

GEORGIA MACROECONOMIC UPDATE

Speaker: Archil Gachechiladze, Deputy CEO at BOG

BGEO Investor Day
22 November 2016 | Tbilisi, Georgia

Key facts

- Area: 69,700 sq km
- Population: 3.7 mln
- Life expectancy: 77 years
- Official language: Georgian
- Literacy: 100%
- Capital: Tbilisi
- Currency (code): Lari (GEL)
- Real GDP average 10 yr growth rate: 5.1%
- GDP per capita 2015 (PPP) per IMF: US\$ 9,591

Transformation into REGIONAL HUB ECONOMY

- Established tourist destination
- Natural transport and logistics hub
- Electricity transit hub potential
- Strong financial sector
- Potential to become healthcare center for the region
- Underutilized potential in Agriculture
- Potential for manufacturing due to low labor and utility costs

Hospitality



Logistics



Energy



Financial sector



Healthcare



Agriculture



Real Estate



Manufacturing



Regional Service Hub



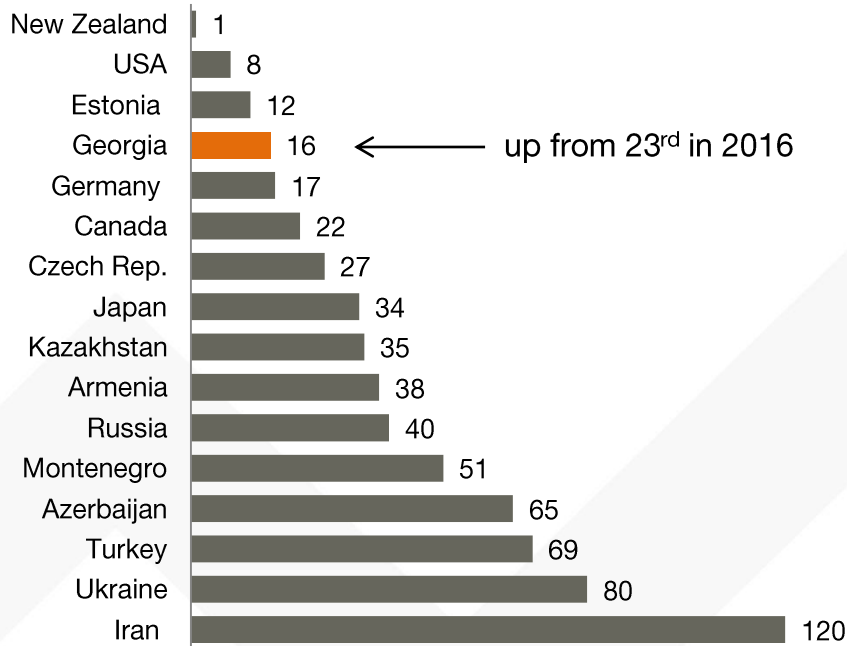


- WTO member since 2001
- Very simple and service-oriented customs policy and administration
- c. 80% of goods free from import tariffs
- No quantitative restrictions

Preferential Trade Regimes:

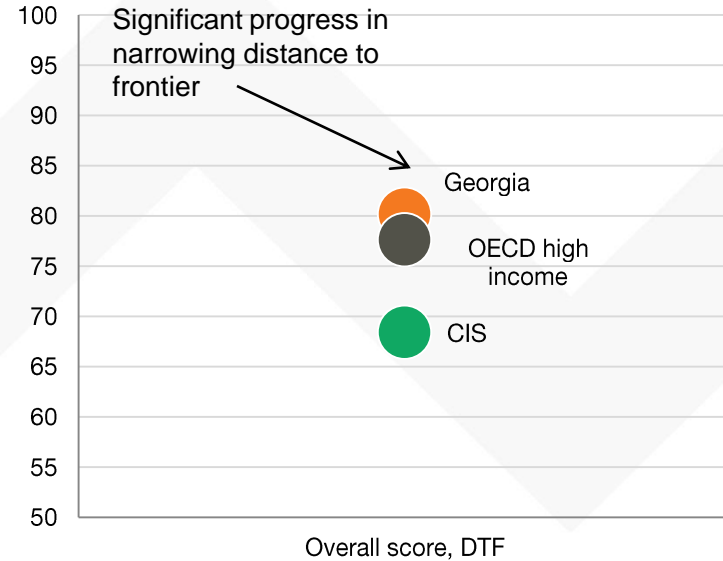
- FTA with Turkey, Ukraine and CIS countries (Russia, Kazakhstan, etc.)
- DCFTA (Deep and Comprehensive Free Trade Agreement) with EU signed in June 2014
- GSP agreements with USA, Canada, Japan
- FTA with China to be signed in December 2016

Doing Business ranking, 2017



Source: World Bank

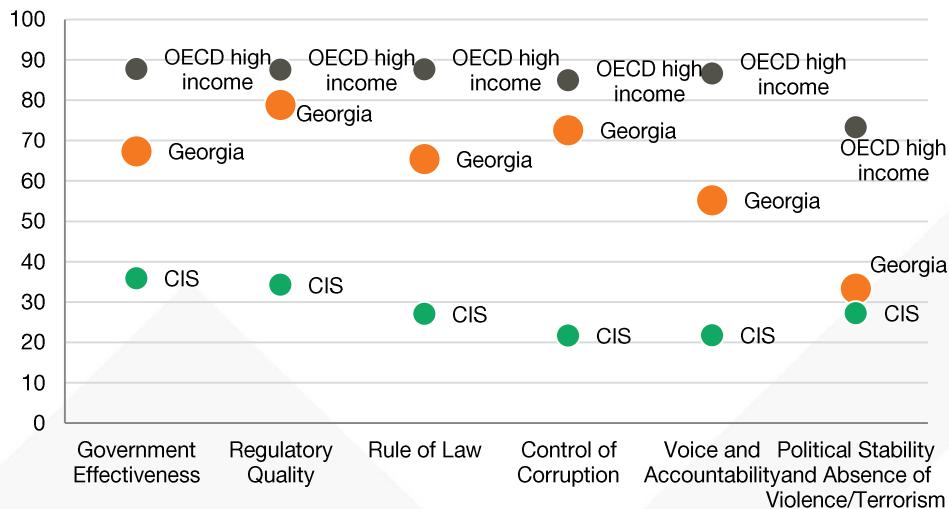
Doing Business distance to frontier, 2017



Source: World Bank

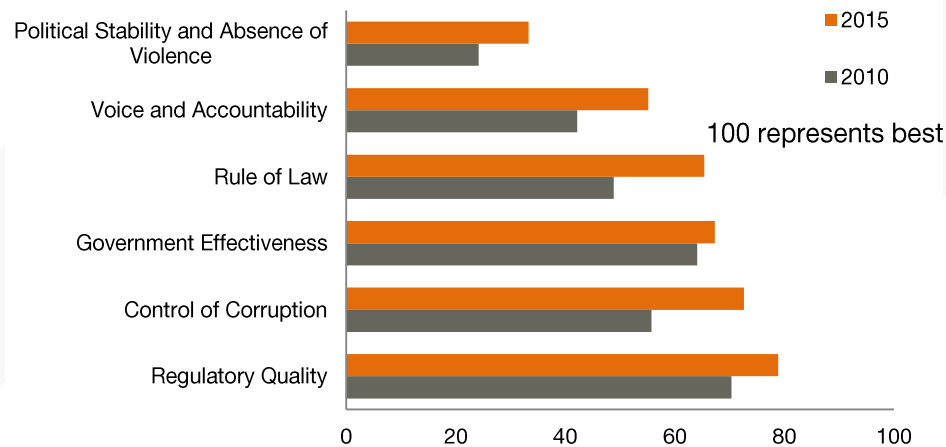
Note: The distance to frontier score helps assess the absolute level of regulatory performance over time. It measures the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005.

**Worldwide Governance Indicators, 2015
Georgia vs. others**



Source: World Bank
Note: Percentile rank, 100 represents best

**Georgia's progress in Worldwide Governance Indicators
2010 vs. 2015**



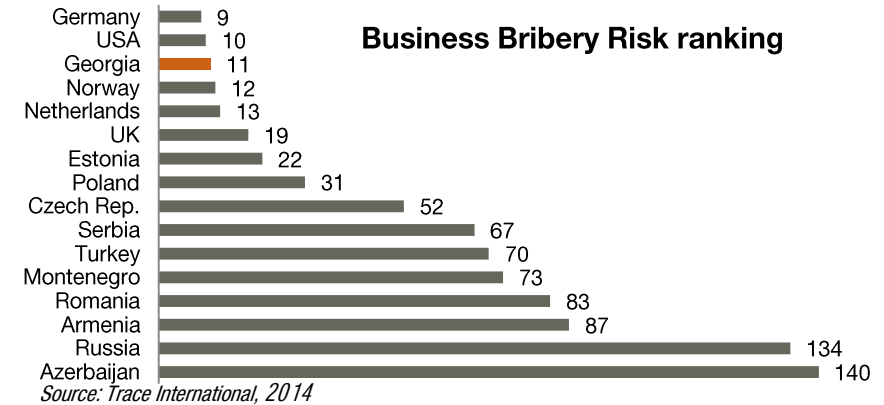
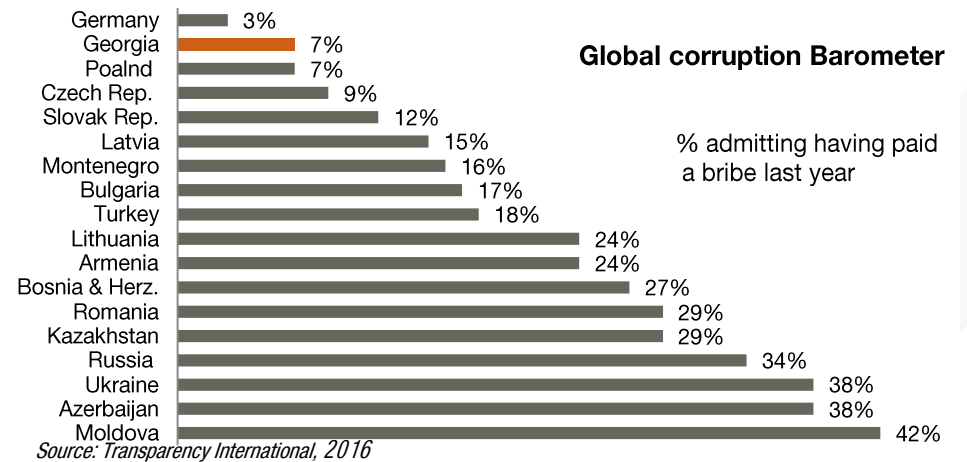
Source: World Bank
Note: Percentile rank in over 200 countries and territories

Transparency International, Global Corruption Barometer 2016

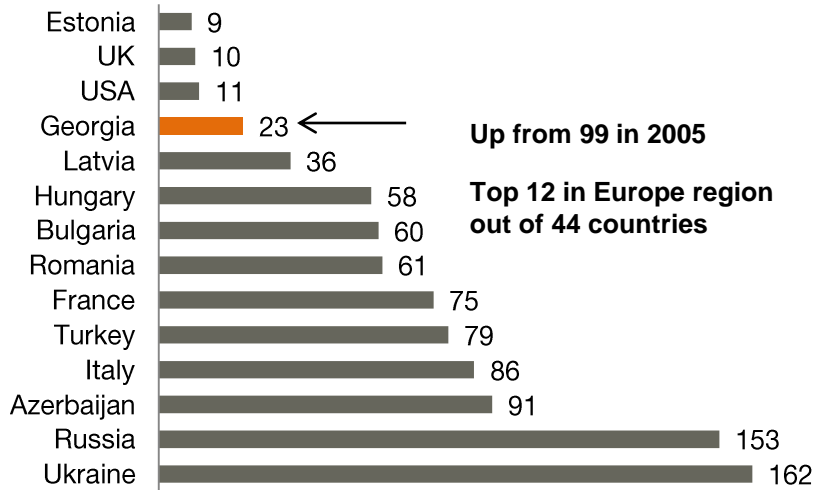
BRIBERY RATES ACROSS EUROPE AND CENTRAL ASIA



Georgia is on a par with EU member states

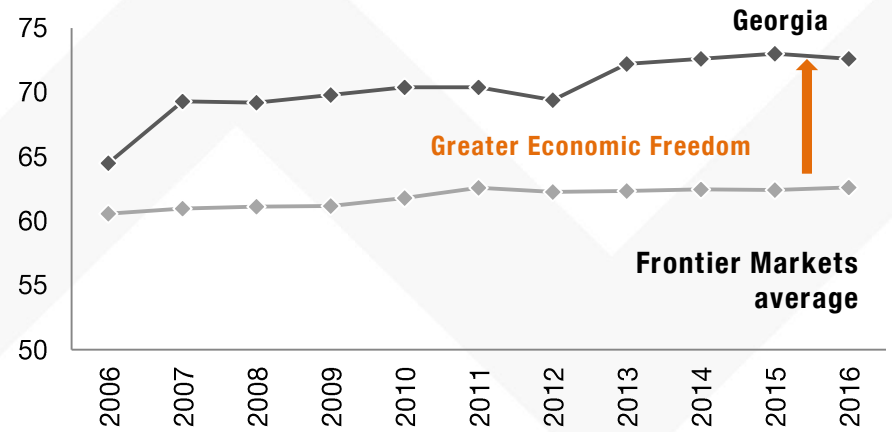


Economic Freedom Index, 2016 ranking



Source: Heritage Foundation

Economic Freedom Index, overall score over time



Source: Heritage Foundation

Top 5 Export markets in 9M16



Top 5 FDI providers in 1H16



Top 5 remitting countries in 9M16



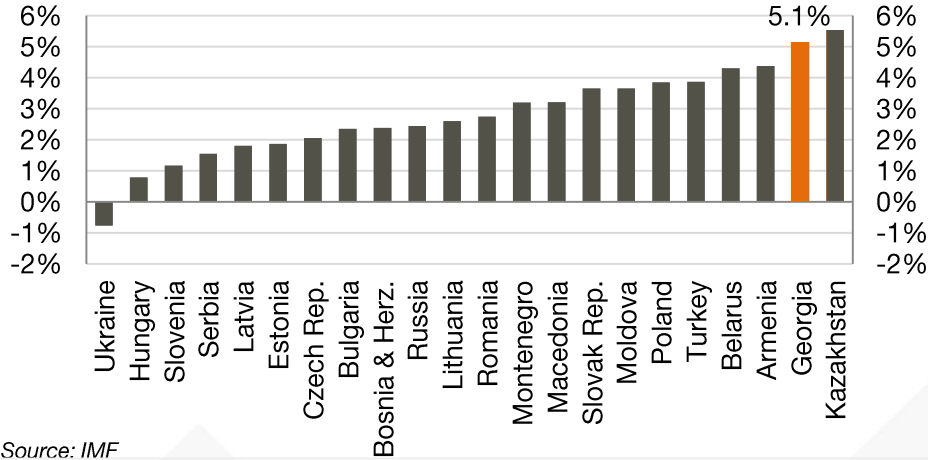
Top 5 countries by international arrivals in 10M16



Source: GeoStat, NBG, GNTA

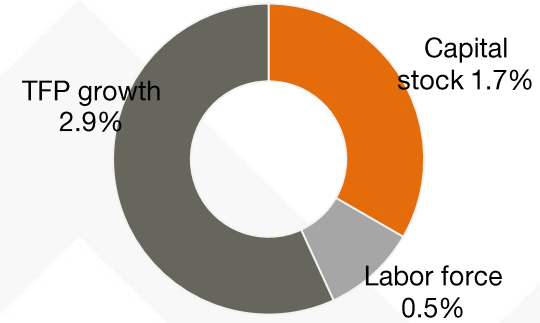
Georgian economy reforms driven success

Average real GDP growth over 2006-15



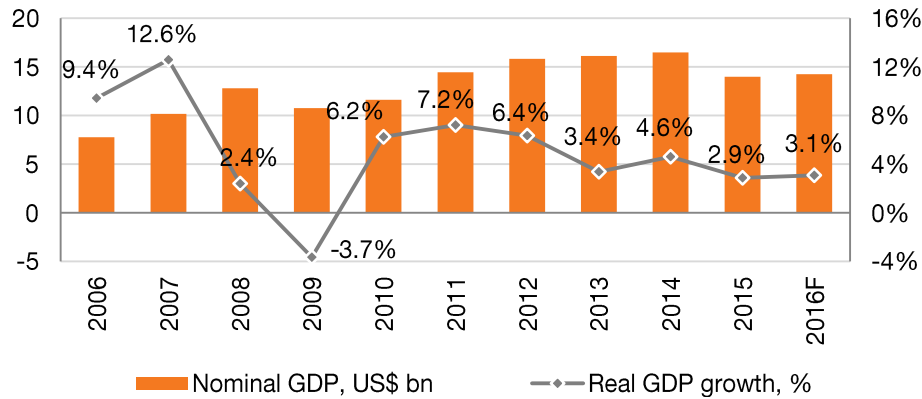
Source: IMF

Productivity gains have been the main engine of growth during 2006-15 (contributions to growth)



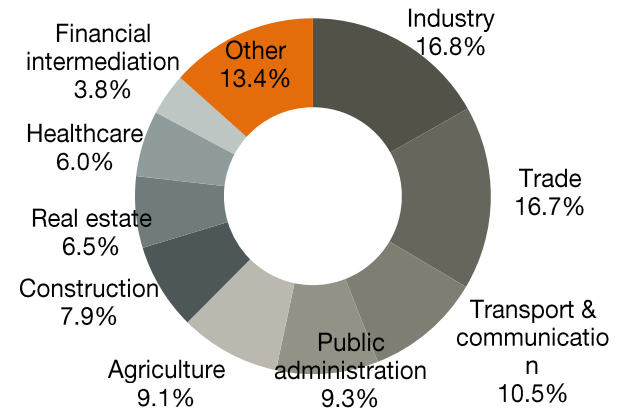
Source: G&T

GDP: positive growth maintained in 2015, robust growth potential



Source: GeoStat, G&T

Diversified nominal GDP structure, 2015



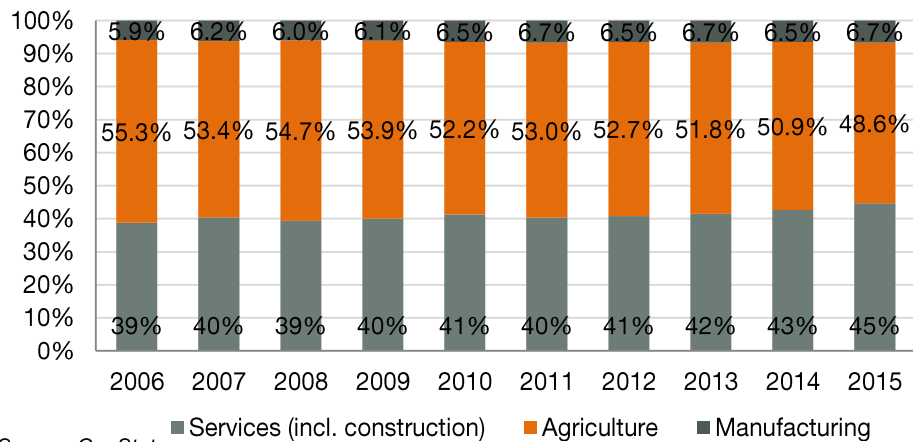
Source: GeoStat

Unemployment rate fell to 12.0% in 2015



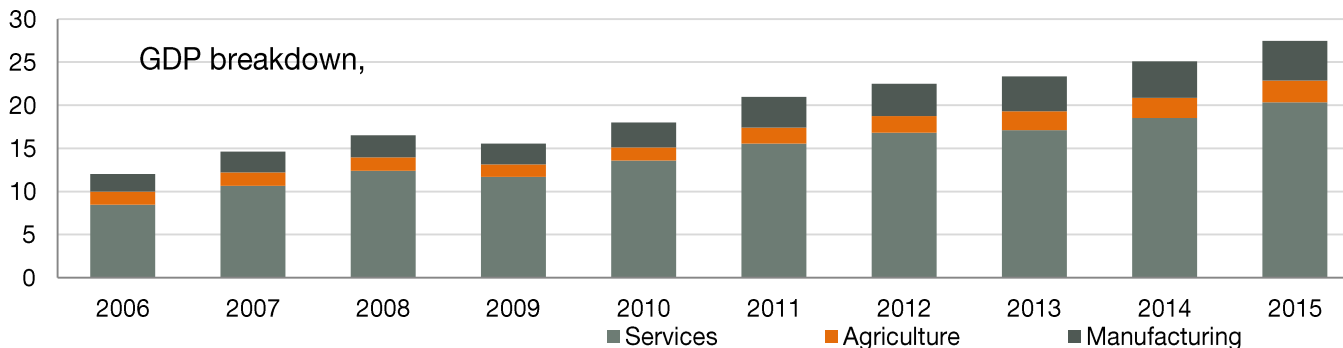
Source: GeoStat

Agriculture remains the largest employer, though the share of services increasing



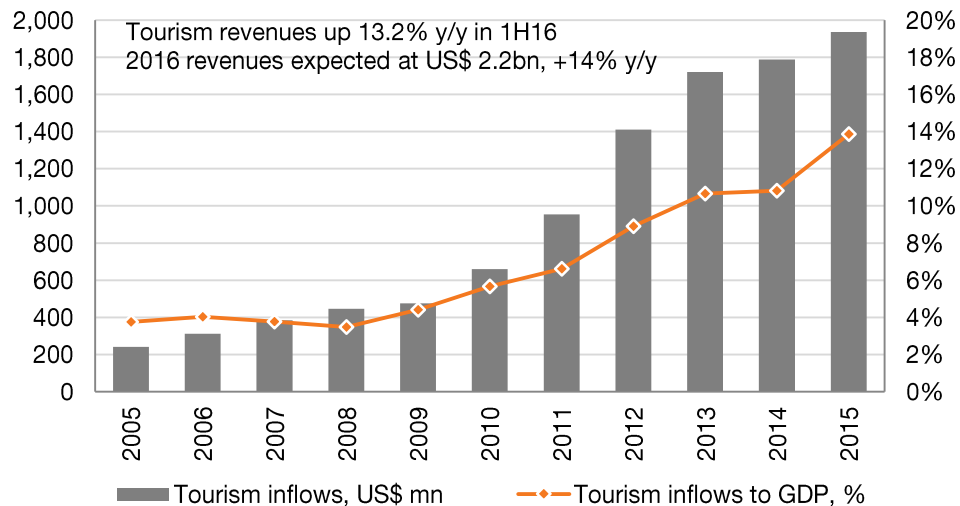
Source: GeoStat

Services account for the largest share of the economy, while agriculture remains stagnant



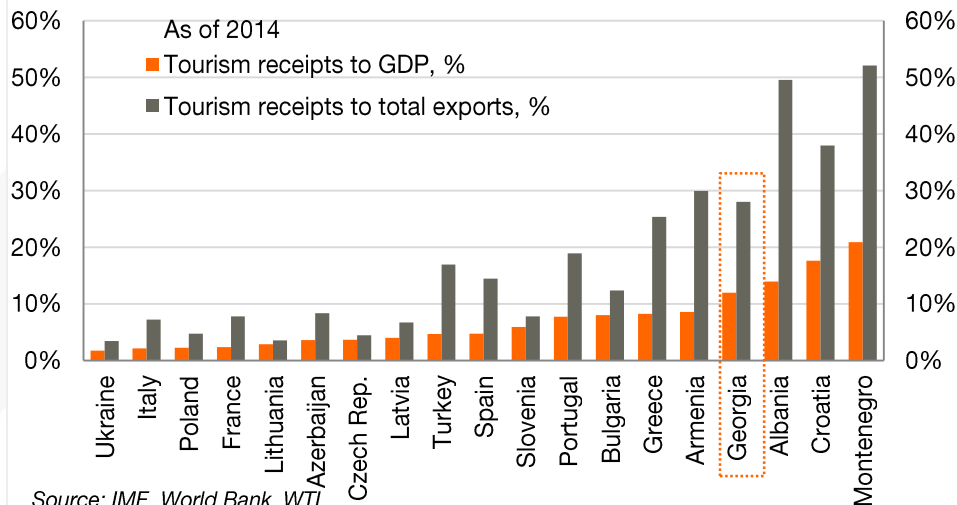
Source: GeoStat

Tourism revenues c8x higher over 2005-15...



Source: GeoStat; NBG

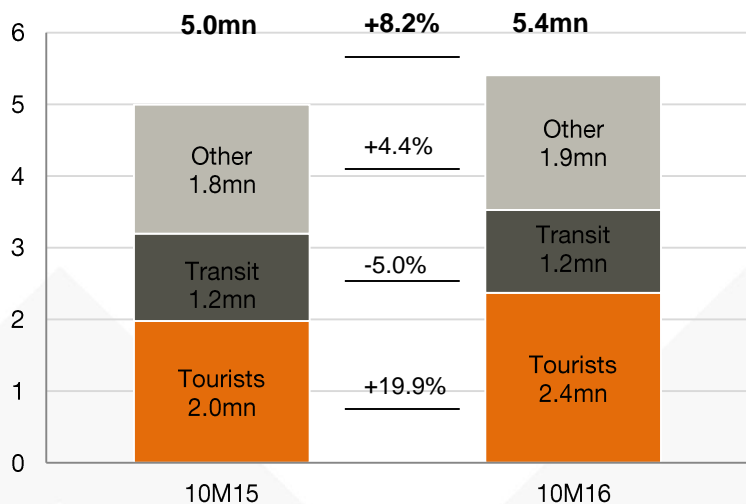
... which increased contribution of the tourism sector



Source: IMF, World Bank, WTI

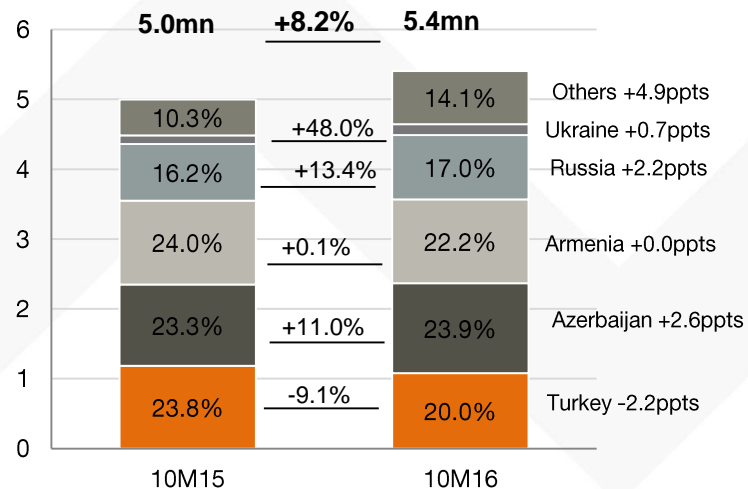
Note: Tourism receipts are expenditures by international inbound visitors, including payments to national carriers for international transport

Share of "TOURISTS" still low...



Source: GNTA

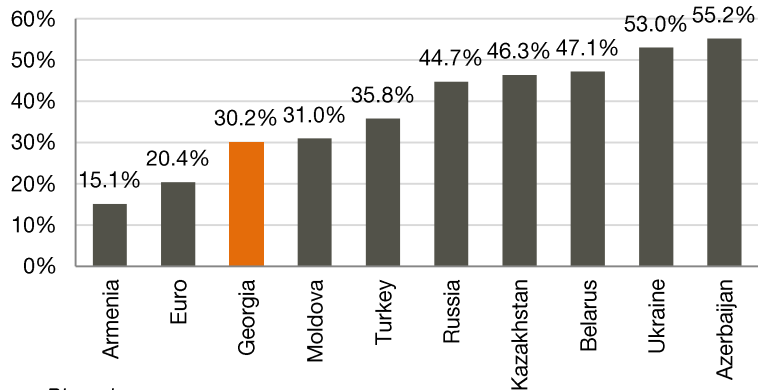
... Georgia can attract more high-yielding visitors



Source: GNTA

Georgia vs regional economies absorbing external shocks through flexible exchange rate regime

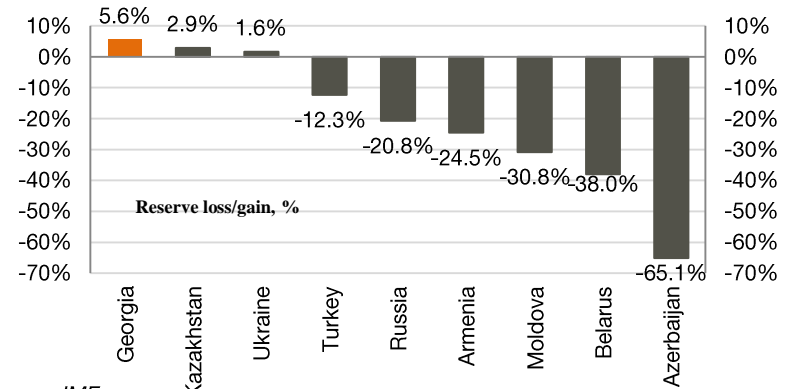
Currency weakening vs. USD



Source: Bloomberg

Note: US\$ per unit of national currency; Aug 2014 - Nov 2016

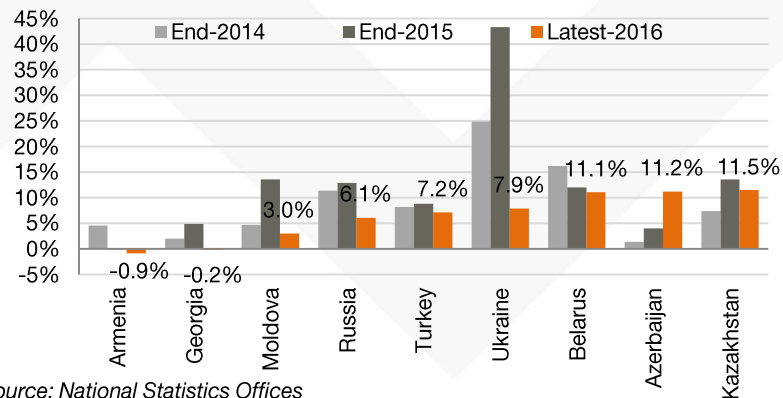
National bank reserves change



Source: IMF

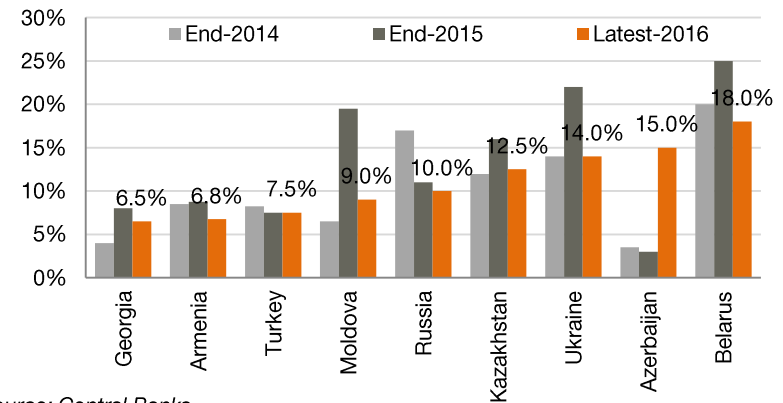
Note: Aug 2014 to Sep 2016; Armenia's reserves exclude a US\$ 500mn Eurobond issued in Mar 2015

Inflation remained modest in Georgia



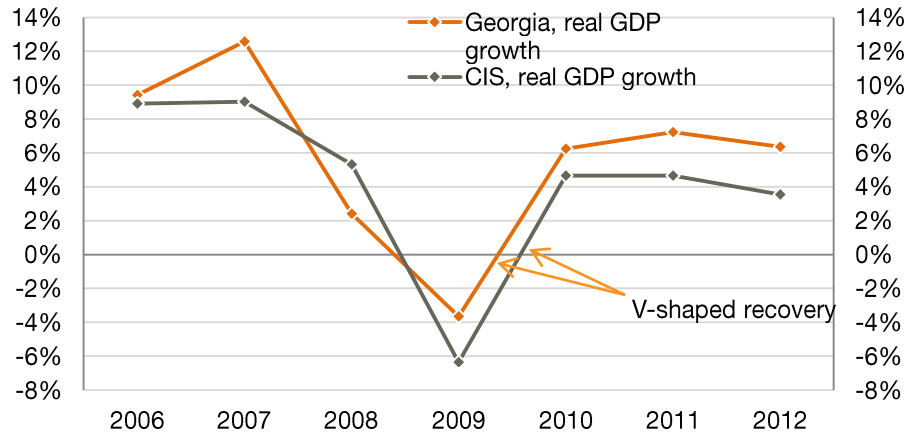
Source: National Statistics Offices

Policy rate lower in Georgia vs. peers



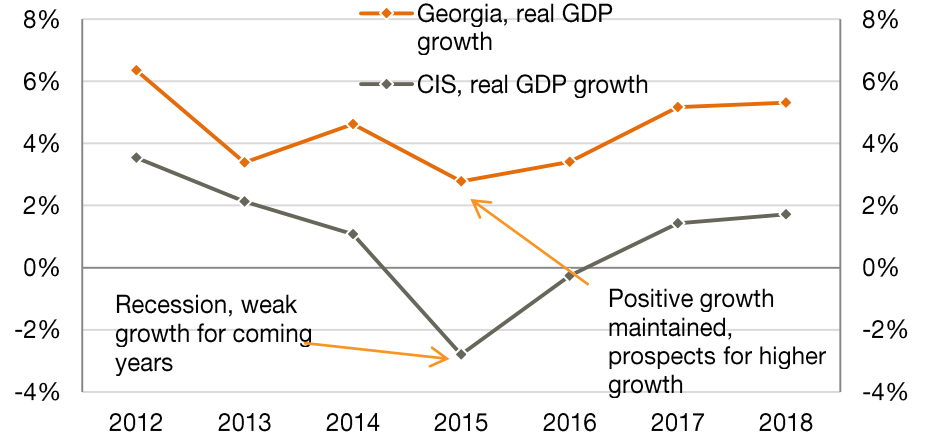
Source: Central Banks

Georgia vs. CIS, 2009 crisis



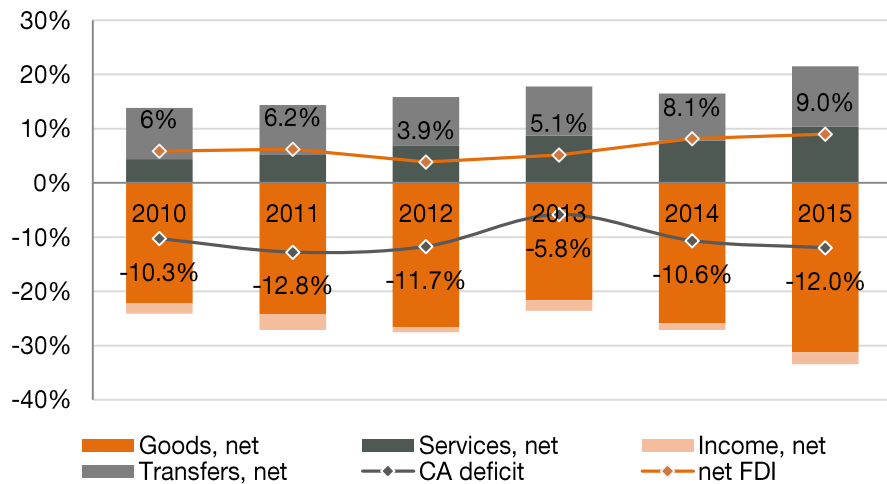
Source: IMF, October 2016

Georgia vs. CIS, 2014-15 commodity price shock



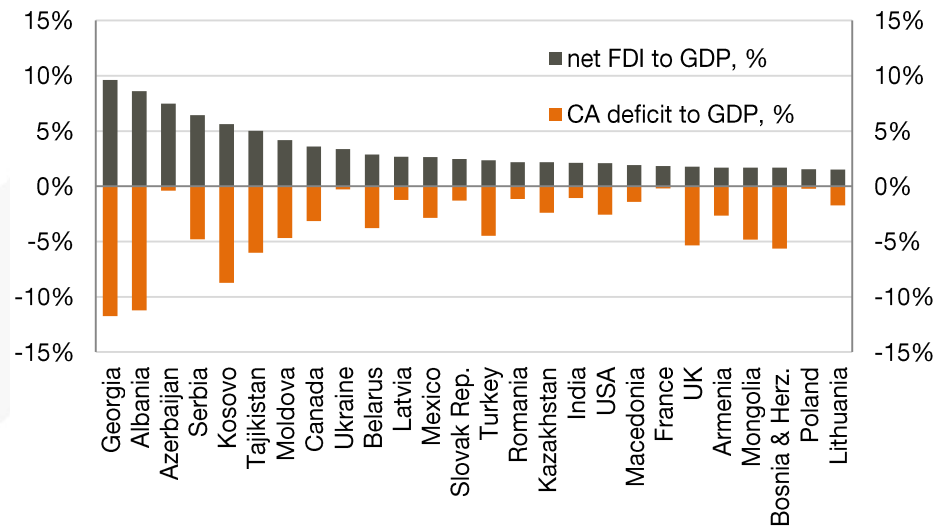
Source: IMF, October 2016

Current account balance, % of GDP



Source: GeoStat; NBG

Georgia vs. others - wider CA deficit explained by higher net FDI, 2015



Source: IMF, World Bank

Government's 4 pillar reform plan to boost growth

1. Further liberalizing tax and customs procedures

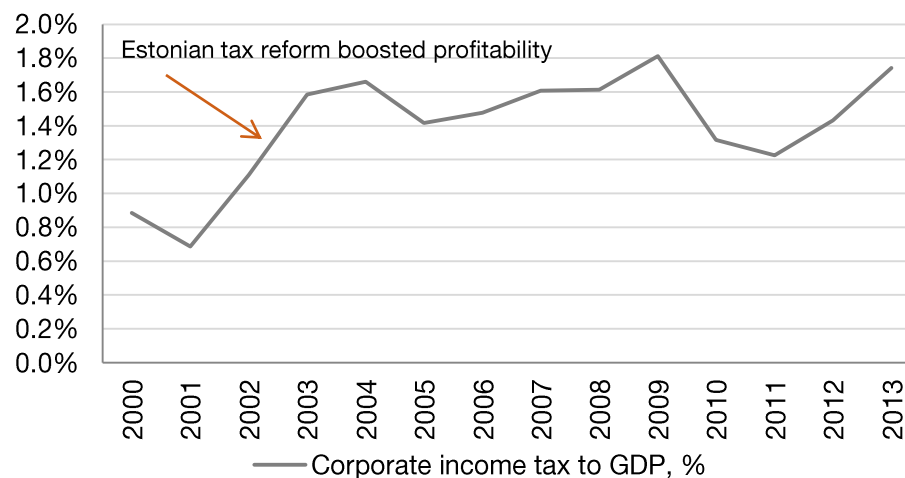
Introduction of the Estonian model, which envisages the application of corporate income tax only to distributed profit; undistributed profits, reinvested or retained, will be exempt. Legislative changes completed, effective from January 2017

2. **Governance reform** - single window principle for government services for legal persons

3. **Speeding up infrastructure projects implementation** - Projects that have a particular impact on Georgia's economic development are slated for completion within 3-4 years

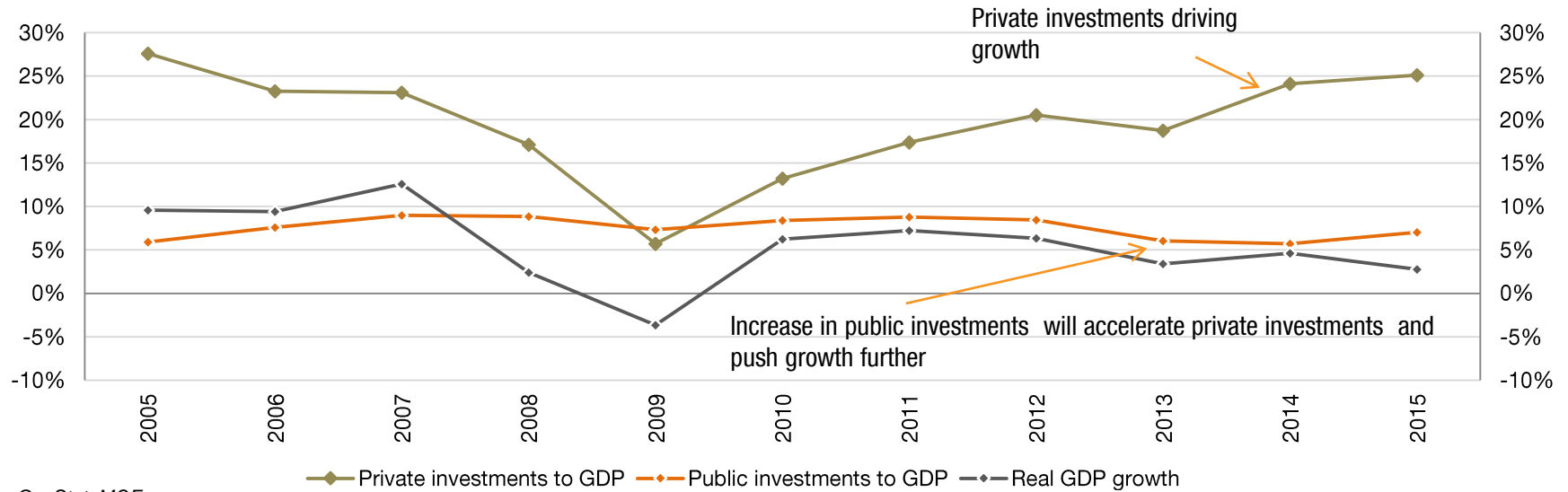
4. **Education system reform** - match education system with the demand of the labor market

Corporate income tax revenues rebounded in Estonia after 2 years from reform in 2000



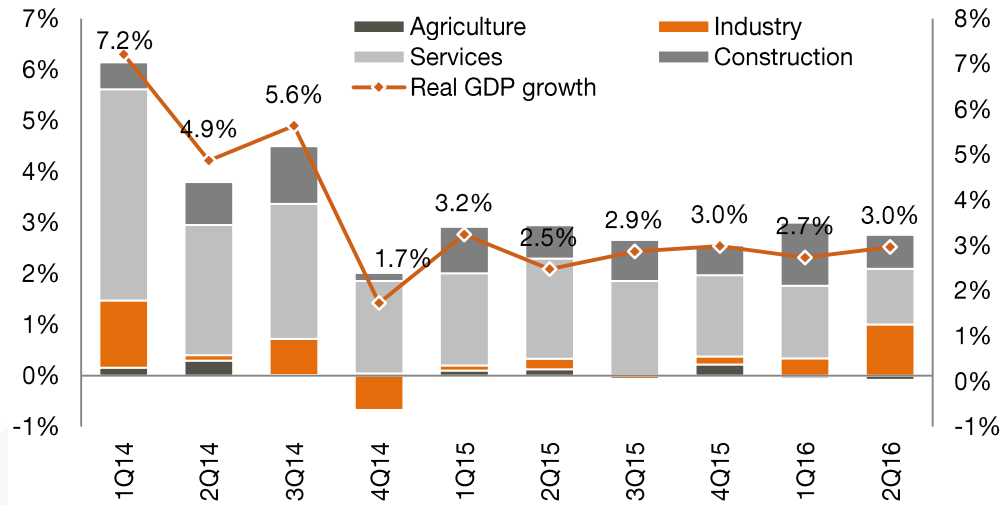
Source: Estonian statistics

Reforms will have positive impact on investments and growth



Source: GeoStat, MOF

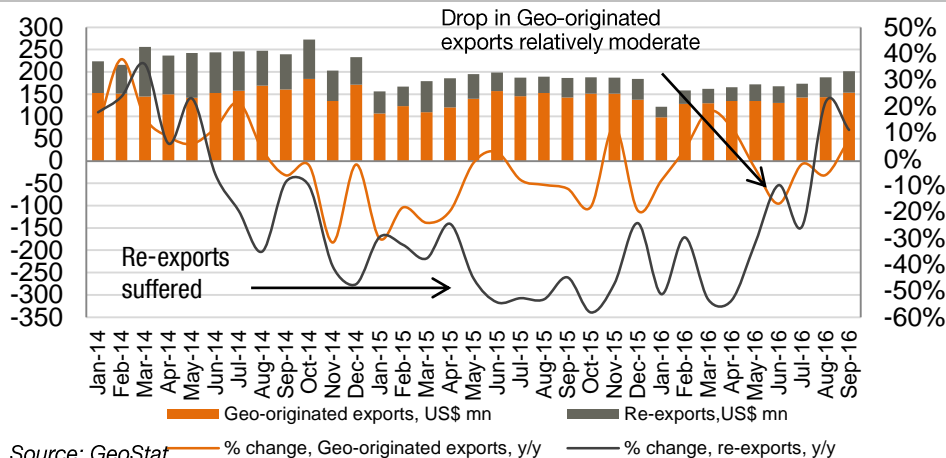
Real GDP growth and contributions to growth, y/y



Source: GeoStat

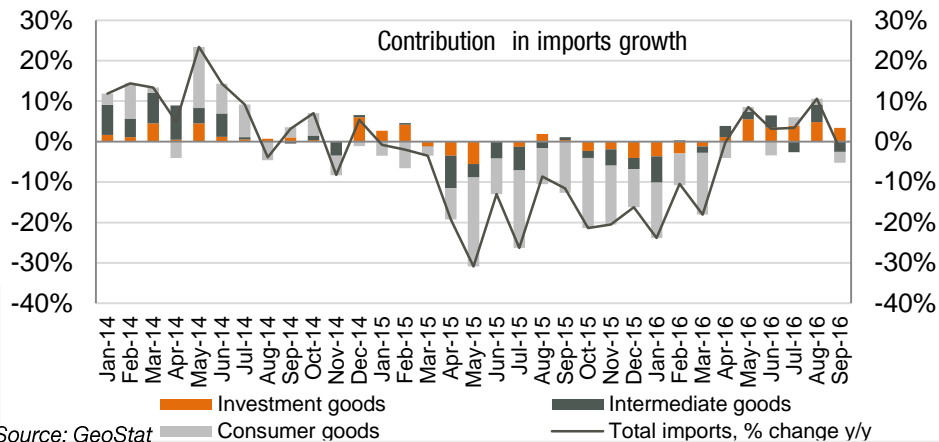
- Real GDP growth 2.9% y/y in 1H16
- Growth drivers:
 - Construction +18.1% y/y
 - Manufacturing +5.5%
 - Financial intermediation +8.9% y/y
 - Hotels and restaurants +11.2% y/y
- Sector in downturn:
 - Transport -1.5% y/y reflecting weaker trade
- Investments accounted for 32.2% of GDP in 1H16, with FDI increasing 10.6% y/y to US\$ 834mn

Exports started bottoming out...



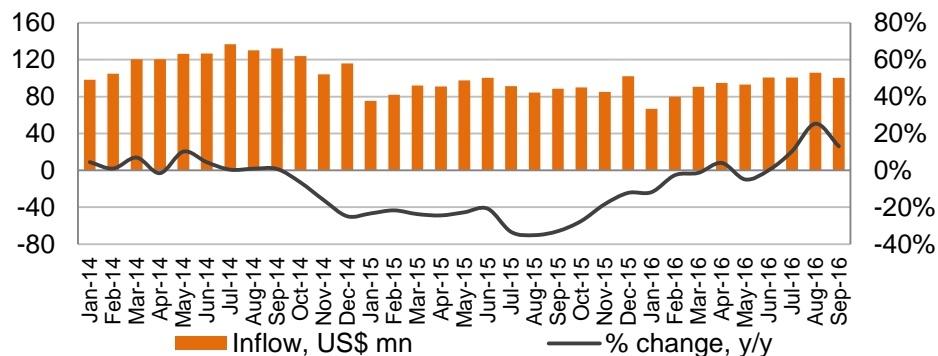
Source: GeoStat

...Imports still down moderately, though investment goods imports increasing



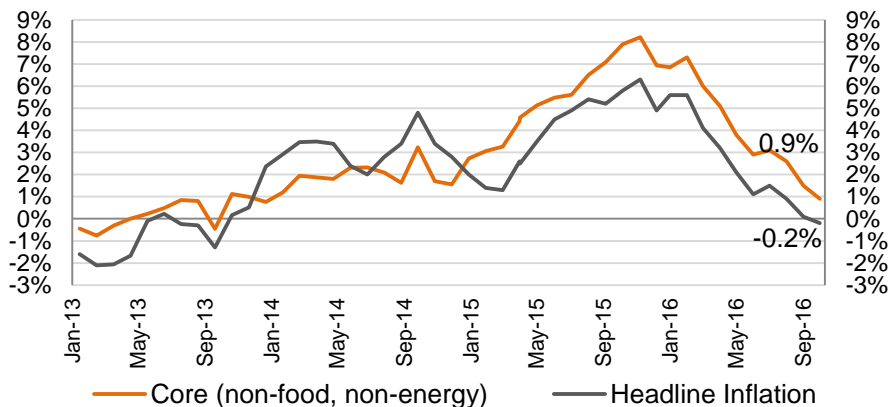
Source: GeoStat

Money transfers increasing since June 2016...



Source: GeoStat

Annual CPI Inflation

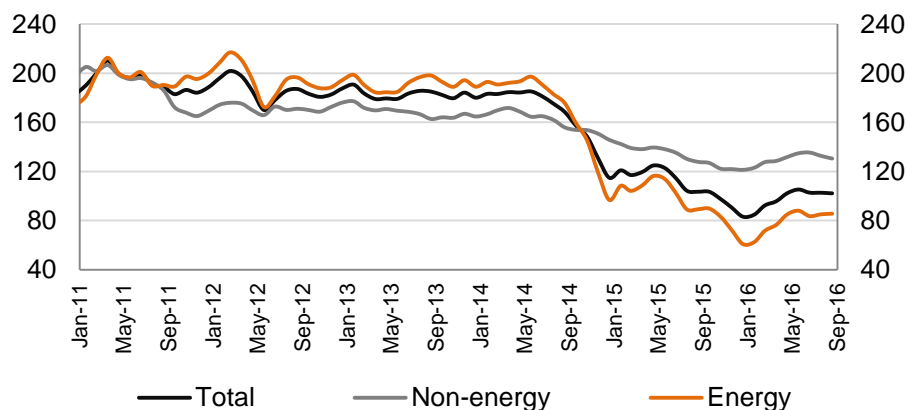


Source: GeoStat

Key takeaways

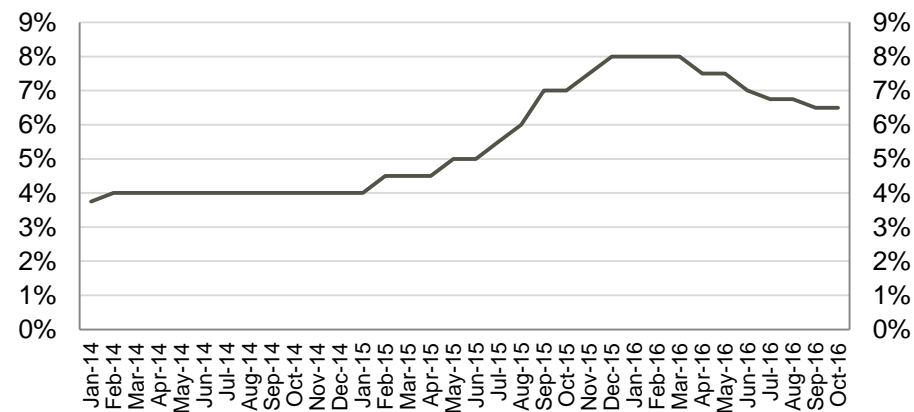
- Inflation targeting since 2009
- GEL depreciation pressured prices since 2H15, prompting central bank to tighten monetary policy in 2015
- Low world commodity prices, weak aggregate demand and high base lessened price pressures since Mar-16
- Annual inflation dipped below zero at -0.2% in Oct-16, after 0.1% inflation in Sep-16
- NBG started monetary normalization and cut policy rate from 8% at start-2016 to 6.5% currently

Commodity price index, (2005=100)



Source: IMF

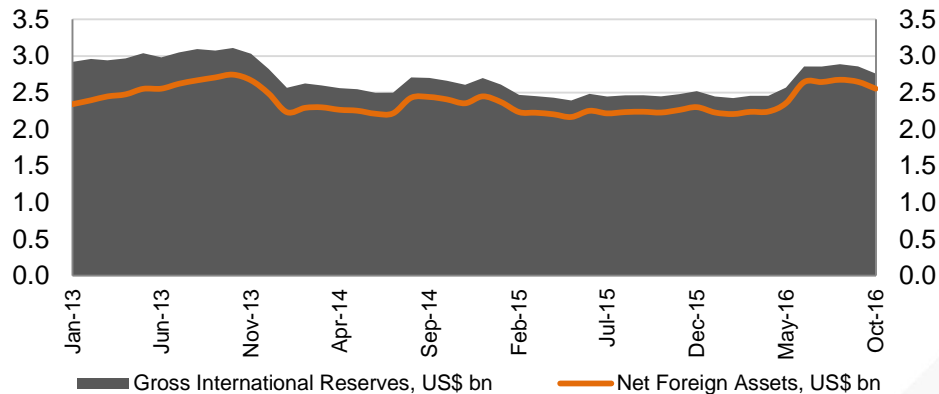
Monetary policy rate



Source: NBG

Reserves at adequate level

International reserves

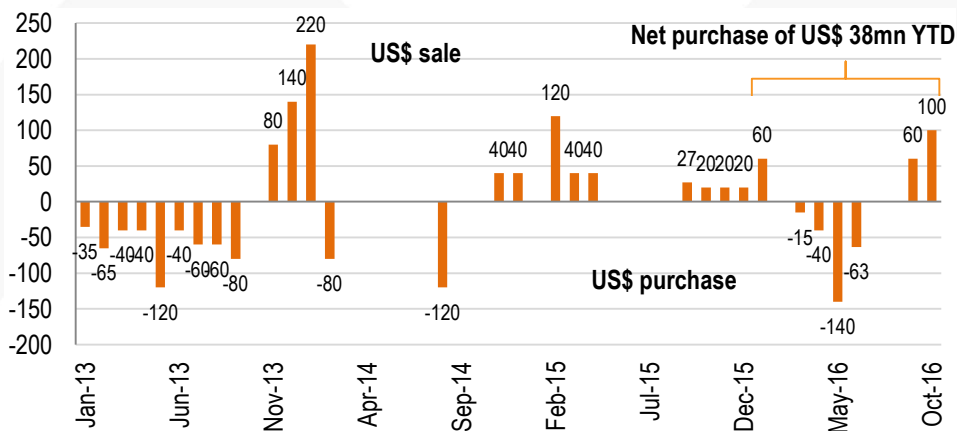


Source: NBG

Key takeaways

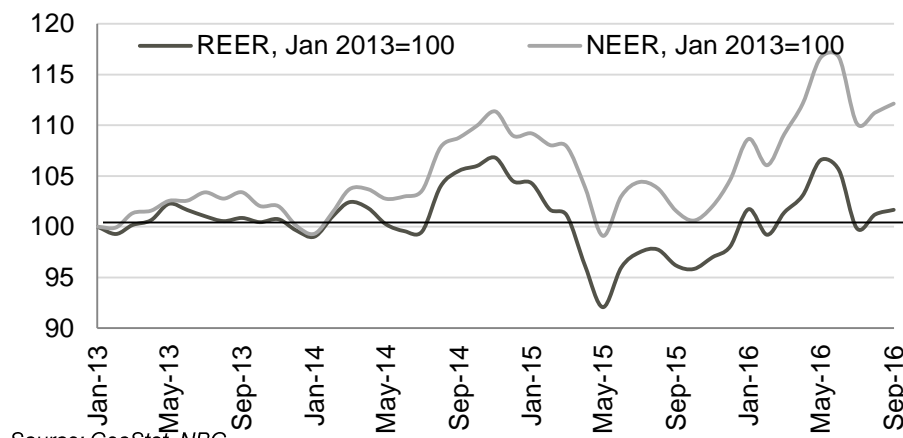
- NBG's reserves at US\$ 2.8bn as of Oct-16, up 12.7% y/y
- NBG bought US\$ 258.4mn during Mar-Jun 2016 to forestall radical appreciation of GEL vs US\$, as resulting real appreciation hurts competitiveness
- NBG sold US\$ 160mn in Sep-Oct 2016
- NBG is net buyer of US\$ 38.4mn YTD

FX interventions, US\$ mn (net)



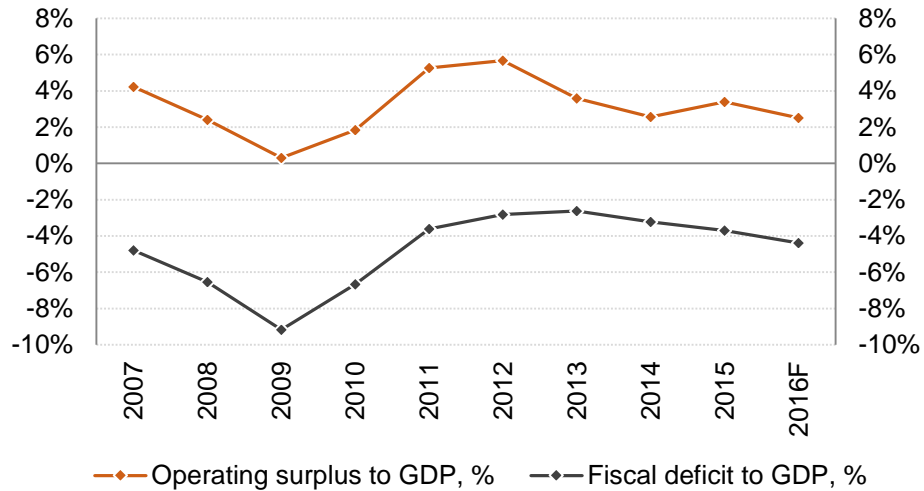
Source: NBG

Lari NEER and REER



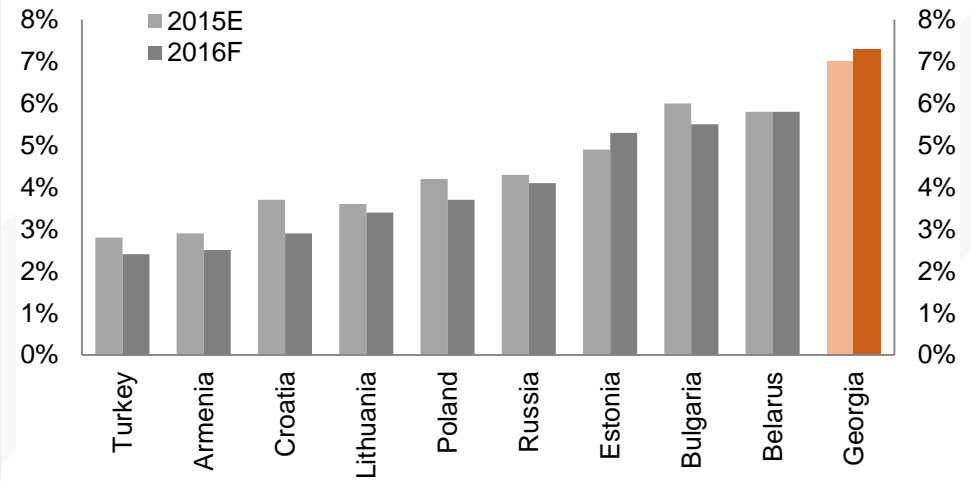
Source: GeoStat, NBG

Running operating surplus, fiscal deficit widened to support economic activity...



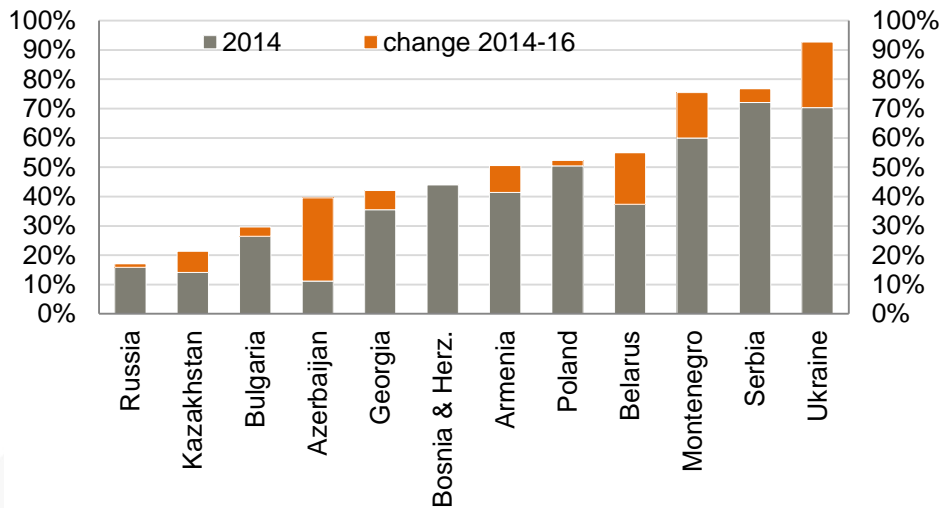
Source: MOF, GeoStat, G&T
 Note: Calculations based on IMF's GFSM 1986

...while spending is more heavily weighted to capital expenditures vs. peers



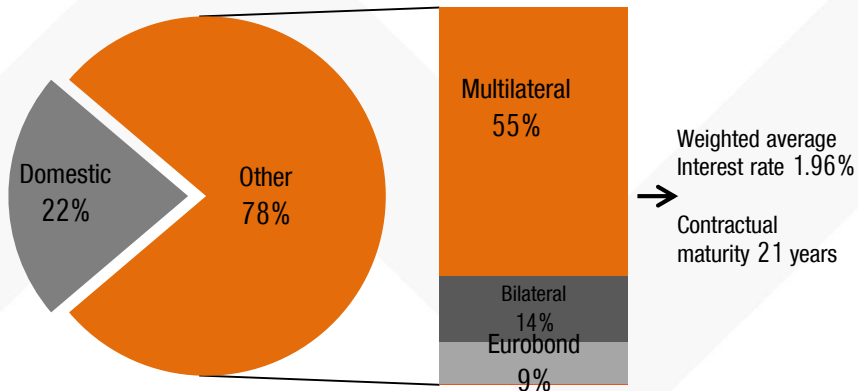
Source: IMF

Public debt remains at sustainable level in Georgia...

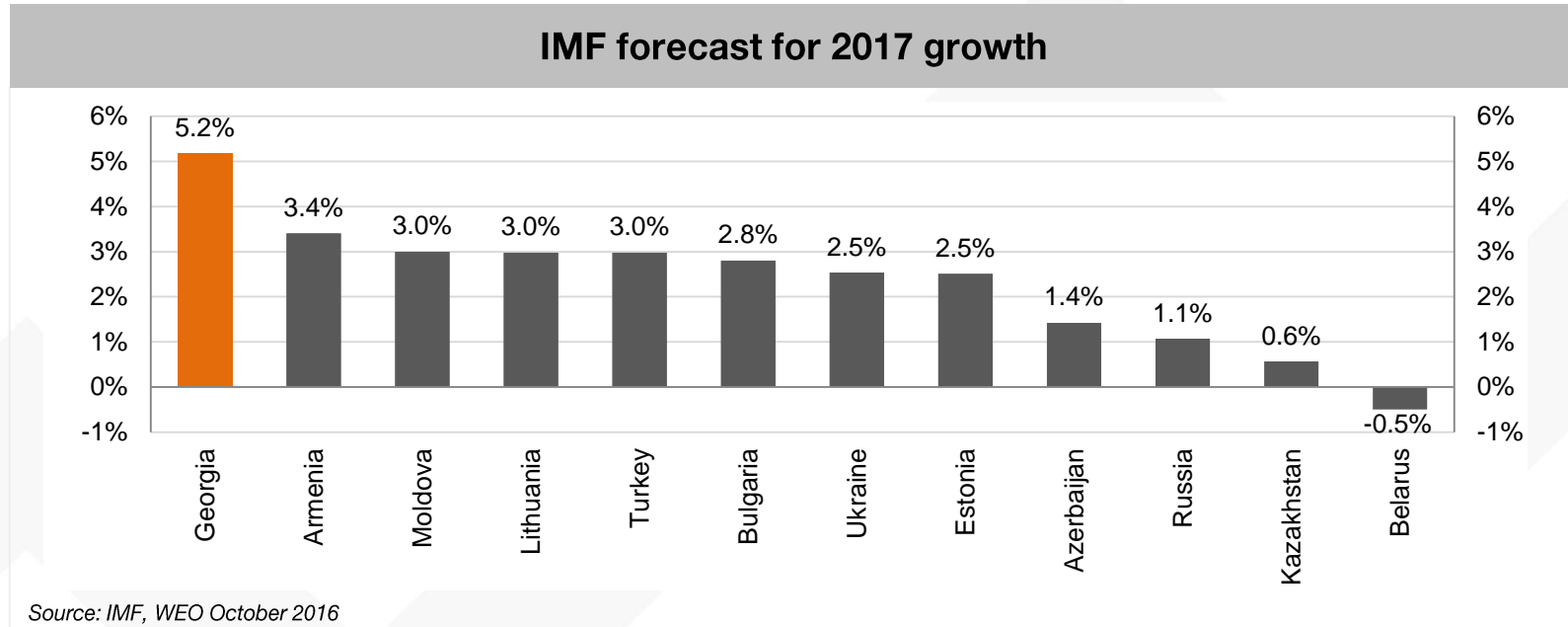


Note: Public debt includes both domestic and external debt

...and Georgia's bulk of external public debt is concessional



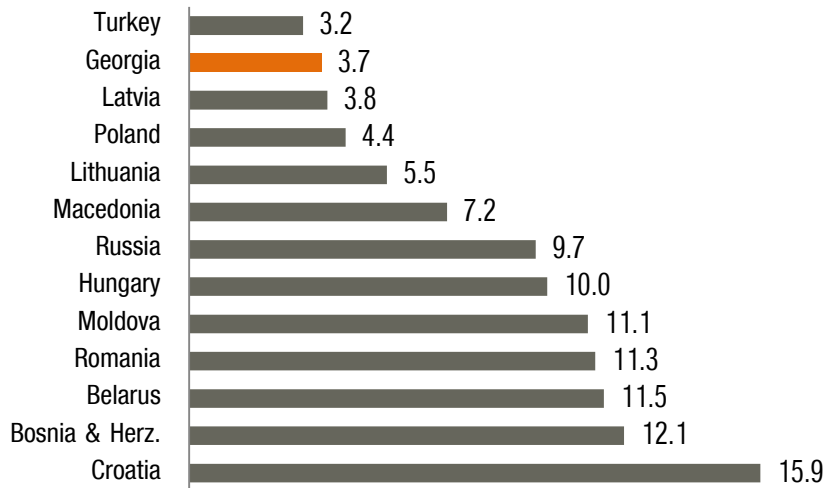
Source: MOF



QUESTIONS?

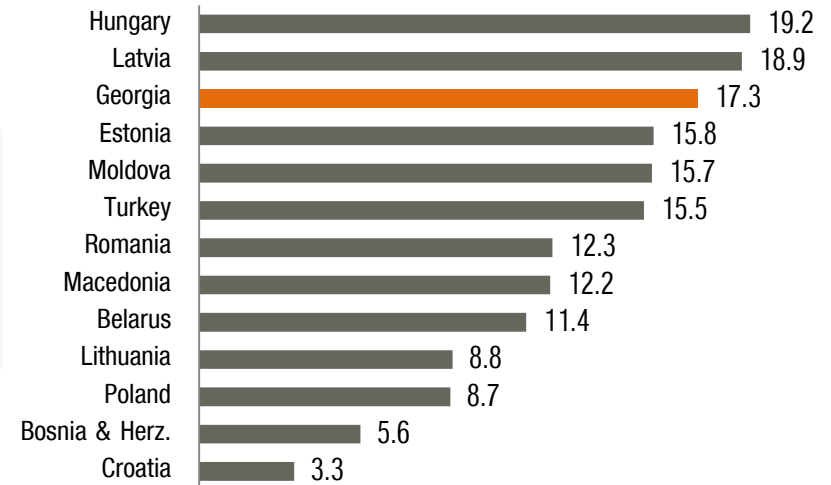
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Georgia vs. peers NPLs to gross loans, 1H16



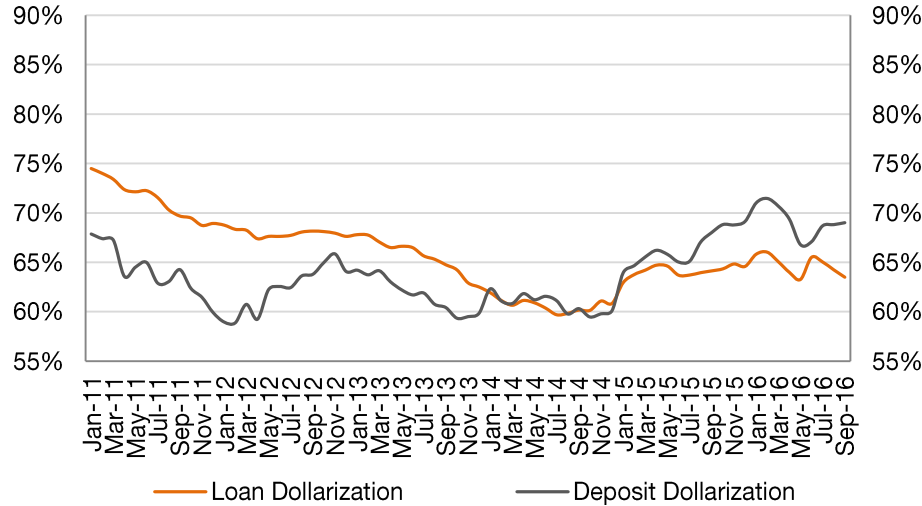
Source: IMF

Georgia vs. peers Return on Equity, 1H16



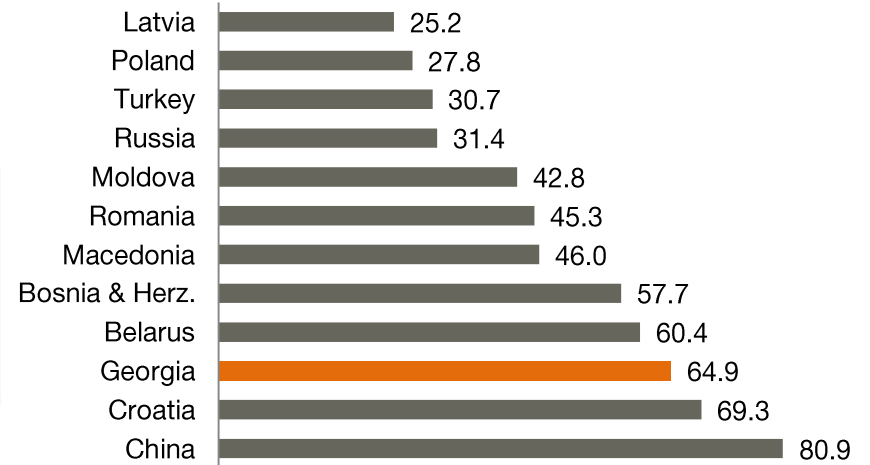
Source: IMF

Dollarization in Georgia



Source: NBG

Georgia vs. peers
FX-loans in total loans, 1H16



Source: IMF

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