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Georgian Economy Top Performer in the Region



Georgia | Economy

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Nino Papava

Head of Research | n.papava@gt.ge | +995 32 2401 111 ext. 4693

Eva Bochorishvili

Economist | evabochorishvili@gt.ge | +995 32 2401 111 ext. 8036

Alim Hasanov

Economist | ahasanov@gt.ge | +995 32 2401 111 ext. 3933



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Terms and Definitions

CAGR – Compound Annual Growth Rate
CIS – Commonwealth of Independent States
CPI – Consumer Price Index
CA – Current Account
DCFTA – Deep and Comprehensive Free Trade Agreement
EMBI – Emerging Markets Bond Index
EU – European Union
FAO – Food and Agriculture Organization
FDI – Foreign Direct Investments
GDP – Gross Domestic Product
GeoStat – National Statistics Office of Georgia
GNTA – Georgian National Tourism Administration
GOGC - Georgian Oil and Gas Corporation
GR – Georgian Railway
GSP – Generalized System of Preferences
Ha – Hectare
HPP – Hydropower Plant
ILO – International Labour Organization
IMF – International Monetary Fund
MOF – Ministry of Finance
NBG – National Bank of Georgia
NPL – Non-Performing Loans
PPP – Purchasing Power Parity
TRACECA – Transportation Corridor Europe Caucasus Asia
VAT – Value Added Tax
WB – World Bank



Executive Summary

Georgia has made outstanding progress in building institutions, eliminating corruption and strengthening public finances. Notably, these genuine economic and structural improvements have been institutionalized. The results are reflected in international rankings: 15th out of 189 countries in the World Bank's 2015 Ease of Doing Business, 22nd out of 178 in the Heritage Foundation's 2015 Index of Economic Freedom, 11th out of 197 in the Trace International's 2014 Matrix of Business Bribery Risk. Only 4% of people – less than in the UK and the US – admitted to paying a bribe according to Transparency International's latest Global Corruption Barometer.

On the fiscal side, Georgia's Economic Liberty Act ensures a prudent approach by capping consolidated government spending at 30% of GDP, the fiscal deficit at 3% of GDP, and public debt at 60% of GDP. In addition, any new taxes or tax hikes require national approval through a referendum.

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. The deal sets a roadmap for harmonizing economic policy with European standards, aimed at simplifying Georgia's access to the EU market, a common customs zone of c.500mn customers and a US\$ 18.5tn economy. While remaining committed to European values, Georgia has also managed to stabilize relations with Russia.

An influx of foreign investors on the back of the economic reforms has boosted productivity and accelerated growth. On the downside, the massive FDI and other capital inflows supported capital goods imports growth. On the upside, FDI inflows boosted productivity - according to the World Bank, productivity gains accounted for 66% of the average 5.6% growth over 1999-2012. Despite the gains, low relative levels of productivity suggest further potential.

Impressive GDP growth: average 6.3% annually from 2003 to 2014 (13.8% CAGR in US\$ nominal terms). A diversified growth structure, with the two largest sectors (trade and industry) accounting for just 35% of GDP in 2014, affords economic flexibility in the face of headwinds. The achievements are even more remarkable given the multiple hurdles Georgia has faced – domestic and global crises, the conflict with Russia in 2008, and recent regional economic uncertainties.

A natural transport and logistics hub, connecting important regions and a market of 900mn customers without customs duties. Georgia's strategic location - between land-locked energy-rich countries in the east and European markets in the west – creates and supports huge potential in transport, logistics, and tourism. Favourable trade regimes are established through free trade agreements with the EU, CIS, and Turkey and GSP with USA, Canada, Japan, Norway, and Switzerland. Continued spending on roads, railways, energy, tourism, and municipal infrastructure will further improve Georgia's role as a transit hub.

Electricity transit hub potential through increased generation and transmission capacity. Currently, only an estimated 20% of Georgia's hydro potential is utilized. Hydropower generation has been expanding in recent years, with an additional 146MW of installed capacity commissioned in 2014 and an estimated 496MW in the pipeline to be commissioned over the next 5 years. Expanding generation is supported by augmentation of transmission capacity. As per government's 10-year transmission development plan, an additional 5,000MW of transmission capacity will be added to the grid in the coming decade, facilitating domestic electricity trade, as well as cross-border trade and energy swaps to Eastern Europe.



A real opportunity to establish itself as a regional service hub. Services have played a dominant role in driving growth, accounting for 66% of the economy in 2014 (up from 42% in 1996) and 43% of total employment. Georgia is already an established, attractive tourist destination: the number of visitors increased at a 29% CAGR over 2005-2014, generating US\$ 1.8bn revenue in 2014. Georgia boasts a sound financial sector with the country's two leading banks being the only companies from the Caucasus region listed on the LSE. Strong governance and sound policies have made Georgia attractive in the eyes of foreign investors. With a strong financial sector, modern institutions, and a government committed to supporting market-based growth, there are clear opportunities to position Georgia as a service hub for European, Asian, and Caucasian regional headquarters, a business process outsourcing provider, and a regional centre for healthcare as well as for other labour-intensive services relying on Georgia's low-cost and qualified workforce.

Georgia has the potential for future productive capacity gains by making better use of its labor resources. DCFTA implementation and continued strong FDI inflows will further affect productivity improvements, as workers will move from agriculture to more productive, export-generating services sectors. While we do expect appreciation of the lari in the medium term, we do not view it as a threat to competitiveness given the expected growth in productivity levels.

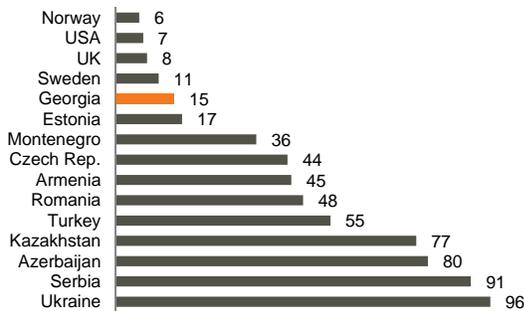
We see Georgia's potential to grow 5% annually, on average, over the next decade. With the necessary institutions largely in place, favourable geographic location and well-developed air, land, and sea transport networks, and Georgia's real potential to transform itself as a regional service hub, Georgia is poised to generate 5% annual average real growth over the next decade, based on IMF's 5-year growth forecast.



Reforms Drive Success

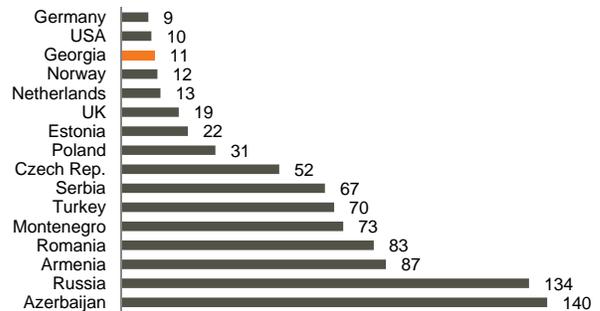
Thanks to a remarkable improvement in the business environment, Georgia's economy is flexible, diverse, and resilient to external shocks. Georgia is ranked 15th out of 189 countries in the World Bank's 2015 Ease of Doing Business, 22nd out of 178 countries in the Heritage Foundation's 2015 Index of Economic Freedom, 11th out of 197 countries in the Trace International's 2014 Matrix of Business Bribery Risk, and only 4% of people admitted to having paid a bribe according to Transparency International's latest Global Corruption Barometer. That level is lower than in both the UK and the US.

Figure 1: Ease of Doing Business, 2015



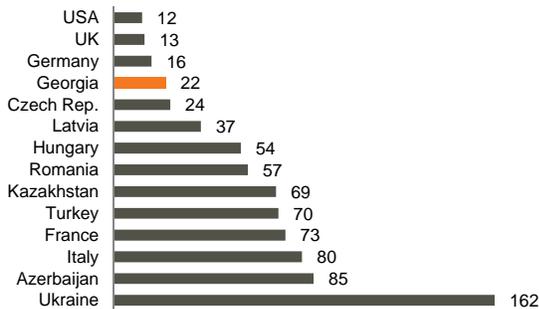
Source: Doing Business, WB

Figure 2: Business Bribery Risk, 2014



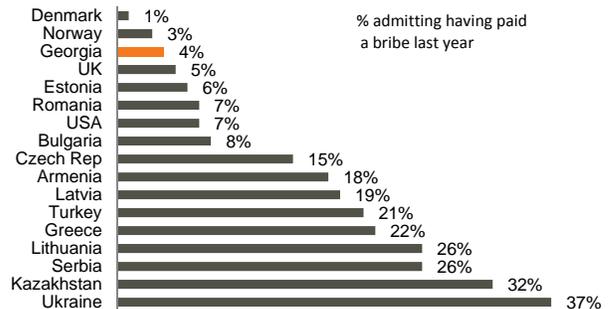
Source: Trace International

Figure 3: Economic Freedom Index, 2015



Source: Heritage Foundation

Figure 4: Global Corruption Barometer, 2013



Source: Transparency International

Prudent fiscal framework. The Economic Liberty Act, which came into force in January 2014, ensures a credible fiscal framework by capping consolidated government expenditures at 30% of GDP, the fiscal deficit at 3% of GDP, and public debt at 60% of GDP. The Act also requires the electorate's approval through a nationwide referendum of new taxes and tax hikes. Since 2004, Georgia has slashed the number of taxes from 21 to just 6 today (corporate income tax and personal income tax are flat at 15% and 20%, respectively), making it one of the world's most tax-friendly regimes.

Support from the international community. In June 2014, Georgia and the EU signed an Association Agreement. The deal includes a DCFTA, effective 1 September 2014, which will ease Georgia's access to the EU market, a common customs zone of c.500mn customers and a US\$ 18.5tn economy, spurring exports and enhancing the diversification and competitiveness of Georgian products. The government is



maintaining strong relations with international development partners (both bilateral and multilateral), focusing on infrastructure development priorities. In 2015, Georgia hosted the EBRD's Annual Meeting and Business Forum, yet another sign of the country's strong international relations. Moreover, an ongoing IMF programme is helping the government implement its economic reform agenda aimed at reducing macroeconomic vulnerabilities by increasing policy buffers and supporting growth, while mitigating the economy's exposure to external shocks.

BOX 1: EU-Georgia Deep and Comprehensive Free Trade Agreement (DCFTA)

The EU DCFTA is the major mechanism for Georgia's economic integration with the EU. It guarantees the free movement of goods, services, and capital within the EU, the world's largest market. Along with trade liberalization, the DCFTA also requires regulatory reforms in public procurement, food safety/sanitary and phytosanitary regimes, and customs and trade facilitation, including border enforcement of intellectual property rules, a regulatory framework for services, and technical barriers to trade/industrial standards. The DCFTA became effective September 1, 2014.

The deal is highly valuable for its ability to attract investors by enabling them to use Georgia as a platform for export to European markets. We believe the EU DCFTA, coupled with a favourable economic environment, low taxes and labour costs, relatively cheap energy, and important maritime gateways, offers excellent opportunities for doing business in Georgia.

Regional logistics and tourism hub. Georgia's favourable geographic location (between land-locked energy-rich countries in the East and European markets in the West) and well-developed air, land, and sea transport networks position the country to reap the benefits in transport, logistics, and tourism. Continued public spending on roads, energy, tourism, and municipal infrastructure is helping strengthen a platform for businesses willing to trade with and work in Georgia. Georgia is a regional energy corridor that accounts for approximately 1.6% of the world's oil and diversified gas supply transit volumes. Travel inflows are a significant source of foreign currency for Georgia. The number of visitors to Georgia increased at a 28.9% CAGR over 2005-2014 and generated US\$ 1.8bn in 2014.

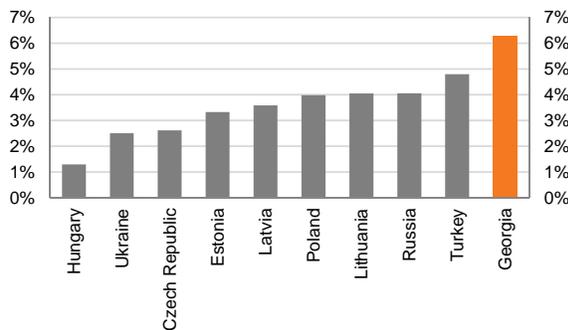
Stable energy supply. Georgia has a developed, stable, and competitively priced energy sector. The country has overcome the chronic energy shortages and gas supply interruptions of the decade ago by renovating hydropower plants and increasingly relying on natural gas imports from Azerbaijan instead of Russia. Georgia became a net electricity exporter in 2007-2011 (a net importer in 2012-2014 due to low precipitation and increased domestic demand), after being a net importer for more than a decade before 2007. Currently, only an estimated 20% of Georgia's hydro potential is utilized. The pipeline of investment projects in the energy sector is estimated at about US\$ 2bn in next 5-7 years, including the US\$ 1bn Nenskra HPP with 280MW of installed capacity. Currently, 88 hydropower plants are in various stages of construction or development (feasibility study, obtaining construction permit). Georgia boosted its cross-border electricity transmission capacity by 700MW with a new 400KV transmission line to Turkey, which became operational in 2013. Other transmission lines to Armenia and Russia have also been upgraded. The cross-border transmission infrastructure supported exports of 545mn kWh in 2014 or about US\$ 30mn. Georgia's transmission capacity is poised to increase with an additional 5,000MW by 2025 to accommodate export and domestic demand growth. The MoE estimates exports to exceed 10TWh in 2025 from 0.5TWh on average in 2014-2015 and cross-border transmission capacity will be upgraded to match this increase, with an estimated EUR 623-824mn to be invested in the project.



Growth Sources and Challenges

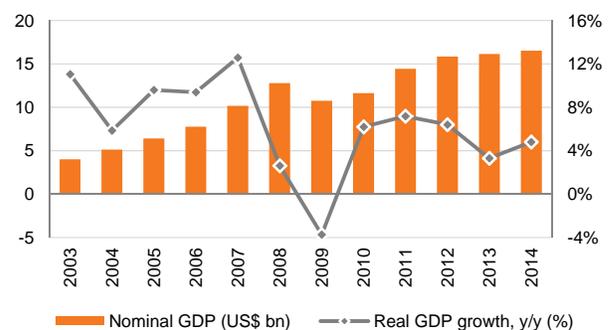
Maintaining healthy economic growth is a priority. Broad-based structural reforms, liberalized trade, stronger public finances, and enhanced trade and tourism infrastructure have fed into impressive GDP growth rates over the past decade. Annual output growth averaged 6.3% from 2003 to 2014 and output reached US\$ 16.5bn in 2014. During the same period, per-capita GDP increased 4x to US\$ 3,681 in 2014 from US\$ 920 in 2003. The IMF forecasts a deceleration of the growth to 2.0% in 2015 and a slight increase to 3.0% in 2016. Over the longer term, the Fund sees 5.0% annual growth.

Figure 5: Real GDP growth 2003-14



Source: IMF, GeoStat

Figure 6: Georgia's GDP



Source: GeoStat

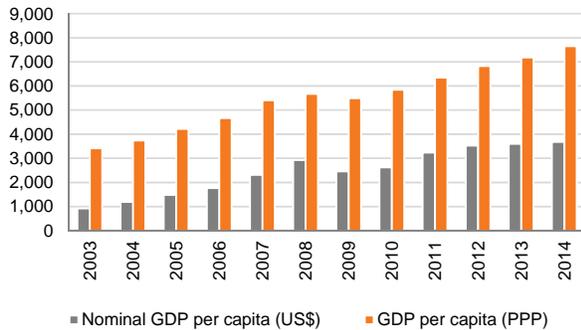
Georgia is poised to continue on its path of economic progress over the next decade with a potential average real growth of 5% annually, as the necessary infrastructure and institutions are largely in place. Strong institutions, a business-friendly environment, the potential to establish itself into a regional service hub, the EU DCFTA, and the related expected surge in FDI provide a solid base for the Georgian economy to grow strongly in coming years. Based on the IMF's 5-year projections, we estimate that Georgia has a potential to generate 5% annual average real growth over the next decade.

It is expected that these factors will lead to the appreciation of the Georgian lari starting from 2017, as was the case between 2003 and 2012, when capital inflows pushed the lari up 24.8% vs. the US\$. However, the expected currency appreciation is not a real threat to competitiveness, as we expect productivity gains, mainly in export-generating sectors.

The impressive growth projection is achievable for a country undergoing economic integration with the EU. Croatia in 1994 and Slovakia in 1995 had profiles similar to Georgia's profile today, notably in their per-capita GDP levels. Croatia generated 4.4% annual average real GDP growth from 1994 to 2003 (8.0% CAGR in nominal GDP, US\$ terms), boosting per-capita GDP from US\$ 3,835 to US\$ 8,066. Slovakia also posted 4.2% annual average growth in real GDP from 1996 to 2005 (9.5% CAGR in nominal GDP, US\$ terms), with per-capita GDP increasing from US\$ 4,024 to US\$ 9,115.

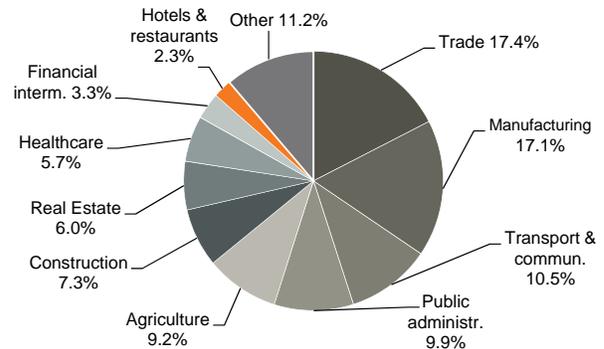


Figure 7: GDP per capita, Georgia



Source: IMF, GeoStat

Figure 8: GDP breakdown by sectors, 2014



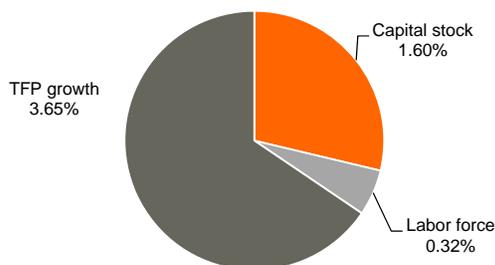
Source: GeoStat

With no significant natural resources, other than hydro, Georgia boasts broad-based growth. Its two largest sectors – trade and industry – accounted for 34.5% of GDP in 2014. This affords the economy a measure of flexibility in the face of headwinds, including the recent regional economic turmoil.

Productivity gains have been the main engine of growth since 2004. Broad-based market reforms since 2004 and the knowledge transferred via FDI have manifested themselves in a productivity spurt, primarily in the services sector. As a result, over 1999-2012, around 66% of the average 5.6% real growth came from Total Factor Productivity (TFP) growth, according to the World Bank. Capital accumulation played a secondary role, while labour's contribution to growth was marginal.

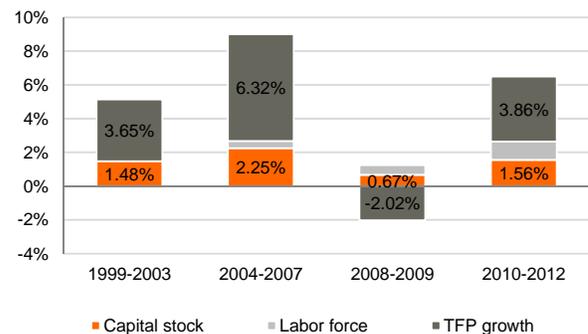
In this sense, productivity in export-oriented sectors and the quality of exports can increase drastically thanks to the reforms pending per the EU DCFTA and the expected FDI inflows. Moreover, the recent depreciation of the real effective exchange rate (reaching its lowest level in 5 years in mid-2015) will support export competitiveness and may facilitate the emergence of new export commodities.

Figure 9: Overall contributions of capital, labour, and Total Factor Productivity (TFP) to growth, 1999-2012



Source: Georgia Rising (2013), WB

Figure 10: Contributions of capital, labour, and TFP to growth during periods



Source: Georgia Rising (2013), WB

Services, manufacturing, and construction drove growth during 2004-2014. Services played a dominant role in driving growth, increasing its share in GDP to 66.4% in 2014 from 42.1% in 1996. Services contributed 4.0ppts of the overall average 5.9% real growth over 2004-2014. Manufacturing and construction also grew robustly, while agriculture mostly stagnated.



Table 1: Sectoral breakdown of GDP and contributions to growth

	Shares to Nominal GDP, %					Contributions to real growth (period average)		
	1996	2003	2007	2010	2014	2004-07	2008-10	2011-14
Agriculture	34.1%	20.6%	10.7%	8.4%	9.2%	-0.3%	-0.6%	0.5%
Manufacturing	11.1%	9.3%	9.6%	9.2%	10.6%	1.5%	0.3%	1.2%
Other industry	10.0%	9.6%	6.9%	7.0%	6.4%	0.6%	0.1%	0.2%
Construction	2.6%	6.8%	7.8%	6.1%	7.3%	1.5%	-0.3%	0.5%
Services	42.1%	53.8%	65.0%	69.4%	66.4%	6.1%	2.0%	3.4%
Total GDP	100.0%	100.0%	100.0%	100.0%	100.0%	9.4%	1.7%	5.4%

Source: GeoStat, G&T Research

On the demand side, consumption accounts for the largest share, while investments are stable at around 30% of GDP. A rapid increase in government consumption drove the share of GDP spent on consumption to 92.6% in 2007 (102.7% and 106.1% in 2008 and 2009 respectively, driven by countercyclical fiscal stimulus). Fiscal discipline scaled government consumption's share back starting from 2010 to 16.7% in 2014 from 21.9% in 2007 (25.9% and 24.5% in 2008 and 2009, respectively). Investments at 30% of GDP explain negative net exports as a growing economy supported by FDI and public infrastructure spending fuelled an increase in capital goods imports.

Table 2: GDP by expenditures and contributions to growth

	Shares to nominal GDP				Contributions to real growth (period average)		
	2003	2007	2010	2014	2004-07	2008-10	2011-14
Private consumption	72.3%	70.7%	74.9%	69.6%	6.8%	1.9%	3.2%
Government consumption	9.8%	21.9%	21.1%	16.7%	4.8%	-0.1%	0.0%
Investment	31.3%	32.1%	21.6%	29.8%	3.2%	-3.0%	3.5%
Net exports	-14.6%	-26.7%	-17.8%	-17.5%	-5.7%	3.5%	-1.7%
Statistical discrepancy	1.2%	2.1%	0.3%	1.4%			
Total GDP	100.0%	100.0%	100.0%	100.0%	9.4%	1.7%	5.4%

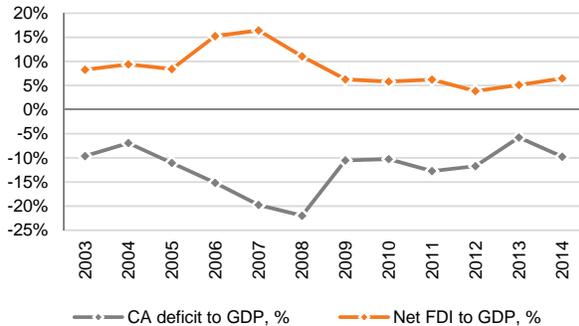
Source: GeoStat, G&T Research

Capital inflows have boosted growth and productivity, but at the expense of a growing current account deficit. Investment and capital accumulation since 2004 have been financed largely by FDI. Inflows reached 19.8% of GDP in 2007, driven by an improved business environment and the global economic boom. Over 2008-2014, FDI averaged around 7.2% of GDP, with 2014 posting a 7-year high of US\$ 1.8bn (+86.7% y/y, 10.6% of GDP). Georgia's exceptional business environment, its commitment to continued reforms, and the EU DCFTA can help sustain capital flows in coming years, in our view.

FDI has led to high capital goods imports and is a major factor behind the average 12.1% current account deficit in 2004-2014. FDI is crucial for further productivity gains as it facilitates knowledge transfer, while a gradual wealth accumulation, supported by Georgia's strong growth potential, may reduce the reliance on foreign capital in the long run.

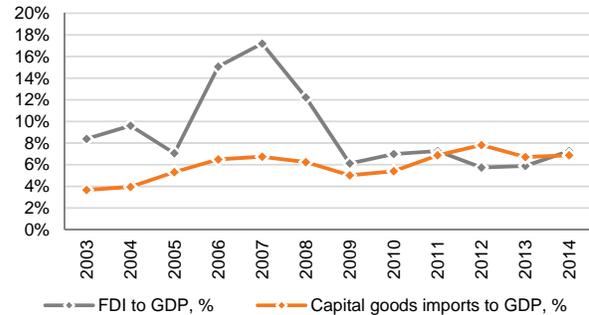


Figure 11: CA deficit and net FDI



Source: NBG, GeoStat
Note: Data provided as of June 2015, update will be available end-September 2015

Figure 12: FDI and capital goods imports

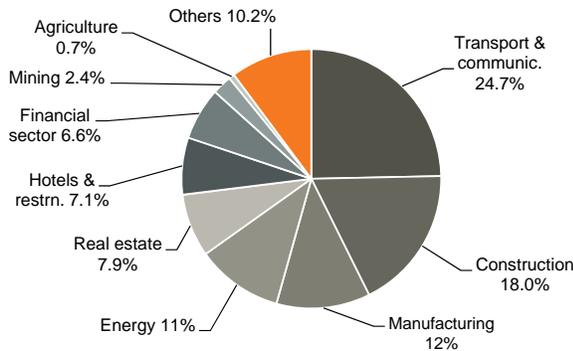


Source: GeoStat, G&T Research

Transport and communication, construction, and manufacturing were the main recipients of FDI in 2014. They received US\$ 955.7mn in 2014 (54.3% of total), followed by energy (US\$ 189.9mn) and real estate (US\$ 138.7mn).

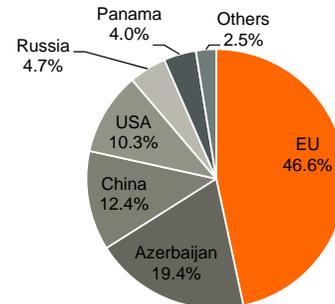
The EU was the largest FDI source with US\$ 820.0mn (+109.9% y/y, 46.6% of total) in 2014, followed by Azerbaijan at US\$ 341.4mn (+316.6% y/y, 19.4% of total), and China (+142.5% y/y, 12.4% of total).

Figure 13: FDI by sector, 2014



Source: GeoStat

Figure 14: FDI by country, 2014



Source: GeoStat

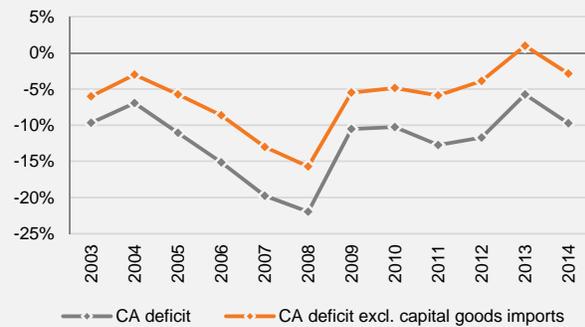
A number of key investment projects underway, adding further growth potential. BP's ongoing gas pipeline expansion, with an estimated US\$ 2bn investment over the next 4 years, will lead to additional gas volumes transported via Georgia to Turkey and Europe; notably, 20% of this FDI will be spent on local services. Korean company, K-water, is pursuing US\$ 1bn Nenskra HPP construction, expected to become operational in 2019, co-financed by EBRD, ADB and Korean Ex-Im Bank. The Anaklia deep sea port project on the Black Sea coast of Georgia is ongoing; once completed, it will be the first Georgian port capable of accommodating Panamax size cargo vessels. Construction of the first adhesive building materials factory in the South Caucasus, by Henkel's (Germany), is in process, expected to be operational in 2016. In September 2015, a ground-breaking ceremony took place for the ELBIT Cyclone (Israel) US\$ 85mn project, which envisages the construction of a high-tech plant producing aircraft doors, aerodynamic surfaces, and other aircraft components. Customers of these products are Boeing, Bombardier, Airbus, etc.



BOX 2: FDI trends

An attractive business environment, supported by sound legislation and a relative absence of corruption, drove FDI to Georgia over the past decade. In turn, FDI pushed up imports, which has resulted in a current account deficit. However, FDI also drove economic growth and productivity, particularly in tourism, logistics, transportation, and energy, which generated service export revenues that partly offset the merchandise trade deficit. Georgian companies have also been successful in tapping global capital markets by issuing Eurobonds and holding IPOs (Georgia is the only economy from the Caucasus region with two LSE listings and more to come).

Figure 15: CA deficit to GDP, %



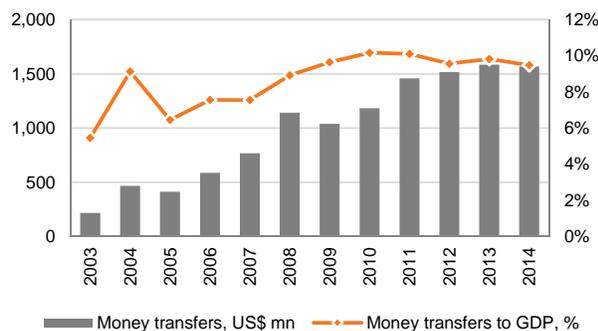
Source: GeoStat, NBG

Contrary to the classic case of emerging market current account deficits, where the deficit is driven by an externally financed consumption boom, Georgia's deficit is driven by FDI and long-term capital inflows. These flows have boosted economic growth and export potential, which is a key difference: deficit is neither a threat to the health of the economy, nor the precursor of a currency crash, as it has proven to be in many other emerging markets.

We expect this environment to persist over the medium term, as several companies are pursuing foreign stock listings, while others are in the process of attracting FDI. Growth, then, will be further supported by FDI and capital inflows. Furthermore, falling world commodity prices and the resulting oil import savings means Georgia will need less FDI and other external capital inflows to maintain or exceed its current growth rate.

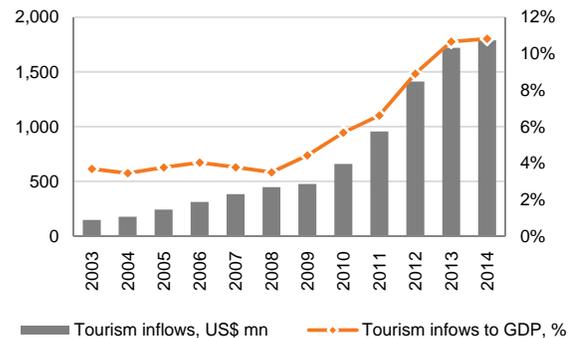
The surplus in services and remittances has compensated about 70% of the merchandise trade deficit in recent years. Travel inflows, which dominate services exports, and money transfers have been resilient sources of merchandise trade deficit funding. While money transfers have recently shrank, tourism revenues have kept increasing, with 5.9% y/y growth in arrivals in 8M15.

Figure 16: Money transfers



Source: GeoStat, NBG

Figure 17: Tourism inflows



Source: GeoStat, NBG



Table 3: CA balance and FDI

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
% of GDP												
Goods balance	-16.0%	-17.9%	-18.9%	-26.0%	-28.5%	-30.0%	-22.3%	-22.3%	-24.2%	-26.6%	-21.6%	-25.6%
Services balance	1.5%	1.4%	1.3%	2.0%	1.6%	0.2%	3.2%	4.4%	5.2%	6.9%	8.7%	8.1%
Income, net	0.2%	1.4%	1.0%	2.1%	0.4%	-0.5%	-0.4%	-1.8%	-2.9%	-0.9%	-1.9%	-1.0%
Transfers, net	4.5%	8.1%	5.6%	6.8%	6.8%	8.3%	9.0%	9.4%	9.2%	8.9%	9.1%	8.7%
CA balance	-9.7%	-7.0%	-11.1%	-15.1%	-19.8%	-22.0%	-10.5%	-10.3%	-12.7%	-11.7%	-5.8%	-9.8%
net FDI	8.3%	9.4%	8.5%	15.2%	16.5%	11.1%	6.3%	5.8%	6.2%	3.9%	5.1%	6.5%
US\$ mn												
Goods balance	-639	-916	-1,214	-2,019	-2,896	-3,836	-2,400	-2,590	-3,494	-4,216	-3,493	-4,225
Services balance	62	69	84	158	161	21	340	513	747	1,101	1,405	1,340
Income, net	9	74	62	162	37	-58	-42	-215	-423	-147	-308	-159
Transfers, net	182	416	359	524	688	1,060	968	1,098	1,329	1,408	1,466	1,431
CA balance	-386	-356	-710	-1,176	-2,009	-2,813	-1,134	-1,193	-1,841	-1,855	-930	-1,612
net FDI	331	483	542	1,183	1,676	1,418	677	679	902	614	829	1,077
Nominal GDP	3,991	5,125	6,411	7,762	10,172	12,801	10,767	11,637	14,439	15,847	16,140	16,528

Source: NBG, Geostat

Note: 2014 BOP statistics provided as of 30.06.2015, update will be available on 30.09.2015

Aside from FDI, Georgia has been successful in issuing long-term debt on international capital markets. The Georgian government first tapped global capital markets in April 2008, issuing a US\$ 500mn 5-year sovereign Eurobond. In April 2011, the country issued a second US\$ 500mn Eurobond, refinancing the 2008 issue at a cheaper rate and for a longer maturity of 10 years.

Table 4: Georgian Eurobond key parameters

	GOGC 05/17	BOG 07/17	Sovereign 04/21	GRAIL 07/22
Amount, US\$ mn	250	400	500	500
Issue date	May-2012	Jul-2012	Apr-2011	Jul-2012
Maturity date	May-2017	Jul-2017	Apr-2021	Jul-2022
Coupon, %	6.875%	7.750%	6.875%	7.750%
Fitch/S&P/ Moody's	BB-/B+/-	BB-/BB-/Ba3	BB-/BB-/Ba3	BB-/BB-/-
Mid price, US\$	101.1	103.1	105.2	103.2
Mid yield, %	6.2	5.9	5.8	7.2
Z-spread, bps	550.2	509.4	405.7	521.3

Source: Bloomberg

The successful placements of sovereign Eurobonds extended Georgia's maturity profile and established a new liquid benchmark for other private and quasi-sovereign borrowers. State-owned Georgian Railway (GRAIL) and Georgian Oil and Gas Corporation (GOGC) were quick to follow suit and issued debut Eurobonds in 2010 and 2012, respectively. GRAIL was Georgia's first EMBI-eligible benchmark corporate bond.

Private sector players are currently the only companies from the Caucasus region listed on the London Stock Exchange. Bank of Georgia was the first with its Eurobond and premium London listing (FTSE 250 constituent), followed by TBC Bank GDR listed floating GDRs in 2014. Several companies are in the pipeline, with IPOs at various stock exchanges pending.



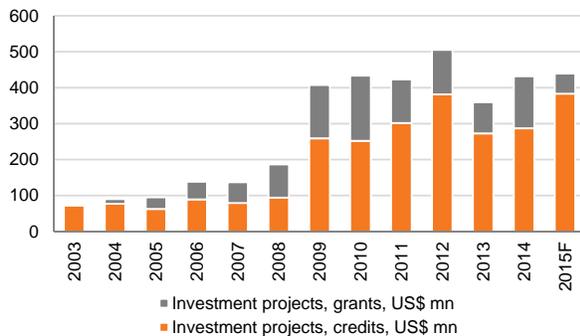
Table 5: International equity placements of Georgian companies

	US\$ mn	Date
BOG IPO	160.0	Nov-06
BOG share issue	100.0	Feb-08
BOGH share issue	114.0	Dec-14
TBC IPO	96.0	Jun-14
Total	470.0	

Source: Bloomberg

Public sector concessional borrowing from bilateral and multilateral development partners, primarily for infrastructure development, has been another source of long-term financing.

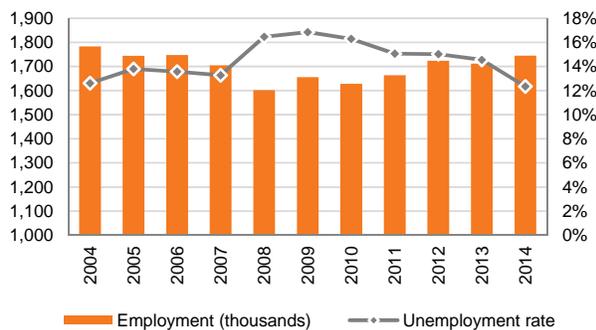
Figure 18: Donor-funded public infrastructure spending



Source: MOF

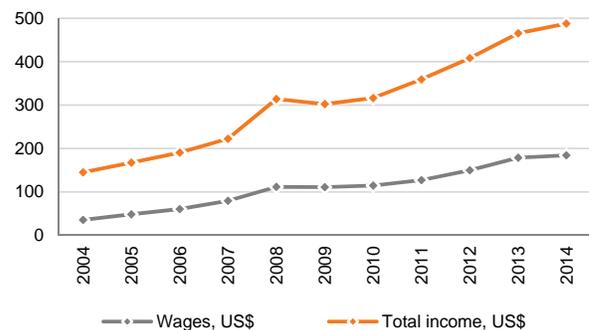
Georgia's unemployment rate fell 2.2ppts y/y to 12.4% in 2014. Georgia has achieved its economic success without generating actual growth in employment; productivity gains and capital were the major sources of growth. The process of public sector consolidation has also contributed to the high unemployment. In 2014, unemployment rate decreased to 12.4%, with construction, transport and communication, and education sectors posting increases in employment.

Figure 19: Unemployment



Source: GeoStat

Figure 20: Average monthly wages and income per household



Source: GeoStat

Agriculture remains the largest employer, although the share of services in total employment has increased. More than 50% of the workforce is engaged in agricultural activities (mainly self-employed), while agriculture accounts for just 9% of GDP, with its share in total employment decreasing to 50.9% in 2014 from 54.8% in 2003. Manufacturing accounts for 17% of GDP, but employs only 6% of the workforce. Services account for all other employment, with its share accounting for 42.6% of total

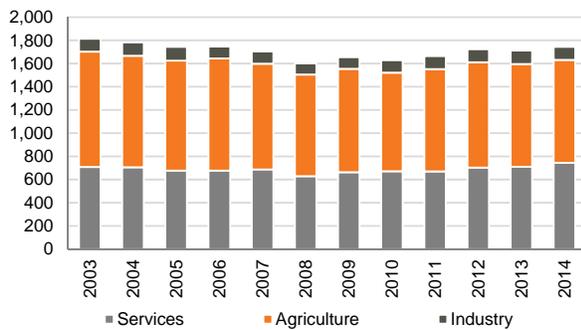


employment in 2014 up from 39.0% in 2003. This contrasts with developed countries where industry and services account for the bulk of employment.

Hired workers account for about 39.7% in total employment. The number of hired individuals (as opposed to self-employed) in the private sector has almost doubled from 2006 to 2014 to 0.44mn, with its share in total hired employment increasing to 63.7% in 2014 from 40.3% in 2006. However, as hired employees account for just 39.7% of total employment, there is still significant upside potential. At the same time, the consolidation of the public sector has decreased its share in total hired employment to 36.3% of total (0.25mn persons) in 2014 from 59.7% of total (0.36mn) in 2006.

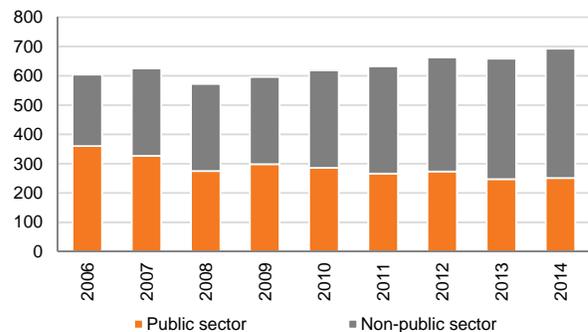
Further job creation is achievable. International migration has helped ease domestic labour market pressures with 1mn Georgian migrants employed globally. While bringing down high unemployment in the short term is difficult, the movement of workers into more productive activities will support growth that generates additional employment, increasing household income further. However, the large pool of available labour will likely keep labour costs manageable. The EU DCFTA is also likely to create jobs, notably in export-oriented sectors.

Figure 21: Employment by sectors, '000



Source: GeoStat
Note: Services include construction

Figure 22: Hired employees, '000

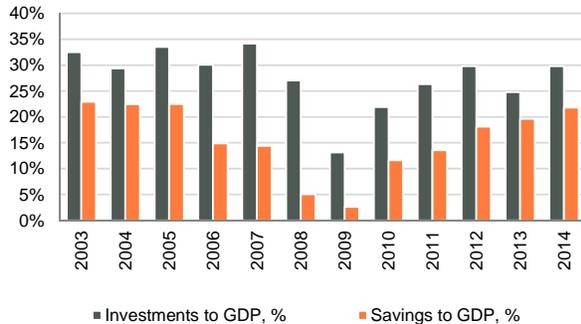


Source: GeoStat

Strong growth would increase national savings and reduce the reliance on foreign capital in the long run. Given the state of the labour market, it is not surprising that national savings are low in Georgia at 15-20% of GDP. The sharp decline in national savings over 2006-2009 was likely the result of optimism and a boom in household consumption in the pre-crisis period, and was further driven by fiscal stimulus actions in 2009. The decline has reversed since 2010, with savings up to 21.8% of GDP in 2014. The prospective accumulation of wealth and the government's commitment to fiscal consolidation (below 1.5-2% budget deficit by 2020, according to Government Strategy) may also help raise national savings in coming years, which would reduce the need for external financing in the long run.

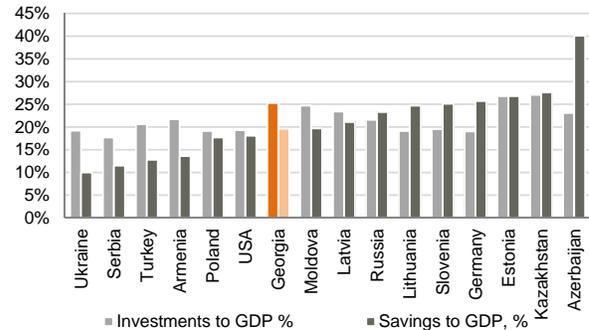


Figure 23: Savings and Investments to GDP, Georgia



Source: GeoStat

Figure 24: Savings and Investments to GDP, 2013



Source: IMF

Georgian Exports – Untapped Potential

Georgia has active free trade agreements with its neighbours and the EU. These agreements grant Georgia import duty-free access to a market of 900mn consumers, including the EU and Turkey.

Exports have grown 20% annually on average over the past decade, but there is still significant upside potential. Nominal exports increased 4x from 2004 to US\$ 2.9bn as of 2014, and its share of GDP has remained stable. On the other hand, the services exports' share of GDP has almost doubled, driven by growth in tourism and transport receipts. The pending reforms related to the EU DCFTA have the potential to enhance trade and expand Georgia's export potential.

One of the most significant changes in exports was a shift away from the Russian market after Russia's 2006 embargo. The share of exports to Russia in total exports fell sharply from 18% in 2005 to 8% in 2006 and 2% in 2008-2012. The embargo forced Georgian producers to redirect exports to other countries. Exports to Russia picked up in 2013, as Russia opened its borders to Georgian products, but accounted for only 6ppts out of the 22% total export growth in 2013. Even without Russia, Georgian exports have more than tripled since 2005 to US\$ 2.9bn in 2013. With the recent economic turbulence in Russia, exposure to the Russian market (wine, mineral water, and agricultural products) is once again receding. In 7M15, Russia's share in total Georgian exports declined 2.9ppts y/y to 6.7%.

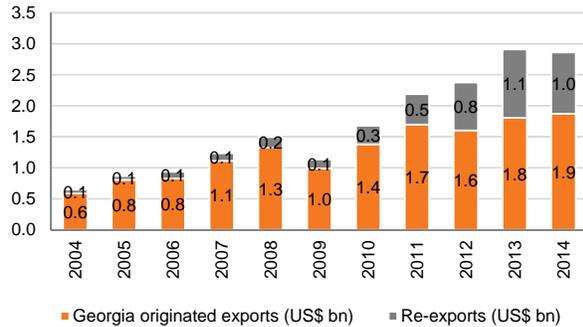
Georgia's well-developed logistics and transport infrastructure has spurred re-export opportunities. Georgia's re-exports, dominated by used cars, grew 18x from 2004 to US\$ 1.1bn in 2013 and their share picked up from about 10% in 2004 to almost 40% of total exports. In the same period, Georgia-originated exports increased 3x to US\$ 1.8bn. In 2012-2013, re-export growth considerably overtook Georgia-originated export growth, even in spite of the Russian market reopening in 2013. In 2014, however, exports were driven by goods of Georgian origin, while re-exports contracted (Azerbaijan introduced restrictions on used car imports in April 2014) to drive a 1.6% y/y drop in total exports.

The recent regional economic troubles have weighed on car re-exports, but Georgia's hub economy, with well-developed logistics and transport infrastructure, has helped shore up opportunities for new re-export commodities, like copper and pharmaceuticals, since 2013. In 7M15, re-exports of used cars decreased 63% y/y,



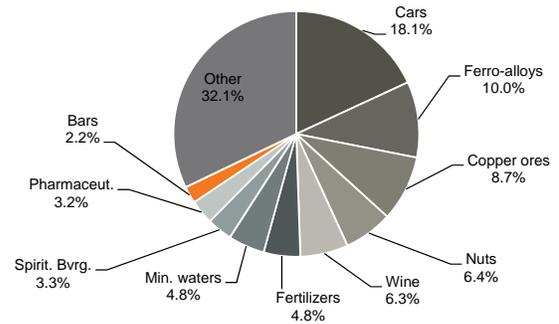
while re-exports of pharmaceuticals increased 178.5% y/y to US\$ 60.9mn. As a result, re-exports will likely maintain their important role in Georgia's export growth.

Figure 25: Re-exports vs. Georgia-originated exports



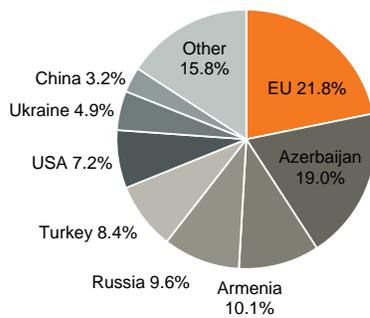
Source: GeoStat

Figure 26: Exports by commodities, 2014



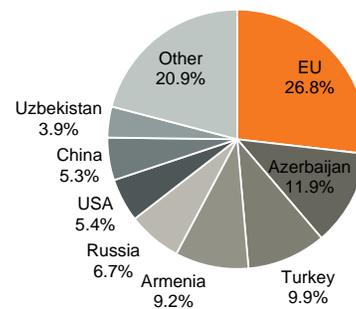
Source: GeoStat

Figure 27: Exports by countries, 2014



Source: GeoStat

Figure 28: Exports by countries, 7M15



Source: GeoStat



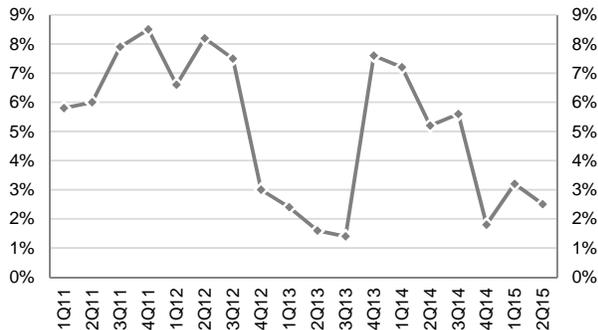
Economic Developments in 2015

The Georgian economy grew 2.8% y/y in 1H15 against a backdrop of regional turbulence. The region has been hit hard by falling oil prices, currency depreciations, and negative repercussions of the recession in Russia.

The growth base in 1H15 was diversified. Construction generated the largest increase at 15.7% y/y, on the back of BP gas pipeline-related construction and public infrastructure spending. Financial intermediation (+9.7%), hotels and restaurants (+7.9%), transport and communications (+5.9%), and real estate (+5.6%) were the other top performers. Manufacturing (-4.0% y/y) and trade (-0.9% y/y) were the only sectors in the red in 1H15. While reduced production of non-alcoholic and alcoholic beverages and tobacco weighed on manufacturing expansion in 1H15, trade growth recovered in 2Q (+0.8% y/y) after a subdued 1Q (due to the fall in car trade).

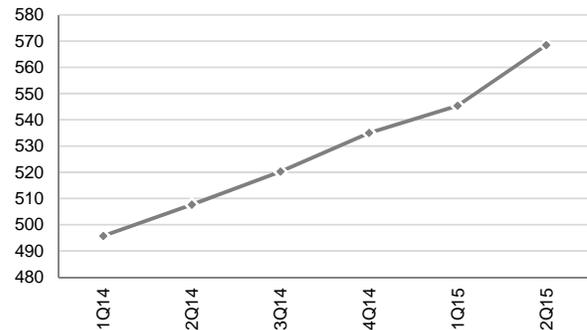
The business sector supported strong job creation in 2Q15. The number of employed persons increased 12.0% y/y (+60.8 thousand persons), with strong job creation in trade (+20.5% y/y), construction (+26.6% y/y), transport and communications (+11.0% y/y), real estate (+13.5% y/y), and hotels and restaurants (+24.1% y/y).

Figure 29: Real GDP growth



Source: GeoStat

Figure 30: Employed persons in business sector, '000



Source: GeoStat

Georgia remains an attractive place for doing business despite regional economic problems. FDI increased 80.8% y/y to US\$ 354.7mn in 2Q15, with the 1H15 figure up 4.8% y/y to US\$ 530.0mn. The transport and communications sector was the largest FDI recipient in 2Q15 at US\$ 207.4mn, increasing 83.7% y/y, followed by the financial sector (US\$ 41.4mn) and manufacturing (US\$ 29.5mn).

Strong private demand intensified external imbalances in 1Q15. Private consumption growth fed imports in 1Q15, waylaying the expected external adjustment from the weaker local currency. Imports fell 7.3%, mainly due to lower fuel prices. Exports shrank 26.0% y/y in 1Q15, increasing the trade deficit 14.2% y/y. These developments, combined with tumbling remittances (-26.1% y/y) and weaker tourism proceeds (-2.9% y/y), pressured the GEL in 1Q. As a result, the current account deficit widened 4.0ppts y/y to 14.1% of 1Q15 GDP.

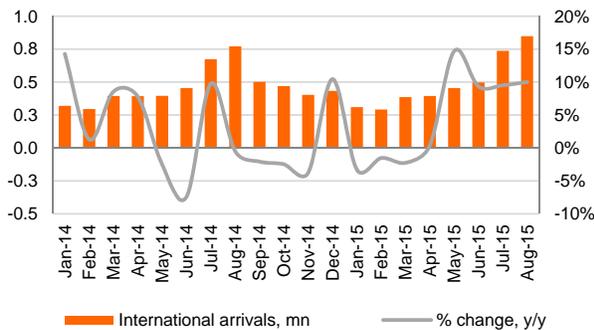
The NBG has allowed the floating exchange rate to absorb most of the shocks while relieving the pressure on the real economy, and Georgia maintained stronger market fundamentals, compared to other regional economies (see page 21).

Tourism has been resilient amidst the regional turbulence. Tourist arrivals increased 5.9% y/y in 8M15, with 9.5-15% monthly growth in 2Q after a subdued



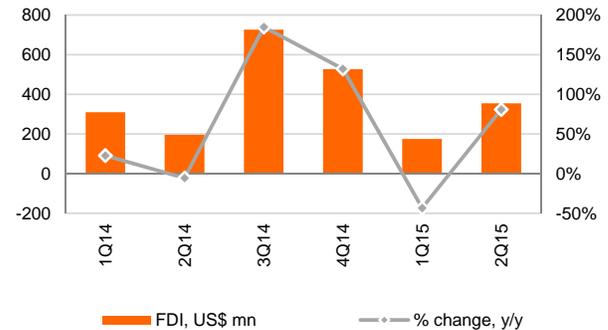
performance in 1Q. Georgia remains a cheap destination, a factor enhanced by the June 2015 easing of visa restrictions.

Figure 31: International arrivals



Source: GNTA

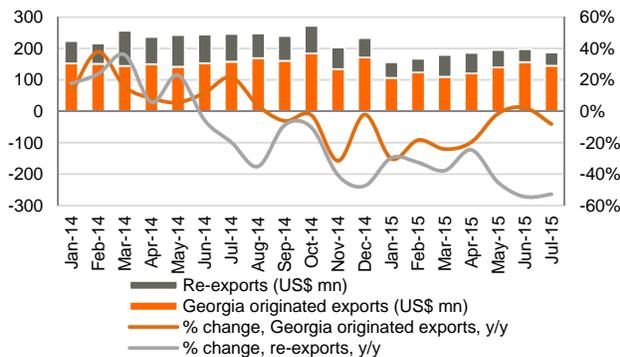
Figure 32: FDI



Source: GeoStat

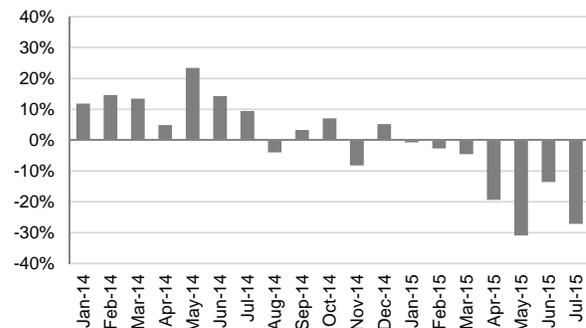
The GEL stabilized as surging tourist arrivals moderated currency depreciation pressures. The weaker GEL, lower commodity prices, and the slowing economy have resulted in significant adjustments in imports since April 2015, contributing to the stabilization of lari in June and July. Imports decreased significantly, after excluding one-offs (donated C hepatitis medicaments) – 21.8% y/y in 2Q15, 27.2% y/y in July, and 15.4% y/y in 7M15. We estimate that a 9-10% y/y decline in imports in 2015 will be sufficient to fully offset lower export earnings.

Figure 33: Re-exports and Georgia-originated exports



Source: GeoStat

Figure 34: Gross imports excluding one-offs, % change y/y



Source: GeoStat, NBG, G&T Research

Table 6: External earnings, US\$ mn

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Exports	223.5	216.1	256.1	236.8	242.6	244.1	246.2	156.4	167.2	179.1	186.0	194.9	198.0	187.0
% change								-30.0%	-22.6%	-30.1%	-21.5%	-19.7%	-18.9%	-24.0%
Imports	542.0	591.7	701.0	682.9	814.2	697.5	786.6	538.0	575.7	669.0	550.9	562.6	602.7	573.0
% change								-0.7%	-2.7%	-4.6%	-19.3%	-30.9%	-13.6%	-27.2%
Trade deficit	318.4	375.6	444.8	446.1	571.7	453.4	540.4	381.6	408.5	489.9	365.0	367.7	404.7	386.1
% change								19.8%	8.8%	10.1%	-18.2%	-35.7%	-10.7%	-28.6%
Remittances inflows	98.4	104.7	120.5	120.5	126.4	126.8	136.9	75.5	82.0	92.0	91.1	97.7	100.4	93.4
% change								-23.3%	-21.7%	-23.7%	-24.4%	-22.7%	-20.8%	-31.8%
Remittances outflows	12.0	12.6	14.2	13.2	14.5	14.1	15.2	12.5	14.6	15.0	14.5	13.3	14.3	13.1
% change								4.1%	15.6%	6.2%	9.9%	-8.1%	1.7%	-13.6%
net Remittances	86.4	92.1	106.4	107.3	112.0	112.7	121.8	62.9	67.4	76.9	76.6	84.4	86.1	80.3
% change								-27.2%	-26.8%	-27.1%	-28.6%	-24.6%	-23.6%	-34.1%
Tourism inflows	99.9	92.2	123.3	135.8	136.9	157.0	224.0	96.1	90.4	119.9	134.4	154.8	169.2	243.8
% change								-3.8%	-2.0%	-2.8%	-1.0%	13.1%	7.8%	8.8%
Total outflows	-132.2	-191.3	-215.1	-203.0	-322.8	-183.8	-194.6	-222.6	-250.8	-293.2	-154.0	-128.4	-149.4	-62.0
% change								68.4%	31.1%	36.3%	-24.1%	-60.2%	-18.7%	-68.1%
net effect, "+" means savings								-90.4	-59.5	-78.0	49.0	194.4	34.4	132.6

Note: Imports exclude donated C hepatitis medicines amount at US\$ 232.6mn imported in May and July 2015. Total outflows sum up trade deficit, net remittances and tourism inflows.
Source: GeoStat, NBG, G&T Research

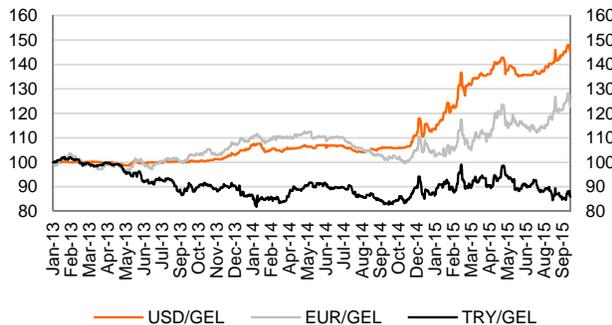


The lari's recent weakness is driven by global factors and deteriorated domestic expectations. The lari started weakening in late August, after two months of stability, as market expectations based on US\$ strength, a sharp depreciation of the Kazakh currency, a weaker ruble, and global market instability at the end of August fed into GEL moves. These factors pushed the FX rate to GEL 2.42/US\$ at end-August, as customers converted lari deposits to US\$ (deposit dollarization increased 2ppts m/m to 67% in August). However, with the pressure from external accounts relieved and resilient tourism arrivals and FDI, lari seems oversold.

The lari rebounds quickly from recent pressure after authorities coordinated actions. To anchor expectations, the government's economic team and NBG agreed on coordinated actions through necessary monetary and fiscal policy instruments. To manage expectations, the NBG intervened on the FX market on September 22 and offered US\$ 40mn, but demand was limited to US\$ 27mn, and lari quickly gained 1.7% against US\$ in a day - yet another sign that the market had overreacted and lari's recent weakness was not driven by fundamentals.

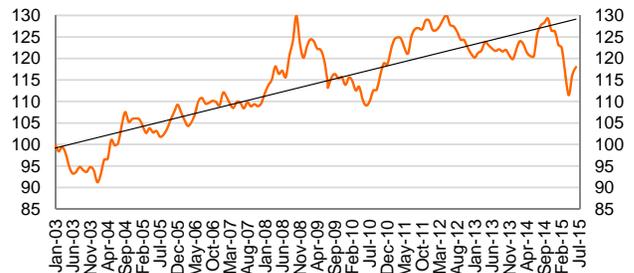
The lari depreciation has supported competitiveness. The lari's depreciation and lower inflation versus Georgia's trading partners has weakened Georgia's REER, which hit a 5-year low in mid-2015. This is likely to ensure a further external adjustment, allowing exports to stay competitive, while making imports more expensive.

Figure 35: Lari nominal exchange rate, rebased



Source: NBG

Figure 36: Real Effective Exchange Rate (REER)



Source: NBG

Economic diversification and a floating exchange rate approach have helped Georgia emerge from the regional turmoil relatively unscathed. Despite a lower growth outlook and external risks stemming from regional economic problems, Georgia has managed to keep its macro fundamentals healthy, which will provide a strong base for a quick pickup once regional turbulence subsides. Plunging oil prices and the EU DCFTA are other upsides contributing to a positive economic growth outlook in 2015 and beyond.



BOX 3: Georgia's exposure to Russia and Ukraine

Trade: In 7M15, Russia and Ukraine together accounted for 9.2% of Georgia's exports (15.1% in 7M14) and 13.2% of imports (11.8% in 7M14).

Energy Trade: Georgia imports natural gas mainly from Azerbaijan.

FDI: Russia and Ukraine accounted for just 4.1% of cumulative FDI over 2004-2014.

Banking Sector: VTB Bank is the only Russian lender operating in Georgia. It accounts for 4.5% of banking system assets.

Remittances: Georgia's largest exposure to Russia is through remittances. In 2014, Georgia received US\$ 709mn in workers' remittances from Russia, 49.2% of total remittances or 4.3% of GDP. In 2014, remittance inflows from Ukraine accounted for 2.1% of total remittances or 0.2% of GDP. The share of Russian remittances has fallen to 3.0% of GDP in 1H15 (accounting for 38.0% of total US\$ 539mn remittances) and this fall has already been absorbed by the economy.

Tourism: Visitors from Russia and Ukraine accounted for 14.7% and 2.6% of total tourists in 2014. Despite the economic problems in Russia, tourist arrivals from Russia have increased 14.7% y/y in 8M15.

On balance, Georgia's dependence on Russia and Ukraine is relatively limited.

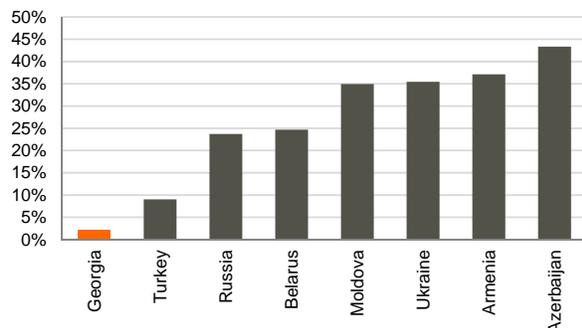
Georgia vs. regional economies – responses to external shocks

The stronger US\$ has weighed on all regional currencies and economies, but the depth of crisis and policy responses in each country has differed.

Georgia spent a much smaller share of reserves supporting the local currency than regional peers did. With their different exchange rate regimes, central banks in Armenia, Moldova, Russia, Ukraine, Azerbaijan, and Belarus lost a significant share of their reserves, in attempts to support their currencies with limited success. Georgia's floating exchange rate policy enabled the central bank to pursue limited interventions to defend the GEL, with a total net sale of US\$ 160mn over the year to July 2015. As a result, Georgia's international reserves shrank 2.1% over that period, while the average reserve losses of the abovementioned peers was 33%.

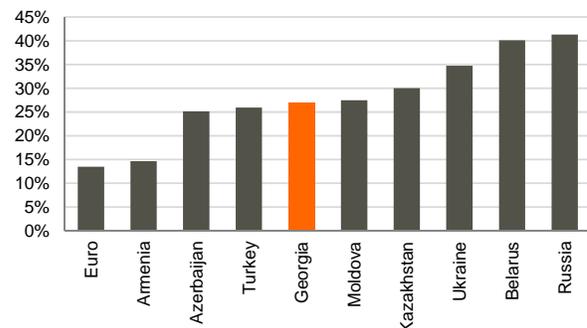
Interventions have not shielded regional currencies from sharp depreciations. From 22 September 2014 to 22 September 2015, the GEL weakened 26.9% against the dollar (US\$ per unit of national currency). The other regional currencies fell more or similar levels as the GEL: the AZN weakened 25.1%, MDL 27.5%, the UAH 34.8%, the BYR 40.1%, and the RUB 41.3%. Only Armenia, which used reserves extensively, fared better, with its currency losing 14.7% against the dollar.

Figure 37: Reserve loss, % change



Source: IMF, G&T Research
Note: July 2014 to July 2015; Armenia's reserves exclude a US\$ 500mn Eurobond issued in March 2015

Figure 38: Currency depreciation against the US\$, %

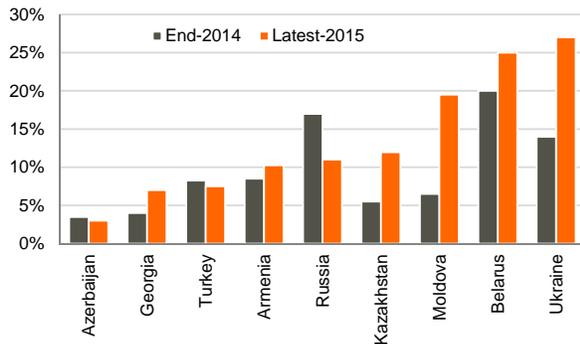


Source: Bloomberg, US\$ per unit of national currency
Note: 22 September 2014 – 22 September 2015



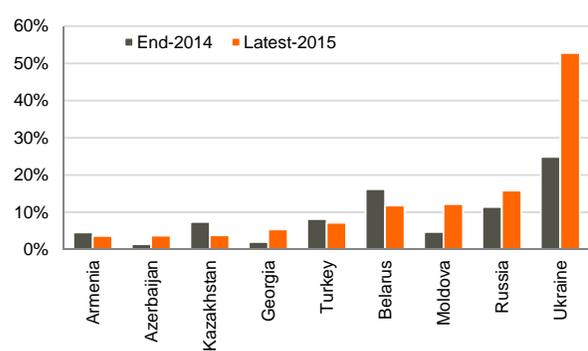
Regional economies have faced inflationary pressures, prompting monetary tightening. Despite the currency depreciation, inflation remained low in Georgia at the start of 2015, enabling the NBG to maintain a low policy rate. In contrast, depreciation fuelled immediate inflationary pressures in regional peer economies. Policymakers reacted by tightening monetary policy, which has stifled growth. While price increases in Georgia in 2H15 pushed the central bank to gradual monetary tightening, the policy rate is still lower in Georgia compared to regional economies (except Azerbaijan), and inflation is comparable vs. some and significantly lower vs. other peers.

Figure 39: Monetary policy rates



Source: Central banks
Note: Latest data as of 25 September 2015

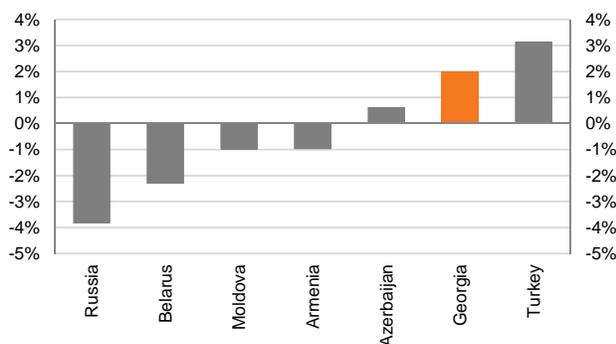
Figure 40: Inflation (CPI)



Source: National statistics offices
Note: Inflation for Azerbaijan as of July 2015; as of August 2015 for all other countries

Greater exchange rate flexibility and prudent policies have helped Georgia stand out among regional economies. By pursuing a flexible FX rate policy, Georgia absorbed most of the external shocks through its exchange rate, easing pressure on the real economy. Consequently, Georgia maintains a better growth outlook compared to regional economies.

Figure 41: Real GDP growth projection, 2015



Source: IMF



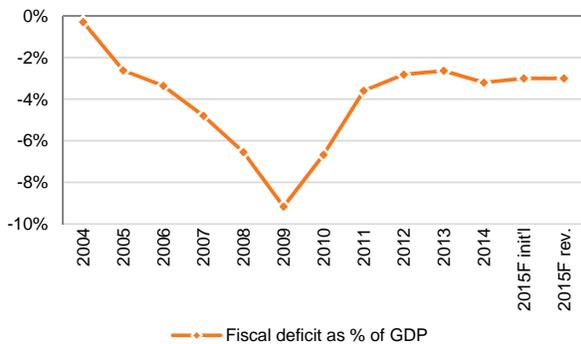
Prudent Fiscal Framework

Economic Liberty Act shapes Georgia's fiscal policy. Georgia adopted the Liberty Act in 2011, and it came into force in January 2014. The Act caps consolidated budget expenditure at 30% of GDP, public debt at 60% of GDP, and the fiscal deficit at 3% of GDP. The Act also requires approval via referendum of new taxes and increases in existing taxes (except excise taxes). Georgia has 5 national taxes (personal and corporate income taxes, VAT, excise tax, and customs duties) and one local tax (property tax). According to the 2009 Tax Misery & Reform Index by Forbes, Georgia has the 4th lowest tax burden globally after Qatar, the UAE, and Hong Kong.

Prudent approach to spending keeps public finances in check. A consistent surplus in the consolidated budget operating balance (3.5% of GDP in 2015) is a reflection of the health of public finances. Consequently, growth-enhancing public capital spending is the only factor contributing to a fiscal deficit.

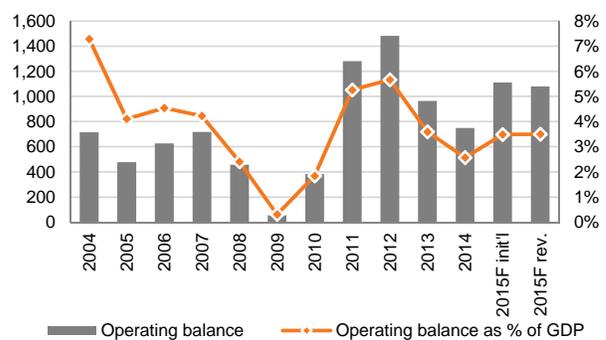
Prudent 2015 fiscal parameters. Faced with lower growth than outlined in the 2015 budget law, the government has downgraded 2015E growth to 2.0% from 5.0% and inflation to 3.0% from 4.0%. The revised approach still foresees the fiscal deficit at 3.0% of GDP. While tax and total expenditure ratios remain almost unchanged (25.5% and 30.4%, respectively), the public debt/GDP ratio increases 6.5ppts to 43.7%, a depreciation-related spike.

Figure 42: Fiscal deficit



Source: MOF, GeoStat

Figure 43: Budget operating balance



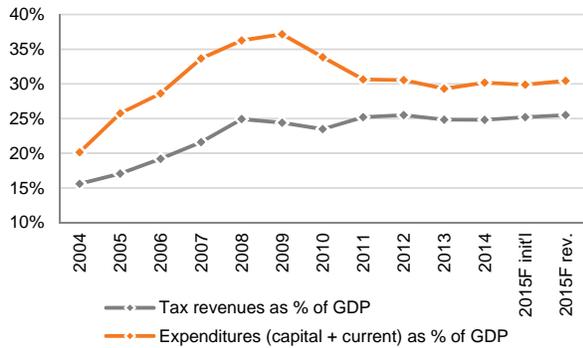
Source: MOF, GeoStat

Government is committed to smoother spending to alleviate the pressure on lari experienced in previous years. Increased government spending pressured lari in late 2013, when the budget ran a deficit (2.6% of GDP) in 4Q13 alone. Although following a smoother path than in 2013, government spending still resulted in a budget deficit of 1.9% of GDP in 4Q14 alone. To avoid the balance of payments pressure experienced before, the government is committed to smoother spending in 2015. The budget deficit reached almost half of the annual deficit target in 7M15, a major improvement over both 2013 and 2014 7M outcomes.

Tax revenues posted strong performance in 8M15, increasing 11.5% y/y. Growth in personal income tax revenues (15.5% y/y, 27.0% of total), profit tax receipts (32.2% y/y, 14.0% of total), and VAT receipts (6.9% y/y, 44.0% of total) had the largest impact in 8M15.

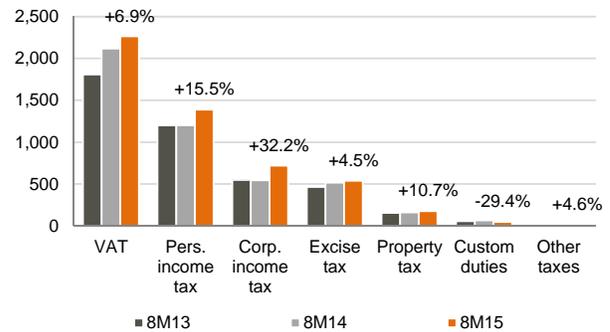


Figure 44: Tax revenues and expenditures to GDP



Source: MOF, GeoStat

Figure 45: Tax revenues, 8M15, GEL mn

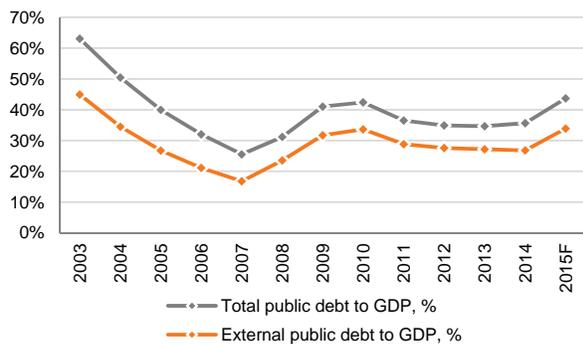


Source: Treasury Service

Infrastructure spending and privatization proceeds grew in 7M15. Public infrastructure spending increased 39.7% y/y to GEL 613mn and privatization proceeds grew 150.9% y/y to GEL 190mn.

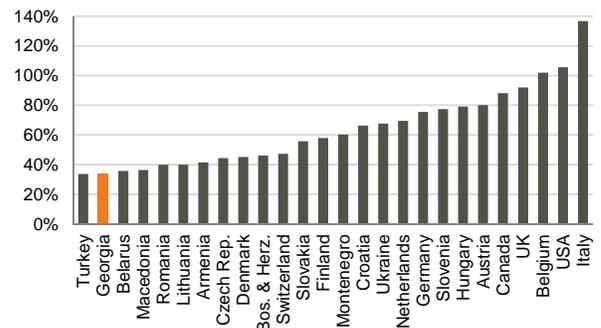
The public debt stock is low (2015E: 43.7% of GDP) and carries concessional terms. External public debt is expected to reach 33.9% of GDP in 2015, according to the revised budget document. On the back of strong tax revenues, the government cut its internal debt issuance by GEL 65mn (45% of remaining plan) in September 2015. The external debt carries a low average interest rate (2%) and a long repayment profile (22 years), which, combined with growing budget revenues, puts Georgia in a comfortable debt servicing position.

Figure 46: Public debt to GDP



Source: GeoStat, MOF

Figure 47: Government debt to GDP, 2014



Source: IMF

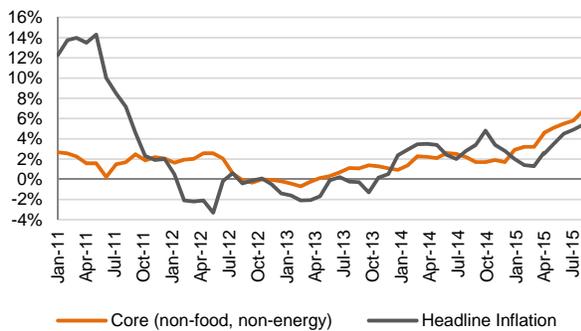


Monetary and Banking Sector

The National Bank of Georgia has pursued inflation targeting since 2009. The target is 5.0% for 2015-2016, 4.0% for 2017, and 3.0% in the long term.

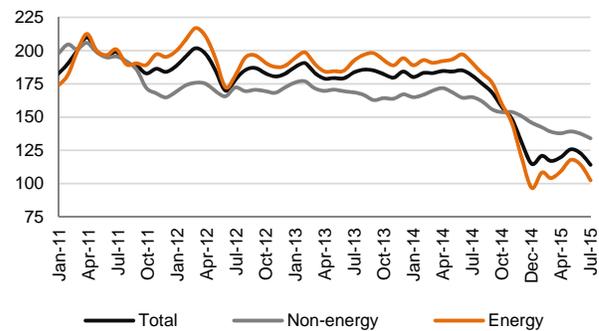
Annual inflation picked up starting in 2H15 and came in at 5.4% y/y in August. Inflation rates started out low at the beginning of the year (1.7% y/y in 1Q15). However, excise tax increases on tobacco and alcoholic beverages, rising healthcare prices, a one-off increase in the electricity price, and lari depreciation-related increases in imported inflation and inflation expectations pushed the inflation rate up in 2H15, while fuel prices have exerted downward pressure on prices. The NBG gradually tightened monetary policy, and on September 23, the NBG further hiked its policy rate by 100bps to 7.0% underlining its commitment to price stability. Given the current trend in prices, we expect annual inflation at 6-7% at end-2015, while inflation is anticipated to move to the 5.0% target by the end of 2016, as world food and oil prices are expected to remain low and the transitory effects of increases in import prices dissipate.

Figure 48: Inflation trends in Georgia



Source: GeoStat, NBG

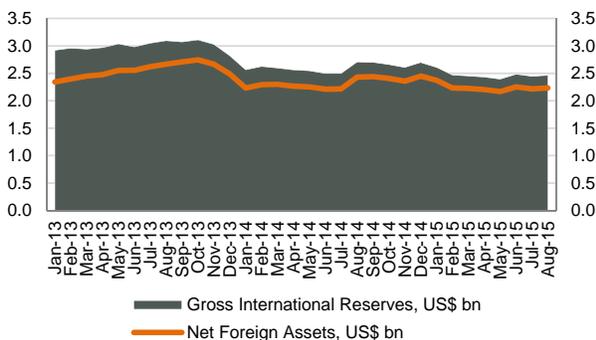
Figure 49: World commodity price indices, 2005=100



Source: IMF

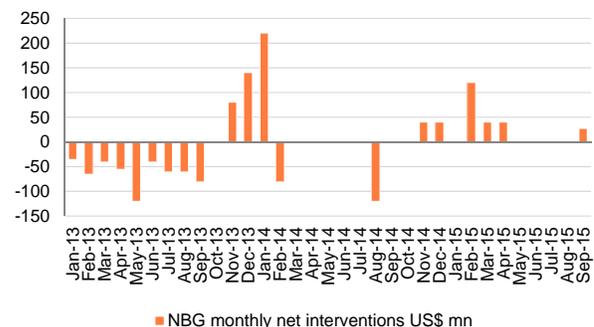
Georgia's end-August gross foreign reserves of US\$ 2.5bn are sufficient to finance more than 3 months of merchandise and services imports. The NBG intervened moderately at the beginning of 2015, shrinking reserves. However, the trend reversed in June, when reserves grew 3.8% m/m, due to the government's FX operations. According to the MOF, government FX operations will add another US\$ 110mn by end-2015, with a net effect of US\$ 50mn in 2015. With minimal external public debt repayments in 2015, we expect end-2015 reserves at US\$ 2.4-2.5bn.

Figure 50: NBG foreign reserves



Source: NBG

Figure 51: NBG FX interventions



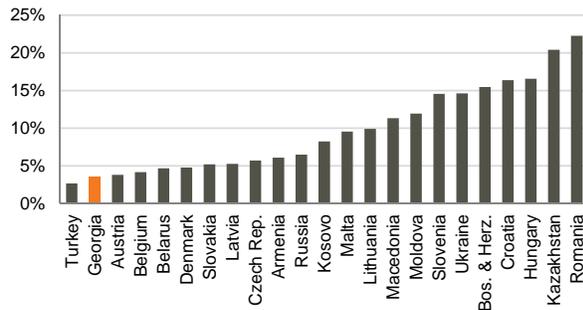
Source: NBG

Note: Negative sign means accumulation of reserves. Latest data as of 25 September 2015.



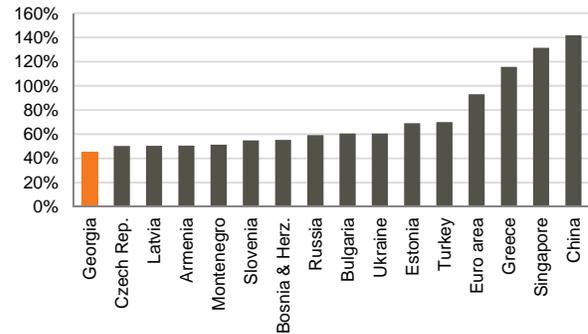
Georgia's banking sector has been one of the faster growing sectors, but it still has one of the lowest penetration ratios among peer countries. Although they are on the rise, loan and deposit penetration rates remain low (44% and 40% of GDP, respectively, in 2014) and only 50% of the population has bank accounts. The NBG's conservative regulations have historically kept sector liquidity and capitalisation rates high. Despite that, sector profitability has remained robust, with ROE at 17.5% in 4Q14.

Figure 52: NPLs, 2014



Source: WB, IMF

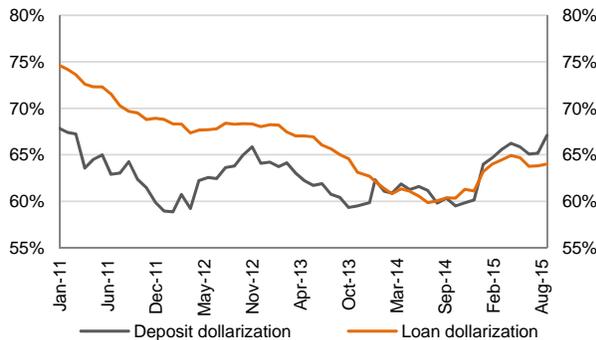
Figure 53: Bank loans to GDP, 2014



Source: WB

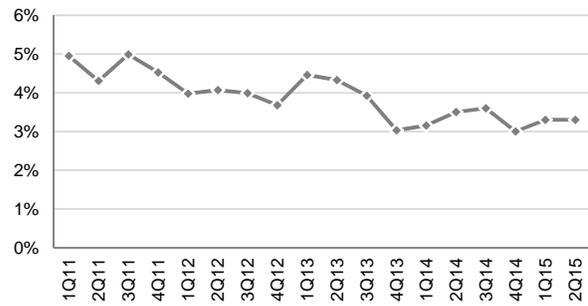
NPLs remain under control, despite elevated dollarization levels. Consumer sentiment towards the GEL remained broadly positive in 1H15, even in the face of currency depreciation, preventing the conversion of GEL deposits. After an increase in deposit dollarization in January 2015 to 64.0% (+3.8ppts from end-2014), it was stable at around 65% till August. However, expectations of weaker lari at end-2015 pushed customers to transfer to FX deposits, pressuring GEL. As a result, deposit dollarization climbed to 67% at end-August (+2ppts m/m and +7.3ppts y/y), mostly on the back of companies' FX holdings on current accounts. NPLs are in comfortable territory: they came in at 3.2%, down 0.3ppts y/y in July. In addition, the banking sector remains profitable – ROE reached 15.9% in 2Q15, up 0.9ppts y/y.

Figure 54: Dollarization



Source: NBG

Figure 55: NPLs



Source: NBG

Note: NPLs by IMF definition, standard 90 day overdue



Outlook for Key Sectors

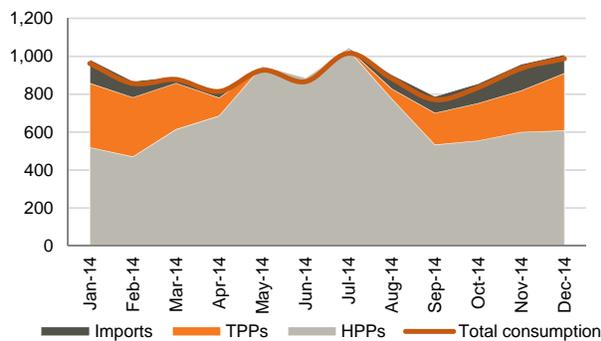
Electricity: ample potential, expanding markets

Georgia's hydropower sector holds ample development potential. Only 20% of hydropower potential is currently utilized. As per MOE forecast, Georgia will double hydropower output to 17.8TWh by 2021. Given the domestic consumption growth trends, a fair portion of the additional generation capacity could be absorbed domestically.

Stable and environmentally sound electricity supply. Georgia has a developed, stable, environmentally friendly, and competitively priced electricity sector. The country has overcome chronic electricity shortages and went on to become a net electricity exporter in 2007-2011 (a net importer in 2012-2014 due to low precipitation and increased domestic demand), after being a net importer for more than a decade before 2007. Hydropower generation has been expanding in recent years, with an additional 146 MW of installed capacity commissioned in 2014. Currently, 88 hydropower plants are in various stages of construction or development. The pipeline of investment projects in the energy sector is estimated at about US\$ 2bn over the next 5-7 years, including the US\$ 1bn Nenskra HPP with 280MW of installed capacity. An estimated 496MW will be commissioned in the coming 5 years, as projects in the construction stage commence operations.

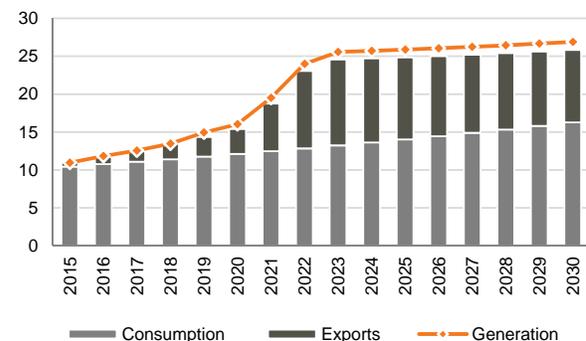
Augmented transmission capacity supporting increased generation, domestic consumption, and exports. Georgia boosted its cross-border electricity transmission capacity by 700MW with a new 400KV transmission line to Turkey, which became operational in 2013. Other transmission lines to Armenia and Russia have also been upgraded. The cross-border transmission infrastructure supported exports of 545mn kWh in 2014, generating nearly US\$ 30mn in export earnings. Georgia's transmission capacity will increase by an additional 5,000MW by 2025 to accommodate domestic demand growth and facilitate cross-border trade and energy swaps to Eastern Europe, once the open market model of electricity trade is implemented in 2017. The MoE estimates exports to exceed 10TWh in 2025 from 0.5TWh on average in 2014-2015. Cross-border transmission capacity will be upgraded to match this increase and an estimated EUR 623-824mn will be invested in the project.

Figure 56: Electricity balance of Georgia in 2014, GWh



Source: ESCO

Figure 57: Generation forecast for Georgia, TWh



Source: MOE

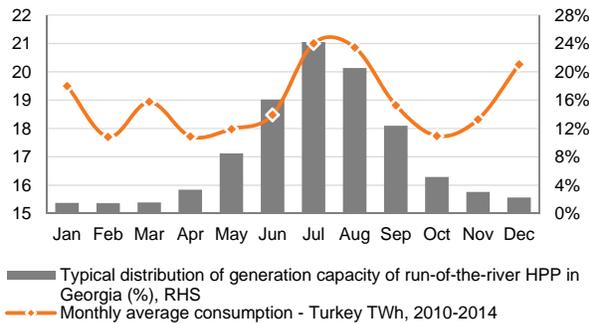
The amount of network losses has decreased drastically and increased sector efficiency and revenues. Improper metering and an outdated network distribution system drove the earlier losses. Today up to 85% of the population has an electricity meter; the rest will be fully metered by 2016.



The government is actively supporting the construction of new hydropower plants. All HPPs built after 2008 are exempt from price control regulation on generated electricity. The construction guarantee required of potential HPP developers has been reduced from a uniform US\$ 170,000/MW to US\$ 100,000/MW for HPPs with installed capacity below 100MW and to US\$ 50,000/MW for HPPs above 100MW. 10-year take-off tariffs are set for the sale of 20% of production to the Georgian electricity market operator and priority access to the newly commissioned Turkish export line is granted for all new HPPs.

Price of Georgian electricity exported to Turkey compares favourably to that of other countries. Turkey experiences an electricity deficit during the summer months, when Georgia produces excess hydropower. Turkey is also a member of the European Network of Transmission System Operators for Electricity (ENTSO-E), which creates an opportunity for Georgian electricity traders to directly access Eastern European customers.

Figure 58: Generation and consumption patterns in Georgia and Turkey



Source: International Energy Agency, ESCO, G&T Research

The electricity sector is moving towards further liberalization and technological advancement. USAID's Georgian Electricity Market Model 2015 (GEMM 2015) aims to harmonize Georgia's market rules with Turkey's to allow day-ahead market operations and offer exporters more transparency in setting prices. Some progress toward harmonization has already been made. An agreement is also in place to develop Geographic Information Systems (GIS), sponsored by the Norwegian government through a EUR 1.8mn transfer to GoG for implementation purposes. GIS will consolidate hydro-meteorological data in digital form to allow users to manage water resources more effectively.

Tourism: a priority sector poised for further growth

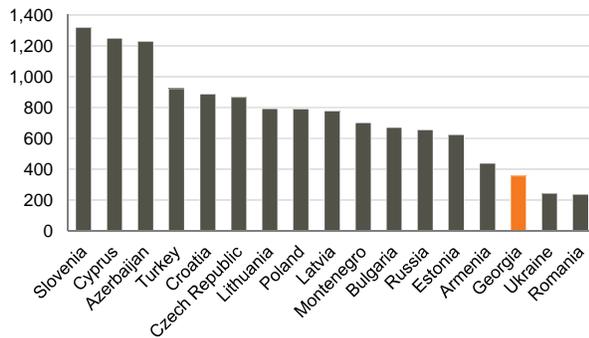
Georgia boasts rich natural and cultural resources and is home to more than 12,000 historical and cultural monuments, 4 of which are included in the list of UNESCO World Heritage Sites. Georgia's beach resorts, medical and wellness destinations, winter-ski resorts, all-season resorts, wine tourism, cultural attractions, and gaming facilities transformed tourism into the key services sector, generating impressive growth: a 28.9% CAGR in visitor numbers in 2005-2014. As a result, travel inflows account for a significant share (18.5%) of total foreign currency inflows. The government identifies tourism as a priority sector and is planning initiatives to boost travel inflows.

One of the fastest growing sectors. During the late '80s, the country of then just 5.3mn (vs. 4.5mn currently) hosted over 3.0mn visitors annually, including 250,000 from outside the USSR. The collapse of the Soviet Union and the ensuing unrest



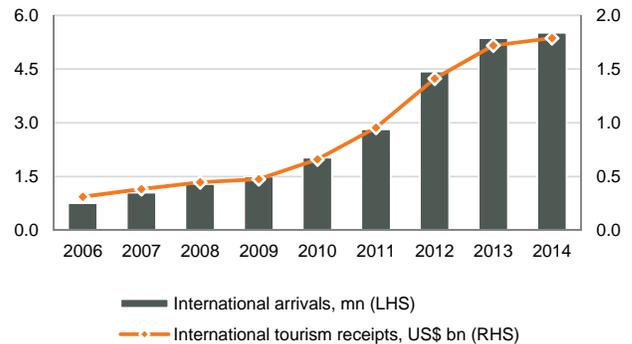
brought Georgia's tourism to a standstill: the number of visitors slipped to around 383,000 in 1999, mainly from the CIS. Since then, visitor arrivals have grown at a 20.9% CAGR to 5.5mn in 2014. The Lonely Planet travel guide named Georgia one of its Top 10 Best Value Destinations in 2013.

Figure 59: International tourism receipts, 2013 (US\$/visitor)



Source: WB

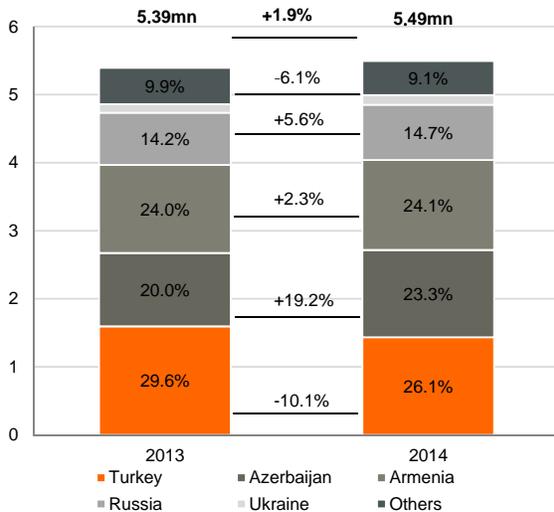
Figure 60: Total international arrivals and inflows



Source: GNTA, NBG

Tourism inflows accounted for 11% of GDP in 2014. Total travel inflows increased 5.0% y/y in 2014 to US\$ 1.8bn, or US\$ 326 in per-visitor spending. That number lags peer countries, leaving significant upside room. Transport, accommodation, food and beverage, and travel companies make up tourism-related services in Georgia.

Figure 61: Number of visitors by country, mn



Source: GNTA

Tourism arrivals have continued to grow, despite regional economic turbulence, as Georgia remains an attractive and cheap destination. With neighbouring countries accounting for roughly 90% of total visitors, international arrivals to Georgia decreased 2.2% y/y in 1Q15. Numbers have since rebounded: 14.7% y/y in May, 9.3% y/y in June, 9.5% y/y in July, and 10% y/y in August. Along with the growth in arrivals, tourism inflows increased 6.7% y/y in 2Q15 after a 2.9% y/y decline in 1Q15. We expect moderate growth in total tourist spending in 2015, while the country's policy of attracting higher-spending visitors is designed to increase tourism inflows over the medium term. We also expect visitor numbers to start out strongly next year, both due to the low 1Q15 base and the increased awareness on Georgia.



Georgian National Tourism Administration (GNTA) to continue promotional campaigns. In 2015, GNTA expects to spend around GEL 7.7mn (vs GEL 9mn in 2014) on marketing campaigns in Eastern and Western Europe, as well as in China. Such marketing campaigns are expected to result in arrival growth from the destination regions, attracting more high-spending visitors, but the current shares of those regions are too small to have a significant impact this year.

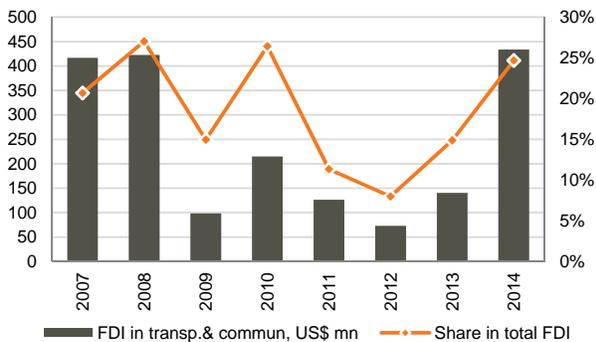
Major one-off tourism events promote Georgia’s tourism image. In addition to the active promotional campaigns by GNTA, major events have been lined up for this year, bringing in an estimated additional 40-50,000 visitors. The events are very important for the country’s tourism image. Tbilisi, in particular, hosted the EBRD Annual Meeting, the European Youth Olympic Festival 2015, and the UEFA Super Cup this year.

Transportation and logistics: capacity to develop

Georgia is a natural transport and logistics hub, bridging Europe with Asia; the shortest route from Europe to China and Asia - 400km of highways and 600km of air routes - passes through Georgia. With a host of free trade agreements in place, Georgia has access to a 900mn market without customs duties including EU and Turkey. The transport and communications sector attracted the largest share of investments, reflecting Georgia’s advantageous location along the so-called "New Silk Road" energy and trade corridor linking Europe and Asia. Continued spending on roads, railways, energy, tourism, and municipal infrastructure will further improve Georgia’s role as a transit hub.

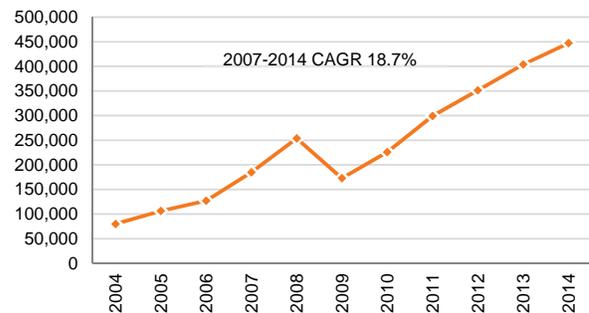
The transport and communications sector accounts for over 10% of GDP and benefits greatly from foreign investments. The sector’s total output reached US\$ 1.5bn (10.5% of GDP) in 2014, increasing 6.6% y/y in real terms. Transport and communications attracted the most FDI, accounting for 19.7% of total over 2007-2014, with investors primarily targeting the transport sector.

Figure 62: FDI in transport and communications sector



Source: GeoStat

Figure 63: Georgian ports container throughput, TEU



Source: Ministry of Economy, GNIA

The Caucasus Transit Corridor (CTC) is a key transit route between Europe and Asia for the transportation of oil and gas as well as dry cargo. CTC is part of the international and regional corridor TRACECA, an alternative to the north corridor running through Russia and Belarus and the south corridor running through Turkey and Iran.

Georgia is a functional regional transit hub, committed to increasing its cargo transit footprint. Georgia’s oil and gas pipelines, Black Sea ports, well-developed railway, East-West Highway, and airports are playing an increasingly important role in linking Asia and Europe. Transit accounted for 65% of cross-border road/rail shipments



and 95% of pipeline shipments in 2014. In addition, Georgia provides a land connection between Russia and Turkey and, via Armenia, to Iran.

The government remains committed to strengthening the country's capacity as a regional hub and to improving the border management environment. Moreover, it allowed private sector participation in the ports sector, while enhancing road infrastructure along the East-West Highway. The railway sector was reformed, and its freight services operate on a fully deregulated basis. Potential transit flows are large when compared to current volumes handled – during the Soviet era, up to 60mn tons were transported by the railway annually (27mn tons currently).

Baku-Tbilisi-Kars (BTK) railroad mainline will open the railway corridor from the Caspian Sea to Europe through Turkey. The construction of the Georgian section of BTK rail line was completed in early 2015. Construction works on the Turkish section are underway and first freight is expected in 2016. The new line stretches 826 km (182km in Georgia) and connects the three countries. We believe that BTK has the potential to develop into an important route in the region, connecting oil-rich Azerbaijan to oil-importing Turkey and Europe. In the initial stage, the new rail line will have the capacity to transport 5mn tons of freight (around 30.0% of freight in FY14), before increasing the capacity to 15mn tons. BTK will also attract freight from Turkey-CIS trade, mainly dry cargo, currently transported by trucks. Additionally, BTK has potential for passenger traffic between Azerbaijan and Turkey.

Map 1: Baku-Tbilisi-Kars rail line



Source: Company data, Galt & Taggart Research

The railway modernization project - initiated in 2010 and spanning through 2019 - is primarily focused on the mainline railroad that runs from Tbilisi to the Black Sea terminals. The project should more than double the annual freight throughput capacity to 60.0mn tonnes per year from the current 27.0mn tonnes. With potential adjustment of the alarm systems and centralization of blocking on all railway lines in the medium term, the annual throughput capacity would increase to around 100.0mn tonnes.

Georgia's transport and logistics sector benefits from a modern and efficient tax and customs system. All transit is free of tax, while Georgia's customs body has been recognized as one of the least corrupt in the world by Transparency International. To provide two examples of crucial processes that reflect the customs system's



efficiency: import clearance procedures take an average of 15 minutes and a 15-day deferral of customs tax/VAT is possible for importers. Georgia also boasts modern customs clearance terminals and cargo inspection/cross-dock equipment and facilities that service preliminary customs declarations, as well as self-service customs clearance for cars and online services for remote clearance (including tax returns).

Georgia's strategic location makes it a transport corridor for natural gas and crude oil supplies to European markets. In addition, Georgia is the only route for the transportation of Russian natural gas to Armenia. Georgia's auspicious location has prompted significant investments into its oil and gas sector. South Caucasus Pipeline (SCP) stretches 692km (249km in Georgia) and transports natural gas from Azerbaijan to Turkey through Georgia and from Turkey further to the EU. The Southern Gas Corridor project, aimed at improving the security and diversity of EU energy supply, will bring additional volumes of natural gas from the Caspian region to Europe. It is comprised of several separate energy projects, including the expansion of the SCP pipeline, which should bring additional volumes to GOGC as the pipeline capacity is poised to triple by 2021.

The priority is to strengthen Georgia's profile as a regional logistics hub and to upgrade multimodal infrastructure. New projects that contribute to this priority goal include the Anaklia deep sea port and the Baku-Tbilisi-Kars railway. The construction of the Alyat port in Azerbaijan, a new US\$ 1.5bn port in Turkmenistan, and 10 new tankers in the Caspian Sea promise a new development of the Silk Road and the region. The development will be further supported by the construction of separate rail links connecting Turkmenistan, Afghanistan, Tajikistan, China, Kyrgyzstan, and Uzbekistan.

Agriculture: unrealized potential

Georgia has significant agricultural potential, rooted in its variety of soil types and microclimate zones. However, crop yields significantly lag behind global and Eastern European averages. The government launched sectoral support programs in 2013, designed to boost sector growth by enhancing yields and driving efficiency gains from land consolidation.

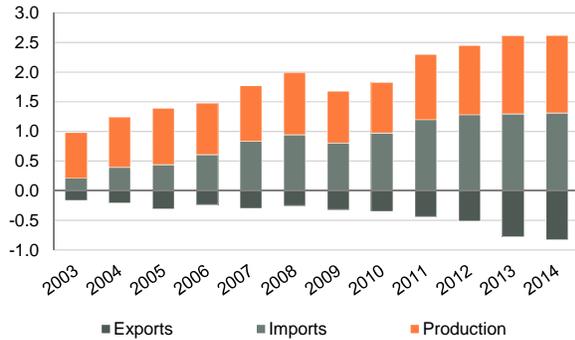
Underutilized potential. Georgia's 49 soil types and 22 microclimate zones support a variety of fruits and vegetables, while the country has yet to take full advantage of its affordable arable land and cheap labour or its export potential by streamlining access to European markets. Agricultural yields in Georgia are 2-3x lower than comparable average Eastern European and global yields. Georgia is also rich in water resources, with average annual renewable per-capita water resources 3.5-6.0x higher than in Turkey, Armenia, Azerbaijan, and Ukraine, and annual average precipitation double that of regional peers. Both CIS and EU markets import significant quantities of fruit and vegetables, making them obvious target markets for Georgian exporters. Domestic demand is also strong, but the scarcity, uneven distribution, and underuse of storage facilities, as well as the lack of post-harvest treatment, have hampered domestic market development. Agriculture is the single largest employer in Georgia, accounting for more than half of the employed population.

FDI in agriculture remains low. Agriculture was a leading industry in the past, but insufficient investment and a knowledge gap have caused its contribution to GDP to decline gradually. According to the World Bank, agriculture accounted for 29.0% (US\$ 1.7bn) of GDP in 1991; its share fell to 9.2% by 2014 at US\$ 1.3bn. Nominal agricultural production increased 5.4% y/y in 2014 vs. the 9.7% nominal GDP growth, but real growth was only 1.5% and the sector contributed just 0.2% to real GDP growth. Over 2007-2014, agricultural exports (including processed foods, tobacco, and beverages) accounted for 23.7% of total exports, while agricultural imports accounted



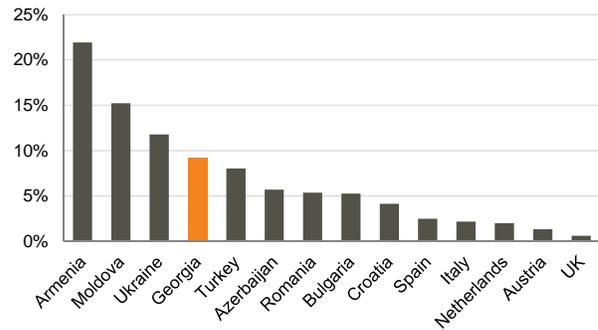
for 16.3% of total imports. Investment in the sector has remained low: agriculture accounted for just 1.2% of total FDI inflows over 2007-14.

Figure 64: Output and trade in agriculture, US\$ bn



Source: GeoStat
Note: Trade including processed foods, tobacco, and beverages

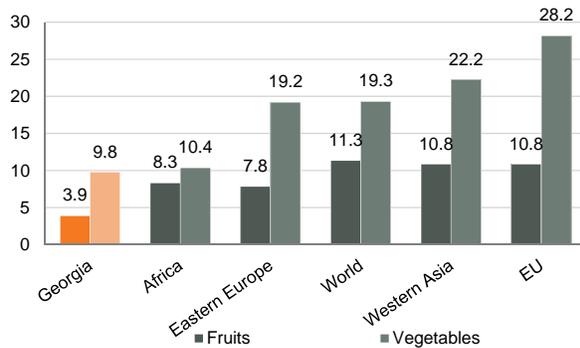
Figure 65: Agriculture value added as % of GDP, 2014



Source: WB

Major government projects aid sector development. The government introduced several support projects, including the Small Farmers Assistance Spring Project, Financing Processing Companies, a program on land reclamation and drainage rehabilitation, and the newly implemented Agriculture Insurance Program. The programs are designed to stimulate the overall sector and foster the development of the rural population into self-sustained farmers, by making it financially feasible for them to take advantage of modern agricultural production tools.

Figure 66: Agricultural yields, 2013 (t/ha)



Source: FAOStat, G&T Research

State investments in the sector in 2015. The 2015 budget set aside GEL 268mn or 3% of total budget expenditures to the Ministry of Agriculture in 2015. The bulk of this funding will go to development programs, including the rehabilitation and development of irrigation systems, support for the development of co-ops, the popularization of Georgian agricultural goods, and assistance for small farmers.

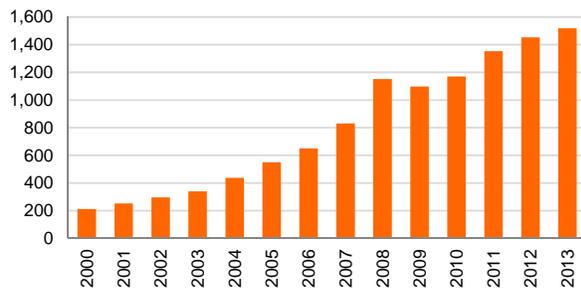


Healthcare: past reforms pave the way for future gains

Georgia has developed its healthcare sector over the last decade and settled on universal healthcare (UHC), with a stronger legal framework, improved infrastructure, and increased state financing. Health indicators have improved materially as a result. Over 2002-13, per-capita healthcare spending increased at 16.7% CAGR, reaching US\$ 207 on hospitals and ambulatory services. The healthcare market size totals US\$ 1.5bn, with an increasing share of government spending and low base relative to peers support to significant upside potential.

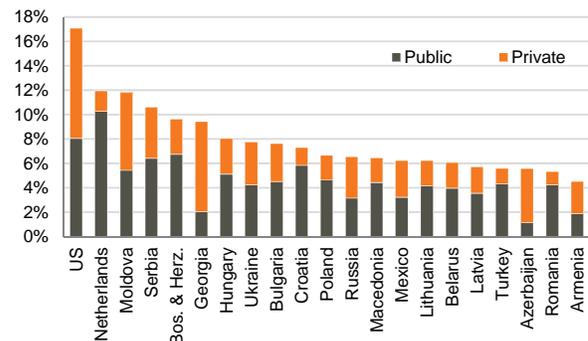
Government healthcare spending at 2% of GDP lags the peers' at 5% of GDP. Government healthcare spending has grown recently to 2.4% of GDP or GEL 727mn, US\$ 316mn (8.3% of the 2015 budget expenditures), from 2.2% of GDP or GEL 653mn, US\$ 370mn, in 2014 (8.0% of the 2014 budget expenditures) and 1.8% of GDP or GEL 481mn, US\$ 289mn in 2013 (6.6% of the 2014 budget expenditures). Nevertheless, it is still low relative to the 5% average for selected peers. Despite the increased government spending, Georgia still has high out-of-pocket expenditures at 79% vs. the 39% peer average in 2013. Pharmaceuticals hold the largest share at 38% of healthcare expenditures in Georgia (vs. 16-17% for peers). The government has recently introduced mandatory prescriptions for drugs, which is expected to drive outpatient utilisation and reallocation of spending to outpatient services.

Figure 67: Health expenditures in Georgia, US\$ mn



Source: WHO

Figure 68: Health expenditures as a % of GDP, 2013



Source: WB

Georgia operates a custom UHC model, providing basic healthcare coverage, primarily hospital, for the Georgian population. With its increasing share of healthcare spending, the government has become the major financial contributor. Healthcare services are delivered via a network of mainly private providers. Healthcare is exempt from value-added tax (VAT) and corporate income tax (if earnings are reinvested) and the legal framework is favourable for investors.

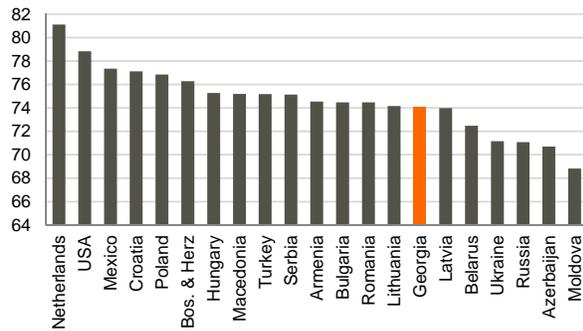
Infrastructure has been optimized, privatized, and renovated (of total hospital bed capacity, over 60% is new and less than 20% is public). An effort to optimize the stock of hospital beds over 2002-12 brought the total number of beds down from 4.2 to 2.6 per 1,000 individuals. With this outcome, Georgia has reached UK and USA capacity levels.

The Georgian healthcare market, characterized by low utilization and high fragmentation, has significant growth potential. Georgia lags significantly behind its peers in spending on healthcare (almost 2x lower per-capita spending compared to Turkey), pricing (average revenue per-bed 2.5x lower vs. Turkey), and incidence levels, with only 50% utilisation of hospital capacity and 2.7 outpatient encounters per capita, significantly lower than peer levels. A relatively low base and the growth momentum generated since the launch of healthcare reforms suggest sustainable



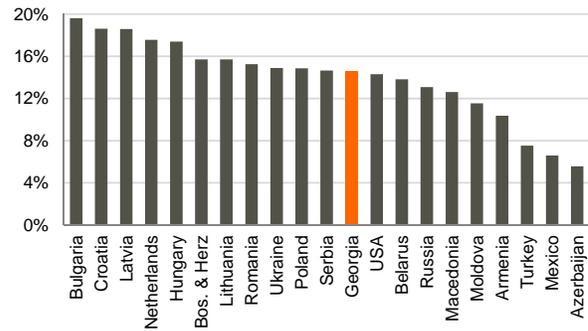
medium to long-term growth. Furthermore, the highly fragmented supply side, together with the excessive number of doctors and the low nurses per physician ratio, provide room for further developments. Georgia has the 2nd most physicians among peers at 4.2 per 1,000 (vs. peer average of 2.9), well above the European average of 3.3. However, Georgia has significantly fewer nurses (0.7 per physician) compared to peers (2.1 average; WHO recommendation of 4:1). Continued investments, mostly by private sector participants, address the quality of healthcare services and position the sector for sustained medium to long-term growth.

Figure 69: Life expectancy, years, 2013



Source: WB

Figure 70: Population age distribution, ages 65+ in total population, 2014



Source: WB



Annex: Macro Statistics

Table 7: Key economic indicators

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014P
GDP and prices											
Real GDP, % change y/y	5.9%	9.6%	9.4%	12.6%	2.6%	-3.7%	6.2%	7.2%	6.4%	3.3%	4.8%
Nominal GDP, GEL mn	9,824	11,621	13,790	16,994	19,075	17,986	20,743	24,344	26,167	26,847	29,187
% change y/y	14.7%	18.3%	18.7%	23.2%	12.2%	-5.7%	15.3%	17.4%	7.5%	2.6%	8.7%
Nominal GDP, US\$ mn	5,126	6,411	7,762	10,173	12,799	10,767	11,638	14,435	15,847	16,140	16,530
% change y/y	28.4%	25.1%	21.1%	31.1%	25.8%	-15.9%	8.1%	24.0%	9.8%	1.9%	2.4%
GDP per capita, GEL	2,277	2,689	3,133	3,867	4,353	4,101	4,676	5,447	5,818	5,988	6,500
GDP per capita, US\$	1,188	1,484	1,764	2,315	2,921	2,455	2,623	3,231	3,523	3,600	3,681
Investments to GDP	31.9%	33.5%	30.9%	32.1%	26.0%	13.0%	21.6%	26.2%	28.9%	24.8%	29.8%
CPI inflation, average	5.7%	8.2%	9.2%	9.2%	10.0%	1.7%	7.1%	8.5%	-0.9%	-0.5%	3.1%
CPI inflation, eop	7.5%	6.2%	8.8%	11.0%	5.5%	3.0%	11.2%	2.0%	-1.4%	2.4%	2.0%
GDP deflator	8.4%	7.9%	8.5%	9.5%	9.4%	-2.0%	8.6%	9.5%	1.0%	-0.7%	3.8%
Fiscal indicators (consolidated budget)											
Taxes to GDP	15.6%	17.1%	19.2%	21.6%	24.9%	24.4%	23.5%	25.2%	25.5%	24.8%	24.8%
Expenditures to GDP (current+capital)	20.1%	25.8%	28.6%	33.7%	36.3%	37.2%	33.9%	30.7%	30.6%	29.3%	30.2%
Current expenditures, % change y/y	23.4%	50.4%	31.5%	38.7%	26.8%	-3.5%	5.3%	2.0%	8.7%	6.4%	13.9%
Operating balance to GDP	7.3%	4.1%	4.5%	4.2%	2.4%	0.3%	1.8%	5.3%	5.7%	3.6%	2.6%
Overall balance to GDP	3.7%	2.2%	3.4%	0.8%	-1.9%	-6.7%	-4.5%	-0.9%	-0.6%	-1.1%	-2.0%
Fiscal deficit to GDP (IMF methodology)	-0.3%	-2.6%	-3.4%	-4.8%	-6.5%	-9.2%	-6.7%	-3.6%	-2.8%	-2.6%	-3.0%
Total public debt to GDP	50.5%	40.0%	32.0%	25.5%	31.2%	41.1%	42.4%	36.5%	34.8%	34.7%	35.6%
External public debt to GDP	34.5%	26.8%	21.1%	16.8%	23.5%	31.7%	33.6%	28.8%	27.6%	27.2%	26.8%
Internal public debt to GDP	16.0%	13.2%	11.0%	8.8%	7.6%	9.4%	8.8%	7.7%	7.2%	7.5%	8.8%
External public debt service to budget revenues	8.8%	7.1%	7.3%	3.4%	2.1%	4.7%	4.4%	14.7%	3.0%	7.9%	7.9%
External sector											
Merchandise trade balance to GDP	-17.9%	-18.9%	-26.0%	-28.5%	-30.0%	-22.3%	-22.3%	-24.2%	-26.6%	-21.6%	-25.6%
Current account balance to GDP	-7.0%	-11.1%	-15.1%	-19.8%	-22.0%	-10.5%	-10.2%	-12.8%	-11.7%	-5.8%	-9.8%
Exports of goods and services, US\$ mn	1,647	2,187	2,552	3,182	3,688	3,207	4,061	5,263	6,046	7,210	7,092
% change y/y	27.7%	32.8%	16.6%	24.7%	15.9%	-13.0%	26.6%	29.6%	14.9%	19.2%	-1.6%
Imports of goods and services, US\$ mn	2,493	3,318	4,413	5,917	7,504	5,267	6,138	8,009	9,161	9,297	9,977
% change y/y	33.6%	33.1%	33.0%	34.1%	26.8%	-29.8%	16.5%	30.5%	14.4%	1.5%	7.3%
Money and credit (eop)											
Reserve Money, % change y/y	46.9%	16.2%	26.3%	41.0%	-8.5%	14.2%	11.0%	39.4%	12.2%	22.5%	12.8%
Broad money, M2, % change y/y	61.5%	28.9%	33.4%	53.6%	-11.7%	16.6%	27.0%	27.8%	7.6%	33.2%	9.1%
Broad money M3, % change y/y	40.0%	27.9%	42.7%	46.4%	7.9%	7.7%	30.1%	14.5%	11.4%	24.5%	13.8%
Deposits, GEL mn	971	1,310	2,097	3,215	3,568	3,950	5,489	6,745	7,650	9,665	11,617
% change y/y	35.4%	34.9%	60.0%	53.3%	11.0%	10.7%	38.9%	22.9%	13.4%	26.3%	20.2%
Loan portfolio, GEL mn	932	1,713	2,673	4,581	5,982	5,181	6,256	7,718	8,712	10,470	12,966
% change y/y	21.8%	83.9%	56.0%	71.4%	30.6%	-13.4%	20.8%	23.4%	12.9%	20.2%	23.8%
Lending interest rates (in GEL)	25.4%	21.3%	20.3%	20.9%	21.8%	23.6%	22.6%	22.6%	22.1%	20.7%	18.2%
Deposits interest rates (in GEL)	4.6%	5.6%	7.7%	8.3%	8.8%	8.6%	8.3%	9.0%	9.3%	8.5%	7.6%
Official foreign reserves											
Official foreign reserves, US\$ mn	387	479	931	1,361	1,480	2,110	2,264	2,818	2,873	2,823	2,699
In months of goods and services imports	1.9	1.7	2.5	2.8	2.4	4.8	4.4	4.2	3.8	3.6	3.2
Exchange rates											
US\$/GEL, average	1.92	1.81	1.78	1.67	1.49	1.67	1.78	1.69	1.65	1.66	1.77
US\$/GEL, eop	1.83	1.79	1.71	1.59	1.67	1.69	1.77	1.67	1.66	1.74	1.86

Source: GeoStat, NBS, MOF

Note: 2014 GDP final figure will be available on 16 November 2015. BOP statistics also subject to update



Table 8: Projections for key economic indicators

	2015F	2016F	2017F	2018F	2019F	2020F
GDP and prices						
Real GDP, % change y/y	2.0%	3.0%	4.5%	5.0%	5.0%	5.0%
% change y/y	5.1%	8.2%	9.2%	9.2%	9.2%	9.2%
Nominal GDP, US\$ bn	13.8	14.6	16	17.4	19.1	20.8
% change y/y	-16.8%	6.1%	9.4%	9.3%	9.2%	9.2%
Investments to GDP	26.1%	26.8%	26.3%	26.0%	25.5%	24.9%
CPI inflation, average	3.0%	5.0%	4.5%	4.0%	4.0%	4.0%
CPI inflation, eop	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
GDP deflator	3.0%	5.0%	4.5%	4.0%	4.0%	4.0%
Fiscal indicators (as % of GDP)						
Expenditures	30.9%	31.0%	30.7%	30.6%	30.5%	30.6%
Revenues	27.8%	27.8%	27.7%	27.5%	27.3%	27.2%
Balance	-3.1%	-3.2%	-3.0%	-3.1%	-3.2%	-3.3%
Gross debt	42.4%	42.7%	41.6%	40.1%	38.6%	35.8%
External sector						
Current account balance to GDP	-11.5%	-12.0%	-10.7%	-9.9%	-8.1%	-6.6%
Exchange rate						
US\$/GEL, average	2.23	2.27	2.27	2.27	2.27	2.27

Source: IMF WEO April 2015

Table 9: Georgian neighbourhood, 2014

	Armenia	Azerbaijan	Iran	Kazakhstan	Russia	Turkey	Turkmenistan	Uzbekistan	Georgia's neighb.	World
GDP, US\$ bn	10	74	404	212	1,857	806	48	63	3,474	77,302
Share in total, %	0.01%	0.10%	0.52%	0.27%	2.40%	1.04%	0.06%	0.08%	4.5%	100.0%
GDP per capita, US\$	3,121	7,902	5,183	12,184	12,926	10,482	8,271	2,046	7,764	10,880
Population, mn	3	9	78	17	144	77	6	31	365	7,105
Share in total, %	0.05%	0.13%	1.10%	0.25%	2.02%	1.08%	0.08%	0.43%	5.1%	100.0%
Georgia's exposure:										
Exports, US\$ mn	288	545	28	89	275	239	14	55	1,533	2,861
Share in total, %	10.1%	19.0%	1.0%	3.1%	9.6%	8.4%	0.5%	1.9%	53.6%	100.0%
Imports, US\$ mn	210	638	123	35	575	1,727	69	13	3,390	8,593
Share in total, %	2.4%	7.4%	1.4%	0.4%	6.7%	20.1%	0.8%	0.2%	39.5%	100.0%
FDI, US\$ mn	13	341	1	11	82	63	0	1	512	1,758
Share in total, %	0.7%	19.4%	0.1%	0.6%	4.7%	3.6%	0.0%	0.0%	29.1%	100.0%
Money transfers, US\$ mn	8	18	0	18	709	64	0	4	821	1,441
Share in total, %	0.5%	1.2%	0.0%	1.2%	49.2%	4.5%	0.0%	0.3%	57.0%	100.0%
Tourist arrivals, '000	1,326	1,283	48	28	812	1,443	3	4	4,947	5,516
Share in total, %	24.0%	23.3%	0.9%	0.5%	14.7%	26.2%	0.1%	0.1%	89.7%	100.0%

Source: GeoStat, IMF, NBG



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Head of Research

Nino Papava | n.papava@gt.ge

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: research@gt.ge

Economist

Eva Bochorishvili | evabochorishvili@gt.ge

Economist

Alim Hasanov | ahasanov@gt.ge

Senior Associate

Giorgi Iremashvili | giremashvili@gt.ge

Analyst

David Kutidze | dkutidze@gt.ge

Analyst

David Niniklashvili | dniniklashvili@gt.ge

Analyst

Tamar Kurdadze | tamarkurdadze@gt.ge