

Macro Outlook

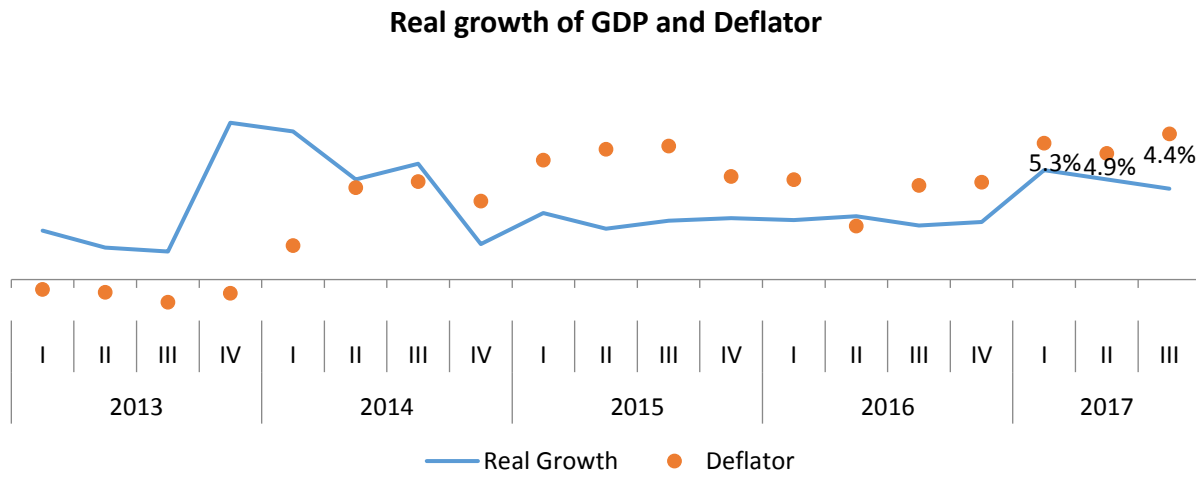
January, 2018

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Gross Domestic Product (GDP)

From the beginning of 2017 year Georgian economy started rapid recovering after the economic slowdown in 2014-2016. In the first three quarters of 2017 growth rate of real GDP was 4.9 percent.



The main growth was in the following sectors: Trade (growth 9.3, contribution 1.4%), construction (growth 9.3, contribution 0.7%), manufacturing (growth 4.2, contribution 0.4%), Real Estate (growth 6.3, contribution 0.3%), hotels and restaurants (growth 12.6, contribution 0.3%), transport (growth 3.8, contribution 0.2%).

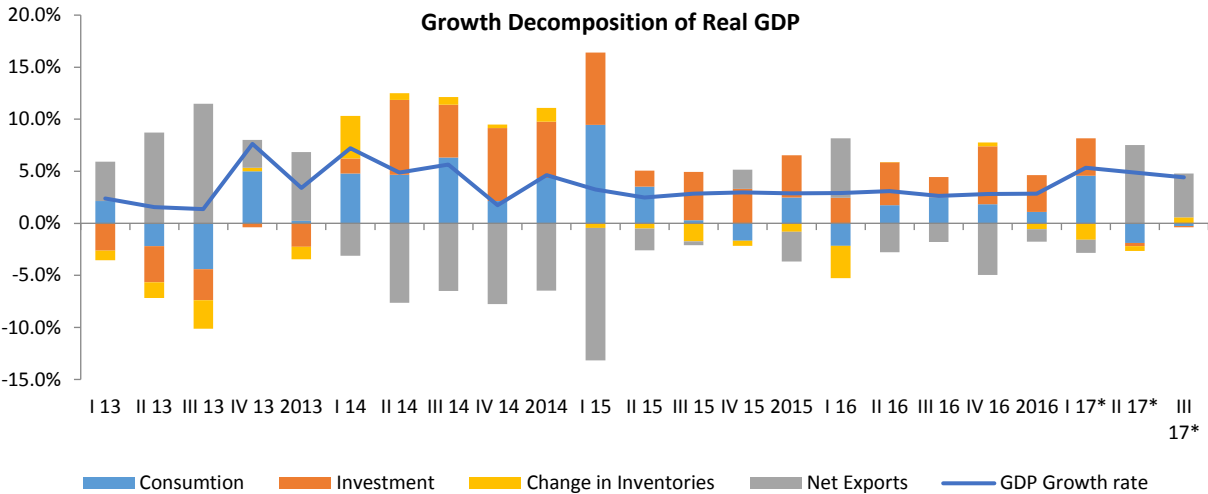


Growth estimates in October 2017 real GDP growth stood at 5.7% and in November – 3.7%. Overall, in the eleven months, economy has increased by 4.8% y-o-y.

For November, the main growth was in the following sectors: transport (growth 16.4, contribution 1.0%), real estate (growth 13.3, contribution 0.7%), hotels and restaurants (growth 32.6, contribution 0.6%).

Structure of Economic Growth

In total, economic growth in first three quarters was 4.9 percent. This acceleration of economic growth was mainly export driven. Global economic recovery and positive development in our trade partners positively affected export, consumption and economic growth overall.



We expect that in the medium term net export will remain a growth driver since global economic recovery is expected to be trade driven. Investments will be another important growth factor. The reforms implemented and in the ones in the pipeline focus on growth of savings and investments in the country.

Economic Growth in Georgia and Neighboring Countries

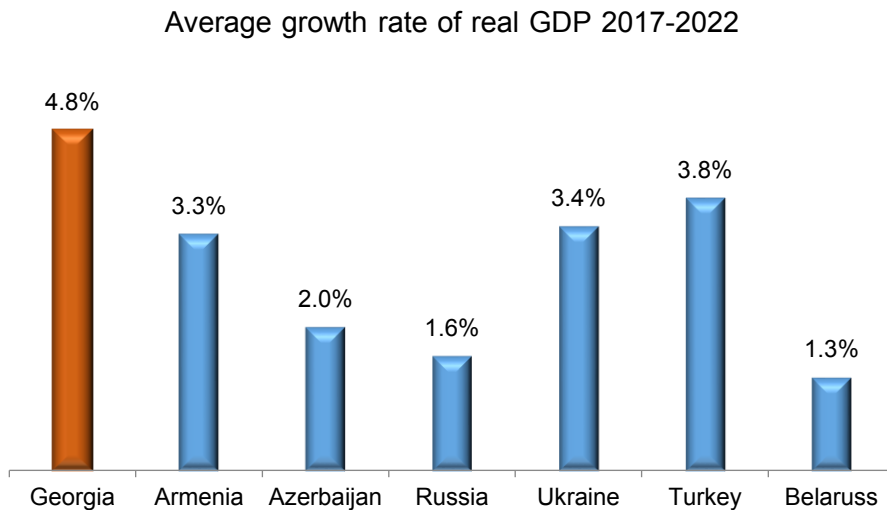
During last several years, despite economic growth slowdown, economic growth in Georgia was higher than in trading partners.

Georgia has also showed impressive resilience in the period of economic slowdown in region

during 2014-2016. Georgian economy was growing about 3.4 percent in average (4.6 in 2014, 2.9 in 2015 and 2.8 in 2016), while all of our neighbor's experienced negative growth. Consistent reaction of the macroeconomic policy on the external shock made Georgian economy one of the leading country in 2016 too.

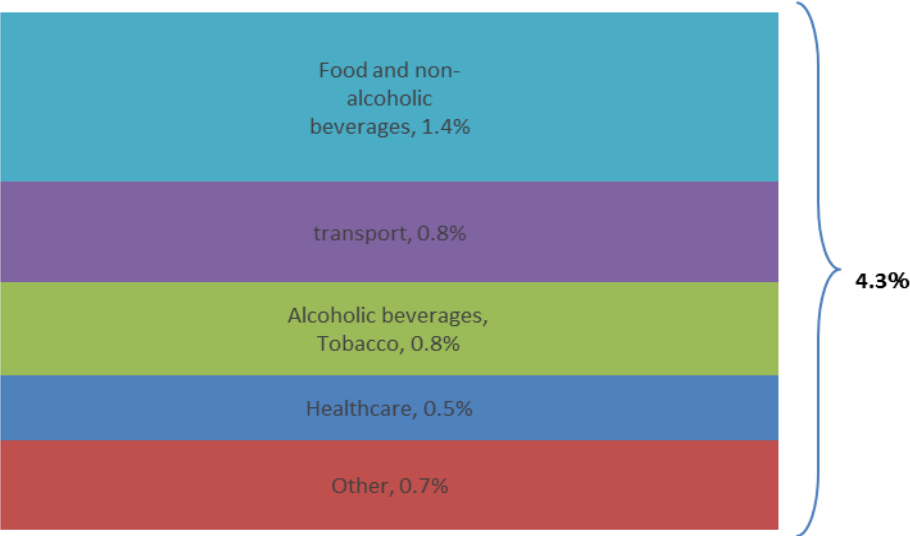


According to IMF estimates, Georgia will stay to be a leading country in region in terms of economic growth in medium-term.



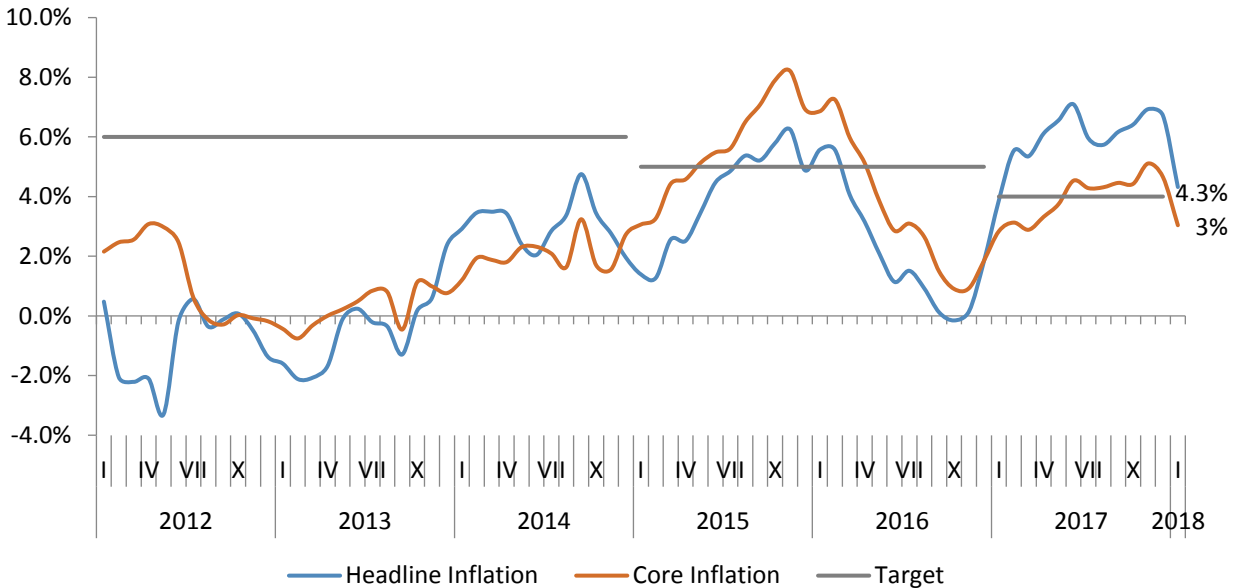
Prices

National Bank of Georgia (NBG) has a policy of inflation targeting. Annual rate of inflation in 2017 was 6.0 percent, a bit higher than the target of 4 percent. However, this deviation from the target is attributed by the one-off factors related to the changes in the excise taxes (on tobaccos, fuels, motor cars etc.) under the new fiscal reform implemented in 2017.



Annual inflation rate in December 2017 amounted 6.7 percent, while core inflation was at 4.7 percent. Core inflation was fluctuating around the target level during the whole year.

Annual inflation rate in January 2018 amounted 4.3 percent, while core inflation was at 3.0 percent.



Price changes on the following groups of products contributed to formation of yearly inflation¹:

- Food and non-alcoholic beverages: prices increased by 4.7 percent, contributing 1.44 percentage points to the annual inflation. Prices were up for the following subgroups: fruit and grapes (13.5 percent), milk, cheese and eggs (7.9 percent), meat (6.6 percent), vegetables (4.3 percent), coffee, tea and cocoa (4.3 percent), oils and fats (4.0 percent);
- Transport: prices increased by 6.6 percent, contributing 0.91 percentage points to the annual inflation. The prices rose for operation of personal transport equipment (9.7 percent) and transport services (3.4 percent). Meanwhile, prices were down for purchase of vehicles (-9.2 percent);
- Alcoholic beverages and tobacco: prices increased by 11.5 percent, with a relevant contribution of 0.75 percentage points to the overall index growth. Prices within the group were higher for tobacco (19.8 percent) and alcoholic beverages (3.5 percent);
- Health: prices were up by 6.4 percent, which resulted in a 0.52 percentage point contribution to the overall annual inflation. Prices increased for subgroups of medical products, appliances and equipment (10.7 percent), out-patient services (5.4 percent) and hospital services (2.8 percent).

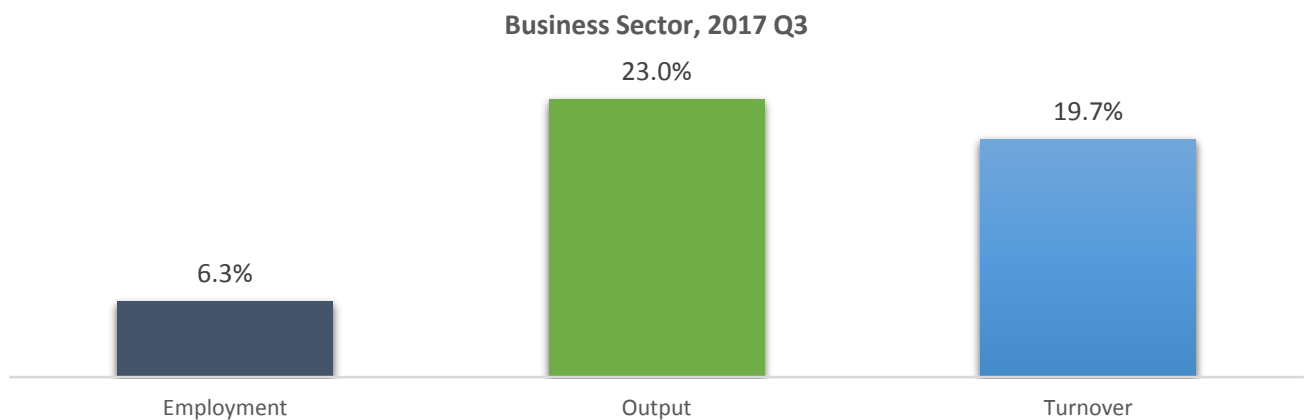
¹ Source: National Statistics Office of Georgia

- Housing, water, electricity, gas and other fuels: prices increased by 4.2 percent, contributing 0.35 percentage points to the annual inflation. Prices rose for electricity, gas and other fuels (4.6 percent), also for water supply and miscellaneous services related to the dwelling (7.7 percent).

The Role of Private Sector in Economic Growth

Private sector historically had a leading role in economic growth of the country and the trend continued in 2017 as well.

Turnover of the business sector increased by 19.7 percent in the third quarter of 2017 compared to the same period of 2016, output was 23.0 percent higher than in 2016 and employment grew by 6.3 percent, which is 37,888 new job. Total number of employees was 643,923.

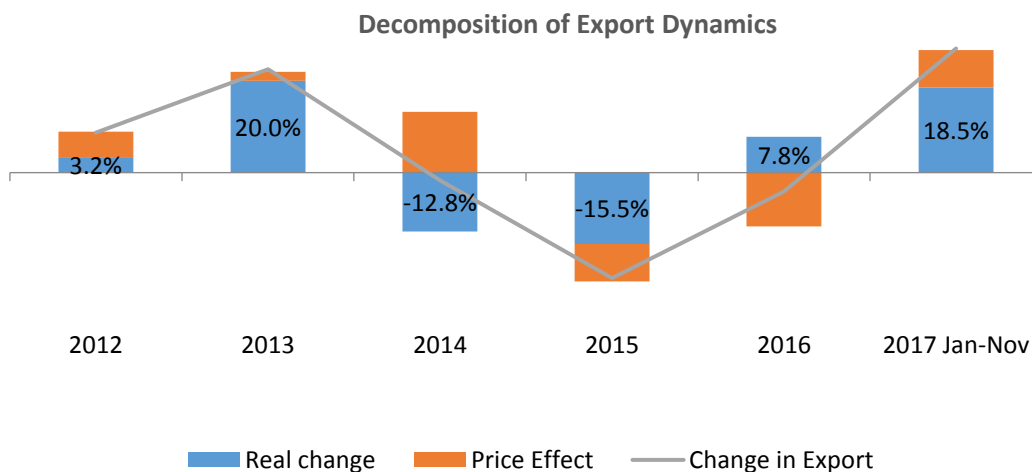


External Trade

Economic recovery in region strongly affected on the Georgian export and merchandise export in December 2017 increased by 50.0 percent and 29.1 percent in the whole year. Sharp increase started from the January, when export grew by 44.7 percent.

The main contributors were Ferro-alloys (contribution in growth 6.5%), Copper ores and concentrates (contribution in growth 5.1%), Wine of fresh grapes (contribution in growth 2.7%), oil and oil products (contribution in growth 1.9%), Medicaments (contribution in growth 1.6%).

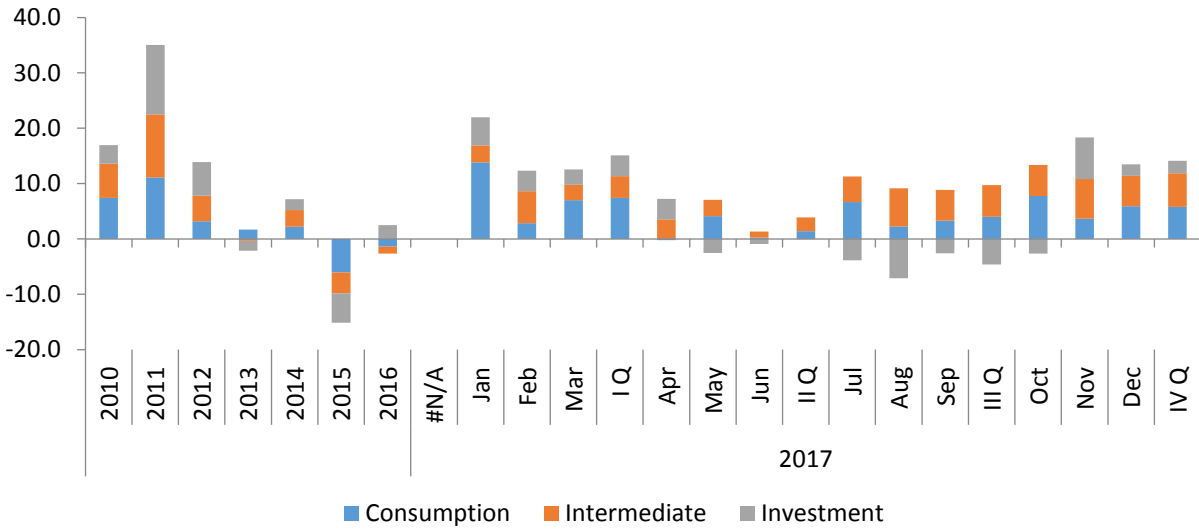
Growth in export during the year was mainly contributed by real growth of exports.



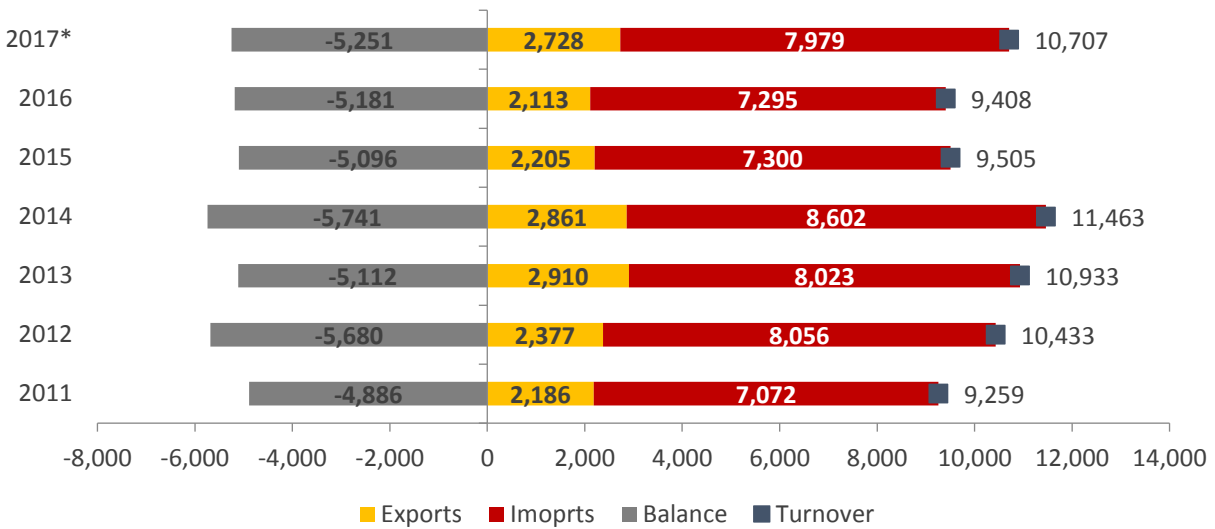
Export has started to decline from August 2014. The tendency reversed in the third quarter of 2015 when price effect was dominating in export reduction and export stopped to decline in real terms.

Import adjustments resulting from currency depreciation started in the second quarter of 2015 and import declining dynamics continued to May 2016. Since May, significant growth of import of investment goods, which was mainly caused by growth of machinery import (including generators, medical equipment, calculating machines, industrial equipment, etc.), contributed to growth of total import. In addition, growth of intermediary goods import (including machinery parts, fuel and lubricants) was high periodically. During the last three months, consumption goods import had a significant share in total import growth, which was linked to petroleum import. During the year, only investment goods import had a positive share in total import growth.

In 2017 there was observed 9.4 percent growth in imports. High growth was in import of consumption and intermediate products.



External Trade (mln USD)



To sum up dynamics in trade with goods, in 2017 exports have increased by 29.1 percent. This constitutes 614.8 million USD in nominal terms. At the same time growth in imports amounted to 9.4 percent or 684.8 million USD. As a result, trade balance worsened by around 70.0 million USD as compared to the same period of 2016.

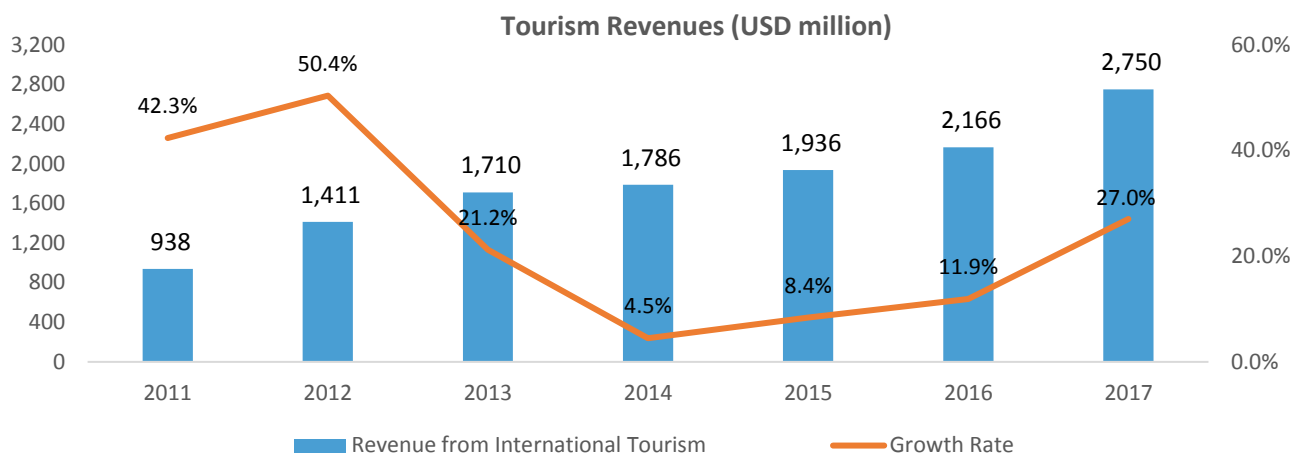
Tourism

During the last years tourism has formed as one of the most important sectors of the economy.

According the preliminary estimates, in 2017 revenues from international tourism increased by 27.0 percent and generated USD 584 million more foreign exchange inflows compared to the previous year. Tourism sector is increased by about nine times during last decade. In 2016, international tourism revenues exceeded USD 2 billion for the first time.

During the whole 2017, there were 7 555 thousand visitors in Georgia, which was 19.0 percent higher than in the previous year. Tourism revenues amounted to around USD 2,750 million.

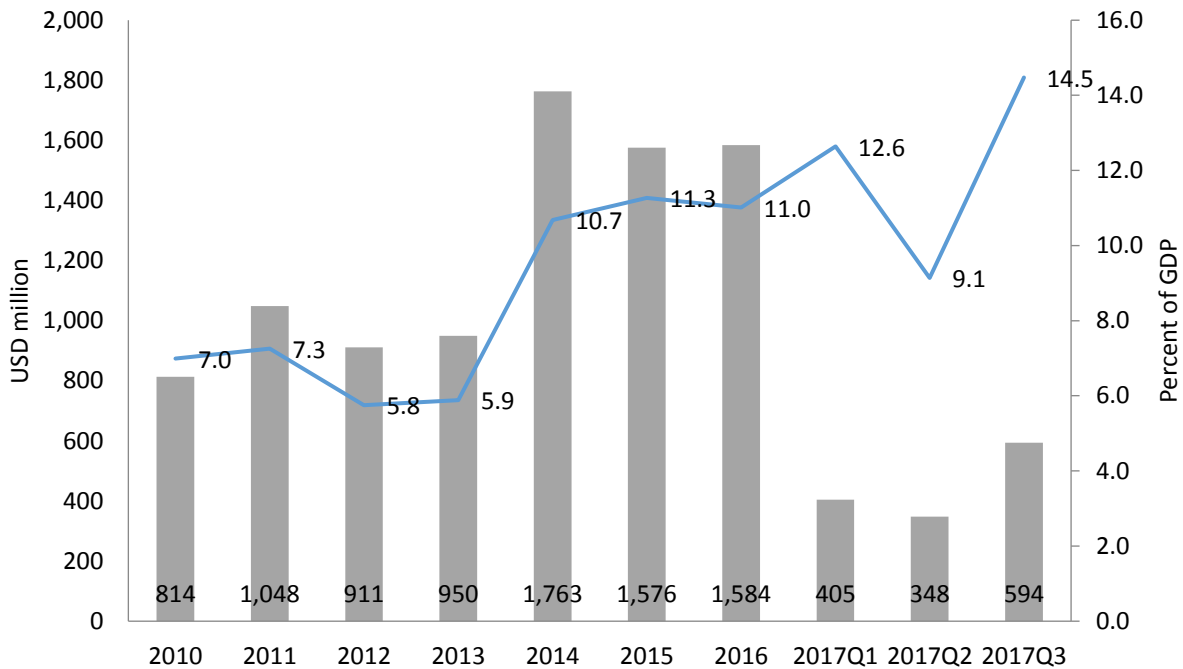
Increasing trend of visitors is continuing in 2018 as well. In January there were 444,2 thousand visitors in Georgia, which is 14.8 percent higher than in January of the last year. Tourism revenues has increased by 24.5 percent in January.



Foreign Direct Investments (FDI)

During the last four years, Foreign Direct Investments has improved significantly in Georgia and steadily amounts 10 percent of GDP. In 2016 FDI was USD 1,584 million, which is 0.5 percent higher compared to the previous year.

Foreign Direct Investment



According to the preliminary data FDI for the three quarters of 2017 was USD 1,346.5 million, which is 2.9 percent higher compared to the same period of the last year.

As for 2017, according to the preliminary data, for the third quarter the highest share to total FDI had transport and communication – 29.9 percent, construction – 19.5 percent, energy – 12.2 percent, finance sector – 12.0 percent, manufacturing – 6.6 percent, hotels and restaurants – 5.1 percent, real estate – 3.5 percent and mining – 2.3 percent.

For the third quarter of 2017, investments from OECD countries amounted 62.4 percent of total FDI.

There is improvement in FDI diversification by investing in new sectors. For instance, in 2015, there was rapid growth of investments in healthcare compared to the previous years. There was growth investment in energy sector in 2016 compared to 2015 and it amounted 12.3 of total FDI.

During the 2016, investments from OECD countries amounted 46.5 percent of total FDI.

The biggest investors by FDI in Georgia are Azerbaijan with 25.9 percent, Turkey with 23.3 percent and the UK with 10.7 percent shares.

It is important that in 2016 the highest indicator was recorded in case of reinvestments amounting to 32 percent of total FDI, and in 2017 reinvestment was 43.9%, which demonstrates that the

government's economic policy and improved business environment is positively perceived by investors and more investors decided to extend their business plans in Georgia. The current economic policies and the reforms are prerequisites for maintaining of the high levels of reinvestment in subsequent periods and for increasing it in the medium and long term.

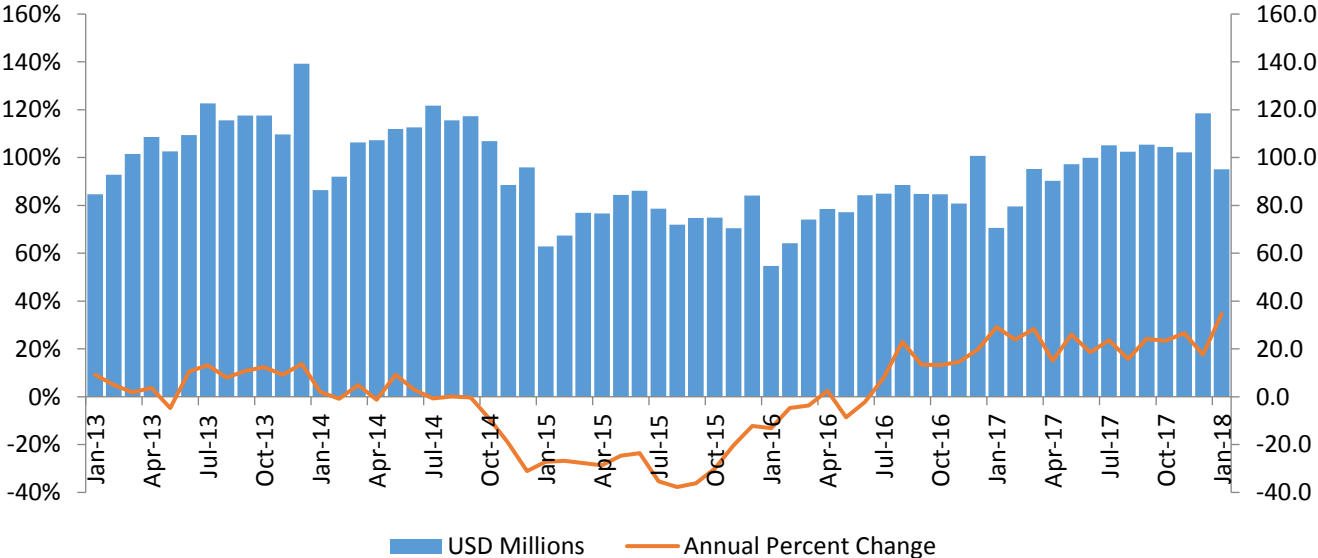
Money Transfers

In 2017, net money transfers were 22.3 percent higher compared to the same period of 2016.

Dramatically increase in the money transfer started from the second half of 2016. Despite the declining trend in the first five month of the year, money transfers increased by 8 percent in July, by 23.0 percent in August (the highest in 2016), by 14.6 in November and by 19.7 percent in December. In total, net money transfers increased by 5.3 percent in 2016 compared to 2015.

In January 2017, net money transfers increased by 29.1 percent, in February the number amounted to 23.9 percent, 28.4 percent in March, 15.1 percent in April, 26.1 percent in May, 18.6 percent in June, 23.7 percent in July, 15.7 percent in August, 24.2 percent in September, 23.4 percent in October, 26.6 percent in November and 17.7 percent in December. As for January of 2018, net money transfers increased by 34.7 percent.

Net Remittances



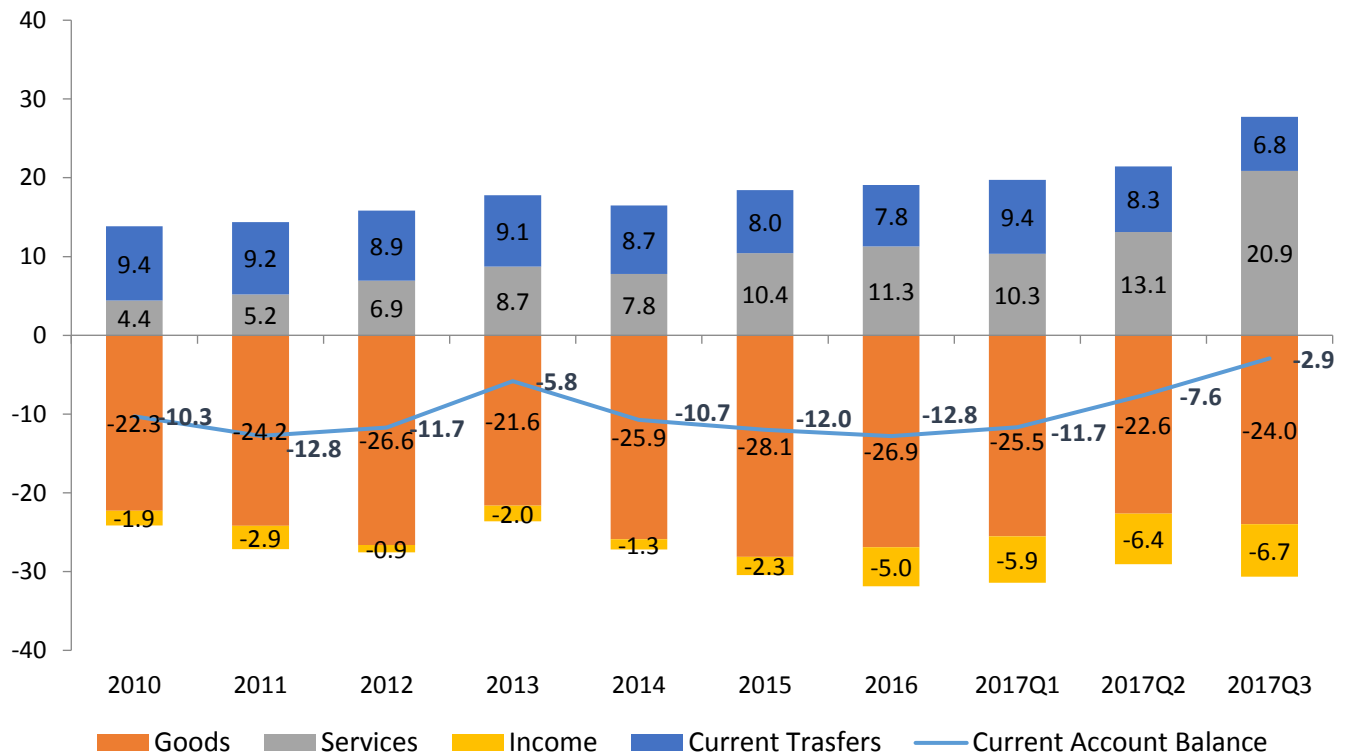
To sum up, during the whole 2017, foreign inflows from the merchandise exports, tourism and remittances increased by 1 413 million of USD. At the same time, increase in outflow on imports

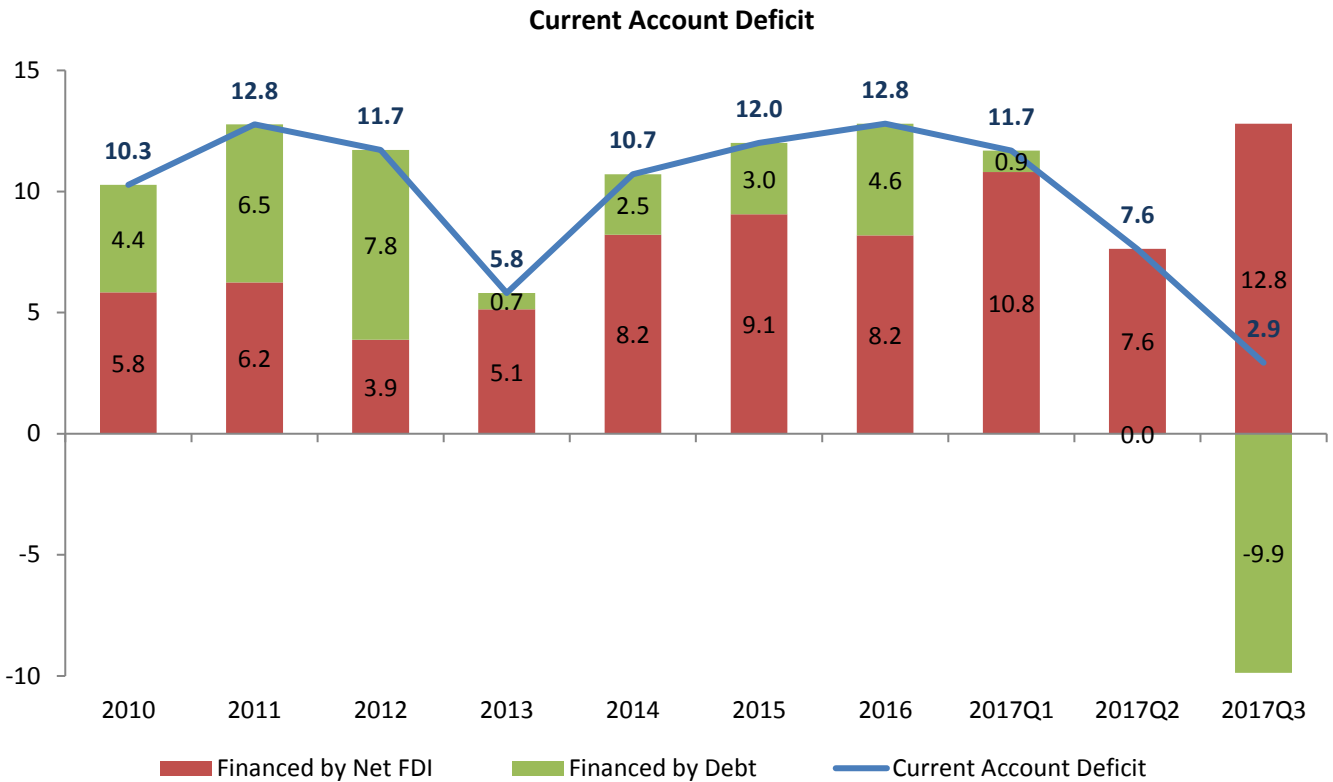
totaled 684.8 million of USD. Accordingly, positive pressure on CA was observed in the whole 2017.

Current Account (CA) Balance

High current account deficit is one of the main vulnerabilities of the Georgian economy. Because that, Government of Georgia initiated set of reforms to promote saving, increase productivity and export and gradually close saving-investment gap which effectively means balanced current account.

The first results are quite impressive: in the third quarter of 2017, current account deficit to GDP amounted 2.9 percent, which is a lowest level historically. Declining tendency started in 2017. CA deficit in 2016 was 12.8 percent of GDP, in the first quarter it reduced to 11.7 percent and to 7.6 percent in the second quarter of 2017.





Credit Ratings

Georgia continues to cooperate with the international rating companies Standard & Poor's, Fitch and Moody's. The country maintains stable ratings. Currently, Georgia has stable BB- rating according to Standard & Poor's and Fitch and Ba2 stable rating according to Moody's. On the other hand, there is a deterioration of the ratings in the countries of the region according to Moody's.

S&P and Fitch worsened ratings of Azerbaijan from BBB- to BB+, while Moody's decreased it from Ba3 to Ba1. Moody's also decreased rating of Armenia from Ba3 to B1.

According to S&P and Moody's, Russia's credit rating deteriorated as well. Compared to December 2014, Russia's credit rating deteriorated from Baa3 to Ba1 according to Moody's and from BBB- to BB+ according to S&P.

Moody's decreased rating of Turkey from Baa3 -to Ba1 in September 2016 and from stable to negative in March 2017, while S&P decreased its rating from BB+ to BB in July and Fitch decreased from BBB- to BB+.

Fitch published Georgia's rating according to which the countries weaknesses are: high levels of

current account and external debt.

Economy's strong side includes floating exchange rate, high growth in tourism sector and improvement in money transfers. According to the report, initiated tax reform will encourage economic growth in the medium term.

There were several different variables which led to maintain the rating stable. Low economic growth due to regional crises, high current account deficit and increased external debt due to depreciation were negative. Positive factors includes: strong institutions and agreement with EU, diversified export countries and trade agreements, which will help the FDI to maintain average 10% of GDP, will increase the export in the medium-term and will accelerate economic growth.

Overall, despite the deterioration economic environment in the region, Georgia has maintained stable outlook and improved credit rating, which is the result of the correct policy (flexible exchange rate, inflation targeting, counter-cyclical fiscal policy, removal of trade barriers and export diversification, agreement with EU), low risks and medium-term perspectives.

International Rating Agency "Moody's" Statement

Moody's Investors Service has upgraded the Government of Georgia's local and foreign currency issuer ratings to Ba2 from Ba3. The outlook remains at stable.

The rating upgrade and stable outlook are supported by Moody's view that the Georgian economy's resilience in the wake of the regional economic shock which began in 2014 demonstrates the increasing strength of the economy and institutions. Looking forward, ongoing economic reforms, supported by the International Monetary Fund, will mitigate some of Georgia's underlying credit weaknesses, further boosting credit strength over time. However, material banking sector and external vulnerability risks continue to constrain the rating.

Georgia's foreign currency senior unsecured ratings have also been upgraded to Ba2 from Ba3.

The local-currency bond and deposit ceilings were raised to Baa1 from Baa3. The foreign currency bond ceiling was raised to Baa3 from Ba1 and the foreign currency bank deposit ceiling was raised to Ba3 from B1. In addition, the short-term foreign-currency bond ceiling was raised to "P-3" from "Not Prime" and the short-term foreign currency deposit ceiling was maintained at "Not Prime."

Ongoing economic reforms are positively perceived by rating agency - "Credible new reforms will further support credit strength". The 3 year program with IMF has improved credibility of the reforms:

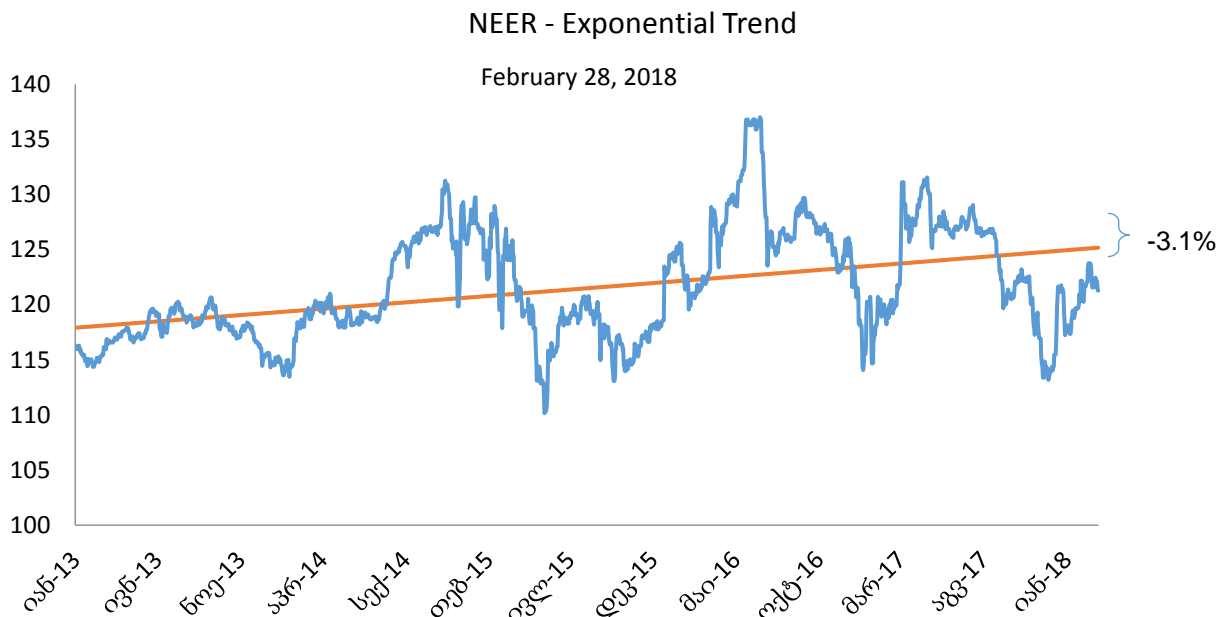
The program emphasizes structural reforms to generate higher and more inclusive growth. The focus will be on improved education, road infrastructure investment, more efficient public administration, and further improvements in the business climate to boost the private sector's role as a growth driver.

Dollarization and external vulnerabilities remain as main weaknesses of the economy, although Larization process is positively assessed by Moody's. Saving promoting reforms are encouraged by rating agency and reduction of saving-investment gap is considered as potential upward pressure on the rating.

Exchange Rate

As of 28th of February 2018, NEER appreciated 2.6 percent compared to January 1st of 2018 and 1.1 percent compared to January 1st of 2017. In real terms, annual appreciation rate of Lari is 1.2 percent.

NEER is depreciated by 3.1 percent related to its medium term trend helping to preserve competitiveness in the economy.



	28 February, 2018		28 Feb 2018 - 1 Jan 2018		28 Feb 2018 - 1 Jan 2017
Euro	3.0555	▼	-8.6%	▼	-14.5%
US Dollar	2.4795	▲	6.7%	▼	-3.3%
Turkish Lira	0.6552	▲	14.5%	▲	25.0%
Russian Ruble	0.0444	▼	-3.1%	▼	-26.8%
NEER	121.27	▲	2.6%	▲	1.1%
REER (January 2018)	116.84	▲	1.0%	▲	1.2%

Unemployment Rate

Unemployment rate maintained diminishing tendency last few years even during the regional economic slowdown. In 2016, unemployment rate in Georgia decreased by 0.2 percent and stood at 11.8 percent, at the lowest level historically, guaranteeing inclusive growth.

Tax Revenues

In 2016, generated tax revenues were by GEL 775.2 million higher compared to the same period of 2015, which accounts to 9.7 percent of tax revenues. Tax revenues of 2016 are 100.5 percent of planed target exceeding it by GEL 46.1 million.

In 2017, generated tax revenues amounted to GEL 9 778.9 million which is 11.3 percent higher (GEL 992.9 million) compared to the same indicator of 2016. Forecast of taxes for 2017 was GEL 9 740.0. Hence, during the 2017 there was recorded 0.4 percent over performance compared to the projections, which amounted to GEL 38.5 million.

In January of 2018, forecast of taxes for January was GEL 733.0 million, there is 13.2 percent over performance compared to the projections, which amounted to GEL 96.7 million.

- Income taxes mobilized GEL 338.0 million which is 97.7 percent of forecast (GEL 346.0 million).
- Profit taxes mobilized GEL 38.8 million that is 193.8 percent of forecast (GEL 20.0 million).
- VAT mobilized GEL 442.4 million which is 114.6 percent of forecast (GEL 386.0 million).
- Excise mobilized GEL 148.0 million which is 118.4 percent of forecast (GEL 125.0 million). From 2017 increased of excise of some products (petroleum, cigar, motor cars).
- Import taxes mobilized GEL 7.5 million that is 150.5 percent of forecast (GEL 5.0 million).
- Property taxes mobilized GEL 1.9 million.

Other taxes mobilized GEL -146.8 million.

Public Debt and Financing of the Budget

Public Debt

- The stock of public debt at the end of 2016 amounted 44.6% of the estimated GDP (of which external debt – 35.6%), while it was 41.4% at the end of 2015 (external debt – 32.5%).
- The growth of public debt both in 2015 and in 2016 were **mainly caused by the change of exchange rate**.
- In the medium term, it projected to maintain the public debt to GDP ratio **below 45%** level.
- **The market value of public debt as of December 2016 was 32%** (excluding legacy debt, 1% of GDP as of end 2016), because significant part of our debt is under **concessional** terms.

At the same time, with development of capital market, treasury securities issues will increase, which will support to decrease external financing and increase share of domestic debt in the total debt.

As for the first half of 2017 public debt to GDP is 41.2 percent, while for 2017 preliminary data, public debt to GDP is 43.2 percent.

Government Securities Market

In January 2018, 5 auctions were held with total issuance volume of 155 million GEL. The weighted average interest rate was 7.929%.

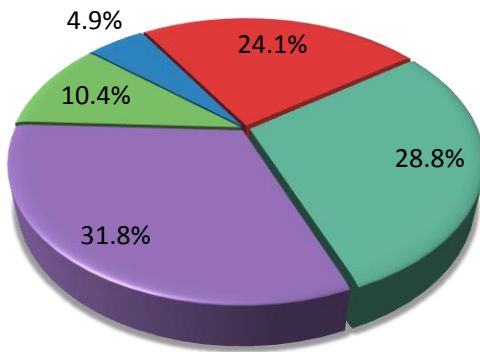
There were issued treasury bills with maturity of 6 months and 12 months; Treasury bonds with maturity of 2 years, 5 years and 10 years. Treasury securities with total amount of 216 million GEL were redeemed:

	6M	1Y	2Y	5Y	10Y	Total
Issue size	20	40	40	30	25	155
Weighted average interest rate	7.381	7.433	7.663	8.119	9.370	7.931

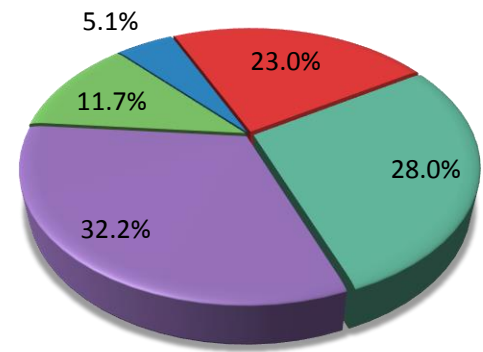
Redemption	20	80	76.4	40	0	216.4
Difference	0	-40	-36.4	-10	25	-61.4

The structure of treasury securities portfolio has changed slightly:

Portfolio Structure as of 31.12.2017



Portfolio Structure as of 31.01.2018

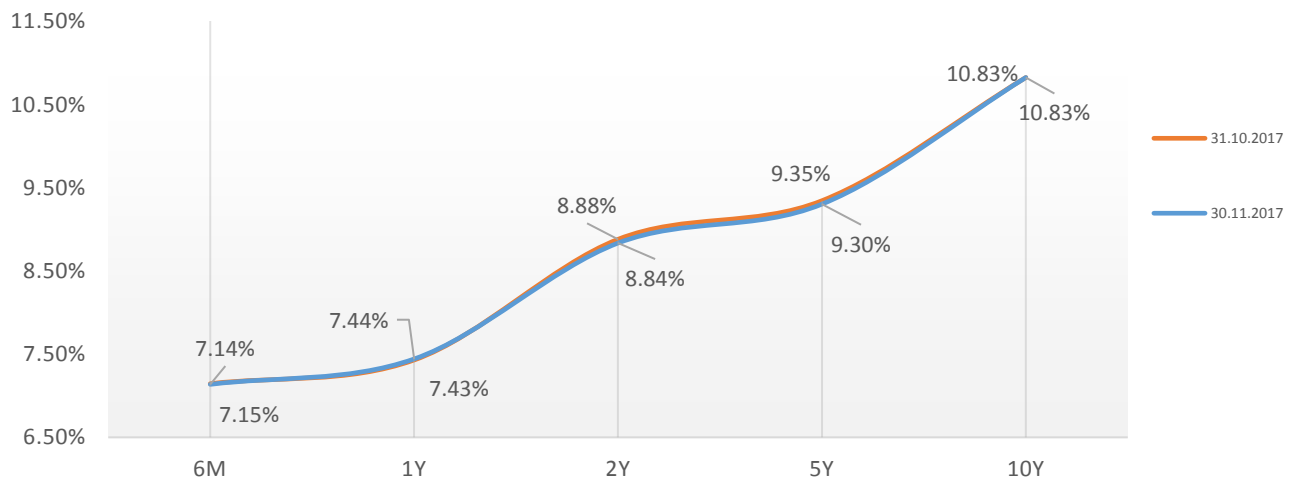


■ 6 months ■ 12 months ■ 2 years ■ 5 years ■ 10 years

■ 6 months ■ 12 months ■ 2 years ■ 5 years ■ 10 years

The portfolio yield has changed significantly only for 2 year t-bonds. The difference was 0.65%.

Yield Curve for the last two months



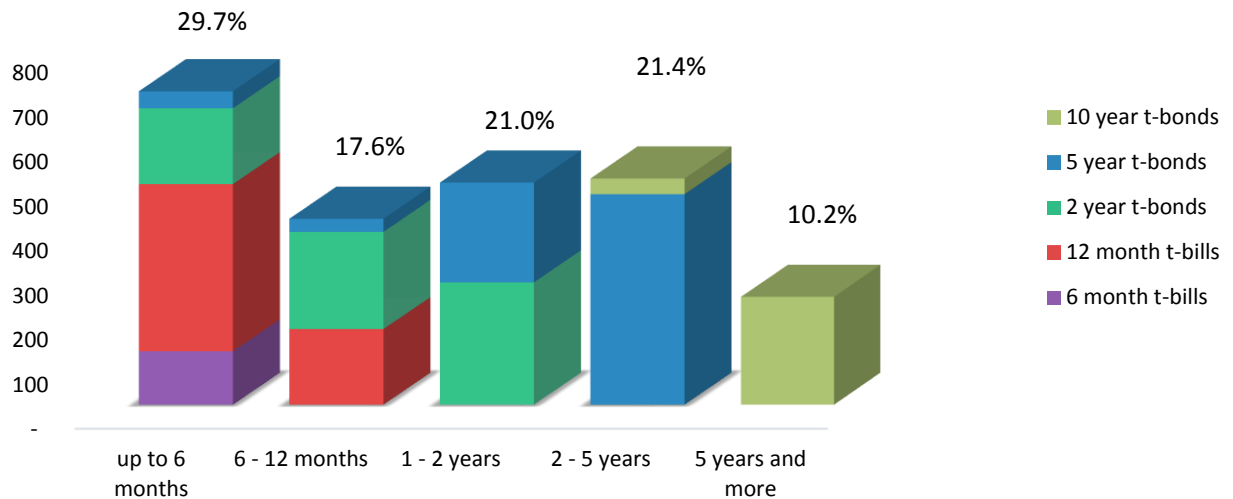
Average Time to Maturity (ATM) for all securities forming the portfolio has increased

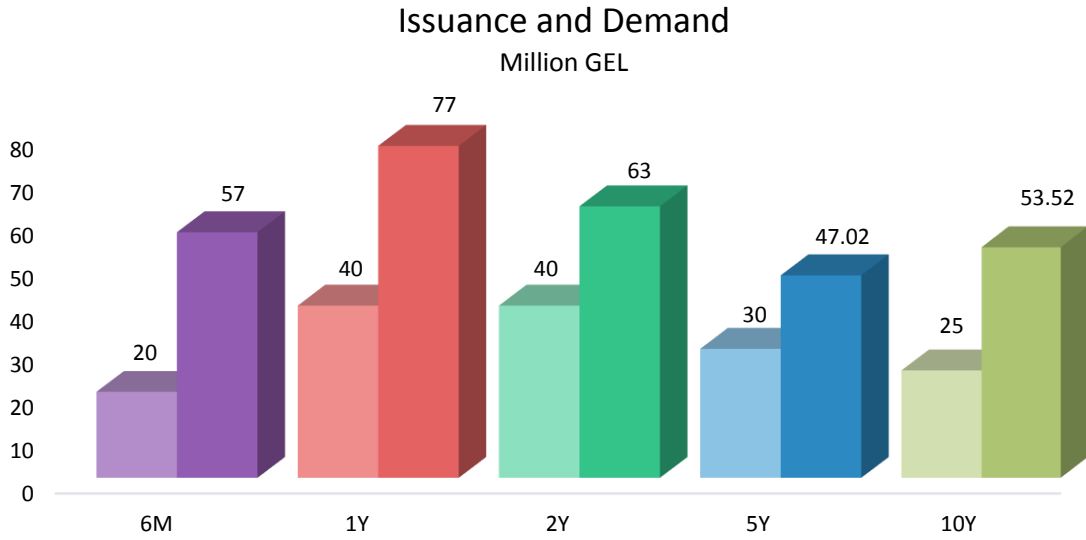
compared to the last month's value.

Average weighted period until maturity of securities (year)			
	30.11.2017	31.12.2017	31.01.2018
6 months	0,24	0,24	0,24
12 months	0,46	0,40	0,41
2 years	0,92	0,84	0,92
5 years	2,75	2,68	2,83
10 years	6,76	6,67	6,89
Total	1,98	1,90	2,08

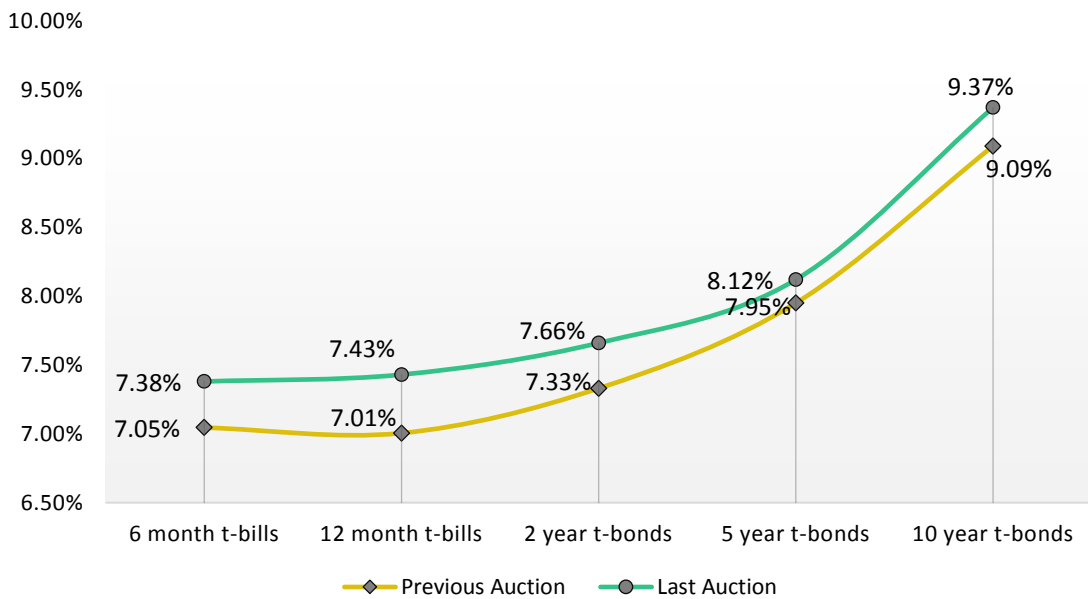
As of January 31, 2018 more than a quarter (29.7%) of treasury securities portfolio is composed of securities whose maturity date is due for the next 6 months. Securities' distribution by time to maturity is shown below:

Portfolio Forming Securities Composed by Time to Maturity





Weighted average interest rates from the last month's auctions:*



*- If there was not issued any of the given maturity securities in the last month, previous results will be shown on the chart instead.

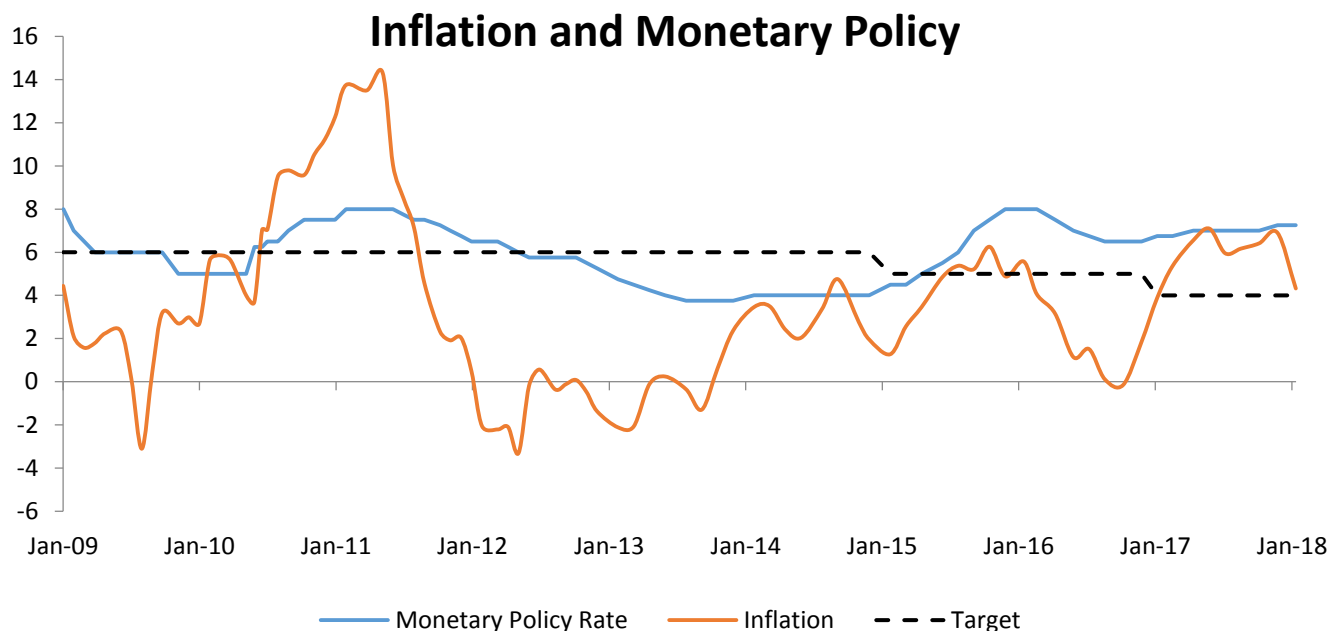
Bid-to-cover ratio has decreased compared to the last month's (December 2.70) value and is 1.92. Weighted average interest rates resulted on the auctions have increased, but yield for the whole portfolio, except 2 year t-bonds, almost has not changed.

Monetary Policy

On December 13th monetary policy committee increased the policy rate by 25 basis points to 7.25 percent, which was explained by worsen of nominal effective exchange rate and inflation pressure. According to NBG, together with the increase in global oil prices, inflation expectations have also risen and larger than expected improvement in economic activity decreased the downside pressure on inflation coming from demand-side, so the committee decided to increase the policy rate. Once the impact of those factors has faded out, the inflation is expected to decrease from the beginning of 2018.

On 31st of January 2018 the monetary policy committee keep the refinancing rate unchanged at 7.25 percent, which was mainly derived by the starting of nominal effective exchange rate appreciation and the fact that aggregate demand remain below its potential level that has a downward pressure on inflation.

After expiry of one-time effects, inflation will decrease and will be around its target in the medium term. Together with expiry of factors affecting inflation, ceteris paribus, monetary policy rate will return to its neutral level in the medium run.



2017 Budget

Government 4 point plan and strategy is directed to support growth friendly policies and accelerate infrastructural projects. At the same time government is in for fiscal consolidation, cutting administrative costs and maintaining it low in mid-term.

As part of the growth friendly policy CIT reform was conducted, which implies improved tax environment favoring business sector.

In order to compensated loss of revenues on initial stages of CIT reform and mobilized resources for accelerating capital spending Government undertook measures both on revenue as well as expenditure side.

- Revenue-enhancing measures: Fuel excise increase (GEL 270 million, 0.7 percent of GDP); tobacco excise increase (GEL 215 million, 0.6 percent of GDP); gambling fee and e-gambling tax increase (GEL50 million, 0.2 percent of GDP); and a vehicle excise increase (GEL 45 million, 0.1 percent of GDP).
- Expenditure-reducing measures: reduction of the wage bill at the central and local government levels (GEL190 million, 0.5 percent of GDP); cuts in goods and services (GEL [50] million, 0.2 percent of GDP); improved efficiency of public healthcare provision and targeting of social programs in municipalities (GEL 90 million, 0.3 percent of GDP); and end of the agro-land program (cumulative GEL [50] million, 0.1 percent of GDP).

2017 budget deficit is anticipated to be about 4.1%. Infrastructural projects financed through Capital Spending and lending is projected about 3 billion GEL (8.3%).

Relationship with the IMF

On 12th of April 2017, the IMF Executive Board Approved US\$285.3 million Extended Arrangement under the Extended Fund Facility for Georgia.

IMF shares and welcomes the economic policies of the Government of Georgia, which ensures sustainable economic growth for the country. It is important that the new program is homemade, based on the Government's new four-point reform plan. Within the program, IMF will be our country's partner in carrying out Government's economic policies.

The economic and structural reforms were approved by IMF, which aims to support macroeconomic stability and economic growth.

2017 budget, as well as the government's medium-term budgetary plans, qualitatively represent transformed fiscal policy, which includes:

- Reducing administrative costs;
- Creating tax-system adapted to the economic growth;
- Increasing the effectiveness of the budget programs;
- Increasing investments in infrastructure projects.

In 2017-2020 country's road infrastructure backbone will be finished, that will allow us to fully use our logistical and touristic potential. Development of infrastructure will improve communication between the regions, which will increase their involvement in country's economic development.

During 2017-2020, capital expenditures foreseen under the budget will increase from 5.6% of GDP to 9%. Meanwhile, administrative costs will be reduced from 26.5% to 21.7%.

Within the program, Government of Georgia plans to carry out the most important structural reforms, which will support economic growth. Such as:

- Pension Reform;
- Capital Market Reform;
- Establishment of Deposit Insurance System;
- Establishment of Public-Private Partnership (PPP) System;
- Establishment of insolvency legislative framework;
- Land Reform;
- Insurance System Reform;
- Measures for improving the Public Finance Management;
- etc.

The decision of the Government of Georgia is to return the Financial Sector Supervision function to the National Bank of Georgia.