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What, Russia Worry?

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"Catch Up and Overtake America" has failed, shall we give it another try?

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Bye bye parents: when do young Europeans flee the nest?

The FINANCIAL

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Sunnier outlook for UK holidaymakers' summer spending

The FINANCIAL

UK wages projected to buy 6% more overseas in August 2018 than last August, according to patest data by PwC.Holidaymakers could be able to buy 9% more in the US and 5% more in the euro area. But UK purchasing power is 13% lower than August 2015 before the Brexit vote.

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CEOs suffer a $350,000 cut in pay when activists target their company

The FINANCIAL

Activist hedge funds wipe more than $350,000 off a CEO's total pay package in one year after buying up stock in the company, new research has found.

Funds like Icahn Enterprises and Third Point Partners, founded by Daniel Loeb, have become notorious for aggressively campaigning against firms they have stock in, pushing to change firm strategy in an effort to increase the value of their own stake.

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Euro area international trade in goods surplus €26.9 bn €11.5 bn surplus for EU28

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CURRENCIES

	May 19	May 12
1 USD	2.4423	▲2.4496
1 EUR	2.8773	▲2.9253
100 RUB	3.9332	▲3.9741
1 TRY	0.5459	▲0.5742

Lifelong Learning and Adult Education: Should You Take a Dance or a Computer Programming Class?

By ALEKSANDRA MARKOVIC
ISET

That there is a persistent demand for adult education should come as no surprise. Most people would agree that learning is a lifelong process. A distinction, however, should be made between the notion of learning understood as a process of self-discovery over one's lifetime, and learning understood in terms of the acquisition of a certain set of skills, often for the purpose of advancing one's position in the labor market. The two notions, although distinct, are related. It can be argued, for example, that the more skills we have, the more we can engage with other people, which also contributes to our life experience.

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25.6 million jobs in the EU linked to exports

See on p. 4

Russia Becoming an Alluring Market Again for Companies That Can Meet Needs of Value-Conscious Consumers

The FINANCIAL

MOSCOW—As the Russian economy continues to stabilize after several years of financial crisis, many of the nation's consumers are ready to spend more on goods and services that matter most to them, such as fresh foods, education, and travel, according to a new report by The Boston Consulting Group (BCG). The report, Russian Consumers and the New Economic Reality, was released today.

To succeed in Russia, the research found, companies will have to adapt their products and marketing strategies to noticeable shifts in consumer sentiment.

Continued on p. 2

Trade relations EU-Western Balkans

The FINANCIAL

On the occasion of the EU-Western Balkans summit, taking place in Sofia, Bulgaria, on 17 May, Eurostat is publishing a selection of figures on trade between the EU and the Western Balkans. The Western Balkans comprise Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo*, Montenegro and Serbia.

Information on other Western Balkans' indicators is available in the "Themes in the spotlight" page on the Western Balkans on Eurostat's website.

Continued on p. 6

Almost 1 in 3 minors applied for asylum in Italy In 2017

The FINANCIAL

In 2017, 31 400 asylum seekers applying for international protection in the Member States of the European Union (EU) were considered to be unaccompanied minors. This was nearly half the number recorded in 2016 (63 200 unaccompanied minors registered) and almost one-third of the peak registered in 2015.

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financial news

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CURRENT PRICES ON GASOLINE AND DIESEL

21 MAY, 2018, GEORGIA

Gulf	Prices in GEL	Wissol	Prices in GEL	ლუკოილი	Prices in GEL	SOCAR	Prices in GEL	ROMPETROL	Prices in GEL
G-Force Super	2.49	**Eko** Super	2.54	Super Ecto 100	2.55	Nano Super	2.50	Efix Euro 98	2.55
G-Force Premium	2.31	**Eko** Premium	2.39	Super Ecto	2.44	Nano Premium	2.36	Efix Euro Premium	2.38
G-Force Euro Regular	2.25	**Eko** Diesel	2.41	Premium Avangard Ecto	2.24	Nano Euro Regular	2.25	Euro Regular	2.30
Euro Regular	2.20	Euro Diesel	2.35	Euro Regular	2.14	Nano Diesel	2.27	Efix Euro Diesel	2.37
G-Force Euro Diesel	2.39	Euro Regular	2.30	Euro Deasel	2.28	Nano Euro Diesel	2.37	Euro Diesel	2.30
Euro Diesel	2.35	Diesel Energy	2.30			GNG	1.45		
CNG	1.49								

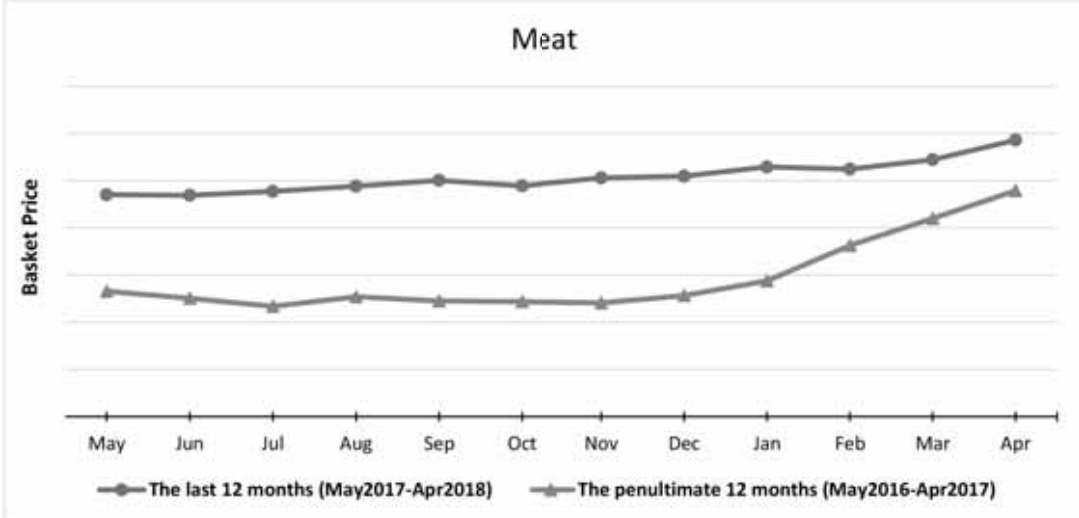
AGRINDEX: DIVERGENCE WITHIN THE MEAT MARKET

In April 2018, **MEAT** prices increased for the second consecutive month, and the m/m gain in prices (+1.8%) reached their highest value since April 2017. Nonetheless, the y/y gain in **MEAT** prices continued to shrink in the last month and dropped to a 14-month low of +4.7% in April.

On the product level, all types of meat except pork (-1.1%) gained in price in April 2017, but the speed and direction of the price changes were not uniform. Fresh beef prices have been increasing steadily for the last 12 months, and gained +5.6% in total, while chicken meat prices have been falling marginally in 2018, and the total difference in prices between April 2017 and last month was just +1.0%. In contrast, the gain in mutton prices has been speeding up in recent months, and the year-to-year change in April 2018, compared to the corresponding month of 2018, rose to +6.8%.

As far as possible determinants of price-changes are concerned, on the ***supply side***, according to GeoStat's preliminary data, meat production in Georgia was boosted by 9.5% in Q1 of 2018, compared to Q1 of 2017. Additionally, the number of bovine animals went down by 51,600 head in the same period of time, while the trade balance decreased by only 18,700 head. In case of pigs, the total number increased by 16,400 head (+10.2%) during the last four quarters, and the trade balance decreased by 1,600 head, leading to a marginal but logical decline in pork prices. The 2.4% increase in the number of poultry started to affect the chicken meat market only recently. As for the ***demand side***, meat consumption increased because of two main facts: the Easter fast finished at the beginning of April, and tourist inflow increased.

For the details of **MEAT** price dynamics, see the chart below.



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

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To succeed in Russia, the research found, companies will have to adapt their products and marketing strategies to noticeable shifts in consumer sentiment. According to the findings, which are based on a survey of nearly 4,000 Russians of different ages and income levels in 2017 by BCG's

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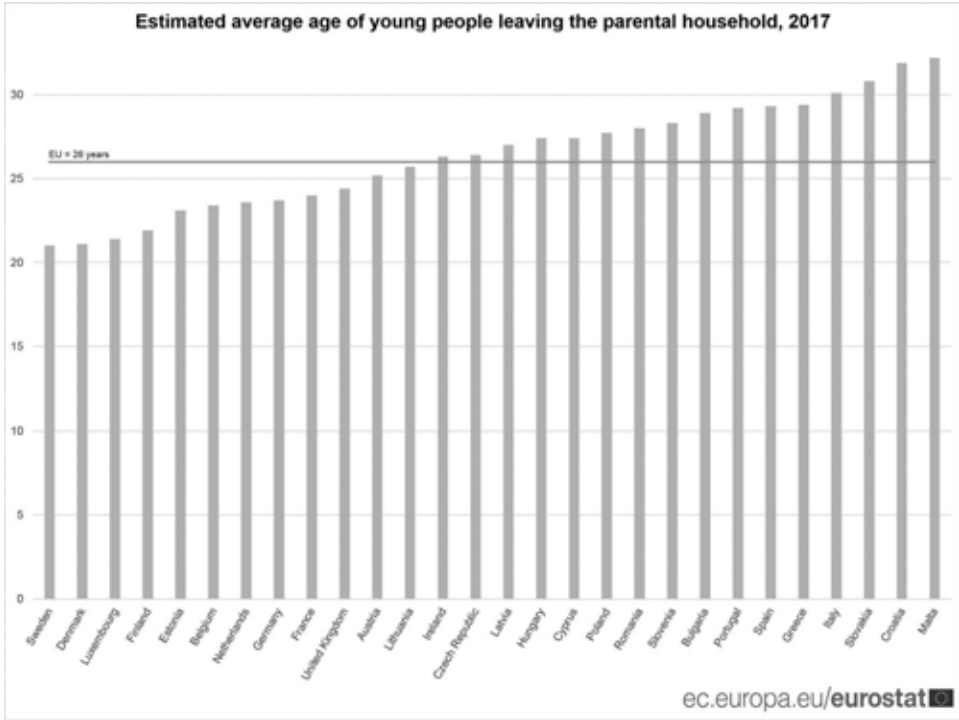
In the Nordic Member States and Luxembourg, they flee in their early 20s...

In 2017 in the EU, young people left home earliest in the three Nordic Member States – Sweden (21.0 years), Denmark (21.1 years) and Finland (21.9 years) – as well as in Luxembourg (21.4 years). They were followed by those in Estonia (23.1 years), Belgium (23.4 years), the Netherlands (23.6 years), Germany (23.7), France (24.0 years) and the United Kingdom (24.4 years).

... But wait until their 30s in Malta, Croatia, Malta, Slovakia and Italy



At the opposite end of the scale, young adults in Malta and Croatia remained the longest in the parental household. They left home at an average age of 32.2 and 31.9 respectively. Young adults in Slovakia (30.8 years), Italy (30.1 years), Greece (29.4 years), Spain (29.3 years), Portugal (29.2 years) and Bulgaria (28.9 years) also left the parental home at a later stage.

It should also be noted that in every EU Member State, young women tended to leave the parental household earlier than men. The highest differences between the genders were registered in Romania (25.6 years for women, compared with 30.3 for men), Bulgaria (26.5 vs. 31.1), Croatia (30.4 vs. 33.4), Slovakia (29.4 vs. 32.2), Hungary (26.0 vs. 28.8), Greece (28. vs. 30.7) and the Czech Republic (25.1 vs. 27.7).

Pipelines, Roses and Nukes: Putin, Merkel Meet Amid Strained Ties with US

VOA NEWS

Bearing a bouquet of pink and white roses, Russian President Vladimir Putin greeted German Chancellor Angela Merkel at his private Sochi residence Friday, where he vowed to push back on any attempts by U.S. President Donald Trump to block a Russian-German gas pipeline project.

As news wires reported, Berlin and Moscow are forging common ground on the Nord Stream 2 pipeline, which will allow Russia to export more natural gas to northern Europe despite sharp differences over Russia's 2014 annexation of Crimea.

U.S. officials recently expressed concerns about the project, warning that companies involved in the deal risk being slapped with sanctions.

Russian President Vladimir Putin and German Chancellor Angela Merkel shake hands following a joint news conference in the Black Sea resort of Sochi, Russia, May 18, 2018.

EU's Tusk tweets

The Putin-Merkel meeting also comes just days after European Council President Donald Tusk took to Twitter in a bitter excoriation of Trump's decision to pull the U.S. out of the Iranian nuclear deal.

Tusk sarcastically said the European Union, which shares Moscow's position on the Iran deal, "should be grateful" to Trump for subverting the agreement, leaving Brussels in the highly unusual position of uniting with Beijing, Moscow and Tehran on a major diplomatic issue.

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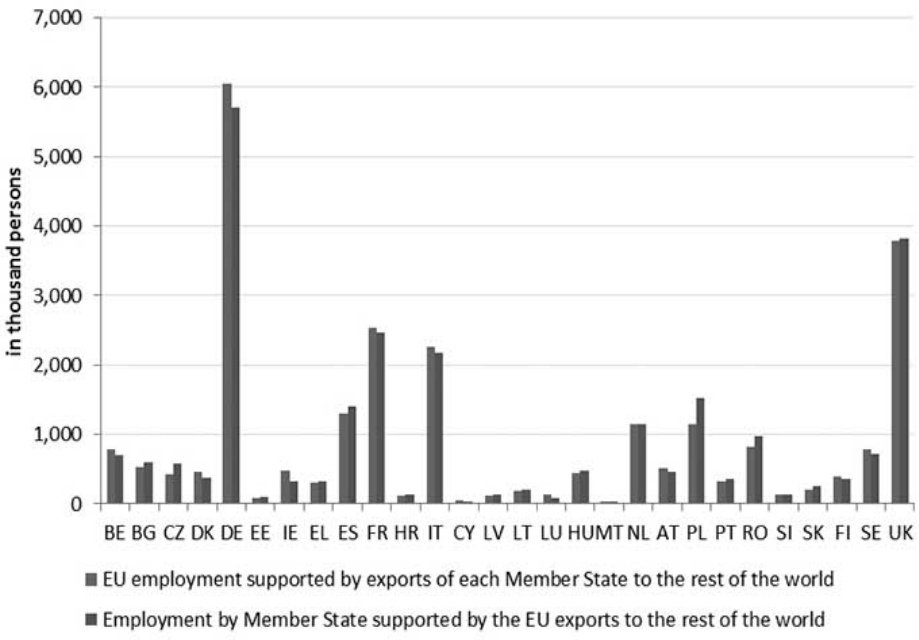
25.6 million jobs in the EU linked to exports

The FINANCIAL

New research shows that approximately 25.6 million persons were employed by EU firms, which are either directly or indirectly involved in the exports of goods and services. This 2010 data comes from the fully balanced EU inter-country input-output tables (FIGARO tables), recently released by Eurostat.

Input-output tables show how the production of goods and services are supplied to the various stakeholders in an economy (households, firms, government and foreign trade). They also show, for each sector, how its total value of production is used to pay for material inputs, labour and capital remunerations. You can see the tables here. FIGARO tables can be used to analyse the socio-economic and environmental effects of globalisation in the European Union (EU). Data is based on the European System of Accounts' (ESA 2010) methodology.



By linking input-output analysis and EU employment data with the FIGARO tables, the relationship between trade and employment in the European Union and its Member States can be illustrated. For example, from the table below it can be seen that Italian exports to the rest of the world were responsible for the employment of 2.64 million persons throughout the EU in 2010. On the other hand, in Italy 2.17 million persons were employed due to EU exports to the rest of the world.

The FIGARO tables can also be used to compile and analyse air emission footprints. These capture air emissions that are linked to the end use of goods and services by the different economic stakeholders resident in a country (households, firms, non-profit organisations and government).

By the end of 2020, the FIGARO project aims to produce a time series of annual EU inter-country input-output tables (2010-2018) and five-yearly EU inter-country supply and use tables (2010, 2015).

Russia Becoming an Alluring Market Again for Companies That Can Meet Needs of Value-Conscious Consumers

Continued from p. 2

Center for Customer Insight, consumers have grown more cautious, pragmatic, and value-conscious since BCG conducted a similar survey in 2013. They are more prone to buy low-cost generic drugs than branded medications, for example, and to take shorter vacation trips closer to home.

"Russia remains a critical emerging market for global companies that understand the nuances and needs of this complex consumer economy," said Ivan Kotov, a BCG partner who leads the firm's Consumer practice in Russia. "Companies that align their strategies with the desires and budgets of Russian households will find significant growth opportunities."

The study found evidence that Russian consumers are adapting to the new reality that the economy is unlikely to soon return to the booming growth it once enjoyed when oil prices were high and the ruble was strong. After several years in which inflation far outstripped GDP growth, the buying power of average households has declined—especially for imported goods and foreign travel.

Among the key findings:

Fifty-five percent of consumers say they are hopeful about the future, a sharp decline since 2013, but that is comparable to the levels of many advanced economies, such as Canada, Germany, and the US, and higher than in Japan and the UK. While 72% of consumers say they worry about that future, that percentage was higher in 2013.

While most Russians are cutting back on goods they perceive as nonessential, such as alcohol and ready-to-eat foods, nearly half say they intend to spend more in product categories they regard as important for their well-being. Asked what they value most, an overwhelming majority of 83% cited "family and home," while 78% cited "health" as a top priority.

Russia's once-strong devotion to famous brands is fading. Only 24% say that brands reflect on themselves and their values. But consumers still think brands are important in categories such as digital media and electronics.

Russia's health care sector illustrates how shifting consumer attitudes and behavior present opportunities—as well as challenges—for foreign companies. Soaring prices for imported drugs are forcing consumers to make hard choices. Sixty-six percent say they try to save money on medications and 78% on medical services; 33% report that they sometimes don't buy prescribed drugs at all because they are unaffordable. The study also found that many Russian consumers are dissatisfied with the quality of health care services available.

"These findings suggest there is high demand for affordable, high-quality medical services in Russia that's not being fully met by public programs," said Stefan Tushchen, a BCG partner who leads the firm's Health Care practice in Russia. "They will increasingly be met by private investors."

A number of foreign providers, including the Italian medical holding company GVM and Macedonia's Acibadem Sistina, are investing in Russian clinics. Others are becoming partners in the Moscow International Medical Cluster, an initiative that aims to improve access to global treatment methods. Israel's Hadassah Medical Center, for example, will open a clinical diagnostic center and oncology therapy center.

The study also indicates that Russia will remain a dynamic travel and tourism market for companies that bring the right value proposition. Cost leadership and customer centricity will be among the key sources of advantage for travel companies seeking to capture the Russian growth opportunity," said Nicolas Boutin, a BCG partner and global leader of the firm's Travel and Tourism practice. "To win in Russia, companies should use the current economic reset to seize competitive advantage."

financial news

Trade relations EU-Western Balkans

The FINANCIAL

On the occasion of the EU-Western Balkans summit, taking place in Sofia, Bulgaria, on 17 May, Eurostat is publishing a selection of figures on trade between the EU and the Western Balkans. The Western Balkans comprise Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo*, Montenegro and Serbia.

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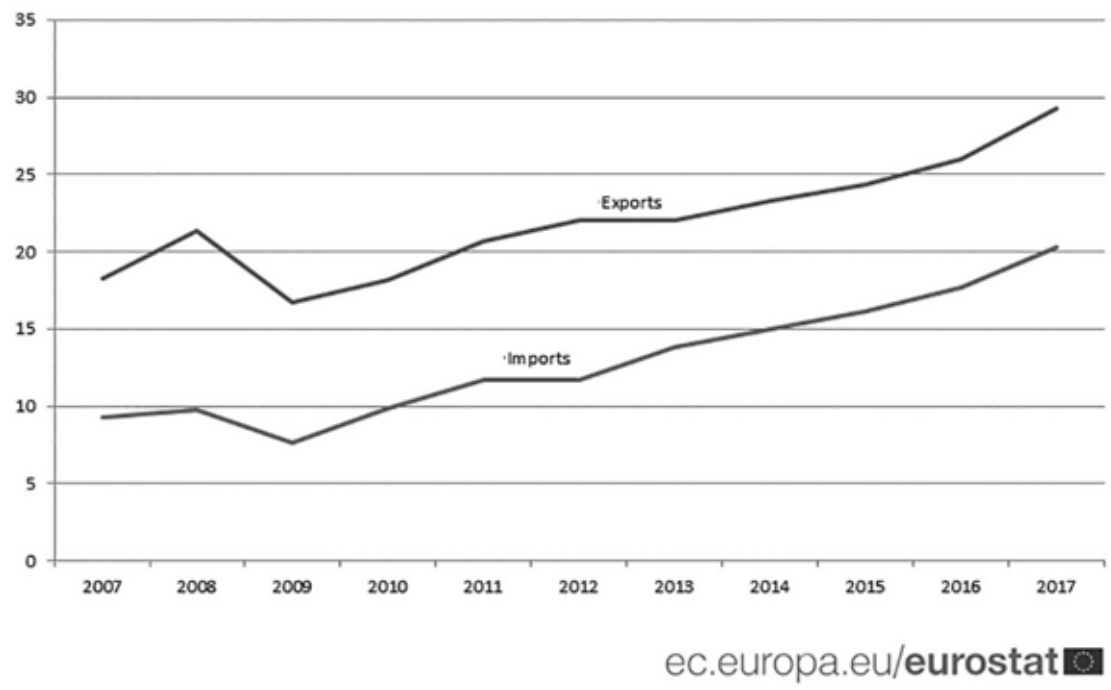
The EU is a key trading partner for the Western Balkans. In 2017, the former Yugoslav Republic of Macedonia exported over 80% of its total exports of goods to the EU (€4.0 bn or 81%). It was followed by Albania (€1.6 bn or 77%), Bosnia and Herzegovina (€4.0 bn or 71%), Serbia (€9.7 bn or 68%), Montenegro (€0.1 bn or 35%) and Kosovo (€94 mn or 25%).

The EU also made up the lion's share of imports of goods in the former Yugoslav Republic of Macedonia (€4.3 bn or 63% of total imports of goods), Albania (€2.9 bn or 62%), Bosnia and Herzegovina (€5.7 bn or 61%) and Serbia (€10.3 bn or 59%), while almost half of the imports to Montenegro (€1.1 bn or 47%) and Kosovo (€1.3 bn or 43%) came from the EU. The source dataset is available here.

In 2017, the EU trade in goods balance with the Western Balkans registered a surplus of €9 bn, up by 10% compared to 2016. Twenty-two EU Member States recorded a surplus, led by Hungary, Greece and Croatia with a surplus of +€1.1 bn each. In contrast, the largest deficit was observed in Sweden (-€66.4 mn). EU imports from the Western Balkans have doubled since 2007 from €9 bn to €20 bn in 2017. Exports also increased, from €18 bn in 2007 to €29 bn in 2017.

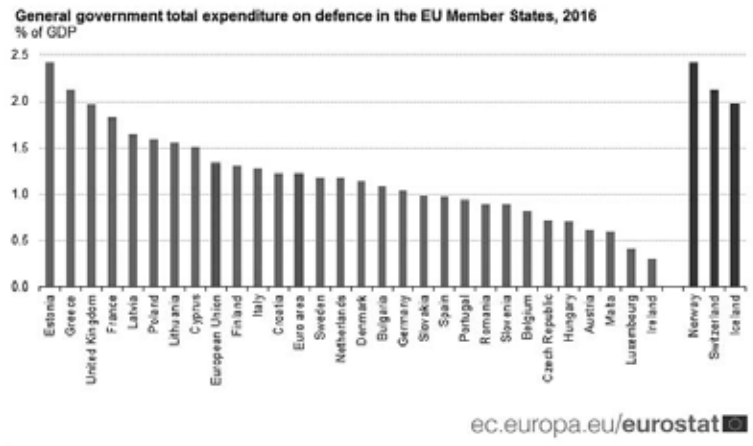
Among the EU Member States, the largest exporters to the Western Balkans in 2017 were Germany (16% of the EU exports of goods to the Western Balkans) and Italy (14%). Together they accounted for over one third of all exports to this region. These two countries were followed by Slovenia (10%), Hungary (9%) and Croatia (8%). Germany (23% of the EU imports of goods from the Western Balkans) and Italy (18%) were also the largest destinations of imports from the Western Balkans. They were followed Slovenia (9%), Hungary and Croatia (7% each).

EU trade in goods with the Western Balkans, 2007-2017 (in € billion)



How much is spent on defence in the EU?

General government total expenditure on defence in the EU Member States, 2016
% of GDP



The FINANCIAL

In 2016, the EU's 28 Member States earmarked €200 billion of public expenditure for 'defence'. This is equivalent to 1.3% of GDP. This is much less than the amount spent on social protection (expenditure equivalent to 19.1% of GDP in 2016), health (7.1%) or education (4.7%), but higher than public spending on recreation, culture and religion (1.0%), environmental protection (0.7%) and housing and community amenities (0.6%).

Highest share of expenditure on defence in Estonia, lowest in Ireland

In 2016, the ratio of government defence expenditure to GDP varied across EU Member States from 0.3% in Ireland, 0.4% in Luxembourg, 0.6% in Malta and Austria, to 2.4% in Estonia, 2.1% in Greece, 2.0% in the United Kingdom and 1.8% in France.

In absolute terms, the United Kingdom spent the most on defence (€47 bn in 2016). This is equivalent to almost a quarter (24%) of the total EU public expenditure on defence. It was followed by France (€41 bn, or 20% of the EU total), Germany (€33 bn, or 16%) and Italy (€22 bn, or 11%). Together, these four Member States accounted for 71% of the total defence expenditure in the EU.

Production in construction down by 0.3% in euro area Down by 0.9% in EU28

The FINANCIAL

In March 2018 compared with February 2018, seasonally adjusted production in the construction sector decreased by 0.3% in the euro area (EA19) and by 0.9% in the EU28, according to first estimates from Eurostat, the statistical office of the European Union. In February 2018, production in construction fell by 0.7% in the euro area and by 0.8% in the EU28.

In March 2018 compared with March 2017, production in construction increased by 0.8% in the euro area and decreased by 1.3% in the EU28.

Monthly comparison by construction sector and by Member State The decrease of 0.3% in production in construction in the euro area in March 2018, compared with February 2018, is due to building construction falling by 0.3% and civil engineering by 0.2%.

In the EU28, the decrease of 0.9% is due to building construction falling by 1.0% and civil engineering by 0.7%.

Among Member States for which data are available, the largest decreases in production in construction were recorded in Hungary (-10.3%), Romania (-9.2%) and France (-2.6%). The highest increases were observed in Spain (+3.1%), Slovakia (+2.3%) and Belgium (+1.1%).

Annual comparison by construction sector and by Member State The increase of 0.8% in production in construction in the euro area in March 2018, compared with March 2017, is due to building construction rising by 2.4%, while civil engineering fell by 4.2%.

In the EU28, the decrease of 1.3% is due to civil engineering falling by 4.4% and building construction by 0.8%.

Among Member States for which data are available, the highest increases in production in construction were recorded in Poland (+18.8%), Spain (+17.1%) and Slovakia (+4.9%). The largest decreases were observed in Romania (-10.8%), the United Kingdom (-8.1%) and France (-2.5%).

OP-ED

Stronger Economic Integration Needed to Boost Growth in the Caucasus and Central Asia

by TAO ZHANG
Deputy MANAGING DIRECTOR OF THE IMF

For the first decade of the 21st century, the economic story of the Caucasus and Central Asia (CCA) region was, for the most part, a successful one. Growth was strong, inflation was down, and meaningful progress was being made toward reducing poverty.

But since 2014, that story has changed as the region's economic model—which has traditionally been based on oil and gas production, remittances, mining, and public spending—proved unable to assure long-term prosperity in the face of lower commodity prices, weaker remittances, and a slowdown in trading partners' growth. The result has been lower growth, rising financial sector vulnerabilities, and higher public debt.

The CCA region received some welcome news in 2017, with its 4.1 percent growth rate exceeding expectations, according to the IMF's newly released Regional Economic Outlook.

However, as the outlook makes clear, this momentum will not be sustained for long, which is why the region must focus its attention on developing a dynamic private sector and diversifying its economy. If well managed, opportunities for greater economic integration—such as those presented by the Belt-and-Road Initiative which aims to connect China to Europe through Central Asia, and Uzbekistan's opening up—would help kick-start that economic transformation.

Along with its economic outlook for the region, the IMF this month published a paper examining the importance of openness and trade—and what steps countries in the CCA region should take to transform their economies.

Some are making progress, but the overall trajectory is not encouraging. Since 2008, trade openness has gone down, and the region's integration with the rest of the world remains far too low. Consider this: non-oil exports by countries in the region amount to around $500 on a per capita basis, roughly half the average of that in emerging markets, a clear indication that vast trade opportunities remain untapped.

Countries are also not pursing trade opportunities within the region nearly as much as they should.

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Almost 1 in 3 minors applied for asylum in Italy In 2017

Over 31 000 unaccompanied minors among asylum seekers registered in the EU in 2017 Afghan continued to be the top citizenship

The FINANCIAL

In 2017, 31 400 asylum seekers applying for international protection in the Member States of the European Union (EU) were considered to be unaccompanied minors. This was nearly half the number recorded in 2016 (63 200 unaccompanied minors registered) and almost one-third of the peak registered in 2015 (95 200), but over two and a half times higher than the annual average during the period 2008-2013 (around 12 000 per year). In total in the EU, unaccompanied minors accounted for 15% of all asylum applicants aged less than 18.

In 2017, a majority of unaccompanied minors seeking asylum were males (89%). Considering age, over two-thirds were aged 16 to 17 (77%, or about 24 200 persons), while those aged 14 to 15 accounted for 16% (around 5 000 persons) and those aged less than 14 for 6% (almost 2 000 persons). Afghan (17%, or around 5 300 persons) continued to be the main citizenship of asylum applicants considered to be unaccompanied minors in the EU.

Almost 1 in 3 applied for asylum in Italy In 2017, the highest number of asylum applicants considered to be unaccompanied minors was registered in Italy (with over 10 000 unaccompanied minors, or 32% of all those registered in the EU Member States), followed by Germany (9 100, or 29%), Greece (2 500, or 8%), the United Kingdom (2 200, or 7%), Austria (1 400, or 4%) as well as Sweden (1 300, or 4%) and the Netherlands (1 200, or 4%). Together these seven countries accounted for nearly 90% of all asylum applicants considered to be unaccompanied minors registered in the EU. Among these Member States, the number of asylum seekers considered to be unaccompanied minors rose compared with the previous year in Italy (nearly 4 000 more unaccompanied minors in 2017 than in 2016, or +66%) and increased slightly in Greece (100 more, or +4%). In contrast, decreases were recorded in Germany (26 900 fewer, or -75%), Austria (2 500 fewer, or -65%), the United Kingdom (1 000 fewer, or -31%), Sweden (900 fewer, or -40%) and the Netherlands (500 fewer, or -31%).

More than six in ten young asylum seekers were unaccompanied minors in Italy

Among Member States with more than 1 000 asylum seekers considered to be unaccompanied minors in 2017, the largest share of such applicants was recorded in Italy (where 65% of all asylum applicants aged less than 18 were unaccompanied), followed by the United Kingdom (29%) and the Netherlands (28%).

Afghan: main citizenship Afghanistan (17% of the total number of unaccompanied minors registered) was in 2017 the main country of citizenship of asylum seekers considered unaccompanied minors in the EU Member States. Of the 5 300 Afghans considered unaccompanied minors in the EU, two out of five were registered in Germany (2 200). Afghans represented the most numerous citizenship of asylum seekers considered unaccompanied minors in nine EU Member States. Eritrea was the second main country of citizenship of asylum seekers considered unaccompanied minors in the EU Member States. Of the 3 100 Eritreans seeking protection in the EU Member States and considered unaccompanied minors, nearly half applied in Germany (1 500).

surveys & analysis

MERAB PACHULIA, GORBI

"Catch Up and Overtake America" has failed, shall we give it another try?

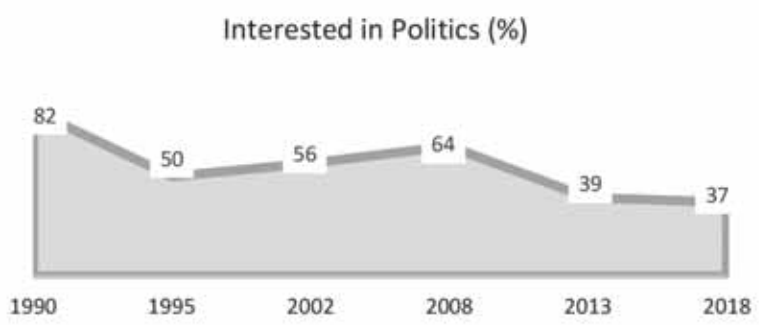
In my Soviet childhood, I clearly remember very few, if any, of my friends, neighbors or schoolmates being interested in politics. To inspire our interest, we had only two TV channels and a few newspapers with easily predictable political content. Nevertheless, interesting things were still happening. The World's premier communist leader proposed a slogan in 1957, which, strangely, is still relevant today: "Catch Up and Overtake America!" Another preposterous idea was offered by Mr. Khrushchev at the 22nd Congress of the Communist Party in 1961: "The current generation of Soviet people will live under Communism."

Even in the 1980s my generation realized that we were as far from Communism as we were from the level of economic development of the U.S.A. We also realized that we were not able to become a society where everything was owned by the community and each person contributed and received according to their ability and needs. I still remember vividly how we were covertly listening to the Voice of America and anticipated great changes. These changes did happen, and in a relatively short time, at least for my generation.

Afterwards, the Soviet Union collapsed and we saw immediately that the 'Soviet Brotherhood' was as disingenuous as the communism life promised by Khrushchev. A new day had truly come. Together with my colleagues, I was able to establish the first opinion research center in independent Georgia and measure public attitudes towards various things including democracy. I can confirm that, like elsewhere, Georgians support democracy, or to be more precise, the idea of democracy. The main difference is that anti-liberal ideas are more prevalent here when compared to the old Western democracies. But they are less welcomed here than in other countries such as Bahrain, Qatar or Iraq (based on various comparative opinion polls) among others.

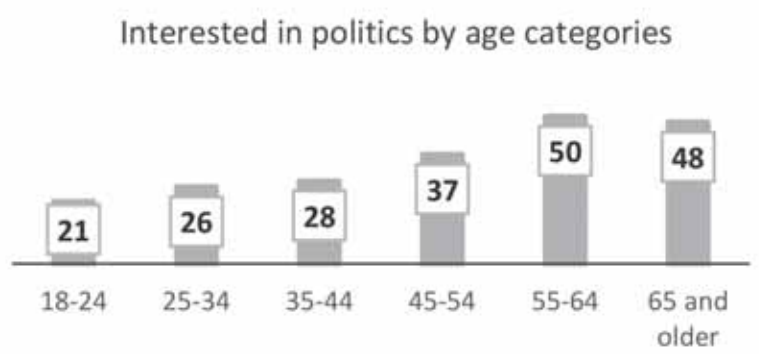
One of the important indicators of democracy is people's interest in politics. This factor has been described in academic sources as an important indicator of the democratic health of a nation. Therefore, one of the questions in our very first nationwide survey was "How interested would you say you are in politics?"

Chart 1. Evolution of interest in politics



Source: GORBI Nationwide opinioin surveys.

Chart 2. Gender and Age vs interest in politics (%)



Source: GORBI 2018, European Values Survey (n=2021)

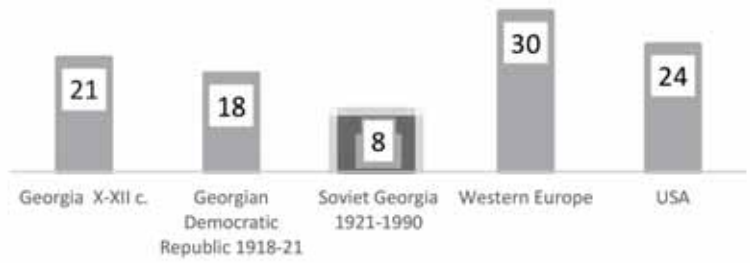
As this chart demonstrates, interest in politics was comparatively high in 1990. This is the time when Mr. Gamsakhurdia (who would soon be elected president) had more people's trust than the Patriarch of Georgia (based on yearly opinion polls). Then people were paying bribes but not kickbacks, as there were no international organizations or government bodies conducting questionable contract tenders at the time as Georgia was still part of the Soviet Union. Another apex in the history of this question occurred after the war with Russia in 2008. One pattern remains constant over these years: interest in politics increases with age as well as by education. The more formal education a respondent has, the more interested they are in politics.

Social scientists might argue that interest in politics brings more political engagement, and therefore benefits democracy. While I agree with this assertion the level and depth of engagement in politics is also important. As Chart 1 demonstrates, after nearly a quarter of century, the number of citizens interested in politics have been reduced by half.

Even in 1990, during the Soviet Union, only 8% of Georgians (Chart 3) viewed the USSR as a sound model for development. Contrary to popular opinion, the Soviet Union broke down, because on one hand, Reagan initiated the 'Star Wars' program, and on the other, Gorbachev started 'Perestroika'. A country full of economic problems fell down unintentionally, most importantly because majority of people living in it, didn't want to live in it any longer. These people included Georgians, as well as Russians. For this, we were punished first on April 9, 1989 when the Soviet Army massacred peaceful demonstrators in the center of Tbilisi, and later when Russia occupied nearly 1/3 of our country.

In addition, the survey revealed that even in 1990, a majority of people viewed the U.S and Western Europe as a promising model for development, rather than the Soviet Union. As Chart 3 demonstrates, in 1990 54% advocated a 'Western', American or European Model, while 39% linked our future to popular epochs in our history – the so called period of Georgian renaissance and the 3-year period of Free Georgia. It is interesting that only 8% considered the Soviet Union acceptable though all respondents were Soviet citizens. An urge for Liberal Democracy and desire to become members of NATO and the European Union continue to be the main models for development for Georgians today as well.

Chart 3: Georgians view on prospect model for development (%)



Source: GORBI, 1990 nationwide opinioin survey

If we compare economic development, the unemployment rate and the quality of infrastructure of 2018 to that of 1990, it is way behind. Nevertheless, neither then, nor now, did public opinion shift to the East or the North for a simple reason - Europe is the original and ultimate place of residence for Georgians. Europe is not associated with poverty, but rather with economic prosperity. So, what should we do to bridge this huge gap? No one can step into the same river twice, so even if we had a time machine I am sure we would not stay in the Soviet Union for economic benefit alone. Let's forget about going back to the USSR and make another try to "Catch Up and Overtake America."

Our success formula should be to strengthen existing democracy and catch up economically. On this path those politicians who are dreaming about another civil war or police killing peaceful demonstrators as during Shevardnadze's and Saakashvili regimes will not succeed, and the same will be for the newly emboldened neo-Nazis who are the shame of contemporary Georgia. The latter should be halted and prosecuted by law enforcement agencies who have more than adequate resources to do the job. Our grandparents soundly defeated the Nazis some 70 years ago, and we are their grandchildren!

Note: I would like to extend a special thank you to Ani Lortkipanidze who assisted with the analysis and the charts featured in this article GORBI is an exclusive member of the Gallup International research network and has more than two decades of experience in survey research (gorbi.com)

GORBI

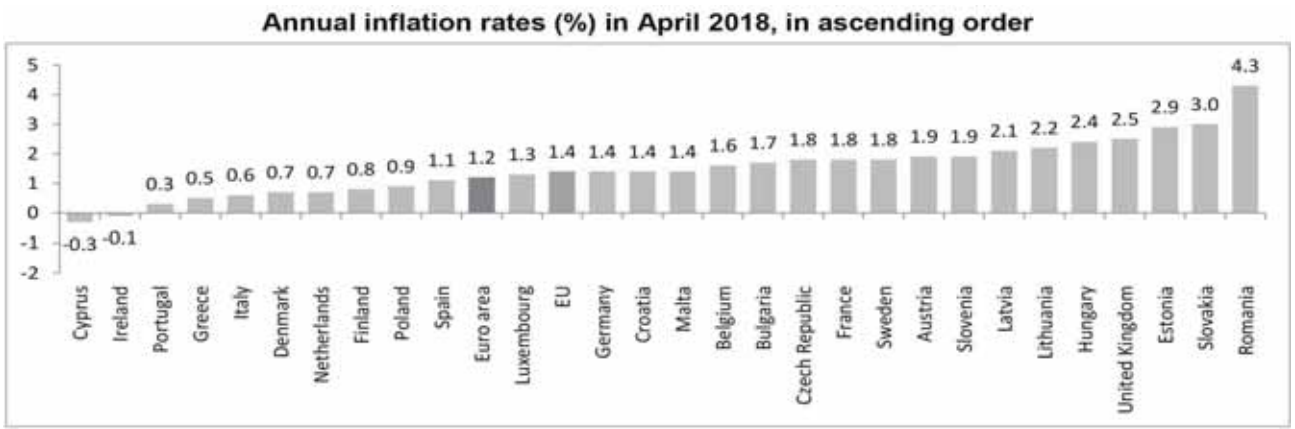
Annual inflation down to 1.2% in the euro area Down to 1.4% in the EU

The FINANCIAL

Euro area annual inflation rate was 1.2% in April 2018, down from 1.3% in March. A year earlier, the rate was 1.9%. European Union annual inflation was 1.4% in April 2018, down from 1.5% in March. A year earlier, the rate was 2.0%. These figures are published by Eurostat, the statistical office of the European Union.

The lowest annual rates were registered in Cyprus (-0.3%), Ireland (-0.1%) and Portugal (0.3%). The highest annual rates were recorded in Romania (4.3%), Slovakia (3.0%) and Estonia (2.9%). Compared with March 2018, annual inflation fell in twelve Member States, remained stable in one and rose in fourteen.

In April 2018, the highest contribution to the annual euro area inflation rate came from food, alcohol & tobacco (+0.47 percentage points), followed by services (+0.45 pp), energy (+0.25 pp) and non-energy industrial goods (+0.07 pp).



Data for the United Kingdom are for March 2018.

FactCheck

GRASS FACTCHECK

Bidzina Ivanishvili

?????

Verification of Bidzina Ivanishvili's First Public Address after His Return to Politics

Valeri KVARATSKHELIA
FactChek

On 11 May 2018, at the fifth convention of the Georgian Dream, Bidzina Ivanishvili, who entered politics for the second time, was elected as the Chairman of the Georgian Dream party. Mr Ivanishvili addressed the delegates of the convention and discussed a number of important topics.

FactCheck verified several of the facts voiced by Bidzina Ivanishvili. Taking into account the general context of the politician's statements, we will limit ourselves to a situation analysis and leave the final verdict to our readers.

"An individual's property right, which was extinct under the previous government, is fully protected today... Elite corruption no longer exists."

One of the components of the Heritage Foundation's Economic Freedom Index is the property rights indicator. In accordance with the 2018 report, Georgia's indicator in this regard has improved from 55.2 points to 62.8 points as compared to 2017. As a result, the country moved upwards in the ranking to the 50th place. In 2012, Georgia was 71st in the ranking with 40 points.

Identical indicators are given in the World Economic Forum's Global Competitiveness Indices. In accordance with these documents (2012-2013 accounting period), Georgia ranked 131st in 2012 with 3.1. points among 144 countries in terms of the protection of property rights. As of 2017 (2017-2018 accounting period), Georgia is in the 46th position with 4.7 points. Of note is that as compared to the 2016-2017 accounting period, Georgia lost three positions in terms of property rights whilst progress as compared to 2012 is visible.

In accordance with the World Justice Project data, the corruption absence index for Georgia in 2012-2013 was 0.77 whilst Georgia held the 21st position among 97 territorial entities. As of 2017, Georgia's absolute points have worsened to 0.71 whilst it moved to the 23rd position among 113 countries. In accordance with Transparency International's Corruption Perception Index (CPI), Georgia was ranked 51st with 52 points in 2012 whilst the country moved to the 44th place with 57 points in 2016 and then further down to the 46th place with 56 points in 2017.

"Today, more than ever, business is free and protected."

Business freedom is one of the components of the Heritage Foundation's Economic Freedom Index. Table 1 illustrates Georgia's results in terms of business freedom. However, of note is that these indices mostly give information about institutional/declared freedom and the absence of constraining/discriminatory legislation.

The table illustrates that there is substantial progress both in terms of ranking points and the ranking position. The absolute points in terms of business freedom have not increased although Georgia did move upwards by ten positions in the 2012-2018 rankings as a result of the worsened performance of other countries. Property rights can be used as an indirect indicator to assess business protection. As already mentioned, the situation in regard to property rights in Georgia did improve in the accounting period (see **FactCheck**'s research in this regard: link 1; link 2).

"The amount of foreign direct investments to Georgia was at a record high last year."

In accordance with the National Statistics Office of Georgia, foreign direct investments to Georgia amounted to USD 1,862 million in 2017 which is the highest figure in the 2006-2017 period.

However, of note is that historical figures of foreign direct investments in the National Statistics Office of Georgia's database have been amended twice in the previous months. The corrections were made pursuant to the International Monetary Fund's recommendation. As a result of the correction, the 2007 investment figures were cut significantly by USD 263 million. The 2007 investment figure was at a record high before the correction and amounted to USD 2,015 million. The correction, together with a lack of communication and the claims of government officials that foreign direct investments in 2017 were at a record high, raised a justified suspicion among the public in regard to the appropriateness of the correction methodology and motivation. Afterwards, the National Statistics Office of Georgia issued a detailed clarification.

At the same time, it is wrong to assess the investment volumes in absolute figures alone. The real measure would be the gross domestic product (GDP) to foreign direct investment (FDI) ratio. In this case, we will see that the GDP to FDI ratio in 2017 is not at a record high and is surpassed by both the 2006 and 2007 analogous figures. The highest figure at 17.2% is still registered in 2007.

In accordance with the data of the last five years, Georgia is leading in the region in terms of economic growth rates and will continue to lead not only in the region but among European and Asian countries as well for the next six years according to estimates of the International Monetary Fund.

Georgia's average economic growth rate in 2013-2017 was 3.75% which is less than Turkey's (6%) and exceeds Armenia's economic growth rate by 0.17 of a percentage point from among the countries in the neighbourhood.

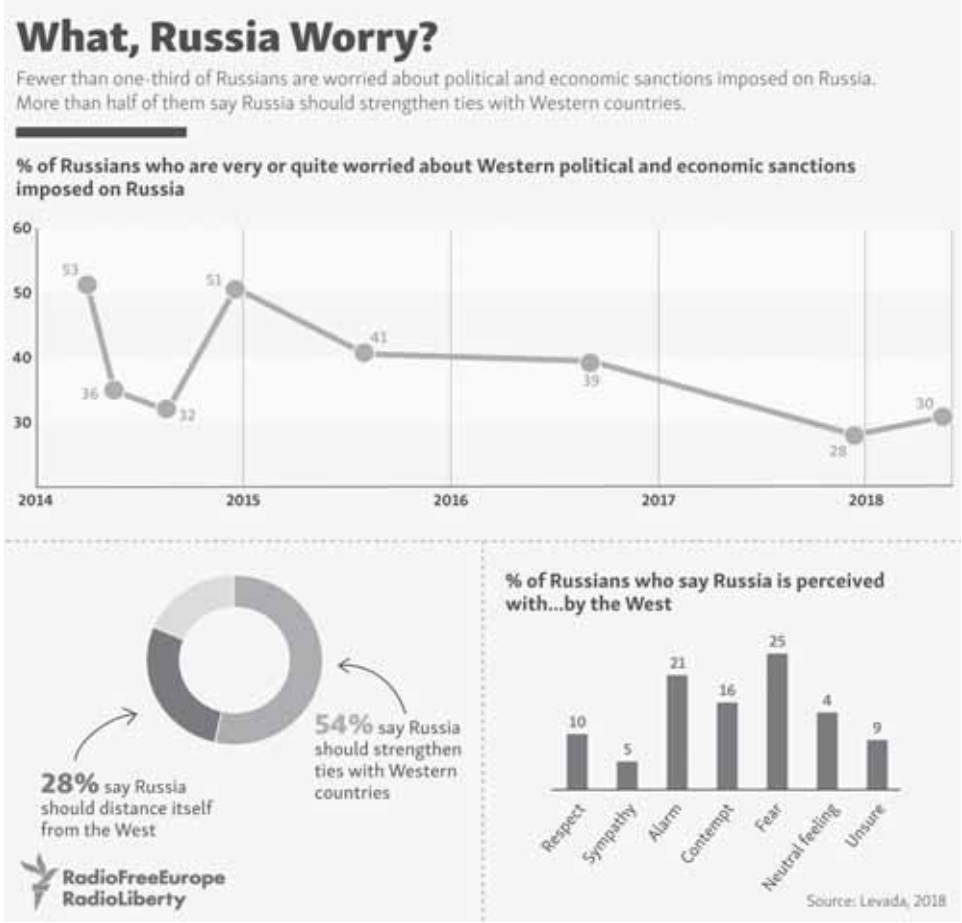
In the International Monetary Fund's designated region (CIS countries, Ukraine, Georgia and Turkmenistan), Georgia is only in the 6th position with its economic growth figure from among the 12 countries of the region.

In regard to estimates for future periods, Georgia (4.96%) only lags behind Turkmenistan (5.69%) and Uzbekistan (5.58%) in accordance with the average forecasts for economic growth in 2018-2023. In addition, Georgia is sixth in 2018 and will be in the top five in 2019-2023. Of note is that the majority of European countries are more economically advanced as compared to Georgia. Therefore, it is natural for these countries to have a lower economic growth rate as compared to a developing country (Georgia). In developed countries, economic potential/resources are more fully utilised whilst non-utilised or less-utilised fields give more of an opportunity for economic growth in developing countries. At the same time, there is a technical reason – the low base effect (a small absolute change from a low initial amount to be translated into a large percentage change) that also contributes to the relatively high economic growth figure.

Table 1: Economic Freedom Index

Period	Economic Freedom		Business Freedom	
	Points	Ranking Position	Points	Ranking Position
2012	69.4	34	86.9	23
2013	72.2	21	90.6	16
2014	72.6	22	87.8	18
2015	73.0	22	88.6	16
2016	72.6	23	86.5	14
2017	76.0	13	87.2	16
2018	76.2	16	86.9	13

Source: Heritage Foundation



Stronger Economic Integration Needed to Boost Growth in the Caucasus and Central Asia

Continued from p. 6

In recent decades, intra-regional trade has dipped significantly as a result of regional tensions and the global financial crisis. Currently, only five percent of trade for oil exporters and 15 percent for importers is conducted within the region—low figures by international standards.

So how can CCA countries forge a new future where robust private sectors are the engines of integrated economies?

For starters, countries must strengthen their macroeconomic frameworks.

Reducing public debt and rebuilding rainy day funds in growth-friendly ways will position CCA countries to withstand future adverse conditions that are sure to come and send positive signals to foreign investors. A close eye will also need to be kept on public debt, ensuring that it remains sustainable as more public investments begin and countries open their markets. This will require careful planning and oversight over public investment projects and broader budget policies.

Also important are policies that keep inflation low and stable, an effort that will require strong political commitment, institutional capacity, and efforts to strengthen financial stability and intermediation. That means improving the health of bank balance sheets that remain beset by high levels of non-performing loans, winding down the use of dollars in the domestic banking system, and modernizing capital markets.

Countries should also look for opportunities to improve the basic structures of their economies in ways that will boost productivity and facilitate economic integration. This should include reforms that improve infrastructure, enhance business environments, boost governance, and develop skills of workers that are in demand in the global labor market, such as information technology and critical thinking.

All of this should be done while working to open the region's economies to trade, which would provide countless benefits to both oil-exporting and importing countries—from more choices at lower prices for consumers and businesses to increased productivity.

Boosting the region's trade potential will require a range of policy actions. Greater participation in the World Trade Organization, which provides mechanisms to defend the interests of members when improper trade practices are waged as well as technical assistance in trade-related matters, could prove critical. Some countries have long been members in the WTO, but others have not yet joined.

Besides seeking to lower tariffs, countries should also look for opportunities to take part in regional initiatives that eliminate non-tariff barriers and exemptions and improve customs administration. The Eurasian Economic Union provides examples of the benefits that come with such efforts, offering members a new customs code and a common labor market.

These reforms will not happen overnight, and some will not be easy. But with a shared commitment to greater integration and openness, there is no doubt that the next chapter in the story of the CCA region can be one of greater growth and economic prosperity for all.

How much does your country invest?

International trade in goods balance, seasonally adjusted, € bn

The FINANCIAL

Last year, total investment (both from the public and the private sectors) by European Union (EU) Member States amounted to almost €3 100 billion. Construction accounted for about half of these investments, with machinery, equipment & weapons systems (31%) and intellectual property products (19%) following. The intellectual property products category has shown the largest increase in investment in proportion to total capital investment.

Overall, total investment was equivalent to 20.1% of GDP in 2017, compared with 22.4% ten years ago, just before the economic and financial crisis. This represents a decrease of 2.3 percentage points (pp). The fall in investment is even more pronounced in the euro area: from 23.2% in 2007 to 20.5% in 2017 (-2.7 pp).

Ratio of investment to GDP highest in the Czech Republic and Sweden, lowest in Greece

Among the EU Member States, in 2017 investment accounted for a quarter of GDP in the Czech Republic (25.2%) and Sweden (24.9%). Estonia (23.7%), Austria (23.5%), Ireland (23.4%), Belgium (23.3%), Romania and Finland (both 22.6%) as well as France (22.4%) all had investment rates of over 20% of GDP.

At the opposite end of the scale, the lowest ratio of investment to GDP was recorded by Greece (12.6%), followed by Portugal (16.2%), the United Kingdom (16.9%), Luxembourg (17.0%), Italy (17.5%) and Poland (17.7%).

The source dataset can be found here

Only Sweden, Austria and Germany have increased their investment to GDP ratio since 2007

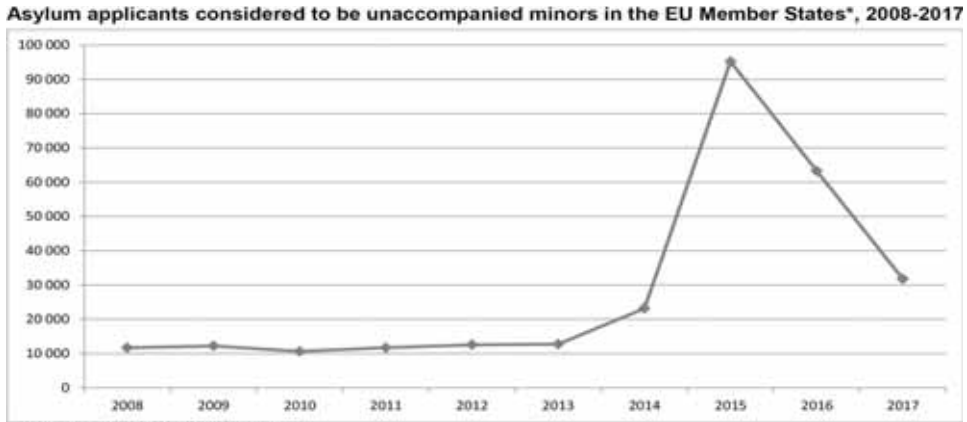
Between 2007 and 2017, the ratio of investment to GDP decreased in 24 out of the 28 EU Member States.

Over this decade, the largest declines were observed in Latvia (19.9% in 2017 vs.36.4% in 2007, or -16.5 pp), Greece (-13.4 pp), Estonia (-12.9 pp), Romania (-12.5 pp), Spain (-10.4 pp), Slovenia (-10.3 pp), Lithuania (-9.8 pp) and Bulgaria (-9.1 pp).

In contrast, the ratio slightly rose between 2007 and 2017 in Sweden (from 23.9% of GDP in 2007 to 24.9% in 2017, or +1.0 pp), Austria (+0.6 pp) and Germany (+0.2 pp), while it remained almost stable in Belgium (+0.1 pp).

Euro area international trade in goods surplus €26.9 bn €11.5 bn surplus for EU28

Asylum applicants considered to be unaccompanied minors in the EU Member States*, 2008-2017



* excluding Croatia for the period 2008-2011

The FINANCIAL

Euro area The first estimate for euro area (EA19) exports of goods to the rest of the world in March 2018 was €199.9 billion, a decrease of 2.9% compared with March 2017 where they peaked at €205.9 bn. Imports from the rest of the world stood at €173.0 bn, a fall of 2.5% compared with March 2017 (€177.4 bn). As a result, the euro area recorded a €26.9 bn surplus in trade in goods with the rest of the world in March 2018, compared with +€28.5 bn in March 2017. Intra-euro area trade fell to €170.5 bn in March 2018, down by 0.6% compared with March 2017.

In January to March 2018, euro area exports of goods to the rest of the world rose to €555.7 bn (an increase of 2.5% compared with January-March 2017), while imports rose to €506.3 bn (an increase of 1.4% compared with January-March 2017). As a result the euro area recorded a surplus of €49.4 bn, compared with +€42.9 bn in January-March 2017. Intra-euro area trade rose to €485.6 bn in January-March 2018, up by 4.1% compared with January-March 2017.

European Union The first estimate for extra-EU28 exports of goods in March 2018 was €172.1 billion, down by 2.4% compared with March 2017 (€176.4 bn). Imports from the rest of the world stood at €160.6 bn, down by 4.2% compared with March 2017 (€167.7 bn). As a result, the EU28 recorded a €11.5 bn surplus in trade in goods with the rest of the world in March 2018, compared with +€8.7 bn in March 2017. Intra-EU28 trade fell to €305.2 bn in March 2018, down by 1.7% compared with March 2017.

In January to March 2018, extra-EU28 exports of goods rose to €471.4 bn (an increase of 1.5% compared with January-March 2017), while imports rose to €477.4 bn (an increase of 0.8% compared with January-March 2017). As a result, the EU28 recorded a deficit of €6.1 bn, compared with -€9.1 bn in January-March 2017. Intra-EU28 trade rose to €874.1 bn in January-March 2018, +3.7% compared with January-March 2017. EU28

GRASS FACTCHECK

Irakli Kobakhidze:

"Georgia's GDP per capita was USD 3,500 in 2012 and today it is slightly more than USD 4,000. We have a harsh social environment in these conditions."

Levan TEVDORADZE
FactChek

VERDICT:

Irakli Kobakhidze's statement is **MOSTLY TRUE**.

RESUME:

The figures named by Irakli Kobakhidze match the figures of the National Statistics Office of Georgia. However, the Office's figures for 2012 and 2017 are not comparable to each other because the results of the 2014 universal public census have not been taken into account. In accordance with the new data of the International Monetary Fund, which does take these results into account, Georgia's GDP per capita decreased from USD 4,131 to USD 4,099 in 2012-2017. This decline is caused by the change in the GEL exchange rate.

Despite the irrelevant comparison, the basic context of the statement of the Speaker of the Parliament of Georgia in regard to the harsh social environment in Georgia is correct. The pathos of Mr Kobakhidze's statement that revenues which slightly exceed USD 4,000 per capita will hardly lead to prosperity does indeed depict reality. The World Bank assesses income levels of countries in terms of the GNI per capita measured by the Atlas method. In accordance with this indicator (USD 3,830 in 2016), Georgia belongs to the group of countries with a lower-middle income. In addition, as measured by the World Bank, 69% of Georgia's population was living in extreme or moderate poverty in 2014.

ANALYSIS

On 8 May 2018, on air on the talk show *Archevani*, the Speaker of Parliament of Georgia, Irakli Kobakhidze, stated: "Georgia's economy was USD 3,500 in 2012 whilst today it exceeds USD 4,000. The social environment is harsh and the level of poverty is high."

In his statement, Irakli Kobakhidze refers to Georgia's GDP per capita figures. Of note is that it is necessary to use the real GDP in the national currency in order to compare the changes in a country's economy over time. At the same time, it is also necessary to measure the GDP by purchasing power parity (PPP) in international dollars, if a conversion of economic figures to a common currency is needed, in order to make comparisons with other countries.

In accordance with the data of the National Statistics Office of Georgia, Georgia's GDP in the accounting period (2010-2017) was fluctuating whilst the GDP per capita was increasing.

At the beginning of the accounting period, Georgia's GDP was USD 11.6 billion and this figure was increasing up until 2015. In 2014, the figure hit a record high and reached USD 16.5 billion. In 2015, it decreased by USD 2.5 billion but has continued to grow since 2016. Of importance is that the reason behind the drop in the GDP has largely been because of the depreciation of GEL. In order to illustrate a real decline or growth of an economy, we have to take a look at the GDP given in the national currency. Georgia's GDP in the national currency has shown a constant increase throughout the accounting period.

In accordance with the information of the National Statistics Office of Georgia, Georgia's GDP per capita was increasing annually in 2010-2017. In 2010, Georgia's GDP per capita was USD 2,623 and reached USD 3,523 in 2012 as mentioned by Mr Kobakhidze. In 2017, Georgia's GDP per capita surpassed USD 4,000 and reached USD 4,079. However, the National Statistics Office of Georgia's data vis-à-vis the GDP per capita do not give a real picture. The data for 2012 are measured for 4.5 million people as given in the old census whilst the GDP per capita is measured by taking the new census data of 3.7 million people into account for the case of 2017. Therefore, the data for these two periods are not comparable to each other.

Statistical data published by the International Monetary Fund are free from the numerical error as they take the new census results into account. As a result, the trend of the GDP per capita changes has also been amended. Hence, there is no growth of the nominal GDP figure in USD throughout 2012-2017 but instead a decrease by USD 32 from USD 4,131 to USD 4,099. This decline is caused by the changes in the GEL exchange rate.

The World Bank uses the gross national income per capita (GNI per capita)[1] indicator to classify countries in terms of their incomes. It is measured by a special method (World Bank Atlas method) instead of using the nominal exchange rate. In the past few years, Georgia has been at the margins of lower-middle and upper-middle income countries under this classification. In 2003-2014, Georgia belonged to lower-middle income countries whilst it moved to the upper-middle income category in 2015 but still remains in the lower-middle income country group from 2016. Of note is that Georgia's GNI per capita (USD) measured by the Atlas method has been declining since 2015 as opposed to the figures discussed at the beginning of this article.

At the same time, the country's poverty figures are important in order to assess the social environment on the ground. In accordance with the data of the National Statistics Office of Georgia, 21.3% of Georgia's total population was living below the extreme poverty line in 2016 whilst 20.6% consumed less than 60% of the median consumption. In accordance with the World Bank's assessment published in 2014 (updated version of this research is currently unavailable), 32% of Georgia's population was extremely poor, 32% was moderately poor and 24% was at a risk of poverty.

The gross national income (GNI) is the total domestic and foreign output claimed by residents of a country. The GNI differs from the gross domestic product (GDP) by the differences between income received by Georgian residents abroad (including income from employment or property) and income received by foreign residents in Georgia.

Table 1: Georgia's GDP in 2010-2017

Period	Gross Domestic Product (USD Million)	GDP Per Capita – NSOG (USD)	GDP Per Capita – IMF (USD)
2010	11,637	2,623	2,951
2011	14,439	3,231	3,711
2012	15,847	3,523	4,131
2013	16,140	3,600	4,267
2014	16,508	3,676	4,428
2015	13,988	3,767	3,762
2016	14,378	3,865	3,872
2017	15,165	4,079	4,099

Source: National Statistics Office of Georgia, IMF

THE ISET ECONOMIST

A BLOG ABOUT ECONOMICS AND THE SOUTH CAUCASUS www.iset-pi.ge/blog

Lifelong Learning and Adult Education: Should You Take a Dance or a Computer Programming Class?

Continued from p. 2

By ALEKSANDRA MARKOVIC

ISET

That there is a persistent demand for adult education should come as no surprise. Most people would agree that learning is a lifelong process. A distinction, however, should be made between the notion of learning understood as a process of self-discovery over one's lifetime, and learning understood in terms of the acquisition of a certain set of skills, often for the purpose of advancing one's position in the labor market. The two notions, although distinct, are related. It can be argued, for example, that the more skills we have, the more we can engage with other people, which also contributes to our life experience. The opposite is also true. The more we learn about ourselves through life experience, the better we are able to tell what skills we lack or can improve on, which can serve us and others well in life.

It is also possible that there is some *hindering* point of skill acquisition at which a relative surplus of skills starts to accumulate, which is *seemingly* beyond what is necessary for regular task performance. This may in part explain age discrimination in the labor market. With age (that is, with life experience) people are perceived as acquiring more non-marketable skills, while falling behind in the speed of simple task completion. It can be argued, for example, that with experience (with age), people will care more about the *quality* of their work. While on the one hand, performance speed increases with repetition or mastery of a task, the insistence on quality improvement, which is infinite in its possibilities and, as such, crucial and necessary in our development as persons, will on the surface tend to slow down a particular activity. As a result, there may be a natural progression into seemingly taking more time to do things.

There surely are other reasons which affect productivity. Productivity can be understood as essentially being about communication, that is, about how effectively we relate our know-how to others. Understood this way, communication is then related to our level of socialization. *Any decreased socialization (due to long-term unemployment, shorter or longer periods of under-employment or unemployment due to illness, family leave etc.) is thus likely to additionally decrease initial productivity once back in the work place.* Understanding the role communication plays can help us adapt the work training and/or adult education programs in a way that will make them more effective for labor market purposes.

To the extent that adult education influences a larger issue of unemployment, it should be on the radar of the policy makers. While there is evidence of long-term unemployment in well-performing economies as well, their effects are particularly felt in the lower-income countries and the so-called "transitional" economies, in particular given the lack of other sorts of social protections due to general economic hardship.

The EU Adult Education Survey provides some useful insights into the kinds of trainings adults tend to receive. Perhaps most relevant for this discussion is that the great majority of adult instruction and training in countries across the EU was provided by employers. This suggests that the greatest access to continuing education is to be had by already-employed people, and not those who arguably have greater need of skill maintenance and acquisition - the unemployed. *The skill gap between the employed and the unemployed thus is ever- increasing, making it more difficult for the unemployed to compete for whatever available positions there are.*

Another interesting observation is that more men than women took part in job-related, non-formal instruction (84.8% to 75.5%); women participated more in non-job-related, non-formal training than men did (24 % to 14.5%). What may call for a closer look is that the financial support for job-related non-formal instruction provided by employers was also higher for men than for women (76.6% to 64.9%). On one hand, this may suggest a somewhat unequal treatment of men and women in the work place. On the other hand, the relatively higher percentage of women seeking non-job-related training may suggest a greater need on the part of women to explore a variety of interests.

The lessons from the EU could serve other countries well. The unemployment challenges in Georgia make educational policy considerations particularly relevant. While there is no official data on adult informal education, there have been programs in recent years aimed at addressing the issue. Any potential educational policy, however, should aim to preserve that which is unique to Georgian culture, society, and the economy as well. Going back to the discussion above, if the level of skill and socialization (communication) play an essential part in employment outcomes, and if in fact employers are those who provide most of the job-related trainings (as we saw in the EU data), perhaps a policy should aim at not only providing educational programs that directly maintain and train on job-related skills, but also those that seek ways to *put people together in interactive ways that increase communication and socialization,* which would open avenues for speedier reintegration into or perseverance in the labor force. A dance class, for example, could perhaps do just that.

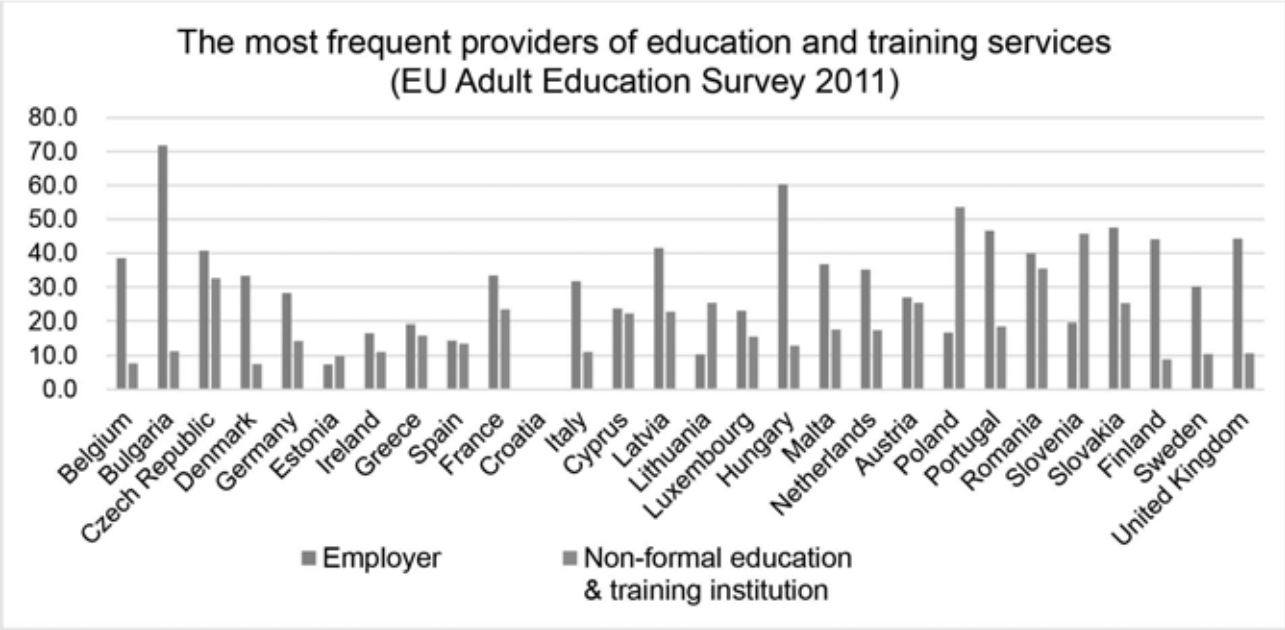


Illustration 1 Source: Internet metadata file (http://ec.europa.eu/eurostat/cache/metadata/en/trng_aes_12m0_esms.htm

Sunnier outlook for UK holidaymakers' summer spending

The FINANCIAL

UK wages projected to buy 6% more overseas in August 2018 than last August, according to patest data by PwC.Holidaymakers could be able to buy 9% more in the US and 5% more in the euro area. But UK purchasing power is 13% lower than August 2015 before the Brexit vote

Higher exchange rates and a pick up in real wages mean UK travellers will be able to buy more on this year's summer holidays abroad, according to new analysis from PwC. UK purchasing power in August 2018 could be 6% higher than last year, with holidaymakers able to buy 9% more in the US and 5% more in the euro area, the analysis says. However, in comparison to August 2015, before the Brexit vote, UK holidaymakers will find themselves 13% short of their former purchasing power and 18% down as compared to purchasing power before the financial crisis in 2007.

"A combination of sterling's recovery over the past year, despite falling back a little recently, and a pick up in earnings growth has improved the outlook for UK holidaymakers' spending

power this summer,| John Hawksworth, chief economist at PwC, said.

"But while overseas purchasing power is now back on a positive trajectory, there's still a long way to go before Brits really begin to feel the benefits abroad.

"The Brexit vote and the financial crisis both significantly reduced how much the pound could purchase overseas and squeezed real wage growth. This longer term decline won't be reversed overnight, but there is a somewhat sunnier outlook for UK holidaymakers abroad this year than there was last summer."

Within the euro area, UK purchasing power has weakened most in Spain and Greece where local inflation was higher. The Brexit vote led to a renewed sharp fall in UK purchasing power in these popular holiday destinations and PwC projects only a modest recovery of around 2% in 2018 from the low of 2017.

Looking further ahead to December 2018, UK wages could buy 2% more than the same time last year on average in popular winter holiday destinations like Australia, India and Thailand. However, this is 10% less than in December 2015 before the Brexit vote and 33% less than in 2007 before the global financial crisis.

CEOs suffer a $350,000 cut in pay when activists target their company

The FINANCIAL

Activist hedge funds wipe more than $350,000 off a CEO's total pay package in one year after buying up stock in the company, new research has found.

Funds like Icahn Enterprises and Third Point Partners, founded by Daniel Loeb, have become notorious for aggressively campaigning against firms they have stock in, pushing to change firm strategy in an effort to increase the value of their own stake.

Their tactics work so well that other shareholders welcome them because they boost the operating performance of the firms they target, as research has found.

Now Jana Fidrmuc and Swati Kanoria, of Warwick Business School, have discovered that the activist hedge funds' actions also have a big effect on CEO pay with base salary and stock rapidly reduced, along with a huge cut in perks and benefits.

Surprisingly, they also find that the use of equity incentives to encourage better performance from CEOs decreases when an activist hedge fund enters a firm.

Dr Fidrmuc said: "We looked at nearly 500 firms to track the pay of CEOs when activist hedge funds target a firm. Before the activists enter, we find that CEOs receive much higher stock and total pay compared to their industry peers.

"Once an activist enters a firm, CEO total compensation and the level of stock awards are significantly reduced to the same level as the rest of the industry.

"The pay-for-performance sensitivity is cut dramatically by activist hedge funds, down to levels comparable with their peers. This result is not driven by hiring of a new lower-paid CEO and it also holds when taking into account takeovers and share buybacks.

"The average holding by an activist hedge fund in a company is 22 months and we find that total compensation for CEOs starts increasing again around the time of an activists' exit."

The authors hand-collected CEO compensation data from 244 publicly-listed US firms, analysing it over seven years, that is three years before the activist enters, the year the fund buys the stock and three years after.

This was compared to CEO pay over seven years from 244 firms that were not targeted by activists, but were from the same industry and of a similar size and book-to-market value.

Analysis of the data found that CEOs of companies receive on average $354,960 and $329,344 more than their peer group in total pay, in the two years prior to activist entry.

A year after the activist arrives this difference gets reduced to just $51,435 with the CEO's base salary now $27,704 lower than their peers, and their stock reduced by $258,201 to just $63,090 more than their peers.

CEOs benefits and perks also take a hit, dropping from $72,569 above their peers to $94,396 below a year after the activist has entered.

The study shows that total compensation for CEOs starts going up again two years after activism, and by year three is $270,766 more than their peers, with stock once again the main factor as it is $129,909 more than their peers.

Dr Kanoria said: "Since stock awards help align managerial interests with firm value, it is surprising to find a reduction in the level of stock awards in target firms after the activist has entered.

"We think this is because the activist joins the board and closely monitors the CEO. Therefore there is less need for performance pay, which is risky and quite expensive for the firm.

"Also, stock is often used to over-compensate CEOs as an alternative to base salary rather than as an incentive.

"Once an activist exits the firm, there is a renewed need for performance pay to provide incentives to CEO. In other words, the close scrutiny of firm management by activists is a substitute for performance-oriented stock incentives.

"We also find that activist hedge funds bring great discipline to perks and benefits given to CEOs, with perks being significantly reduced by the second year of the activist's time at the firm."

New EBRD financing to Bulgaria's ProCredit Bank

The EBRD is providing €50 million to Bulgaria's ProCredit Bank to expand access to finance for small and medium-sized enterprises (SMEs).

The FINANCIAL

SMEs constitute the backbone of Bulgaria's economy and account for three-quarters of the country's employment as well as two-thirds of its GDP. Recovering from the financial crisis, the sector is expected to grow again in the years ahead, serving as an important driver of Bulgaria's economic growth. For this, access to credit is essential.

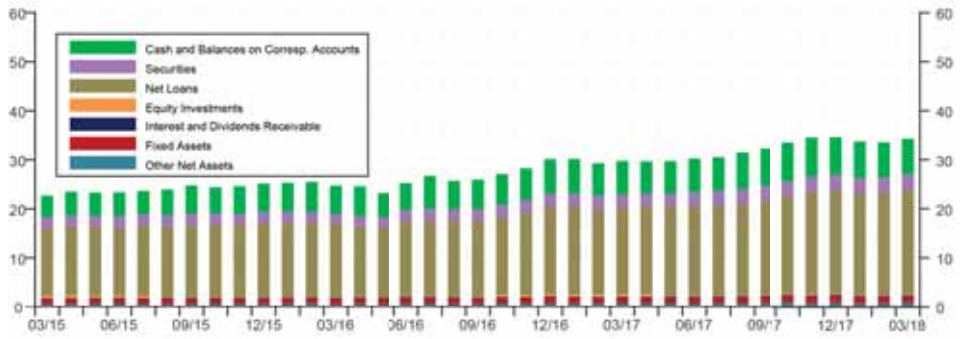
ProCredit Bank is a key provider of SME finance in the country and is seeing a growing demand for its products and services, EBRD said. The EBRD's longer-term funds will enable the lender to better meet the needs of clients and at the same time expand its portfolio, including outside the capital, Sofia.

The EBRD and ProCredit have been partners for many years in the countries of south-eastern and eastern Europe, providing long-term funding for the development of small businesses and fostering private entrepreneurship. Earlier this year the EBRD acquired a 3.6 per cent stake in ProCredit Holding, the parent company of the development-oriented ProCredit group, which consists of commercial banks for small and medium-sized enterprises operating in many countries where the EBRD invests.

"We expect the Bulgarian economy to continue growing in the coming years. This will require greater access to finance to help businesses grow locally and expand abroad. Fully dedicated to small and medium-sized businesses, ProCredit Bank has been our strong, longstanding partner in the region and we are pleased to strengthen our cooperation in Bulgaria," Announcing the new loan during a visit to Sofia, EBRD President Suma Chakrabarti said.

Georgian Financial Sector

Figure 3.1. Asset Structure
(GEL Billions)



Source: NBG.

Figure 3.2. Liability Structure
(GEL Billions)

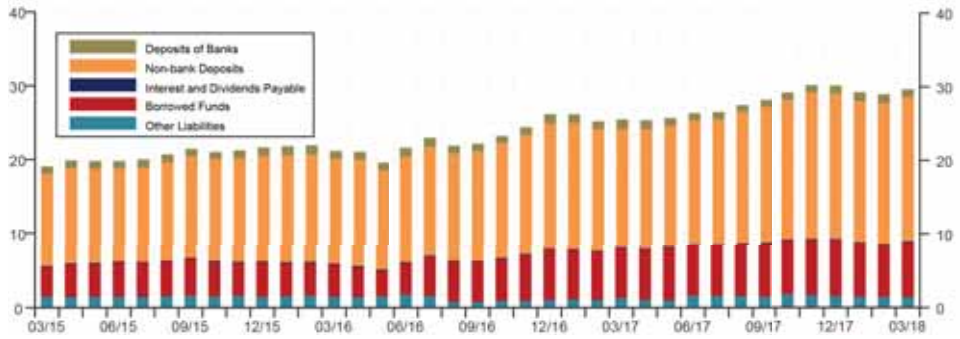


Figure 1.1. Y/Y Change in Total, Retail and Business Loans, %
(Exchange rate effect excluded)

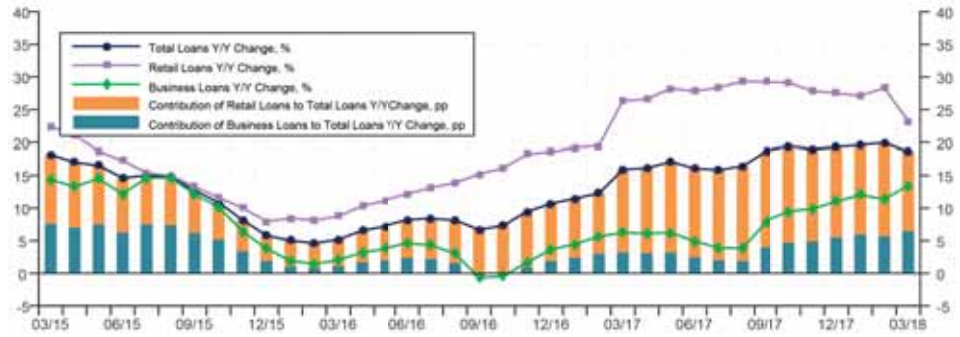
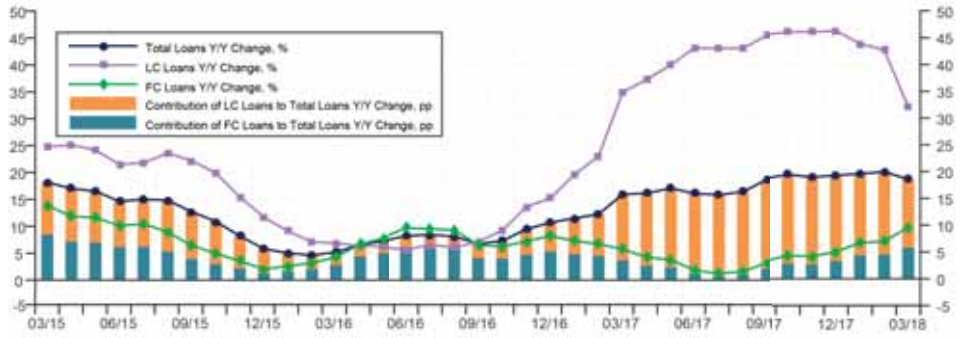
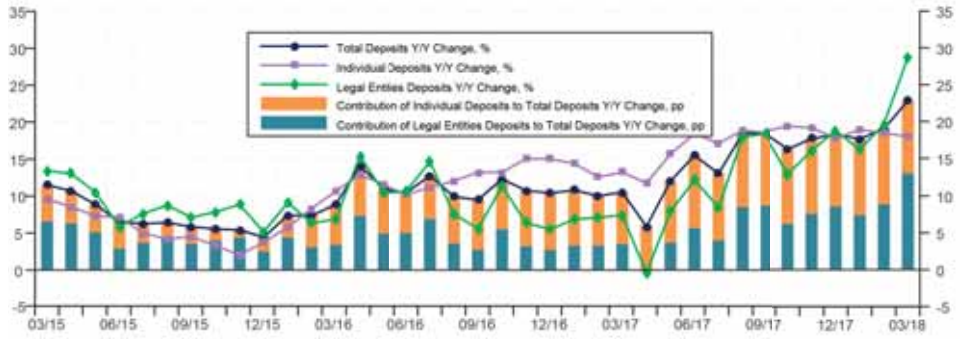


Figure 1.3. Local Currency (LC) and Foreign Currency (FC) Loans: Y/Y Change, %
(Exchange rate effect excluded)



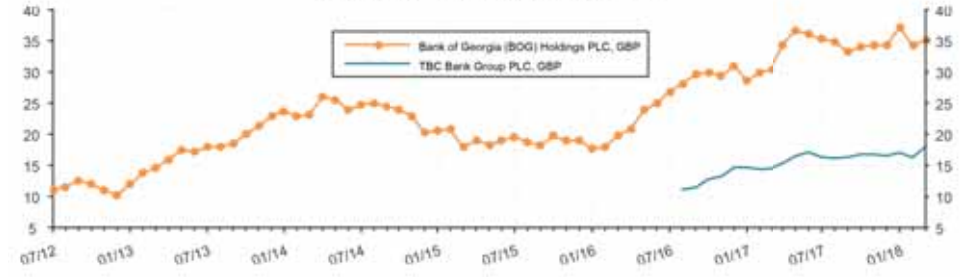
Source: NBG.#

Figure 2.1. Y/Y Change in Total, Individual and Legal Entities Deposits, %
(Exchange rate effect excluded)



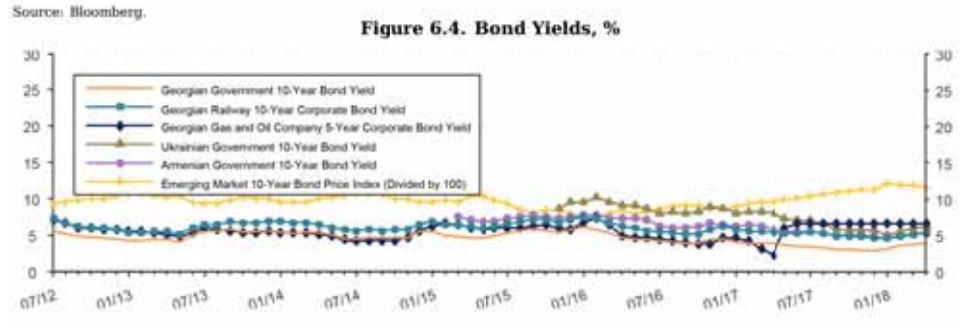
Source: NBG.#

Figure 6.3. Stock Price Dynamics



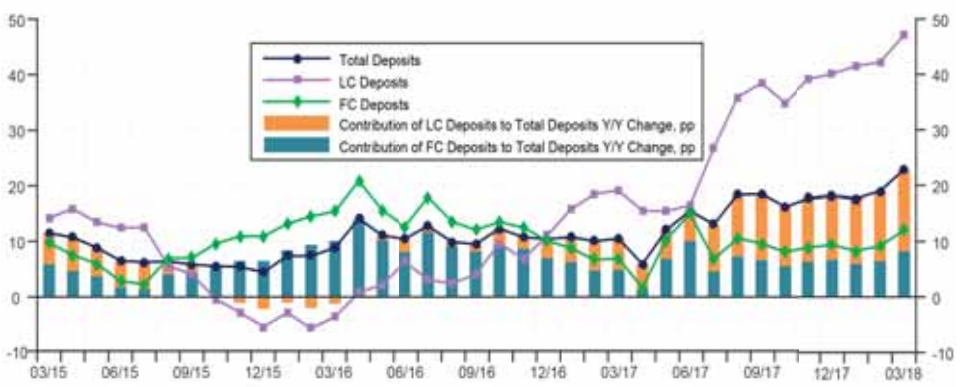
Source: Bloomberg.

Figure 6.4. Bond Yields, %



Source: Bloomberg.

Figure 2.3. Y/Y Change in Total, LC and FC Deposits, %
(Exchange rate effect excluded)

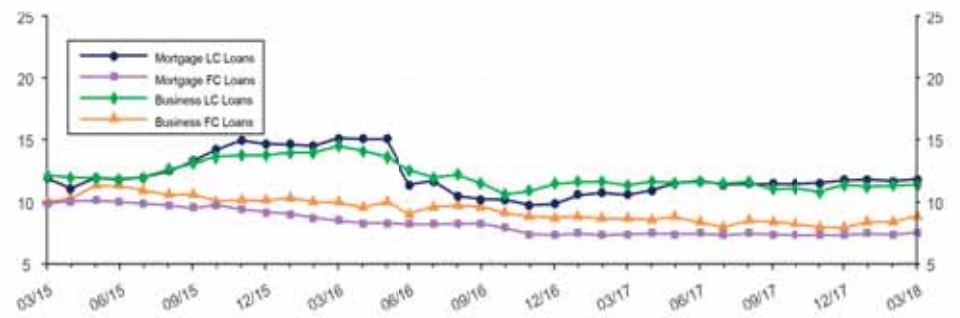


Source: NBG.#

Figure 9 1. REER of Georgian Lari
(Index, Dec-1995 = 100)

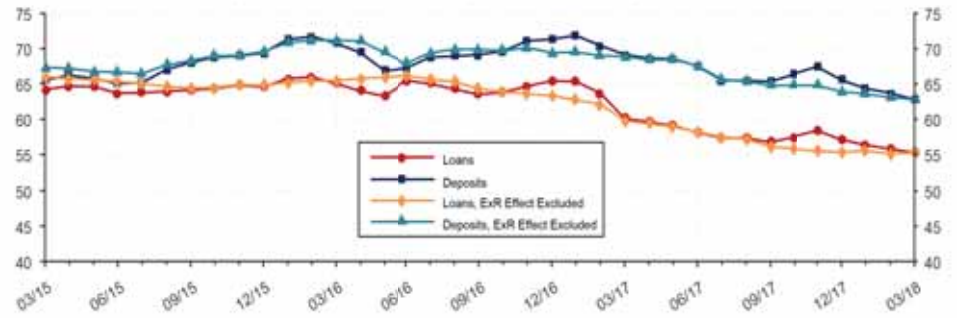
Source: NBG.

Figure 6.1. Weighted Average Annual Interest Rates on Loans Flow, %
(Within a Month)



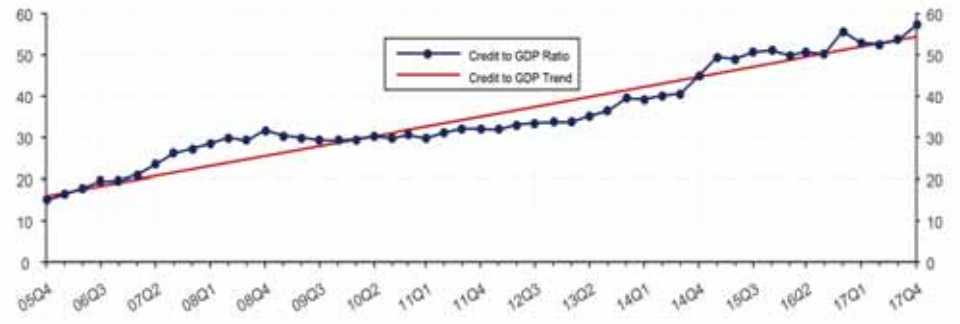
Source: NBG.#

Figure 5.3. Dollarization in Banking Sector , %
Exchange rate effect is excluded by taking the end-of-period exchange rate of 2018M03.



Source: NBG.#

Figure 5.2. Banking Sector Credit to GDP, %



Source: NBG.#

Figure 5.1. Profitability of Commercial Banks, %

Source: NBG.#

Weekly Market Watch

GALT & TAGGART
CREATING OPPORTUNITIES

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

ECONOMY

Exports up 8.3% y/y in April 2018

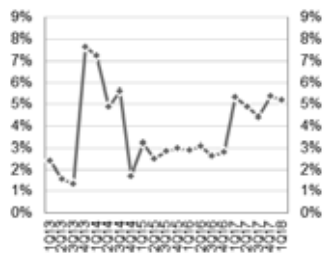
In April 2018, exports growth slowed to 8.3% y/y to US$ 229.2mn, imports were up 22.5% y/y to US$ 730.4mn and the trade deficit widened 30.3% y/y to US$ 501.3mn, according to GeoStat's preliminary figures. In 4M18, trade deficit was up 22.5% to US$ 1.9bn as exports increased 22.0% y/y to US$ 961.4mn, while imports were up 22.3% y/y to US$ 2.8bn. Detailed foreign trade statistics will be available on May 21, 2018.

Key macro indicators

	4M18	2017	2016
GDP (% change)	5.2%[1]	5.0%	2.8%
GDP per capita (ppp)	...	10,644	10,043
GDP per capita (US$)	...	4,079	3,865
Population (mn)	3.7	3.7	3.7
Inflation (eop)	2.5%	6.7%	1.8%
Gross reserves (US$ 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 1Q18

Real GDP growth, %



Source: GeoStat
Note: Rapid estimate for 4Q17

Georgia sovereign credit ratings

Standard & Poor's	Moody's	Fitch Ratings
BB- Stable Affirmed May-2017	Ba2 Stable Affirmed Sep-2017	BB- Positive Affirmed Mar-2018

Source: Rating agencies

International ranking, 2017

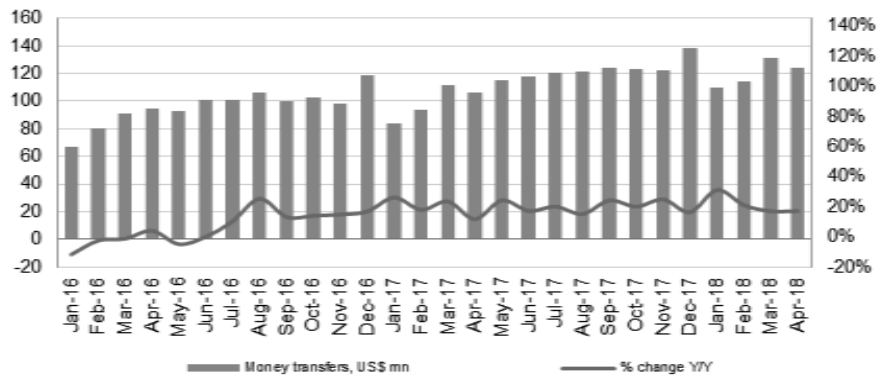
Ease of Doing Business s# 9(Top 10)

Economic Freedom Index # 16 (mostly free)

Global Competitiveness Index # 59 (improving trend)

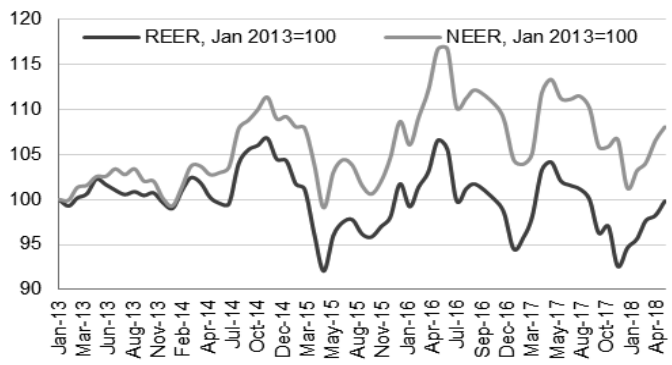
Source: World Bank, Heritage Foundaition and World Economic Forum

Money transfers



Source: NBG

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.

Money transfers up 17.1% y/y in April 2018

In April 2018, money transfers increased 17.1% y/y to US$ 123.9mn, after growing 17.0% y/y in previous month, according to NBG. Money transfers were up from almost all major remitting countries: Greece (+35.2% y/y, 12.0% of total), Italy (+43.6% y/y, 11.7% of total), USA (+13.7% y/y, 10.2% of total), Israel (+31.7% y/y, 9.5% of total) and Turkey (+8.7% y/y, 7.5% of total). Meanwhile remittances were slightly down from Russia (-0.2% y/y, 28.5% of total). Overall, in 4M18 money transfers were up 21.0% y/y to US$ 478.9mn.

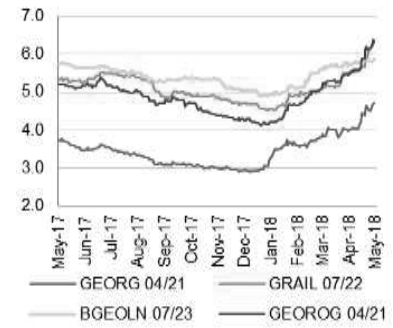
FIXED INCOME

Corporate Eurobonds: BGEO Group Eurobonds (BGEOLN) closed at 5.9% yield, trading at 100.6 (-0.1% 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 94.7 (-0.2% w/w), yielding 7.3%.

GOGC Eurobonds (GEOROG) were trading at 101.1 (-0.5% w/w), yielding 6.3%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 104.8 (-1.2% w/w), yielding 6.4%.

Georgian Sovereign Eurobonds (GEORG) closed at 105.8 (-0.5% w/w) at 4.7% 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	101.07	94.7	100.5	101.1	100.6	105.8	104.8
Mid yield, %	n/a	5.5%	3.8%	6.50%	7.3	10.7	6.3	5.9	4.7	6.4
Z-spread, bps	n/a	n/a	n/a	n/a	427.1	346.1	344.6	287.4	182.4	346.9

** 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*

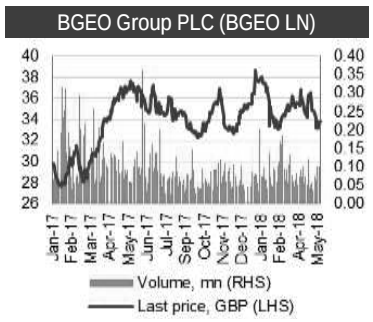
Eastern European sovereign 10-year bond performance

Issuer	Amount, US$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba2	4.7
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba2	5.0
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	3.6
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	4.1
Russia	3,500	5.000%	29/04/2020	BBB-/BBB-/Ba1	3.7
Turkey	2,000	5.625%	30/03/2021	BB+/BB/Ba2	5.7

Source: Bloomberg

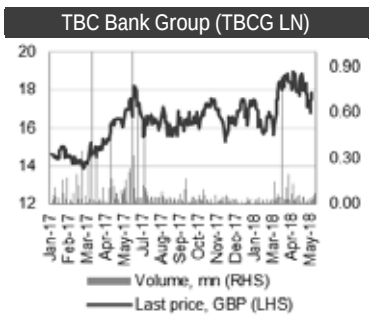
EQUITIES

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 33.74/share (-0.2% w/w and -7.17% m/m). More than 328k shares traded in the range of GBP 33.54 – 33.28/share. Average daily traded volume was 55k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, gained 0.98% w/w and gained 4.18% m/m. The volume of BGEO shares traded was at 0.83% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 17.84 (+0.11% w/w and -4.80% m/m). More than 315k shares changed hands in the range of GBP 17.22 – 17.90 share. Averaged daily traded volume was 33k in the last 4 weeks.

Georgia Healthcare Group (GHG LN) shares closed at GBP 2.95/share (+11.32% w/w and +1.72% m/m). More than 404k shares were traded in the range of GBP 2.63 – 2.95/share. Average daily traded volume was 37k in the last 4 weeks. The volume of GHG shares traded was at 0.31% of its capitalization.

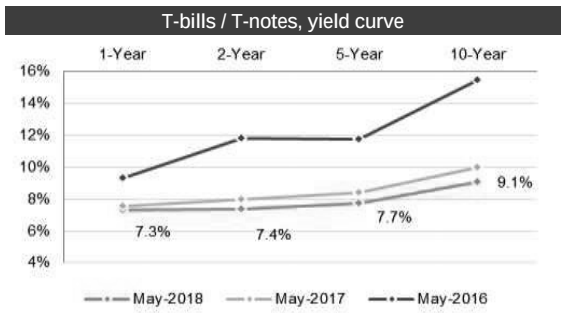
MONEY MARKET

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,200mn (US$ 493.5mn).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US$ 8.2mn) certificates of deposit, with an average yield of 7.29% (up 0.03ppts from previous issue).

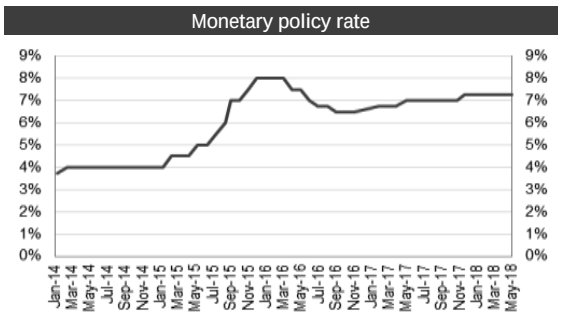
Ministry of Finance Treasury Notes: The nearest treasury security auction is scheduled for May 23, 2018, where GEL 30.0mn nominal value 5-year Benchmark Bonds will be sold.

T-bills / T-notes, yield curve



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

Monetary policy rate



Source: NBG

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publicity

Most U.S. Muslims observe Ramadan by fasting during daylight hours

By DALIA FAHMY and BESHEER MOHAMED
Pew RESEARCH

Muslims around the world are set to mark Ramadan, a holy month when many fast from sunrise to sunset in order to focus on their spiritual life and get closer to God. In the United States, the vast majority of Muslims celebrate Ramadan, with eight-in-ten saying they fast during the holiday.

In fact, more Muslim adults say they fast during Ramadan than say they pray five times a day (42%) or attend mosque weekly (43%), according to a 2017 Pew Research Center survey of U.S. Muslims. And far more women fast during Ramadan (82%) than wear the head cover, or hijab, at least most of the time (43%).

Fasting for Ramadan is common across all the demographic groups that make up America's 2.15 million Muslim adults. For instance, similar shares of Muslim men and women (77% vs. 82%) say they fast, and there is little difference between Muslims who were born in the U.S. and immigrants (79% vs. 80%).

Not surprisingly, roughly nine-in-ten U.S. Muslims (92%) who say religion is "very important" in their lives observe the holiday. Among Muslims who say religion is "somewhat important," two-thirds (65%) say they fast. But even among American Muslims who say religion is "not too" or "not at all" important, a substantial share (41%) say they fast.

Ramadan also is widely observed by Muslims around the world, according to a Pew Research Center report published in 2012. Indeed, in most of the 39 surveyed countries with sizable Muslim populations, more than nine-in-ten Muslim adults fast, making it the second-most-observed of Islam's Five Pillars, behind only the shahada, the affirmation of belief in God and the Prophet Muhammad.

The ninth and most sacred month of the Islamic calendar, Ramadan marks the first revelation of the Quran to the Prophet Muhammad. Because Muslims follow a lunar calendar, the start of Ramadan falls on a different day each year on the Gregorian calendar. Aside from those who are ill or traveling, Muslims are required to abstain from food, drink and sexual relations during daylight hours throughout the month. During this time, many pious Muslims traditionally devote more time to prayer, reflection and helping the needy.

Ramadan also is a time for celebrating and socializing. Muslims usually gather with family and friends at sundown for a communal breaking of the fast, known as iftar, and then spend the evening eating and catching up on social visits and entertainment. At the end of Ramadan, Muslims traditionally celebrate the Eid al-Fitr holiday with sweets, gifts for children, charitable donations and social events.

Pipelines, Roses and Nukes: Putin, Merkel Meet Amid Strained Ties with US

Continued from p. 4

"Thanks to him we got rid of all illusions," Tusk tweeted, referring to a broader European political disenchantment with Trump in Berlin, Paris and London.

NATO not fazed

But after White House meetings Thursday with NATO's leadership, it appears the United States may yet have one European relationship securely in place.

Speaking with VOA Serbian Service, NATO Secretary General Jens Stoltenberg said the Alliance won't be fazed by any burgeoning rapprochement between major European capitals and Russia.

The top agenda item of NATO's upcoming summit, he said, will likely be what he called "deterrence, defense and Russia."

"We see a more assertive Russia, and NATO is responding by implementing the biggest reinforcement of our collective defense since the Cold War," Stoltenberg said.

A critical component of reinforced defense is already in place, with "more troops to the east of the Alliance and to the Baltic countries, to Poland," but with plans in increase troop readiness.

"We need to do more of this, increase the readiness of our forces at the meeting in July in Brussels," he said. "They are using military force against a neighbor, Ukraine, illegally annexing Crimea, but then we see what we call hybrid tactics. This combination of civil-military actions: meddling into election processes, cyberattacks, and we also saw the use of a nerve agent in Salisbury.

"All of this requires a response from NATO, and we our responding," he said.

White House meetings

Fresh from White House meetings with Trump, Stoltenberg said they discussed the need to have forces move quickly across the Atlantic.

Earlier this month, the Pentagon officially offered to host a proposed NATO Joint Force Command for the Atlantic at its naval facilities in Norfolk, Virginia.

One other NATO ally, Stoltenberg said, offered to host a new command center for mobility and reinforcement across Europe.

"The Germans offered to host that one," he said.

The next NATO Summit is slated July 11-12 in Brussels.

On Thursday, the State Department pushed back on reports that America's ties with European allies are frayed over the Trump administration's withdrawal from the Iran nuclear deal.

"We agree on more than we disagree," said State Department Policy Planning Director Brian Hook during a telephone briefing Friday with reporters. "People are overstating the disagreement between the U.S. and Europe."

This story originated in VOA's Serbian Service.

How digital is your country? Europe needs Digital Single Market to boost its digital performance

The FINANCIAL

Brussels -- According to the results of the 2018 Digital Economy and Society Index (DESI) , published by The European Commission the EU is getting more digital, but progress remains insufficient for Europe to catch up with global leaders and to reduce differences across Member States. This calls for a quick completion of the Digital Single Market and increased investments in digital economy and society.

DESI 2018 shows: Connectivity has improved, but is insufficient to address fast-growing needs

Ultrafast connectivity of at least 100 Mbps is available to 58% of households and the number of subscriptions is rapidly increasing. 15% of homes use ultrafast broadband: this is twice as high as just two years ago and five times higher than in 2013.

80% of European homes are covered by fast broadband with at least 30 Megabits per second (Mbps) (76% last year) and a third (33%) of European households have a subscription (23% increase compared to last year, and 166% compared to 2013).

The number of mobile data subscriptions has increased by 57% since 2013 reach 90 subscriptions per 100 people in the EU. 4G mobile networks cover on average 91% of the EU population (84% last year).

Indicators show that the demand for fast and ultrafast broadband is rapidly increasing, and is expected to further increase in the future. The Commission proposed a reform of EU telecoms rules to meet Europeans' growing connectivity needs and boost investments.

More and more Europeans use the internet to communicate

The highest increase in the use of internet services is related to telephone and video calls: almost half of Europeans (46%) use the internet to make calls, this is almost a 20% increase compared to last year and more than 40% increase compared to 2013. Other indicators show that 81% of Europeans now go online at least once a week (79% last year).

To increase trust in the online environment, new EU rules on data protection will enter into force on 25 May 2018.

The EU has more digital specialists than before but skills gaps remain

The EU improved very little in the number of Science, Technology, Engineering and Mathematics (STEM) graduates (19.1 graduates per 1000 people aged 20 to 29 years old in 2015, compared to 18.4. in 2013);

43% of Europeans still do not have basic digital skills (44% last year).

Alongside the Digital Skills and Jobs Coalition, the Commission has launched the Digital Opportunity Traineeships to tackle the digital skills gap in Europe. The pilot initiative will provide digital traineeships for up to 6,000 students and recent graduates until 2020 in another EU country.

"This is a shift, albeit small, in the right digital direction", Andrus Ansip, Vice-President for the Digital Single Market, said. "As a whole, the EU is making progress but not yet enough. In the meantime, other countries and regions around the world are improving faster. This is why we should invest more in digital and also complete the Digital Single Market as soon as possible: to boost Europe's digital performance, provide first-class connectivity, online public services and a thriving e-commerce sector."

Businesses are more digital, e-commerce is growing slowly

While more and more companies send electronic invoices (18% compared to 10% in 2013) or use social media to engage with customers and partners (21% compared to 15% in 2013), the number of SMEs selling online has been stagnating over the past years (17%).

In order to boost e-commerce in the EU, the Commission has put forward a series of measures from more transparent parcel delivery prices to simpler VAT and digital contract rules. As of 3 December 2018, consumers and companies will be able to find the best deals online across the EU without being discriminated based on their nationality or residence.

Europeans use more public services online

58% of internet users submitting forms to their public administration used the online channel (52% in 2013).

18% of people use online health services.

"We look forward to a rapid progress on major reforms such as the European Electronic Code aiming at boosting investments in enhanced connectivity", Mariya Gabriel, Commissioner for Digital Economy and Society, commented. "This year's Digital Economy and Society Index demonstrates that we must deploy further efforts to tackle lack of digital skills among our citizens. By integrating more digital technologies and equipping them with skills, we will further empower citizens, businesses and public administrations. This is the way to succeed the digital transformation of our societies."

Over the past year, the EU continued to improve its digital performance and the gap between the most and the least digital countries slightly narrowed (from 36 points to 34 points). Denmark, Sweden, Finland and the Netherlands scored the highest ratings in DESI 2018 and are among the global leaders in digitalisation.

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"It is very likely that the Georgian government will begin exploring regulations in the digital currency space", Andrew Thornhill, Co-Founder of Spotcoin

ANDREW THORNHILL, Co-Founder of Spotcoin

The FINANCIAL

Q. What is the future of payments?

Payments will become less and less personal and more and more automated. Payments will become easier to make, and both consumers and merchants will be able to choose from more options.

Q. How do you see future of banking?

A. The 'bank', meaning the buildings or institutions that to many represents 'banking', will likely remain unchanged, at least on the surface. The buildings and the institutions will effectively stay the same. However, people's view of 'money', people's concept of 'value', and what it means to have value will change radically within the next few years.

Q. What is your prediction regarding integration of blockchain technologies into banking system.

A. Of all the industries on the planet, the industry where blockchain will have the greatest and most immediate impact is banking and the financial system at large. I expect most banks around the world to have some aspect of blockchain technology as part of their core business within the next 5-10 years.

Q. What are the chances that all transactions will be cashless? (that central banks will abolish cash)

A. I think that there is little chance that paper money will cease to exist anytime soon. There is a magic and mystery to paper bills. From grandma giving her grandchild 20 lari for their birthday, buying fruit from a vendor on the street, or finding a dollar under a pillow after losing a tooth: cash money will be a part of our society for many years to come.

Q. Do you believe that development of digital money and cryptocurrencies will allow borrow money (finances) from global sources, instead of taking them locally from banks?

A. Yes, digital currencies have no international borders or certainly less of them. Lenders and other businesses will have access to global clients and clients will have an increasing number of options for their monetary needs.

Spotcoin is looking for oversight because we believe that banks and digital currencies need to work together, especially in the short term and the upcoming decade. Not all digital currencies are looking for regulation, but we see regulation as a means to provide stability and encourage sustainable development in this field.

Q. Can you provide estimated turnover of cryptocurrency in Georgia? What is the share of Bitfury in it?

A. A representative from the World Bank told me that 1-in-4 Georgians are engaged with digital currencies. I am not sure what this means in total value. As I understand, the Bitfury servers (which are no longer owned by Bitfury) controlled about 15% of the total bitcoins produced in the world in 2017. This is calculated from estimated hashrate from published electricity consumption. I have never seen any internal Bitfury numbers and I am not sure what the dollar value is of this. For sure Bitfury was instrumental in bringing digital currency to Georgia, we should be very thankful to their pioneer work.

Q. What are the challenges currently you face in Georgia?

A. Right now one of the biggest practical challenges is banking. I believe that Georgian banks want to work with digital currency companies but need further direction and oversight from the National Bank. Spotcoin has a great deal of opportunity currently, and as we grow, our biggest obstacles will be sourcing the best and the brightest talent here in Georgia to help us expand and continue to do our work.

Q. There are speculations in many countries about the need for central banks to issue digital currency.

A. It is nice to see institutions take the issue of better access to capital seriously, but it is difficult to understand why a central bank would find it necessary to issue a digital currency when they already issue their own paper currency.

Q. What are the chances that government of Georgia will regulate cryptocurrency market soon?

A.I think that it is very likely that the Georgian government will begin exploring regulations in the digital currency space.

Q. What are conditions on which decision of Georgian government on crypto regulation is depended?

A. Our focus is to speak with and educate as many people in the Georgian government as possible, including outside policy advisors, academics, and the politicians themselves. We also aim to provide informed opinions to representatives of the National Bank of Georgia.

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