



Ministry of Finance of Georgia



Georgia – The Outlook

February 2014

Government Priorities to Promote Inclusive Economic Growth



- ✓ Maintain stable macroeconomic environment, based on prudent fiscal, monetary and financial policies;
- ✓ Remove all barriers to free and fair competition for all businesses working in Georgia;
- ✓ Support private sector driven inclusive growth that is geographically diverse and job-creating;
- ✓ Emphasis on social protection measures without jeopardizing the soundness of the sovereign balance sheet;
- ✓ Continue implementation of pivotal infrastructure schemes, while improving selectivity of projects to ensure maximum possible economic impact;
- ✓ Maintain strong relations with international development partners (both bilateral and multilateral), focusing in the first place on infrastructure development priorities;
- ✓ Increase budget transparency and accountability by providing public with more information on government spending;
- ✓ Support agriculture through measures aimed at increasing productivity and effectiveness of value creation chains;
- ✓ Further strengthen revenue administration;
- ✓ Continue approximation of Georgia's legislation with EU in the context of the Deep and Comprehensive Free Trade Agreement (DCFTA).

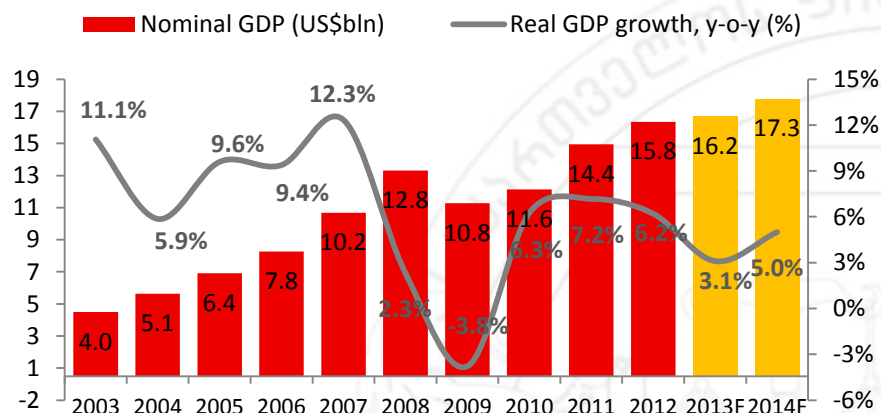
Economic Structure and Trends

Economic Structure and Trends

Reform-driven economic success: story in numbers

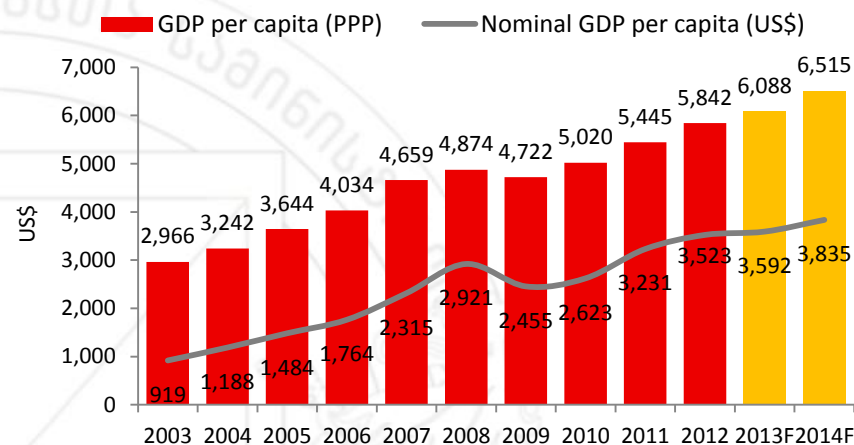


GDP: strong rebound in 2010 after a relatively small contraction in 2009, robust growth potential



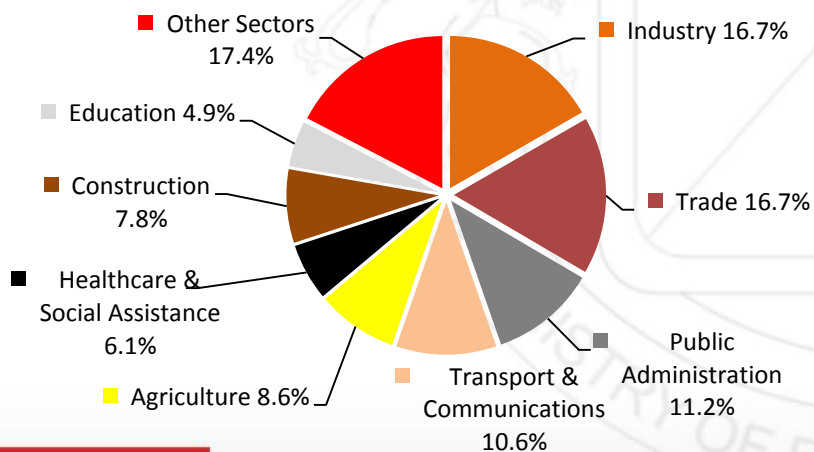
Source: Geostat, MOF

Rapidly growing GDP per capita – PPP and Nominal



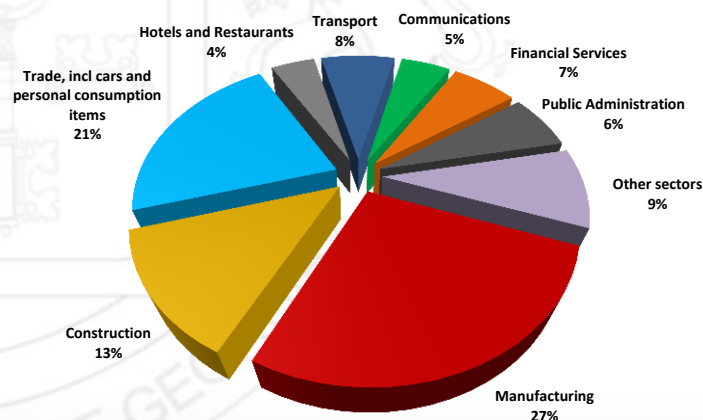
Source: Geostat, MOF, IMF

Broad-based and diversified nominal GDP structure 2012



Source: Geostat

Contributions to the real GDP growth 2012



Source: Geostat

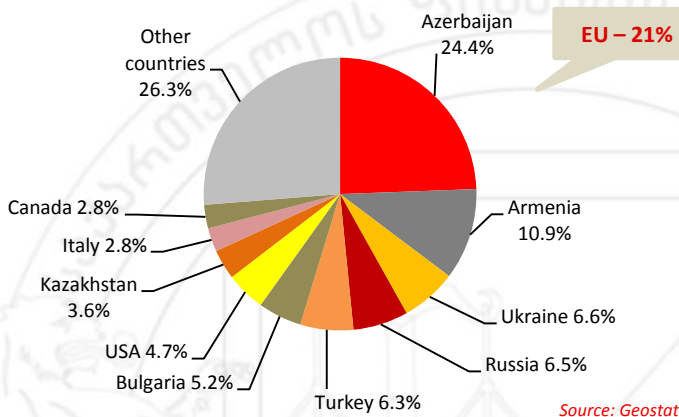
Economic Structure and Trends

Liberalized trade, diverse partners, significant and growing network of free trade agreements

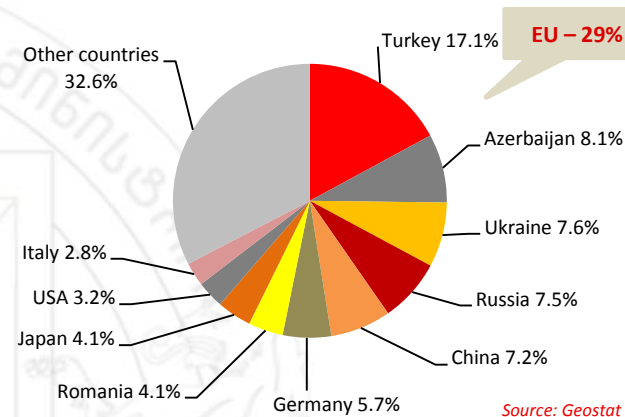


- ✓ Highly diversified trade structure by country and by product types
- ✓ WTO member since 2000
- ✓ Very simple and service oriented tax and customs policy and administration
- ✓ No quantitative restrictions or tariff barriers
- ✓ Genuine commitment to trade liberalism and openness
- ✓ One of the two beneficiaries of the EU GSP+ Scheme in the CIS since 2006, granting local companies the right to export 7,200 categories of goods to the EU duty-free
- ✓ Free trade agreement with Turkey signed in 2008
- ✓ Deep and Comprehensive Free Trade Agreement (DCFTA) negotiations with the EU completed in 2013

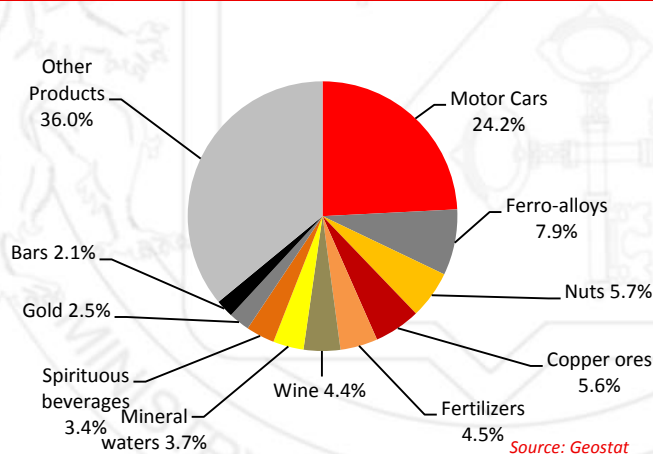
Export Structure by Country 2013



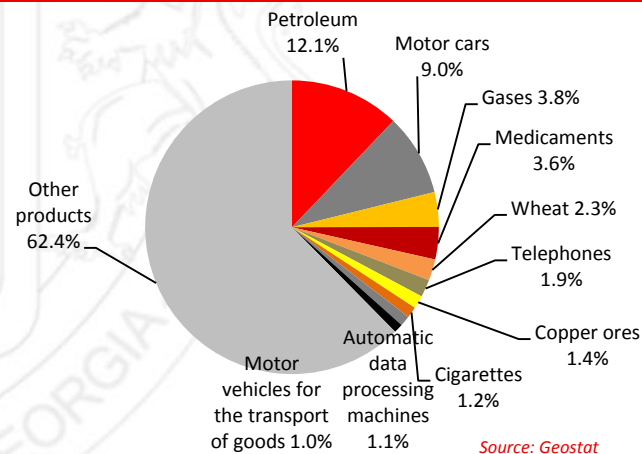
Import Structure by Country 2013



Export Structure by Product 2013



Import Structure by Product 2013



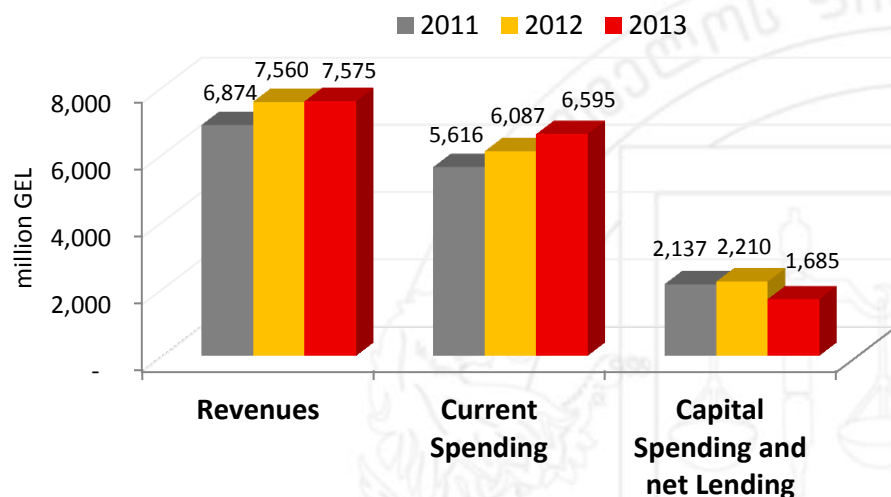
Fiscal Framework and Public Debt Performance

Fiscal Framework and Public Debt Performance

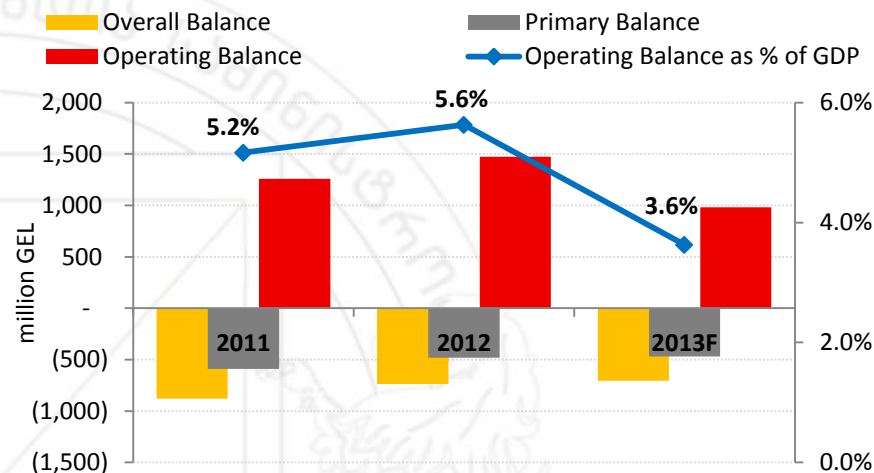
Strong fiscal consolidation path driven by sustainably high revenues and prudent government spending



Fiscal Consolidation

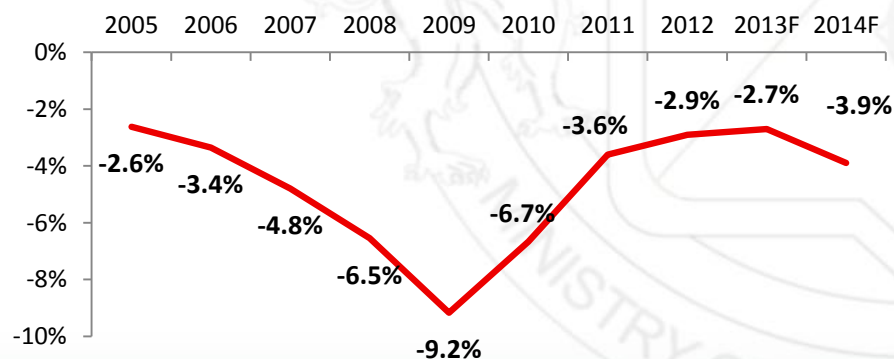


Source: MOF



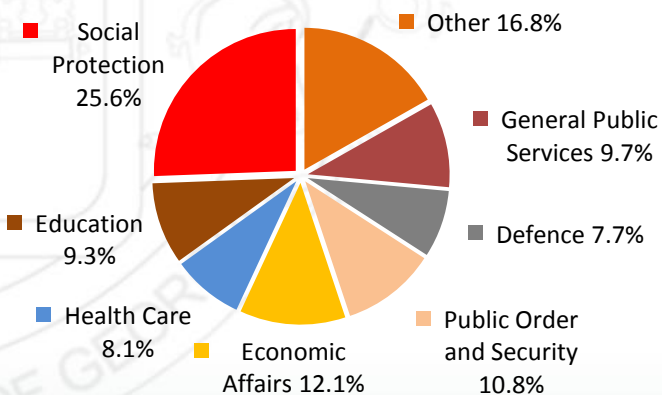
Source: MOF

Fiscal Deficit as % of Nominal GDP



Source: MOF

Composition of the 2014 State Budget Outlays



Source: MOF

Fiscal Framework and Public Debt Performance

Strategic Infrastructure Projects with Significant Positive Externalities and Strong Spillovers into the Rest of the Economy

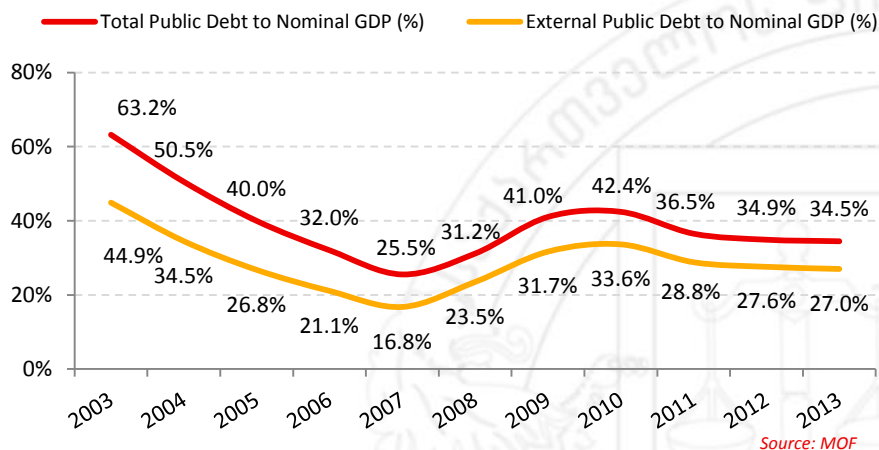


- ✓ **Energy Infrastructure**
 - Black Sea 500 KV Regional Power Transmission Line
 - Rehabilitation/construction of transmission line network
 - Rehabilitation/ Construction of HPPs
- ✓ **Roads Infrastructure**
 - Construction of the East-West Highway
 - Rehabilitation of regional road networks, secondary and local roads
- ✓ **Municipal and Regional Infrastructure**
 - Regional Municipal and Urban Infrastructure Development Projects
 - Water supply, sanitation and storm water projects
 - Solid waste management projects
- ✓ **Agriculture**
 - Rehabilitation of irrigation and drainage systems

Fiscal Framework and Public Debt Performance

External Public Debt Situation

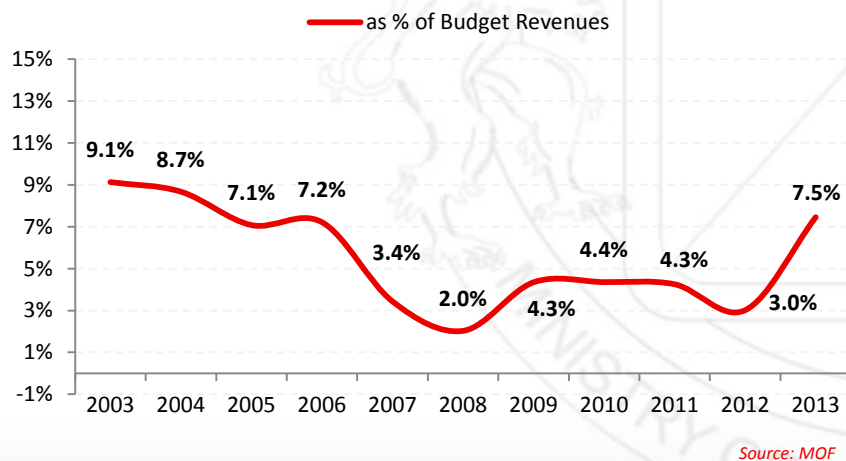
Debt Indicators: Below the Prudential Thresholds



Public Debt Ratios: Sloping Downwards

- ✓ Public debt ratios have been on the steep declining path since 2003.
- ✓ Brief period of increase of the ratios against the backdrop of negative global economic context ended in 2010.
- ✓ Public debt ratios have been swiftly declining thereafter.
- ✓ In 2013, public debt decreased to **34.5%** of GDP, external public debt went down to **27.0%**.
- ✓ Based on the IMF Debt Sustainability Analysis the public debt ratio would remain on a downward path under most standard shocks. Even in extreme cases, the policy adjustment needed to restore debt sustainability are manageable.

Gov't External Debt Service



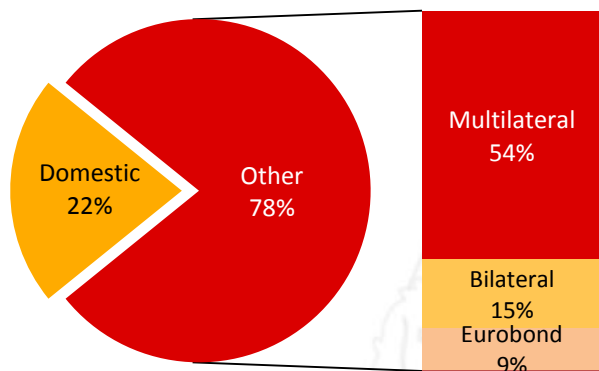
Easily Affordable Annual Repayment Volumes

- ✓ Growing budget revenues, very low average interest rate and flat repayment profile with easily affordable annual repayment volumes have been the key drivers behind low Government external debt service ratios
- ✓ The bulk of External Public Debt portfolio is owed to official multilateral and bilateral development partners, mainly on concessional terms 73% of the external public debt portfolio carries fixed interest rate. This keeps Georgia's external public debt service parameters to a large extent shielded from exogenous interest (base) rate fluctuations and ensures that external public debt service costs remain low and affordable despite global economic uncertainties.
- ✓ No refinancing risk exists in the foreseeable future

Fiscal Framework and Public Debt Performance

External Public Debt Situation

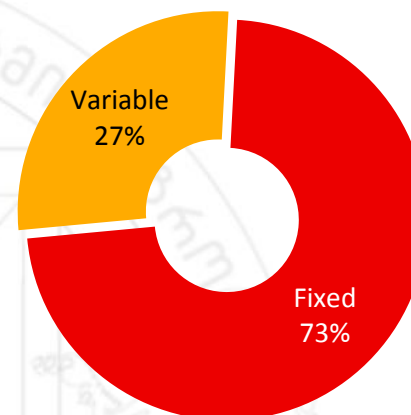
Affordable Public Debt Stock and Very Low Interest Rate on External Public Debt



External Public Debt Portfolio
Average Weighted:
- Interest Rate **1.9%**
- Contractual Maturity **25 years**

Source: MOF

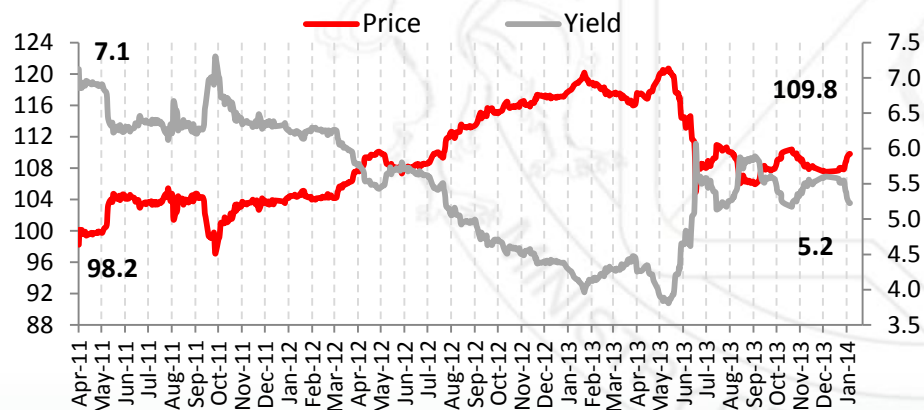
External Public Debt by Interest Type: Interest Rate Risk Brought to a Minimum



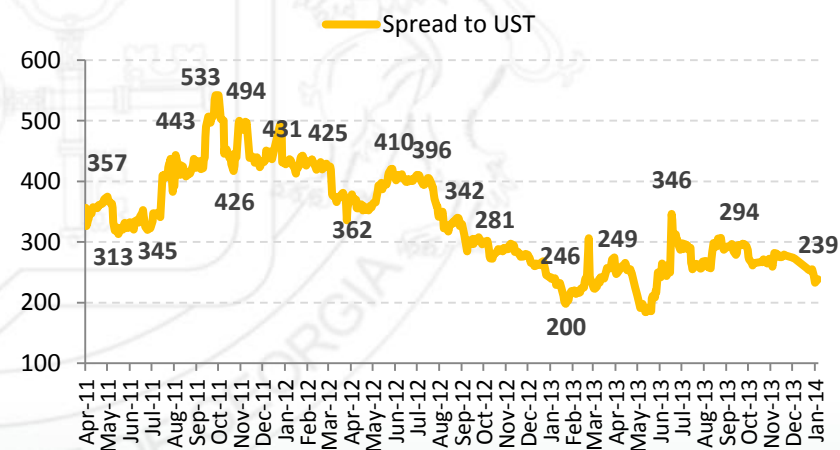
Source: MOF

Georgian Sovereign Eurobond 2021

Georgian Sovereign Eurobond 2021



Georgian Sovereign Eurobond 2021



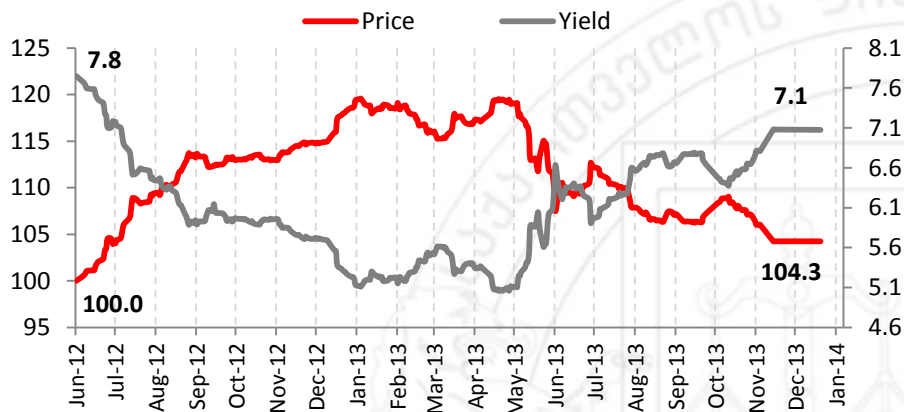
Source: Bloomberg

Fiscal Framework and Public Debt Performance

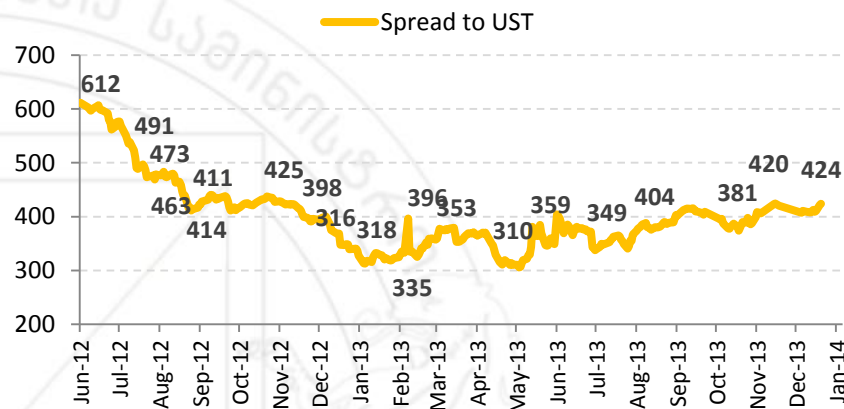
Eurobonds Issued by the State Owned Enterprises



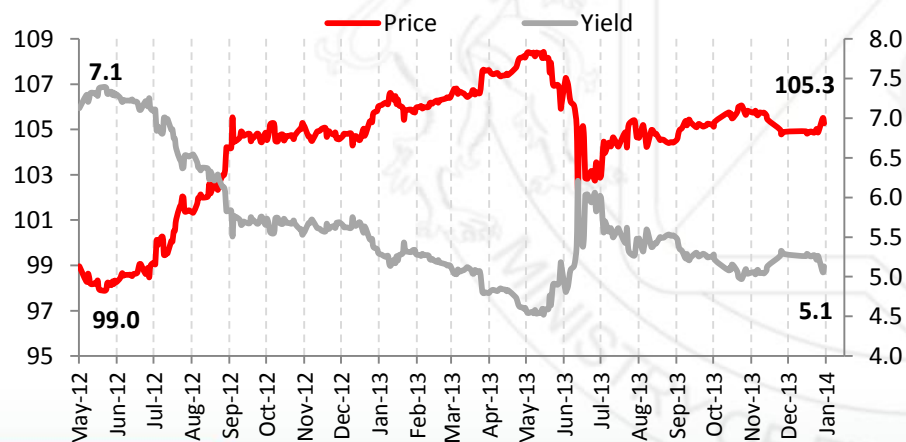
Georgian Railway Eurobond 2022



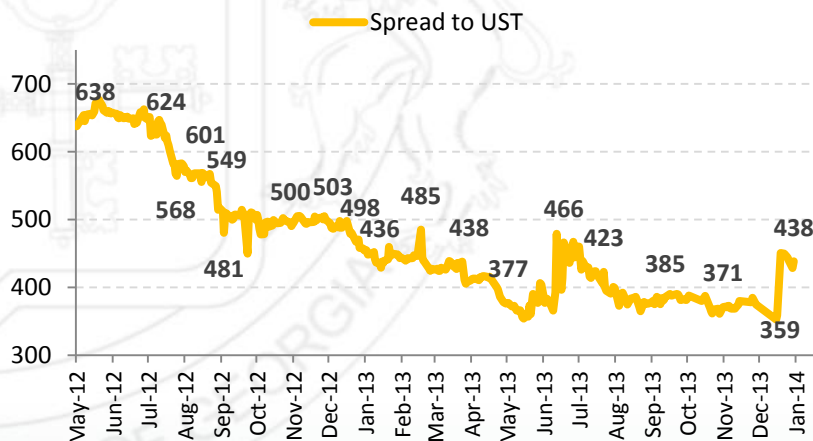
Georgian Railway Eurobond 2022



Georgian Oil and Gas Company Eurobond 2017



Georgian Oil and Gas Company Eurobond 2017

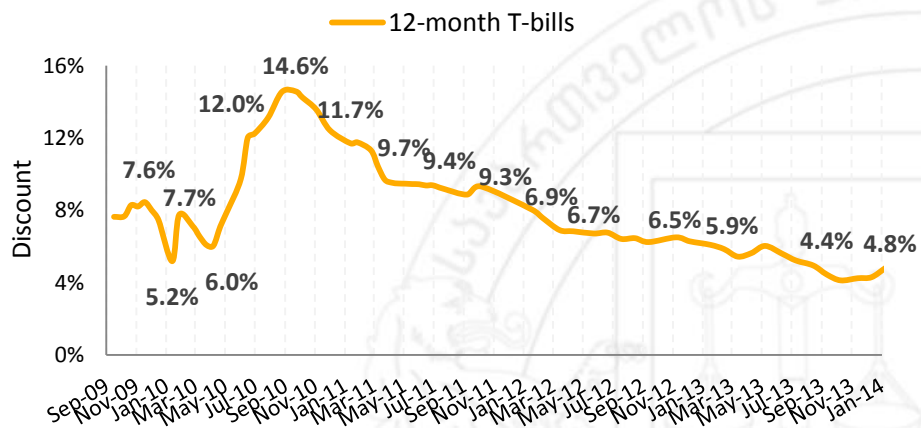


Fiscal Framework and Public Debt Performance

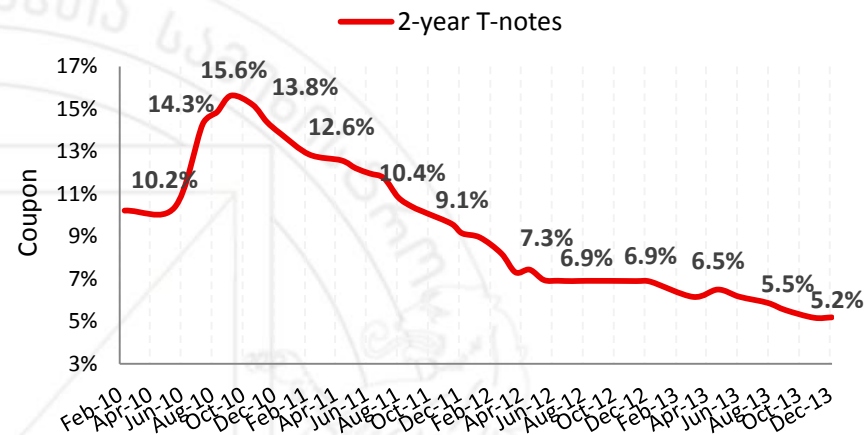
Treasury Bills and Treasury Notes



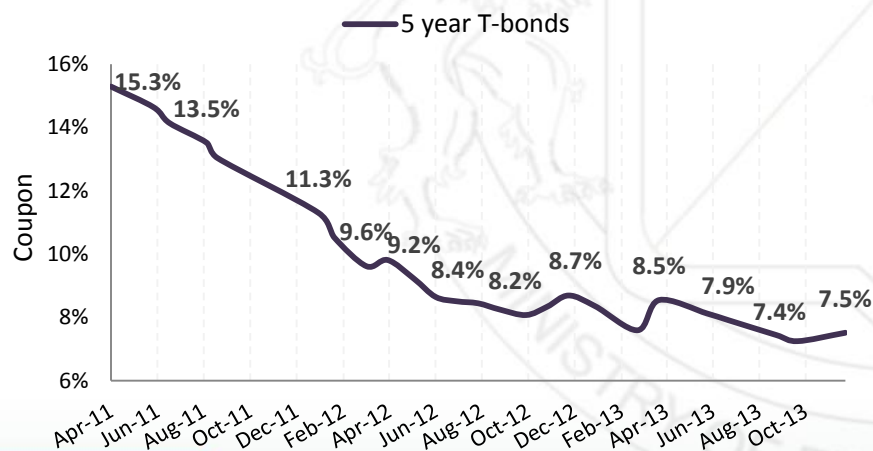
12-month Treasury Bills



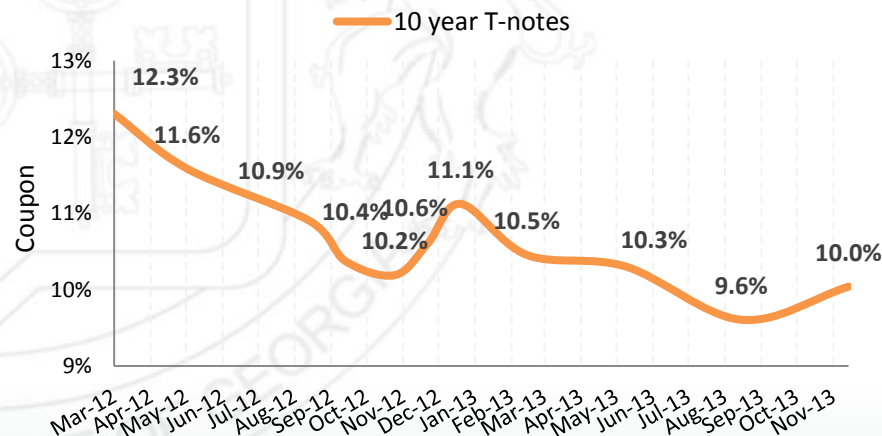
2-year Treasury Notes



5-year Treasury Notes



10-year Treasury notes



Fiscal Framework and Public Debt Performance

Taxation is Simple, Low, Efficient and Fair



	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14
Number of Taxes	21	7	7	7	6	6	6	6	6	6	6
VAT	20%	20%	18%	18%	18%	18%	18%	18%	18%	18%	18%
Income Tax	12-20%	12% flat	12% flat	12% flat	Social Tax + Income Tax 32%	Social Tax + Income Tax 25%	20%	20%	20%	20%	20%
Social Tax	33%	20%	20%	20%	-	-	-	-	-	-	-
Corporate Income Tax	20%	20%	20%	20%	15%	15%	15%	15%	15%	15%	15%
Dividend & Interest Income Tax	10%	10%	10%	10%	10%	5%	5%	5%	5%	5%	5%

- ✓ No payroll tax or social insurance tax
- ✓ No capital gains tax
- ✓ No wealth tax, inheritance tax or stamp duty
- ✓ Foreign-source income of individuals fully exempted
- ✓ Tax rates reduction timetable was further accelerated in 2008
- ✓ Very strong political commitment to low and simple taxation and improvement of services
- ✓ Significantly streamlined tax and customs administration geared towards provision of maximum comfort to businesses and investors

Fiscal Framework and Public Debt Performance

Double taxation avoidance treaties



N	Country	Dividends	Interests	Royalties
1	ARMENIA	5% / 10%	10%	5%
2	AUSTRIA	0% / 5% / 10%	0%	0%
3	AZERBAIJAN	10%	10%	10%
4	BAHRAIN	0%	0%	0%
5	BELGIUM	5% / 15%	10%	5% / 10%
6	BULGARIA	10%	10%	10%
7	CHINA	0% / 5% / 10%	10%	5%
8	CZECH REPUBLIC	5% / 10%	8%	0% / 5% / 10%
9	DENMARK	0% / 5% / 10%	0%	0%
10	ESTONIA	0%	0%	0%
11	EGYPT	10%	10%	10%
12	FINLAND	0% / 5% / 10%	0%	0%
13	FRANCE	0% / 5% / 10%	0%	0%
14	GERMANY	0% / 5% / 10%	0%	0%
15	GREECE	8%	8%	5%
16	HUNGARY	0% / 5%	0%	0%
17	INDIA	10%	10%	10%
18	IRAN	5% / 10%	10%	5%
19	IRELAND	0% / 5% / 10%	0%	0%
20	ISRAEL	5%	15%	0%
21	ITALY	5% / 10%	0%	0%
22	KAZAKHSTAN	15%	10%	10%
23	KUWAIT	0% / 5%	0%	10%
24	LATVIA	5% / 10%	10%	10%
25	LITHUANIA	5% / 15%	10%	10%
26	LUXEMBOURG	0% / 5% / 10%	0%	0%
27	MALTA	0%	0%	0%
28	NETHERLANDS	0% / 5% / 15%	0%	0%
29	POLAND	10%	10%	10%
30	QATAR	0%	0%	0%
31	ROMANIA	8%	10%	5%
32	SERBIA	5% / 10%	10%	10%
33	SINGAPORE	0%	0%	0%
34	SLOVAK REPUBLIC	0%	5%	5%
35	SPAIN	0% / 10%	0%	0%
36	SWITZERLAND	10%	0%	0%
37	TURKEY	10%	10%	10%
38	TURKMENISTAN	10%	10%	10%
39	UKRAINE	5% / 10%	10%	10%
40	UNITED ARAB EMIRATES	0%	0%	0%
41	UNITED KINGDOM	0% / 15%	0%	0%
42	UZBEKISTAN	5% / 15%	10%	10%
43	Norway	5%/10%	0%	0%
44	San Marino	0%	0%	0%
45	Slovenia	5%	5%	5%
46	Croatia	5%	5%	5%

Signed and Ratified Treaties (effectiveness pending)

1. Portugal
2. Sweden

*DTA treaties with 26
other states initiated.
Negotiations to be held in
the coming months.*

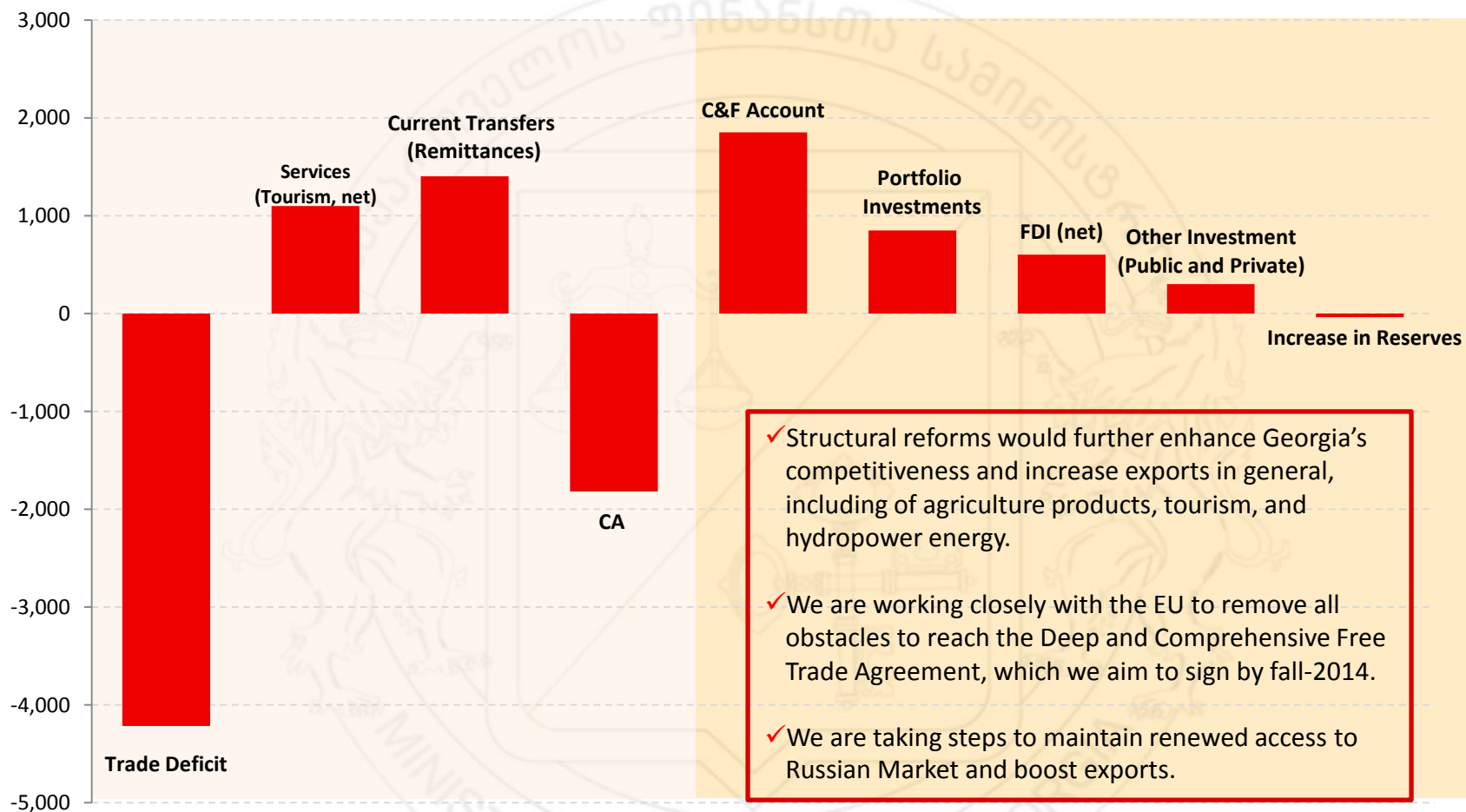
Awaiting Signature

1. Oman
2. Cyprus
3. Liechtenstein
4. Iceland
5. Lebanon

External Sector

External Sector

Current Account funding structure 2012



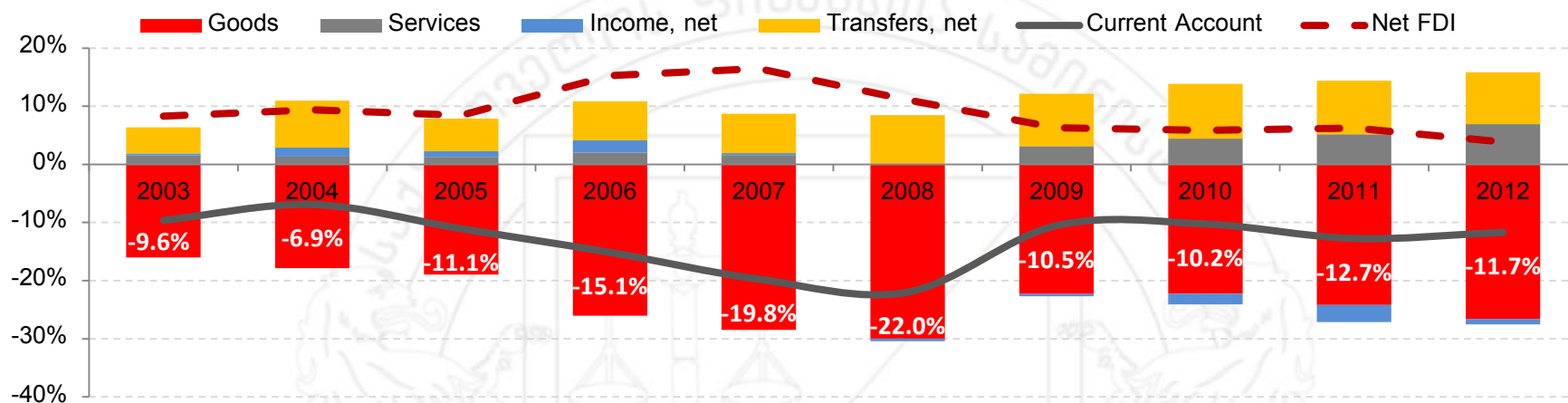
Source: NBG

External Sector

Balance of payments - in sustainable equilibrium

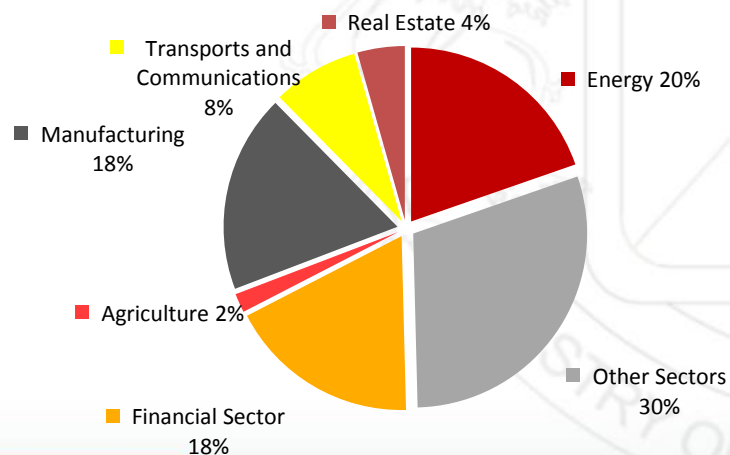


Current Account Balance (% of Nominal GDP)



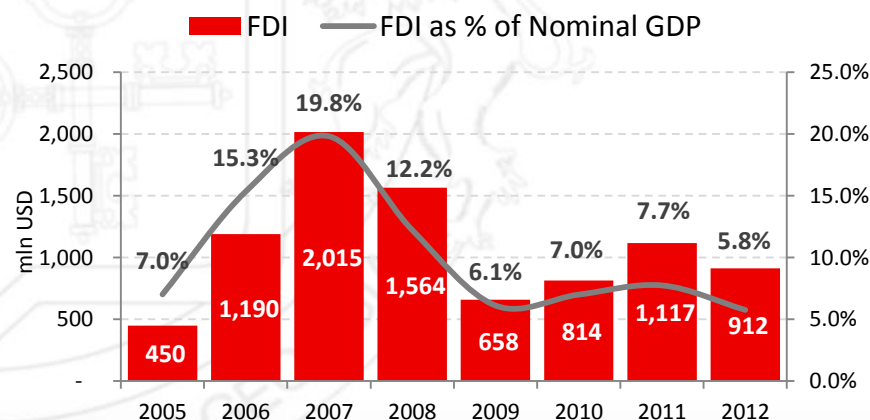
Source: NBG

FDI Breakdown by Sectors 2012



Source: Geostat

Foreign Direct Investment



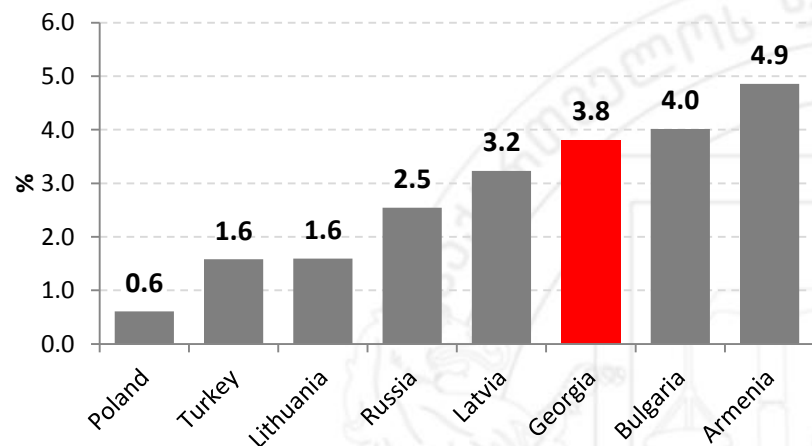
Note: 2006-2008 spike due to large-scale privatization

Source: Geostat

External Sector

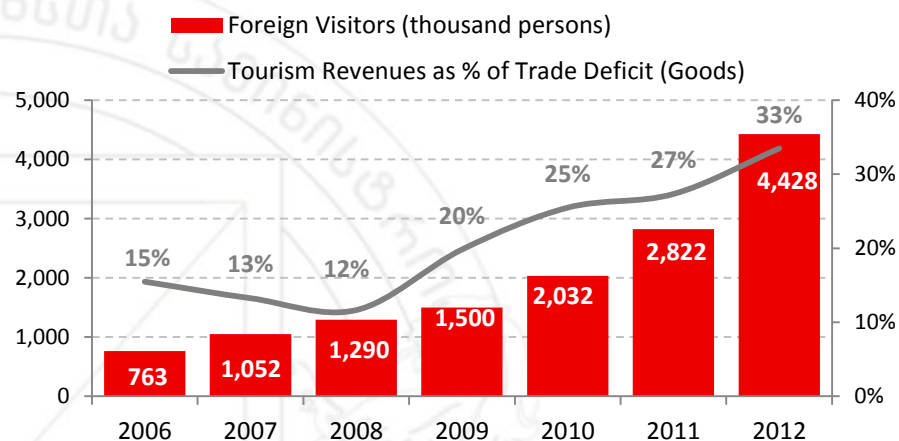
Current Account - steadily growing external revenues

Net FDI /GDP ratio compares favourably with peers (2012)



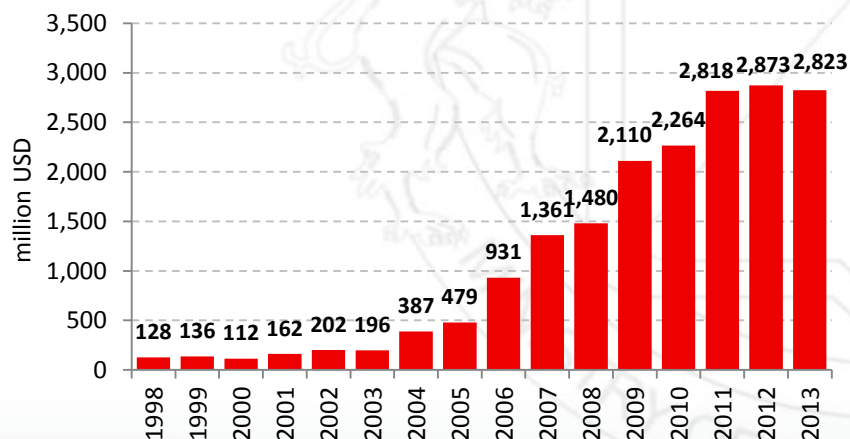
Source: World Bank, IMF, NBG

Rapidly Growing Contribution of the Tourism Sector, with significant untapped potential



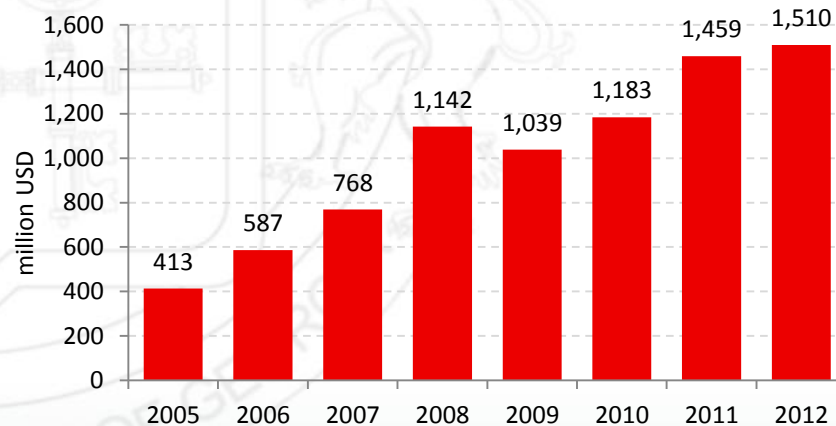
Source: NBG, National Tourism Administration

Gross International Reserves – At All Times High



Source: NBG

Current transfers, incl remittances – steady source of external revenues



Source: NBG

Monetary and Banking Sector

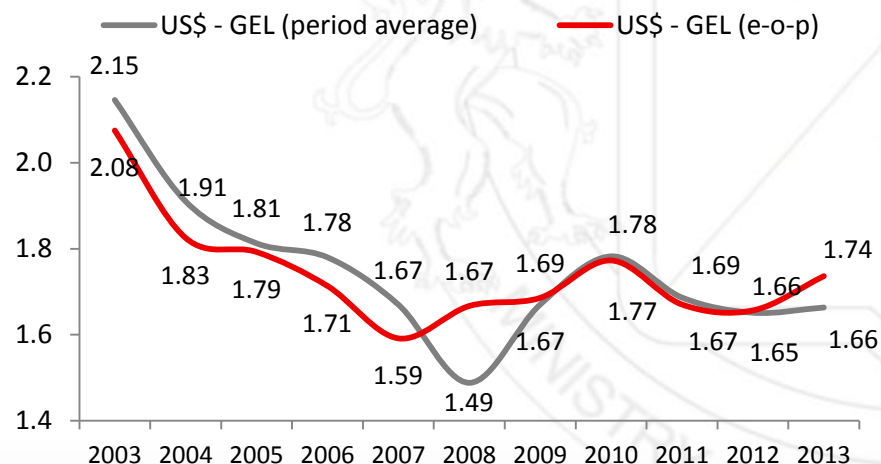
Monetary and Banking Sector

Core inflation remains subdued; exchange rate flexibility a policy priority; flattening yield curve



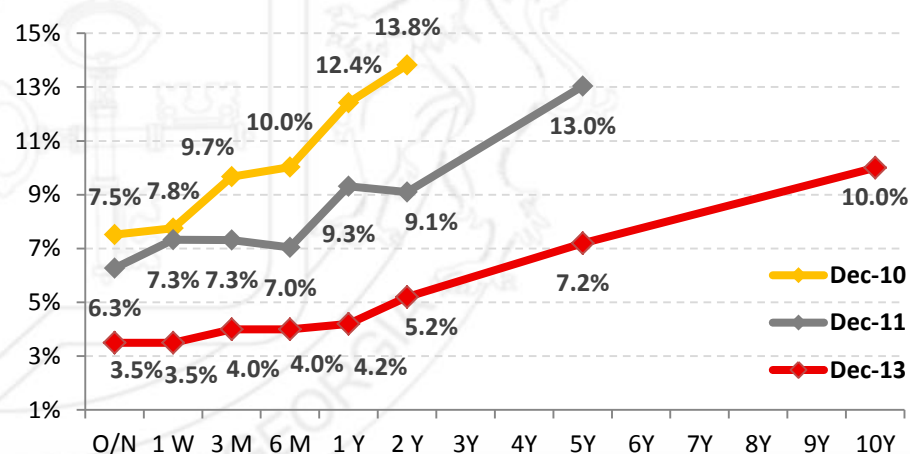
- ✓ Price pressures have eased. Core inflation has been traditionally subdued at around 1-3%, attesting to the absence of second round inflationary effects.
- ✓ The National Bank of Georgia has continued to smooth out excessive exchange rate volatility, while at the same time building FX reserves to all time historical highs – in absolute terms and also compared to the months of imports.
- ✓ Shift to the inflation targeting mode has provided for the enhanced exchange rate flexibility.
- ✓ The flattening of the yield curve for treasury securities attests to the confidence in monetary and fiscal instruments and policies

Exchange Rate Evolution



Source: NBG

Georgia: Yield Curve 2010-13 (in percent)



Source: Ministry of Finance, NBG

Monetary and Banking Sector

Price Stability: declining headline inflation, absence of second-round effects

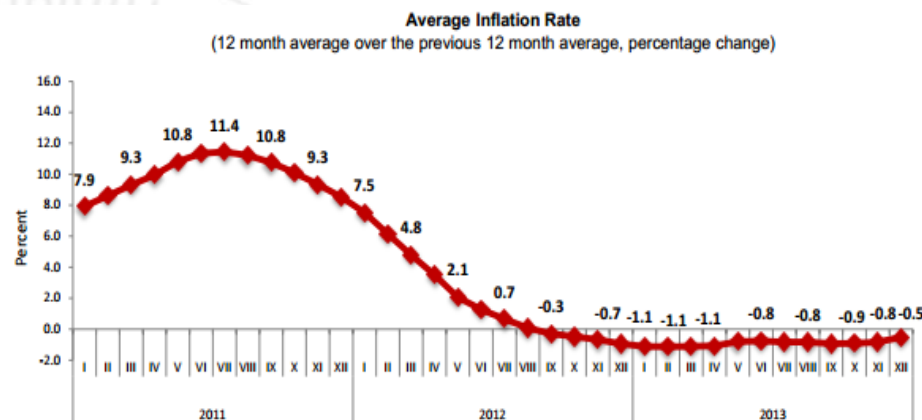


World Food Prices



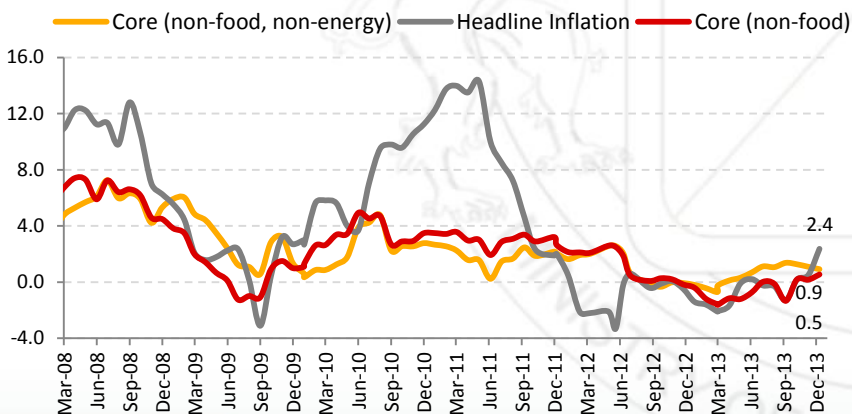
Source: UN FAO

Average Inflation Rate - Georgia



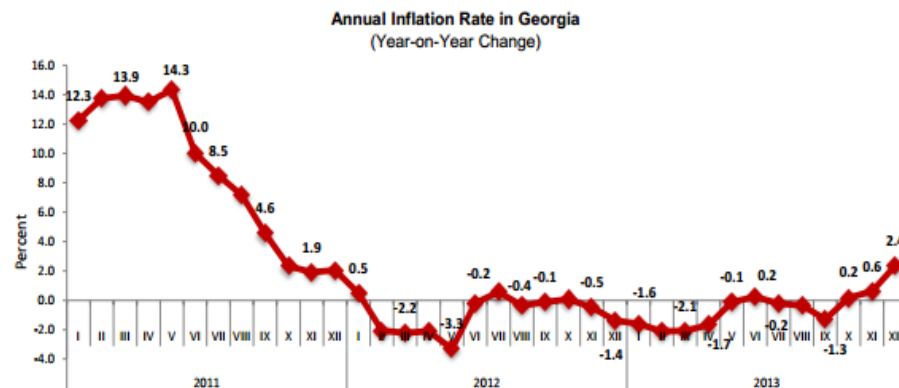
Source: Geostat

Inflation Dynamics - Georgia



Source: NBG

Monthly Inflation Rate (y-o-y) - Georgia



Source: Geostat

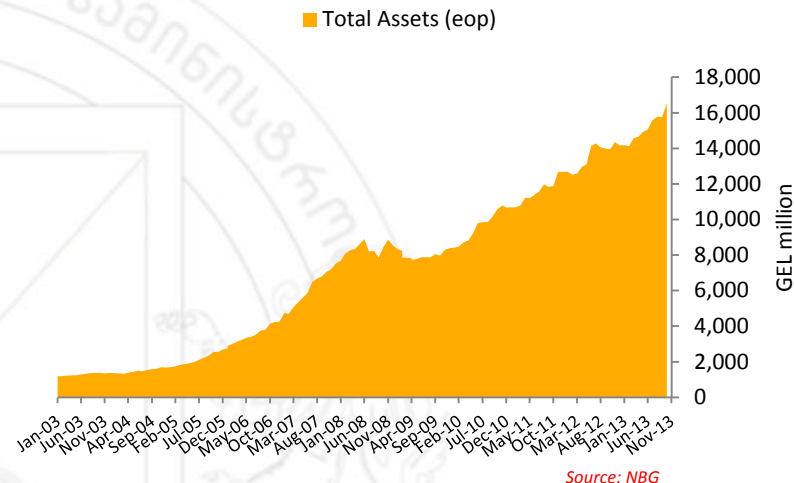
Monetary and Banking Sector

Banking sector on the solid footing: banks well-capitalized with low NPLs, strong balance sheets and prudent loan-book expansion patterns

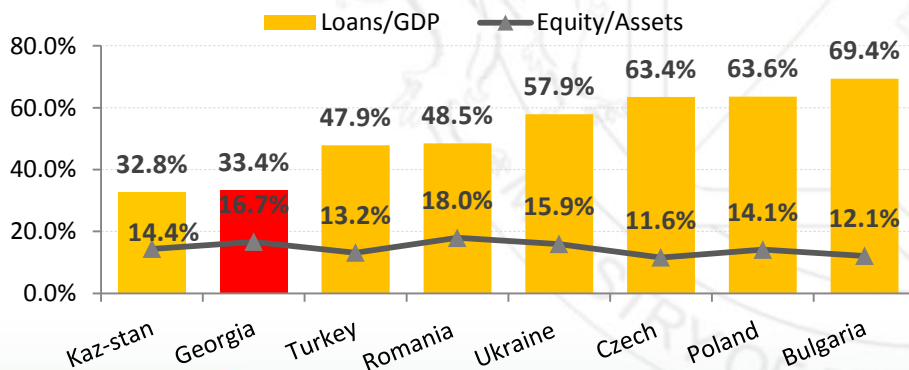


- ✓ The banking sector represents only a very moderate contingent liability to the sovereign (Ratio of assets to Nominal GDP is 54.9% as of end-2012). Stress tests of the banking system, using general and bank specific shocks did not raise concerns.
- ✓ No taxpayer support over recent years (no bailouts!); shareholder-friendly governance and incentives; very conservative bank-level risk management; high quality core capital; exceptionally prudent NPL coverage ratios with impressive history of core deposit growth; no external securitization funding to win market share; no overreliance on wholesale funding; very strong microprudential risk based regulation/oversight by the National Bank of Georgia; track record of using macro prudential countercyclical tools; conservative capital requirements; prudent oversight of liquidity and funding risks
- ✓ Banks highly capitalised with average Basel I capital adequacy ratio of 26% (18% local standards) and liquidity ratio of 42.8%; NPLs declined to 3.3% (IMF definition) by end-November 2013
- ✓ Loan to deposit ratio has been tightening as deposit growth has outstripped loan growth
- ✓ Borrowings from IFIs represent large share of the banking sector's non-deposit funding
- ✓ Banking system privately owned since 1995; no restrictions on foreign ownership

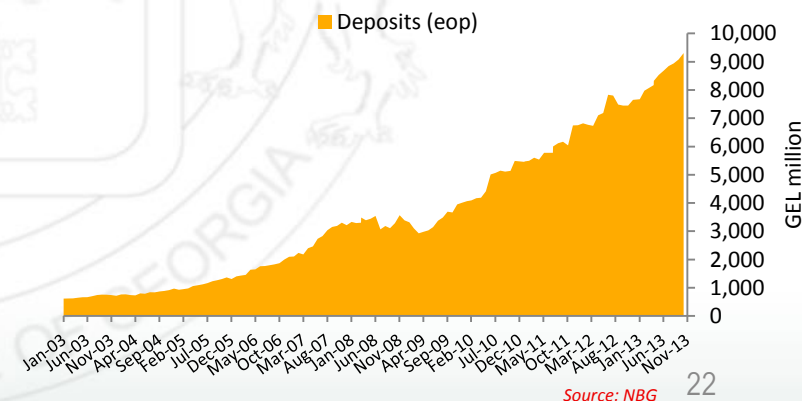
Bank Assets On The Rise



Georgia system-wide Loans to GDP and Equity to Assets



Bank Deposits On The Rise

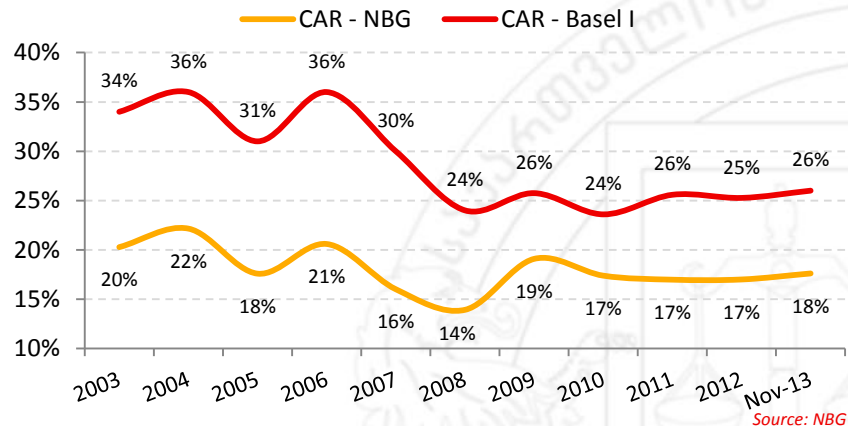


Monetary and Banking Sector

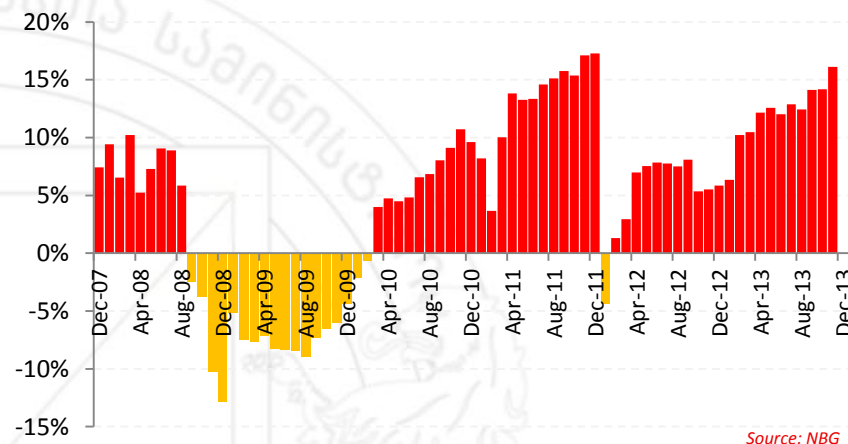
Banking sector on the solid footing: banks well-capitalized with low NPLs, strong balance sheets and prudent loan-book expansion patterns



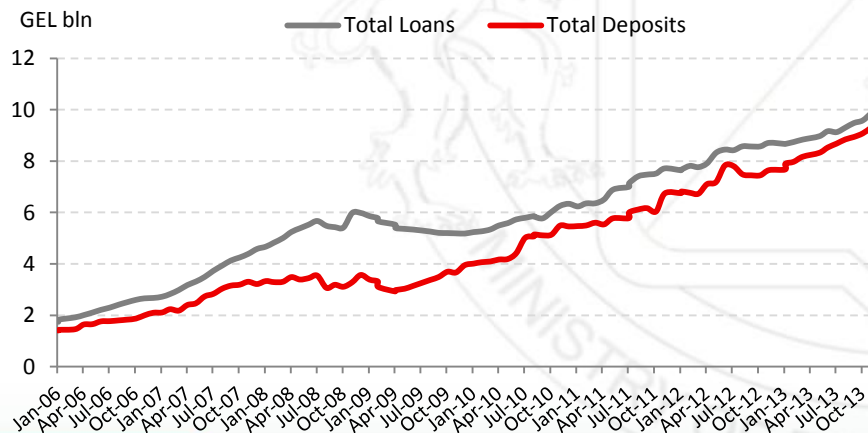
Traditionally High Capital Adequacy Ratio (NBG and Basel I Definition)



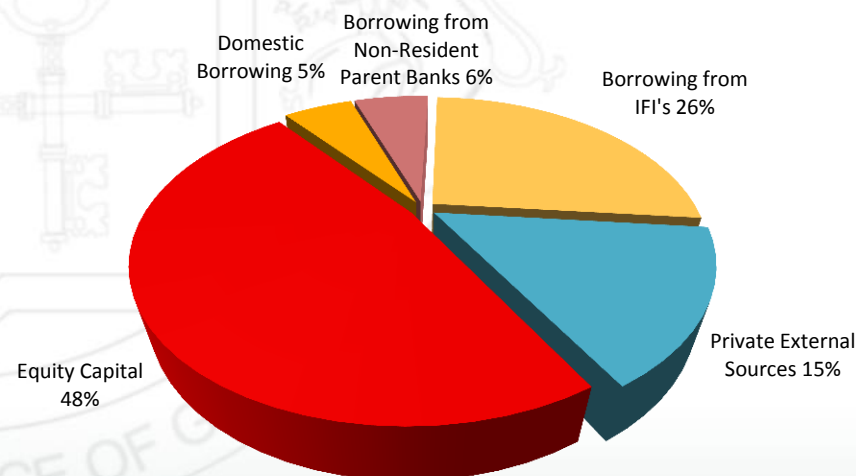
High Profitability as Measured by ROE



Total Bank Deposits and Loans – moving in tandem



Sound Non-Deposit Funding Structure as of end-2013

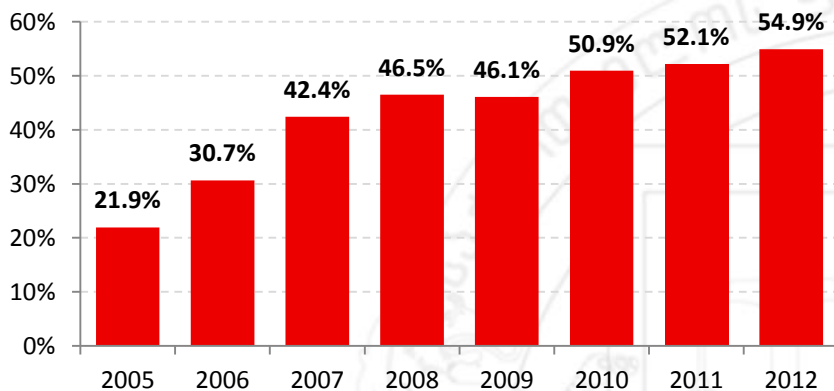


Monetary and Banking Sector

Banking sector on the solid footing: banks well-capitalized with low NPLs, strong balance sheets and prudent loan-book expansion patterns

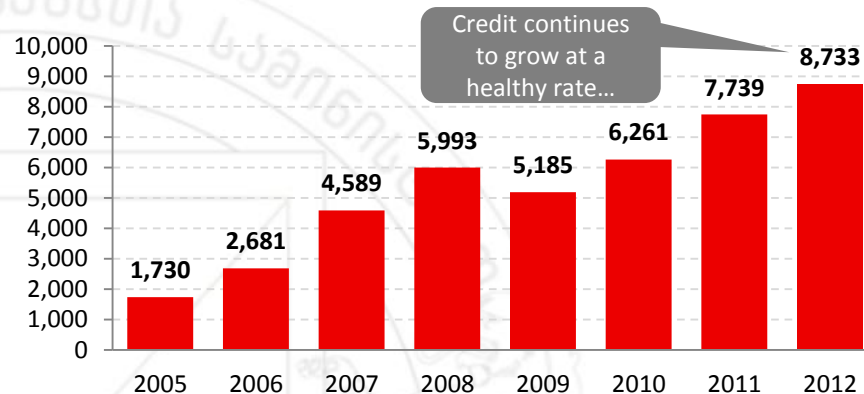


Assets of the Banking Sector as % of GDP



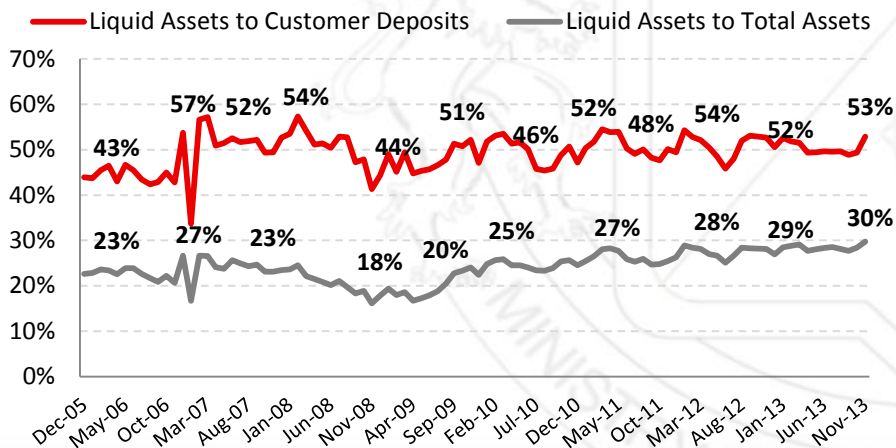
Source: NBG

Commercial Bank Lending, GEL mln



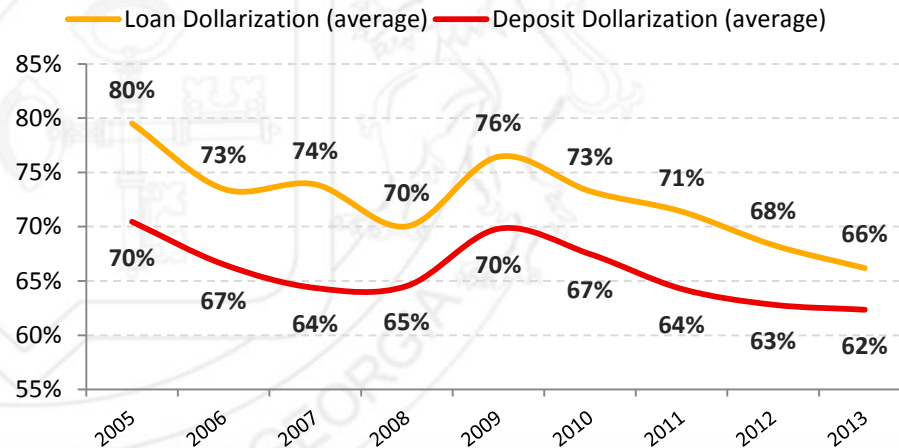
Source: NBG

Banking Sector Liquidity Ratios – Ample Liquidity Buffers



Source: NBG

Banking Sector Dollarization – on the Downward Path



Source: NBG

Key Guiding Principles Going Forward

- ✓ Continue implementation of successful reforms and build on the existing success stories and accomplishments;
- ✓ Foster free and fair competition to establish truly level playing field for all businesses working in Georgia;
- ✓ Increase Economic Competitiveness through increasing:
 - Private Sector Competitiveness;
 - Human Capital Development;
 - Access to Finance;
- ✓ Take necessary legislative, administrative and other relevant steps to instill sense of fairness with respect to the broad range of economic and social policy subjects;
- ✓ Ensure best possible transparency and accountability in the public sector;
- ✓ Georgia's aspirations of EU and NATO integration will remain unequivocally strong and immutable. We will deploy high-level efforts to develop better economic ties with Russia through restoration of Georgian exports to the Russian market, promotion of business-to-business relations and cross-border investment.

International Rankings of Georgia

International Rankings of Georgia

Sovereign Credit Ratings



**STANDARD
& POOR'S**

FitchRatings

MOODY'S
INVESTORS SERVICE

BB- Stable

(Affirmed in November
2013)

BB- Stable

(Affirmed in November
2013)

Ba3 Stable

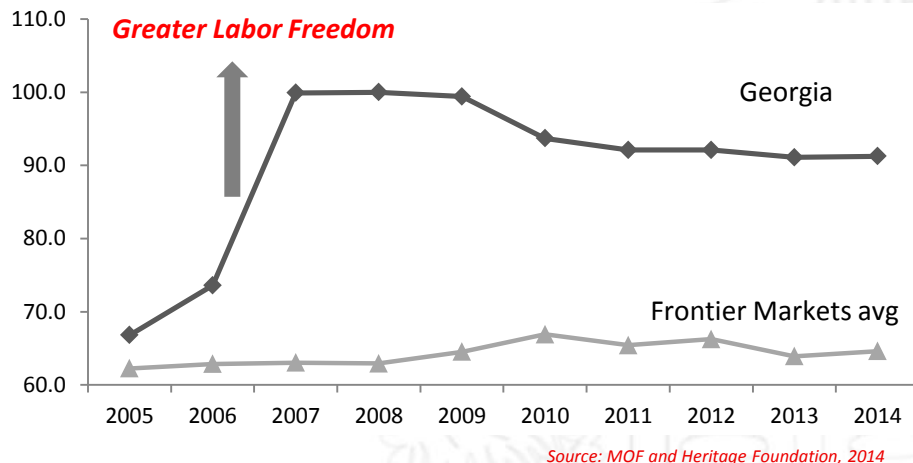
(Affirmed in August
2013)

International Rankings of Georgia

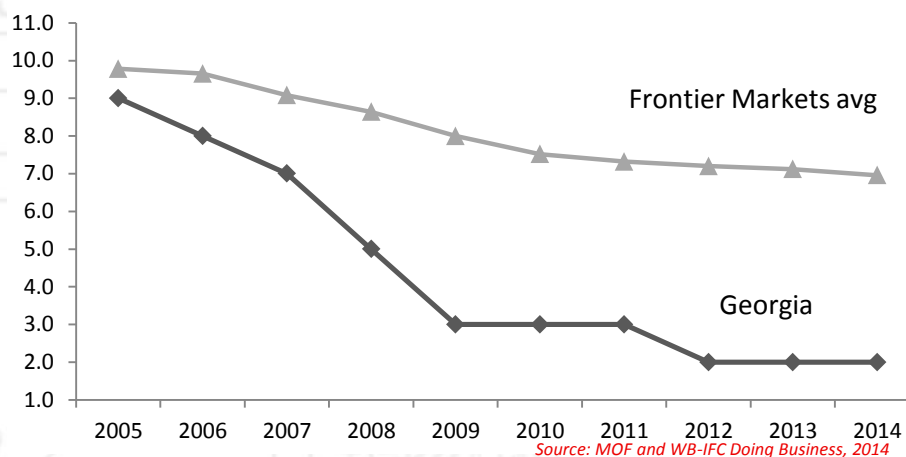
Consistently outperforming sovereign peers



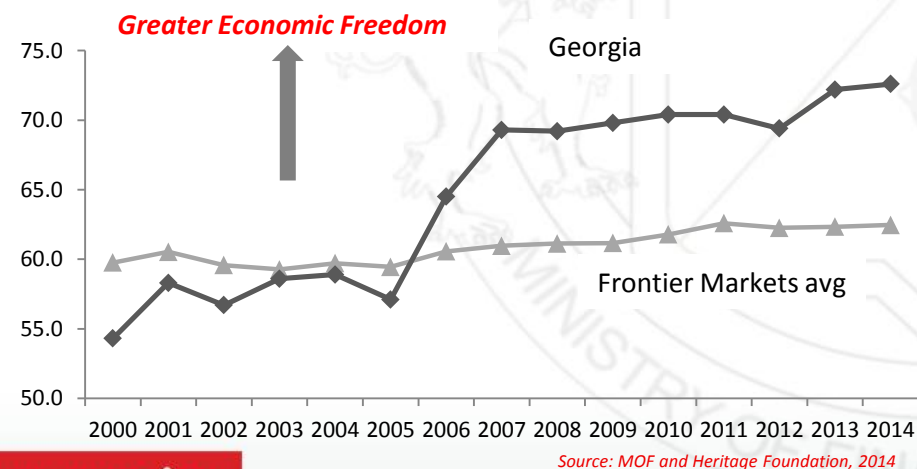
Georgia - one of the most liberal labor environments (5th best globally), according to the Heritage Foundation, 2014



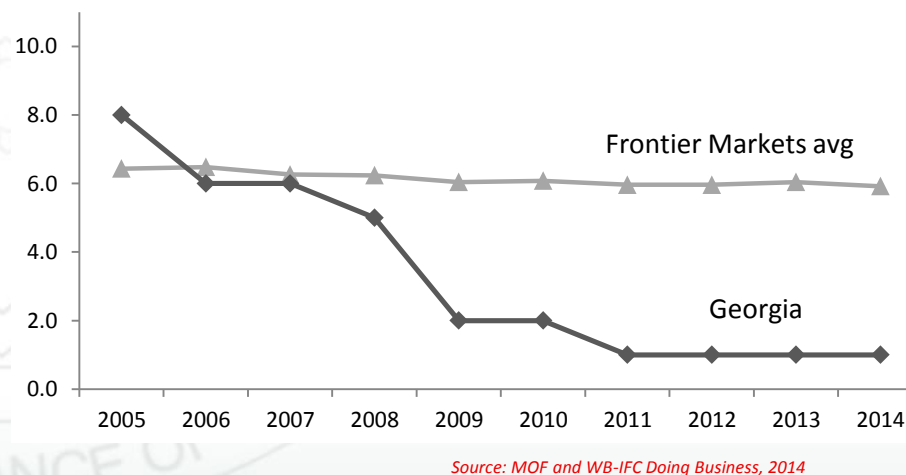
World Bank Doing Business: number of procedures required to start business have been reduced from 9 to 2 in Georgia



Heritage Foundation Index of Economic Freedom Ranking



World Bank Doing Business: number of procedures required to register property have been reduced from 8 to 1 in Georgia



International Rankings of Georgia

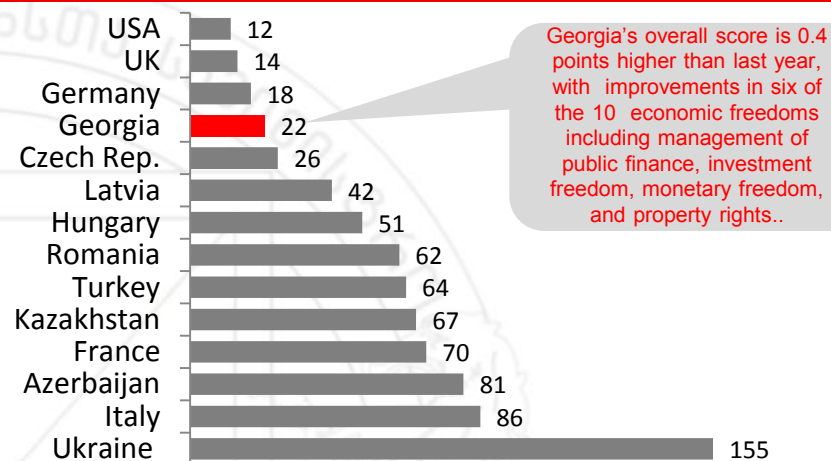
Consistently outperforming sovereign peers

Economic Freedom Trend (Economic Freedom Index, 2014)



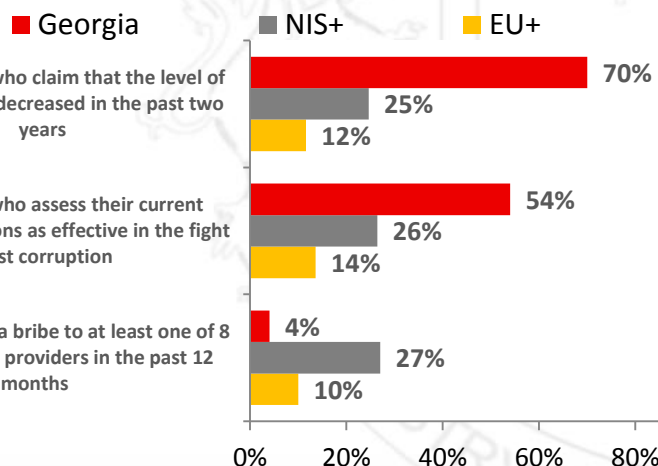
Source: Heritage Foundation, 2014

Economic Freedom Index, 2014 (Heritage Foundation)



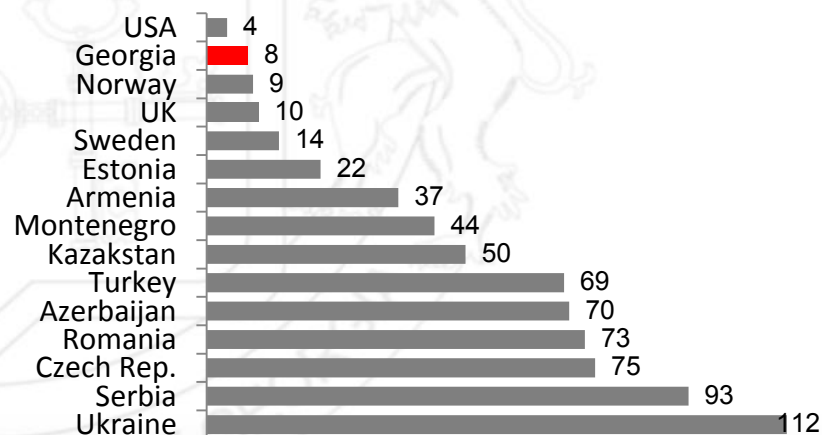
Source: Heritage Foundation, 2014

Transparency International Global Corruption Barometer : Public Perception of Georgia as a Corruption Free Destination



Source: Transparency International 2013 Global Corruption Barometer, MOF

Ease of Doing Business, 2014 (WB-IFC Doing Business Report)



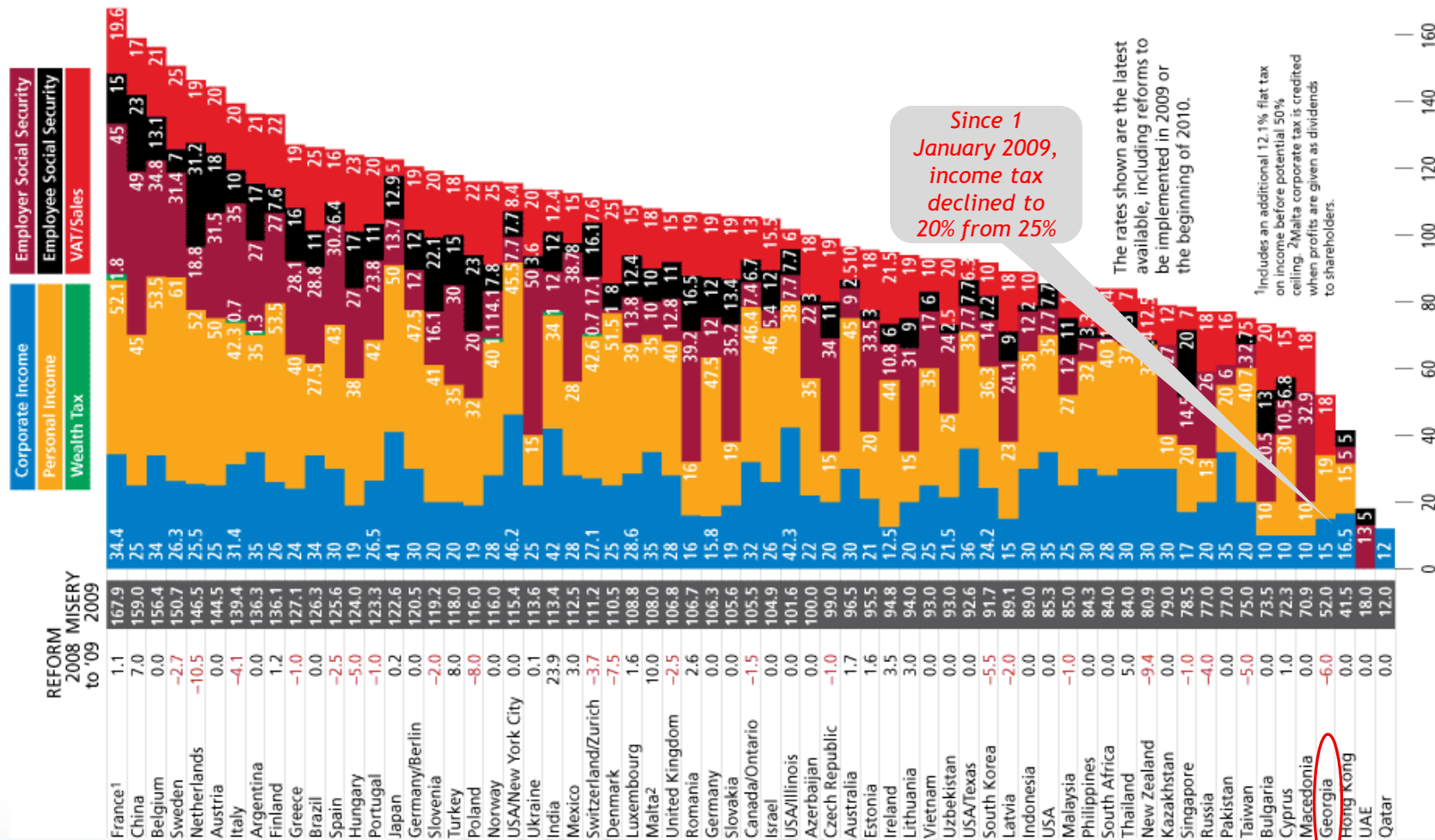
Source: WB-IFC Doing Business, 2014

International Rankings of Georgia

Georgia has the fourth lowest tax burden globally



- ✓ According to 2009 Tax Misery & Reform Index, released by Forbes Business & Financial News, Georgia is the fourth least tax burden country after Qatar, UAE and Hong Kong



Contact



Ministry of Finance of Georgia
investorrelations@mof.ge



Disclaimer



This presentation is being made by the Ministry of Finance of Georgia (the “**Ministry of Finance**”) for information purposes only and only for the initial direct recipient hereof. Recipients of this presentation should be aware that these materials are being provided to you on a confidential basis, may not be distributed to the press or to any other persons, may not be reproduced, redistributed or passed on, directly or indirectly, to any person, or published, in whole or in part, by any medium or for any purpose.

This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities of the State of Georgia (“**Georgia**”) or any of its ministries, governmental agencies or instrumentalities, nor should it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or investment decision in relation to any such securities or otherwise.

The information contained herein has been obtained from sources believed by the Ministry of Finance to be reliable. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the opinions and expectations contained herein are fair and reasonable, no representation or warranty, expressed or implied, is made by the Ministry of Finance or Georgia or any of its other ministries, governmental agencies or instrumentalities with respect to the fairness, completeness, correctness, reasonableness or accuracy of any information and opinions contained herein. None of the Ministry of Finance or Georgia or any of its other ministries, governmental agencies or instrumentalities shall have any liability whatsoever (in negligence or otherwise) for any loss or damage howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith. Information contained in this presentation for the fiscal year ended 31 December 2011 and for any period in 2012 is preliminary (unless otherwise stated) and is subject to revision and amendment. Except where otherwise indicated, the information provided in this document is based on matters as they exist as of the date stated or, if no date is stated, as of the date of preparation and not as of any future date, and the information and opinions contained herein are subject to change without notice. None of the Ministry of Finance or Georgia or any of its other ministries, governmental agencies, instrumentalities undertakes any obligation to update or revise any such information to reflect information that subsequently becomes available or circumstances existing or changes occurring after the date hereof.

The information contained in this presentation has not been subject to any independent audit or review and may contain forward-looking statements, estimates and projections. These forward-looking statements can be identified by the use of forward-looking terminology, including (without limitation) “believes”, “expects”, “may”, “is expected to”, “will”, “will continue”, “should”, “approximately”, “would be”, “seeks” or “anticipates” or similar expressions or comparable terminology, or the negatives thereof. Forward-looking statements are subject to inherent risks and uncertainties. There can be no assurance that actual results or circumstances, or future events, will not differ materially from the expectations or intentions conveyed in such forward-looking statements. As a result, you should not rely on these forward-looking statements. None of the Ministry of Finance or Georgia or any of its other ministries, governmental agencies, instrumentalities undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law.