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Employment grew in 8 out of 10 EU regions

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Georgians are not among leading asylum seekers in EU

The FINANCIAL

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Continued on p. 4

On Persi, Vodka and the Post-Soviet Consumerist Revolution

By ERIC LIVNY
ISET

Back in 1991, I attended a big "Whither Socialism" conference hosted by my alma mater, the Hebrew University in Jerusalem. A session I remember most vividly featured a Hungarian dissident, a poet, telling stories about the ineffectiveness of communist propaganda. "Communists", he told a sympathetic audience, "tried to convince us that jeans can cause impotence in young males, and that Coca Cola is bad for people's health". At this point, a trembling female voice could be heard in the back of the conference hall: "But Coca Cola is bad for people's health!"

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ICI PARIS Presents Two, Latest Perfumes of Issey Miyake

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EBRD and EU foster hazelnut production in Georgia

Nina TSINTSADZE
EBRD

Hazelnuts are a major product for agriculture in Georgia. As one of the country's top 10 export commodities, they are a source of income for more than 50,000 farmers and dozens of processing facilities.

The country's subtropical climate by the Black Sea shore offers particularly favourable conditions for their growth, luring international confectionary giants such as Ferrero to invest in local production.

"The livelihoods of around half of the Samegrelo region's population are closely linked to hazelnut farming. In villages, almost everyone grows them. Cultivating hazelnuts is what helped us overcome the hardships of the 1990s," said Demur Ardia, owner of SRT, one of the processing facilities in the Samegrelo region, the main homeland of hazelnut plantations and orchards in Georgia.

Continued on p. 8

CURRENCIES

	Mar 25	Mar 17
1 USD	2.4314 ▲	2.4457
1 EUR	2.9972 ▲	3.0158
100 RUB	4.2485 ▼	4.2479
1 TRY	0.6115 ▲	0.6250

MOODY'S on Georgia: We expect GDP growth to average around 4.3% over 2018-2019

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Weekly Market Watch

By Galt & Taggart

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CONTACT US

EDITOR-IN-CHIEF
ZVIAD POCHKHUA
E-MAIL: editor@financial.ge
editor@finchannel.com
Phone: (+995 32) 2 252 275

HEAD OF MARKETING
LALI JAVAKHIA
E-MAIL: marketing@financial.ge
marketing@finchannel.com
Phone: (+995 558) 03 03 03

CONSULTANT
MAMUKA POCHKHUA
E-MAIL: finance@financial.ge
Phone: (+995 599) 29 60 40

HEAD OF DISTRIBUTION DEPARTMENT
TEMUR TATISHVILI
E-MAIL: temuri@financial.ge
Phone: (+995 599) 64 77 76

COPY EDITOR:
IONA MACLAREN

COMMUNICATION MANAGER:
EKA BERIDZE
Phone: (+995 577) 57 57 89

PHOTO REPORTER:
KHATIA (JUDA) PSUTURI

MAILING ADDRESS:
17 mtskheta Str.
Tbilisi, Georgia
OFFICE # 4
PHONE: (+995 32) 2 252 275
(+995 32) 2 477 549
FAX: (+95 32) 2 252 276
E-mail: info@finchannel.com
on the web: www.financial.ge
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CURRENT PRICES ON GASOLINE AND DIESEL

26 MARCH, 2018, GEORGIA

Gulf — Prices in GEL

G-Force Super	2.47
G-Force Premium	2.31
G-Force Euro Regular	2.21
Euro Regular	2.17
G-Force Euro Diesel	2.35
Euro Diesel	2.27
CNG	1.54

Prices in GEL

Eko Super	2.48
Eko Premium	2.33
Eko Diesel	2.36
Euro Diesel	2.29
Euro Regular	2.20
Diesel Energy	2.24

Prices in GEL

Super Ecto 100	2.55
Super Ecto	2.37
Premium Avangard Ecto	2.24
Euro Regular	2.09
Euro Deasel	2.25

Prices in GEL

Nano Super	2.45
Nano Premium	2.31
Nano Euro Regular	2.17
Nano Euro Diesel	2.31
Nano Diesel	2.21
GNG	1.53

ROMPETROL — Prices in GEL

Efix Euro 98	2.49
Efix Euro Premium	2.33
Euro Regular	2.24
Efix Euro Diesel	2.32
Euro Diesel	2.25

ISET ECONOMIC INDICATORS

International School of Economics at TSU

AGRINDEX

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AGRINDEX: MUST-READ FOR POTATO EATERS

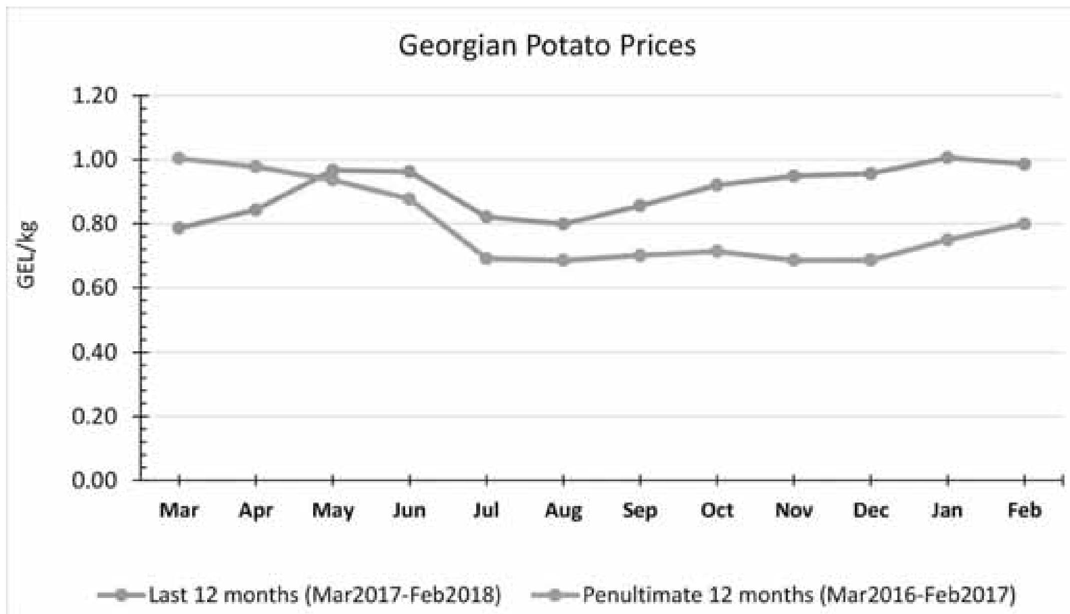
Georgia recently introduced a three-month period temporary ban on potato imports from Turkey, with the goal of avoiding the dangers of spreading potato cancer in the country during the seeding period. So, how might this affect potato prices on the Georgian market?

Although Georgia produces close to a self-sufficient amount of potatoes, the country still trades actively, and the main importer of potato in Georgia in recent years has been Turkey, which accounted for more than 80% of total potato imports in 2017 (in value).

Last November, according to the AGRIndex, potato prices were up by as much as 39% in y/y terms, while the corresponding figure declined to 23% in February 2018. It is also interesting that, according to the AGRIndex, after a six-month period of positive m/m changes in prices, domestically-produced potatoes became cheaper (-2%) in February 2018. This decline in prices might stimulate Georgian consumers to buy Georgian potatoes, especially at the beginning of spring season when the price competition with an imported substitute is tight.

Considering everything discussed above, potato prices may increase before the new harvest hits the local market. The level of price increase will turn on how fast importers find an alternative country to import potatoes from, and this usually takes time. Thus, we might see an increase in potato prices on the local market in coming months. On the one hand, this will benefit Georgian potato producers/sellers, while on the other hand, it will cost Georgian consumers.

More details regarding the price dynamics of Georgian potatoes for the last two years (March2016-February2018) are provided on the graph below.



Data Source: The Ministry of Environment Protection and Agriculture of Georgia

On Persi, Vodka and the Post-Soviet Consumerist Revolution

See on p. 6

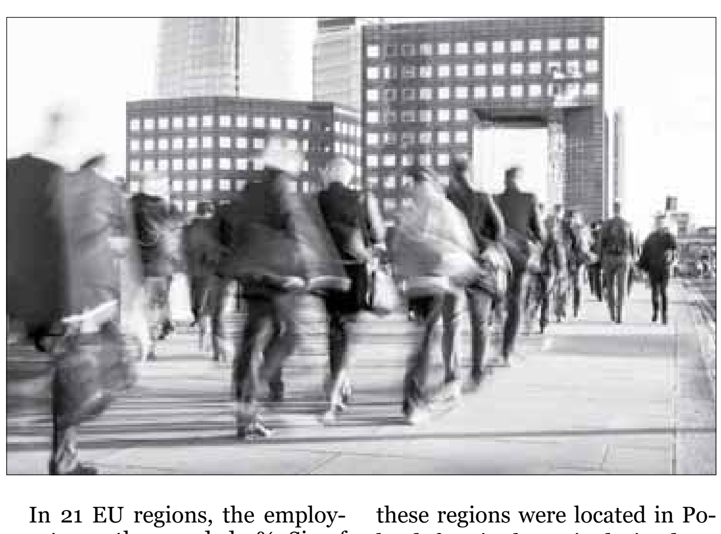
Employment grew in 8 out of 10 EU regions

In 2016, 231 of the EU regions (84%) saw their employment grow in 2016. In 32 other regions, the number of persons employed decreased and in a further 12 employment remained stable.

Growth in employment varied widely across the EU regions and within countries. The highest employment growth rates were recorded in Podkarpacie (+7.9%) and Opolskie (+5.9%) in Poland, Ciudad Autónoma de Melilla (+4.8%) in Spain and Pomorskie and Warmińsko-Mazurskie (both +4.7%) in Poland.

At the opposite end of the scale, the biggest decreases in employment were registered in Nord-Est (-3.8%) and Sud-Vest Oltenia (-3.0%) in Romania, Wielkopolskie (-2.5%) in Poland, Severoiztochen (-2.3%) in Bulgaria and Śląskie (-2.2%) in Poland.

In the EU as a whole, the employment grew by 1.2% in 2016.



Largest employment growth in Podkarpacie

In 21 EU regions, the employment growth exceeded 3%. Six of these regions were located in Poland and in the United Kingdom, two each in Italy and Spain and one each in Hungary, Portugal, Cyprus, Malta and Slovakia. In these regions, employment grew by a total of 604 000 persons.

In 32 EU regions (11% of the regions), the number of employed people decreased in 2016. In 17 of these regions, the number of employed fell by more than 1%. Six of these regions were located in Poland, four in the United Kingdom, three in Romania, two in Bulgaria and one in each Greece and Italy. Employment decreased by 278 000 persons in these twenty regions.

Highest number of employed people per population in Inner London – West

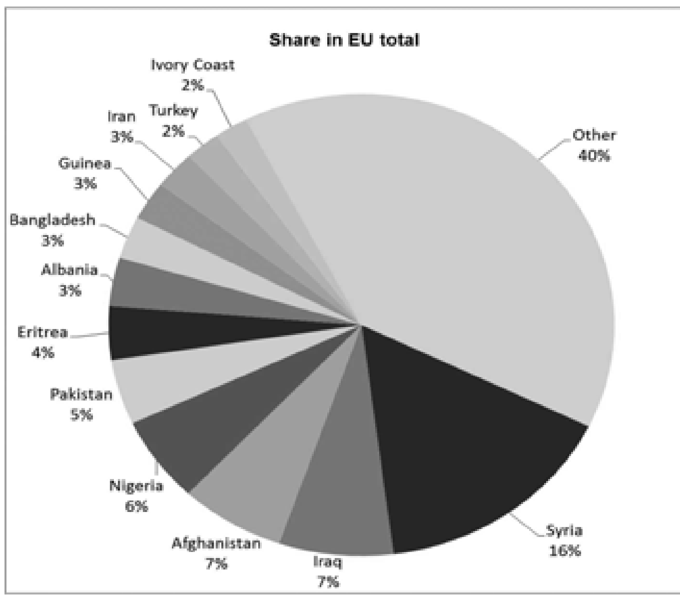
The number of employed people divided by population can indicate different demographic and labour market situations across regions (differences in active population and unemployment rates) and show commuting flows to or from certain regions, as employment statistics are based on the place of work while population data are based on residency. This indicator can help explain some of the variations in GDP per capita.

For the EU as a whole, the employment per population ratio is 45%. In 10 regions, it exceeds 60%, with the highest percentages in Inner London – West (169%), Luxembourg (72%), Prague and Bratislava (both 71%).

On the other hand, in 11 regions, the employment per population ratio is below 33%. The lowest percentages are in the French oversees departments of Mayotte (19%), Guyane (21%) and Guadeloupe (29%), in Sicilia (30%) in Italy and Outer London - East & North East (31%) in the United Kingdom.

statistics explained

Georgians are not among leading asylum seekers in EU



Number of applicants

Total	649 855
Syria	102 385
Iraq	47 525
Afghanistan	43 625
Nigeria	39 090
Pakistan	29 570
Eritrea	24 355
Albania	22 075
Bangladesh	19 280
Guinea	17 705
Iran	17 260
Turkey	14 630
Ivory Coast	13 995
Other	258 360

The FINANCIAL

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Syrian (102 400 first-time applicants), Iraqi (47 500) and Afghan (43 600) continued to be the main citizenships of people seeking international protection in the EU Member States in 2017, together accounting for 30% of all first- time applicants.

3 in 10 applied for asylum in Germany

With 198 300 first-time applicants registered in 2017, Germany accounted for 31% of all first-time applicants in the EU Member States. It was followed by Italy (126 600, or 20%), France (91 100, or 14%), Greece (57 000, or 9%), the United Kingdom (33 300, or 5%) and Spain (30 400, or 5%). Among Member States with more than 5 000 first-time asylum seekers in 2017, the number of first time applicants compared in relative terms with the previous year rose most in Spain (+96%, or 14 900 more first-time asylum seekers in 2017 than in 2016), France (+19%, or 14 300 more), Greece (+14%, or 7 200 more) and Italy (+4%, or 5 400 more). In contrast, the largest relative decreases were recorded in Germany (-73%), Austria (-44%), the Netherlands (-17%) and the United Kingdom (-15%).

650 000 FIRST-TIME ASYLUM SEEKERS REGISTERED IN 2017

Highest number of first-time applicants relative to the population in Greece, lowest in Slovakia

The highest number of registered first-time applicants in 2017 relative to the population of each Member State was recorded in Greece (5 295 first-time applicants per million population), ahead of Cyprus (5 235), Luxembourg (3 931) and Malta (3 502). In contrast, the lowest numbers were recorded in Slovakia (27 applicants per million population), Poland (79), Portugal (98), the Czech Republic (108) and Estonia (138). In 2017, there were in total 1 270 first-time asylum applicants per million population in the EU as a whole.

Syrian, Iraqi and Afghan – main citizenships of asylum seekers

Syria (16% of the total number of first-time applicants) was in 2017 the main country of citizenship of asylum seekers in the EU Member States, a position it has held each year since 2013. Of the 102 400 Syrians who applied for asylum for the first-time in the EU in 2017, almost 50% were registered in Germany (49 000). In total, Syrian was the main citizenship of asylum seekers in fourteen EU Member States.

Iraq (7% of the total number of first-time applicants) was the second main country of citizenship of asylum seekers in the EU Member States in 2017. Of the 47 500 Iraqis seeking asylum protection for the first-time in the EU in 2017, close to 50% applied in Germany (21 900). Iraqi was the main citizenship of asylum seekers in three EU Member States.

With 43 600 first-time applicants (or 7% of the EU total) in 2017, Afghanistan was the third main country of citizenship of asylum seekers in the EU Member States. More than one-third applied in Germany (16 400).

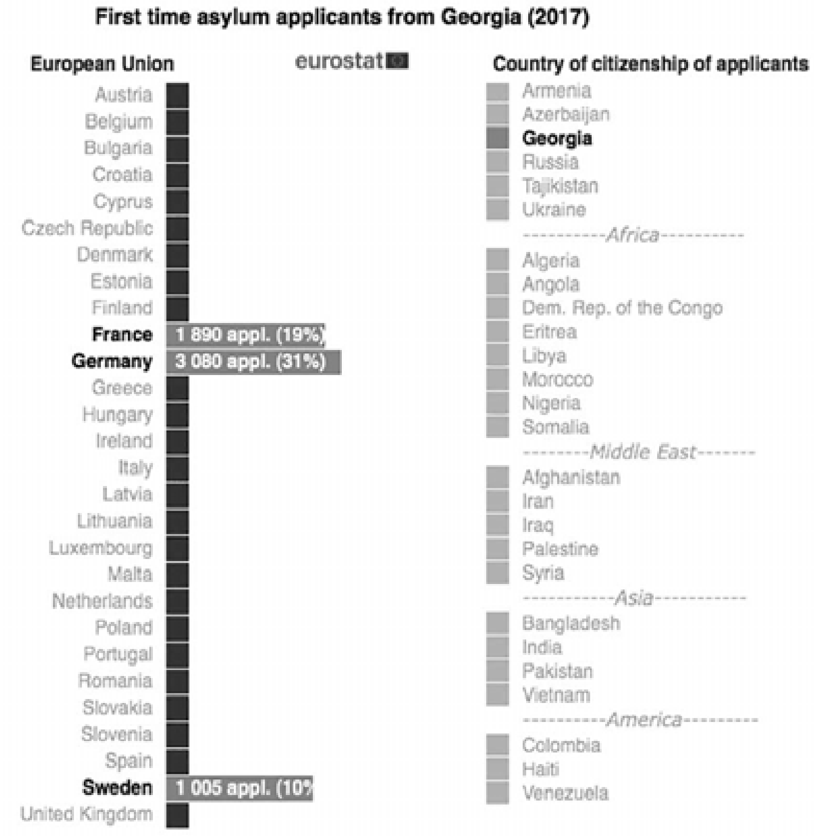
Close to one million asylum applications pending at the end of 2017

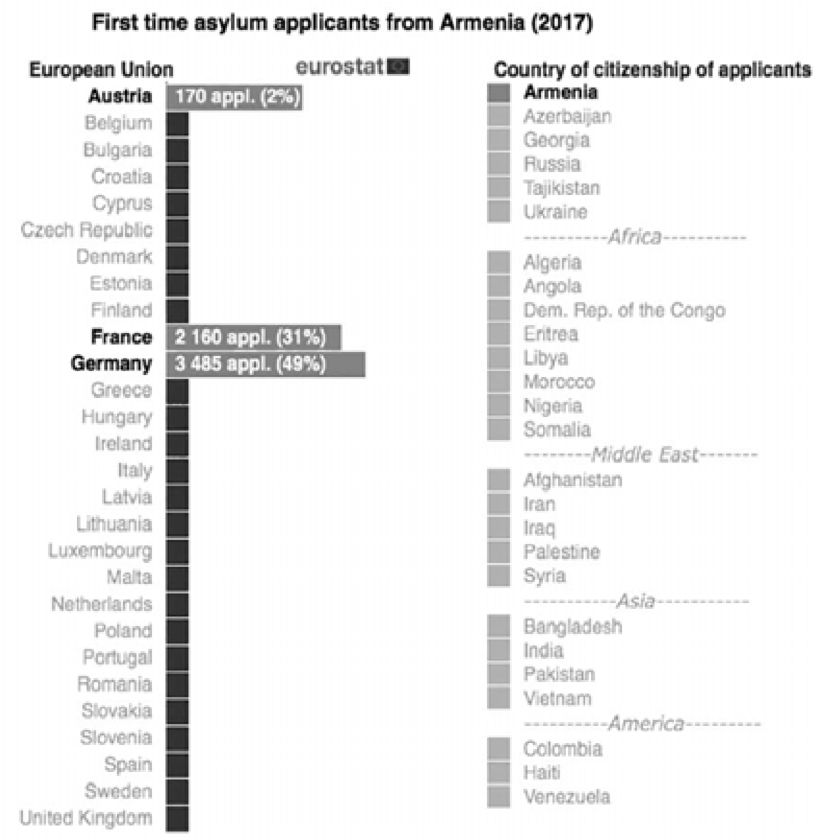
Pending applications for international protection are applications that have been made at any time and are still under consideration by the national authorities at the end of the reference period. In other words, they refer to the "stock" of applications for which decisions are still pending. This statistic is intended to measure the workload of the national authorities.

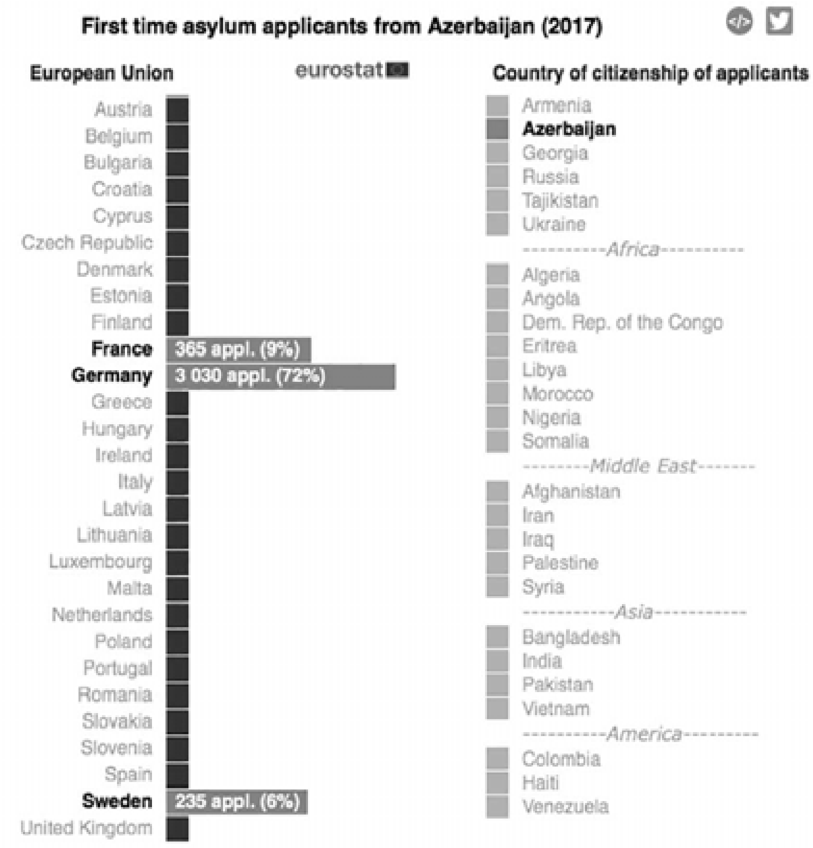
At the end of 2017, 927 300 applications for international protection in the EU Member States were still under consideration by the national authorities. At the end of 2016, this figure was slightly higher (1 094 100). Germany had the largest share of applications pending in the EU at the end of 2017 (443 800, or 48% of the EU total), ahead of Italy (152 400, or 16%), Austria (57 700, or 6%) and Sweden (51 500, or 6%).

> “ GEORGIA RECEIVED MANY NEGATIVE REPORTS FROM WESTERN MEDIA LAST MONTH DUE TO STRICT STATEMENTS OF EU LEADERS AND MINISTERS OF SOME MEMBER STATES, WHO OVER-EVALUATED THREATS FROM GEORGIA.
> “THE NUMBER OF ASYLUM SEEKERS FROM GEORGIA IS VERY HIGH AND IT IS OF COURSE WORRYING. IF THIS SITUATION IS CONTINUES, WE WILL HAVE TO TALK ABOUT THE CONSEQUENCES,” THE GERMAN INTERIOR MINISTER TOLD REPORTERS IN BRUSSELS RECENTLY.
> DATA FROM EUROSTAT SHOWS THAT SINCE 2017, MORE ARMENIANS (3485) APPLIED FOR ASYLUM IN GERMANY, THAN FROM GEORGIA (3080).

The 3 main EU Member States in which asylum seekers with this citizenship applied







EU launches new External Investment Plan in Tbilisi

The FINANCIAL -- On 21 March, the EU presented its External Investment Plan (EIP) at a regional launch event in the Georgian capital Tbilisi.

Under this plan, the EU will mobilise investments from the public and private sector from 2017 to 2020 for more than 70 economies around the world, including Georgia and the other Eastern Partner countries.

The EIP will aim to boost investment and support more inclusive and sustainable development in the European Neighbourhood countries, including Georgia, according to the EU Neighbours portal.

The event in Tbilisi is part of a series of outreach events for private and public sectors across the region. These events have brought together national authorities, business communities, private sector businesses, partner international financial institutions and other stakeholders to discuss investment opportunities in various sectors and to provide an opportunity to network with key private and public sector stakeholders.

Katarina Mathernova, Deputy Director-General for Neighbourhood Policy and Enlargement Negotiations highlighted that the EIP is another sign of the strong commitment from the EU to encourage and help boost economic growth through private and public investment in Georgia, as well as other Eastern Partner countries.

"Our partnership approach is geared at promoting entrepreneurship, trade and new investment opportunities. This is in view to address obstacles to growth, to promote inclusive growth and job creation, and to deepen economic integration," she said.

The EIP responds to ambitious political objectives and aims at mobilising a large volume of investments (especially from the private sector) to fulfil economic and social development in EU partner countries.

Cyber threats topple over-regulation as top risk for Banking and Capital Markets CEOs

The FINANCIAL -- Cyber threats have replaced over-regulation as top concern for Banking and Capital Markets (BCM) CEOs. 89% are worried about their cybersecurity, while 93% will be investing more heavily in it in 2018.

That's one of the main takeaways from the report 'Driving change: no magic solutions, just hard work', which is part of PwC's 21th Global Survey and highlights the outcomes of interviews with 188 BCM CEOs around the world.

BCM CEOs seeing the pace of technological change (85%) and the closely-related impact of changing consumer behaviour (73%) as threats to growth is up on last year. They're realising customer behaviour can't be addressed without first dealing with the technological disruption that drives them. At the same time, the relatively low level of perceived disruption coming from new competition would suggest that the heat from FinTech is easing off. Rather than a potential rival, FinTech businesses are coming to be seen as a valued source of innovation and talent.

Capitalising on the potential of new technologies is also as much about talent as tech itself. People rather than systems drive innovation and realise its full commercial potential. As the CEO Survey findings highlight, attracting digital talent is notoriously hard – less than 20% of BCM CEOs see it as easy. While much of the focus is on bringing in app developers, robotics engineers and other specialists, it's just as important to ensure that tech awareness permeates throughout the organisation, including senior leadership.

It's also key to consider how to organise talent when humans and machines are now coming to work so closely as part of a hybrid workforce. Most BCM CEOs are still trying to work out how to make the most of the collaborative potential – when thinking about their people strategy for the digital age, less than half (44%) are clear about how robotics and AI can improve customer experience, for example.

BCM organisations also need to address common anxieties about the impact of automation and AI. When asked whether they are creating transparency over the impacts of automation and AI to help build trust within their workforces, nearly two-thirds of BCM CEOs said yes and a further 10% plan to do so in the next 12 months. However, more than 20% aren't addressing this issue and have no immediate plans to do so.

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By ERIC LIVNY
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Back in 1991, I attended a big "Whither Socialism" conference hosted by my alma mater, the Hebrew University in Jerusalem. A session I remember most vividly featured a Hungarian dissident, a poet, telling stories about the ineffectiveness of communist propaganda. "Communists", he told a sympathetic audience, "tried to convince us that jeans can cause impotence in young males, and that Coca Cola is bad for people's health". At this point, a trembling female voice could be heard in the back of the conference hall: "But Coca Cola is bad for people's health!"

* * *

The introduction of capitalism to Russia and the rest of the communist block was spearheaded by the arrival of coveted Western consumer goods. Capitalism came in several characteristic flavors. I will never forget the peppermint gum – a single piece! – gifted to me, an 8-year-old Soviet kid, by a goodhearted Finnish tourist. This was an amazing stroke of good luck. Attracted by Russian vodka, binge-drinking Finns inundated St. Petersburg of the 1970s, but few of them distributed peppermint gum.

A more systematic exposure to capitalistic flavors started in 1974, with the opening of the first Soviet Pepsi factory in Novorossiysk (do read this amazing story!). Since rubles, for which Pepsi was sold in the Soviet Union, could not be converted into dollars, the capitalist genius found a creative solution: to barter Pepsi for Stolichnaya vodka (one liter of Pepsi concentrate for one liter of Stolichnaya), and, later, for Soviet warships and submarines.

It took 16 years, as well as Glasnost and Perestroika, for another major American brand to land on the dark side of the moon. When the first McDonald's fast food restaurant opened in Moscow on 31 January 1990, it served a mind-boggling 30 thousand visitors in a single day, setting a new world record. Dying for a barbecue-flavored bite of American capitalism, Muscovites queued for over 6 hours outside the restaurant. Incidentally, while doing so, they had their backs turned towards Alexander Pushkin's statue, a key symbol of Russian literature and culture.

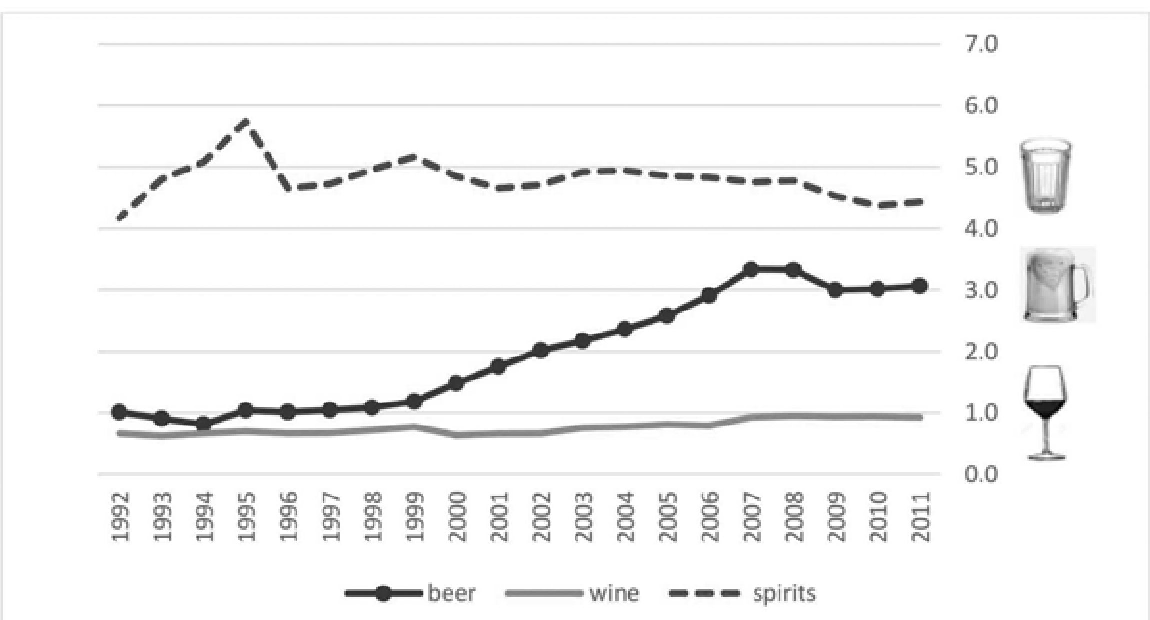
While Pushkin may have been turning in his grave at this bizarre sight, a commercial ran on Soviet TV in 1990 rightly claimed that the "new generation [of Soviet citizens] chose Pepsi". In more than one way, Consumerism, symbolized by Pepsi and McDonald's, merely substituted for Marx and Lenin in the Homo Sovieticus' mind, as beautifully satirized in Victor Pelevin's bestseller Generation P (Homo Zapiens in Andrew Bromfield's English language translation).

* * *

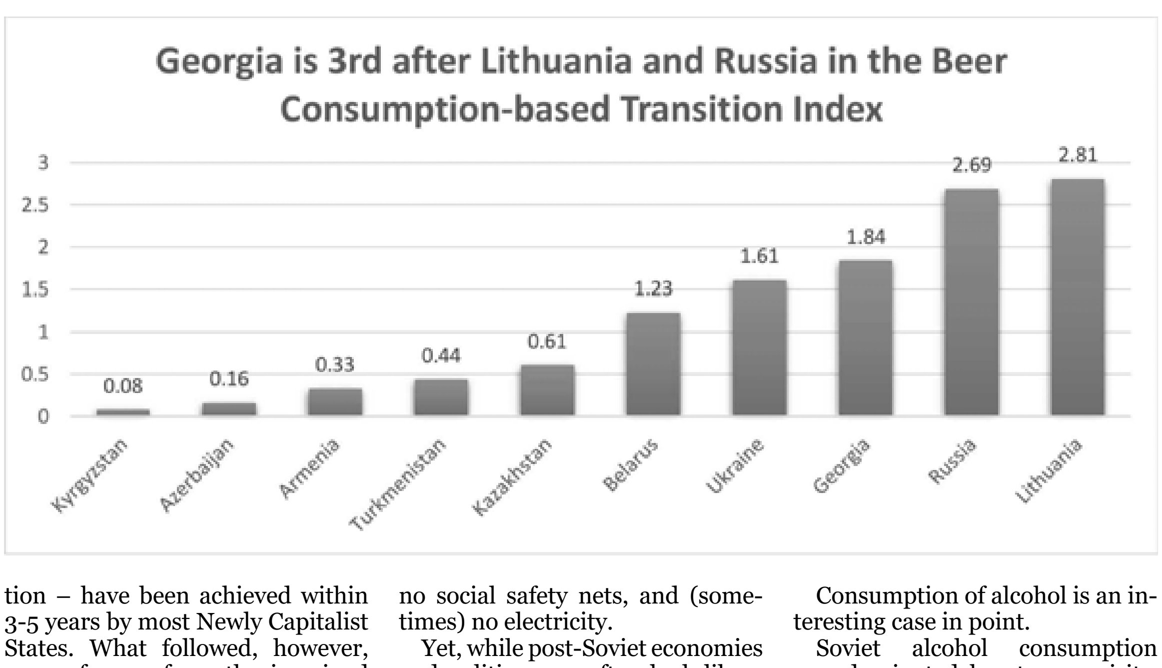
Post-Soviet transition from socialism to capitalism was anything but linear or smooth. Some aspects of transition – privatization of state owned property, price liberalization and even macro stabilization – have been achieved within 3-5 years by most Newly Capitalist States. What followed, however, was a far cry from the imagined Consumerist Heaven, at least not for the vast majority of rank-and-file consumers who became increasingly concerned with survival. Not Pepsi. Not McDonald's. Physical survival in the absence of jobs, with no security from crime, no social safety nets, and (sometimes) no electricity.

Nikita Khrushchev tastes Pepsi at the 1959 "American National Exhibition" in Moscow's Sokolniki park. The anxious look on Richard Nixon's (Eisenhower's deputy at the time) face says "how did you like it, Nikita?"

Figure 1: Per capita (15+) alcohol consumption (in liters of pure alcohol) in former Soviet Union, 1992-2011



Source: World Health Organization



Yet, while post-Soviet economies and politics may often look like a caricature of the free-market-and-liberal-democracy gospel, Western-style consumerism and fascination with Western consumption patterns remain an ideological and cultural fixture of the Eastern European landscape.

Consumption of alcohol is an interesting case in point.

Soviet alcohol consumption was dominated by strong spirits, such as Russian vodka, Georgian chacha, and Armenian "cognac" (brandy). Wine was second, mainly consumed in the traditional vine cultivation areas (Georgia, Moldova, Crimea). Finally, though quite popular with Soviet males, beer was third, available on tap or by the glass through specialized kiosks and street kegs (much like kvass).

With all government restrictions on alcohol consumption removed, the start of transition was associated with a large spike in alcoholism and a corresponding surge in deaths from related causes. The consumption of spirits remained very high until 2011, the last year for which we have WHO data, yet gradually declining. Throughout the same period, we observe a very moderate increase in wine, and very strong growth in per capita consumption of beer. These data suggest that the young Pepsi generation adopted not only the eponymous drink but also the associated life style – hanging out in bars, night clubs and restaurants, as opposed to getting drunk in entrance halls and stairwells of shabby Soviet condominiums.

The same changes can be observed at the level of individual countries. With 15.76 liters per capita, Russia's alcohol consumption in 2011 was still the 4th highest in Europe. Yet, by 2013 it dropped to 13.5 liters of pure alcohol, a level comparable with European Union averages. Moreover, wine and beer are gradually overtaking spirits as the main source of alcohol for Russian drinkers.

The degree to which different countries adopted beer drinking can serve as a proxy of transition to Western life styles and consumption habits. Using WHO data on the change in beer consumption (in liters of pure alcohol) between 1990 and 2011, our Beer Consumption-based Transition Index for post-Soviet countries places Georgia third, after Lithuania (1) and Russia (2), and before Ukraine (4) and Belarus (5). Our neighbors Armenia and Azerbaijan, on the other hand, are trailing far behind.

The gradual transition to softer alcoholic drinks, as observed in the former Soviet space, is definitely a good thing. It remains to be hoped that this change in consumption habits – and culture – will soon be followed by improvements in economic performance, social solidarity and governance, allowing transition countries to rise above Consumerism and Nationalism, and finally reach the promised land of prosperity and human dignity.

* * *

Led by Moses, the Jewish people spent some 40 years circling the Sinai Peninsula before being allowed into the Holy Land. This time was required for new generations to grow up, generations that had never known slavery, and were not as quick to fall for pagan deities, such as the Golden Calf – the biblical equivalent of Consumerism. Using this biblical story as a guide, we have only another 13 years to go.

Eric Livny is President at the International School of Economics at Tbilisi State University (ISET) and ISET Policy Institute. The views expressed in this article belong solely to the author, and do not necessarily reflect the views of the International School of Economics at TSU (ISET) or ISET Policy Institute.

EBRD and EU foster hazelnut production in Georgia

Nina TSINTSADZE

EBRD

Hazelnuts are a major product for agriculture in Georgia. As one of the country's top 10 export commodities, they are a source of income for more than 50,000 farmers and dozens of processing facilities.

The country's subtropical climate by the Black Sea shore offers particularly favourable conditions for their growth, luring international confectionary giants such as Ferrero to invest in local production.

"The livelihoods of around half of the Samegrelo region's population are closely linked to hazelnut farming. In villages, almost everyone grows them. Cultivating hazelnuts is what helped us overcome the hardships of the 1990s," said Demur Ardia, owner of SRT, one of the processing facilities in the Samegrelo region, the main homeland of hazelnut plantations and orchards in Georgia.

After more than 22 years in the business, Mr Ardia only recently decided to open his own hazelnut processing facility. For two years in a row his company has ranked among the top hazelnut exporters in terms of volume, exporting mainly to Germany and Italy, sometimes to the Czech Republic.

"Turkey is the world's biggest producer and exporter of hazelnuts, it sets prices worldwide. Georgian hazelnuts are often sold at a discount compared to Turkish ones, so our focus should be on productivity and quality to achieve higher prices and a bigger piece of the pie," said Mr Ardia.

The EBRD and the European Union (EU), under its EU4Business initiative, support Demur Ardia and other small and medium-sized entrepreneurs with similar drive and passion in Georgia, Moldova and Ukraine to help them to secure that bigger piece of the pie.

Each of these three countries benefits from the free trade area with the EU, the world's largest trading block with 500 million consumers, according to the EBRD.

Access to finance and knowledge

Competitive small and medium-sized enterprises (SMEs) are considered the backbone of any economy and Georgia's is no exception. While the country has made significant progress outperforming other EU Eastern Partnership countries in creating a favourable institutional and operational environment for SMEs, challenges remain.

Enhanced access to finance, deeper knowledge of export market opportunities and boosting innovation are considered crucial for further SME growth.

The EBRD and the EU help SMEs in Georgia, Moldova and Ukraine to integrate European standards in their work by investing in production upgrades, boosting growth and increasing competitiveness not only on the European market but their local market as well.

Through partner banks, the EBRD provides credit lines for companies to foster stronger economic ties with the

Continued on p. 12

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The FINANCIAL -- In 2016, 231 of the EU regions (84%) saw their employment grow in 2016. In 32 other regions, the number of persons employed decreased and in a further 12 employment remained stable.

Growth in employment varied widely across the EU regions and within countries. The highest employment growth rates were recorded in Podkarpacie (+7.9%) and Opolskie (+5.9%) in Poland, Ciudad Autónoma de Melilla (+4.8%) in Spain and Pomorskie and Warmińsko-Mazurskie (both +4.7%) in Poland.

At the opposite end of the scale, the biggest decreases in employment were registered in Nord-Est (-3.8%) and Sud-Vest Oltenia (-3.0%) in Romania, Wielkopolskie (-2.5%) in Poland, Severoiztochen (-2.3%) in Bulgaria and Śląskie (-2.2%) in Poland.

In the EU as a whole, the employment grew by 1.2% in 2016.

Gross Domestic Product of Georgia IV Quarter, 2017 amounted to 5.4 percent

The FINANCIAL -- In Q4 2017 the real growth rate of Gross Domestic Product (GDP) amounted to 5.4 percent year-on- year, while the GDP deflator increased by 6.1 percent. The nominal GDP totaled GEL 10 572.3 million.

Real growth was registered in the following activities: Financial Intermediation (15.4 percent), Transport (10.6 percent), Construction (9.5 percent), Manufacturing (9.4 percent), Hotels and Restaurants (9.2 percent), Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods (6.9 percent), Mining and Quarrying (6.1 percent), Real Estate, Renting and Business activities (5.0 percent), Other community, Social and Personal Service activities (4.6 percent), Education (4.5 percent).

A decrease in the real value-added occurred in Processing of Products by Households (-4.2 percent), Agriculture, Hunting and Forestry; Fishing (-2.5 percent), according to GeoStat.

The largest shares of GDP by activity are held by Trade services (17.8 percent) and Industry (16.8 percent), followed by Public administration (10.7 percent), Construction (9.0 percent), Transport and Communication (9.0 percent), Real estate, Renting and Business activities (7.5 percent), Agriculture, Hunting and Forestry; Fishing (6.9 percent), Health and Social work (5.5 percent).

EU: Energy consumption and use by households

The FINANCIAL

In 2016, households in the European Union (EU) accounted for a quarter of the total final energy consumption. Most of the energy consumed was natural gas (36.9%) and electricity (24.4%). Renewables counted for 15.9% of energy consumption, petroleum products for 11.6% and derived heat for 7.8%, while a small proportion (3.3%) was still covered by solid fuels.

The picture varies across the EU Member States.

Gas made up more than half of the final consumption energy of households in the Netherlands (72%), the United Kingdom (63%), Italy and Slovakia (both 53%). On the other hand, Malta (70%) and Sweden (51%) mainly used electricity.

Renewable energies (mostly solid biofuels) made up at least 40% of the households' final energy consumption in Croatia (47%), Slovenia (46%), Estonia (41%) and Romania (40%). The highest share of solid fuels in final consumption of energy of households was recorded in Poland (33%), while Ireland (38%), Cyprus (37%), Greece (30%) and Belgium (29%) used the highest proportions of petroleum products.

Energy consumption of households by energy product ... and essentially for heating purposes

As is to be expected, households mainly used energy for heating their homes: this represented around two-thirds (64.7%) of their final energy consumption. In addition, the energy used for water heating accounted for 14.5%, meaning that overall, the heating of space and water accounted for 79.2% of the final energy consumed by households. Energy used for lighting and the use of most electrical appliances accounted for 13.8% of the energy used by households, while the main cooking appliances represented 5.4%, air conditioning 0.3% and other end-uses 1.3%.

Mean age of women at childbirth across EU regions

The FINANCIAL -- Across the 1 342 NUTS 3 regions* of the European Union (EU), the mean age of women at childbirth (for all births, not only the first one) in 2016 was lowest in the Bulgarian region of 'Sliven' (25.1 years) and highest in the Greek region of 'Voreios Tomeas Athinon' (33.8 years).

On average across the entire EU, the mean age of women at childbirth was 30.6 years.

Youngest women at childbirth in Bulgaria and Romania

The mean age of women at childbirth was under 27 in 22 EU regions. All of these regions were located in two Member States: Bulgaria (15 of its 18 NUTS 3 regions fell into this category) and Romania (7 regions). The Bulgarian regions of 'Sliven' (25.1 years), 'Yambol' (25.4 years), 'Pazardzhik' (25.8 years), 'Montana' (25.9 years) and 'Vidin' (26.2 years) were those where women were youngest when their children were born. The regions of 'Giurgiu' (26.2 years) and 'Călăraşi' (26.3 years) recorded the lowest mean age of women at childbirth for Romania.

Five of the 12 regions with oldest mean age at childbirth in London

Alongside 'Voreios Tomeas Athinon' (33.8 years) in Greece, 11 EU regions at NUTS 3 level also recorded a mean age of women at childbirth of 33 years or over. Five of those regions were in the United Kingdom, specifically in London: 'Wandsworth' (33.7 years), 'Camden & City of London' (33.7 years), 'Kensington and Chelsea & Hammersmith and Fulham' (33.6 years), 'Westminster' (33.3 years) as well as 'Lambeth' (33.0 years). The two regions of 'Medio Campidano' and 'Nuoro' in Italy, along with 'Paris' in France, 'Heidelberg, Stadtkreis' in Germany, 'Bizkaia' in Spain and 'Byen København' in Denmark completed the list of EU regions where women were on average 33 years old or more when their children were born.

Almost 4 500 deaths from tuberculosis in the EU

The FINANCIAL -- From the 5.2 million deaths reported in the European Union (EU) in 2015, 4 400 were due to tuberculosis. Men (3 000 deaths) were more affected than women (1 400 deaths). 43% of these deaths concerned people aged less than 65.

Tuberculosis in the EU

In absolute terms, in 2015 Romania (1 060 deaths, or 24% of the EU total) recorded by far the most deaths from tuberculosis in the EU, followed by Poland (545, 12%) and France (440, 10%).

However, for a relevant country comparison, these absolute numbers need to be adjusted to the size and structure of the population.

Death rate from tuberculosis highest in Lithuania, Romania and Latvia

With 63 deaths from tuberculosis per million inhabitants, Lithuania registered the highest rate among the EU Member States. It was followed by Romania (54) and Latvia (47).

At the opposite of the scale, the lowest rates of deaths due to tuberculosis were recorded in the Netherlands and Sweden (both with 2 deaths per million inhabitants).

ICI PARIS Presents Two, Latest Perfumes of Issey Miyake

The FINANCIAL

Two latest perfumes of Famous Japanese designers Issey Miyake, L'eau d'Issey Pure for ladys and L'eau Majeure d'Issey for men is now available at ICI PARIS stores. Perfumery and cosmetics company Ici Paris is famous of its novelties, big choice of international brands, offering its customers newest tendencies of decorative cosmetics, perfumes and skincare facilities. Khatia Shamugia Head of Pr&Marketing of the company organized press lunch for media representatives introducing Japanese designers amazing new scents.

"Issey Miyake is the designer known for its technology driven fashion designs. His perfumes are extremely charming with their aroma and bottles with architectural shapes. In each five minutes per perfume of Issey Myiake is sold worldwide.The brand is one of the best selling in Georgia so far. We always try to offer newest perfumes to our customers and here we are, presenting two new perfumes of one brand at the same time," Shamugia says.

As Shamugia said, These new perfumes are inspired by nature and water. "Japanese people start their day with drinking water," she said.

The famous Japanese fashion designer Issey Miyake has launched in early 2018 L'Eau d'Issey Pure Nectar de Parfum–

the new flanker to brand's iconic L'Eau d'Isseyl aunched in 1993. The new perfume inspires a delicious/nectar perfume to please and warm women during the whole day.

The new fragranceopens to impress with sweet pear accords along with sweet honey, rose absolute, and fresh aquatic accords. The base calms on a woody layer made of sandalwood, cashmeran, and ambergris. Top Notes: Pear and honey. Heart;Rose absolute, Honey, Aquatic notes. Bases;Sandalwood, Ambergris, Cashmeran Issey Miyake L'Eau d'Issey Pure Nectar de Parfum was created by Fanny Bal and Dominique Ropion and is availablevas 50 and 90ml Eau de Parfum.

Issey Miyake L'Eau Majeure d'Issey Eau de Toilette, a fragrance for men with woody-aquatic facets. A tribute to the force of water, the Issey Miyake L'Eau Majeure d'Issey Eau de Toilette is a symbol of strength and masculinity. Made to invigorate the senses, the fresh aftershave will compliment a man of confidence who wants his scent to intrigue and inspire.

The Issey Miyake L'Eau Majeure d'Issey Eau de Toilette evokes an aroma reminiscent of salty wood. This crisp and refreshing character is created with the fusion of a salty accord and wood notes, joined by juicy citruses and cashmeran in the base for a masculine dry down. Top Notes:Bergamot, Grapefruit. Heart Notes:Salty Accord. Base Notes:Woods, Cashmeran

About Issey Miyake perfumes:

Issey Miyake is a Japanese fashion designer. He is known for his technology-driven clothing designs, exhibitions and fragrances.

Like many fashion designers, Issey Miyake also has a line of perfumes. His first fragrance, the light aquatic-floral L'eau d'Issey for women, was launched in 1992. The bottle, designed by Miyake himself, is based on the view of the moon behind the Eiffel Tower from his Paris apartment.

The scent was followed byL'eau d'Issey Pour Homme (for men) in 1994. L'eau Bleue d'Issey Pour Homme was introduced in 2004; and its evolution, L'eau Bleue d'Issey Eau Fraiche was introduced in 2006. Every year since 2007, Issey Miyake has brought out a "limited time only" fragrance for ladies in which he brings in a "guest" perfumer.

In 2007, he launched 'Drop on a Petal', and in 2008 he launched 'Reflections in a Drop'. A new Issey Miyake men's fragrance, L'eau d'Issey Pour Homme Intense, was introduced at Nordstrom in the United States in June 2007, with a larger worldwide rollout following in September 2007. Issey Miyake fragrances are produced under a long-term agreement by the Beauté Prestige International division of Shiseido, who also produces fragrances for Narciso Rodriguez, Elie Saab, and Jean-Paul Gaultier.

MOODY'S on Georgia: We expect GDP growth to average around 4.3% over 2018-2019

The FINANCIAL – The credit profile of Georgia (Ba2 stable) reflects high average growth rates, strong and improving institutions, and a moderate debt burden, weighed against low income levels, a small economy, external vulnerability from the economy's reliance on foreign-currency denominated funding, and latent geopolitical risks, according to Moody's lates report on Georgia.

Agency said Georgia's strong and improving institutional framework is anchored by close engagement with the European Union (EU, Aaa stable) and IMF. "Georgia has growing access to a diverse set of markets through various trade agreements, which will allow FDI inflows to remain close to 10% of GDP and will likely raise exports and economic growth in the medium term," Moody's reported.

"By contrast, credit challenges stem from low domestic savings that imply that a large share of investment is financed by external debt, making the economy and sovereign vulnerable to a tightening in external financing conditions. The economy's small scale and preponderance of very small companies is also a constraint to growth potential".

"Upward pressure on Georgia's rating could develop as a result of continued institutional and economic reforms leading to higher domestic savings, reduction in external vulnerability, greater diversification, and robust productivity growth. Measures to bolster the resilience of the banking system would also reduce credit risk".

"Downward pressure on the rating could develop from an increase in external vulnerability risks or heightening of geopolitical tensions. A deterioration in fiscal metrics could also put downward pressure on the rating".

This credit analysis elaborates on Georgia's credit profile in terms of economic strength, institutional strength, fiscal strength and susceptibility to event risk, which are the four main analytic factors in our Sovereign Bond Rating methodology.

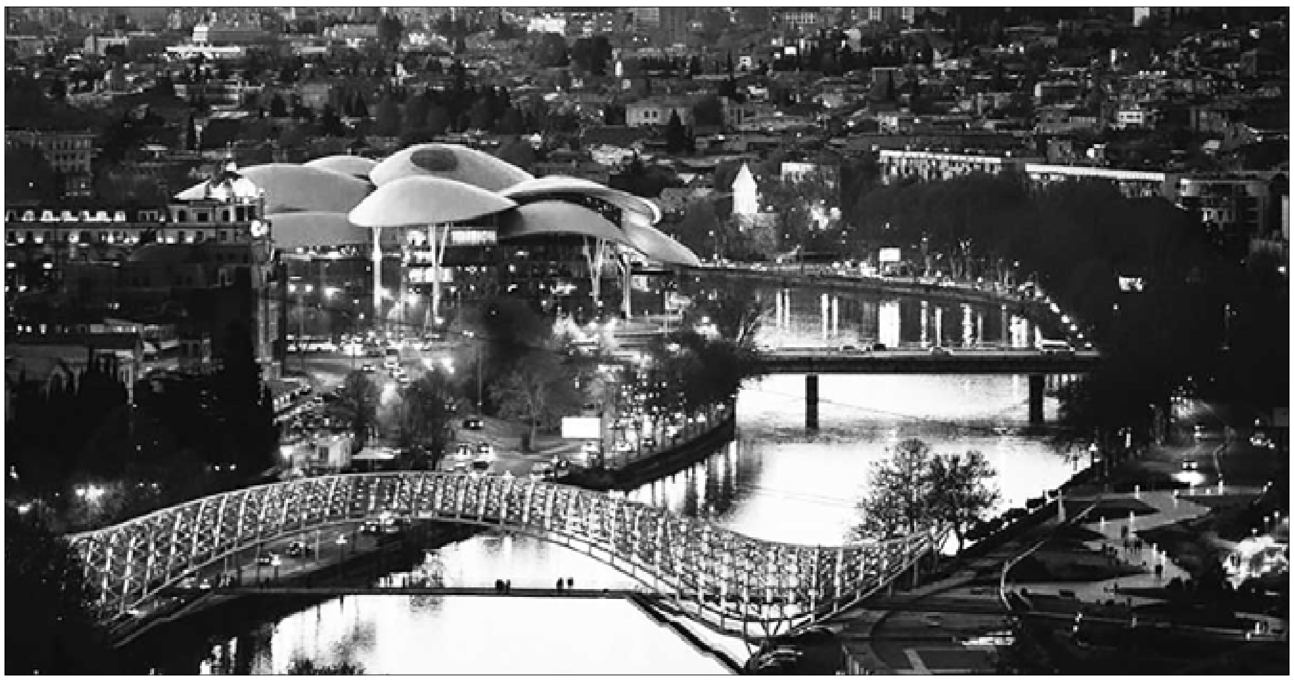
CREDIT PROFILE

Georgia's "Low (+)" economic strength score balances the economy's small size, moderate concentration, high growth volatility, excess credit growth, and low wealth levels, against its significant growth potential, favorable business climate, and increasing integration into the global economy. Georgia shares this assessment with Armenia (B1 positive), Swaziland (B2 negative), Nicaragua (B2 positive), Uganda (B2 stable), Ecuador (B3 stable), and Serbia (Ba3 stable). Georgia's economic strength score is set above the indicative score of "Low (-)" to reflect the greater economic diversification of the economy than its size suggests.

Georgia's economy does not exhibit anomalous concentration despite its small size

"With a nominal GDP of only $14.3 billion in 2016, Georgia lies in the bottom quartile of the sovereigns we rate in terms of scale. A smaller economy tends to be more exposed to sector-specific shocks since there is less scope for other sectors to offset them. However, other diversification indicators suggest only a moderate degree of economic concentration in Georgia's case.," according to Moody's.

"In its domestic production and external trade, Georgia has seen its service economy gradually outgrow primary and secondary industries. Trade and tourism have come to represent the largest segments of the country's domestic production and foreign trade, respectively".



Low wealth levels provide minimal shock absorption capacity

"Albeit rising and comparable to regional peers, wealth levels in Georgia remain low in the global context. Low incomes constrain households' capacity to absorb economic shocks".

Real GDP growth averaged 3.6% in Georgia over 2008-17, broadly in line with the Ba median and 0.4 percentage points above the CIS average over the same period. In terms of gross value added, the country's output expanded by around 39% between 2008 and 2017 (or the four quarters to Q3 in each year), led by robust growth in trade, construction, and manufacturing activity".

"In recent years, economic growth has been driven in large part by sizable FDI inflows and rapid credit growth. These factors allowed Georgia to largely escape the slowdown that gripped the CIS region in 2014-15 in the wake of the global commodity market correction and the international sanctions on Russia. However, rising credit intensity poses risks to the sustainability of growth. A potential deceleration in FDI inflows that may follow the completion of the FDI-funded TANAP natural gas pipeline could also weigh on growth".

"Considering the current economic momentum, favorable global conditions, and progress on institutional reforms, we expect growth to average around 4.3% over 2018-2019 and accelerate to Georgia's potential growth rate of around 5.0% in 2020-2021, outperforming its regional peers," Moody's reported.

"At only 20% of GDP, Georgia's exports of goods account for a relatively small share of its total economic activity. This low level of reliance on exports compares to an average of 27% for other rated CIS sovereigns".

"After adopting the Association Agreement (AA) and the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU, as well as free trade agreements with China (A1 stable) and the European Free Trade Association (Switzerland (Aaa stable), Norway (Aaa stable), Liechtenstein, Iceland (A3 stable)), in addition to long-established agreements with Turkey (Ba2 stable), the United States (Aaa stable), Japan (A1 stable), and Canada (Aaa stable), Georgia now faces relatively low hurdles to expanding its footprint in international trade. Furthermore, its access to maritime trading routes via the Black Sea sets it apart from peers in the Caucasus and Central Asia in terms of physical access to global markets and related transportation costs. Combined with the country's conducive business environment and low labor costs, these factors bode well for investment in export-oriented industries and, ultimately, for export-driven growth over the medium term".

"These favorable factors will take some time to bear appreciable fruit. While exports increased substantially in 2017 (by 29% to $2.7 billion), they were still down from 2013-14 peaks. Exports to the CIS rebounded the strongest, with exports to Russia (Ba1 positive) growing by 91% (or by $188 million, to $395 million), far exceeding the 13% growth in exports to the EU (by $74 million, to $646 million) and the 12% growth to non-EU non-CIS markets (by 98 million, to $901 million) combined. This suggests that entrenched trade patterns will continue to dominate as legacy export industries (cooper ore, ferroalloys, viticulture) take some time to fully capitalize on improved access to new global markets. Considering currently low levels of domestic savings, substantial FDI inflows into established or new export industries are likely to be required to fully unlock the opportunities presented by Georgia's competitive advantages.

"Our "High (-)" assessment of Georgia's institutional strength reflects its significant progress in establishing and sustaining transparent, predictable, and effective institutions over the last 15 years. This assessment is further corroborated by the central bank's track record of maintaining low inflation. Georgia shares this score with mostly high-income sovereigns, including Cyprus (Ba3 positive), Hungary (Baa3 stable), and Uruguay (Baa2 stable), ranking well above regional peers (see Exhibit 9). We have adjusted the country's institutional strength score down to "High (-)" from the indicative "High" due to our view that Georgia's institutional capacity still lags those of its "High" institutional strength peers," Moody's said.

A 15-year track-record attests to reform durability

After embarking on a fundamental institutional reform program in the wake of the 2003 Rose Revolution, Georgia's governance indicators improved rapidly, surpassing all regional peers and many global peers. With a focus on market liberalization, the reforms removed hurdles to economic activity, cementing property rights, greatly reducing corruption, streamlining and localizing government services, and deregulating business and labor markets.

Notably, these gains in institutional development have been sustained and extended after the government brought in by the Rose Revolution was succeeded by the opposition in 2012. Initially catalyzed by foreign donor support, mainly in the form of official foreign aid and charitable contributions, Georgia's institutional framework has proven to be self-sustaining in the long run. Minor loss of domestic approval of government institutions in recent years is likely mostly related to somewhat more challenging macroeconomic conditions, in particular the depreciation of the currency.

Agreement with the EU and IMF supports further institutional transformation

Georgia's main economic ministries and the central bank already demonstrate relatively effective policy management.

The central bank is independent and its conduct of monetary policy is moderately effective at managing inflation. Georgia was among the first countries in the CIS region to adopt a flexible exchange rate, which helps it maintain price competitiveness and preserve foreign exchange reserves. Its commitment to capital account openness has supported Georgia's efforts to attract and retain capital.

Moreover, Georgia's data are of high quality and readily available, which contributes to transparent and predictable policymaking. It subscribes to the IMF's Special Data Dissemination Standard (SDDS) and provides considerable data beyond that of many of its comparators, such as a forward-looking debt service payment schedule.

As part of the AA and DCFTA, the EU provides Georgia with technical and financial support to further develop its institutions. The two agreements aim to further deepen political and economic relations by bringing Georgia's institutional framework closer to EU norms. Georgia has thus committed to implementing further reforms in many institutional domains, including justice, anti-corruption, personal privacy protection, border control and conflict resolution in its disputed territories.

In April 2017, the IMF approved an Extended Fund Facility program for Georgia, granting it access to SDR210.4 million. While the government is not facing liquidity stress, the program can still benefit the sovereign's credit profile by supporting policy credibility and catalyzing additional structural reforms, mainly in the financial sector, pension system, public-private partnership, and education. Based on the IMF's November 2017 review, Georgia was meeting or exceeding all of its performance criteria under the program".

Conduct of monetary policy shows moderate policy effectiveness

"Georgia has been moderately successful at maintaining price stability in the face of external pressures. Although Georgia is a small open economy, exposed to considerable external pressures, the authorities have managed within a floating exchange rate regime".

"As such, even though Georgia has had to contend with a 30% depreciation of the lari against the US dollar between late 2014 and early 2016, inflation peaked at only 7.1% in June 2017 and has averaged 4.0% since September 2014. This was partially the result of decisive action taken by the National Bank of Georgia (NBG, central bank) in 2015, raising its policy rate seven times by a total of 400 basis points, to 8%".

"This experience compares favorably to other CIS sovereigns, such as Azerbaijan (Ba2 stable) and Kazakhstan (Baa3 stable), where inflation rates increased to highs of 17% and 18% respectively, following large depreciations in their currencies – although the depreciation in Azerbaijan and Kazakhstan to the US dollar was also larger than in Georgia, at around 50%.

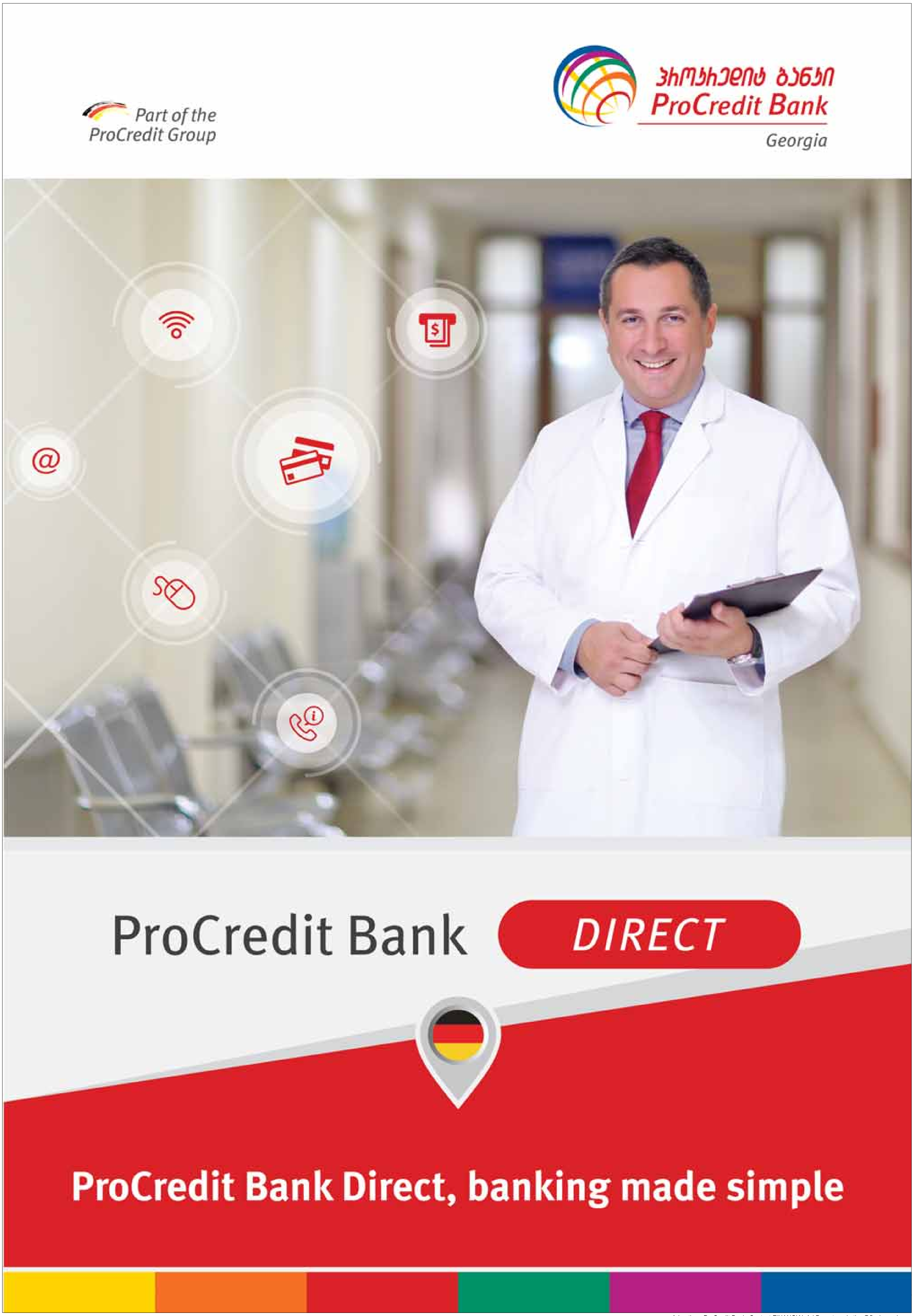
"Going forward, we expect end-year inflation to be 3.4% in 2018, due to moderating growth in economic activity and a somewhat stronger lari, and slightly lower at 3.0% in 2019.

"Georgia's fiscal strength, which we assess at "Moderate", compares favorably to global rating peers, despite a relative high share of foreign currency debt. Regionally, Georgia's fiscal strength is similar to those of Belarus (B3 stable), Moldova (B3 stable), and Tajikistan (B3 stable), with all four funding themselves mainly in foreign currency. In a global context, Georgia's fiscal profile is most similar to that of Fiji (Ba3 stable), with its comparable debt burden but somewhat lower debt affordability and lower share of foreign currency debt".

"We assess Georgia's fiscal strength as "Moderate," supported by the government's moderate debt burden and very high debt affordability. While deficits have historically remained low, we estimate that the deficit narrowed to 0.5% of GDP in 2017 as a result of stronger growth and forecast that it will rise modestly to 1.9% of GDP in 2018 as the government continues its program of improving infrastructure. Notwithstanding the government's commitment to restraining current expenditures and borrowing only for its infrastructure program (expected to be completed in 2021), the high percentage of foreign currency debt weighs on fiscal strength.

We estimate that Georgia's government debt amounted to 41.3% of GDP at year-end 2017 or 142% of government revenue, both relatively low levels. In addition, interest payments relative to revenue were also low at 4.4% in 2017, reflecting the prevalence of

Continued on p. 18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GRASS FACTCHECK

“ Sergi Kapanadze:

“In five years, the Georgian Dream has increased the tax burden.”

Egnate SHAMUGIA
FactChek

Verdict: Sergi Kapanadze’s statement is **TRUE**.

Resume: The tax burden is the ratio of budget tax incomes to the GDP. It has been increasing since 2013. It increased by 1.9 percentage points in the period of 2013-2017. The tax burden was 24.8% in 2013 with the estimated figure for 2017 having increased to 26.7%.

An increase in the excise tax rate resulted in a 1.3 percentage point growth of the tax burden and 0.6 of a percentage point decrease in the profit tax burden owing to changes in taxation. The Value Added Tax (VAT) burden, after decreasing by one percentage point in 2013, has once again increased.

In short, Georgia’s tax burden has been increasing for the last five years and is currently at its highest level since 2010.

Analysis

At a session of the Parliament of Georgia, European Georgia Movement for Freedom member, Sergi Kapanadze, stated that the Georgian Dream had increased the tax burden. Mr Kapanadze stated that the ratio of tax incomes to the GDP was 24.8% in 2013 and reached 26% in 2017.

There are five types of national taxes in Georgia. This number did not change after the Georgian Dream came to power. However, some of the tax rates and taxation subjects did indeed change.

Excise Tax: Taxable transactions as well as the export and import of excised goods are subjects of excise tax. The excise tax rate is differentiated for certain types of goods. Of the 11 taxable groups of goods, the excise tax rate increased for vehicle imports. In addition, the excise tax rate increased significantly on tobacco products. From 2013, the excise tax rate for a 20-package of filtered cigarettes increased from GEL 0.6 to GEL 1.7 whilst the excise tax rate for a 20-package of unfiltered cigarettes increased from GEL 0.15 to GEL 0.6. The excise tax rate for fuel products has also increased from 2017. It went up from GEL 250 to GEL 500 for one tonne of petroleum and from GEL 150 to GEL 400 for one tonne of diesel. The excise tax rate also increased for natural gas used as vehicle fuel. It increased from GEL 80 per 1,000 cubic metres to GEL 200. In addition, mobile communications services were also a subject of excise tax until 2018. Initially, the services were taxed at 10%. The rate decreased to 8% in 2016 and to 3% in 2017. Currently, this tax has been abolished for all but international calls.

Income Tax: An individual’s income is subject to an income tax of 20%. The new coalition government believed that a decrease in the income tax rate could not have had any impact upon the low-income segment of the population and instead introduced the so-called “Untaxed Minimum.” This envisioned tax returns for individuals with a yearly income of less than GEL 6,000. However, the aforementioned tax preference was only in force from 2013-2014.

Profit Tax and Value Added Tax (VAT): The rates for both of these taxes have not changed since 2012. The difference between the total incomes and the total expenses of an enterprise is taxable by profit tax at a rate of 15%. However, as a result of changes enacted in May 2016, only distributed income has been taxable starting from 2017. The VAT rate is 18% with imported goods as well as the delivery of goods and services valued at more than GEL 100,000 in one calendar year subjected to the tax.

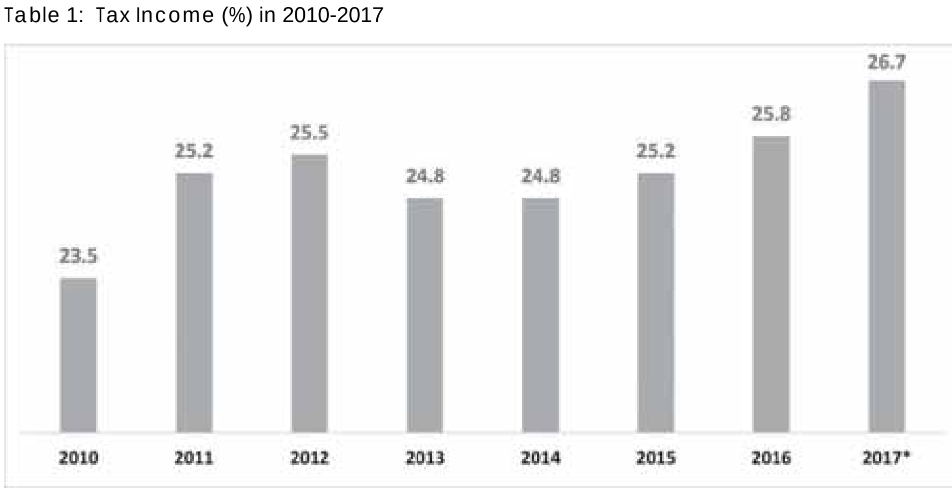
Import Tax: The import tax rate constitutes 12% and 5% according to particular groups of goods. The import tax rates have not changed under the Georgian Dream government.

Property Tax: The property tax rate ceiling has not been altered since 2012.

It is necessary to calculate the consolidated budget tax incomes to the nominal GDP in order to determine the amount of the tax burden. To do this, we have to calculate the percentage of income going to taxes which was generated from goods and services delivered to the country in the period of one year.

As we see, the tax burden has had a tendency of growth in the last years and is at 26.7% according to 2017 estimates. Of note is that the Government of Georgia plans to reduce the tax burden to 25% in accordance with its Social and Economic Development Strategy – 2020 although the trend does show the opposite.

Table 1: Tax Income (%) in 2010-2017



Note* Estimated GDP and tax incomes for a budget year

EBRD and EU foster hazelnut production in Georgia

Continued from p. 8

EU, which are complemented by grant incentives by the EU under its EU4Business initiative.

SRT is one of many companies that have been supported by this initiative, where they have been able to invest in modern equipment to ensure European quality standards for the final product, as well as receiving 15 per cent cashback on the whole investment.

SRT was also supported by advisory services through the EBRD SME Finance and Development Group, a complementary programme that also benefits from EU funding. The company was able to adopt standards to improve their overall food and hygiene quality and obtain the relevant ISO certificate, a universal recognition of compliance with global norms.

Similarly, NUTSGE another nut processing company in the same region and also with trade partners in Europe, has benefited from advisory services to integrate their information management system so their business processes are managed on a single platform.

“The new system helps us to get hold of all information and track it, along with strengthening the company’s reliability and cooperation with our European partners and consumers, “said Thea Kukhalashvili, NUTSGE Marketing Manager.

”As is often the case, drastic upgrading in one area has created momentum for innovation and continuous improvement in others. We are looking into ways to make our operations even more efficient and to become more technology-savvy.”

“It is great to see Georgian SMEs benefit from opportunities provided by the DCFTA. The European Union is ever more committed to supporting innovative entrepreneurs. I hope that Georgian small and medium businesses will continue making good use of the support we offer through the EU4Business initiative and other programmes,” said Janos Herman, Ambassador of the European Union to Georgia.

What’s next for Georgian hazelnuts?

For the past few years, Georgia has proudly secured its place in the list of top five hazelnut producing countries worldwide. But a recent severe attack of the agricultural pest brown marmorated stink bug made the lives of Georgian farmers more difficult and the ambitions of greater exports bleaker.

According to preliminary estimates last year hazelnut exports dropped by more than 50 per cent. While the epidemic is not the sole cause, it played a large role in reducing hazelnut exports in both physical and monetary terms.

After surviving the winter, the bug is expected to travel to the eastern part of the country, to the wine region - another vital source of income for Georgia.

To fight the pest outbreak, the EBRD has teamed up with the Ministry of Environment Protection and Agriculture of Georgia in its efforts to spread information among farmers through various channels including traditional and social media.

Multimedia lessons and tutorials are available to teach crop growers the most effective means, both chemical and mechanical, to combat and manage the pest outbreak.

“It is paramount that the state, international organisations and local farmers join forces to overcome this disease,” said Mr Ardia. “This outbreak cannot be managed only by handful of farmers. A united front is needed, along with more information and assistance to the hazelnut sector. Georgia is a small country and hazelnuts are a precious commodity for us.”

“We are delighted to cooperate with Georgia’s Ministry of Environment Protection and Agriculture on yet another initiative that tackles the very pressing challenge Georgian farmers face today. This new initiative will bring Georgian producers closer to knowledge and information to fight the outbreak of the agricultural pest,” said Bruno Balvanera, EBRD Director for the Caucasus, Moldova and Belarus.

“Georgia has a long tradition of farming and its hazelnuts are known and demanded worldwide. The Free Trade Area with the European Union opened the door to opportunities for Georgian farmers, and we stand ready to assist them in increasing yields and improving the quality of produce.”

Press Release

Direct Banking – Innovative Banking for Private Individuals!

ProCredit Bank offers private individuals Direct Banking, a completely different banking experience that provides the full package of banking services through electronic media.

Simple services, a flat fee, permanent access to banking services with Internet Banking and access to multi-functional 24/7 self-service zones are the main advantages that customers can enjoy with Direct Banking.

The idea of creating Direct Banking has emerged as a result of analyzing customers’ needs. In light of the fast pace of life today, customers have less time to visit bank branches and stand in queues for banking services during the Bank’s working hours. In addition, it is important to customers that banking services be sophisticated, continuously available, simple and cheap. With these requirements in mind, ProCredit developed a simple, fast and fully integrated set of services called Direct Banking.

The price for using Direct Banking is much lower than the total price that would be charged for the individual products. By paying one monthly fee, customers can perform almost all bank transactions at no additional charge. In addition to standard banking transactions, exclusive conditions apply to credit and debit services within Direct Banking. The Bank is always ready to consider a short-term or long-term financing plan with customers and offer them the best lending conditions. To help them plan a stable future, the Bank offers its customers various types of deposit accounts, attractive interest rates and favourable terms.

Thanks to the diversity of remote channels and the investments the Bank has made in them, clients can now carry out nearly 99% of banking operations independently, whenever and wherever they like. In addition, the Contact Centre has expanded its range of services, and Contact Centre operators are permanently ready to give support. The Bank’s official website has been updated, with its modern, simple design making it more convenient for customers to use. Customers have continuous access to the banking services they need using Internet Banking.

According to innovative banking - Direct Banking the Bank is not merely a physical place but a space that can operate more efficiently in an online environment with the help of modern technologies.

U.S. Budget Bans Aid to Governments Recognizing Abkhazia, S.Ossetia

The Consolidated Appropriations Act for 2018, the annual budgetary legislation that defines spending by various United States federal agencies, designates USD 105.3 million for assisting Georgia.

The Appropriations Act, which was endorsed by the United States Congress and signed by President Donald Trump on March 23, follows the previous year's practice and prohibits American aid to the governments that have recognized independence of Abkhazia and Tskhinvali Region/South Ossetia.

According to the document, "none of the funds appropriated by this Act may be made available for assistance for the central government of a country that the Secretary of State determines and reports to the Committees on Appropriations has recognized the independence of, or has established diplomatic relations with, the Russian occupied Georgian territories of Abkhazia and Tskhinvali Region/South Ossetia."

The document further stipulates that "none of the funds appropriated by this Act may be made available to support the Russian occupation of the Georgian territories of Abkhazia and Tskhinvali Region/South Ossetia."

In addition, the document states that the U.S. Secretary of the Treasury shall instruct the United States executive directors of international financial institutions to vote against any assistance for any of their programs (including any loan, credit, or guarantee) that violates the sovereignty and territorial integrity of Georgia.

The Secretary, however, is authorized to waive these restrictions, if he/she "determines and reports to the Committees on Appropriations that to do so is in the national interest of the United States, and includes a justification for such interest."

The Act includes many other references to Russia, mostly to the need of countering Moscow's assertive foreign policy.

Among other measures, the document stipulates that "not less than USD 250 million shall be made available to carry out the purposes of the Countering Russian Influence Fund, and programs to enhance the capacity of law enforcement and security forces in countries in Europe and Eurasia and strengthen security cooperation between such countries and the United States and the North Atlantic Treaty Organization, as appropriate."

The document also says that the funds used to assist the Eastern Partnership countries shall support implementation of these countries' Association Agreements and trade agreements with the European Union, and "to reduce their vulnerability to external economic and political pressure from the Russian Federation."

Civil Georgia

Employment grew in 8 out of 10 EU regions

The FINANCIAL -- In 2016, 231 of the EU regions (84%) saw their employment grow in 2016. In 32 other regions, the number of persons employed decreased and in a further 12 employment remained stable.

Growth in employment varied widely across the EU regions and within countries. The highest employment growth rates were recorded in Podkarpacie (+7.9%) and Opolskie (+5.9%) in Poland, Ciudad Autónoma de Melilla (+4.8%) in Spain and Pomorskie and Warmińsko-Mazurskie (both +4.7%) in Poland.

At the opposite end of the scale, the biggest decreases in employment were registered in Nord-Est (-3.8%) and Sud-Vest Oltenia (-3.0%) in Romania, Wielkopolskie (-2.5%) in Poland, Severoiztochen (-2.3%) in Bulgaria and Śląskie (-2.2%) in Poland.

In the EU as a whole, the employment grew by 1.2% in 2016.

Largest employment growth in Podkarpacie

In 21 EU regions, the employment growth exceeded 3%. Six of these regions were located in Poland and in the United Kingdom, two each in Italy and Spain and one each in Hungary, Portugal, Cyprus, Malta and Slovakia. In these regions, employment grew by a total of 604 000 persons.

In 32 EU regions (11% of the regions), the number of employed people decreased in 2016. In 17 of these regions, the number of employed fell by more than 1%. Six of these regions were located in Poland, four in the United Kingdom, three in Romania, two in Bulgaria and one in each Greece and Italy. Employment decreased by 278 000 persons in these twenty regions.

GRASS FactCheck

Dimitri Kumsishvili:

"Last year was a record-breaking one for Georgia's aviation market… The total growth of the number of passengers at all Georgian airports constituted 46%."

Table 1: Passenger Flow Statistics at Georgia's Airports in 2016-2017 (thousand people, %)

Passengers				
Airports	**2016**	**2017**	**Difference**	**Difference %**
Total	2,840,469	4,073,959	1,233,490	43%
Tbilisi International Airport	2,252,535	3,164,139	911,604	40%
Batumi International Airport	312,357	495,668	183,311	59%
Kutaisi International Airport	271,363	405,173	133,810	49%
Mestia King Tamar Airport	4,214	7,256	3,042	72%
Ambrolauri Airport	0	1,723	1,723	

Levan TEVDORADZE
FactChek

Verdict: Dimitri Kumsishvili's statement is **TRUE**.

Resume: A total of 4.07 million people used the services of Georgian airports in 2017 which is indeed a record-breaking number. The number in 2016 was 2.84 million. Therefore, the total growth in the number of passengers at all Georgian airports in 2017 was 43%. Last year was unprecedented in terms of the number of visitors coming to the country as well. Some 7.6 million visitors crossed Georgia's border in 2017 which is 19% more as compared to the previous year's figure. Of note is that the visitor growth rate is 11 percentage points higher as compared to the same figure for 2016.

Analysis

On 22 February 2018, the Minister of Economy and Sustainable Development of Georgia, Dimitri Kumsishvili, stated: "Last year was a record-breaking one for Georgia's aviation market... The total growth of the number of passengers at all Georgian airports constituted 46%. Of note is that more than 7 million international visitors came to Georgia."

Based on the data of the Georgian Civil Aviation Agency, the Georgian National Tourism Administration publishes statistics of passenger flow at Georgia's airports. In accordance with the Administration's information, 4.07 million people used the services of Georgia's airports which is 43% (1.23 million) more as compared to the same figure for 2016. The amount and passenger growth rate are unprecedented (these types of statistical data have been available since 2010).

Of the passengers coming to Georgia, the majority used Tbilisi International Airport which served 3.16 million passengers and is 40% more as compared to the same figure of the previous year. This growth rate, however, is lower as compared to those of the country's other airports. The highest growth rate of passengers was registered at Mestia's King Tamar Airport (72%) whilst the number of passengers grew significantly at the Batumi (59%) and Kutaisi (49%) airports. The Ambrolauri airport was opened in 2017 with 1,723 people having taken flights through the new facility.

In 2017, 144,626 flights were recorded in Georgia's airspace which is 12.6% more as compared to the same figure of the previous year.

When discussing border crossing statistics, it is important to differentiate between a tourist and a visitor. All foreign nationals entering Georgia, including those who spent less than 24 hours or were in transit, are considered as visitors whilst a tourist is an international visitor who spent 24 hours or more in Georgia.

In accordance with the information of the Ministry of Internal Affairs of Georgia, 7.55 million people crossed Georgia's border which is 18.8% more as compared to the same figure of the previous year. Of that number, 3.5 million tourists spent 24 hours or more in the country which constitutes 46% of the total number of visitors. In 2017, 2.39 million people visited Georgia for one day whilst 1.69 million used it as a transit route. The largest number of visitors to Georgia came from Armenia (1.71 million) which was followed by Azerbaijan (1.69 million), Russia (1.39 million), Turkey (1.25 million) and Iran (332,000).

Of importance is that, together with the number of visitors, tourism incomes have been increasing steadily. In accordance with the data for the first three quarters of 2017, tourism incomes amounted to USD 2.17 billion which already exceeds the total tourism income figures for 2016.

publicity

KETI SIDAMONIDZE, FOUNDING DIRECTOR OF VERSATILE KS

March 2018: Versatile Valuation of the Insurance Industry

The future may be extremely difficult to predict but it need not be hard to foresee the key trends and proactively prepare for mitigating the associated risks. Insurance companies that can anticipate and plan for change can create their own future.

But how to pioneer in an everchanging technological era when just barely keeping up with the competition would already be considered as losing the game? The insurance industry has not always been rapid to pick up on novel technologies. The entire industry is fixated on how life was lived about ten years ago. A scrutinizing eye can already spot the signs of disruption in every link in the insurance value chain. Digging deep to extract truth by employing big data should become a regular, systematic activity.

Before tackling that notion, let us evaluate the situation of the Georgian insurance industry as per latest data. Currently, there are 17 insurance companies operating on the market, with the newest player – Hualing Insurance, joining in December 2017. Two of the seventeen players are international – GPI Holding and IRAO. Both are part of the Vienna Insurance Group and GPI Holding grasps the leading position of the Georgian insurance market. Speaking of international, the Georgian market also has two international companies carrying out the brokerage activities: Willis Tower Watson and MAI Georgia.

Back to the insurance companies and latest stats, the total amount of attracted insurance premiums via direct insurance activities amounted to GEL 441.40 million, a 12.3% increase compared to that of previous year's indicator. Net profit of insurance companies amounted to GEL 20.34 million, while total assets of the sector amounted to GEL 580.28 million, with capital totaling GEL 154.25 million.

Health insurance premium amounted to almost GEL 198 million in 2017; transport insurance - up to GEL 75 million. Property insurance occupies the third position with total premium of GEL 72 million, leaving practically peanuts for all the other types of insurance products.

In 2017, the Insurance Mediation of the Georgian Insurance Association has received 484 complaints, 151 of which were of informative type and 333 – of dispute/disagreement type. In 24 cases, the parties failed to reach an agreement. 49 cases are still being processed while for the remaining cases, they were resolved relevantly.

The Law of Georgia on Insurance regulates and governs consumer protection mechanisms for the insured. Although originally adopted back in 1997, this law has been amended several times since then to comply with the EU standards and requirements for the insurance sector, including consumer rights and protection. LEPL Insurance State Supervision Service of Georgia, which is mandated with supervising the pension-related matters as well as insurance activity and regulation across the country, officially monitors and regulates the market.

Versatile KS held a thorough discussion with Mr. Konstantine Sulamanidze, Head of Insurance State Supervision Service of Georgia who is certain the market having enormous potential for growth has not yet reached its peak: "enacting compulsory liability insurance may be the catalyst for market growth as well as becoming the main contributing factor".

When we spoke about the challenges the market faces, Mr. Sulamanidze explained that "currently, the overall insurance culture is still very poor in our society and this is natural, considering the hurdles the citizens face. When majority of population does not have significant tangible property, they cannot be expected to protect it from risks, especially when they are not insurance-savvy and any terms written in complex language scare them because of lack of awareness of the matter at hand. There are two proven/irreversible ways of developing the insurance market. One is the establishment and encouragement of the market by introducing the obligatory types of insurance and the second - to ensure economic growth when the gross domestic product per capita provides the possibility of solving social issues, primarily through insurance products. In fact, insurance penetration in high-income countries is much higher". It is obvious, Georgia does not have the luxury time to wait for achieving the desired economic growth rate: "thus, our task is to fully facilitate the implementation of those products of compulsory insurance on the market that imply insurance of the third person".

As of today, four compulsory types of insurance are valid in Georgia: the obligation of liability for notaries, accountants' responsibilities, and owners of public places (trade centers, fairs, petrol stations, etc.) to third parties, and responsibility for the drivers of motor vehicles registered abroad.

"The last two of these have been enacted very recently – on March 1, 2018 and we are happy with the rate of implementation of those novel to Georgia compulsory insurance policies" said the Head, who is certain that "the introduction of compulsory insurance for the owners/drivers of all vehicles registered in Georgia to third parties shall play a pivotal role in expediting the development of the insurance market; both in terms of raising the insurance culture as well as creating new impetus of development of the insurance sector and its players".

The preceding legal work related to this issue is almost complete and the draft bill is practically ready. Mr. Sulamanidze is getting ready for initiating proper consultations and expects this bill to be passed by next year already: "Such approach will surely promote civilized settlements of socially important topics and in due time, I'm sure other, non-compulsory insurance options, such as property, financial risks and life insurance, will unquestionably be developed consequently."

Naturally, the purpose of the Insurance State Supervision Service of Georgia is to ensure quality services of the players, irreversible growth of the market and, most importantly, caring for the interest of the insured. There is another body that for years has played a key role in the development of the insurance sector – the Georgian Insurance Association founded in 1996 that brings together licensed insurance companies in Georgia. The main objective of the association is to support the development of the insurance sector and to represent the industry in important negotiations with the government and across other sectors as a mediator.

We have looked at the market from the players' perspective as well. Global Benefits Georgia is relatively new to the insurance sector, with less than one-year track record of operations. Despite being young, the company has already managed to attract over 70 private and governmental organizations and as of now, looks after more than 14,000 insured.

Ms. Anna Gvenetadze, Deputy Director General of Global Benefits Georgia revealed to Versatile KS that "the insurance sector in Georgia is a bit modest in development but full of untapped potential. Although still distrustful, public is gradually starting to understand that insurance in general is there to protect them from unseen medical and financial complications and therefore, we believe that the future is promising". She sees immense potential for growth, especially in the direction of "non-life insurance, including business all risk, property, casco, etc.".

Besides having the most diverse insurance products portfolio in the country, GB Georgia in cooperation with Farmers Association is developing an innovative product for agriculture that should substantially improve and support the development of this sector in Georgia. Ms. Gvenetadze further elaborated that "additionally, GB Georgia has become the first company which has accepted and reinsured specific risk from a local company. I consider this to be a positively significant fact for the Georgian insurance market and its development". From her perspective, the most popular insurance product remains to be health policy with 47% of the market share – "this is largely because health costs are rising globally and there are increased health risks due to the environmental challenges as well as other health risk factors. On top of that, the state health insurance policy allocation system provided by the government was altered last year, which naturally supported the growth of private medical insurance sector".

Global Benefits Georgia representative also touched on the matters of technological developments: "the insurance sector, although very traditional, is also evolving and embedding technological developments in the customer service and sales fields". For instance, GB Georgia is the first insurance company in the country that is fully digitalizing the claims handling process. "This saves us a lot of time and our customers really appreciate this. We are also working on an entirely digital online sales platform on web and mobile, which will enable all customers to purchase desired insurance policy in a matter of seconds" she concluded with pride.

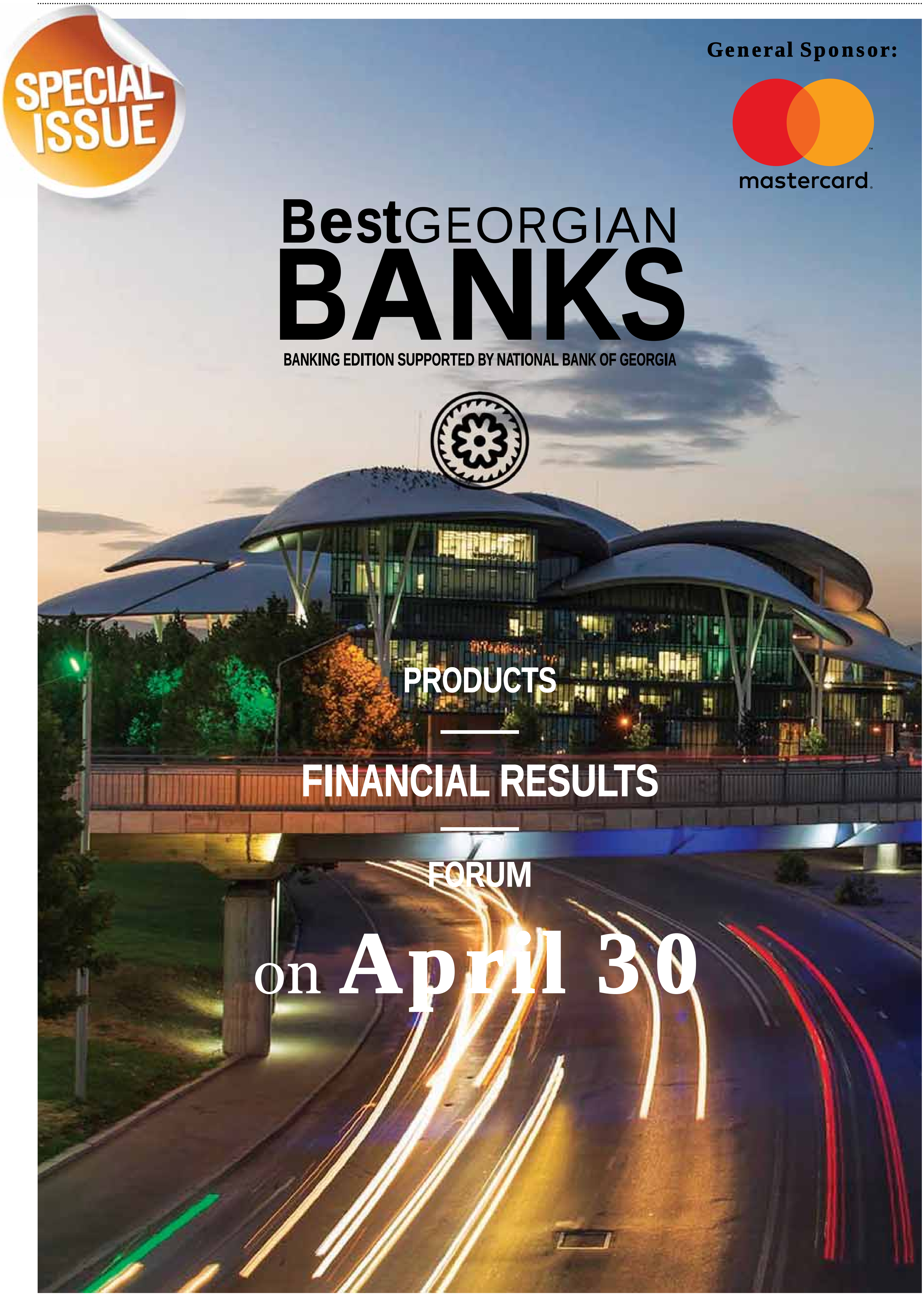
Versatile KS also got in touch with Ms. Tinatin Stambolishvili, Corporate Communications Director of GPI Holding who is certain the potential for growth is tremendous for the Georgian insurance market: "at present the penetration rate is quite low – the most popular lines of insurance are health and motor casco, leaving individual property and life insurance with the lowest level of penetration. Georgia is among the few countries in the world with practically no obligatory lines of insurance – would that be motor third party or other types of liabilities". She believes major challenge for the sector is the immediate reforms that are necessary to encourage the growth and increase of penetration as well as other social and investment benefits. "The dynamics of growth tempo declined sharply after 2012 and this is mainly to the changes in the health financing scheme. Despite these radical changes we were able to offer competitive health insurance packages and our portfolio increased in this period – in terms of both written premium as well as number of insureds. Mainly, development is needed in non-life lines of insurance, as penetration rate is very low in this direction" explained Ms. Stambolishvili.

GPI Holding has adopted a digitalization strategy back in 2015 to automatize the processes and improve the quality of services. "We believe that digitalization is the future of this business and in Georgia we are in the leading position as in 2016 we have launched the first online insurance portal allowing our customers to buy insurance online as well as get claims reimbursement and all other services through our mobile app and/or website. MYGPI.GE now serves thousands of customers online and the rate of tested customer satisfaction is very high. We stay committed to this platform and are constantly developing upgrades and improvements to our digital system", elaborated the Corporate Communications Director.

While traditional insurance data are heavily regulated to a certain extent, much of the data that should support new value creation of the insurance industry is practically not. Keeping in mind the recently revealed data-war whistleblower scandal allegedly involving Cambridge Analytica, Global Science Research and Facebook, regulators across the globe and in Georgia as well must start drafting policies that balance user privacy and innovation at a faster pace. With the proper use of big data, insurers should be able to discover interesting and accurate predictors of risk that do not involve asking people redundant and annoying or even demeaning questions. But instead, they ought to capture and analyze data about customers in a responsible and non-invasive manner. Well-connected data in turn shall pave the way to innovation and innovative insurance products. Insurers should already be looking for the magic ingredients for their own pavements, simultaneously acknowledging that high mistrust persists between insurers and policyholders inherently.

Author: Keti Sidamonidze, Founding Director of Versatile KS Versatile KS excels in tailored business consulting and export promotion services. www.versatileks.consulting

financial news



MOODY'S on Georgia: We expect GDP growth to average around 4.3% over 2018-2019

Continued from p. 10

loans granted by international institutions on concessional terms. These metrics compare well with those of Ba-rated peers," Moody's said.

Georgia is continuing to refine its fiscal rules

The Economic Liberty Act that has been in force since 2014 stipulates that debt-to-GDP must not exceed 60%, expenditures must not surpass 30% of GDP, and budget deficits must not exceed 3% of GDP. The act also allows the government a degree of "tactical short- term flexibility."

Within these rules, the government cannot easily increase spending since the implementation of new taxes (except excise taxes) and any increases in the upper rate of existing taxes must be approved by referendum. The Georgian authorities are continuing to develop more flexible fiscal rules with greater capacity to reflect countercyclical requirements, with technical assistance from the IMF.

Georgia also benefits from diversified revenue sources. In 2017, 90% of revenue came from taxes, with only 3% of revenue came from grants. Taxes come from several sources, with value added tax accounting for 38% of revenue in 2017, income tax for 27%, corporate profit tax for 7%, and excise tax for 13%.

"Georgia's debt-to-GDP and debt-to-revenue increased significantly in 2015 due to the depreciation of the lari against the USD, because over 75% of Georgia's government debt is denominated in foreign currency. Although we estimate that debt-to-GDP declined to 41.3% in 2017, a further depreciation of the currency could increase the debt burden. The immediate risk related to the high share of foreign-currency debt is partially mitigated by the long duration of the country's external debt. That means that although the debt burden rises when the currency depreciates, debt affordability changes more slowly.

Over the next two years, we expect robust nominal GDP growth, moderate deficits, and a broadly stable lari to allow the debt burden to remain stable relative to GDP, in the 40-45% range," according to Moody's.

Contingent liability risks from the largest state-owned enterprises are contained

With about GEL2.8 billion in debt (7.5% of GDP in 2016), the three largest Georgian state-owned enterprises represent a limited risk of contingent liabilities for the government, particularly given the relatively robust financial position of the largest one, Georgian Railway.

Moreover, to limit risks to public finances, the government uses its Partnership Fund (PF) to support its economic policy objectives. The PF is a joint stock company, fully owned by the government, which fosters private investments in key sectors (energy, agriculture, manufacturing, and real estate) principally via minority equity participation, but also through loans and guarantees. The PF was capitalized via transfers, including 100% of the shares of Georgian Railway and Georgian Oil and Gas Corporation. PF's business model carries little risk of contingent liabilities because it is not indebted and finances its operations via dividends from the shares it owns.

"We assess Georgia's susceptibility to event risk as "Moderate," driven mainly by banking sector risk. While not to the same degree, political risk related to the dispute with Russia over breakaway regions and external vulnerability risk stemming from a wide current account deficits remain significant for the rating.l," Moody's reported.

One of the main drivers of our "Moderate (-)" assessment of political risk is Georgia's strained relationship with Russia, dating back to Russia's backing of separatist forces in the Abkhazian war (1992-93) and reinforced by the Russian-Georgian war over South Ossetia (2008). As a result of Russian interventions, Georgia effectively lost control over the two regions, which make up 20% of its sovereign territory. Russia recognized the disputed regions as independent states and continues to support them, signing mutual defense treaties with both regions in late 2014 and early 2015. In March 2017, Russia approved a plan to integrate the South Ossetian army into the Russian army, in what Georgia argues is a continued attempt to absorb the separatist areas. Georgian authorities have also criticized recent political moves in both territories as illegal, including elections in Abkhazia and the renaming of South Ossetia.

In the aftermath of the 2008 war, the Russian government imposed barriers on trade with Georgia, largely shutting down non-energy trade between the two nations. However, as mentioned above, economic relations between the two countries have been improving since 2012. While overwhelmingly seeing Russia as a threat, polls indicate that the Georgian electorate supports further diplomatic dialogue with Russia and approves the government's constructive and pragmatic handling of the relationship.

"Our baseline assumption is for the status quo to be maintained on political issues dividing Russia and Georgia, but for limited and gradual progress on economic and trade issues over the medium term. However, as reflected in our "Moderate (-)" score, we cannot rule out an escalation of tensions, first and foremost in the economic arena but also potentially in renewed fighting around the breakaway regions. These risks represent moderate-probability moderate-to-high impact events.

We assess event risk due to domestic political risk as low. The vast majority of Georgian society and the political elite are united around the goal of further association with, and ultimately membership in, the EU – despite frequent political confrontations between members of the Georgian Dream coalition and the opposition. The October 2016 parliamentary elections, won by the incumbent Georgian Dream, were preceded by a boisterous campaign season, and were judged by international monitors to have had a number of issues albeit with no significant influence on the overall outcome. Following the elections, the opposition UNM split over differences regarding Mr. Saakashvili's role in determining the party's position. The majority of MPs left the UNM to form a new party," Moody's reported.

The elections provided the Georgian Dream a constitutional majority in parliament, which it leveraged to initiate a constitutional reform. The constitutional reform approved in 2017 will limit presidential powers while transforming the electoral process for both the president and the parliament. Under the amended constitution, Georgia will gradually transition from a mixed majoritarian- proportional electoral system to fully proportional parliamentary elections by year 2024. At the same time, direct popular presidential elections will be replaced with an indirect procedure led by the parliament. Established parties, especially the ruling party, are viewed as the main beneficiaries of the changes. While the amendment presents risks to government accountability and political competition, it may serve to catalyze consolidation within the opposition, potentially resulting in a less fractured and more balanced political landscape.

"While the proportion of foreign currency debt in total government debt is high (78% as of Q3 2017), most of Georgia's debt is on concessional terms with long maturities and at low interest rates. Hence, its debt service payments are moderate, with one Eurobond due in 2021. We estimate annual gross borrowing requirement for 2018 at 7.7% of GDP, down modestly from 7.9% in 2017.

Our assessment of "Moderate" banking sector risk reflects the moderate size of Georgia's banking system, with assets accounting for around 89% of GDP in 2016, and the intrinsic financial strength of banks (with a weighted average baseline credit assessment of Ba3), weighted against some reliance on wholesale funding," Moody's said.

Capitalization levels and liquidity buffers were adequate as of end-2017, with a regulatory Tier 1 capital to risk-weighted assets ratio under Basel III of 14.0%, well above the 8.5% regulatory minimum, and a liquid assets to total assets ratio of 21.3%. The system's strong core profitability is supported by very high margins, and the system's net interest margin of 6.6% in the second half of 2017 compares favorably to the 4% median for Moody's-rated banks in other developing markets.

Dollarization has continued to ease over time resuming a downwards drift in mid-2016, with deposit dollarization reaching 64% by December 2017 (see Exhibit 23). If the lari were to begin to weaken again, as it did from December 2015 it could negatively impact bank asset quality and profitability, as borrowers with incomes in lari would find it harder to repay their foreign currency loans.

Partly mitigating this issue, however, is the requirement by the central bank under Basel II/III that banks employ an additional 75% risk weight for loans to unhedged borrowers.

Other concerns have also eased including the nonperforming loan (NPL) ratio of 5.9% of total loans as estimated by the NBG in Q4 2017, which has fallen from its most recent peak of 8.6% in Q1 2016. According to the less stringent IMF methodology, NPLs stood at 2.8% in Q4 2017.

In part reflecting its success in attracting foreign capital, Georgia has consistently registered a domestic savings shortfall. FDI flows in particular have been instrumental in bridging the saving-investment gap. Georgia's limited capacity to produce capital and intermediate goods domestically has led foreign and domestic investors to rely on imported materials, industrial supplies, and equipment, directly adding to the current account deficit.

Georgia's success at attracting FDI, combined with the potential for pension reform to boost domestic savings significantly – the rundown of its substantial infrastructure investment pipeline by 2021 and potential for exports growth – support a final score of "Moderate(-)" compared to the indicative score of "Moderate."

While the bulk of foreign direct investment accumulated in the economy arrived in form of equity, Georgia has also amassed substantial external debt obligations, mainly in loans from International Financial Institutions (IFIs). The total external debt stock stood at 101.8% as of the third quarter of 2017, with just over a quarter of this amount accounted for by loans to the government.

Most of those loans are extended on concessional terms and with long tenors, reducing refinancing risks. As of 2016, average interest rate on new external debt stood at only 1.8% and the average term to maturity was 21 years. Moreover, the IFIs' lower sensitivity to market conditions makes them a more stable funding source at times of heightened economic volatility.

Nevertheless, the market component of external debt still presents risks to the sovereign as a sudden stop in capital flows could put significant strain on the central bank's foreign exchange reserves and/or the exchange rate. As of the third quarter of 2017, principal payments on external debt due within 12 months exceeded NBG's foreign exchange reserves by over 50%, consistent with an external vulnerability indicators (EVI) above 150%. Excluding intercompany lending and loans to the government, both of which may face lower refinancing risks than other types of debt, does not fundamentally change this picture (see Exhibit 27). Combined with a current account deficit that is largely covered by FDI inflows, Georgia's external vulnerability is comparable to other sovereigns in the "Moderate (-)" category.

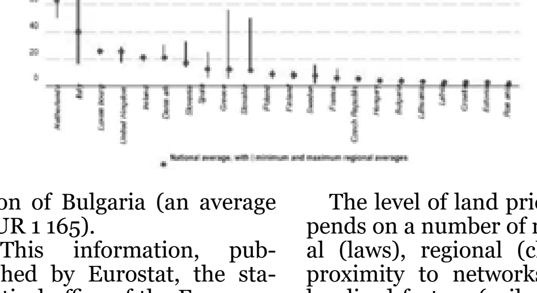
Apart from reflecting FDI inflows, Georgia's current account dynamics have mirrored the evolution of the country's economic model. Over the past five years, tourism emerged as one of the key sources of foreign currency revenue for the country. This high degree of specialization in foreign trade presents an external vulnerability risk as tourist flows may decline substantially should the political risks crystalize. The second largest component of net inflows is secondary income, made up primarily of remittances and foreign aid, which we view as a relatively resilient source of foreign exchange inflows.

Land prices vary considerably between and within Member States

The FINANCIAL -- On average, the Netherlands recorded the most expensive purchase price of one hectare of arable land in the EU in 2016 (EUR 63 000).

Indeed, the price of arable land in every region of the Netherlands was above all other available national averages in the EU. However, among the EU regions for which data are available, the most expensive price for arable land was in the Liguria region of Italy (an average EUR 108 000 per hectare).

Arable land was cheapest in Romania, with a hectare costing an average EUR 1 958 in 2016. At the regional level, a hectare of arable land cost least in the Yugozapaden region of Bulgaria (an average EUR 1 165).



This information, published by Eurostat, the statistical office of the European Union, comes from a new set of statistics on agricultural land prices and rents, which covers most of the EU Member States.

The level of land prices depends on a number of national (laws), regional (climate, proximity to networks) and localised factors (soil quality, slope, drainage etc.) as well as the market forces of supply and demand (including influence of foreign ownership rules). As such, it is interesting to note developments in prices for regions over time.

From the data available, the strongest growth in land prices of arable land between 2011 and 2016 was in the Czech Republic (a three-fold increase), Lithuania, Estonia, Latvia and Hungary (a two-fold increase). Prices rose in other Member States too, albeit at much lower rate

In almost all regions, buying arable land was more expensive than buying permanent grassland (as much as 20 times more expensive in the Greek islands of Voreio Aigaio). Likewise, buying irrigable arable land was more expensive than non-irrigable arable land (as much as six times more expensive in the Spanish Región de Murcia).

Highest rental price of agricultural land in Flevoland

Not all land is owned by the farmer working the land. Many farmers rent their land, as either a short- or long-term business decision. The cost of renting land is another factor that farmers have to absorb in their business. Mirroring the variation in arable land prices, annual rental prices of one hectare of agricultural land (arable or permanent grassland) also vary starkly between Member States and regions within Member States.

Renting one hectare of agricultural land was most expensive in the Netherlands (an average EUR 791 for the year), with the highest regional average in Flevoland (NL) being almost twice the national average (EUR 1 536 for the year). Renting agricultural land was cheapest on average in Latvia (EUR 46 per hectare per year), although the cheapest regions in the EU for renting were Mellersta Norrland and Övre Norrland in Sweden (both EUR 28 per hectare per year).

As with land prices, renting permanent grassland was cheaper than renting arable land.

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ECONOMY

Real GDP revised up 5.0% y/y in 2017

GDP growth in Georgia came in at 5.0% in 2017 revised up from 4.8% rapid estimate figure, according to GeoStat. Fastest growing sectors in 2017 were: construction (+11.2% y/y), hotels and restaurants (+11.2% y/y), financial intermediation (+9.2% y/y), and mining and quarrying (+7.1% y/y), while real growth was down in agriculture (-2.7% y/y).

Exports up 25.0% y/y in February 2018

In February 2018, exports increased 25.0% y/y to US$ 223.7mn, imports were up 8.7% y/y to US$ 640.0mn and the trade deficit widened 1.5% y/y to US$ 416.4mn, according to GeoStat.

In February 2018, copper (+62.3% y/y), cars (+162.1% y/y), ferro-alloys (-25.4% y/y), wine (+30.8% y/y) and fertilizers (+283.7% y/y) were the top 5 exported commodities. A 30.5% of exports was directed to the EU (+40.3% y/y), 42.1% were directed to the CIS (+46.9% y/y) and 27.4% to other countries (-7.4% y/y).

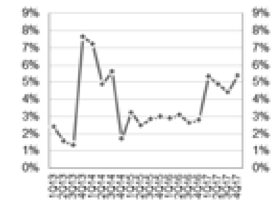
Petroleum (+10.6% y/y), gases (-5.3% y/y), copper (-4.4% y/y), cars (+9.1% y/y) and pharmaceuticals (-14.2% y/y) represented the top 5 imported commodities in February 2018.

Key macro indicators

	2M18	2017	2016
GDP (% change)	4.4%(2)	5.0%	2.8%
GDP per capita (ppp)	...	10,644	10,043
GDP per capita (US$)	...	...	3,865
Population (mn)	3.7	3.7	3.7
Inflation (eop)	2.7%	6.7%	1.8%
Gross reserves (US$ bn)	3.0	3.0	2.8
CAD (% of GDP)	...	7.1%(1)	12.8%
Fiscal deficit (% of GDP)	...	3.9%	4.1%
Total public debt (% of GDP)	...	44.7%	44.6%

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

Real GDP growth, %



Source: GeoStat
Note: Rapid estimate for 4Q17

Georgia sovereign credit ratings

STANDARD & POOR'S	MOODY'S INVESTORS SERVICE	FitchRatings
BB- Stable Affirmed May-2017	**Ba2** Stable Affirmed Sep-2017	**BB-** Positive Affirmed Mar-2018

Source: Rating agencies

International ranking, 2017

Ease of Doing Business s# 9(Top 10)

Economic Freedom Index # 16 (mostly free)

Global Competitiveness Index # 59 (improving trend)

Source: World Bank, Heritage Foundaition and World Economic Forum

Producer price index down 0.9% m/m and up 6.0% y/y in February 2018

PPI for industrial goods was down 0.9% m/m in February 2018, according to GeoStat. A 1.0% price decrease for manufacturing contributed the most to the overall index change. Annual PPI was up 6.0% in February 2018. Rising prices in manufacturing (+5.1% y/y) contributed the most to the overall index change. Prices were also up for supply of electricity, gas and water (+11.6% y/y).

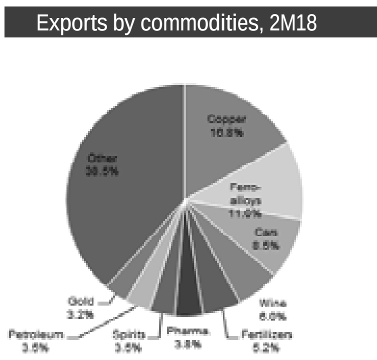
Fitch revises Georgia's Outlook to positive

On 16 March 2018, Fitch affirmed Georgia's sovereign credit rating at BB- and revised the Outlook to positive from stable. The upgrade in outlook reflects the key rating drivers including a stable macroeconomic environment, improvement in current account deficit, and favourable governance and business environment indicators.

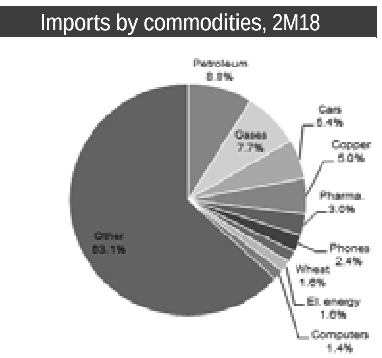
EU plans to invest EUR 4.1bn in Georgia

On 21 March 2018, EU held a regional launch event in Tbilisi as part of implementation of External Investment Plan (EIP). Under this instrument EU will invest EUR 4.1bn (GEL 12bn) over 2018-2020 in Georgia. At initial stage, funding will be directed in sustainable energy and connectivity, MSMEs, agriculture, sustainable cities and digitalization.

Exports by commodities, 2M18

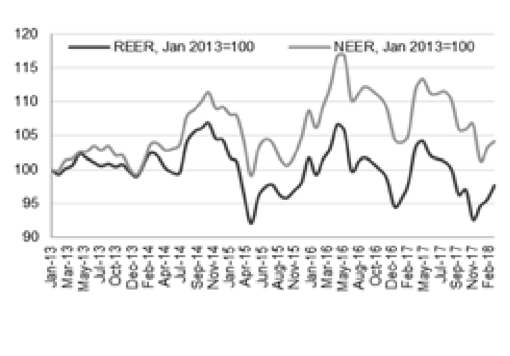


Imports by commodities, 2M18



Source: GeoStat

Nominal Effective Exchange Rate and Real Effective Exchange Rate



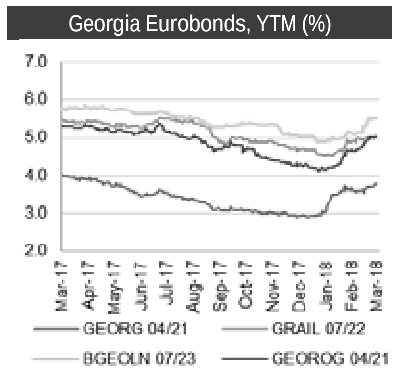
Source: NBG
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate.

FIXED INCOME

Corporate Eurobonds: BGEO Group Eurobonds (BGEOLN) closed at 5.6% yield, trading at 101.8 (-0.5% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.5 (unchanged w/w), yielding 10.7%. GOGC Eurobonds (GEOROG) were trading at 104.9 (+0.2% w/w), yielding 5.0%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 110.2 (unchanged w/w), yielding 5.1%.

Georgian Sovereign Eurobonds (GEORG) closed at 108.9 (-0.2% w/w) at 3.8% yield to maturity.

Georgia Eurobonds, YTM (%)



Source: Bloomberg

	Local bonds				Eurobonds					
	GWP 12/21	M2RE 10/19	Nikora 06/19	GLC 08/20	GEOCAP 03/24	GEBGG 06/20	GEOROG 04/21	BGEOLN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US$ mn	30*	25.0	10.0	10.0	300	500*	250	350	500	500
Issue date	12/16	10/16	08/17	8/17	03-18	06-17	04/16	07/16	04/11	07/12
Maturity date	12/21	10/19	06/19	8/20	03-24	06-20	04/21	07/23	04/21	07/22
Coupon, %	10.50**	7.5	9.0	7.00	6.125%	11.0	6.750	6.000	6.875	7.750
Fitch/S&P/ Moody's	BB-/-/-	-/-/-	-/-/-	n/a	-/-/B2e	BB-/-/Ba2	BB-/B+/-	BB-/-/B1	BB-/BB-/Ba2	B+/B+/-
Mid price, US$	n/a	103.0	101.3	101.13	97.3	100.5	104.2	101.5	108.3	109.7
Mid yield, %	n/a	5.5%	3.8%	6.50%	6.7	10.7	5.3	5.7	3.9	5.2
Z-spread, bps	n/a	n/a	n/a	n/a	389.9	346.1	257.0	288.7	124.6	243.5

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

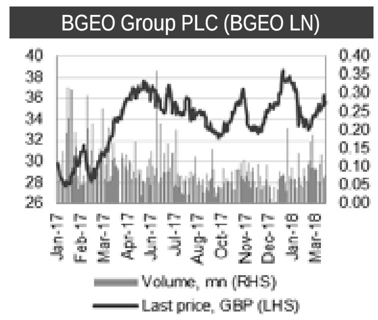
Eastern European sovereign 10-year bond performance

Issuer	Amount, US$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba2	3.9
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba2	4.9
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	0.1
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba2	1.2
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	3.2
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	3.6
Russia	3,500	5.000%	29/04/2020	BBB-/BBB-/Ba1	3.3
Turkey	2,000	5.625%	30/03/2021	BB+/BB/Ba2	4.3

Source: Bloomberg

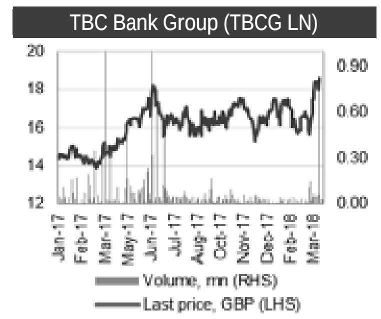
EQUITIES

BGEO Group PLC (BGEO LN)



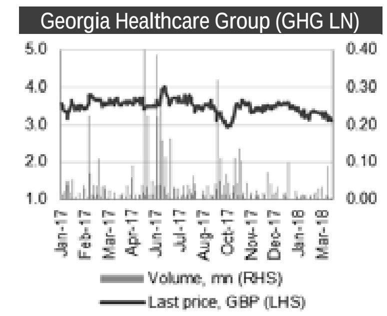
Source: Bloomberg

TBC Bank Group (TBCG LN)



Source: Bloomberg

Georgia Healthcare Group (GHG LN)



Source: Bloomberg

BGEO Group (BGEO LN) shares closed at GBP 35.26/share (+1.32% w/w and +6.01% m/m). More than 474k shares traded in the range of GBP 34.50 – 35.54/share. Average daily traded volume was 98k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, lost 1.39% w/w and gained 0.36% m/m. The volume of BGEO shares traded was at 1.21% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 18.56 (+0.87% w/w and +11.81% m/m). More than 965k shares changed hands in the range of GBP 17.70 – 18.68 share. Averaged daily traded volume was 79k in the last 4 weeks.

Georgia Healthcare Group (GHG LN) shares closed at GBP 3.22/share (-1.38% w/w and -3.88% m/m). More than 114k shares were traded in the range of GBP 3.00 – 3.35/share. Average daily traded volume was 14k in the last 4 weeks. The volume of GHG shares traded was at 0.09% of its capitalization.

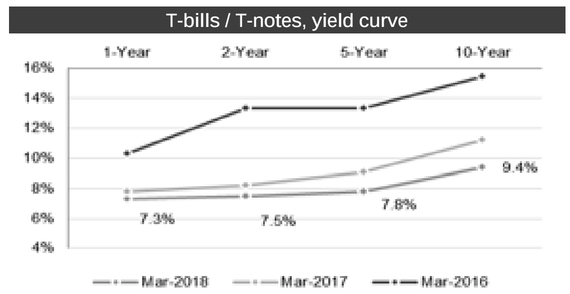
MONEY MARKET

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 920mn (US$ 377.1mn).

Ministry of Finance Treasury Notes: 2-year GEL 40.0mn (US$ 16.4mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on March 14, 2018. The weighted average yield was fixed at 7.474%. The nearest treasury security auction is scheduled for March 21, 2018, where GEL 30.0mn nominal value 5-year T-Notes will be sold.

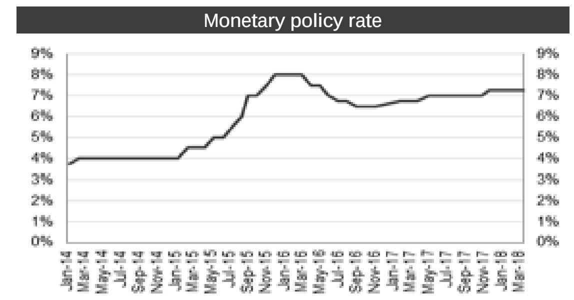
Ministry of Finance Treasury Bills: 182-days GEL 20.0mn (US$ 8.2mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on March 14, 2018. The weighted average yield was fixed at 7.286%.

T-bills / T-notes, yield curve



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

Monetary policy rate



Source: NBG

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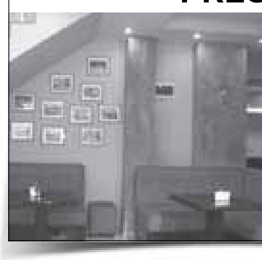
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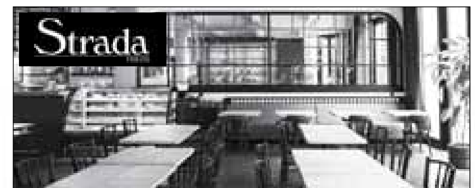
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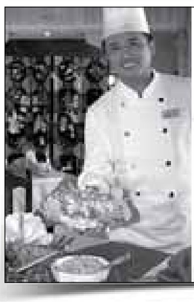
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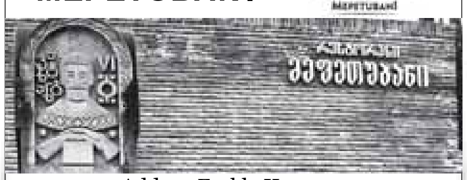
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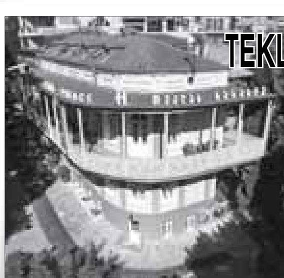
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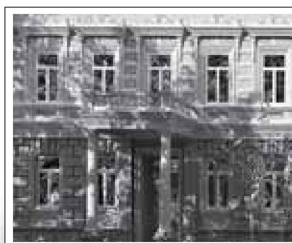
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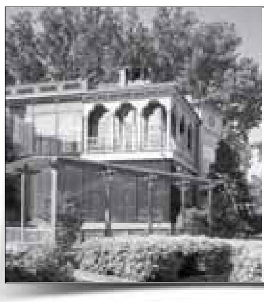
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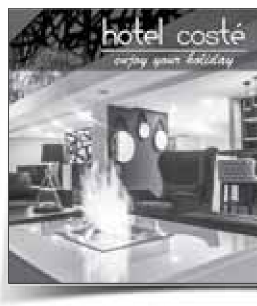
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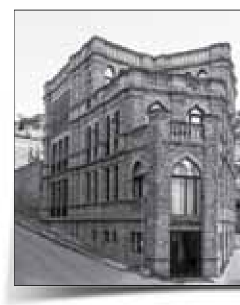
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