



Georgian macro overview

Forward looking statements

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COVID-19 statistics

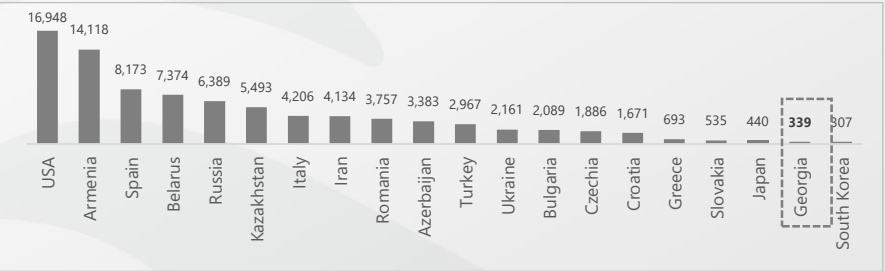
Lowest number of confirmed cases and deaths per capita in the region

Georgia: COVID-19 response

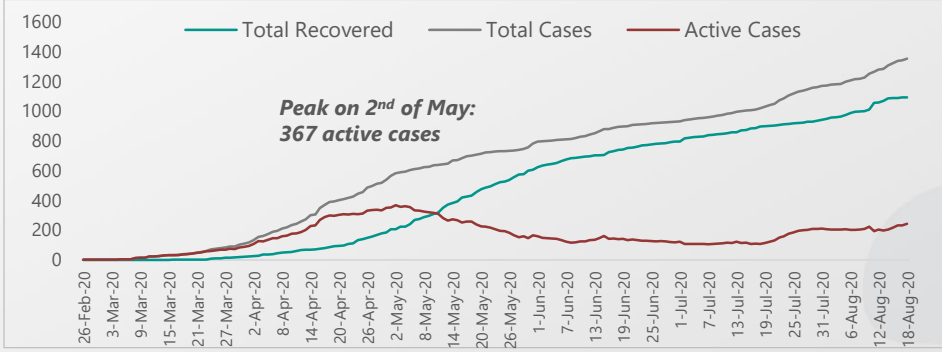
- Border checks began on 27 February and schools switched to distance learning from 29 February;
- Travel restrictions for neighbouring countries were imposed on 5 March, followed by mandatory self-isolation/quarantine since 9 March;
- All borders were closed on 18 March and state of emergency was in place from 21 March until 22 May;
- Intracity movement was banned by the end of March;
- Six stage lockdown exit strategy, introduced from 27 April, successfully completed in the beginning of July;

Largely all economic activities have been resumed by mid-July, local tourism resumed from 15 June and while external borders were opened to five EU member states on 8 July

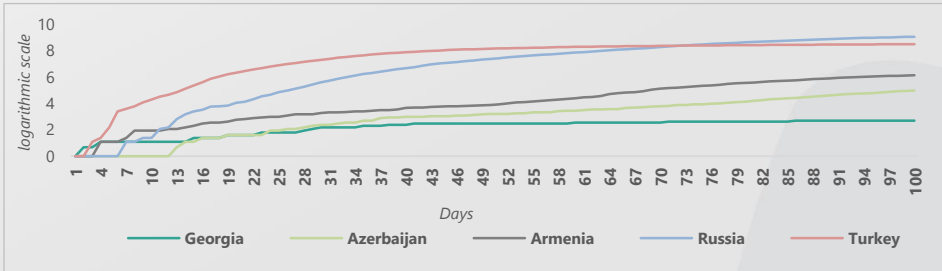
COVID-19 cases per 1M persons*



COVID-19 cases: dynamics in Georgia*



COVID-19 deaths since the first death case



Total cases*	Active cases*	Quarantined*	Hospitalized*
1,351	242	7,235	302

*As of 18 August 2020

Government 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\$ 270 million sold in March-July);
- 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

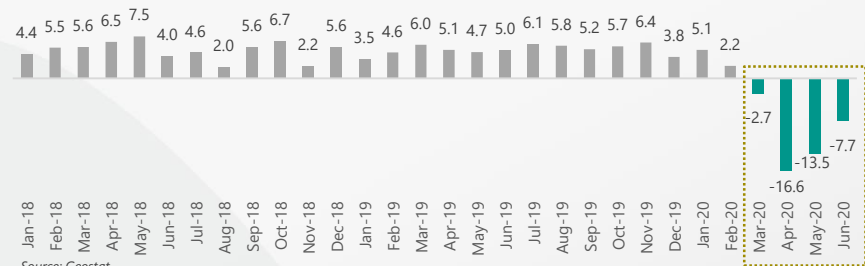
- Sectoral special support packages for tourism, agriculture and real estate sectors;
- Subsidies for utility bills, basic product prices and construction materials;
- Loan restructuring for all businesses;
- VAT returns and long-term funds for banks;
- Extra funding to support business, including a credit guarantee scheme (GEL 2bln);
- Tax deferrals for car importers;
- Social aid programs to address job losses;
- Pension indexation from Jan- 21;

Macroeconomic fundamentals in 1H20



Monthly Economic Activity Estimate, y-o-y growth

- Economy contraction has been eased from April and GDP contraction in June was 7.7% y-o-y.
- Strong pre-COVID-19 macroeconomic fundamentals were reflected in the 1H20 GDP contraction, which was only 5.8% y-o-y.

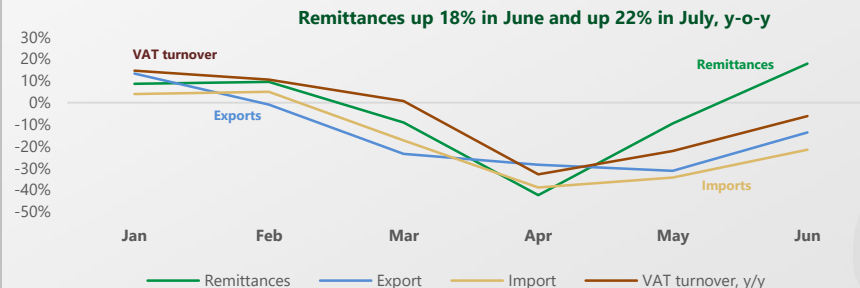


Source: Geostat,



Fast indicators

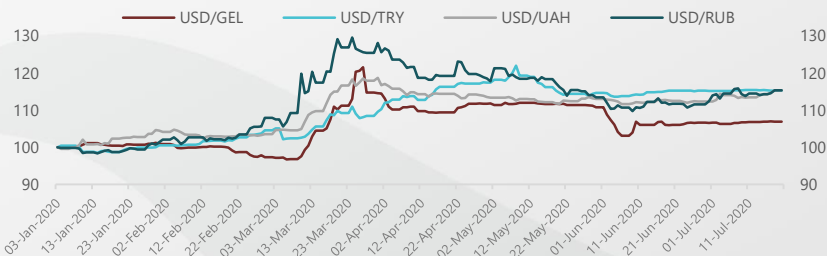
- Merchandise trade and money transfers have recovered significantly, with remittances posting 18% y-o-y growth in June.



Source: Geostat, NBG

Exchange rate indices (1 January=100)

- GEL depreciated in March and stabilised around USD/GEL 3.2 at the beginning of April, appreciating to around USD/GEL 3.05 on average since the beginning of June.



Source: NBG

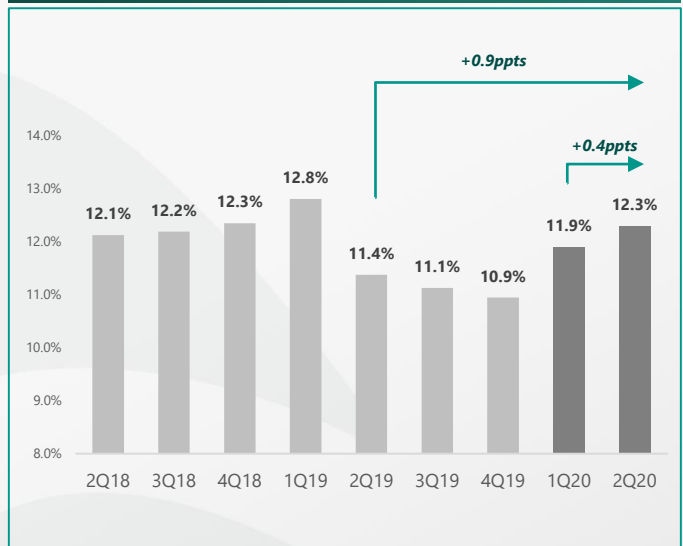


Key highlights

- IMF forecasts that real GDP will contract by 4% in 2020, rebounding to 4% in 2021.
- Inflation was 6.3% on average in Jan-July. IMF forecasts average inflation at 4.7% in 2020.
- NBG decreased the monetary policy rate by 100bps to 8.0% in Apr-Jul.
- Tourism revenues fell 26% in 1Q20 and 97% in 2Q20, as international travel is halted.
- Official reserve assets totaled \$3.6 billion by the end of May, with reserves providing cover for 4.3 months of imports based on Q1 data.
- The fiscal deficit and public debt are expected to rise to around 8.5% and 60% in 2020 respectively, according to IMF.

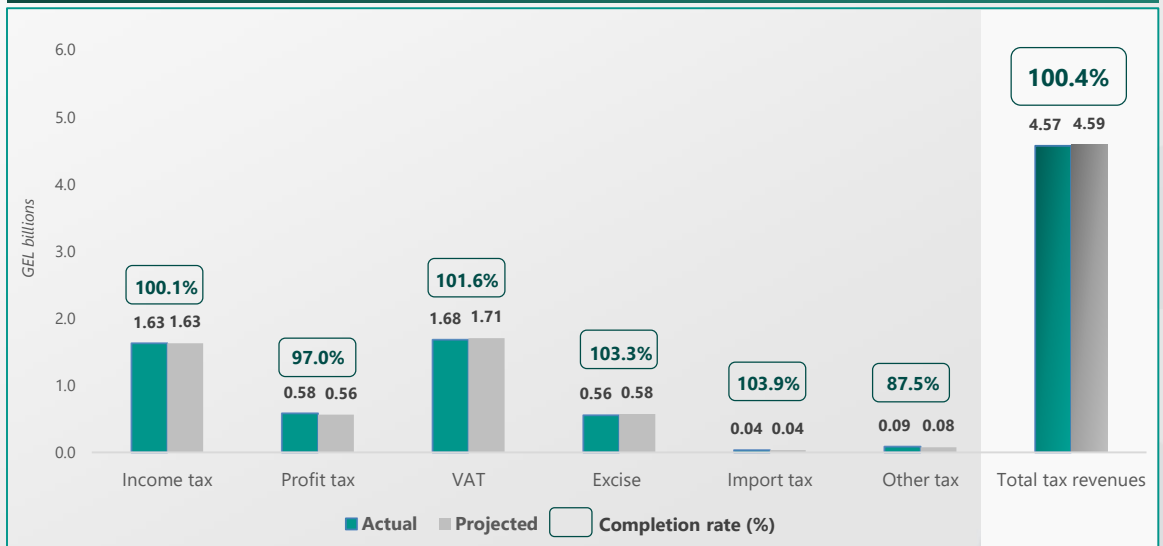
Macroeconomic fundamentals in 1H20 (cont'd)

Unemployment rate



Source: Geostat

1H20 tax revenues | Actual vs. Planned



Source: State treasury

Sovereign ratings with 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	Negative	April 2020

Georgia is favorably placed among peers

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

General Facts



Economy

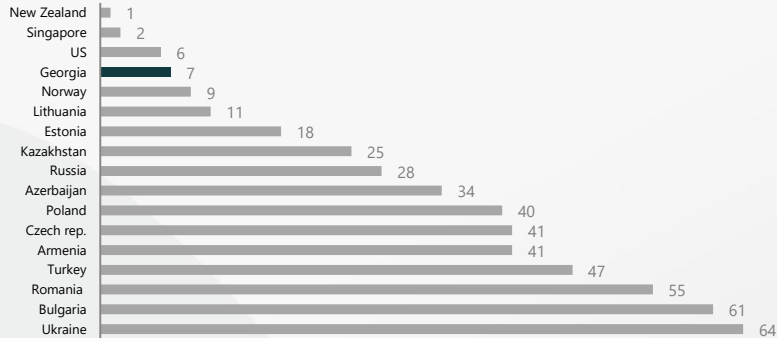
- Nominal GDP (Geostat) 2019: GEL 50 billion (US\$17.7 billion)
- Real GDP growth rate 2019: 5.1%
- Real GDP 2010-2019 annual average growth rate: 4.8%
- GDP per capita 2019 (PPP, international dollar) IMF: 12,227
- Annual inflation 2019: 4.9%
- External public debt to GDP 2019: 32.4%

Georgia's key economic drivers

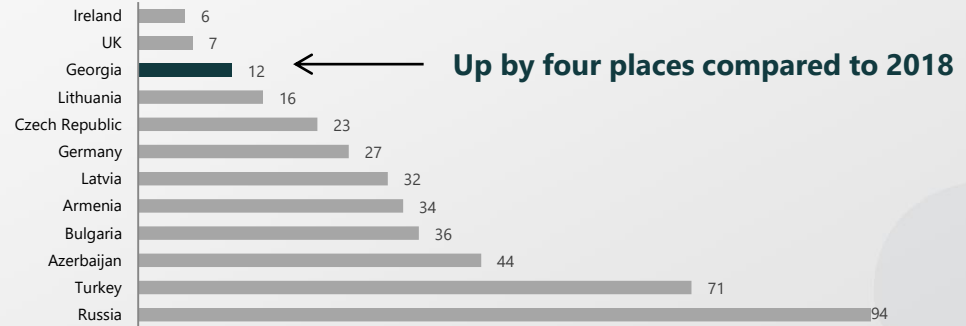
Liberal economic policy	<p>Top performer globally in WB Doing Business over the past 12 years</p> <ul style="list-style-type: none"> Liberty Act (effective January 2014) ensures a credible fiscal framework; Fiscal deficit/GDP capped at 3%; Public debt/GDP capped at 60%; Business friendly environment 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 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. 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 (7.2% of GDP) in 2019. FDI averaged 8.5% of GDP in 2010-2019.
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 2019, Russia accounted for 13.2% of Georgia's exports and 10.8% of imports.

Institutional oriented reforms

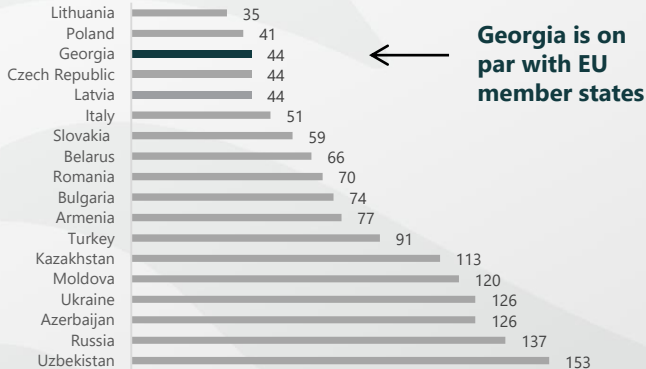
Ease of Doing Business | 2020 (WB Doing Business Report)



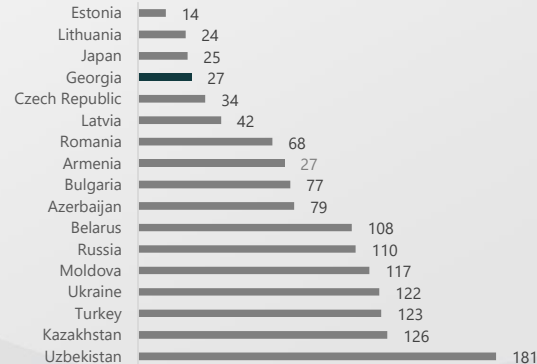
Economic Freedom Index | 2020 (Heritage Foundation)



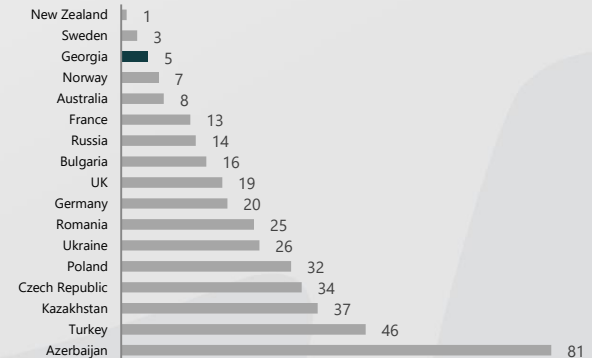
Corruption Perception Index | TI 2019



Business Bribery Risk, 2019 | Trace International



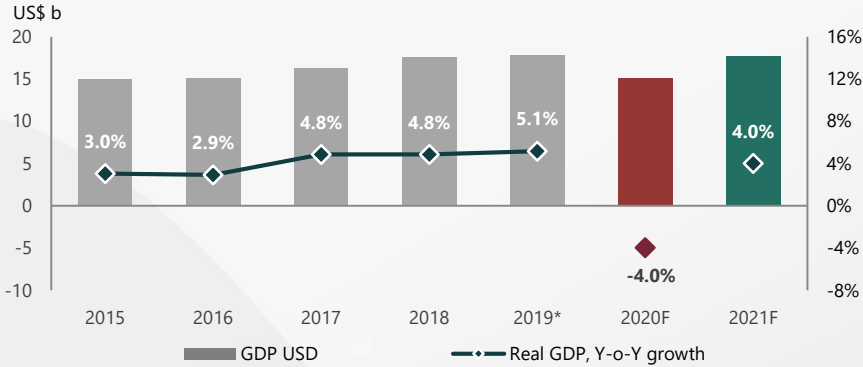
Open Budget Index, 2019 | International Budget Partnership



COVID-19 impact – IMF forecasts

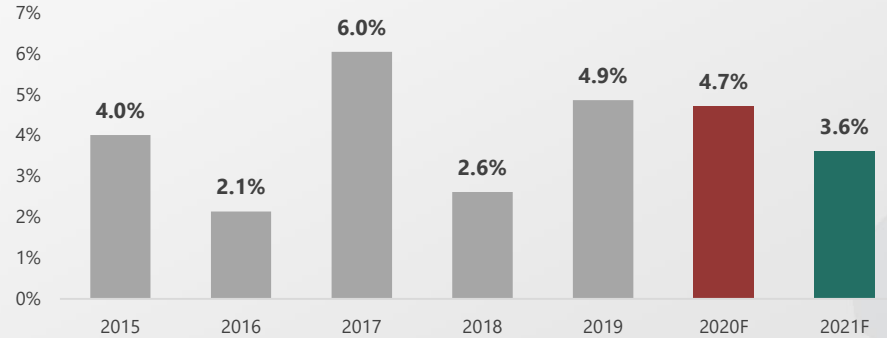
Gross Domestic Product

Source: IMF



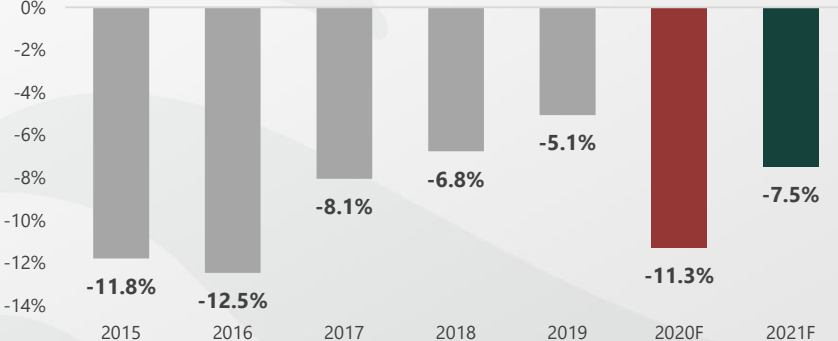
Consumer Price Inflation

Source: IMF



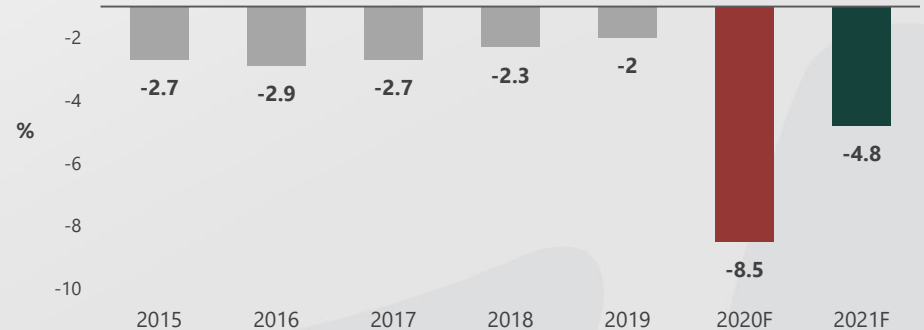
Current Account Balance

Source: IMF



Fiscal Deficit (GFSM 1986, IMF Modified)

Source: IMF

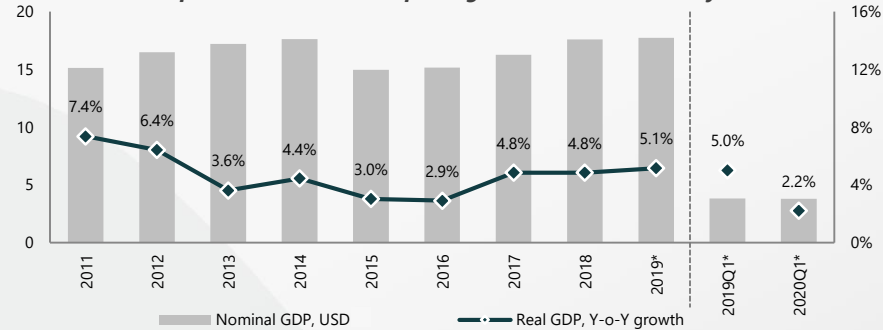


Diversified resilient economy

Gross domestic product

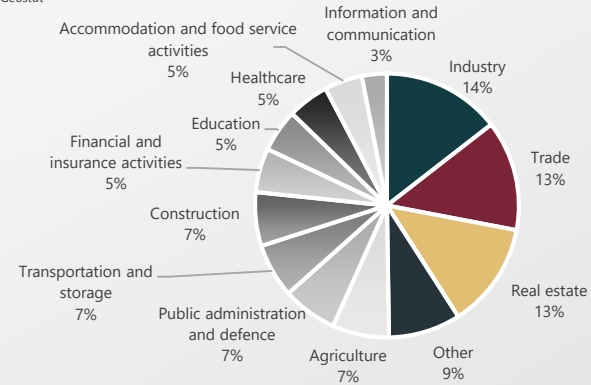
Source: Geostat
US\$ bln

Growth was robust in 2019, but will be negative in 2020 due to the pandemic, with IMF expecting real GDP to contract by 4%



Diversified nominal GDP structure, 1Q2020

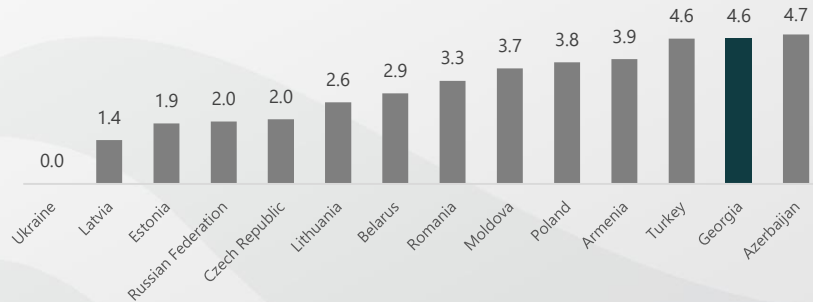
Source: Geostat



One of the Fastest Developing Economies in the Region

Source: IMF

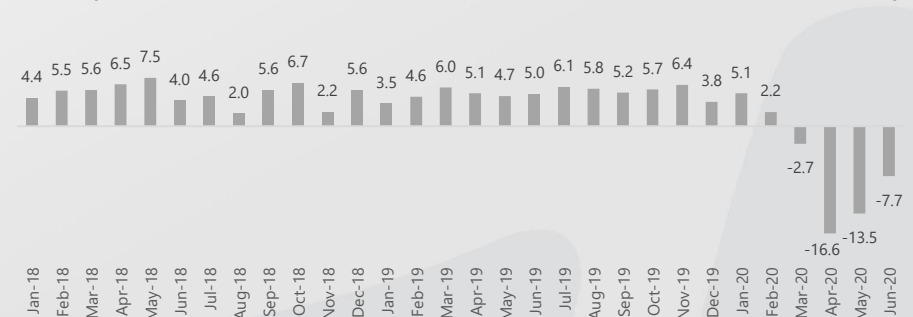
Comparative real GDP growth rates, % (2007-2019 average)



Monthly Economic Activity Estimate, y-o-y growth

Source: Geostat

Economy contraction has been eased from April and GDP contraction in June was 7.7% y-o-y

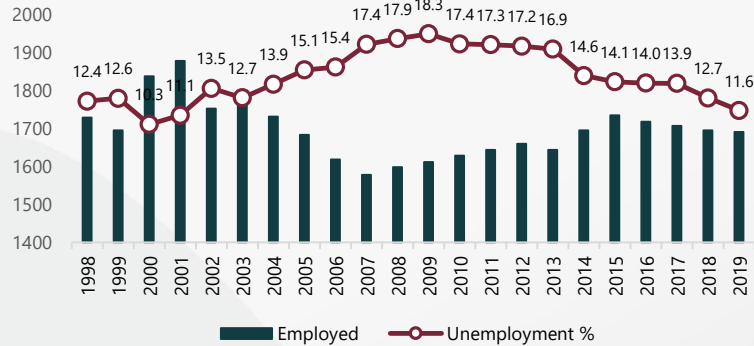


¹ preliminary data

Room for further job creation

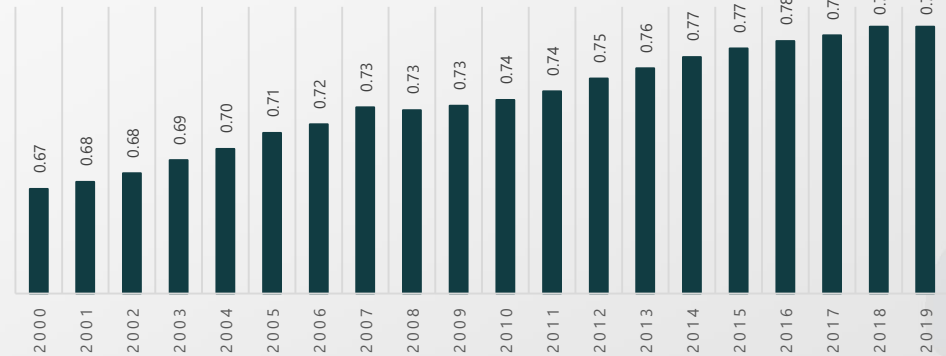
Unemployment rate down 1.1 ppts y-o-y to 11.6% in 2019

Sources: GeoStat



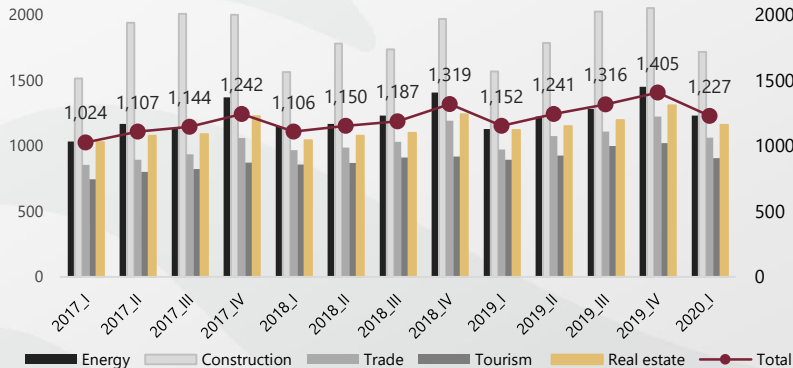
UNDP Human Development Index

Sources: UNDP



Average monthly nominal earnings in business sector

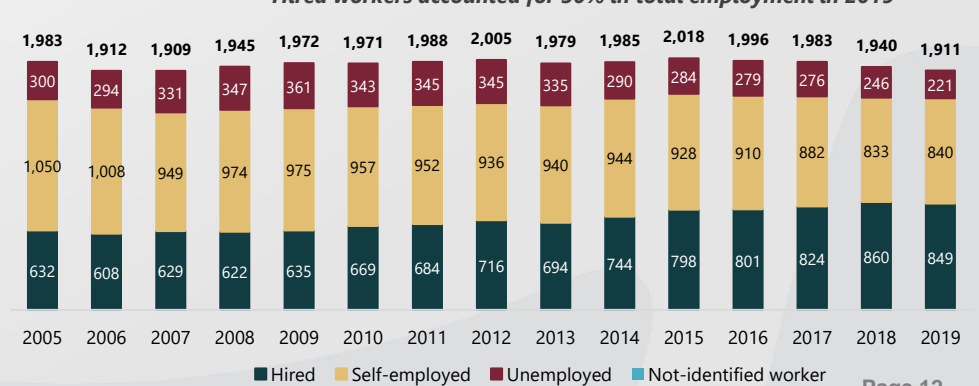
Sources: GeoStat



Labor force decomposition

Sources: GeoStat

Hired workers accounted for 50% in total employment in 2019

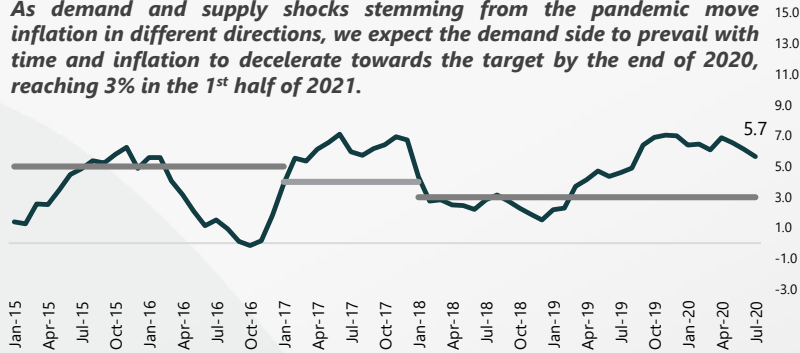


Inflation targeting since 2009

Inflation y-o-y vs. inflation target

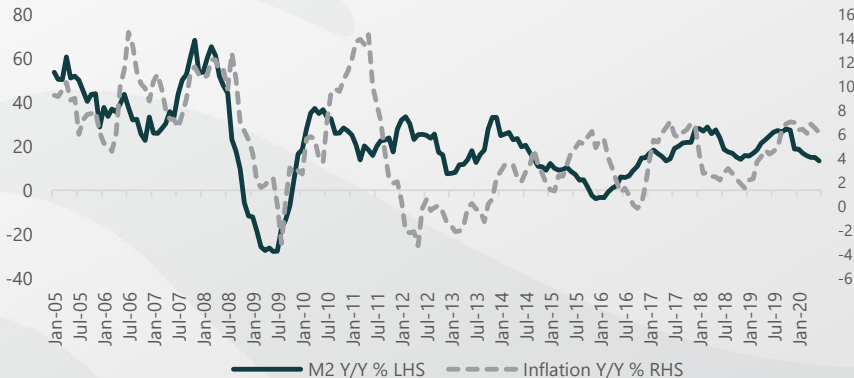
Sources: NBG, GeoStat

As demand and supply shocks stemming from the pandemic move inflation in different directions, we expect the demand side to prevail with time and inflation to decelerate towards the target by the end of 2020, reaching 3% in the 1st half of 2021.



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

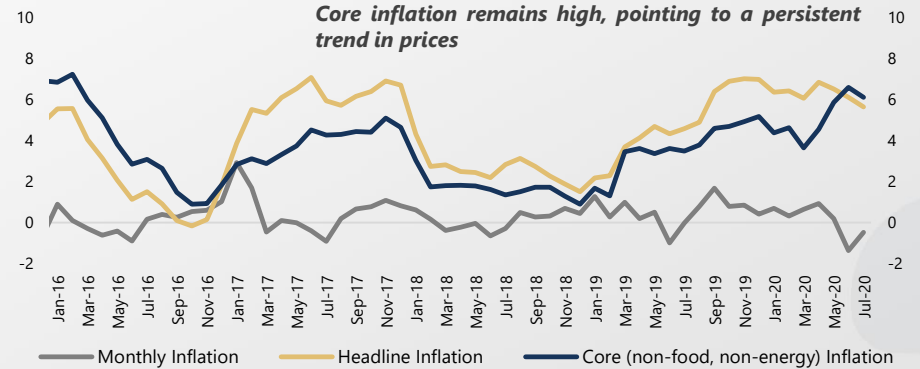
Sources: Geostat, NBG



Inflation y-o-y

Source: GeoStat

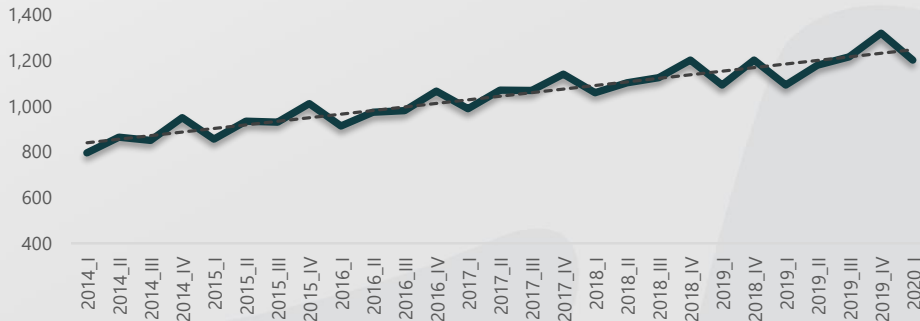
Core inflation remains high, pointing to a persistent trend in prices



Average monthly nominal earnings

Source: Geostat

Monthly nominal earnings increased on average 7.7% y-o-y in 2010-2019

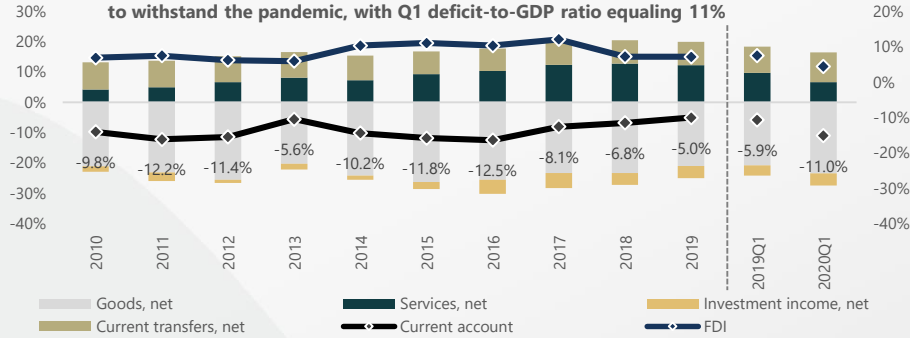


Current account

Current account balance (% of nominal GDP)

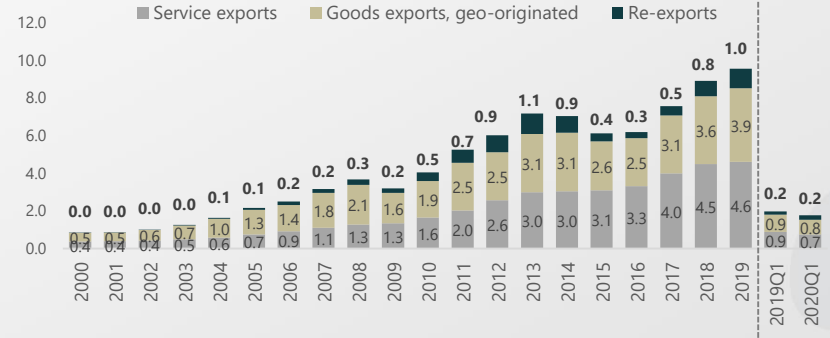
Sources: NBG

Double digit shrinking in the trade deficit helped the Current Account balance (CAB) to improve to a historic low of 5.1% in 2019, providing a strong position to withstand the pandemic, with Q1 deficit-to-GDP ratio equaling 11%



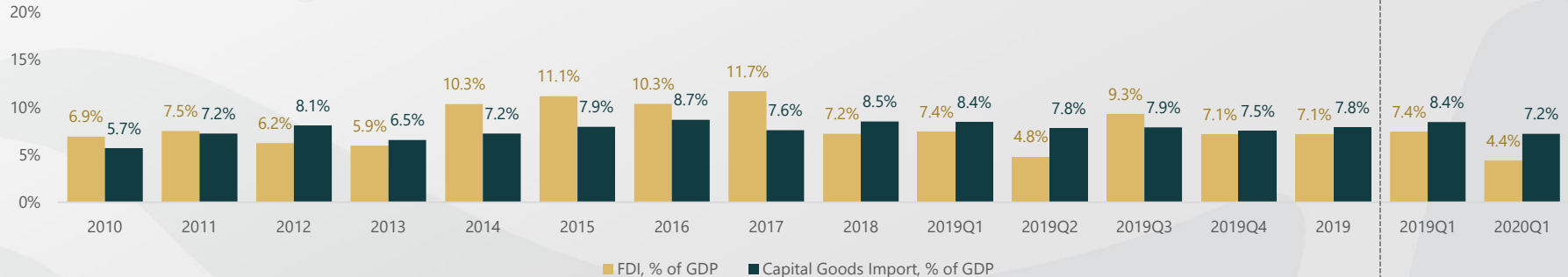
Exports and Re-exports, US\$ billion

Source: NBG



FDI and capital goods import

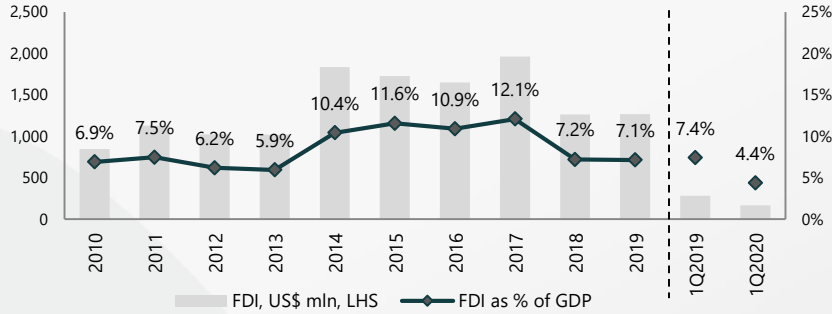
Source: GeoStat



Diversified sources of capital

Strong foreign investor interest

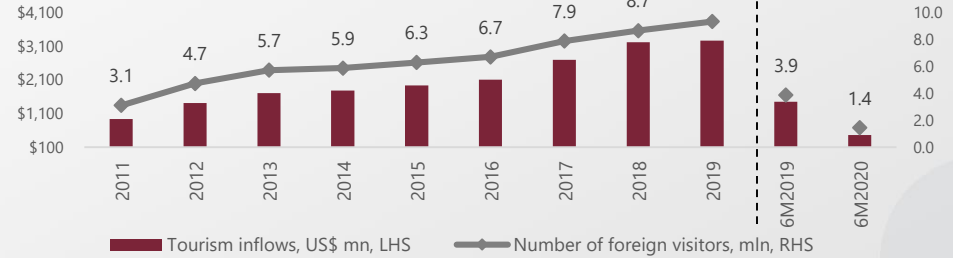
Sources: GeoStat



Visitors and tourism revenues

Sources: GNTA, NBG

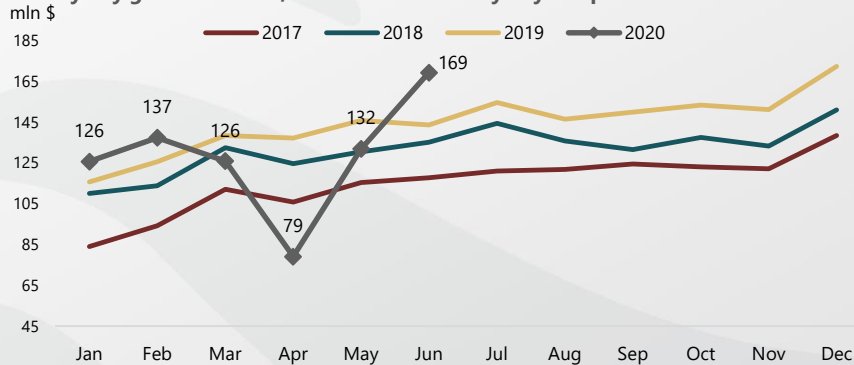
2Q20 tourism revenues fell by 97% y-o-y, as borders remain closed (down 69% y-o-y in 1H20)



Remittances

Source: NBG

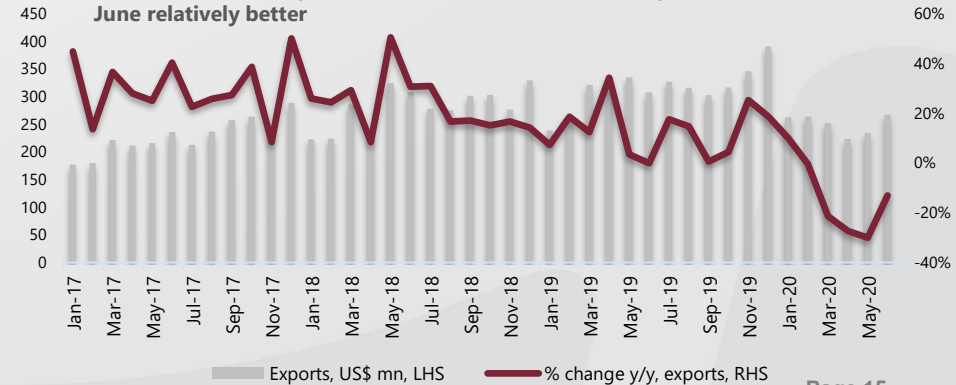
Remittance inflows fell by 4.6% y-o-y in Jan-Jun 2020, reflecting an 18% y-o-y growth in June, after a low of -42% y-o-y in April



Merchandise exports

Source: Geostat

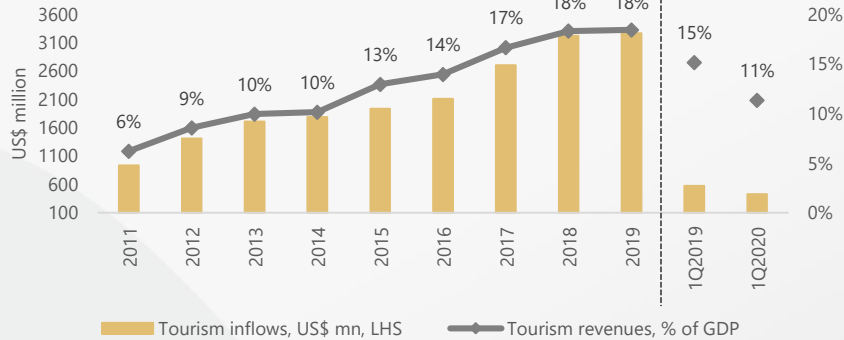
Goods exports fell by 15.3% in 1H20, with April and May hit the hardest, and June relatively better



Tourism sector

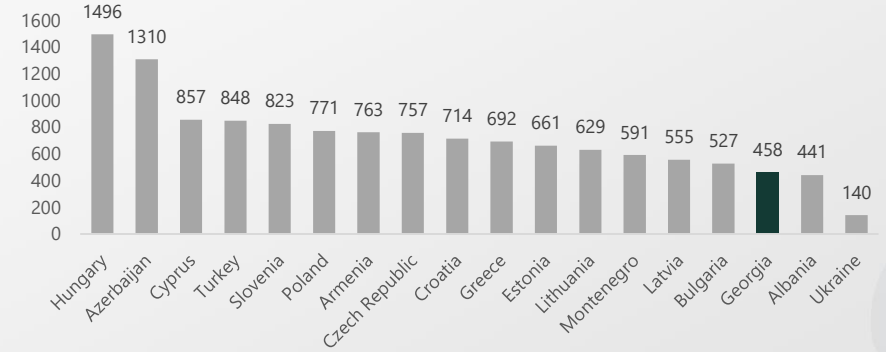
Tourism revenues to GDP

Sources: NBG, Geostat



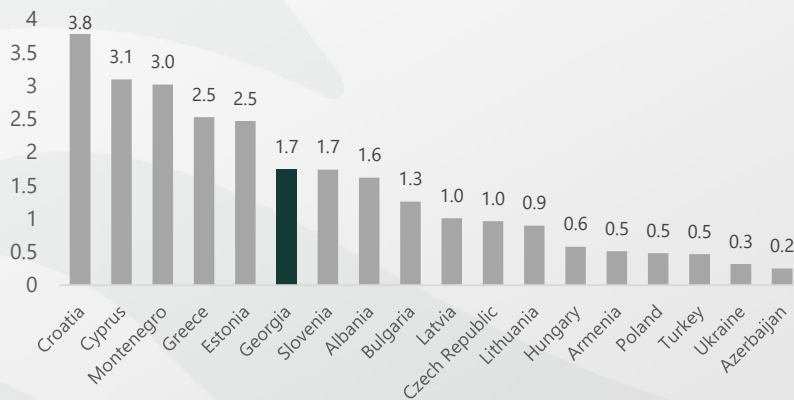
Spending per arrival, 2017

Source: WDI



Arrivals to country's population, 2017

Source: WDI



Number of Tourists (overnight visitors)

Source: GNTA

During Mar-Jun 2020, the number of tourists fell 7 times y-o-y, with borders remaining closed aside from France, Germany and the Baltic states

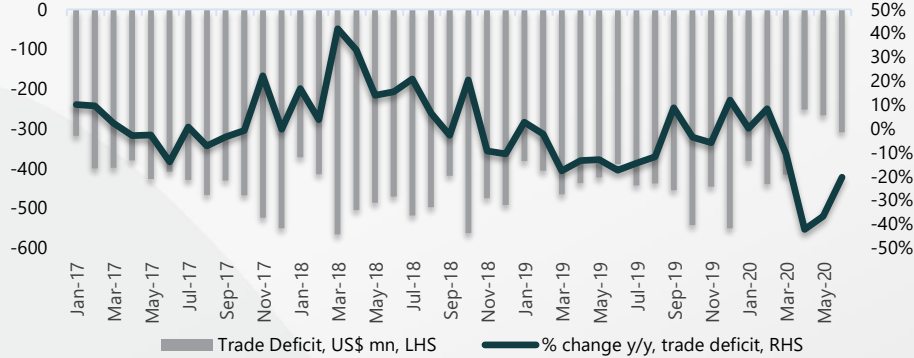


Diversified foreign trade

Goods' Trade Deficit

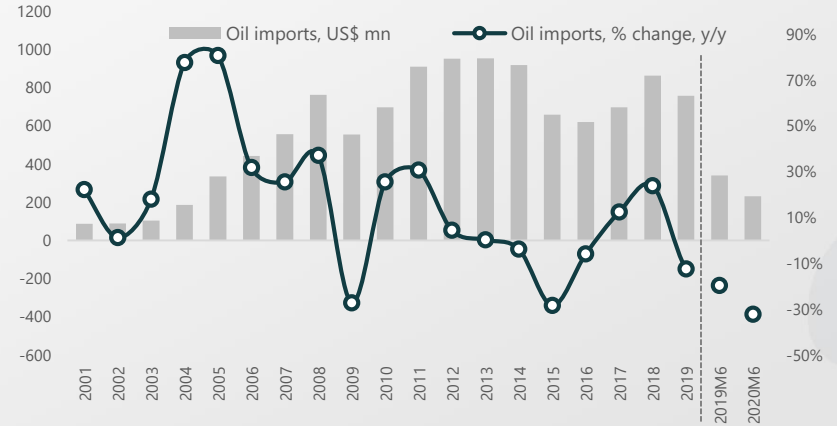
Source: GeoStat

In 2Q20, the trade deficit fell by 34%, as exports were cut by 23.7% and imports contracted by 29.3% on the back of the pandemic



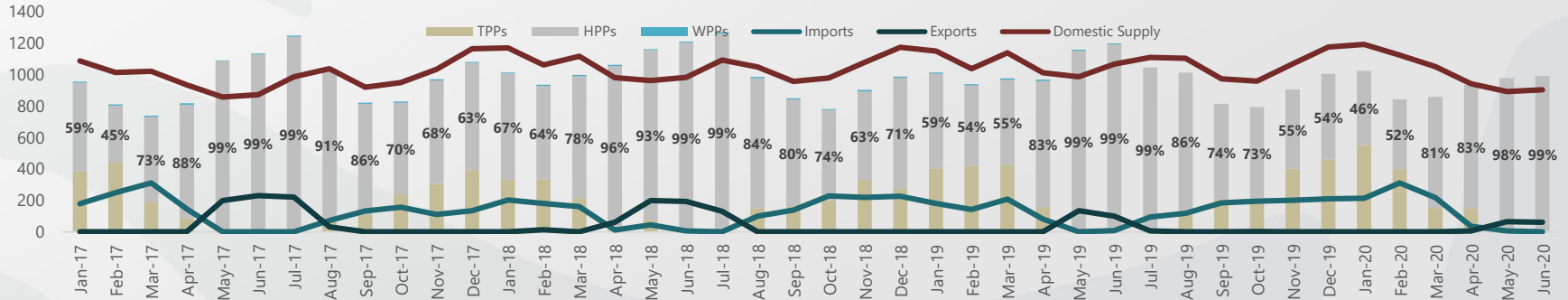
Oil imports

Source: GeoStat



Electricity generation and trade, GWH

Source: ESCO

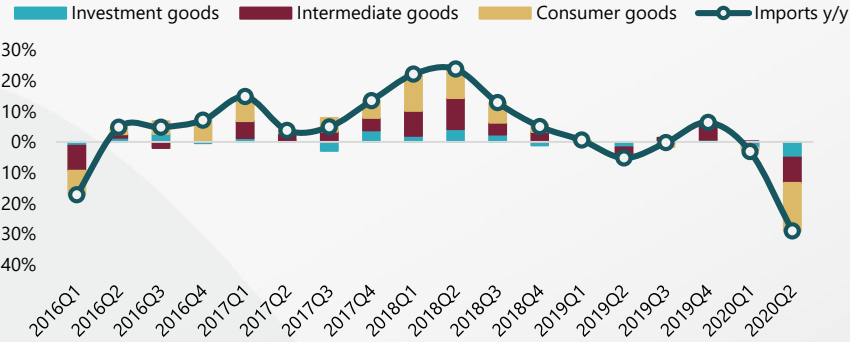


Diversified foreign trade

Imports of Goods, contribution to growth

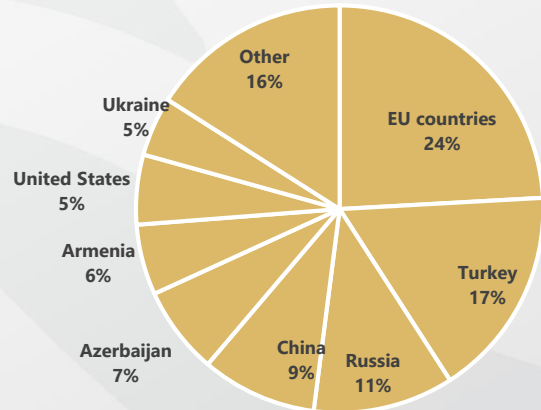
Source: NBG

All types of goods contributed to shrinking imports in Q2, with consumer goods driving the half of the decline



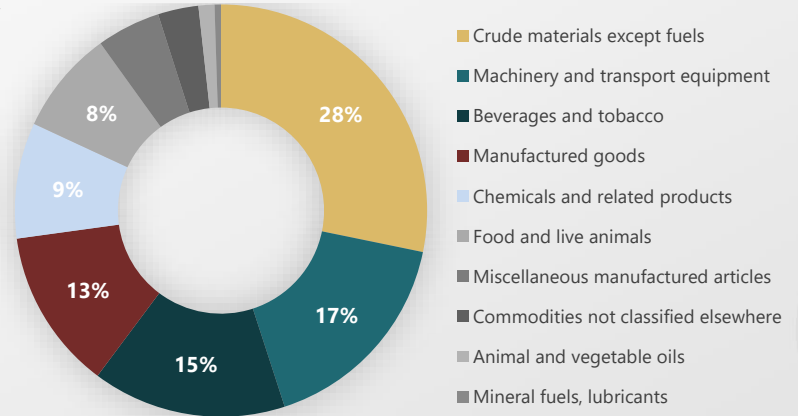
Import countries, 1H20

Sources: GeoStat



Foreign Demand, 1H20

Source: Geostat



Export countries, 1H20

Sources: GeoStat

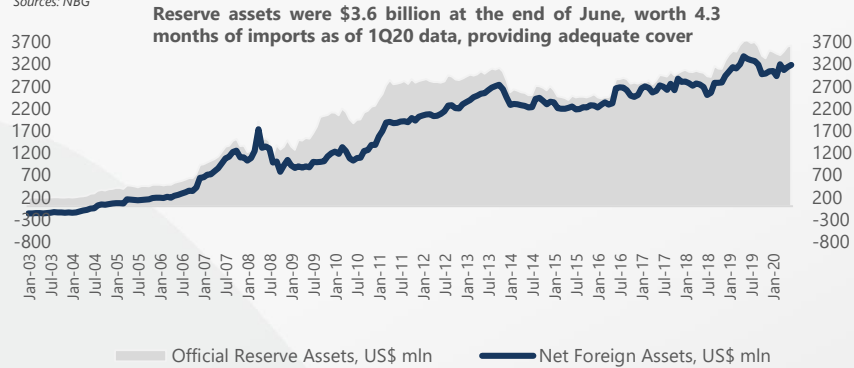


China has become the single largest destination country for Georgian exports in 1H20 with a 13.6% share, as opposed to 2.9% in 1H19

Prudent monetary policy ensures macro-financial stability

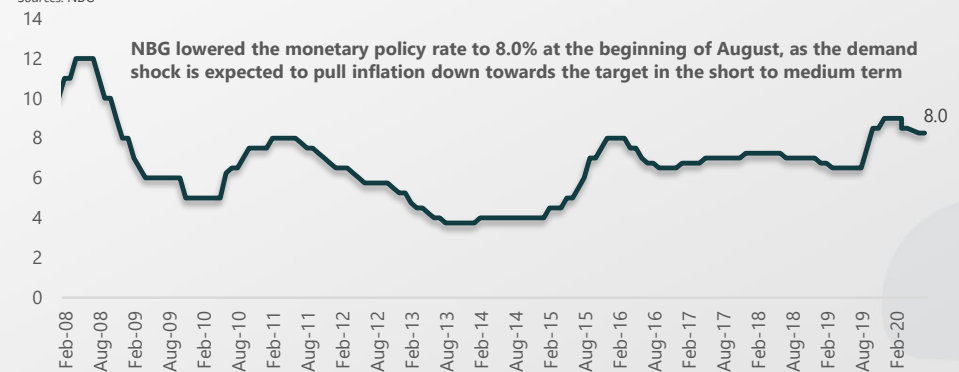
International reserves

Sources: NBG



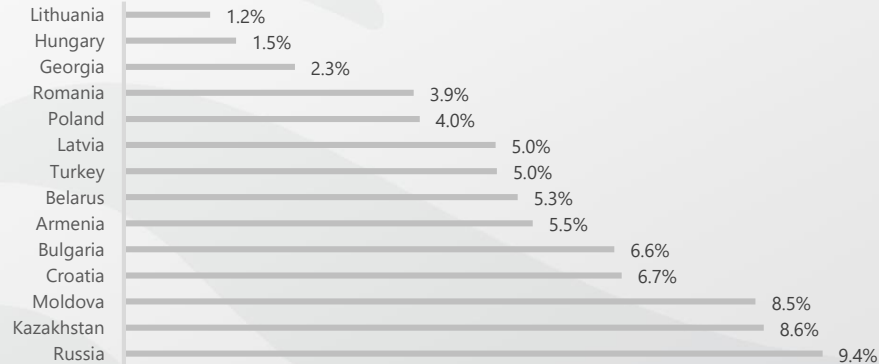
Monetary policy rate

Sources: NBG



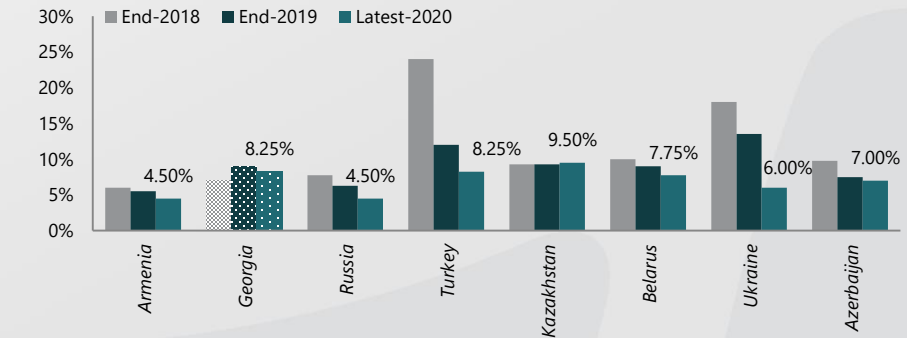
Nonperforming loans to total gross loans, latest 2020

Sources: IMF



Monetary policy rate vs peers

Sources: Central banks

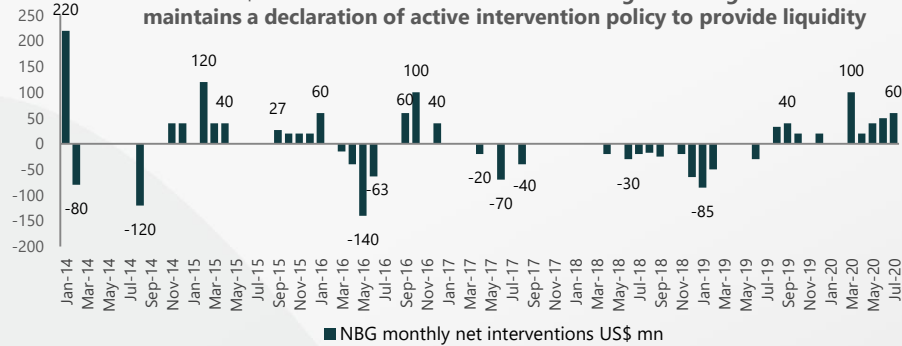


Floating exchange rate - policy priority

Central Bank's interventions

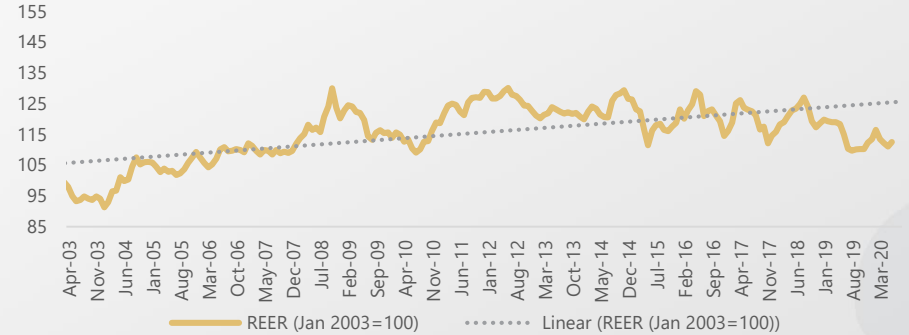
Sources: NBG

NBG sold \$270mln in Mar-Jul 2020 on the foreign exchange market and maintains a declaration of active intervention policy to provide liquidity



Real effective exchange rate (REER)

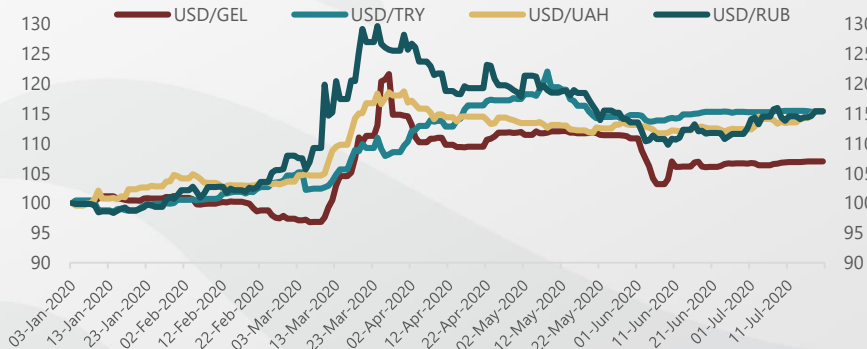
Sources: NBG



Exchange rate indices (1 January = 100)

Sources: NBG

Flexible exchange rate regime plays a role as a shock-absorber



Dollarization ratios

Sources: NBG

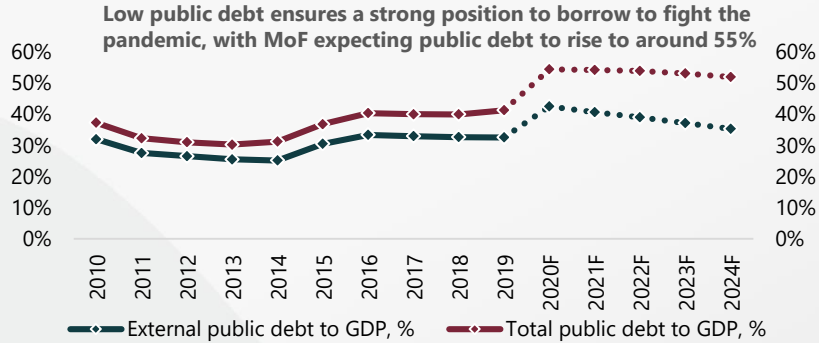
Both deposit and loan dollarization jumped in March on the back of the pandemic and GEL depreciation, with deposit dollarization starting to decline immediately



Low public debt

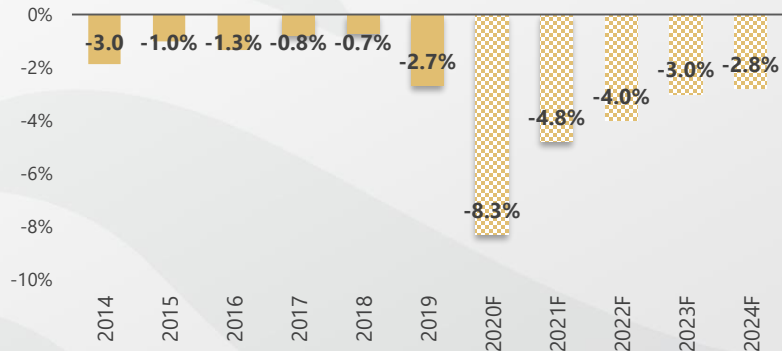
Public debt

Sources: MOF



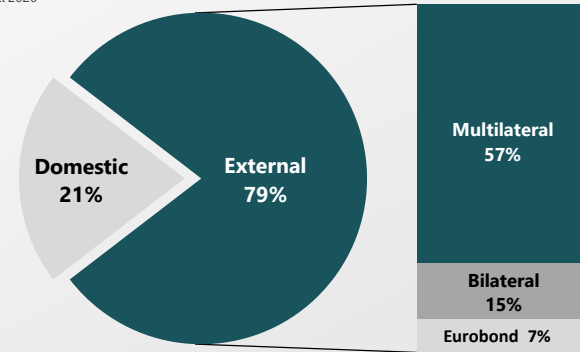
Overall Balance, % of GDP (GFSM 2001)

Source: MOF



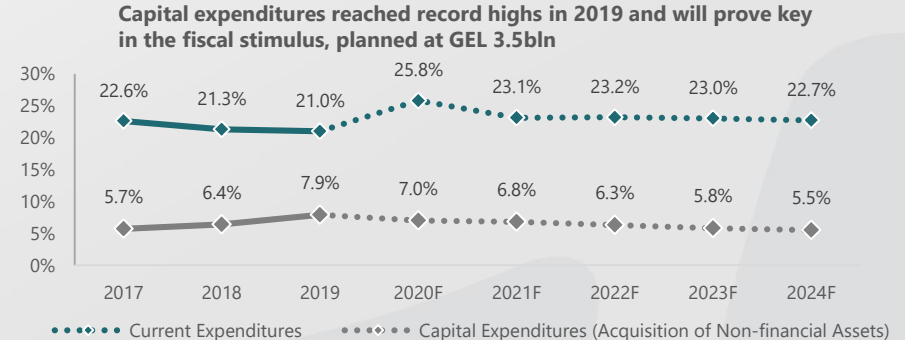
Breakdown of public debt

Source: MOF, as of 30 April 2020



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
- **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

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

