



# Georgia Capital Investor Day

27 June 2019 | Tbilisi

# Forward looking statements

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# Georgia macro overview

**Nino Vakhvakhishvili**

*Chief Economist, Georgia Capital*

# Today's key messages

- 1 Georgia has the **highest governance** in the region
- 2 GDP **growth has outperformed** peer countries and is expected to continue doing so
- 3 Georgian Lari **remains stable** compared to other regional currencies
- 4 FDI **surges capital goods import** and widens CA deficit itself
- 5 Economic **linkages to EU is stronger than ever**
- 6 We expect **Georgia to obtain investment grade rating in 2024**

# Georgia has the highest governance in the region

## *Investment friendly environment*

- **Natural hub** connecting Eastern European, Central Asian and Middle East countries;
- **Successful reforms** in minimizing regulation, cutting corruption, reducing tax burden, opening markets and developing transport and energy infrastructure creates **wide range of investment opportunities**;
- **Liberty Act** effective from 2014 ensures sound fiscal policy: public expenditure capped at 30% of GDP, fiscal deficit capped at 3% of GDP and public debt capped at 60% of GDP;



**Population:** 3.7mln; **GDP per capita:** US\$ 4,346; **Literacy:** 100%;

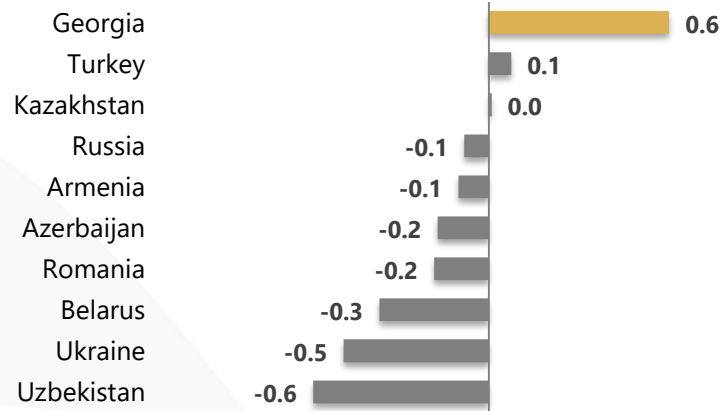


# Georgia has the highest governance in the region

## Open governance policy leads country to outperform

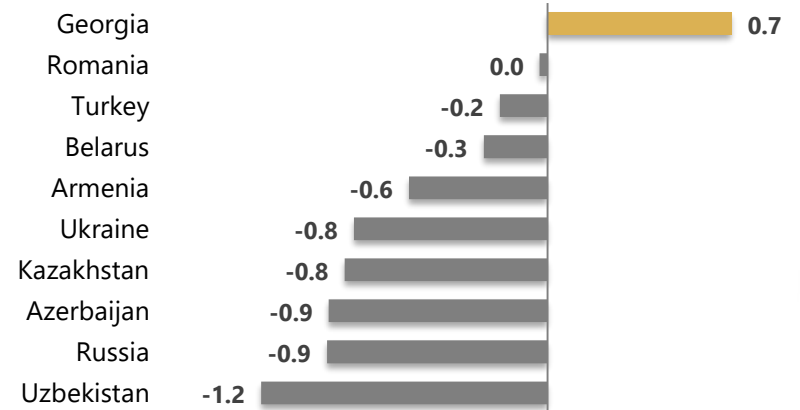
### Governance effectiveness, 2017 WGI

Range: -2.5 +2.5

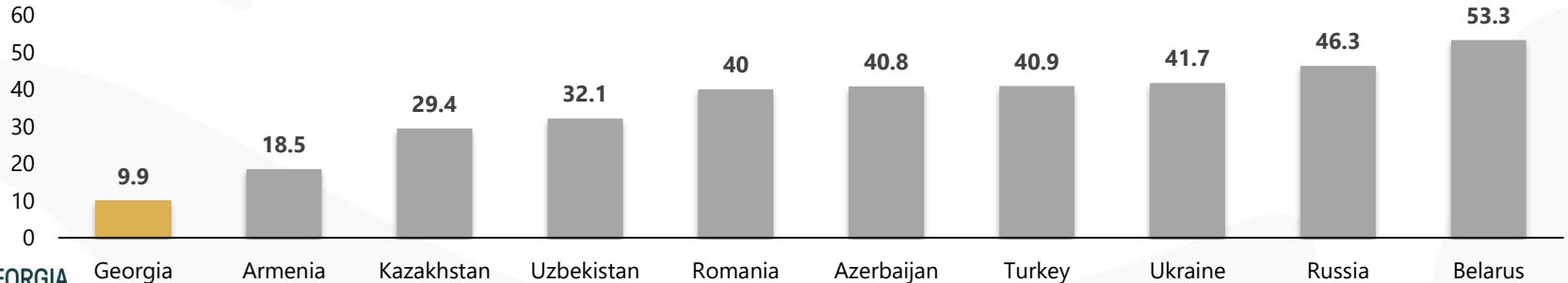


### Control of corruption, 2017 WGI

Range: -2.5 +2.5



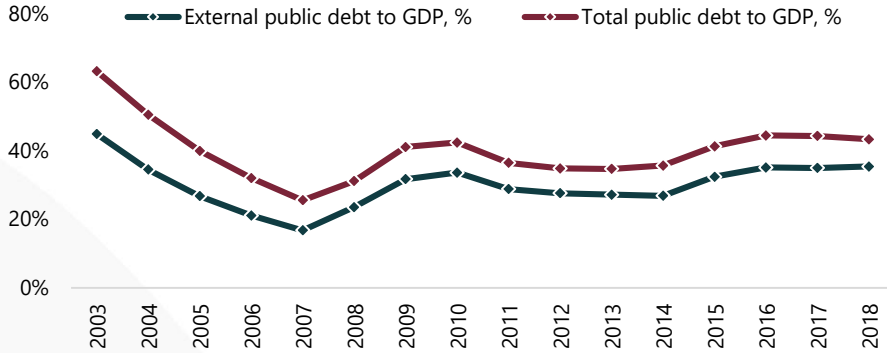
### Total tax and contribution rate (% of profit)



# Georgia has the highest governance in the region

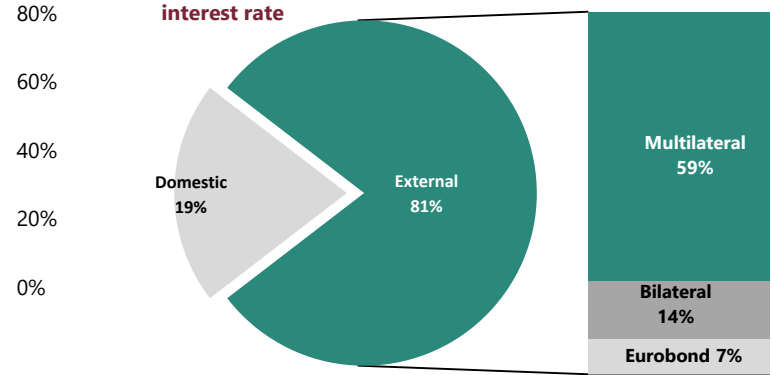
## Public debt remains at the well managed level

### Public debt as % of GDP is capped at 60%



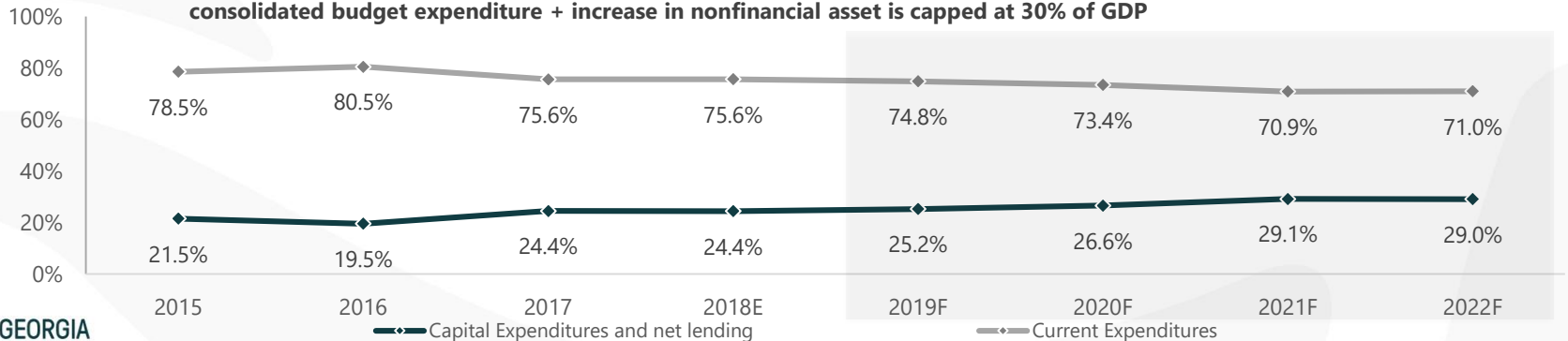
### Breakdown of public debt

Mostly concessional terms with 2.2% weighted average interest rate



### Increasing share of capital expenditure highlights sound fiscal policy

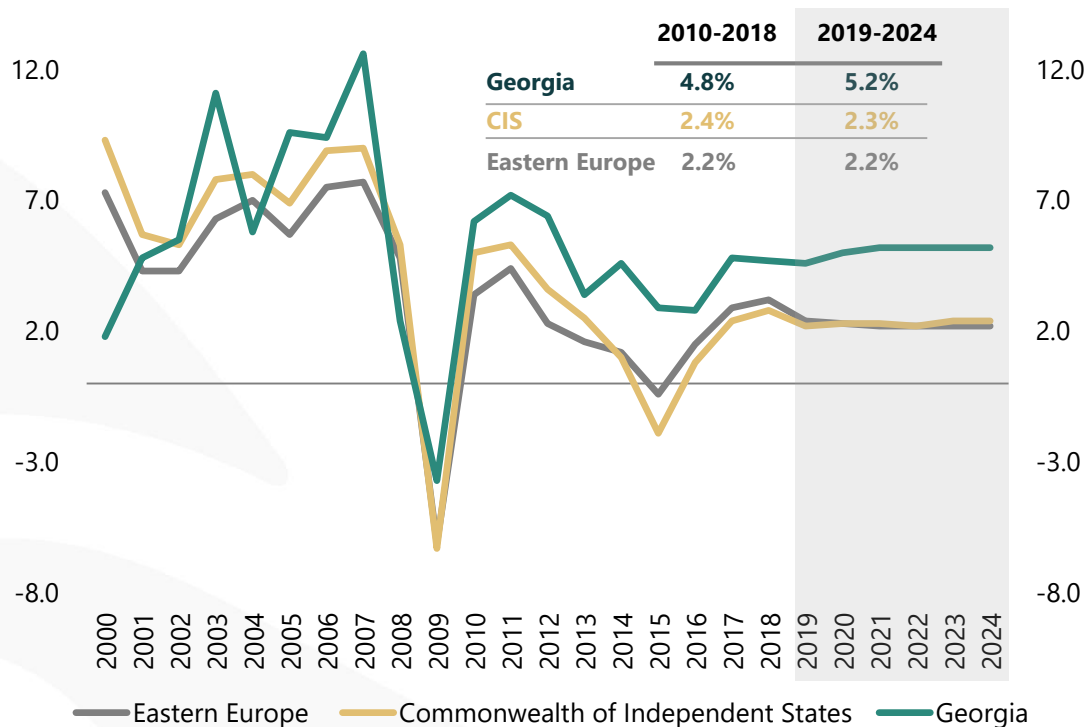
consolidated budget expenditure + increase in nonfinancial asset is capped at 30% of GDP



# GDP growth has outperformed peer countries' average and is expected to continue doing so

## *Solid growth, softer recession, better recovery*

### GDP growth rate, IMF



### Key sectors contributing to the growth

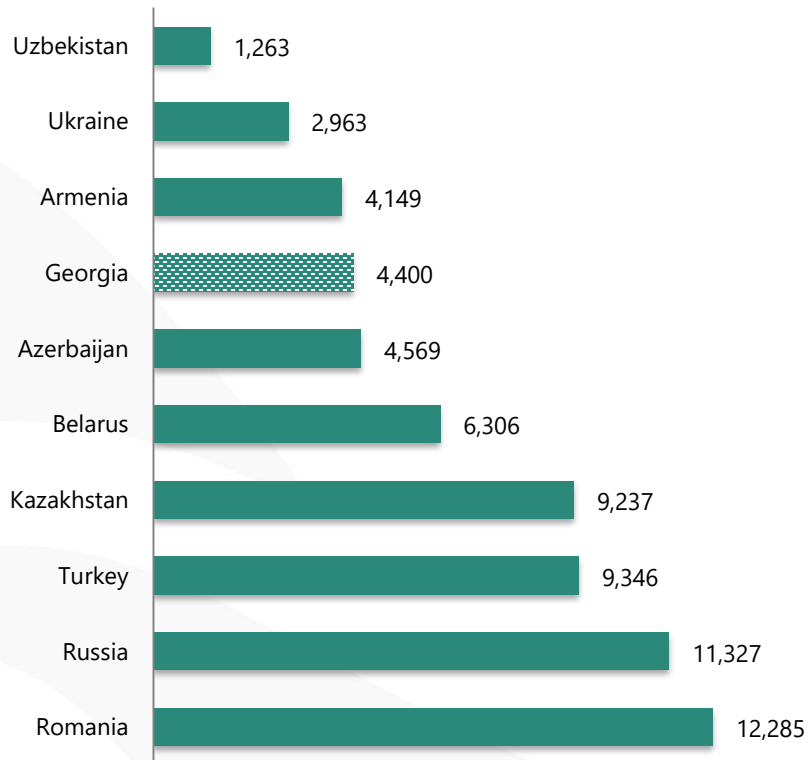
Long-run growth, %		5.2
	Trade	1.0 ppt
	Manufacturing	0.7 ppt
	Real estate activities	0.5 ppt
	Construction	0.5 ppt
	Financial intermediation	0.4 ppt
	Transport	0.4 ppt
	Public administration	0.4 ppt
	Health and social work	0.3 ppt
	Communication	0.3 ppt



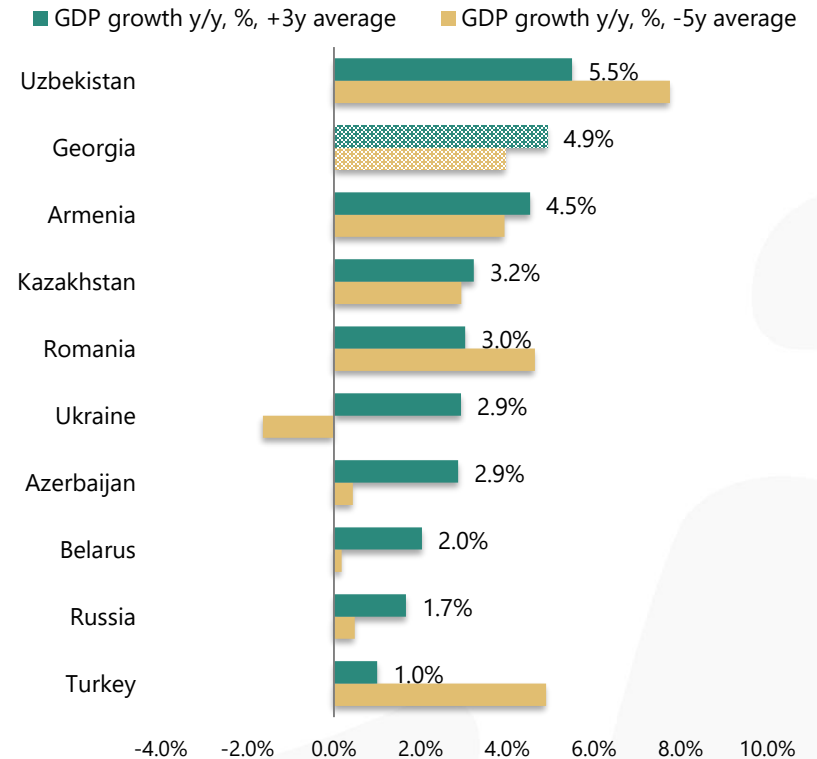
# GDP growth has outperformed peer countries' average and is expected to continue doing so

## *Structural reforms enhance growth*

### GDP per capita, current, US\$, 2018, IMF



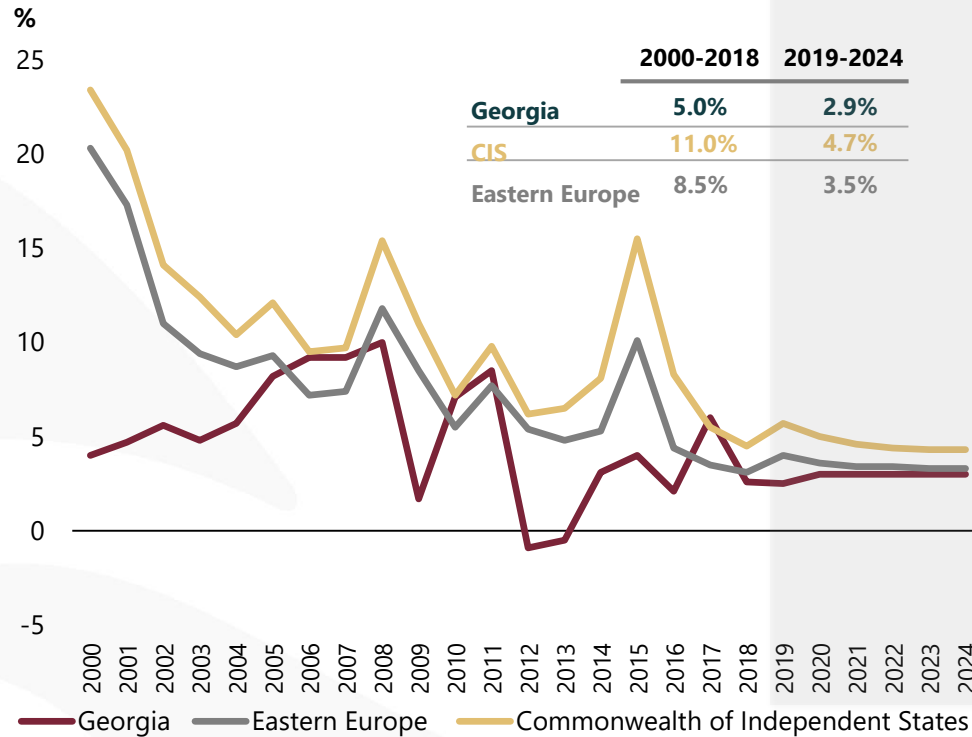
### GDP growth rate, IMF



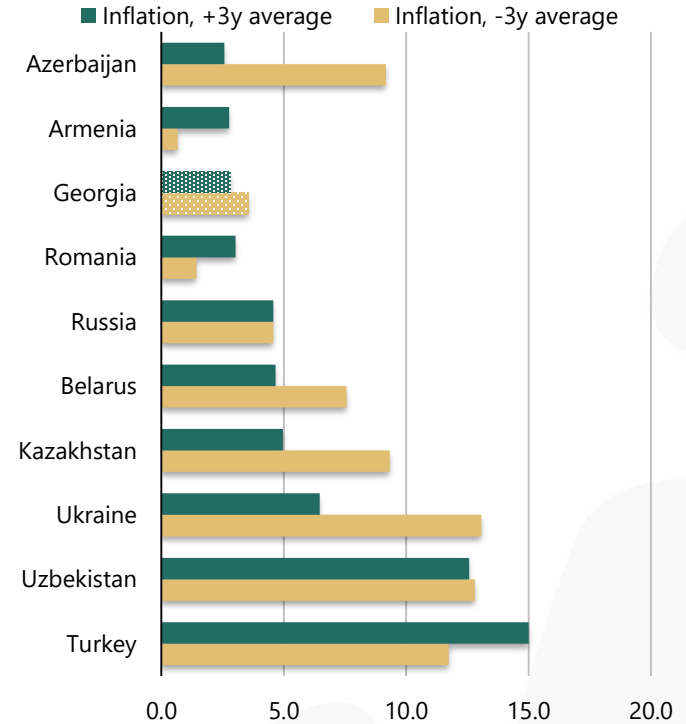
# Georgian lari remains stable compared to other regional currencies

## *Historically low inflation enhances credibility*

Annual inflations, IMF



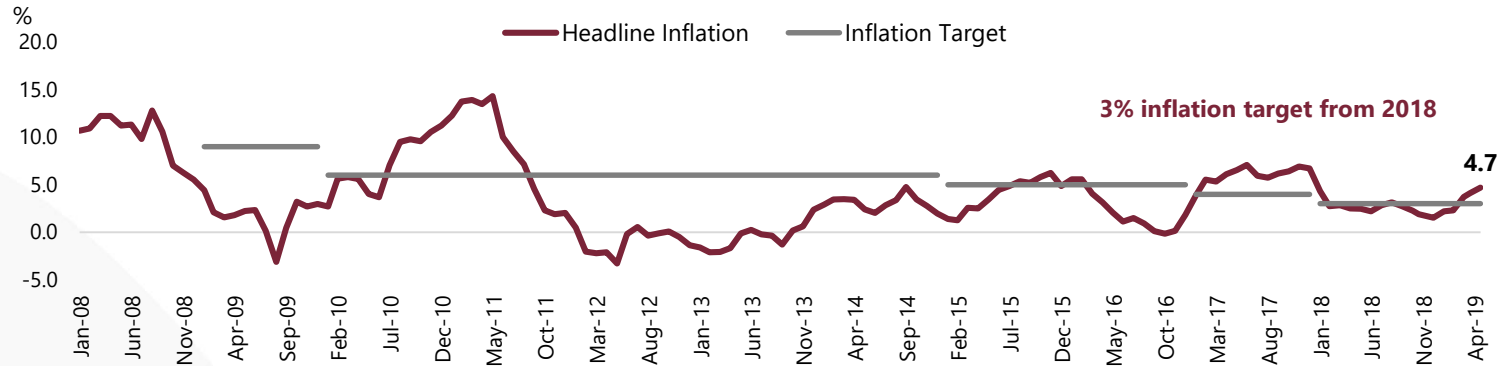
Annual inflations: country comparison



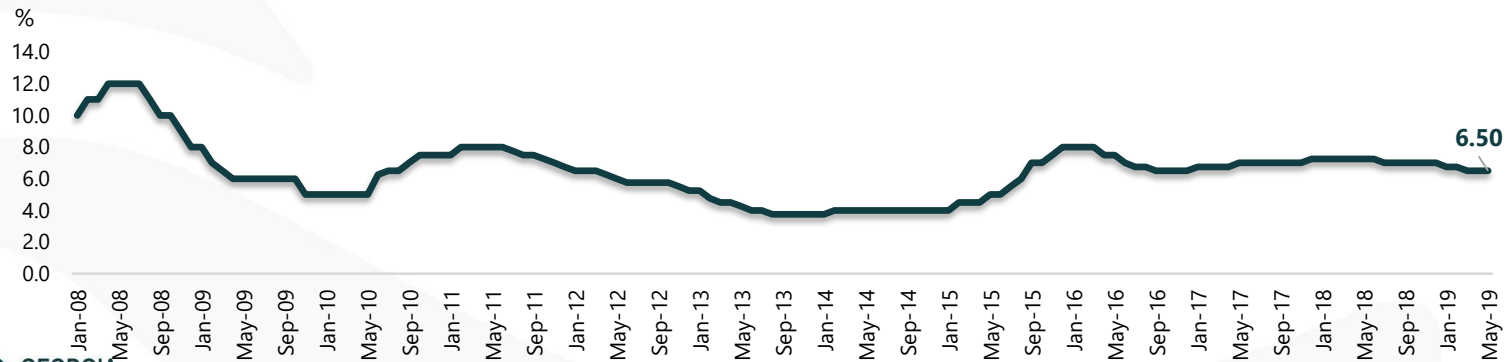
# Georgian lari remains stable compared to other regional currencies

## Monetary policy focuses on price stability

### Average inflation remains close to target



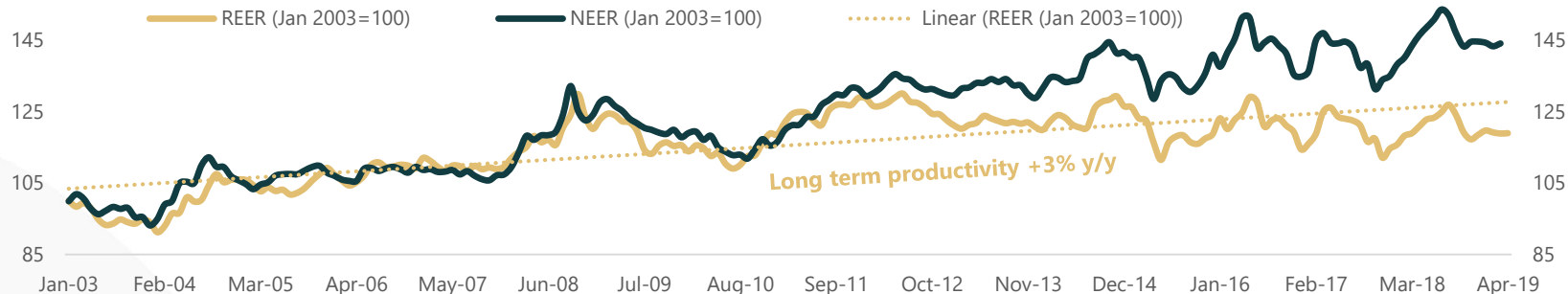
### Neutral monetary stance is expected in 2019



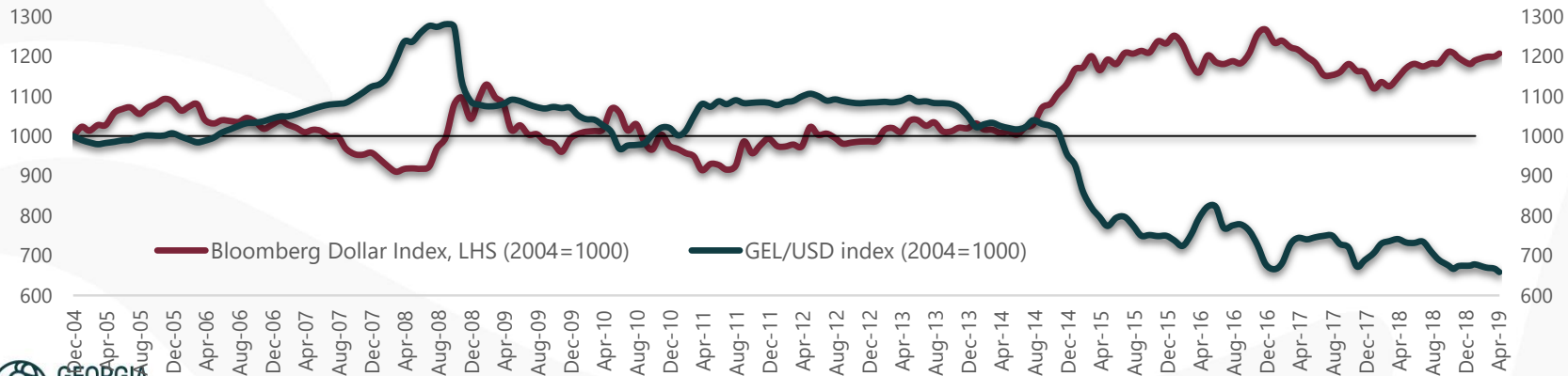
# Georgian lari remains stable compared to other regional currencies

## Floating exchange rate – policy priority

### REER vs NEER



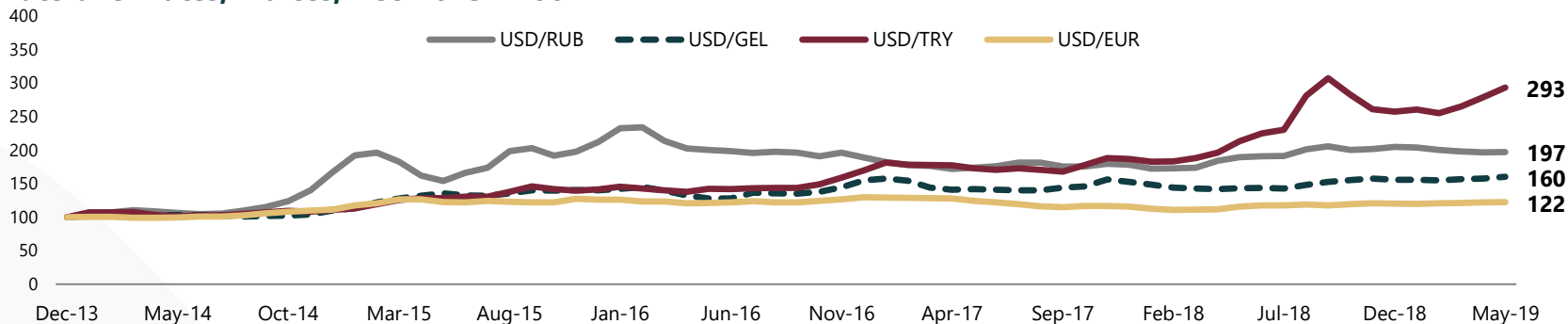
### Bloomberg Dollar Spot Index vs GEL/USD index



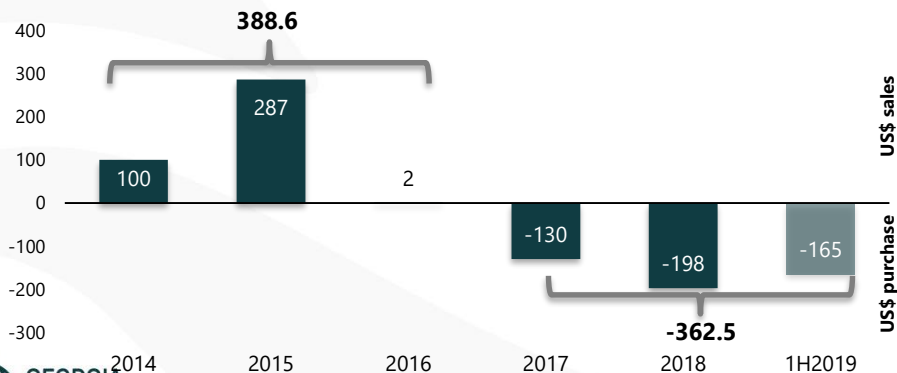
# Georgian lari remains stable compared to other regional currencies

## Sound monetary policy ensures exchange rate stability

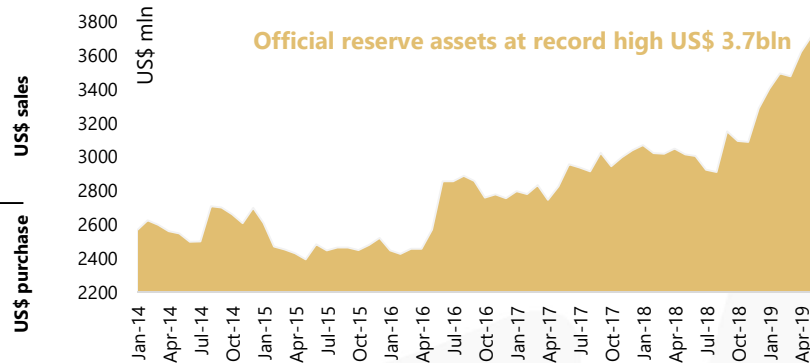
Bilateral ex rates, indices, Dec-2013 = 100



NBG monthly net interventions US\$ mln



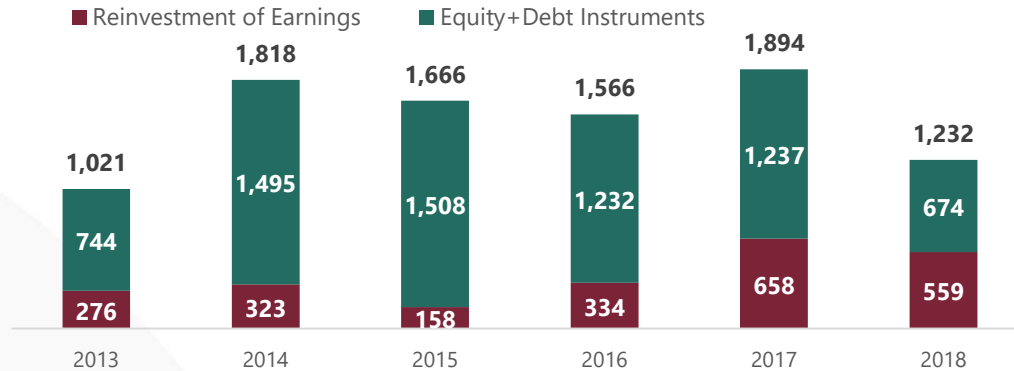
Official reserve assets, US\$ mln



# FDI surges capital goods import and widens CA deficit itself

*Strategic location coupled with investment friendly environment attracts FDI*

## FDI US\$ mln

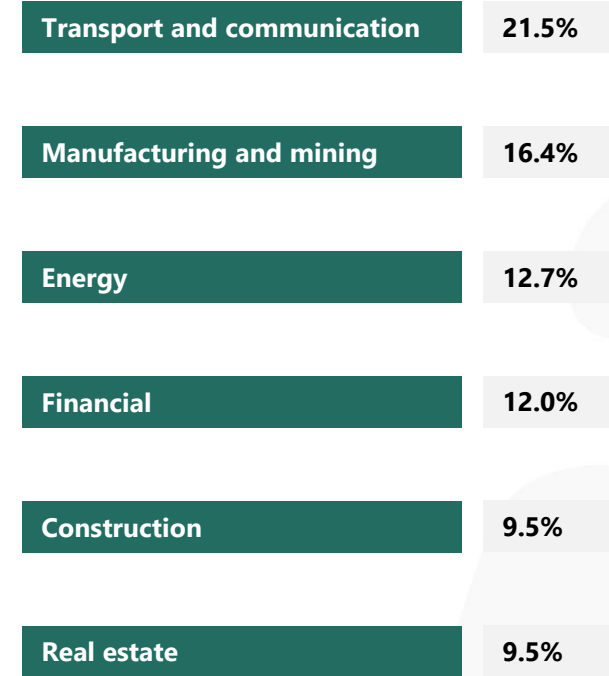


## FDI vs capital goods import



## Key sectors attracting FDI

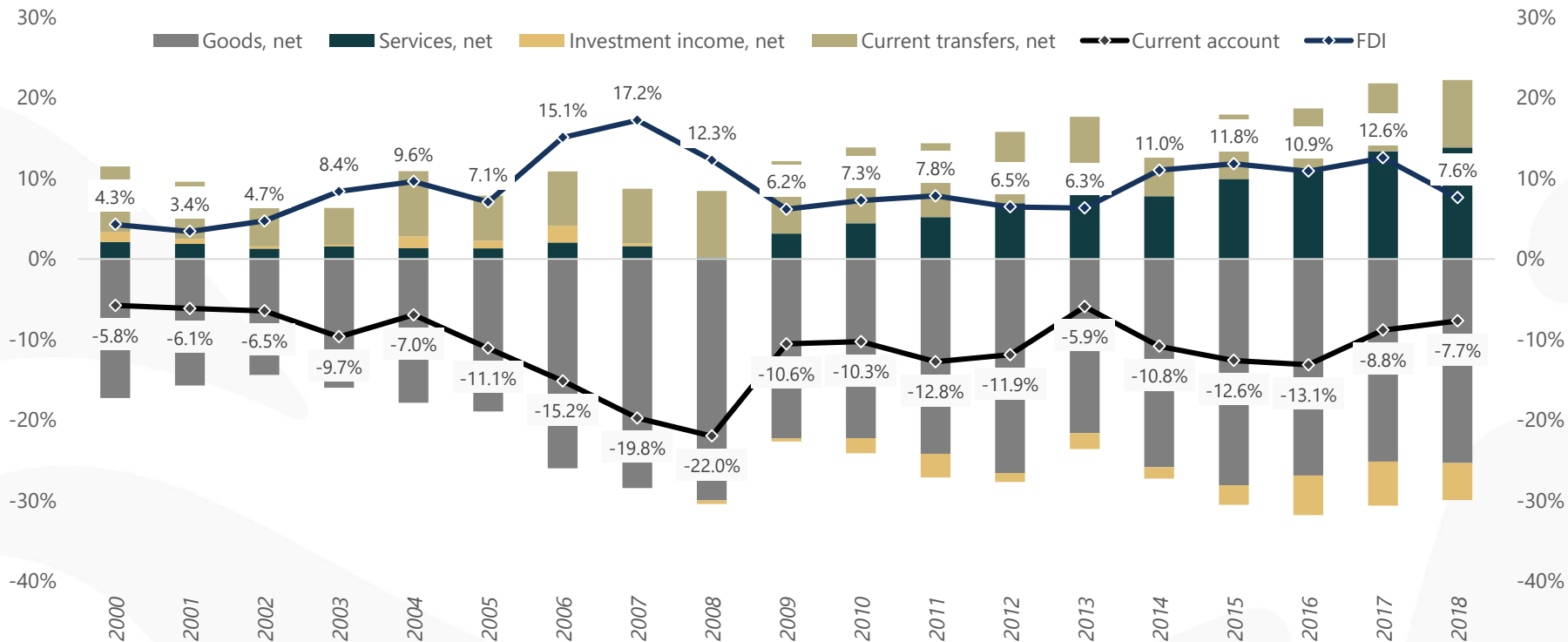
(shares in total, 2007-2018, average)



# FDI surges capital goods import and widens CA deficit itself

## Current Account deficit driven by investment-saving gap

### CA deficit vs FDI



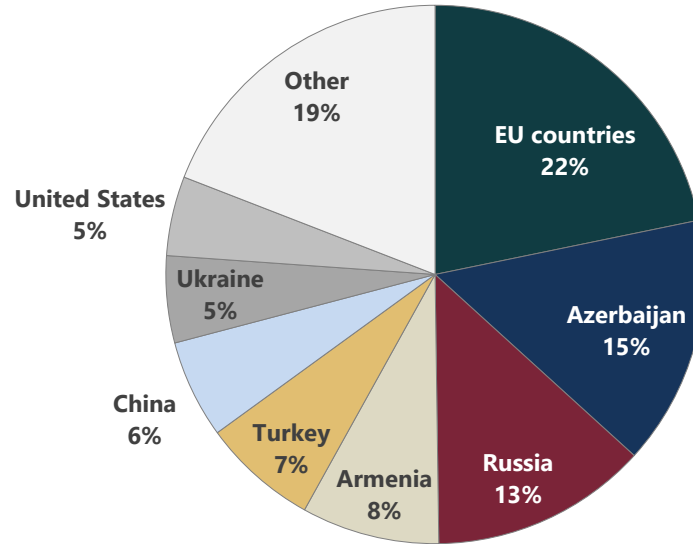
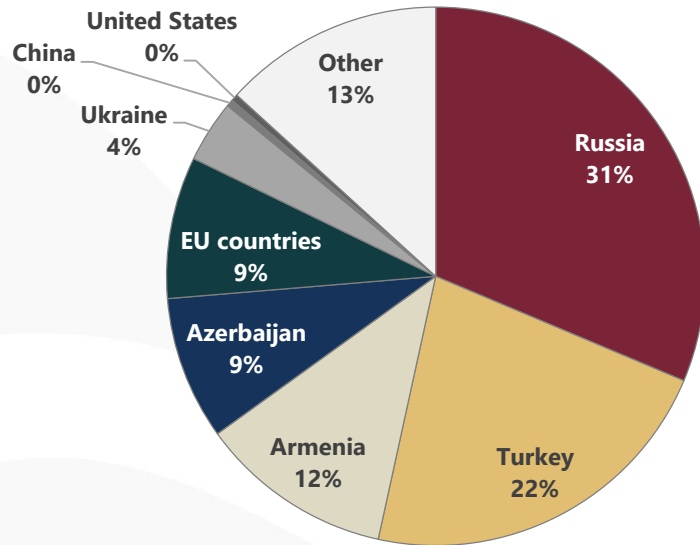
# Economic linkages to EU is stronger than ever

## *Export markets diversification reduces country specific risks*

Export of goods US\$ 0.2bln, 1995



Export of goods US\$ 3.4bln, 2018



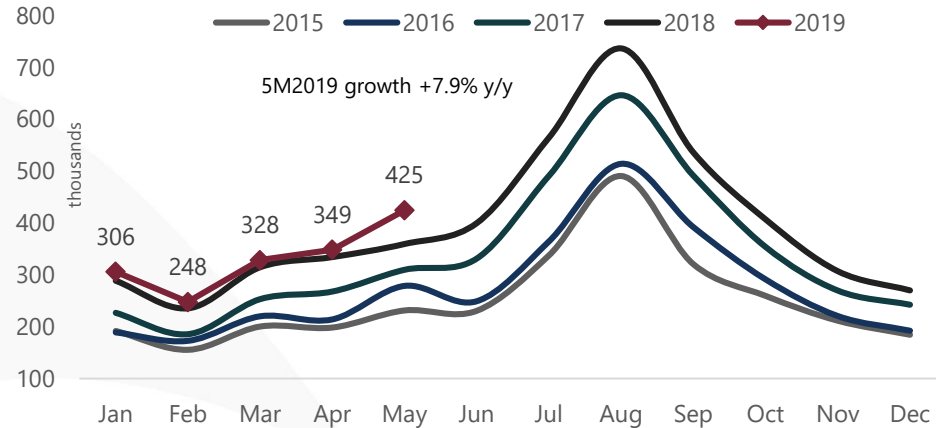
- **Access to 2.8bln customers:** DCFTA with EU; FTA with China, Hong Kong, CIS and Turkey; GSP with USA, Canada, Japan, Norway and Switzerland;
- FTA with India and Israel under consideration.



# Economic linkages to EU is stronger than ever

## Tourism sector supports FX inflows

### Number of overnight visitors

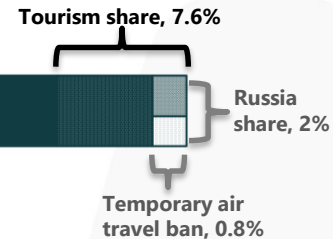


### Key highlights for Jan-May 2019

- Tourism revenue from EU increased by **24% y/y**;
- Total tourism revenue excluding Iran and Turkey increased by **25% y/y**;
- Air passengers increased by **20.3% y/y** with **27.3% share** in total;
- Total Tourism revenue increased by 10% y/y;

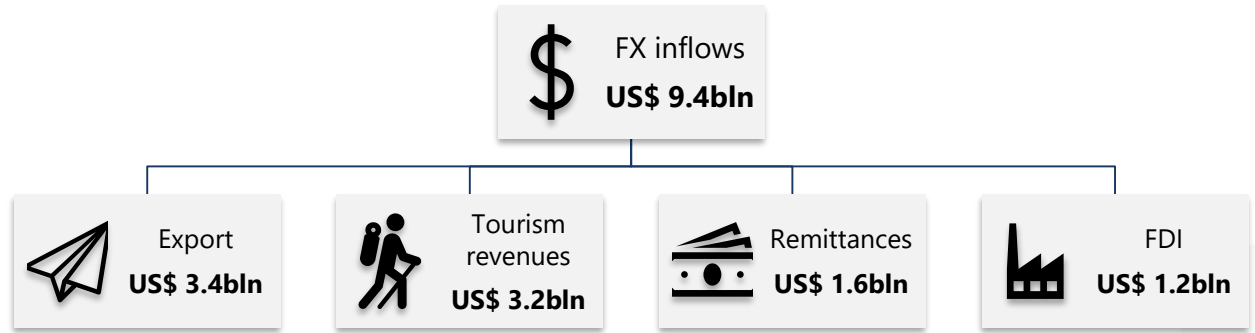
### Temporary air travel ban impact is manageable

#### Georgian Economy

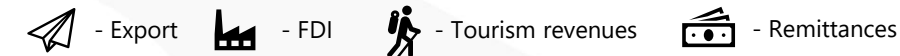
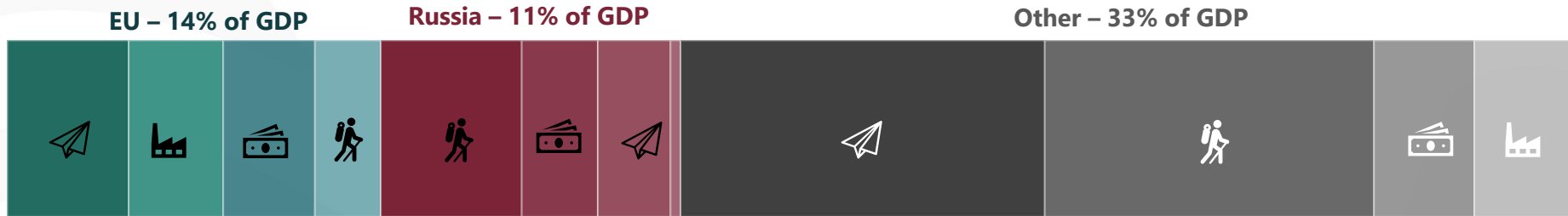


# Economic linkages to EU is stronger than ever

## *Diversified source of capital*



### Total FX inflows - 58 % of GDP, 2018



# We expect Georgia to obtain investment grade rating in 2024

Current grade			
Rating Agency	Rating	Outlook	Affirmed/upgraded
<u>MOODY'S</u>	<b>Ba2</b>	Stable	September 2018
<b>S&amp;P Global</b>	<b>BB-</b>	Positive	April 2019
<b>FitchRatings</b>	<b>BB</b>	Stable	February 2019

## Major targets

**External imbalances**

**Banking sector risk - dollarization**

## Current actions

- FTAs;
  - Pension reform;
  - Capital market developments;
  - Increasing FX reserves;
  - Structural reforms enhancing long-run growth;
- 
- De-dollarization program;
  - Macro-prudential measures;
  - Improving financial literacy;
  - Responsible lending;

**Expected investment grade rating in 2024**

# Key takeaways

- 1 Georgia has the **highest governance** in the region
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# Questions?