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Retrain to mitigate jobs threat from robots

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Market review: Eco-friendly Vehicles in Georgia

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16 April, 2018 News Making Money http://www.finchannel.com

Democracy Around The World

U.S. foreign policy experts are more pessimistic about democracy than their European counterparts

By BRUCE STOKES

At a time of rising concerns about the future of democracy around the world, foreign policy experts on opposite sides of the Atlantic have markedly different assessments of the way democracy is working in their countries, with Americans holding a bearish view and their European counterparts more upbeat.

Fewer than three-in-ten American foreign policy experts (27%) say they are satisfied with the state of democracy in the United States. By contrast, 64% of European thought leaders are satisfied with how their democracy is functioning.

These assessments come from a recent canvass of attendees at the German Marshall Fund's annual Brussels Forum and of alumni of various GMF fellowship and educational programs. Respondents included 237 Europeans and 110 Americans.

American foreign policy experts are also more pessimistic than their European counterparts when it comes to trust in their country's national government. About four-in-ten U.S. experts (42%) say they trust their government to do what is right for the country. Among European foreign policy thought leaders, the share who say this is 19 percentage points higher (61%).

Continued on p. 4

A Good February for Electricity Generation: Time for Reflection, After Last Year's Worries

By MARIAM CHACHAVA AND LEVAN PAVLENISHVILI AND NORBERTO PIGNATTI
ISET

In February 2017, Georgia experienced the largest gap between generation and consumption in the last decade. This was followed by an even greater gap in March 2017. The size of those gaps, and the fact that the historical trend was suggesting an increase in the electricity gap, prompted policy proposals emphasizing the need to encourage investments in power generation. The goal of such policies would be to avoid future energy security challenges due to electricity shortages and fast increasing electricity prices. Most of the strategies suggested stressed the importance of expanding the installed hydropower generation capacity of the country, emphasizing the need for the construction of the Namakhvani, Oni Cascade, and Nenskra hydropower dams.

As can be seen in Figure 1, however, one year later (in February 2018), the gap between consumption and generation has shrunk to 126 mln kWh, down from 204 mln kWh a year earlier. This happened despite the fact that the newly built Shuakhevi HPP, with 178 MW installed capacity, is not yet operational, and the total power generation coming from TPPs decreased by 24% compared to February 2017, indicating a growth in TPPs' idle capacity.

Continued on p. 8

Strong start to 2018 for VC market with Q1 tally of US$49.3 billion invested worldwide

The FNANCIAL

2018 had a rousing start with $49.3 billion of venture capital investment raised across 2,661 deals in Q1, just shy of the global record for a single quarter, according to Venture Pulse Q1 2018, a quarterly report on global VC trends published by KPMG Enterprise. A record-breaking $29.4 billion of investment in the Americas – including $28.2 billion in the US alone – combined with high investment in Asia helped fuel the strong VC market.

While venture capital deal volume continued to decline, the median deal size globally continued to grow across all deal stages in Q1 reaching $1.3 million for angel and seed stage rounds, $7.7 million for early stage rounds, and $15 million for later stage rounds.

"Venture capital investors continue to pour money into late-stage companies, in part because of the number of aging unicorns that have remained private," said Brian Hughes, National Co-Lead Partner, KPMG Venture Capital Practice, and a partner for KPMG in the US.

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CURRENCIES

	Apr 14	Apr 6
1 USD	2.4162 ▼	2.4011
1 EUR	2.9811 ▼	2.9474
100 RUB	3.9216 ▲	4.1707
1 TRY	0.5917 ▲	0.5955

More Than 80 Million People in the US Engage with Augmented Reality Monthly

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CURRENT PRICES ON GASOLINE AND DIESEL

16 APRIL, 2018, GEORGIA

Gulf – Prices in GEL

G-Force Super	2.47
G-Force Premium	2.29
G-Force Euro Regular	2.19
Euro Regular	2.15
G-Force Euro Diesel	2.35
Euro Diesel	2.27
CNG	1.54

Wissol – 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

ლუკოილი – 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

SOCAR – 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	1.45

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

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KHACHAPURI INDEX

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CPI AND KHACHAPURI INDEX SLUMP IN FEBRUARY-MARCH 2018

In March 2018, the average cost of cooking one standard Imeretian khachapuri declined to 3.55 GEL, which is 3.2% lower month-on-month (that is, compared to February 2018), and 4.2% higher year-on-year (compared to March 2017).

The monthly (negative) change in the Index follows the traditional seasonal trend for fresh milk production, which gradually starts to decline in January and February. Compared to March 2018, prices decreased for milk and all dairy products (Milk 1.3%, Cheese 5.4%, butter 0.1%) used in cooking khachapuri. In addition, the price of an egg decreased by 0.4% m/m, and the price of wheat declined by 0.1% m/m.

The Khachapuri Index estimates are very much in line with the official estimate of annual inflation by GeoStat. CPI decreased m/m by 0.4% and has gone up y/y by 2.8%. According to Geostat, in monthly terms, the prices of the subgroups milk, cheese and eggs declined by 3.1%. The price of food and non-alcoholic beverages increased by 3.9% year-on-year (which is close to the Khachapuri index estimate of 4.2%).

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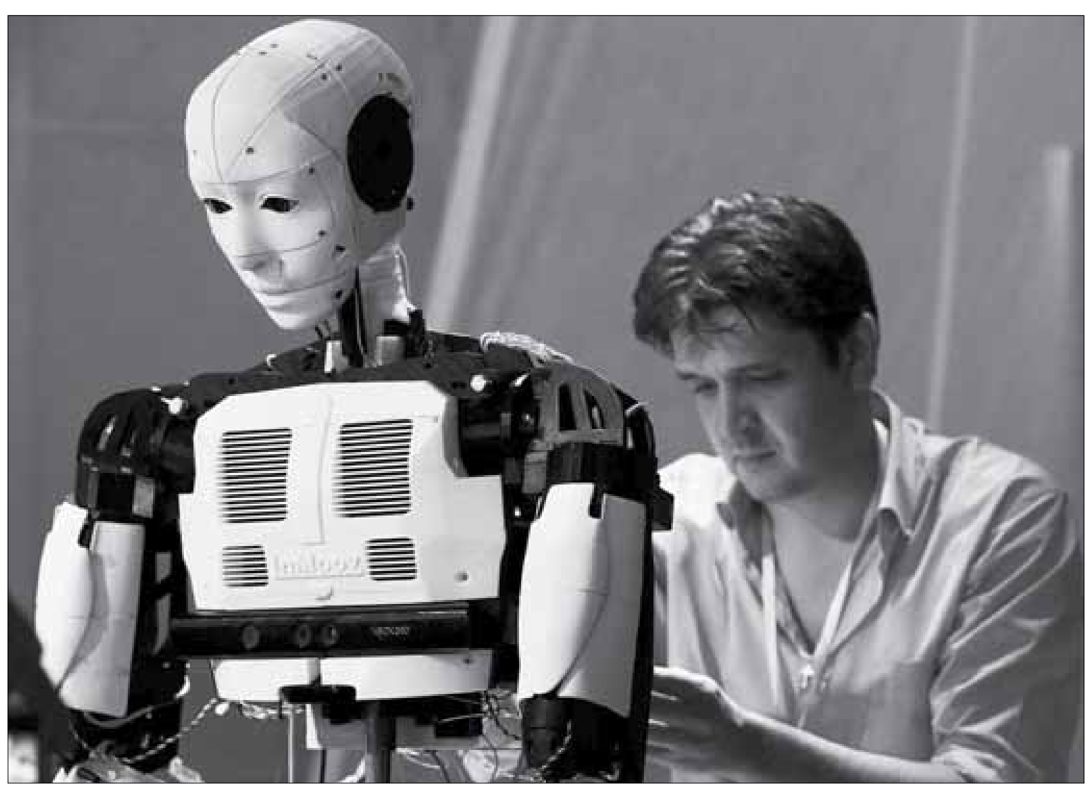
Retrain to mitigate jobs threat from robots

British workers are urged to develop new skills as survey highlights the risks posed by automation



The FINANCIAL – Millions of British workers with jobs that will likely become automated need to retrain or face being left behind, according to Lynda Gratton, Professor of Management Practice at London Business School.

A recent Sky News survey shows that roles in transportation, manufacturing, and retail and wholesale are most at risk from robots that will be capable of doing the same work. The threat of automation affects 18% of all jobs in the UK, with central and northern towns and cities particularly vulnerable, according to the study.

Professor Gratton believes workers and their employers need to start thinking now about retraining. "I would expect a clear narrative to emerge around the need for re-skilling. This will be taken up by some governments and some corporations," she wrote in London Business School Review.

"There will also be a narrative emerging about those people employed in low-skill work. The government will need to ask how those from redundant low-skill jobs can be retrained to take on new roles where humans perform

Continued on p. 4

Russian Legislators Propose Ban On U.S. Goods, Services

A group of Russian State Duma members has proposed banning or restricting the import of a raft of U.S. goods and services in response to fresh U.S. sanctions.

State Duma deputy speaker Ivan Melnikov said on April 13 that it would also restrict economic ties.

The draft law is set to be discussed in parliament's lower chamber next week, although it is unclear whether it will pass in its current form or whether the Kremlin backs the measures.

Analysts say the Kremlin occasionally uses the parliament to send strong messages to foreign powers, but that does not always translate into specific action.

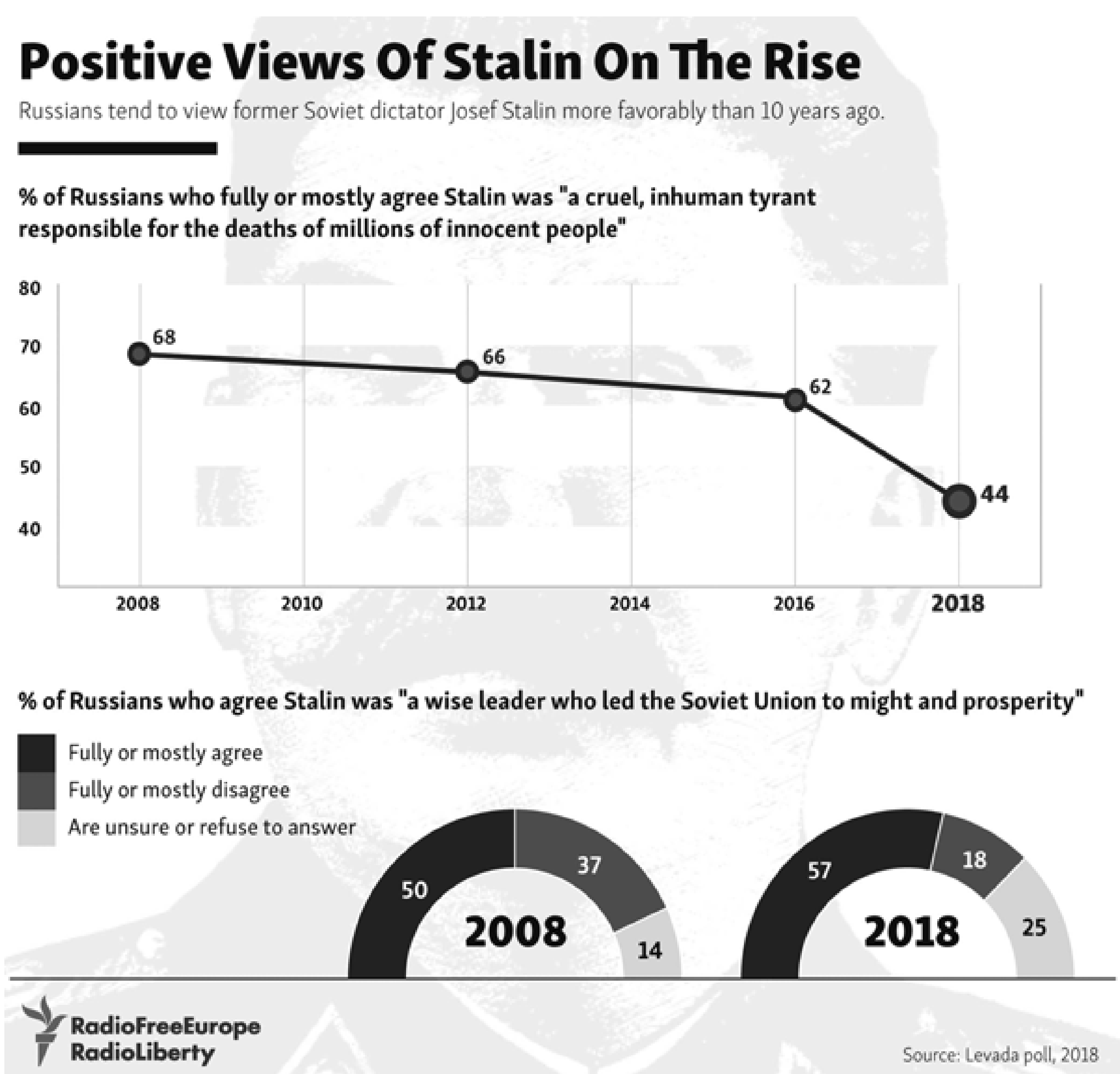
The Kremlin said it had not yet studied the proposed legislation, but that it was understandable that State Duma members wanted to retaliate.

Kremlin spokesman Dmitry Peskov said on April 13 that any response by Moscow to the sanctions imposed by Washington would not harm Russia's interests.

The draft legislation was presented to reporters by deputy speakers of the State Duma, the lower chamber of the Russian parliament, which is dominated by Kremlin loyalists.

The draft proposal would empower the government to ban or restrict imports of U.S.-made software and farm goods, U.S. medicines that can be sourced elsewhere, and tobacco and alcohol.

It would also potentially ban cooperation with the United States on nuclear power, rocket engines, and aircraft making. The draft would also bar U.S. firms from taking part in Russian privatization deals.



Some of the proposed bans, such as that of software, would not prohibit private Russian individuals from bringing these goods into the country.

The bill would also enable the government to apply similar measures to goods and services of other countries seemed to be deserving of punitive measures.

The proposed measures come after the United States on April 6 imposed asset freezes and financial restrictions on a raft of Russian security officials, politicians, and tycoons believed to have close ties to President Vladimir Putin -- part of an attempt to punish Moscow for what the U.S. Treasury Department called "malign activity around the globe."

Russia called the measures "unacceptable" and said it reserved the right to retaliate.

Russian imports from the United States amounted to $12.5 billion in 2017, according to official Russian customs data. That included aircraft, machinery, pharmaceutical and chemical products.

U.S. companies, including Ford and Coca-Cola, have invested billions of dollars since the fall of the Soviet Union to set up local production in Russia.

In 2014, Russia banned a wide range of food imports from Western countries in retaliation for international sanctions over the conflict in Ukraine.

The bill would also enable the government to apply similar measures to goods and services of other countries seemed to be deserving of punitive measures.

With reporting by AP and Reuters

Democracy Around The World

U.S. foreign policy experts are more pessimistic about democracy than their European counterparts

By BRUCE STOKES

At a time of rising concerns about the future of democracy around the world, foreign policy experts on opposite sides of the Atlantic have markedly different assessments of the way democracy is working in their countries, with Americans holding a bearish view and their European counterparts more upbeat.

Fewer than three-in-ten American foreign policy experts (27%) say they are satisfied with the state of democracy in the United States. By contrast, 64% of European thought leaders are satisfied with how their democracy is functioning.

These assessments come from a recent canvass of attendees at the German Marshall Fund's annual Brussels Forum and of alumni of various GMF fellowship and educational programs. Respondents included 237 Europeans and 110 Americans.

American foreign policy experts are also more pessimistic than their European counterparts when it comes to trust in their country's national government. About four-in-ten U.S. experts (42%) say they trust their government to do what is right for the country. Among European foreign policy thought leaders, the share who say this is 19 percentage points higher (61%).

Notably, the U.S. and European publics are much more aligned when it comes to being satisfied with democracy and trusting their national government.

In the U.S., 46% of adults are at least somewhat satisfied with the way democracy is working in the country while 51% voice dissatisfaction, according to a spring 2017 Pew Research Center survey.

Across 10 European Union nations, a median of 48% are satisfied with how democracy is working and 50% are dissatisfied. Levels of satisfaction vary widely between nations, ranging from 79% in Sweden and 77% in the Netherlands who are pleased with their democracy to just 21% of Greeks and 25% of Spaniards.

When it comes to trust in government, about half of the American public (51%) say they trust the U.S. government to do what is right "a lot" (15%) or "somewhat" (36%). (This wording is somewhat different from a question about trust in the federal government that has been asked since the 1950s in the United States.)

In Europe, a median of 46% trust their government, while a median of 52% distrust it. There is again a divergence of views across nations: 71% of the Dutch voice trust their government, as do 69% of Germans, but only 13% of Greeks agree.

Bruce Stokes is director of global economic attitudes at Pew Research Center.

Retrain to mitigate jobs threat from robots

Continued from p. 2

better than machines.

"Take for example the large numbers of redundant truck drivers replaced in the medium or long term by driverless cars. Will they segue into jobs requiring a real human touch? Will these truck drivers become hairdressers or restaurant waiters?"

Businesses must also afford their employees the time to develop new skills. "As we live longer and working lives are likely to extend, we will feel the impact of more and more disruptions from the adoption of artificial intelligence and robotics," she said. "That means we need to allow time to learn more and learn flexibly over an entire working lifetime."

The good news is that some companies are already taking steps to support their staff, according to Professor Gratton. "Insurance group Aviva has made this [the need to retrain] explicit to its 16,000 UK staff. It has presented them with a blunt question: could a robot do your job better than you? Those who answer yes aren't then being handed their P45; instead, they will be retrained for a new role."

Euro area international trade in goods surplus €18.9 bn

€3.3 bn surplus for EU28

The FINANCIAL

The first estimate for euro area (EA19) exports of goods to the rest of the world in February 2018 was €177.5 billion, an increase of 3.0% compared with February 2017 (€172.3 bn). Imports from the rest of the world stood at €158.6 bn, a rise of 1.5% compared with February 2017 (€156.2 bn). As a result, the euro area recorded a €18.9 bn surplus in trade in goods with the rest of the world in February 2018, compared with +€16.1 bn in February 2017. Intra-euro area trade rose to €153.7 bn in February 2018, up by 3.9% compared with February 2017.

In January to February 2018, euro area exports of goods to the rest of the world rose to €356.2 bn (an increase of 5.9% compared with January-February 2017), while imports rose to €333.8 bn (an increase of 3.8% compared with January-February 2017). As a result the euro area recorded a surplus of €22.4 bn, compared with +€14.5 bn in January-February 2017. Intra-euro area trade rose to €314.0 bn in January-February 2018, up by 6.5% compared with January-February 2017.

European Union

The first estimate for extra-EU28 exports of goods in February 2018 was €149.2 billion, up by 1.7% compared with February 2017 (€146.7 bn). Imports from the rest of the world stood at €145.9 bn, down by 0.4% compared with February 2017 (€146.5 bn). As a result, the EU28 recorded a €3.3 bn surplus in trade in goods with the rest of the world in February 2018, compared with +€0.2 bn in February 2017. Intra-EU28 trade rose to €277.4 bn in February 2018, +3.5% compared with February 2017.

In January to February 2018, extra-EU28 exports of goods rose to €299.7 bn (an increase of 4% compared with January-February 2017), while imports rose to €316.8 bn (an increase of 3.6% compared with January-February 2017). As a result, the EU28 recorded a deficit of €17.1 bn, compared with -€17.5 bn in January-February 2017. Intra-EU28 trade rose to €567.2 bn in January-February 2018, +6.6% compared with January-February 2017.

financial news

Strong start to 2018 for VC market with Q1 tally of US$49.3 billion invested worldwide

The FINANCIAL

2018 had a rousing start with $49.3 billion of venture capital investment raised across 2,661 deals in Q1, just shy of the global record for a single quarter, according to Venture Pulse Q1 2018, a quarterly report on global VC trends published by KPMG Enterprise. A record-breaking $29.4 billion of investment in the Americas – including $28.2 billion in the US alone – combined with high investment in Asia helped fuel the strong VC market.

While venture capital deal volume continued to decline, the median deal size globally continued to grow across all deal stages in Q1 reaching $1.3 million for angel and seed stage rounds, $7.7 million for early stage rounds, and $15 million for later stage rounds.

"Venture capital investors continue to pour money into late-stage companies, in part because of the number of aging unicorns that have remained private," said Brian Hughes, National Co-Lead Partner, KPMG Venture Capital Practice, and a partner for KPMG in the US. "With strong IPO exits by Dropbox and Zscaler this quarter, and an increase in the number of IPO filings, we could see the tide turning over the next few quarters, bringing with it a resurgence in early stage deals activity."

Q1 '18 Key Highlights

Global VC investment rose from $46 billion in Q4'17 to $49.3 billion in Q1'18, a solid increase buoyed by five $1 billion+ megadeals.

The number of global VC deals declined for the fourth straight quarter, falling from 3,286 in Q4'17 to 2,661 in Q1'18. The number of VC deals has dropped by half since reaching a peak of 5,480 deals in Q1'15.

The Americas set a new record for VC investment in Q1'18, with $29.4 billion raised across 1,782 deals, with Asia raising $14.6 billion across 317 deals, and Europe with $5.2 billion raised across 548 deals.

Corporate participation in global VC deals set a new record for the second straight quarter, rising from 18.5 percent in Q4'17 to 21 percent in Q1'18.

New and old unicorns – companies valued at over $1 billion – attracted a significant amount of funding with $14 billion across 32 deals.

Two unicorns went public late in Q1'18: cloud-based security provider Zscaler and cloud-storage provider Dropbox, with both companies seeing positive results to date. With Spotify set for a direct listing in April and UK-based online loan provider Funding Circle planning to go public later this year, the IPO market may be opening up.

Competition in the ride-hailing space reaches fever pitch

The ride-hailing industry attracted massive VC investment this quarter, accounting for four of the quarter's five largest deals, including: $2.5 billion raised by Singapore-based Grab, $1.7 billion raised by US-based Lyft, $1.5 billion raised by Indonesia-based GO-JEK, and $1.25 billion raised by US-based Uber. Electric car manufacturer Faraday Future rounded out the top five, raising $1.5 billion.

US sees record VC investment in Q1'18, propelling the Americas to strong results

The US saw a record-setting level of VC investment in Q1'18, with $28.2 billion invested across 1,693 deals. In addition to the three $1 billion+ megadeals seen in the US, a bevy of $100 million+ deals helped propel VC investment to a new high. In addition to transportation and autotech, biotech was a big winner in the US this quarter, with large raises by Moderna Therapeutics ($500 million), Harmony Biosciences ($295 million), and Viela Bio ($282 million).

Across the Americas, Canada matched its second-best quarter of VC investment, with $800 million raised across 72 deals, including a $219 million raise by alternative fuels producer Enerkem. Brazil also saw a nice quarter of VC activity, with Nubank achieving unicorn status following a $150 million raise.

VC investment in Europe remains high against historical norms

Europe saw $5.2 billion in VC investment in Q1'18. Amid a quarter-over-quarter decline, Q1 was the fourth highest on record in the region. The number of European VC deals continued its sharp decline, falling to 548, less than half of the number of deals seen during the same quarter last year.

Strong activity outside the UK helped keep European VC investment high although Ireland bucked the trend with investment increasing strongly quarter-over-quarter to $162 million. Germany saw its second highest quarter of VC investment, just shy of $1.5 billion raised and led by a $560 million raise by Auto1 Group. France, meanwhile, achieved a new high of $767 million of VC investment, further cementing its growing prominence as an innovation leader in Europe. Spain also saw a strong quarter, boosted primarily by a $160 million raise by Cabify.

Mega-deals continue to shape Asian market

Asia continued to see large deals in Q1'18, as two $1 billion+ megadeals were struck outside China with Singapore-based Grab raising $2.5 billion of Series G financing, and GO-JEK in Indonesia closing on $1.5 billion of Series E funds. While VC investment in China fell significantly quarter-over-quarter, the country saw a healthy number of $100 million+ megadeals and an increase in the number of deals. India's VC market got off to a great start in Q1'18, seeing a strong rebound in investment. Food and grocery delivery was the hottest area of investment this quarter, with unicorn company Zomato raising $200 million and BigBasket raising $300 million.

Strong outlook expected for remainder of 2018

VC activity globally is expected to remain strong heading into Q2'18, with an increasing focus on artificial intelligence (AI) autotech, and healthtech. With exit and IPO activity also expected to increase over the next few quarters, there will likely also be a renewal of activity at the earliest deal stages.

"AI will continue to a big bet for VC investors across regions because of its broad applicability across sectors and industries," said Arik Speier, Head of Technology, KPMG Somekh Chaikin in Israel. "Particularly in the healthcare space, AI has the potential to foster an entirely new model for providing healthcare, although in the short-term it will primarily be used as a mechanism to supplement existing services and extend the reach of healthcare practitioners."

More Than 80 Million People in the US Engage with Augmented Reality Monthly

The FINANCIAL

NEW YORK—The ubiquity of the smartphone and its integrated camera has brought about a new era of consumer behavior. One specific form of camera marketing, the use of augmented reality (AR), is quickly gaining traction according to a new report released by The Boston Consulting Group (BCG).

Is the Camera the Next Big Thing in Advertising?

"While no one can predict exactly how camera marketing will evolve, to stay ahead, CMOs should have an AR strategy now, when the experience is still in its beginnings," said Martin Kon, a BCG partner and a coauthor of the report.

The report examines the impact of AR on the consumer advertising market. Based on 2017 data from Snap, Pokémon Go, and other AR applications, an estimated 80 million people in the US (or roughly one-third of all smartphone users) engage with AR at least monthly. The majority of consumers using AR are millennials (19 to 34 years old) and members of Generation Z (age 18 and younger). By 2020, more than 120 million people in the US are expected to use AR.

BCG surveyed more than 50 of the top 200 advertisers in the US on their current usage of AR and their outlook for the future.

While nine out of ten large consumer advertisers in the survey are either already using, or planning to use, AR in their marketing campaigns, only one out of ten companies consider AR to be well-integrated into their marketing strategy—meaning that it is largely still in the experimental stage.

When it comes to AR, the biggest challenge reported by marketers today is market maturity. Respondents also cited the following as barriers: "unable to reach my audience at scale," "required too large of an investment," and "lacks a track record of results, it is too new."

Fewer than one in five advertisers considered incremental sales to be their primary objective for AR marketing today; but 24 months from now, more than one-third of advertisers expect it to be their primary objective.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ELECTRICITY MARKET REVIEW

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A Good February for Electricity Generation: Time for Reflection, After Last Year's Worries

Continued from p. 2

By MARIAM CHACHAVA[1] AND LEVAN PAVLENISHVILI[2] AND NORBERTO PIGNATTI[3]

ISET

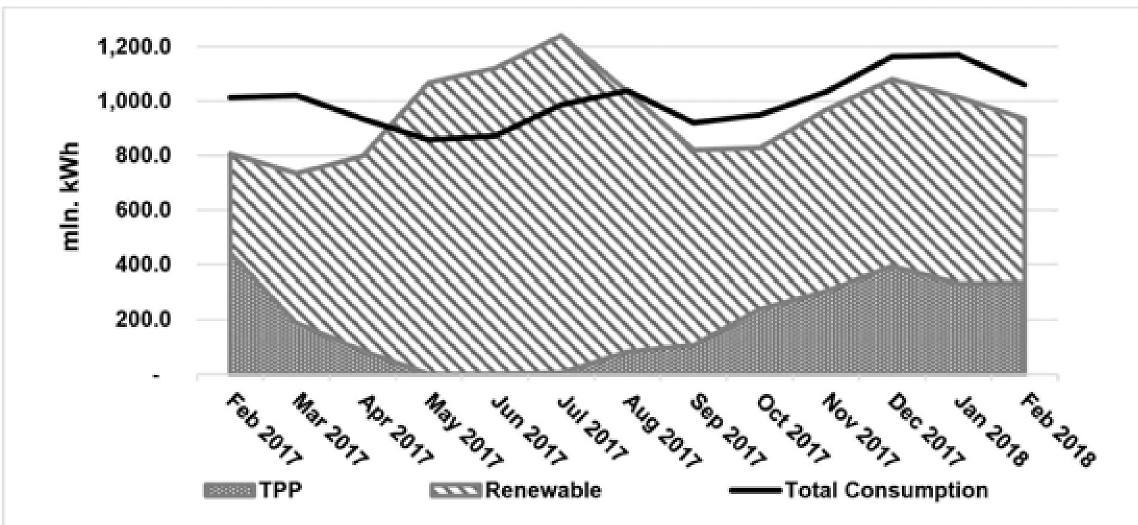
In February 2017, Georgia experienced the largest gap between generation and consumption in the last decade. This was followed by an even greater gap in March 2017. The size of those gaps, and the fact that the historical trend was suggesting an increase in the electricity gap, prompted policy proposals emphasizing the need to encourage investments in power generation. The goal of such policies would be to avoid future energy security challenges due to electricity shortages and fast increasing electricity prices. Most of the strategies suggested stressed the importance of expanding the installed hydropower generation capacity of the country, emphasizing the need for the construction of the Namakhvani, Oni Cascade, and Nenskra hydropower dams.

As can be seen in Figure 1, however, one year later (in February 2018), the gap between consumption and generation has shrunk to 126 mln kWh, down from 204 mln kWh a year earlier. This happened despite the fact that the newly built Shuakhevi HPP, with 178 MW installed capacity, is not yet operational, and the total power generation coming from TPPs decreased by 24% compared to February 2017, indicating a growth in TPPs' idle capacity. Overall, Georgian power plants generated 934 mln. KWh of electricity, corresponding to a 15% increase in total generation, compared to the previous year (in February 2017, total generation in was 809.2 mln. kWh). Consumption of electricity on the local market instead grew by a mere 5%, compared to February 2017, up to 1,060 mln. kWh.

The reduction in the demand-generation gap led also to a reduction in imports (-33% with respect to February 2017). In February 2018, Georgia imported 168 mln. kWh of electricity. The average electricity import price in January 2018 increased to 5.3¢ (12.99 tetri) per kWh, compared to same month in the previous year (an increase of 52%). All this electricity was imported from Azerbaijan (Figure 2). As in three out of four of the previous months, Georgia did not export any electricity.

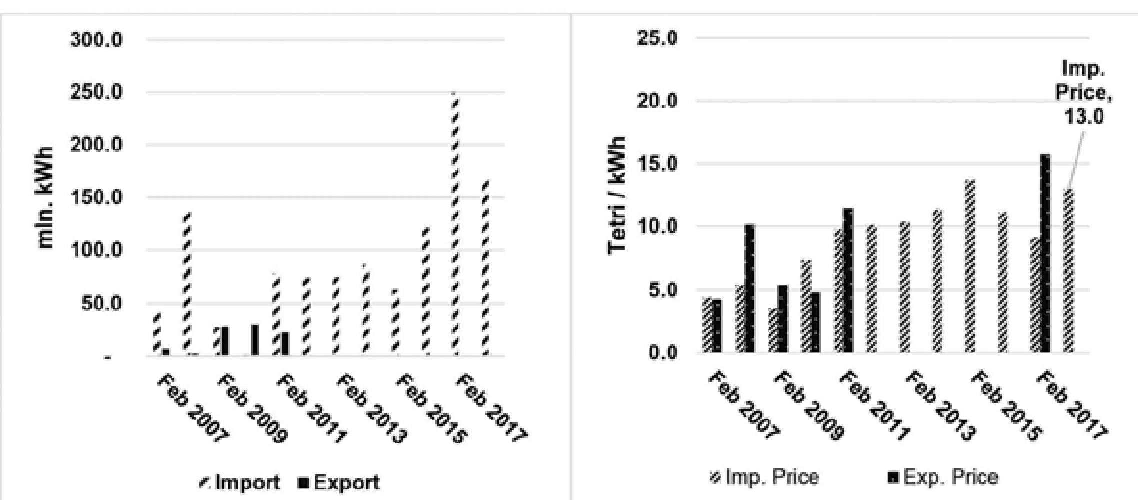
Should the year-on-year reduction in the demand-generation gap lead to relative optimism about the future of the Georgian electricity market, and take less seriously the frequent warnings that more investments in the sector are needed to avoid the electricity shortages and price increases associated with growing demand? Not necessarily. In reality, despite the clear improvement, it would be premature to celebrate. The 2018 demand-generation gap remains the fourth largest over the past decade (Table 1), indicating that the trend is indeed towards a tighter market. While this will not necessarily lead to a crisis anytime soon, the trend highlights the need to closely monitor the evolution of the internal and international electricity markets, and to remain vigilant in order to avoid an increase in the energy security risk.

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



Source: Electricity System Commercial Operator (ESCO)

Figure 2. Import/Export (mln. kWh) and Import/Export Prices (¢/kWh)



Source: Electricity System Commercial Operator (ESCO)

Table 1. Highest Gaps in the Electricity Production Since 2006

Month	Gap in the production (man. kWh)	Share of the gap in total production
March 2017	280	38%
February 2017	204	25%
January 2018	156	15%
January 2017	131	14%
February 2018	126	13%
October 2017	121	15%

Source: Electricity System Commercial Operator (ESCO)

An additional note of caution comes from the fact that the large increase in generation, thanks to which the gap shrunk, was due mainly to two main (exceptional) factors. First, the increase in wind and hydro power generation was due to favorable weather conditions. With no new HPPs or wind farms having gone into operation since February 2017, the growth in generation was driven by a 37% increase in generation of seasonal HPPs, a 68% increase in small HPPs, and a 7% increase in wind power generation. The second factor is a technical one. In February 2017, the largest power plant cascade of Enguri and Vardnili was idle over a certain period to conduct technical work, while in February 2018, it was operating at full capacity. Therefore, while on one hand the situation in 2017 looked direr than it was, it is unlikely that generation will keep growing at the high rate observed between 2017 and 2018.

At the same time, there are currently several potential critical factors that might lead to an acceleration in growth of electricity demand. Among them are: the provision of subsidized electricity in some parts of the country[4], which encourages excessive consumption of electricity (coupled with an increased interest in highly electricity-intensive economic activities such as bitcoin mining), and the potential increase in electricity demand from the occupied region of Abkhazia[5] (currently already consuming – with a population of roughly 240,000 - as much electricity as Tbilisi). This situation may create tensions in the electricity market in the future, which might be more problematic, as the cost of imports seems again on the rise.

The way forward

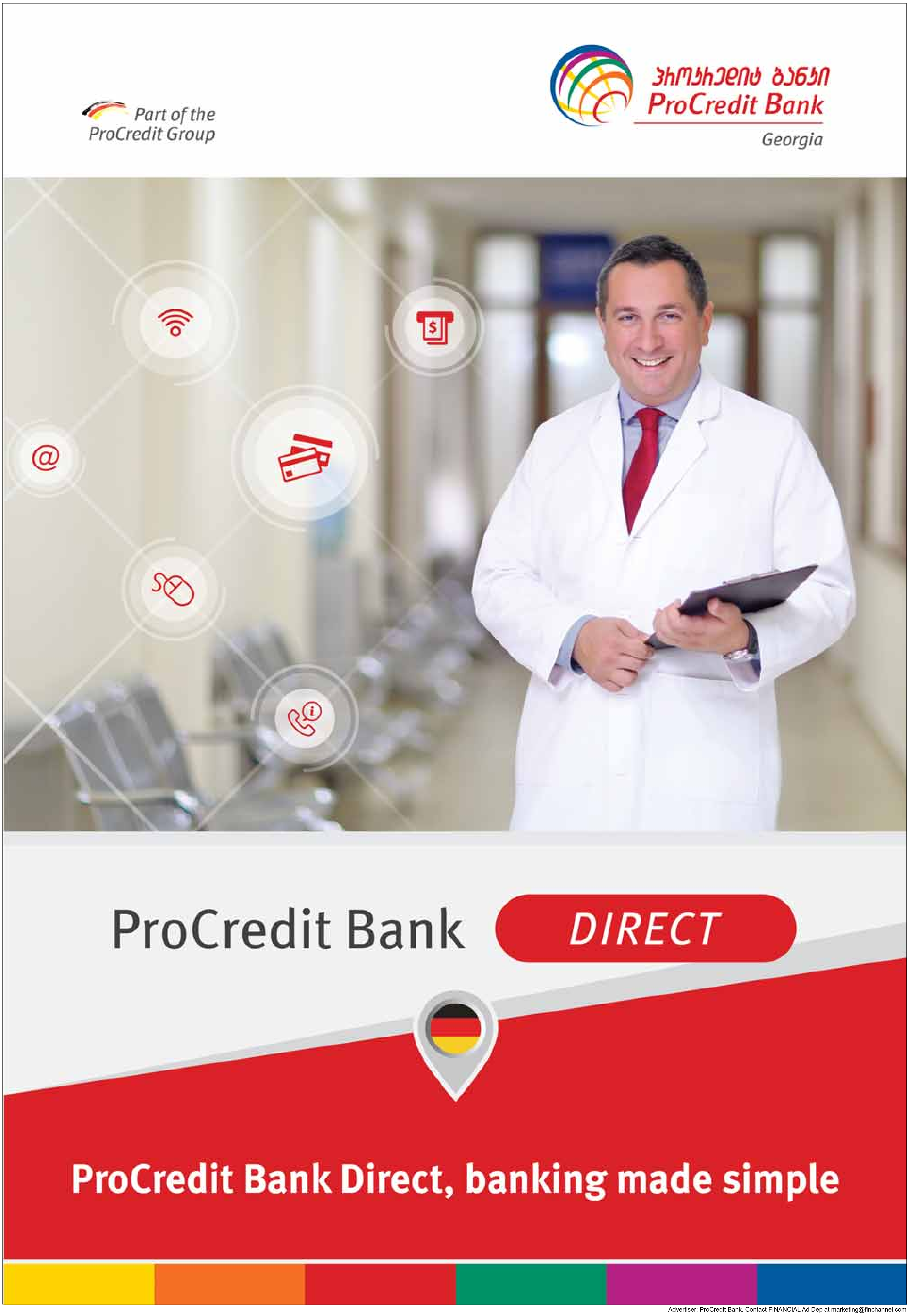
In this situation, a wise approach to energy security would be to take advantage of favorable short-term trends, making less urgent the adoption of emergency measures, and to reconsider current energy policies. In terms of investments in generation, this could mean re-thinking the role of hydropower generation, especially in light of emerging opportunities for electricity generation. Back in 2013, Giorgi Kelbakiani was already writing in an ISET Economist Blog that it would have been wise for the Government of Georgia to reconsider its "obsession of hydropower," as hydropower – despite its significant and increasing potential costs in environmental terms – did not really have the potential to close the increasing gap between demand and generation during dry months. Kelbakiani instead suggested paying more attention to alternative renewable resources such as wind, arguing that wind farms, located in carefully selected locations, could both act in a countercyclical way – achieving peak generation in periods when hydro generation is at its lowest – and be successfully combined with HPPs with reservoirs in a hybrid generation structure increasingly adopted around the world. While one might not agree with this particular solution (even though the adoption of hybrid generation plants combining HPPs with reservoirs and wind turbines is becoming increasingly popular), the impressive advances in the field of renewable energy generation, leading to a dramatic reduction in costs per kWh generated and a minimization of negative side effects, do provide a number of valid alternatives to a big push for the development of hydropower generation, and would be worth considering.

On the demand side, it would also be worth considering a progressive shift away from subsidized tariffs towards tariffs more reflective of generation costs.

The reform of the electricity market, discussed in another recent piece published in the ISET Economist Blog, could (if done properly) support this process, both in terms of incentives to invest in the most efficient generation technologies, and saving electricity. In addition, the recent abolition of PPAs could prove useful, as doing so helps level the playing field on the generation side, and allows new generators to compete on the basis of true efficiency and profitability.

Overall, the main recommendations emerging from analysis of the most recent electricity market data are the following: keep monitoring the evolution of the market; encourage market solutions that allow economic agents to react more quickly to changes in the market conditions, both on the demand side (with prices reflecting true generation costs) and on the supply side (eliminating provisions that create distortions in the generation segment); take greater care in analyzing the environmental impact of alternative generation technologies; and, make sure environmental costs are correctly priced and included in the evaluation of investment projects when deciding the best way to ensure energy security. While doing that, take a deep breath and remember there is no need to rush. February 2018 data suggests that there is no looming electricity crisis beyond the horizon.

[1] Junior Researcher, EEPRC - ISET PI.
[2] Senior Researcher, EEPRC - ISET PI.
[3] Professor, ISET and ISET PI.
[4] According to the law of the "Development of High Mountain Regions" in Georgia, from January 2017, the Government of Georgia compensates 50% of electricity tariffs for the electricity consumers living in high mountain regions (subsidy covers 50% of the tariff only up to 100 mln. kWh of electricity consumption). Moreover, electricity is provided free of charge to the part of Svaneti region.
[5] We will be talking about the Abkhazian case in greater detail in a forthcoming article.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GRASS FACTCHECK

Giorgi Kvirikashvili:

The current account balance deficit decreased to 8.7%, which is very important for the GEL exchange rate.

Valeri KVARATSKHELIA
FactChek

Verdict: Giorgi Kvirikashvili's statement is **TRUE**.

Summary: A negative current account balance of a country means that more currency leaves the country than enters it, which negatively affects the economy. It causes pressure on exchange rate and creates the necessity of covering the deficit with a financial account (investment, borrowing and decreasing currency reserves). A high current account deficit increases the credit risk of the economy, which, in turn, is reflected in a decreased access to the credit resource and/or an increased interest rate.

As of 2017, the current account deficit decreased by USD 531 million and equalled USD 1,316 million. The share of deficit constituted 8.7% of the GDP of the respective period that is one of the lowest indicators in the last decade, surpassing only the 2013 indicator (5.9%). The analogous indicator amounted to 12.8% in 2016.

Traditionally, negative trade balance remained the main factor behind the formation of the current account deficit. This is partly balanced by the trade of service, Including at the expense of increase in tourism profit.

Analysis

The Prime Minister of Georgia, Giorgi Kvirikashvili, stated during a government meeting: "It is important that the current account deficit reached one of the lowest indicators in 2017, falling from nearly 13% to 8.7%, manifesting a USD 531 million decrease. This is very important for the stability of the currency exchange rate and represents one of the positive indicators."

FactCheck took interest in the accuracy of the given statement.

Balance of payments of a country includes comprehensive information about the money inflows and outflows. The balance of payments is a sort of an account that reflects the money transfer between the economy of a specific country and the rest of the world. The balance consists of the current, capital and financial accounts.

A **current account** includes the component of trading with goods and services as well as incomes and transfers. The income component shows inflows of income from abroad (specifically, labour remuneration and investment income) and incomes transferred from abroad. Transfers include current transfers between the residents and non-residents of a country (for instance grants, financial assistance).

A **capital account** consists of purchase/ assignations of capital transfers and non-produced non-financial assets. One of the forms of capital transfers is the debt relief.

A **financial account** includes direct investments, portfolio investments, financial derivatives, other investments and reserve assets.

If a country runs current account deficit; that is, if more money leaves the country as compared to what comes in, the gap is covered by the financial account (by investments, taking debt and a decrease in monetary reserves).

Table 1 reflects the tendencies of change in the current account deficit. As of 2017, the current account deficit decreased by USD 531 million as compared to the previous period and equaled USD 1,316. The share of deficit in the GDP of the respective period constituted 8.7% that is one of the lowest indicators in the recent decade and only falls behind the 2013 indicator (5.9%).

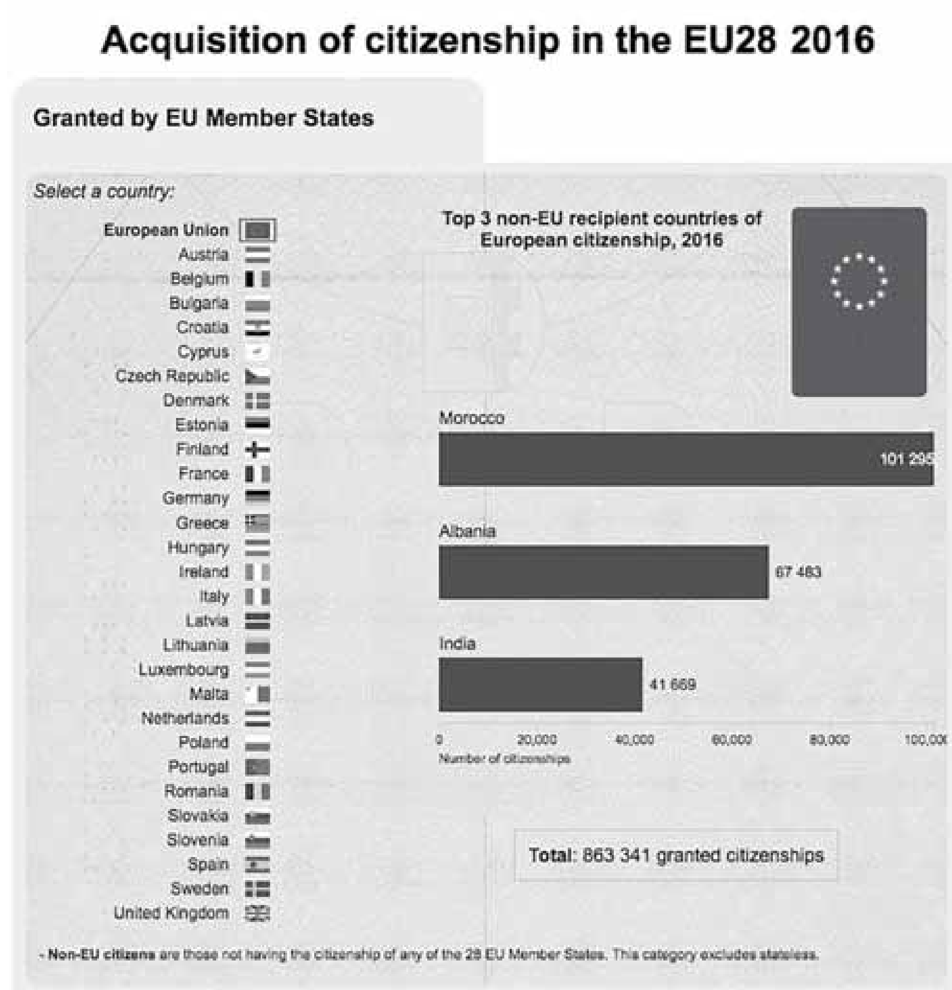
While discussing the tendencies of the deficit formation, it should be mentioned that trade of goods remained the main causal factor behind the negative balance. The balance of the trade of goods decreased insignificantly (0.74%) as compared to the analogous indicator in 2016 and equaled USD 3,840 million. The given deficit is partly balanced by the positive balance of the trade of service (USD 2,069 million), mostly due to the profit received from tourism (USD 2,288 million).

Table 1: Tendencies of Change in the Current Account of Georgia.

	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDP (GEL)	17 986	20 743	24 344	26 167	26 847	29 150	31 756	34 028	38 042
GDP (USD)	10 767	11 639	14 435	15 846	16 140	16 509	13 994	14 378	15 189
Current Account Deficit (USD)	-1 136	-1 196	-1 844	-1 886	-958	-1 790	-1 696	-1 847	-1 316
Difference compared to the Previous Period (USD)	1 678	-59	-648	-43	928	-832	94	-152	531
Share of GDP	10.6%	10.3%	12.8%	11.9%	5.9%	10.8%	12.1%	12.8%	8.7%

Source: National Bank of Georgia

who acquires the citizenship of your country



Are you aware which are the top non-EU recipients having been granted citizenship by your country? And which are the main EU citizenships acquired by non-EU citizens?

The FINANCIAL

Did you know that in 2016 ...

... Italy was the top citizenship-granting country in the EU (20% of new citizenships granted), followed by Spain and the United Kingdom (both 15%), France (12%) and Germany (11%)?

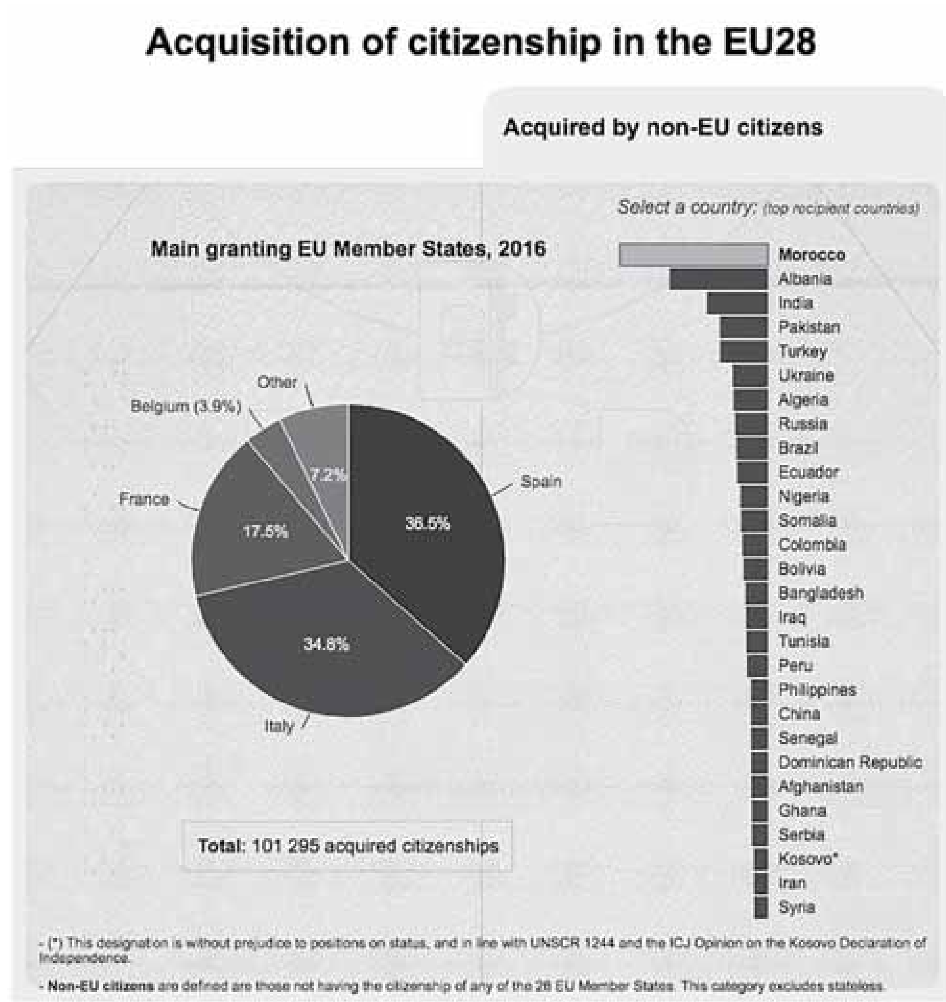
... nine out of every ten new EU citizens were previously citizens of a non-EU country? The main origins were Morocco (101 295, or 10 %), Albania (67 483, or 7 %) and India (41 669, or 4 %)?

... 120 235 citizens of EU-28 Member States acquired citizenship of another EU-28 Member State? (12% of total acquisitions)?

... Sweden and Luxembourg granted the highest number of citizenships in relation to their population (6 per thousand persons), followed by Cyprus (5)?

... the highest proportion of citizenship acquisitions by women was recorded in Cyprus (59 %), while the highest by men (62%) was in Romania?

... Sweden registered the highest share of grants of citizenship to children aged under 15 (35%), while the highest share of grants to people aged over 65 was recorded in Luxembourg, Slovakia and Hungary (7%)?



Effectively tackling innovation risk helps fuel organisational growth

The FINANCIAL – As technological innovation continues to revolutionise the business landscape, organisations are also grappling with newfound risks and unchartered challenges. PwC's 2018 Risk in Review Study shows how a distinct set of risk management practices can arm organisations to capture value from their innovation efforts and better manage related risks for further growth.

More than half (60%) of those polled CEO's in 76 countries, manage innovation risk very effectively or somewhat effectively – a cohort of the survey population which the study labels as 'Adapters'.

Adapters outperform their less effective peers in several areas including their level of influence over decision-making about innovation including implementing new technologies to develop new products (57% versus 18% of Non-adapters) and the value they say their risk management function brings (58% versus 18% respectively note significant value). Notably, Adapters are also two to three times more likely to express confidence in their risk management programme's ability to effectively manage risk from new technologies including artificial intelligence and the Internet of Things than their less effective peers — and more likely to expect revenue growth.

"Organisations around the world are taking advantage of emerging and innovative technologies for growth. But to fully capitalise on these opportunities, risk management and innovation must be in sync every step of the way", Andrew McPherson, PwC Global Governance Risk Compliance (GRC) and Internal Audit Leader, says. Adapters are making sure their risk executives are engaged throughout the innovation lifecycle and are addressing both the known and unanticipated risks that accompany innovation. Adapters are tackling risk differently and are three times as likely to say their risk function contributes significant value."

Given the many benefits of embracing innovation in a risk-conscious manner, PwC's survey outlines five distinctions that separate Adapters and Non-Adapters.

They engage early and often across the innovation cycle. Adapters are twice as likely as Non-Adapters to advise on innovative activities before the planning stage.

They use multiple actions to address their risk exposure from new initiatives. Adapters more often use four or more actions ranging from revisiting objectives and strategy to sharing the risk than their less effective peers.

They adjust risk appetite and tolerances with frequency. Adapters adjust the risk appetite for all eight innovative activities listed in our survey, and most often when creating new products outside their core offerings and implementing new technologies.

They harness new skills, new competencies and new tools to support innovation. While 58% of Adapters report that they are bolstering their risk management capabilities by adding new skill sets, just 39% of Non-Adapters plan to do this.

They monitor and assess effectiveness of risk management in multiple ways. 51% of Adapters use external parties to assess their risk management capabilities, while only 27% of Non-Adapters are monitoring their effectiveness in this manner.

Organisations must understand that risk management and innovation go hand-in-hand. Innovation brings great opportunity. A keen awareness of the necessary actions to address both known and unanticipated risks that accompany innovation, can equip risk executives to succeed in this fast-changing environment. Risk executives should be engaged throughout the innovation lifecycle to effectively identify, assess, and manage innovation risk.

House prices up by 4.2% in the euro area

Up by 4.5% in the EU

The FINANCIAL -- House prices, as measured by the House Price Index, rose by 4.2% in the euro area and by 4.5% in the EU in the fourth quarter of 2017 compared with the same quarter of the previous year. These figures come from Eurostat, the statistical office of the European Union.

Compared with the third quarter of 2017, house prices rose by 0.9% in the euro area and by 0.7% in the EU in the fourth quarter of 2017.

House price developments in the EU Member States

Among the Member States for which data are available, the highest annual increases in house prices in the fourth quarter of 2017 were recorded in Ireland (+11.8%), Portugal (+10.5%) and Slovenia (+10.0%), while prices fell in Italy (-0.3%).

Compared with the previous quarter, the highest increases were recorded in Slovenia (+3.7%), Croatia (+3.2%) and Cyprus (+2.7%), while decreases were observed in Sweden (-2.8%), Denmark (-1.7%), Belgium (-0.4%) and Finland (-0.3%).

GRASS FACTCHECK

" Dimitri Kumsishvili:

Investments from the United Arab Emirates exceeded USD 800 million.

Levan TEVDORADZE
FactChek

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

Summary: In 2017, investments worth USD 62.7 million were made in Georgia from the UAE. With this indicator, it became Georgia's 7th largest investor country. Azerbaijan is on the first place in the ranking. Investments worth USD 482 million were made by Azerbaijan.

The first investment from UAE was made in 2003 and the cumulative amount of investments since them until 2017 amounts to USD 885 million. With this indicator, the UAE is on the 6th place among the investor countries, falling behind Azerbaijan, the United Kingdom, the Netherlands, Turkey and the United States.

Analysis: On April 9, 2018, the Minister of Economy of Georgia, Dimitri Kumsishvili, stated that the United Arab Emirates are the on the 7th place by investments made in Georgia. Kumsishvili also added that, currently, the investments from the UAE exceed USD 800 million.

National Statistics Office of Georgia publishes the statistics about the foreign direct investment made in Georgia. According to Geostat, investments worth USD 1,862 million were made in Georgia in 2017. This number is unprecedently high in absolute terms.[1] Investments constitute 12.4% of the 2017 GDP, which is the third highest point in the reporting period and only lags behind 2006 and 2007 indicators.

In 2017, Azerbaijan held the first place among the top 10 investor countries, with the investments worth USD 481 million. Azerbaijan was followed by Turkey, UK, Netherlands, Czech Republic, USA and UAE. Investments worth USD 62.7 million were made in Georgia from the UAE in 2017, which placed the country on the 7th position. Panama, China and Cyprus complete the top 10. It is noteworthy, that Russia was on the 12th place.

The first investment from the UAE to Georgia, worth USD 290 thousand, was made in 2003. In 2004, UAE did not invest any funds in Georgia. The most investments in the reporting period (2003-2017) from the UAE were made in 2008 – USD 307 million, whereas the highest growth was recorded in 2007, when, compared to the previous years, the amount of the inflowing investments grew 287 times. Such a growth rate, besides the high indicator of investment, was mostly due to low base effect.

Since 2009, the investments from UAE to Georgia have been shrinking until 2012. In 2013-2017, excluding 2014, the dynamic of the inflow of investments from the UAE was constantly increasing. The 2017 indicator is the second largest after the 2013.

In parallel with the investments, position of the UAR in the list of investing countries was changing, too. In 2008-2009, the country was investing the most in Georgia. Therefore, the 2017 indicator is not the highest in terms of the UAE's position in the list, nevertheless, it does reflect the positive tendency.

In 2003-2017, in total, the UAE invested more than USD 885 million in Georgia. The UAE is on the 6th position among the investor countries with this indicator. In the given period, the most investments in Georgia were made by Azerbaijan – USD 2.5 billion. The United Kingdom invested USD 2.4 billion in Georgia. The Netherlands, Turkey and the United States complete the top five investor countries' list. Russia is on the 8th position in the given ranking, lagging behind the Czech Republic. It is noteworthy, that the EU countries invested USD 7 billion in Georgia in 2003-2017, which exceeds the amount received from the CIS by USD 600 million. With this indicator, the EU is on the first position by country groups.

1. Importantly, Geostat edited the foreign direct investment indicators twice, in November 2017 and March 2018, following the recommendations from the International Monetary Fund (IMF). Therefore, the hitherto historical quantitative indicator of investments decreased by USD 262 million.

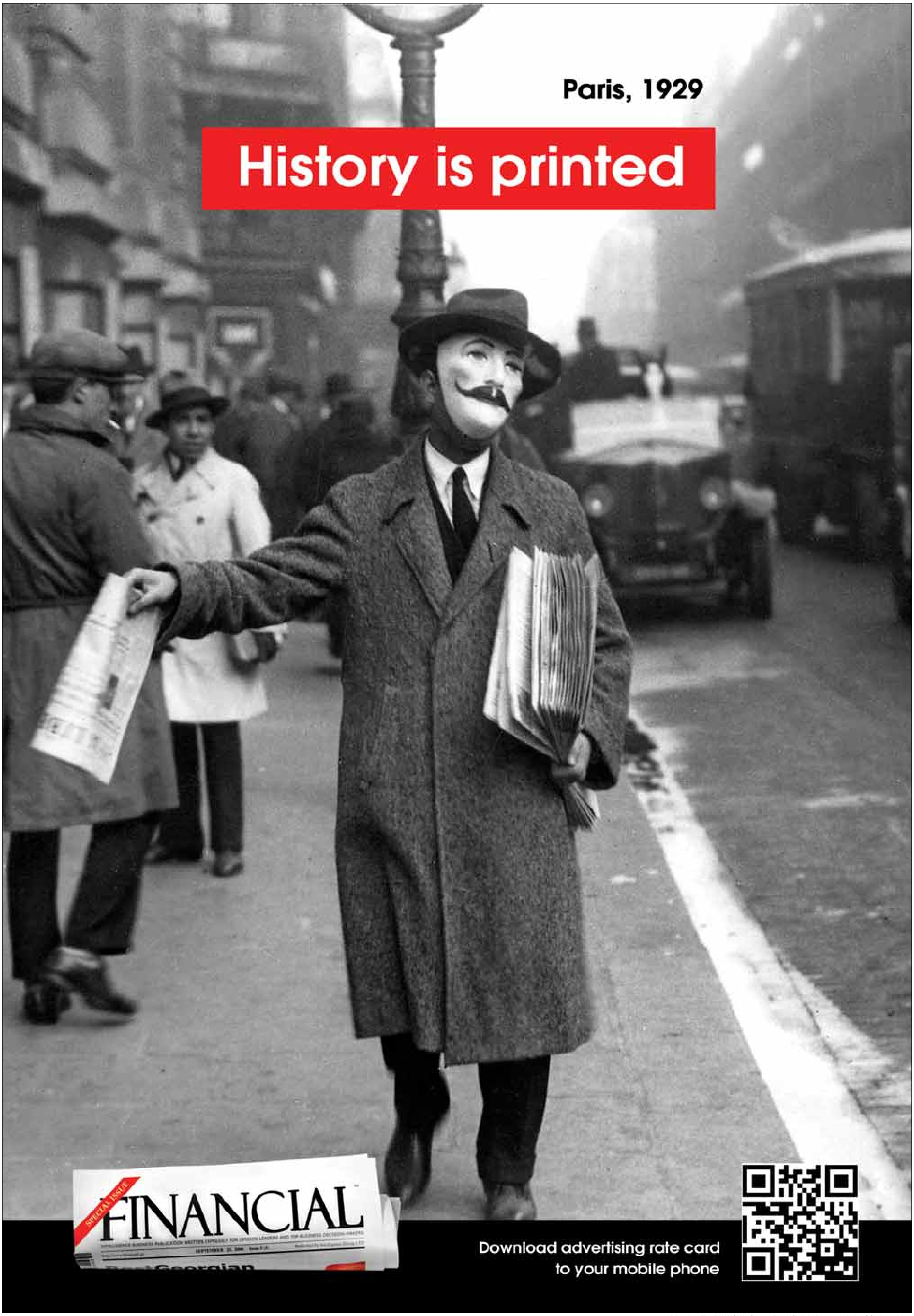
2. In 2004, Georgia did not receive any investments from the UAE.

Table 1: Statistics of the Investments made by the United Arab Emirates in Georgia in 2003-2017.[2]

	Investment (USD million)	Growth (%)	Position Among the Investor Countries	Share in the Total Investments (%)
2003	0.29	-	-	0.09%
2005	0.28	-4%	31	0.06%
2006	0.42	51%	34	0.04%
2007	120.2	28336%	6	6.9%
2008	306.6	155%	1	19.5%
2009	162.8	-47%	1	24.5%
2010	55.5	-66%	5	6.6%
2011	42.3	-24%	9	3.7%
2012	24.4	-42%	14	2.4%
2013	63.7	161%	5	6.2%
2014	4.4	-93%	27	0.2%
2015	8.2	86%	24	0.5%
2016	34.1	315%	11	2.1%
2017	62.7	84%	7	3.4%

Source: Geostat

publicity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KETI SIDAMONIDZE, FOUNDING DIRECTOR OF VERSATILE KS

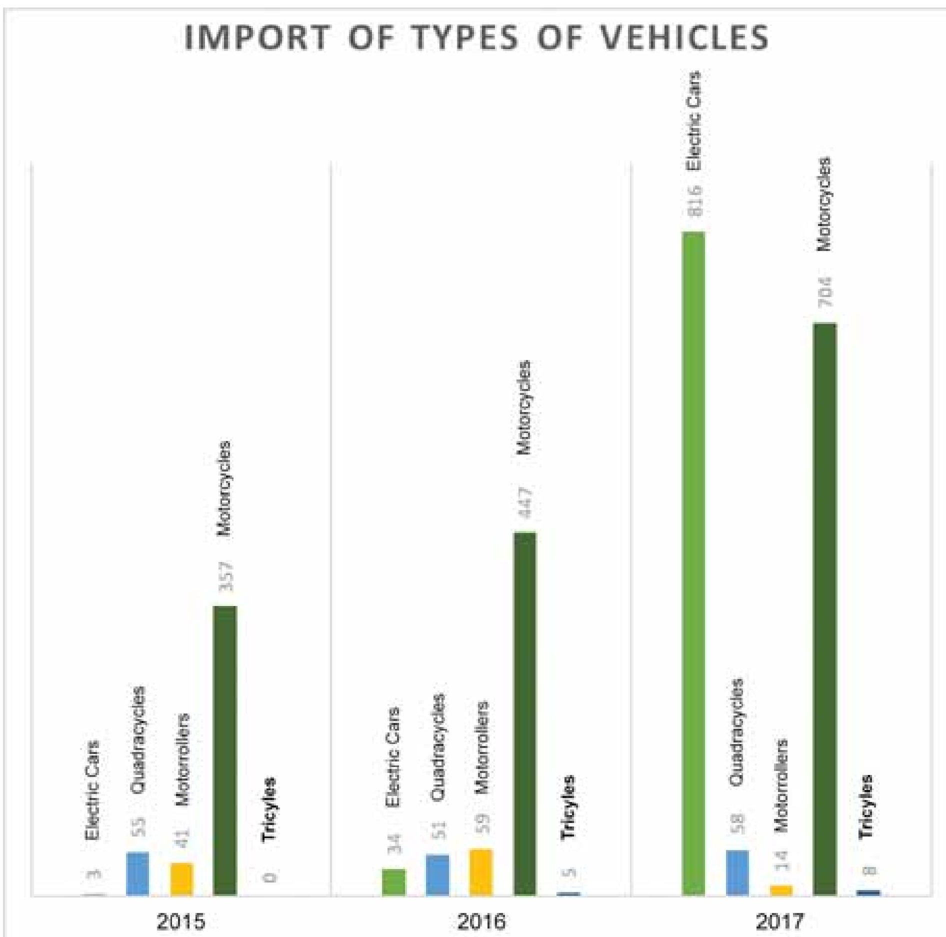
Market review: Eco-friendly Vehicles in Georgia

Tbilisi's heavily jammed traffic is infuriatingly worrisome, and it leaves no one indifferent, not even the pedestrians. No, I should have said, especially the pedestrians. Due to alarmingly high air contamination levels, humming "all I need is the air that I breathe" has a whole new meaning for the dwellers of the Capital.

According to the Ministry of Internal Affairs of Georgia, the car park of the country has been steadily growing annually, with the growth rate constituting 5.3% in 2017. That sounds positive until you realize that Georgia has an old car park: of the 1,257,502 vehicles registered in Georgia by the end of 2017, only 1.2% (14,838) have less than 3 years of operating age; 91% were manufactured before 2008; and the operating age of 602,927 vehicles (48%) is above 20 years, the latter indicator being up by 9.5% compared to that of last year.

Old vehicles produce much more exhaust gases compared to new, eco-friendly vehicles, severely polluting the environment. Ms. Eka Laliashvili, Chair of the Georgia Alliance for Safe Roads, together with likeminded people and responsible corporations, is determined to salvage the air of Tbilisi for us and for future generations. Ms. Laliashvili has expressed to Versatile KS grave concern regarding the consequences of air contamination: "In recent years, the number of cardiovascular, respiratory and oncological diseases has increased significantly due to air pollution. Exhaust from faulty, old vehicles makes up almost 71% of total emissions". These concerns have translated into vocal actions on April 12 with the launch of For Clean Air campaign. Up to twenty private companies will be jointly advocating legislative initiatives aimed at improving air quality, developing awareness raising campaigns, as well as implementing eco initiatives, such as promoting green products, using eco-vehicles, encouraging employees to do voluntary vehicle tech-inspection and much, much more.

Shifting to green transportation would indeed help rid the atmosphere of the toxic gases as these modes of transportation have few to zero emissions. While mopeds are nothing new, they were only recently introduced to Georgia's reality as a responsible greener alternative to driving heavily petrol-thirsty vehicles. They are simple, economical, convenient, and fun to ride.



Versatile KS spoke with one of the Founders of Scoot Scoot, Mr. Giorgi Monavardisashvili who teasingly stated: "we are practically orchestrating the 'From Black Jeeps to Scooters' endorsement". What stands out is that they actually practice what they preach - both founders of Scoot Scoot use scooters as their daily mode of transportation.

Scoot Scoot has been operating on the Georgian market for the past year and a half, swiftly gaining popularity: "we offer affordable, mainstream Scooter rental and sales services to our cherished clients. Despite growth, we still manage to abide by our principle to all know our customers by name as we engage with them in different ways to augment their experience of using scooters. We have two rental shops in Tbilisi and we are currently working on opening a showroom to display all our scooters for sale", explained the Founder. Their prices range from GEL 1,100 to GEL 6,000. For instance, they sell brand new Vespa LX 125 for only GEL 4,900. "Our business is our humble contribution to sparing the air of Tbilisi and beyond", concluded Mr. Monavardisashvili.

Moto Club Georgia, on the other hand, started importing mopeds in Georgia almost seven years ago when it was still a novel fruit: "it was very challenging back then as we had to promote the idea of using mopeds and attempt to sell them at the same time. Initially, we were only importing second hand vehicles but now we import new scooters from China as well", explained Mr. Veniamin Gogishvili, the Founder of the company. Currently, vehicle prices at Moto Club Georgia range from USD 400 to USD 1,000 and in addition to mopeds, they import and sells scooter spare parts and accessories. As for electric scooters, the Founder believes they will not be able to compete with the petrol scooters with 4 stroke engines neither in terms of price affordability, nor in technical specifications any time soon in Georgia.

Mr. Gogishvili revealed to Versatile KS that they are seriously considering introducing a renowned scooter brand either from EU or Japan: "We haven't concluded the negotiations yet, but we are actively seeking out opportunities as we believe the usage of this mode of transportation has amazing growth potential in the Georgian market. If you look at our company's sales alone, it has increased by 25% compared to the previous year's sales and we are optimistic the growth can be sustained in the coming years as well, as long as all companies operating in our field have a level playing field".

He stated that any person in Georgia, both from cities and villages are potential users of mopeds/scooters: "we had a case when a 60-year-old woman had bought a moped and helmet from us, and after some time she drove by to thank us cordially as the vehicle dramatically simplified her life by making her much more mobile". According to Mr. Gogishvili, solving the problem of lack of designated parking spots for mopeds/scooters in the cities could be one of the first and basic initiatives for the Government to improve the existing infrastructure for users of this mode of transportation.

The lack of designated parking spots also bothers the Founder of Moped Depot, Mr. Giorgi Arveladze, but: "one of the major concerns is the safety of the moped drivers. Only a couple of years ago, the initial reaction of any person offered a scooter to, was 'but driving among reckless car drivers means risking my life'. However, we see the trend that the number of mopeds has more than tripled in Georgia and gradually it is becoming an integral part of the transport ecosystem. Despite much smaller size, a scooter still requires designated parking spaces in the city, so we would really like to see scooter parking alongside the car parking spots in Tbilisi and other large cities of Georgia".

The mission of Moped Depot is to popularize mopeds and significantly increase its share as a very popular means of transportation in Georgia. Business interest set aside, by doing so they will achieve notably decreased air pollution levels and help Tbilisi become a healthier place to live: "an average moped only emits half of that of a car, thus, substituting each car with a scooter is an equivalent of planting over 100 trees in a way and we plan 'to plant millions of trees' in our way", stated Mr. Giorgi Arveladze beamingly.

The Founder of Moped Depot reminded Versatile KS that initially, mopeds in Georgia were associated with several postal delivery services only in the corporate segment, but gradually, companies with diverse profiles started to realize that mopeds can be a much more reliable, less capital intensive and cheaper to maintain means of transportation. The Company specializes in both corporate and retail segments: "shortly after founding our business we became proud partners of such clients as Domino's Pizza, Georgian Post, Energopro Georgia, and others". They provide full scale services to corporate clientele, as for individual consumers "our product range suits anybody from students who like to easily get around to people that travel long distances, e.g. from Tbilisi to Rustavi or Gori, to people that are simply fed up with traffic jams and parking issues to people that just love to ride around the town on one of our beauties".

Moped Depot partner brands are Taiwan based world known SYM and Turkish Mondial: "our retail prices range from GEL 3,000 on selected Mondial models to GEL 4,300 on Taiwanese SYM Fiddle III with Euro 4 emission standard. We do have interest free installment loan programs with the major Georgian banks and on a two-year installment plan example, the customer has zero down with the monthly payment of around GEL 170, which is a very attractive price for Georgians with an average salary of GEL 1,000" elaborated Mr. Arveladze. He further clarified that the Turkish based Mondial had already been a very popular brand in Georgia due to its durability way before his Company became their official distributor: "the brand has roughly around 20% market share according to our modest estimates".

Versatile KS has requested official car park data from the Ministry of Internal Affairs of Georgia and the given graph depicts the breakdown of imports of registered electric cars as well as motor vehicles for years 2015-2017.

According to the National Statistics Office of Georgia, in 2017 the overall import of scooters, mopeds and electric bikes has grown by 70% YoY to over 5,100 units, and Moped Depot believes it is still quite a low figure considering the demand for easy, cheap and reliable transportation in the country. The largest chunk of imports of mopeds is with small size engines (50 cc) - they are extremely comfortable to own as they need neither registration nor a driving permit. Roughly 60% of imports are comprised of these small engine scooters and the rest goes with bigger engine scooters and motorcycles: "unfortunately, as in the case of car market, we are seeing the largest increase in imports of second hand 20+ year mopeds. The average cost of these mopeds was USD 212 in 2017, meaning that clear majority of them were very cheap, fully amortized, aged scooters", expressed concern the Founder.

Mr. Arveladze reasons that the current specifications of affordable electric scooters are not user friendly enough to be widely used in Georgia at this stage: "most of the scooters run for about 40-45km with a fully charged battery and then take about 4-5 hours to be recharged, so these scooters are mostly used for fun and in very limited quantities", however he is assured, electric scooters will globally take over the gasoline ones in less than a decade.

On a positive note, Georgian government introduced a few initiatives to boost hybrid, electric and moto transport usage through tax incentives, but we have yet a long way to go to escape the disgrace of old car park.

As the readers may recall, in February 2018 the Government of Japan has handed over electric and hybrid cars to the Ministry of Internal Affairs of Georgia. This constituted the launch of a long-term auto park renewal initiative of the Ministry. The use of new, environmentally clean vehicles by the Patrol Police is a clear message to the public that along with the protection of public order, they care about upholding a healthy environment.

Of course, we will need a vehicle charging infrastructure of a scale and size that shall match Georgia's current and future needs. But that's a story of another tale.

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

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SPECIAL ISSUE

Weekly Market Watch

GALT & TAGGART
CREATING OPPORTUNITIES

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

ECONOMY

Exports up 33.1% y/y in March 2018

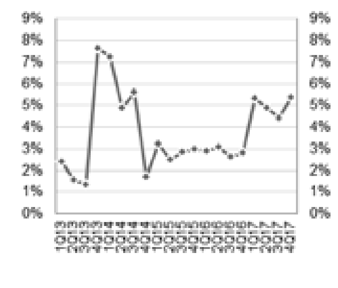
In March 2018, exports increased 33.1% y/y to US$ 293.9mn, imports were up 34.7% y/y to US$ 837.7mn and the trade deficit widened 35.6% y/y to US$ 543.7mn, according to GeoStat's preliminary figures. In 1Q18, trade deficit was up 18.1% to US$ 1.3bn as exports increased 28.4% y/y to US$ 740.3mn, while imports were up 21.6% y/y to US$ 2.1bn. Detailed foreign trade statistics will be available on April 19, 2018.

Key macro indicators

	1Q18	2017	2016
GDP (% change)	4.9%(1)	5.0%	2.8%
GDP per capita (ppp)	...	10,644	10,043
GDP per capita (US$)	...	4,079	3,865
Population (mn)	3.7	3.7	3.7
Inflation (eop)	2.8%	6.7%	1.8%
Gross reserves (US$ bn)	3.0	3.0	2.8
CAD (% of GDP)	...	8.7	12.8%
Fiscal deficit (% of GDP)	...	3.9%	4.1%
Total public debt (% of GDP)	...	44.7%	44.4%

Source: Official data, IMF
1) As of 2M18

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

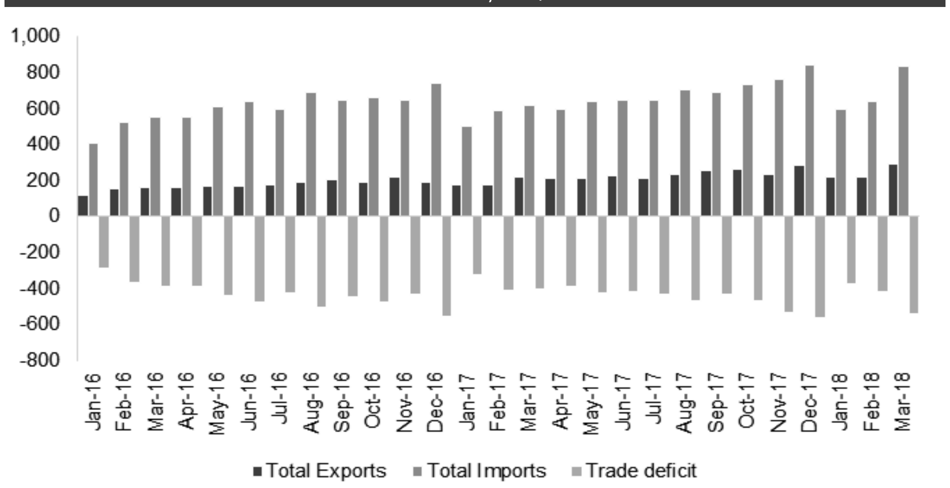
Ease of Doing Business s# 9(Top 10)

Economic Freedom Index # 16 (mostly free)

Global Competitiveness Index # 59 (improving trend)

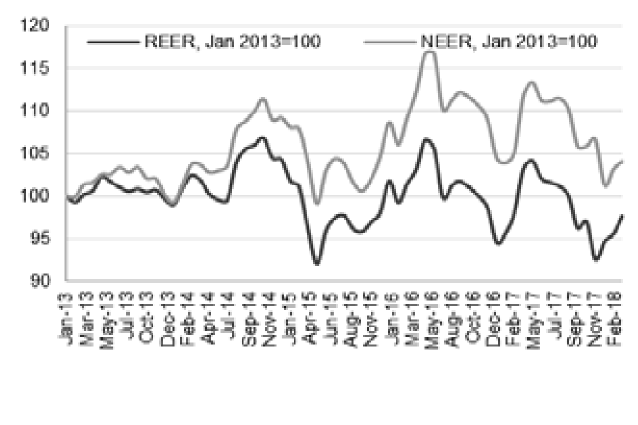
Source: World Bank, Heritage Foundaition and World Economic Forum

External trade, US$ mn



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.

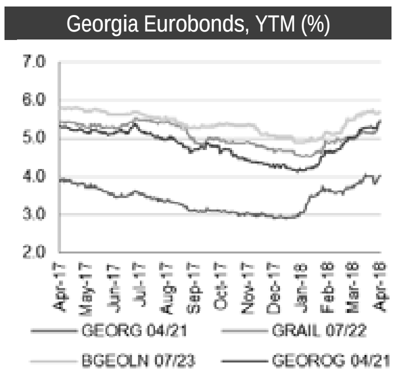
FIXED INCOME

Corporate Eurobonds: BGEO Group Eurobonds (BGEOLN) closed at 5.8% yield, trading at 100.9 (-0.6% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.5 (unchanged w/w), yielding 10.7%. Georgia Capital Eurobonds (GEOCAP) were trading at 97.0 (-0.2% w/w), yielding 6.8%.

GOGC Eurobonds (GEOROG) were trading at 103.8 (-0.4% w/w), yielding 5.4%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 108.5 (-1.1% w/w), yielding 5.5%.

Georgian Sovereign Eurobonds (GEORG) closed at 107.9 (-0.5% w/w) at 4.0% 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	102.8	101.3	101.08	97.0	100.5	103.8	100.9	107.9	108.5
Mid yield, %	n/a	5.5%	3.8%	6.50%	6.8	10.7	5.4	5.8	4.0	5.5
Z-spread, bps	n/a	n/a	n/a	n/a	395.1	346.1	262.9	298.7	128.2	267.8

** 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*

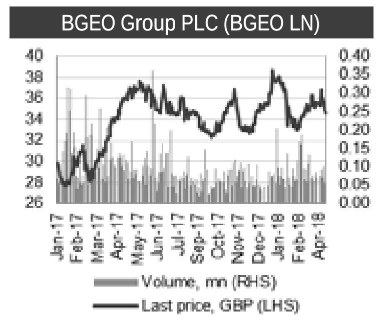
Eastern European sovereign 10-year bond performance

Issuer	Amount, US$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba2	4.0
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba2	4.5
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	0.1
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba2	1.0
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	3.8
Turkev	2.000	5.625%	30/03/2021	BB+/BB/Ba2	4.4

Source: Bloomberg

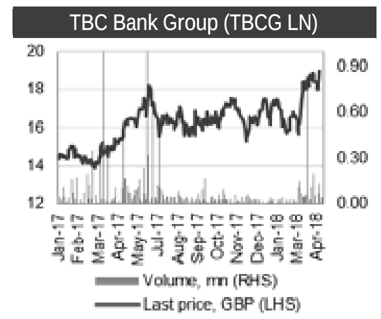
EQUITIES

BGEO Group PLC (BGEO LN)



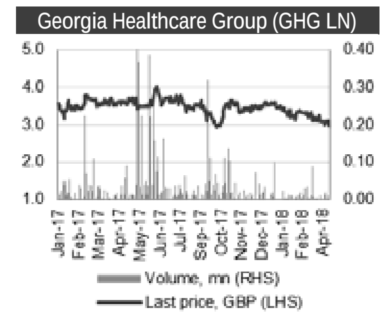
Source: Bloomberg

TBC Bank Group (TBCG LN)



Source: Bloomberg

Georgia Healthcare Group (GHG LN)



Source: Bloomberg

BGEO Group (BGEO LN) shares closed at GBP 34.64/share (-4.31% w/w and -0.40% m/m). More than 336k shares traded in the range of GBP 34.32 – 36.40/share. Average daily traded volume was 66k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, gained 1.55% w/w and lost 0.15% m/m. The volume of BGEO shares traded was at 0.85% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 17.88 (-5.70% w/w and -2.83% m/m). More than 183k shares changed hands in the range of GBP 17.64 – 18.96 share. Averaged daily traded volume was 54k in the last 4 weeks.

Georgia Healthcare Group (GHG LN) shares closed at GBP 2.97/share (-2.62% w/w and -7.19% m/m). More than 16k shares were traded in the range of GBP 2.97 – 3.20/share. Average daily traded volume was 5k in the last 4 weeks. The volume of GHG shares traded was at 0.01% of its capitalization.

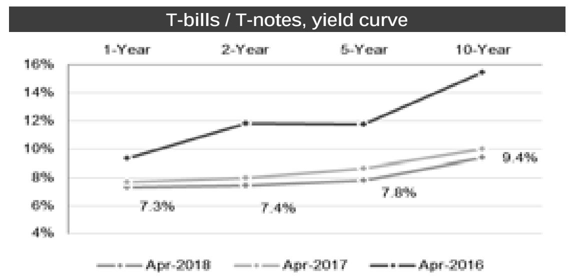
MONEY MARKET

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 780mn (US$ 324.9mn).

Ministry of Finance Treasury Notes: 2-year GEL 40.0mn (US$ 16.6mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on April 11, 2018. The weighted average yield was fixed at 7.421%. The nearest treasury security auction is scheduled for April 18, 2018, where GEL 25.0mn nominal value 10-year T-Notes will be sold.

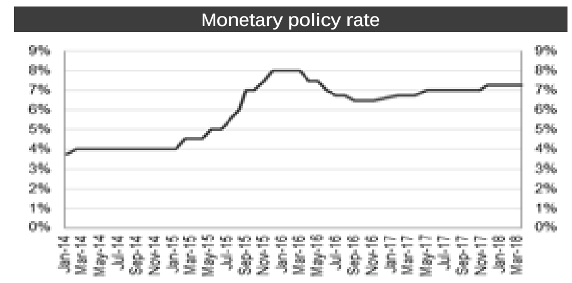
Ministry of Finance Treasury Bills: 182-days GEL 20.0mn (US$ 8.3mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on April 11, 2018. The weighted average yield was fixed at 7.256%.

T-bills / T-notes, yield curve



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

Monetary policy rate



Source: NBG

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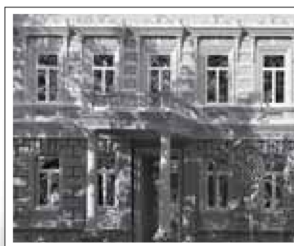
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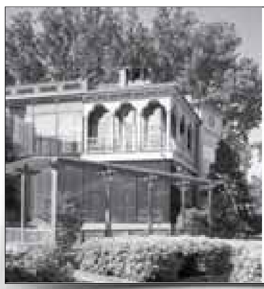
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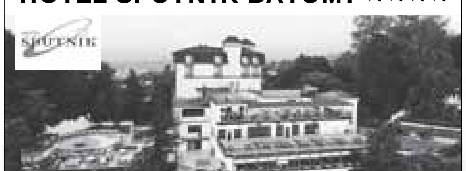
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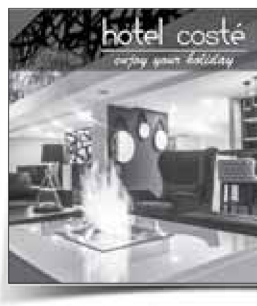

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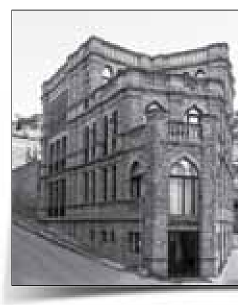
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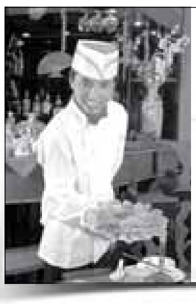
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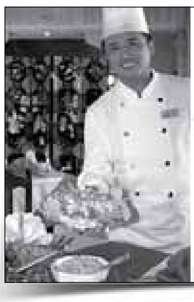
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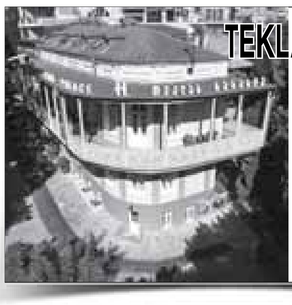
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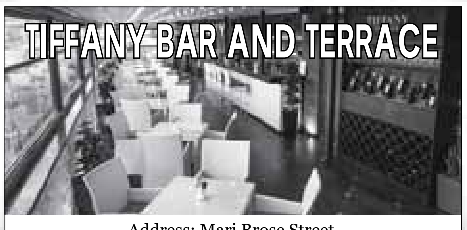
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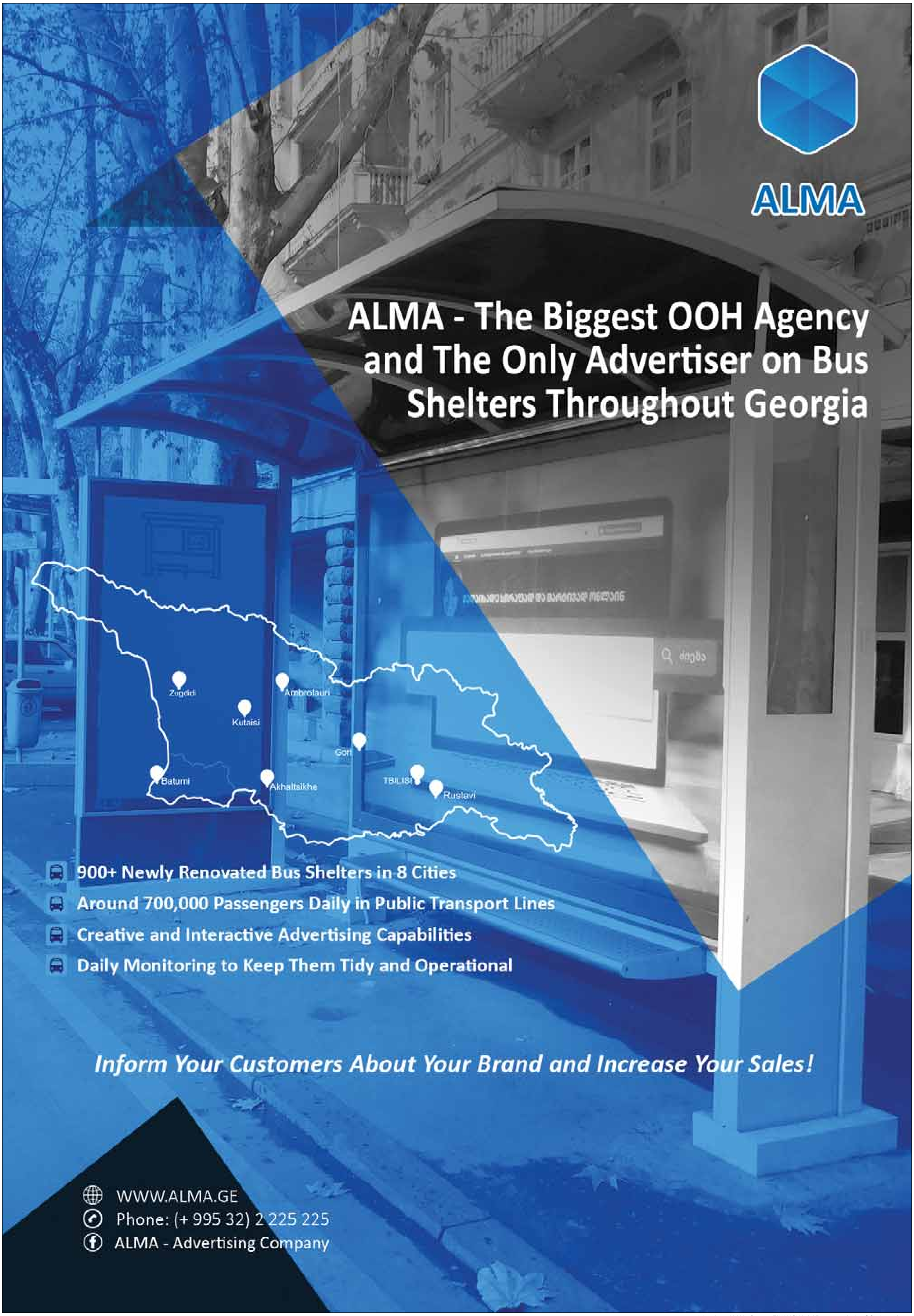
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