



Ministry of Finance of Georgia



Georgia – The Outlook

November 2018

Axes of Georgia's Long-Term Growth Strategy

The Government of Georgia's long-term strategy seeks sustained and inclusive growth that is based on macroeconomic stability

- The Government aims to maintain a sound macroeconomic environment, backed by prudent fiscal, monetary and financial policies.
 - Structural reforms to improve governance, encourage employment, and reduce poverty are priorities on the agenda
- The Authorities are striving to deliver reforms aiming at promoting the formation of a robust and free private sector assisted by an efficient and fully transparent government
 - Fostering a vibrant, competitive private sector, both on an internal and external levels, is perceived as a top priority for the Georgian authorities
- In that regard, Georgia set a two-legged long term growth strategy (Georgia 2020 and sectoral development policies) aiming to achieve a profound transformation of the country's macroeconomic framework. Goals of these two strategic plans are highlighted below



Four-Point Plan For Rapid Development of The country



Education Reform

- Promotion of Professional Education
- General Education Reform
- Fundamental Reform of Higher Education



Improve Business Environment

- Deposit Insurance
- Pension Reform
- PPP Framework
- Capital Market Reforms
- Insolvency Legislation
- Public Investment Management Reform



Infrastructure Development

- Road Infrastructure
- Land Reform
- Expansion of the South Caucasus Pipeline through Azerbaijan and Georgia
- Spatial development



Promoting Open Governance

- Inclusive Governance – Involvement of the Private Sector in Legislative Process
- Building physical and virtual space for one stop service
- Public Finance Management Reform

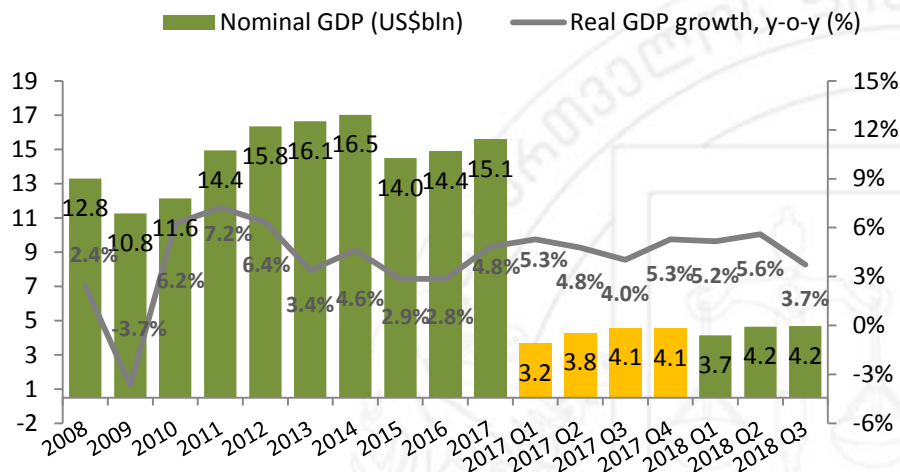


Economic Structure and Trends

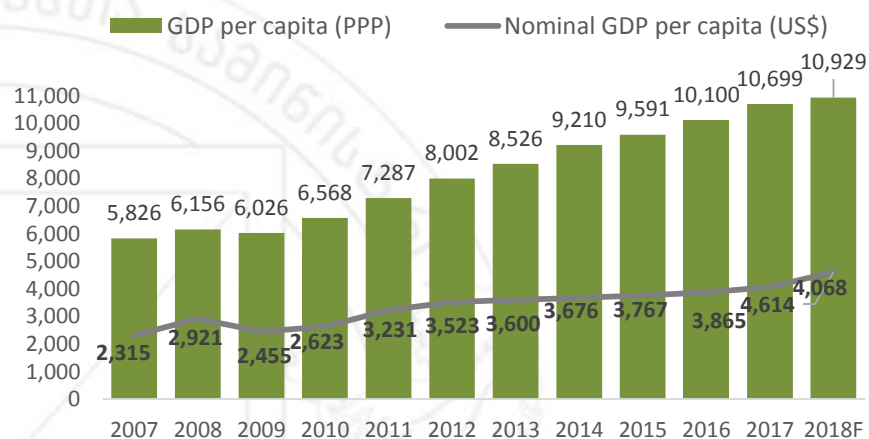
Economic Structure and Trends

Reform-driven economic success: story in numbers

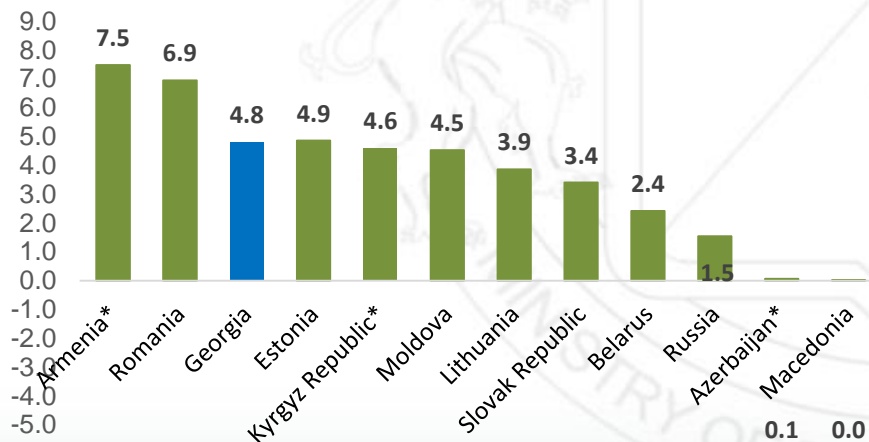
GDP: 2008-2009 crisis had temporary impact on steady growth



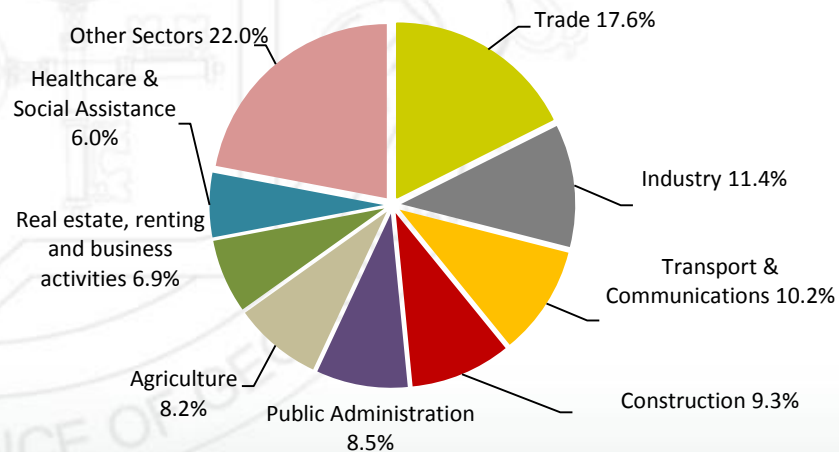
Rapidly growing GDP per capita – PPP and Nominal



Economic growth comparison across countries, 2017



Broad-based and diversified nominal GDP structure, 2017



The Historic Signing of the EU-Georgia Association Agreement is a huge step forward in Georgia's external relations



The EU-Georgia Association Agenda, signed on 27 June 2014, deepen and strengthen the political, economic and cooperative relations between the EU and Georgia

- The Association Agreement establishes a long-term foundation for future EU-Georgia relations, based on set of jointly agreed priorities for the period 2014-2016, including a Deep and Comprehensive Free Trade Area (“DCFTA”)
- The Association Agreement creates a practical framework for achieving EU-Georgia political association and economic integration
 - The Association Agreement incorporates political elements, reforms to strengthen democratic institutions, cooperation on foreign and security policy, amongst others
 - All axes will have significant positive impacts in strengthening Georgia’s economy, institutions and external perception
 - The agreement with the EU will also help to reduce the perception of geopolitical risk, as cooperation on a security level is also a priority
 - Russia has not sent the same negative signals after Georgia signed EU cooperation agreement, contrary to what it did for Ukraine and Moldova
 - The recent lift of the Russian ban is symbolic of a new trend of commercial relations between Georgia and Russia
 - The Association Agenda also includes economic and trade elements, including a dedicated DCFTA chapter and cooperation in a number of sectors such as energy, transport, employment and social policy
 - The signing of the Agenda will allow for EU financial support, technical expertise and advice, information sharing, and capacity building, all of which will support Georgia in its economic development
 - The signing of the Association Agreement with the EU on June 27th sends a very positive message to the markets, and helps to promote exports to the area from 2014-2015 onwards
- The strengthening of EU-Georgia ties will help to contribute to economic recovery and growth, and will help to better integration of the Georgian economy within the world markets

■ The signing of the Agreement proves Georgia’s commitment to sustainable growth, democracy and transparency, will add momentum to the consolidation of Georgia’s stance as an interesting country for investment

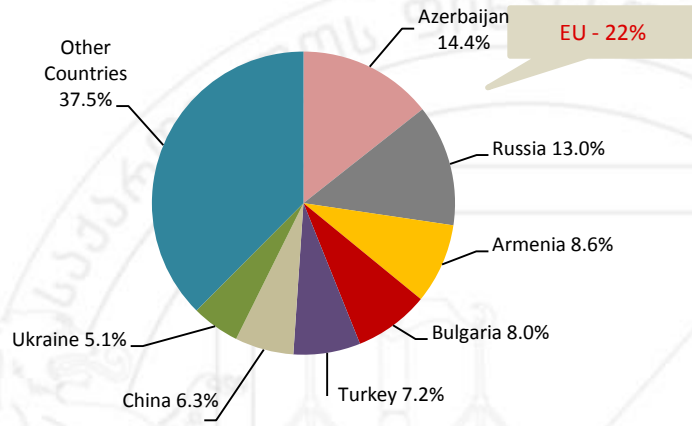
Economic Structure and Trends

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

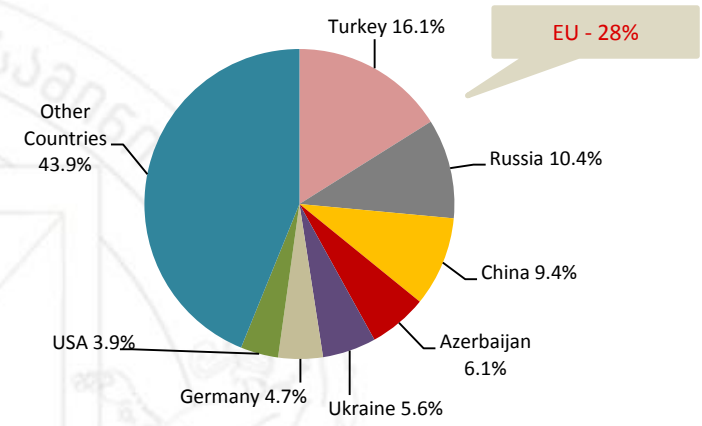


- ✓ Simple tax and customs policy and user friendly procedures
- ✓ No quantitative restrictions or tariff barriers
- ✓ Genuine commitment to trade liberalism and openness
- ✓ Free trade agreement signed with neighboring countries
- ✓ Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU was ratified by many members of the EU
- ✓ Georgia has returned to Russian market
- ✓ Free trade agreement signed with China

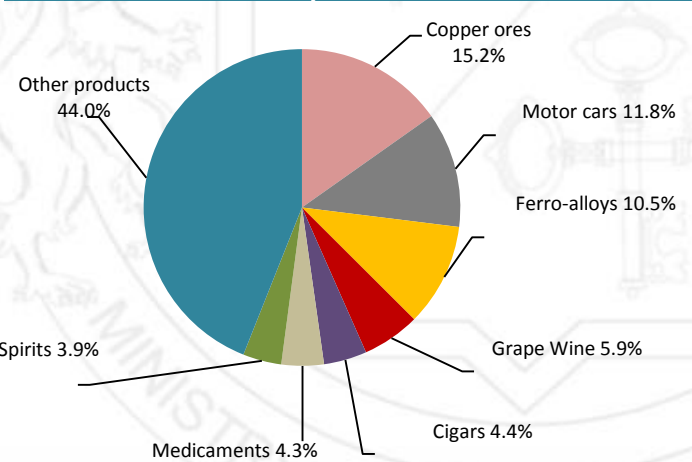
Export Structure by Country 2018
January – November



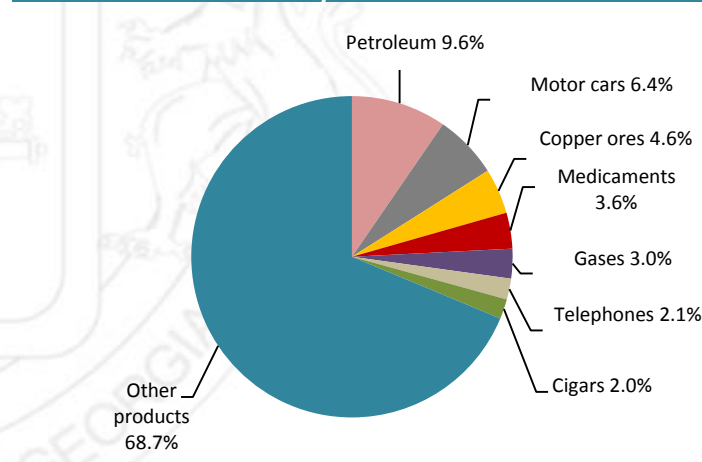
Import Structure by Country 2018
January - November



Export Structure by Product 2018
January – November



Import Structure by Product 2018
January - November





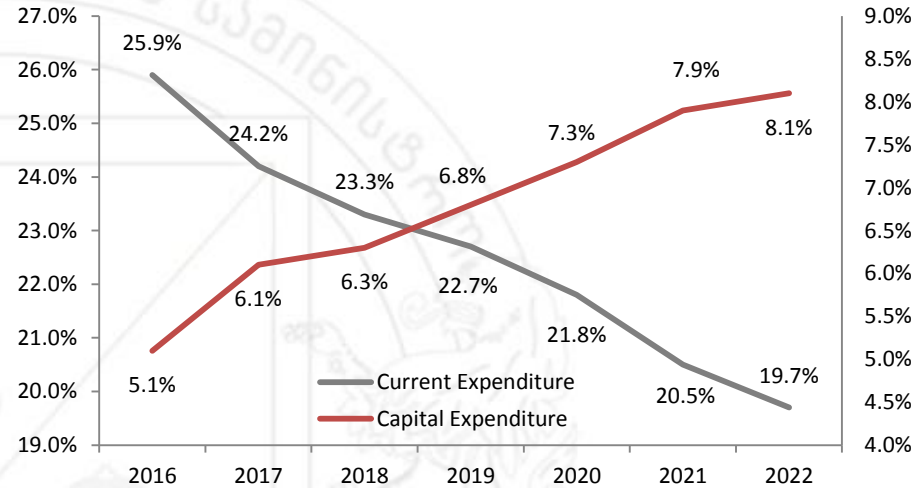
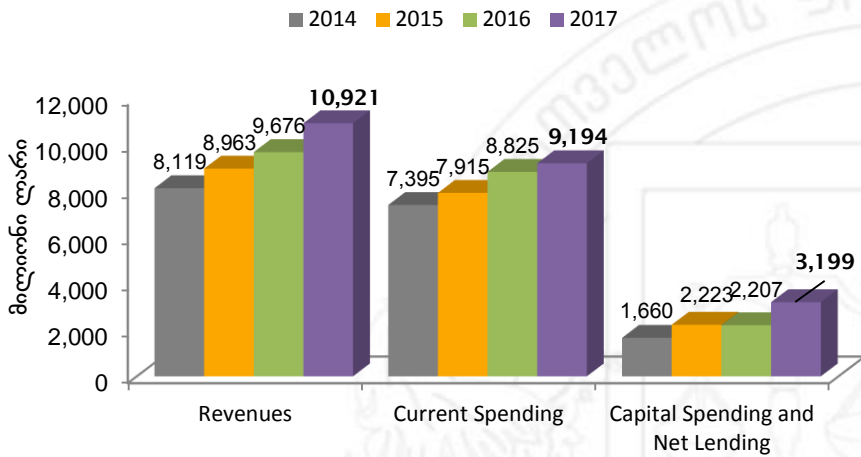
Fiscal Framework and General Government Debt Performance

Fiscal Framework and General Government Debt Performance

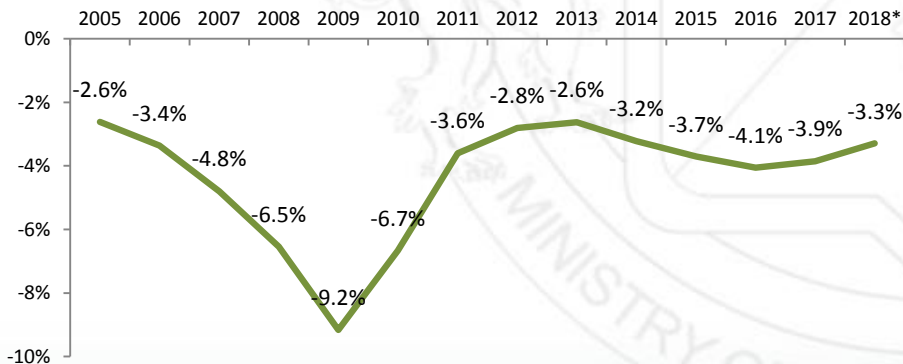
Strong fiscal consolidation path driven by sustainably high revenues and prudent government spending



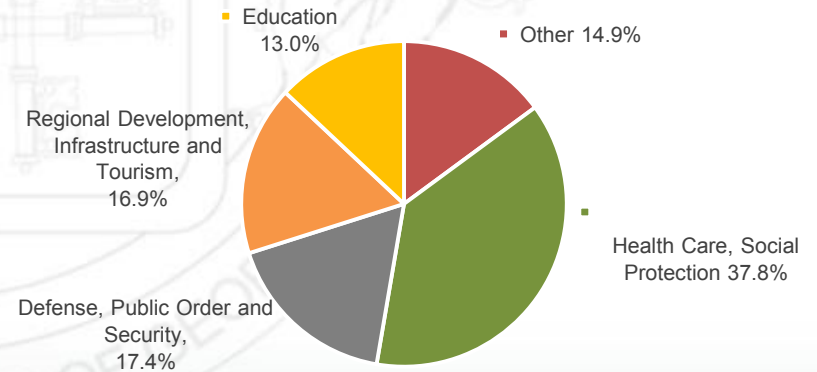
Fiscal Consolidation



Fiscal Balance as a percentage of GDP (GFSM 1986)



Composition of the 2017 State Budget Outlays



Fiscal Framework and General Government Debt Performance

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

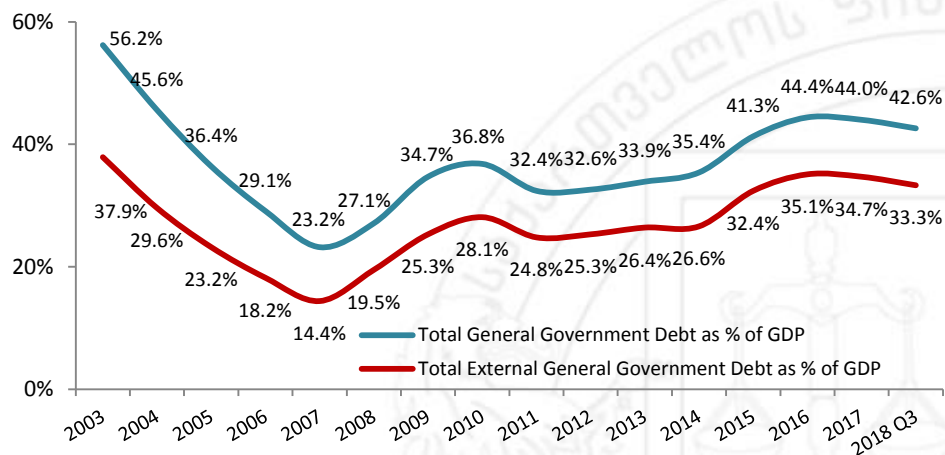


- ✓ Energy Infrastructure
 - Rehabilitation/construction of transmission line network
 - Rehabilitation/ Construction of HPPs
- ✓ Roads Infrastructure
 - Construction of the East-West Highway
 - Rehabilitation of regional road networks, secondary and local roads
- ✓ Municipal and Regional Infrastructure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

External General Government Debt Situation

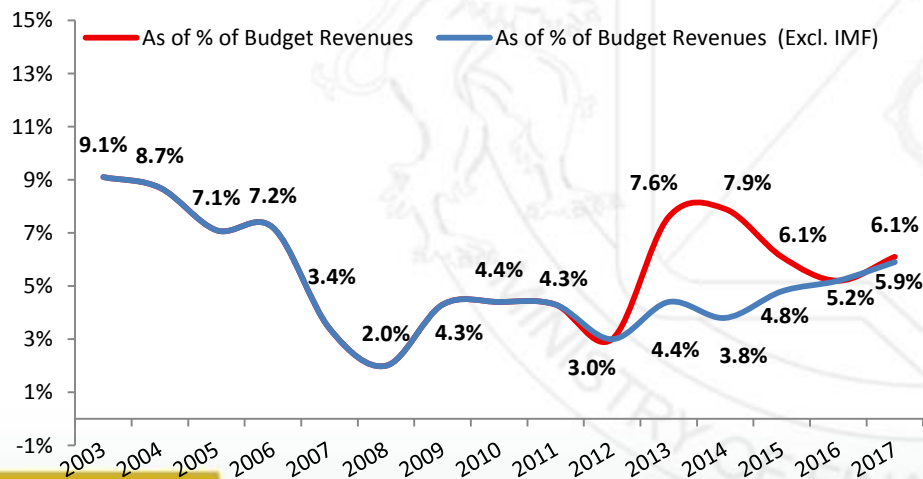
Debt Indicators are at Comfortable level



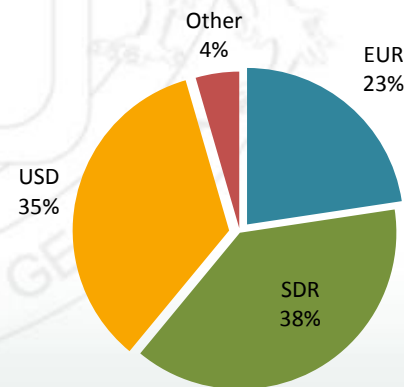
Public Debt Ratios are Stable and Annual Repayment Volumes are Easily Affordable

- ✓ In 2015, general government debt increased to **41.3%** of GDP and external general government debt to **32.4%**. The growth of total general government debt to GDP ratio was driven mostly by depreciation of Georgian Lari. In 2016 both general government debt and external general government debt have increased to **44.4%** of GDP and **35.1%** of GDP respectively, while for 2017, according the preliminary data, these indicators are: **44.0%** and **34.7%**, respectively. As for the third quarter 2018, debt to GDP is **42.6%**.
- ✓ Based on the IMF Debt Sustainability Analysis the general government debt ratio would remain sustainable under the most standard shocks.
- ✓ Average Weighted Interest Rate (AWIR) on External general government Debt is around 2%.
- ✓ The bulk of External general government Debt portfolio is owed to official multilateral and bilateral development partners, mainly on concessional terms 70% of the external general government debt portfolio carries fixed interest rate. This keeps Georgia's external general government debt service parameters to a large extent shielded from exogenous interest (base) rate fluctuations and ensures that external general government debt service costs remain low and affordable despite global economic uncertainties.
- ✓ No refinancing risk exists in the foreseeable future

Government External Debt Service



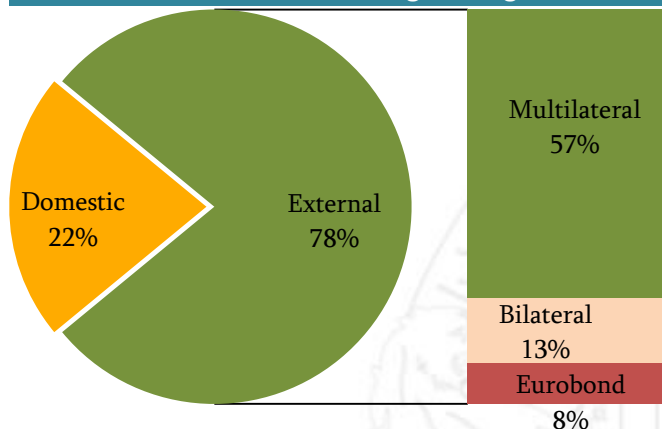
External General Government Debt Currency Composition as for July, 2018



Fiscal Framework and General Government Debt Performance

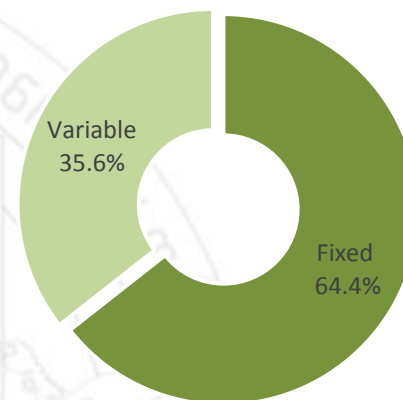
External General Government Debt Situation

Affordable General Government Debt Stock and Very Low Interest Rate on External general government Debt

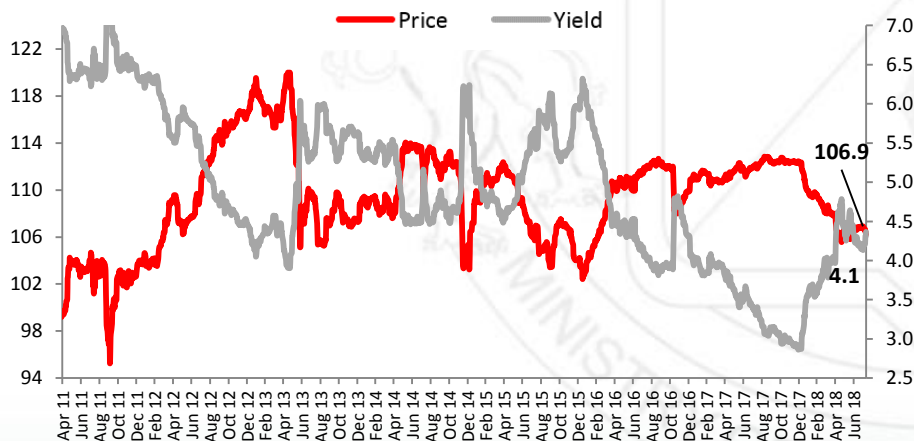


Average Weighted Interest Rate of External General Government Debt Portfolio : **2.1%**

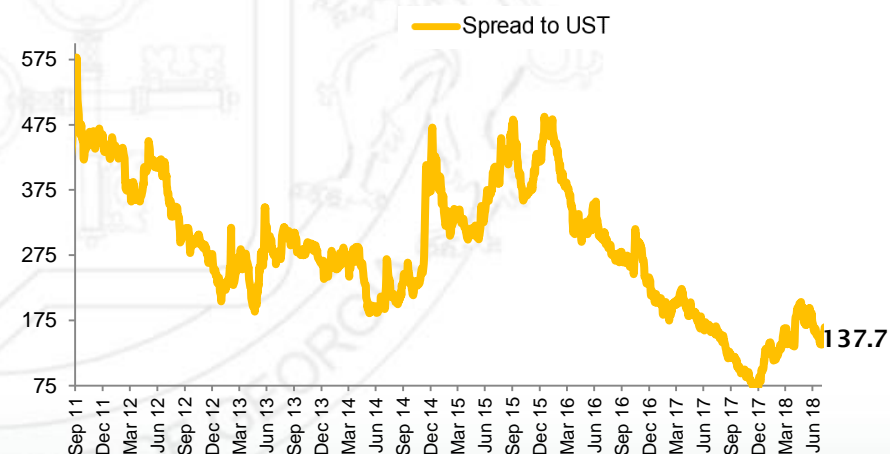
External General Government Debt by Interest Type: Interest Rate Risk Brought to a Minimum



Georgian Sovereign Eurobond 2021



Georgian Sovereign Eurobond 2021



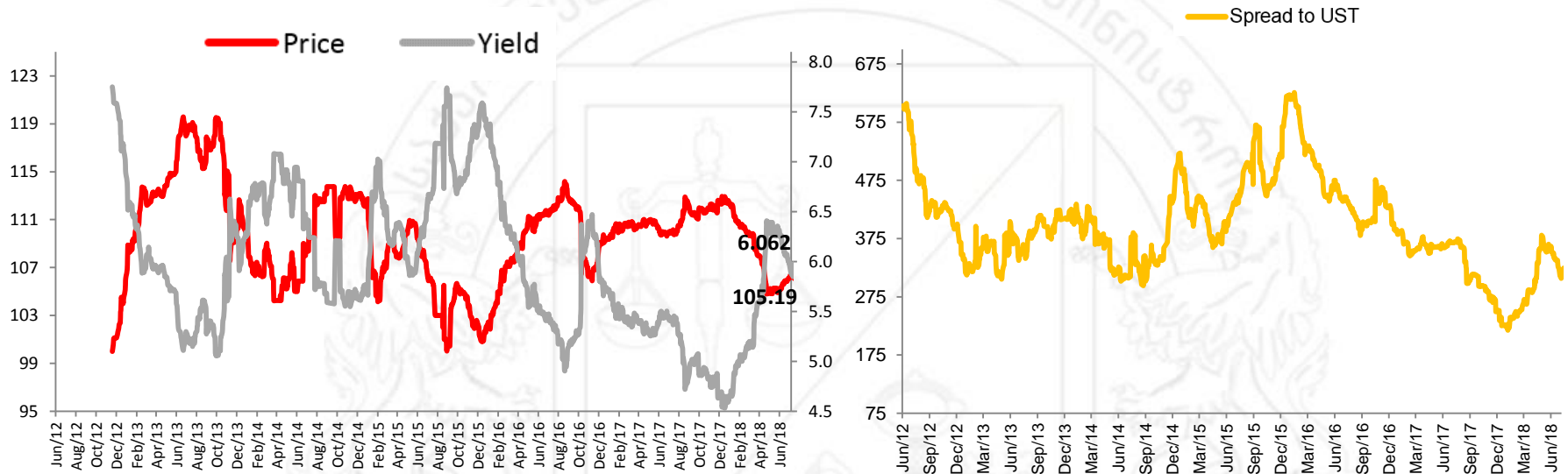
Fiscal Framework and General Government Debt Performance

Eurobonds Issued by the State Owned Enterprises



Georgian Railway Eurobond 2022

Georgian Railway Eurobond 2022



Fiscal Framework and General Government Debt Performance

Taxation is Simple, Low, Efficient and Fair



Taxes	
VAT	18%
Income Tax	20%
Corporate Income Tax	15%
Dividend & Interest Income Tax	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
- ✓ A new CIT model has launched since January 1, 2017, which means that reinvested profit will be free from taxes until distribution of dividends
- ✓ 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
- ✓ Georgia has double taxation avoidance treaties with 54 countries

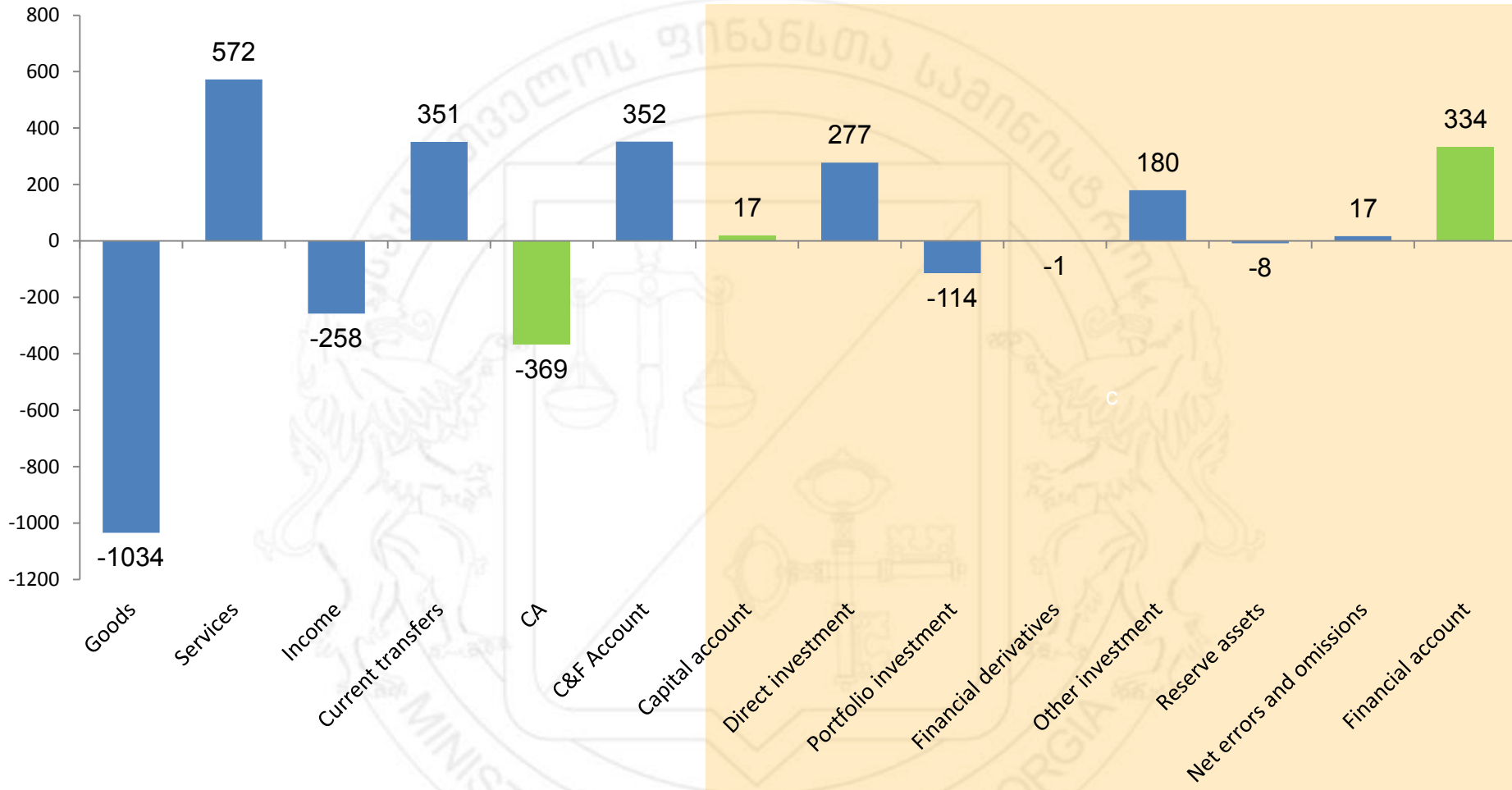


External Sector



External Sector

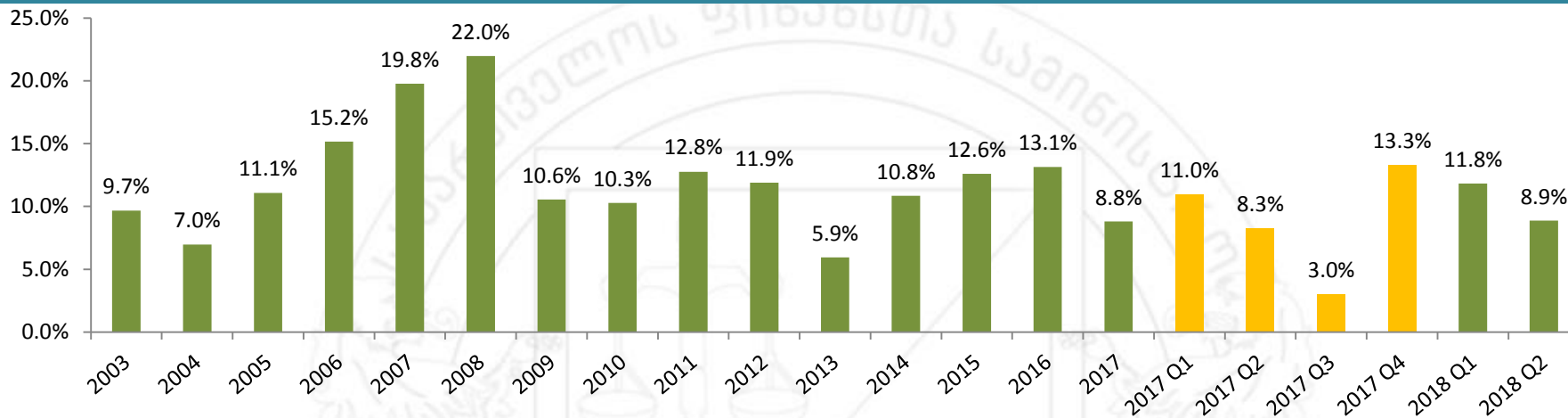
Current Account funding structure 2018 Q2



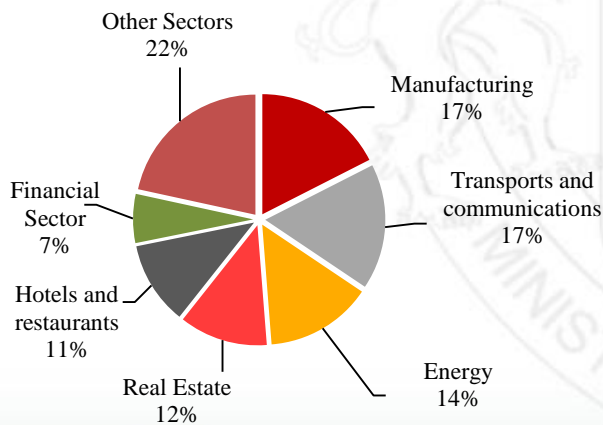
External Sector

Balance of payments - in sustainable equilibrium

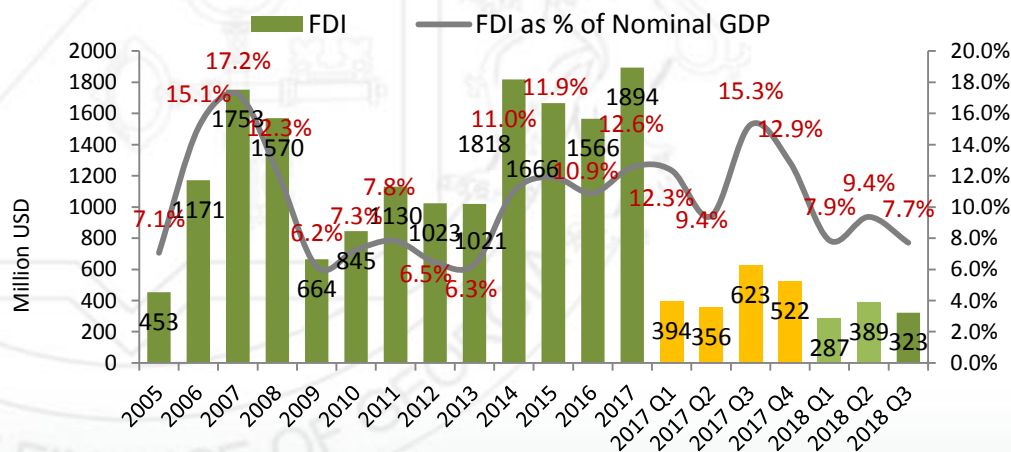
Current Account Deficit (% of Nominal GDP)



FDI Breakdown by Sectors 2018 Q3



Foreign Direct Investment Dynamics



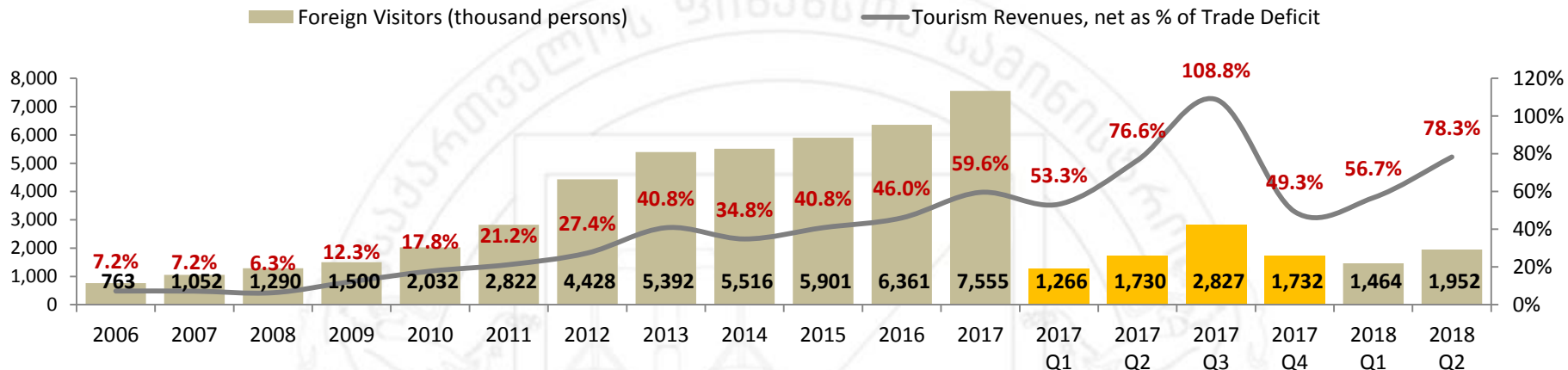
Note: 2006-2008 spikes are due to large privatization

External Sector

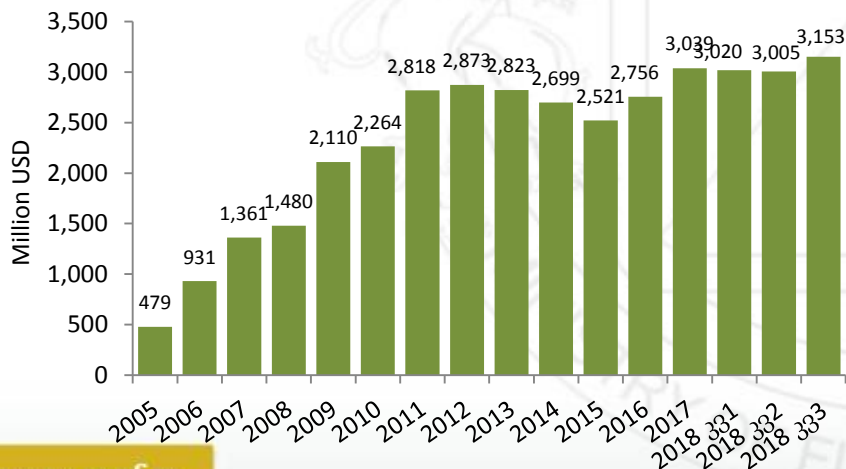
Current Account - steadily growing external revenues



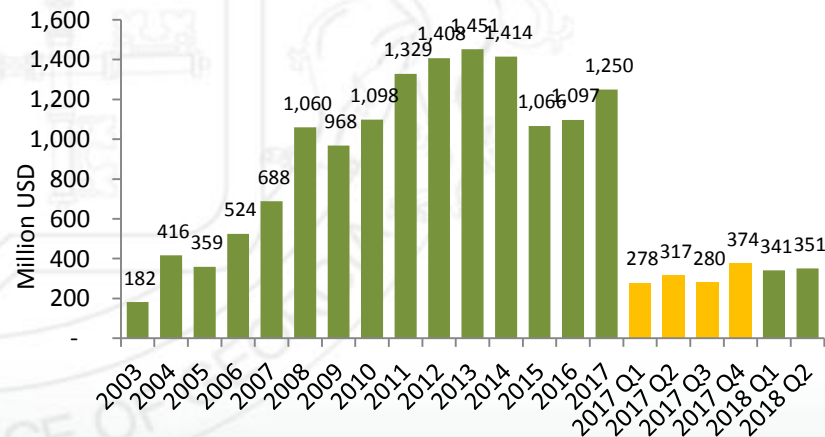
Rapidly Growing Contribution of the Tourism Sector, with significant untapped potential



Gross International Reserves



Current transfers (net)





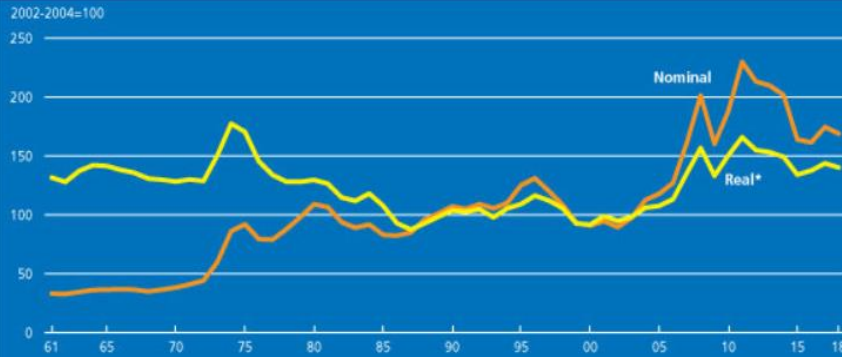
Monetary and Banking Sector

Monetary and Banking Sector



World Food Prices

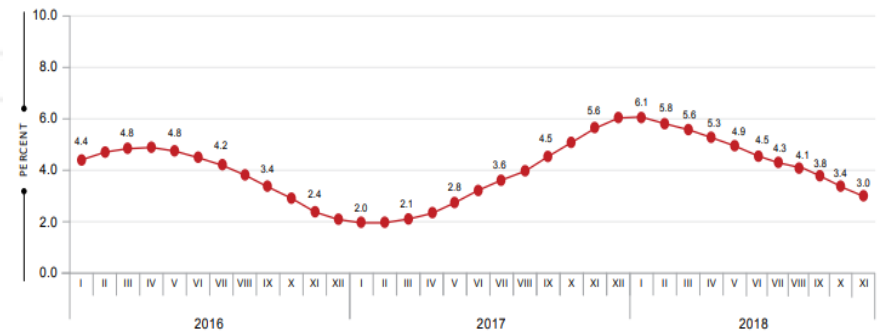
FAO Food Price Index in nominal and real terms



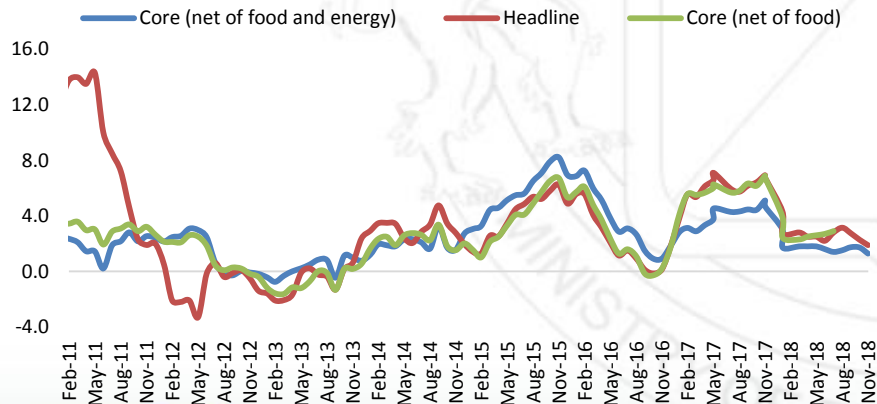
* The real price index is the nominal price index deflated by the World Bank Manufactures Unit Value Index (MUV)

Average Inflation Rate

AVERAGE INFLATION RATE
(12 MONTH AVERAGE OVER THE PREVIOUS 12 MONTH AVERAGE,
PERCENTAGE CHANGE)

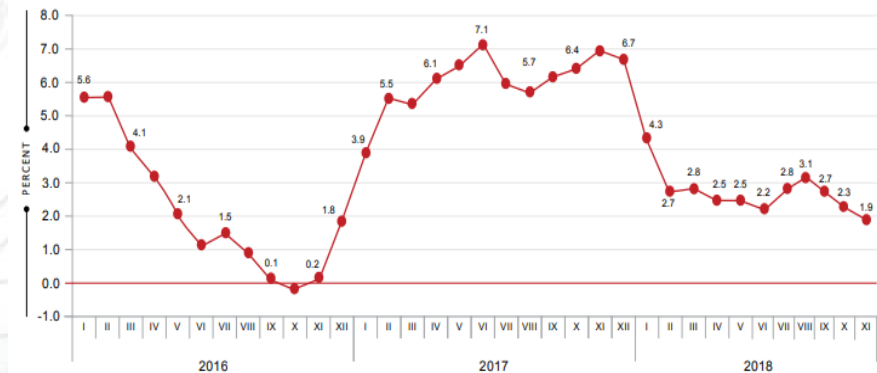


Inflation Dynamics



Annual Inflation Rate

ANNUAL INFLATION RATE IN GEORGIA
(YEAR-ON-YEAR CHANGE)



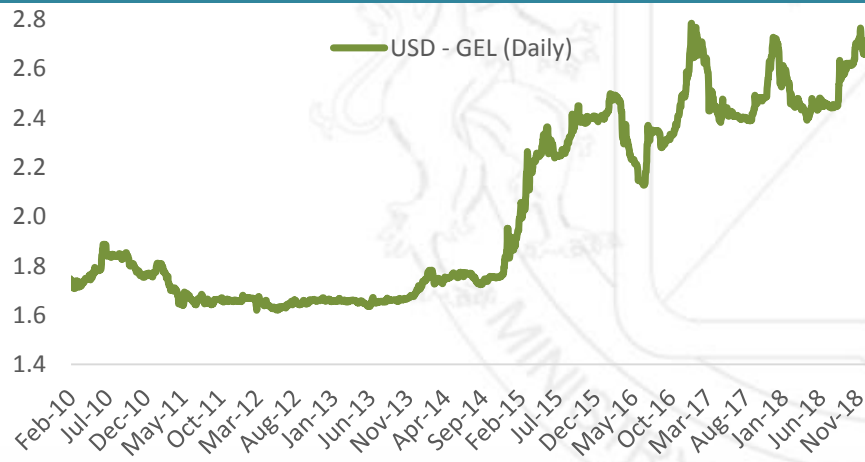
Monetary and Banking Sector

Exchange rate flexibility a policy priority

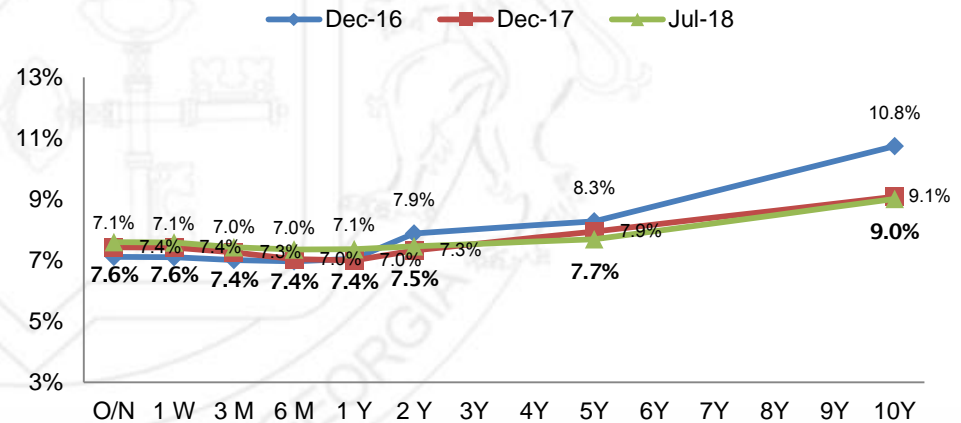


- ✓ Shift to the inflation targeting mode has provided an enhanced exchange rate flexibility.
- ✓ Floating exchange rate has increased resilience of the economy. Central Bank participation at the market is limited.
- ✓ GEL Yield Curve – relationship between interest rates and remaining maturity. Downward short-term yield creates the expectations of decreasing future interest rates.

Exchange Rate Evolution



Georgia: Yield Curve

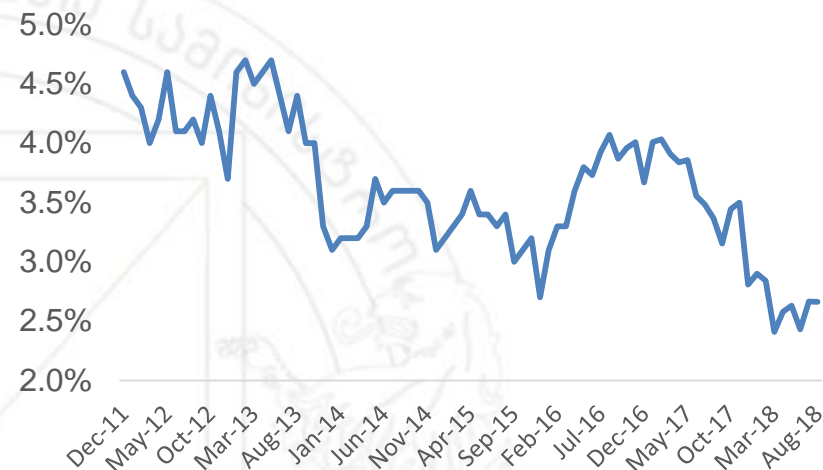


Monetary and Banking Sector

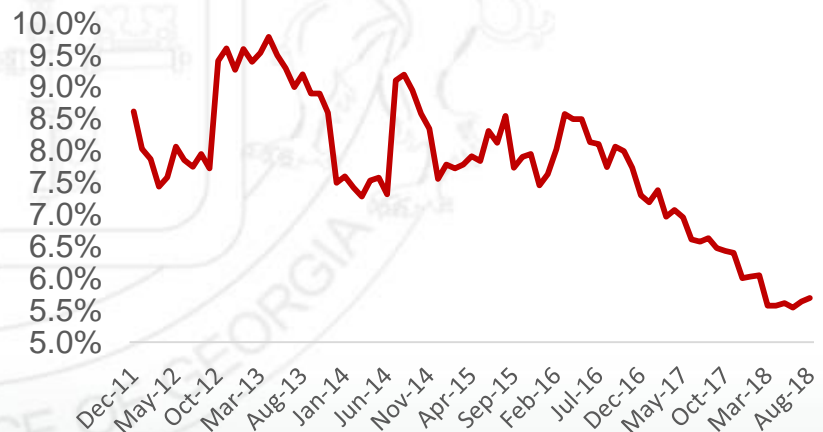
Banks well-capitalized with low NPLs

- ✓ Banking system shows resilience with respect to general and bank specific shocks;
- ✓ Banks highly capitalized with average Basel I capital adequacy ratio of 23% (15% by local standards) as of December, 2017; Liquidity ratio of 36% and NPLs are around 2.7% (by IMF definition) as of August, 2018; Banks Basel III capital adequacy ratio is around 18%;
- ✓ ER depreciation had only a minor effect on NPLs;
- ✓ 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;

NPL by IMF Definition



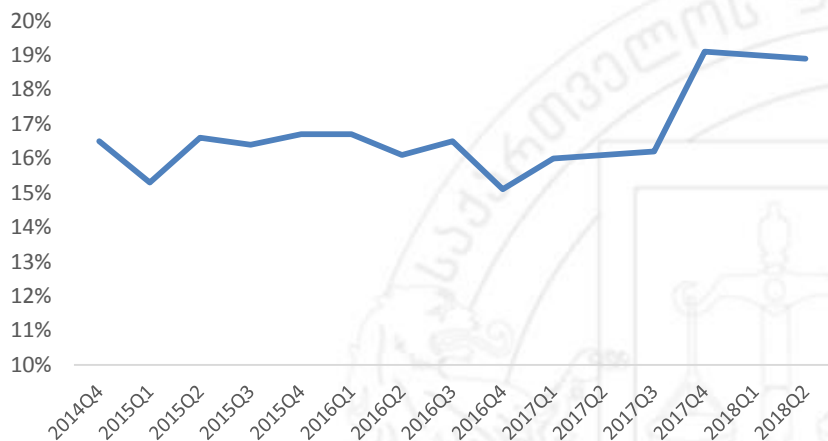
NPL by NBG Definition



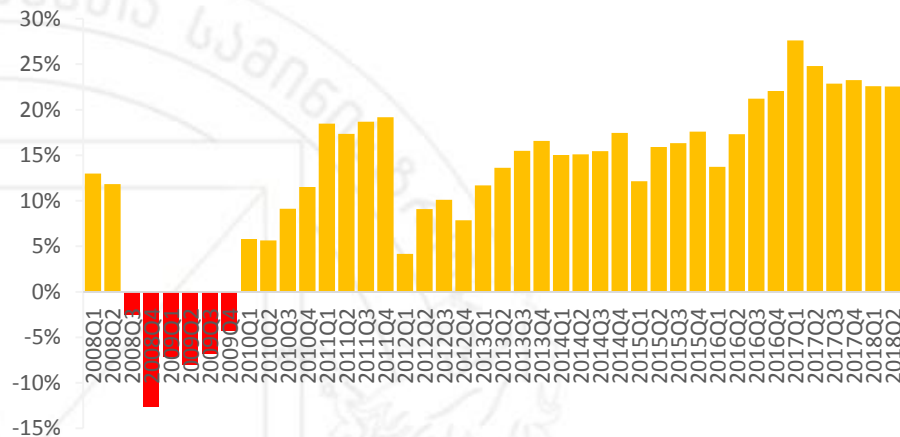
Monetary and Banking Sector

Sound Performance of the Banking Sector

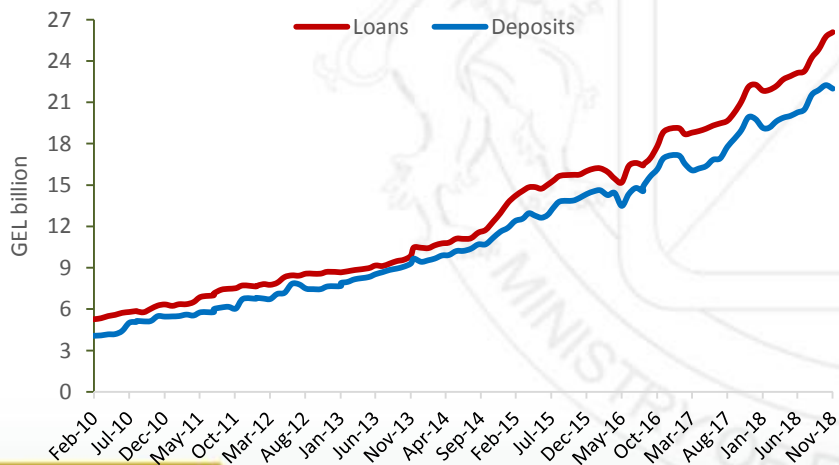
Traditionally High Capital Adequacy Ratio (Basel III)



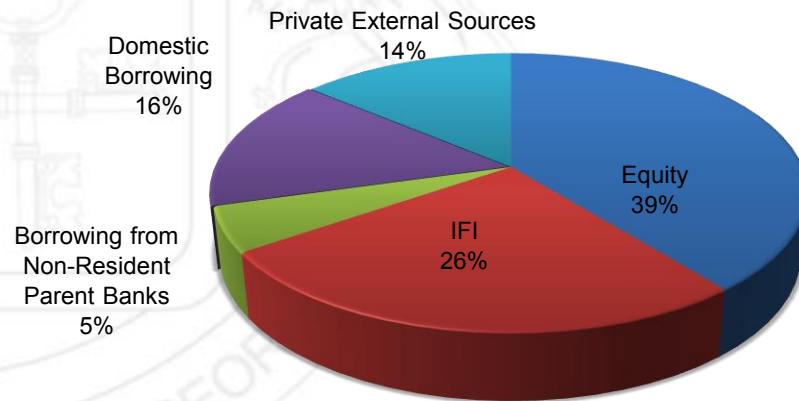
High Profitability as Measured by ROE



Total Bank Deposits and Loans – moving in tandem



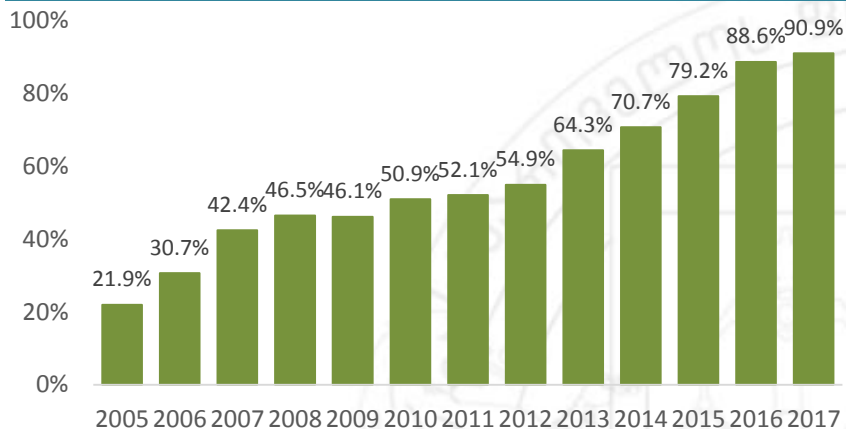
Sound Non-Deposit Funding Structure as of August-2018



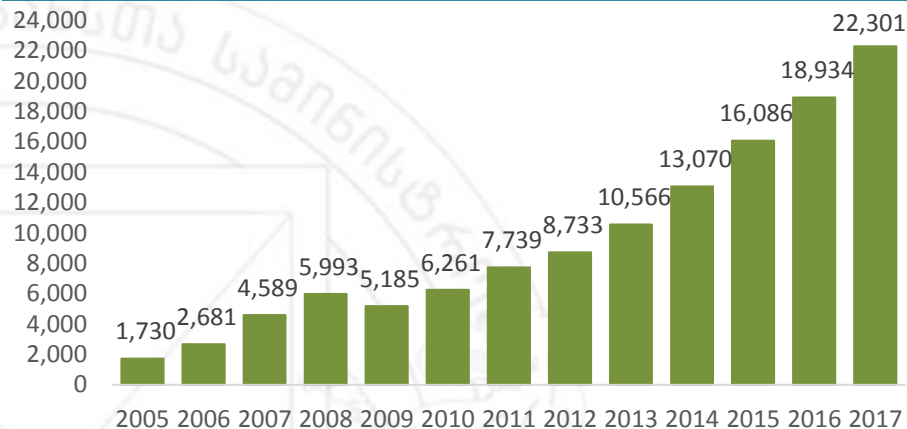
Monetary and Banking Sector

Credit growth at a healthy rate

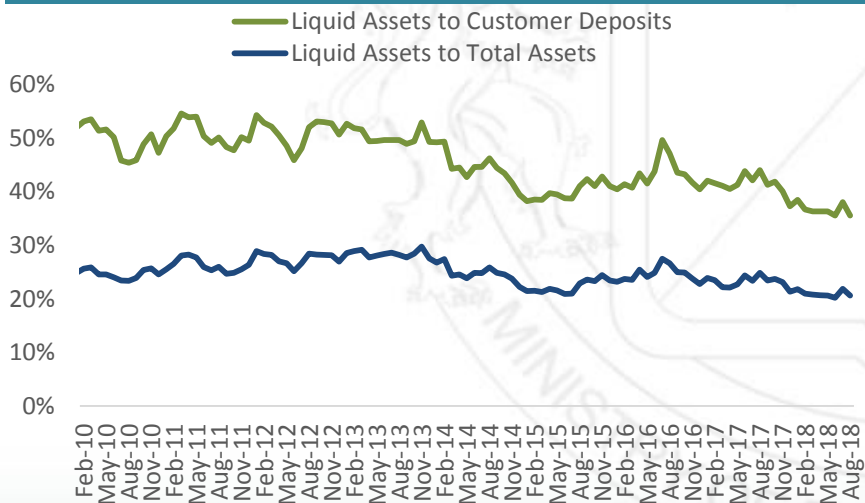
Assets of the Banking Sector as % of GDP



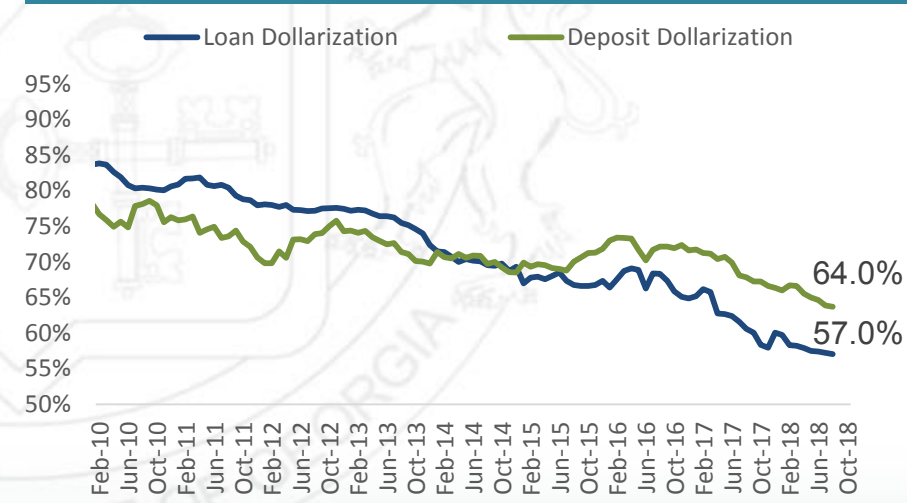
Commercial Bank Lending, GEL mln



Banking Sector Liquidity Ratios – Ample Liquidity Buffers



Banking Sector Dollarization – on the Downward Path





International Rankings of Georgia

International Rankings of Georgia

Sovereign Credit Ratings



**STANDARD
& POOR'S**

Fitch Ratings

MOODY'S
INVESTORS SERVICE

BB- Stable

(Affirmed in
November 2018)

BB- Positive

(Affirmed in
August 2018)

Ba2 Stable

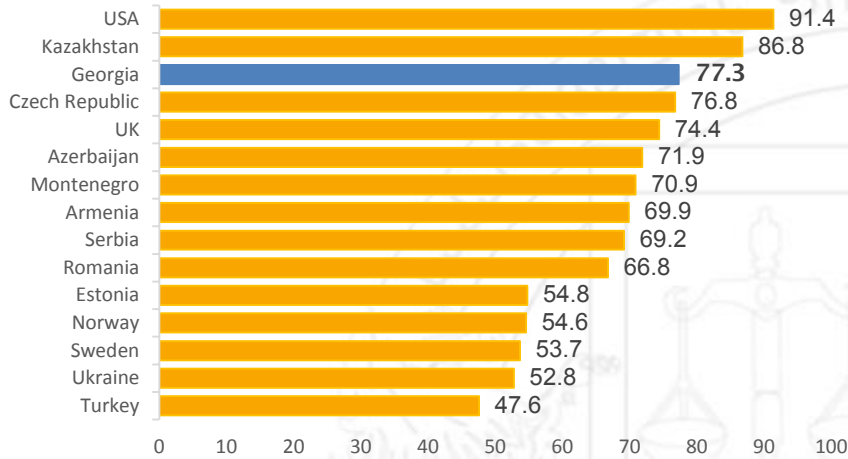
(Affirmed in
March 2018)

International Rankings of Georgia

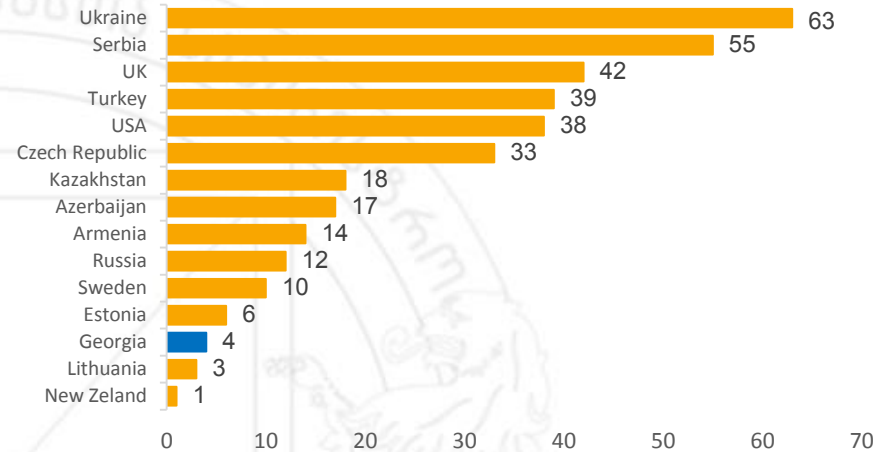
Consistently outperforming sovereign peers



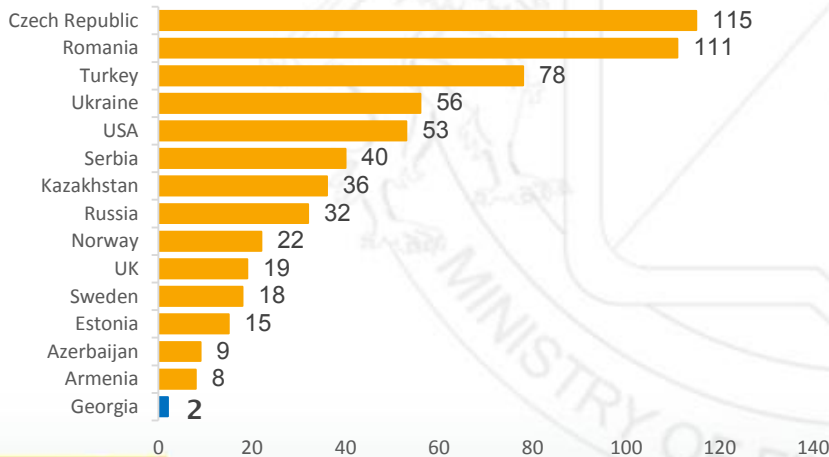
Georgia - one of the most liberal labor environments, according to the Heritage Foundation, 2017 (score)



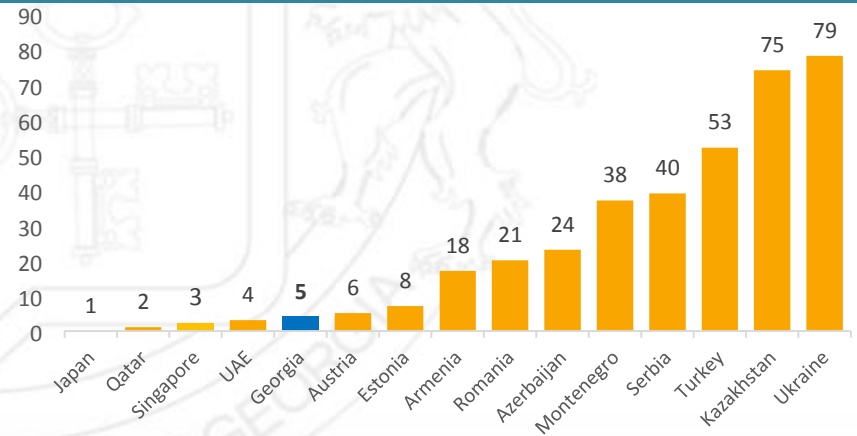
World Bank Doing Business, 2019: Registering Property



World Bank Doing Business, 2019: Starting a Business



Crime Index, 2018 (ranking)

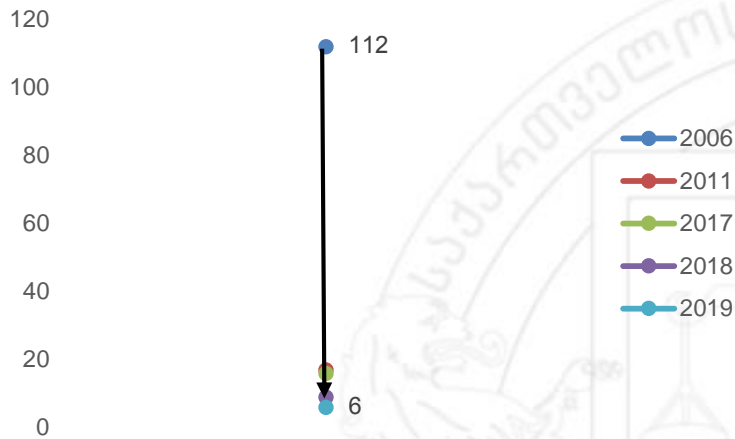


International Rankings of Georgia

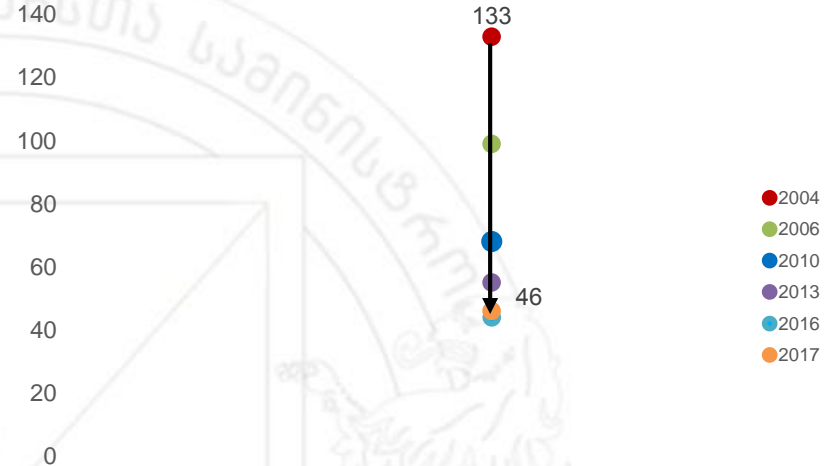
Improved positions



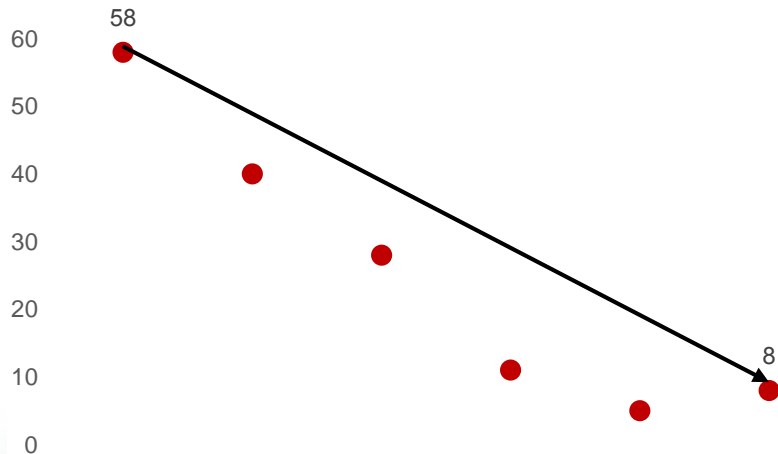
WB Doing Business: Ease of Doing Business
(ranking from 2006 to 2019)



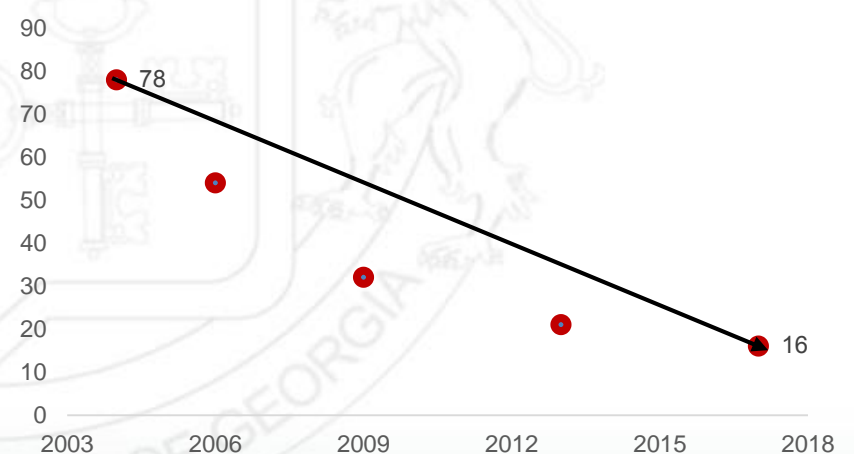
Transparency International: Corruption Perception Index
(ranking from 2004 to 2016)



Fraser Institute: Economic Freedom Index
(ranking from 2004 to 2018)



Heritage Foundation: Economic Freedom Index
(ranking from 2004 to 2018)



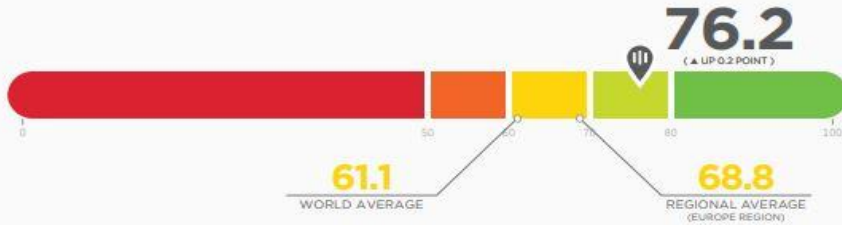
International Rankings of Georgia

Consistently outperforming sovereign peers



Economic Freedom Trend (Economic Freedom Index, 2018)

ECONOMIC FREEDOM SCORE

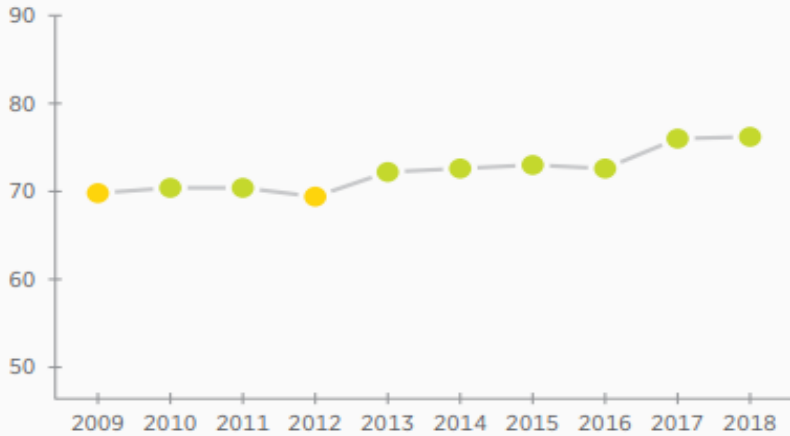


NOTABLE SUCCESSES:
Fiscal Policy, Regulatory Efficiency,
and Trade Freedom

CONCERNS:
Rule of Law

**OVERALL SCORE CHANGE
SINCE 2014:**
+3.6

FREEDOM TREND



Economic Freedom Index, 2018 (Heritage Foundation)

