



Ministry of Finance of Georgia



Georgia – The Outlook

June 2014

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Government Priorities to Promote Inclusive Economic Growth



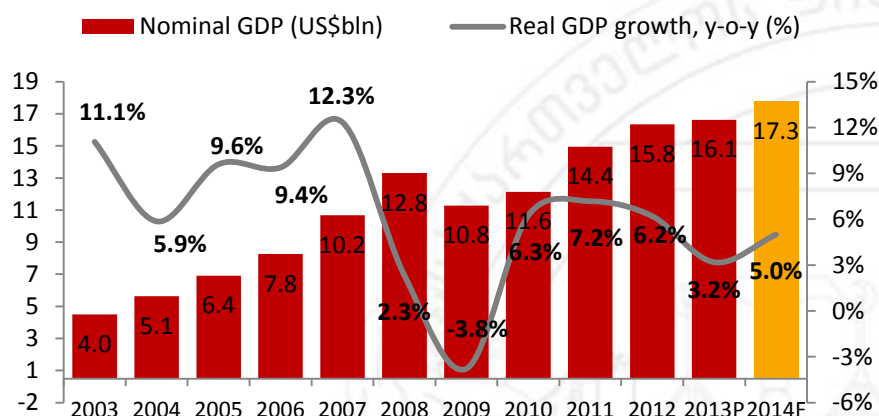
- ✓ Maintain stable macroeconomic environment, based on prudent fiscal, monetary and financial policies;
- ✓ Continue implementation of successful reforms and build on the existing success stories and accomplishments;
- ✓ Foster free and fair competition to establish truly level playing field for all businesses working in Georgia;
- ✓ Increase Economic Competitiveness through increasing:
 - Private Sector Competitiveness;
 - Human Capital Development;
 - Access to Finance;
- ✓ Maintain strong relations with international development partners (both bilateral and multilateral), focusing in the first place on infrastructure development priorities;
- ✓ 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

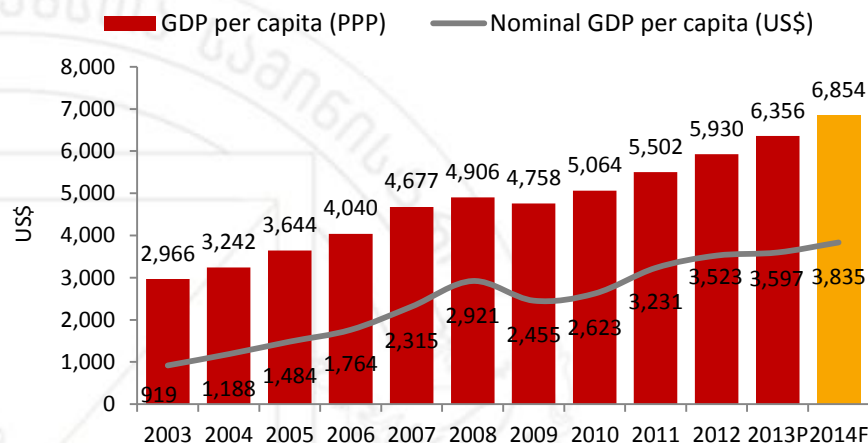
Reform-driven economic success: story in numbers

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



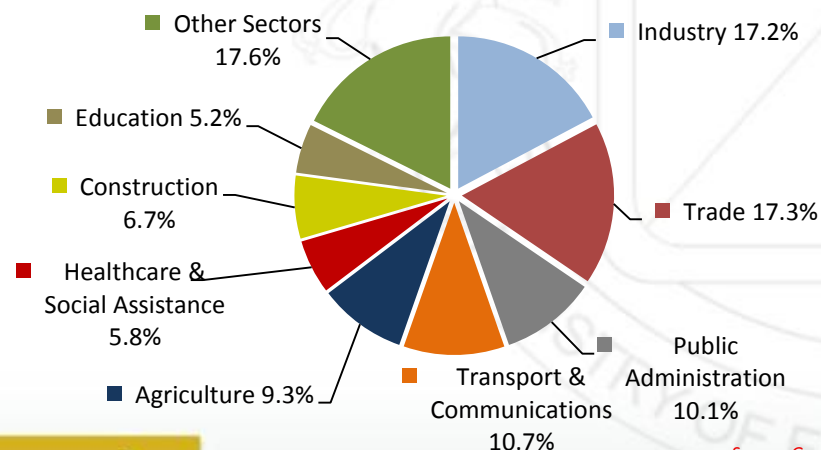
Source: Geostat, MOF

Rapidly growing GDP per capita – PPP and Nominal



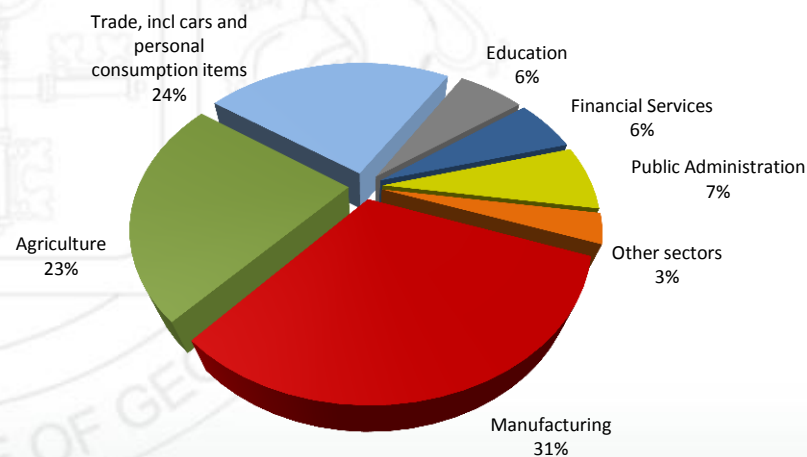
Source: Geostat, MOF, IMF

Broad-based and diversified nominal GDP structure 2013P



Source: Geostat

Contributions to the real GDP growth 2013P



Source: Geostat

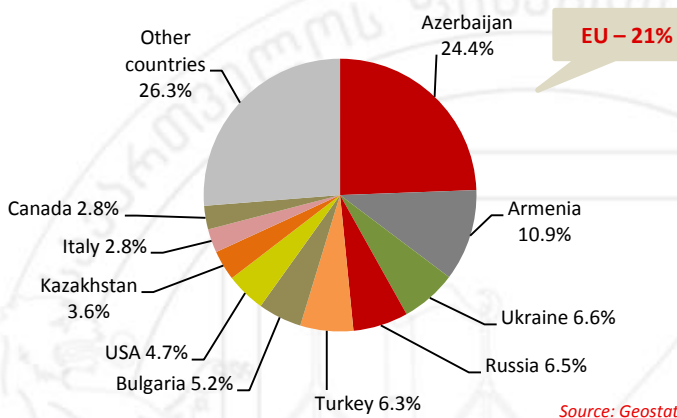
Economic Structure and Trends

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

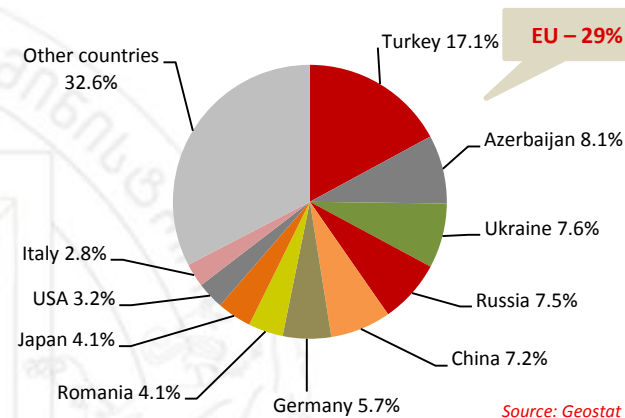


- ✓ Very simple and service oriented tax and customs policy and administration
- ✓ No quantitative restrictions or tariff barriers
- ✓ Genuine commitment to trade liberalism and openness
- ✓ Free trade agreement signed with neighboring countries
- ✓ Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU was signed in June 2014

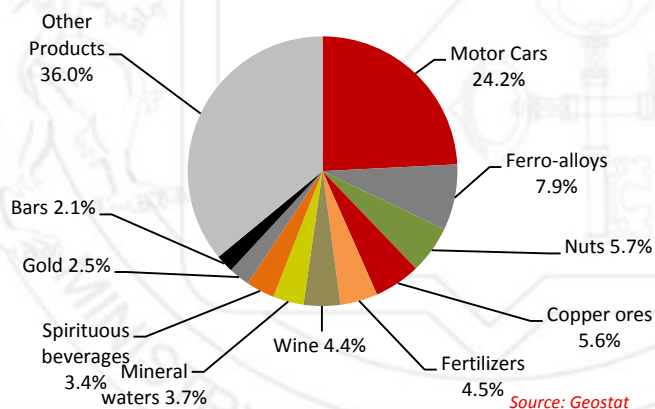
Export Structure by Country 2013



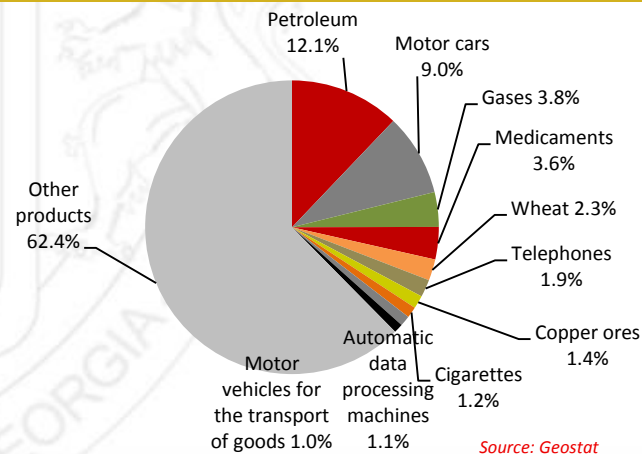
Import Structure by Country 2013



Export Structure by Product 2013



Import Structure by Product 2013



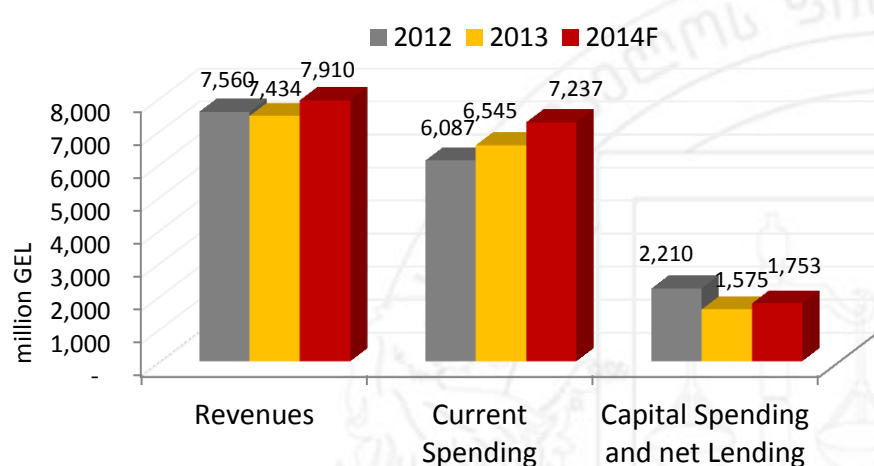
Fiscal Framework and Public Debt Performance

Fiscal Framework and Public Debt Performance

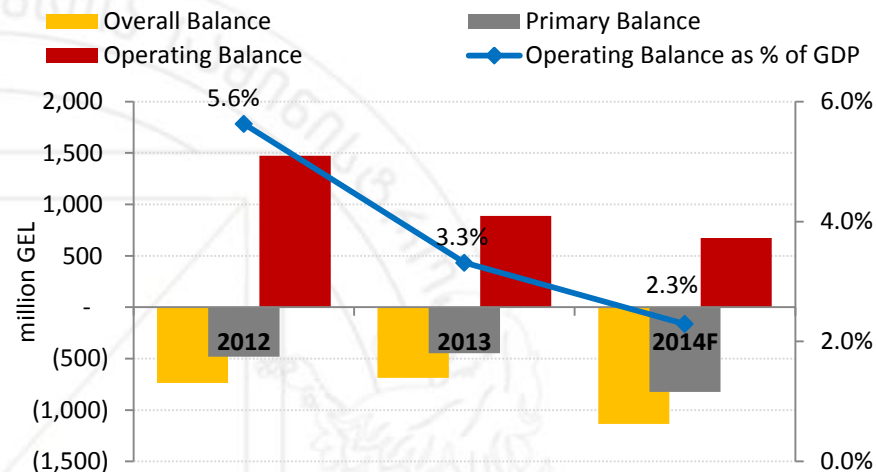
Strong fiscal consolidation path driven by sustainably high revenues and prudent government spending



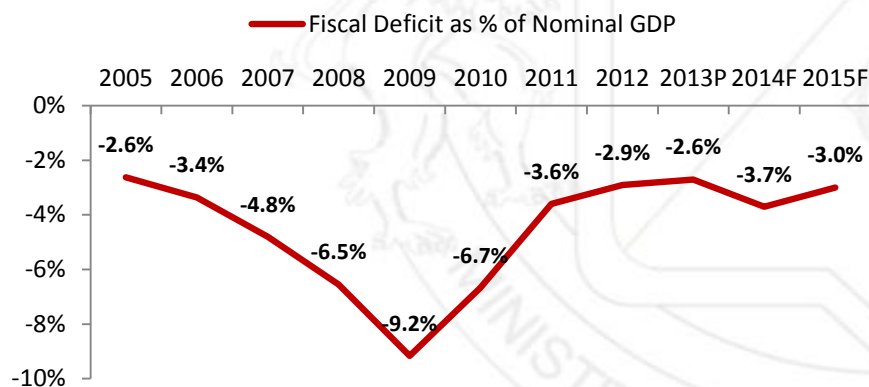
Fiscal Consolidation



Source: MOF

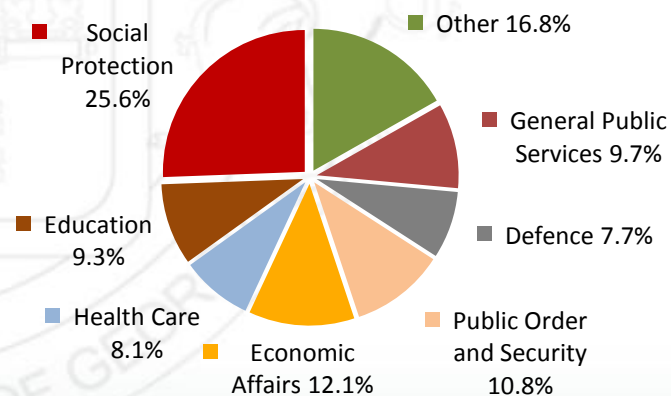


Source: MOF



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

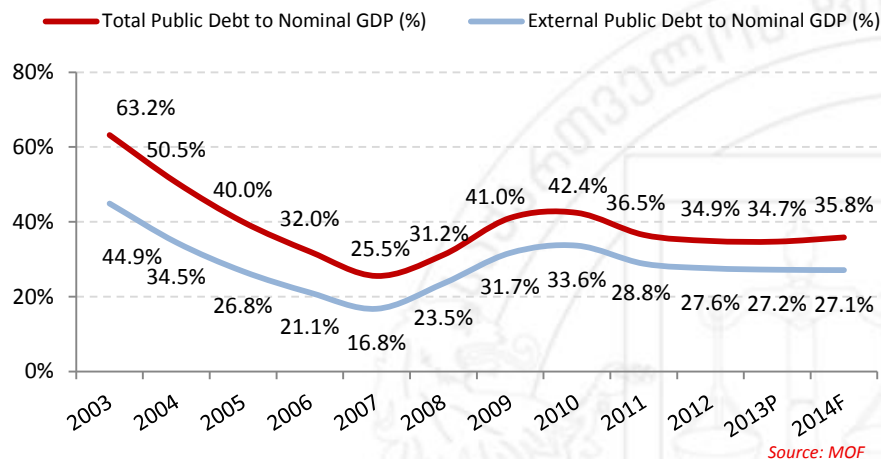


- ✓ **Energy Infrastructure**
 - Rehabilitation/construction of transmission line network
 - Rehabilitation/ Construction of HPPs
- ✓ **Roads Infrastructure**
 - Construction of the East-West Highway
 - Rehabilitation of regional road networks, secondary and local roads
- ✓ **Municipal and Regional Infrastructure**
 - 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

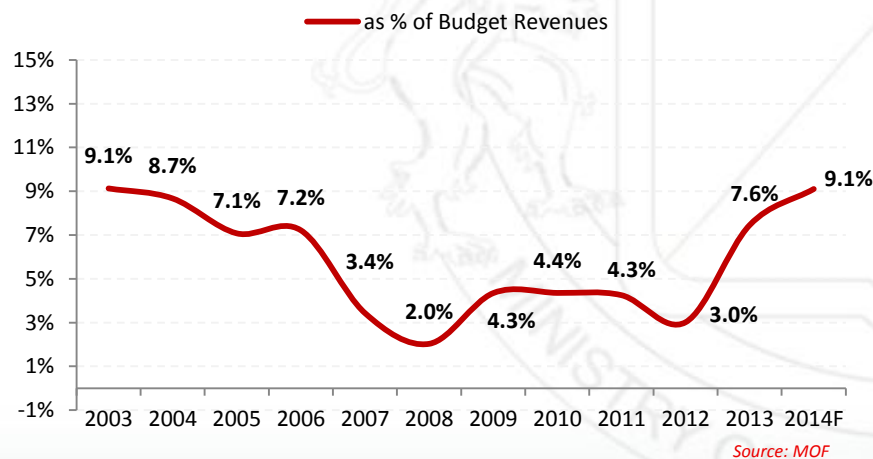
Debt Indicators: Below the Prudential Thresholds



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.
- ✓ In 2013, public debt decreased to **34.7%** of GDP, external public debt went down to **27.2%**.
- ✓ 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



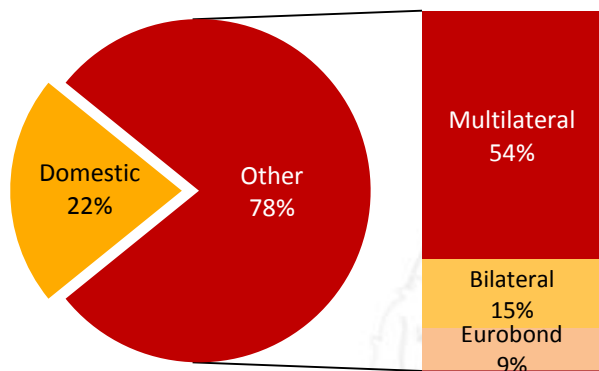
Easily Affordable Annual Repayment Volumes

- ✓ 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

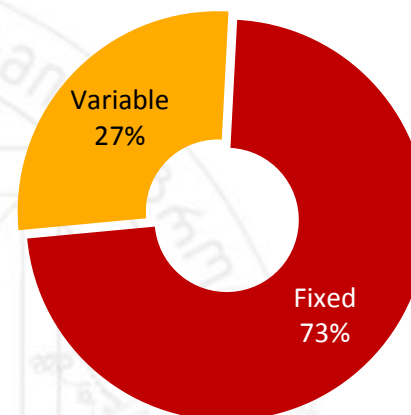
Affordable Public Debt Stock and Very Low Interest Rate on External Public Debt



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

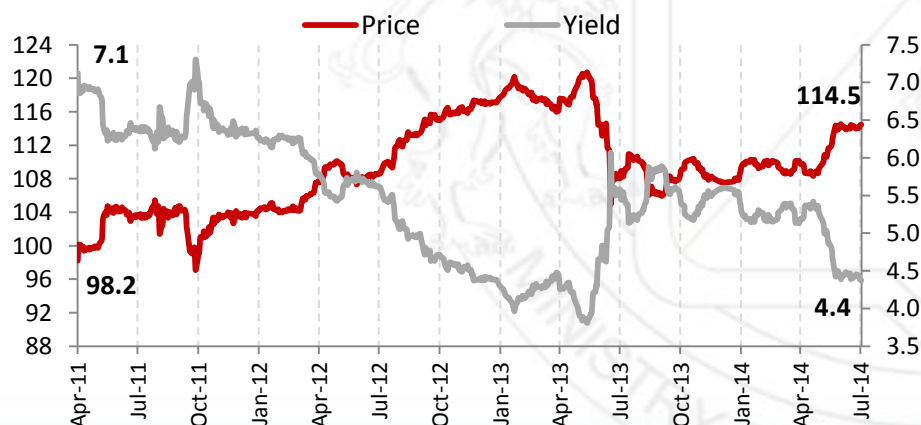
Source: MOF

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

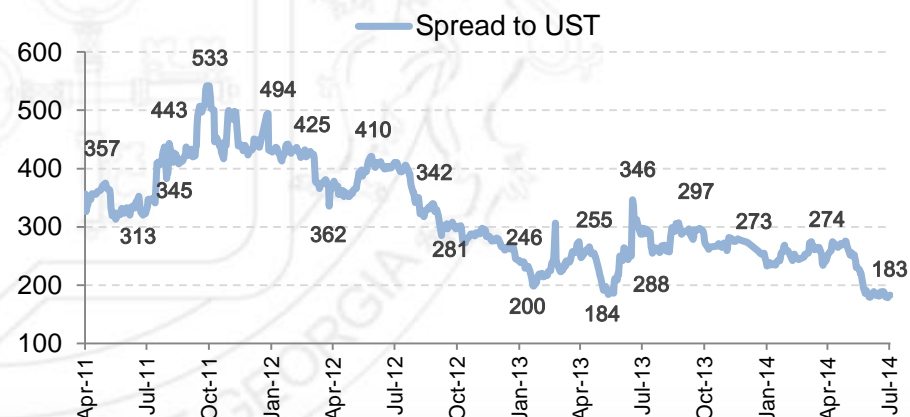


Source: MOF

Georgian Sovereign Eurobond 2021



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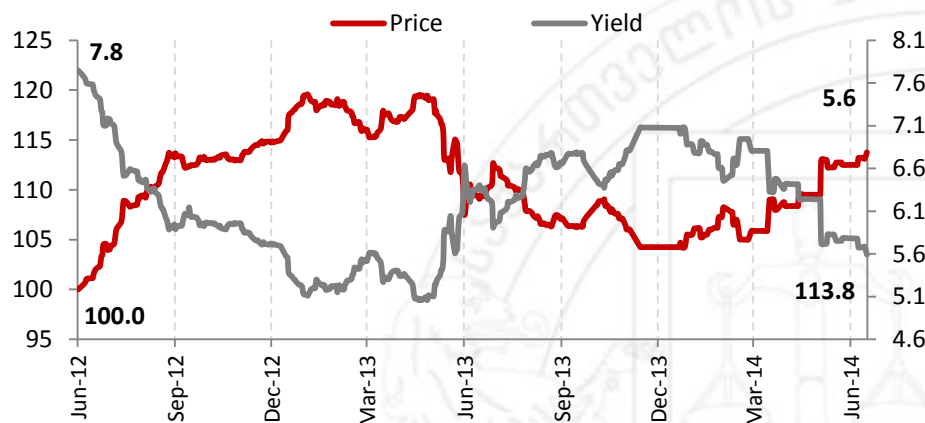
Source: Bloomberg

Fiscal Framework and Public Debt Performance

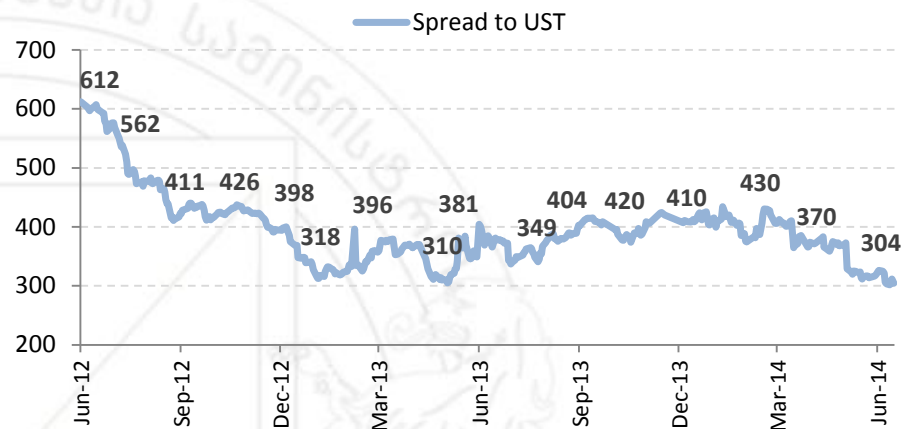
Eurobonds Issued by the State Owned Enterprises



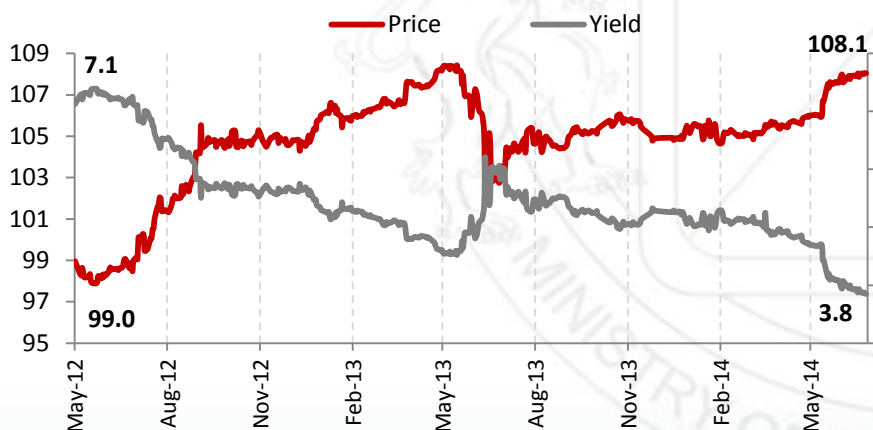
Georgian Railway Eurobond 2022



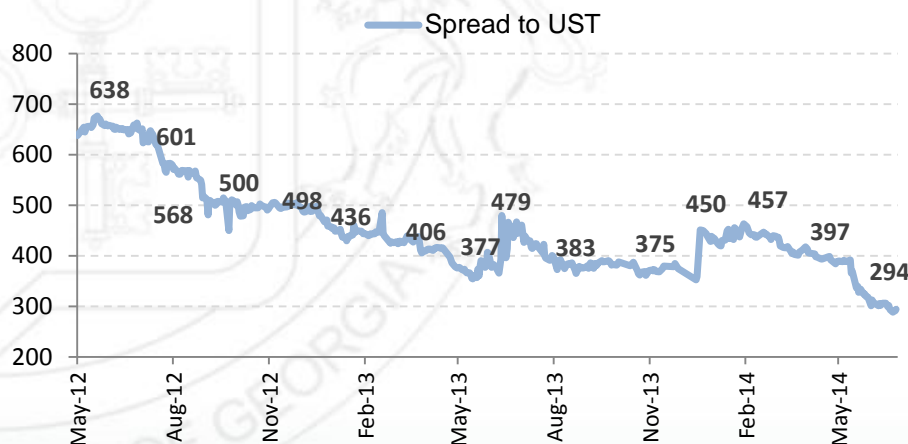
Georgian Railway Eurobond 2022



Georgian Oil and Gas Company Eurobond 2017



Georgian Oil and Gas Company Eurobond 2017

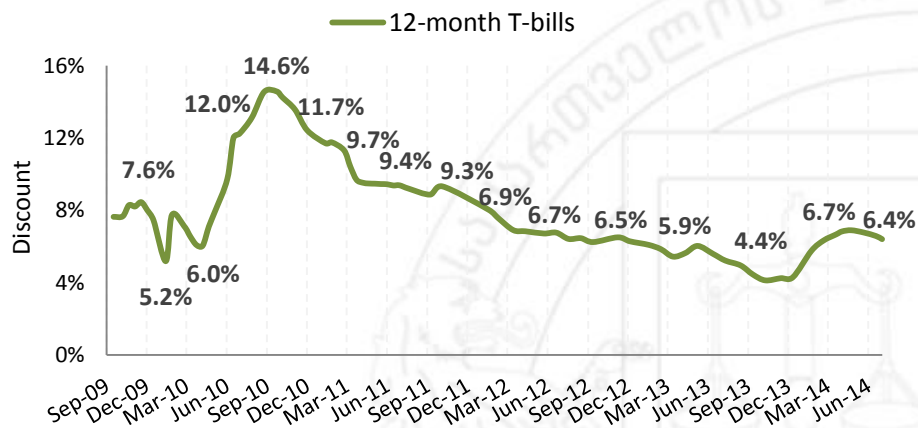


Fiscal Framework and Public Debt Performance

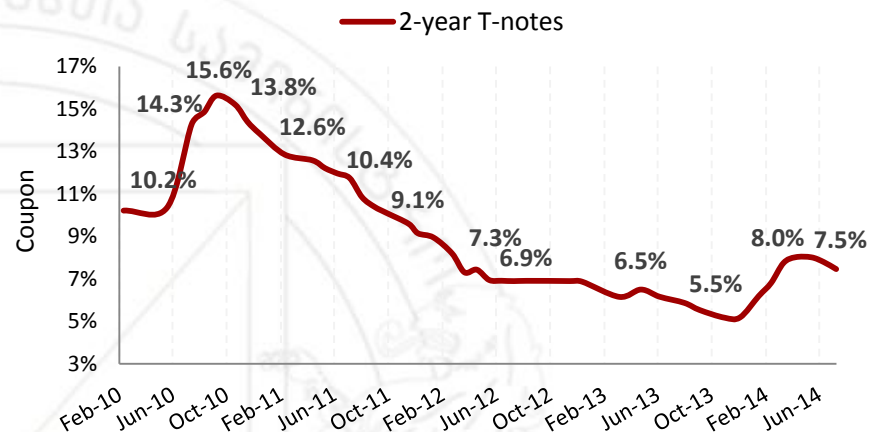
Treasury Bills and Treasury Notes



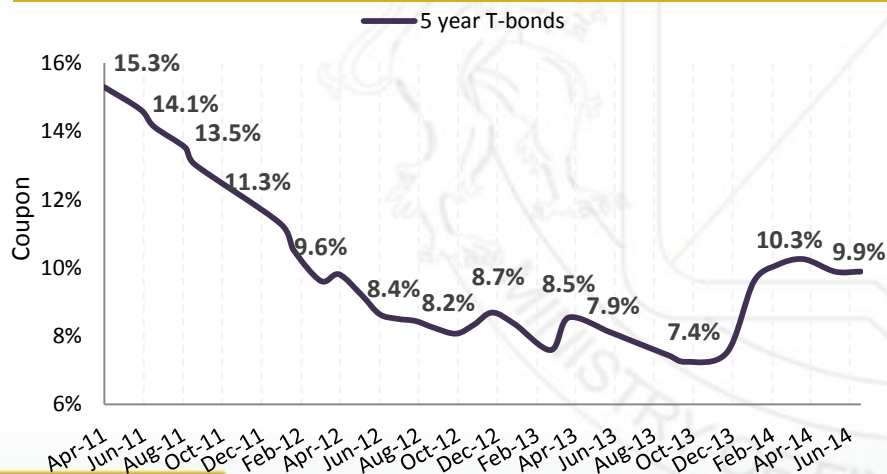
12-month Treasury Bills



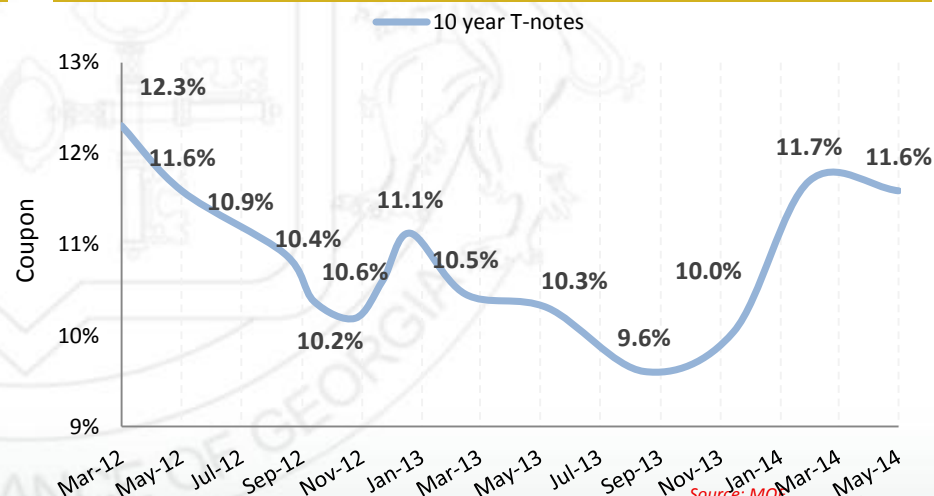
2-year Treasury Notes



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



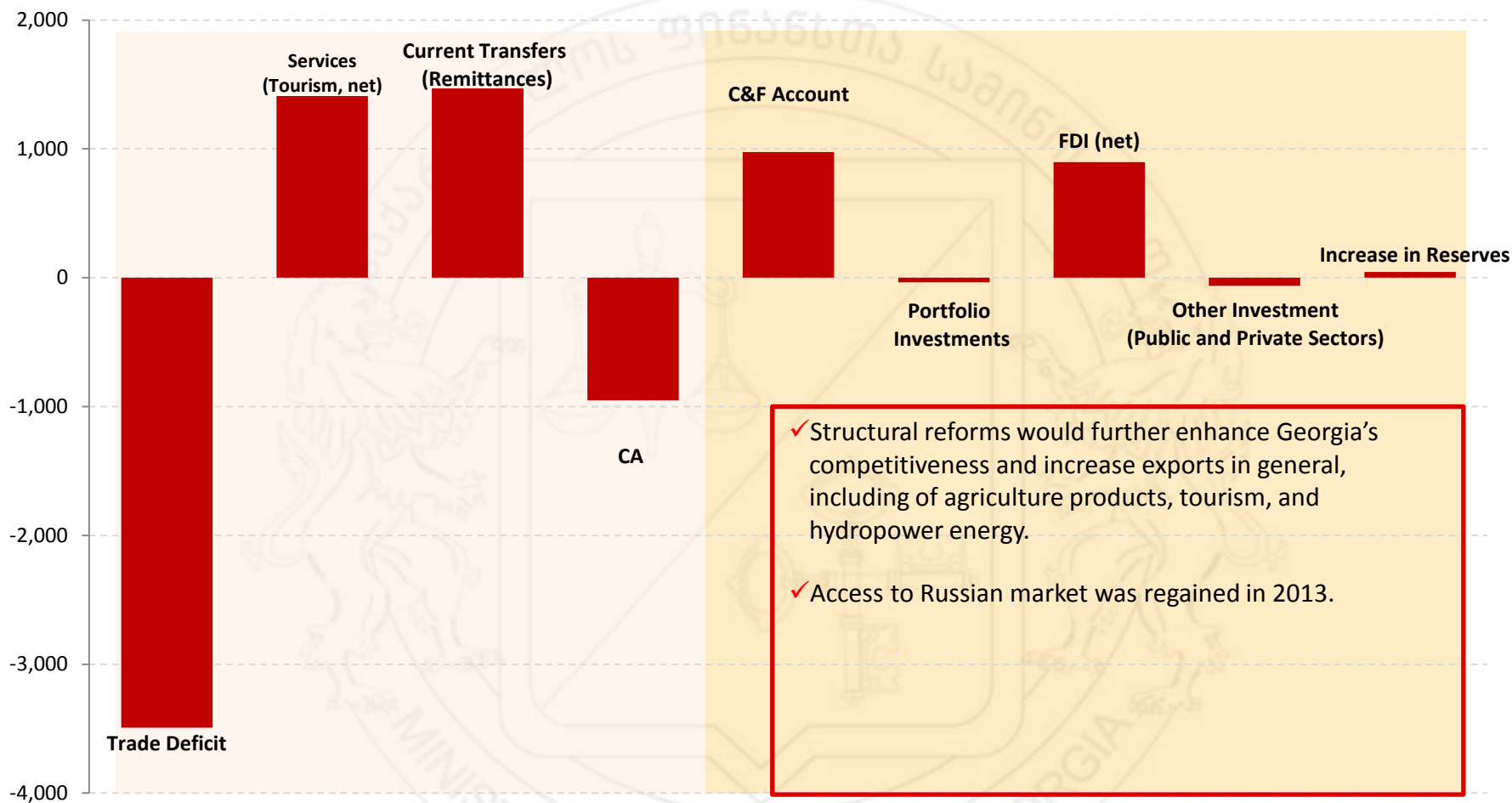
N	Country	Dividends	Interests	Royalties
1	ARMENIA	5% / 10%	10%	5%
2	AUSTRIA	0% / 5% / 10%	0%	0%
3	AZERBAIJAN	10%	10%	10%
4	BAHRAIN	0%	0%	0%
5	BELGIUM	5% / 15%	10%	5% / 10%
6	BULGARIA	10%	10%	10%
7	CHINA	0% / 5% 10%	10%	5%
8	CZECH REPUBLIC	5% / 10%	8%	0% / 5% / 10%
9	DENMARK	0% / 5% / 10%	0%	0%
10	ESTONIA	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%

A large, faint watermark of the Ministry of Finance of Georgia seal is centered in the background. It features a shield with a scale of justice and a key, flanked by two lions, all enclosed within a circular border with text in Georgian and English.

External Sector

External Sector

Current Account funding structure 2013

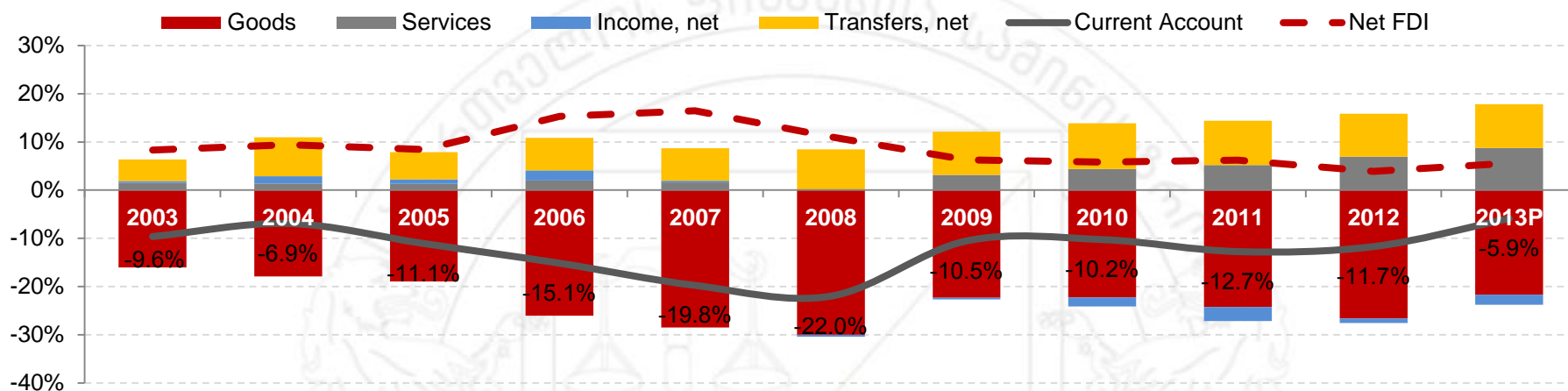


Source: NBG

External Sector

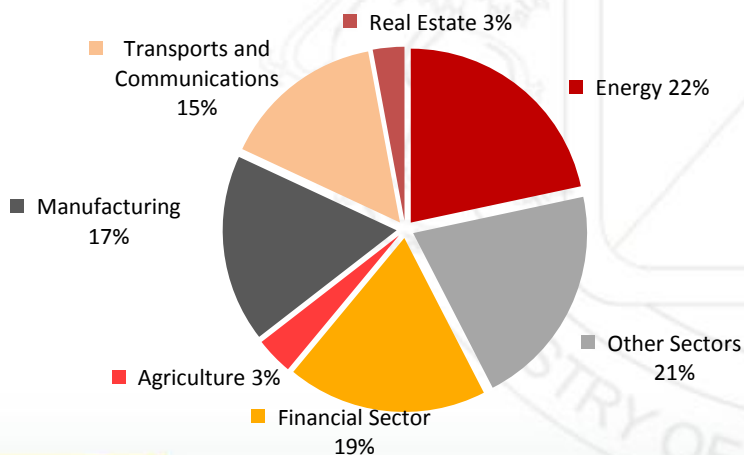
Balance of payments - in sustainable equilibrium

Current Account Balance (% of Nominal GDP)



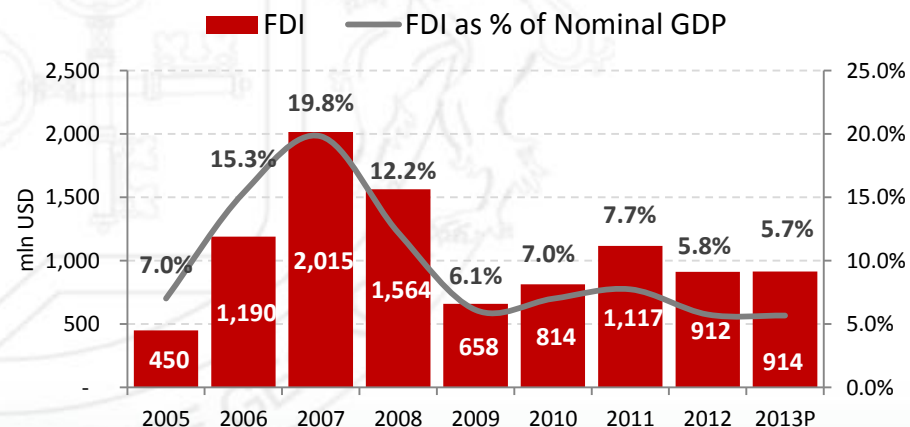
Source: NBG

FDI Breakdown by Sectors 2013



Source: Geostat

Foreign Direct Investment



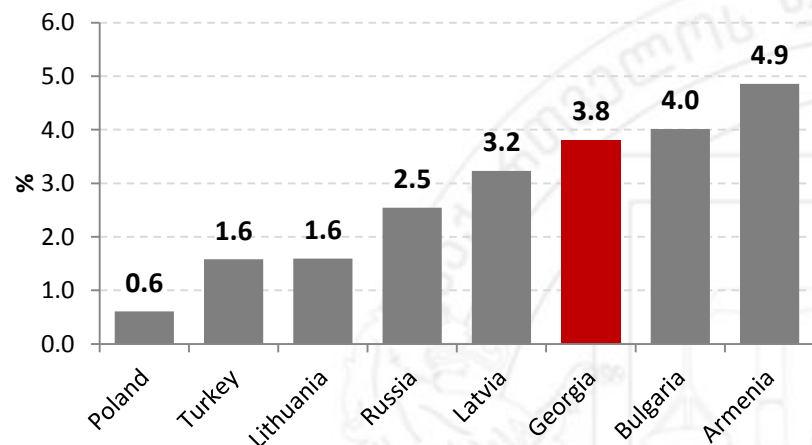
Note: 2006-2008 spike due to large-scale privatization

Source: Geostat

External Sector

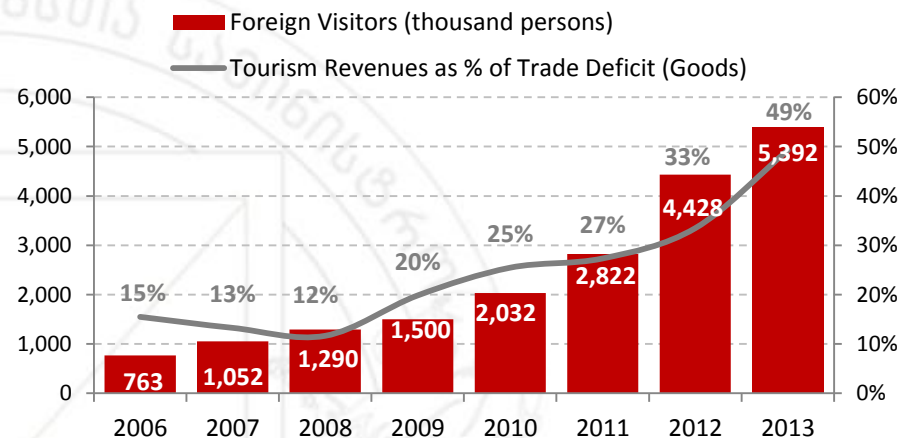
Current Account - steadily growing external revenues

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



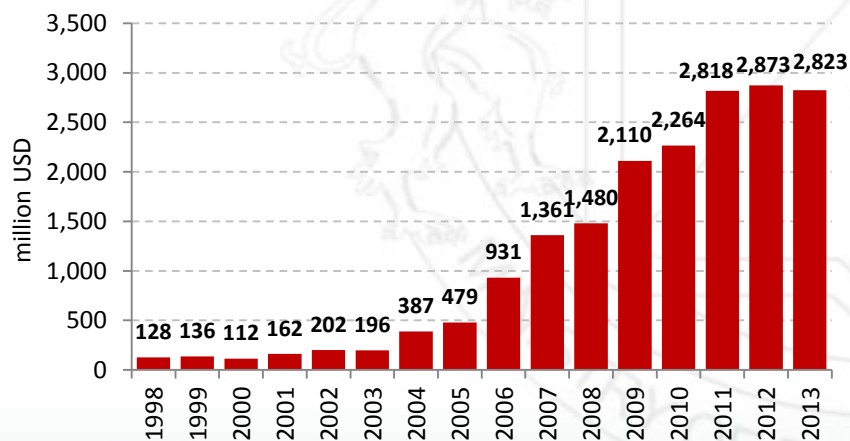
Source: World Bank, IMF, NBG

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



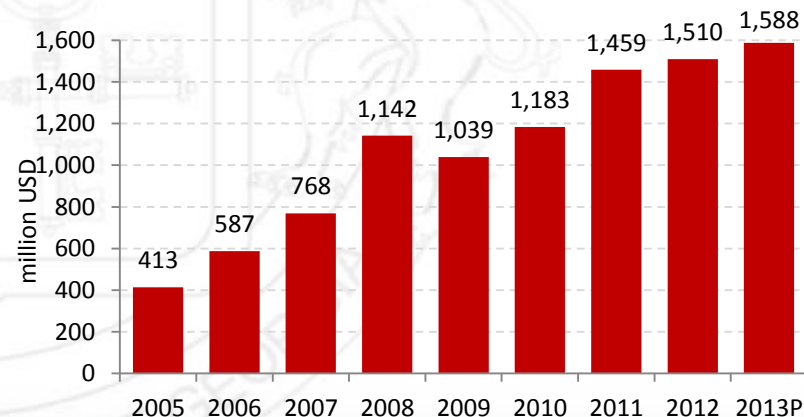
Source: NBG, National Tourism Administration

Gross International Reserves



Source: NBG

Current transfers, incl remittances – steady source of external revenues



Source: NBG

Monetary and Banking Sector

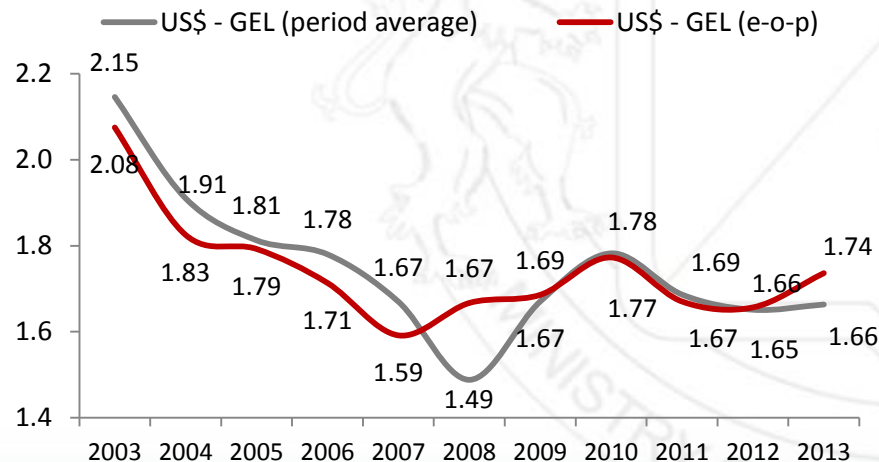
Monetary and Banking Sector

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



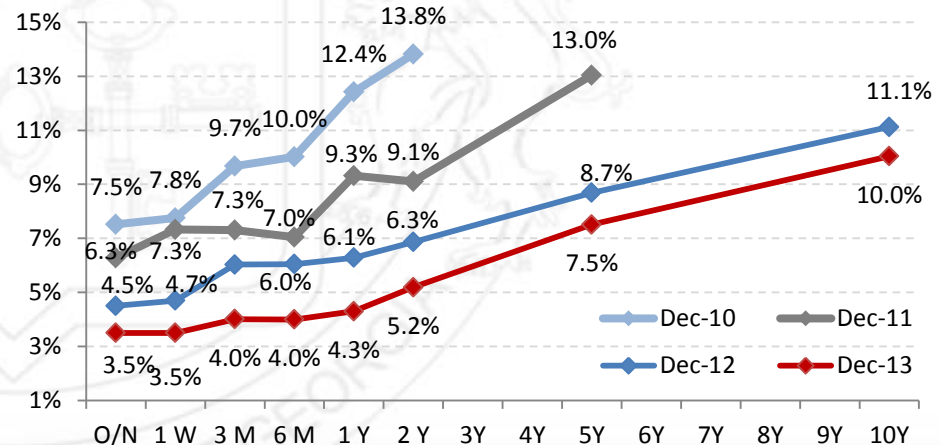
- ✓ Price pressures have eased. Core inflation has been traditionally subdued at around 1-3%.
- ✓ The National Bank of Georgia has continued to smooth out excessive exchange rate volatility, while at the same time building FX reserves.
- ✓ Shift to the inflation targeting mode has provided for the enhanced 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)



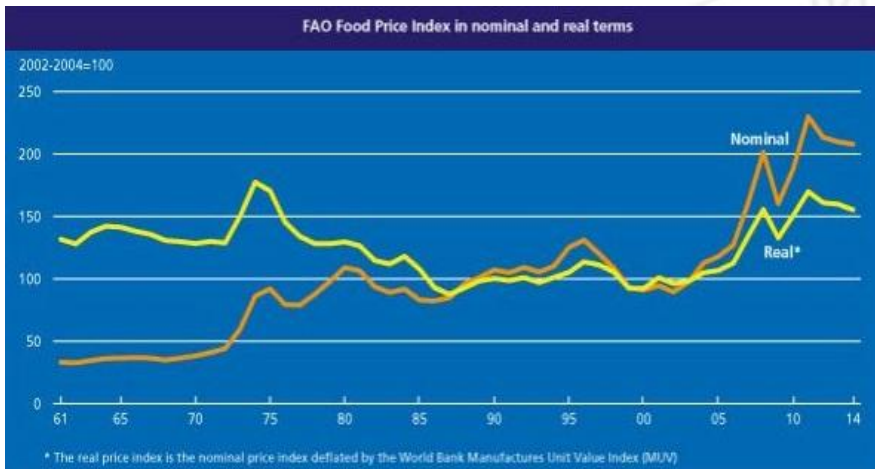
Source: Ministry of Finance, NBG

Monetary and Banking Sector

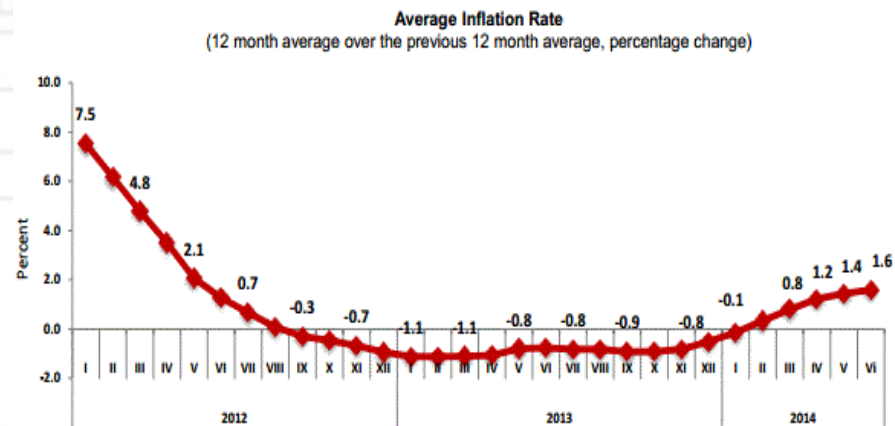
Price Stability: declining headline inflation, absence of second-round effects



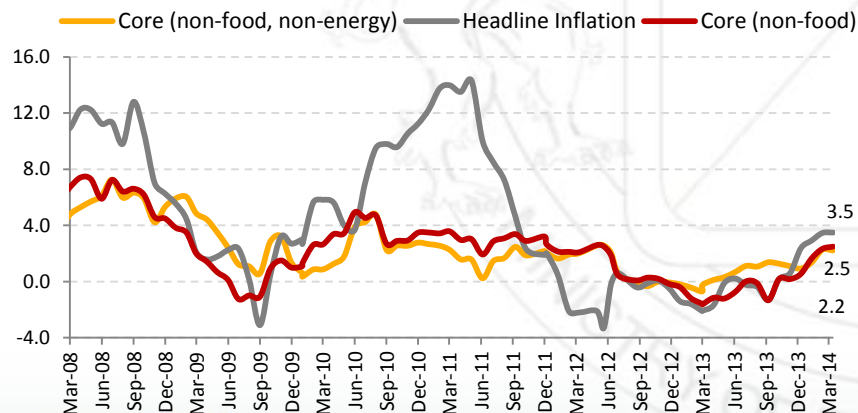
World Food Prices



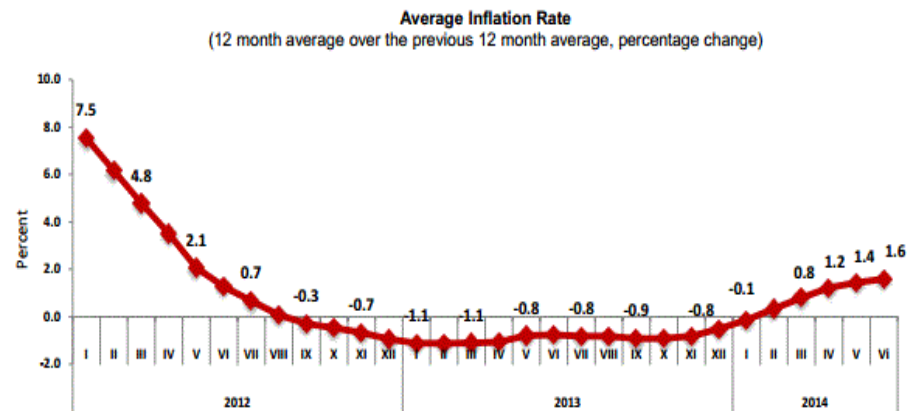
Average Inflation Rate - Georgia



Inflation Dynamics - Georgia



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

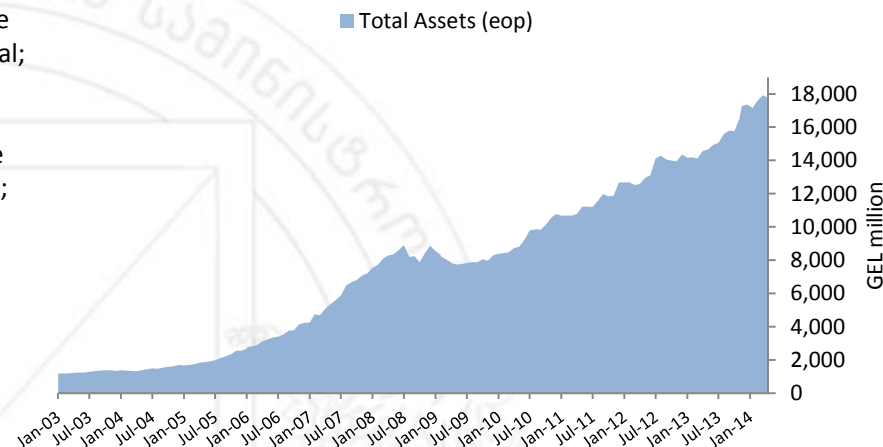


Monetary and Banking Sector

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

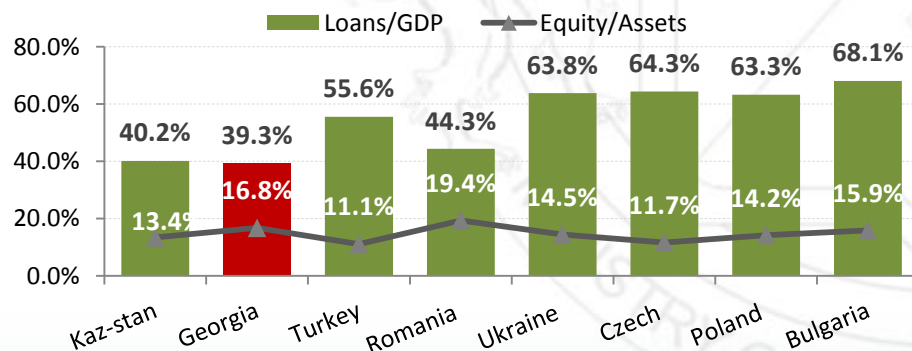
- ✓ The banking sector represents only a very moderate contingent liability to the sovereign (Ratio of assets to Nominal GDP is 58.8% as of end-2013). Stress tests of the banking system, using general and bank specific shocks did not raise concerns.
- ✓ No taxpayer support over recent years (no bailouts!); 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



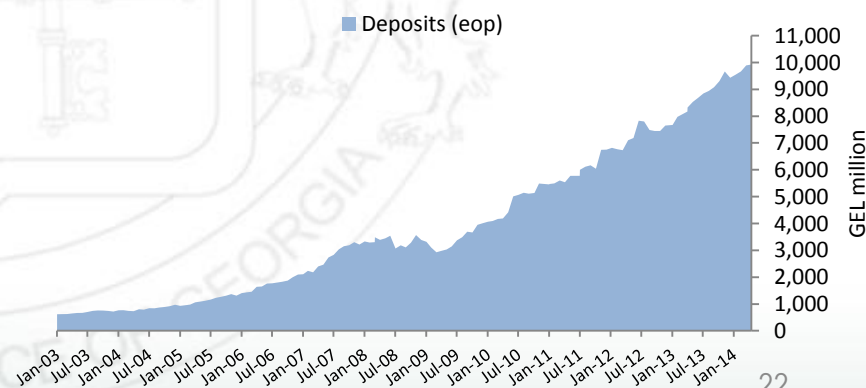
Source: NBG

Georgia system-wide Loans to GDP and Equity to Assets



Source: NBG and Citigroup Global Markets

Bank Deposits On The Rise



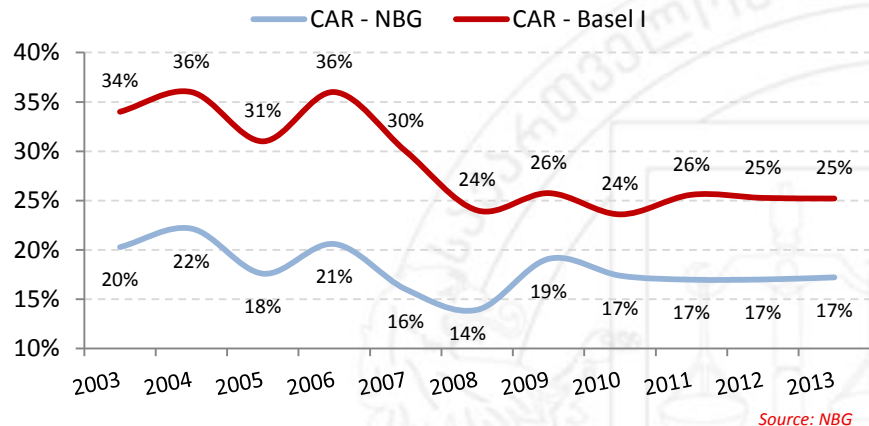
Source: NBG

Monetary and Banking Sector

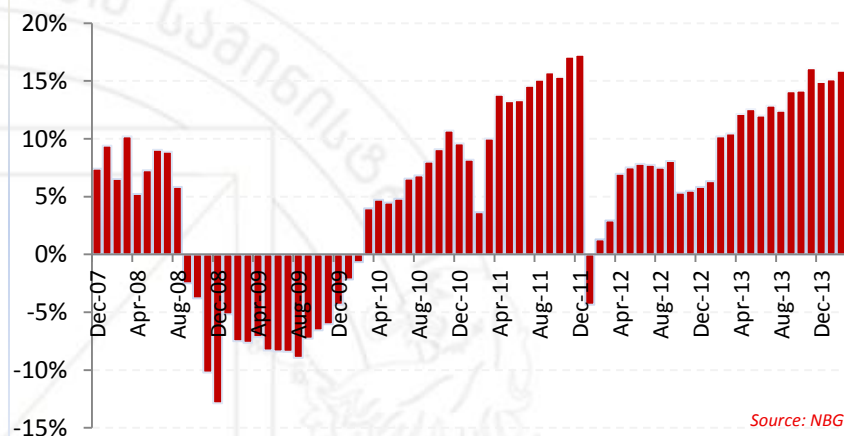
Banking sector on the solid footing: banks well-capitalized with low NPLs, strong balance sheets and prudent loan-book expansion patterns



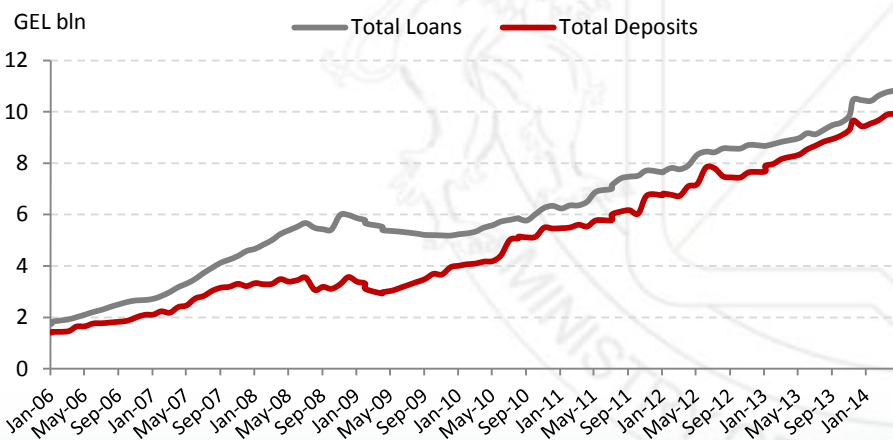
Traditionally High Capital Adequacy Ratio (NBG and Basel I Definition)



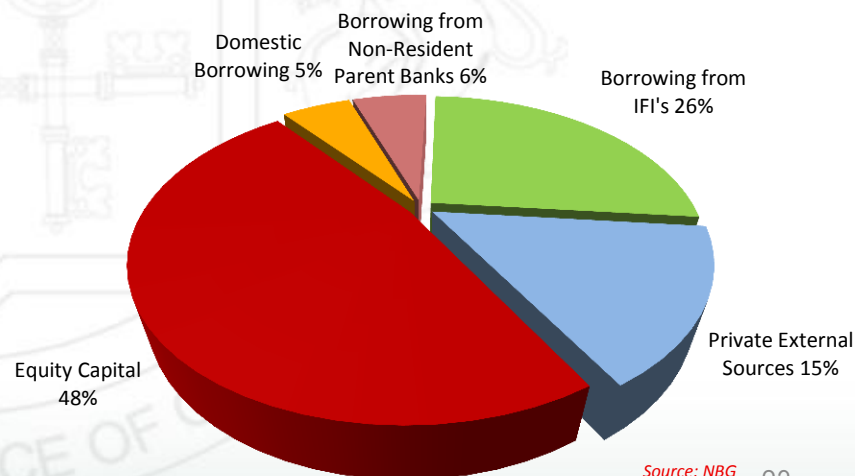
High Profitability as Measured by ROE



Total Bank Deposits and Loans – moving in tandem



Sound Non-Deposit Funding Structure as of end-2013

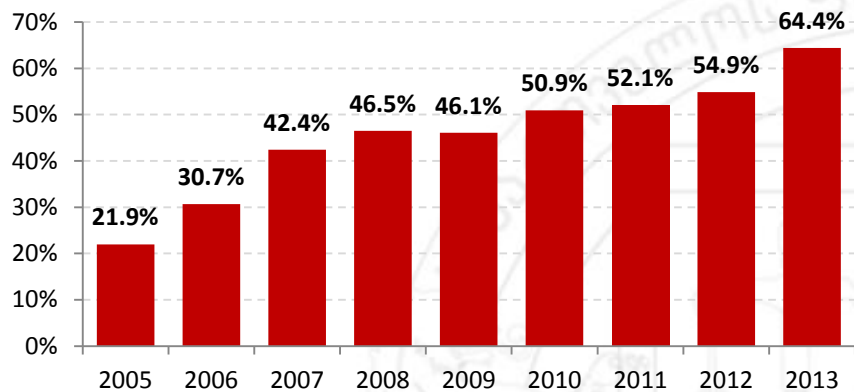


Monetary and Banking Sector

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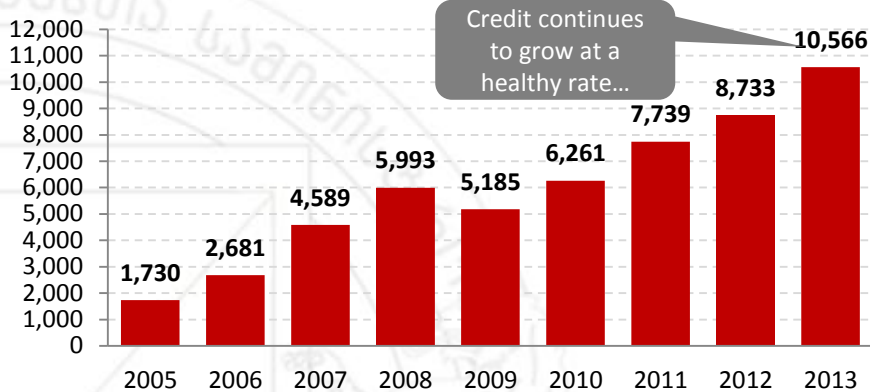


Assets of the Banking Sector as % of GDP



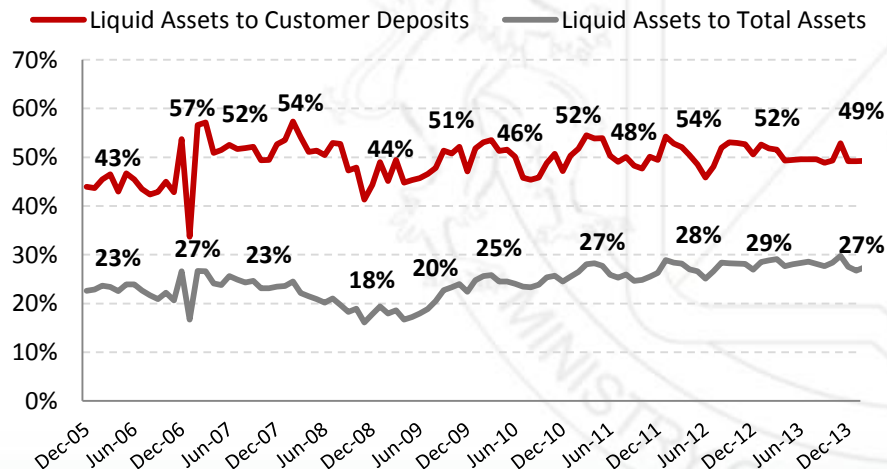
Source: NBG

Commercial Bank Lending, GEL mln



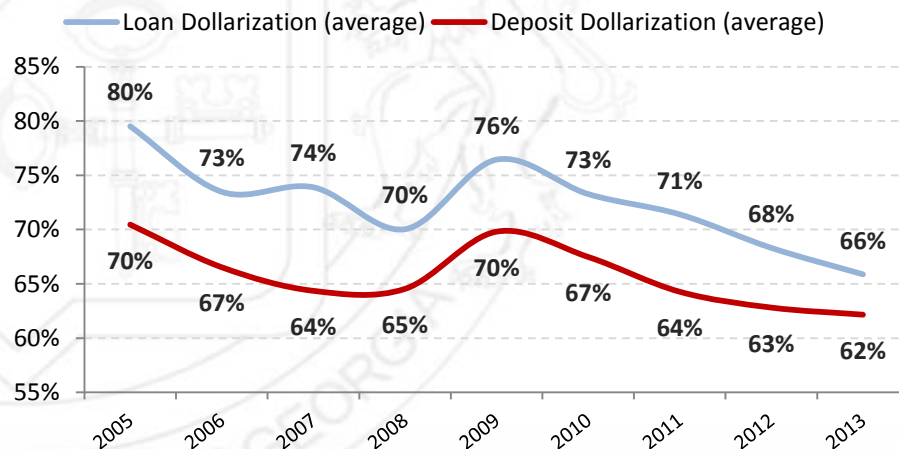
Source: NBG

Banking Sector Liquidity Ratios – Ample Liquidity Buffers



Source: NBG

Banking Sector Dollarization – on the Downward Path



Source: NBG

International Rankings of Georgia

International Rankings of Georgia

Sovereign Credit Ratings



**STANDARD
& POOR'S**

FitchRatings

MOODY'S
INVESTORS SERVICE

BB- Stable

(Affirmed in May 2014)

BB- Stable

(Affirmed in May
2014)

Ba3 Stable

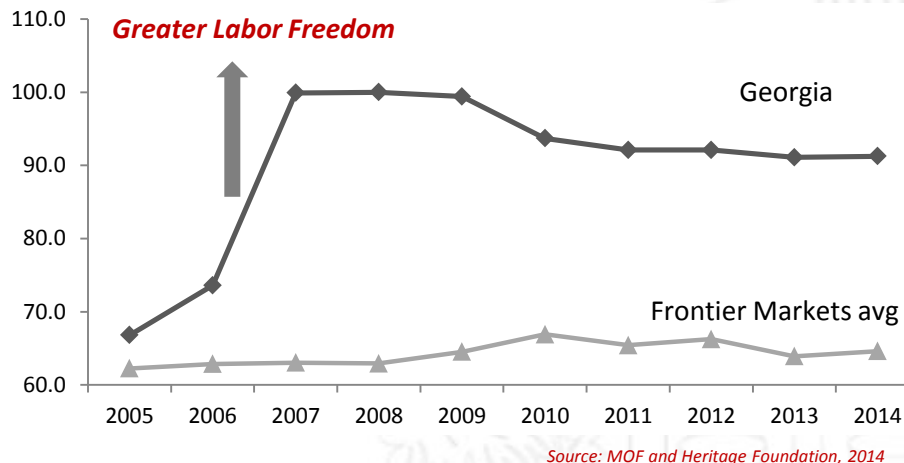
(Affirmed in August
2013)

International Rankings of Georgia

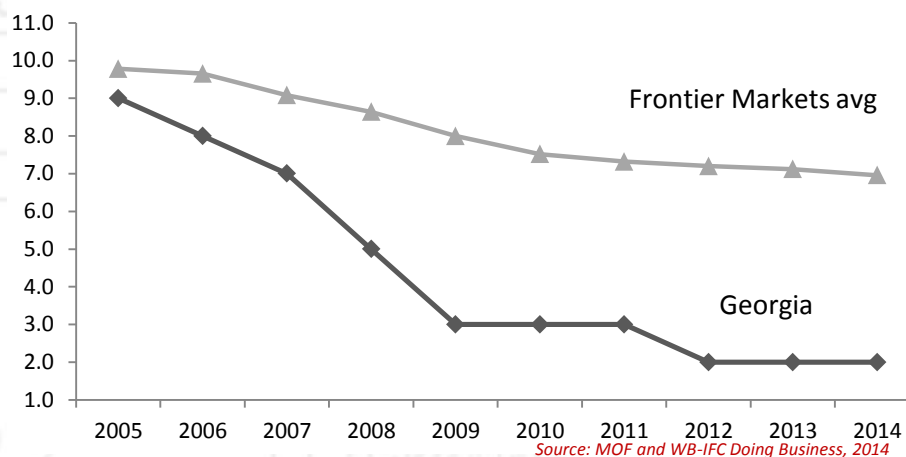
Consistently outperforming sovereign peers



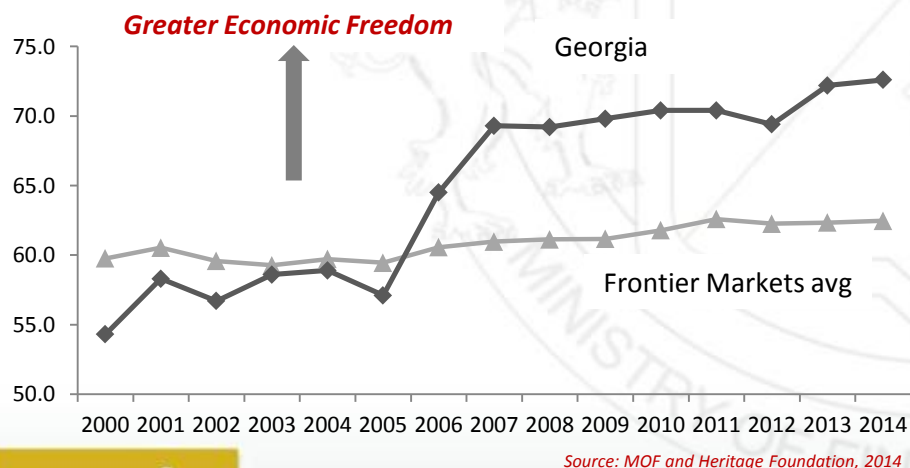
Georgia - one of the most liberal labor environments (5th best globally), according to the Heritage Foundation, 2014



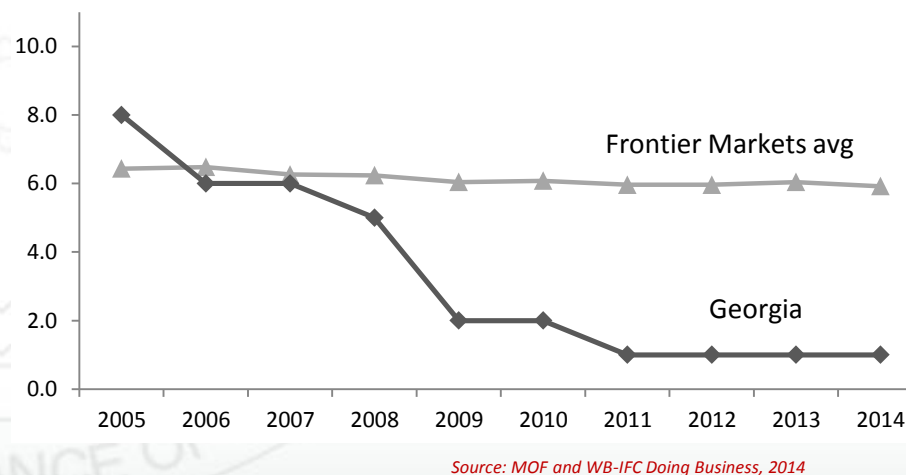
World Bank Doing Business: number of procedures required to start business have been reduced from 9 to 2 in Georgia



Heritage Foundation Index of Economic Freedom Ranking



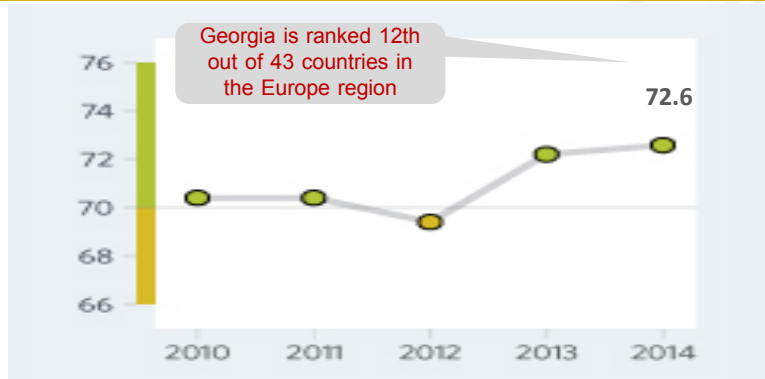
World Bank Doing Business: number of procedures required to register property have been reduced from 8 to 1 in Georgia



International Rankings of Georgia

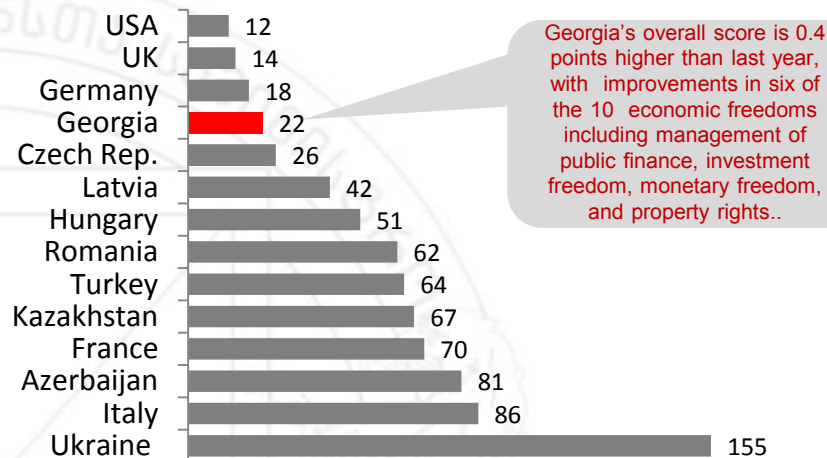
Consistently outperforming sovereign peers

Economic Freedom Trend (Economic Freedom Index, 2014)



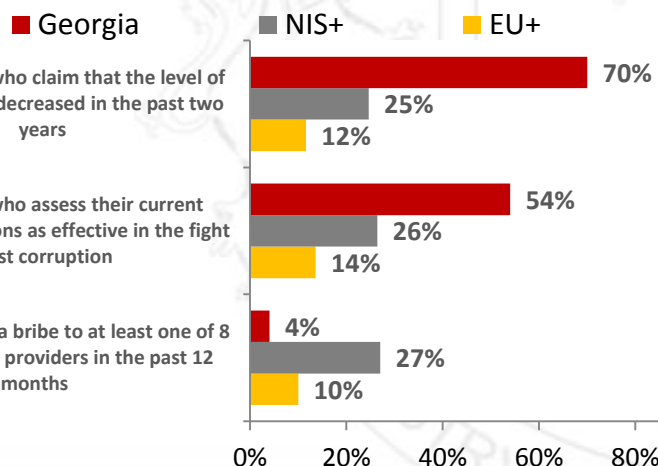
Source: Heritage Foundation, 2014

Economic Freedom Index, 2014 (Heritage Foundation)



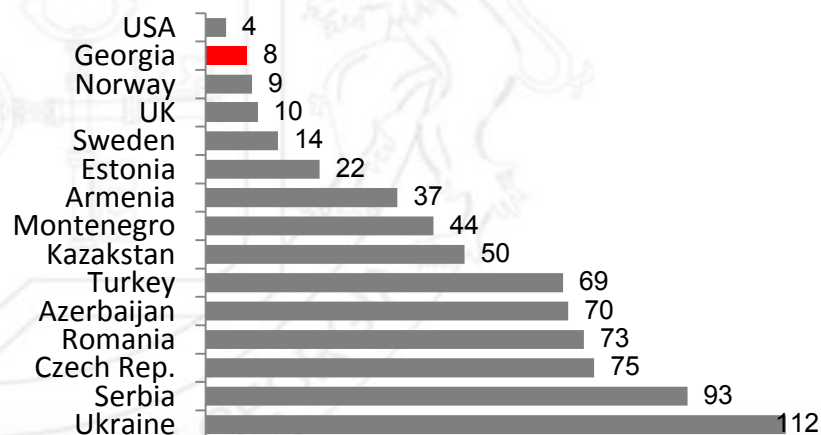
Source: Heritage Foundation, 2014

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)



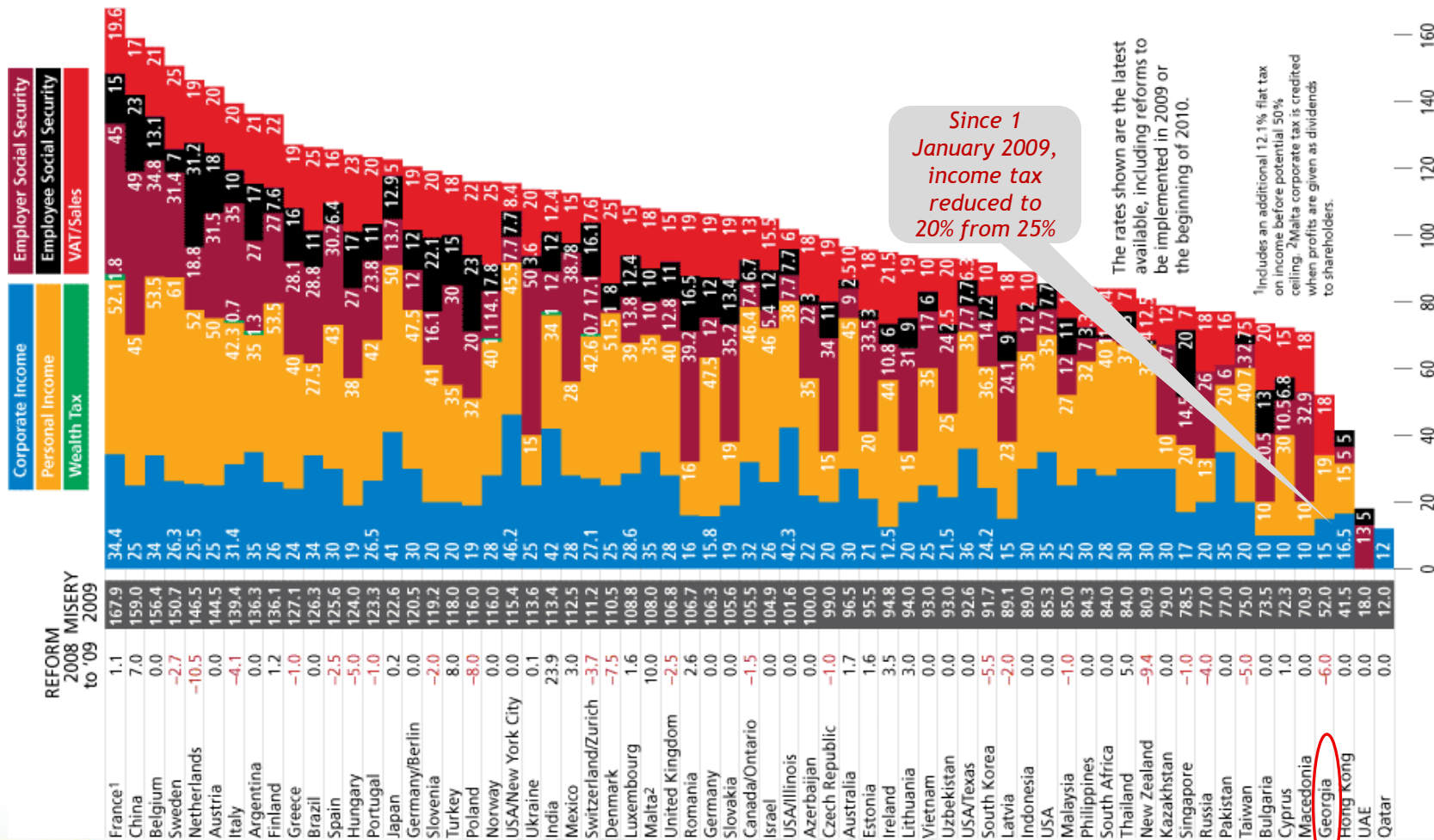
Source: WB-IFC Doing Business, 2014

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



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