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**2018 hot consumer trends: technology turns human**

See on p. 10

**The Russian Armed Forces After Hard Lessons in Georgia**

See on p. 19



18 December, 2017

News Making Money

<http://www.finchannel.com>

## 1 in 6 EU businesses sold on the web in 2016

The FINANCIAL

Last year, 16% of enterprises located in the European Union (EU) and employing at least 10 persons had received orders via a website or via apps. Web sales include both sales to individual consumers and to other enterprises.

The share of EU enterprises making web sales rose from 12% in 2010 to around 16% in 2014, since when it has been relatively stable. Among those EU enterprises with web sales in 2016, nearly all (97%) sold to their own country.

Continued on p. 6

## Weekly Market Watch

By Galt & Taggart

See on p. 17

# Behavioral Economics of New Year's Resolutions

By SOPHIKO SKHIRTLDZE  
ISET FOR THE FINANCIAL

It is that time of a year when we take time to reflect upon our flaws and weaknesses to find areas where we can make positive changes for the New Year. In our imagination, there is an old self who we will leave behind on the New Year's Eve, and we will welcome our new 2018 self, healthier,

wiser, and most importantly, happier. All it takes is to come up with that magical set of resolutions that will help us achieve all that, though many of us probably will not need to come up with original New Year's resolutions. We can simply use our list from the last year which has been hanging around under a pile of unused gym wear we bought early this year... Almost certainly (more specifically, an 81%-92% chance according to empirical studies)

we have defaulted on our resolutions, but this time it will be different! 2018 self will not need a snooze button, will not stay late in the office, and for sure will happily run on that fancy treadmill. Extreme optimism like this, despite past experience, is relatively common, but nonetheless standard economic models find it hard to explain.

Continued on p. 2

## British parents dreaming of a low-cost Christmas

The FINANCIAL -- New research launched on December 6 shows that parents will be dreaming of a low-cost Christmas, with 2017 set to be an expensive Christmas for present buying.

Parents are expected to fork out an average of £128.80 per child on

presents during the festive season according to Barclays -- raising the total amount British parents will spend on Christmas presents this year to a projected £141.7m across the nation

The research of 1,000 British parents showed that the burden could

in part be driven by poor financial planning, with a third (29%) admitting to leaving their Christmas shopping to the last minute.

Continued on p. 4

## Gender discrimination comes in many forms for today's working women

See on p. 4

## Share of Adults Living with Roommates Higher than Ever Before

The FINANCIAL

In U.S., nearly one in three adults live with a roommate or parent, the greatest share ever reported, according to a new Zillow analysis. As rental affordability deteriorates, more U.S. adults may be choosing double up in order to cut costs.

Continued on p. 12

## CURRENCIES

	Dec 16	Dec 9
1 USD	2.5405	▲ 2.6794
1 EUR	2.9980	▲ 3.1462
100 RUB	4.3152	▲ 4.5141
1 TRY	0.6572	▲ 0.6950

**THE COUNTDOWN HAS STARTED**

**GOLDEN BRAND 2017**



# financial news



THE FINANCIAL  
18 December, 2017

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## CURRENT PRICES ON GASOLINE AND DIESEL

18 DECEMBER, 2017, GEORGIA

Gulf		WIND		საქართველო		სტეპ		ROMPETROL	
Prices in GEL		Prices in GEL		Prices in GEL		Prices in GEL		Prices in GEL	
G-Force Super	2.52	Eko Super	2.54	Super Ecto 100	2.55	Nano Super	2.50	Efix Euro 98	2.56
G-Force Premium	2.39	Eko Premium	2.44	Super Ecto	2.39	Nano Premium	2.40	Efix Euro Premium	2.46
G-Force Euro Regular	2.33	Eko Diesel	2.42	Premium Avangard Ecto	2.29	Nano Euro Regular	2.27	Euro Regular	2.34
Euro Regular	2.27	Euro Diesel	2.37	Euro Regular	2.19	Nano Euro Diesel	2.40	Efix Euro Diesel	2.42
G-Force Euro Diesel	2.39	Euro Regular	2.30	Euro Deasel	2.31	Nano Diesel	2.27	Euro Diesel	2.32
Euro Diesel	2.31	Diesel Energy	2.30			GNG	1.52		
CNG	1.55								



# ISET ECONOMIC INDICATORS

International School of Economics at TSU



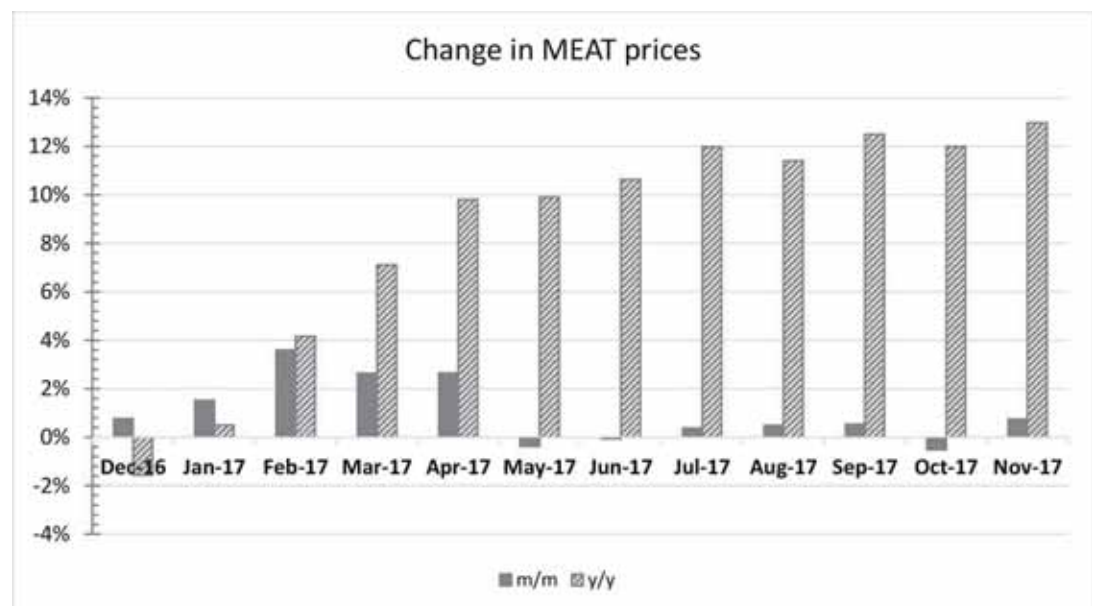
For more: WWW.ISET-PI.GE

## AGRINDEX: IT SEEMS THAT A PIG WILL MEET A DOG ON THE NEW YEAR'S FEAST

In December 2017, Georgian MEAT sub-index increased by only 0.7% compared to October 2017. Nevertheless, in absolute terms, this is the highest month-to-month change since the last April. The main drivers of the change were boosted beef prices of similar magnitude, but pork and chicken meat prices also played their roles.

More striking were changes in year-to-year scale as in November 2017 domestically produced MEAT was almost 13% more expensive than in November 2016, and this is the record high figure for the AGRIndex. On meat type level, fresh beef prices have boosted by +14.3% in the last 12 months' period, while fresh mutton prices have increased by +10.3% in the same period, pork prices have gained approximately +9.6% of their November 2016 value in the last month, and chicken meat prices increased a bit.

As far as the determinant of year-to-year prices changes is concerned, the fast-growing foreign demand on Georgian meat and "not-so-fast-growing" reproduction of the same goods in Georgian farms might be the key. According to the GeoStat, in the first 10 months of 2017 country boosted



Data Source: The Ministry of Agriculture of Georgia

its live sheep and sheep meat exports approximately 2.9 times compared to the same period of 2016, yet the average number of sheep was virtually unchanged. Additionally, the exports of live poultry increased approximately

more than threefold, but at the end of Q3 of 2017 there were 9.5 million heads of poultry versus 10.2 million heads at the end of Q3 of 2016. The situation is different on pig and pork market. The heads of pigs at the end of September 2017

was exceeding the corresponding figure of September 2016 by 19%, while pork exports have declined in 2017 and its imports were on rise, increasing the chances to get pork on New Year's table more easily. Happy New Year, everyone!

# THE ISET ECONOMIST

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www.iset-pi.ge/blog

# Behavioral Economics of New Year's Resolutions

By SOPHIKO SKHIRTLDADZE  
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It is that time of a year when we take time to reflect upon our flaws and weaknesses to find areas where we can make positive changes for the New Year. In our imagination, there is an old self who we will leave behind on the New Year's Eve, and we will welcome our new 2018 self, healthier, wiser, and most importantly, happier. All it takes is to come up with that magical set of resolutions that will help us achieve all that, though many of us probably will not need to come up with original New Year's resolutions. We can simply use our list from the last year which has been hanging around under a pile of unused gym wear we bought early this year... Almost certainly (more specifically, an 81%-92% chance according to empirical studies) we have defaulted on our reso-



Illustration: ©Johan Jarnestad/The Royal Swedish Academy of Sciences

"January is always a good month for behavioral economics: Few things illustrate self-control as vividly as New Year's resolutions. February is even better, though, because it lets us study why so many of those resolutions are broken." Sendhil Mullainathan, Harvard University

Continued on p. 15

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## fianancial news

# British parents dreaming of a low-cost Christmas

The FINANCIAL -- New research launched on December 6 shows that parents will be dreaming of a low-cost Christmas, with 2017 set to be an expensive Christmas for present buying.

Parents are expected to fork out an average of £128.80 per child on presents during the festive season according to Barclays – raising the total amount British parents will spend on Christmas presents this year to a projected £141.7m across the nation

The research of 1,000 British parents showed that the burden could in part be driven by poor financial planning, with a third (29%) admitting to leaving their Christmas shopping to the last minute. And although a third sensibly start saving for Christmas between July and September, a shocking fifth (20%) claim not to save money at all

Revealing the pressure that parents are under at Christmas, one in three admit to dipping into their savings and overdrafts in order to finance presents, with a fifth admitting it is a big financial burden.

But the total cost may reach even greater heights according to the research, with respondents admitting they'd be happy to spend up to 30% more on sold out gifts their children wanted through reseller sites. Even more extreme, one in 10 parents said they would be prepared to spend as much as 80% more on RRP.



## Bad for your financial elf:

Revealing the pressure that parents are under at Christmas, one in three admit to dipping into their savings and overdrafts in order to finance presents, with a fifth admitting it is a big financial burden.

Showing just how pressing many find the festive

seasons, two-fifths of respondents (46%) admitted to adopting extreme measures to cut back on spending after Christmas, including skipping meals, saying no to school trips and cancelling holidays.

Clare Francis, Savings and Investments Director at Barclays, said: "Christmas is a magical time of the year for children and parents understandably want to make it as memorable as possible. How-

ever, spending more than you can afford can lead to serious problems down the line, and it's something we – as a nation – need to get out of the habit of.

Too many of us are being moved into action by social pressures to spend huge sums of money on Christmas presents. If that sounds like you, decide to do it differently next year. Set a budget in January using something like Barclays

Finance Manager to set up savings goals which can help you start contributing monthly instalments to a set pot of money and stick to your limit. If you have money to spare, then think of how you can make use of it – such as putting it into a Cash or Investment ISA, and extend the good times to later in life as well."

Barclays Finance Manager is an online tool which can help people set savings goals

and take a long-term view, and plan ahead for the financial impact of life's ups and downs.

Barclays also offers a number of other tools that customers can use to help avoid the temptation to overspend. For example, the new 'Your Cards' feature on Barclays Mobile Banking allows people to set their own ATM withdrawal limits, and to switch off the ability to shop online.

## Gender discrimination comes in many forms for today's working women

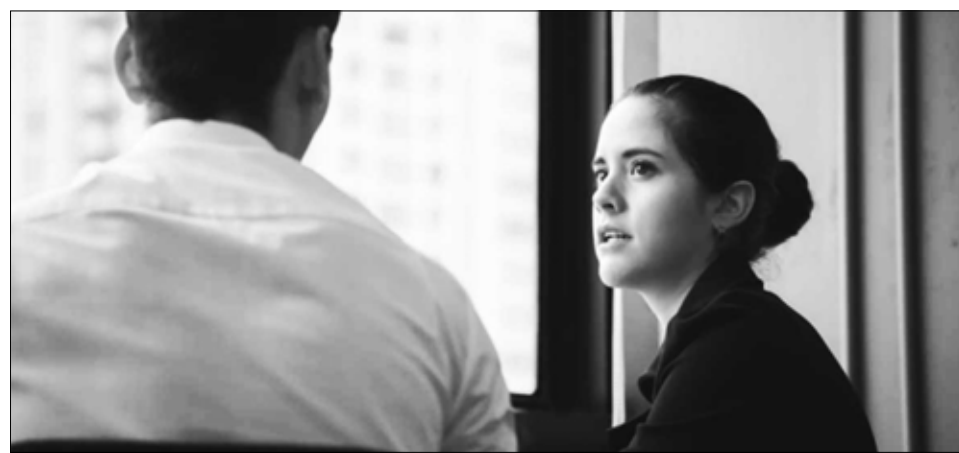
The FINANCIAL

About four-in-ten working women (42%) in the United States say they have faced discrimination on the job because of their gender. They report a broad array of personal experiences, ranging from earning less than male counterparts for doing the same job to being passed over for important assignments, according to a new analysis of Pew Research Center survey data.

The survey – conducted in the summer before a recent wave of sexual misconduct allegations against prominent men in politics, the media and other industries – found that, among employed adults, women are about twice as likely as men (42% versus 22%) to say they have experienced at least one of eight specific forms of gender discrimination at work.

One of the biggest gender gaps is in the area of income: One-in-four working women (25%) say they have earned less than a man who was doing the same job; one-in-twenty working men (5%) say they have earned less than a female peer.

Women are roughly four times as likely as men to say they have been treated as if they were not competent because of their gender (23% of employed women versus 6% of men), and they are about three times as likely as men



to say they have experienced repeated small slights at work because of their gender (16% versus 5%).

There are significant gaps on other items as well. While 15% of working women say they have received less support from senior leaders than a man who was doing the same job, only 7% of working men report having a similar experience. One-in-ten working women say they have been passed over for the most important assignments because of their gender, compared with 5% of men.

The survey, which was conducted July 11-Aug. 10, 2017, with a nationally representative sample of 4,914 adults (including 4,702 who are employed at least part time), also asked about sexual harassment in a separate question. It found that while similar shares of women and men say sexual

harassment is at least a small problem in their workplace (36% versus 35%), women are about three times as likely as men to have experienced it personally while at work (22% versus 7%).

In more recent surveys conducted by other organizations, the share of women reporting personal experiences with sexual harassment has fluctuated, depending in part on how the question was asked. In an ABC News/Washington Post survey conducted Oct. 12-15, for example, 54% of women said they have received unwanted sexual advances from a man that they felt were inappropriate whether or not those advances were work-related; 30% said this had happened to them at work. In an NPR/PBS NewsHour/Marist poll conducted Nov. 13-15, 35% of women said they have person-

ally experienced sexual harassment or abuse from someone in the workplace.

The Center's survey asked about sexual harassment specific to the workplace. The survey was conducted as part of a broader forthcoming study on women and minorities in science, technology, engineering and math (STEM) fields.

## Differences by education

Among employed women, the share saying they have experienced sexual harassment in the workplace is roughly similar across racial and ethnic, educational, generational and partisan lines. But when it comes to specific forms of workplace discrimination tested in the survey, there are significant differences among

women that are rooted mainly in their level of education.

Women with a bachelor's degree or more education report experiencing discrimination across a range of items at significantly higher rates than women with less education. And in some regards, the most highly educated women stand out. While 57% of working women with a postgraduate degree say they have experienced some form of gender discrimination at work, for example, the same is true for 40% of women with a bachelor's degree and 39% of those who did not complete college.

Roughly three-in-ten working women with a postgraduate degree (29%) say they have experienced repeated small slights at work because of their gender, compared with 18% of those with a bachelor's degree and 12% with less education. Similarly, working women with a postgraduate degree are much more likely than their less-educated counterparts to say they have received less support from senior leaders than a man doing the same job (27% of postgraduate women, compared with 11% of women with bachelor's degrees and 13% of women with less education). The pattern is similar when it comes to being passed over for promotions and feeling isolated at work.

When it comes to wages, working women with a bachelor's degree or more are much more likely than those with less education to say they

have earned less than a man who performed the same job. Women with family incomes of \$100,000 or higher stand out here as well – 30% of them say they've earned less than a man who was doing comparable work compared with roughly one-in-five women with lower incomes (21%). But overall, women with higher family incomes are about equally likely to have experienced at least one of these eight forms of gender-based discrimination at work.

There are differences by race and ethnicity as well. While roughly half of employed black women (53%) say they have experienced at least one type of gender discrimination at work, fewer white and Hispanic women say the same (40% for each group). One area in particular where black women stand apart is in their reporting of having been passed over for the most important assignments because of their gender – 22% of employed black women say this has happened to them, compared with 8% of whites and 9% of Hispanics.

Women's experiences with discrimination in the workplace also differ along party lines. Roughly half (48%) of working Democratic women and Democratic-leaning independents say they have experienced at least one form of gender discrimination at work, compared with a third of Republican and Republican-leaning women.

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## financial news

## 1 in 6 EU businesses sold on the web in 2016

## The FINANCIAL

Last year, 16% of enterprises located in the European Union (EU) and employing at least 10 persons had received orders via a website or via apps. Web sales include both sales to individual consumers and to other enterprises.

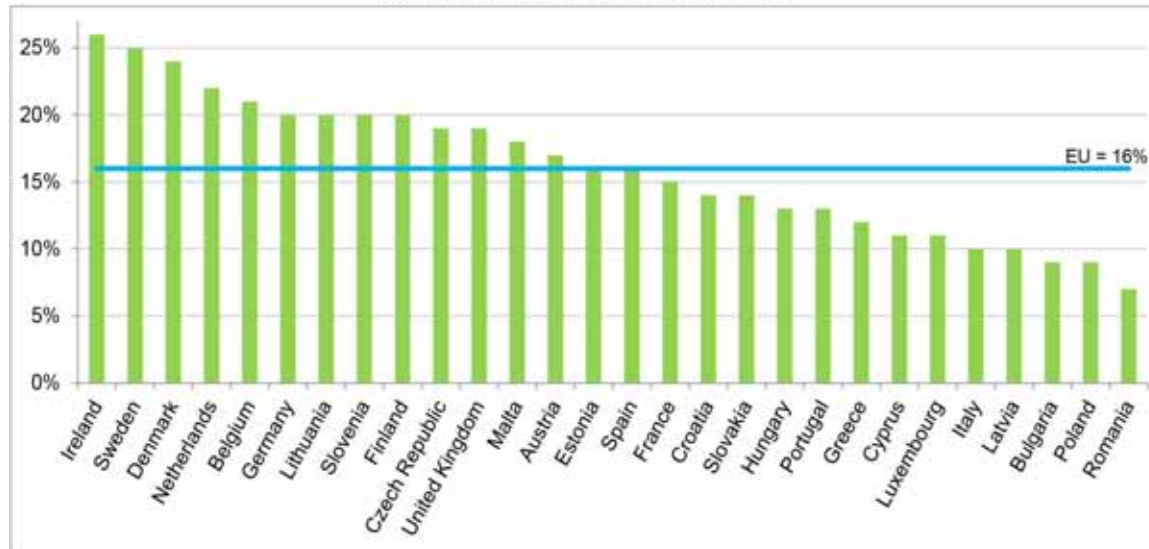
The share of EU enterprises making web sales rose from 12% in 2010 to around 16% in 2014, since when it has been relatively stable. Among those EU enterprises with web sales in 2016, nearly all (97%) sold to their own country, while less than half (44%) sold to customers located in other EU Member States and over a quarter (28%) to non-EU customers.

Web sales may offer businesses the means for expanding beyond national borders and reaching customers (businesses or consumers) regardless of their geographical location. The European Commission aims at creating a Digital Single Market where e-commerce among Member States is as smooth as the sales of a traditional brick and mortar outlet within any country. Yet, almost 2 in every 5 EU enterprises with web sales in 2016 reported difficulties in doing so, notably due to the costs of delivering and/or the linguistic barriers.

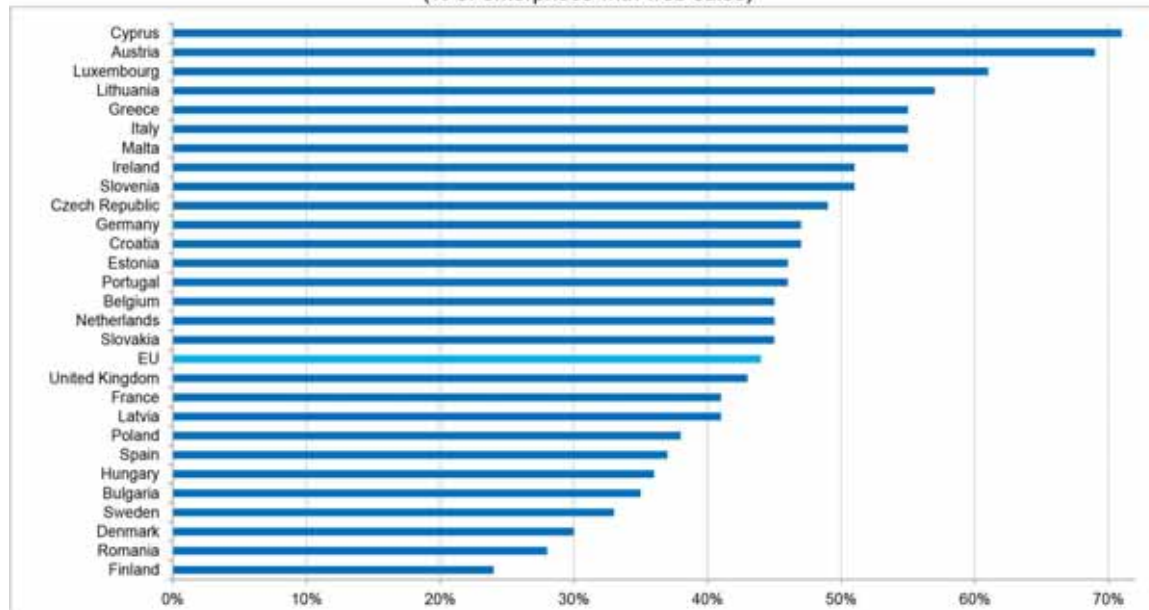
## 1 in 4 enterprises sold via the web in Ireland, Sweden and Denmark

Among the EU Member States in 2016, web sales were used by about a quarter of enterprises in Ireland (26%), Sweden (25%) and Denmark (24%), ahead of the Netherlands (22%) and Belgium (21%). At the opposite end of the scale, web sales concerned 1 in 10 enterprises or fewer in

EU businesses with web sales in 2016  
(% of enterprises of 10 persons or more)



Web sales to other EU Member States, 2016  
(% of enterprises with web sales)



Romania (7%), Bulgaria and Poland (both 9%), Italy and Latvia (both 10%).

Cross-border web sales within the EU most common for enterprises in Cyprus and Austria

Almost all enterprises in the EU with web sales sold to national customers, but there are significant differences between Member States for the sales abroad ("cross-border e-commerce").

The largest proportions of EU enterprises with web sales in 2016 that sold to customers located in other EU Member States were recorded in Cyprus (71%) and Austria (69%), followed by Luxembourg (61%), Lithuania (57%), Italy, Greece and Malta (all 55%). In contrast, this concerned a third or less of enterprises in the three Nordic Member States – Finland (24%), Denmark (30%) and Sweden (33%) – as well as in Romania (28%).

Regarding commerce with non-EU countries, only in Cyprus did over half (62%) of enterprises with web sales sell to non-EU customers, followed by Malta (44%), Ireland (41%), Portugal (40%), Greece and Austria (both 39%).

## Transport charges main obstacle to cross-border web sales within the EU

The majority (59%) of EU enterprises having received orders via a website or via apps during 2016 reported no difficulties for their web sales to other EU Member States. However, almost 4 in 10 (38%) reported hampering factors. These mainly concerned economic reasons such as the high costs of delivering or returning products (27%), technical barriers such as the lack of knowledge of foreign languages (13%) or adapting product labelling (9%), and/or judicial reasons related for instance to resolving complaints and disputes (12%).

## Ici Paris Presented Shiseido Ever Bloom Ginza Flower

## The FINANCIAL

Ici Paris, one of the leading Perfumery and cosmetics companies in Georgia presented Shiseido Ever Bloom fragrance during the presentation of newest Toyota Land Cruiser Prado at Toyota Center Tegeta. Shiseido Ever Bloom Ginza Flower is now available in all of Ici Paris stores around Georgia.

"This year Shiseido is celebrating 100 years of launching its perfume line. 100 years ago the brand created its perfume in Tokyo, on the famous street called Ginza, according to which the newest scent is named Shiseido Ever Bloom Ginza", Khatia Shamugia Head of PR and Marketing of Ici Paris said.

Ever Bloom is a musky white, floral fragrance that diffuses a radiant but enveloping scent. One single drop of this delicate and floral fragrance has the power to fill in an entire room.

An expression of vital energy, radiance and natural beauty, this musky white floral fragrance diffuses a delicate scent that delights the senses. Ephemeral, instantaneous and immediate like the sudden blossoming of a delicate flower and symbol of the eternal femininity that liberates in a mere moment.

Notes of Cyclamen and Lotus combine to deliver a fresh, sparkling radiant scent Notes of Orange Blossom



som Absolute, Gardenia, Sylkolide Musk and Hinoki Wood reveal a scent expressing tenderness and sensuality. Exquisite packaging design inspired by Karakusa, a traditional Japanese pattern of graceful curves and a symbol of the power of a woman's inner beauty, happiness and vitality.

"When creating Shiseido Ever Bloom, I wanted to bring a new fresh sensuality, a new petal blooming sensation that will leave an unforgettable impression. I imagined a transparent floral heart, clean and

natural. An abstract flower that you can't quite identify, a flower with a "blurred" outline. I think this fragrance is about serenity, happiness, sensuality", Perfumer Aurelien Guichard notes.

Shiseido Company, is one of the oldest cosmetics companies in the world. Founded in 1872, it celebrated its 140th anniversary in 2012. It is the largest cosmetic firm in Japan and the fifth largest cosmetics company in the world. Shiseido is only available at cosmetic counters at selected department stores or pharma-



cists. The company owns numerous brands and subsidiaries worldwide, in addition to its founding label. The company trades on the Tokyo stock exchange, and it is a chief competitor of SK-II.

Arinobu Fukuhara, former head pharmacist to the Japanese Imperial Navy, established the Shiseido Pharmacy in 1872. After a visit to the United States and Europe, Arinobu added a soda fountain to the store. This later grew into the Shiseido Parlour restaurant business, and eventually led to the introduction of

ice cream in Japan. The name "Shiseido" can be translated as "praise the virtues of the earth which nurtures new life and brings forth significant values".

Shiseido was the first to develop the softening lotion, a lightweight liquid of toner-like consistency. The oldest softening lotion is named Eudermine, which is still marketed and sold at all Shiseido counters. The softening lotion was developed in response to lead poisoning, as the Japanese women used makeup based on white lead.



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financial news

# Nearly half of Americans use digital voice assistants, mostly on their smartphones



The FINANCIAL

Voice-controlled digital assistants are being incorporated into a wide range of consumer products, and nearly half of U.S. adults (46%) say they now use these applications to interact with smartphones and other devices, according to a Pew Research Center survey conducted this spring.

Voice assistants are present on a wide range of devices, but the most common way for Americans to use them is on a smartphone: 42% of U.S. adults use voice assistants in this way. Some 14% of the public has used a voice assistant on a computer or tablet, while 8% say they use them on a stand-alone device such as an Amazon Echo or Google Home.

These applications are relatively

popular among those ages 18 to 49: 55% of Americans in this age group say they use voice assistants, compared with 37% of those 50 and older.

Presented with a number of reasons why they might use voice assistants, 55% of users say “a major reason” they use the assistants is that these applications allow them to interact with their devices without using their hands.

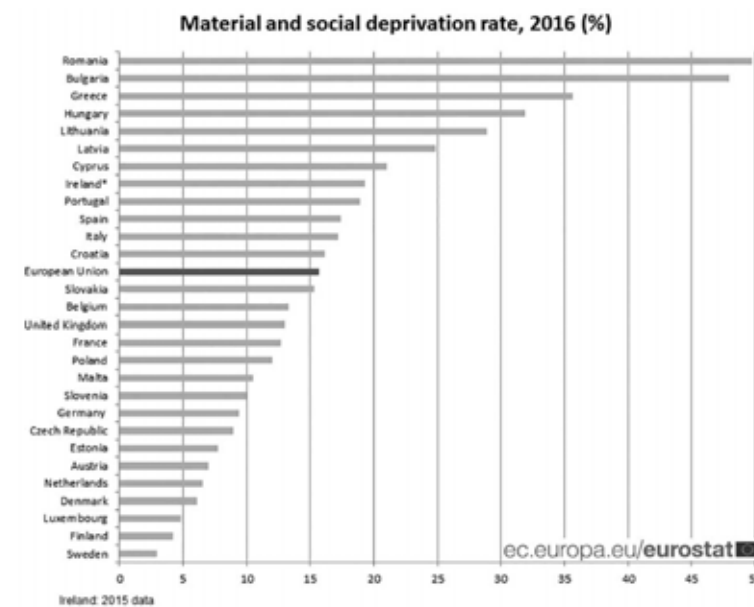
Smaller shares say that they use voice assistants because they are fun (23% cite this as a “major reason”), because speaking to the assistant feels more natural than typing (22%), or because these programs are easier for children to use (14%).

Voice assistants can also be used as “remote controls” of other connected systems such as car locks and home lighting and heating systems. About a quarter of voice assistant

adopters (26%) say they use the assistants to connect remotely to other things.

Asked about the performance of the assistants, a majority of users say they accurately respond to their commands most (39%) or some (42%) of the time. Even so, 16% of users say that these assistants accurately respond to their commands “not very often.”

The survey also asked Americans who say they do not use voice assistants about their reasons for not using them. Some 61% of these non-users say they are just not interested in the tool. Around one-quarter of this group say they do not use voice assistants because none of the devices they own have this feature (28%) or because they are concerned about privacy (27%). And a slightly smaller share (18%) reports that voice assistants are too complicated to use.



## Material and social deprivation in EU

The FINANCIAL

Last year, 16% of the EU population (75 million people) suffered from material and social deprivation.

This means that they could not afford at least five items out of this list:

- face unexpected expenses;
- one week annual holiday away from home;
- avoid arrears (in mortgage, rent, utility bills and/or hire purchase instalments);
- afford a meal with meat, chicken or fish or vegetarian equivalent every second day;
- keep their home adequately warm;
- a car/van for personal use;
- replace worn-out furniture;
- replace worn-out clothes with some new ones;
- have two pairs of properly fitting shoes;
- spend a small amount of money each week on him/herself (“pocket money”);
- have regular leisure activities;
- get together with friends/family for a drink/meal at least once a month;
- have an internet connection.

Highest material and social deprivation rate in Romania, Bulgaria and Greece

In 2016, the highest material and social deprivation rate, applying to about half of the population, was registered in Romania (50%) and Bulgaria (48%), followed by countries where 1 in 3 persons was affected: Greece (36%), Hungary (32%) and Lithuania (29%).

In contrast, the Nordic Member States and Luxembourg reported the lowest shares of material and social deprivation: 3% in Sweden, 4% in Finland, 5% in Luxembourg and 6% in Denmark.

### People with low education affected most

In all EU Member States, the material and social deprivation rate is higher among people with low (lower secondary or less) education level. 1 in 4 people (25%) with low education level in the EU suffer from the material and social deprivation, while this rate drops to 1 in 7 (14%) for those with upper secondary education and further to 1 in 20 (5%) among people with higher (tertiary) education.

## CEOs and institutional investors at odds on the need to embrace disruption for future growth

The FINANCIAL

There is a significant gap between institutional investor expectations for disruption and how well prepared CEOs say their companies’ are to seize the opportunity disruption presents, according to a new report from EY.

The CEO imperative: in this Transformative Age, seize the upside of disruption or be disrupted report, which comes from the EY think-tank EYQ, finds that global organizations need to embrace the concept of duality in which they sustain the core business while also creating disruptive new business models.

The report finds 67% of institutional investors want companies to undertake potentially disruptive innovation projects even if they are risky and may not deliver short-term returns. Only 50% of CEOs indicate they are well prepared to take advan-

tage of disruptive change and opportunity.

The research includes the survey findings of 101 global 5000 CEOs and 100 global institutional investors with at least US\$1B in assets under management, and explores the dynamics of disruptive challenge and transformation. While CEOs and institutional investors agree that technology innovations is the number one source of disruption, when it comes to other sources of disruption opinions differ. New business models are the second biggest source of disruption for institutional investors, while for CEOs it is changing customer behaviors.

“Innovation is a challenge that often becomes more difficult with success, as growing and larger companies find themselves faced with more short-term concerns. Boardroom and CEO strategies will determine

Continued on p. 22





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## financial news

# Increasingly Bearish Investors Believe Companies Are Too Focused on the Short Term

The FINANCIAL

Investor sentiment appears to be at its most bearish level since the great financial crisis, and investors want management teams to focus more strongly on creating long-term value over near-term EPS growth, according to the ninth annual survey of investor sentiment by The Boston Consulting Group (BCG).

Investors are giving priority to increased investments in organic and M&A-driven growth over other uses of capital.

Nearly half of survey respondents (46%) are pessimistic about equity markets for the next year, a substantial jump from 32% in 2016 and 19% in 2015, and the highest level of bearishness that BCG has encountered since 2009. More than a third of investors (36%) are bearish about the market's potential for the next three years, more than doubling the 2016 survey's percentage of self-described bears (16%).

Overall, 68% of respondents think the market is overvalued—by an average of 15 percentage points. This is more than twice the 29% of investors in last year's survey who thought the market was overvalued. Among self-described bears in 2017, 79% cited market overvaluation as the reason for their pessimism.

Investors' concerns are not limited to valuation levels. Almost a decade after the financial crisis, nearly 80% of investors expect a recession to start within the next three years, and more than half of all respondents expect one to occur within the next two years. Among the most frequently cited reasons for the pessimistic outlook are macro factors such as rising interest rate levels (45% of bears), the US political climate (40%), and geopolitical instability (31%).

Investors' average three-year expectation for total shareholder return remains at last year's record



low level of 5.5% a year—the lowest percentage BCG has recorded since it began tracking this statistic in 2010, and close to half the long-term average TSR of 10% that companies have achieved over the past 90 years. Although expectations for the TSR contribution of dividends and share buybacks are consistent with what BCG found in prior surveys, the projected earnings-growth contribution this year is 1.2 percentage points lower than the average of 4.3% that investors projected in the surveys from 2009 through 2016.

Against this bearish backdrop, investors want management to adopt a longer-term approach to running the business. They are looking for sustained value creation: 88% of survey respondents indicated that they did not want corporate management

teams to focus on delivering short-term results at the expense of investing for the long term, a 26-percentage-point increase from 2016.

"Fewer than 10% of investors consider near-term EPS growth a key investment criterion; it barely makes their top-ten list," said Jeffrey Kotzen, a BCG senior partner. "The vast majority of investors would rather see companies invest in future growth, both organic and through M&A, than have companies use their free cash flow for other value-creating purposes such as additional dividend payouts, share buybacks, or debt reduction."

The percentage of investors citing investment in organic growth as one of their top two priorities increased by 8 percentage points in the past year to 66%.

The reasons behind investors' thinking are clear. The 3% earnings growth that they expect over the next three years is the lowest earnings growth expectation in the nine-year history of the survey. Investors believe that companies need to address accelerating change and industry disruption with investment in new growth opportunities. The data, along with the opinions of investors that BCG has solicited throughout the year, indicates that the shift in capital allocation priorities toward organic and M&A growth investments reflects the view that growth will continue to be the most important driver of top-quartile TSR over the next five to ten years.

Investors are also looking for strong management teams with

robust strategies and compelling equity stories based on strong fundamentals and intelligent capital allocation. Asked to rank the three most important metrics or characteristics they consider in deciding whether to invest in, or give a buy recommendation on, a company, 51% of respondents, the most in the survey, cited business strategy and vision, a jump of 19 percentage points over 2016. Almost half (47%) pointed to management credibility and track record—an increase of 15 percentage points over the 2016 figure.

"Management teams face a constant tension between meeting short-term expectations for EPS performance and taking steps, including making thoughtful investments that set a foundation for strong and sustainable value creation over time," said Tim Nolan, a BCG senior partner. "In today's climate, investors are clearly looking for companies willing to make long-term growth- and value-oriented moves their focus and priority. They point to specific areas in which they see room for improvement, such as a company's capital allocation (40% of survey respondents), compensation and incentives (38%), strategy development and planning (37%), and value management (35%)."

The survey also found that 45% of respondents would welcome the presence of activist investors at companies they own or follow.

BCG surveyed 250 investors who oversee approximately \$500 billion in assets over a two-week period spanning late October and early November 2017. The survey solicited their outlook on and expectations for the global macroeconomic environment, equity markets, and the continued ability of companies they invest in or follow to create value. Almost three-quarters of the survey respondents were portfolio managers, and 63% were focused on the US, while most others invest globally.

## 2018 hot consumer trends: technology turns human

The FINANCIAL -- Exploring the future from an early adopter user perspective, Ericsson ConsumerLab presents the seventh edition of its annual trend report, The 10 Hot Consumer Trends for 2018 and beyond.

The report points to a paradigm shift as consumers expect digital technology to increasingly operate on human terms. Body language, facial expression and intonation will augment voice and touch to control consumer interaction with tech devices, easing adaption in an ever-increasing pace of technological change.

These are the 10 trends for 2018 and beyond:

**Your Body is the User Interface:** More than half of current users of intelligent voice assistants believe that we will use body language, expression, intonation and touch to interact with tech devices as if they were fellow humans. Some 2 in 3 think this will happen within a mere 3 years.

**Augmented Hearing:** 63 percent of consumers would like earphones that translate languages in real time. 52 percent want to block out a family member's snoring.



**Eternal Newbies:** 30 percent say new technology makes it hard to keep their skills up to date. But it also makes us instant experts. 46 percent say the internet allows them to learn and forget skills faster than ever.

**Social Broadcasting:** Social media is being overrun by traditional

broadcasters. But half of consumers say AI would be useful to check facts posted on social networks.

**Intelligent Ads:** Advertisements may become too smart for their own good. More than half of augmented reality (AR)/virtual reality (VR) users think ads will become so realistic they will eventually replace the

products themselves.

**Uncanny Communication:** 50 percent think not being able to tell the difference between human and machine would spook them out. 40 percent would also be spooked by a smartphone that reacts to their mood.

**Leisure Society:** 32 percent of students and working people do not think they need a job to develop a meaningful life. 40 percent say they would like a robot that works and earns income for them, freeing up leisure time.

**Your Photo is a Room:** Imagine being able to walk into a photo and relive a memory. 3 out of 4 believe that in only 5 years they will use virtual reality to walk around in smartphone photos.

**Streets in the Air:** City streets may be choked with traffic but the skies remain free. 39 percent think their city needs a road network for drones and flying vehicles. But almost as many worry that a drone would drop on their head.

**The Charged Future:** The connected world will require mobile power. More than 80 percent believe that in only 5 years we will have long-lasting batteries that will put an end to charging concerns.

Michael Björn, Head of Research, Ericsson ConsumerLab, says: "We are entering a future where devices neither have buttons and switches nor need to be controlled digitally via your smartphone. In fact, this may be a necessary change, as it would be difficult for people to learn a new user interface for every device that gets connected to the Internet of Things."

"Today, you have to know all the intricacies of the devices you use. But in the future, the devices will know you instead. For this to become a reality, devices must be able to relay complex human interaction data to cloud-based processing, and respond intuitively within milliseconds, increasing requirements on next generation connectivity."

The insights in the 10 Hot Consumer Trends for 2018 report are based on Ericsson ConsumerLab's global research activities over more than 22 years, and draw on data from an online survey of advanced internet users in 10 influential cities across the world, performed in October 2017. Although the study only represents 30 million citizens, their early adopter profile makes them important to understand when exploring future trends.



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# FactCheck



**Mamuka Bakhtadze:**

MINISTER OF FINANCE OF GEORGIA



**“Georgia has never had such a large amount of investments as this year.”**

Levan TEVDORADZE  
FactCheck

On 11 December 2017, the Minister of Finance of Georgia, Mamuka Bakhtadze, stated: “If we take a look at the statistics for the first three quarters, Georgia has never had such a large amount of investments as this year.”

FactCheck took interest in the accuracy of the statement.

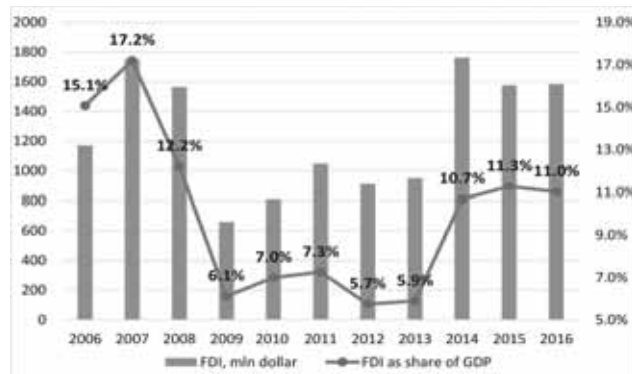
The National Statistics Office of Georgia publishes information in regard to foreign direct investments (FDI) made in Georgia on a quarterly basis. According to the Office’s information, the amount of FDI made in Georgia in the third quarter of 2017 was USD 594.5 million which is 17.6% more as compared to the same figure of the previous year. Of note is that the highest amount of FDI made in the third quarter of a year was registered in 2014 – USD 729.4 million.

According to the total figures of the three quarters, USD 1,346.5 million was invested in Georgia in the period of January-September 2017.

The National Statistics Office of Georgia has been calculating the volume of FDI to Georgia since 1997. The total amount of investments made in the first three quarters of 2017 is indeed the highest. However, the record figure was registered because of the Office’s decision to amend the amounts of investments made in previous years. As a result, the amount of investments made in 2007 (before the decision to amend, the highest amount of investments was made in 2007) was cut by USD 265 million.

According to the quarterly report published by the National

Graph 2: FDI in Georgia



Statistics Office of Georgia, current indicators take into account the International Monetary Fund’s (IMF) recommendation which envisions the revision of FDI figures and an alignment of the figures of the National Bank of Georgia with the National Statistics Office of Georgia. This said, however, FactCheck is unaware of the exact content of the IMF’s recommendation and the extent to which its recommendation is responsible for making the correction. Further, if the data were incorrect, then it is also unclear why this information was only detected after ten years. In order to clarify this issue, FactCheck addressed the National Statistics Office of Georgia with respective questions and we will provide our readers with updated information once we receive the Office’s answers.

In regard to the percentage growth of investments, the volume of FDI in 2017 increased by 3% as compared to the previous year according to the data of the first three quarters of the year. Of importance is that the aforementioned figure was 5% in 2016 whilst the highest growth rate in the accounting period at 72% was registered in 2014.

According to the National

Statistics Office of Georgia, the highest amount of FDI was made from Azerbaijan, amounting to USD 378 million. In terms of investments, Azerbaijan is followed by Turkey, the UK, the Netherlands and the USA. Of importance is that Russia is not among Georgia’s top ten investor countries. Additionally, according to the figures of the first three quarters of 2017, the amount of investments from European Union (EU) countries was USD 29 million more as compared to the amount of investments from the Commonwealth of Independent States (CIS) member nations.

Generally, the investment to gross domestic product (GDP) ratio is a better method to measure investment figures as compared to nominal numbers. This is because the larger a country’s economy is, the greater the amount of investments it requires for development. Graph 2 illustrates that the FDI to GDP ratio was the highest in 2006-2008, it fell significantly in 2009-2013 and was 11% on average between 2014-2016. The FDI to GDP ratio for the first three quarters of 2017 is approximately 11.5%.

## CONCLUSION

ACCORDING TO THE QUARTERLY REPORT OF THE NATIONAL STATISTICS OFFICE OF GEORGIA PUBLISHED ON 11 DECEMBER 2017, USD 594.5 MILLION WAS INVESTED IN GEORGIA IN THE THIRD QUARTER OF 2017. IN TOTAL, THE AMOUNT OF INVESTMENTS MADE IN GEORGIA IN THE PERIOD OF JANUARY-OCTOBER 2017 IS USD 1,346 MILLION WHICH IS 3% MORE AS COMPARED TO THE SAME FIGURE OF THE PREVIOUS YEAR AND EXCEEDS ANY IDENTICAL FIGURE OF THE PREVIOUS YEARS. HOWEVER, THIS HAPPENED AS A RESULT OF NATIONAL STATISTICS OFFICE OF GEORGIA’S DECISION TO CUT THE 2007 INVESTMENT FIGURES BY USD 265 MILLION.

OF NOTE IS THAT THE REAL SIZE OF INVESTMENT IS BETTER DEPICTED BY THE INVESTMENT TO GDP RATIO INSTEAD OF ITS NOMINAL VALUE. IN THIS REGARD, GEORGIA’S FDI TO GDP RATIO WAS HIGHER AS COMPARED TO 2017. FACTCHECK IS ENDEAVOURING TO GET SPECIFIC AND COMPREHENSIVE ANSWERS FROM THE NATIONAL STATISTICS OFFICE OF GEORGIA AS TO THE REASONS FOR THE PREVIOUS YEARS’ FIGURES BEING CUT, ESPECIALLY THOSE REGISTERED BEFORE 2012 (INVESTMENTS MADE UNDER THE PREVIOUS GOVERNMENT). AT THIS STAGE, FACTCHECK LEAVES MAMUKA BAKHTADZE’S STATEMENT WITHOUT A VERDICT.

# Share of Adults Living with Roommates Higher than Ever Before



The FINANCIAL

In U.S., nearly one in three adults live with a roommate or parent, the greatest share ever reported, according to a new Zillow analysis. As rental affordability deteriorates, more U.S. adults may be choosing double up in order to cut costs.

A doubled-up household is where two or more working-aged adults live together but aren’t married or in a relationship – this could mean two millennial roommates or an adult living with parents. The share of doubled-up households has been steadily rising since the late 1990s, when just 23 percent of adults lived together.

The rise in doubled-up households coincides with increasingly unaffordable rental prices nationwide. Americans making the national median income should expect to put about 30 percent of their monthly income toward a rental payment, but in some markets the share is even

greater. In Los Angeles, renters spend almost half of their monthly income on rent. In San Francisco, renters spend 42 percent of their income on rent each month.

“As rents have outpaced incomes, living alone is no longer an option for many working-aged adults,” said Zillow senior economist Aaron Terrazas. “By sharing a home with roommates – or in some cases, with adult parents – working adults are able to afford to live in more desirable neighborhoods without shouldering the full cost alone. But this phenomenon is not limited to expensive cities. The share of adults living with roommates has been on the rise in historically more affordable rental markets as well. Unless current dynamics shift and income growth exceeds rent growth for a sustained period of time, this trend is unlikely to change.”

Metros with the greatest share of adults doubling up also have some of the most expensive rents. In Los Angeles, almost 50 percent of

adults live with a roommate or adult parent, the highest share of all markets analyzed. Los Angeles is the third most expensive rental market in the nation, with the median rent at \$2,720 per month.

Riverside, Calif. and Miami metros also have a high percentage of doubled-up households. In Riverside, almost 45 percent of adults are doubled up, along with 41 percent in Miami. Both metros are among the seven most expensive rental markets when ranked by the share of income going toward the typical rent payment.

When renters decide to move to a new place, a recent rent increase was likely the catalyst, according to the 2017 Zillow Group Consumer Housing Trends Reported. Almost 80 percent of renters who moved from a previous rental experienced a rent increase before moving. And when renters start searching for a new place to live, 77 percent indicate that the rental being within their price range is a top requirement.

# Consumption per capita varied between 53% and 132% of the EU average

The FINANCIAL

Across the Member States in 2016, Actual Individual Consumption (AIC) (a measure of material welfare of households) per capita varied from 53% of the European Union (EU) average in Bulgaria to 132% in Luxembourg.

## Eighteen Member States below the EU average

Ten Member States recorded AIC per capita above the EU average in 2016. The highest level in the EU was recorded in Luxembourg, 32% above the EU average, ahead of Germany (more than 20%

above). They were followed by Austria, the United Kingdom, Finland, Denmark, Belgium, France, the Netherlands and Sweden which all recorded levels between 10% and 20% above the EU average.

AIC per capita for thirteen Member States lay between the EU average and 30% below. In Italy, Ireland and Cyprus, the levels were 10% or less below the EU average, while Spain, Lithuania, Portugal and Malta were between 10% and 20% below. The Czech Republic, Greece, Slovenia, Slovakia, Poland and Estonia were between 20% and 30% below the average.

Five Member States recorded AIC per capita more than 30% below the EU average. Latvia, Hungary and Romania were between 30% and 40% below, while Croatia and Bulgaria had AIC per capita more than 40%

below the EU average.

Over the last three years, AIC per capita relative to the EU average remained relatively stable in a majority of Member States. However, clear increases have been registered in Romania (61% of the EU average in 2016 compared with 56% in 2014), Lithuania (85% vs. 81%) and Estonia (72% vs. 69%). In contrast, the most noticeable decrease was recorded in Luxembourg (132% in 2016 vs. 138% in 2014), followed by Austria (119% vs. 122%), Belgium (112% vs. 115%) and Greece (77% vs. 80%).

GDP per capita varied by one to five across the Member States Gross Domestic Product (GDP) is a measure of economic activity. In 2016, GDP per capita expressed in PPS ranged between 49% of the EU average in Bulgaria and 258% in Luxembourg.

## WITHOUT VERDICT



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

# Outbound Tourism Demand from Brazil and Russia Increased



## The FINANCIAL

**D**estinations around the world welcomed 1.1 billion international tourists between January and October 2017, according to the latest UN-WTO World Tourism Barometer.

This represents a 7% increase on the same period of last year, or 70 million more international arrivals. Strong

demand for international tourism across world regions reflects the global economic upswing.

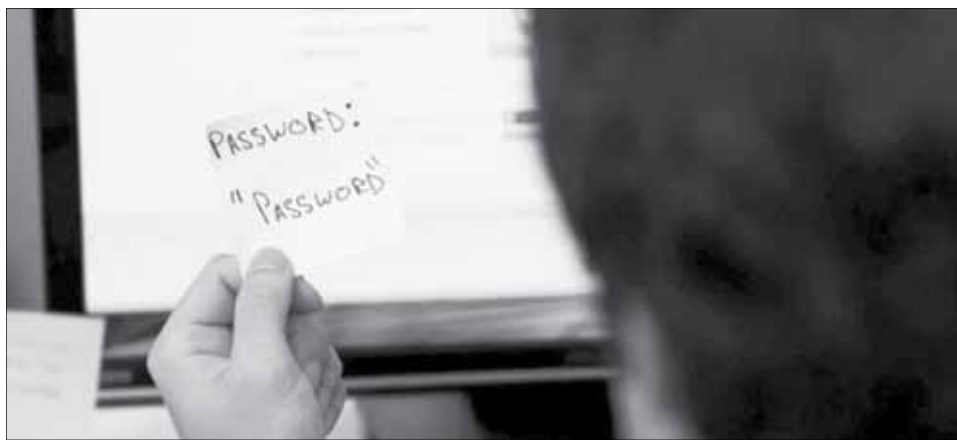
The strong tourism demand of the earlier months of 2017, including the Northern Hemisphere summer peak season, was maintained through October. Destinations worldwide received a total of 1,127 million (+7%) international tourist arrivals (overnight visitors) in the first ten months of the year, 70 million more than in the

same period of 2016. Results were driven by sustained growth in many destinations and a firm recovery in those that experienced declines last year.

In particular, destinations in Southern and Mediterranean Europe, North Africa and the Middle East showed extraordinary strength. Growth in international arrivals exceeded 7% in all destinations of Southern and

Continued on p. 15

# Consumers Are Ready to Say Goodbye to Passwords



The FINANCIAL -- A new Visa survey of 1,000 Americans exploring awareness and perceptions of biometric authentication confirms that consumers continue to have a strong interest in new biometric technologies that make their lives easier.

New forms of authentication, such as fingerprint, facial, and voice recognition, can make unlocking accounts and payments much easier and more convenient than traditional passwords or PINs - which are difficult to type onto tiny keyboards, easy to forget, and can be stolen.

"For financial institutions, the time has never been better to integrate biometric technology into banking apps and payments experiences for customers," said Mark Nelsen, senior vice president of risk and authentication products, Visa. "Advances in mobile device features are increasing the accuracy and speed of biometrics, such that they can

be used for financial transactions. At the same time, consumers are widely familiar and comfortable with using biometrics for more than just unlocking their phones."

## Authentication Survey Findings

According to the Visa study conducted by AYTM Market Research, 86 percent of consumers are interested in using biometrics to verify identity or to make payments, and more than 65 percent of consumers are already familiar with biometrics. Seventy percent of consumers believe that biometrics are easier and 46 percent think they are more secure than using passwords or PINs. Findings from the survey illustrate consumers' desire to see the implementation of biometric tools in payment authentication processes.

Consumers were most familiar with fingerprint rec-

ognition, with 30 percent having used it once or twice and another 35 percent using it regularly. By comparison, about 32 percent have used voice recognition in the past and only nine percent use it regularly.

Seventy percent of respondents find biometrics easier than passwords and 61 percent consider it faster. Fewer than a third of consumers use unique passwords for each of their accounts.

Fifty percent of consumers responded that the top benefit of using biometrics is eliminating the need to remember multiple passwords or PINs, followed by 46 percent who said that biometrics is more secure than passwords or PINs for verifying identity.

Forty-nine percent are concerned both about the risk of a security breach of sensitive biometric information and that biometric authentication won't work well or will take multiple tries.



**Dimitri Kumsishvili:**

MINISTER OF ECONOMY AND SUSTAINABLE DEVELOPMENT



## "By the end of 2017, Georgia's economy will receive more than USD 2 billion from tourism."

**Mariam CHACHUA**  
FactCheck

**O**n 29 November 2017, the Minister of Economy and Sustainable Development, Dimitri Kumsishvili, in his speech at the Tbilisi Silk Road Forum spoke about the development of Georgia's tourism sector. The Minister stated that tourism revenues will exceed USD 2 billion by the end of this year.

FactCheck verified the accuracy of the statement.

Since 2009, tourism has been one of the most rapidly growing sectors of Georgia's economy. In the period of 2009-2012, both the number of visitors and tourism incomes increased substantially. The situation has radically changed since 2012 when tourism's income growth rate became slower with the lowest growth rate registered in 2014, largely stipulated by the imposition of the then new visa regulations. In 2014 Georgia abolished its visa-free regime with 24 countries which in turn affected the number of visitors to the country as well as tourism incomes.

One year after its imposition of strict visa regulations, the Government of Georgia admitted its mistake and simplified visa regulations to mitigate the negative consequences of the strict visa regime. This decision was reflected in the tourism sector in the very same year and tourism incomes started to increase again. In 2015, tourism incomes increased by 8.3% and constituted USD 1.9 billion whilst tourism incomes

in 2016 reached USD 2.2 billion which was 11.9% more as compared to the same figure of the previous year.

According to the data of the National Bank of Georgia, Georgia received USD 1.1 billion from tourism as of the first two quarters of 2017 which is 26% more as compared to the same figure of the previous year. In regard to tourism incomes in summer where the tourism revenues are their highest, respective figures are currently not available. However, considering the fact that tourism incomes are directly related to the number of visitors to the country, it is possible to calculate tourism incomes based on the number of international visitors coming to Georgia.

According to the Georgian National Tourism Administration, the number of international visitors was 6,955,000 persons in January to November of this year which is 18% more as compared to the same figure of the previous year. Of the total number of international visitors, the share of tourists is 46.6% (3,244,000 persons). In the January-November period, the amount of tourists coming to Georgia increased by 701,000 (26.1%) persons.

Based on the statistical data, the average amount of money spent by one visitor in Georgia was USD 340 in 2016. Therefore, if we multiply the number of visitors by the average amount of money spent, we can obtain a good understanding of tourism incomes in the January-November period. As there were 6,954,000 international visitors to the country, the amount of tourism incomes from that period

should be approximately USD 2.4 billion.

Tourism incomes can also be calculated on the basis of the growth in the number of visitors. The visitor growth rate and that of tourism income are close. According to November's figures, the amount of visitors to the country increased by 18%. Therefore, the growth in tourism incomes should be within the margin of this figure. In 2016, tourism incomes amounted to GEL 2.2 billion; therefore, the amount of tourism income this year should be approximately USD 2.5 billion as a result of the 18% growth.

Tourism sector development also affects the amount of employees in this business field. In the period of 2010-2016, tourism's share in Georgia's economy has grown from 6.8% to 7.2%. At the same time, the number of employees in this sector has increased as well.

According to the data of the National Statistics Office of Georgia, the number of employees in the hotel and restaurant industry has doubled in the last five years whilst the share of employees in this sector has increased from 3.4% to 5.3% in the total number of employment. As of the third quarter of 2017, the total number of hired employees in hotels and restaurants constitutes 32,570 persons. Additionally, we have to take into account that the tourism sector includes not only hotels and restaurants but also tour operators, transport companies and other services. Therefore, we can conclude that the number of employees in the tourism sector is much higher.

## CONCLUSION

IN 2017, THE AMOUNT OF INTERNATIONAL VISITORS INCREASED BY 18% AS COMPARED TO THE PREVIOUS YEARS WHILST THE DATA OF THE FIRST TWO QUARTERS OF THIS YEAR SHOW THAT THE AMOUNT OF TOURISM INCOMES HAS INCREASED BY 26% AS COMPARED TO THE SAME PERIOD OF THE PREVIOUS YEAR. IF WE TAKE INTO ACCOUNT THE FACT THAT THE TOURISM INCOME GROWTH RATE COINCIDES WITH THE GROWTH RATE OF INTERNATIONAL VISITORS TO GEORGIA WHILST CONSIDERING THE AVERAGE AMOUNT OF MONEY SPENT BY ONE VISITOR, WE CAN CONCLUDE THAT THE AMOUNT OF TOURISM INCOME SIGNIFICANTLY EXCEEDS USD 2 BILLION THIS YEAR.

FACTCHECK WILL COME BACK TO THIS ISSUE IN THE FUTURE. AT THIS STAGE WE CONCLUDE THAT DIMITRI KUMSISHVILI'S STATEMENT IS TRUE.

TRUE



EUROPEAN  
ENDOWMENT OF DEMOCRACY

G | M | F  
The German Marshall Fund  
of the United States



Kingdom of the Netherlands

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## publicity

# A great amount Raised at AFG Charity Gala make Dzegvi Shelter inhabitants' Dreams Come True!

A house is something visible. It's a site where loved ones live. It is where children study, play and grow. It's where friends and family come to visit. House is incredibly important to a person. A house is to a person what soil is to a plant. But millions of people all over the world do not have a decent house in which to live. Dzegvi Orphanage became a house for homeless children in early 1990s for so called street children in Georgia. But as there were not only children left under the open sky Mother Mariam understood the crucial necessity of converting the Orphanage into a Shelter for all those left without decent house. It has been expanded and today it shelters more than 80 homeless people of different ages and various problems. Since 2010 the Shelter is encountering problems related with the building. American friends of Georgia with help of long term partners and friends started the reconstruction of the Shelter building with the money raised at Charity Gala and US campaign. This summer it was rebuilt to some extent and then stopped. Dzegvi Shelter inhabitants were eagerly waiting for Charity Gala to see if enough money would be raised to finish the reconstruction of their "House"...

Just a few days before Christmas, on December 9, American Friends of Georgia held a traditional annual Charity Gala "Restore Life" in the Hotel Biltmore. The Evening was attended by more than 340 people among whom were Diplomats, representatives of leading Georgian and International companies and corporations.

The event started with a cocktail re-



ception in the lobby of the Hotel Biltmore with an art display by prominent Georgian artists auctioned later by Cliff Isaak - the one and only, very talented extraordinary Auctioneer, Honorary Consul of Canada in Georgia, volunteering his skills as a champion auctioneer at all AFG Charity Galas.

The reception was followed by dinner especially designed by Biltmore's Executive Chef Hussam Hamoud. An interesting musical performance included the young talented pianist and composer Nika Nikvashvili who especially arrived from Paris to perform at the Gala, young performers Studio "Ana-Bana" and well-known Choir of Anchiskhati.

The highlight of the evening was Auction of contemporary art by prominent Georgian artists: Gogi Alexi-Meskhishvili, Gia Gugushvili, Giorgi Mirzashvili, Eteri Chkadua, Ketii Matabeli, Mamuka Tsetskhladze, Lia Shvelidze, Mamuka Mikeladze, Giorgi Kvavilashvili, Maka Gotsiridze, Ala Turmanidze-Cowgill, Manana Abzianidze and others. Our generous friends also donated Elene Akhvediani, Tengiz Mirzashvili, Dimitri Eristavi and Tonino Guerra's works from their private collections.

The event aiming to promote the idea of philanthropy and benefit the most needy children and elderly in

Georgia raised a great amount - in total 93 000 USD after expenses. This will enable American Friends of Georgia to make Dzegvi inhabitants dreams come true - continue reconstruction of Dzegvi Shelter and also support Hospice and Palliative Homecare Program! This reconstructed Shelter will help additional homeless elderly, mentally ill and physically handicapped, and abandoned mothers with their children and enable to have additional public spaces for educational and vocational training, medical care, art therapy, and children's gymnasium.

The patron of Gala traditionally

was Petrocas Energy Group, a long-time partner, friend and supporter of American Friends of Georgia. The wine sponsor was Ikano. Gold Sponsor was Biltmore Hotel. Silver Sponsor Adjara Group Hospitality and Bronze Sponsors were: BDO, Silknet, Dechert and PMCG.

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Special Thanks: AmCham Georgia, Nika Nikvashvili, Anchiskhati Choir, Tbilisi State Conservatoire, Levan Glonti, Elene Murjikelni, Saba Amirejibi, Studio Ana-Bana

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## Immigration in EU Member States

The FINANCIAL

A total of 4.7 million people immigrated to one of the 28 EU Member States in 2015. This figure includes both immigration from outside the EU and immigration flows between EU countries.

Of these immigrants, half (2.4 million or 50%) were citizens of non-EU countries, 1.4 million people (30%) had citizenship of a different EU Member State from the one to which they immigrated, 0.9 million people (19%) migrated to an EU Member State of which they had citizenship (for example, returning nationals), and some 19 000 (less than 1%) were stateless.

The term 'immigrant' refers to a person who has entered a Member State to establish his/her usual residence in its territory for a period that is, or is expected to be, at least 12 months.

Germany reported the largest total number of immigrants (1 544 000 people or 33% of the EU total) in 2015, followed by the United Kingdom (631 000 or 14%), France (364 000 or 8%), Spain (342 000 or 7%) and Italy (280 000 or 6%).

Highest proportion of national immigrants in



### Romania and Lithuania

Immigrants can also be nationals of the country they are immigrating to. The share of nationals was particularly high in Romania (where they accounted for 87% of all immigrants in 2015), Lithuania (83%), Hungary (56%), Croatia (55%), Latvia (52%), Estonia (52%) and Portugal (50%). Returning nationals represented at least 1 in 10 immigrants in almost all Member States, except Luxembourg (5%), Germany and Austria (both 6%).

### Italy and Slovenia had highest shares of non-EU immigrants

Non-EU citizens accounted for more than half of all im-

migrants in seven Member States: Italy (67%), Slovenia (64%), Germany (63%), Sweden (58%), Spain (54%), Austria (52%) and Bulgaria (51%). Only 7% of immigrants in Romania and 10% in Slovakia were non-EU citizens.

### Majority of Luxembourg immigrants were citizens of another EU Member State

Only in Luxembourg the majority of immigrants were citizens of another EU Member State (69% of all immigrants). The Czech Republic (49%) and Slovakia (44%) had the next highest shares. Less than 10% of immigrants were nationals of another EU Member State in Lithuania (4%), Bulgaria and Romania (6%) and Latvia (7%).

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## THE ISET ECONOMIST

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## Behavioral Economics of New Year's Resolutions

Continued from p. 2

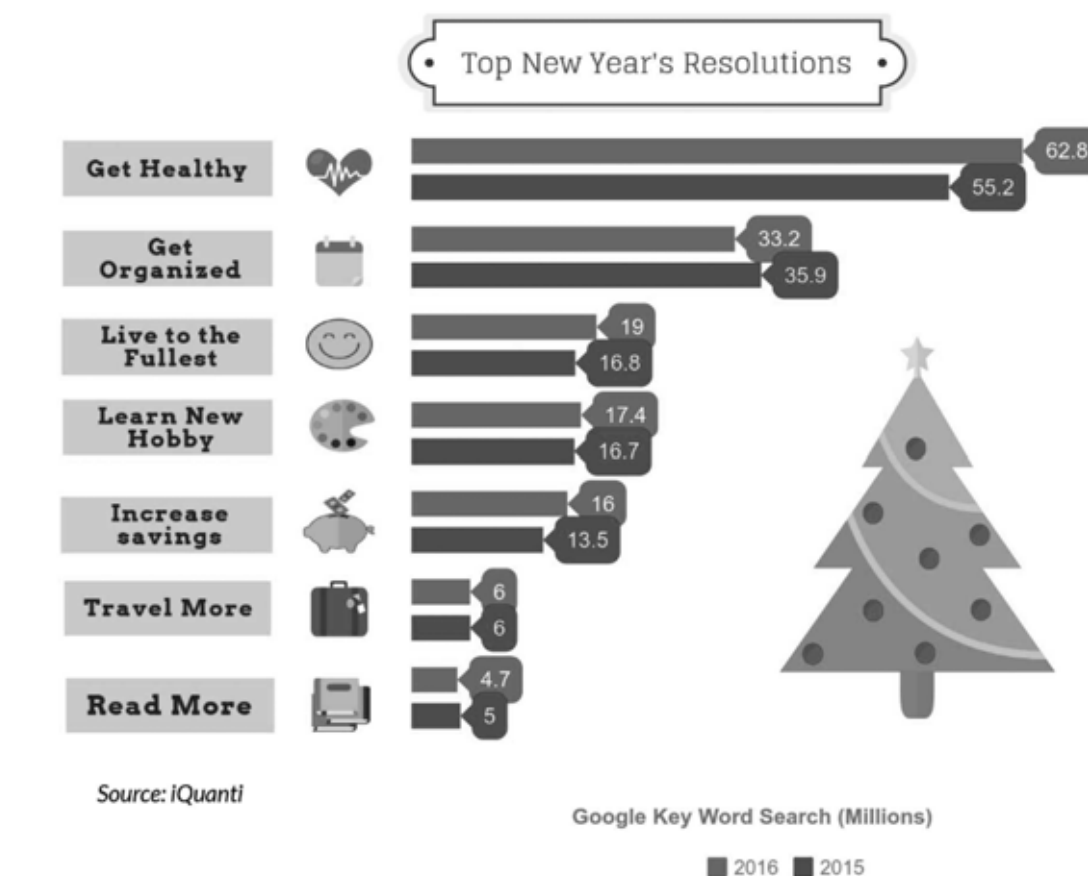
lutions, but this time it will be different! 2018 self will not need a snooze button, will not stay late in the office, and for sure will happily run on that fancy treadmill. Extreme optimism like this, despite past experience, is relatively common, but nonetheless standard economic models find it hard to explain.

Economics is about understanding the behavior of humans in economic decision-making environments. In order to understand how markets work, we need to make bunch of assumptions that will help us build useful and tractable economic models. Economic agents in these models, having good access to information, can easily and meticulously add up the costs and benefits of their choices, no matter long-term or short-term, make a choice and stick to it, firmly. Many important contributions to understanding developments around us have been made using this very simplified model of human behavior. However, the discrepancies between theoretical predictions and actual realizations are sometimes both systematic and significant, the New Year resolution default rate being just one example.

In Homer's epic poem, the Odyssey, Odysseus is warned about the Sirens, who seduce sailors with their alluring singing. Odysseus was very interested in hearing what the Sirens sang to him, and so, following the advice of Circe, he ordered all of his sailors to plug their ears with beeswax and tie him to the mast. He instructed his men to leave him clinched securely to the mast, no matter how much he might beg. Odysseus' solution to his problem is a perfect example of trade-offs we face every day between short-term temptations, such as unhealthy but divinely tasty snacks, shopping sprees, or a mug of beer on a couch, and long-term wellbeing, health, or financial security.

Standard economic theory fails to explain this phenomenon due to the assumption that our choices about our actions in the future are time-consistent. That is, our choices should not depend on when we are asked to make the choice. This is described using discounting – the assumption is that value of benefits or costs are reduced by a constant factor with every passing month or year, and that therefore preferences over two future alternatives will always remain the same no matter when the choice is made.

Asked on his first day of long journey to Ithaca, Odysseus was determined to return back home to reassert his place as a king of Ithaca. By the time he was passing by the land of Sirens, he should have still been committed to going to home right away. However, as Odysseus' breakdown demonstrates, it is quite possible to change your preferences, at a later stage, when choosing between the two options. In a similar vein, when asked today to make a choice between spending next Friday evening at the gym or on the couch, we might well choose to go to gym, but come next Friday, it is highly likely we will end on a couch, devouring heavenly German beer. The explanation for this phenomenon is that we care more about the experiences that are close in time, and therefore we discount more rapidly early on. Surrendering to short-term temptations is key reason why our plans to save for the future, or make healthier lifestyle choices, often fail.



Richard Thaler, a Chicago-based behavioral economics and 2017 Nobel Prize Laureate, has, together with his fellow behavioral economists, created alternative models for describing the dilemma caused by the internal tension between a long-sighted self (planner) and a short-sighted (doer) self. The goal of a planning self is to increase long-term happiness, while the doing self is mostly concerned with short-term decisions. The planner, being aware of the doer's myopic nature, can decide to either reduce his short-term consumption by applying willpower, which carries a psychic cost, or as with Odysseus, the solution to the dilemma may be often about helping the planning by removing short-term courses of action. This dual nature of self has also been adopted in modern psychology and has been supported by recent research in neuroscience - seems like different parts of our brain are responsible for short-term and long-term planning.

Where in our modern life should we seek for Odysseus-style "tying ourselves to the mast" help?

Theoretical and empirical work of behavioral economists, just like Thaler, offer a number of suggestions to help us deal with our short-sighted self. These are in line with the theoretical predictions discussed above. The key to success is pre-commitment, and staying accountable and sane by limiting the extent of willpower we force ourselves to exert.

Here are some tips that can help you get started with your resolutions for 2018:

## Pre-commit yourself

Order a weekly delivery of food on inebge (<http://www.inebe.ge>) or any other food delivery service providers that accept orders well in advance of the time you actually get hungry and

need to eat. Researchers from Harvard Business School looked at a year's worth of customer orders from an online grocer. They wanted to find out whether a delay between order completion and order delivery would have an effect on which items the customers chose to buy. Indeed, the data showed that customers tended to order a higher percentage of "should" items (like vegetables), and a lower percentage of "want" items (like candy bars), the further in advance they placed an order.

Sign up for an automatic monthly transfer from your bank account into a savings account or pension account. This quick, one-time decision to transfer money will help you keep spending within a budget, while also helping you to save for future financial security. Harvard University Professor Raj Chetty, with his colleagues, provided evidence that automatic pension plan enrollment mechanisms increase total savings, because the plan produces savings without the psychic costs of inducing regular willpower.

Establish your own set of behavioral rules. Negotiating with ourselves and assessing the costs of benefits on a constant basis takes mental resources and willpower to make sure our short-term decisions are always aligned with our long-term goals. Deciding to avoid such negotiations can help you. One way is to eliminate carbohydrates from your diet or cigarettes in their entirety, without any ifs, ands, or buts, rather than go on a calorie-watch or smoke rationing.

## Stay accountable

Make a bet with your friends, so that every time you are caught eating something unhealthy, you will be punished by specific amount of money. And if you find that it does not help, increase the amount, or make the deal with someone you don't like

that much (maybe, your mother-in-law).

These days there are mobile apps for anything, including one that helps you to sign a binding "Commitment Contract" with yourself. StickK (<http://www.stickk.com/>), co-founded by Yale academics Dean Karlan and Ian Ayres, allows you to set a specific goal, specify some stakes that you would hate to lose, like making donations to an organization that advocates for ideas you strongly oppose. The website also allows for referees, people selected by the user to help monitor the progress of their contract. When a user submits a report to the website, the referee is asked to confirm the accuracy of the report.

## Stay sane

Self-control is costly. Exercising constant restraint causes a depletion of brain resources, and we are left with less energy to resist the next one. When choosing between different options to achieve your goals, go with the one that minimizes the amount of self-control, such as choosing exercising over dieting. While exercising regularly requires willpower, unlike dieting, it does not require constant use of self-control. As regular exercise become a habit, it requires lesser mental resources to keep yourself in shape.

One final recommendation is to take advantage of the overwhelming motivation at the start of the New Year, and take actions now that will commit us to making good decisions throughout the 2018. Happy New Year!

*1 Their website proudly reads "Congratulations to our friend Professor Richard Thaler for winning the 2017 Nobel Memorial Prize in Economic Sciences. For those who are not aware, stickK is based in part on Thaler's nudge theory and is proud to call Professor Thaler a friend and inspiration."*

## Outbound Tourism Demand from Brazil and Russia Increased

Continued from p. 13

Mediterranean Europe, with a rapid recovery seen in Turkey and double-digit increases for most of the region's other destinations. In North Africa and the Middle East, Egypt, Tunisia and Palestine rebounded strongly from previous years' declines, while Morocco, Bahrain, Jordan, Lebanon, Oman and the United Arab Emirate of Dubai all continued to report sustained growth.

"These robust results, the best we have seen in many years, reflect the sustained demand for travel around the world, in line with the improved global economy and the rebound of destinations that suffered declines in previous years," said UNWTO Secretary-General Taleb Rifai at the 2nd UNWTO/UNESCO Conference on Tourism and Culture, held on 11-12 December in Oman.

"As we gather in Oman for this important event, we must acknowledge the strong resilience of tourism reflected in the continuous growth in many destinations of the Middle East, and the rapid recovery in others. Tourism brings benefits to local communities and visitors through the promotion of peace and mutual understanding and, as this event highlights, respect for cultural heritage and values." Mr. Rifai added.

## Regional Results

Europe (+8%) led growth in international arrivals in the first ten months of 2017, driven by remarkable results in Southern and Mediterranean Europe (+13%). Western Europe (+7%) rebounded from weaker results last year, while Northern Europe (+6%) enjoyed ongoing solid growth. Arrivals in Central and Eastern Europe grew 4% between January and October 2017.

Africa (+8%) was the second fastest-growing region over this period, thanks to a strong recovery in North Africa (+13%) and the sound results of Sub-Saharan Africa (+5%).

In Asia and the Pacific (+5%) results were led by South Asia (+10%), with South-East Asia (+8%) and Oceania (+7%) also enjoying a robust increase in arrivals. North East Asia (+3%) recorded more mixed results, with some destinations reporting double-digit increases, and others, declines.

South America (+7%) continues to lead growth in the Americas, where arrivals overall increased by 3%. Central America and the Caribbean both grew 4%, with the latter showing clear signs of recovery in October in the aftermath of hurricanes Irma and Maria. In North America (+2%), robust results in Mexico and Canada contrast with a decrease in the United States, the region's largest destination.

Results in the Middle East (+5%) through October were mixed, with some destinations rebounding strongly and others continuing to report sustained growth, but the regional average was weighed down partly by a few that showed declines.

As for outbound markets, 2017 is marked by a strong pickup of expenditure on international tourism in Brazil (+33%) and the Russian Federation (+27%) after some years of declines.

Most of the other source markets continued to grow at a sustained pace. Among the top 10 source markets, China (+19%), the Republic of Korea (+11%), the United States and Canada (both +9%), and Italy (+7%) reported the fastest growth in international tourism expenditure. Expenditure from Germany, the United Kingdom, Australia, Hong Kong (China) and France grew between 2% and 5%.

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# Weekly Market Watch



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

## ECONOMY

### FDI up 17.6% y/y in 3Q17

FDI in Georgia stood at US\$ 594.5mn (+17.6% y/y) in 3Q17, according to GeoStat's preliminary figures. Similar to previous quarters, the transport and communications sector was the largest FDI recipient at US\$ 177.8mn (-13.5% y/y, 29.9% of total) in 3Q17, followed by the construction at US\$ 116.2mn (+85.6% y/y, 19.5% of total). Azerbaijan topped the list of investors with US\$ 154.1mn, followed by Turkey with US\$

138.6mn and UK with US\$ 63.4mn.

### Exports up 8.2% y/y in November 2017

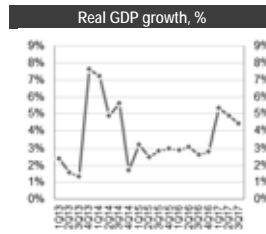
In November 2017, exports increased 8.2% y/y to US\$ 236.7mn, imports were up 16.9% y/y to US\$ 757.7mn and the trade deficit widened 21.4% y/y to US\$ 521.0mn according to GeoStat's preliminary figures. In 11M17, trade deficit was up 1.2% to US\$ 4.7bn as exports increased 27.0% y/y to US\$ 2.4bn, while imports were up 8.8% y/y to US\$ 7.1bn. Detailed foreign trade statistics will be available on December 19, 2017.

Key macro indicators			
	11M17	2016	2015
GDP (% change)	4.9% <sup>(1)</sup>	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 (cop)	6.9%	1.8%	4.9%
Gross reserves (US\$ bn)	3.0	2.8	2.5
CAD (% of GDP)	9.3% <sup>(2)</sup>	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 10M17  
(2) As of 1H17

Money transfers up 24.8% y/y in November 2017

In November 2017, money transfers increased 24.8% y/y



Source: GeoStat

**Georgia sovereign credit ratings**

<b>STANDARD &amp; POORS</b> BB- Stable Affirmed Nov-2016	<b>MOODY'S INVESTORS SERVICE</b> Ba2 Stable Affirmed Sep-2017	<b>FitchRatings</b> BB- Stable Affirmed Mar-2017
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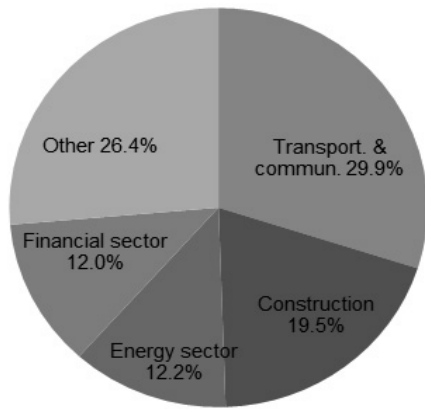
Source: Rating agencies

### International ranking, 2016-17

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

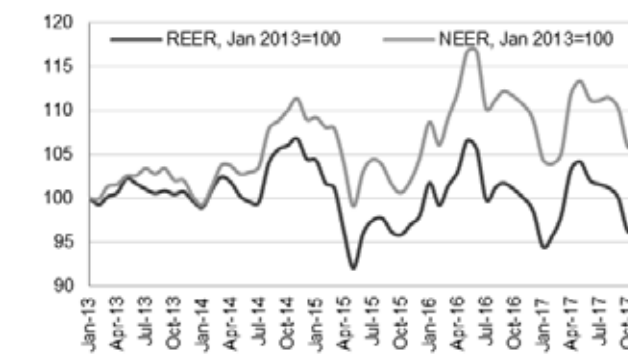
Source: World Bank, Heritage Foundation and World Economic Forum

### FDI by sectors, 3Q17



Source: GeoStat

### Nominal Effective Exchange Rate and Real Effective Exchange Rate



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

### NBG Increases its policy rate to 7.25%

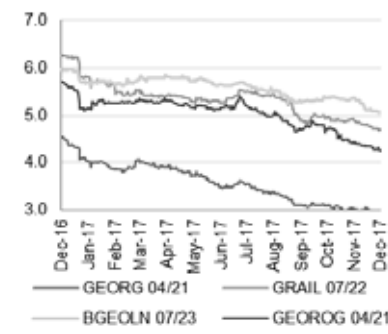
At its meeting on 13 December 2017, NBG's monetary policy committee decided to increase its policy rate by 0.25 percentage points to 7.25%. According to NBG, the nominal effective exchange rate depreciated significantly following its last monetary policy meeting on October 25. This increased the pressure on prices and inflation came in at 6.9% in November. The regulator noted that decision on further tightening of the monetary policy as well as its duration would depend on the reduction of the exchange rate-related pressure on prices. NBG anticipates that the inflation will start declining with the expiration of one-off factors in the beginning of 2018. The next committee meeting is scheduled for 31 January 2018.

## FIXED INCOME

**Corporate Eurobonds:** BGEO Group Eurobonds (BGEOLN) closed at 5.0% yield, trading at 104.6 (+0.2% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.5 (unchanged w/w), yielding 10.8%. GOGC Eurobonds (GEOROG) were trading at 107.7 (unchanged w/w), yielding 4.3%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 112.4 (-0.1% w/w), yielding 4.7%.

**Georgian Sovereign Eurobonds** (GEORG) closed at 112.4 (unchanged w/w) at 2.9% yield to maturity.

### Georgia Eurobonds, YTM (%)



Source: Bloomberg

	Local bonds				Eurobonds					
	GWP 12/21	M2RE 10/19	Nikora 03/18	Nikora 06/19	GLC 08/20	GEBGG 06/20	GEOROG 04/21	BGEOLN 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-/A-	-/-	-/-	-/-	n/a	BB-/Ba2	BB-/B+	BB-/B1	BB-/BB-/Ba2	B+/B+
Mid price, US\$	n/a	101.4	101.1	101.1	101.72	100.5	107.7	104.6	112.4	112.4
Mid yield, %	n/a	7.00%	8.5%	8.5%	6.50%	10.8	4.3	5.0	2.9	4.7
Z-spread, bps	n/a	n/a	n/a	n/a	n/a	346.1	213.0	80.4	251.4	282.4

\* 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

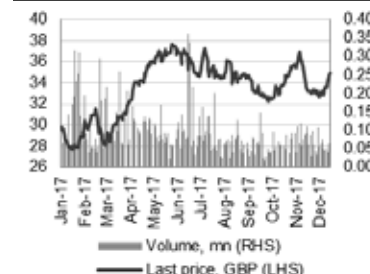
### Eastern European sovereign 10-year bond performance

Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba3	2.9
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba1	4.2
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	-0.1
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	2.9
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	2.7
Turkey	2,000	5.625%	30/03/2021	BB+/BB/Ba1	3.9

Source: Bloomberg

## EQUITIES

### BGEO Group PLC (BGEOLN)



Source: Bloomberg

**BGEO Group** (BGEOLN) shares closed at GBP 34.74/share (+3.52% w/w and +4.07% m/m). More than 244k shares traded in the range of GBP 33.24 – 34.91/share. Average daily traded volume was 58k in the last 4 weeks. FTSE 250 Index, of

### TBC Bank Group (TBCG LN)

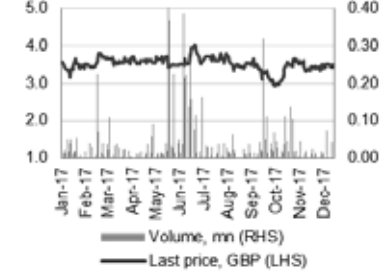


Source: Bloomberg

which BGEO is a constituent, gained 0.16% w/w and lost 1.68% m/m. The volume of BGEO shares traded was at 0.62% of its capitalization.

**TBC Bank Group** (TBCG LN) closed the week at GBP 16.43 (+0.86% w/w and -2.78% m/m). More than 98k shares changed hands in the range of GBP 16.07 – 16.80 share. Averaged daily traded

### Georgia Healthcare Group (GHG LN)

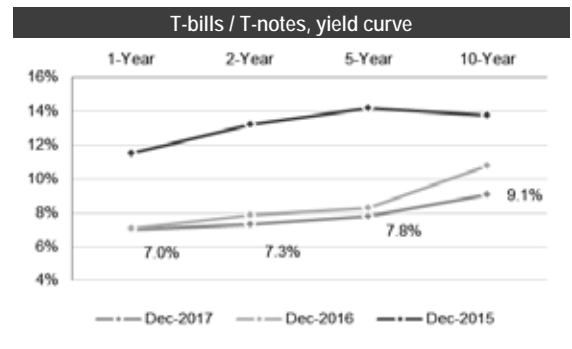


Source: Bloomberg

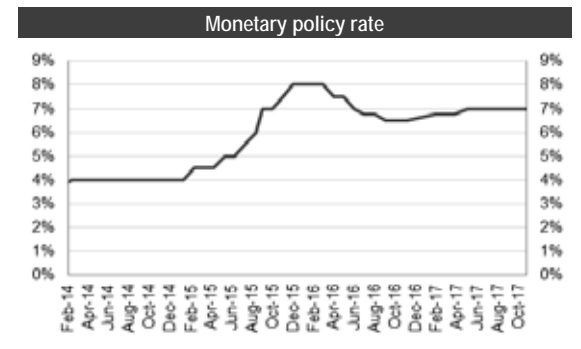
volume was 25k in the last 4 weeks. **Georgia Healthcare Group** (GHG LN) shares closed at GBP 3.40/share (-2.86% w/w and +1.68% m/m). More than 57k shares were traded in the range of GBP 3.40 – 3.50/share. Average daily traded volume was 11k in the last 4 weeks. The volume of GHG shares traded was at 0.04% of its capitalization.

## MONEY MARKET

**Refinancing loans:** National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,150mn (US\$ 446.2mn).



Source: NBG  
\*Note: As of latest auction.



Source: NBG1

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# The Russian Armed Forces After Hard Lessons in Georgia

Since 2008, Russia has used its strategic exercises and large-scale snap exercises to hone its military capabilities, undermine regional stability and peace and – twice, first in Georgia and then Ukraine – to mask impending aggression. Exercise ZAPAD 2017 was the latest iteration of such exercises.

By DAVE JOHNSON

The Russian Armed Forces revived the practice of regular, annual strategic exercises with Exercise KAVKAZ 2008 in Russia's North Caucasus region on its border with Georgia. According to official announcements, Exercise KAVKAZ was conducted with the participation of 8,000 troops. However, General Yuri Netkachev said in an interview with Independent Gazette at the time that the figures were "officially underestimated" to avoid inviting international observers. Russian troops remained on the Georgian border after Exercise KAVKAZ ended on 2 August 2008 and a force estimated at approximately forty thousand troops started operations on Georgian territory on 7 August, halting under international pressure five days later on the outskirts of Tbilisi.

Exercise ZAPAD 2017, officially conducted on NATO's eastern borders in Russia's Western Military District and on the territory of Belarus from 14 to 20 September, was the latest iteration of the exercise series thus linked to "Europe's first war of the 21st Century."

## Exercising lessons learned

The Russian Armed Forces learned some hard lessons in Georgia. Low manning and readiness levels forced the Russians to attack with a scratch force. Shortfalls in C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance) were sorely felt, as was the limited ability of the land and air forces to operate together, and the lack of precision weapons. The ultimate outcome was never in doubt, but the Georgia campaign highlighted a long list of essential military reforms.

Since the conflict in Georgia, Russia has used the nine subsequent annual exercises, including the three most recent ZAPAD exercises (see box) to put things right. The annual combined-arms exercises are conducted on an alternating basis in each of the Military Districts. (The Military Districts are also designated as Joint Strategic Commands. The Northern Fleet Military District/Joint Strategic Command was created in December 2014 but as of 2017 had not been integrated into the rotation of the annual strategic exercises on its own but has participated in snap exercises and exercised concurrently with the Western Military District ZAPAD 2017 exercise.)

The annual exercises are capstone training events culminating the annual training cycle with a three-fold test of:

- the selected Military District to operate in its assigned strategic direction;
- all other military districts to mobilise and operate in support;
- the General Staff and other command and control elements to direct strategic operations.

Following President Vladimir Putin's 2013 decree to increase military readiness, the annual strategic exercises have been augmented by no-notice "snap" exercises comparable in size and scope or even larger



## Russia's Annual Strategic Exercises 2008-2018

Year	Exercise	Military District	Participating Troops (announced by Russian Ministry of Defence)	Estimated Participating Troops
2008	KAVKAZ	North Caucasus (now Southern)	8,000	40,000
2009	ZAPAD	Western	11,900	13,000
2010	VOSTOK	Eastern	20,000	-
2011	TSEINTR	Central	12,000	12,000
2012	KAVKAZ	Southern	8,000	-
2013	ZAPAD	Western	11,920	90,000
2014	VOSTOK	Eastern	100,000	155,000
2015	TSEINTR	Central	95,000	100,000 – 160,000
2016	KAVKAZ	Southern	12,500	120,000
2017	ZAPAD	Western	12,700	60,000-70,000
2018	VOSTOK	Eastern	-	-

than most annual strategic exercises. These snap exercises are conducted without warning to the units involved, thus avoiding the requirements for prior notification set out in paragraph 41 and 41.1 of the Vienna Document (an agreement between OSCE participating states intended to implement confidence and security building measures).

In a recent meeting of senior military leaders, Chief of the General Staff Gerasimov reported that 24 snap exercises of this size had been conducted by November 2017, along with many more smaller snap exercises. These snap combined-arms exercises have involved tens of thousands of troops; some conducted in the Western and Eastern Military Districts have reportedly involved approximately 150,000 troops.

## The wider context

NATO's response has been measured. The Alliance recognises the sovereign right of nations to exercise their armed forces but it is important that this be done in accordance with well established guidelines and agreements and international obligations. NATO leaders also perceive the destabilising way in which Russia has conducted its military exercises during the last ten years, evading its long-standing commitments to transparency and predictability contained in the Vienna Document, and leveraging exercises for intimidating purposes and to mask impending aggression.

These perceptions are reinforced by the context of eroding stability and security that Russia has created by suspending its participation in

the Treaty on Conventional Armed Forces in Europe (CFE Treaty) in 2007, as well as its aggression against Georgia in 2008 and against Ukraine in 2014. Allies gradually perceived during this period that Russia's approach to warfare and conflict short of war, combines all elements of state power, including military force, in a seamless continuum that culminates with overarching nuclear messaging. This is the lens through which Russia's strategic combined-arms manoeuvre warfare exercises near NATO's borders are – or at least should be – viewed.

## Fudging the numbers

The conduct of ZAPAD 2017 was consistent with this track record. The Russian Ministry of Defence announced that a total of 12,700 Russian and Belorussian troops would participate in ZAPAD, with 10,200 troops in Belarus (including 2,000 Russian troops) and 2,500 troops exercising in Russia. It also announced that it would involve approximately 70 aircraft, 680 pieces of military equipment, including 250 tanks, and 200 rocket and artillery systems. The numbers in Belarus fell just shy of limits requiring mandatory invitation of foreign observers under the Vienna Document (13,000 troops is the threshold) and Russia declined to notify the exercise because they claimed that only 2,000 troops would exercise on its territory as part of ZAPAD. No Russian general said explicitly that the ZAPAD numbers were "officially underestimated" for this purpose, but General Salyukov, Commander-in-Chief of the Russian Army, said in an interview with TASS after the

Russian territory. Day-to-day reporting on the exercise by the Ministry of Defence also contradicted its own official version of ZAPAD's scale and intention.

The "terrorist" formations confronting the combined Russian and Belorussian forces were of sufficient size and strength to require three days of operations by combined-arms and armoured land forces with extensive fixed and rotary-wing air support, large-scale aerospace operations and engagement by the Baltic Fleet and coastal defence units.

## The strategic nature of ZAPAD

The strategic nature of ZAPAD was highlighted by a simulated defence of the Moscow region by S-400 air defence interceptors against a mass cruise missile attack. Dual capable (conventional and nuclear) precision strike capability was also a major element of ZAPAD, including SS-21 SCARAB and SS-26 ISKANDER missile unit activity, with live firing in other regions by ISKANDER units not stationed in the Western Military District. The Ministry of Defence also reported extensive exercise activity by Chemical, Biological, Radiological, and Nuclear (CBRN) defence units, underscoring the Russian Armed Forces' ability to operate in a CBRN-contaminated environment. The exercise activities were conducted in two phases – a first defensive and counter-offensive phase, followed by transition to a second offensive phase.

Varying levels of exercise activity were conducted in all the other Military Districts simultaneously with the officially acknowledged ZAPAD activities in the Western Military District. These other activities involved aerospace defence operations, test launches of intercontinental ballistic missiles (some of which may not have been linked to ZAPAD but driven by required service life testing), naval battles in Russia's coastal waters in the Barents, Baltic, and Black Seas and the Pacific Ocean, land force engagements of various sizes, CBRN unit activity, and repair by the Rail Troops of stretches of railway damaged by enemy cruise missile strikes. Exercise activity in the Northern Fleet (Arctic) Military District was particularly intense. It included a simulated intercontinental submarine launched ballistic missile attack by a Northern Fleet ballistic missile submarine against the simulated enemy on Day 3 of ZAPAD and a missile strike by a Northern Fleet strike group against an enemy naval grouping on Day 6.

NATO Spokesperson Oana Lungescu consequently said that, "in effect, all these activities together constituted a single strategic exercise... ZAPAD was clearly a large scale state-on-state conflict." The character, scale and intensity of Russian military exercise activities during September 2017 is consistent with the system of strategic operations that Russia would conduct in conflict with NATO, focusing on the Western Strategic Direction, with supporting military activity nationwide in all strategic directions, and potential global operations, in an escalating conflict. If ZAPAD 2017 were actually conducted in line with its official description, it would exercise just a portion of Moscow's strategic plans for potential war with NATO. The exercise activities should instead be viewed in the context of the exercise activities conducted concurrently across Russia during 14-20 September 2017.

Continued on p. 22

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## financial news

# Germany continued to have the largest share of asylum seekers in the EU

Syrians and Iraqis were the most numerous

The FINANCIAL

With 26 600 first time applicants between July and September 2017, Syrians remained the main citizenship of people seeking international protection in the EU Member States, ahead of Iraqis (12 500 first time applicants), Afghans and Nigerians (both around 9 900), Pakistanis (7 350), Eritreans (7 300) and Albanians (5 900). These seven citizenships accounted together for nearly half of all first time applicants in the EU Member States over the third quarter 2017.

Nearly half applied for asylum either in Germany or in Italy

During the third quarter of 2017, the highest number of first time applicants was registered in Germany (with 46 200 first time applicants, or 28% of total first time applicants in the EU Member States) and Italy (32 500, or 20%), followed by France (22 200, or 14%) and Greece (14 600, or 9%). Among Member States with more than 2 000 first time asylum seekers in the third quarter 2017, numbers of first time applicants increased most compared with the previous quarter in Sweden (+50%), Greece (+39%), Spain and the Netherlands (both +24%), while it slightly fell in Italy (-5%).

Highest number of first time



applicants relative to the population in Cyprus and Greece

Compared with the total population of each Member State, the highest rate of registered first time applicants during the third quarter 2017 was recorded in Cyprus (1 577 first time applicants per million inhabitants) and Greece (1 361), followed by Malta (960) and Luxembourg (904). In contrast, the lowest rates were observed in Slovakia (4 applicants per million inhabitants), Poland (22), Portugal (23), Estonia (25), the

Czech Republic (27) and Latvia (29). In the third quarter 2017, there were in total 321 first time asylum applicants per million inhabitants in the EU as a whole.

Slow decrease in the number of asylum applications still pending

Pending applications for international protection are those that have been made at any time and are still under consideration by the respon-

sible national authorities at the end of the reference period. In other words, they refer to the "stock" of applications for which decisions are still pending. This statistic is meant to measure the workload of the national authorities.

At the end of September 2017, 960 400 applications for international protection in the EU Member States were under consideration by the responsible national authorities, down by 20% compared with September 2016. With over 469 000 pending applications at the end of September 2017 (or 49% the EU total), Germany continued to have the largest share in the EU, ahead of Italy (148 600), Sweden and Austria (both over 61 000).

CEOs and institutional investors at odds on the need to embrace disruption for future growth

Continued from p. 8

the success of business, but historical quarterly earnings and financial reports still move stock prices. In today's accelerated digital economy, CEOs must strike the right balance by delivering on current business plans while strategically disrupting existing offerings in order to ignite the next phase of growth. Technology may be the cause of many challenges today – but if we approach it right, it's also the solution," Mark Weinberger, EY Global Chairman and CEO, says.

Deeper exploration into four key dimensions of disruption readiness for organizations highlights important gaps:

**Empowering leadership:** Only 54% of CEOs report being the owner the company's disruption agenda

**Corporate culture:** Just 43% of CEOs assign their companies a "good" or "very good" score for investing in exploratory, long-term ROI projects that may not deliver a short-term return

**Innovation practices and capabilities:** Making internal risk capital available and developing autonomous innovation units represent the weakest areas in terms of activating innovation readiness, with only 39% and 31% of CEOs, respectively, assigning a good or better rating

**External sensing and collaboration:** Only 33% gave their companies a good or better rating for investing in start-ups to gain a view of new technologies and business models

"Our world is in transition from a model of business we are familiar with to one that is in many instances still undefined. The pace of change is unprecedented," Uschi Schreiber, EY Global Vice Chair – Markets and Chair of Global Accounts Committee, says. "Too many CEOs and boards are still focused on only one thing: short term efficiency and productivity improvements. But what's needed is also a focus on the medium term and on building the future. This requires not just the use of up-to-date technology, it also means investing in innovation and being prepared to take some risks. Thinking and operating in duality can help corporations to seize the upside of disruption by focusing on their current success and growth as well as building the foundations for growth in the future."

## The Russian Armed Forces After Hard Lessons in Georgia

Continued from p. 19

"Maskirovka" and info ops

The March 2015 strategic snap exercise which began as a crisis in the Baltic and Barents Sea regions and quickly escalated to nationwide and then global strategic operations is another good model for where ZAPAD fits in the larger scale of Russia's military planning for strategic operations. Because of the heavy emphasis placed on maskirovka (military deception) by the Russian military, estimates of the size of exercises and the official figures provided by Russia for exercise participation should be assessed against likely political, organisational, operational, and technical measures to hide, mask, minimise and otherwise deceive about the size, composition and location of participating forces. Training and testing maskirovka is doubtless a major component of Russia's strategic exercises. Russia endeavoured to maximize

the impact of ZAPAD 2017 with months of related information operations. These info ops in Russia's virtual sixth military district – the "Information Military District" – had several aims, including to portray Russia's military strength, to project a related sense of risk to neighbours, to undermine existing arms control and confidence building regimes, and to provoke exploitable reactions by NATO and individual nations. Russia's approach was to trumpet the military capabilities on display while ridiculing any expressions of concern as symptomatic of "anti-Russian hysteria."

In keeping with its asymmetric approach to obscure and confuse through mixed messages, Moscow followed a two-pronged approach to its Vienna Document obligations: violating its spirit and intent, while claiming that Russia's selective release of information and invitation of military attaches to a distinguished visitors day near St. Petersburg under strictly controlled conditions was equivalent to the more demanding requirements set out in Chapter VI Observation of Certain Military Activities.

Then, having forced outside analysts to estimate the true size of ZAPAD 2017, Moscow asserted that subsequent admissions that ZAPAD had been smaller than the largest estimates proved that Western concerns had been wildly exaggerated. By this sleight-of-hand, Russia tried but failed to obscure the fundamental fact that signatories of the Vienna Document should, precisely, not have to estimate the size of other participating states' military exercises in the first place. Russia's next planned strategic exercise is VOSTOK 2018.

Allied vigilance and readiness

The response by NATO collectively and Allied nations individually was far from the "hysteria" of which Moscow accused them and was well described by Secretary General Jens Stoltenberg as a policy of "continue to be vigilant and ready to act if needed." NATO will need to stick to this approach as Russia continues its military build-up in the Western Military District and its programme

of provocative and destabilising exercise activities. Allies will also need to continue to reject Russian attempts to substitute improvised and selective "transparency" in place of its existing international obligations to genuine, verifiable confidence and security building measures.

Meanwhile, NATO has no need to justify its efforts to estimate the size and scope of Russian military exercises, while Russia deliberately abstains from fulfilling the commitments that would make such estimates unnecessary. At the same time, NATO's moderately increased military exercising in response to Russian aggressive actions against Ukraine continues in full transparency and compliance with international commitments.

As the ten-year anniversary of Russia's invasion of Georgia approaches, the origins of Russia's revived programme of annual strategic exercises in that aggression should be recalled. This anniversary should also cause reflection on Russia's use of a snap exercise to mask troop movements at the start of the Ukraine crisis, and the way that Russia's strategic exercises enabled

power projection into Syria. Russian forces continue to operate in both Ukraine and Syria, proving wrong the many foreign analysts who predicted after the Syrian intervention that Russia would be unable to sustain simultaneous operations. Russia has not only managed to sustain both operations, but to continue its extensive exercise programme.

The increasing size and complexity of Russia's annual strategic and snap exercises, in particular the Western-oriented ZAPAD series, underscores the need for Allies to ensure full and timely implementation of the strengthened deterrence and defence measures agreed at the NATO Summits in Wales (2014) and Warsaw (2016). Such measures, along with Allied commitment to meaningful dialogue and engagement with Russia, are the most effective response to Russia's long-term negative trajectory.

About the Author

Dave Johnson is a staff officer in the NATO International Staff Defence Policy and Planning Division.



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