



FINANCIAL™

20 November, 2017

News Making Money

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URBAN TBILISI

Since 2000, the number of millionaires globally has increased by 170%

The FINANCIAL

Ten years from the onset of the global financial crisis, global wealth has grown by 27%, according to Credit Suisse Research Institute's 2017 Global Wealth Report. In the 12 months to mid-2017, global wealth grew at a faster pace than in recent years, with mean wealth per adult reaching a new record high.

Continued on p. 18

Asian Invasion: Stink Bug in Georgia

By SALOME GELASHVILI and IA KATSIA ISET

Nikoloz M., 65, from the Imeretian village of Jikhaishi, invested around 15,000 GEL into his 8.5 ha hazelnut orchard in 2012, hoping that one day his initiative would turn into a profitable business. Nikoloz was on his way to success up until this year, before the stink bug, or Asian pharosana, as Georgians call it, appeared in his orchard.

Continued on p. 4

SEU Development to Launch Two Additional Projects in the Near Future

The FINANCIAL

SEU Development was established in 2014. Since then it has launched its first project, which is currently in the process of construction – Green Yard, a 19-storey building on Politkovskaya St. with a 1500 sq.m green zone. SEU is a familiar name for the Georgian market, as Georgian National University is known by the aforementioned abbreviation. A lot

of current employees of SEU Development worked on the University as well, therefore, the personnel were well-versed in the field even before the company was established.

Zurab Mekvabishvili, co-founder and CEO of SEU Development, answered some of the questions regarding the company.

Q. What do you think about the state of architecture in Tbilisi?

A. The situation, obviously, is very alarming – buildings are con-

structed without any regard for the environment or local aesthetics and the city lacks general planning. In my view, however, the situation is not hopeless – in order to turn the tide and make Tbilisi more visually appealing, companies will have to actively collaborate with the Mayor's office. In order to bring the state of the city to a satisfying level, at least 10-15 years will be necessary.

Continued on p. 2

m2 on CSR, Environmental Care and the Philosophy Behind their Business

The FINANCIAL

m2 Real Estate has launched 11 Residential projects over the course of its 11-year existence, out of which 7 are already completed and over 2000 families experience better living offered by m2.

Today m2 Real Estate is one of the largest and most consistently

growing companies on the Georgian development market. m2's strategy revolves around three main postulates. The first direction is developing new, large-scale residential projects on territories owned by the company. Secondly, m2 is actively working on advancing the Georgian commercial real-estate market, by creating a chain of three-star hotels.

Finally, m2, under its brand name,

is working on developing the lands of investors, according to the standards of quality set by the company itself.

Shorena Darchiashvili, Deputy Director of m2, talked about the interesting projects, vision of the future, and plans of the company.

Continued on p. 6

AS Georgia to Start Building an Additional Residential Complex, 15 Hectare Park and Shopping Mall

The FINANCIAL

AS Group Investment is one of the largest development corporations in the region. Recently, AS Georgia, its daughter company, entered the Georgian market with 170 million dollar investment in a project – DIRSI, located in Isani, on Shota Nadirashvili St. The residences, together with the main infrastructure, are already fin-

ished and fully functional. The company saw its sales increase by 150% in the past year, with 70% of the apartments that have been put on the market already realized.

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ture, launching the biggest shopping mall in Tbilisi, a modern 15 hectare recreational park and an additional complex of similar size to the current one. All three of the aforementioned projects are set to launch in the nearest future. A hotel and a clinic are planned to be added as well. DIRSI also plans to construct a bridge connecting the complex with Ortatchala.

Continued on p. 8

“We Think that Fashion is Global”

The FINANCIAL

“We have been investigating the Georgian market for quite a long time and we thought that it was the perfect time now,” Claudia Oszwald, Regional Manager of H&M, one of the world's largest fashion retailers, told The FINANCIAL.

An agreement between Georgian Co-Investment Fund's (GCF) subsidiary Tbilisi Plaza LLC and H&M (Hennes & Mauritz AB) to open a store in Tbilisi was signed last year.

Galleria Tbilisi is one of Georgian Co-Investment Fund's (“GCF”) on-going investment projects in the hospitality and real estate sector, with a total investment size of USD 80 mln.

H&M is the first retailer with which the agreement was reached.

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Regus, world's largest provider of flexible workspaces, opened new business center in Tbilisi, Capital of Georgia

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CURRENCIES

	Nov 18	Nov 11
1 USD	2.7268	▼ 2.6499
1 EUR	3.2176	▼ 3.0882
100 RUB	4.5750	▼ 4.4699
1 TRY	0.7014	▼ 0.6849

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SEU Development to Launch Two Additional Projects in the Near Future



Zurab Mekvabishvili, co-founder and CEO of SEU Development

David ALEKSIDZE
The FINANCIAL

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Q. What differentiates SEU Development from the rest of its competitors?

A. Well, we have several main principles we work around. First of all, it is the characteristics of the building itself. The material out of which the buildings are and will be constructed is highly energy-efficient, which is both good for the environment and the finances of our customers. We import our building materials from some of the best companies worldwide, like Austrian DOKA.

When it comes to the business of building, in my opinion, saving on construction

is not a viable option – the building itself should be of the best quality possible, as any kind of lack of care in this regard can have very damaging results in the long run.

We pay enormous attention to research – we conduct market studies regularly and get information from every viable source out there. Customer feedback is of paramount importance to us – we get hundreds of calls from potential customers and we make the dialogue as interactive as possible. SEU Development tries to accommodate the needs of its customers, our relationship is largely symbiotic.

At the same time, we strongly focus on helping emigrants settle back in Georgia – we provide them not only with good payment options, but also with assistance in institutional relations, for example, with banks.

Our first complex on Politkovskaya St. saw massive success – we managed to sell all the flats out, 116 in total, in only 4 months and the building is yet to be completed. We think that several factors

helped us hit this high mark. First of all, it is the quality of the building itself – with good thermo and sound insulation, solid construction. Secondly, the complex was adapted to the constant feedback we've been getting from the potential customers themselves. No less important was the location of the building – it is very close to the centre, the neighborhood is very quiet and within walking distance from several universities, as well as a train station. At the same time, the ecology of the district is superior to that of many alternatives – for example, it is around 40-50 meters above Avlabari, which would not be decisive in a rural setting, but proves crucial in pollution-heavy cities like Tbilisi.

We ensured that our complex follows the 41st resolution to the last word. People with disabilities are provided with maximum comfort in our flats.

Q. Ecology is a hot topic both in Georgia and worldwide. What steps did SEU take in order to ensure its contribution to

improvement of Tbilisi's situation in this regard?

A. We have 1500 sq.m of land specifically devoted to this cause. We hired experienced florists to help us manage the space and our focus is on quality and consistency – the yards and recreational spaces have years-long plans on what will be planted there, to ensure that the land is both aesthetically pleasing and functional.

Q. What is the percentage of down payment in purchases?

A. Around 70% of purchases are in down payment, usually with five to ten year payment options. We provide many different choices in this regard, so that every customer has an opportunity to find a suitable way for themselves.

Q. Do you have any new projects in line?

A. We are currently working on three projects. Firstly, we want get our Green Yard project operational as soon as possible. The investment is in the region of GEL 8 million. We plan to add 3 more buildings on Politkovskaya Street

– 5, 8 and 12 storey buildings, which will cost around GEL 12 million. At the same time, we are planning to build premium housing in the old town, which will become the signature project of our company. This will be a USD 26 million investment. The complex will feature not only housing, but also a 4 to 5 star hotel – we are currently negotiating with several brands and will make the best choice out of them. What's more, we will include apartment-hotels and office & business space. We are putting a maximum amount of effort into design development, as the old city is one of Tbilisi's most cherished regions and a major tourist attraction. In the future, we are planning to move away from the centre and participate in the process which was often highlighted in the mayoral elections – decentralizing the city. SEU Development considers this a major issue as well. We are actively looking into opportunities of building in Didi Digomi, Gldani and Varketili, so expect much more from us in the future.




30 A. POLITKOVSKAIA STREET



COMING SOON



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20 November, 2017

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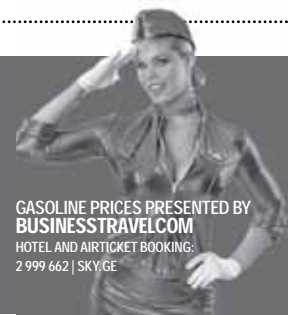
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CURRENT PRICES ON GASOLINE AND DIESEL

20 NOVEMBER, 2017, GEORGIA

Gulf		WIND		საქსილი		საბა		ROMPETROL	
Prices in GEL		Prices in GEL		Prices in GEL		Prices in GEL		Prices in GEL	
G-Force Premium	2.29	Eko Super	2.44	Euro Super	2.33	Nano Super	2.43	Efix Euro 98	2.45
G-Force Euro Regular	2.19	Eko Premium	2.32	Premium Avangard	2.23	Nano Premium	2.29	Efix Euro Premium	2.32
Euro Regular	2.14	Eko Diesel	2.20	Euro Regular	2.08	Nano Euro Regular	2.14	Euro Regular	2.17
G-Force Euro Diesel	2.19	Euro Diesel	2.17	Euro Deasel	2.08	Nano Euro Diesel	2.05	Efix Euro Diesel	2.20
Euro Diesel	2.09	Euro Regular	2.17					Euro Diesel	2.09
CNG	1.45	Diesel Energy	2.10						



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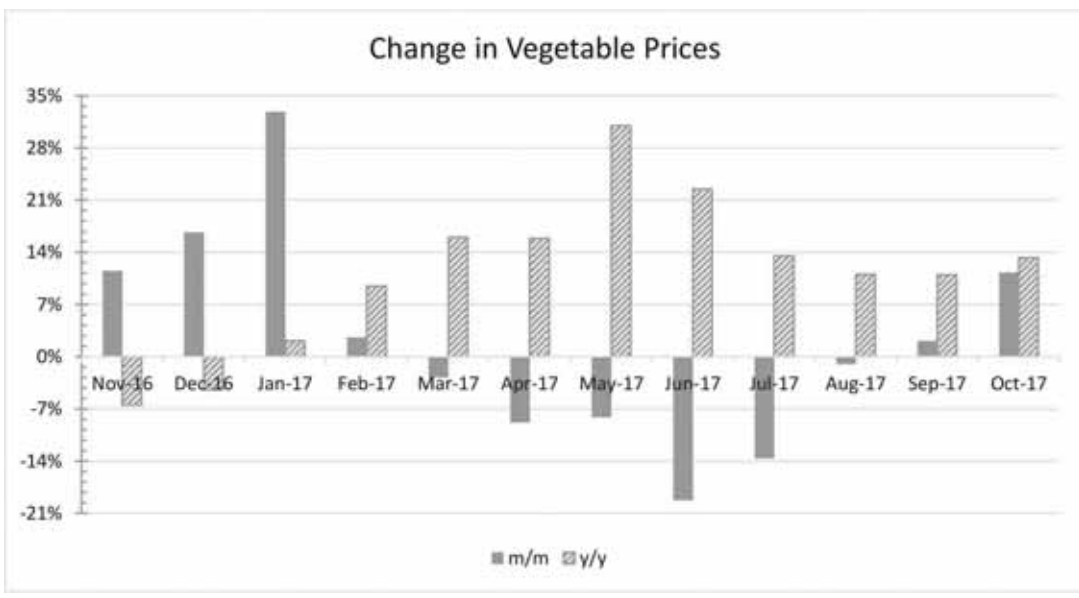
AGRINDEX



WWW.ISET-PI.GE/agr-index

From a Georgian Farm into Azerbaijani Cuisine

In October 2017, domestically produced **VEGETABLE** prices increased by 11.3% in month-to-month terms and this is the biggest increase since the last January. Price gain compared to the same month of previous year was a bit larger and stood at 13.2% in October 2017. Although in last month greens' and flowering plants' prices went down roughly by one tenth of their September values, they did not offset the changes caused by the boost in Georgian tomato and potato prices.



Data Source: The Ministry of Agriculture of Georgia

In October 2017, compared to September 2017, Georgian tomato prices increased by more than half, while similar change for potato exceeded 5%. As far as the difference between October 2016 and October 2017 prices are concerned, domestically produced tomato and potato were approximately one quarter more expensive in last month than they were in October 2016.

Such dramatic change in tomato and potato prices might be determined by improved international trade figures. According to the GeoStat, in monetary terms,

Georgia imported less tomato and potato in the first three quarters of 2017 than it did in the same period of the last year; while the country exported 80% more tomato in the first three quarters of 2017, than it

did for the entire 2016, and boosted potato exports more than twice. Interestingly, traditional export market for Georgian lamb, the Azerbaijan became top export destination for Georgian potato

in 2017. It seems that Azerbaijani people enjoy the Kufta-Bozbash made by the products of Georgian origin – lamb meat and potato are the main ingredients of this delicious Azerbaijani dish!

THE ISET ECONOMIST

A BLOG ABOUT ECONOMICS AND THE SOUTH CAUCASUS

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Asian Invasion: Stink Bug in Georgia

By **SALOME GELASHVILI** and **IA KATSIA**
ISET



Nikoloz M., 65, from the Imeretian village of Kikhaishi, invested around 15,000 GEL into his 8.5 ha hazelnut orchard in 2012, hoping that one day his initiative would turn into a profitable business. Nikoloz was on his way to success up until this year, before the stink bug, or Asian pharosana, as Georgians call it, appeared in his orchard. While Nikoloz expected to harvest 800 kg – 1000 kg of hazelnuts per ha, the stink bug infestation reduced his harvest by 30-35%, resulting in a loss of more than 1,000 GEL per ha. For a rural household with average annual earnings of 11,000 GEL, losing up to 9,000 GEL is a big deal.

Yet Nikoloz's case is not the worst; in West Georgia, stink bugs invaded not only hazelnuts, but other crops as well. Farms in the Abkhazia region saw the biggest damage.

"In addition to causing severe damage to hazelnut trees, pharosana destroyed all the fruit trees, particularly tangerines

and feijoa. It damaged maize as well," – said Marina K, 67, village Repi, Abkhazia region.

A similar situation was described by a native of the Gurian village Chanieti, Irakli L, 65, who expected to get 500 kg from his 0.2 ha hazelnut orchard, but got only 60 kg. "The hazelnut kernels were either rotten or empty, and if at the collection point 5 kernels out of 15 randomly picked hazelnuts were good, then you would get 0.50 GEL/kg. You were basically getting 0.10 GEL per each good kernel. Thus, if only 3 out

of 10 were good, you would end up with 0.30 GEL/kg, which is an extremely low price." There were even cases when collectors refused to receive the harvest, suspecting low quality, or farmers did not agree to sell hazelnut for such a low price.

The Troublemaker

The brown marmorated stink bug (BMSB) is native to East Asia. It is an agricultural pest

which attacks fruit trees and vegetables, damaging the surface and leaves of the crop. The insect becomes active in late spring (late May – beginning of June) and attacks crops till the middle of fall. Once the weather becomes colder, the pest moves to houses and structures which become its shelter during the winter. Stink bugs reproduce very fast, resulting in big populations within the short period of time.

Continued on p. 13



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m² on CSR, Environmental Care and the Philosophy Behind their BusinessSHORENA DARCHIASHVILI, Deputy Director of m²

David ALEKSIDZE
The FINANCIAL

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Shorena Darchiashvili, Deputy Director of m², talked about the interesting projects, vision of the future, and plans of the company.

Q. What makes m² housing stand out from the rest of its competitors?

A. Every one of our customers receives the keys to their apartment earlier than, or on, the due date. Fulfilling promises is pivotal to building a trustful relationship with customers, which, by extension, is an invaluable competitive advantage.

m² manages to further nurture this trust through offering its clientele comfort, quality and safety. We start caring about the convenience of our customers from our sales office, where they are offered a product suited to their needs. Afterwards, our customer relations team makes sure they are fully updated and involved all throughout the construction process, up until the moment they receive the keys to their new, renovated flat.

Apartment design and material selection is done by our personnel from m² Gallery. This process is both simple and enjoyable.

m² was one of the pioneering companies to offer a fully-refurbished apartment as an affordable product in Georgia, especially on this scale. It soon became the most demanded product on the local market.

Besides comfort, safety is very high on our priority list. Therefore, we include the essential fire safety and life sustaining systems & technologies in all of our projects.

Using the latest technology and quality control are our uttermost principles.

Upon completion of the product, we offer our customers paid services, such as safety system control, guards, elevator service, cleaning and green space care. They contribute no less to our popularity and

make our complexes more attractive both in terms of living and renting.

For customers who leave their house for various reasons, be it a vacation or any other reason, we offer flat maintenance services.

We work to make the lives of our residents easier even after they have chosen m². Our latest project was a web platform – www.m2rent.ge, which simplifies the process of renting. Interested persons can address our professional brokers, who will announce their intentions on the website and put up all the necessary information: photos, details etc. m² assists users in settling down the contracts revised by a lawyer and our services make the renting process much easier.

Q. CSR & environmental care have become hot topics worldwide. What does your company do in this regard?

A. Environmental care is the most important direction of our CSR. Our strategy is to invest in the most sustainable and long-term effect projects in this direction. Since 2014, every project has been energy-efficient. Buildings with good thermo insulation reduce energy consumption, which is beneficial both for our customers and the environment.

Car exhaust plays a major role in air pollution. Providing necessary infrastructure for electric cars would help popularize them and bring relief to the declining ecology of our city. m² signed a memorandum with e-space and took on the obligation of funding as many as 100 electric chargers throughout Georgia. As of today, over 30 are in place. More stations means more electric cars, a less polluted city and a healthier population.

Besides taking care of green spaces within our territories, we don't leave the city without attention. This year, the most painful ecological catastrophe for Tbilisi was the Mtatsminda fire – around 500 trees were burned over a 20,000 square meter territory. Our company decided to take on responsibility for the restoration of the aforementioned space. We aim to plant 3000 trees of different breeds in order to preserve the biodiversity in this very important ecological region of Tbilisi. We will, at the same time, take care of the territory for a further three years, together with specialists, in order to get a sustainable and healthy green zone.

This year m² Real Estate has begun the construction of a small group home for children with special needs under state care. We are honoured to be a part of this extremely important project. Creating an adapted environment is one of our major directions within the area of corporate social responsibility.

m² is committed to creating a comfortable, healthy and safe environment for people within the frames of its current and future projects, including facilities for disabled people.

Q. What are some of the projects m² is planning for the future?

A. We're currently actively working on three new projects. First on the list is a mixed-use development project on Kazbegi Street, which will feature a 302-apartment residential complex and a 152-room 3-star hotel – Ramada Encore. Then there's Ramada Hotel on Melikishvili St, a 125-room hotel. This project will cost around 16 million dollars and will be

a unique example of adapting an old building in Tbilisi – the building will be rehabilitated in a constructivist style: details will be conserved, the building reconstructed and elements restored.

Other than that, we were happy to announce that m² will go regional for the first time. We will start in Kutaisi, where we'll be building a hotel and an apartment.

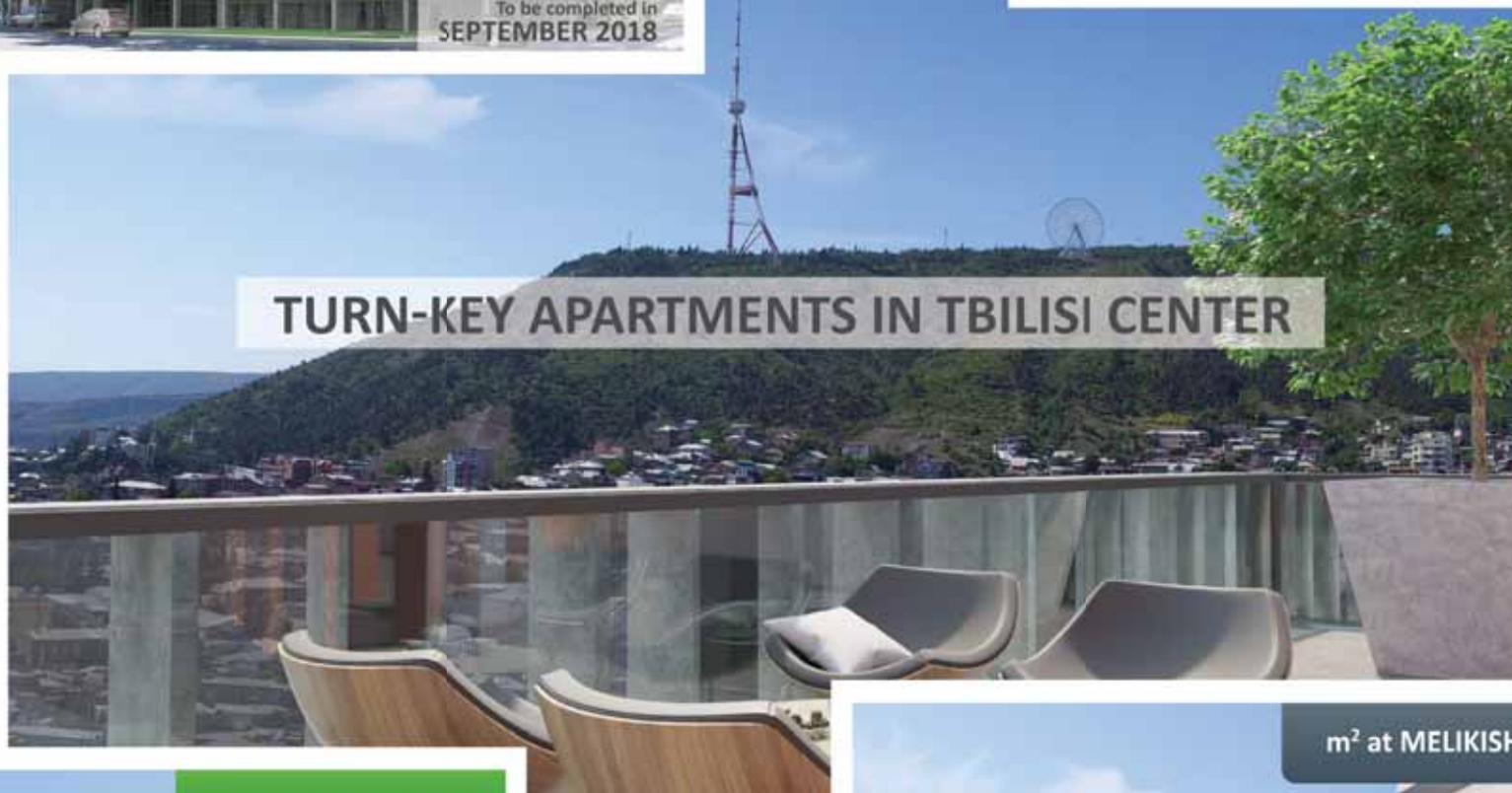
Q. How is the demand for housing changing? What is the situation today and to what extent is development keeping pace with demand?

A. In our view, there are multiple drivers of demand for housing in Tbilisi. First of all, I would point out the large average size of households, compared to peer cities (on average there are 3-4 people living in a household in Tbilisi, which is 40% higher than in central Europe). As aggregate household income grows, multiple generations living in a single apartment will be a serious source of demand. Public Registry data suggest that the number of real estate transactions in Tbilisi is growing every year. Another driver of demand for housing is large amortized stock of apartments in Tbilisi, mainly built in the 60s and 70s. Take so-called 'Khrushchevkas', for example – they have expired their life span and are not suitable for dwelling, be it from a living and fire safety standpoint, or from any other for that matter. Again, this type of housing stock will have to be replaced with new infrastructure.

So in our view, Georgia is still far away from market saturation due to the above-mentioned reasons.



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AS Georgia to Start Building an Additional Residential Complex, 15 Hectare Park and Shopping Mall



Nino Kuprashvili, Head of the Marketing, Business Development and Sales Department of AS Georgia

David ALEKSIDZE
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launching the biggest shopping mall in Tbilisi, a modern 15 hectare recreational park and an additional complex of similar size to the current one. All three of the aforementioned projects are set to launch in the nearest future. A hotel and a clinic are planned to be added as well. DIRSI also plans to construct a bridge connecting the complex with Ortachala. Further down, the project will feature a 5 km boulevard, townhouses and villas.

Nino Kuprashvili, Head of the Marketing, Business Development and Sales Department of AS Georgia, shared the vision of the company and gave us an inside look into what has and will be done in the future.

“The location of the complex is very attractive – it has a lot of green space surrounding it, this region of the city is largely untapped and the company spent 170 million dollars on the investment. At the same time, 3 out of the 10 hectares on DIRSI’s current complex is made up of green zones.”

“The buildings themselves

are of very high quality – they are able to withstand 9 decibel earthquakes, have strong sound and thermo insulation. This is one of the ways a development company can support the environment, as well as a drop in energy consumption correlating with reduced pollution.”

To support the environment, we have placed separate litter bins for plastic materials near every residence, which later goes to the factory and gets recycled. The same goes for paper used within our headquarters. In the future, we plan to add separate waste containers for many different materials, Kuprashvili stated.

“Our customer base is very diverse – around 44% are foreigners. For this reason, we thoroughly negotiated the terms with financial institutions in order to facilitate our customers’ relations with them.”

“Newcomers very much like the idea of having all the necessary commodities and infrastructure close by, which is one of the directions we are actively working on – open-

ing the supermarket Goodwill and Italian cafe Cantina on DIRSI’s territory are one of the first steps we have taken in order to make the complex more self-sufficient, but this is only a minuscule part of what is to come.”

Projects like DIRSI contribute very positively to the development of suburban areas. This is especially beneficial for Isani, as there is every prerequisite for this district to thrive – it is within only a 7-minute drive from the city centre’s Freedom Square.

Kuprashvili highlighted AS Georgia’s philosophy when analyzing the attractiveness of a building complex to potential customers.

“We focus on making the life of residents as comfortable as possible. When choosing the location of their residence, customers mainly look to three factors, which all contribute very strongly to their final decision.”

First, they evaluate the location itself, how far it is from the centre or from their workplaces. Accordingly, our people’s perception is changing, albeit slowly, on how

much of an advantage living in the centre offers, and what exactly they should perceive as too much distance from their workplace.

Most of our campaigns are oriented on changing people’s perspective on this issue, as suburban development is key to turning Tbilisi into a more welcoming and orderly city.

Secondly, they look at facilities their children are offered – DIRSI is working very actively to make the place more appealing for families. We have three children’s playfields on the territory, several stadiums, tennis courts, a large car-free zone and are developing a very large green space. At the same time, we managed to open a private kindergarten, which is very popular among our residents, have a public school within walking distance and are negotiating with several entities in order to open a private school.

Last but not least, people want to have all the necessary commodities as close as possible. We regularly ask our customers their opinion

on what they wish to have at DIRSI, be it through phone-calls or through special boxes which are in every residence hall, where our residents report their feedback. A supermarket was highest on the wish list, so we contracted Goodwill. Next on the list was a pharmacy. Therefore we are currently negotiating with several pharmaceutical companies and will have a store open in no time.

DIRSI has more than adequate parking space and is adapted for pedestrians. We have a café on the territory which has special offers for our residents.

Kuprashvili also commented on AS Georgia’s construction crews, materials and necessary equipment: “AS Group Investment, besides developing real estate, produces high quality building materials, provides industrial infrastructure construction services etc. All of these services have extensive experience and history of success. Most of our materials and personnel are purchased from the AS Group Investment itself.”

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urban tbilisi

New high in first residence permits issued in the EU Member States in 2016

The FINANCIAL -- In 2016, about 3.4 million first residence permits were issued in the European Union (EU) to non-EU citizens, a record number since comparable data are available (2008) and up by 28% (or nearly 735 000 residence permits) compared with 2015.

This increase was mainly due to the larger number of first permits issued for 'other reasons' (+64%) as well as for employment reasons (+21%). Employment reasons accounted for a quarter (25.4%) of all first residence permits issued in the EU in 2016, family for 23.2% and education for 20.7%, while other reasons, including international protection and humanitarian status (about 14% of all first permits issued in 2016), represented 30.7%.

Highest number of first residence permits issued in the United Kingdom, Poland and Germany

In 2016, one out of four first residence permits was issued in the United Kingdom (865 900 residence permits issued, or 25.8% of total permits issued in the EU). It was followed by Poland (586 000, or 17.5%), Germany (504 800, or 15.0%), France (235 000, or 7.0%), Italy (222 400, or 6.6%), Spain (211 500, or 6.3%) and Sweden (146 700, or 4.4%).

Compared to the population of each Member State, the highest rates of first resident permits issued in 2016 were recorded in Malta (20.6 first residence permits issued per thousand inhabitants), Cyprus (19.9), Poland (15.4) Sweden (14.8) and the United Kingdom (13.2). For the EU as a whole in 2016, 6.5 first residence permits were issued per thousand inhabitants.

For employment



in Poland, for education in the United Kingdom

Poland (494 000 permits, or 58% of all permits issued for employment reasons in the EU in 2016) was by far the first destination for employment related permits, while the United Kingdom (365 500 permits, or 53%) was the primary destination in the EU for education related reasons. With over 100 000 permits each, Germany (137 000, or 18%), Spain (115 100, or 15%) and Italy (101 300, or 13%) were the three Member States with the highest number of permits issued for family reasons in 2016. They were closely followed by France (93 900, or 12%) and the United Kingdom (89 300, or 11%).

Family reasons tend to

prevail across individual Member States

In eleven Member States, the largest numbers of permits were issued for family reasons, with the highest shares observed in Spain (54.4% of all residence permits issued in the Member State), Greece (53.5%) and Luxembourg (52.5%). Education was the main reason in Ireland (57.4% of all residence permits issued in the Member State in 2015), the United Kingdom (42.2%), Romania (39.0%) and Hungary (34.5%). In seven Member States, the main reason for issuing residence permits was employment, the highest shares being recorded in Poland (84.3% of all residence permits issued in the Member State), Lithuania (60.5%), Slovenia (51.0%) and Croatia (49.6%). Other reasons, which include international protection status and humanitarian reasons, were predominant in the

six remaining Member States, notably in Germany (55.9% of all residence permits issued in the Member State), Sweden (50.8%) and Austria (50.6%).

Almost half of residence permits granted to five citizenships

In 2016, citizens of Ukraine (588 900 beneficiaries, of which 87% in Poland) continued to receive the highest number of permits in the EU, ahead of citizens of Syria (348 100, of which almost two-thirds in Germany), the United States (250 900, of which almost three-quarters in the United Kingdom), India (198 400, of which over 60% in the United Kingdom) and China (195 600, of which a majority in the United Kingdom). Around half of all first residence permits issued in the EU in

2016 were issued to citizens of these five countries.

Ukrainians for employment, Chinese for education and Moroccans for family reasons

The reasons for residence permits being issued differ between citizenships. Among the top 10 citizenships granted permits in the EU in 2016, Ukrainians benefited from residence permits mainly for employment reasons (82.7% of the first residence permits issued to Ukrainians in 2016). Chinese (66.9%), US citizens (46.5%) and Brazilians (41.6%) were given residence permits mainly for education reasons, while Moroccans (69.8%) benefited from residence permits issued mainly for family reasons, as did Turks (41.2%).

“We Think that Fashion is Global”

H&M Regional Manager on Georgian expansion

The FINANCIAL

“We have been investigating the Georgian market for quite a long time and we thought that it was the perfect time now,” Claudia Oszwald, Regional Manager of H&M, one of the world's largest fashion retailers, told The FINANCIAL.

An agreement between Georgian Co-Investment Fund's (GCF) subsidiary Tbilisi Plaza LLC and H&M (Hennes & Mauritz AB) to open a store in Tbilisi was signed last year.

Galleria Tbilisi is one of Geor-



gian Co-Investment Fund's ("GCF") ongoing investment projects in the hospitality and real estate sector, with a total investment size of USD 80 mln.

H&M is the first retailer with which the agreement was reached.

“The aim and wish of Georgian customers to have H&M in their country was very important to us. We found the perfect location here, as the location is always of key importance. In Galleria Tbilisi I think we have the best store in Tbilisi,” said Oszwald.

“There is a lot of potential when it comes to people who love fashion and there are many fashion lovers in Georgia, customers who were waiting for H&M to bring the best quality and fashion with the best prices in a sustainable way, which is a great idea.

I think we have almost the perfect size store in Galleria Tbilisi. We have the whole assortment here, beginning with kids, the tiny baby collection, to ladies and men,” Oszwald told The FINANCIAL.

Continued on p. 20



გინდა მიიღო მეტი შემოსავალი?



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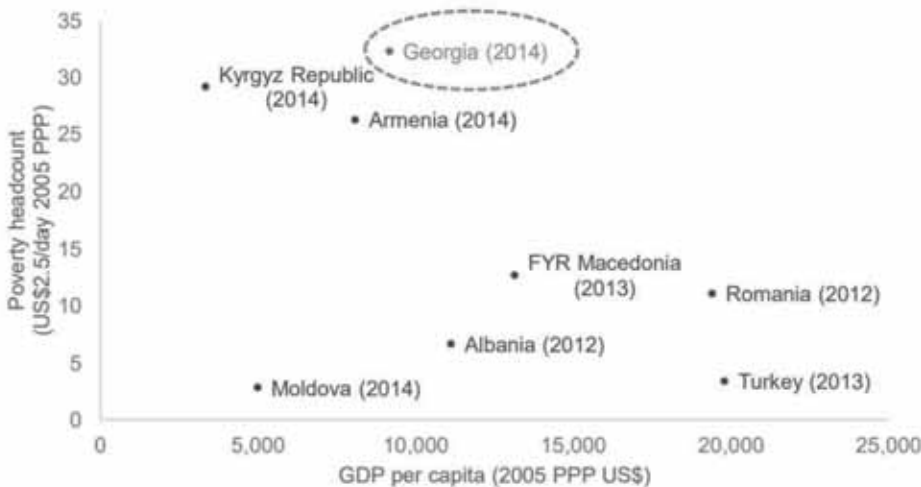


Otar Kakhidze:

EUROPEAN GEORGIA - MOVEMENT FOR FREEDOM PARTY MEMBER

“Seventy percent of Georgia’s population is either moderately or extremely poor.”

Poverty rate and GDP per capita, selected countries ECA (c. 2014)



Source: World Bank

Mariam KVATADZE

FactChek

On 3 November 2017, in his speech at the plenary session of the Parliament of Georgia, European Georgia - Movement for Freedom party member, Otar Kakhidze stated: “People spend half of their income on food. Seventy percent of Georgia’s population is either moderately or extremely poor.”

FactCheck took interest in the accuracy of the statement.

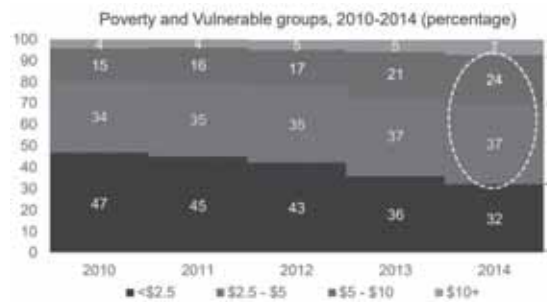
In his interview with FactCheck, Otar Kakhidze stated that his statement was based on World Bank data.

An assessment of Georgia’s poverty level is given in the World Bank’s 2016 report which is based on 2014 data. According to the report, the daily income of almost one third of Georgia’s population (32%) is less than USD 2.5. This, in accordance with the World Bank’s poverty line determined in 2005, means extreme poverty. Of note is that whilst the reduction of the level of poverty was mostly accomplished at the expense of social transfers before 2010, the role and impact of economic activities increased in 2010-2014. However, the level of poverty in Georgia is quite high as compared to other countries (Kyrgyzstan, Armenia, Macedonia, Albania and Moldova) with the same amount of gross domestic product (GDP). In accordance with the World Bank’s recommendation, par-

ticular emphasis should be made on vulnerable groups (people living on the verge of poverty) whose amount in percentage is rising annually (in 2010 it was 15%, in 2011 - 16%, in 2012 - 17%, in 2013 - 21% and in 2014 - 24%). Based on statistics in the report, 32% of Georgia’s population was living in extreme poverty (with less than USD 2.5 in income) in 2014, 37% were poor on average (with a daily income between USD 2.5 to USD 5), 24% belonged to a vulnerable group (with a daily income between USD 5 to USD 10) whilst 7% represented the country’s middle class (with a daily income exceeding USD 10).

The figures published by the National Statistics Office of Georgia differ from those published in the World Bank report. According to the former, the share of Georgia’s population living below the absolute poverty line was 22.4% in 2014 which differs from World Bank statistics by 9.6%. According to the data published by the National Statistics Office of Georgia, food expenses for the population constituted 44% of the total consumption expenses in 2015. However, of note is that this figure has been declining annually (with 2011 being the only exception).

Whilst analysing the population’s food expenses, it is important to take food and consumer price indices into account. The Consumer Price Index represents the structure of expenses of an average consumer of a country. The Consumer Price Index is the only indicator which is used in Georgia to calculate the level of inflation. The Food Price Index is an indicator to measure the monthly change in the basket of food commodities. According to the data of the National Statistics Office of Georgia, the share of food and non-alcoholic beverages in average consumption constitutes 30% whilst prices for food and non-alcoholic beverages increased by 7.4% last year.



Source: World Bank

CONCLUSION

ACCORDING TO THE WORLD BANK REPORT, 32% OF GEORGIA’S POPULATION LIVES IN EXTREME POVERTY, 37% IS MODERATELY POOR AND 24% IS ON THE VERGE OF POVERTY.

AT THE SAME TIME, ACCORDING TO THE FIGURES OF THE NATIONAL STATISTICS OFFICE OF GEORGIA, THE POPULATION’S EXPENSES ON FOOD CONSTITUTE 44% OF TOTAL CONSUMPTION EXPENSES AS OF 2015 (THE MOST RECENT FIGURES AVAILABLE).

THEREFORE, FACTCHECK CONCLUDES THAT OTAR KAKHIDZE’S STATEMENT IS TRUE.

TRUE logo with checkmark and logos of supporting organizations: European Endowment for Democracy, The German Marshall Fund of the United States, Kingdom of the Netherlands.

The views expressed in this website are those of FactCheck.ge and do not reflect the views of The FINANCIAL or the supporting organisations

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Asian Invasion: Stink Bug in Georgia

Continued from p. 4

Figure 2. Hazelnut export statistics

High Risk

Hazelnut, nectarine, apple, eggplant, pear, grape, peach, tomato, pepper, maize

Medium Risk

Apricot, cranberry, cherry, cucumber

Low Risk

Carrot, onion, potato, lettuce

Note: Figures for 2017 include January - September

Source: Geostat

Asian pharosana firstly appeared in Georgia in 2015, and by now has severely damaged crops in West Georgia. The Government has already undertaken some measures to fight the pest, however, most farmers are concerned with timeliness and the effectiveness of those measures.

In order to increase the population’s awareness about the threats posed by pharosana, the National Food Agency (NFA) of Georgia divided the crops prevalent in Georgia into three categories based on their exposure to pharosana (Figure 1). Unfortunately, grapes and hazelnuts - the most important agricultural export commodities of the country - ended up in the riskiest group. Hazelnut producers have already experienced significant losses, and if during this winter effective fighting measures are not identified, the pest might spread to the rest of the country, threatening yet another cash crop of Georgia - grapes.

Hazelnut in the Spotlight

According to the hazelnut producers, the current year was not the best year for hazelnuts, which suffered from various fungal diseases due to unfavorable weather conditions. The stink bug invasion worsened the situation, and in the end, hazelnut exports dropped dramatically in both value and quantity.

The current year is not yet over, however, it is clear that the figures for 2017 are extremely low compared to previous years. From January to September 2017, Georgia exported 50 mln. USD worth of hazelnuts, whereas in 2016, the export value for the respective period was 116 mln. USD, resulting in a 57% drop in export values. While the stink bug is not the only cause of this drop, it played an extremely large role in the reduction of hazelnut exports in both physical and monetary terms.

Experience of Other Countries

Parosana emerged as a very damaging invasive insect in North America and Europe in the mid-1990s and 2000s. The first established population of Parosana in Europe was identified in Switzerland in 2007. As to other European countries, there are established BMSB populations in Italy, France, Greece, Hungary, Serbia, and Romania. Bulgaria and Russia joined the list of countries with high number of sting bugs just recently.

In the US, where the stink bug was accidentally introduced in 1998, Parosana has been detected in 40 states, causing relatively serious agricultural problems in six states, and nuisance problems in thirteen others. Parosana has already resulted in a significant damage to agricultural crops and associated unpleasant economic impacts to growers in 2010, during

an outbreak that led to a one-year loss in excess of \$37 million across the mid-Atlantic in apples alone, as well as 100% losses to peaches in Maryland, and 60-90% losses of peaches in New Jersey. Parosana continues to damage sweet corn, pepper, tomato, eggplant and okra plots in the US.

What to Do?

Managing stink bug populations is challenging because there are currently few effective pesticides that are labeled for use against them. Researchers are looking into ways to effectively control stink bug populations, but more experiments need to be conducted in order to identify the most effective measures.

Using insecticides is the most common measure applied against stink bugs in Georgia and all over the world. However, recent research has shown that stink bugs become resistant to some of the common insecticides. This fact has led to trials of new insecticides such as oxamly which resulted in 96% mortality rates during field trials.

Yet another measure is to use the chemical compound kaolinite (Kaolin clay) for apples. This chemical is considered to be the most efficient method to protect apples from stink bug. Unfortunately, kaolinite is only effective on apples and does not protect other crops.

Researchers emphasize the importance of discovering so-called native biological enemies of the stink bug, and have concluded that Trissolcus japonicus - a parasitoid wasp also known as “samurai wasp” - is a primary predator for the stink bug. Trissolcus japonicus searched for and destroyed 60-90% of BMSB eggs in Asia, which is definitely a promising result. However, if a biological enemy is introduced in Georgia (and in any other non-native country), there is a risk that the newly introduced insect will become an invasive pest and cause problems similar to those caused by pharosana. That is why researchers prefer to first identify biological enemies native to the country, and introduce something new only if there is no other alternative. Native predators such as wasps and birds can serve as a viable tool for fighting pharosana.

In Georgia so far, the Government has subsidized the use of insecticides and is considering the introduction of a biological enemy in order to ensure that next summer does not turn into yet another stink bug nightmare for Georgian farmers.

Figure 1. Categories of crops according to the risk level regarding stink bug



Source: National Food Agency of Georgia (NFA)

Representatives of BDO, Deloitte Comment on Issues Plaguing the Georgian Tax System

“The current system raises questions about the degree of independence of the legal process,” say experts

David ALEKSIDZE
The FINANCIAL

For any investor considering entering the market of a country, the state of the tax system is one of the deciders on whether they will invest or opt out. Shalva Kilasonia, Tax Manager of BDO Georgia, and Giorgi Tavartkiladze, Director of the Tax & Legal Department of Deloitte Georgia, spoke to The FINANCIAL about the biggest issues that plague the Georgian tax system as of today. “The current system raises questions about the degree of independence of the legal process,” the experts said.

“The problems vary in nature, as some come from flaws within the legislature itself, while others can be accounted to procedural problems, like inadequate allocation of resources by the Government or inefficiency of their use,” commented Kilasonia, BDO.

“One of the problems which come due to the latter reason is the return of extra payment of VAT. The legislature is there, defining all the steps and deadlines in which the pay back should happen. However, the deadlines are rarely met, mainly due to inadequate fund allocation in the budget. This harms businesses as, often, the only way they can get any benefit off of the extra payment they had to go through with is by setting off other tax liabilities.

At a glance everything is fine, however, anyone with experience managing their business knows how important it is to have the money on hand as soon as possible. Reduced taxes are far from equivalent to the flexibility and investment opportunity money offers. Two weeks ago, news was announced which will help exporting companies in this regard, however, the problem will have to be solved for every single sector if we are to have an improved business environment and stronger businesses.”

“Another long-standing issue is that natural and during-production loss rates, which

are relevant to entrepreneurs who produce goods, are not standardized – a lot of sectors do not have a defined average loss rate. This is problematic, as companies might have to pay taxes for resources which did not directly result in a product.

The Government keeps the right to tax them with no regard to their losses, sometimes resulting in a harmed private entity. This, at the same time, is associated with extra procedural expenses for both the private and the public sector. What is good, though, is that the Government showed its desire to fix the problem. One of their proposed solutions is based on a mix of experiences of many different countries, with the Polish model dominating. The uniqueness of the Georgian Government’s approach comes from their desire to actively collaborate with the private sector in this process,” Kilasonia said.

Naturally, solving this problem will depend on many different factors, including the amount of resources the Government is willing to invest, the efficiency of the personnel working on the issue, and the willingness of the private companies to collaborate on the issue.

“Currently, a group of German economic specialists are working on the problem and the proposed solution is to let entities write-off full losses based on international accounting standards, if they provide a sound documentation of losses,” commented Tavartkiladze, Deloitte, on the issue.

“This would bring double benefit to the country – first of all, this will improve the finances of smaller businesses, as they will have accordingly-reduced profit tax and VAT payments. They will have a better financial prediction opportunity, as they will no longer be uncertain if or at what level their losses will be accounted for when paying taxes. The other side of the win-win coin is the usage of the Revenue Service’s resources – hiring personnel to verify loss rates of numerous small-scale enterprises will no longer be necessary and this will free up a lot of space to deal with issues that are currently even more pressing. The full write-off approach is internationally common and is used by most EU countries.”

Tavartkiladze, nevertheless, pointed out judicial procedures as one of the main problems in the taxing system. He went into the details of the issue, outlining both the current situation and the possible solutions.

“When there is a disagreement between a private enterprise and the Revenue Service, first, the case is discussed within the entity itself, then it moves to the Ministry of Finance and only later on is it given to the court. Georgia currently does not have specialized judges for financial issues, which could both be a good and a bad thing, so the stick is not here.

The problem stems from the internal regulations of the tax authorities which oblige the Revenue Service to move the case to the Appeals Court in case they lose in the first instance court. This drags the process out to absurd amounts of time – the first stage takes around 1.5 years; the second around a year; and finally if it goes to the Supreme Court, then it is an extra half year. Problems this system presents are immense – dragged out cases cost a fortune, which, by the way, many smaller companies do not have. For investors who come to Georgia, one of the crucial questions is how tax lawsuits are settled and their objectivity.

The current system raises questions about the degree of independence of the legal process, as, in initial cases, entities have to prove their arguments to the same system that they had disagreements with, not to mention the longevity of the process.”

Secondly, this makes a company unsure about its finances, so planning becomes a tad bit harder, Tavartkiladze believes.

“Finally, in Georgia, there is no upper limit to the amount a penalty can grow to. In the region there are examples of countries which set the bar at, for example, 50%. The current Georgian system works in a way that a penalty can grow to such significant numbers that entities are de incentivized from filing a lawsuit at all and the process is doomed to continue for years due to the compulsory appeal law,” Tavartkiladze said.

“An obvious solution to this issue would be to turn the legislature around – so that the Revenue Service does not have the right to appeal if they lose the case in the first instance court. This would free up a lot of resources for both the private and public sector. Alternatively, an independent tribunal could be assembled, which would decide cases of such character. There were talks about introducing this kind of reform in the past, however, for some reason, the talks amounted to nothing and later on subsided,” Tavartkiladze told The FINANCIAL.



Dimitri Kumsishvili:

FORMER MINISTER OF FINANCE



“The rate of inflation marginally exceeds the targeted figure.”

Teona ABSANDZE
FactCheck

The former Minister of Finance, Dimitri Kumsishvili, stated: “The rate of inflation in October is 6.4% which only marginally exceeds the National Bank’s targeted figure... For the last few months, the base inflation rate has been stable and close to the targeted figure.”

FactCheck took interest in the accuracy of the statement.

Generally, economic theory embraces the idea that both high and zero inflation, as well as deflation (a drop in price levels), are detrimental for an economy. The optimal targeted rate of inflation in developed countries is 1%-2% whilst in developed countries – 2%-4%. The National Bank of Georgia has determined the targeted inflation rate at 4% for Georgia in 2017.

Since the beginning of 2017, inflation has been kept above the targeted level. The tendency of growth has persisted during the first two quarters and the annual inflation rate in June reached 7.1%. The trend of decrease started in July-August and the rate of inflation dropped to 5.7%.

In October, the inflation increased by 0.8% as compared to the previous month whilst the annual inflation rate grew to 6.4%.

This year, the increase in prices was largely stipulated by the significant increase in the prices of commodities such as food and non-alcoholic beverages as well as alcoholic beverages, tobacco, transport and healthcare (see Table 1).

In regard to the base inflation rate, this indicator is used to assess the basic tendency of inflation alone and does not include the seasonal component and products with the most fluctuating prices such as food and non-alcoholic beverages, energy products, administered tariffs and transportation (tariffs). Therefore, a comparison of the base inflation rate and the targeted rate of annual inflation is groundless. For the last few months, the base inflation rate has been fluctuating between 4.3% and 4.5% whilst in October it was 4.4%.

As illustrated by the table, the growth of the inflation rate is caused mostly by the increase of prices on goods subject to excise tax. Therefore, one of the major factors behind inflation is the in-

creased excise tax beginning from 1 January 2017 together with growing oil prices on the world market. In regard to increased prices on food, the National Bank of Georgia’s position is that we have to take into account the fact that prices for fruit and vegetables were considerably low in 2016 whilst the price of sugar on the world market is high. At the same time, the supply of meat on the local market could have been reduced because of the increase in the export of livestock.

The growth of inflation is especially visible on imported goods. As of September, the growth of prices on imported goods constituted 10.4% whilst this figure is comparably lower (4.8%) for locally produced goods.

The impact of one-off factors (growth of excise tax) upon annual inflation is quite high whilst the base inflation rate is kept at a relatively low level. Therefore, other things being equal, there is no ground to assume that the tendency of price hikes will continue. The National Bank of Georgia prognosticates that as the effect caused by the one-off factors fades, the level of inflation will align with the targeted figure.

Table 1: Commodities with Major Impact upon Annual Inflation Rate

Commodity	Change of Price as Compared to the Same Month of the Previous Year	Share in Annual Inflation
Food and non-alcoholic beverages	7.4%	2.21% point
Transport	14.7%	1.83% point
Alcoholic beverages, tobacco	17.6%	1.13% point
Healthcare	5.8%	0.50% point

Source: National Statistics Office of Georgia

CONCLUSION

AS OF OCTOBER 2017, THE ANNUAL INFLATION RATE IN GEORGIA WAS 6.4% WHICH MARKEDLY EXCEEDS THE TARGETED FIGURE (4%) DETERMINED BY THE NATIONAL BANK OF GEORGIA. THE 2.4% EXCESS IS QUITE HIGH AND IT IS INAPPROPRIATE TO SAY THAT IT IS ONLY MARGINALLY HIGH. IN FACT, WE HAVE A SITUATION WHEN THE RATE OF INFLATION IS 60% HIGHER AS COMPARED TO THE TARGETED FIGURE.

THIS IS LARGELY CAUSED BY THE IMPACT OF ONE-OFF FACTORS. SPECIFICALLY, ONE OF THE PRINCIPAL REASONS BEHIND HIGH LEVEL OF INFLATION IS THE GROWTH OF THE EXCISE TAX, PARTICULARLY ON FUEL. THIS WAS DONE BY THE MINISTRY OF FINANCE ITSELF.

THE SOLE FUNCTION OF CALCULATING THE BASE INFLATION RATE IS TO ASSESS THE BASIC DYNAMIC OF INFLATION AND ITS COMPARISON TO THE TARGETED FIGURE OF ANNUAL INFLATION IS GROUNDLESS.

FACTCHECK CONCLUDES THAT DIMITRI KUMSISHVILI’S STATEMENT IS HALF TRUE.

HALF TRUE

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Challenges of the Georgian Education System and Hopes for the New Minister

The FINANCIAL
OP-ED BY JABA
TARIMANASHVILI

Scottish social philosopher and political economist Adam Smith wrote *The Wealth of Nations* and achieved the first comprehensive system of political economy. In his book he said: "It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy..." This statement emphasizes the importance of one of Gregory Mankiw's economic principles, that "Trade Can Make Everyone Better Off". Thus, Georgians should not start manufacturing products that cost more to make than being bought from others. It is necessary to examine some of our advantages, such as: our climate; geography; hydropower resources; and the raw material resources of neighbouring countries. Georgia has the capability to process neighbouring countries' raw materials and create synergy in combination with the free trade regimes that the country holds with almost the entire world. The uniqueness of Georgia has to be considered, based on which products and services can be developed which will be competitive on the regional or global markets, and generate wealth for the country and its people.

We often hear that for the development of society and the economy, it is important to protect human rights; ensure the rule of law; and uphold the existence of an independent judiciary. The strength of these institutions have been the main determinants of the economic development of European countries, which positively affected society throughout Europe.

The promotion of tourism is necessary to a certain level. At the same time we should define the priorities. To what extent do we want to influence tourism and develop a labour-intensive sector, from which public revenues are much lower than the development of science and capital-intensive sectors. Within the framework of "Check in Georgia" the country spends millions on financing cultural activities (musical festivals and concerts). However, analysts question to what level this impacts on tourism in the country. Meanwhile, there are no accurate statistics to refer to for answers.

Attempts to facilitate the development of innovations and technologies by the Georgian Government must be evaluated positively. Technopark, Innovations and Technologies Agency, Startup Georgia, and Fablab have all been created, which is good. Nevertheless, we should question how well the Georgian education system prepares technological innovators and specialists of the future to develop creative opportu-



nities? What if "Check in Georgia" were to split its budget between cultural activities and simultaneously facilitate providing education to youths to study how to make electronic music. As we can see, thousands of US dollars are being spent on foreign DJs, which is good, but we must not forget that Georgia has very talented musical artists. Inviting world-known DJs to teach Georgians how to create electronic music would enable local musicians to become world-known generators of quality melodies. The world requires novelty, and Georgia has that in abundance in its musical genes.

In September 2017 I attended the seminar "Becoming a Cyber Hero" organized by SOLO of Bank of Georgia. Thomas De Lara, Associate Professor of the IE Business School, presented an interesting lecture. "Never before in human history has humanity as a whole had to face the amount, sophistication, and complexity of threats that we face today in the digital world. Our world has turned into a digital jungle and humanity now needs the best and most talented individuals to become Cyber Heroes and protect organizations and society. Everything is going towards digital, internet, data technologies, and artificial intelligence – mobile applications; smartphones; HVAC systems; medical and marine companies; and many other services and industries. That is why risks are increasing day by day, which show the importance of protection against cyber-attacks. Cyber security is a profession of the future, both highly paid and demanded. By 2020, there will be a lack of 2 million cyber-security specialists in the world," noted De Lara.

It is important to consider the quotes of Chinese businessman Jack Ma, creator and owner of the world's largest e-commerce platform "Aliba-

ba". He says the following about the phenomenon: that today we are witnessing the third technological and the fourth industrial revolution. We should therefore be prepared to be involved in a global business, for innovation and creativity. Everything is already in the process of activating data technologies (DT), artificial intelligence (AI), Blockchain technology. Crypto currencies are increasing in value and use day by day. In the future, a virtual economy will exist, where any individual and small businesses will be able to sell, buy, pay, deliver, and travel fast globally. Most people need to see to believe; while real entrepreneurs and leaders first believe, and then see. Entrepreneurs first believe in the future, and then they see the future. Therefore, it is important to have faith, to believe in vision and ideas; to fight for it despite the obstacles; to see the result and feel success. After the third technological and fourth industrial transformations, the competition will be in terms of wisdom and experience, not muscles. The help of young people is required for the future. Belief in the younger generation is faith in the future. Artificial intelligence will create a lot of jobs, but the first 15 years will be challenging because people don't develop as fast as technology. It should also be considered that production would no longer create jobs in the future, because most of the production will be based on artificial intelligence, and created by robots.

In the Georgian reality, we are also actively seeing the development of technology, but so far in the following way. For example in banks' payboxes; fast-food restaurants' ordering machines; vending machines; internet banking; mobile banking; mobile applications; online shopping and so on. Human beings with only operators' capabilities will

soon no longer be required, because the future lies in innovations and creativity. That is why it is time for quick action in the Georgian education system, in order not to generate 'operators only' anymore, and ensure that future generations are ready to create novelty, create robots which will work as operators and generate value. A human is better than a robot, because a robot has no wisdom or love. Reforms are needed immediately, to promote international business. Since the world is becoming global, Georgia must be a successful part of that.

In an interview with Business Media Georgia, well-known businessman Temur Tchkonja expressed willingness to invest in the education sector, although in what format has yet to be formalized. He also recalled Kakha Bendukidze's contribution to the development of the Georgian education system. Free University's coding society has created a role which is vital for Georgian development. "Knowledge of programming in the modern world is just as important as knowledge of literacy and numeracy, and this is becoming more pronounced in today's life. Coding in many developed countries is taught in elementary school classes, while pupils in Georgia have no such opportunity." Free University offers admission from 13 years of age, to learn a basic programming and mathematics course for computer science. [Source: Freeuni Coding Lab]. The course is available in Tbilisi only. Therefore, the role of Georgian businesspersons and the Ministry of Education and Science is very high, in order to carry out similar initiatives in the country's regions as well as to prepare future generations for the digital world.

The Catholicos-Patriarch of Georgia Ilia II has said that "globalization is an inevitable event and it is

connected to the development of scientific and technological progress. It can be said that the whole world has become global. But this does not mean that big countries will absorb the cultural, spiritual or national values of small countries to create a uniform and featureless culture". It is therefore essential that the state and population of Georgia is prepared and ready for globalization as an unavoidable event, while not losing its uniqueness and values that have persisted over centuries. The precise upbringing of youths is also important in order to make them ready for global challenges, but at the same time consider values that are of vital importance for the formation of a state-thinking future generation.

The development and existence of a long-term, solid strategic plan is important for complex socio-economic development. Georgia has to consider the initiative of the UAE, announced by His Highness Shaikh Mohammad Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai – the "UAE Centennial 2071". This is a vision and government action plan to make the UAE the best country in the world by 2071. The vision is based on the lecture of His Highness Shaikh Mohammad Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces, and the goal is for future generations to live a happier life in a better environment, with bigger opportunities and stronger communication with the world. "UAE Centennial 2071" is based on four aspects: Education, Economy, Government development, and Community cohesion. The vision's objectives also include the development of education, with a focus on advanced technology and engineering, and instilling an Emirati moral values system in future generations.

It is lamentable that former Minister of Education and Science – Aleksandre Jejelava, did not have a word to say on the importance of education and science; the means of development in a modern world; the role of Georgia in globalization; and the education of the future generations of Georgia. On the contrary, we can recall a combination of criticism of Georgian folk heroes such as "Komble", and the useless reasoning for the development of science in the country. It would be preferable if no Minister of Education and Science would ever again be appointed in Georgia without holding the appropriate academic, doctoral degree. In spite of this, we are hopeful and optimistic about the new Minister of Education and Science – Mikheil Chkhenkeli, whose biography is encouraging. Georgia no longer has the luxury of being able to waste time anymore; instant action is required to prepare the education system to respond to global challenges.

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Regus, world's largest provider of flexible workspaces, opened new business center in Tbilisi, Capital of Georgia

The FINANCIAL -- "Regus" opened newest, A class business center in Georgia's dynamic capital city Tbilisi, at Freedom Square (address: Leonidze street #2, business center "Tabidze 1", 4th floor).

Regus is offering flexible workspaces, newly renovated A class offices and services to its clients in the most prestigious, upmarket and vibrant area of Tbilisi, in the middle of the city. The design of the business centre creates a synthesis between city's historical architecture and the urban technologies of 21st century. Everything is close to this place – high-class hotels, cafes, restaurants and shops, and all these creates ideal environment for both – work and leisure. Tabidze 1 is easily accessible with public transport, as well as for pedestrians.

"We are very excited with the expansion of our global network and with opening of the new center in Georgia, bustling city of Tbilisi, where more and more companies will be able to access and enjoy the offers and benefits from Regus. All size of businesses are in need of flexible and comfortable office space, and easily accessible location. We are delighted to bring to these businesses and workers in Tbilisi the opportunity to experience workplace flexibility and to work from where they want," – Regus representatives speak about importance and necessity of the entering on the Georgian market.

Regus Center has an ideal drop-in location for business people, who are moving from one busi-



REGUS CENTER HAS AN IDEAL DROP-IN LOCATION FOR BUSINESS PEOPLE, WHO ARE MOVING FROM ONE BUSINESS MEETING TO ANOTHER.



ness meeting to another. It is also very convenient for business visitors. Center satisfies each and every requirement of the growing sector. Based on Regus research, 50% of professionals in Georgia work outside their main office for half the week or more. Center is a best choice not only for local business people, but for foreign businessmen, who are going to work on Georgian market.

"The Georgian economy is growing really fast for last years and the business environment is changing, too. Georgia is becoming more comfortable for local and foreign businessmen and investors. Businesses in Tbilisi are performing very well, therefore Georgia continues to fascinate foreign investors.

Regus, which is represented in more than 1000 cities worldwide, now provides the comfort and flexible workspaces in Tbilisi, too. Regus has a huge experience in this field" - Rusudan Chakvetadze, representative of Regus told us.

Regus is largest provider of flexible workspaces worldwide. Most successful entrepreneurs, individuals and large corporations – they all are Regus customers. Regus network includes more than 3,000 business centers in 1000 cities of 120 countries. By using of mobile, virtual and individual offices Regus allows any type of customer to take advantages of the customized services, without time limitation and dealing with administrative issues.

Founded in Brussels, Belgium, in 1989, Regus is based in Luxembourg and listed on the London Stock Exchange.

50% Drop Of Bitcoin Rate Cannot be Excluded, Expert

The FINANCIAL

The world's largest cryptocurrency by market capitalization rose to eight-day highs above \$7,520 last Friday. Prices dropped 29 percent after the developers suspended a controversial software upgrade, known as Segwit2x, on Nov. 8. "Given the market is in its infancy and is highly volatile, such a large drop cannot be excluded a priori. However, a collapse in prices due to increasing regulation and competition does not necessarily represent a bad as it will be most likely a symptom of stabilization as the market becomes more mature", Daniele Bianchi, of Warwick Business School, is an Assistant Professor of Finance believes.

"The large drop in Bitcoin prices is probably due to the competition of Bitcoin Cash, which in fact increased its market capitalisation quickly and has now surpassed Ripple and Litecoin, and is approaching Ethereum, according to data from CoinMarketCap. Perhaps frustrated by the cancelled technology update of the original Bitcoin blockchain, which was announced recently, an increasing number of users are switching to Bitcoin Cash which allows for bigger block sizing, giving ample capacity for everybody's trans-



actions, as opposed to Bitcoin's cap at 1MB blocks.

"Indeed, one of the main problems with Bitcoin is that it does not scale up properly as more and more users adopt it. This makes transactions slower and slower as the block size is fixed. In addition, the segregated witness - ie SegWit2x - technology recently introduced by Bitcoin scientists, raised questions about the progressive centralisation of Bitcoins mining towards big servers, something which is fundamentally against the original proposition by Satoshi Nakamoto.

"Bitcoin Cash addressed this issue by increasing the block size to 8MB to accelerate the verification process, with an adjustable level of difficulty to ensure the chain's survival and transaction verification speed, regardless of the number of miners supporting it. The security of the Bitcoin Cash blockchain, though, is still unclear.

"The internal fighting between Bitcoin to Bitcoin Cash is probably here to stay for few weeks and months. The situation is very fluid, and market valuations are both constantly calibrating and volatile, especially given supply is limited and everything is mostly driven by aggregate demand."

Continued on p. 20

urban tbilisi

Since 2000, the number of millionaires globally has increased by 170%

Global wealth 27% higher than a decade ago, led by further US gains

The FINANCIAL

Ten years from the onset of the global financial crisis, global wealth has grown by 27%, according to Credit Suisse Research Institute's 2017 Global Wealth Report. In the 12 months to mid-2017, global wealth grew at a faster pace than in recent years, with mean wealth per adult reaching a new record high.

According to the eighth edition of the Global Wealth Report, in the year to mid-2017, total global wealth rose at a rate of 6.4%, the fastest pace since 2012 and reached USD 280 trillion, a gain of USD 16.7 trillion. This reflected widespread gains in equity markets matched by similar rises in non-financial assets, which moved above the pre-crisis year 2007's level for the first time this year. Wealth growth also outpaced population growth, so that global mean wealth per adult grew by 4.9% and reached a new record high of USD 56,540 per adult.



The US continued its unbroken spell of gains since the financial crisis, bolstered by strong market conditions. It added USD 8.5 trillion to the stock of global wealth, which is half of the wealth generated globally over the 12 months to mid-2017.

Stability in Europe enabled wealth growth of 6.4% across the continent, in line with global wealth growth. Four Eurozone countries (Germany,

France, Italy, Spain) made it to the top ten countries with the biggest gains in absolute terms. The UK market recovered after the losses caused by the Brexit vote last year but the outlook remains uncertain.

Switzerland once again ranked as the global leader in terms of both average and median wealth per adult in 2017.

Median wealth has risen in most

regions, while remaining below the peak level of 2007. Only China has reached a new median wealth high. The top ten ranking by median wealth corresponds closely to the ranking by mean wealth, although lower-than-average inequality promotes Italy and Japan to a place among the top ten.

In the mid-term, emerging economies are expected to generate wealth

at a more dynamic pace than their developed peers.

Among the wealth components, only financial assets are noticeably up since 2007; non-financial assets moved above the 2007 level for the first time this year and are now 2% higher.

This century, debt grew at a fast pace (9%) until the financial crises, but has been flat since then, never gaining the peak value achieved in 2007. Debt per adult is currently 3% below the level of 2007.

US led the gains in global wealth – but has it reached its peak?

Economic activity and US financial markets continued to perform well in the past year, driving a ninth successive year of rising wealth.

The US managed to add to the stock of global wealth USD 8.5 trillion, half of the total world's gain of the last 12 months, driven primarily by stronger financial assets.

Comparing wealth gains across countries, the US was restored to its usual first place, with a gain five times the rise recorded by China (USD 1.7 trillion) in second place.

Continued on p. 23

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Weekly Market Watch



WEEKLY MARKET WATCH EXCLUSIVELY PROVIDED TO THE FINANCIAL BY GALT & TAGGART

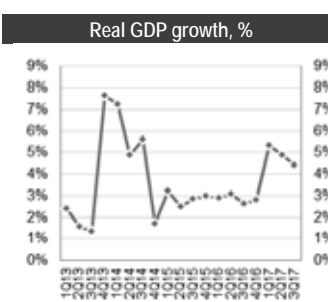
ECONOMY

Exports up 38.3% y/y in October 2017

In October 2017, exports increased 38.3% y/y to US\$ 262.8mn, imports were up 10.4% y/y to US\$ 730.8mn and the trade deficit narrowed 0.9% y/y to US\$ 468.0mn according to GeoStat's preliminary figures.

Key macro indicators			
	10M17	2016	2015
GDP (% change)	4.8% ⁽¹⁾	2.8%	2.9%
GDP per capita (ppp)	...	10,044	9,601
GDP per capita (US\$)	...	3,865	3,767
Population (mn)	3.7	3.7	3.7
Inflation (eop)	6.4%	1.8%	4.9%
Gross reserves (US\$ bn)	2.9	2.8	2.5
CAD (% of GDP)	9.4% ⁽²⁾	12.8%	12.0%
Fiscal deficit (% of GDP)	...	4.1%	3.7%
Total public debt (% of GDP)	...	44.6%	41.4%

Source: Official data, IMF
(1) As of 9M17
(2) As of 1H17



Source: GeoStat

Georgia sovereign credit ratings

STANDARD & POORS BB- Stable Affirmed Nov-2016	MOODY'S INVESTORS SERVICE Ba2 Stable Affirmed Sep-2017	FitchRatings BB- Stable Affirmed Mar-2017
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Source: Rating agencies

International ranking, 2016-17

- Ease of Doing Business # 9 (Top 10)
- Economic Freedom Index # 13 (mostly free)
- Global Competitiveness Index # 59 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

In 10M17, trade deficit was down 0.9% to US\$ 4.2bn as

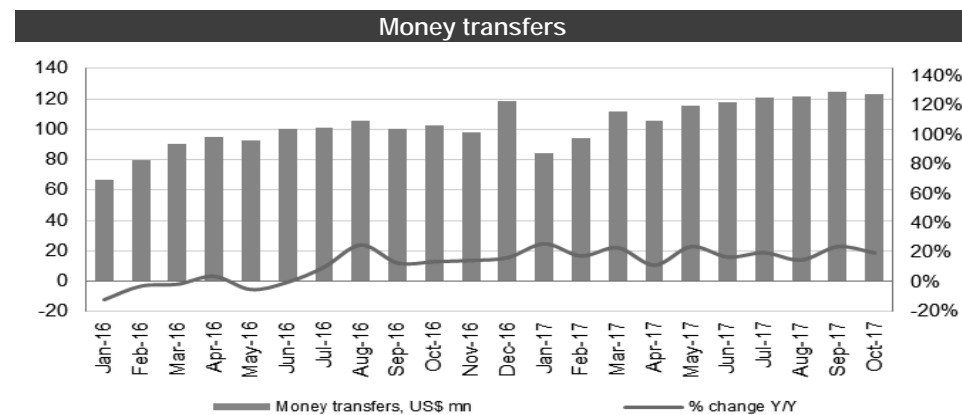
exports increased 29.4% y/y to US\$ 2.2bn, while imports

were up 7.8% y/y to US\$ 6.4bn. Detailed foreign trade

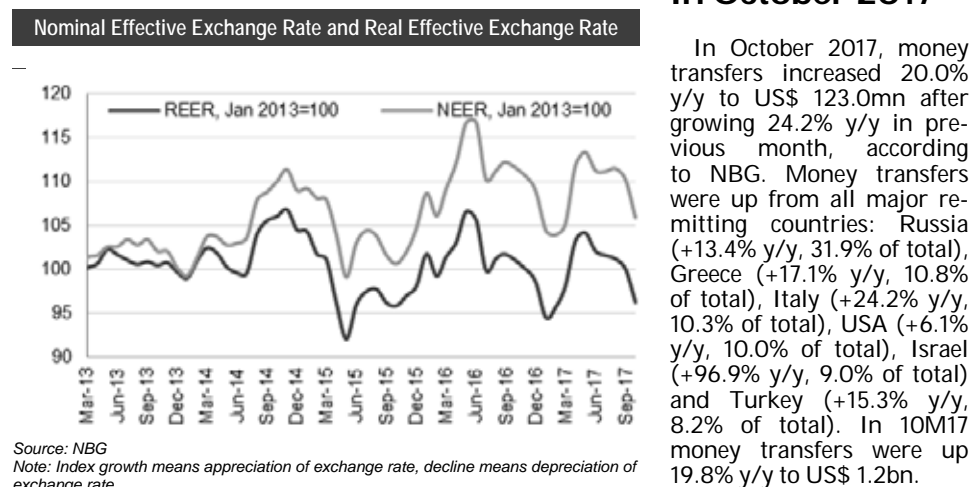
statistics will be available on November 20, 2017.

Money transfers up 20.0% y/y in October 2017

In October 2017, money transfers increased 20.0% y/y to US\$ 123.0mn after growing 24.2% y/y in previous month, according to NBG. Money transfers were up from all major remitting countries: Russia (+13.4% y/y, 31.9% of total), Greece (+17.1% y/y, 10.8% of total), Italy (+24.2% y/y, 10.3% of total), USA (+6.1% y/y, 10.0% of total), Israel (+96.9% y/y, 9.0% of total) and Turkey (+15.3% y/y, 8.2% of total). In 10M17 money transfers were up 19.8% y/y to US\$ 1.2bn.



Source: NBG

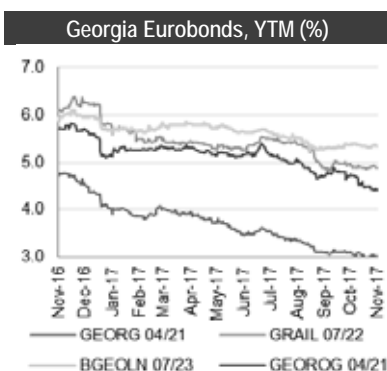


Source: NBG
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate.

FIXED INCOME

Corporate Eurobonds: BGEO Group Eurobonds (BGEO LN) closed at 5.3% yield, trading at 103.2 (unchanged w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.5 (unchanged w/w), yielding 10.8%. GOG Eurobonds (GEORG) were trading at 107.4 (+0.1% w/w), yielding 4.4%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 111.8 (+0.1% w/w), yielding 4.9%.

Georgian Sovereign Eurobonds (GEORG) closed at 112.5 (+0.1% w/w) at 3.0% yield to maturity.



Source: Bloomberg

	Local bonds					Eurobonds				
	GWP 12/21	M2RE 10/19	Nikora 03/18	Nikora 06/19	GLC 08/20	GEBGG 06/20	GEORG 04/21	BGEO LN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	30*	25.0	5.0	10.0	10.0	500*	250	350	500	500
Issue date	12/16	10/16	03/16	08/17	8/17	06-17	04/16	07/16	04/11	07/12
Maturity date	12/21	10/19	03/18	06/19	8/20	06-20	04/21	07/23	04/21	07/22
Coupon, %	10.50**	7.5	11.0	9.0	7.00	11.0	6.750	6.000	6.875	7.750
Fitch/S&P/Moody's	BB-/B-	-/-	-/-	-/-	n/a	BB-/Ba2	BB-/B+	BB-/B1	BB-/BB-/Ba2	B+/B+
Mid price, US\$	n/a	101.4	101.2	100.0	101.73	100.5	107.4	103.2	112.5	111.8
Mid yield, %	n/a	6.75%	8.5%	9.0%	6.50%	10.8	4.4	5.3	3.0	4.9
Z-spread, bps	n/a	n/a	n/a	n/a	n/a	346.1	240.2	98.2	279.6	321.5

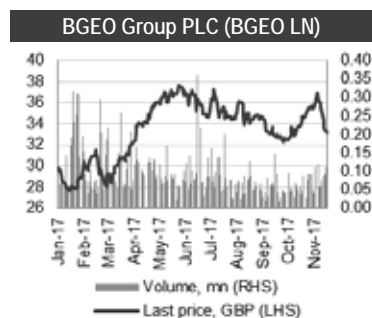
* Source: Bloomberg
**GWP 12/21 bonds and GEBGG 06/20 bonds are in Georgian lari
**Coupon rate 3.5% over the NBG's refinancing rate

Eastern European sovereign 10-year bond performance

Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba3	3.0
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba1	4.3
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	0.0
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba2	1.1
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	2.7
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	3.0
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	2.6
Turkey	2,000	5.625%	30/03/2021	BB+/BB/Ba1	4.1

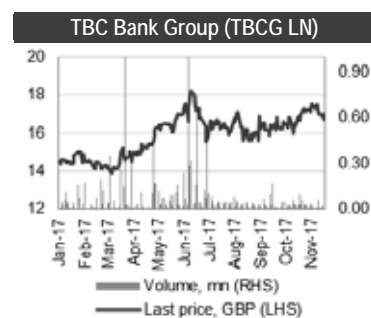
Source: Bloomberg

EQUITIES



Source: Bloomberg

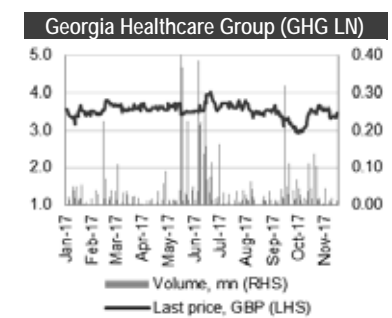
BGEO Group (BGEO LN) shares closed at GBP 33.13/share (-6.86% w/w and -2.10% m/m). More than 372k shares traded in the range of GBP 32.95 – 35.59/share. Average daily traded volume was 424k in the last 4 weeks. FTSE 250 Index,



Source: Bloomberg

of which BGEO is a constituent, lost 1.10% w/w and lost 1.64% m/m. The volume of BGEO shares traded was at 1.08% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 16.70 (-1.76% w/w and +0.18% m/m). More than 96k shares changed hands in the range of GBP 16.63 – 17.29 share. Averaged daily traded volume was



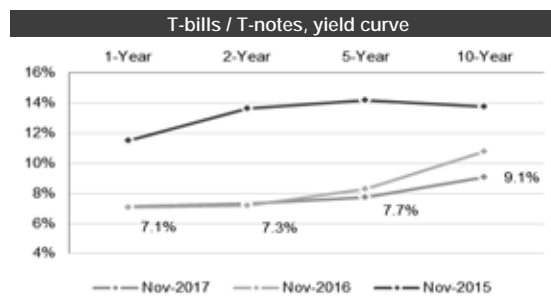
Source: Bloomberg

18k in the last 4 weeks. **Georgia Healthcare Group (GHG LN)** shares closed at GBP 3.45/share (+2.45% w/w and -3.23% m/m). More than 18k shares were traded in the range of GBP 3.34 – 3.45/share. Average daily traded volume was 14k in the last 4 weeks. The volume of GHG shares traded was at 0.02% of its capitalization.

MONEY MARKET

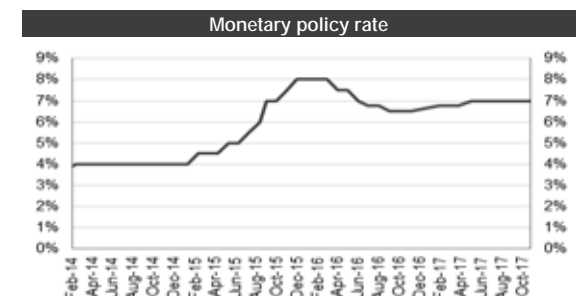
Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,050mn (US\$ 390.0mn).

Ministry of Finance Treasury Notes: 2-year



Source: NBG
*Note: As of latest auction.

GEL 20.0mn (US\$ 7.7mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on November 8, 2017. The weighted average yield was fixed at 7.327%. The nearest treasury security auction is scheduled for November 29, 2017, where GEL 20.0mn nominal value 5-year T-Notes will be sold.



Source: NBG

WEEKLY MARKET WATCH EXCLUSIVELY PROVIDED TO THE FINANCIAL BY GALT & TAGGART

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The readers of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

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urban tbilisi

“We Think that Fashion is Global”

Continued from p. 10

The H&M online store is today available in 44 markets. Uruguay and Ukraine are set to become new H&M store markets in 2018.

The company said that for the full-year 2017, approximately 475 new physical stores are planned to open, with the focus primarily on growing markets. Most of the new stores in 2017 will be H&M stores, while approximately 70 will consist of the newer brands COS, & Other Stories, Monki, Weekday and ARKET.

“We always have a certain campaign while entering new markets. While entering Georgia we presented the Fall Fashion campaign; a fantastic campaign with

some of the top global models including Naomi Campbell,” said Danilo Drobnjak, Head of Communications and Marketing at H&M Austria, Adriatic, West Balkans and Georgia.

“When we are entering a market it is a very complex procedure when it comes to the marketing. We plan how we want to give the first impression to our future customers and in the case of Georgia we acted the same way. It’s important that they feel this H&M energy and the way H&M is arriving on the market.”

“As you know, we are quite a good presence in Tbilisi. We have a couple of formats where we dominate, like the building of the old post office which we wrapped with H&M cam-

paigned posters and also banners in the streets of Tbilisi with the Fall Fashion campaign I mentioned. Once we enter a market then we have our regular procedure of campaigns, which we have several of during the year. Georgia will be no exception and H&M will provide different campaigns here.”

“Of course we have our very high standard global procedures but we always investigate local cultural aspects, relevant to the country where we enter. We have this beautiful logo in Georgia of H&M, which a lot of people welcomed. That’s because we want to show that we truly respect the local culture and local language. We always combine the local culture and local habits with global pro-

cedures,” said Drobnjak.

“In general we try to give the best offer to our customers in different markets. We try to keep the same price levels in all countries. There are small differences due to taxes; VAT is different in several countries. They are small differences but we keep the same prices overall,” said Oszwald.

“We think that fashion is global. We see a lot of very fashionable men and women here in Tbilisi’s streets, which is super. I don’t see any specifics in terms of the level of fashion among people here in Georgia or in other countries. There is no difference in the fashion level here in Georgia or in Germany or any other country.”

50% Drop Of Bitcoin Rate Cannot be Excluded, Expert

Continued from p. 17

Q. Do you expect future drops caused by development of other crypto currencies?

A. This is very possible. The market of cryptocurrencies is highly competitive as essentially there are very limited entry barriers to the introduction of alternative cryptocurrencies. In fact, the availability of the blockchain source code has already led to a proliferation of hundreds of them. These have been introduced to solve some of the issues of the original Bitcoin platform, such as to increase the block size and speed up transaction processing. So far, except perhaps Bitcoin Cash, none of the cryptos is threatening the first-dominance of Bitcoin. This however might be about to change as alternative coins such as Litecoin, Ethereum, or Bitcoin Cash indeed becomes more and more appealing to the public. As the market of cryptocurrencies is essentially demand driven, having limited supply, any demand shock will inevitably translate in possibly big price swings.

Q. What is the potential of Bitcoin cash?

A. The main advantage of Bitcoin Cash with respect to Bitcoin is transaction speed. Indeed, Bitcoin Cash is based on a protocol which allows to accelerate the verification process of transactions, and thus being closer to an actual digital cash rather than a “store-of-value” as often Bitcoin is referred to borrowing the analogy from the

Gold market. The potential of Bitcoin Cash is still to be verified as its adoption is still way lower than Bitcoin. At the end, it really boils down to what investor will prefer in terms of transaction speed, transparency and degree of decentralization. The battle is still open.

Q. How world governments may affect the market with taking control over mining process?

A. It is almost a fact that the market of cryptocurrencies is becoming too big to be ignored. However, most regulators are still in a wait-and-see attitude as they are trying to fully understand the phenomenon. Perhaps the main exception is the U.S. where according to the Commodity Futures Trading Commission (CFTC), which has started to clamp down on unregistered firms that trade derivatives of the cryptocurrency, the latter should be treated as a commodity, just like oil and gold. The distributed and decentralized nature of the mining process makes very unlikely that central banks and regulators will be able to take over the entire market and/or the mining networks.

Q. Do you exclude let’s say 50% drop of Bitcoin rate?

A. Given the market is in its infancy and is highly volatile, such a large drop cannot be excluded a priori. However, a collapse in prices due to increasing regulation and competition does not necessarily represents a bad as it will be most likely a symptom of stabilization as the market becomes more mature.

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&... Did you know?

Non-Retail Tenants Continue to Boost Shopping Centre Performance

The FINANCIAL -- A new report from the Urban Land Institute (ULI) and JLL finds that non-retail tenants - including food and beverage (F&B), leisure and community amenities - have led to 28% estimated rental value growth, a 7.24% increase in footfall and a 1% decrease in vacancy rates across 12 European shopping centres in the past 12 months.

The report, Trading Up: Dining, leisure, amenities, and the new shopping centre, is the second in a series commissioned by ULI's European Retail and Entertainment Council to better understand the role of non-retail elements in the continued reinvention of shopping centres. It is informed by the analysis of 12 shopping centres across the UK, France, Poland and Spain that have recently upgraded or extended their centres to include additional non-retail tenants. The report also draws on insights from interviews with industry experts, as well as a survey of ULI members working in the retail sector. In addition to examining

F&B and leisure, this year's report looks at community amenities including health-care, dentists, libraries, co-working spaces, and community uses.

“It's now more important than ever that shopping centres provide that exciting, innovative space that people want to come to, spend time and money in, and return to”, Christian Luft, director of valuation advisory at JLL, commented. “The survey's findings are encouraging and build on what we found last year, that non-retail offerings add value to modern shopping centres. Getting the tenant mix right helps to create successful retail destinations which thrive, benefiting consumers, retailers and landlords alike.”

58% of the survey respondents reported that the addition of F&B, leisure, and community amenities has had a positive impact on the financial performance of shopping centres. As in last year's survey, respondents indicated that increased dwell time (the time a consumer spends in a centre)

and footfall are the two most important contributions non-retail offerings can make to shopping centres. However, this year's survey found non-retail tenants' roles in supporting overall retail sales and rental income to be almost equally important. This suggests that there are increasing expectations around how non-retail tenants can contribute to a shopping centre's bottom line.

“Over the past year or so, we have seen how F&B, leisure, and community amenities have become such a strong focus of attention in the industry - from the perspective of the landlord to that of the operator,” said Chris Igwe, co-chair of the ULI Europe Retail and Entertainment Council. “Today, as questions are asked about the future and sustainability of non-retail tenants as a viable long-term offer, this report not only provides interesting insights, but also explores what we are learning and what we should be cautious about going forward.”

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Germany reclaims top “nation brand” ranking, with USA dropping to sixth place

The FINANCIAL

In the wake of a substantial drop in global perception of the USA, Germany retakes the top ranking in the latest Anholt-GfK Nation Brands IndexSM (NBISM) study, while France climbs to second place. The UK has regained the ground it lost last year after the Brexit vote to hold onto third place, while Japan jumps into the top five for the first time since 2011, standing equal with Canada.

USA loses ground in global perception of its Governance

Of the 50 countries measured in the study, only the USA saw its overall NBI score drop this year. However, it still ranks among the top five nations for three of NBI's six categories: namely, Culture (where the USA is ranked second), Exports (also second), and Immigration-Investment (fifth). But it fell from 19th place to 23rd for Governance, a notably poor score for one of the world's leading countries.

Professor Simon Anholt, who created the NBI study in 2005, comments, “The USA's fall in the ‘Governance’ category suggests that we are witnessing a ‘Trump effect’, following President Trump's focused political message of ‘America First’.” However, Americans' assessment of their own country is notably more positive this year than last. A similar fall in global perception of the USA was seen following the re-election



of George W. Bush, when the USA fell to seventh place. Previously, America has never stayed outside the top ranking for more than a year at a time: it will be interesting to see whether this holds true in the 2018 ranking.”

Germany gains in Governance, People, and Culture

Germany, by contrast to the USA, enjoys a very balanced image across all six categories of the index, with notable improvements in global perception of its Culture (+1.07), Gover-

nance (+1.28), and People (+1.34). It ranks in the top five countries for all but one of the Index categories – that one being Tourism, where it is gaining ground, if not yet in the top five.

Germany's overall score increases are boosted by significantly improved perceptions among Egyptians (+5.92), as well as among Russians (+2.26), Chinese (+2.17) and Italians (+2.06). Americans stand alone in ranking Germany outside the top-ten overall nation brands, placing it eleventh.

UK regains the ground lost in 2016

Global perception of the UK has recovered following the significant decline seen in 2016 immediately after the Brexit vote. Its overall Index score is back to very nearly its 2015 level, with improvement across all six categories.

This puts it into the top five countries for Exports, Culture, Tourism and Immigration-Investment. The UK's largest gains are for Governance (nearly two points) and People, suggesting that most countries have come to terms with the UK's vote last year to leave the EU, and their perception has re-settled following that shock.

France and Japan leap

ahead in global perception of their national brands

Both France and Japan benefitted from score gains in their own right, as well as from the USA decline, allowing them to leap ahead in the overall ranking.

France now stands in second place for the first time since the NBI began, up from fifth last year, with gains across all six categories. This is seen especially for Governance, where France's improved score stands at double the average amount, and Immigration-Investment. It ranks first of all countries for global perception of its Culture, second for Tourism, and fifth for Exports.

2017 has also been a banner year for Japan. It now stands in fourth place, equal with Canada, having gained its highest overall score in nearly a decade. Japan is perceived most highly for Exports, where it comes ahead of all other countries, and also shows significant gains compared to the average for Immigration-Investment, Culture, and Governance.

Vadim Volos, GfK's senior vice president of public affairs and consulting, comments, “The Nation Brands Index allows our clients to understand where – and why – their nation stands in terms of their current image, momentum and potential. Changing global perception of a national brand is challenging and slow – but countries can influence biased or outdated perceptions by understanding the negative views and actively communicating actions and changes that address those.”

UK consumers spend more on essentials than US or India

The FINANCIAL

Mounting pressure on UK consumer's wallet is prompting a critical need for retailers to get closer to their customers, according to the latest research from KPMG UK.

The inaugural report by KPMG, reveals that UK consumers are spending as much as 76 per cent of their disposable income on necessities, as opposed to luxuries. This was a greater share of wallet than noted by US (72 per cent) and Indian (68 per cent) consumers, however Chinese shoppers were found to be spending 79 per cent of their disposable income on essential items.

These findings come against a backdrop of growing financial pressure on the British consumer's purse. The latest BRC-KPMG Retail Sales Monitor figures revealed a record decline in non-food retail sales. Over the 12 months to October 2017, sales of non-food items declined 2.1



per cent, the deepest decline since 2012. Moreover, for several months the figures have pointed to notable polarisation of consumer spend, with consumers spending more on non-discretionary items like food, whilst clawing back on discretionary items.

Paul Martin, UK head of retail at KPMG, said:

“Many British retailers have been left disappointed by sales performance for some time now, with shoppers notably prioritising their spending in the face of price inflation and low wage growth. Running

in parallel, the industry has also been battling for their share of the consumer's wallet, against other avenues of spend including services, experiences and general leisure activities.

“Of the retail sales growth that has occurred this year, a significant proportion has been fuelled by growing consumer debt. However, with the Bank of England having just raised the interest rates for the first time in over a decade, the tide is turning and we are likely to see a slow-down in customer spending.”

When respondents were asked which categories of spend they would cut first if their disposable income were cut by 10 per cent or more, nearly a third (32.6 per cent) said they would cut back on eating out and ordering takeaway. Meanwhile, 15 per cent said they would cut back on clothing spend, whilst one in ten (9.6 per cent) said they would claw back their holiday and travel spend.

Over and above financial influences on consumer behaviour, the latest

research stresses the need for businesses, including retailers, to take a multidimensional view of consumer behaviour.

Adrian Clamp, UK head of customer advisory at KPMG, explained:

“Every day, new influences impact consumer motivation, behaviour and consumption, and these forces are upending conventional predictions of where, when and why the consumer wallet opens.”

“There is no doubt that the drivers of consumer decision-making have become more complex in recent years. Businesses reliant on traditional market research and demographic profiles may well find themselves heading in the wrong direction.

“Many of today's most successful companies are adopting ‘insight-driven-growth’ strategies – where advanced analytical tools are used to understand and predict customer behaviour, with this insight then used to personalise products and customer experiences.”



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Upper 5th Avenue Remains the Most Expensive Main Street in the World

The FINANCIAL

Soaring rents have seen London's New Bond Street rise to become the world's third most expensive retail street, while New York's Upper 5th Avenue and Hong Kong's Causeway Bay retain their first and second place rankings, according to Cushman & Wakefield.

Upper 5th Avenue remains the most expensive main street in the world, with annual rents at an average of \$3,000 per square foot per year (psf/yr), while Hong Kong's Causeway Bay retains its second place position despite a 4.7% fall in average rents to \$2,725 psf/yr.

London's New Bond Street leapt into third place in the global rankings in 2017 as rents increased by more than a third (in local currency) on the previous year to \$1,720 psf/yr. The increase relative to other global destinations underlines the strength of London's premium retail offer and strong demand for prime retail space in the West End.

Milan's Via Montenapoleone, where rents rose 12.5% on the year to \$1,433 psf/yr, was ranked fourth, while the Avenue des Champs Élysées in Paris, where rents are \$1,407 psf/yr, fell to fifth place despite rents remaining unchanged over the year.

EMEA region



London's major thoroughfares are some of the most desirable and expensive streets in the world, with rents in New Bond Street, ranked third in the global table, increasing by 37.5% to \$1,720 psf/yr. Although there was a pause in activity in London in the initial aftermath of the EU referendum, the start of 2017 brought a resurgence in leasing deals.

Demand for prestigious Paris locations such as the

Avenue des Champs Élysées, Avenue Montaigne and Rue Saint Honoré was resilient in the face of political uncertainty in the lead up to the French general election. Paris's prime retail locations benefited from strong footfall generated by domestic and overseas visitors, as international tourism recovered strongly during 2017.

High Street prime rents in Italy have generally been stable over the last year, with

significant upward adjustments only recorded in major cities where activity is sustained by tourism. Rents in some streets in Milan, Turin and Florence recorded particularly strong growth.

Americas region

New York's Upper Fifth Avenue (49th Street to 60th Street), continues to

command the highest asking rent globally for direct and subleased retail space, with annual rents remaining unchanged on 2016 at US\$3,000 psf/yr, according to the study. Elsewhere in New York's Manhattan, however, a number of retail submarkets recorded lower asking rents and higher availability, including SoHo, Times Square and the Meatpacking district.

Latin America's main cit-

ies continue to develop high quality retail developments which cater for a rapidly growing middle class. Rents in Mexico City's key retail streets recorded steady uplift to June 2017, rising to \$106 psf/yr on the back of continuing economic stability.

Asia Pacific region

Hong Kong's Causeway Bay remains the world's second most expensive retail street, although rents on the main shopping streets continued to fall by around 5% over the course of the year. This follows a sharp decline in visitors from mainland China, which has prompted caution among many retailers, particularly at the upper end of the market.

Mainland China's retail market continues to evolve as a rapidly growing consumer base of savvy, brand-aware shoppers seek out new and sophisticated retail experiences. Beijing's Wangfujing is ranked 11th in the global table, with annual rents at \$477 psf/yr. The city's online retail market has experienced exceptionally strong growth and internet sales now account for circa 18% of the total, although 12.4 million sq. ft. of new space is expected to become available in the Fengtai and Tong Zhou districts in 2018 as new developments complete.

Since 2000, the number of millionaires globally has increased by 170%

Continued from p. 18

Today the country's wealth is estimated at around USD 93.6 trillion, equivalent to 33% of total global wealth. The US contributes the highest number of members of the top 1% global wealth group, and currently accounts for 43% of the world's millionaires.

Europe - Stable growth one year after Brexit vote. UK outlook remains uncertain

Europe achieved the second highest absolute wealth gain among regions (USD 4.8 trillion) and recorded a growth rate matching the global figure of 6.4%.

The UK had a tumultuous year after the vote to leave the EU, nonetheless wealth per adult rose 2% in pounds sterling, although it fell 1% in US dollars. The outlook is uncertain: owing to the impact of Brexit in the financial markets together with the expected depreciation of the British pound, the UK is projected to reduce its stock of wealth by 0.9% in the next five years, when expressed in US dollars. This is mostly ex-

plained by a projected depreciation in the pound of 4% by 2022.

Comparing wealth gains across countries, Eurozone's strength is reflected by the wealth growth levels of Germany, France, Italy, and Spain which all made it to the top ten countries posting the biggest gains. Together they accounted for USD 3.1 trillion, or almost 20% of the total wealth gain worldwide. Converted into percentage terms, Poland tops the list with the biggest household wealth gain of 18%. This was primarily driven by rising equity prices.

Switzerland still tops the ranking of the average wealth per adult. Since the turn of the century, wealth per adult in Switzerland has risen by 130% to USD 537,600, largely associated with the appreciation of the Swiss franc against the US dollar between 2001 and 2013. The top ten in the wealth-per-adult league in 2017 also include five other European countries: Norway, Denmark, Belgium, the UK and France.

The Eurozone's total wealth of USD 53 trillion in 2017 is comparable to the total wealth of the US at the end of the 1990s.

The wealth impacts of the global financial crisis and other issues facing the Millennials are shown, for example, by the fact that, according to the latest data for the US, the average wealth of those aged 30-39 (USD 72,400) in 2017 was 46% below wealth at the same age of those who were 40-49 (USD 134,800) in 2017.

Some Millennials have prospered in spite of the difficulties faced, as reflected in the more positive picture seen of China's Millennials alongside a range of other emerging markets. Although the numbers are still very small, there has also been

a recent upsurge, in absolute terms, in the number of young billionaires.

The overall global outlook for Millennials, however, is that not only will they experience greater challenges in building their wealth in the future but will also continue to face greater wealth inequality than previous generations.

The global wealth pyramid

Typically, most attention is given to the two top tiers of the global wealth pyramid covering less than 10% of the global population who collectively own 86% of global wealth. The Credit Suisse Research Institute believes the lower tiers of the pyramid deserve more attention than they usually get. They represent 4.5 billion of adults - which translates to over 90% of the adult population - with unquestionable political power, as proved by last year's and recent political developments. Also, their combined wealth of USD 40 trillion signifies considerable economic opportunities.

In the mid-range part of the pyramid, India and Africa are underrepresented, while China's share is disproportionately high, having risen rapidly this millennium from 12.6% in 2000 to 35% today.

The base tier of the pyramid, despite remaining the largest, shrank by 3% compared to last year. It is now estimated to be occupied by 70% of the global population. The base tier's share in global wealth

rose slightly in the past year, reaching 2.7% as opposed to 2.4% in 2016.

Trends in the number of millionaires

Since 2000, the number of millionaires globally has increased by 170%, while the number of ultra-high net worth individuals (UHNWI) has risen five-fold, making them by far the fastest-growing group of wealth holders.

The composition of the millionaire segment is changing fast. In 2000 as many as 98% of millionaires were heavily concentrated in high income economies. Since then, 23.9 million "new millionaires" have been added to the total, of whom 2.7 million - 12% of the total additions - originated from emerging economies.

The transformation is even more remarkable in the UHNWI segment. Emerging economies accounted for 6% of the segment in 2000, but have claimed 22% of the growth in UHNWIs (24,500 adults) since then. China alone added an estimated 17,700 adults - 15% of the new UHNWIs in the world.

By 2022 the number of UHNWIs will likely increase by 45,000 to reach 193,000 individuals.

Wealth outlook for

the next five years

According to the report, global wealth should continue to grow at a similar pace to the last half a decade (3.9% expected and 3.8% recorded over last five years), albeit at a slower rate than the previously estimated 5.4%. Based on this updated forecast, global wealth is anticipated to reach USD 341 trillion by 2022.

Emerging economies are expected to generate wealth at a faster pace than their developed peers and are likely to achieve a 22% share in global wealth at the end of the five-year period. However, the pace of emerging economies' wealth generation is slower than previously estimated. Unsurprisingly, the strongest contribution is expected from China and is estimated at around USD 10 trillion, an increase of 33%.

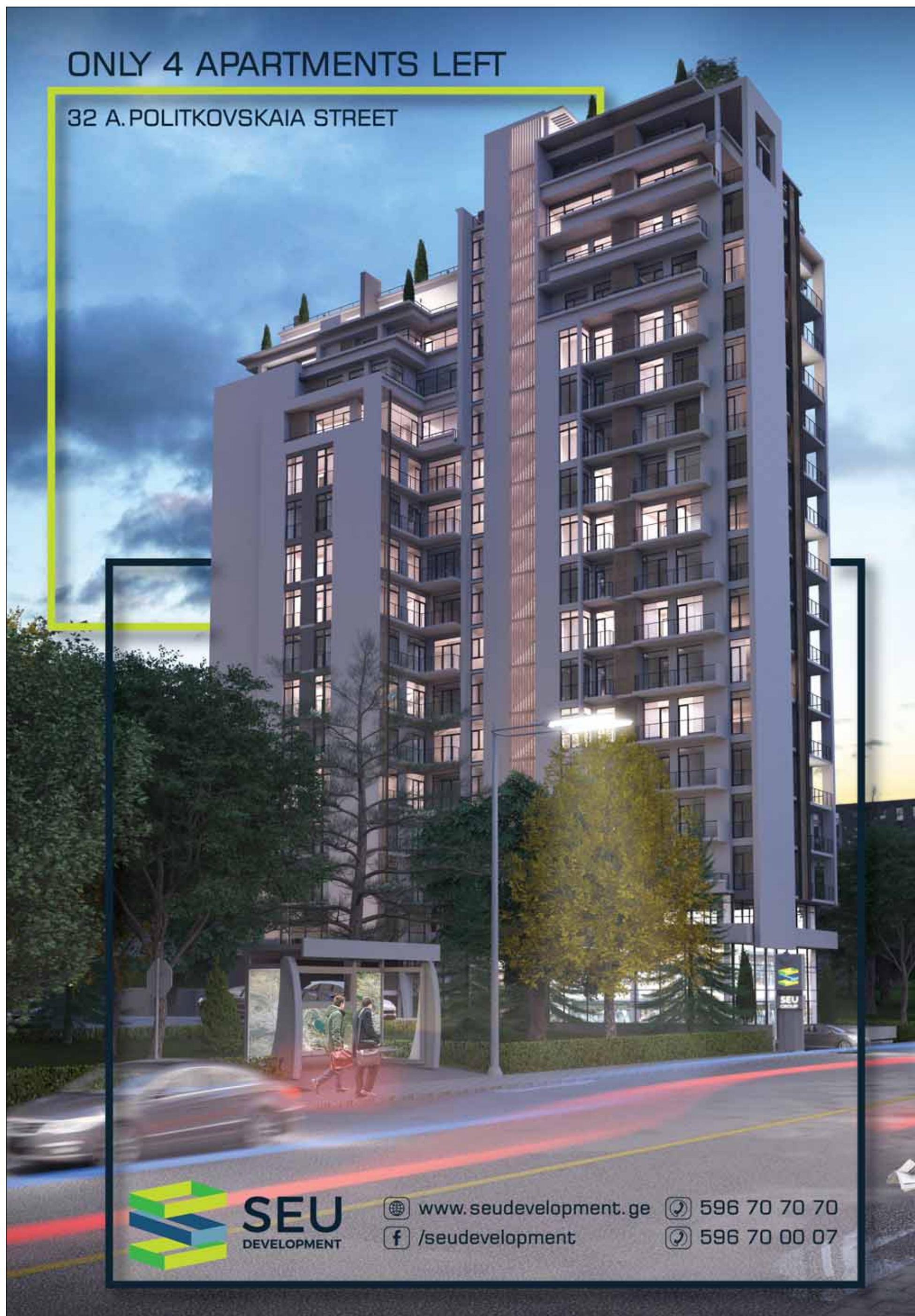
The outlook for the millionaire segment is more optimistic than for the base tier of the wealth pyramid. The former is expected to rise by 22%, from 36 million people today to 44 million in 2022, while the group occupying the lowest tier of the pyramid is expected to shrink only by 4%.

Non-financial wealth will slightly outpace financial wealth by around 1% annually in the next five years. Debt is also expected to grow at a faster pace than both financial and non-financial wealth in the coming years after a period of stability between 2007 and 2010. Household debt is expected to increase by 37% in the next five years to reach 15% of gross assets.

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