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Butt in: Ask patients about nicotine use

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How old is the EU's commercial aircraft fleet?

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11 December, 2017

News Making Money

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Economic Benefits of Expected Marijuana Legalization in Georgia

The FINANCIAL

If the Parliament of Georgia legislates marijuana consumption, distribution and cultivation to be legal, the extent of the local market will be increased by over GEL 1.3 billion in 2018. At least 2 million tourists will visit Georgia in 2018, resulting in increased incomes of GEL 570 million. The overall marijuana market will be worth GEL 2.7 billion, creating about 53,750 new jobs; tax revenues from marijuana will be up to GEL 1.3 billion. Considering that marijuana is not legal in any of the top ten home coun-

tries of the tourists who spend the highest amounts of money in Georgia, essential benefits can be gained from its legalization. In addition, NIDA mentions only a single record of a fatal cannabis overdose in the U.S. Thus, increased tourist income, tax revenues, reduced crime rate and people's "unalienable rights" of "life, liberty and the pursuit of happiness" should lead politicians to make the rational decision to legalize marijuana in Georgia.

Continued on p. 2

Why Is Georgia Importing So Much Electricity?

ISSET FOR THE FINANCIAL

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Continued on p. 2

IMF on Georgia: Inflation is projected to decline starting in early 2018

The FINANCIAL

Georgia's economic performance has improved, but risks to the outlook remain, IMF said in latest report on Georgia. According to it, the economic recovery is gaining momentum, inflation is projected to decline starting in early 2018, and the external position has strengthened.

Revenue overperformance provides room for additional capital spending and VAT repayments in 2017. The banking sector remains liquid, profitable, and well capitalized. Despite the positive outcomes, the authorities need to remain vigilant and sustain reform efforts to address structural obstacles to growth.

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CURRENCIES

	Dec 9	Dec 2
1 USD	2.6794	▲2.7085
1 EUR	3.1462	▲3.2256
100 RUB	4.5141	▲4.6188
1 TRY	0.6950	▼0.6868

Weekly Market Watch

By Galt & Taggart

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11 December, 2017

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CURRENT PRICES ON GASOLINE AND DIESEL

11 DECEMBER, 2017, GEORGIA

Gulf		WIND		საქართველო		საბა		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								



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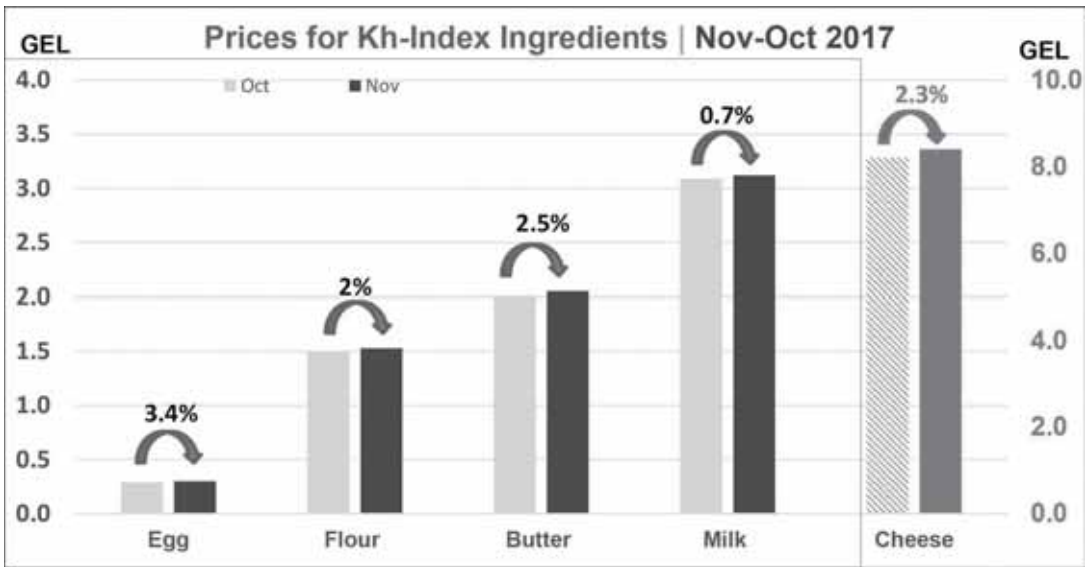


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FOOD PRICES RISE AT A SLOWER PACE

The Khachapuri Index continued its upward trend in November 2017, with the average cost of cooking one standard Imeretian Khachapuri reaching 3.70 GEL. This is 1.8% higher month-on-month (compared to October 2017), and 7.1% higher year-on-year (compared to November 2016). In general, the increasing trend at this time of the year is driven by the seasonal decline in the supply of fresh milk, and excess demand before the start of the fasting period. This leads to a corresponding increase in cheese and other milk product prices.

If we look at the more comprehensive basket of goods and services used for the official Consumer Price Index (CPI), Geostat's inflation estimates are quite close to our estimates: prices are up in both monthly and annual terms, by 1.1% and 6.9%, respectively. As shown on the graph, the main



contributors to m/m Khachapuri Index inflation in November were all khachapuri ingredients. The price of cheese has gone up by 2.3%, and eggs by 3.4%. The price of flour has increased by 2%, butter by 2.5%, and milk by 0.7%, leading to an overall increase in the Khachapuri Index.

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Why Is Georgia Importing So Much Electricity?

ISET FOR THE FINANCIAL

In October 2017, Georgian power plants generated 828 mln. KWh of electricity, marginally up (+0.79%) compared to September. Following the traditional seasonal pattern, the share of electricity produced by renewable sources declined to 71% of total generation (87% in September), while thermal power generation's share increased, accounting for 29% of total generation (compared to 13% in September). When we compare last October's total generation with the total generation of October 2016, however, we observe an 8.7% decrease in total generation (in October 2016, total generation was 907 mln. kWh). The overall decline in generation with respect to the previous year is due to a simultaneous decline in both thermal power and hydro power generation.

Consumption of electricity on the local market in the same period was 949 mln. kWh (+7% compared to October 2016, and +3% with respect to September 2017). The gap between consumption and generation increased to



121 mln. kWh (15% of the amount generated in October), up from 100 mln. kWh in September. Even more importantly, the situation was radically different with re-

spect to the prior year, when generation exceeded consumption. The import figure for October was by far the highest from the last 12 years (since ESCO was es-

tablished). In October 2017, Georgia imported 157 mln. kWh of

Continued on p. 13

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Economic Benefits of Expected Marijuana Legalization in Georgia

By TATA LOBZHANIDZE
The FINANCIAL

If the Parliament of Georgia legislates marijuana consumption, distribution and cultivation to be legal, the extent of the local market will be increased by over GEL 1.3 billion in 2018. At least 2 million tourists will visit Georgia in 2018, resulting in increased incomes of GEL 570 million. The overall marijuana market will be worth GEL 2.7 billion, creating about 53,750 new jobs; tax revenues from marijuana will be up to GEL 1.3 billion. Considering that marijuana is not legal in any of the top ten home countries of the tourists who spend the highest amounts of money in Georgia, essential benefits can be gained from its legalization. In addition, NIDA mentions only a single record of a fatal cannabis overdose in the U.S. Thus, increased tourist income, tax revenues, reduced crime rate and people's "unalienable rights" of "life, liberty and the pursuit of happiness" should lead politicians to make the rational decision to legalize marijuana in Georgia.

Not only the legalization of marijuana, but even decriminalization was a point of cut-throat discussion in Georgia before now. Since November 2016, political party Girchi has led the major drive to decriminalize marijuana. On 30 November, 2017, the Constitutional Court of Georgia ruled the use of marijuana to not be considered a crime. Now it is the turn of the Parliament of Georgia to pass the decision into law.

Representatives of Girchi state that based on the decision of the Constitutional Court, not only its decriminalization, but also its legal-



ization, is soon expected for both medical and recreational purposes.

Decriminalization without legalization might boost the black market of marijuana, meaning increased bootlegging due to higher demand and increased prices, which also encourages secondary crimes like robbery. "Decriminalization might cause illegal activities to increase and it should be an additional incentive for the Government to legalize it. However, decriminalization will create an incentive for people to plant and sell more marijuana and prices might even drop down due to higher supply," said Zurab Japaridze, Head of political party Girchi.

Regarding the incentives of the Government to legalize marijuana, Japaridze told The FINANCIAL: "Legalization will abolish the black market and make it easier to control the supply of marijuana. In order to increase sales

and number of customers, the majority of illegal suppliers will move to the legal market. Few people will operate in the black market but it's more likely to be less profitable for them, compared to the legal market. Since the market will be under control, regulations within the legislation will protect children from marijuana consumption. The second incentive is money that could be gained from marijuana taxes. Legislation will solve the budgeted deficit and will accelerate economic growth."

Girchi considers that regulations that usually follow legalization will lead the marijuana market in Georgia to be safer for people. "We are considering a few regulations in the event of legalization. These are: licenses for the manufacturing, distribution and trade of marijuana; special marking and minimum age for consumption. And also, taxability, which will

decrease the affordability of marijuana," said Japaridze.

Girchi disclaims that marijuana legalization for recreational use will result in an improvement in health-related issues caused by excessive marijuana ingestion; "Marijuana will solve many medical problems, such as overdoses from high potency drugs. Consumption will probably increase, but so will the safety of marijuana," said Japaridze.

As for economic benefits, economists consider the potential for an increase in: tourist income, tax revenues and employment rate.

"If at least 2 million tourists visit Georgia in 2018, marijuana legalization will increase the extent of the local market by GEL 1,318,000,000 and the market for tourists by GEL 570,000,000. The whole new economy created by marijuana legalization will be worth GEL 2,687,000,000, generating about 53,750 new jobs. In addition, taking the

taxation model of the state of Colorado, tax revenue from the marijuana market will be about GEL 1,332,000,000," Japaridze told The FINANCIAL, regarding the economic benefits of marijuana legalization. Taking into account that the budget revenue in Georgia is about GEL 8.6 billion, an additional GEL 1.3 billion income is quite worthy to revalue baseless beliefs about the threats of marijuana use.

The share of tourism in GDP is 7.2% in 2016 (6.2% in 2017, 1-II quart.) and total output of production in tourism-related services is GEL 3.7 billion. Furthermore, tourists spending the highest amount of money in Georgia are from Azerbaijan, Armenia, Russia (decriminalized), Turkey (legal for medical use) and Iran (decriminalized). None of these countries have legalized possession, sale, transport and cultivation of marijuana; some of them have only decriminalized consumption of certain amounts of marijuana. Thus, if Georgians legalize marijuana and use the circumstances rationally, legalization might turn into essential benefits.

Summarizing marijuana legalization, supporters and opponents have stated the following: marijuana is referred to as a stepping-stone drug, leading to heroin, cocaine, or other harder drugs. This might seem reasonable but it is still unclear why people should be limited to do things that the Government considers is better for them, considering that the Soviet type of government collapsed long ago in Georgia. Legalization might make marijuana more affordable for teenagers. Well, that might be true, but none of the studies claim that marijuana is more harm-

ful or addictive than tobacco and alcohol. Each year 5 million people die from tobacco-related illness and 2.5 million from alcohol abuse (WHO). Then let's prohibit it and save people's lives. Marijuana abuse is tied to brain damage, lung and brain damage, motivational syndrome etc. However, other studies claim that marijuana treats symptoms of HIV/AIDS; Parkinson's; Alzheimer's; substance abuse disorders; reverses the carcinogenic effects of tobacco; spurs creativity in the brain, etc. NIDA showed that drug fatalities are on the rise in the U.S. Most notably, deaths caused by heroin and benzodiazepines, and mention only a single record of a fatal cannabis overdose.

Thus, the arguments are controversial. However, all the negative effects of legalization might be balanced out by the two core democratic values: 1) everyone has freedom to believe what he wants and freedom to choose his way of life; 2) each citizen can find happiness in his own way as long as he does not tread on the rights of others. And here comes the issue, whether marijuana decriminalization or legalization treads on the rights of others. Decriminalization is more likely not to limit non-smokers' lives. As for legalization, opponents should take into consideration that not only marijuana, but excessive use of any substance is harmful, including alcohol, tobacco, caffeine, even pizza. Would you want the Government limiting how much coffee or fries you have?! Definitely not. Thus, in 2017, not even Georgians, with their traditional beliefs, should discuss whether people have a right to choose their own way to live; which for sure, they do.

Butt in: Ask patients about nicotine use

The FINANCIAL -- A new study links the use of electronic cigarettes (vaping) among teenagers to more vaping and cigarette smoking.

Not only is smoking an irritant to the eyes, but it also is a major risk factor for age-related macular degeneration (AMD) and is the leading cause of preventable disease in the U.S. In the study, which appeared in the December 2017 issue of JAMA Pediatrics, students at 10 Los Angeles high schools were surveyed about their use of e-cigarettes.

The study looked at e-juice or the varying concentrations of nicotine, an addictive drug, in e-cigarettes in a cohort study of 181 students. Nicotine concentrations in e-cigarettes can range from 0 to more than 25 milligrams/milliliters.

"Among the adolescent e-cigarette users in this study, use of e-cigarettes with higher nicotine concentrations at baseline was associated with progression of smoking and vaping frequency and intensity at 6-month follow-up," researchers at the University of Southern California wrote.

"Given the U.S. Food and



Drug Administration's 2016 Deeming Rule," they add, "the results of this study provide preliminary evidence that regulatory policies addressing nicotine concentration levels in e-cigarette products used by adolescents may affect progression of combustible cigarette and e-cigarette use among youths."

Researchers also noted that

exposure to higher levels of nicotine during early adolescence "increases the risk for nicotine dependence and adversely affects attentional processes."

According to the Centers for Disease Control and Prevention, e-cigarettes were more popular among middle- and high-school students than combustible cigarettes.

Ask patients about smoking-and vaping

For more than a decade, Daniel Bintz, O.D., who practices in Elk City, Oklahoma, has been educating his patients about smoking's effect on their health. Like Dr. Bintz, doctors of optometry should

ask patients these questions:

**Do you smoke?
Are you a current or former smoker?
Never smoked?
How much do you smoke?**

A member of the AOA Health Promotions Committee, Dr. Bintz also queries patients about vaping. Doctors do have a role in counseling patients on habits and behaviors that promote better health.

"We treat any tobacco or nicotine use the same when discussing cessation with patients," Dr. Bintz says. "E-cigarettes haven't been around long enough to positively be linked to AMD, but I believe the AMD studies implicate nicotine as the culprit because it constricts blood vessels. E-cigarettes are a huge problem especially because they were essentially unregulated for the first few years."

"Many studies mimic this one—that it's a 'gateway' drug device to make nicotine more attractive and flavorful for kids, who then at some point will typically become traditional tobacco users. The only thing that makes this less harmful is the second-hand 'smoke' is not nearly as deadly as it is with traditional tobacco use."

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Transfer Pricing and BEPS to Increase Tax Revenues in Georgia

By TATA LOBZHANIDZE
The FINANCIAL

Transfer Pricing Rules were implemented by the Government of Georgia in 2011, based on OECD guidelines. Since the number of international companies in Georgia is increasing steadily, Transfer Pricing Rules have become a point of obvious interest. However, multinational companies operating in Georgia are not sufficiently well-informed about the rules.

Currently, Georgian international taxation law is expected to implement modifications, which can be used by multinational corporations in order to avoid or significantly reduce their tax liabilities by shifting profits from one country to another. Promoting economic development and attracting FDI in Georgia is believed to be an additional profit of Transfer Pricing.

The Managing Partner of NEXIA TA, Gela Mghebrishvili, explains, "Transfer pricing is the setting of the price for goods and services sold between related parties, which are residents of different tax jurisdictions (countries). For example, if a subsidiary company sells goods to a parent company, the cost of the goods is the "transfer price". Transfer pricing can be used as a profit allocation method to attribute a multinational corporation's net profit (or loss) before taxation, to countries where it does business."

"Members of OECD agree that taxes should be fairly divided between jurisdictions and transfer prices charged by one related party to another, must be the same as if the parties were not related (Arm's-Length principle)." Therefore, entities should charge the price of the



open market. Georgian Transfer Pricing rules apply to transactions between a Georgian entity and a related foreign company and generally follow the OECD Guidelines, states the representative of NEXIA TA.

Levan Lomtadze, a Chief Auditor of Internationally Controlled Operations Assessment - Transfer Pricing Division, at Revenue Service, says that every time when RS audits a company, they provide a clear explanation to taxpayers what kind of information companies should provide regarding their international transactions. However, Lomtadze agrees with business representatives that confusion due to a lack of precise information really exists. "We plan to take relevant actions to raise awareness of taxpayers regarding Transfer Pricing rules in Georgia and RS is going to draft more clear procedure about Advance Pricing Agreements," Lomtadze told The FINANCIAL.

"Companies who are asked by RS to document certain transactions, can prepare documentation by themselves. However, since the process is highly complicated and time-consuming, usually companies

are not ready to prepare this documentation within 30 days. Therefore, some audit companies operating in Georgia do offer this service. If the company does not provide documentations, its transfer prices will be audited by RS in order to determine whether prices applied to these transactions are in accordance with the "Arm's Length Principle" or not. Therefore, this may impose additional taxes and penalties" Mghebrishvili told The FINANCIAL.

Well, the implementation of OECD recommendations seems pretty satisfying, but why does it matter for the overall wellbeing of the country?!

According to the UN's report, Transfer Pricing does not necessarily involve tax avoidance, since the need to set such prices is a normal aspect of how multinational companies must operate. However, the taxation authorities may consider a transaction to be "mis-pricing", "incorrect pricing", "unjustified pricing" or non-arm's length pricing, and issues of tax avoidance and evasion may potentially arise.

"Transfer pricing can be used by multinational corporations in or-

der to avoid or significantly reduce their tax liabilities by shifting profits from one country to another. For example, when profit is generated in Country A, which has a high Corporate Tax Rate, a multinational enterprise can give a higher profit margin to its subsidiary, which is a resident of a low-tax jurisdiction, by overpricing or underpricing goods and services transferred between them. Therefore, corporate profit tax can be avoided or reduced significantly and economies of some countries are harmed, because they receive less tax revenue," says Mghebrishvili, NEXIA TA.

It seems that Transfer Pricing is essential in terms of economic development too. Lomtadze says that the main incentive for implementing Transfer Pricing rules, was to make the Government more effective against base erosion and profit shifting to another country. "In addition, it's important for Transfer Pricing rules in Georgia to be in compliance with international taxation standards. At the same time, we want to have the relevant policy with clear rules and high legal certainty to make Georgia attractive to multinational companies and promote foreign direct investment," Lomtadze told The FINANCIAL.

Now, what about BEPS?

Base Erosion and Profit Shifting (BEPS) refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. BEPS is not fully implemented so far, but Georgia has been a member of the BEPS Inclusive Framework since 2016, which means it has committed to imple-

menting the four minimum standards, on harmful tax practices, tax treaty abuse, country-by-country reporting, and improving dispute resolution mechanisms.

"OECD has developed 15 Actions that countries should take in order to avoid tax manipulations by Multinational Enterprises. These are actions against Base Erosion and Profit Shifting (BEPS). Action 13 gives recommendations to countries with regard to Transfer Pricing documentation. Many OECD member countries have already taken into consideration these recommendations and adopted new rules of TP documentation. The Georgian Government has not implemented these rules yet, but in the nearest future we are expecting changes," Mghebrishvili told The FINANCIAL.

By the way, Transfer Pricing rules are regulated by articles 126-1291 of the Georgian Tax Code and Instruction on Pricing International Controlled Transactions approved by Decree #423 of the Minister of Finance of Georgia. The framework of international tax laws is developed by the OECD, based on Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

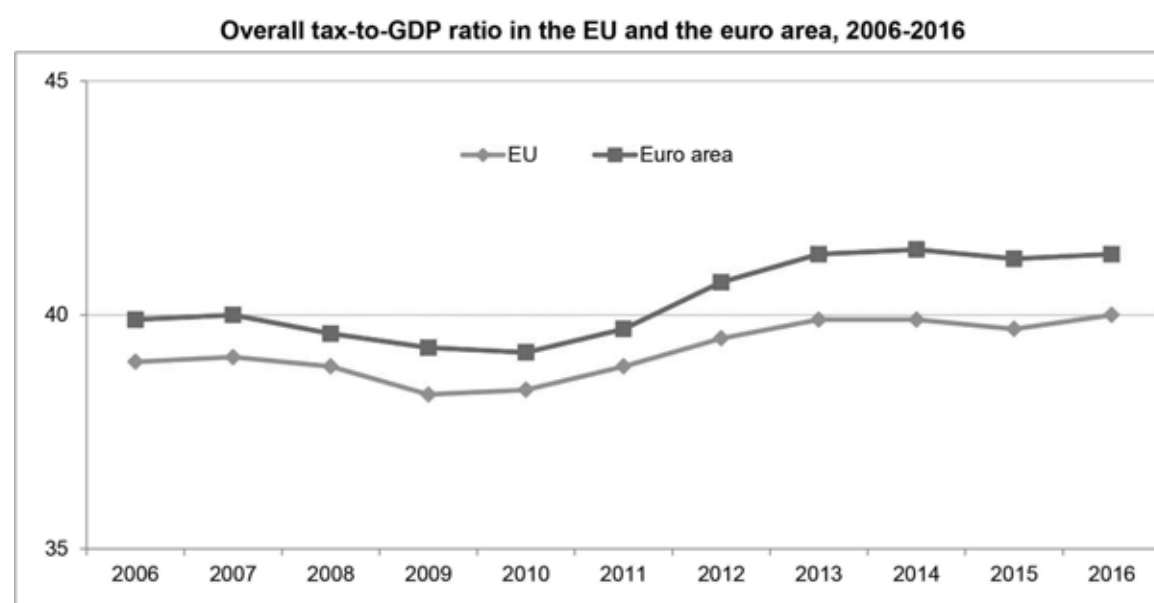
To conclude, Transfer Pricing refers to the rules for pricing international transactions between enterprises under common ownership or control. Intragroup pricing is a major opportunity of corporate tax avoidance, and it was one of the issues identified when the OECD released BEPS action plan in 2013. Implementing Transfer Pricing Rules and BEPS measures, the Government of Georgia controls international transactions more effectively, prevents corporate tax avoidance and increases tax revenues of Georgia.

Highest tax-to-GDP ratio in France, Denmark and Belgium

The FINANCIAL – The overall tax-to-GDP ratio, meaning the sum of taxes and net social contributions as a percentage of GDP, stood at 40.0% in the European Union (EU) in 2016, an increase compared with 2015 (39.7%). In the euro area, tax revenue accounted for 41.3% of GDP in 2016, slightly up from 41.2% in 2015. The tax-to-GDP ratio is therefore on the increase again in both zones after a slight decline recorded in the previous year.

The tax-to-GDP ratio varies significantly between Member States, with the highest share of taxes and social contributions in percentage of GDP in 2016 being recorded in France (47.6%), Denmark (47.3%) as well as Belgium (46.8%), followed by Sweden (44.6%), Finland (44.3%), Austria and Italy (both 42.9%) as well as Greece (42.1%). At the opposite end of the scale, Ireland (23.8%) and Romania (26.0%), ahead of Bulgaria (29.0%), Lithuania (30.2%), Latvia (31.6%) and Slovakia (32.4%) registered the lowest ratios.

Largest growth of tax-to-GDP ratio in Greece, largest decrease in Romania



Compared with 2015, the tax-to-GDP ratio increased in a majority of Member States in 2016, with the largest rise being observed in Greece (from 39.8% in 2015 to 42.1% in 2016), ahead of the Netherlands (from 37.8% to 39.3%) and Luxembourg (from 38.4% to 39.6%). In contrast, decreases were recorded in nine Member States, notably in Romania (from 28.0% in 2015 to

26.0% in 2016), Austria (from 43.8% to 42.9%) and Belgium (from 47.6% to 46.8%).

Highest ratio of taxes on production and imports in Sweden, of taxes on income and

wealth in Denmark and of net social contributions in France

Looking at the main tax categories, a clear diversity prevails across the EU Member States. In 2016,

the share of taxes on production and imports was highest in Sweden (where they accounted for 22.6% of GDP), Croatia (19.6%) and Hungary (18.3%), while they were lowest in Ireland (8.7%), Slovakia (10.8%) and Germany (10.9%).

For taxes related to income and wealth, the highest share by far was registered in Denmark (30.0% of GDP), ahead of Sweden (18.8%), Finland (16.5%) and Belgium (16.3%). In contrast, Bulgaria (5.4%), Lithuania (5.7%), Romania (6.5%) and Croatia (6.6%) recorded the lowest taxes on income and wealth as a percentage of GDP. Net social contributions accounted for a significant proportion of GDP in France (18.8%), Germany (16.7%) and Belgium (16.1%), while the lowest shares were observed in Denmark (1.0% of GDP) and Sweden (3.3%).

In 2016, taxes on production and imports made up the largest part of tax revenue in the EU (accounting for 13.6% of GDP), closely followed by net social contributions (13.3%) and taxes on income and wealth (13.0%). The ordering of tax categories was slightly different in the euro area. The largest part of tax revenue came from net social contributions (15.3%), ahead of taxes on production and imports (13.2%) and taxes on income and wealth (12.6%).



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ICC Georgia's criticized the draft Law on Accumulated Pension System

ICC Georgia, largest business organization has criticized new draft law on pension system introduced by the government. "According to the suggested pension reform there is no societal group that will be a beneficiary and at the same time satisfied with its results. Furthermore, economic, financial, and political risks are very high and in case of these expectations the consequences will be irreparable", said ICC in its statement. ICC Georgia has listed 13 main reasons why it believes that the suggested pension reform should not be implemented.

Reason #1: For 70% of the employed population, despite the contributions for over 30 years, the pension reform fails to provide the so called "adequate pension"

In Georgia, as of 2016, economically active population was 1,998,300 people (total work force). Only 37.3% of these are employed. The rest of the population is either self-employed (about 50.9%) or unemployed (about 11.8%). Based on official data and its analysis, as of 2016, out of 745.4 thousand employees around 520 thousand had monthly salary less than GEL 6001 (gross).

In case of saving 6% (2%+2%+2%) of GEL 600 (gross), for 30 years, as a best case scenario, the total "replacement ratio" (the sum of accumulated pension and social pension) will be 36.4%, which exceeds the current "replacement ratio" of 30% by a mere 6.4%. This cannot be seen as an "adequate pension" resulted by the pension reform.

Reason #2: The pension reform fails to create an alternative for the existing social pension system

Employees with monthly salaries less than the average will not see a substantial benefit from the pension reform. Taking the above mentioned assumptions into consideration, in case of an average monthly salary of GEL 600, the "replacement ratio" received by the pension reform at the beginning of pension age will be mere 18.6% (the current "replacement ratio" is 30%).

Reason #3: The pension reform will not manage to cover the self-employed (50.9% of total work force) and the unemployed (11.8%), which will result in an important social dissatisfaction.

Although the pension reform considers a scheme for the self-employed, the probability that a significant portion of the self-employed population will be involved in the scheme is minimal. The main reason is the lower than average income of the self-employed population, the mandatory high input (4%), and the program administration terms and conditions.

At the same time, the unemployed (approximately 11.8% of total work-force) and the population outside the workforce remain outside the scheme.

Reason #4: Only 10% of the economically active population (of

total work force) will see a hypothetical benefit from participating in the scheme

Even though only 10% of economically active population (employees with high income), will see a hypothetical benefit in case of 30 years of savings, this group will also lack satisfaction since they could manage these funds more effectively and see a bigger profit.

Reason #5: The reform encourages the increase of social inequality in Georgia

Based on the above-mentioned arguments, we can say that the potential beneficiaries of the reform are only a small part of the population (with incomes higher than the average). All other groups of the population cannot benefit from the reform. Accordingly, all else unchanged, the level of inequality of the population at the pension age is increasing.

ACCORDING TO THE GEORGIAN GOVERNMENT'S NEW PENSION REFORM MODEL, CITIZENS, EMPLOYERS, AND THE STATE WILL ALL HAVE TO MAKE MONTHLY PAYMENTS INTO THE NEW PENSION FUND. FOR EMPLOYED PEOPLE – 2% OF THEIR SALARY WILL BE TRANSFERRED TO THE PENSION FUND; EMPLOYERS – 2% OF SALARIES THEY PAY WILL BE TRANSFERRED TO THE PENSION FUND; THE STATE – 2% OF INCOME TAX REVENUE RECEIVED FROM EVERY EMPLOYED CITIZEN WILL BE TRANSFERRED TO THE FUND.

Reason #6: Instead of reducing budgetary expenditures associated with pensions in the long run, the risk of increasing similar costs gets higher as a result of the reform.

Because of the reason mentioned above, pressure from the population towards the government is increasing for a higher social pension. This circumstance causes an increase of the budgetary expenditures and causes questions about the fiscal sustainability of the reform.

Reason #7: The pension reform will cause informal labor deals and encourage the shadow economy, which could be a reason of reduction in budget revenues

Pension contributions are considered as a type of tax for both, the employee and the employer. For the employee this contribution reduces

the monthly income, and for the employer it is an additional expense that reduces the annual net profit. Therefore, we can say that the pension contribution is a "quasi-tax". Consequently, both, the employees and the employers, will try to use informal employment mechanisms to avoid these costs.

Reason #8: The Doing Business in Georgia become complicated

Other than the fact that the pension reform creates new liabilities, the existing intricate system of the reform will complicate business administration (especially for SMEs).

Reason #9: The government will try to use the accumulated funds to finance the increased expenses

In the future, the government will try to finance the increased expenses by directly or indirectly using the ac-

cumulated recourses of the pension fund. This will be especially intensified when the above-mentioned factors will be at hand (reasons 5 and 6). The same is true for international experience (e.g. experience of Eastern European countries); the state is usually trying to overcome the crisis by using the accumulated pension funds.

Reason #10: Investing the accumulated resources of the pension fund in Georgia is not recommended because of associated high risk in investing in the country

It is well known, that accumulated pension funds must be invested in less risky portfolios. According to the standards of investment policy of the international pension funds, it is forbidden to invest the citizens' savings in countries like Georgia due to high risks. Therefore, investing the accumulated funds in Georgia (Fitch: BB-; Moody's: Ba2 (stable)) should be prohibited.

At the same time, according to the current version of the pension reform, for example funds allocated in deposits of Georgian commercial

banks are classified as less risky investments and the pension reform requires assets to be invested in such less risky investment portfolios for the first 5 years.

Reason #11: Political risks

International experience dictates that this model is not a politically justified model. In case of every regional or global economic/financial crisis the accumulated pension funds are first to take the hit, which causes a political turbulences. Among others, in Eastern Europe this caused not only an economic but also a political crisis.

Reason #12: Because of creating increased and unrealistic expectations, in case of the failure of the reform, trust towards the government will deteriorate

The level of trust towards the government and political institutions is low in the Georgian population which is resulted by past experience (the so called lost deposits, the failed cooperative constructions and other state-promised projects). In case of failure, the level of trust will be further deteriorated because of the unrealistic and increased expectations created by the pension reform.

Reason #13: In case of passing the existing version of the pension reform bill, any amendments or total abolishment will be impossible; the reform does not have flexibility and is irreversible

It is not clear what the strategy is in case of a failure. Consequently, from risk assessment side of view, this will not only be the basis of financial and economic but also a political crisis.

2. Technical remarks

a) Explanatory note of the Draft Law needs to be explained - in particular, the purpose of the proposed draft law. This draft law shall obviously result in the amendment of

numerous legislative acts, e.g. tax legislation. Thus, this legislative initiative shall be submitted in a form of a legislative package that will give us full picture and understanding of a range of issues.

b) ICC Georgia would like to receive information regarding the most successful models worldwide which were examined, evaluated and analyzed in the process of working on the accumulative pension reform.

c) ICC Georgia would like to receive information regarding Regulatory Impact Analysis of the planned pension reform on the private sector and state budget. In particular, if there is any specific calculation regarding the supposed amount of issued funds based on current average income in Georgia, considering assets accrued on the participant's individual account, inflation and the future purchasing power of the accumulated money.

d) According to the draft law, pension scheme is mandatory. ICC Georgia believes, that if the government does not consider to abandon the mandatory nature of the scheme (arguing that otherwise, pension reform will not work) then at least each individual should be given an option to choose between the scheme offered by the government and the one offered by the private sector. The pension reform should have an option for private pension funds. It should not exclude the private businesses already operating in the pension sphere, as we believe that, it might kill existing businesses.

e) Supervisory Board of the Pension Agency consists of 4 members, 3 of which will be acting ministers - therefore, the Board will be a political body. Pension Agency should be composed primarily on the principle of independence, on more transparent and consensual basis, avoiding political and governmental influence.

f) The Selection criteria for Director, Investment Board, Senior Investment Officer (and other relevant officers) of the Pension Agency should be expanded and it needs to be clearer and more specific.

g) The provision whereby people over 40 can opt out of the pension scheme while people under 40 cannot, could arguably be declared unconstitutional and should be considered further.

h) Duties of fiduciaries under Article 35 should be expanded, e.g. conflict of interest matters must be considered in greater details.

i) More clarity is required in the following area: distribution of dividends/gains; taxation of employer's contribution into the scheme. To begin with, the draft law should define more clearly how are the pension fund profits distributed and what benefits it holds for the members. It is also unclear if employer's contribution to the accumulative pension scheme shall be deemed as a benefit received by the employee according to the Tax Code of Georgia and whether it shall be taxed as employment income. Double taxation of the pension withdrawals should be avoided.

j) It is also important to know, upon enactment of the law, how will those persons who had retired before could accumulate funds on their individual pension accounts and how will the reform ease budgetary burden.

k) Pension Agency should not be engaged in investing in Georgian State bonds or other securities causing the conflict of interest with state. Neither should it be able to invest in countries with history of animosity and potential of political retribution.

l) Withdrawal of own contributions should be more flexible before achieving the pension age.

How much do households spend furnishing and equipping their dwellings?

The FINANCIAL – In 2016, households in the European Union (EU) spent 5.5% of their total consumption expenditure on ‘furnishings, household equipment and routine household maintenance’. This represents a total expenditure of over €443 billion, equivalent to 3% of EU GDP or €900 per EU inhabitant. Households’ annual expenditure on ‘furnishings, household equipment and routine household maintenance’ is therefore roughly equivalent to what they spent on their personal vehicles.

Weight of household expenditure for furnishings, equipment and routine maintenance highest in Malta and Germany, lowest in Greece

In 2016, households in Malta (7.0%), Germany (6.8%), Austria (6.6%) and Lithuania (6.5%) devot-

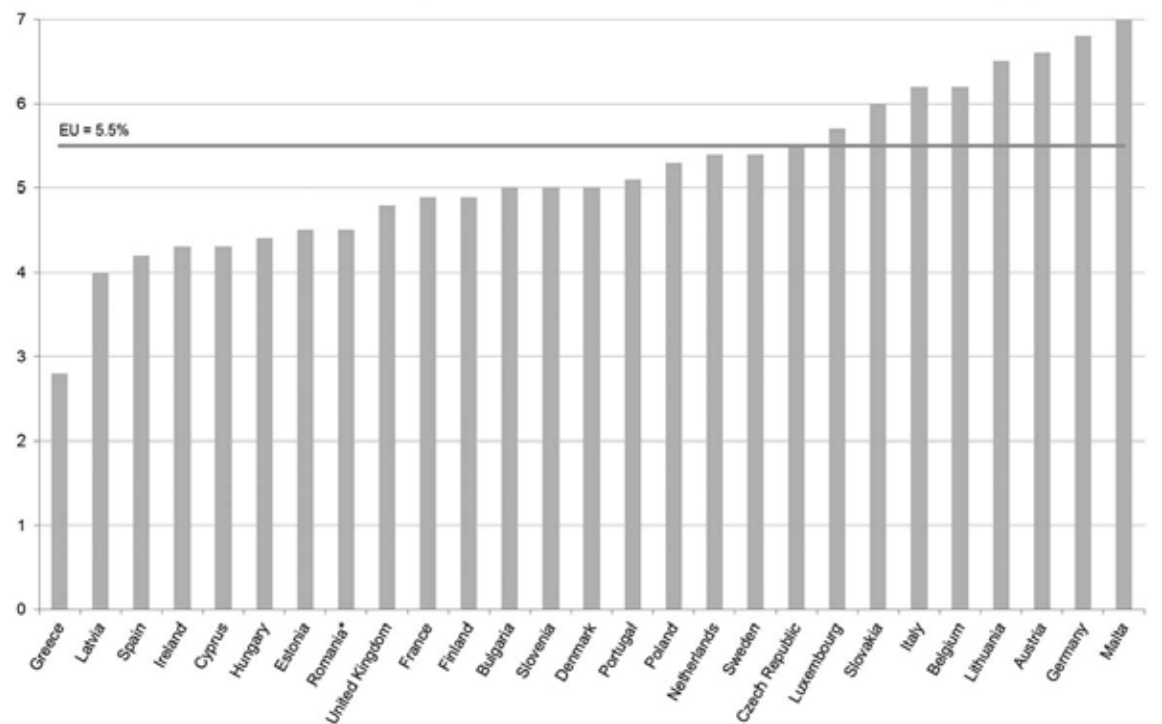
ed the largest share of their total expenditure to ‘furnishings, household equipment and routine household maintenance’. They were followed by Belgium and Italy (both 6.2%) as well as Slovakia (6.0%).

At the opposite end of the scale, by far the lowest proportion was recorded in Greece (2.8%), ahead of Latvia (4.0%), Spain (4.2%), Ireland and Cyprus (both 4.3%).

Share of expenditure on furnishings, equipment and routine maintenance decreased the most in Greece and Ireland.

Between 2006 and 2016, the share of furnishings, household equipment and routine household maintenance in total household expenditure decreased in the vast majority of Member States.

Share of furnishings, household equipment and routine household maintenance in total household expenditure in the EU Member States, 2016 (%)



The largest falls over this 10-year period were recorded in Greece (from 5.3% of total household expenditure in 2006 to 2.8% in 2016, or a decrease by 2.5 percentage points – pp) and Ireland (-2.3 pp, from 6.6%

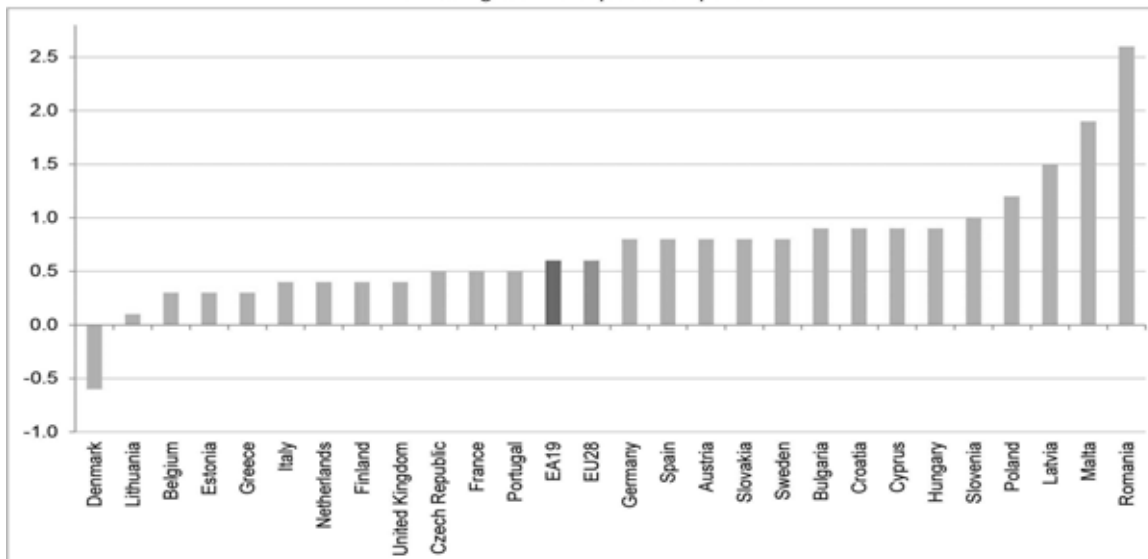
to 4.3%), followed at a distance by Bulgaria (-1.6 pp), Hungary (-1.5 pp) and Cyprus (-1.4 pp).

In contrast, the share of furnishings, household equipment and routine household maintenance in total

household expenditure increased significantly between 2006 and 2016 in Poland (from 4.3% in 2006 to 5.3% in 2016, or an increase of 1.0 pp), Lithuania (+0.6 pp), Belgium and Slovakia (both +0.5 pp).

EU: GDP up by 0.6% in both the euro area and the EU28

GDP growth rates in the third quarter of 2017 % change over the previous quarter



+2.6% in both zones compared with the third quarter of 2016

The FINANCIAL – Seasonally adjusted GDP rose by 0.6% in both the euro area (EA19) and the EU28 during the third quarter of 2017, compared with the previous quarter, according to an estimate published by Eurostat, the statistical office of the European Union. In the second quarter of 2017, GDP grew by 0.7% in both areas.

Compared with the same quarter of the previous year, seasonally adjusted GDP rose by 2.6% in both the euro area and the EU28 in the third quarter of 2017, after +2.4% in both zones in the second quarter of 2017.

During the third quarter of 2017, GDP in the United States increased by 0.8% compared with the previous quarter (after also +0.8% in the second

quarter of 2017). Compared with the same quarter of the previous year, GDP grew by 2.3% (after +2.2% in the second quarter of 2017).

GDP growth by Member State

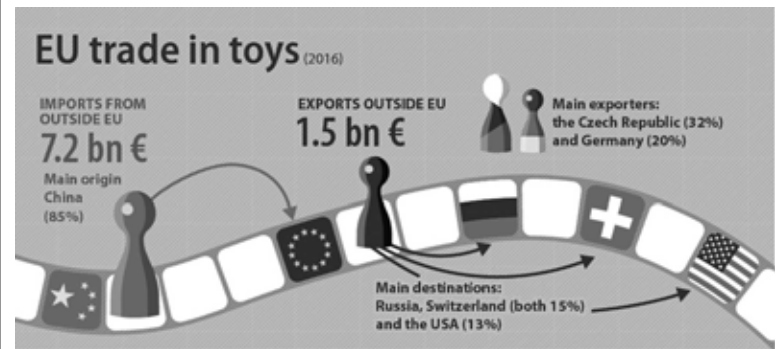
Among Member States for which data are available for the third quarter of 2017, Romania (+2.6%), Malta (+1.9%), Latvia (+1.5%) and Poland (+1.2%) recorded the highest growth compared with the previous quarter, while GDP decreased in Denmark (-0.6%) and remained almost stable in Lithuania (+0.1%).

GDP components and contributions to growth

During the third quarter of 2017, household final consumption expenditure rose by 0.3% in the euro area and by 0.5% in the EU28 (after +0.5% in both zones in the previous quarter). Gross fixed capital formation increased by 1.1% in both zones (after +2.2% in the euro area and +2.0% in the EU28). Exports rose by 1.2% in the euro area and by 0.9% in the EU28 (after +1.0% and +1.1%). Imports increased by 1.1% in the euro area and by 1.0% in the EU28 (after +1.7% and +1.4%).

Household final consumption expenditure had a positive contribution to GDP growth in both the euro area and the EU28 (+0.2 and +0.3 percentage points – pp, respectively) as had gross fixed capital formation (+0.2 pp in both zones). The contribution of the external balance to GDP growth was slightly positive for the euro area and neutral for the EU28. The contribution of changes in inventories was positive for both zones.

Where do our toys come from?



The FINANCIAL – The European Union (EU) is a net importer of toys from the rest of the world. EU exports to non-EU countries are five times lower than imports from non-EU countries. In 2016, the EU imported toys worth almost €7.2 billion and exported only about €1.5 billion to non-EU countries. The value of toys imported to the EU has grown by almost 70 % over the last ten years.

EU mainly imports toys from China

China is the biggest supplier of toys to the EU, accounting for 85% of toy imports in 2016, far ahead of Hong Kong (4%) and Vietnam (2%).

More than half of EU imports of toys went to the United Kingdom (27%), Germany (16%) and the Netherlands (10%).

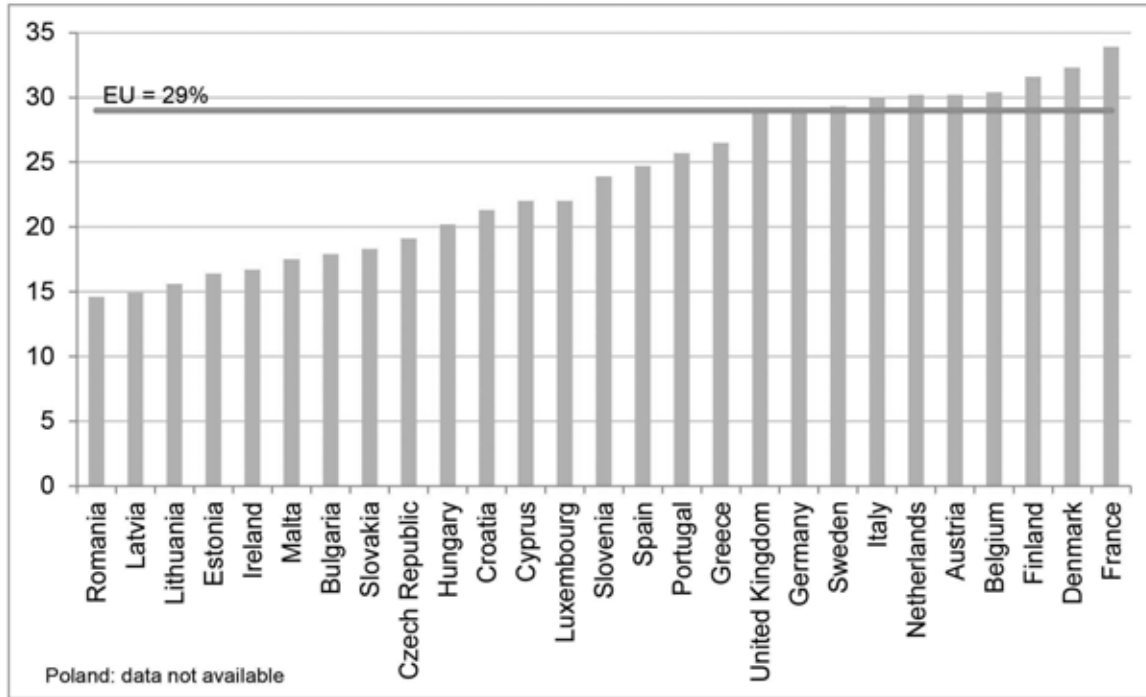
EU mainly exports toys to Switzerland, Russia and the United States

The main non-EU destinations are Switzerland, Russia (both accounting for 15% of toy exports) and the United States (13%). Together these countries account for almost half of the value of exports. Over half of the toys exported from the EU come from the Czech Republic (32%) and Germany (20%).

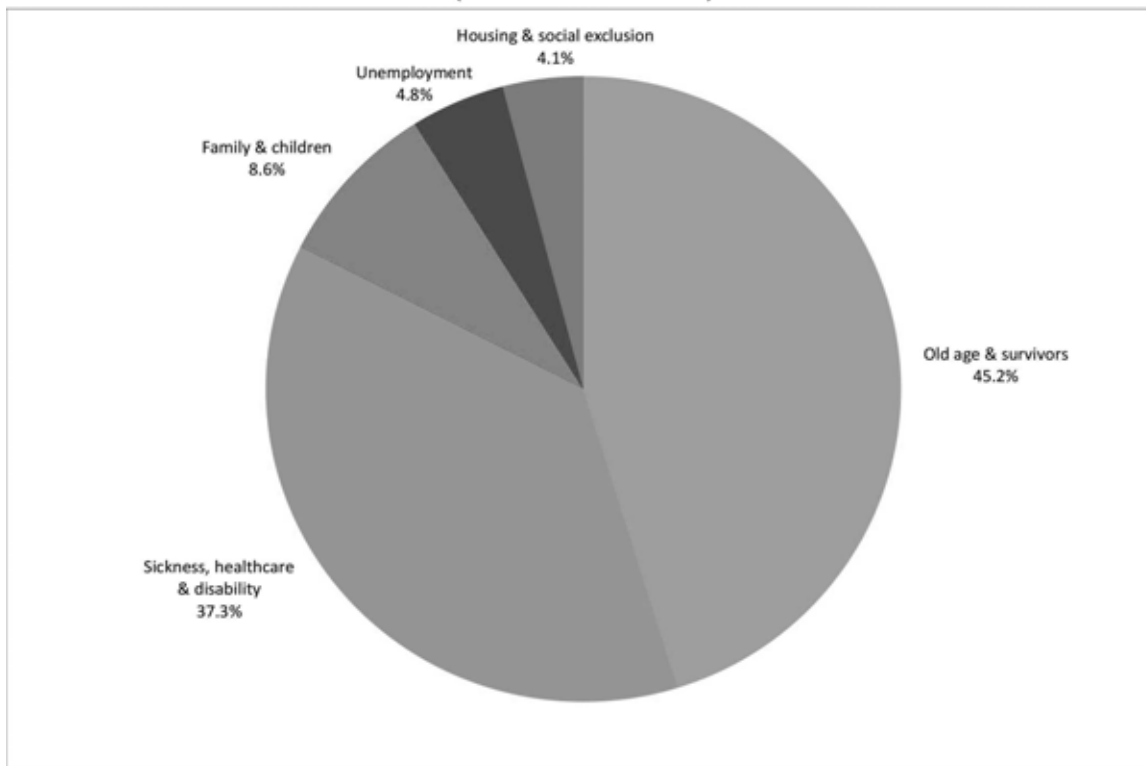
financial news

Almost one-third of EU GDP spent on social protection Highest ratios in France, Denmark and Finland

Social protection expenditure in the EU Member States, 2015 (% GDP)



Social protection expenditure by main functions in the EU, 2015 (% of total social benefits)



The FINANCIAL

Since 2010, social protection expenditure in the European Union (EU) has increased slightly, from 28.6% of GDP in 2010 to 29.0% in 2015, according to data from Eurostat, the statistical office of the European Union. In 2015, the two main sources of funding of social protection at EU level were social contributions, making up 54% of total receipts, and general government contributions from taxes at 43%.

The EU average continued to mask major disparities between Member States. In 2015, social protection expenditure represented at least 30% of GDP in France (34%), Denmark and Finland (both 32%), Belgium, the Netherlands, Austria and Italy (all 30%). In contrast, social protection expenditure stood below 20% of GDP in Romania and Latvia (both 15%), Lithuania and Estonia (both 16%), Ireland (17%), Malta, Bulgaria and Slovakia (all 18%) as well as in the Czech Republic (19%).

These disparities reflect differences in living standards, but are also indicative of the diversity of national social protection systems and of the demographic, economic, social and institutional structures specific to each Member State.

Social protection expenditure per capita varies substantially across Member States

In 2015, social protection expenditure per capita in PPS (Purchasing Power Standards), which eliminates price level differences between countries, showed large differences between EU Member States. After Luxembourg (see country note), the highest expenditure per capita were recorded in Denmark and Austria (over 11 thousand PPS). In contrast, the lowest spendings per capita were registered in Romania, Bulgaria and Latvia (under 3 thousands PPS).

Highest share for old age and survivors benefits in Greece, Italy and Portugal

On average in the EU, old age & survivors benefits accounted for 45% of total

social benefits in 2015 and made up the major part of social protection benefits in nearly all Member States. The share of old age and survivors benefits in the total was highest in Greece (65%), Italy and Portugal (both 58%), Romania and Cyprus (both 55%), while it was lowest in Ireland (33%), Luxembourg and Germany (both 39%), the United Kingdom (41%) and Belgium (42%).

Sickness/health care and disability benefits accounted for 37% of total social benefits on average in the EU in 2015. Amongst Member States, the share of these benefits ranged from 26% in Cyprus and Greece to over 40% in Croatia (46%), Germany and the Netherlands (both 43%), the United Kingdom (41%) and Slovakia (40%).

Family and children benefits accounted for slightly less than 9% of total social benefits on average in the EU in 2015, unemployment benefits for 5% and housing and social exclusion benefits for 4%. The share of family benefits in the total ranged from 4% in the Netherlands to almost 16% in Luxembourg. Unemployment benefits varied between less than 1% in Romania and 12% in Ireland, and housing and social exclusion benefits from less than 1% in Greece, Estonia, Portugal and Italy to 8% in Cyprus and 7% in both Denmark and the United Kingdom.

How old is the EU's commercial aircraft fleet?



The FINANCIAL – Air transport operators in the European Union (EU) had in total over 6 500 aircraft, used for passengers or freight, in 2015. These excluded piston planes, helicopters and aircrafts with maximum take-off weight less than 2 600 kg.

From the total EU aircraft fleet, around a fifth (21%) of the aircraft were aged less than 5 years, while 17% were 20 years old or more. Almost a third of the aircraft (30%) were 5 to 9 years old, 17% were 10 to 14 years old and 15% were 15 to 19 years old.

Croatia and Sweden, lowest in Finland, Luxembourg and Ireland

Across the EU Member States, over half the aircraft was aged 20 years or over in Croatia (61%), Sweden (60%), Bulgaria and Lithuania (55%), Slovakia (52%) as well as in Cyprus. Aircraft aged 20 years or more also made up more than a third of the fleet in Estonia (43%), Romania (39%) and Denmark (37%). At the opposite end of the scale, less than 10% of the aircraft fleet was aged 20 years or over in Finland (2%), Luxembourg (6%) and Ireland (7%).

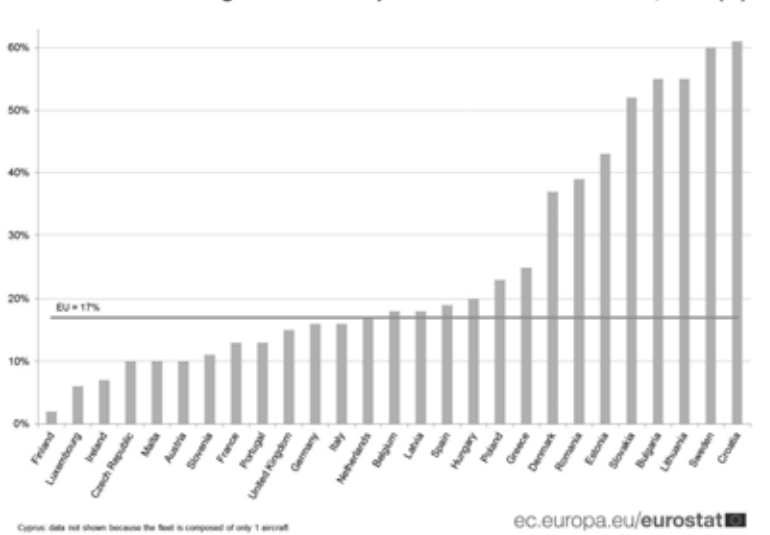
Conversely, a significant share of the fleet was made up of recent aircraft (aged less than 5 years) in Hungary (44%), Malta (42%) and Luxembourg (31%), ahead of Poland (26%), Germany and Ireland (both 25%), the Netherlands (23%), the United Kingdom (22%) and Spain (21%). In contrast, operators in Croatia and Cyprus had no aircraft less than 5 years old, and in Lithuania (4%), Sweden (6%), Romania (7%), Greece and Latvia (both 8%) fewer than 10% of the aircraft fleet were made up of aircraft less than 5 years old.

1 in 5 EU aircraft operated in the United Kingdom

In 2015, the United Kingdom was the leading aircraft operator in the EU, running more than 1 250 aircraft. In other words, UK-based operators accounted for almost one in every five EU aircraft (19%). The top five was completed by Germany with over 1 100 aircraft (17% of the EU aircraft fleet), France (565 aircraft, 9%), Spain (485 aircraft, 7%) and Ireland (around 460 aircraft, 7%).

Largest share of old aircraft operated in

Commercial aircraft aged 20 or over operated in EU Member States, 2015 (%)





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Just **6%** USD EUR

Effective **6.5%** USD EUR

FactCheck



Giorgi Kvirikashvili:

PRIME MINISTER OF GEORGIA



“Georgia is the only country in the region which has free trade agreements with both the EU and China.”

Levan TEVDORADZE
FactCheck

On 28 November 2017, in his speech at the Tbilisi Silk Road Forum, the Prime Minister of Georgia, Giorgi Kvirikashvili, stated: “We are the only country in this region which has free trade agreements with both the EU and China.”

FactCheck took interest in the accuracy of the statement.

Georgia has signed free trade agreements with the EU, four members (Iceland, Liechtenstein, Norway and Switzerland) of the European Free Trade Association, eight members (Azerbaijan, Armenia, Ukraine, Belarus, Moldova, Kazakhstan, Uzbekistan and Turkmenistan) of the Commonwealth

of Independent States and Turkey. Of these, the strategically important Deep and Comprehensive Free Trade Area agreement (DCFTA) was concluded with the EU in 2014. China signed a free trade agreement (FTA) with Georgia in May 2017. As a result of this agreement, Georgia became the 11th country which has concluded a free trade agreement with China.

The EU and China are among Georgia’s largest trading partners. According to the National Statistics Office of Georgia, the total trade turnover (the sum of export and import) with the EU and China amounted to USD 2.3 billion and USD 728 million, respectively, between January and October of this year. The EU is Georgia’s second largest trading partner after the CIS. China is Georgia’s third largest trading partner

after Russia and Turkey. Of the countries in Georgia’s region, it is the only one with a free trade agreement with China. Countries which have free trade agreements with China are located in the developed part of Western Europe or in the Far East and do not have a regional affiliation with Georgia.

It is important to have a precise definition of the region to which Georgia belongs. According to a narrower interpretation of the term, only the neighbour countries (Russia, Armenia, Azerbaijan and Turkey) are part of Georgia’s region. However, in light of Georgia’s Western aspirations, the World Bank’s regional division, where Georgia belongs to the group of European and Central Asian countries (this group includes 24 nations in total), is quite appropriate.

Table 1: Georgia’s Trade Turnover in January-October 2017 (USD thousand)

	Export	Import	Turnover
CIS Member Nations	911,450.5	1,872,416.9	2,783,867.4
EU Member Countries	531,057.0	1,793,171.4	2,324,228.4
Turkey	182,690.5	1,097,416.6	1,280,107.2
Russia	314,047.1	615,599.5	929,646.6
China	184,496.7	543,488.2	727,984.9

Source: National Statistics Office of Georgia

CONCLUSION

NO MATTER HOW GEORGIA’S REGION IS DEFINED, THERE ARE NO OTHER COUNTRIES WHICH HAVE FREE TRADE AGREEMENTS BOTH WITH THE EU AND CHINA SIMULTANEOUSLY. GEORGIA’S NEIGHBOUR COUNTRIES DO NOT HAVE FREE TRADE AGREEMENTS WITH EITHER CHINA OR THE EU. CENTRAL ASIAN AND OTHER EUROPEAN COUNTRIES ARE NOT ENGAGED WITH CHINA IN ANY FORM OF ECONOMIC RELATIONS.

FACTCHECK CONCLUDES THAT GIORGI KVIKASHVILI’S STATEMENT IS TRUE.

TRUE



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How Saakashvili And Poroshenko Got Themselves Into This Mess



Christopher MILLER
RFERL

KYIV -- The adventures of Mikheil Saakashvili reached new heights this week when masked Ukrainian security agents broke down his apartment door and eventually apprehended him on the building’s rooftop, where he screamed insults about one-time ally President Petro Poroshenko to supporters on the street below.

The agents hauled the Tbilisi-born Saakashvili into a police van but couldn’t get him out of the scrum as hundreds of Saakashvili supporters rushed to the scene to prevent them from taking the onetime Georgian president and ex-governor of Ukraine’s Odesa region away. The van only made it as far as the corner before it was forced to stop near a Catholic church and about 100 meters from the capital’s European Square.

Scuffling ensued, with Saakashvili supporters clashing with police in riot gear as they tried to free him. Saakashvili eventually emerged, triumphantly raising a hand with handcuffs still attached to his wrist to offer a “victory” sign to the jubilant crowd.

Later in the day, Saakashvili vowed at a tent city of supporters outside parliament to fight corruption and “remove a criminal group from power and impeach it.” By nightfall on December 5, Ukrainian prosecutors had charged Saakashvili with a crime and police had placed him on the national wanted list.

He was a fugitive.

WATCH: Ukrainian security forces arrested former Georgian President Mikheil Saakashvili on suspicion of assisting a criminal organization but he later escaped from custody in Kyiv with help from his supporters. (RFE/RL’s Ukrainian Service)

Tensions persisted, with clashes between Saakashvili supporters and police and a December 6 deadline expiring for Saakashvili to turn himself in. He has suggested he will only meet with the authorities at the tent city, which appeared quiet around midday on December 7.

Even by the standards of Saakashvili -- whose political career has been peppered with dramatic and controversial events -- it has been a remarkable several days.

But how did Ukrainian of-

ficials and Saakashvili find themselves in this situation, and how far could it lead?

Does this risk blowing up?

Some analysts are convinced that the whole thing could have severe consequences for the country, not to mention Saakashvili.

Ukraine’s prosecutor-general suggested later on December 5 that the man who as Georgia’s president led an ill-fated, five-day war against Russia over two breakaway Georgian regions has -- wittingly or not -- become a stooge for a Russia-based “organized crime” group allegedly led by exiled former Ukrainian President Viktor Yanukovich.

Adrian Karatnycky, senior fellow at the Washington-based Atlantic Council, argues that the “sensational charges leveled against Mikheil Saakashvili by the Ukrainian procuracy [prosecutors] have the potential to reshuffle the entire political deck in Ukraine.”

If prosecutors are proven correct, then Saakashvili will have been shown to have “colluded” with and accepted money from elements friendly to Yanukovich, who fled to Russia in 2014.

“This is an either-or situation,” Karatnycky says, highlighting how tricky it might be to find middle ground. “Either Saakashvili was playing footsie with exiled members of the former Yanukovich team, or the Ukrainian procuracy and security services have perpetrated the fraud of the century and Saakashvili is an innocent victim of trumped-up charges not seen since the Stalin era.”

And beyond any threat to Poroshenko’s popularity among Ukrainians, the clampdown on Saakashvili risks denting the Ukrainian administration’s international support. Sudden, dramatic events of this sort generally don’t sit well with Kyiv’s Western allies, and frustration was already mounting.

The day before the botched arrest, the U.S. State Department raised “concerns” about signs that Kyiv might be backsliding on its commitment to fight corruption. The statement appeared to be a response to a bitter feud pitting Ukraine’s independent National Anticorruption Agency (NABU) against the Prosecutor-General’s Office and the Ukrainian Security Service (SBU), both of which are headed by presidential ap-

pointees.

After the rooftop raid, the U.S. Embassy and the European Union mission in Kyiv each called on all sides to deescalate the situation and urged the authorities to conduct a fair investigation in accordance with the law.

Why is Saakashvili in legal hot water in Ukraine anyway?

Ukrainian authorities provided little explanation when they announced that they had withdrawn Saakashvili’s citizenship in July, raising a minor international stir and prompting Saakashvili’s defiant reentry into Ukrainian territory in September despite warnings that he could face arrest.

But more recently, Saakashvili this week was accused by Ukrainian authorities of links to criminal elements around the exiled Yanukovich and other Russia-based plotters. If found guilty, Saakashvili could face up to 10 years in prison.

Saakashvili has called the charge political and the evidence against him -- which includes an alleged wire-tapped conversation between him and Serhiy Kurchenko, a mercurial billionaire ally of Yanukovich -- “fake.” He says Poroshenko is trying to eliminate him as a political opponent. He has claimed that Ukrainian rivals would like to extradite him to his native Georgia to face what he says are politically motivated abuse-of-office-charges stemming from his presidency there, or else cut a deal that would allow him to avoid the charges against him in Ukraine in exchange for leaving the country.

Poroshenko did not initially respond directly to any of the accusations, but he said on December 6 that Saakashvili’s actions were aimed at destabilizing the situation inside the war-torn country.

A legal assessment prepared by Saakashvili’s lawyer, Ruslan Chornolutsky, that was obtained by RFE/RL on December 7 alleged, “The case against Mikheil Saakashvili is purely political and represents an act of political terror against Ukraine’s key opposition leader.” It went on to accuse the Ukrainian government, through its actions, of

Continued on p. 19

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Why Is Georgia Importing So Much Electricity?

Continued from p. 2

electricity (for 5.2 € / kWh – 13 tetri/kWh). This constituted an 832% increase compared to October 2016, and is about 50% larger than the second largest import figure (104.2 mln. kWh in October 2014). Most of the October 2017 imports (99.6%) came from Azerbaijan, with the remaining 0.04% coming from Russia (Figure 2).

The main question that comes to mind when observing these statistics is: why did Georgia import so much? One might argue that this is just the result of a bad year for hydropower generation and increased demand. This argument, however, is not fully convincing. While it is true that hydropower generation declined and demand increased, the country's excess demand could have been easily satisfied by its existing thermal power plants. Instead of increasing, however, the electricity coming from thermal power plants declined as well. Therefore, that cannot be the reason, and another must be found. The first that comes to mind is that importing electricity may have been

cheaper than buying it from local TPPs, or from other generators selling electricity to ESCO under power purchase agreements (PPAs). We can test the first part of this hypothesis by comparing the average price of imported electricity to the price ceiling on the tariff that TPPs can charge for the electricity they sell. Looking at the trade statistics from Geostat, the average price for imported electricity in October 2017 remained stable with respect to the same month of the previous year, at 5.2 € (13 tetri) per kWh. Only two thermal power plants (Gardabani and Mtkvari) had a price ceiling below 13 tetri per kWh. Observing the electricity balance of Georgia, we see that indeed more than 98% of the electricity generated by TPPs in October 2017 was generated by those two power plants.

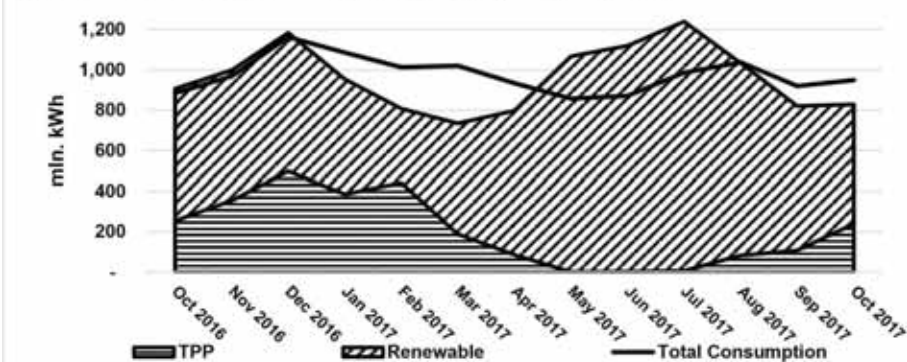
What about other potential sources of electricity? To answer this question, we can use the information derived from the weighted average price of balancing electricity. Why balancing electricity? Because it allows us to reconstruct the costs the market operator (ESCO) faced during the month of October to make sure

demand and supply were balanced, and it allows us to gain an insight about the price of electricity sold through PPAs.

ESCO reports that the weighted average price of balancing electricity in October 2017 was 13.8 tetri/kWh, (25% higher than in October 2016, when it was below the average weighted cost of imports – 11 vs. 13 – and when the quantity of imported electricity was substantially smaller). Knowing that in October 2017, 61% of balancing electricity came from imports, while 39% came from hydropower and wind power plants selling electricity to ESCO under their PPAs, we can deduce that in this case, internal generation was (on average) also substantially more expensive than imports. Therefore, the high cost of internally generated electricity, rather than the technical impossibility of generating enough electricity to satisfy electricity demand, indeed appears to be one of the main reasons why electricity imports spiked in October 2017.

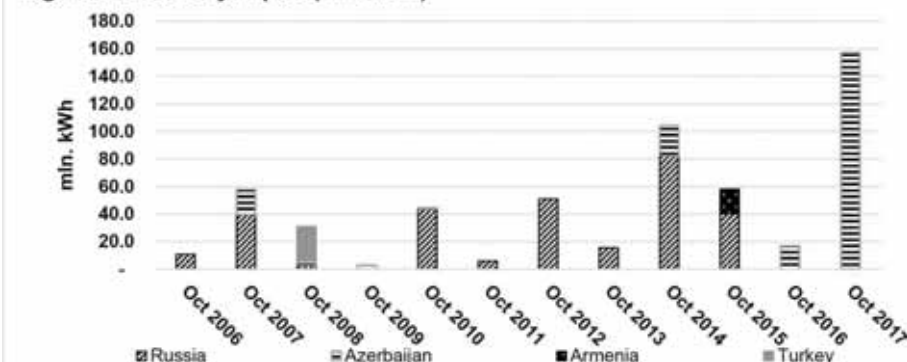
1 Data is provided in US cents and is converted to GEL using average monthly exchange rate as reported by National Bank of Georgia

Figure 1. Electricity Generation and Consumption (mln. kWh)



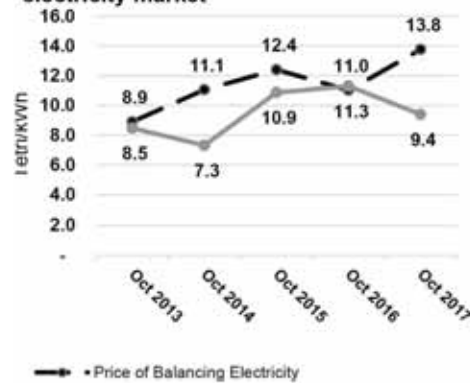
Source: Electricity System Commercial Operator (ESCO)

Figure 2. Electricity Import (mln. kWh)



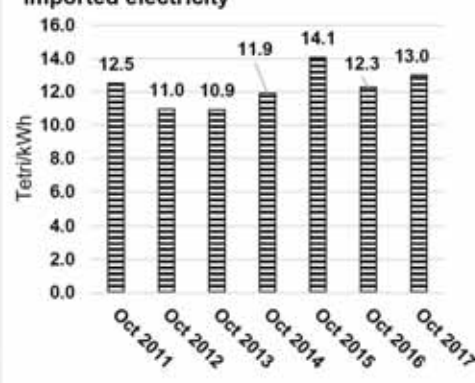
Source: ESCO

Figure 3. Prices on balancing electricity market



Source: ESCO

Figure 4. Average price of imported electricity



Source: ESCO, Geostat



Zurab Chiaberashvili:
EUROPEAN GEORGIA – MOVEMENT FOR FREEDOM MEMBER

“The production of meat, milk and eggs decreased in the third quarter of 2017.”

Veriko SUKHIASHVILI
FactCheck

At the session of the Parliament of Georgia, European Georgia – Movement for Freedom member, Zurab Chiaberashvili, highlighted the negative trends in the field of agriculture and remarked: “In the third quarter, at the peak of tourism, consumption and, therefore, local production should have both increased. We see that the production of meat, milk and eggs decreased.”

FactCheck verified the accuracy of the statement.

As illustrated in the graph, the production of meat, milk and eggs in the third quarter of 2017 did indeed decrease as compared to the same period of the previous year. In

particular, the production of meat decreased by 18%, the production of milk decreased by 12% and the production of eggs decreased by 7%.

As illustrated by the table, there are no identifiable growth or decrease trends in the production of meat, eggs and milk. From time to time, the production of these goods was either on the rise or showed a decline.

In regard to the first three quarters (January-September) of the previous and ongoing years, we have the following picture – the production of meat is stable, the production of milk experiences an annual decrease and the production of eggs has been decreasing since 2016.

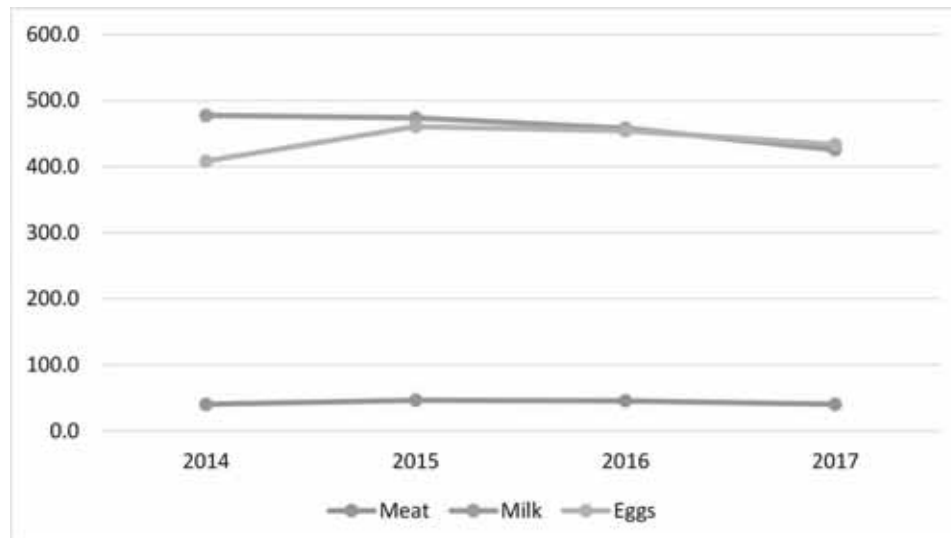
Of note is that we cannot compare 2014-2017 data to 2007-2013 figures because the principal source of research in 2007-2015 was

Table 1: Production of Meat (thousand tons), Milk (thousand litres) and Eggs (million pieces) in 2007-2013 (III Quarter)

Year	Meat	Milk	Eggs
2007	11.9	190.4	121.8
2008	10.3	184.2	101.5
2009	11.2	174.7	102.8
2010	14.4	186.6	111.9
2011	12	172.7	121.4
2012	8.3	177	112
2013	9.3	179.9	110.7

the 2004 agriculture census. In 2016, the research selection database was updated and is now based on the 2014 agriculture census. In order to ensure comparability, the National Statistics Office of Georgia has recalculated the 2014 and 2015 figures.

Graph 1: Production of Meat (thousand tons), Milk (thousand litres) and Eggs (million pieces) in Three Quarters of 2014-2017.



CONCLUSION

IN THE THIRD QUARTER OF 2017, THE PRODUCTION OF MEAT DECREASED BY 18%, THE PRODUCTION OF MILK BY 12% AND THE PRODUCTION OF EGGS BY 7% AS COMPARED TO THE SAME PERIOD OF THE PREVIOUS YEAR. IN REGARD TO THE FIGURES FOR THE LAST FOUR YEARS, THE PRODUCTION OF MEAT AND EGGS HAS HAD A TENDENCY OF DECREASE WHILST THE PRODUCTION OF MILK SHOWS FLUCTUATIONS IN TERMS OF PERIODIC INCREASE AND DECLINE SINCE 2014.

THE TOTAL FIGURES OF THE FIRST THREE QUARTERS OF 2017 COMBINED ALSO DEMONSTRATE THE DROP IN PRODUCTION, ESPECIALLY IN REGARD TO THE PRODUCTION OF EGGS AND MILK.

FACTCHECK CONCLUDES THAT ZURAB CHIABERASHVILI'S STATEMENT IS TRUE.

TRUE



EUROPEAN ENDOWMENT OF DEMOCRACY
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Kingdom of the Netherlands

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publicity

Vienna Insurance Group: Results improve again – positive developments in all important key figures

The FINANCIAL -- Vienna Insurance Group's (VIG) upward trend since the beginning of 2016 has been continued in the results for the first three quarters of 2017.

"Our commitment should be seen as being a stable reliable partner, as proved in these figures. In spite of the impact of natural disasters, we expect further positive performance in the fourth quarter, similar to the performance so far in 2017. Therefore, based on the situation today, we expect to significantly increase the good result previously achieved in 2016", explained Elisabeth Stadler, CEO of Vienna Insurance Group. Due to outstanding claims, it is still unclear how large the impact from storm "Herwart" at the end of October will be on the results. "We expect gross claims in the magnitude of EUR 40 to 45 million. The storm mainly affected our companies in the Czech Republic, Austria and Poland", outlined Elisabeth Stadler.

Premiums rise

Gross written premiums rose by 2.7 percent in the first three quarters of 2017 to EUR 7,153 million. All lines of business achieved satisfactory growth, except for single-premium life insurance, where VIG intentionally continues to follow a cautious underwriting policy. Premiums rose by 5.6 percent when adjusted for life single-premium business. The in-



crease was primarily due to the motor and other property and casualty lines of business, being predominantly contributed by Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, Croatia and Serbia. Poland, Slovakia and Romania also reported increases in life insurance. In health insurance, which is a major focus of the "Agenda 2020", the increase in premiums was primarily due to Austria, the Baltic States and Georgia.

Profit increases

Profit (before taxes) rose to EUR 331 million in the first three quarters of 2017. The CEE markets contributed more than 60 percent of the total. The year-on-year increase of around 10 percent was mainly due to an improvement in the combined ratio and good development

of the financial result. The increase in earnings power in the property and casualty line of business has offset the impact of the low interest rate environment.

Significant year-on-year profit increases were recorded in Poland, Hungary and – in the Remaining CEE segment – primarily in Serbia. The rise in profit in Poland and Hungary were due to significant improvements in motor third party liability and in Romania due to motor own damage insurance and the long-term measures taken to increase profitability.

Combined ratio improves

VIG had a combined ratio of 97.3 percent in the first to third quarters of 2017 (2016: 97.9 percent). Both the claims ratio and expense ratio

improved year-on-year. Austria, Poland, Serbia and the Baltic States have primarily contributed to the reduction in the overall combined ratio, which was mainly due to increased profitability in the motor line of business.

VIG in Georgia

In Georgia VIG Group is represented by two insurance companies – GPI Holding and Irao. According to three quarters official data released by the State Insurance Supervisory Agency, VIG Group is a market leader while GPI Holding, which is number one insurance company in the country holds 24% market share. Within the mentioned period GPI Holding's written premium amounts to Gel83mln, which represents a 2% increase. GPI holdings is also number one in claims handling and reimbursing – with the amount reimbursed GEL43mln in this period. VIG Group's written premium in Georgia is GEL103MLN with the market share of 30%

Solvency ratio stable, financial result increases

The solvency ratio at the level of the listed VIG Group was 224.8 percent as of 30 September 2017, thereby reconfirming the outstanding ratio achieved in the first half of 2017 (224.5 percent). The financial result of EUR 732 million for the first three quarters of 2017 represents a year-on-year increase of 4.1 percent. The increase was the result of a rise in current income due to full consolidation of the non-profit housing societies and higher realised profits from the disposal of shares. Group investments including cash and cash equivalents rose to EUR 37.2 billion as of 30 September 2017 due to an increase in investing activities (31 December 2016: EUR 36.2 billion).

Vienna Insurance Group (VIG) is the leading insurance specialist in Austria as well as in Central and Eastern Europe. About 50 companies in 25 countries form a Group with a long-standing tradition, strong brands and close customer relations. VIG has close to 200 years of experience in the insurance business. With about 25,000 employees, Vienna Insurance Group is the clear market leader in its Austrian and CEE markets. It is therefore excellently positioned to take advantage of the long-term growth opportunities in a region with 180 million people. The listed Vienna Insurance Group is the best-rated company of ATX, the leading index of Vienna Stock Exchange; its share is also listed on the Prague Stock Exchange.

King David launched New Year's special offer "Unordinary 2018"



There is a wonderful update for you at King David! New Year's special offer "Unordinary 2018" has begun. The residences at King David can be purchased through 20 month length internal interest-free installment payment possibility with only 1% down payment and 8% discount. Upon purchasing the apartments, residents can start renovation works and can move in even before full payment of the apartment.

It shall be highlighted that King David has already been accepted into exploitation and will welcome the first residents this winter.

King David is the first premium class multifunctional complex, which has created a precedent of building skyscrapers in Tbilisi. This is a hotel-type complex, which offers the best panoramic views of Tbilisi. This unique full-service condominium project introduces a new way of living in Tbilisi, merging comfort and convenience to

balance the demands of today's active lifestyles. Residents can spend their days working, relaxing and socializing throughout their own building.

Over 40% of the project is made up by infrastructure. The project unites two independent buildings, one of the towers has 32 and another one 19 floors. The tallest tower is the King David Residences and this is where apartments are located, the lower tower is the King David Business Center and is a home to the A class business center.

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IMF on Georgia: Inflation is projected to decline starting in early 2018



The FINANCIAL

Georgia's economic performance has improved, but risks to the outlook remain, IMF said in latest report on Georgia. According to it, the economic recovery is gaining momentum, inflation is projected to decline starting in early 2018, and the external position has strengthened. Revenue overperformance provides room for additional capital spending and VAT repayments in 2017. The banking sector remains liquid, profitable, and well capitalized. Despite the positive outcomes, the authorities need to remain vigilant and sustain reform efforts to address structural obstacles to growth.

"The 2018 budget appropriately targets further fiscal consolidation. The 2018 budget envisages a further decline in the deficit while allowing for an increase in capital spending. To achieve this, efforts to strengthen revenue administration should continue, especially to prevent the buildup of VAT claims. The authorities should also bolster efforts to further contain current spending, for instance, by containing the wage bill, improving the targeting of social programs, and reducing subsidies and equity injections to state-owned enterprises (SOEs)", said IMF.

"Medium-term fiscal commitments should be completed as currently envisaged and require progressing with institutional fiscal reforms. Staff welcomes the authorities' commitment to fiscal consolidation while accelerating high-priority infrastructure investment. A stronger framework for managing public investment will help improve efficiency on the use of public resources. The authorities' commitment to comprehensively assess and monitor fiscal risks should be clearly reflected in the 2018 Fiscal Risk Statement. Efforts to improve the budgetary processes and fiscal reporting—for instance, by improving the coverage and measurement of fiscal aggregates to reflect activities of legal entities of public law (LEPLs) and SOEs, elaborating on compliance with fiscal rules, and strengthening

macroeconomic and fiscal forecasting—will help improve fiscal transparency and accountability".

According to IMF, monetary policy remains rightly focused on price stability, supported by the flexible exchange rate and efforts to strengthen the transmission mechanism.

"The NBG's monetary policy stance is appropriate, but the authorities need to remain vigilant on monetary and financial developments, including related to credit growth. The inflation targeting framework, combined with the floating exchange rate regime, has served Georgia well. Foreign exchange intervention should remain limited to smoothing excessive exchange rate volatility and building reserves. The NBG's steps to strengthen liquidity management, de-dollarize the economy, and improve communication will help strengthen the monetary framework".

IMF said the authorities' steps to increase the resilience of the financial sector are welcome.

"Proposed legal amendments would appropriately expand the role of the central bank in regulating and supervising non-banks and credit bureaus, enhance the bank resolution framework, and supervise banks on a consolidated basis. The authorities' efforts to identify legal amendments to adopt an effective emergency liquidity assistance (ELA) framework are also commendable".

"Continued efforts to advance structural reforms are key to achieving higher and more inclusive growth. Upgrading infrastructure and strengthening trade integration will boost growth prospects. The new insolvency law for non-financial corporations and the Business House will help improve the business environment. The pension reform will increase the availability of domestic savings to support investment, as long as contributions are enforced. Improved capital market infrastructure, by facilitating mobilization of funds, will support capital accumulation. To further support growth, Georgia also critically needs to advance on education reform".

Table 1. Georgia: Selected Economic and Financial Indicators, 2015 – 18

	2015	2016	2017	2018
	Actual	EFF Request	Prel. EFF Request	Proj.
National accounts and prices (annual percentage change; unless otherwise indicated)				
Real GDP	2.9	2.7	3.5	4
Nominal GDP (in billion of laris)	31.8	33.9	36.2	38.8
Nominal GDP (in billion of U.S. dollars)	14	14.3	13.7	14.9
GDP per capita (in thousand of U.S. dollars)	3.8	3.9	3.7	4
GDP deflator, period average	5.9	4	4	3
CPI, Period average	4	2.1	5.7	2.4
CPI, End-of-period	4.9	1.8	5.4	3
Investment and saving (in percent of GDP)				
Gross national saving	19.5	19.6	20.5	20.6
Investment	31.5	32.4	33.4	31
Public	5.6	5.1	5.8	5.8
Private	25.9	27.4	27.7	25.2
Consolidated government operations (in percent of GDP)				
Revenue and grants	28.1	28.4	29.3	28.9
o.w. Tax revenue	25.1	25.8	26.2	25.9
Expenditures	31.9	32.5	33.4	33
Current expenditures	24.9	26	25.3	24.7
Capital spending and budget lending	7	6.5	8	8.3
Overall balance	-3.8	-4.1	-4.1	-4.1
Net Lending/Borrowing (GFSM 2001)	-1.3	-1.6	-1.4	-1.1
Augmented Net lending / borrowing (Program definition) 1/	-2.7	-3	-3.7	-3.6
Public debt	41.4	44.6	45.5	42.3
o.w. NBG debt to the IMF	0.6	0.5
o.w. Foreign-currency denominated	32.5	35.2	35.9	33.1
Money and credit (in percent; unless otherwise indicated)				
Credit to the private sector (annual percentage change)	22.1	19.6	10.5	10.1
In constant exchange rate	4.3	12	12	15.5
Broad money (annual percentage change)	19.2	20.4	10.1	9.8
Broad money (incl. fx deposits, annual percentage change)	23.4	19.1	8.6	7.9
In constant exchange rate	5.1	13.3	11.3	14.7
Deposit dollarization (in percent of total)	66.8	69.9	69	64.8
Credit dollarization (in percent of total)	63.1	64.6	61.5	54.7
External sector (in percent of GDP; unless otherwise indicated)				
Current account balance	-12	-12.8	-12.9	-10.4
Trade balance	-28.1	-27	-44.4	-25.8
Terms of trade (ratio)	103.1	103	101.2	102.2
Gross international reserves (in billions of US\$)	2.5	2.8	3.1	3.2
In percent of IMF Composite measure (floating)	83.5	86.6	92.5	93.3
Gross external debt	103	107.8	119.3	106.9
Gross external debt, excl. inter-company loans	86.2	89.5	91.7	87.4
Laris per U.S. dollar (period average) 2/	2.27	2.37	...	2.48
Laris per euro (period average) 2/	2.52	2.62	...	2.78
REER (period average; CPI based, 2010=100)	104	107.5

Sources: Georgian authorities; and Fund staff estimates

1/ Augmented Net lending / borrowing (Program definition) = Net lending / borrowing - Budget lending.

2/ For 2017 is average January - October.

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Weekly Market Watch



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

ECONOMY

Tourist arrivals up 21.8% y/y in November 2017

Total international arrivals to Georgia increased 14.1% y/y to 0.52mn visitors in November 2017, according to the Ministry of Internal Affairs. A 21.8% y/y growth in tourist arrivals (0.20mn persons, 38.4% of total) drove arrival growth. Out of top countries by arrivals, in November 2017, visitors continued to increase from Armenia (+7.2% y/y), Russia (+35.2% y/y), Azerbaijan (+11.2% y/y), Turkey (+6.8% y/y) and Iran (+92.5% y/y). Arrivals from EU were down 1.0% y/y to over

14,000 visitors. In 11M17 international arrivals increased 18.4% y/y to 6.95mn visitors, while tourist arrivals increased 27.6% y/y to 3.2mn.

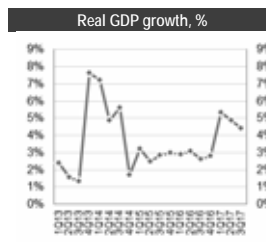
Inflation was 6.9% y/y and 1.1% m/m in November 2017

The annual CPI inflation was 6.9% in November 2017 up from 6.4% inflation in previous month, according to GeoStat. Core inflation was 5.1% in November compared to 4.4% in previous month. Annual price changes were driven by price increases in food and non-alcoholic beverages (+7.5% y/y, +2.24ppts), transport (+15.8% y/y, +2.02ppts), and alcoholic

Key macro indicators			
	11M17	2016	2015
GDP (% change)	4.9% ⁽¹⁾	2.8%	2.9%
GDP per capita (ppp)	...	10,044	9,601
GDP per capita (US\$)	...	3,865	3,767
Population (mn)	3.7	3.7	3.7
Inflation (cop)	6.9%	1.8%	4.9%
Gross reserves (US\$ bn)	3.0	2.8	2.5
CAD (% of GDP)	9.3% ⁽²⁾	12.8%	12.0%
Fiscal deficit (% of GDP)	...	4.1%	3.7%
Total public debt (% of GDP)	...	44.6%	41.4%

Source: Official data, IMF
(1) As of 10M17
(2) As of 1H17

beverages and tobacco (+19.4% y/y, +1.24ppts) categories. On a monthly basis, there was 1.1% inflation in November 2017. Price increases in transport (+2.8% m/m, +0.39ppts) and food and non-alcoholic beverage



Source: GeoStat

Georgia sovereign credit ratings

STANDARD & POORS BB- Stable Affirmed Nov-2016	MOODYS Ba2 Stable Affirmed Sep-2017	FITCH RATINGS 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

es (+0.8% m/m, +0.26ppts) categories were the major drivers of monthly inflation dynamics.

International reserves up 7.9% y/y in November 2017

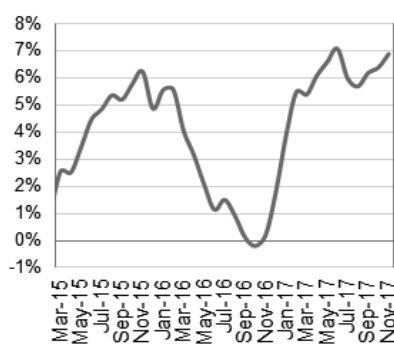
Gross international reserves were up 7.9% y/y to US\$ 3.0bn in November 2017, while reserves were up 1.8% m/m, according to NBG. There were no FX interventions by central bank in November. Change in

reserves was attributed to government FX operations and/or asset revaluation.

Cooperation with IMF

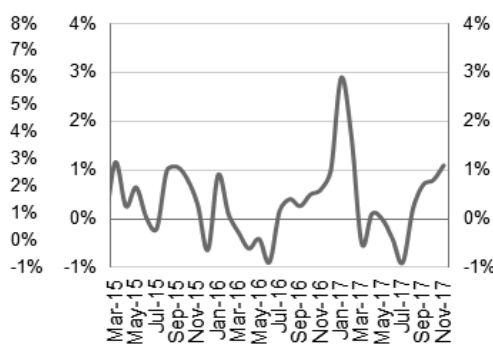
On 6 December 2017, the Executive Board of the IMF completed the first review of Georgia's performance under the three-year program. The review finds that the program is on track with all end-June 2017 performance criteria and structural benchmarks met. Economic activity has strengthened on the back of stronger growth in main trading partners. Fiscal overperformance and efforts to address structural weaknesses have helped boost confidence. The completion of the review enables the release of SDR 30mn (about US\$ 42.4mn), bringing total disbursements under the arrangement to SDR 60mn (about US\$ 84.8mn, total program amount is about US\$ 297.5mn).

Exports by commodities, 10M17

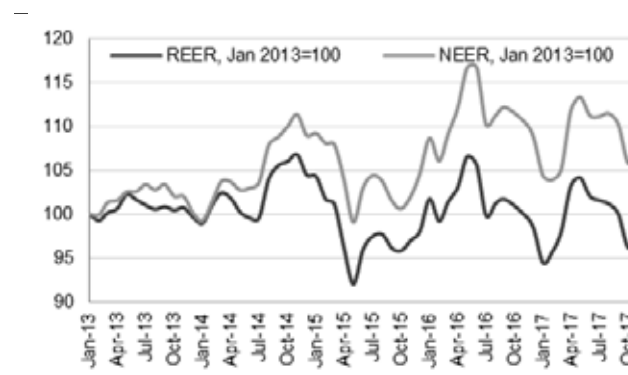


Source: GeoStat

Imports by commodities, 10M17



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.

FIXED INCOME

Corporate Eurobonds: BGEO Group Eurobonds (BGEO LN) closed at 5.1% yield, trading at 104.4 (+0.1% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.5 (unchanged w/w), yielding 10.8%. GOGC Eurobonds (GEORG) were trading at 107.7 (+0.2% w/w), yielding 4.3%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 112.5 (+0.4% w/w), yielding 4.7%.

Georgian Sovereign Eurobonds (GEORG) closed at 112.4 (+0.2% w/w) at 2.9% yield to maturity.



Source: Bloomberg

	Local bonds				Eurobonds					
	GWP 12/21	M2RE 10/19	Nikora 03/18	Nikora 06/19	GLC 08/20	GEBGG 06/20	GEORG 04/21	BGEO LN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	30*	25.0	5.0	10.0	10.0	500*	250	350	500	500
Issue date	12/16	10/16	03/16	08/17	8/17	06-17	04/16	07/16	04/11	07/12
Maturity date	12/21	10/19	03/18	06/19	8/20	06-20	04/21	07/23	04/21	07/22
Coupon, %	10.50**	7.5	11.0	9.0	7.00	11.0	6.750	6.000	6.875	7.750
Fitch/S&P/Moody's	BB-/A-	-/-	-/-	-/-	n/a	BB-/Ba2	BB-/B+	BB-/B1	BB-/Ba2	B+/B+
Mid price, US\$	n/a	101.4	101.1	100.0	101.72	100.5	107.7	104.4	112.4	112.5
Mid yield, %	n/a	7.00%	8.5%	8.5%	6.50%	10.8	4.3	5.1	2.9	4.7
Z-spread, bps	n/a	n/a	n/a	n/a	n/a	346.1	215.7	84.6	252.8	286.7

* 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/Baa2	1.1
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	2.6
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

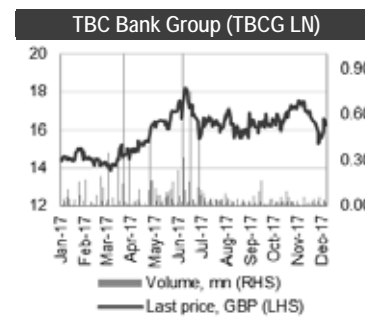
Source: Bloomberg

EQUITIES



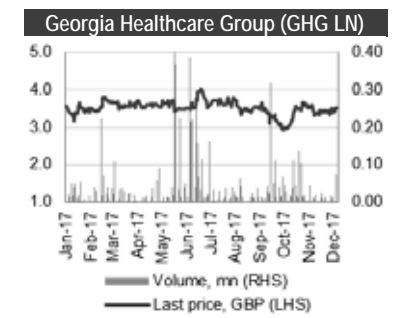
Source: Bloomberg

BGEO Group (BGEO LN) shares closed at GBP 33.56/share (+2.66% w/w and -7.14% m/m). More than 268k shares traded in the range of GBP 32.61 – 33.65/share. Average daily traded volume was 63k in the last 4 weeks. FTSE 250 Index, of



Source: Bloomberg

which BGEO is a constituent, gained 0.70% w/w and lost 1.52% m/m. The volume of BGEO shares traded was at 0.68% of its capitalization. **TBC Bank Group (TBCG LN)** closed the week at GBP 16.29 (+4.42% w/w and -6.11% m/m). More than 132k shares changed hands in the range of GBP 15.51 – 16.97 share. Averaged daily traded

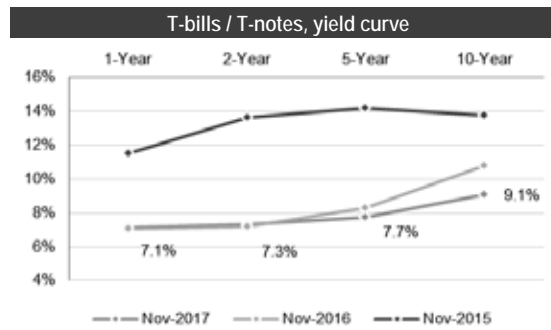


Source: Bloomberg

volume was 24k in the last 4 weeks. **Georgia Healthcare Group (GHG LN)** shares closed at GBP 3.50/share (+2.94% w/w and +3.86% m/m). More than 77k shares were traded in the range of GBP 3.40 – 3.60/share. Average daily traded volume was 10k in the last 4 weeks. The volume of GHG shares traded was at 0.06% of its capitalization.

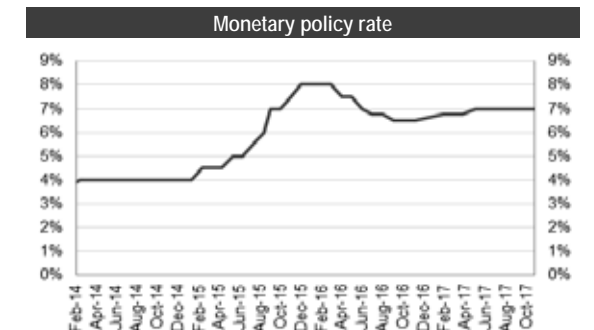
MONEY MARKET

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,200mn (US\$ 444.9mn).



Source: NBG
*Note: As of latest auction.

Ministry of Finance Treasury Bills: 1-year GEL 20.0mn (US\$ 7.4mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on December 6, 2017. The weighted average yield was fixed at 7.005%. The nearest treasury security auction is scheduled for December 13, 2017, where GEL 20.0mn nominal value 182-days T-Bills will be sold.



Source: NBG

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

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How Saakashvili And Poroshenko Got Themselves Into This Mess

Continued from p. 12

having “taken a step toward authoritarianism, using terror tactics against its own citizens.”

The assessment also alleged that the Prosecutor-General's Office's actions, by publicly incriminating Saakashvili, “violated the presumption of innocence, illegally, disclosed alleged details of the investigation, and violated the principle of investigative secrecy in criminal cases.”

WATCH: Dozens of Ukrainian police raided a protest camp outside the parliament building in Kyiv early on December 6 in a failed attempt to detain Mikheil Saakashvili. (RFE/RL's Ukrainian Service)

How did Saakashvili end up a Ukrainian politician?

To understand how Saakashvili got here, one needs to go back some ways. Less than two years after completing his second presidential term in Georgia's fiercely polarized political atmosphere, he arrived in Ukraine in the wake of the Euromaidan unrest and with Kyiv at war with Russia-backed separatists.

After giving up his Georgian citizenship and being granted Ukrainian citizenship, in mid-2015 he was appointed by Poroshenko to govern the notoriously corrupt southern region of Odesa. The idea was reportedly Poroshenko's own -- bringing in his former university pal and battle-tested reformer to clean things up. (Saakashvili had ushered in considerable institutional and economic reforms in Georgia before his allies' thumping at the polls in 2012.)

But after a stint that included occasionally dramatic acts of political theater, the Ukrainian plan went awry and Saakashvili quit in November 2016, publicly accusing Poroshenko of blocking his reform efforts. He announced the launch of his own opposition party, called Movement of

New Forces, and began campaigning against his former ally.

With only marginal public support, Saakashvili had mostly fallen off the map until Poroshenko's decree in July -- while the ex-governor was visiting the United States -- that stripped Saakashvili of his Ukrainian citizenship and voided his passport. No justification was publicly stated.

“Everybody would have forgotten Saakashvili. Nobody was really paying attention to his words,” political analyst Taras Berezovets says, adding of Poroshenko's citizenship maneuver, “Then after this, he was quoted in all international media.”

The news gave Saakashvili a much-needed if short-lived PR boost that he used to rally supporters to the Ukrainian-Polish border, where they helped him break through a guard post and reenter the country. While illegal, the authorities let him off with a fine.

Why the dramatic scenes and legions of police on December 5? Was it overkill?

Some say the Ukrainian authorities' massive law enforcement operation this week signaled Poroshenko's overwhelming desire to see Saakashvili taken out of the picture in a highly public manner.

Since his return to Ukraine, Saakashvili has set his sights on campaigning for early presidential and parliamentary elections. (Presidential and legislative elections are not otherwise slated to take place until 2019.) His message has been antigovernment and specifically anti-Poroshenko, which observers say may have gotten under the president's skin.

“This seems like a personal rivalry...a battle of egos” between Poroshenko and Saakashvili, according to Kateryna Zarembo, deputy director at the Kyiv-based New Europe Center, a think tank. “It's kind

of similar to Yanukovich and [former Prime Minister and eventually failed presidential candidate Yulia] Tymoshenko.”

But the strength and apparent dedication demonstrated by Saakashvili's supporters this week suggest it could require a sizable contingent of police to take him into custody. In this case, it seems the authorities seriously miscalculated.

...But how could they just let him get away?

Some observers have noted that -- with the Euromaidan violence still fresh in the minds of Ukrainians -- police may be less inclined to use force against protesters.

The authorities certainly seem to have seriously miscalculated the determination of Saakashvili's followers.

But the operation itself appears to have been hastily planned. Conducting it in daylight and at Saakashvili's apartment -- on a narrow one-way street in the capital's busy center during morning rush hour -- probably reduced the odds of an efficient extraction.

How widespread is support for Saakashvili among Ukrainians?

Many Ukrainians say Saakashvili has Poroshenko to thank for his recent publicity. In fact, for months opinion polls have shown Saakashvili polling at somewhere between 1-2 percent popularity. That has many political observers scratching their heads about the authorities' tireless pursuit of him.

Like his summertime breakthrough at the Ukraine-Poland border, Saakashvili's breakout from the police van on December 5 is likely to boost his political profile, if only briefly.

With reporting by Christopher Miller in Kyiv

IDC Forecasts Worldwide Spending on the Internet of Things to Reach \$772 Billion in 2018

The FINANCIAL -- Worldwide spending on the Internet of Things (IoT) is forecast to reach \$772.5 billion in 2018, an increase of 14.6% over the \$674 billion that will be spent in 2017.

A new update to the International Data Corporation (IDC) Worldwide Semiannual Internet of Things Spending Guide forecasts worldwide IoT spending to sustain a compound annual growth rate (CAGR) of 14.4% through the 2017-2021 forecast period surpassing the \$1 trillion mark in 2020 and reaching \$1.1 trillion in 2021.

IoT hardware will be the largest technology category in 2018 with \$239 billion going largely toward modules and sensors along with some spending on infrastructure and security. Services will be the second largest technology category, followed by software and connectivity.

Software spending will be led by application software along with analytics software, IoT platforms, and security software. Software will also be the fastest growing technology segment with a five-year CAGR of 16.1%. Services spending will also grow at a faster rate than overall spending with a CAGR of 15.1% and will nearly equal hardware spending by the end of the forecast.

“By 2021, more than 55% of spending on IoT projects will be for software and services. This is directly in line with results from IDC's 2017 Global IoT Decision Maker Survey where organizations indicate that software and services are the key areas of focused investment for their IoT projects,” said Carrie MacGillivray, vice president, Internet of Things and Mobility at IDC. “Software creates the founda-

tion upon which IoT applications and use cases can be realized. However, it is the services that help bring all the technology elements together to create a comprehensive solution that will benefit organizations and help them achieve a quicker time to value.”

The industries that are expected to spend the most on IoT solutions in 2018 are manufacturing (\$189 billion), transportation (\$85 billion), and utilities (\$73 billion). IoT spending among manufacturers will be largely focused on solutions that support manufacturing operations and production asset management. In transportation, two thirds of IoT spending will go toward freight monitoring, followed by fleet management. IoT spending in the utilities industry will be dominated by smart grids for electricity, gas, and water.

The Eurozone is home to some of the world's most affordable premium office space



The FINANCIAL -- Some of the world's best value-for-money premium office space is found in the Eurozone, according to a new report from JLL, but identifying the best location is no longer just about cost.

The annual Premium Office Rent Tracker (PORT) compares premium office occupancy costs across 54 markets in 46 major world cities and finds that the Eurozone offers among the most competitive costs globally for premium space, averaging \$63 per square foot per year, compared to \$85 in the Americas and \$111 in Asia Pacific. Warsaw (\$40), Brussels (\$48), Amsterdam (\$49), La Défense, Paris (\$52) and Berlin (\$56) are named as some of the best value-for-money markets in Europe.

On the other end of the scale, the most expensive premium office rents globally are found in Central in Hong Kong (\$323), New York's

Midtown (\$194) and London's West End (\$193).

“Whilst cost is a critical factor when searching for office space, increasingly it's just one piece of the puzzle. Corporates are becoming increasingly aware of how their real estate can be a powerful tool in the war for talent and in increasing employee productivity, and this is impacting decisions on location and office types. Recent JLL research found that only half of 7,300 employees globally felt their workspace allows them to work completely effectively and this is an important stat for both corporates and investors who want to future proof themselves,” Neil Prime, head of office agency, UK, JLL said.

Technology-rich cities like London (West End: \$193; City: \$108) and Stockholm (\$94) command some of Europe's highest premium rents thanks to their deep talent pool, and corporate activity is

also increasing in other European hotspots which combine relative affordability and a reputation for good quality of life: leasing volumes in Warsaw and Berlin to have risen significantly since 2014, and take-up in Amsterdam is at its highest since 2008.

“La Défense in Paris is a great example of a market which offers real, affordable opportunity to access premium office space in a competitive city where premium rents can reach upwards of \$85 per square foot per year, and which attracts global talent and innovation. With the Grand Paris development and upcoming Olympic Games, the La Défense region is only going to grow in value both in terms of returns for investors but also the quality of life it offers the businesses that occupy and the people that work inside the buildings,” Marie-Laure De Sousa, head of office agency, France, JLL added.

Volume of retail trade down by 1.1% in euro area

The FINANCIAL -- In October 2017 compared with September 2017, the seasonally adjusted volume of retail trade decreased by 1.1% in the euro area (EA19) and by 0.5% in the EU28, according to estimates from Eurostat, the statistical office of the European Union. In September, the retail trade volume rose by 0.8% in the euro area and by 0.2% in the EU28.

In October 2017 compared with October 2016, the calendar adjusted retail sales index increased by 0.4% in the euro area and by 0.9% in the EU28.

Monthly comparison by retail sector and by Member State

The 1.1% decrease in the volume of retail trade in the

euro area in October 2017, compared with September 2017, is due to falls of 1.3% for “Food, drinks and tobacco”, of 1.1% for non-food products and of 0.1% for automotive fuel. In the EU28, the 0.5% decrease in the volume of retail trade is due to falls of 0.9% for “Food, drinks and tobacco” and of 0.8% for non-food products, while automotive fuel remained stable.

Among Member States for which data are available, the largest decreases in the total retail trade volume were registered in Luxembourg (-5.3%), Portugal (-2.3%) and Austria (-1.9%), while the highest increases were observed in Romania (+1.0%), the United Kingdom (+0.9%), Poland and Slovakia (both +0.6%).

Annual comparison by retail sector and by Member State

The 0.4% increase in the

retail sector and by Member State

The 0.4% increase in the volume of retail trade in the euro area in October 2017, compared with October 2016, is due to rises of 0.6% for non-food products, of 0.3% for automotive fuel and of 0.2% for “Food, drinks and tobacco”. In the EU28, the 0.9% increase in retail trade volume is due to rises of 1.5% for non-food products, of 0.8% for automotive fuel and of 0.1% for “Food, drinks and tobacco”.

Among Member States for which data are available, the highest increases in the total retail trade volume were registered in Romania (+12.6%), Poland (+7.1%), Ireland, Hungary and Malta (all +6.3%), while the largest decreases were observed in Luxembourg (-27.0%), Austria (-2.2%) and Belgium (-2.1%).

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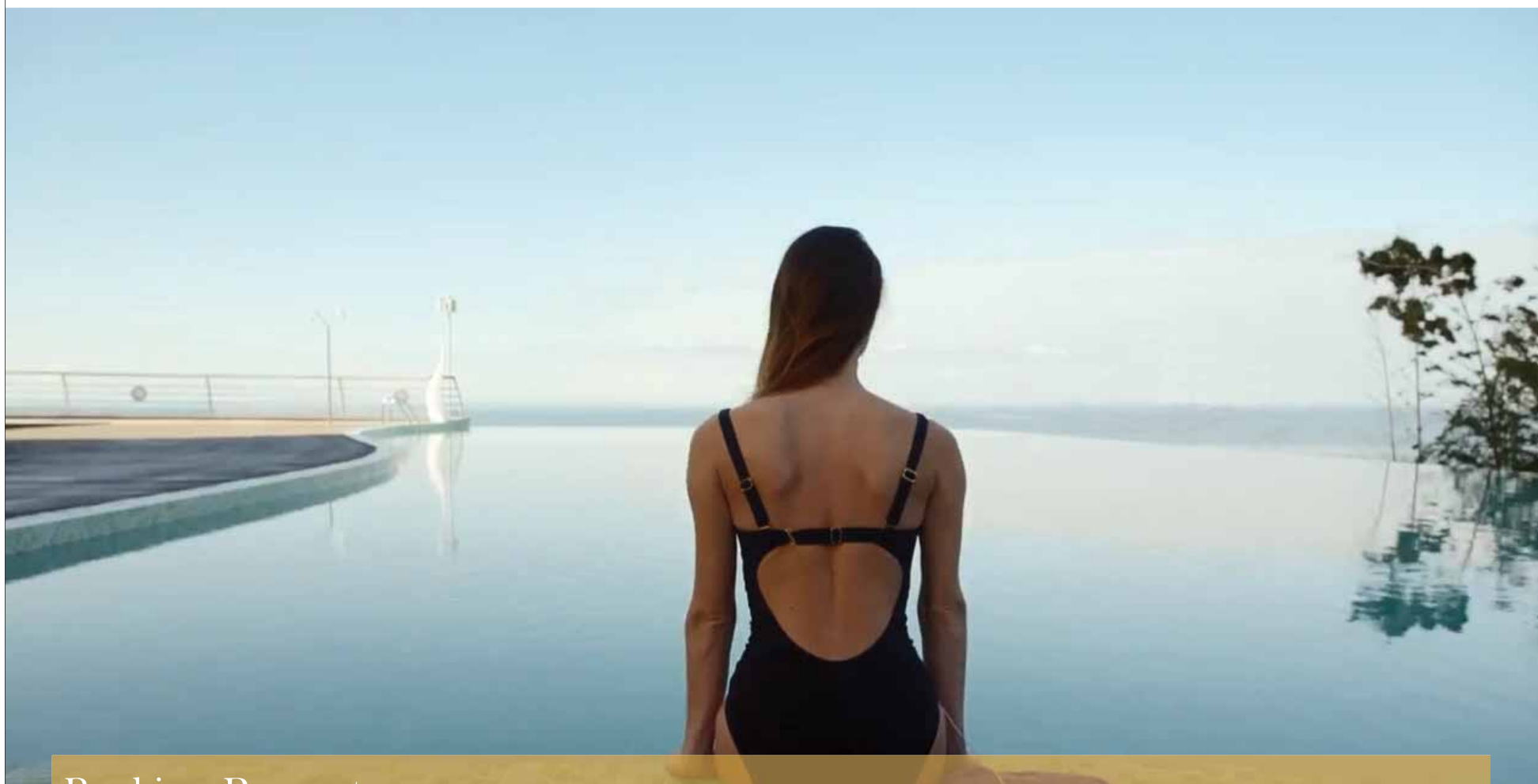
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USA	Financial Times Weekly	Weekly	12.50	162.50	325.00	Women's Interests					
USA	Forbes Weekly	Weekly	10.00	130.00	260.00	UK	Cosmopolitan	Monthly	30.00	90.00	180.00
Germany	Frankfurter Allgemeine Zeitung	Weekly	10.00	130.00	260.00	UK	Elle	Monthly	30.00	90.00	180.00
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UK	The Daily Telegraph	Weekly	13.00	169.00	338.00	UK	Harper's Bazaar	Monthly	30.00	90.00	180.00
USA	The New York Times International	Weekly	10.00	130.00	260.00	UK	Vogue	Monthly	30.00	90.00	180.00
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