Georgian Economy

Setting New Targets

Georgia | Economy
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Ekaterina Gazadze
Head of Research | egazadze@bog.ge | +995 (32) 2444 444 ext. 3760

Giorgi Iremashvili
Associate | giremashvili@bog.ge | +995 (32) 2444 444 ext. 4691

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Terms and Definitions

ADB - Asian Development Bank
BOT - Build-Operate-Transfer
BTC - Baku-Tbilisi-Ceyhan Pipeline
CAGR – Compound Annual Growth Rate
CDs – Certificate Of Deposit
CIS – Commonwealth of Independent States
CPI – Consumer Price Index
C/A – Current Account
DCFTA – Deep and Comprehensive Free Trade Agreement
EMBI – Emerging Markets Bond Index
ESCO – Electricity System Commercial Operator
EU – European Union
EUR – Euro (currency)
FAO – Food and Agriculture Organization
FDI – Foreign Direct Investment
FIZ – Free Industrial Zone
FTZ – Free Tourism Zone
GDP – Gross Domestic Product
GED – Gross External Debt
GeoStat – National Statistics Office of Georgia
GNTA – Georgian National Tourism Administration
GOGC - Georgian Oil and Gas Corporation
GR – Georgian Railway
GSP+ – General Preferential Scheme
Ha – Hectare
HPP – Hydropower Plant
IFC – International Finance Corporation
ILO – International Labour Organization
IMF – International Monetary Fund
MESD – Ministry of Economy and Sustainable Development
MOA – Ministry of Agriculture
MOF – Ministry of Finance
NBG – National Bank of Georgia
NPL – Non-Performing Loans
OECD – Organisation for Economic Co-operation and Development
PPI – Producer Price Index
PPP – Purchasing Power Parity
SCP - South Caucasus Pipeline
TRACECA – Transportation Corridor Europe Caucasus Asia
T&T – Travel & Tourism
USSR – Union of Soviet Socialist Republics (Soviet Union)
VAT – Value Added Tax
WB – World Bank
WREP – Western Route Export Pipeline
WTTC – World Travel and Tourism Council

Executive Summary

Over the last decade, Georgia made impressive progress in reducing corruption, simplifying tax and customs procedures, improving public services, and pleasantly surprised the world when it ensured a peaceful transition of power in late 2012. In July 2013, Georgia and the EU concluded talks on a Deep and Comprehensive Free Trade Agreement (DCFTA) sooner than we expected and the final agreement should be signed once the sides finalize a few procedural issues. Once in place, the agreement will vastly simplify Georgia's access to EU market, a common-customs zone of about 500mn customers.

The developments suggest the economy is shifting towards new drivers. Heavy investments in infrastructure are positioning Georgia better to realize its potential in transport, tourism, energy, and agriculture. Economic growth has been robust in recent years, with real GDP growing at 6.2% on average since 2004. Growth slowed from end-2012 on pre-election uncertainty and the economy grew only 1.9% y/y in 1H13. FDI remained almost flat, down only 4.2% y/y in 1H13. We expect the economy to resume growth after the presidential elections in October 2013. Despite the impressive growth of the last decade, Georgia's labour market has not improved much; 15% of Georgia's population is still unemployed and agriculture is the single largest employer accounting for 53% of the employed population (around 1mn). The financial sector continues to be flush with excess liquidity, which has a multiplier effect once deployed.

The current account deficit dropped to 5.7% in 1H13 from 11.7% in 2012. The C/A deficit decreased in 1H13 by 57% y/y as the negative trade balance in merchandise dropped 19% y/y, while the services trade surplus was up 35% y/y on the back of stronger travel inflows. Over the last several years Georgia experienced a notable increase in exports which grew 109.7% from 2009 to 2012 while import grew only 74.3%. Georgia's C/A deficit stems from its trade deficit in goods (mostly capital goods), with a surplus in services offsetting almost 40% of the imbalance. Travel inflows started to grow significantly in 2009, reaching US$ 1.4bn in 2012 (9% of GDP) from US$ 476mn in 2009 (4% of GDP). In 2012, new Eurobonds of around US$ 1bn issued by three Georgian companies and non-resident deposits which increased to US$ 230mn (1.5% of GDP) all helped offset the C/A deficit. Half of the C/A deficit had been financed by FDI in the past but the strong growth in travel inflows combined with stable current transfers have more than balanced trade deficit even with no Eurobond issuance in 2013. On the current transfers' side, remittances have remained stable at around 8% of GDP in the last few years adding 12% y/y in 1H13. YtD exchange rate has remained stable and the National Bank of Georgia has been growing international reserves at unprecedented levels.

External government debt is relatively low at US$ 4.2bn (27% of 2012 GDP) and total government debt at US$ 5.4bn (34% of 2012 GDP). With ample room before reaching the 60% limit stipulated by the Economic Liberty Act, Georgia can tap additional debt to spur economic growth, if needed.

Stable exchange rate, inflation remains subdued. Georgia's exchange rate is officially floating but in reality it moves in a narrow range with the US dollar. International reserves continue rising, to US$ 3.09bn in 8M13 from US$ 2.87bn at end-2012, partly on the back of increased tourism receipts. In 8M13, the NBG reported net FX purchases of US$ 475mn, or 17% of gross YE12 reserves. International reserves in 8M13 reflect repayments of US$ 205mn to the IMF and other repayments of US$ 48mn. Inflation remains well below the NBG target of 5% for 2015. Georgia's y/y deflation as of end September was 1.3%. Subdued inflation and slower economic growth prompted the NBG to ease monetary policy by gradually cutting rates from 8% in June 2011 to the current 3.75%.

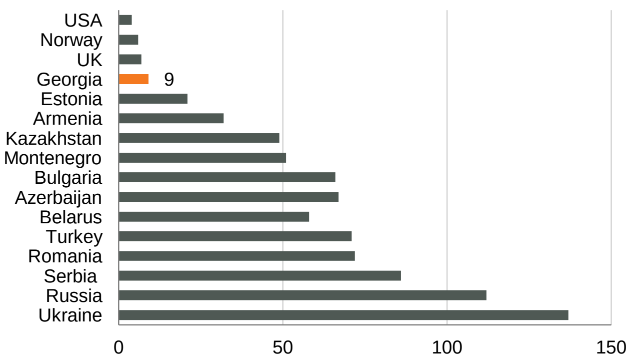
Maintaining healthy economic growth is high on the agenda. During 2003-2012, Georgia increased its GDP per capita 3.8x in nominal terms. Georgia should continue to target similar leap as much of the infrastructural and institutional platform has already been put into place. The low point of Georgian Russian relationship which translated into an armed conflict in 2008 is now behind and the situation is moving in the right direction; In May 2013, 9 Georgian companies were given the right to supply wine and mineral water to Russia and it looks like further improvements in trade are on the way.

Drivers of Economic Growth

"If you have 10,000 regulations you destroy all respect for the law." - *Winston Churchill*

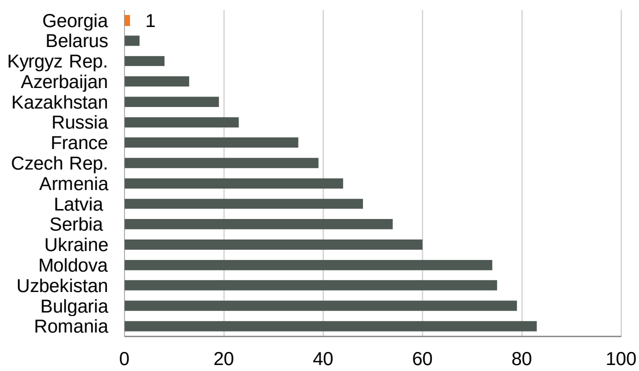
Over the last decade, Georgia made significant structural reforms by reducing corruption, simplifying tax and customs procedures, and improving public services. Perhaps, most notably, Georgia slashed the number of taxes from 21 in 2004 to just 6 now. As a reflection of the improvements Georgia moved up from 113th in the World Bank – IFC Ease of Doing Business ranking in 2005 to 9th in 2013.

Figure 1: Ease of doing business, 2013



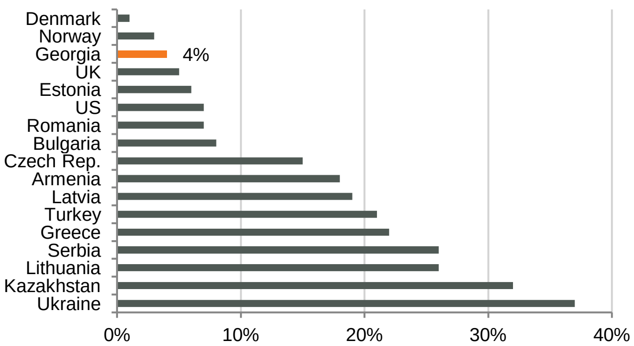
Source: WB

Figure 2: Ease of Doing Business: Top reformers 2005-11



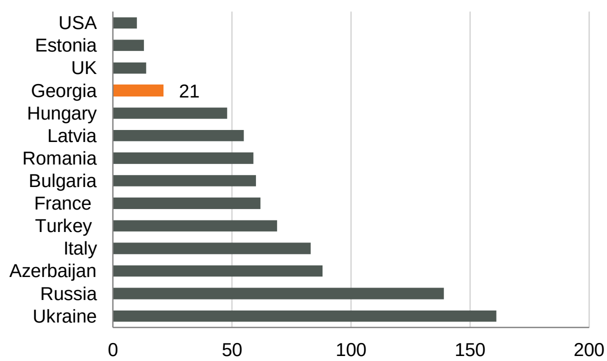
Source: WB-IFC

Figure 3: Global Corruption Barometer 2013 (bribery rates around the world)



Source: Transparency International

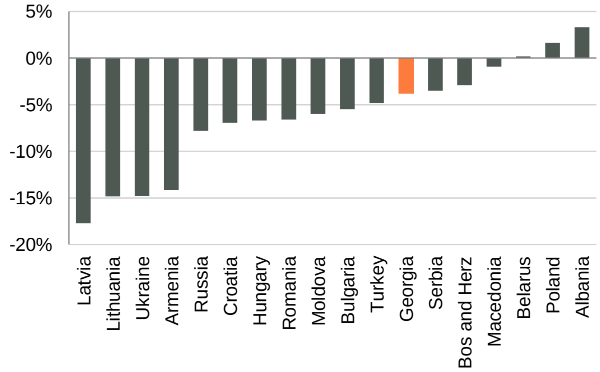
Figure 4: Economic Freedom Index, 2013



Source: Heritage Foundation

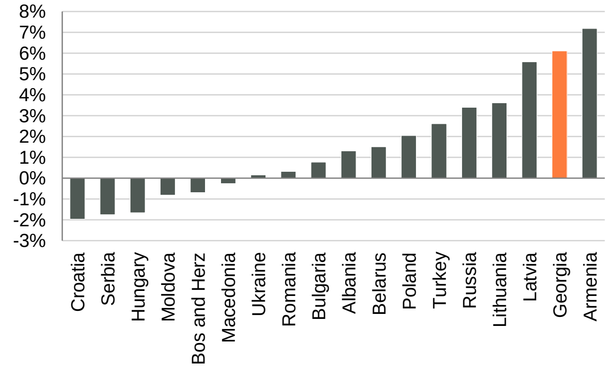
Driven by the economic reforms, real GDP has grown 6.2% on average since 2004, relatively well compared to many non-resource-based peers since 2009. In spite of the 2008 armed conflict with Russia and the global financial and economic crisis, the scale of the economy's contraction in 2009 was much smaller than in peer countries (3.8% vs. 6.4% average for peers). GDP growth in recent years was mainly driven by manufacturing, trade, the financial sector, construction, tourism and transport.

Figure 5: Real GDP growth in 2009 vs. peers



Source: IMF

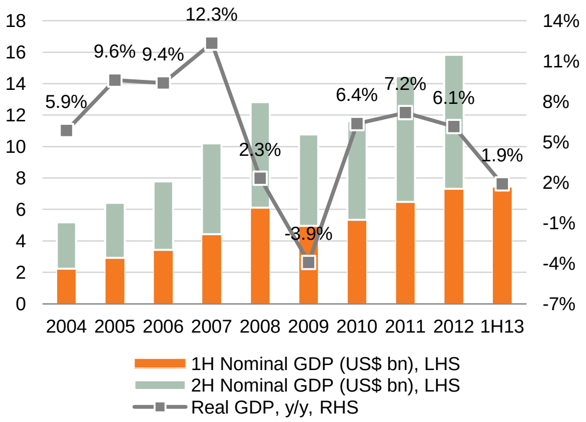
Figure 6: Real GDP growth in 2012 vs. peers



Source: IMF

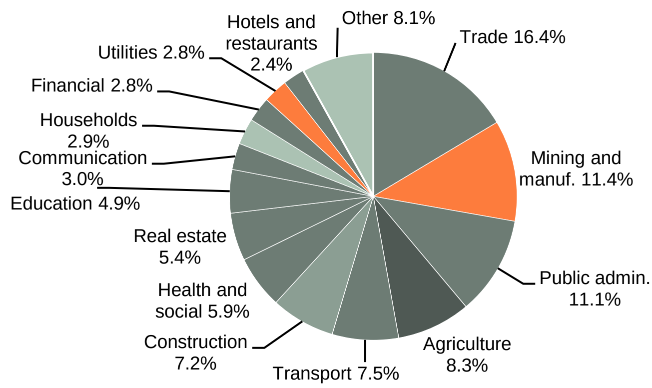
Nevertheless, economic growth slowed in late 2012. The slowdown came on the back of the political transition after Parliamentary elections in October 2012, as investors sought clarity on the country's development policy. For a country with no significant mineral resources, economic growth has been healthy; except for trade, which is diverse on its own, no single sector dominated growth. Real GDP grew only 1.9% y/y in 1H13 (2.4% y/y in 1Q13 and 1.5% y/y in 2Q13).

Figure 7: Nominal GDP and real GDP growth rate



Source: GeoStat

Figure 8: Georgia's GDP structure, 2012



Note: Households include processing of products by households and private households employing domestic staff

Source: GeoStat

Georgia's per-capita GDP lags regional peers: only Armenia and Moldova come in behind Georgia's US$ 3,500.

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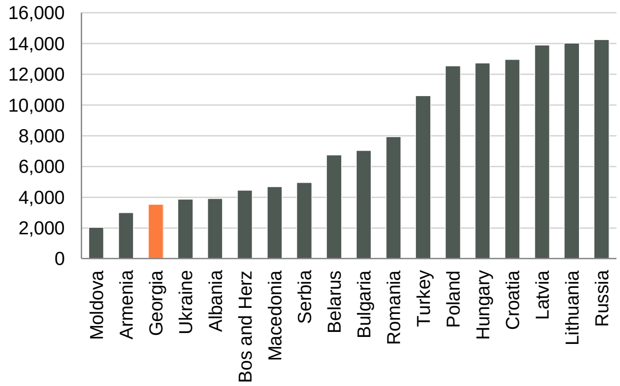
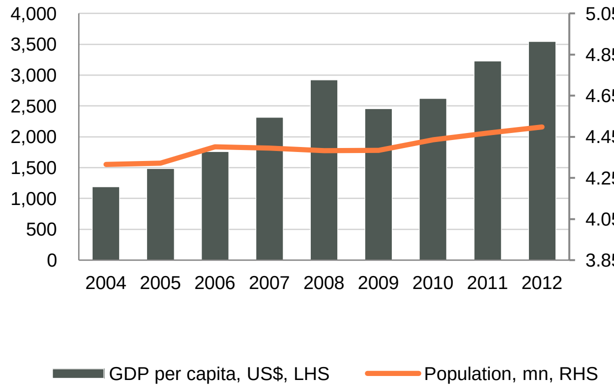
Figure 9: Per-capita GDP vs. peers in 2012, US$



Source: IMF

Figure 10: Per-capita GDP and population



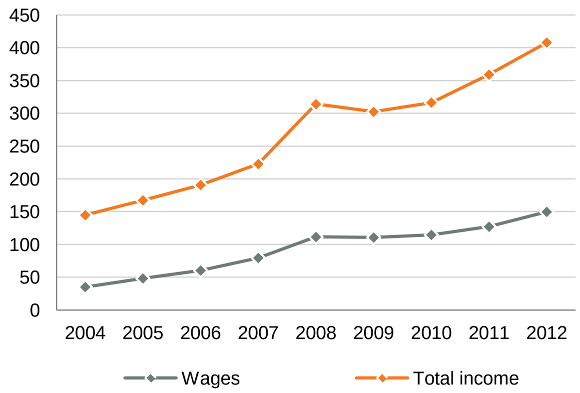
Source: IMF

The labour market remains problematic – the rapid growth of the last decade resulted in little employment growth. 15% of Georgia's population is still unemployed while agriculture remains the single largest employer, accounting for 53% of the workforce of an estimated 2mn people. In recent polls, 46% Georgians named unemployment as the country's most pressing issue.

Figure 11: Total employed and unemployment rate

Note: Unemployment rate is calculated as total number of unemployed to labor force.
Source: GeoStat

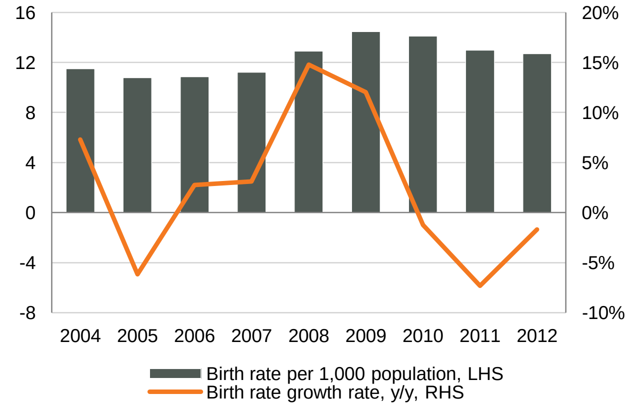
Figure 12: Average monthly income per household, US$



Source: GeoStat

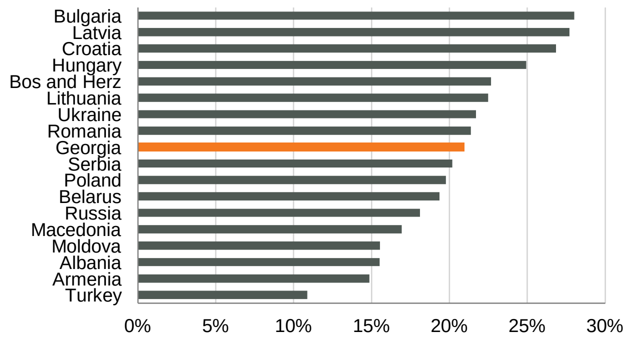
Georgia's aging population poses a risk. At 21%, Georgia's age-dependency ratio (of population over 64 years to working-age population) is the highest among neighbour countries, but in-line with Eastern European peers. The 45+ age group has grown from 35% in 2002 to 39% in 2012. Over the same period, total population grew from 4.3mn to 4.5mn. Birth rates picked up in 2005, but have since declined and are insufficient to sustain population growth.

Figure 13: Birth rates in Georgia



Source: GeoStat

Figure 14: Age dependency ratio, 2012



Note: Age dependency ratio, is the ratio of people older than 64 to the working-age population, those in an age range of 15-64. Data are shown as the proportion of dependents per 100 working-age population.

Source: WB

Recent trends suggest the economy is shifting towards new drivers. Heavy investments in infrastructure, both external and domestic, are positioning Georgia better to realize its potential in transport, tourism, energy, and agriculture.

Table 1: Shares of selected economic sectors in GDP

	2012	2017F	CAGR %, real growth
Agriculture	8.3%	7.9%	4.7%
Energy	2.7%	2.6%	4.0%
Mining and Manufacturing	11.4%	9.3%	5.0%
Transport	7.5%	7.4%	6.7%

Source: GeoStat, BOG Research

Georgia as a transport and logistics hub

Georgia's geographic location positions it well as a regional transport and logistics hub. Supported by regional economic growth we expect the transport sector to post a 6.7% CAGR over the next 5 years.

Georgia is located on the Transportation Corridor Europe Caucasus Asia (TRACECA), connecting Europe with Central Asia. Georgian Railway's mainline runs from the Azeri and Armenian borders to the Black Sea ports of Batumi and Poti. Georgia's international road infrastructure is fairly well developed with international highway connections to all four neighbours. The country also has three international airports: Tbilisi, Batumi, and Kutaisi.

Map 1: Regional Gateway

Source: MESD, BOG Research

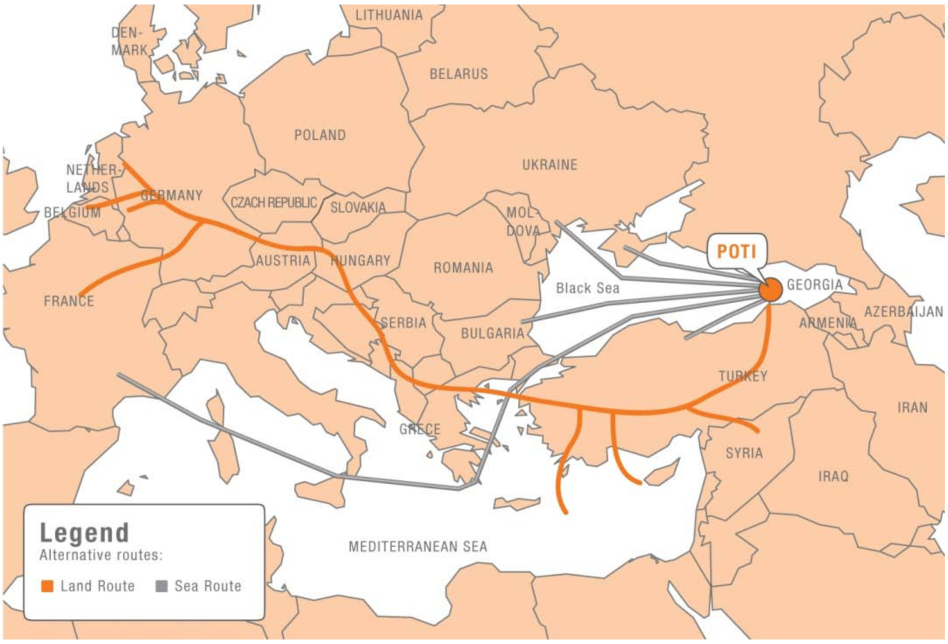
Over US$ 1.8bn was invested in road infrastructure in 2004-2012. As of 2011, 84% of Georgia's international roads (1,455km) are in good condition, while just 31% (5,488km) of secondary and rural roads require no work.

Georgian Railway and Azerbaijan Railway make up the key section of the Transportation Corridor Europe Caucasus Asia (TRACECA), which connects oil-rich Central Asia with Europe. The Baku-Tbilisi-Kars Railway Venture will create a new rail link connecting Georgia, Turkey, and Azerbaijan. Rail is an important mode of transportation for agricultural products in Georgia, with direct access to the Black Sea. In 2012, dry cargo transportation volume (which made up 53% of total freight transportation volume) increased 10% y/y to 10.6mn tonnes. This is still well below the Soviet-era volume of up to 60mn tonnes of cargo (liquid and dry) and the underutilization leaves room for future growth.

Sea transport can be used extensively for exports. Georgia enjoys a cost advantage at US$ 1,355 per exported container, lagging behind only Turkey (US$ 990) among the regional countries, OECD high income countries and Eastern Europe and Central Asia. Goods can easily be exported via the Black Sea ports of Poti and Batumi to Russia, Ukraine, and the Mediterranean.

Georgia is also a key pipeline transport corridor for natural gas and crude oil to Europe. The transport corridor through Georgia allows the EU to diversify its supply. In 2010, 60% of EU gas imports came from Russia, Norway and Algeria. Georgia's favourable geographic location has prompted significant investments into its oil and gas transportation infrastructure in the past, including the upgrade of the Western Route Export Pipeline (WREP) and of the South Caucasus Pipeline (SCP) with maximum pipeline throughput capacity to reach 22bn cubic meters per year in 2017 and the Baku-Tbilisi-Ceyhan Pipeline (BTC). The BTC pipeline was completed in 2005 and currently has capacity of 60mn tonnes per year. The BTC offers direct access to the Mediterranean, avoiding the overcrowded Dardanelles and Bosphorus straits.

Map 2: Selected alternative transportation routes



Source: BOG Research

The sector will benefit from Georgian Oil and Gas Corporation's (GOGC) gas pipeline expansion and rehabilitation projects, which are designed to increase transportation volumes by roughly 1.5x by 2019.

Map 3: Map of gas pipelines in Georgia

Source: Georgian Oil and Gas Corporation, BOG Research

On-going infrastructure projects in Azerbaijan will further increase the attractiveness of the TRACECA corridor. The government of Azerbaijan is planning to invest up to US$ 13bn to modernize its transportation infrastructure including roads, railways, and ports. Increased capacity in Azerbaijan will benefit Georgian transportation segment indirectly as the key transit point.

Regional hub for automobile trading. Cars are the largest export category for Georgia (mainly re-exports since no cars are actually produced in the country), accounting for 25% of total exports in 2012. The segment grew 33x from 2005 to US$ 587mn in 2012 thanks to legislative reforms that lowered tariffs and simplified custom procedures for importers and exporters.

However, Georgia has a negative trade balance in cars as large portion of imported cars are destined for domestic consumption. In order to develop a regional hub in car trading, Georgia still needs mechanics to repair imported second-hand cars for re-export.

Table 2: Georgia's foreign trade in automobiles, US$ '000

	2005	2006	2007	2008	2009	2010	2011	2012
Exports	17,915	50,455	70,176	113,333	78,462	227,360	450,297	587,296
Share in total exports	*2%*	*5%*	*6%*	*8%*	*7%*	*14%*	*21%*	*25%*
Imports	178,530	294,506	369,713	706,779	304,016	401,673	510,545	662,759
Share in total imports	*7%*	*8%*	*7%*	*11%*	*7%*	*8%*	*7%*	*8%*

Source: GeoStat

Tourism – becoming a powerhouse sector

Travel inflows are a significant source of foreign currency which generated around US$ 1.4bn in 2012. According to our estimates, Georgia is on pace to welcome 6.2mn foreign tourists by 2015 and 8.9mn by 2019, or 1.4x and 2.0x its population. This is in-line with global tourism benchmarks: in 2011, Croatia, Cyprus, Estonia, and Montenegro hosted 2.3x, 2.1x, 2.0x and 1.9x of their respective populations. These countries can be viewed as Georgia's peers in tourism sector, in our view.

Impressive 22% CAGR in number of visitors over 2000-2012. In the late 1980s, the country of 5.3mn (the current population is 4.5mn) hosted over 3mn visitors annually, including 250,000 from outside the USSR. The collapse of the Soviet Union and the ensuing unrest brought Georgia's tourism to a standstill and the number of visitors slipped to around 383,000 in 1999[1], most from the CIS. Since then, Georgia posted an impressive 22% CAGR over 2000-2012. In 2012, Georgia welcomed 4.4mn foreign visitors, or 1.0x its current population. As the world steadily rediscovers Georgia as a real tourist destination we expect tourism sector growth to continue unabated, while the hospitality sector holds attractive investment opportunities. Apart from the hospitality industry, the tourism boom should spill over to other sectors, particularly food, transport, and telecommunications.

[1] In this paragraph, we have used media sources, as we could not identify the official statistics on the number of visitors to Georgia during the Soviet and early post-Soviet period

Diagram 1: Travel and tourism's contribution to Georgian GDP and employment

Direct T&T contributions

Commodities
- Accommodation
- Transportation
- Entertainment
- Attractions
- Industries
- Hotels & Catering
- Retail
- Transportation services
- Business services

Sources of spending
- Residents' domestic T&T spending
- Business' domestic travel spending
- Visitor exports
- Individual government T&T spending

→

Indirect T&T contribution
- T&T investment spending
- Government collective T&T spending
- Impact of purchases from suppliers

→

Induced contribution (spending of direct and indirect employees)
- Food and beverages
- Recreation
- Clothing
- Housing
- Household goods

→

Total T&T contribution
- To GDP
- To employment

Source: WTTC

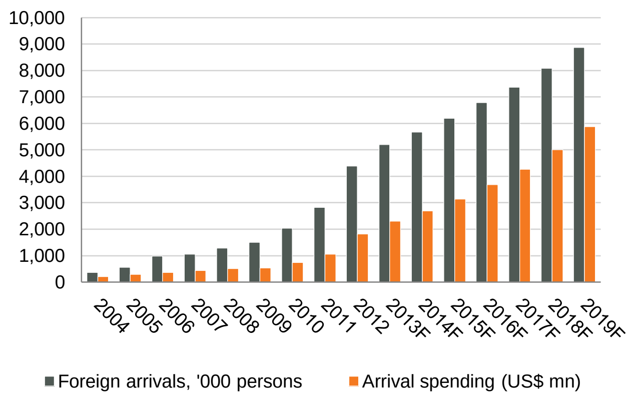
Georgia's current hotel capacity is much lower than in peer countries like Slovenia, Croatia, Cyprus, Estonia, Latvia, Lithuania, Montenegro, etc. With tourism on the rise and a shortage of rooms and beds looming, the timing for hotel development projects looks right as new facilities would come on-stream in time to meet rising demand.

Table 3: International arrivals, forecast

	2012	2013E	2014F	2015F	2016F	2017F	2018F	2019F
Number of international arrivals, mn	4.39	5.20	5.67	6.19	6.79	7.36	8.08	8.87

Source: GNTA, BOG Research

Figure 15: Number of arrivals and tourism revenues



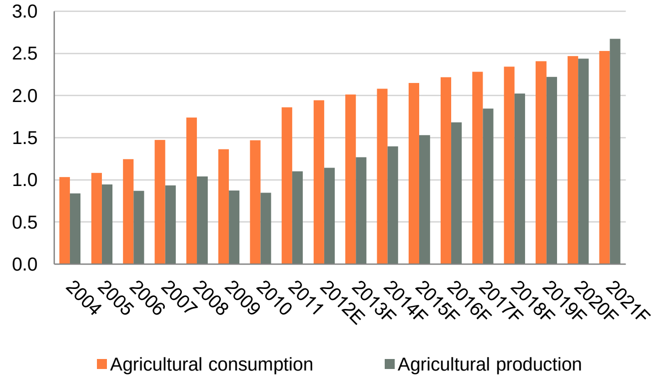
Source: GNTA, WB, BOG Research

No special permits or licenses are required to develop hotels in Georgia, only standard construction permits. In addition, Free Tourism Zones (FTZs) were established in the coastal cities of Kobuleti and Anaklia. According to the World Bank's Doing Business survey, the process of obtaining a construction permit has been simplified to just 9 procedures taking on average no more than 74 days. In addition, foreigners do not require special work permits and nationals of over 80 countries can enter Georgia for 360 days without a visa. In cases where required, one-year visas are issued at border points.

Agriculture – strong prospects

We expect domestic production to increase 1.4x in real growth terms by 2021, and to exceed consumption by 1.1x, resulting in higher exports. Since the fall of the Soviet Union, agriculture's share of GDP has fallen 20% to 9% in 2011. Georgia's 49 soil types and 22 microclimate zones support a variety of fruits and vegetables, while low pesticide use is favourable for organic farming. Georgia is also rich in water resources, with average annual renewable per capita water resources some 3.5-6.0x higher than Turkey, Armenia, Azerbaijan, and Ukraine and annual average precipitation double that of regional peers.

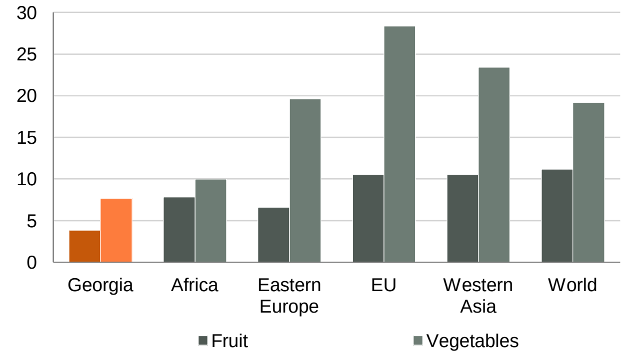
Figure 16: Agricultural production vs. consumption, US$ bn



Source: GeoStat, FAOStat, BOG Research

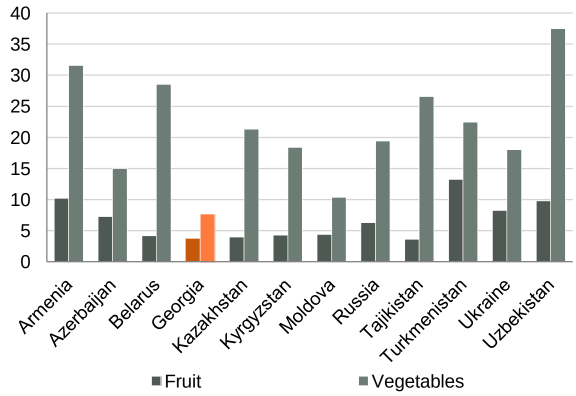
Georgian fruit and vegetable yields are significantly lower than global averages: as low as 2.9x below the world average on fruit and 2.5x on vegetables, and 1.7x and 2.6x lower than Eastern European fruit and vegetable yields, respectively. Productivity improvement over time should lead to higher exports and support the stability of exchange rate and lower inflation.

Figure 17: Agricultural yield comparison, 2011, t/ha



Source: FAOStat

Figure 18: Agricultural yields vs. CIS states, 2011, t/ha



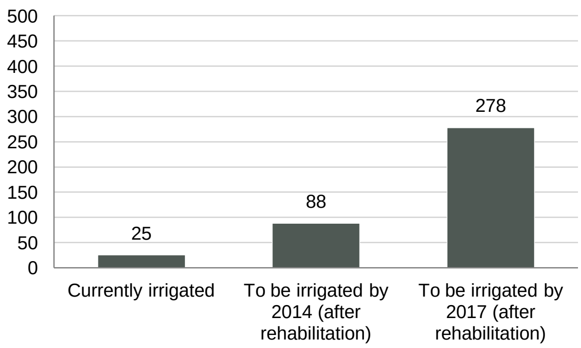
Source: FAOStat

CIS and EU markets import large volumes of fruit and vegetables, making them targets for Georgian exporters. In the CIS, sticking with a focus on the traditional product mix of alcoholic beverages and mineral water (which together accounted for 58% of agricultural exports to the CIS in 2011) and boosting vegetable and fruit exports should bode well for Georgia. Expected growth in fruit and vegetable consumption in the CIS will come from gradual growth in real incomes, in our view. Attractive opportunities also exist for organic production. Despite stable growth in organic farm production in Europe in recent years, demand for organic goods continues to outstrip supply. In 2004-2011, the European organic market almost doubled to EUR 21.5bn. Low chemical fertilizer and pesticide use positions Georgia well to tap into this opportunity.

Restored trade relations with Russia another key mid-term driver. Russia was Georgia's largest export market before it banned imports in 2006. A recent attempt to re-establish trade relations will have a strongly positive effect on the agriculture. In addition, DCFTA agreement with EU will provide more growth opportunities for exports.

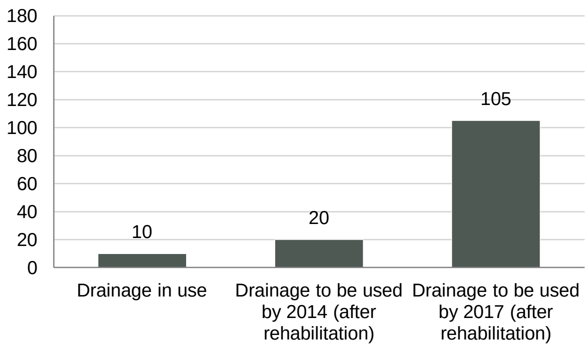
Ample government incentives for agriculture investment. The Georgian government supports agricultural development via incentives and investments, including infrastructure and logistics projects and rehabilitation of irrigation networks. State investments will introduce irrigation on up to 278,000ha of agricultural land by 2017, more than 11x the current 25,000ha. The state's recently established GEL 1.0bn (US$ 0.6bn) agriculture fund will subsidize interest rates on short- and long-term funding to farmers and support the creation of new value-added production capacities. In addition, Rural and Development Fund financed small land owners with vouchers to purchase agrochemicals and equipment, etc. Agriculture is also a key target sector for the state's private equity vehicle, JSC Partnership Fund, which aims to encourage the creation of new enterprises in the sector. Moreover, we expect land consolidation and the development of fruit and vegetable production to promote exports to the CIS and EU.

Figure 19: Area under irrigation, '000 ha



Note: Currently, 45,000ha is equipped for irrigation, of which only 25,000ha is fully irrigated
Source: MOA

Figure 20: Area under drainage, '000 ha



Source: MOA

Fragmented, smaller land plots hamper growth, but a land consolidation is looming. There are officially more than 0.8mn agro-holdings in Georgia. Up to 86% own arable and permanent crop land plots under 5ha. In contrast, 69% of holdings in the EU own land area under 5ha. The government plans to initiate legislation to incentivize small farmers to consolidate land plots, allowing them to unlock economies of scale and attract investment.

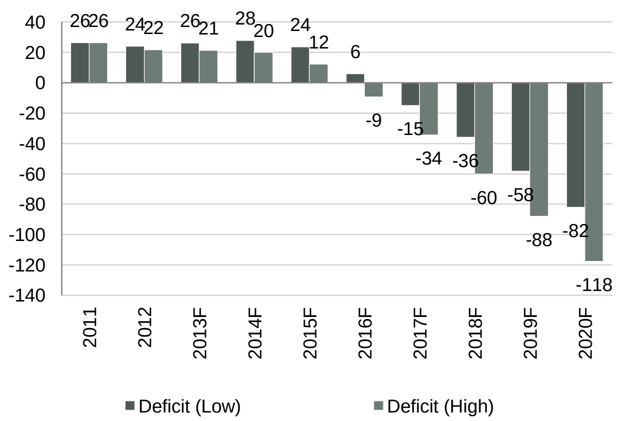
Energy – Giving hydro the green light

Electricity exports will become a strong contributor to GDP growth once major hydropower projects are completed. Georgia is a regional energy transit corridor, transporting diversified gas supplies and crude oil. Although electricity, gas, and water supplies currently account for around 3% of 2012 GDP, electricity generation may become one of the fastest growing GDP components in the coming years.

After more than a decade as a net electricity importer, Georgia became a net exporter in 2007. Georgia exported on average 0.9TWh annually over the past 5 years. Investments in fixed generation and distribution assets amounted to 8% of GDP over 2006-2010. Nevertheless, only 18% of the country's hydropower production capacity is utilized. Apart from the potential to produce 5x more hydropower, Georgia is also the cheapest hydroelectricity producer in the region.

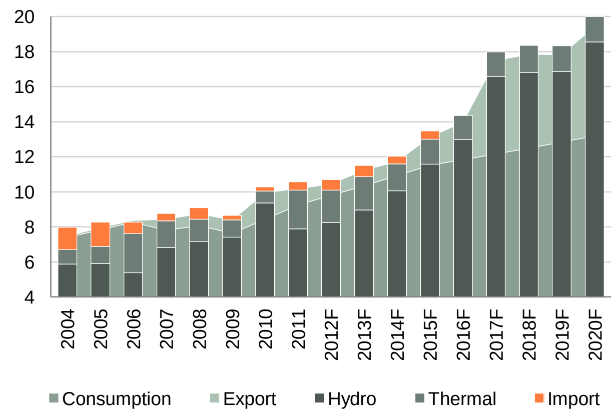
There are significant export opportunities to neighbouring countries, specifically to Turkey. A new 500kV/400kV line connecting Georgia to Turkey under the Black Sea Transmission Network project, with completion slated for this year, is expected to increase Georgia's export potential to Turkey by 750MWto 910MW. In September 2013, Turkey and Georgia signed the Interconnection Operation Agreement relating to 400kv Borcka-Akhaltsikhe interconnection line. This is the basic agreement between technical operators of two countries and is based on the Cross Border Electricity Trading Agreement which was signed by the two countries in January 2012 and ratified by the Parliament of Turkey in May 2013.

Figure 21: Projected Turkish electricity deficit, TWh



Source: TEIAS, BOG Research

Figure 22: Electricity generation in Georgia, TWh



Source: BOG Research

Georgian regulation of the hydropower sector offers potential investors ownership advantages. Newly built HPPs will remain the exclusive property of prospective investors (under a Build-Operate-Own scheme) in contrast to the BOT (Build-Operate-Transfer) system used in countries like New Zealand, Canada, and Australia. In addition, HPPs with installed capacity of less than 13MW have the right to operate without a license and sell generated power directly to consumers. Tariffs are fully deregulated for HPPs built after August 1, 2008 and Electricity System Commercial Operator (ESCO) guarantees purchase of electricity at market prices if sold locally during the winter to bridge the domestic supply gap.

Mining and Manufacturing – Free Industrial Zones

Manufacturing accounted for 11% of GDP in 2012. The sector is mainly driven by three large producers and exporters of gold and copper concentrates (RMG; previously Madneuli), ferroalloys (Georgian Manganese), and ammonium nitrate fertilizers (Rustavi Azot), which account for around 50% of the sector. Manufacturing posted double-digit growth in past years, but slowed since 4Q12. We expect single-digit sector growth over the mid-term, with the only downside risk being global commodity prices.

In 2007, Free Industrial Zone (FIZ) legislation was introduced. The new measures aim to encourage foreign investment in Georgia, stimulate exports and develop Georgia's international trade-transit activities. There are currently 3 Free Industrial Zones (Kutaisi, Poti, Tbilisi). The FIZs offer many competitive advantages like strategic locations, market access, reliable infrastructure and a low-cost, skilled workforce. Firms can export more than 7,200 goods under GSP+ terms to the EU from Georgia.

Reforms

Some of the reforms facing Georgia after the democratic transition of power in 2012 are significant, especially in overhauling the labour market. The presidential elections later this year will be the next test of Georgia's nascent democracy, but the government's priority is to further improve a business-friendly environment and forge ahead with reforms. Improving trade relations with Russia is also high on the agenda. Some of the on-going reforms include:

Healthcare: According to the IMF, the introduction of universal health insurance (starting in 2013) should improve health outcomes and reduce high costs in the healthcare sector (around 10% of GDP), provided public sector capacity is sufficient.

Competition law: A new competition law is working its way through government to enhance stronger competition in economy; in the World Economic Forum's 2011-2012 Global Competitiveness Report Georgia ranked 135th in "effectiveness of anti-monopoly legislation" and 128th in "intensity of local competition."

Investment funds: The government plans to promote FDI through a number of investment funds, including: Georgian Sovereign Fund, private investment fund, agriculture fund, etc.

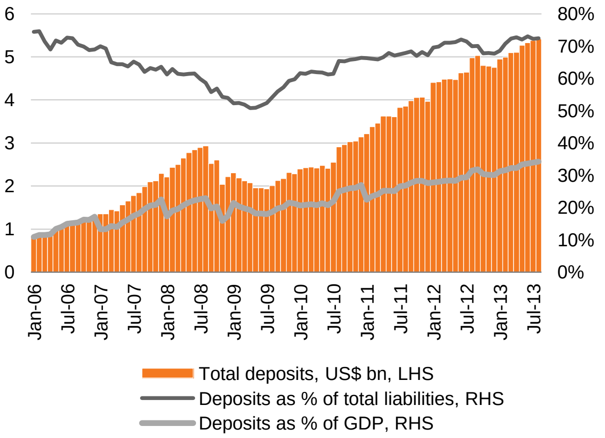
Labour code: Parliament earlier this year introduced a new Labour Code to improve employee protection and bring Georgia in-line with ILO and EU commitments. Employers now need to give clearer reasons for dismissal and possibly increased severance pay, both of which are expected to increase job motivation and productivity but may add cost to businesses.

Education: The government plans to improve education standards by enabling greater access to pre-school institutions, allocating additional financing for textbooks, and boosting salaries for teachers.

Financing the Economy

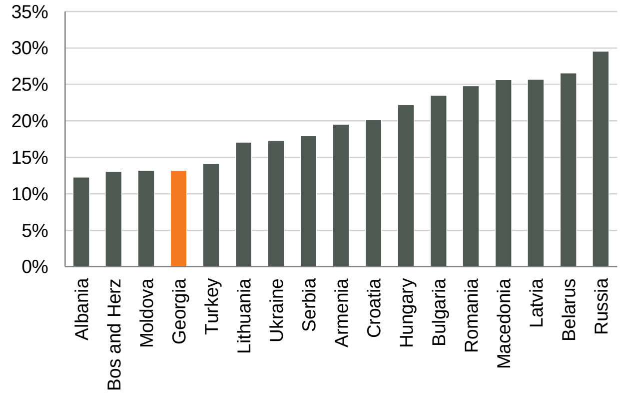
The domestic savings rate has improved in recent years after being low historically on increased real disposable income, tax breaks and more affordable credit. However, low incomes and still tight credit conditions continue to force a large part of the population to spend disposable income on current consumption.

Figure 23: Banking sector deposits in Georgia



Source: NBG

Figure 24: Gross savings as % of GDP vs. peers, 2011



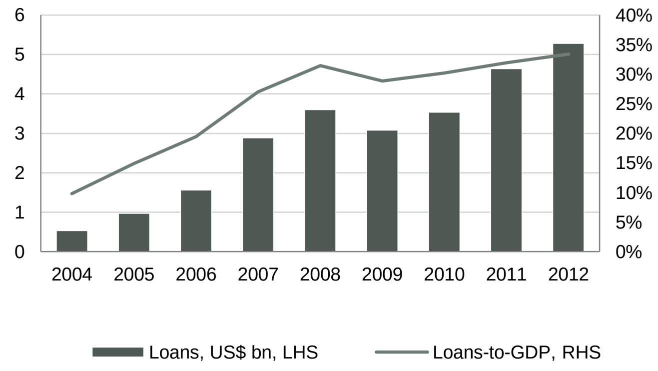
Note: Gross savings are calculated as gross national income less total consumption, plus net transfers

Source: WB

Pension and insurance funds are yet in early stage of development, not able to ensure the accumulation of additional investment financing. Moreover, many less wealthy people have not internalized the importance of saving for old-age security.

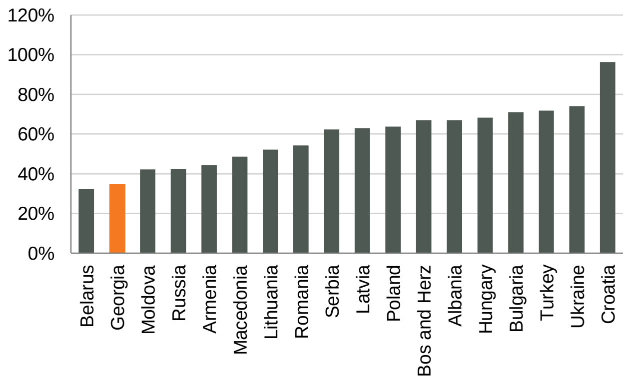
Given those factors, it comes as no surprise that Georgia's banking sector has one of the lowest penetration ratios among peer countries, with 2012 assets-to-GDP and loans-to-GDP at 55% and 34%, respectively partly due to high interest rates and the population's low earnings. Penetration is also low as the National Bank of Georgia requires that banks to apply a 175% risk-weighting to FX loans (except for export oriented borrower exposures). The interest rates have been declining from the beginning of 2012 and came to 13.4% on FX loans and to 20.8% on GEL loans in May 2013 (remaining on this level as of end August) thus stimulating the improvement of penetration in the medium term.

Figure 25: Banking sector loan book



Source: NBG, GeoStat

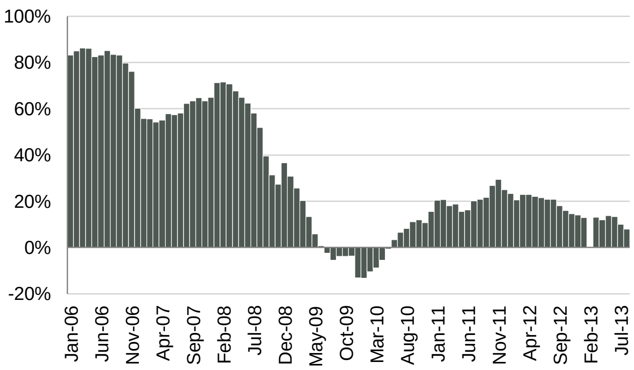
Figure 26: Penetration ratios (domestic loans as % of GDP), 2012



Source: WB

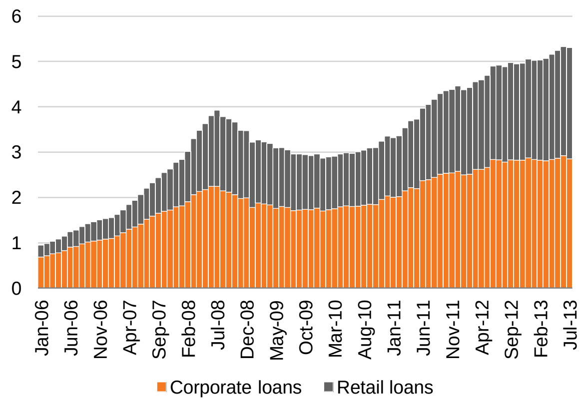
Economic headwinds and a pause by borrowers seeking clarity have led to a slowdown of loan book growth. Corporate borrowers account for the largest share of Georgia's loan book at 54%, while trade and industry still lead demand. Mortgages are the largest retail category.

Figure 27: Banking sector loan growth – nominal, y/y



Source: NBG

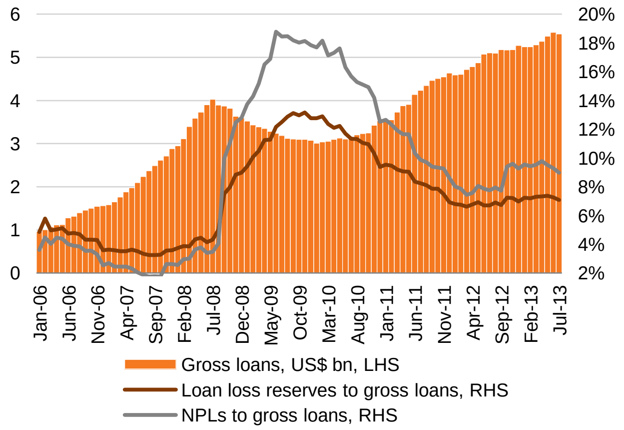
Figure 28: Banking sector loans, US$ bn



Source: NBG

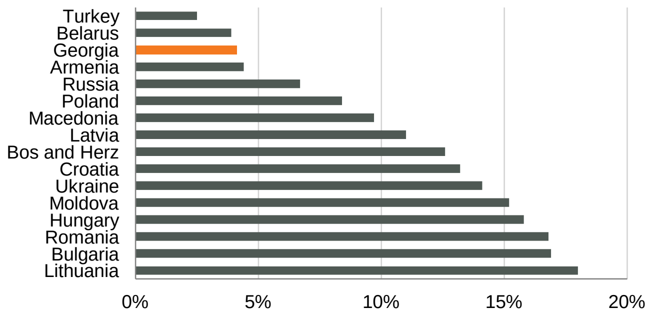
NPLs remain stable. Although the share of non-performing loans increased and profitability is down since 3Q12, the banking sector continues to report comfortable capital and liquidity levels. NBG definition of NPLs is generally more conservative than the standard 90-day-overdue definition.

Figure 29: Loan quality and loan loss provisions



Source: NBG

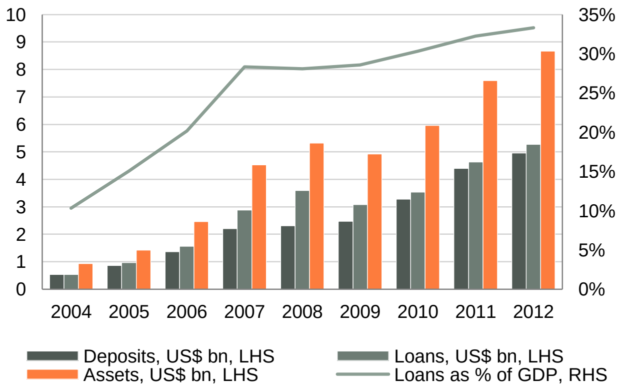
Figure 30: NPLs as % of total loans, 2012



Note: The NPLs in these two charts are different as NBG has a more conservative assessment of NPLs

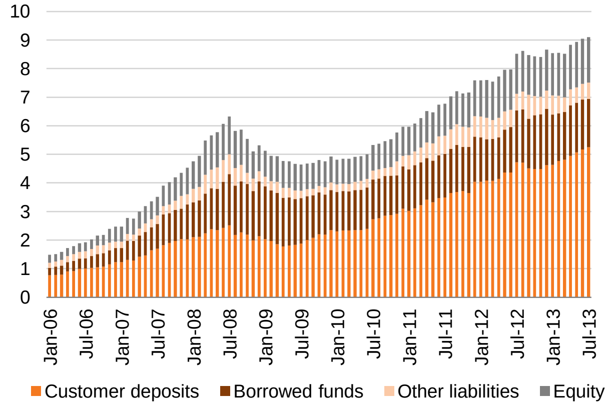
Source: WB

Figure 31: Banking sector assets, loans, deposits



Source: NBG, GeoStat

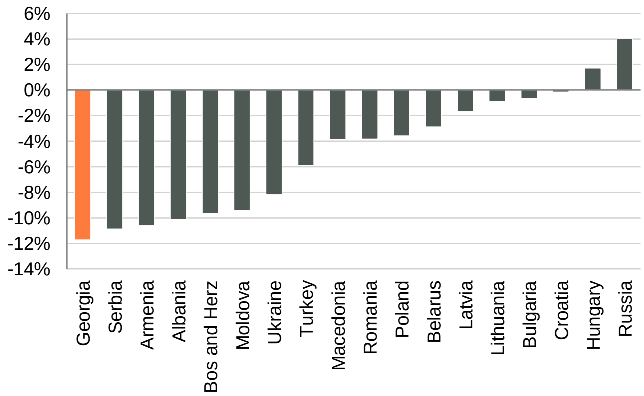
Figure 32: Banking sector funding structure, US$ bn



Source: NBG

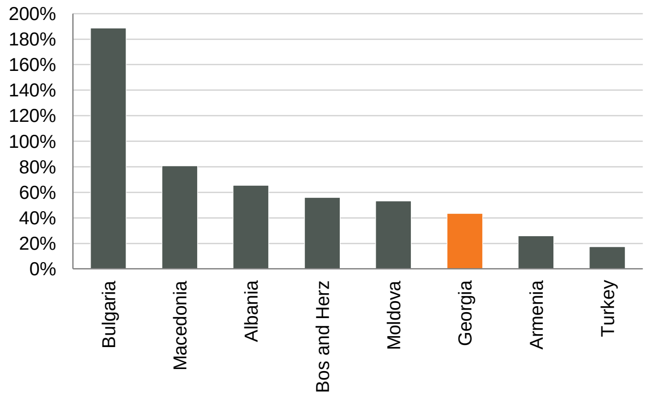
Georgia's current account deficit was at 11.7% of GDP in 2012, the highest among peer countries, largely due to spending on fixed capital formation. However, the spending on fixed capital formation provides long-term economic benefits. On a positive side, C/A deficit was reduced to 5.7% in 1H13, on the back of strong travel inflows.

Figure 33: Georgia's current account deficit vs. peers, 2012



Source: IMF, NBG, GeoStat

Figure 34: Net current transfers from abroad as % of trade deficit vs. peers, 2012

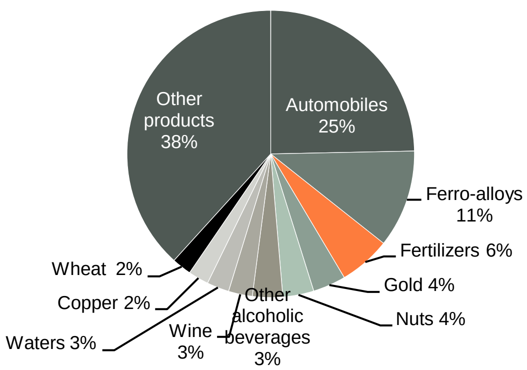


Note: Belarus, Croatia, Hungary, Lithuania and Russia posted current account surpluses in 2012 and were excluded. Data for some peers is not available

Source: WB

Current account deficit stems from trade deficit in goods, with surplus in services not fully able to compensate for imbalance. Trade in services is dominated by travel inflows.

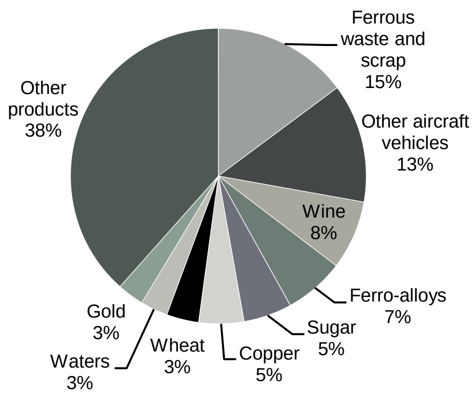
Figure 35: Export breakdown, 2012



Note: Other products too detailed to be shown separately

Source: GeoStat

Figure 36: Export breakdown, 2004

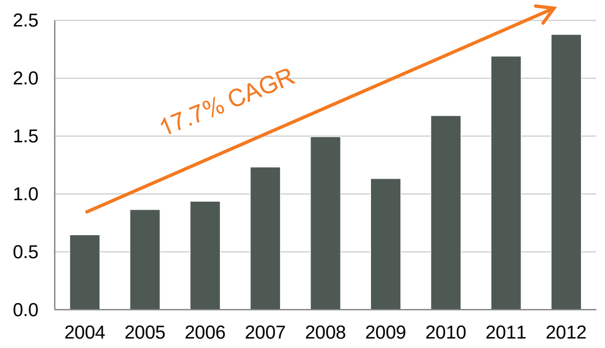


Note: Other products too detailed to be shown separately

Source: GeoStat

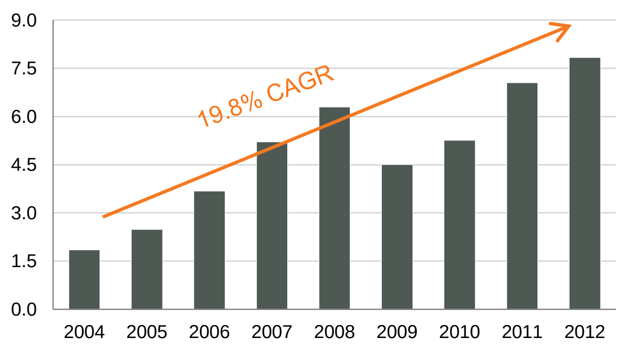
In merchandise trade, oil products and cars were the largest import items in 2012, accounting for 11% and 8% of total imports, respectively. Cars and ferroalloys led exports (cars are mainly re-exported from Georgia) at 25% and 11% of 2012 exports, respectively.

Figure 37: **Foreign trade, exports,** US$ bn



Source: GeoStat

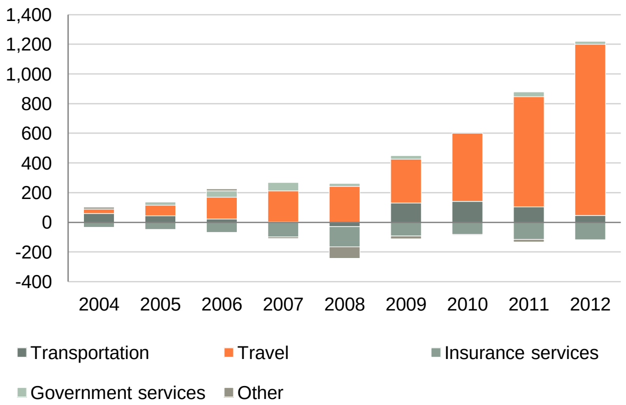
Figure 38: **Foreign trade, imports,** US$ bn



Source: GeoStat

Georgia's exports grew significantly over 2004 – 2012. Export grew 109.7% from 2009 to 2012 while import grew only 74.3%. Motor cars accounted for the largest share in growth with around 6.6% in 2009-2012 CAGR, on our estimates. Ferro-alloys were the second largest item at around 3% contribution to CAGR.

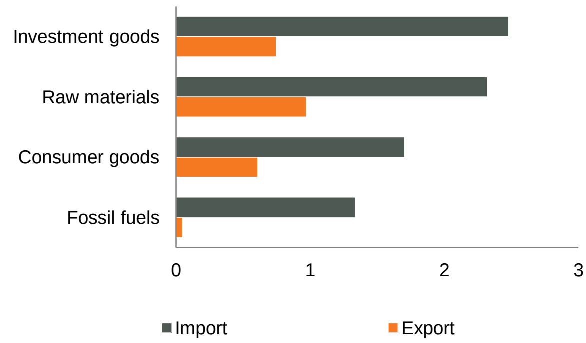
Figure 39: Services trade structure, US$ mn



Note: Travel includes both inflows and outflows

Source: NBG

Figure 40: 2012 commodity trade structure, US$ bn

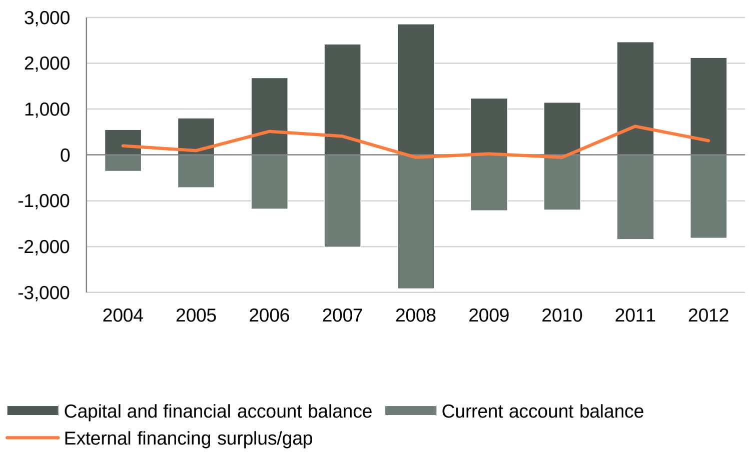


Note: Georgia's export of investment goods include: vehicles, aircrafts and their parts, electrical equipment and their parts (part of these exports may be re-exports)

Source: GeoStat

The current account deficit in 2012 was significant at 11.7% of GDP, the highest among peers. A large part of the C/A deficit in 2012 was financed by bond issues by three Georgian companies: Georgian Oil and Gas Corporation, Georgian Railways and Bank of Georgia, with around US$ 1bn in bond proceeds. Non-resident deposits which increased to US$ 230mn (about 1.5% of GDP), attracted by dollar interest rates of around 8.0% (currently 5.2%) also helped offset the C/A deficit in 2012. The IMF has called for a gradual reduction of the C/A deficit from 11.5% to 6.5% over the medium-term through fiscal consolidation, a higher private savings rate, an exchange rate adjustment, and structural reforms to improve competitiveness.

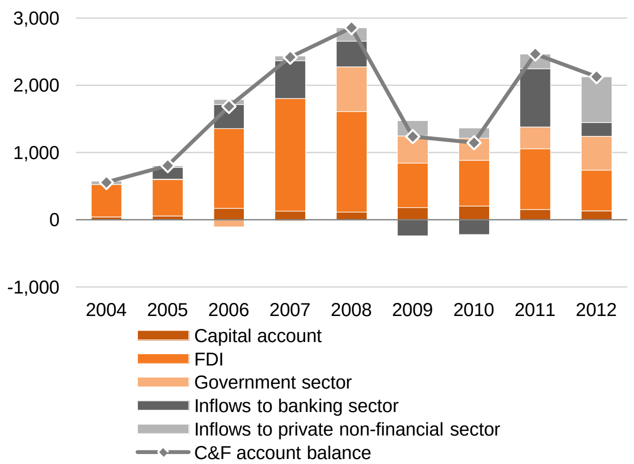
Figure 41: External financing surplus/gap, US$ mn



Source: NBG

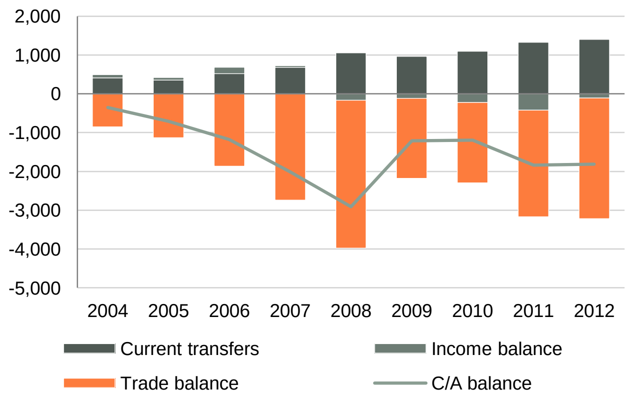
The C/A deficit dropped to 5.7% of GDP in 1H13. The deficit decreased in 1H13 by 57% y/y as the negative trade balance in merchandise dropped 19% y/y to US$ 1.6bn, while the services trade surplus was up 35% y/y to US$ 601mn on the back of stronger travel inflows. Meanwhile, current transfers added 12% y/y in 1H13 to US$ 727mn. On the capital account side, the inflows were not as strong as in 1H12 (US$ 1.0bn) with only US$ 731mn in 1H13 but the travel inflows have financed the reduction off C/A deficit, off-setting the large share of deficit in merchandise trade.

Figure 42: Capital and financial account balance, US$ mn



Source: NBG, BOG Research

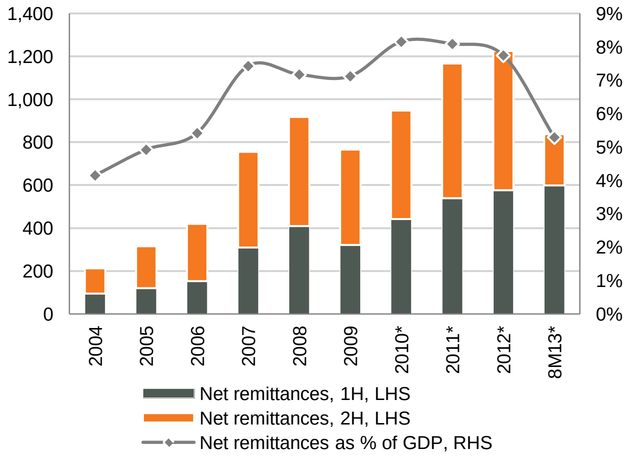
Figure 43: Current account balance, US$ mn



Source: NBG, BOG Research

On the current transfers' side, remittances have been stable at around 8% of GDP in the last few years mainly from Russia which accounted for more than half of all net inflows.

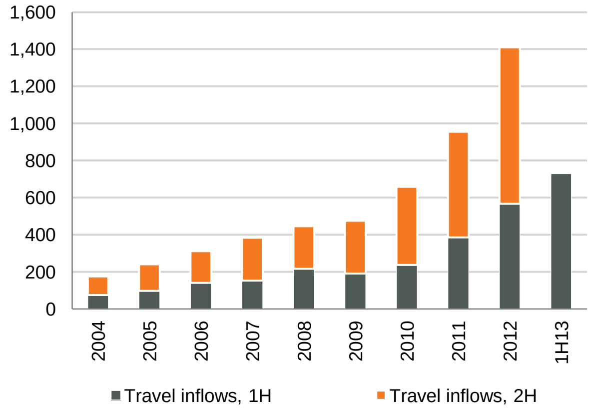
Figure 44: Net remittances, US$ mn



Note: Including remittances from micro finance institutions

Source: NBG

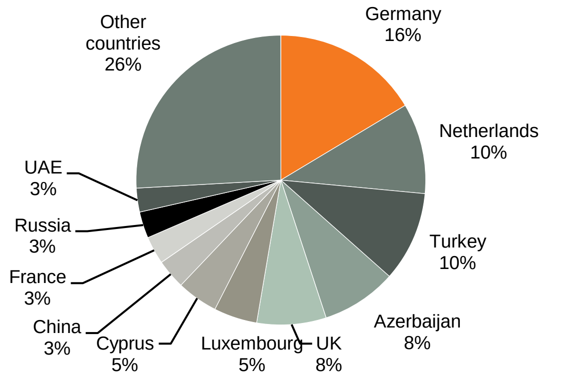
Figure 45: Travel inflows, US$ mn



Source: NBG

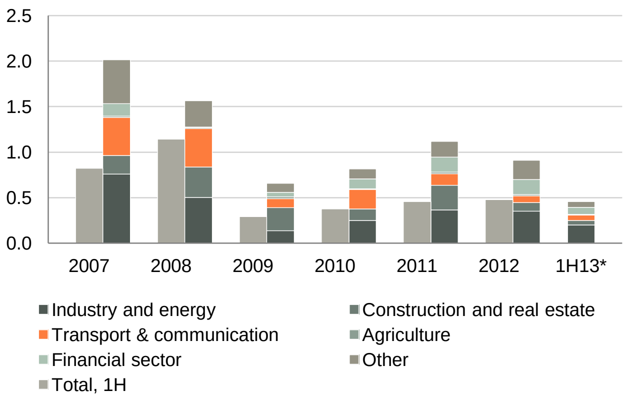
Industry (mining and manufacturing) and energy received the most FDI with US$ 352mn (39% of net inflows) in total in 2012, followed by financial and construction/real estate at US$ 163mn and US$ 95mn, respectively. FDI inflows slowed in late 2012 on the back of political uncertainty and delays in policy implementation. Statistics Department's FDI estimate for 1H13 suggests an FDI remained almost flat decreasing only 4% y/y to US$ 459mn. The industry and energy sectors account for 44% of total inflows, while financial sector received 17% of total FDI.

Figure 46: FDI inflows by origin country, FY12



Source: GeoStat

Figure 47: FDI inflows by sector, US$ bn



*Note: *preliminary data by the State Department of Statistics*

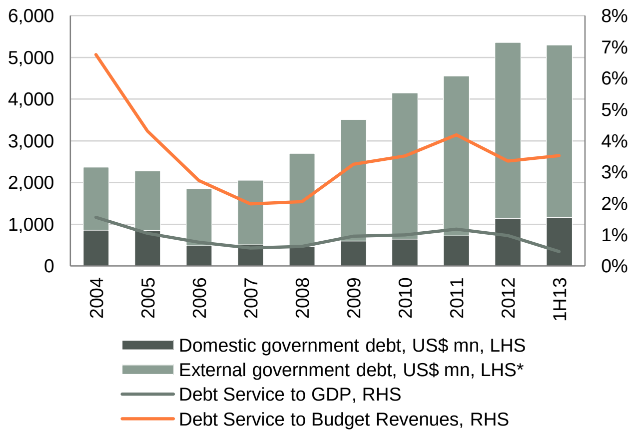
Source: GeoStat

In July 2013, Georgia and the EU concluded talks on a Deep and Comprehensive Free Trade Agreement (DCFTA) sooner than we expected and the final agreement should be signed once the sides finalize a few procedural issues. The talks focused mainly on a common-customs zone of about 500mn consumers.

Gross external debt (GED, which includes government and non-government debt) increased 15.8% y/y to US$ 13.4bn in 2012 (84% of GDP). Of this, US$ 8.6bn is private.

External government debt is relatively low at US$ 4.2bn (27% of 2012 GDP) and total government debt at US$ 5.4bn (34% of 2012 GDP). With ample room before reaching the 60% limit stipulated by the Economic Liberty Act, Georgia can tap additional debt to spur economic growth, if needed.

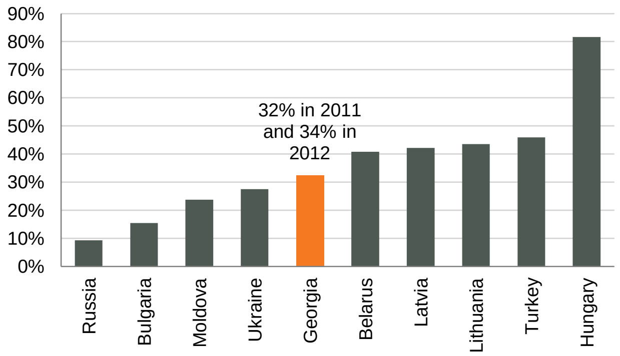
Figure 48: Total government debt (incl. ext. and int. debt)



Note: SDR holdings were added back to external government debt

Source: MOF, BOG Research

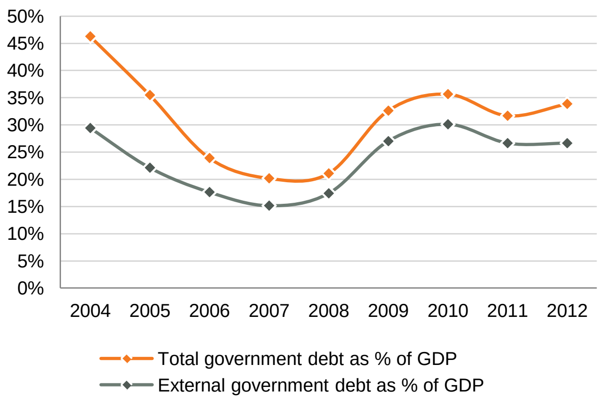
Figure 49: Total government debt-to-GDP vs. peer countries, 2011



Note: The data was not available for all peers and for 2012

Source: WB

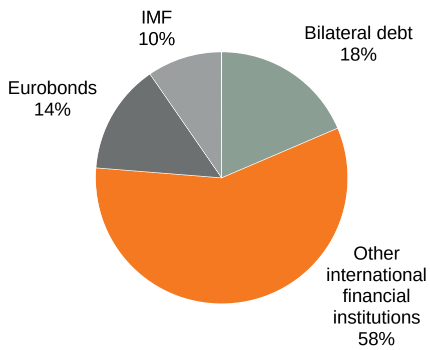
Figure 50: Government debt as % GDP



Source: MOF

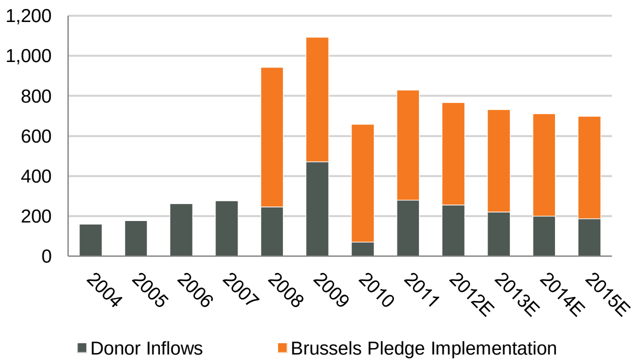
The donor-mobilised external financing package during the 2008 conflict with Russia has been partly utilized, with US$ 1.5bn remaining from the pledged US$ 4.5bn, on our estimates. We expect disbursements to continue in the next several years.

Figure 51: External government debt structure, 2012



Source: MOF

Figure 52: Donor inflows (US$ mn)



Source: MOF, estimate by BOG Research

The challenge will be to mobilise private funding for investments in key sectors. Political clarity closer to the year-end and legislative revisions bring certainty to the business environment and, along with state support, boost private investment into the economy. A further normalisation of trade relations with Russia and conclusion of DCFTA with EU will support export-led growth. External market uncertainty has been mitigated by a precautionary arrangement with the IMF. Moreover, if a revenue gap arises, we expect the government to tap debt markets for extra funding.

Georgia first tapped global debt markets in April 2008, issuing a US$ 500mn 5-year bond. In April 2011, the country issued a second US$ 500mn Eurobond, refinancing the 2008 issue at a cheaper rate and for a longer maturity of 10 years.

Table 4: Georgia Sovereign Eurobond key parameters

Issue	Principal outstanding	Yield at placement	Coupon	Maturity	Current Ratings	
Georgia	US$ 500mn	7.125%	6.875%	April 2021	Fitch /S&P/ Moody's	BB-/ BB-/ Ba3
GR 1	US$ 28mn	10.000%	9.875%	July 2015	Fitch /S&P/ Moody's	BB-/ BB-/-
GR 2	US$ 500mn	7.750%	7.750%	July 2022	Fitch /S&P/ Moody's	BB-/ BB-/-
GOGC 1	US$ 250mn	7.125%	6.875%	May 2017	Fitch /S&P/ Moody's	BB-/B/-

Source: Bloomberg

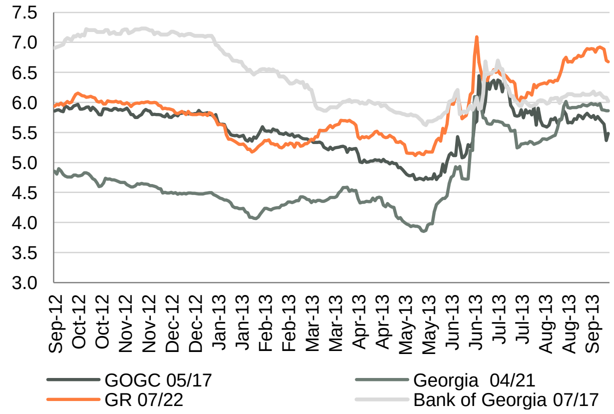
The successful sales strategically extended Georgia's maturity profile and established a new liquid benchmark for other private and quasi-sovereign borrowers. State-owned Georgian Railway (GR) and Georgian Oil and Gas Corporation (GOGC) were quick to follow suit and issue debut Eurobonds in 2010 and 2012, respectively. GR was Georgia's first EMBI-eligible benchmark corporate bond. Two companies together issued US$ 750mn in Eurobonds (almost 5% of GDP), of which US$ 250mn matures in 2017 and US$ 500mn matures in 2022.

Table 5: Eastern European sovereign 10-year bond performance

Issuer	Amount, US$ mn	Coupon	Maturity date	Ratings (Fitch/S&P/Moody's)	Mid price, US$	Mid yield, %
Ukraine	1,500	7.950%	23/2/2021	B/B/Caa1	90.2	10.7
Georgia	500	6.875%	12/4/2021	BB-/BB-/Ba3	106.8	5.7
Hungary	3,000	6.375%	29/3/2021	BB+/BB/Ba1	105.4	5.2
Turkey	2,000	5.625%	30/3/2021	BBB-/NR/Baa3	106.3	4.9
Romania	2,250	6.750%	07/2/2022	BBB-/BB+/Baa3	114.3	4.7
Latvia	500	5.250%	16/6/2021	BBB+/BBB+/Baa2	107.5	4.0
Slovakia	1,500	4.375%	21/5/2022	A+/A/A2	102.0	3.9
Lithuania	1,500	6.125%	09/3/2021	BBB+/BBB/Baa1	113.2	3.9
Poland	2,000	5.125%	21/4/2021	A-/A-/A2	108.9	3.8
Russia	3,500	5.000%	29/4/2020	BBB/BBB/Baa1	106.3	3.7
Bulgaria	323	5.000%	19/7/2021	BBB/-/-	111.1	3.3
Czech Republic	2,750	3.875%	24/5/2022	A+/AA-/A1	111.3	2.3

Source: Bloomberg

Figure 53: Georgian Eurobond yields, %



Source: Bloomberg

Georgia's exchange rate is officially floating but in reality it's dollar-pegged in a narrow range. Due to high inflation in recent years the GEL appreciated in real effective terms. The GEL/USD exchange rate has fluctuated in a range of 1.23 - 2.45 from its inception in 1995, relatively stable for a currency of 18 years.

Figure 54: GEL/USD exchange rate from inception of GEL

Source: NBG

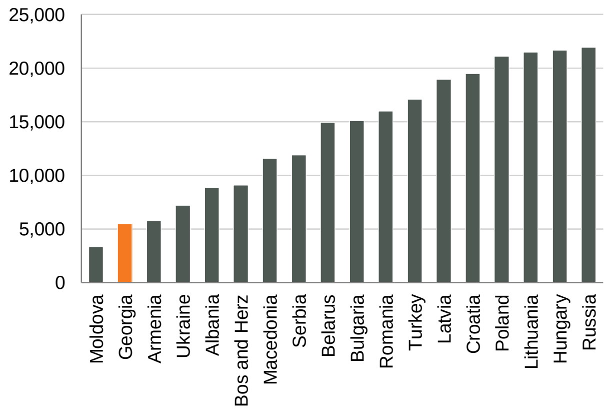
The exchange rate appreciated slightly in 1H12 before retreating in the 2H12. The GEL appreciated 1.5% against the US$ in 1H12 on the back of strong capital inflows. As these flows (especially FDI inflows) subsided in the 2H, the NBG scaled back FX purchases (even selling FX around the election) to maintain FX stability.

Figure 55: Real Effective Exchange rate (rebased to 100 in January 2006)

Note: Real Effective Exchange rate is calculated as a weighted average of Real Exchange Rates of 14 main trade partners.

Source: NBG

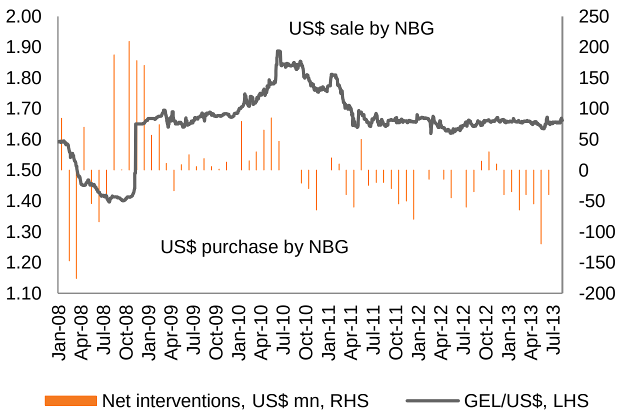
Figure 56: GDP per capita PPP, current prices (US$), 2012



Source: WB

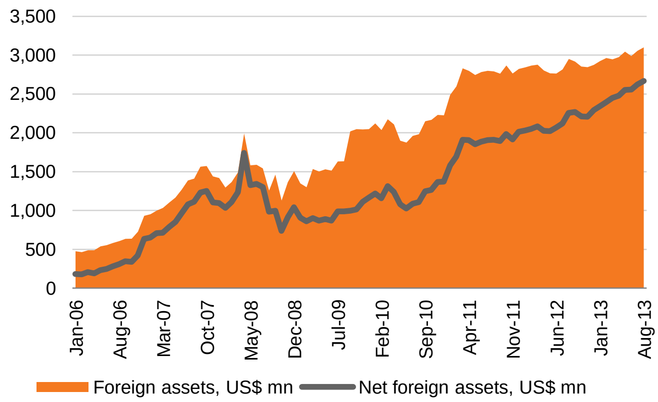
International reserves are on the rise, while depreciation pressures from the C/A have been manageable in recent years. The NBG continues to accumulate gross international reserves, up to US$ 3.09bn in 8M13 from US$ 2.87bn as of YE12, partly as a result of increasing tourism receipts. In 8M13, net FX buying by NBG was US$ 475mn. In 2013, NBG repaid US$ 205mn to IMF and US$ 48mn of other liabilities. IMF financing is available to mitigate the short-term negative impact of external shocks if external inflows weaken.

Figure 57: GEL exchange rate and NBG interventions



Source: NBG

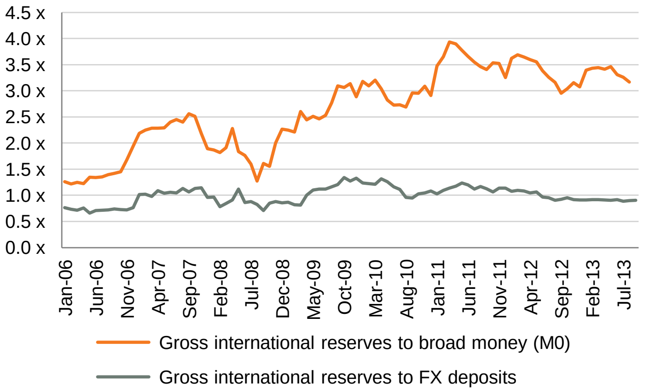
Figure 58: NBG gross and net international reserves



Source: NBG

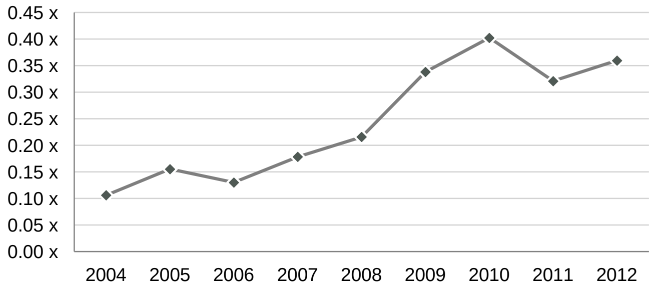
Gross international reserves to next year's imports has been rising for past several years. The only drop came in 2011 as the country accumulated relatively less reserves in 2010, while the total imports surged to the record high – US$ 7.1bn (according to the NBG) in 2011. Georgia's reserves currently cover more than 4.4 months of 2012 imports.

Figure 59: Gross international reserves to M0 and FX deposits



Source: NBG

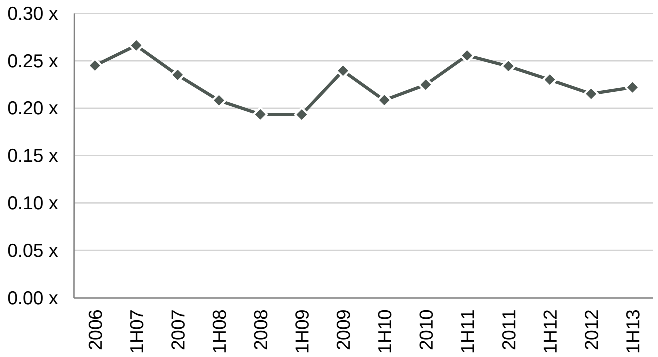
Figure 60: Gross international reserves-to-annual imports



Source: NBG

Gross international reserves to reserve money has steadily been rising, while reserves to FX deposits and reserves to gross external debt even though showed some fluctuation, has been mostly stable for the past few years.

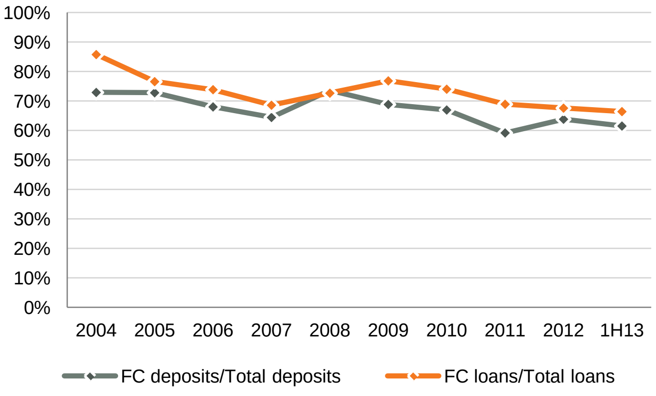
Figure 61: Gross international reserves to gross external debt



Source: NBG

De-dollarization remains on the NBG's agenda, with plans to encourage GEL use through financial sector policies. The NBG has already relaxed collateral standards for refinancing loans and is encouraging banks to issue long-term standardized GEL CDs and etc. The dollarization rates have already come down several percentage points from 64% for deposits and 68% for loans as of end 2012 to 62% for deposits and 66% for loans in 1H13.

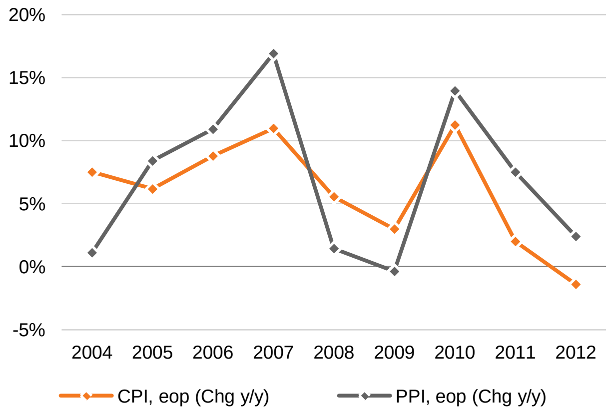
Figure 62: Dollarization of deposits and loans



Source: NBG

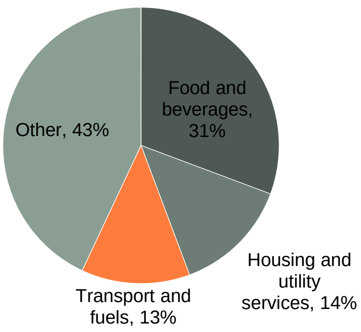
Georgia posted headline deflation of 1.4% in 2012 largely due to falling food prices (27% of the basket). A slight exchange rate appreciation contributed to deflation through reduced import prices and non-food (core) inflation fell to around zero. Slower bank lending also contributed to lower inflation in 2012. Georgia's y/y deflation as of end September was 1.3%.

Figure 63: CPI and PPI, eop, Chg y/y



Source: GeoStat

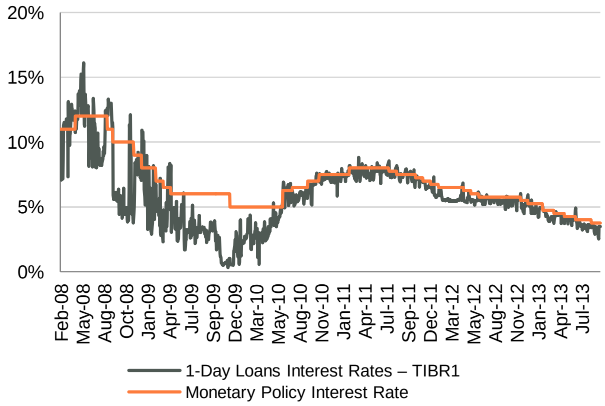
Figure 64: Consumer basket structure, 2012



Source: GeoStat

Subdued inflation and slowing economic growth prompted the NBG to ease monetary policy by cutting rates from 8% in June 2011 to 3.75% in August 2013. GEL deposit rates fell in 2012 by around 3ppts, partly due to the rate cuts, while GEL lending rates remained at over 20%.

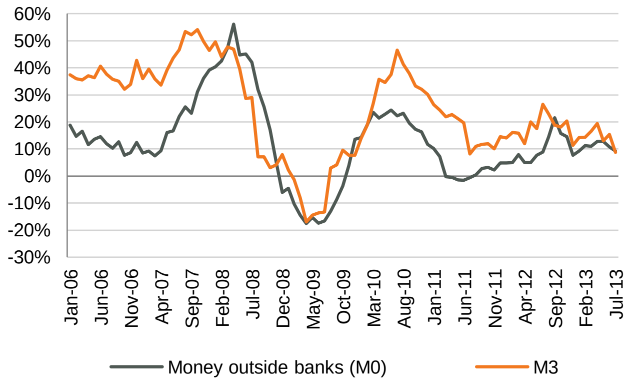
Figure 65: Interbank and Monetary Policy rates



Source: NBG

Monetary base growth has accelerated since January 2009 stimulating the economic growth. In the absence of stock and bond market, the monetary base indicators demonstrate the change in deposits and money market funds during the period.

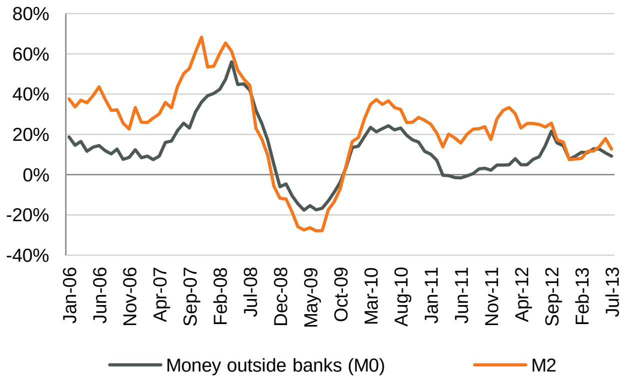
Figure 66: Money outside banks and M3, % change y/y



Note: M2 (broad money, excluding foreign currency denominated deposits) – comprises narrow money (M1) and term and saving deposits of resident nonfinancial sector and households in national currency with commercial banks, excluding deposits of the banking and government sectors.

Source: NBG

Figure 67: Money outside banks and M2, % change y/y



Note: M3 (broad money) – comprises M2 plus deposits of resident nonfinancial sector and households in foreign currency, excluding deposits of the banking and government sectors.

Source: NBG

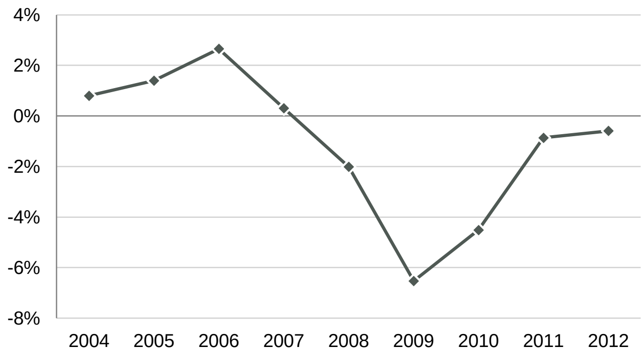
Fiscal Consolidation Continues

Economic Liberty Act to shape Georgia's fiscal policy. Georgia adopted the Economic Liberty Act in 2009 effective from 2014. The Act seeks to limit the discretion of the executive branch of government and to maintain low taxes. The Act also proposes changes to the Constitution that bans the introduction of new taxes (except excise taxes) or hikes in tax rates without the electorate's approval through a nationwide referendum.

The Act also stipulates long-term upper limits for budget expenditures (30% of GDP), budget deficit (3% of GDP), and public debt (60% of GDP), although the government will retain tactical short-term flexibility.

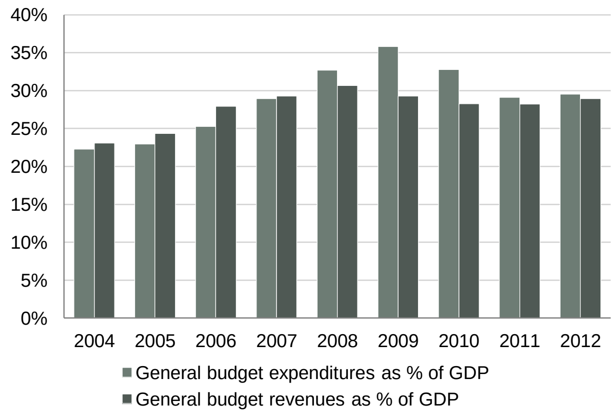
The government remains committed to gradually reducing the fiscal deficit to 1.5% of GDP by 2017 and cutting public debt, which should help narrow the current account deficit, according to IMF. Budget deficit management will focus on increasing the efficiency of capital expenditures while reining in other current expenditures.

Figure 68: Fiscal deficit as a % of GDP



Source: MOF

Figure 69: Expenditures and revenues as % of GDP

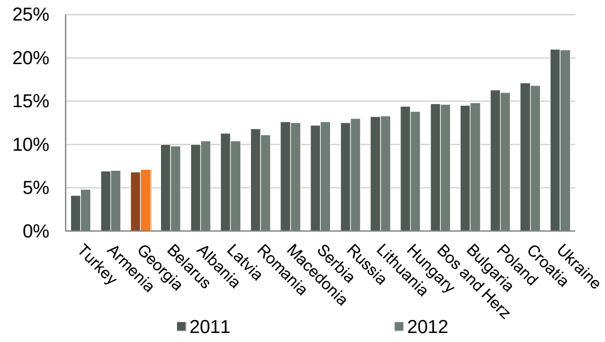


Source: MOF

Focus on streamlining capital expenditures. The fiscal deficit target stands at 2.8% of GDP for 2013. From 2014, the government aims to meet the requirements of the Economic Liberty Act adopted in July 2011.

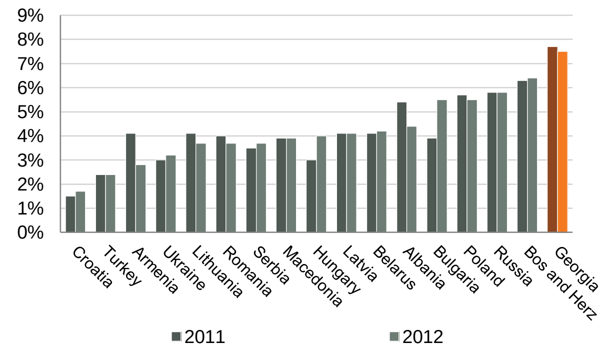
Reprioritizing capital spending should allow the government to increase social spending, currently the lowest among peers. In order to raise social expenditures, the government focused fiscal consolidation efforts on streamlining and reprioritizing capital expenditures (away from spending on buildings). According to 2013 budget, the government expects to receive around GEL 650mn of long-term loans for infrastructural projects from external creditors (mainly IFIs) of which almost half are on account of the World Bank and the Asian Development Bank.

Figure 70: Government social expenditures as a % of GDP



Source: IMF

Figure 71: Government capital expenditures as a % of GDP



Source: IMF

The large proportion of capital expenditures creates a buffer for the state budget if downside risks related to slower business activity materialize. In that case, social spending will not be affected.

Tax collection is the main revenue source, accounting for 88% of total revenues in 2012. In 2013, budget revenues are projected at GEL 7.7bn according to IMF. Privatization revenues had been an important source of budget financing until 2008, when foreign borrowing took the lead. However, privatization no longer plays a significant role as the process is nearly complete. Privatization revenues accounted for 20% of total budget revenues in 2006 and 4% in 2012. Low business activity remains a downside risk to budget revenues. To boost revenues, business needs certainty in its operating environment and completion of policy reforms is the key for boosting the business activity. Provision of fiscal rule in the form of Economic Liberty Act is a positive step in this direction.

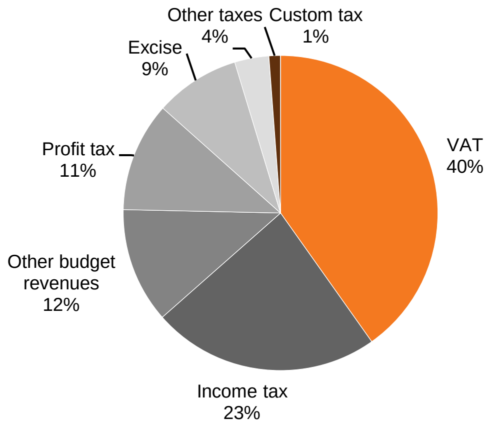
Table 6: Taxes in Georgia

	2011	2012F	2013F	2014F
VAT	18%	18%	18%	18%
Income Tax	20%	20%	20%	20%
Social Tax	nil	nil	nil	nil
Corporate Profit Tax	15%	15%	15%	15%
Dividend & Interest Income Tax	5%	5%	5%	5%
Property tax	up to 1%	up to 1%	up to 1%	up to 1%

Source: BOG Research, Georgia's pocket tax book

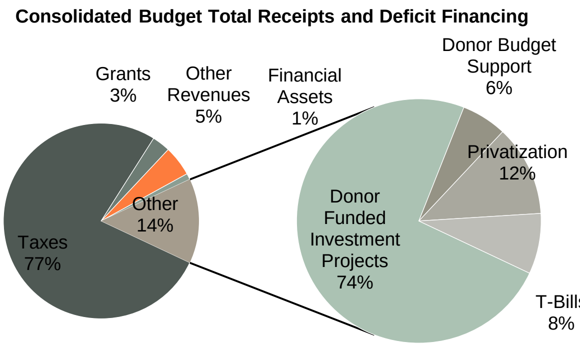
Comparing Georgia to peer countries in terms of overall tax burden is difficult, as some countries have lower tax rates but higher tax burdens due to deductions other than income tax.

Figure 72: Structure of budget revenues, 2012



Source: MOF

Figure 73: Financing of Georgia's budget deficit in 2012



Note: Taxes on the right-hand side and the left-hand side may not match
Source: MOF

Macro Statistics

	2005	2006	2007	2008	2009	2010	2011	2012	1H13
Economic activity									
Real GDP, y/y	9.6%	9.4%	12.3%	2.3%	-3.8%	6.4%	7.2%	6.1%	1.9%
Nominal GDP, GEL bn	11.62	13.79	16.99	19.07	17.99	20.74	24.34	26.14	12.27
change y/y	18.3%	18.7%	23.2%	12.2%	-5.7%	15.3%	17.4%	7.4%	2.0%
Nominal GDP, US$ bn	6.41	7.76	10.17	12.80	10.77	11.64	14.44	15.83	7.42
change y/y	25.1%	21.1%	31.1%	25.8%	-15.9%	8.1%	24.1%	9.6%	1.5%
Nominal GDP per capita. US$	1,484	1,764	2,315	2,921	2,455	2,623	3,231	3,520	1,654
change y/y	24.9%	18.9%	31.2%	26.2%	-15.9%	6.8%	23.2%	8.9%	1.8%
Prices									
CPI, eop	6.2%	8.8%	11.0%	5.5%	3.0%	11.2%	2.0%	-1.4%	0.2%
CPI, average	8.2%	9.2%	9.2%	10.0%	1.7%	7.1%	8.5%	-0.9%	-0.8%
PPI, eop	8.4%	10.9%	16.7%	1.4%	-0.4%	14.0%	7.5%	2.4%	-1.5%
PPI, average	7.5%	10.8%	11.6%	9.8%	-5.5%	11.3%	12.8%	1.6%	1.0%
GDP deflator	7.9%	8.5%	9.7%	9.7%	-2.0%	8.5%	9.2%	1.2%	na
Exchange rates									
US$/GEL, eop	1.79	1.71	1.59	1.67	1.69	1.77	1.67	1.66	1.65
US$/GEL, average	1.81	1.78	1.67	1.49	1.67	1.78	1.69	1.65	1.65
Money & credit									
Base money, GEL bn	1.01	1.27	1.79	1.64	1.87	2.08	2.90	3.26	3.18
Chg. y/y	16.2%	26.3%	41.0%	-8.5%	14.2%	11.0%	39.4%	12.2%	14.7%
Broad money (M2), GEL bn	1.10	1.47	2.26	2.00	2.33	2.96	3.78	4.07	4.35
Chg. y/y	28.9%	33.4%	53.6%	-11.7%	16.6%	27.0%	27.8%	7.6%	18.0%
% of GDP	9.5%	10.7%	13.3%	10.5%	13.0%	14.3%	15.5%	15.6%	na
Broad money (M3), GEL bn	1.96	2.80	4.10	4.42	4.76	6.20	7.10	7.90	8.35
Chg. y/y	27.9%	42.7%	46.4%	7.9%	7.7%	30.1%	14.5%	11.4%	15.3%
% of GDP	16.9%	20.3%	24.1%	23.2%	26.5%	29.9%	29.2%	30.2%	na
Money (M3) multiplier	1.9	2.2	2.3	2.7	2.5	3.0	2.4	2.4	2.6
Bank deposits, GEL bn	1.54	2.33	3.51	3.84	4.17	5.82	7.35	8.20	9.02
Chg. y/y	56.5%	51.3%	50.8%	9.5%	8.6%	39.4%	26.4%	11.6%	17.0%
% of GDP	13.2%	16.9%	20.7%	20.2%	23.2%	28.0%	30.2%	31.4%	na
Bank loans, GEL bn	1.74	2.70	4.63	6.06	5.25	6.33	7.80	8.81	9.27
Chg. y/y	83.2%	55.8%	71.3%	30.8%	-13.3%	20.5%	23.3%	12.9%	10.0%
% of GDP	14.9%	19.6%	27.3%	31.8%	29.2%	30.5%	32.1%	33.7%	na
Loan-to-deposits ratio	1.13	1.16	1.32	1.58	1.26	1.09	1.06	1.07	1.03
Lending interest rate (average)	17.9%	17.3%	17.7%	18.6%	19.3%	18.6%	17.1%	16.9%	16.3%
Deposits interest rate (average)	6.8%	7.5%	8.3%	8.9%	9.7%	8.7%	8.3%	8.4%	7.9%
Interest rate spread, ppts	11.2	9.9	9.4	9.7	9.6	9.8	8.8	8.5	8.4
Fiscal indicators									
General budget revenues, US$ bn	1.56	2.16	2.98	3.93	3.15	3.30	4.07	4.58	2.10
% of GDP	24.3%	27.9%	29.3%	30.7%	29.3%	28.3%	28.2%	28.9%	na
General budget expenditures, US$ bn	1.47	1.96	2.95	4.19	3.85	3.82	4.19	4.67	1.90
% of GDP	22.9%	25.2%	29.0%	32.7%	35.8%	32.8%	29.0%	29.5%	na
General budget balance, US$ bn	0.09	0.21	0.03	-0.26	-0.70	-0.53	-0.12	-0.09	0.20
% of GDP	1.4%	2.7%	0.3%	-2.0%	-6.5%	-4.5%	-0.9%	-0.6%	na
External accounts									
Merchandise trade balance, US$ bn	-1.21	-2.02	-2.90	-3.83	-2.40	-2.59	-3.49	-4.22	-1.59
Service trade balance, US$	0.08	0.16	0.16	0.02	0.34	0.51	0.75	1.10	0.60
Trade balance, US$ bn	-1.13	-1.86	-2.73	-3.81	-2.06	-2.07	-2.75	-3.11	-0.99
% of GDP	-17.6%	-24.0%	-26.9%	-29.8%	-19.1%	-17.8%	-19.1%	-19.7%	na
Current account balance, US$ bn	-0.71	-1.18	-2.01	-2.81	-1.13	-1.20	-1.84	-1.85	-0.43
% of GDP	-11.1%	-15.1%	-19.8%	-22.0%	-10.5%	-10.3%	-12.8%	-11.7%	na
Foreign direct investments, US$ bn	0.54	1.19	1.67	1.42	0.68	0.68	0.90	0.61	0.41
Capital and financial account balance, US$ bn*	0.81	1.69	2.42	2.86	1.24	1.15	2.46	2.16	0.73
NBG gross international reserves, US$ bn	0.48	0.93	1.36	1.48	2.11	2.26	2.82	2.87	2.98

Source: Geostat, NBG, IMF, BOG Research

	2005	2006	2007	2008	2009	2010	2011	2012	1H13
Debt indicators									
Gross external debt, US$ bn	na	3.80	5.79	7.67	8.83	10.09	11.56	13.49	13.44
change y/y	na	n/a	52.4%	32.4%	15.1%	14.3%	14.5%	16.7%	10.6%
% of GDP	na	49.0%	57.0%	59.8%	81.8%	86.6%	80.3%	84.4%	na
Government debt, US$ bn	2.28	1.86	2.05	2.70	3.51	4.15	4.55	5.36	5.29
of which									
Domestic debt, US$ bn	0.86	0.49	0.51	0.47	0.60	0.65	0.72	1.14	1.17
External debt, US$ bn	1.42	1.37	1.54	2.23	2.91	3.50	3.83	4.22	4.13
% of GDP	35.5%	24.0%	20.2%	21.0%	32.5%	35.7%	31.9%	34.0%	na
Total investment, US$ bn	2.15	2.33	3.48	3.46	1.41	2.55	3.75	4.26	na
% of GDP	33.5%	30.1%	34.2%	27.1%	13.1%	21.9%	26.1%	26.9%	na
Gross national savings, US$ bn	1.44	1.16	1.47	0.65	0.28	1.35	1.92	2.36	na
% of GDP	22.5%	14.9%	14.4%	5.1%	2.6%	11.6%	13.3%	14.9%	na

**Excluding change in reserve assets and IMF loans*

Source: Geostat, NBG, IMF, BOG Research

Contacts

Head of Research
Ekaterina Gazadze | egazadze@bog.ge

Senior Associate
Giorgi Nakashidze | gnakashidze@bog.ge

Associate
Giorgi Iremashvili | giremashvili@bog.ge

Analyst
Sopho Khelashvili | skhelashvili@bog.ge

Analyst
Suliko Kokhreidze | skokhreidze@bog.ge

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