

Georgia Economic Outlook

April 2016

Government of Georgia
www.gov.ge



Country at Glance

Resilient Economic Growth History

- ✓ Above 5% average growth during the last 10 years
- ✓ Around 5% projected average growth over the next years

Strong International Ties

- ✓ Association Agreement (AA), including Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU since 2014
- ✓ Visa Liberalization with the EU expected in 2016
- ✓ Ongoing reforms under AA agenda

Favorable Business Environment

- ✓ “Globally, Georgia improved the most in the areas measured by Doing Business over the past 12 years” – DB 2016
- ✓ Tangible improvement in Corruption Perception Index over the 10 years – up by 82 places since 2005 (Transparency

Strong Governance Record

- ✓ International)
Improved governance and rule of law
 - WGI's score “Regulatory Quality” improved from 35.7 (2004) to 79.3 (2014)
 - WGI's score “Rule of Law” improved from 31.1 (2004) to 64.4 (2014)



Stable Sovereign Ratings

STANDARD & POOR'S

November 13, 2015

Foreign Currency

- Long Term: BB-
- Short Term: B

Local Currency

- Long Term: BB-
- Short Term: B

Outlook: Stable

Major Rating Strengths:

- ✓ Government's debt burden remains modest and fiscal performance under control;
- ✓ Long Term Growth potential remains strong;
- ✓ Banking system well capitalized and liquid;
- ✓ Regional competitiveness.

FitchRatings

April 1, 2016

Foreign Currency

- Long Term: BB-
- Short Term: B

Local Currency

- Long Term: BB-
- Country Ceiling: BB

Outlook: Stable

Major Rating Strengths:

- ✓ Strong support from the international community;
- ✓ Strong commitment to economic and structural reforms;
- ✓ AA with EU, DCFTA- easier access to EU market, which will boost Georgia's attractiveness as an investment location over the medium to long term;
- ✓ Georgia's business environment very favorable with rating peers (easy of doing business indicators);
- ✓ Prudent fiscal policy, sustainable debt level.

MOODY'S INVESTORS SERVICE

March 12, 2016

Foreign Currency

- Long Term: Ba3
- Short Term: Not-Prime

Local Currency

- Long Term: Ba3
- Short Term: Not-Prime

Outlook: Stable

Major Rating Strengths:

- ✓ Regional logistics hub and transport corridor between Europe and Asia;
- ✓ Very strong banking sector (Banking sector risk -Low);
- ✓ High institutional strength relative to peers, reflected in strong government indicators. (Georgia has progress beyond its Soviet roots, and has arguably advanced further towards Western-style, independent institutions than any other country in the post -Soviet space.);
- ✓ High Worldwide Governance indicator (WGI) scores and outperforms its peers;
- ✓ Institutional capacity- and pro business operating environment, government's relative strong balance sheet and moderate debt burden.

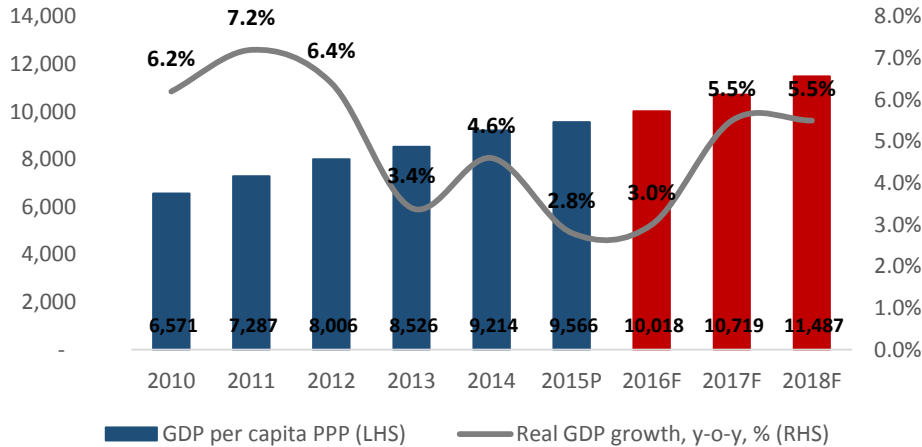
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Fast-Growing Diversified Economy

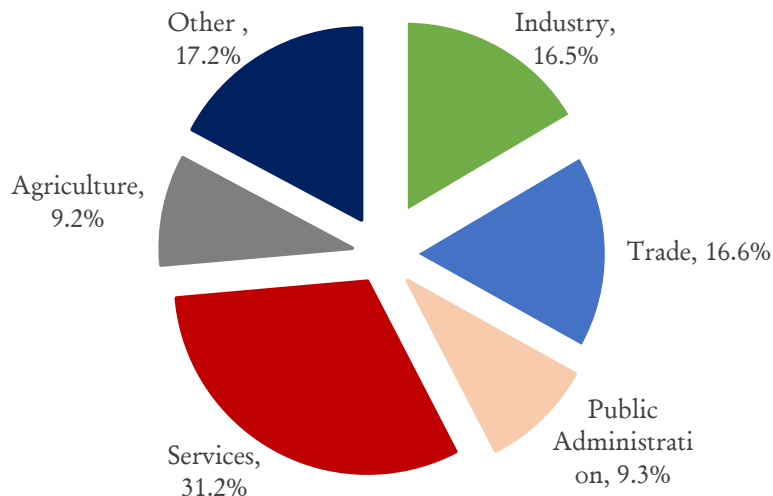
GDP



- ✓ 5.1% average growth rate from 2010
- ✓ Around 5% average growth rate expected over the next years
- ✓ GDP per capita has doubled during last decade

Source:
Geostat

Components of GDP 2015P



Key Growth Drivers:

(Average growth since 2009)

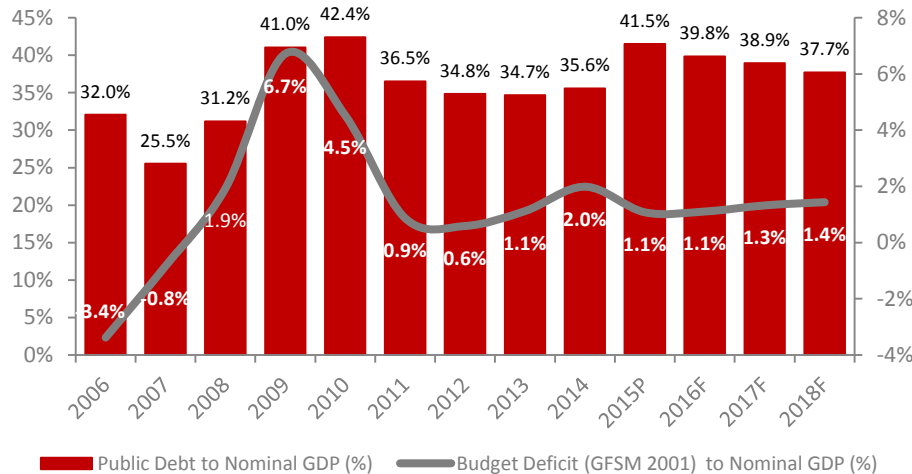
- ✓ Services 8.8%
- ✓ Manufacturing 8.7%
- ✓ Construction 7.4%

Source:
Geostat



Solid Fiscal Performance

Fiscal Performance and Public Debt



Source: Ministry of Finance

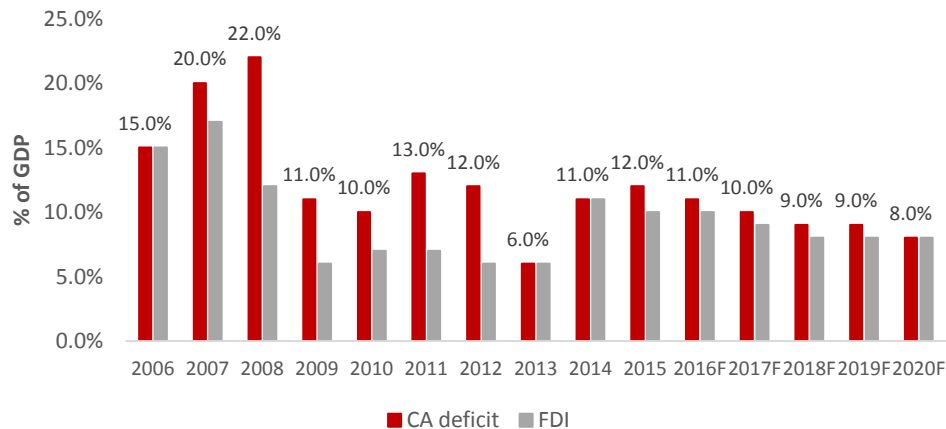
✓ Low Public Debt c.40% of GDP, well below peers

✓ External public debt enjoys low (1.94%) average annual interest rate including Eurobond, majority (70%) of loans have fixed interest rate

✓ Average contractual maturity of 22 years

✓ Multilateral or bilateral account for majority of external debt and is on highly concessional terms

Current Account Deficit



✓ Current account deficit mainly driven by large FDI inflows in the country

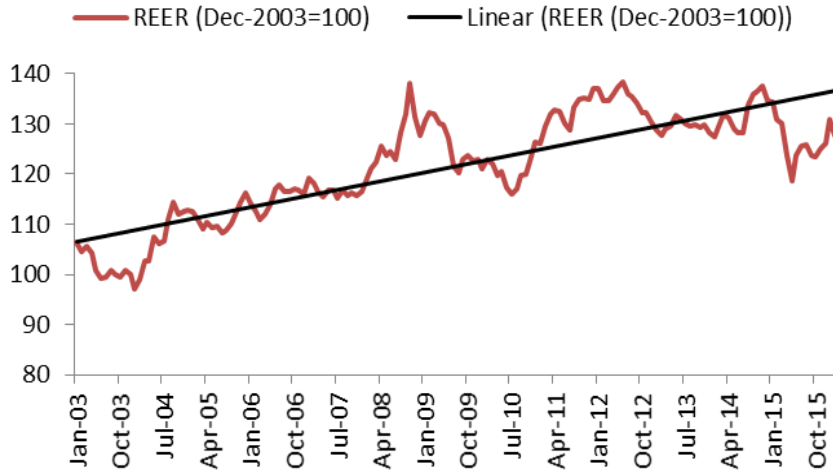
✓ Tourism revenues has increasing trend (2005-2015 increased 8 times), becoming an important source of current account improvement

Source: National Bank of Georgia



Effective Monetary Policy

Real effective exchange rate has appreciating trend



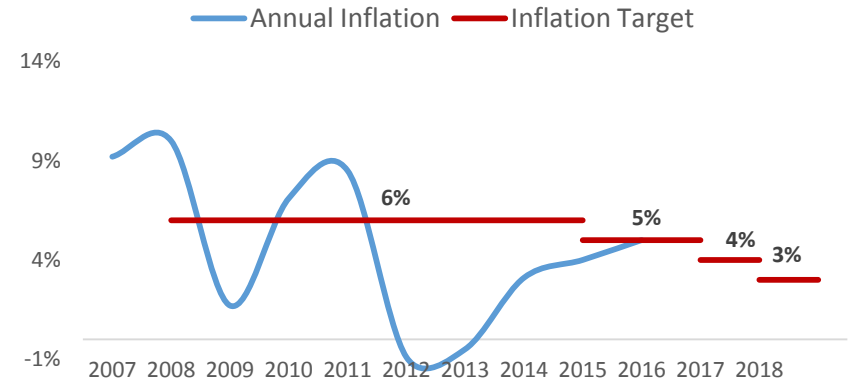
Source: NBG

	NEER	=	REER	-	Domestic Inflation	+	Foreign Inflation
2003-2015	3.0%	=	2.0%	-	5.5%	+	6.5%
Forecast	2.5%	=	1.5%	-	3.0%	+	4.0%



Long run nominal appreciation

Inflation is under control



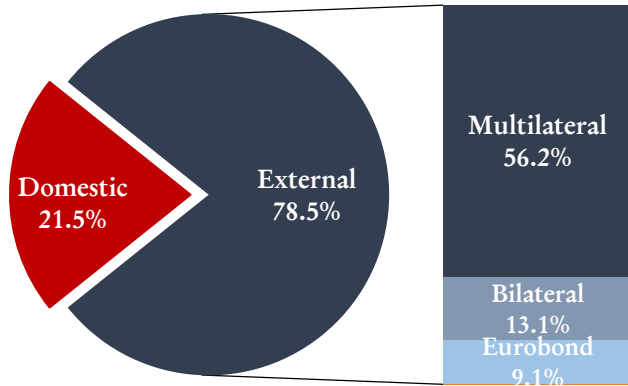
Source: NBG

- ✓ Due to productivity growth differential Georgia has appreciating REER trend
- ✓ Low domestic inflation
- ✓ Inflation targeting framework with 3% long term inflation target (effective from 2018)
- ✓ Floating exchange rate

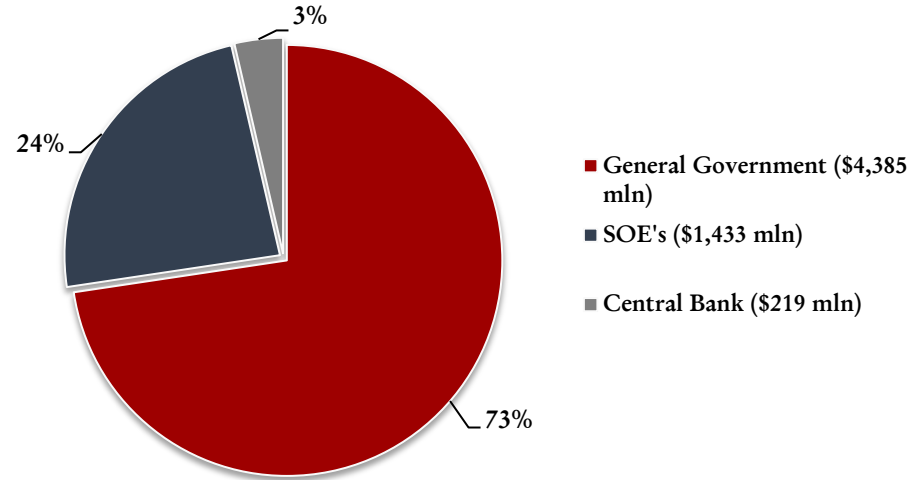


Diversified Public Debt Structure

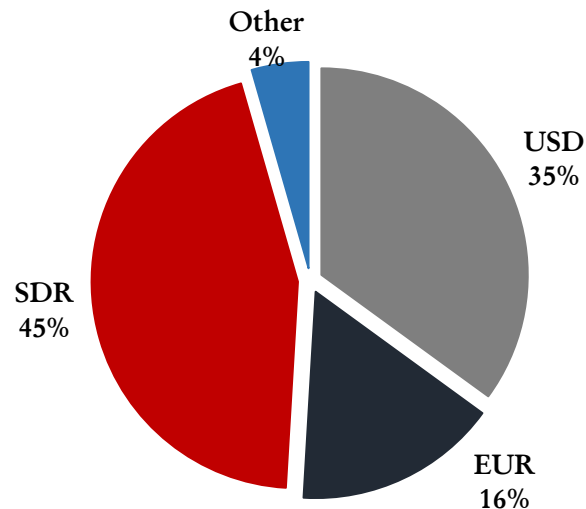
Affordable Public Debt Stock and Very Low Interest Rate on External Public Debt



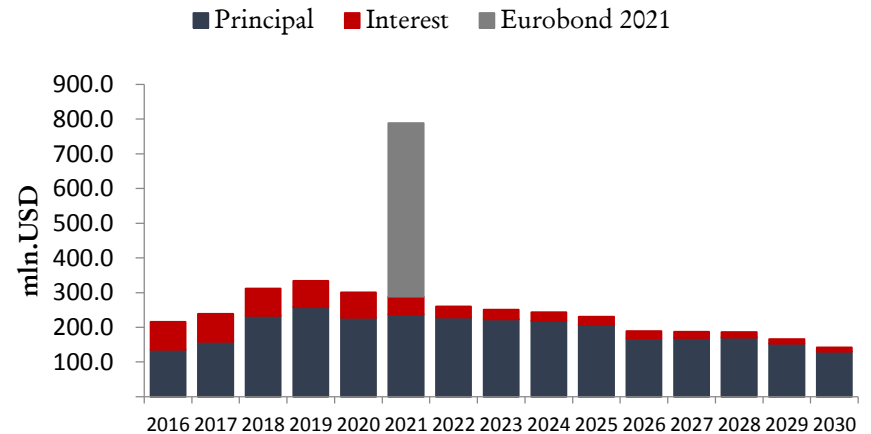
External Debt of General Government and Public Sector



External Public Debt Currency Structure



External Public Debt Service



Domestic Market Development

Public Debt Management Strategy Objectives

- ✓ Ensure the transparency of government public debt management policy
- ✓ Increase the share of domestic financing and develop the domestic market of government securities;
- ✓ Attract international investors on the domestic market

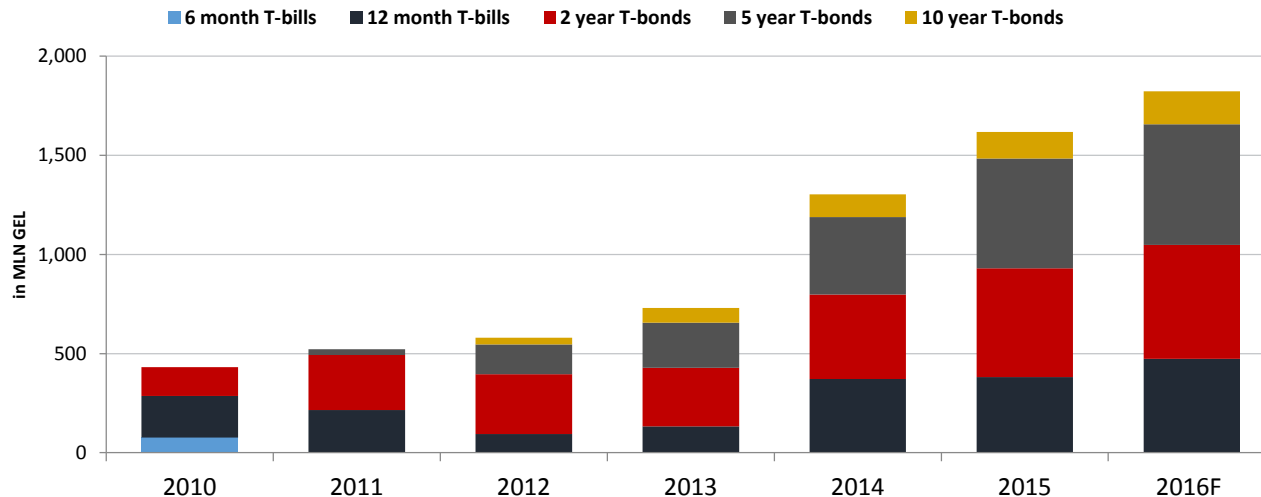
IFIs started to issue GEL denominated bonds to develop capital market in Georgia

- ✓ EBRD –GEL 50mln; IFC –GEL 30mln; ADB – GEL 100mln; BSTDB – GEL 45mln
- ✓ EBRD and ADB plan next issuances

Easy entry and exit for international investors

- ✓ No capital controls, no taxes on government and IFI papers
- ✓ Links through Clearstream and number of commercial Global Custodians (Treasury Securities could be purchased through StateStreet and Citibank in US, and via Clearstream in EU)

Increasing Treasury Securities Stock



Open Trade Policy

EU

Duty Free access to 500 mln market

DCFTA

CIS

FTA

Turkey

FTA

US, Canada,
Japan,

GSP

MFN (since 2000)

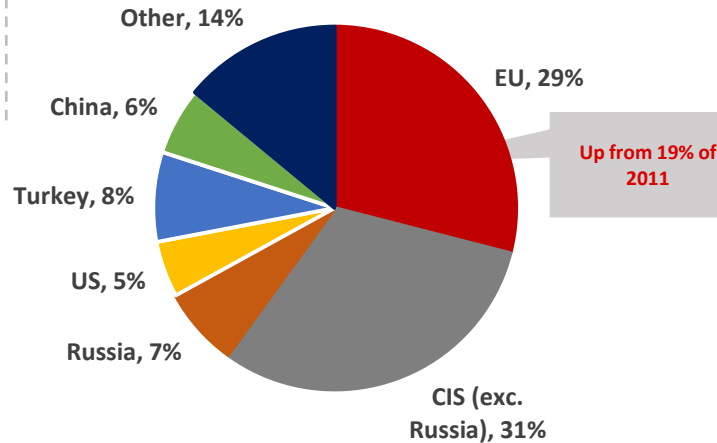


FTA with EFTA – negotiations concluded

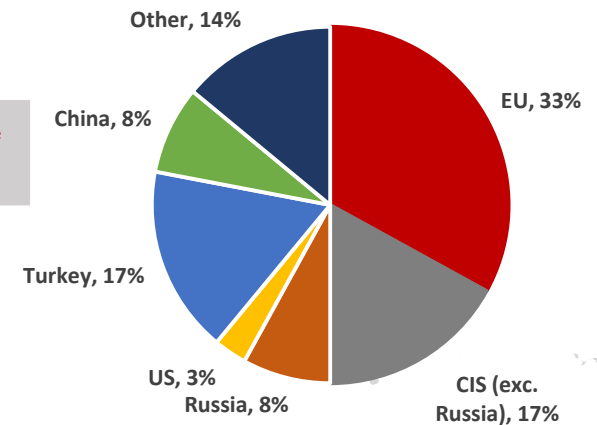
FTA with China – negotiations launched



Export Structure by Country 2015

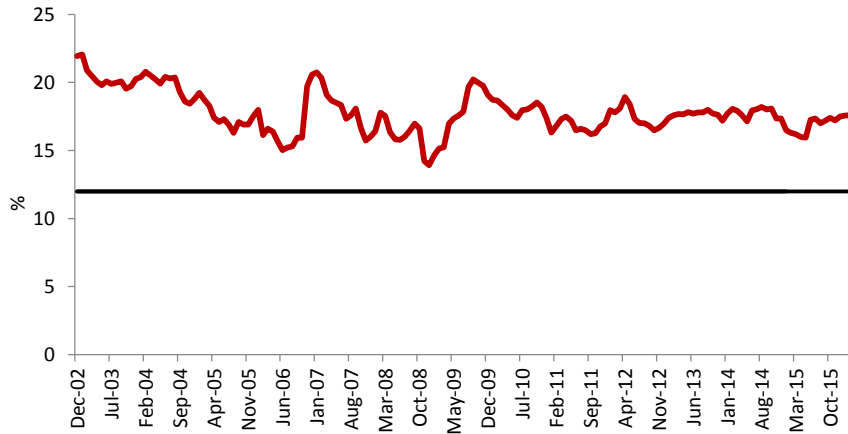


Import Structure by Country 2015



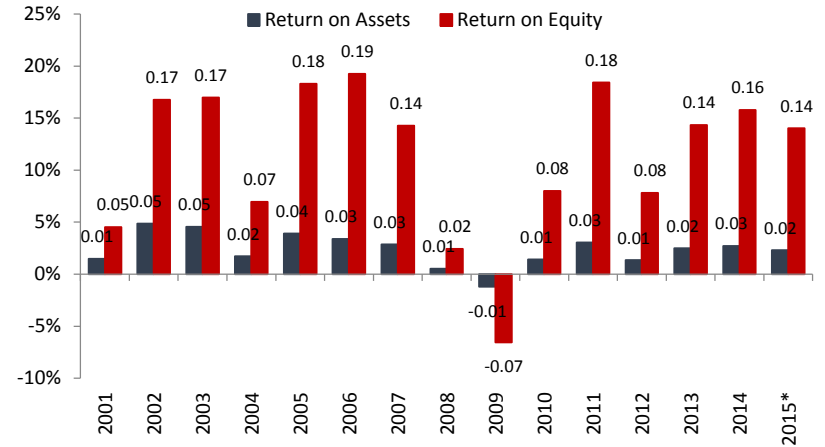
Resilient Banking Sector

Capital Adequacy Ratio well above regulatory minimum



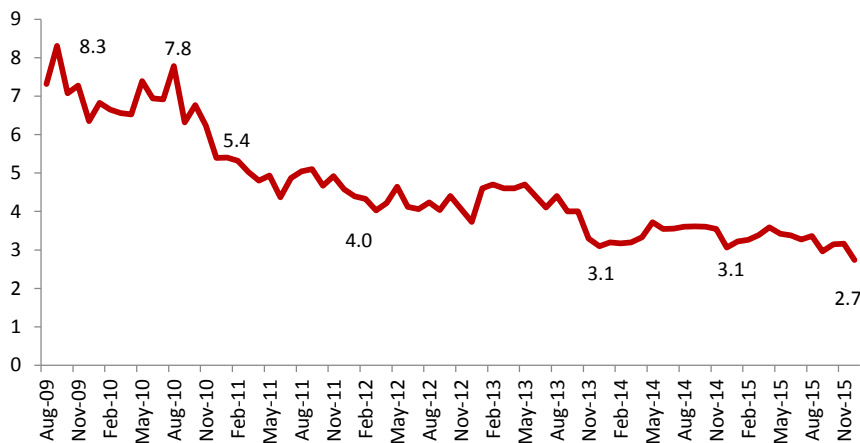
Source: NBG

Stable Profitability



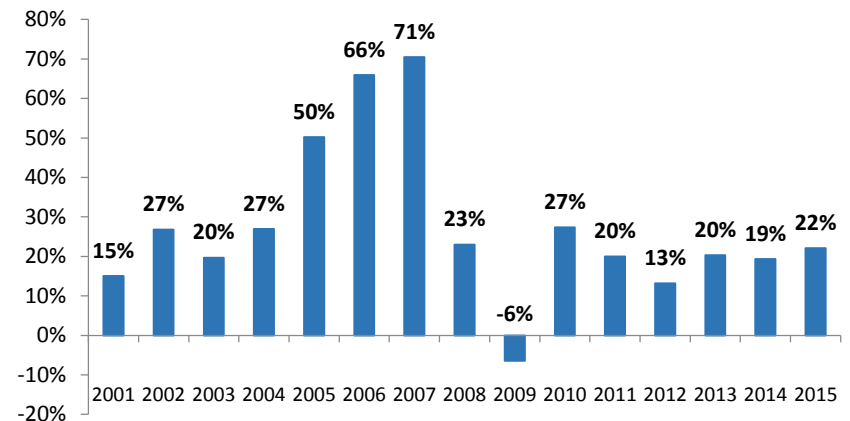
Source: NBG

Steadily Declining NPLs



Source: NBG

Banking System Assets Continue to Grow

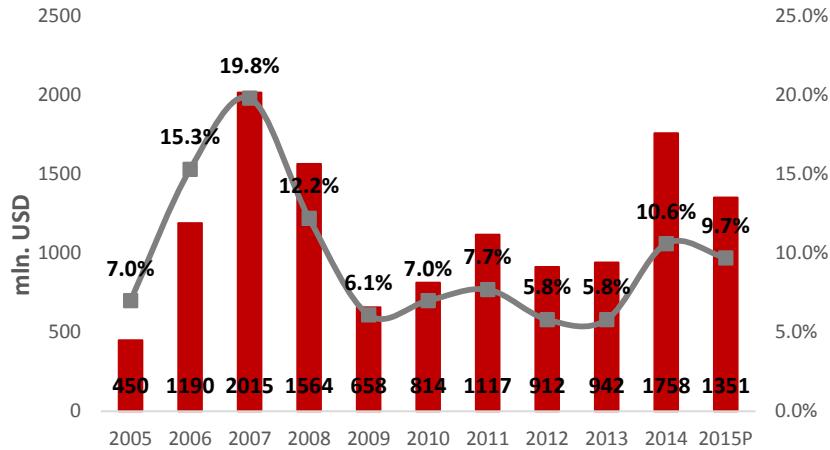


Source: NBG



Attractive Investment Destination

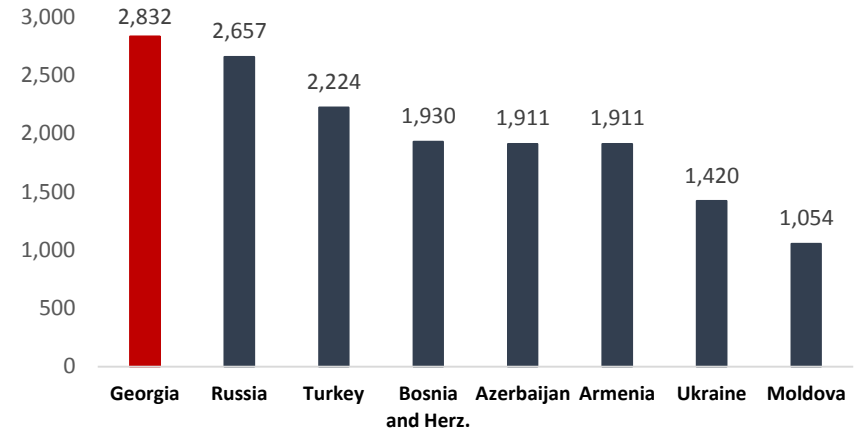
Growing FDI Stock



Source: Geostat

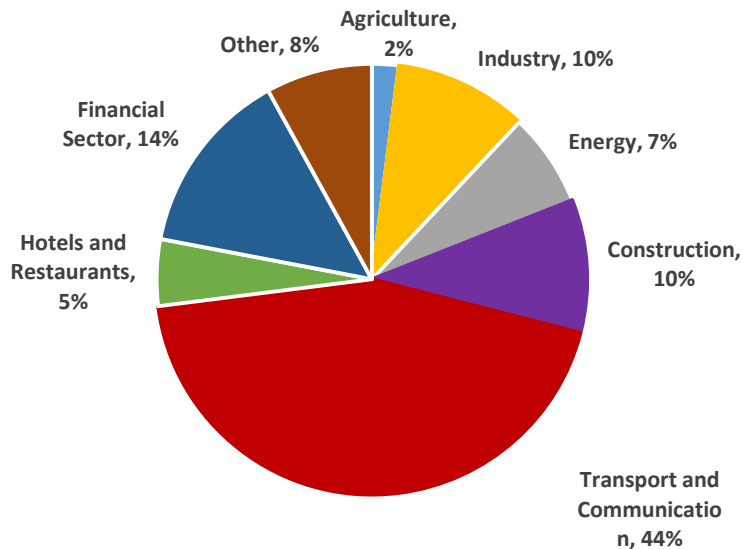
■ FDI — Share in GDP

FDI per capita (current USD), 2014



Source: UNCTAD Stat

FDI by Sector, 2015 (%)

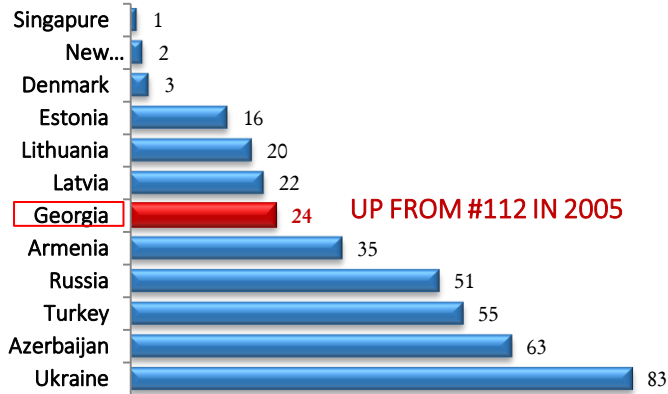


- ✓ Political stability
- ✓ Business-friendly environment
- ✓ Corruption-free public service
- ✓ Increase of market size by FTAs
- ✓ Low crime-rate
- ✓ BITs with 32 countries
- ✓ Member of ICSID Convention since 1992
- ✓ Free capital repatriation
- ✓ Competitive cost of labor
 - Available young and skilled labor force
 - Flexible labor legislation
- ✓ Improved access to finance:
 - Strong banking sector
 - 2 large investment funds



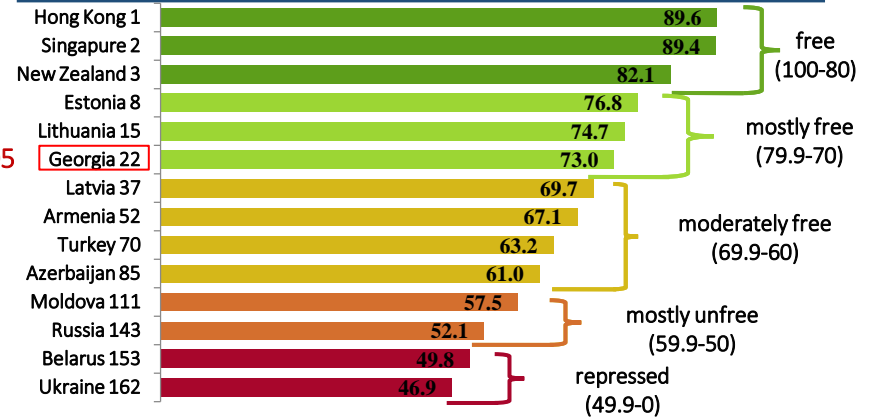
Business Environment in Numbers

Doing Business 2016



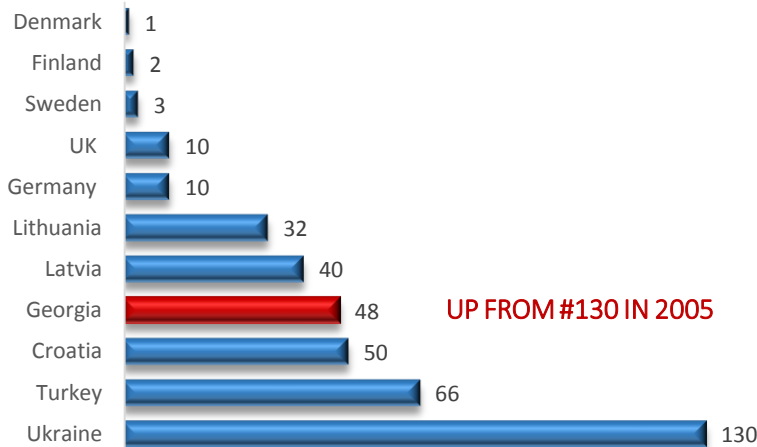
Source: World Bank

Index of Economic Freedom, 2015



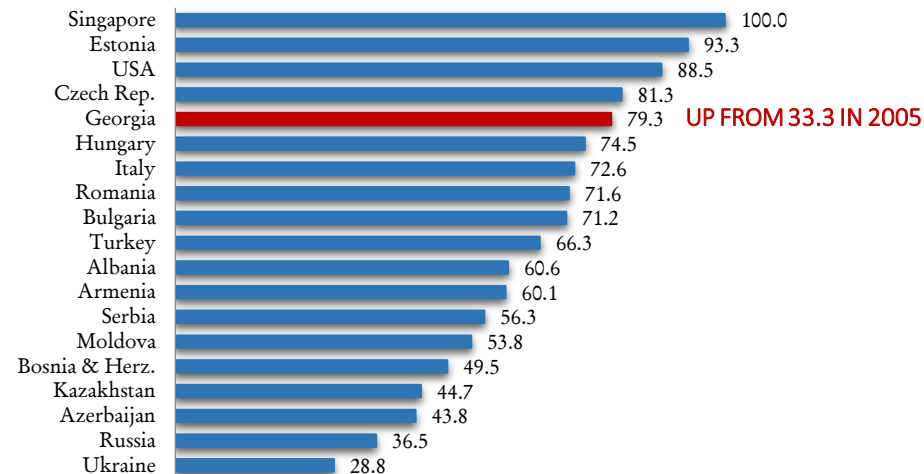
Source: Heritage Foundation

Corruption Perception Index, 2015



Source: Transparency International

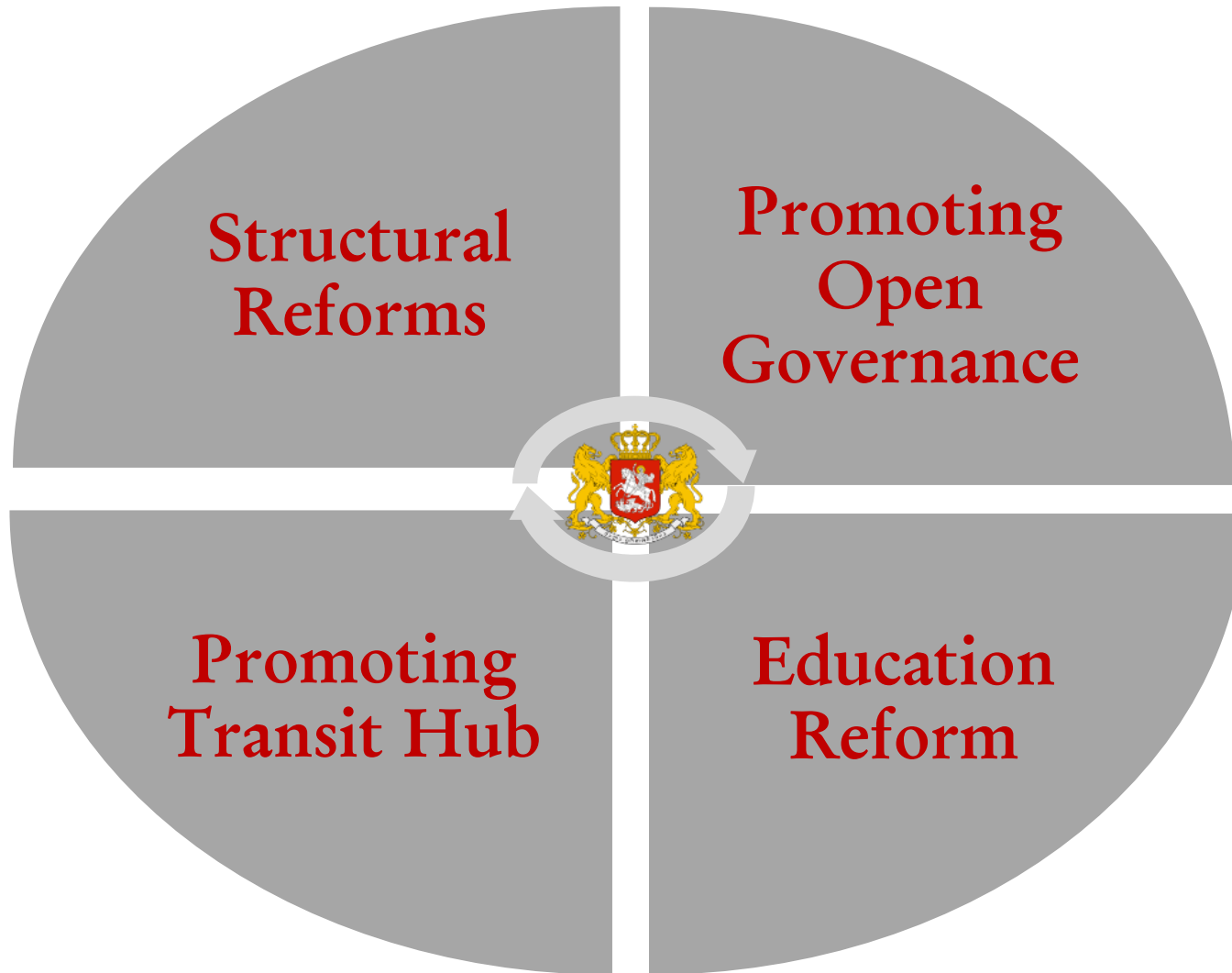
Regulatory Quality, World Governance Indicators (2014)



Source: World Bank



Compelling Reforms Agenda



Structural Reforms

- ✓ **Tax Reform**
 - Corporate income tax reform
 - 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
- ✓ **Deposit Insurance**
 - Boosting private savings
 - Enhancing trust to financial system
- ✓ **Accounting Reform**
 - Increased transparency and financial accountability
 - Enhanced protection of shareholder rights
- ✓ **Association Agreement Agenda**



Open Governance

- ✓ **Improvement of public services offered to the private sector**
 - Creation of "Front Office"
 - Application of "Single Window Principle"
- ✓ **Involvement of the private sector in legislative process**
 - Discussion of draft legislation at an early stage
- ✓ **Strict monitoring of implementation of Government' decisions**
 - Creation of a special unit for monitoring purposes



Education

- ✓ **General Education Reform**
 - maximizing quality of teaching in secondary schools
- ✓ **Fundamental reform of Higher Education**
 - based on the comprehensive research of the labor market needs
- ✓ **Improvement of Vocational Education**
 - increase involvement of the private sector in the professional education



Transit 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 project

Air

- ✓ Tbilisi International Airport

- 2nd runway to be constructed
- International Cargo terminal

Maritime

- ✓ Anaklia deep water black sea port

- Strategic location
- Capable of accommodating Panamax type cargo vessels
- High capacity – up to 100 mln. tons turnover annually
- Up to USD 1 bln for first phase (out of 9) in Georgia

Expansion of the South Caucasus Pipeline through Azerbaijan and Georgia

- ✓ Additional USD 2 bln FDI in Georgia
- ✓ 16 billion cubic meters of new natural gas to Europe and Turkey.



Thank you for your
attention

