



GEORGIA  
CAPITAL

# GEORGIAN MACROECONOMIC OVERVIEW

3Q20 and 9M20 results

19 November 2020





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**01** RESPONSE TO COVID-19 OUTBREAK

**02** GEORGIAN MACRO OVERVIEW

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# COVID-19 STATISTICS



## GEORGIA'S STATISTICS AS OF 17-NOV-20:

**89,395**

TOTAL CASES

**17,112**

ACTIVE CASES

**2,370**

QUARANTINED

**5,763**

HOSPITALIZED

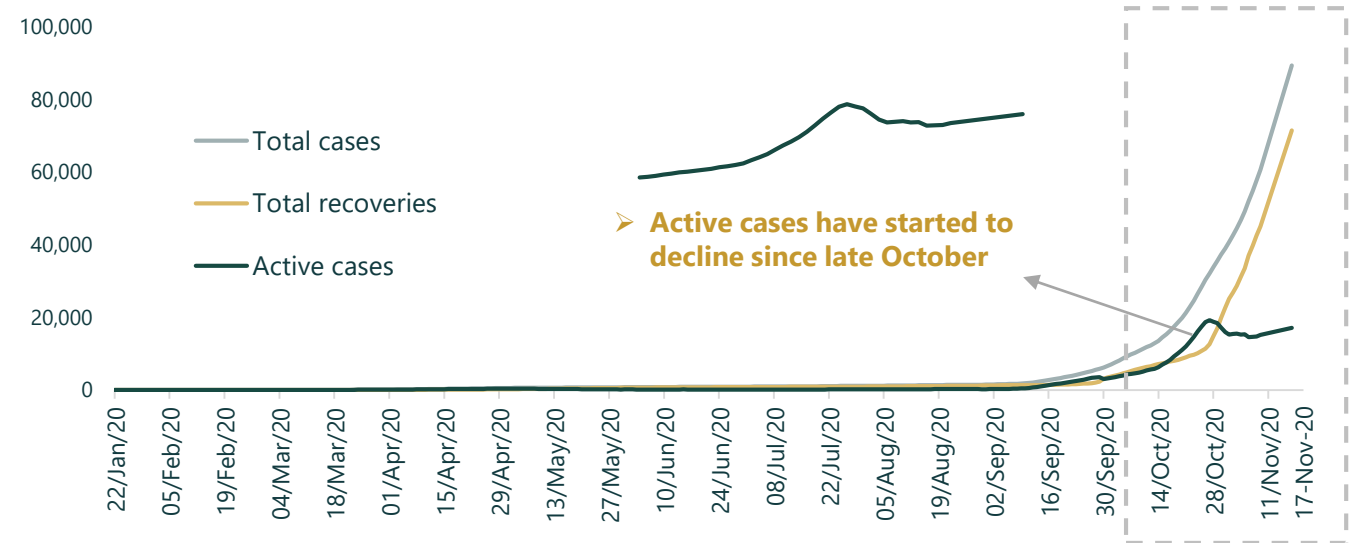
## GEORGIA'S POSITION GLOBALLY

#64 by number of total cases

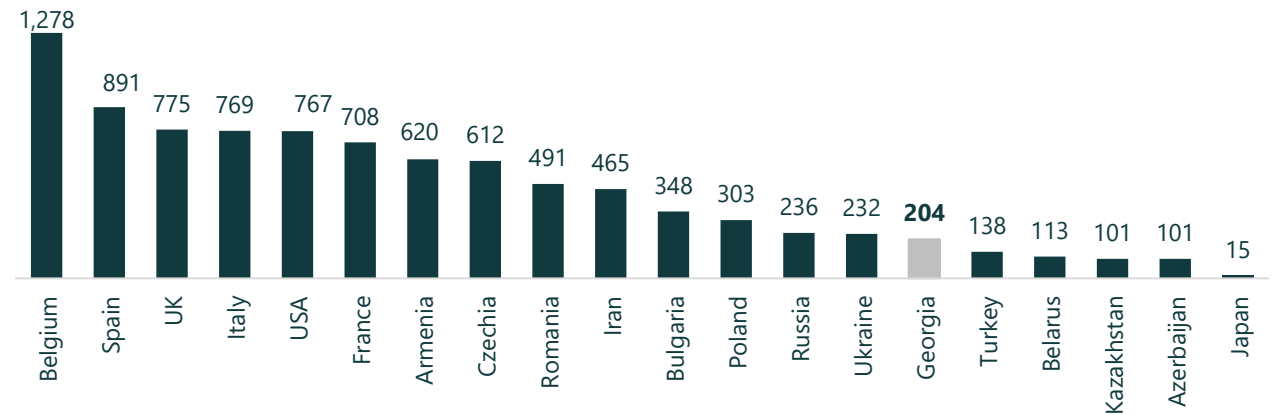
#64 by deaths per 1M population

#38 by number of total cases per 1M population

## COVID-19 CASES: DYNAMICS IN GEORGIA



## COVID-19 DEATHS PER 1M POPULATION



# GOVERNMENT MEASURES

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

## US\$ 3 billion funding facility

- US\$ 3 billion (predominantly loans) from international donors (incl. US\$ 450m from IMF):
  - US\$1.5 billion intended for the private sector
  - US\$1.5 billion for the public sector

## Monetary policy

- Easing non-price credit conditions (LTV, PTI, etc.);
- Intervening in the FX market (US\$ 710 million sold in March-November);
- Monetary policy rate reduced to 8.0% and gradual exit from strict monetary policy announced;
- Introducing US\$ 400 million currency swap facility for the financial sector to provide GEL liquidity;
- Reduced capital conservation buffer (2.5% of Risk Weighted Assets) and 2/3 of currency induced credit risk buffer total of GEL 1.6 billion;
- Temporary liquidity instrument to support credit to SMEs;
- Moratorium announced on new regulatory activity;

## Economic Plan

Total budget – GEL 3.5 billion

- **Social aid**  **GEL 1.03 billion**
- **Economic support and business aid**  **GEL 2.1 billion**
- **Anti-pandemic measures**  **GEL 0.35 billion**

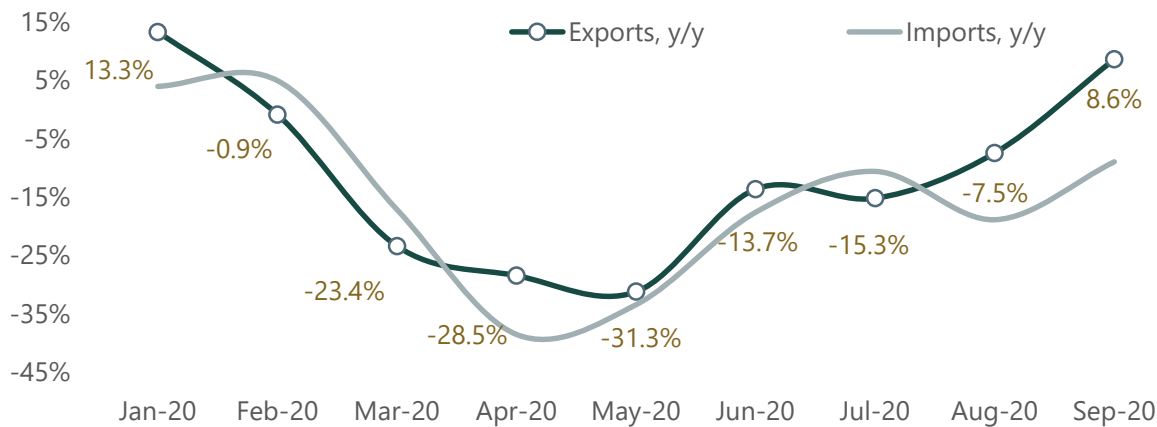
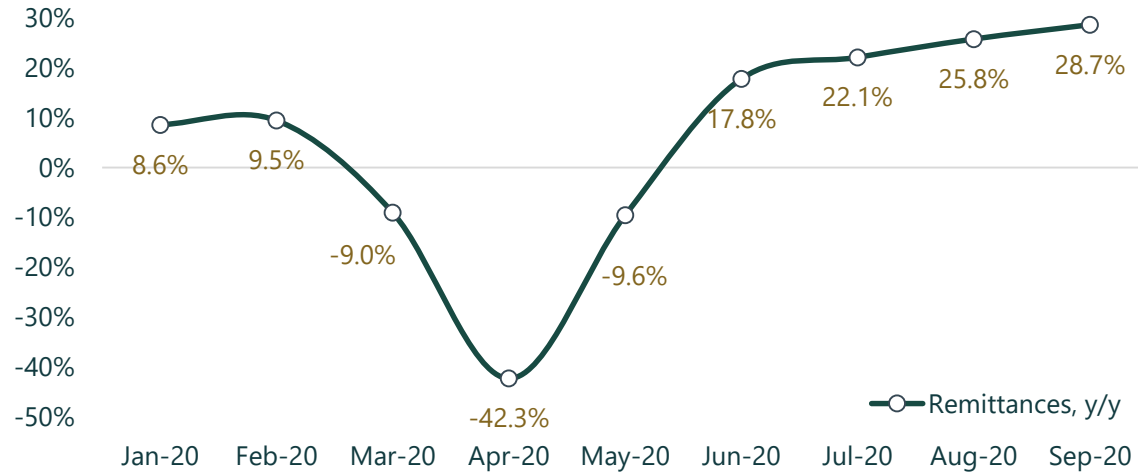
### Support measures

- Sectoral special support packages for tourism, agriculture and real estate sectors;
- 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);
- Tax deferrals for car importers;
- Social aid programs to address job losses;
- Pension indexation from Jan- 21;
- GEL 200 transfers to families for every child aged 0-17;

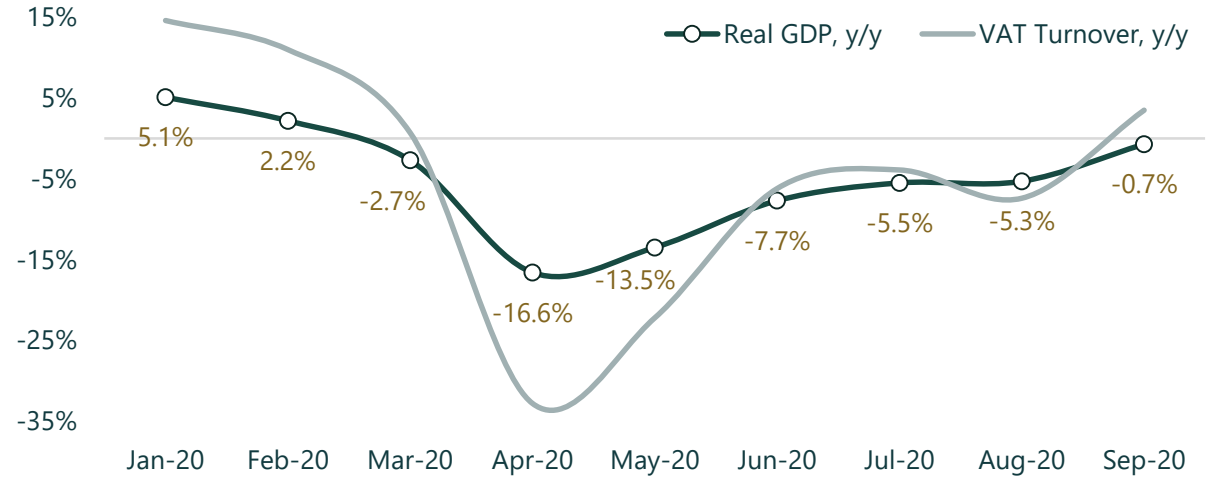
LOW PUBLIC DEBT ENSURES A STRONG POSITION TO BORROW TO FIGHT THE PANDEMIC, WITH MOF EXPECTING PUBLIC DEBT TO RISE TO AROUND 58% OF GDP BY THE END OF 2020 (41% AT THE END OF 2019)

# MACROECONOMIC FAST INDICATORS IN 9M20





## ECONOMIC RECOVERY UNDERWAY



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

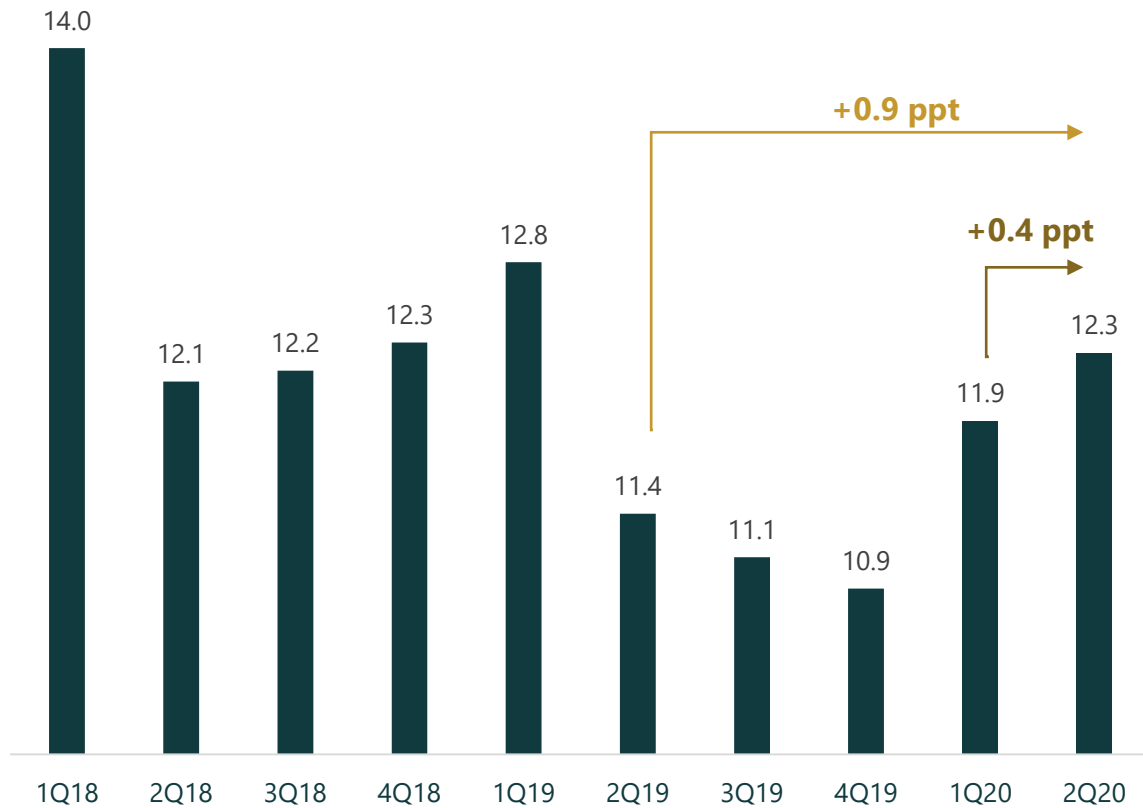


## RECOVERY WAS SUPPORTED BY

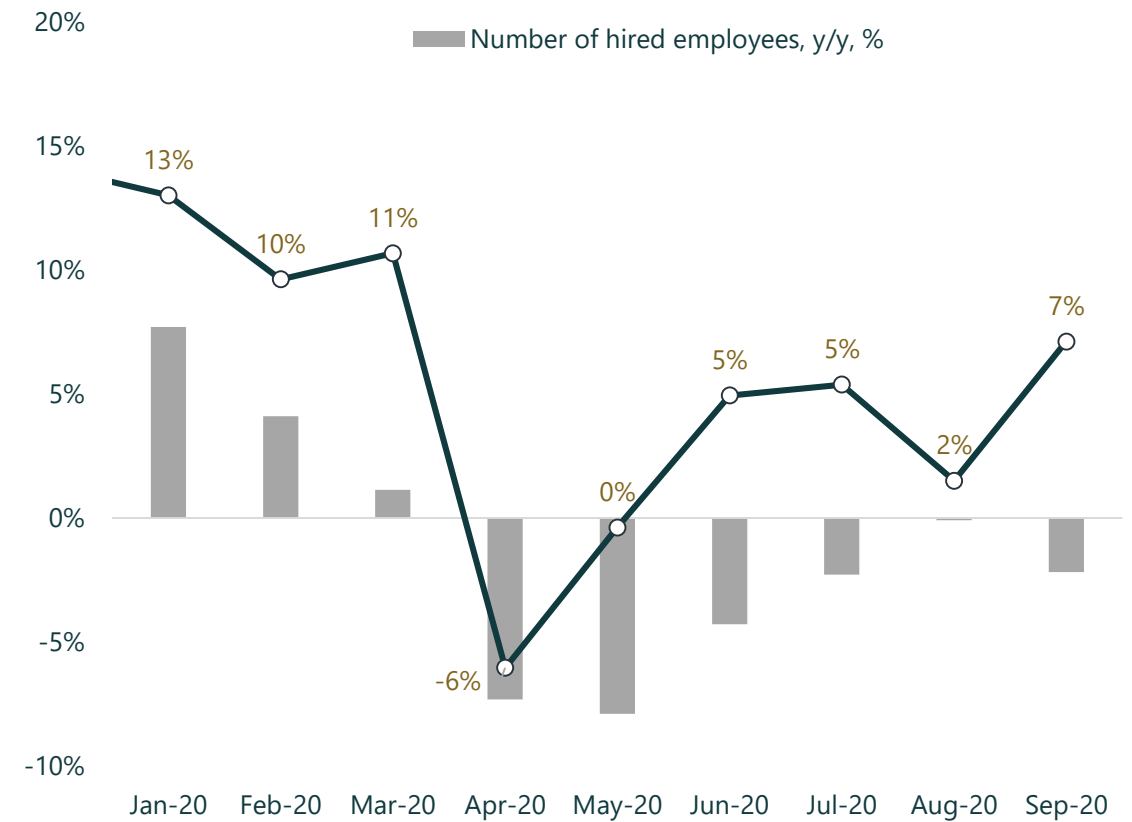
-  UNPRECEDENTED STIMULUS AROUND THE GLOBE
-  STRONG INTERNATIONAL SUPPORT
-  SIZEABLE FISCAL PACK
-  SOUND MONETARY POLICY FRAMEWORK
-  RECORD HIGH REMITTANCES
-  DIVERSIFYING EXPORT MARKETS

# THE LABOR MARKET DYNAMICS

**THE UNEMPLOYMENT RATE INCREASED BY 0.9 PPT COMPARED TO 2Q19**



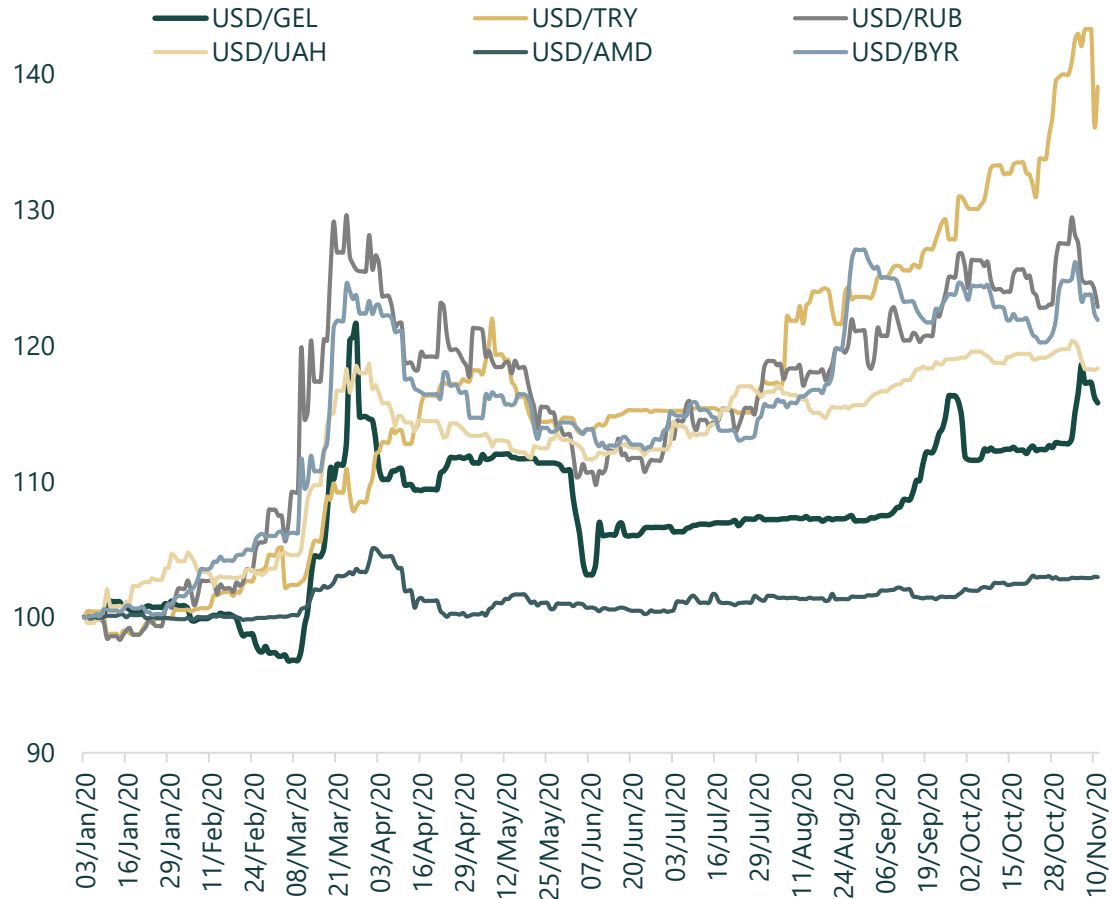
**THE NUMBER OF HIRED EMPLOYEES AND SALARIES HAVE BOUNCED BACK AFTER FALLING IN APRIL-MAY**



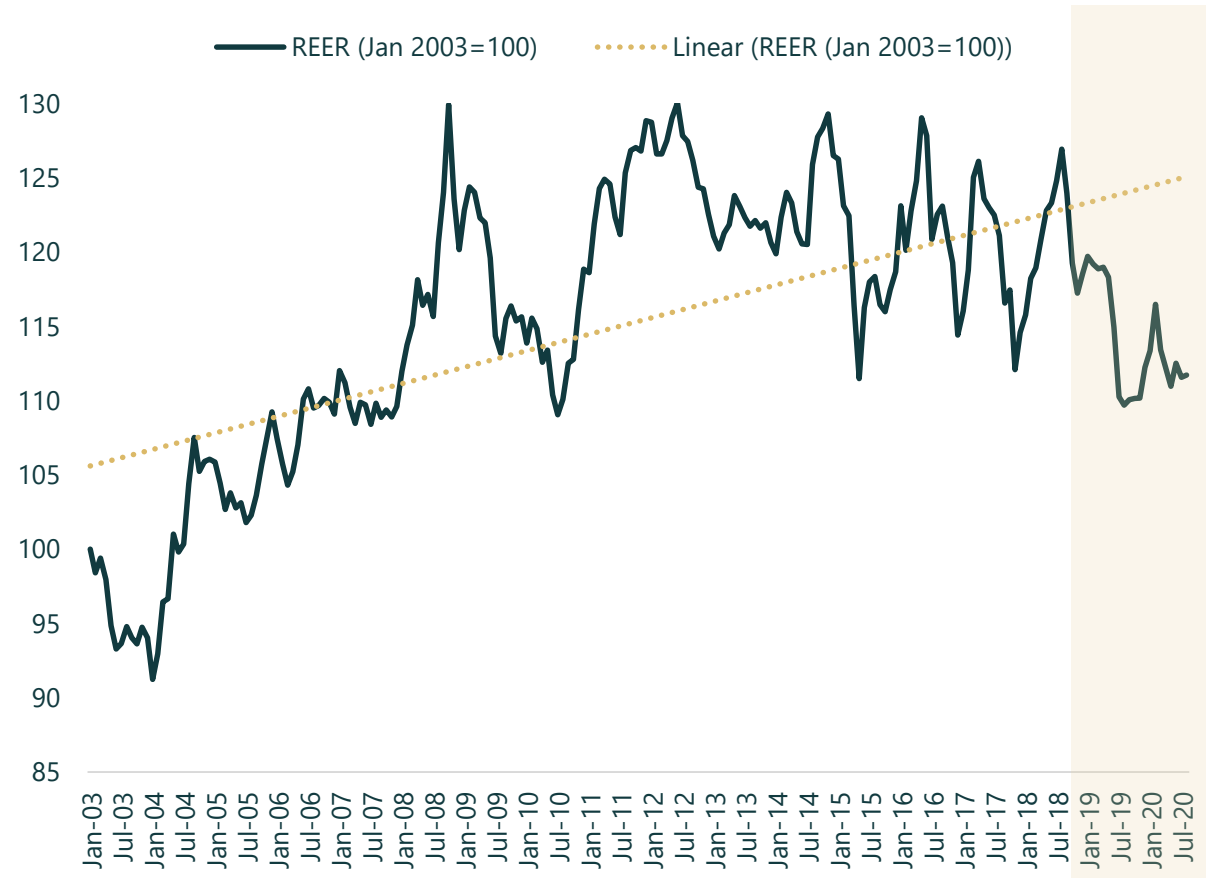
# EXCHANGE RATE PERFORMANCE



## USD/GEL SENSITIVE BUT RELATIVELY STABLE



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





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# SOVEREIGN RATINGS WITH FAVOURABLE MACRO FUNDAMENTALS



## Key Ratings Highlights

Rating Agency	Rating	Outlook	Affirmed
<b>MOODY'S</b>	Ba2	Stable	September 2019
<b>S&amp;P Global</b>	BB	Stable	October 2019
<b>Fitch Ratings</b>	BB	Negative	April 2020

## Georgia is favorably placed among peers

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

## General Facts



- Area: 69,700 sq. km
- Population (2019): 3.7 million
- Capital: Tbilisi;
- Life expectancy: 73.5 years
- Official language: Georgian
- Literacy: 100%
- Currency (code): Lari (GEL)

## Economy

- Nominal GDP (Geostat) 2019: GEL 50 billion (US\$17.7 billion)
- Real GDP growth rate 2019: 5.1%
- Real GDP 2010-2019 annual average growth rate: 4.8%
- GDP per capita 2019 (PPP, international dollar) IMF: 12,227
- Annual inflation 2019: 4.9%
- External public debt to GDP 2019: 32.4%

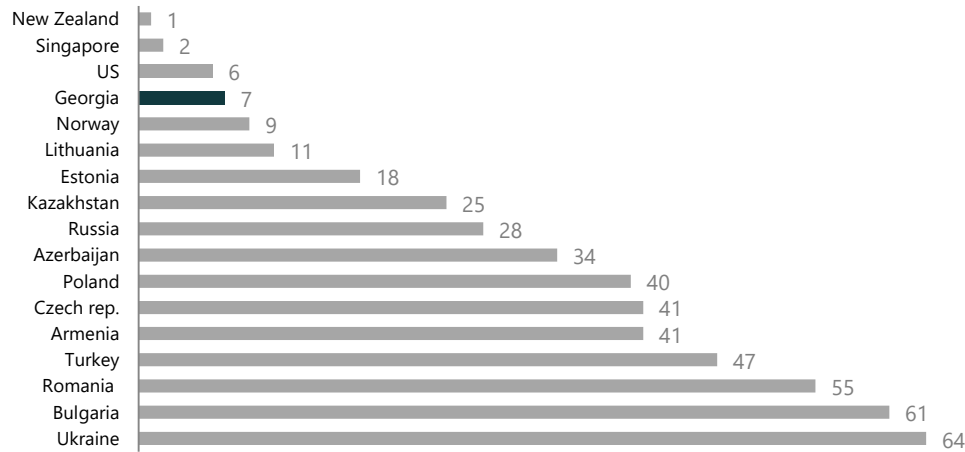
# GEORGIA'S KEY ECONOMIC DRIVERS



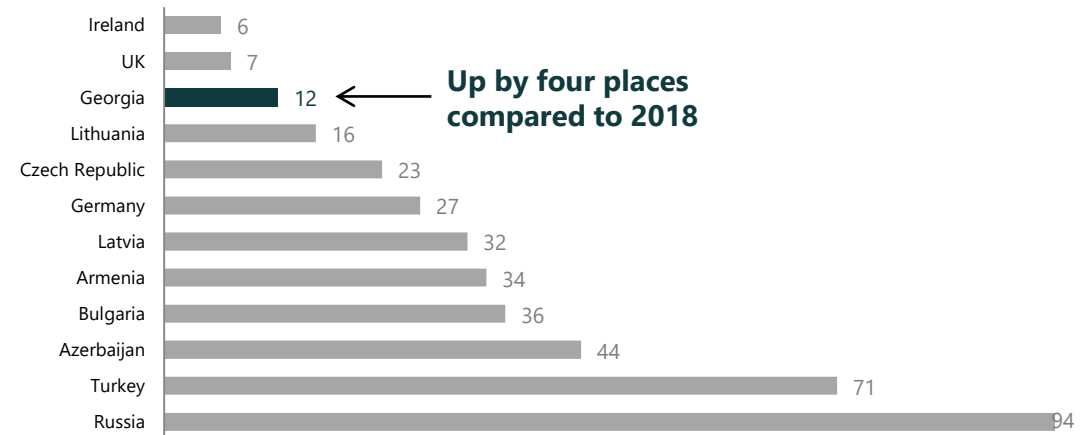
<p><b>Liberal economic policy</b></p>	<p><b>Top performer globally in WB Doing Business over the past 12 years</b></p> <ul style="list-style-type: none"> <li>▪ Liberty Act (effective January 2014) ensures a credible fiscal framework;</li> <li>▪ Fiscal deficit/GDP capped at 3%; Public debt/GDP capped at 60%;</li> <li>▪ Business friendly environment and low tax regime (attested by favourable international rankings);</li> </ul>
<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 stood at US\$ 3.3 billion in 2019 and international travelers reached 9.4 million in 2019 (up 7.8% y-o-y), out of which tourist arrivals were up 6.8% y-o-y to 5.1 million.</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\$ 1.3 billion (7.2% of GDP) in 2019.</li> <li>▪ FDI averaged 8.5% of GDP in 2010-2019.</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 Georgians 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 2019, Russia accounted for 13.2% of Georgia's exports and 10.8% of imports.</li> </ul>

# INSTITUTIONAL ORIENTED REFORMS

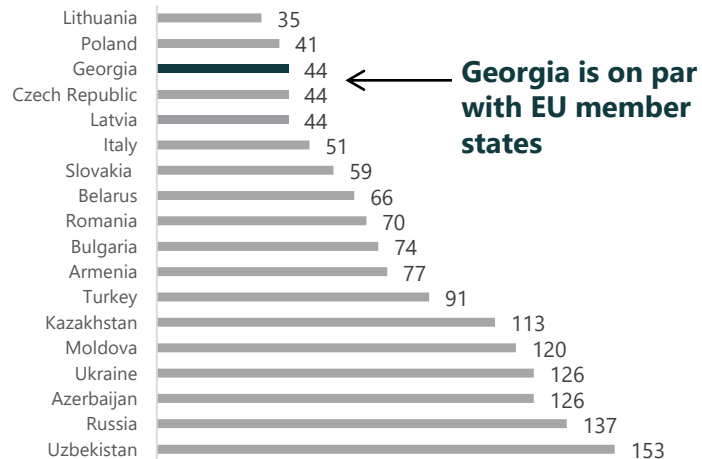
### Ease of Doing Business | 2020 (WB Doing Business Report)



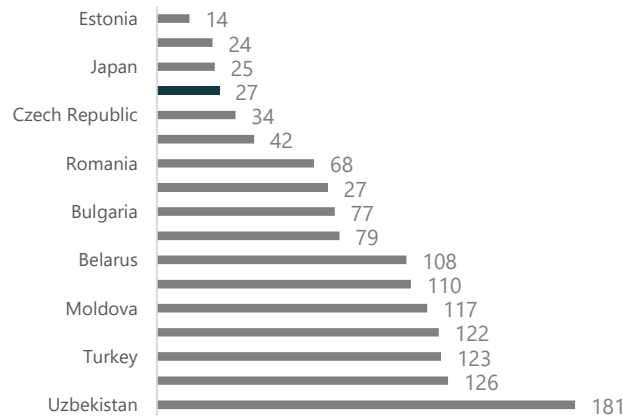
### Economic Freedom Index | 2020 (Heritage Foundation)



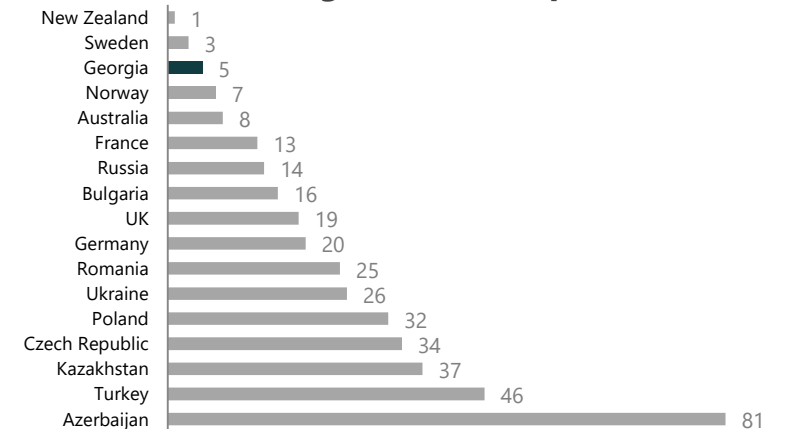
### Corruption Perception Index | TI 2019



### Business Bribery Risk, 2019 | Trace International



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

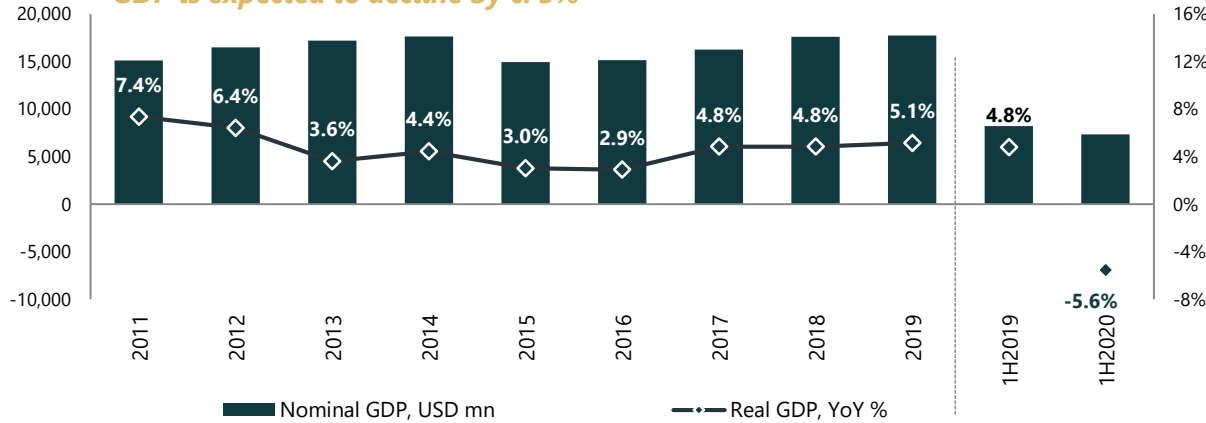


# DIVERSIFIED RESILIENT ECONOMY

## Gross domestic product

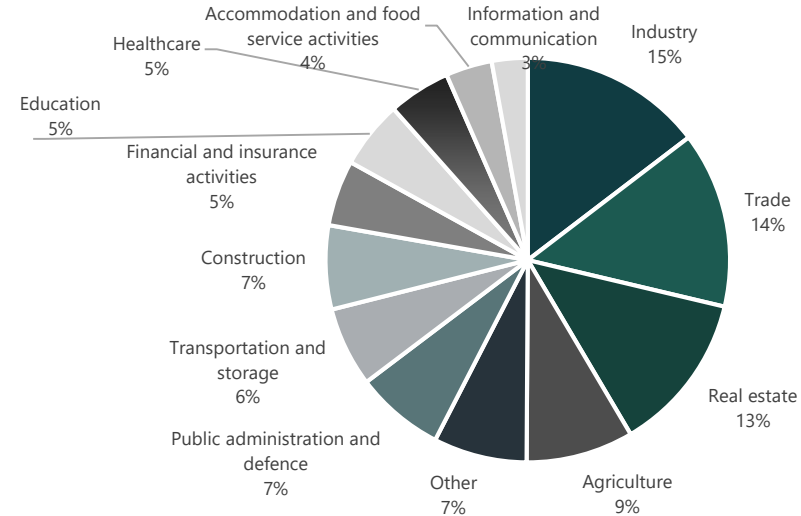
Source: Geostat

**Growth was robust in 2019, but due to the pandemic in 2020 real GDP is expected to decline by c. 5%**



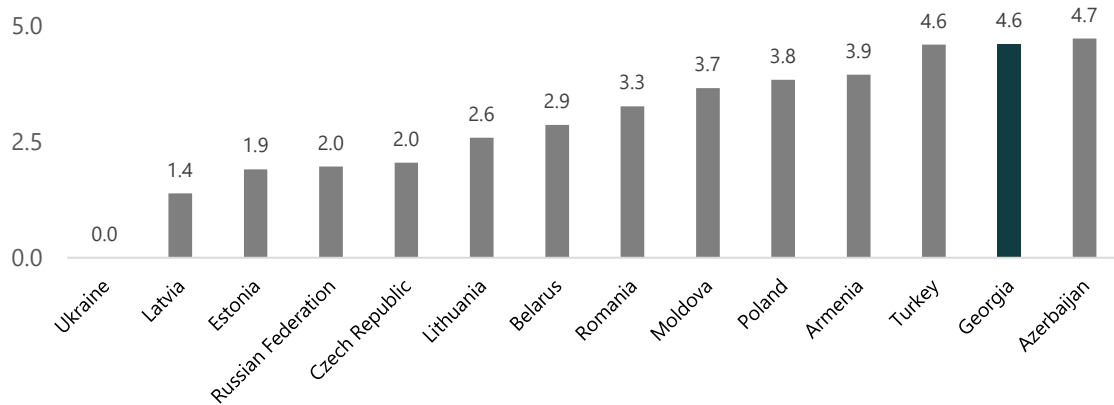
## Diversified nominal GDP structure, 1H20

Source: Geostat



## One of the Fastest Developing Economies in the Region

Comparative real GDP growth rates, % (2007-2019 average)

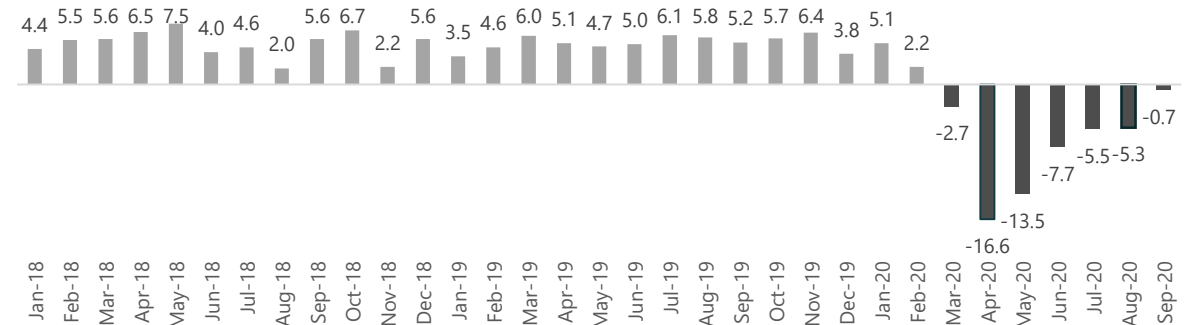


Source: IMF

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

Source: Geostat

**Rapid monthly estimates show contraction moderating every month since the April's low**



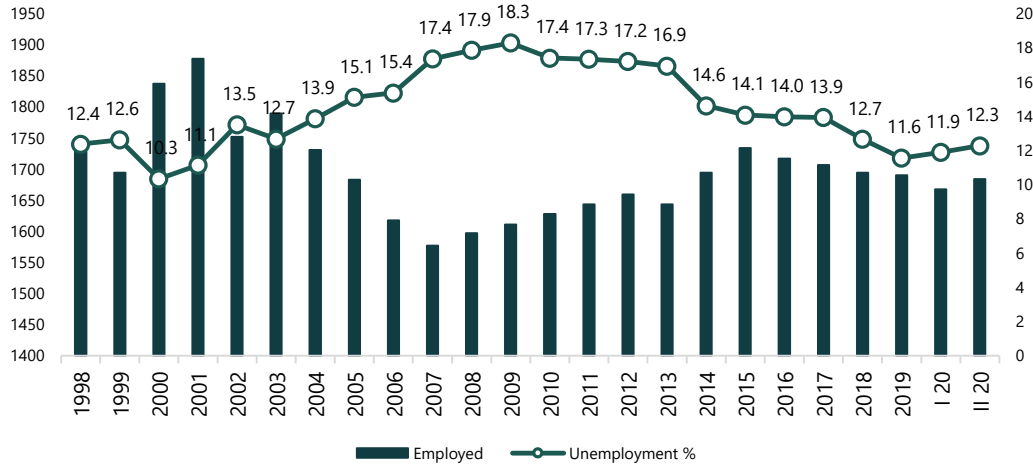


# ROOM FOR FURTHER JOB CREATION



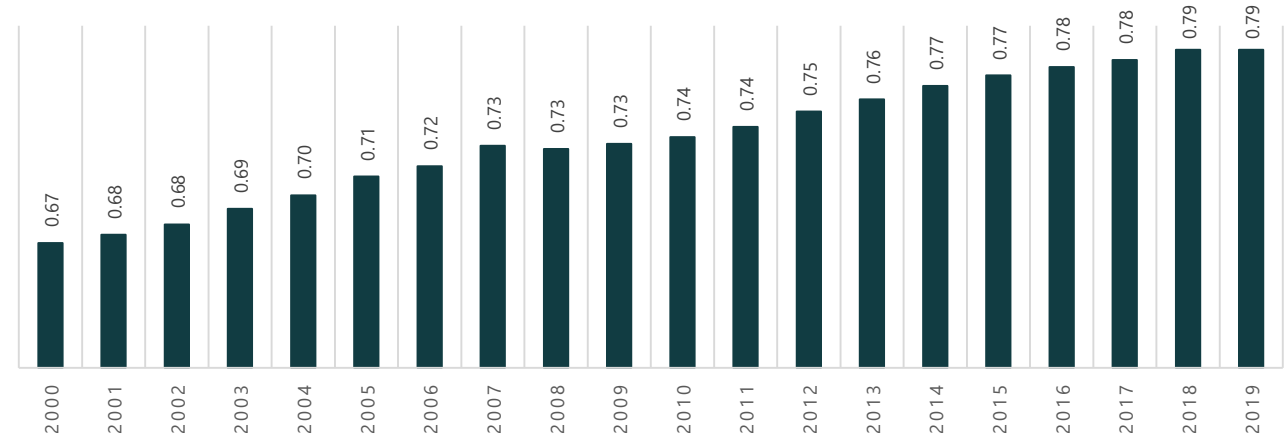
## Unemployment rate up to 12.3% in 2Q20

Sources: GeoStat



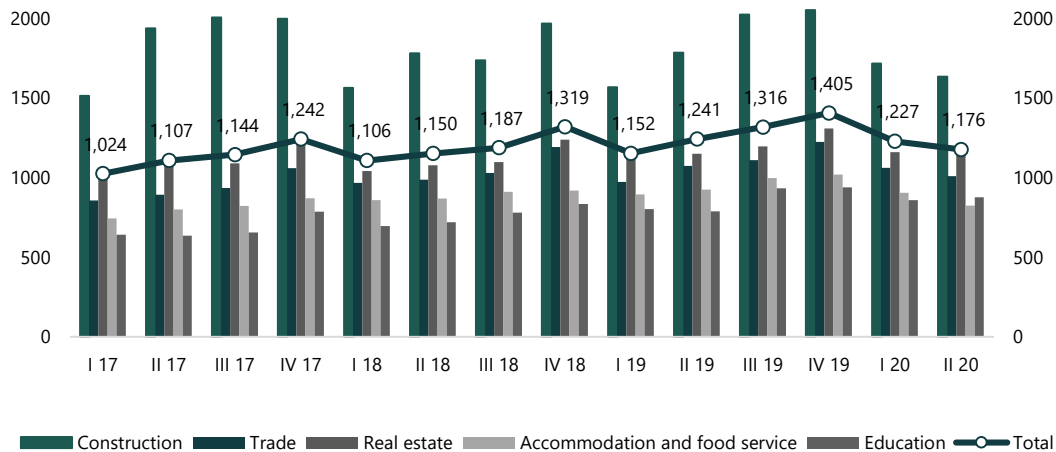
## UNDP Human Development Index

Sources: UNDP



## Average monthly nominal earnings in business sector

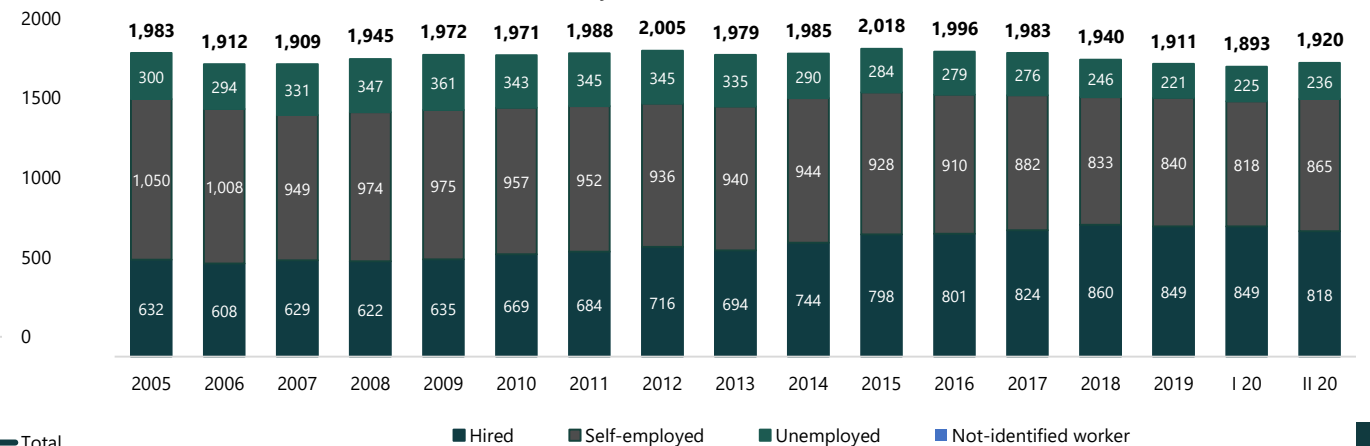
Sources: GeoStat



## Labor force decomposition

Sources: GeoStat

➤ Number of hired workers decreased by 30,000 in 2Q20

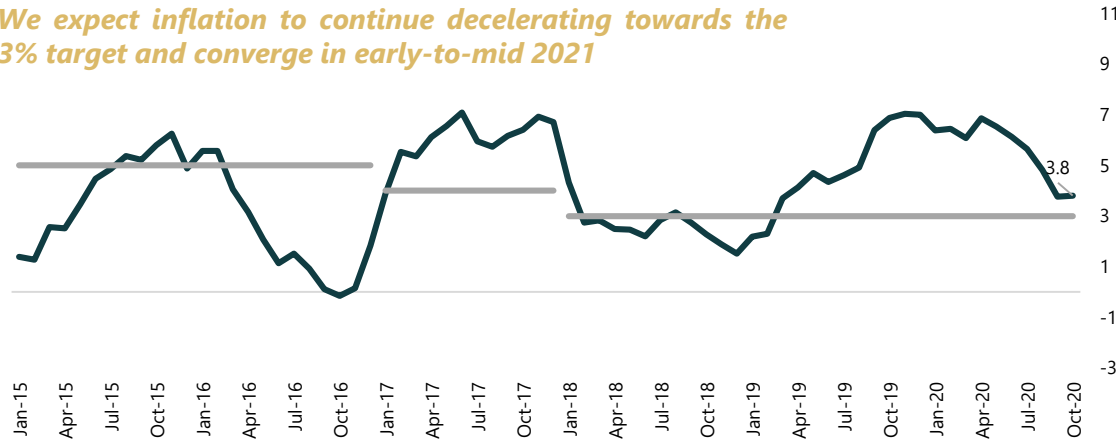


# INFLATION TARGETING SINCE 2009

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

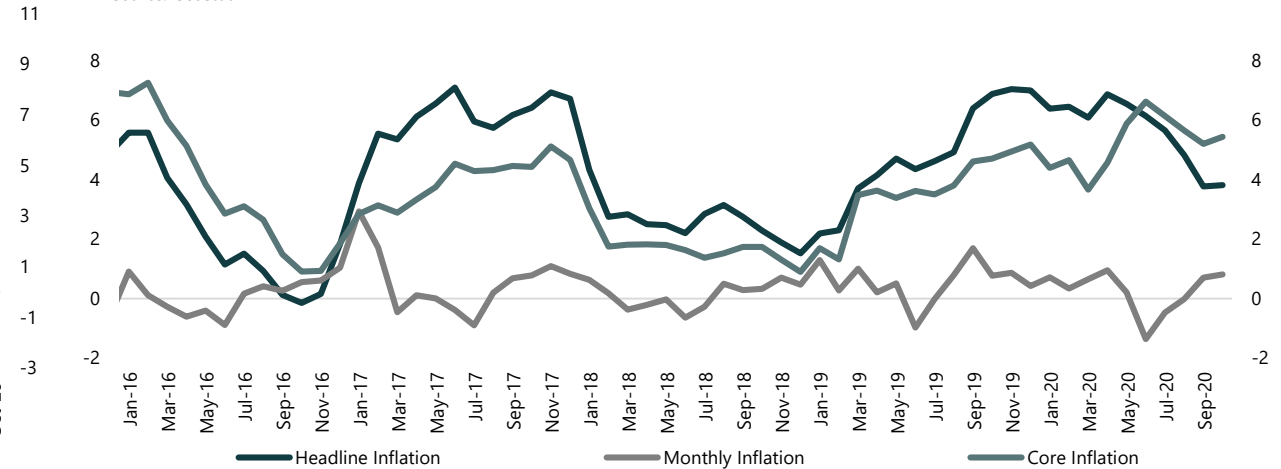
Sources: NBG, GeoStat

*We expect inflation to continue decelerating towards the 3% target and converge in early-to-mid 2021*



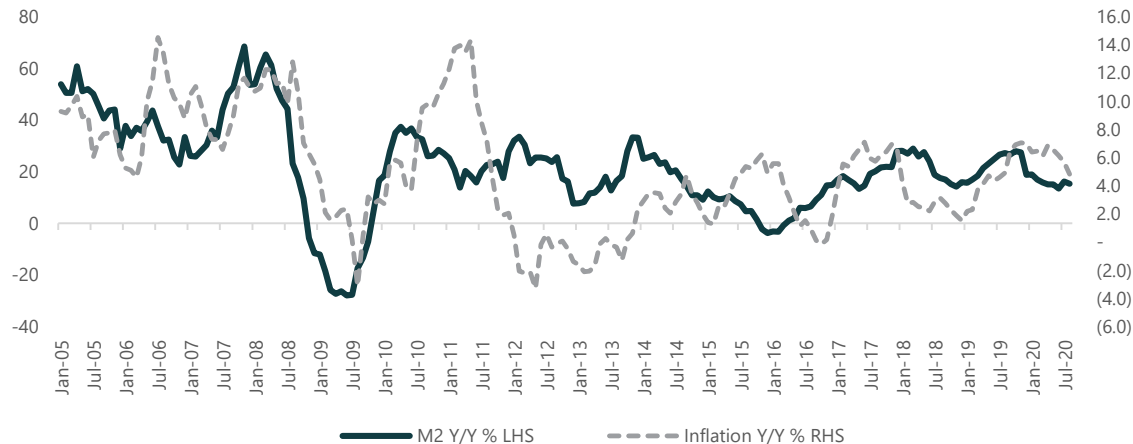
## Price Indices

Source: GeoStat



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

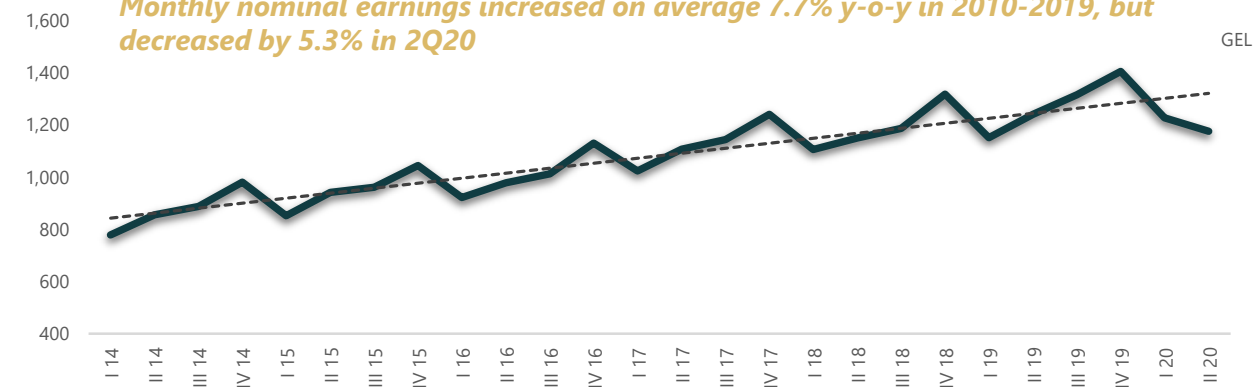
Sources: Geostat, NBG



## Average monthly nominal earnings

Source: Geostat

*Monthly nominal earnings increased on average 7.7% y-o-y in 2010-2019, but decreased by 5.3% in 2Q20*



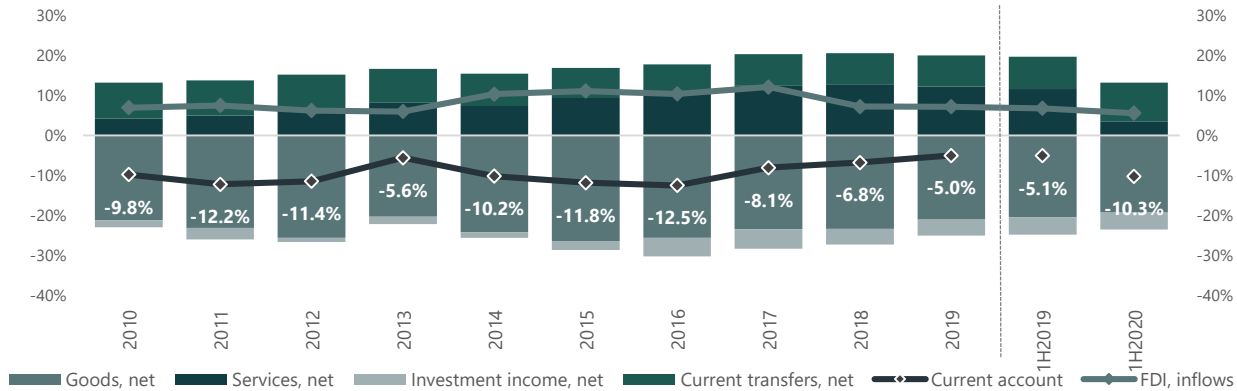
# CURRENT ACCOUNT BALANCE ADJUSTING AFTER RECORD LOWS



## Current account balance (% of nominal GDP)

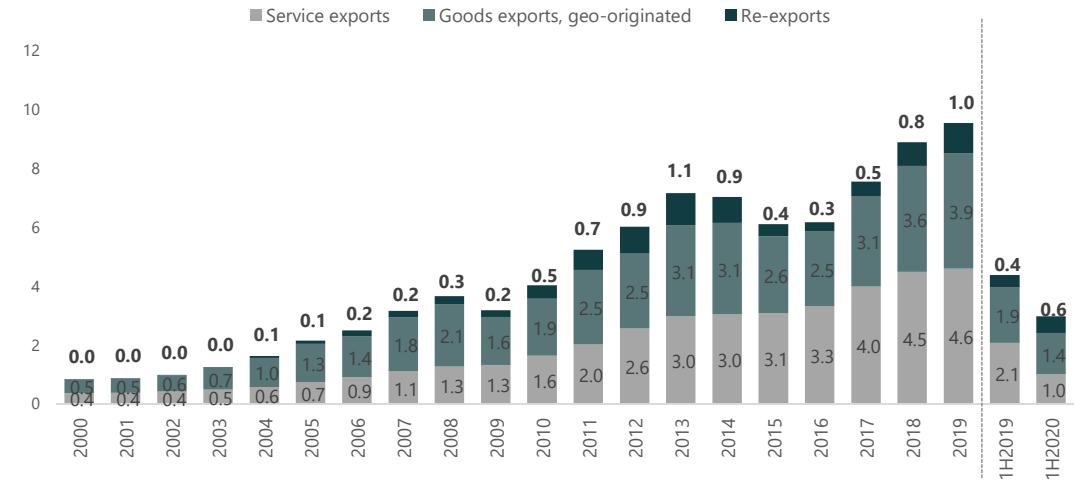
Sources: NBG

*The CAB improved in 2Q20 on the back of strong recovery in remittances and trade adjustment*



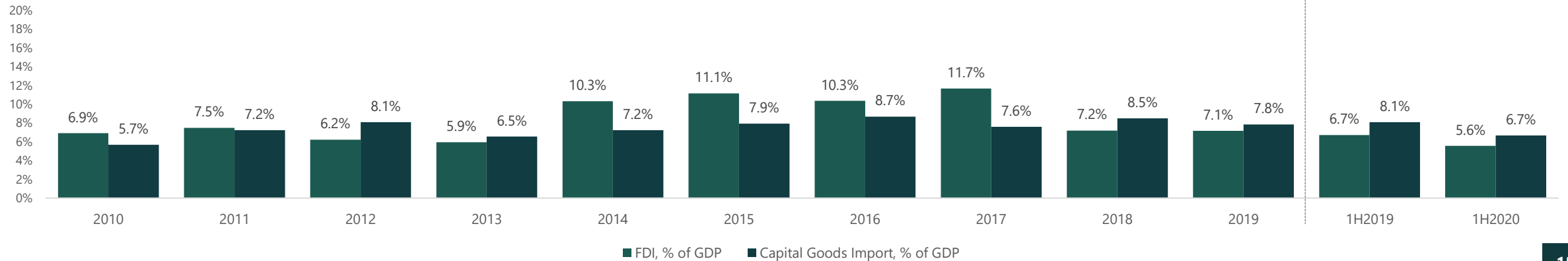
## Exports and Re-exports, US\$ billion

Source: NBG



## FDI and capital goods import

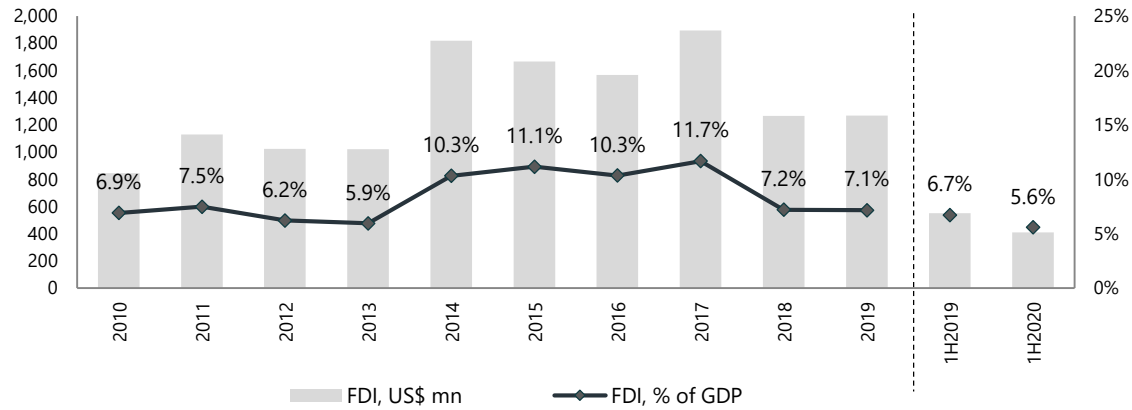
Source: GeoStat



# DIVERSIFIED SOURCES OF CAPITAL

## Strong foreign investor interest

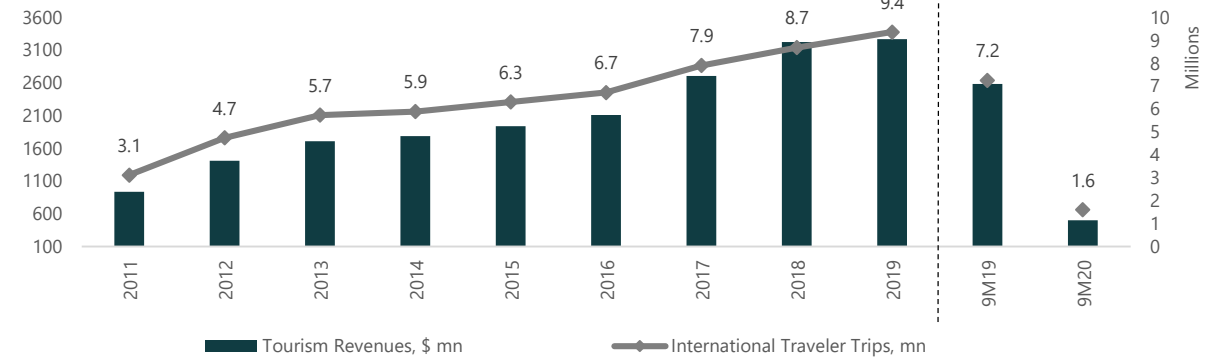
Sources: GeoStat



## Visitors and tourism revenues

Sources: GNTA, NBG

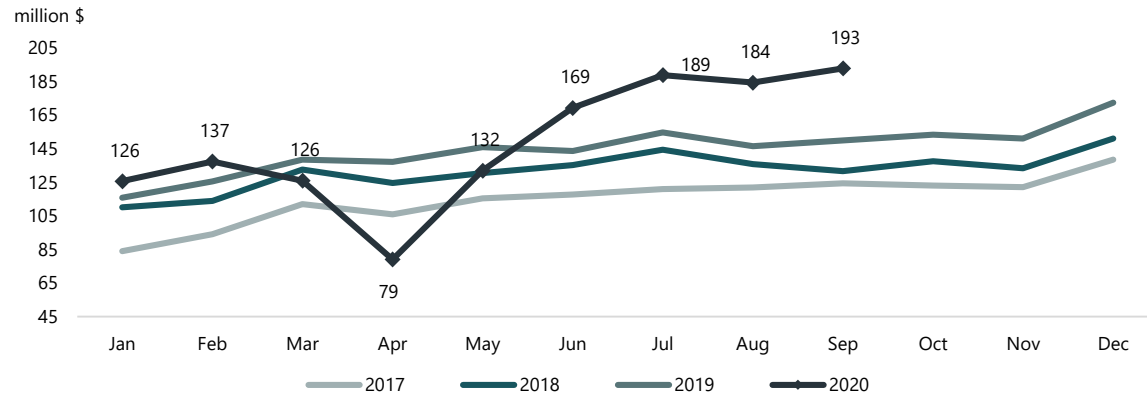
Tourism revenues fell by 80% in 9M20, as borders remain closed, including a 96% fall in Apr-Sep



## Remittances reaching record levels

Source: NBG

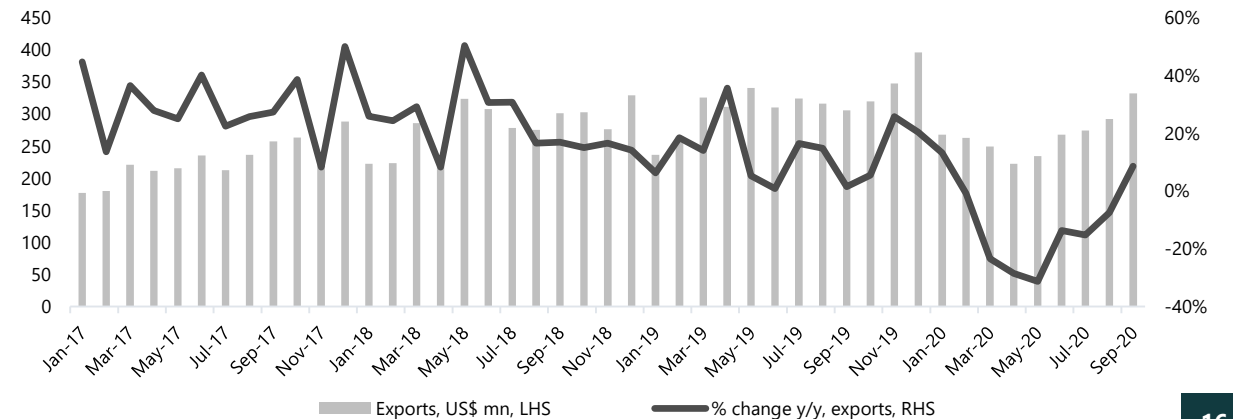
Remittance inflows have reached record high levels after bouncing back in June, with average annual growth in Jun-Sep totaling 23.6%



## Merchandise exports

Source: Geostat

Goods exports returned to positive territory in September, registering an 8.6% growth

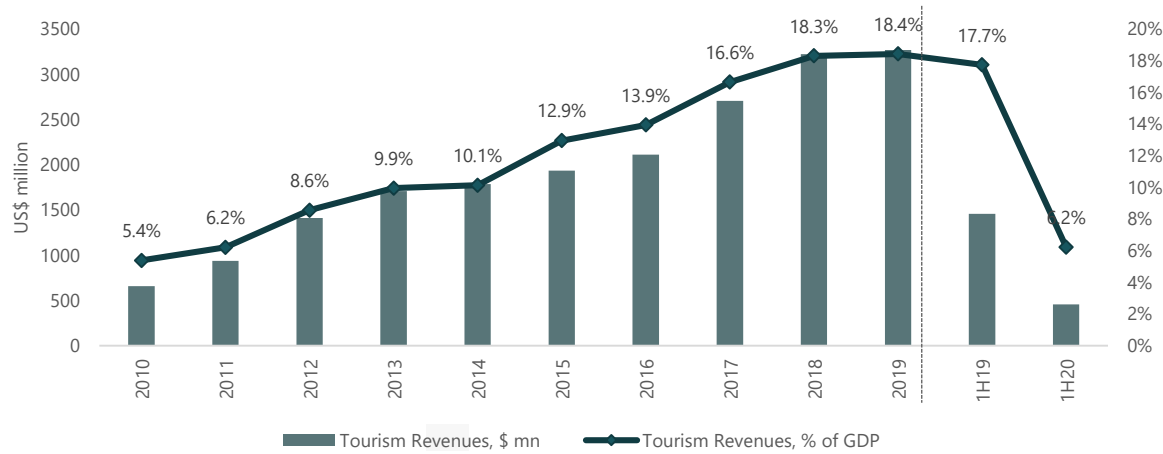




# TOURISM SECTOR

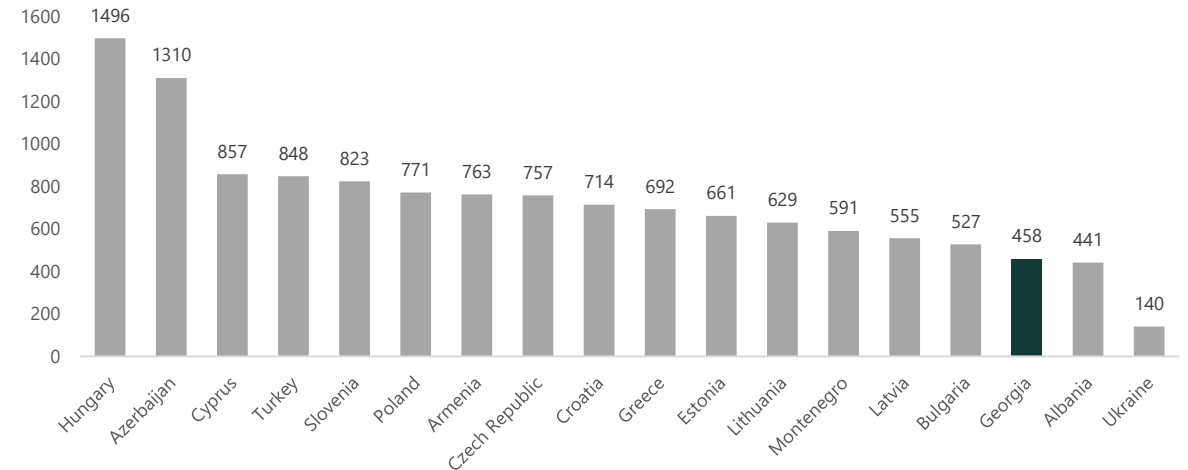
## Tourism revenues to GDP

Sources: NBG, Geostat



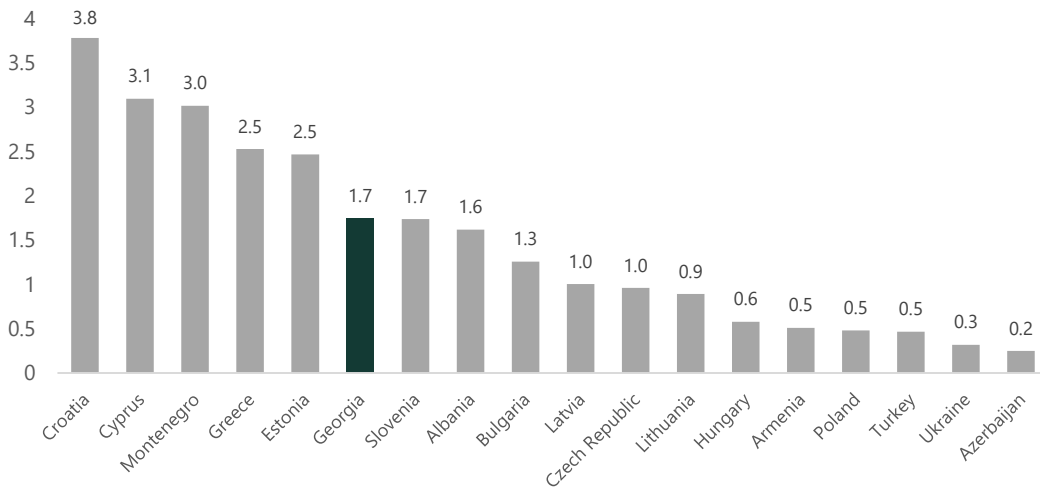
## Spending per arrival, 2017

Source: WDI



## Arrivals to country's population, 2017

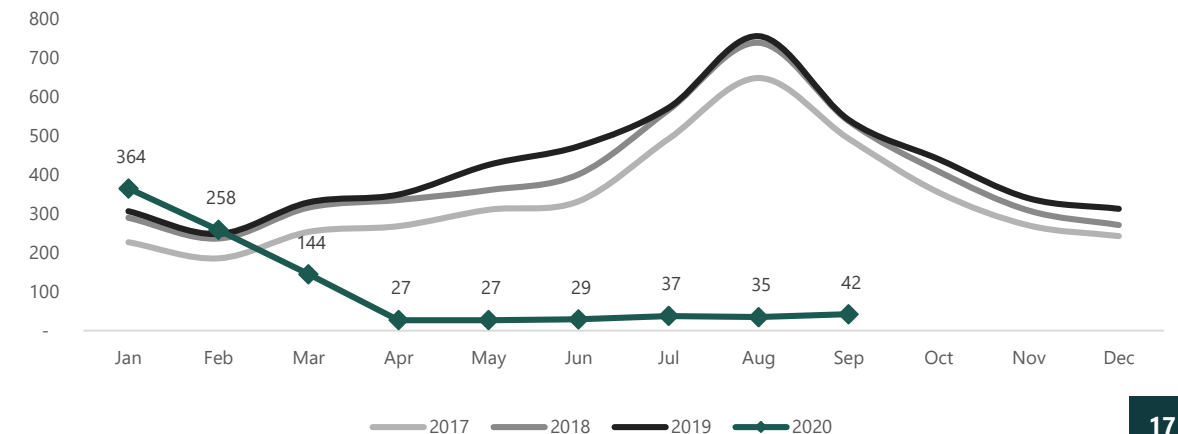
Source: WDI



## Number of Tourists (overnight visitors)

Source: GNTA

➤ During Apr-Sep 2020, the number of tourists were down 21x y-o-y, with borders remaining closed aside from France, Germany and the Baltic states



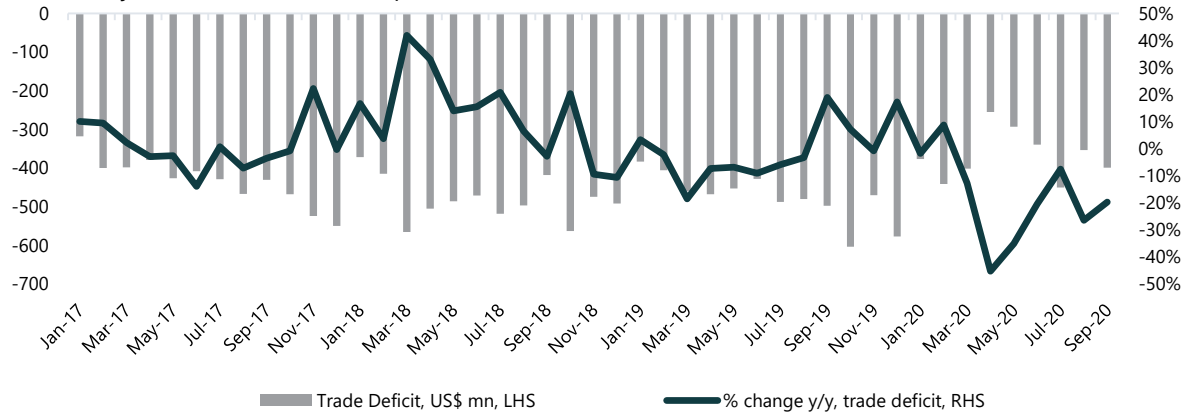
# DIVERSIFIED FOREIGN TRADE



## Goods' Trade Deficit

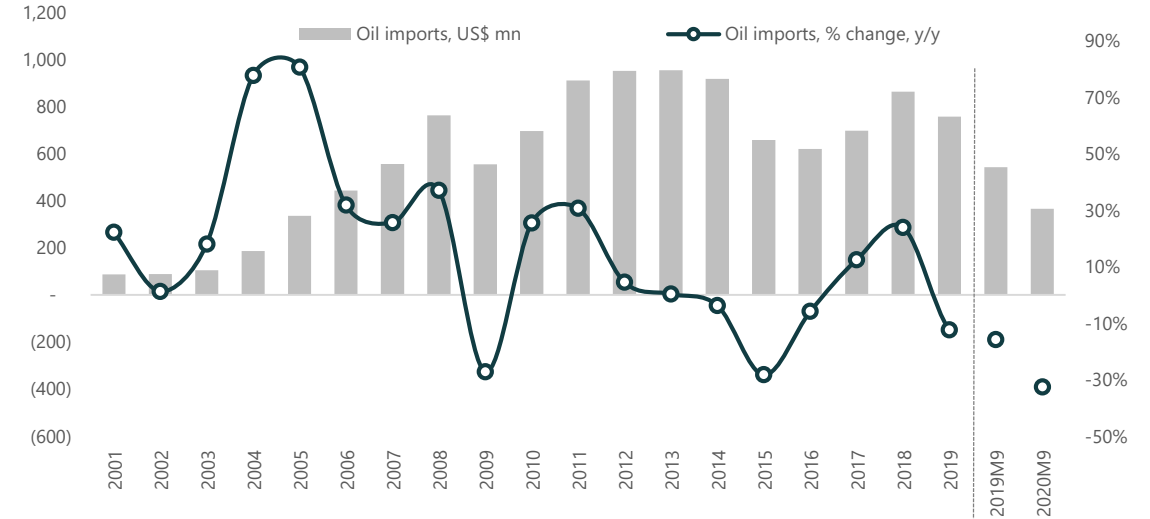
Source: GeoStat

➤ In 9M20, the trade deficit fell by 19%, as exports were cut by 12% and imports contracted by 16% on the back of the pandemic



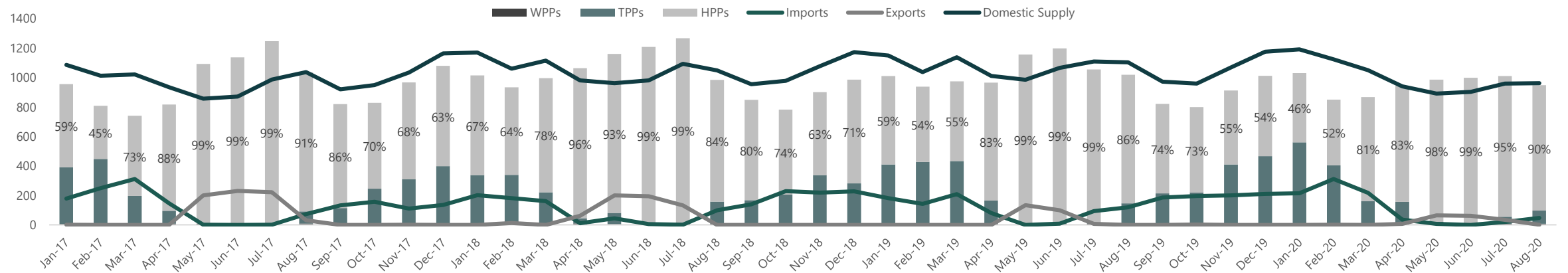
## Oil imports

Source: GeoStat



## Electricity generation and trade, GWH

Source: ESCO

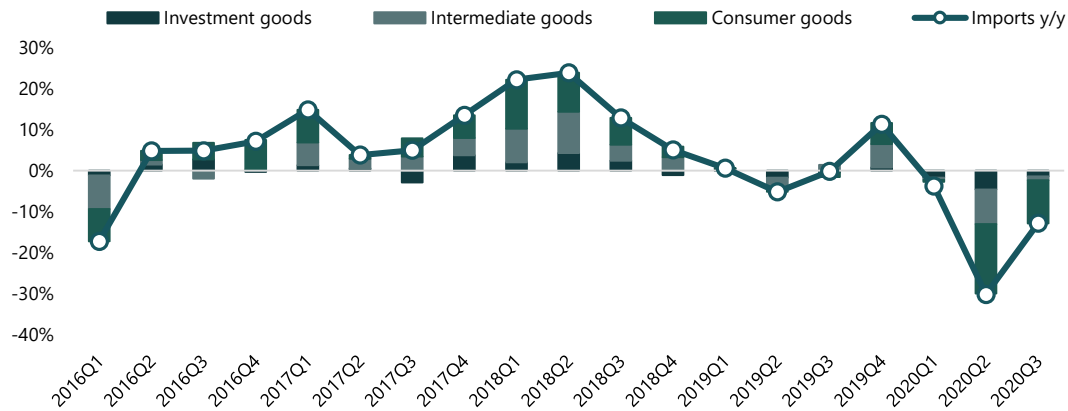


# DIVERSIFIED FOREIGN TRADE

## Imports of Goods, contribution to growth

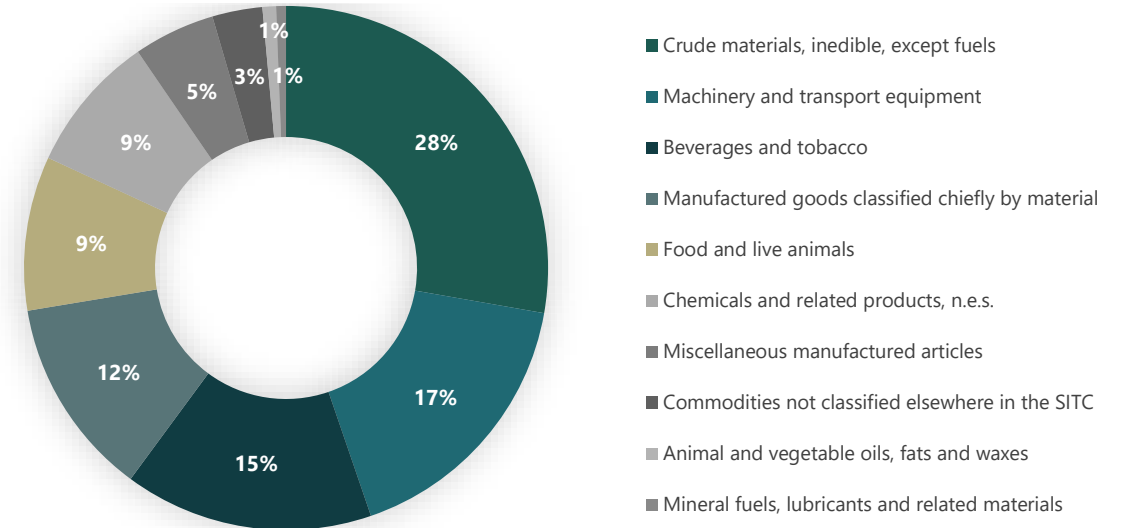
Source: NBG

➤ All types of goods contributed to shrinking imports in 2020, with consumer goods responsible for over a half of the total cut



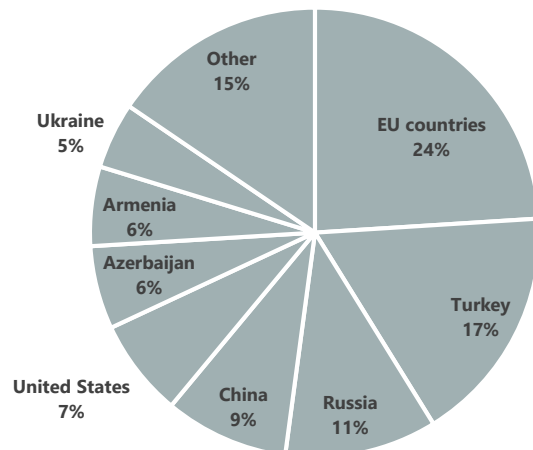
## Foreign Demand, 9M20

Source: Geostat



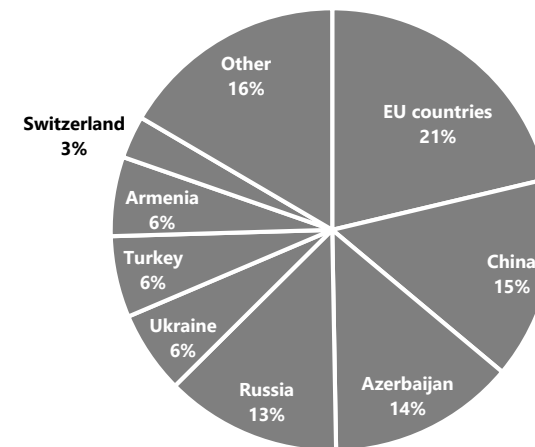
## Import countries, 9M20

Sources: GeoStat



## Export countries, 9M20

Sources: GeoStat



➤ China has become the single largest destination country for Georgian exports in 9M20 with a 14.8% share, as opposed to 4.6% in 9M19

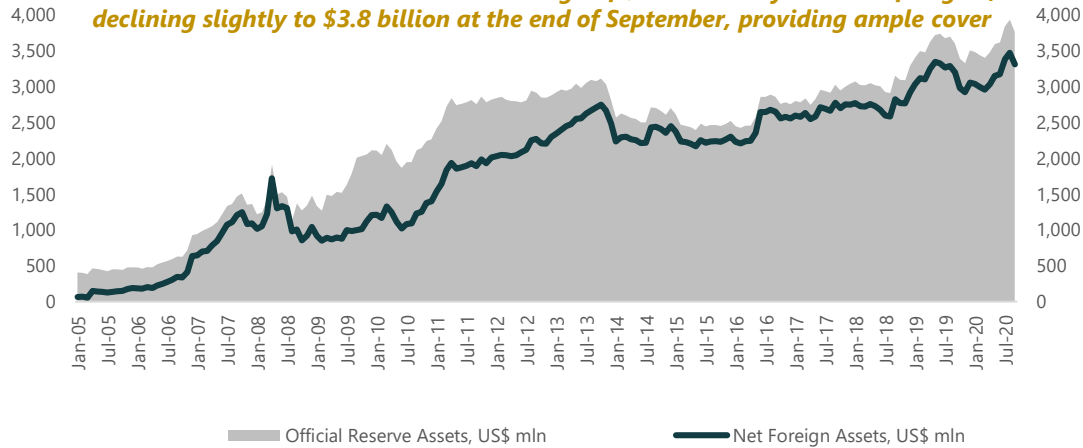
# PRUDENT MONETARY POLICY ENSURES MACRO-FINANCIAL STABILITY



## International reserves

Sources: NBG

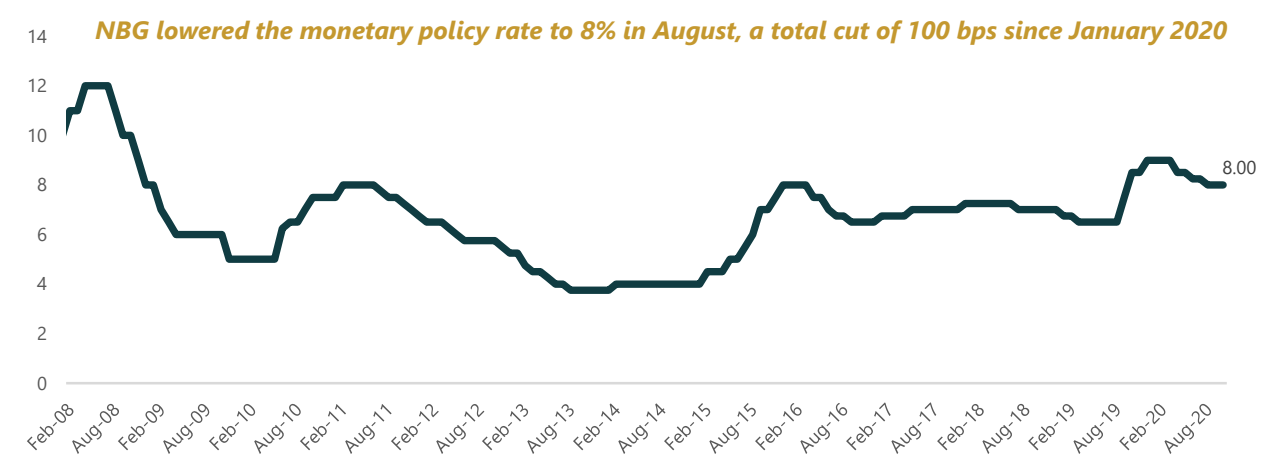
**International reserves reached a record high of \$3.9 billion by the end of August, declining slightly to \$3.8 billion at the end of September, providing ample cover**



## Monetary policy rate

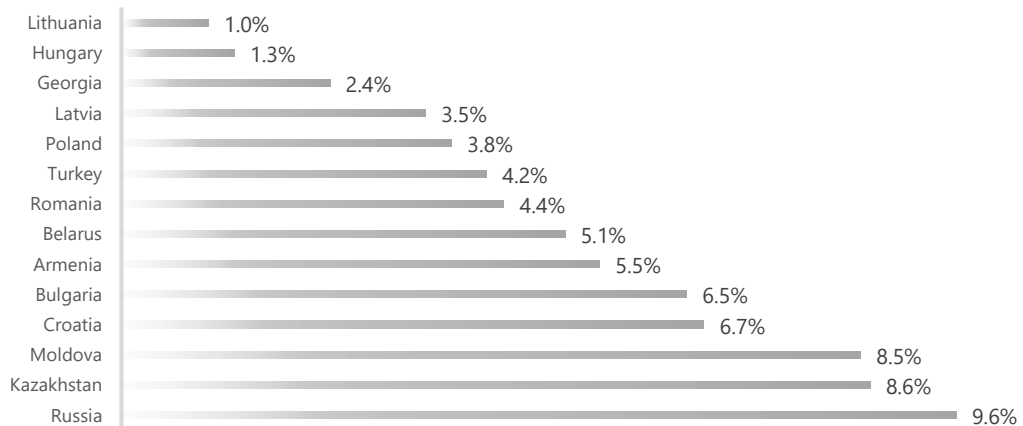
Sources: NBG

**NBG lowered the monetary policy rate to 8% in August, a total cut of 100 bps since January 2020**



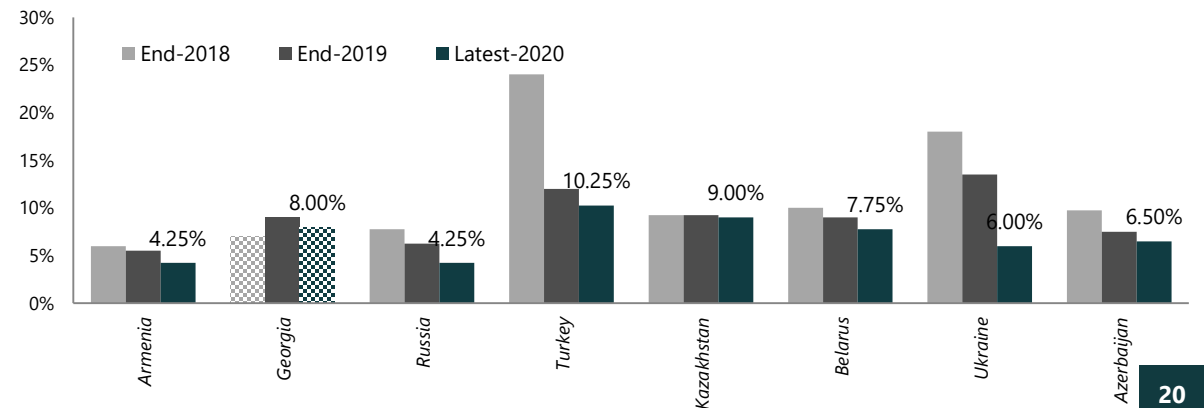
## Nonperforming loans to total gross loans, latest 2020

Sources: IMF



## Monetary policy rate vs peers

Sources: Central banks





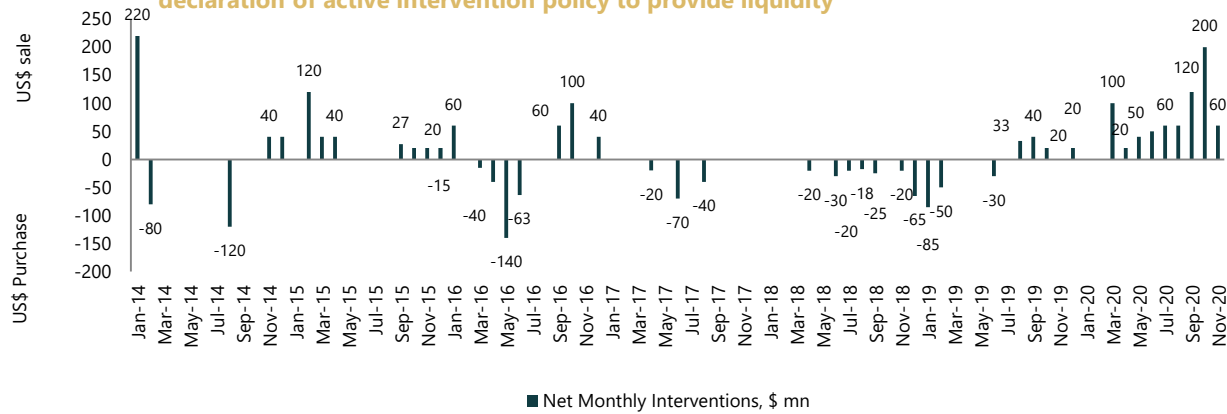
# FLOATING EXCHANGE RATE - POLICY PRIORITY



## Central Bank's interventions

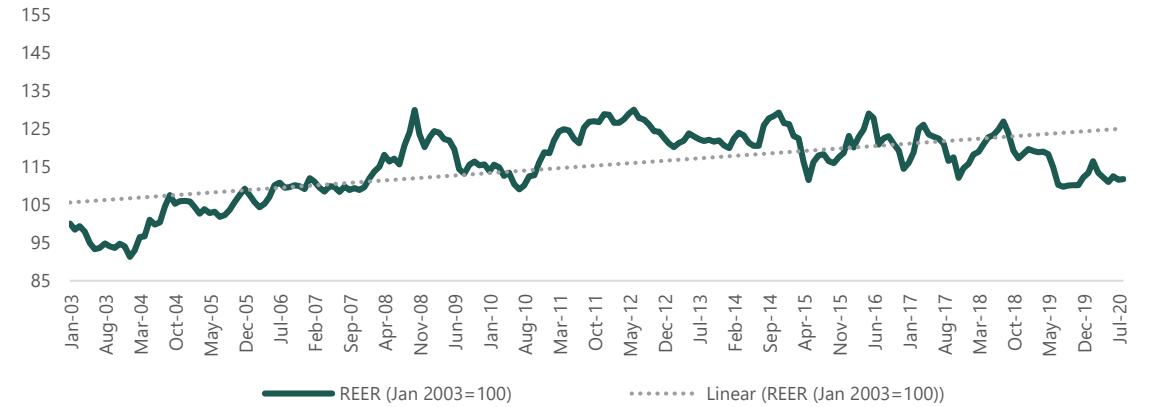
Sources: NBG

NBG sold \$710 million in Mar-Nov 2020 on the foreign exchange market and maintains a declaration of active intervention policy to provide liquidity



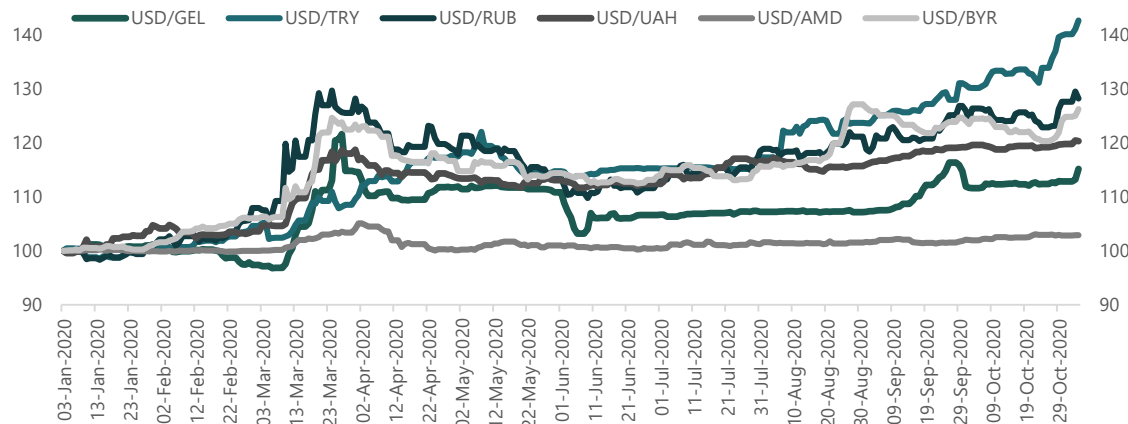
## Real effective exchange rate (REER)

Sources: NBG



## Exchange rate indices (1 January=100)

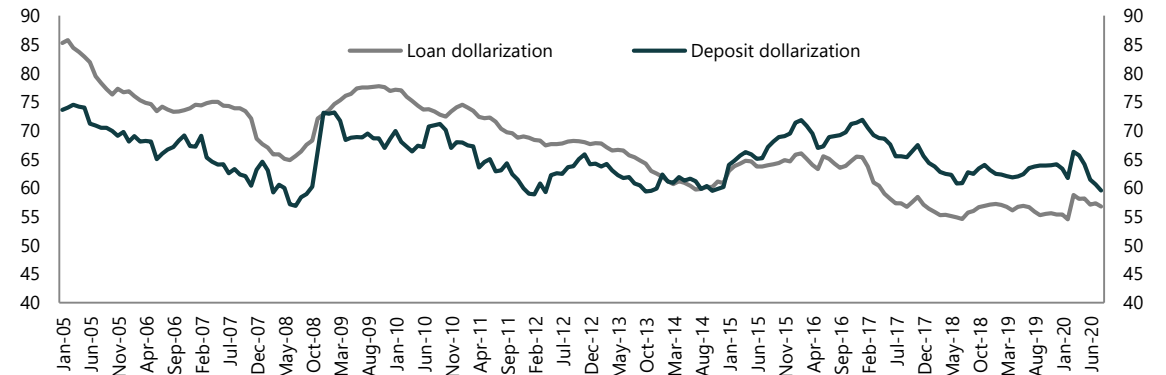
Sources: NBG



## Dollarization ratios

Source: NBG

Both deposit and loan dollarization jumped in March on the back of the pandemic and GEL depreciation, but have declined since then

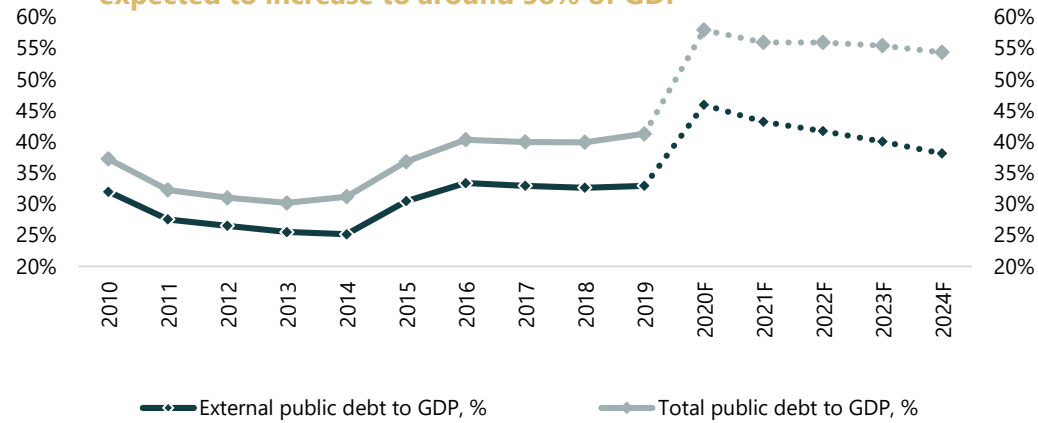


# LOW PUBLIC DEBT

## Public debt

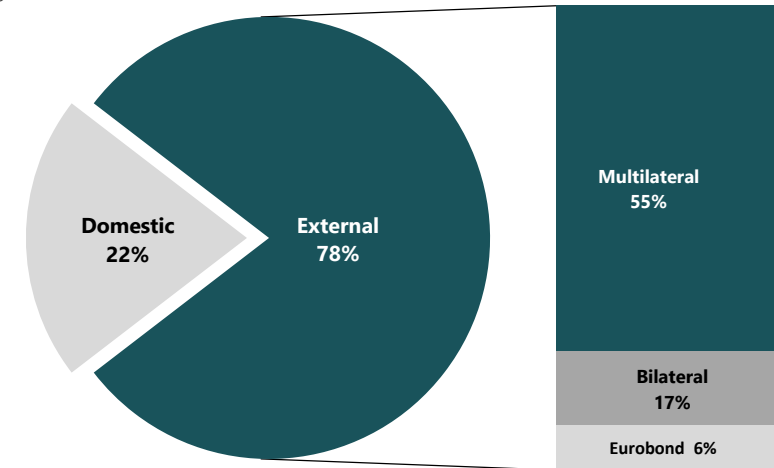
Sources: MOF

Low debt ensures there is space to borrow, with public debt expected to increase to around 58% of GDP



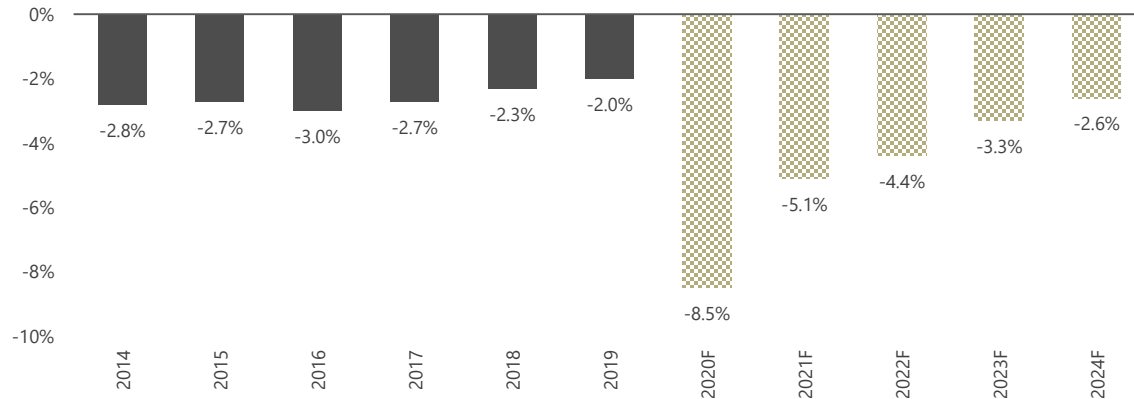
## Breakdown of public debt

Source: MOF, as of 31 August 2020



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

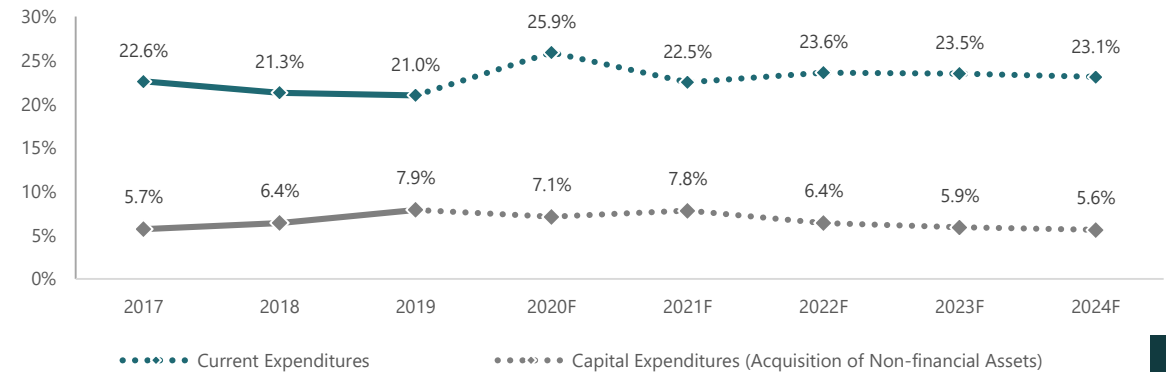
Source: MOF



## Current vs Capital Expenditure, % of GDP

Source: MOF

Capital expenditures reached record highs in 2019 and will prove key in the fiscal stimulus, planned at GEL 3.5 billion



# 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.

## COMPANY INFORMATION

### Georgia Capital PLC

Registered Address  
84 Brook Street  
London W1K 5EH  
United Kingdom

[www.georgiacapital.ge](http://www.georgiacapital.ge)

Registered under number 10852406 in England and Wales

### Stock Listing

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

### Contact Information

Georgia Capital PLC Investor Relations

Telephone: +44 (0) 203 178 4052; +995 322 000000

E-mail: [ir@gcap.ge](mailto:ir@gcap.ge)

### Auditors

Ernst & Young LLP  
1 More London Place  
London, SE1 2AF  
United Kingdom

### Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS13 8AE  
United Kingdom

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Investor Centre Shareholder Helpline - + 44 (0) 370 702 0176

### Share price information

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