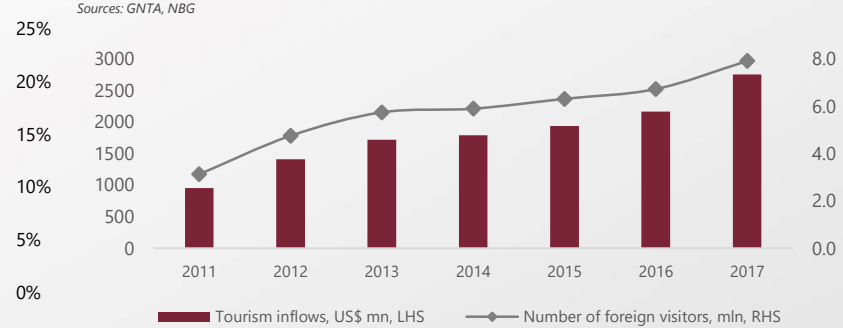


Diversified sources of capital

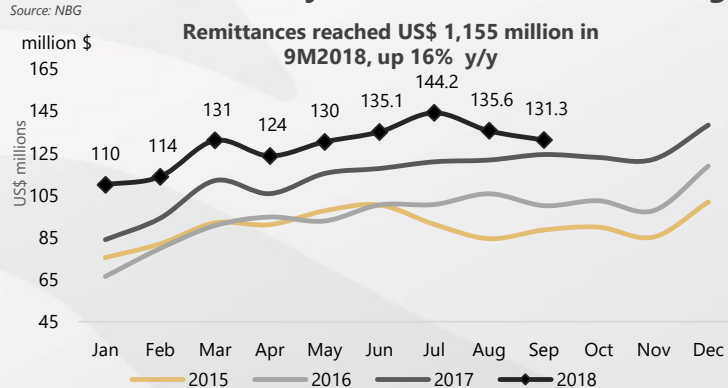
Strong foreign investor interest



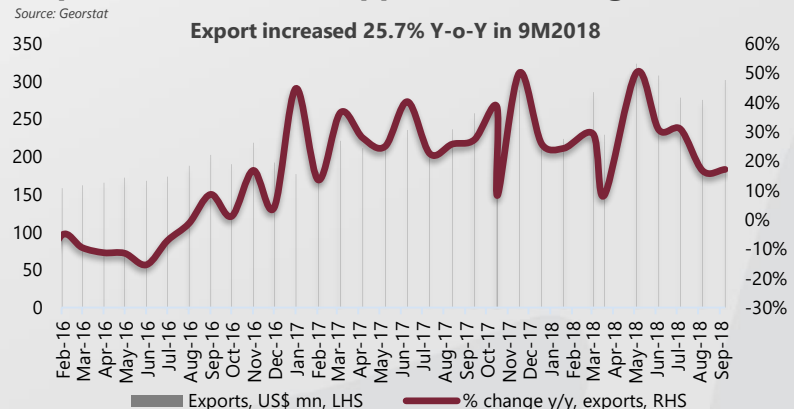
Visitors and tourism revenues on the rise



Remittances - steady source of external funding



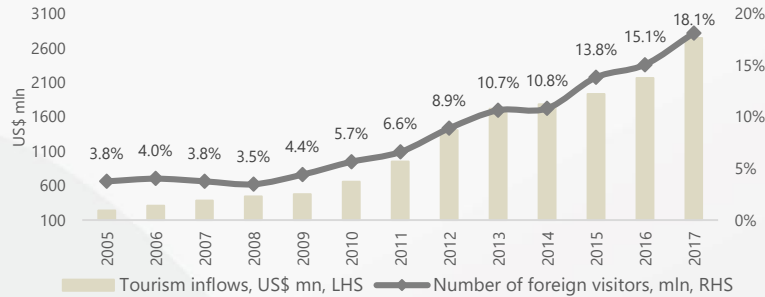
Export continues to support economic growth



Tourism sector on the rise

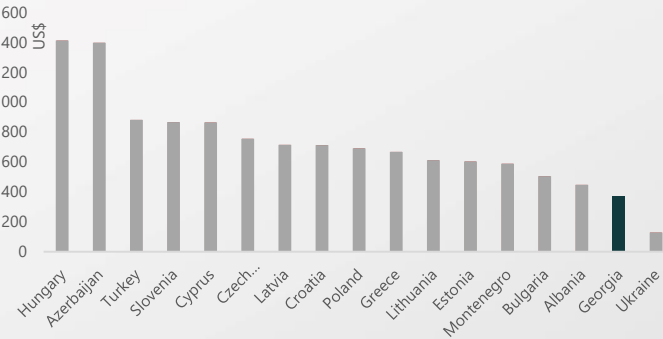
Tourism revenues to GDP

Sources: NBG



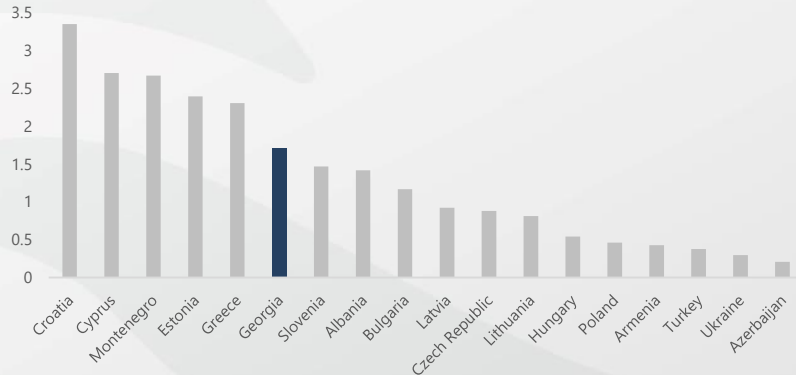
Spending per arrival, 2016

Source: WDI



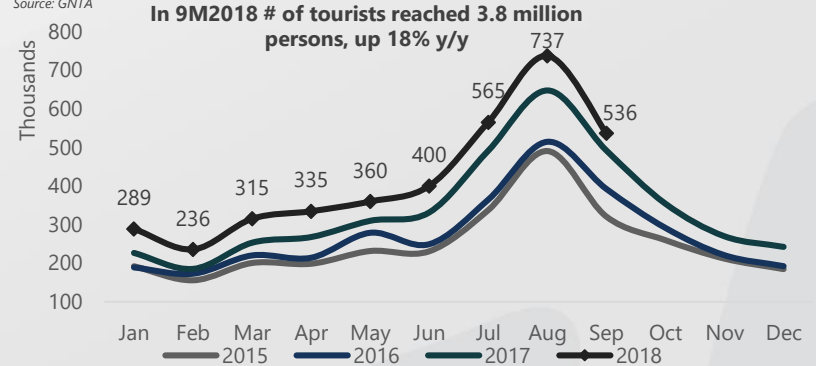
Arrivals to country's population, 2016

Source: WDI



Number of Tourists (overnight visitors)

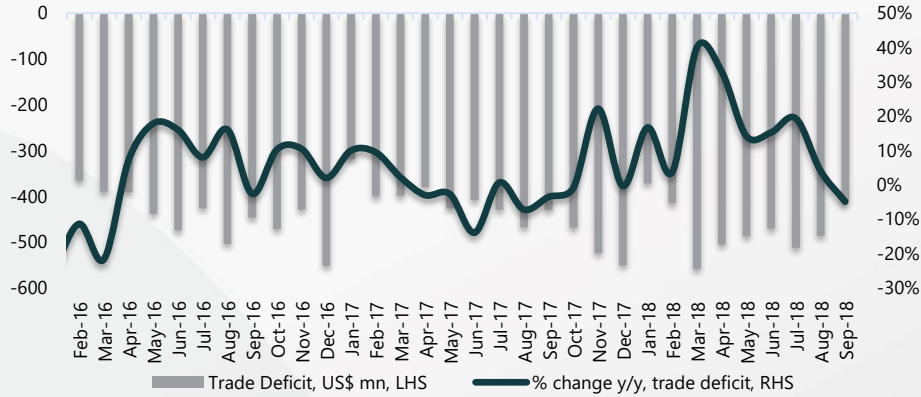
Source: GNTA



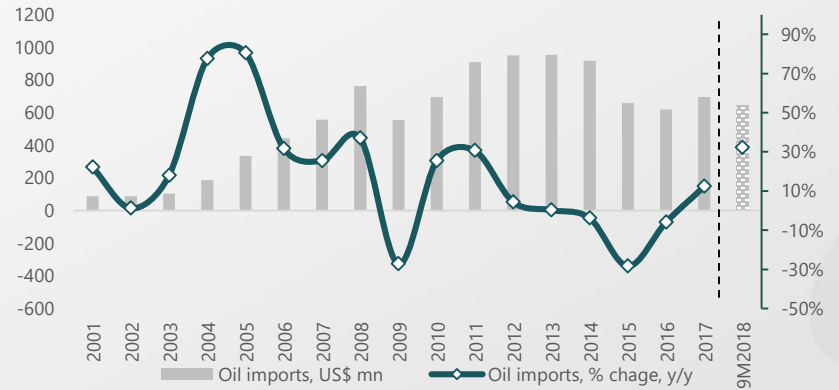
Diversified foreign trade

Goods' Trade Deficit

Source: GeoStat

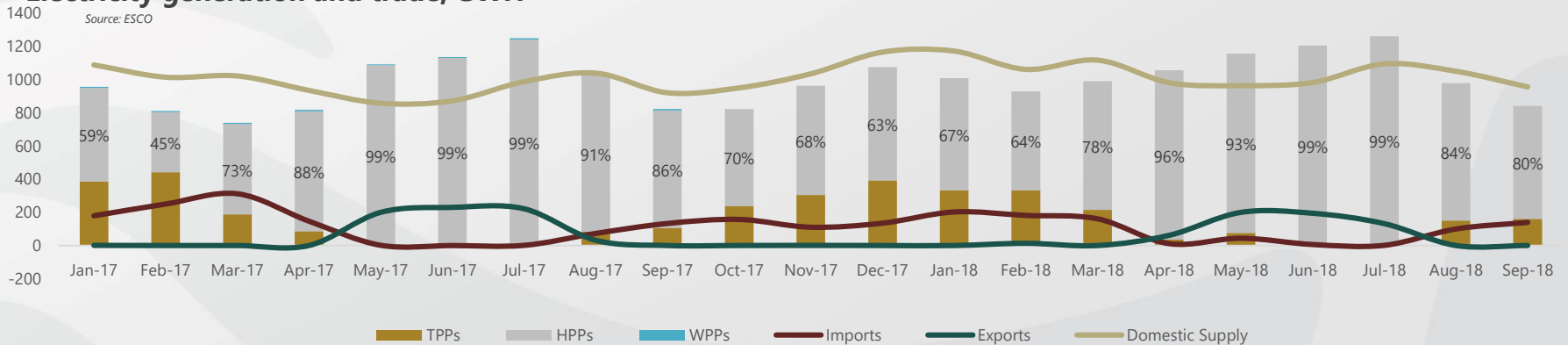


Oil imports



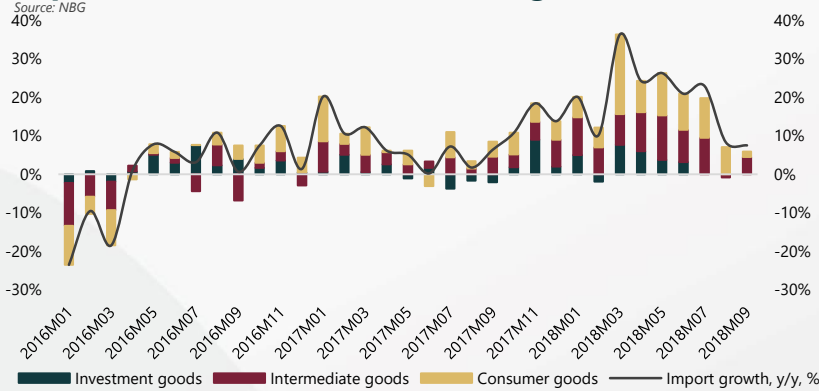
Electricity generation and trade, GWH

Source: ESCO



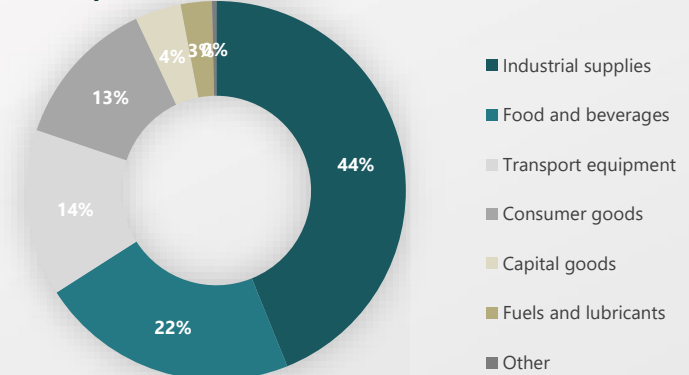
Diversified foreign trade

Imports of Goods, contribution to growth



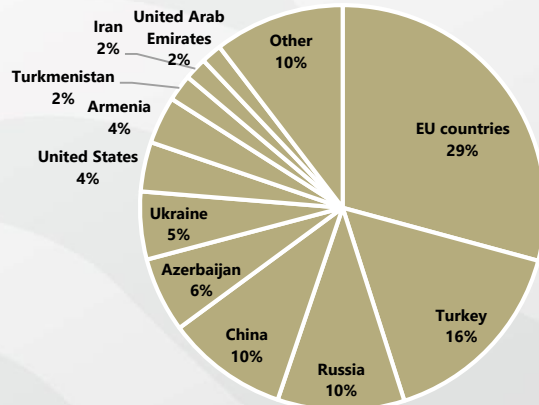
Foreign Demand, 9M2018

Source: Geostat



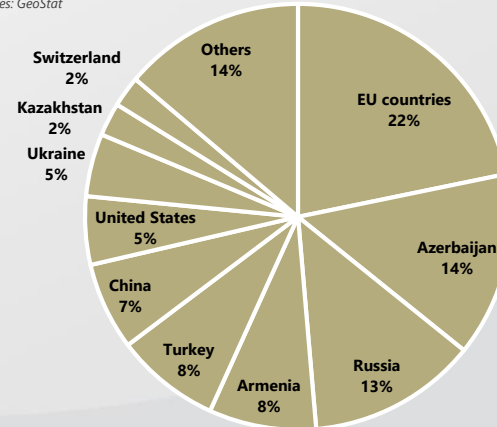
Importing countries, 9M2018

Sources: GeoStat



Exporting countries, 9M2018

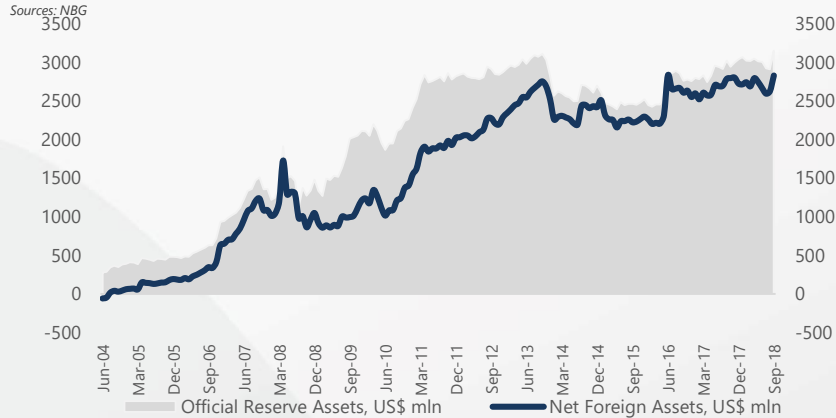
Sources: GeoStat



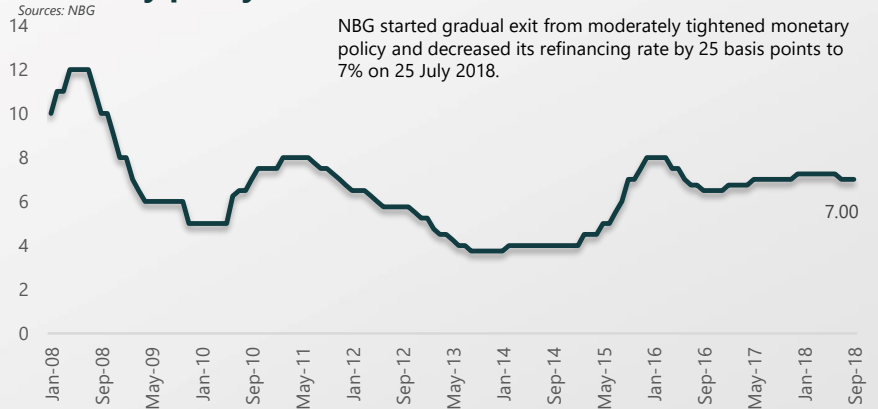
Prudent monetary policy ensures macro-financial stability



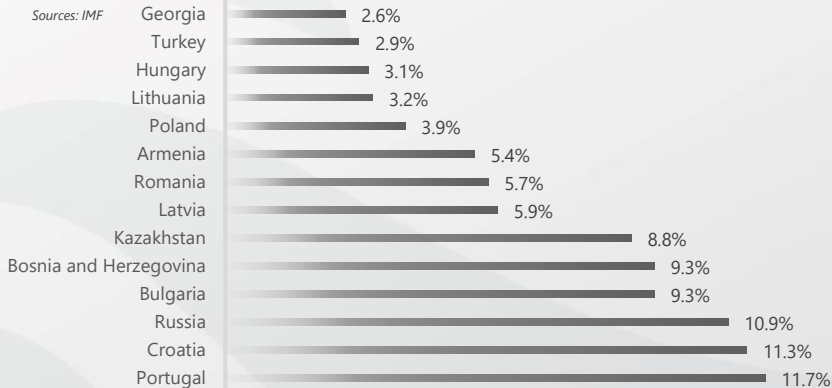
International reserves



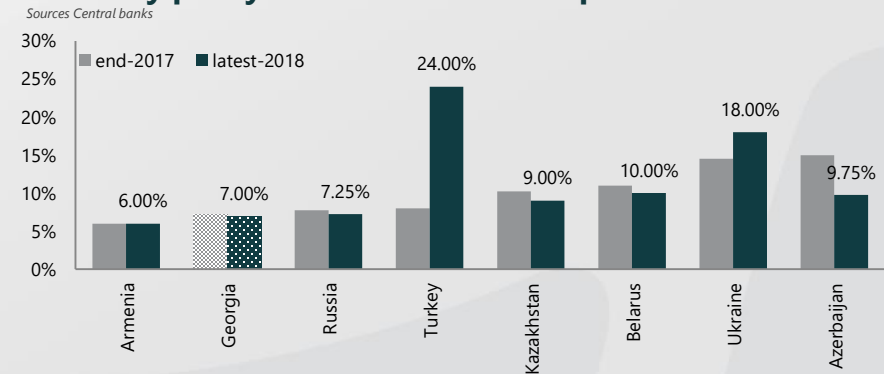
Monetary policy rate



Nonperforming loans to total gross loans, latest 2018

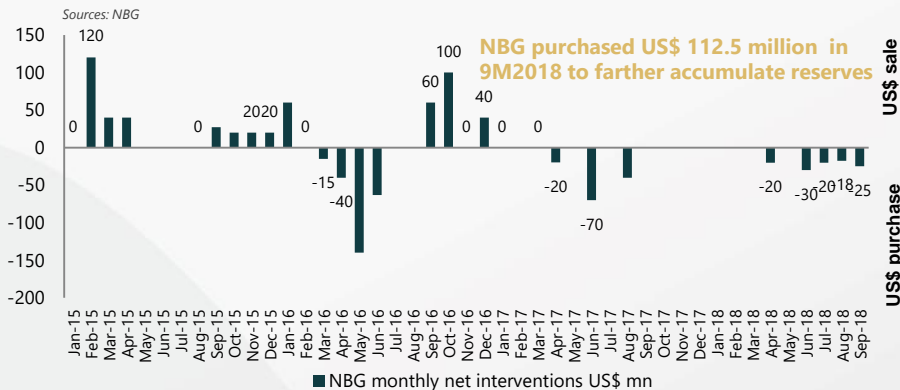


Monetary policy rate remains low vs. peers

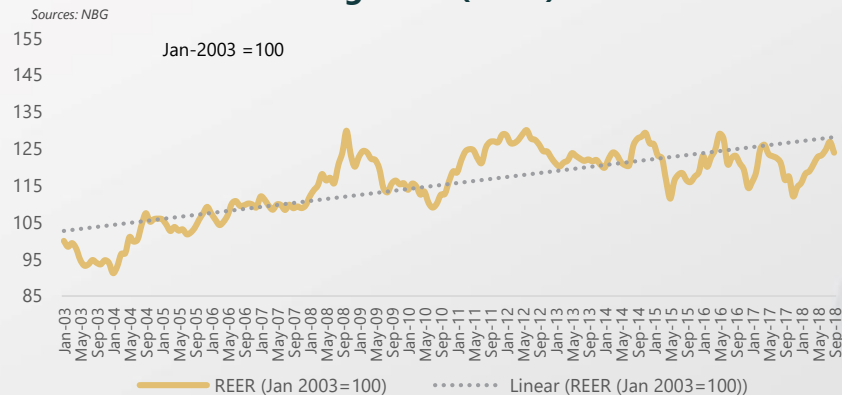


Floating exchange rate - policy priority

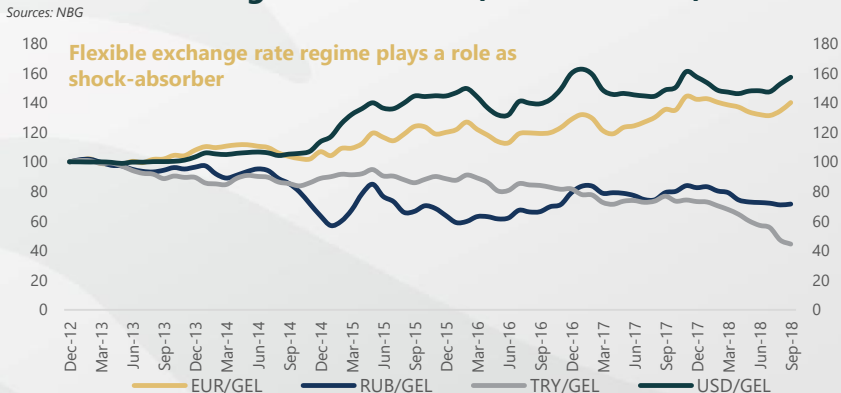
Central Bank's interventions



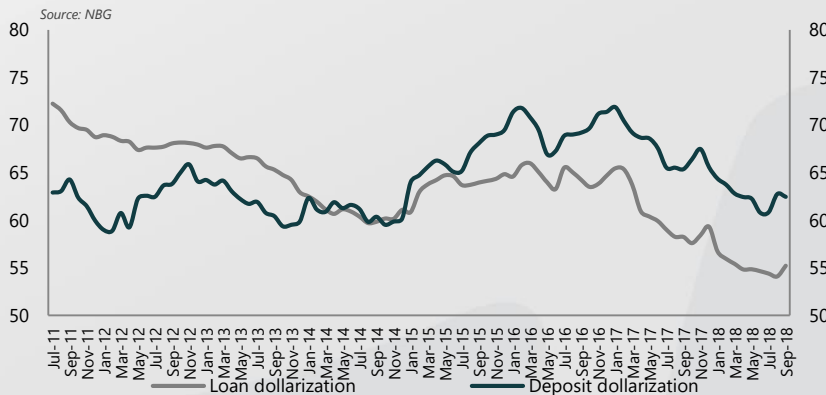
Real effective exchange rate (REER)



Bilateral exchange rate indices (Dec2012=100)



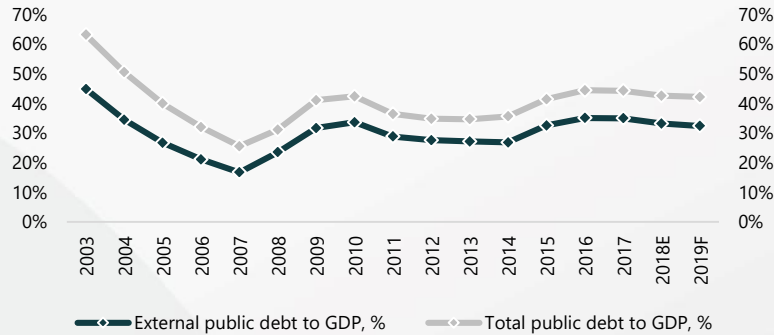
Dollarization ratios



Low public debt

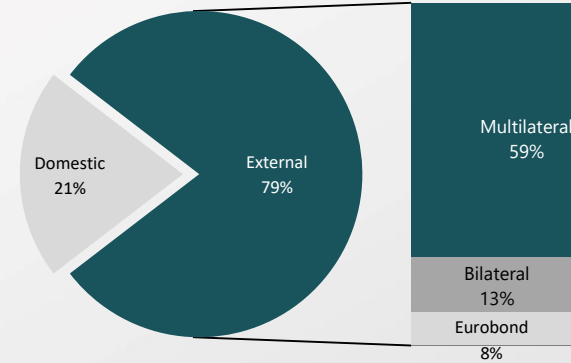
Public debt as % of GDP is capped at 60%

Sources: MOF



Breakdown of public debt

Source: MOF, as of 31 December 2017



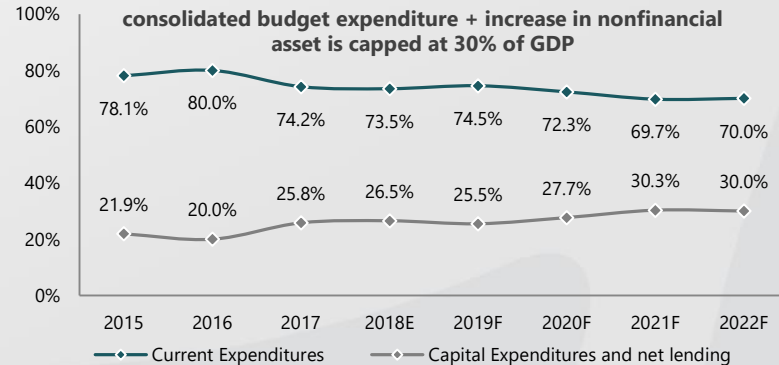
Fiscal deficit

Source: MOF
Note: Modified deficit (IMF programme)



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 100 million 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

