



Georgia Capital Investor Day

27 June 2019 | Tbilisi

Forward looking statements

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Georgia macro overview

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Today's key messages

- 1 Georgia has the **highest governance** in the region
- 2 GDP **growth has outperformed** peer countries and is expected to continue doing so
- 3 Georgian Lari **remains stable** compared to other regional currencies
- 4 FDI **surges capital goods import** and widens CA deficit itself
- 5 Economic **linkages to EU is stronger than ever**
- 6 We expect **Georgia to obtain investment grade rating in 2024**

Georgia has the highest governance in the region

Investment friendly environment

- **Natural hub** connecting Eastern European, Central Asian and Middle East countries;
- **Successful reforms** in minimizing regulation, cutting corruption, reducing tax burden, opening markets and developing transport and energy infrastructure creates **wide range of investment opportunities**;
- **Liberty Act** effective from 2014 ensures sound fiscal policy: public expenditure capped at 30% of GDP, fiscal deficit capped at 3% of GDP and public debt capped at 60% of GDP;



Population: 3.7mln; **GDP per capita:** US\$ 4,346; **Literacy:** 100%;



6th place in Ease of
Doing Business

World Bank



2nd place in Starting
a Business

World Bank



2nd place in Protecting
Minority Interests

World Bank



4th place in
Registering Property

World Bank



5th place in Open
Budget Index

International Budget Partnership



16th place in Economic
Freedom Index

Heritage Foundation



25th place in
Business Bribery Risk

TRACE International



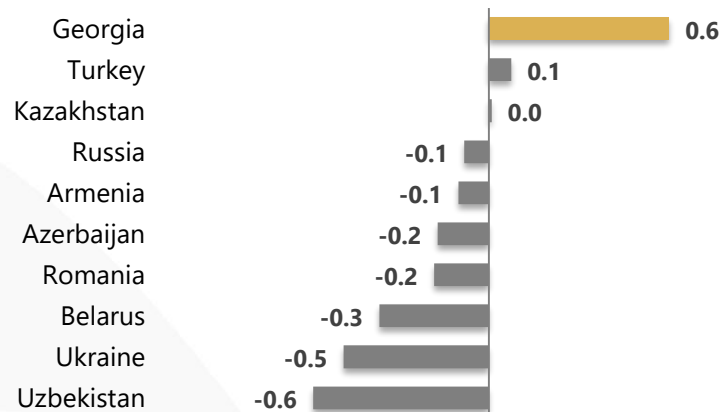
GEORGIA
CAPITAL

Georgia has the highest governance in the region

Open governance policy leads country to outperform

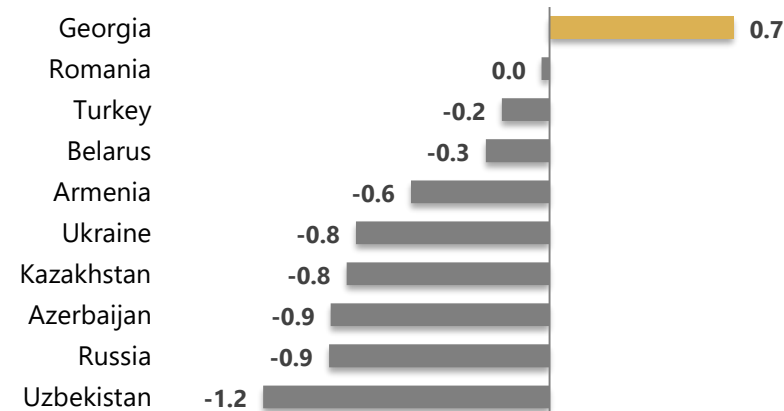
Governance effectiveness, 2017 WGI

Range: -2.5 +2.5

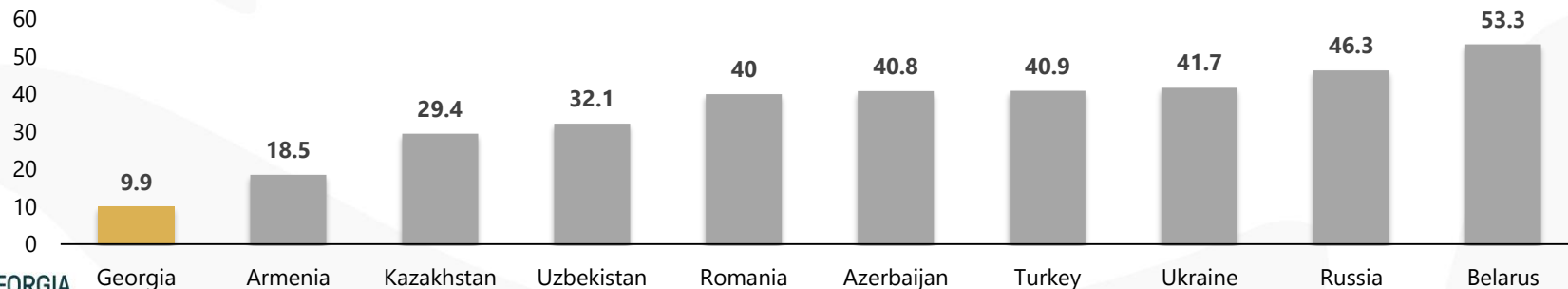


Control of corruption, 2017 WGI

Range: -2.5 +2.5



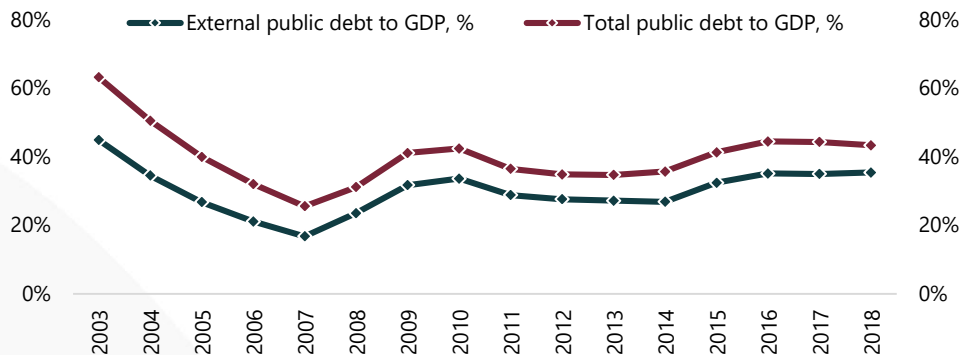
Total tax and contribution rate (% of profit)



Georgia has the highest governance in the region

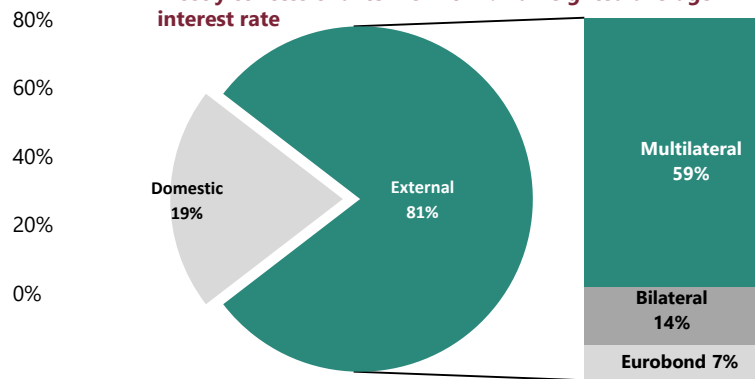
Public debt remains at the well managed level

Public debt as % of GDP is capped at 60%



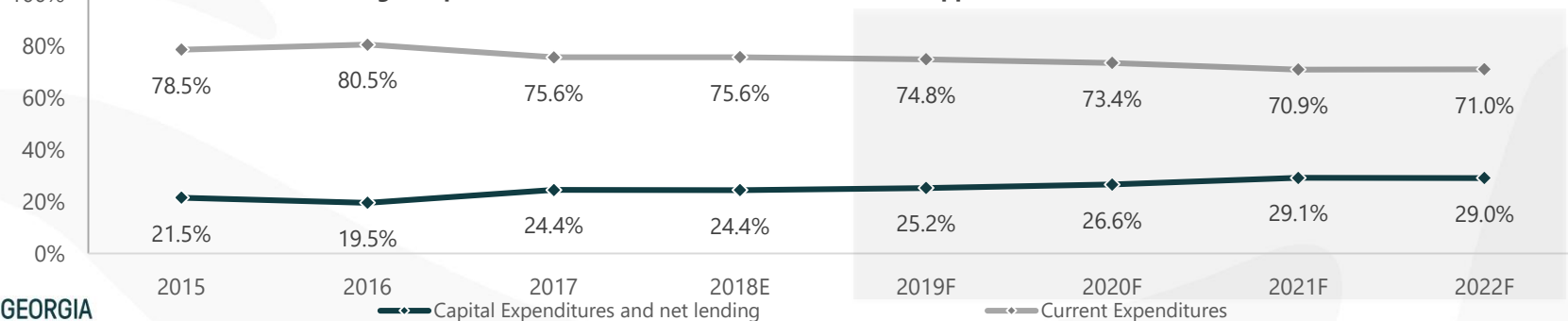
Breakdown of public debt

Mostly concessional terms with 2.2% weighted average interest rate



Increasing share of capital expenditure highlights sound fiscal policy

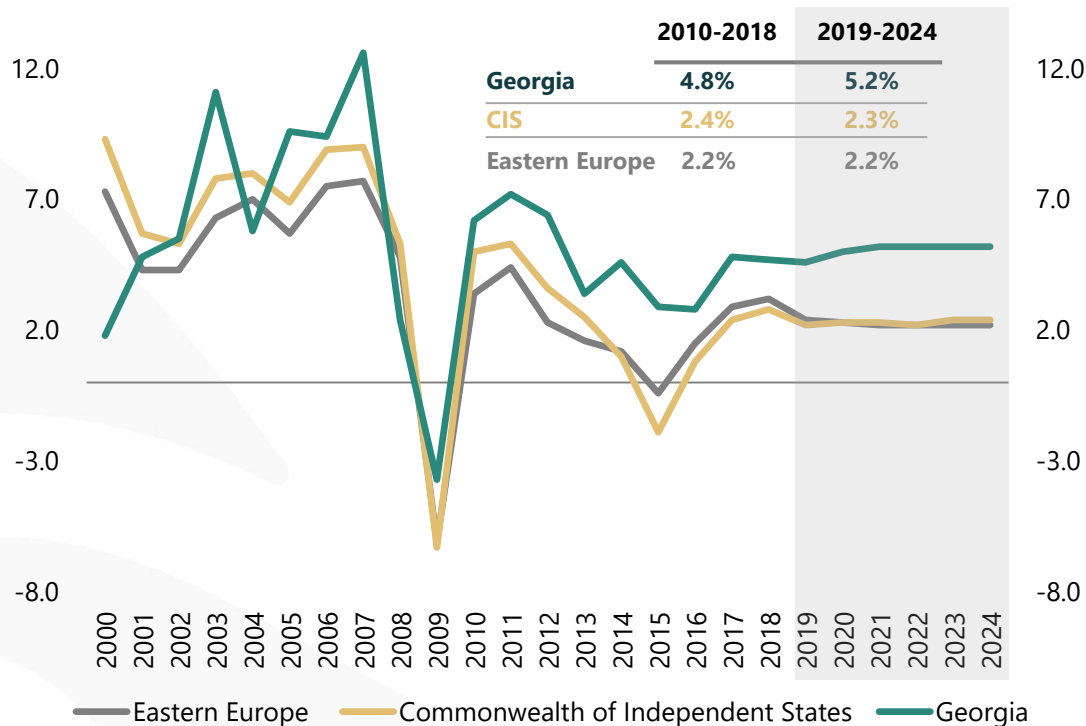
consolidated budget expenditure + increase in nonfinancial asset is capped at 30% of GDP



GDP growth has outperformed peer countries' average and is expected to continue doing so

Solid growth, softer recession, better recovery

GDP growth rate, IMF



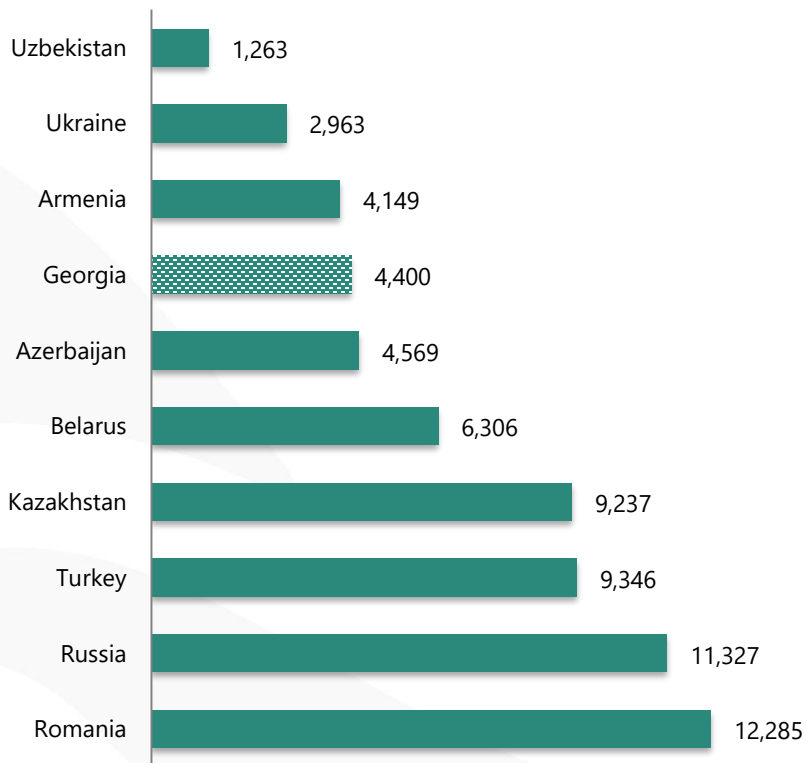
Key sectors contributing to the growth

Long-run growth, %		5.2
	Trade	1.0 ppt
	Manufacturing	0.7 ppt
	Real estate activities	0.5 ppt
	Construction	0.5 ppt
	Financial intermediation	0.4 ppt
	Transport	0.4 ppt
	Public administration	0.4 ppt
	Health and social work	0.3 ppt
	Communication	0.3 ppt

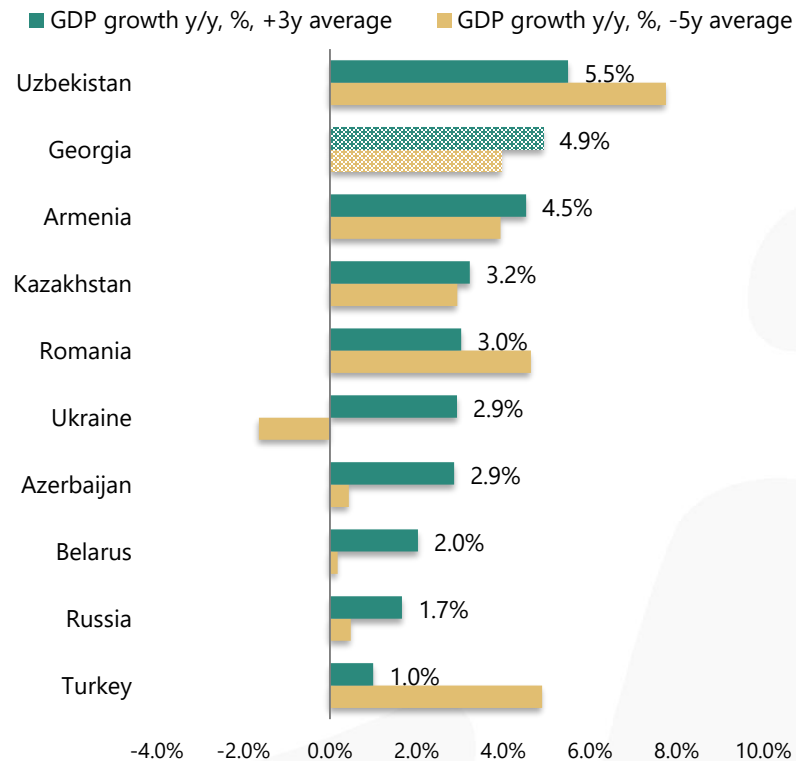
GDP growth has outperformed peer countries' average and is expected to continue doing so

Structural reforms enhance growth

GDP per capita, current, US\$, 2018, IMF



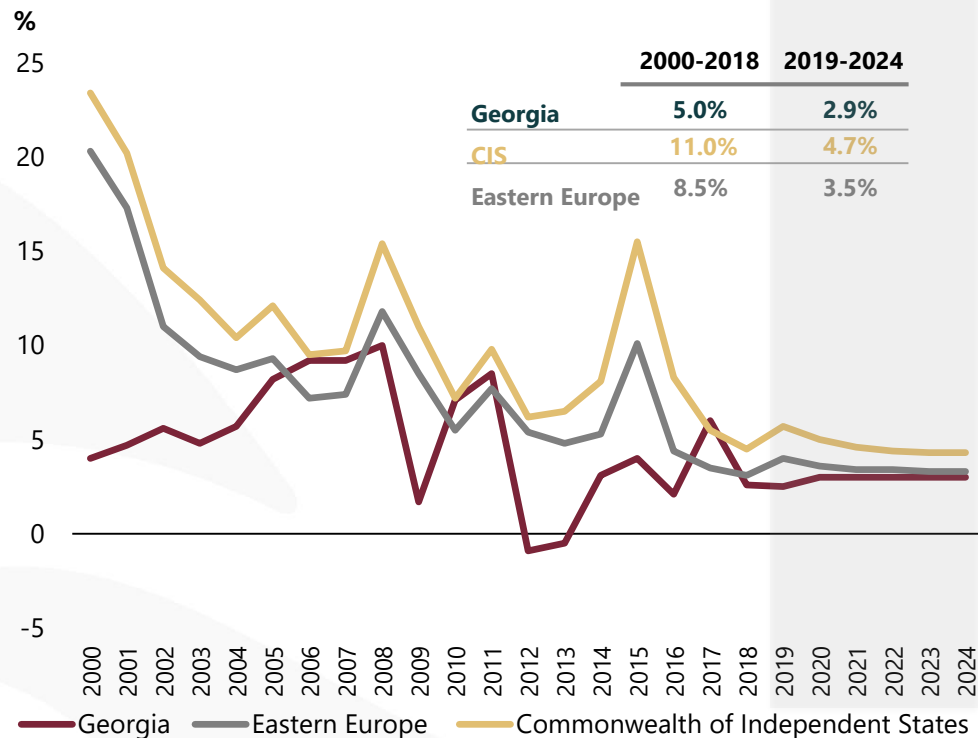
GDP growth rate, IMF



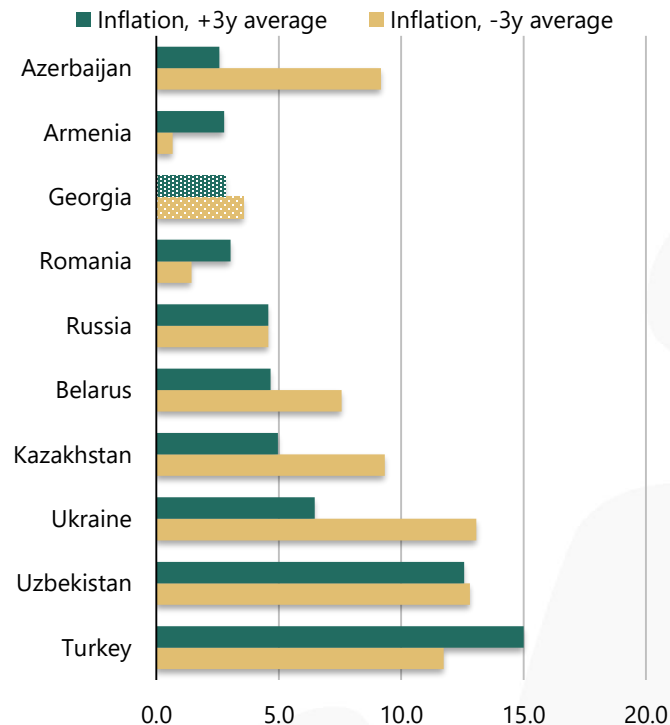
Georgian lari remains stable compared to other regional currencies

Historically low inflation enhances credibility

Annual inflations, IMF



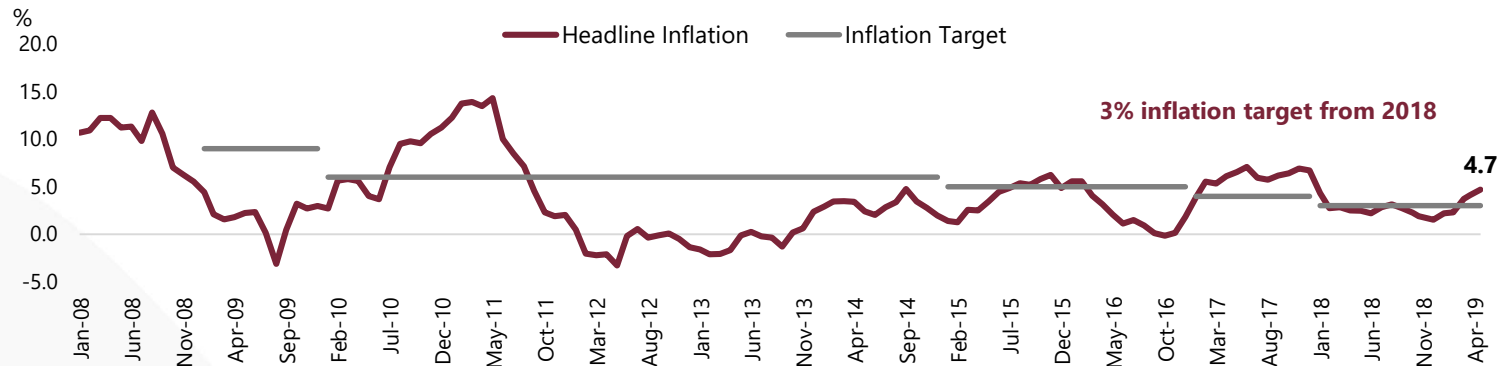
Annual inflations: country comparison



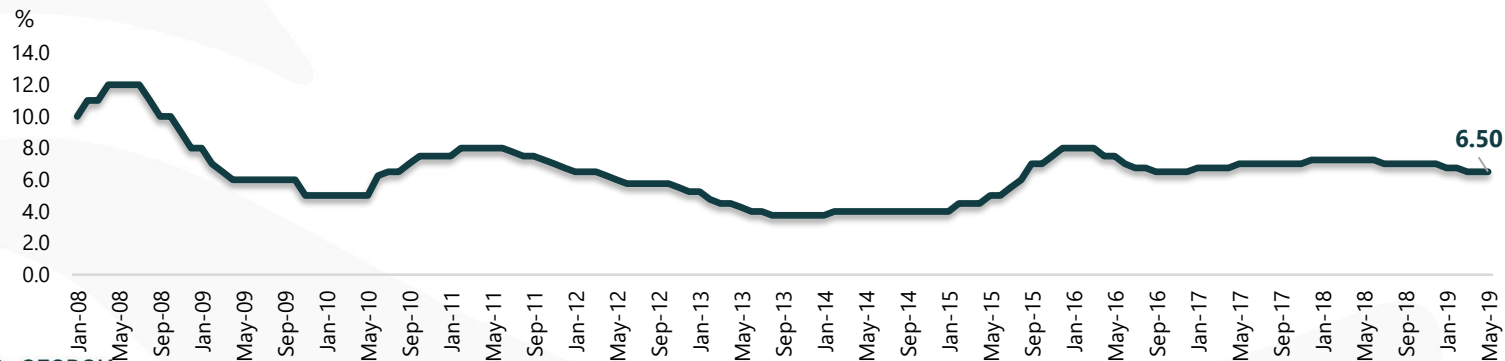
Georgian lari remains stable compared to other regional currencies

Monetary policy focuses on price stability

Average inflation remains close to target



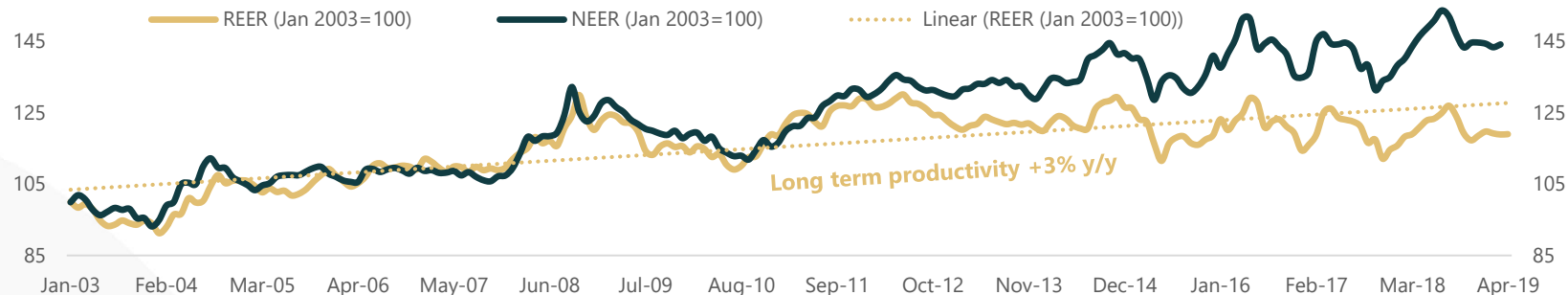
Neutral monetary stance is expected in 2019



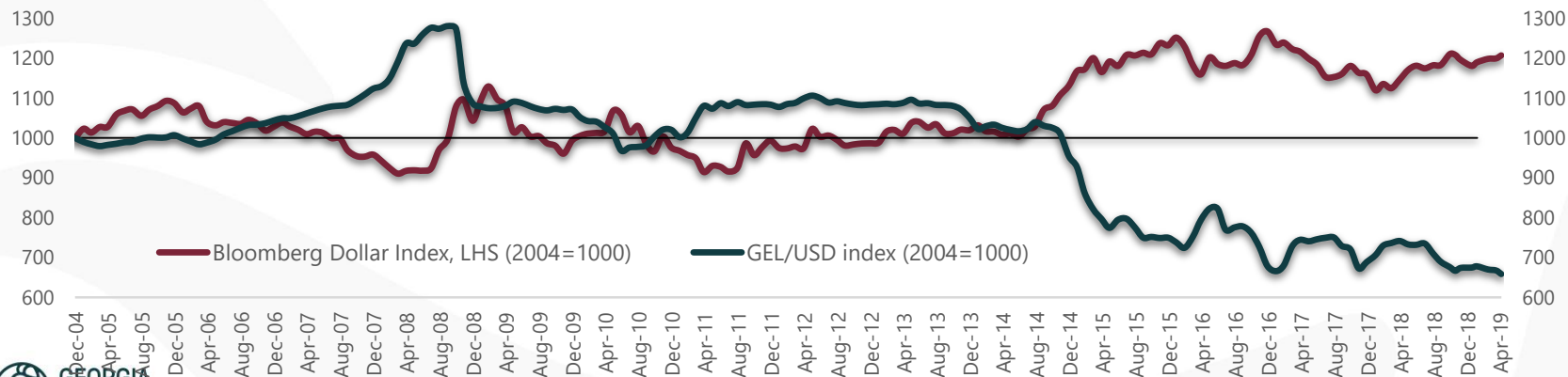
Georgian lari remains stable compared to other regional currencies

Floating exchange rate – policy priority

REER vs NEER



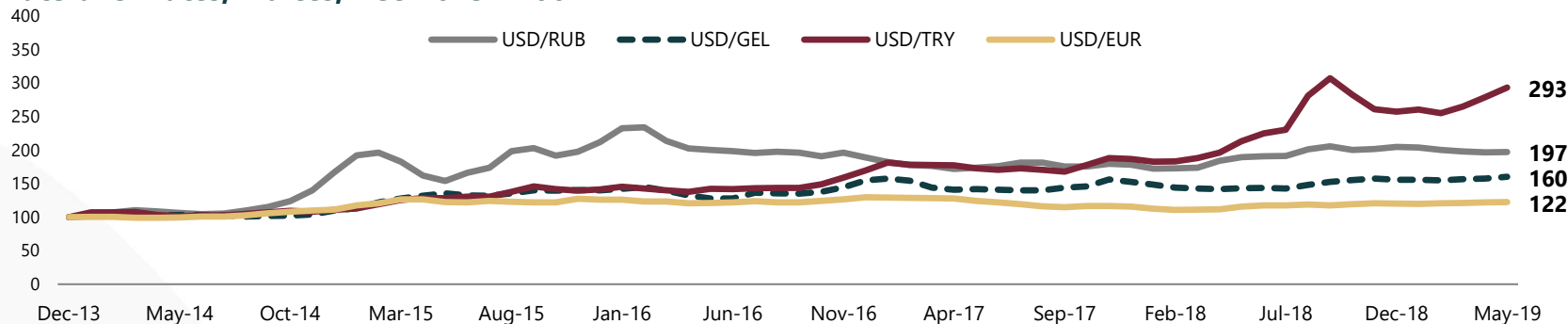
Bloomberg Dollar Spot Index vs GEL/USD index



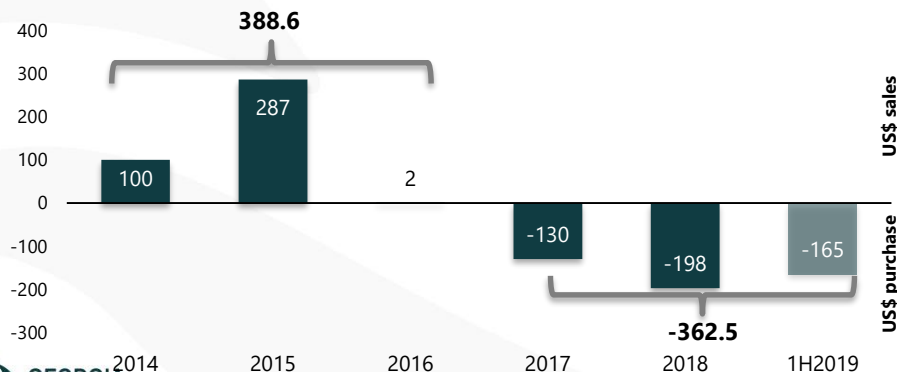
Georgian lari remains stable compared to other regional currencies

Sound monetary policy ensures exchange rate stability

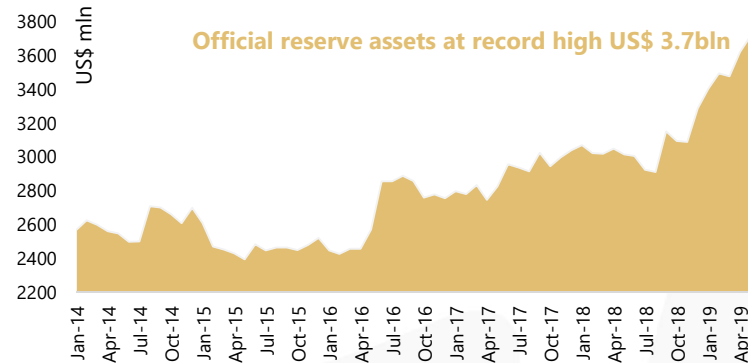
Bilateral ex rates, indices, Dec-2013 = 100



NBG monthly net interventions US\$ mln



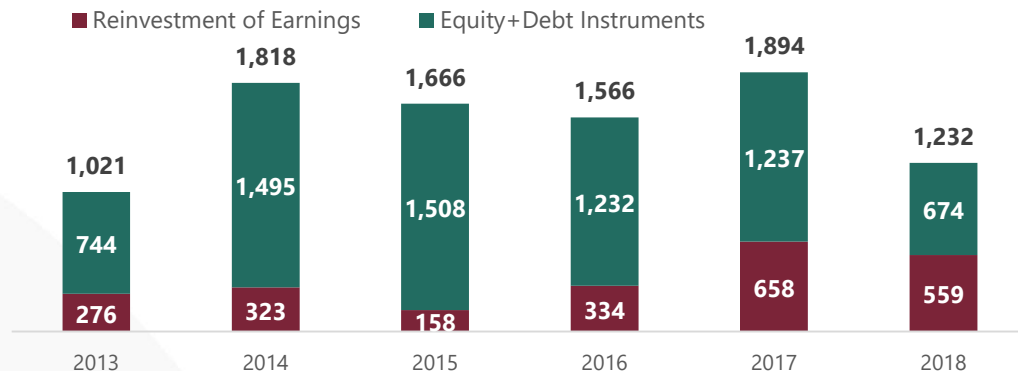
Official reserve assets, US\$ mln



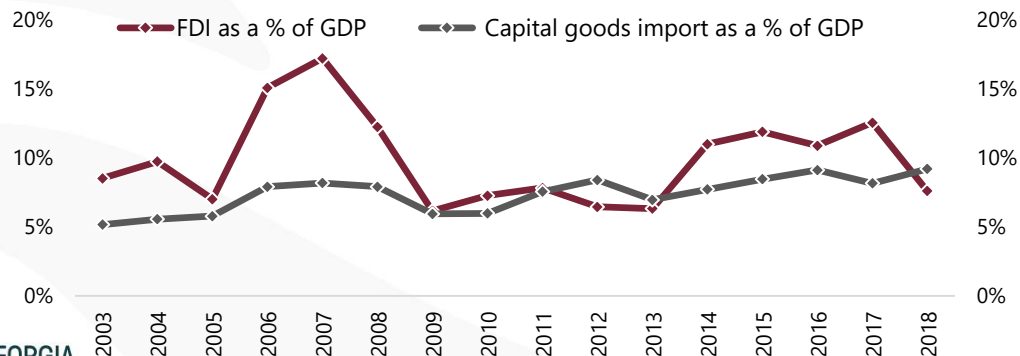
FDI surges capital goods import and widens CA deficit itself

Strategic location coupled with investment friendly environment attracts FDI

FDI US\$ mln



FDI vs capital goods import



Key sectors attracting FDI

(shares in total, 2007-2018, average)

Transport and communication 21.5%

Manufacturing and mining 16.4%

Energy 12.7%

Financial 12.0%

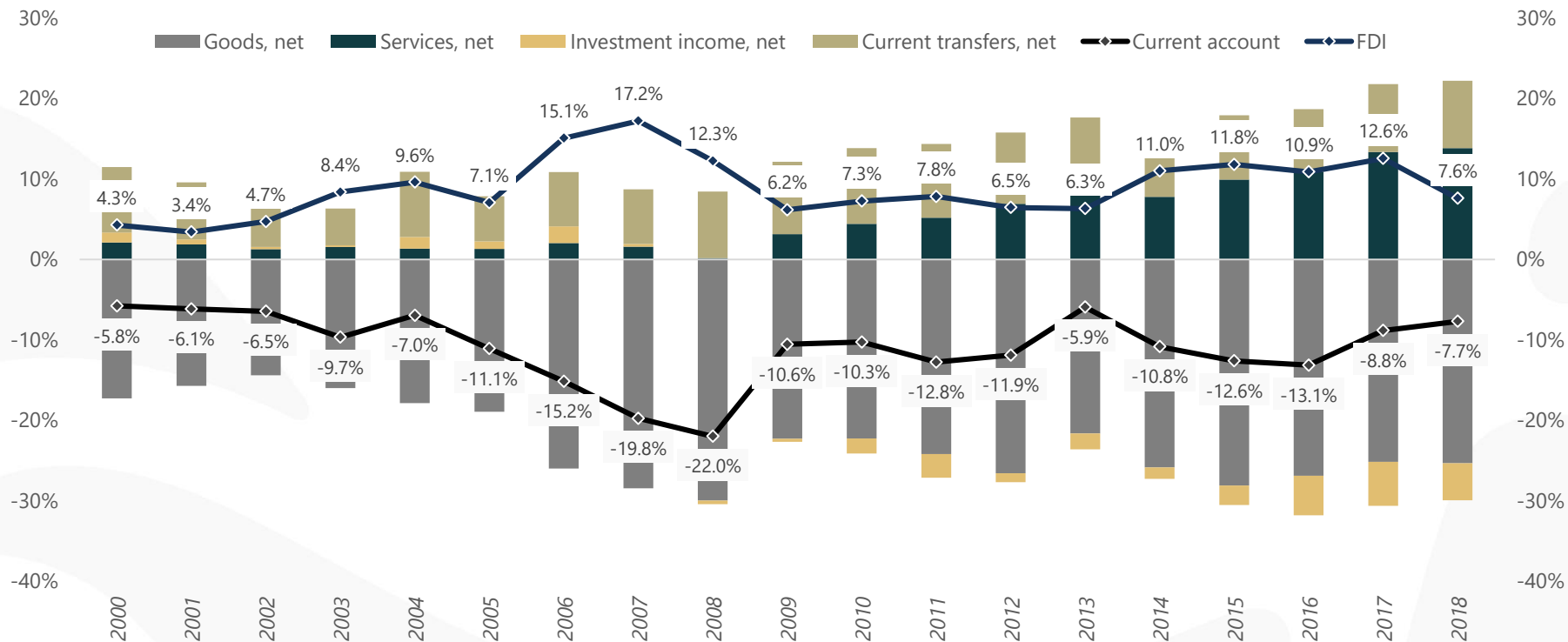
Construction 9.5%

Real estate 9.5%

FDI surges capital goods import and widens CA deficit itself

Current Account deficit driven by investment-saving gap

CA deficit vs FDI



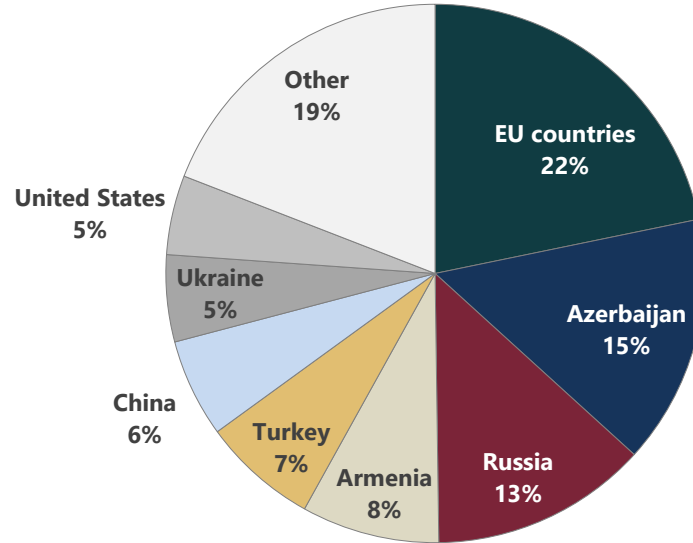
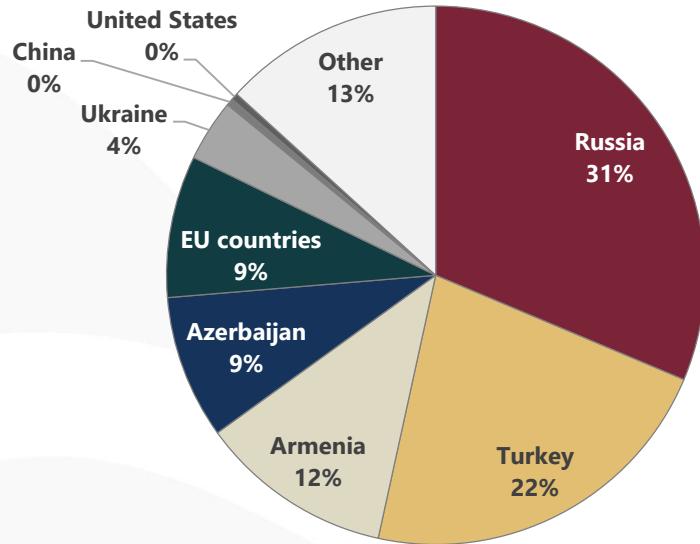
Economic linkages to EU is stronger than ever

Export markets diversification reduces country specific risks

Export of goods US\$ 0.2bln, 1995

Increased by 22 times

Export of goods US\$ 3.4bln, 2018

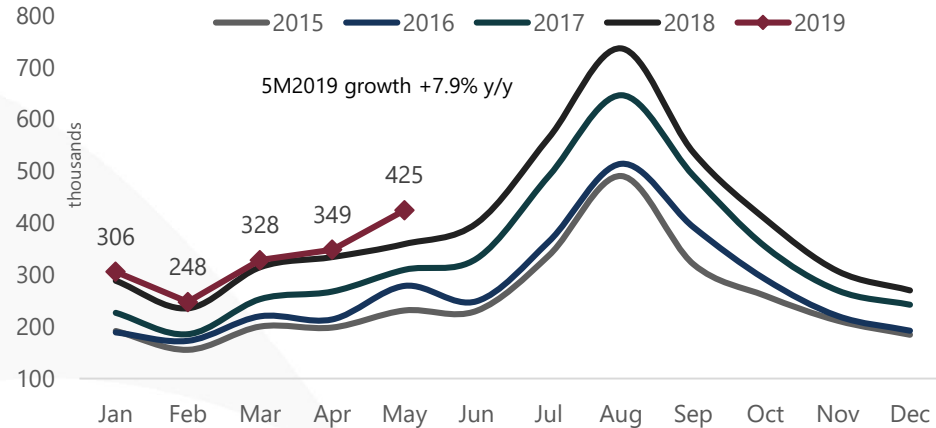


- **Access to 2.8bln customers:** DCFTA with EU; FTA with China, Hong Kong, CIS and Turkey; GSP with USA, Canada, Japan, Norway and Switzerland;
- FTA with India and Israel under consideration.

Economic linkages to EU is stronger than ever

Tourism sector supports FX inflows

Number of overnight visitors

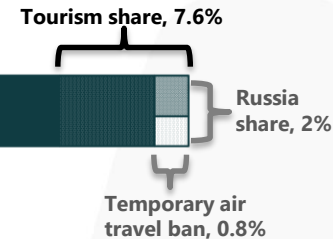


Key highlights for Jan-May 2019

- Tourism revenue from EU increased by **24% y/y**;
- Total tourism revenue excluding Iran and Turkey increased by **25% y/y**;
- Air passengers increased by **20.3% y/y** with **27.3%** share in total;
- Total Tourism revenue increased by 10% y/y;

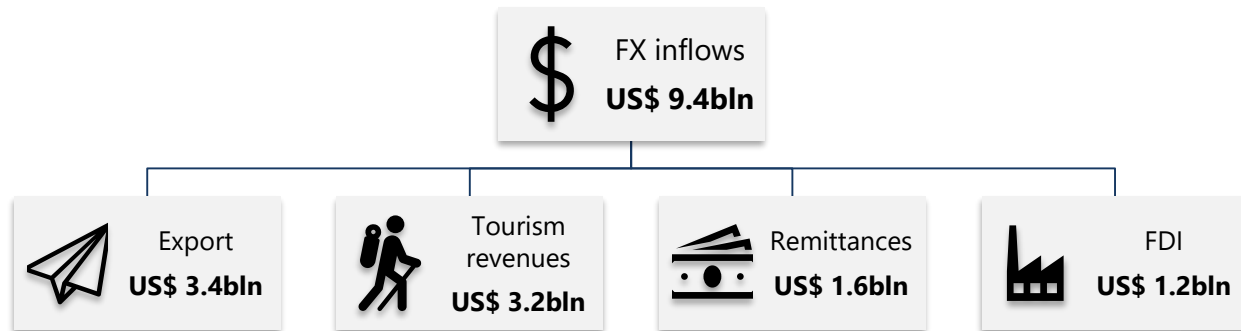
Temporary air travel ban impact is manageable

Georgian Economy

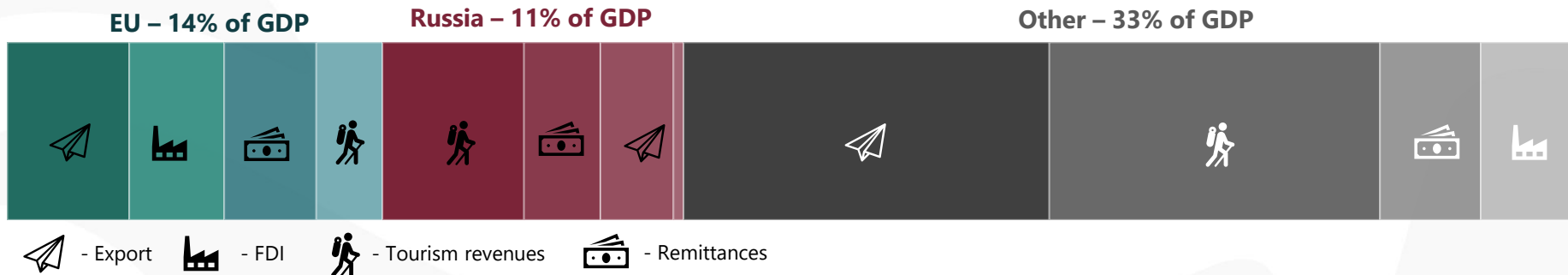


Economic linkages to EU is stronger than ever

Diversified source of capital



Total FX inflows - 58 % of GDP, 2018



We expect Georgia to obtain investment grade rating in 2024

Current grade			
Rating Agency	Rating	Outlook	Affirmed/upgraded
<u>MOODY'S</u>	Ba2	Stable	September 2018
S&P Global	BB-	Positive	April 2019
FitchRatings	BB	Stable	February 2019

Major targets

**External
imbalances**

**Banking sector
risk -
dollarization**

Current actions

- FTAs;
 - Pension reform;
 - Capital market developments;
 - Increasing FX reserves;
 - Structural reforms enhancing long-run growth;
-
- De-dollarization program;
 - Macro-prudential measures;
 - Improving financial literacy;
 - Responsible lending;

Expected investment grade rating in 2024

Key takeaways

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Questions?