FINANCIAL™

9 771512 364003 >

Outcome-Based Managers Focus on People and the Finish Line

See on p. 17

The Georgian Army Rules

See on p. 8

MERAB PACHULIA, GORBI

25 June, 2018 News Making Money http://www.finchannel.com

Extending people's working lives could add US$3.5 trillion to OECD GDP in long run

The FINANCIAL -- Extending people's working lives to reflect the ageing of their populations could release massive untapped value for their economies to the tune of US$3.5 trillion across the OECD as a whole in the long run.

Iceland, New Zealand and Israel are the leaders in boosting employment rates among older workers, setting a model for others to follow, according to the latest research by PwC.

Between 2015 and 2050, it's estimated that the number of people aged 55 and above in the 35 OECD countries will increase by almost 50% to over 500 million. But how many of these half a billion people will be working?

PwC's Golden Age Index benchmarks, ranks and analyses the performance of OECD countries in fostering older people's participation in the workforce through employment and training data. It reveals how large potential economic gains are available if employment rates for those over 55 can be raised to those of the top performers.

Continued on p. 6

Happy workers more likely to volunteer in their free time

The FINANCIAL -- Employees who are satisfied with their jobs are more likely to volunteer in the community than those who are unhappy at work, a new study from Middlesex University London and the London School of Economics and Political Science has found.

The study, published in the British Journal of Industrial Relations, tracks changes in job satisfaction over time for over 12,000 British employees and shows that as job satisfaction increases employees are more likely to volunteer in their free time and to volunteer more often. Likewise, when job satisfaction decreases, employees are more likely to retreat from volunteering, according to LSE.

The researchers measured job satisfaction on a scale of one to seven and found the chance of an employee volunteering increased by 6.5 per cent with every increase of satisfaction on the scale.

Continued on p. 11

The Georgian Electricity Distribution Market is becoming more concentrated

By MARIAM CHACHAVA[1] and NORBERTO PIGNATTI[2]
ISET

In April 2018, Georgian power plants generated 1,064 mln KWh of electricity. This represents a 30% increase in total generation, compared to the previous year (in April 2017, total generation was 817.2 mln. kWh). On a monthly basis, generation increased by 7% (in March 2018, total generation was 997 mln. kWh). Consumption of electricity on the local market was 981 mln. KWh (+5% compared to April 2017, and -12% with respect to March 2018).

Total electricity consumption in Georgia came from **Energo-Pro Georgia** (49% - 485 mln. kWh), **Telasi** (24% - 237 mln. kWh), **Abkhazia** (15% - 149 mln. kWh), and **direct customers** (11% - 109 mln. kWh) (Figure 2). Annual demand from Energo-Pro Georgia increased by 16%, compared with 9% from Telasi and 1% from Abkhazia. Demand from direct consumers decreased by 14%.

Energo-Pro Georgia is the largest consumer of electricity. The share of electricity consumed by Energo-Pro Georgia has been increasing over the years (See Figure 3). In April 2018, it had the highest share in comparison to previous years (in the same month).

Continued on p. 4

SES increases its reach in Georgia to 562 000 TV homes

The FINANCIAL

The number of video households served by SES has continued to increase, reaching 351 million TV homes in 2017 according to SES's annual market research, Satellite Monitor. This substantial technical reach, compared with 325 million households in 2016, means that SES is now delivering video content to more than 1 billion global viewers.

Out of the 351 million TV homes, SES directly reaches 145 million, and indirectly serves another 147 million cable homes, 40 million IPTV homes, and 18 million terrestrial homes.

The Satellite Monitor study, conducted for the first time in Georgia in 2015 and providing insights into the Georgian TV market, reveals that SES has increased its reach to 562 000 TV homes in the country, which includes direct reach (DTH), and indirect reach (cable and IPTV). This represents 24% growth compared to last year.

Continued on p. 12

Ready to lead, but struggling to keep pace

The FINANCIAL -- Nearly 66 percent of global manufacturing CEOs say acting with agility is the new currency of business and that if they are too slow, they will be bankrupt, according to the 2018 KPMG Global Manufacturing Outlook.

The survey findings, revealed, show that while CEOs are ready and energized to lead their organizations into the digital future, 70 percent feel the lead times required to move large, resource heavy organizations in a new direction are daunting. More than 50 percent say Boards have an unreasonable expectation for a ROI on digital transformation. And while CEOs recognize the need to keep up with market disruptors, mistakes prove costly on a large scale and many CEOs have not yet taken the steps required to radically change outdated ways of doing business.

Continued on p. 5

CURRENCIES

	June 23	June 16
1 USD	2.4578	▲2.4602
1 EUR	2.8597	▼2.8521
100 RUB	3.8955	▲3.9193
1 TRY	0.5207	▼0.5186

financial news

ISSN 1512 3642

THE FINANCIAL
25 June, 2018

ISSUE: **25 (609)**

CURRENT PRICES ON GASOLINE AND DIESEL

25 JUNE, 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	2.58	**Eko** Super	2.62	Super Ecto 100	2.60	Nano Super	2.58	Efix Euro 98	2.62
G-Force Premium	2.44	**Eko** Premium	2.52	Super Ecto	2.53	Nano Premium	2.48	Efix Euro Premium	2.52
G-Force Euro Regular	2.39	**Eko** Diesel	2.52	Premium Avangard Ecto	2.36	Nano Euro Regular	2.38	Euro Regular	2.42
Euro Regular	2.34	Euro Diesel	2.48	Euro Regular	2.26	Nano Diesel	2.38	Efix Euro Diesel	2.48
G-Force Euro Diesel	2.49	Euro Regular	2.42	Euro Deasel	2.36	Nano Euro Diesel	2.48	Euro Diesel	2.42
Euro Diesel	2.44	Diesel Energy	2.42			GNG	1.45		
CNG	1.46								

ISET ECONOMIC INDICATORS

International School of Economics at TSU

KHACHAPURI INDEX

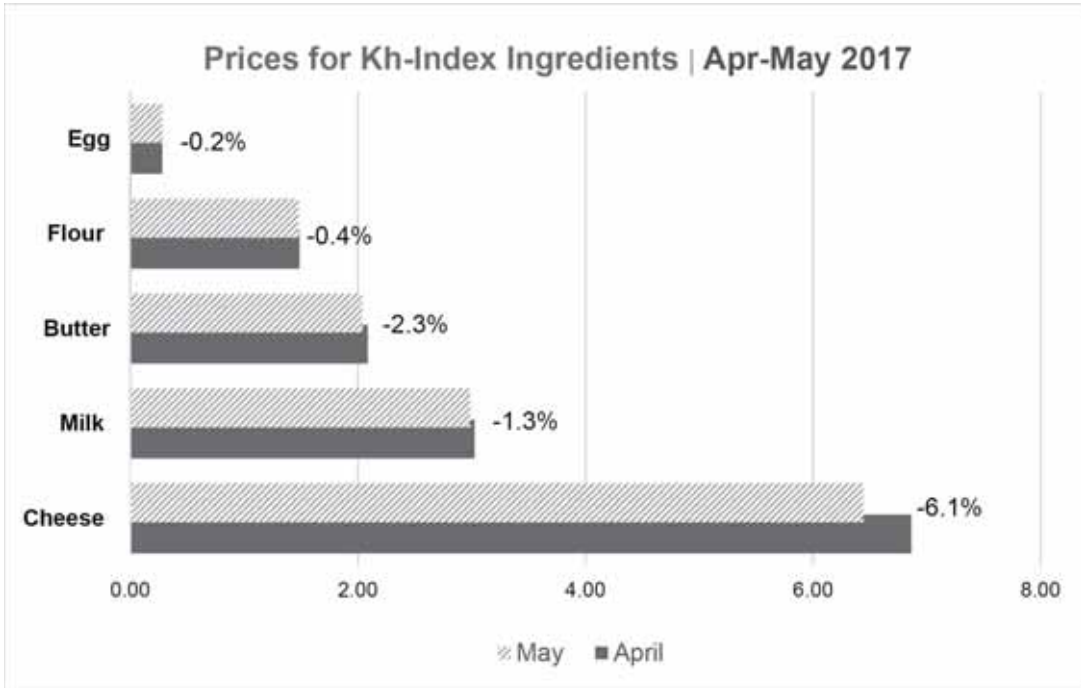
For more: WWW.ISET-PI.GE

PRICES IN GEORGIA ARE ON A DOWNWARD TREND, MAY 2018

In May 2018, the average price of cooking one Imeretian khachapuri stood at 3.17 GEL. Compared to the previous month (April 2018) the Khachapuri Index lost 3.6%. In annual terms (compared to May 2017), however, the Index added 0.9%.

The monthly (negative) change in the Index follows the traditional seasonal trend in fresh milk production, which peaks in June and July. Practically all khachapuri ingredients went down in price compared to last month: cheese (-6.1%), eggs (-0.2%), milk (-1.3%), butter (-2.3%) and flour (-0.4%).

Khachapuri Index estimates are in line with the official estimate of annual inflation by GeoStat, currently standing at 2.5%. However, according to GeoStat, monthly inflation did not change. The fact that compared to the previous month, the Consumer Price Index remained unchanged, does not mean that individual prices remain stable. For instance, while the prices of food and non-alcoholic beverages, clothing and footwear declined (by 0.7% and 0.9%, respectively), transportation (up 1%), and restaurants and hotels (up 0.5%), are bit more expensive compared to last month. The biggest drop in the food and non-alcoholic beverages category was observed in the milk, cheese and eggs subgroup (down by 6.6 %).



It is expected that in following month, prices will fall further down as the supply of fresh milk will possible go up. Furthermore, the demand on milk and milk products will decrease in the Lent period (June 4-July 11), which will push prices even down.

The Georgian Electricity Distribution Market is becoming more concentrated

See on p. 4

Debt mainly held by non-residents in half of the EU Member States

Long-term initial maturities largely prevail across Member States

The FINANCIAL

Significant differences can be observed across the European Union (EU) regarding the sector in which government debt is held. Among Member States for which data are available, the share of public debt held by non-residents in 2017 was highest in Cyprus (82%), followed by Lithuania (73%), Latvia (68%), Finland, Austria and Slovenia (all 67%). In contrast, the largest proportion of debt held by the (resident) financial corporations sector was recorded in Sweden and Denmark (both 69%), ahead of the Netherlands, Malta and Italy (all 62%).

Generally across the EU, less than 10% of debt was held by the resident non-financial sectors (non-financial corporations, households and non-profit institutions serving households), with the noticeable exceptions of Malta (26%), Hungary (20%), Portugal (13%) and Ireland (11%).

Highest shares of short-term initial maturity in Sweden, Hungary and Portugal

With almost 25% of total government debt having a term below one year, Sweden registered the highest proportion of short-term initial maturities of debt among the Member States in 2017, ahead of Hungary (18%) and Portugal (17%). Italy (13%), Denmark (11%), Finland and France (both 10%) also recorded shares of short-term maturity debt around or above 10%. At the opposite end of the scale, almost all of the debt was made up of long-term maturities in Bulgaria, Lithuania, Poland and Slovakia.

CONTACT US

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

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

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

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

COPY EDITOR:
IONA MACLAREN

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

PHOTO REPORTER:
KHATIA (JUDA) PSUTURI

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

FINANCIAL

Intelligence Group ltd. 2018

Member of

ICC GEORGIA
International Chamber of Commerce

financial news

Lisi Development and Kokhta Mitarbi Resort Open New Sales Office

Eva BOLKVADZE
The FINANCIAL

"Showrooms represent each of the projects accurately"

Company Lisi Development and Kohta Mitarbi Resort are now represented by a new sales office at #22 Chavchavadze Avenue. Here customers can view replicas of apartments' interiors and see examples of building materials. The exterior of the sales office is decorated with vertical gardening with an irrigation system, representative of the company's prime concept of 80/20. This concept entails 80% of a site being designated for parks, green zones and additional infrastructure, while only 20% is designated for residential houses. Nodar Adeishvili, General Director of Lisi Development, talks here about the new branch with The FINANCIAL.

Q. Can you tell us what the benefits are of the new sales office? How is it unique?

A. The Lisi Green Town and Kokhta Mitarbi Showrooms represent each of the projects accurately, as there are replicas of a Kokhta Mitarbi Resort living room and Lisi Development dining room interior. Because we have a turnkey concept at Kokhta Mitarbi, its showroom is an exact copy of one of our apartments' living rooms, down to the very building materials, furniture and appliances. On the other hand, Lisi Green Town's showroom is made with the same building materials as we have at Lisi but with furniture of our choice. In addition, both of the showrooms have a sales representative on site who will show viewers around the rooms and answer any questions, and, if desired, handle and register sales on the spot.

Q. What exactly is the 80/20 concept you've adopted, the framework of which applies to your new sales office too? How does it work?

A. As I mentioned before, the 80/20 concept represents the company's approach to development and its investment strategy, with a positive ratio towards greenery and recreational infrastructure on site. How is it represented in practice? On the one hand we are developing buildings with elegant architecture and energy-efficient materials, and at the same time we are investing in parks and recreational zones on location. This approach is noticeable in the examples of Lisi development's projects, since it is comparatively older and already has its achievements. Since its establishment the company has planted up to 30,000 trees and seedlings on its residential complexes and in the vicinity of the nearby lake.

Q. How does the company's client-orientated approach affect its strategy and daily work?

A. We are in constant communication with our residents. The purchase of an apartment in our complex is just the beginning of our relationship with them. We have ongoing two-way communication with them. There is a front office in the complex where they can address us during working hours every day. The first concern of the population and therefore our micro town's inhabitants is ecology and green development issues. In Green Town there are 3 parks at the moment and there will be 7 in the near future. All the trees and plants are imported specially from Europe, mainly from Italy, in order to bring a unique atmosphere to the location and to distinguish it from other city locations. At the moment a gardener's team with 15 members are taking care of every tree and plant on site on a daily basis, in order to maintain them in perfect condition. In accordance with the growing quantity of parks and plants needing care, we will increase the gardening team too, naturally.

Q. Tell us about Lisi Green Town, what made this an award-winning project?

A. From the beginning the project was planned as an ecologically exemplary residential complex and we maintained that idea over time. Having on the one hand high quality and energy-efficient building materials, and on the other the 80/20 concept with parks, green zones and additional infrastructure, gives us the possibility to stand out not only in our country and region, but also in Europe.

Q. You're currently in the development stages of the Kokhta-Mitarbi resort, what can people expect upon its completion?

A. The Kokhta-Mitarbi Resort is a four-season complex of hotels and residential apartments of the highest international standards. The initial plan was developed by a French group of architects (who have already executed huge projects in the Alps in France, as well as in different world-renowned resorts) and afterwards the general plan for development was created by Georgian and foreign architects, including the road, parking places and as many recreation zones as possible.

Our purpose is to develop a new, modern and healthy lifestyle for families, recreational zones and a brand new resort in a unique location, for the duration of all four seasons. The 80/20 model will be applied here too, together with the 'Ski In, Ski Out' concept and unique design criteria due to its outstanding architecture, quality of building materials and low density.

As of this point the first building of the resort has been completed, which combines apartments and a hotel and represents a classic 'apart-hotel'. As you know, at the Kokhta Mitarbi Resort customers receive apartments according to the turnkey concept – renovated, furnished and fully equipped with appliances. Simultaneously, other building blocks are already in the process of being developed. Therefore in total, according to the first phase, the hotel and 500 apartments will be built. All the apartments will be fully renovated and furnished come completion.

Q. How can we differentiate your projects from those of competitor companies?

A. The natural locations of our projects give us the opportunity to obtain a strong competitive advantage that we use to full capacity. We are taking advantage of the natural green resources that the locations provide, and multiplying this by importing further plants and trees from Europe. Our 80/20 concept that implies developing on location's 80% parks, recreational spaces and additional infrastructure, leaving only 20% for residential houses. We have a master plan for each of our projects which we follow. This includes not only buildings but plants, parks and leisure infrastructures. This serves an additional guarantee that nothing will change in the complex after purchasing an apartment in it.

Q. What's the next big thing Lisi Development is going to offer in the nearest future?

A. We are not just standing still in one place and are instead developing in multiple directions. First, we are starting a third neighbourhood in the form of the extraordinary project 'Green Tower' in Green town. Second, we are developing planning and further developing the Kokhta-Mitarbi region. And last but not least, we have already started a plan for a huge project on the Black Sea, the details of which will be revealed in the nearest future.

Price levels varied by almost one to three across the EU Member States

Widest gap for restaurants and hotels and for alcohol and tobacco

The FINANCIAL

In 2017, price levels for consumer goods and services differed widely in the European Union (EU). Denmark (142% of the EU average) had the highest price level, followed by Luxembourg (127%), Ireland and Sweden (both 125%), Finland (122%) and the United Kingdom (117%). At the opposite end of the scale, the lowest price level was found in Bulgaria (48%), while Romania (52%) and Poland (56%) were just above 50% of the average. In other words, price levels for consumer goods and services in the EU varied by almost one to three between the cheapest and the most expensive Member State.

Food price levels highest in Denmark, lowest in Poland and Romania

In 2017, the price level of a comparable basket of food and non-alcoholic beverages across the EU was more than twice as high in the most expensive Member State than in the cheapest one. Price levels ranged from 62% of the EU average in Romania and 65% in Poland, to 150% of the average in Denmark, followed by Sweden (126%), Austria (125%), Luxembourg (123%), Finland (118%), Ireland (117%), Belgium, France and Italy (all 112%).

Alcohol and tobacco most expensive in Ireland and the United Kingdom

Price levels for alcoholic beverages and tobacco showed significant variations between the EU Member States. The lowest price level in 2017 was registered in Bulgaria (56% of the average), ahead of Romania (69%) and Hungary (70%). At the opposite end of the scale, the highest prices were observed in Ireland (174%) and the United Kingdom (157%), followed at a distance by the three Nordic EU Member States – Finland (139%), Sweden (127%) and Denmark (123%). It should be noted that this large price variation is mainly due to differences in taxation of these products among Member States.

Restaurants and hotels more than 3 times more expensive in Denmark than in Bulgaria

Restaurants and hotels is another category where large differences in price levels were observed. Price lev-

Continued on p. 8

Ready to lead, but struggling to keep pace

The FINANCIAL -- Nearly 66 percent of global manufacturing CEOs say acting with agility is the new currency of business and that if they are too slow, they will be bankrupt, according to the 2018 KPMG Global Manufacturing Outlook.

The survey findings, revealed, show that while CEOs are ready and energized to lead their organizations into the digital future, 70 percent feel the lead times required to move large, resource heavy organizations in a new direction are daunting. More than 50 percent say Boards have an unreasonable expectation for a ROI on digital transformation. And while CEOs recognize the need to keep up with market disruptors, mistakes prove costly on a large scale and many CEOs have not yet taken the steps required to radically change outdated ways of doing business. Some 33 percent agree their organization is struggling to keep pace with technological innovation, according to KPMG.

Yet global manufacturing CEOs are positive about the opportunities for change and growth, with 95 percent of CEOs agreeing the fourth industrial revolution is an opportunity, not a threat.

"Manufacturers are at vastly different stages of transformation, and while some have organized well and started early, ROI is far from guaran-

Continued on p. 8

financial news

Extending people's working lives could add US$3.5 trillion to OECD GDP in long run

The FINANCIAL -- Extending people's working lives to reflect the ageing of their populations could release massive untapped value for their economies to the tune of US$3.5 trillion across the OECD as a whole in the long run.

Iceland, New Zealand and Israel are the leaders in boosting employment rates among older workers, setting a model for others to follow, according to the latest research by PwC.

Between 2015 and 2050, it's estimated that the number of people aged 55 and above in the 35 OECD countries will increase by almost 50% to over 500 million. But how many of these half a billion people will be working?

PwC's Golden Age Index benchmarks, ranks and analyses the performance of OECD countries in fostering older people's participation in the workforce through employment and training data. It reveals how large potential economic gains are available if employment rates for those over 55 can be raised to those of the top performers.

Current employment rates for workers aged 55-64 vary dramatically across the OECD, from 84% in Iceland and 78% in New Zealand to 38% in Greece and 34% in Turkey, according to PwC.

For example, increasing the over-55 employment rate to New Zealand levels could deliver a long-run economic boost worth around US$815 billion in the US, US$406 billion in France and US$123 billion in Japan - with the total potential gain across the OECD adding up to around US$3.5 trillion. This economic uplift would be combined with significant social and health benefits from older people leading more active lives and having higher self-worth through continuing to work where they wish to do so.

For governments, ways to realise these benefits include reforming pension systems and providing other financial incentives to encourage later retirement – steps that several countries are already prioritising.

Significantly, the top-performing countries on the Index tend to share a number of characteristics, including a labour market that supports flexible working and the implementation of reforms targeted at older workers, such as redesigning jobs to meet physical needs. Successful policy measures include increasing the retirement age, supporting flexible working, improving the flexibility of pensions, and providing further training and support help older workers become 'digital adopters'.

To help governments take the right actions, PwC has used this year's update of the Golden Age Index to carry out a rigorous statistical analysis of the underlying drivers of higher employment rates for older workers across 35 OECD countries, according to PwC.

The findings from this analysis include that financial incentives like pension policy and family benefits can influence people's decision to stay employed, and that longer life expectancy is associated with longer working lives. The study also shows that flexible working and partial retirement options can pay dividends for employers, as can redesign of factories, offices and roles to meet the changing needs and preferences of older workers.

A further area that the latest Golden Age Index examines concerns the implications for older workers of rising use of artificial intelligence (AI) and related automation technologies in the workplace. It finds that these technologies raise both potential opportunities and challenges for the over-55s.

Up to 20% of the existing jobs of older workers could be at risk of automation over the next decade, so retraining and lifelong learning will be critical to enable older workers to take up the many new job opportunities that AI and related technologies will create.

Note: The Organisation for Economic Co-operation and Development is an intergovernmental economic organisation with 37 member countries, founded in 1961.

The 34 OECD member countries are: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

Working from home in the EU

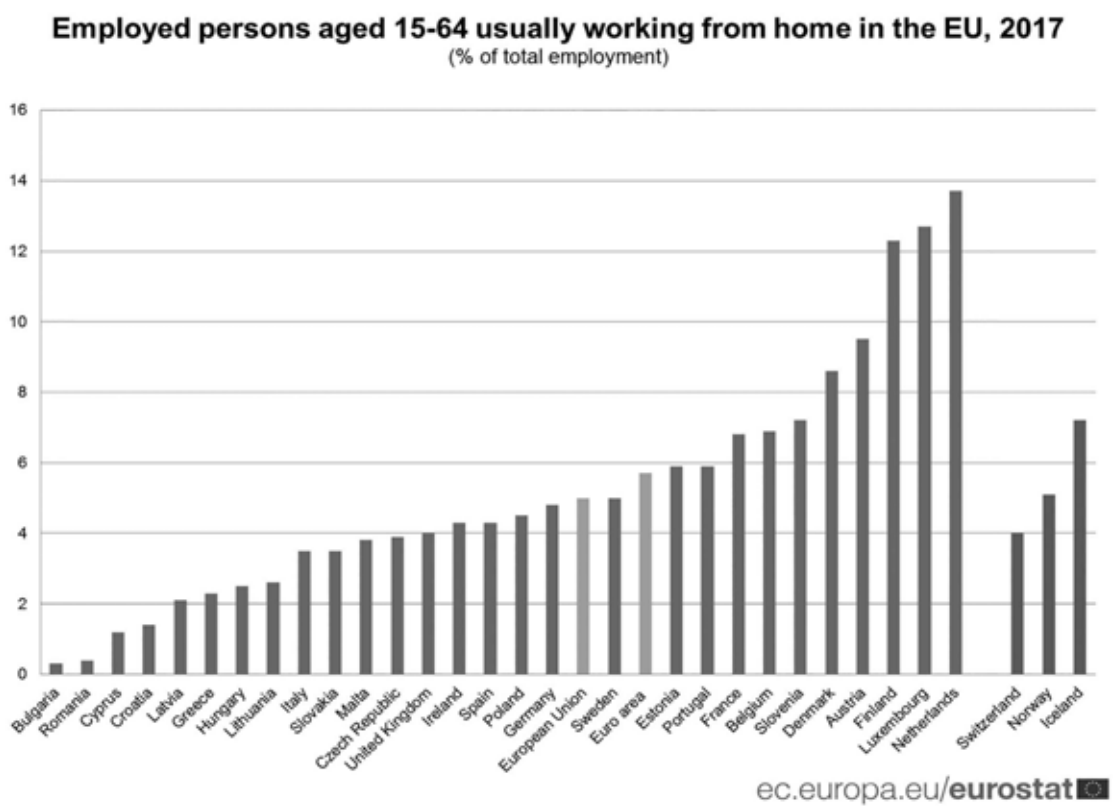
The FIANANCIAL

The percentage of employed persons aged 15 to 64 in the European Union (EU) who usually work from home stood at 5.0% in 2017. This figure was highest in the Netherlands (13.7%), followed by Luxembourg (12.7%) and Finland (12.3%), and lowest in Bulgaria (0.3%) and Romania (0.4%). Working from home was slightly more common in the euro area (5.7% of employed persons) than in the EU as a whole.

The percentage of employed persons in the EU who sometimes work from home has increased steadily over the years, from 7.7% in 2008 to 9.6% in 2017, although the figure in 2017 was down slightly from 2016 (9.8%).

In the EU, more self-employed persons usually worked from home (18.1%) than employees (2.8%). This was true in all Member States.

More women than men work from home in most Member States



In 2017, a slightly higher proportion of women in the EU usually worked from home (5.3%) than men (4.7%). However, in a few Member States, the situation was the reverse, with more men usually working from home than women. This was noticeably the case in the Netherlands (14.7% of men, compared to 12.6% of women) and Denmark (9.5% compared to 7.6%).

Working from home becomes more common with age

The frequency of working from home increases with age. Only 1.6% of 15- 24 year-olds in the EU usually worked from home in 2017, rising to 4.7% of 25-49 year-olds and 6.4% of 50-64 year-olds. The highest proportion of 15-24 year-olds who regularly worked from home was recorded in Luxembourg (10.4%), way ahead of the next-closest Member State, the Netherlands (4.2%).

For the other age categories, the Netherlands came out top (14.8% of 25-49 year-olds and 16.6% of 50-64 year-olds), followed by Finland (13.1% of 25-49 year-olds and 13.6% of 50-64 year-olds).

surveys & analysis

MERAB PACHULIA, GORBI

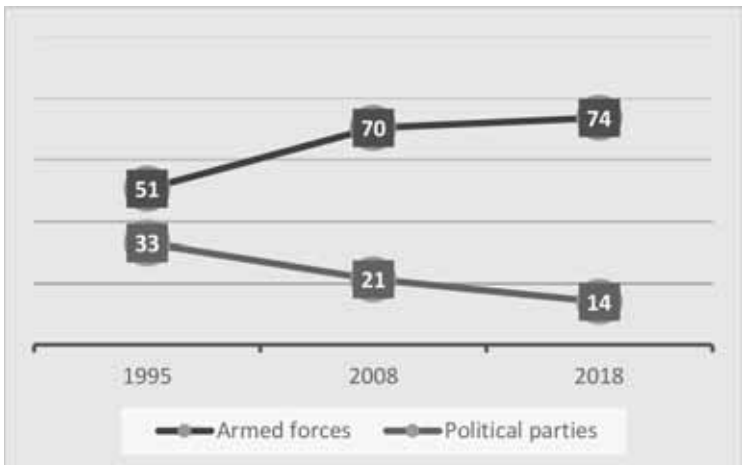
The Georgian Army Rules

Democracy's need for political parties is fundamental is almost never questioned but some countries have figured out how to have democracy without political parties. These smart nations are the six Pacific islands of Nauru, Tuvalu, Palau, the Marshall Islands, Kiribati and the Federated States of Micronesia. I am sure that very few readers of this column have ever even heard of them. But we Georgians know them, at least Nauru and Tuvalu and not because our high school geography curriculum is biased towards the largest ocean. It's simply because these two democracies (considered as such by reputable international organizations) decided to toe the Kremlin's line and recognize occupied territories of Georgia as independent states in 2011.

These democracies basically exist in these countries because of their very small island populations and the existence of clannish traditional institutions that commonly facilitate party interests. Some of them do not even have a capital city or army but alas, they are far from us and protected by Australia, New Zealand and UK, so there is no chance to send a Georgian aircraft carrier or nuke them into the ocean.

Political parties do exist in Georgia. Except for the Soviet period, we have been enjoying multiparty democracy. In free Georgia, especially during the last 28 years, much effort has been made to strengthen the culture of political parties. Thanks to the dedicated support from the European Union and the United States, our political landscape became professional, despite a couple of instances when governments were changed unconstitutionally (and ongoing temptations by some to do so again).

Graph 1. Confidence in Army and Party (%)



Source: GORBI, European Values Survey, 2018 and 2008; World Values Survey, 1995.

Table 1. Confidence in Army by demographic variables (%)

	2018	1995
Total:	74	51
Urban	**71**	
Rural	**81**	
Male	**77**	
Female	**71**	
Age		
18-24	**84**	**48**
25-34	**67**	**46**
35-44	**70**	**52**
45-54	**67**	**56**
55-64	**78**	**49**
65 and over	**77**	**56**

Source: GORBI, European Values Survey, 2018; World Values Survey, 1995.

The Army – another vital institution in any democracy – was always an important and integral part of Georgian society. Fifteen men and one women headed the Georgian Army since independence in 1990. Not all of them were nice and soft-spoken, and only a few were truly dedicated ministers. However, the army never interfered in politics or joined special police troops in cracking down on peaceful demonstrators, at least for the last 25 years.

At first glance, this seems strange since some political authorities in Georgia's recent history appeared to be ready to do anything to secure their power, including the deployment of the army on streets against civilians or alleged terrorists. But personally, I think that our army stirred clear of such trouble not only because we had strong civilian control in place, but also because the Georgian Army quickly *Westernized, especially* compared to other institutions. By Westernization I mean very straightforward things: for many years now, Georgian officers have been studying at the best EU and US military academies, thousands of men and women served in Iraq, Kosovo and Afghanistan and fought shoulder to shoulder with our allies, constant training by the most advanced militaries, our desire and hard work to introduce NATO standards and of course our dream – to one day became part of the North Atlantic Treaty Organization.

In parallel to institution building and training, the Georgian army had to fight against Russia's regular army on several occasions to defend our territorial integrity. Unfortunately, but not surprisingly, we lost these wars. Nevertheless, Georgian society has never been angry or disappointed with the army. Georgians have always had positive attitudes towards the institution and positive sentiments over the last two decades have significantly grown.

Today, a large majority of Georgians (74%) has either a "great deal" or "quite a lot" of confidence in the army, rising 23% since 1995 (51%). Interestingly, based on recent opinion surveys, young Georgians are the most supportive among other age cohorts, as are men and rural dwellers. Alongside the Church, the Georgian Army is the most trusted institution, but the former has suffered significantly after recent prison scandals and internal controversy.

But when it comes to confidence of political parties over the last 25 years, the trend moves backwards. It has decreased from 33% in 1995 to only 14% in 2018. This is a sad story because we need multi-party democracy and confidence in the party system should stay high. The only good story here is that despite this downturn it is not at all likely that the Georgian Army will take over power and run the country.

Political parties are described as groups of people that share similar political ideas but in Georgia, we always had a group of people who shared the same political leader. Consequently, the multiparty system has suffered and lost confidence among the public. How to restore this confidence is not a million-dollar question, at least for me and I understand that I may be very subjective here. It is like in real life or in business, the market should regulate everything with minimal state intervention. The Georgian state is spending millions of Gel in support of key political parties and our western friends are also spending serious amount of resources to strengthen the political party system via trainings and knowledge sharing. None of this seems to be working all that well, at least based on population surveys.

And here is my free advice: we need new, young and dynamic faces, no longer the same losers that have dominated the TV screens for decades but never managed to win any elections or even (and this is true for most of them!) overcome a threshold without a "little bit of help" from above. I am not heartless, and I know most of them in person, but those parties and politicians receive money from *political dark holes* and even worse – Russia. They simply failed to secure room via competitive elections and this is happening over and over again. I think it is high time that party leaders stepped down and gave the floor to younger members, fresh faces, more dynamic and fast thinking people with the bigger picture in mind. Experimenting will not harm most of them and it would provide a small opportunity for change.

Georgia does not need Brezhnev-type politicians. We simply do not have time to wait until aging small party leaders go into retirement. The widespread idea that the young cannot run a country is simply false. I have read several criticisms about the new Prime Minister, Mr. Bakhtadze (36) who is disliked by some social media activists because of his age and I am dead sure that most of these fellows still enjoy listening to members of the 27 Club. When it comes to determining an appropriate age for governing or managing things, I always mention one great fact: the average age of the Apollo space program scientists was 28. They solved unseen problems and landed 12 men on the Moon. Compared to these challenges, managing Georgia should not require an age limit of over 50.

Note: I would like to extend special appreciation to Ani Lortkipanidze who assisted with the analysis and 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

Ready to lead, but struggling to keep pace

Continued from p. 5

teed and many are overwhelmed by the sheer scale of change required to realize benefits of digitization," says Doug Gates, Global Chair of KPMG's Industrial Manufacturing practice. "Starting this journey is absolutely critical. Lay out a long-term strategy and roadmap. Start with steps that will achieve near-term value while laying the foundation for the new business opportunities that will come from interconnectivity and a broad access to data."

Machines will augment workers

The future for the manufacturing workforce is bright, with 66 percent agreeing that AI will create more jobs than it eliminates, and the same amount predicting that data scientists will be the most sought-after experts in manufacturing. And while predictive analytics are not prized, with 50 percent having low regard for their ability to predict trends, AI is seen by CEOs as having a strategic benefit rather than one of cost savings. And similarly to CEOs across industries, manufacturing CEOs believe intuition is a key growth driver. Says Gates, "the full benefits of digital transformation are unlikely to materialize unless the strategy encompasses the entire organization. It entails embracing new technologies in the back office, across shop floors and into the supply chains."

Cyber security is paramount - manufacturing industry primed for attack

Manufacturing CEOs believe cyber-attacks in the industry are a case of "when, not if." Cyber security worries are greater in manufacturing than other global industries, with only 50 percent feeling well prepared to identify new cyber threats, 14 percentage points fewer than CEOs in other industries. Says Gates, "as manufacturers increasingly rely on connectivity between systems and processes, and most importantly suppliers and partners, there are new areas of vulnerability to protect against. Readiness to respond to any cyber event should be forefront on CEOs minds as they implement new technologies."

Globalism offers both opportunities and threats

With 55 percent of CEOs agreeing that a return to territorialism is the greatest threat to business growth (ahead of cyber security and disruptive technology), it's clear that today's geopolitical uncertainties are seen to have a uniquely worrying effect on manufacturing compared to other sectors. However, CEOs also see emerging markets as a source of growth for the next three years, with Eastern Europe, Central America and Asia Pacific topping lists for possible expansion.

Price levels varied by almost one to three across the EU Member States

Continued from p. 4

els ranged from 60% or less of the EU average in Bulgaria (45%), Romania (53%) and the Czech Republic (60%) to 151% in Denmark and 146% in Sweden.

Smaller disparities for consumer electronics, personal transport equipment and clothes

Consumer electronics is a group of products where prices differed less among Member States, ranging from 86% of the average in Ireland to 110% in Denmark and France. Clothing is another group of products showing a smaller price disparity among Member States, with Bulgaria (80% of the average) cheapest and Sweden (134%) most expensive. With the noticeable exception of Denmark (144% of the average) and the Netherlands (121%), price differences among Member States were also limited for personal transport equipment, from 81% in Slovakia to 111% in Finland, Ireland and Portugal.

ISET ECONOMIC INDICATORS

International School of Economics at TSU

ELECTRICITY MARKET REVIEW

For more: WWW.ISET-PI.GE

The Georgian Electricity Distribution Market is becoming more concentrated

Continued from p. 2

By MARIAM CHACHAVA[1] and NORBERTO PIGNATTI[2]

ISET

In April 2018, Georgian power plants generated 1,064 mln KWh of electricity. This represents a 30% increase in total generation, compared to the previous year (in April 2017, total generation was 817.2 mln. kWh). On a monthly basis, generation increased by 7% (in March 2018, total generation was 997 mln. kWh). Consumption of electricity on the local market was 981 mln. KWh (+5% compared to April 2017, and -12% with respect to March 2018).

Total electricity consumption in Georgia came from **Energo-Pro Georgia** (49% - 485 mln. kWh), **Telasi** (24% - 237 mln. kWh), **Abkhazia** (15% - 149 mln. kWh), and **direct customers** (11% - 109 mln. kWh) (Figure 2). Annual demand from Energo-Pro Georgia increased by 16%, compared with 9% from Telasi and 1% from Abkhazia. Demand from direct consumers decreased by 14%.

Energo-Pro Georgia is the largest consumer of electricity. The share of electricity consumed by Energo-Pro Georgia has been increasing over the years (See Figure 3). In April 2018, it had the highest share in comparison to previous years (in the same month).

One of the main reasons for such a large increase in the share of electricity consumption coming from Energo-Pro Georgia is that in August 2017, Energo-Pro Georgia bought Kakheti Energy Distribution and became the only supplier of electricity in the regions. After this merger, Energo-Pro Georgia serves more than 1,200,000 consumers and its service area covers 58 846 sq.km which is about 85% of the total area of the country. To see how this merger affected the competitiveness of the electricity distribution market, we calculated the Hirschmann-Herfindahl (HHI) Market Concentration Index (see figure 4). The HHI is the sum of the squares of the percentages of market shares of distributor companies and measures how competitive the market is. HHI has a maximum value of 10,000, which means that a market is a perfect monopoly. Higher values for HHI implies that the market is more concentrated and less competitive. There are two main factors driving HHI: the number of participants on the market and how market shares are distributed. A low number of participants and unevenly distributed shares both contribute to an increase in the Index value.

According to the available data, since 2011, the Georgian electricity distribution market has consistently been highly concentrated.[3] This is not surprising, because between 2011 and 2017, there were only four distributor companies (plus direct consumers, who had 15-25% of market share), whose market shares were not evenly distributed (for example, Kakheti Energy Distribution had 2-3% of the market, while Telasi and Energo-Pro Georgia covered 25-40 % of the market in this period).

HHI significantly dropped from 2014 to 2015. One of the main reasons for such a big drop was the fluctuation in market shares (with market shares of larger operators shrinking and those of smaller operators increasing). Before 2014, Energo-Pro Georgia was consuming more than half of available electricity (51%-52%). During 2015-2017, Energo-Pro Georgia's share dropped to 47%-48%, while Telasi's share increased to 25%-26% (from 22-23%). After 2017, there was a significant increase in HHI, mainly because of the merger between Energo-Pro Georgia and Kakheti Energy.

Kakheti Energy Distribution's share was usually about 2-3%. Therefore, if consumption remained more or less the same, Energo-Pro Georgia's share would be currently around 44-45%, (still less than 49%). This implies that not only has the size of the company increased, but demand for electricity from the regions has also increased. Indeed, in April 2017, 417 mln KWh of electricity was supplied to Energo-Pro Georgia and Kakheti Energy Distribution, while in April 2018 (after merging these two electricity distribution companies), 484.5 mln KWh of electricity were supplied to Energo-Pro Georgia. One of the reasons, why electricity consumption has increased, may be the increased bitcoin mining4.

How can more concentrated markets affect the consumers?

Having monopolies on the electricity distribution market of the regions means that consumers do not have freedom of choice to decide which supplier to use. Therefore, suppliers have market power and can set higher prices than in competitive markets. However, the merger of these two distributor companies has not changed the situation for consumers living in the Kakheti region. Before August 2017, they still had only one supplier (Kakheti Energy Distribution) and they could not get electricity from other companies. As for prices, Georgian National Energy and Water Supply Regulatory Commission controls them, so that monopolists cannot get as much benefits from monopolistic power, as they could get in other (non-regulated) industries. This highlights how important is to have a competent and efficient Regulatory Authority in place.

With good regulation, consumers could even get benefits from the merger, if Energo-Pro Georgia generates efficiency savings or improvements in the quality of service greater than those that would have been experienced by smaller distribution companies and the regulators transferred part of the gains to consumers by setting lower tariffs.

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

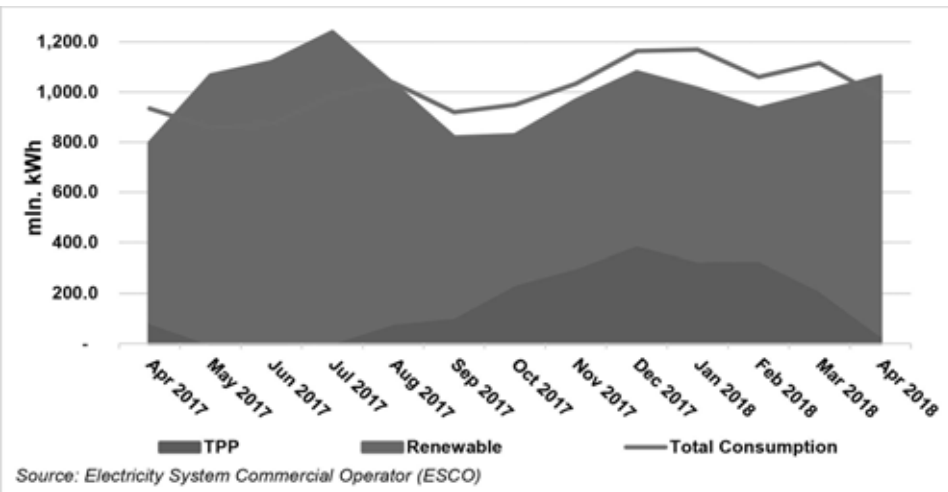


Figure 2. Electricity Consumption by Type of Customer (mln. kWh)

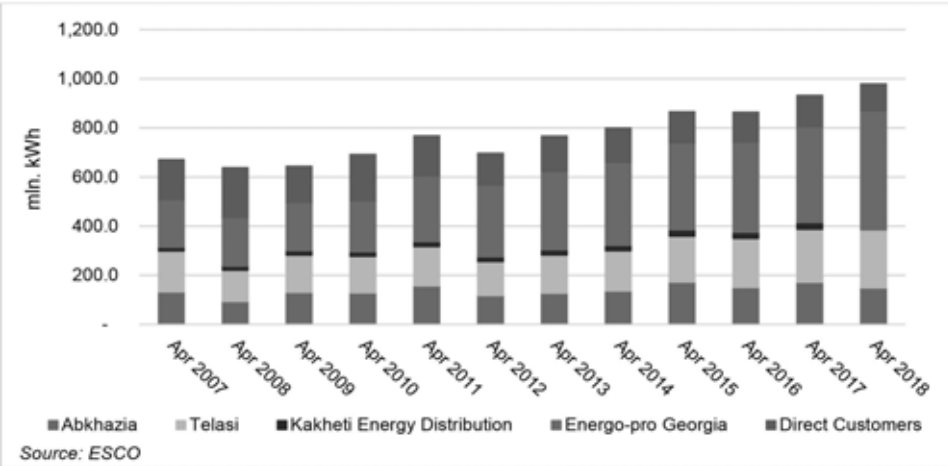


Figure 3. Share of Electricity Consumed by Energo-Pro Georgia

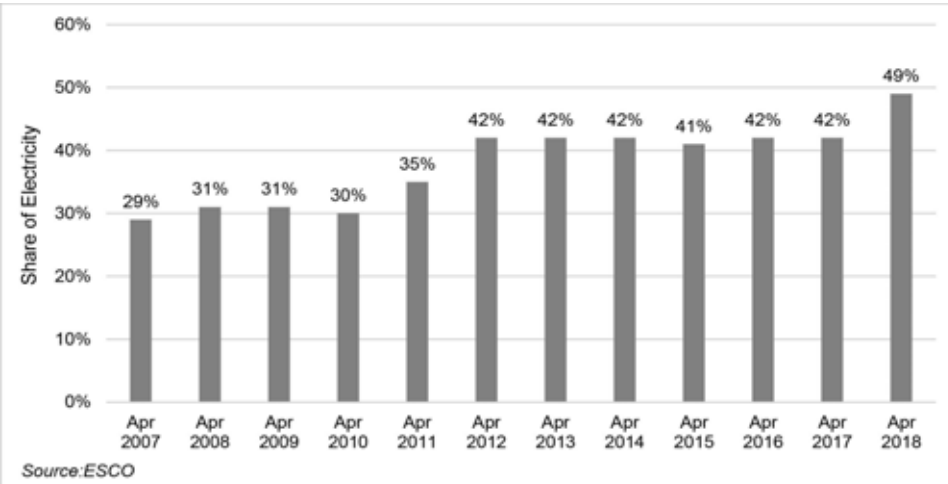
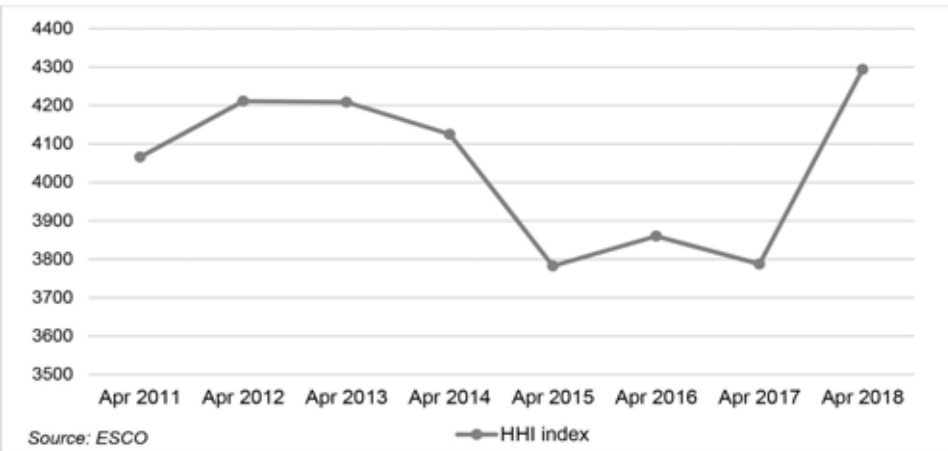


Figure 4. Hirschman-Herfindahl Index for Electricity Distribution



1. Junior Researcher, EEPRC - ISET PI.

2. Professor, ISET and ISET PI.

3. The US Department of Justice considers an HHI of 2,500 or above to be highly concentrated and an HHI of 1,500–2,500 to be moderately concentrated

4. According to World Bank data, 5% of Georgian households are involved in the bitcoin mining process.

VRium - The Crafters of Virtual Rality

All started with a dream of four Georgian friends (Irakli Kokrashvili, Mikheil Chkhartishvili, Gabriel Meliva & George Dalakishvili) to create something unbelievable. There was huge challenges for them, they wanted to create something unique and give people a great experience: To inspire people's Imagination; By crafting virtual reality; By bursting the reality; By changing people's perspectives to change their point of view.

Their playground differs from competitors. Four key elements makes their product A quality: Spatial perception; Original visual; Original sound effects; Unique gameplay.

The tech team has 10+ years experience of working in the gaming sector. The lead developer Irakli Kokrashvili has been working in the gaming industry for 15 years heading creation of the award-winning products. The project led by him was as a runner-up of the 3D Jam by Leap Motion. His team designed one of the most popular Georgian steam VR games VRZ: torment. Collaboration with a well-known game designer Mark Rein-Hagen brought more successful projects including creation of a large number of mobile games.

Interview with the Team:




Our team is created by the people passionate about technology and gaming. We believe in the power of the team work where each member is ready to walk the extra mile. We are sure that VR gives us an opportunity to more efficiently and sustainably change public perception.

VRium creates a fully immersive experience by combining physical and digital worlds. We are established in the VR gaming and produce hardware and software which together build a completely new dimension. VR experience allows audience members to feel like they are actually in another place and as if they have become another person. It is a 360 degree view of a new world - our first Hyper reality game "GENESIS" has recently been launched in Tbilisi Mall, at "VR House" territory.

We work hard to inspire, create, and explore, introducing amazing possibilities of the VR technology. We are sure VR will fundamentally change the entertainment world. The VR technology is considered as one of the cutting-edge technologies holding endless possibilities in all fields of life and especially in the entertainment industry. We are at the forefront of the VR game development.

The market for the VR software and hardware has been steadily evolving: the research shows the growth from US3.7 billion in 2016 to 12.1 billion in 2018 with the prediction of growing up to 40.4 billion by 2020*. As one of the fastest growing industries, the VR technology is in the spotlight with a potential of becoming the leading tech industries in the coming years. VRium has entered the market with a strong product which is constantly developing.

Currently our company is on Seed capital stage and we are actively working on finding new experienced investors in VR field from all over the world. The technology we create is world standard and is improving permanently.

For more information please visit our web page: www.vrium.zone

Happy workers more likely to volunteer in their free time

The FINANCIAL -- Employees who are satisfied with their jobs are more likely to volunteer in the community than those who are unhappy at work, a new study from Middlesex University London and the London School of Economics and Political Science has found.

The study, published in the British Journal of Industrial Relations, tracks changes in job satisfaction over time for over 12,000 British employees and shows that as job satisfaction increases employees are more likely to volunteer in their free time and to volunteer more often. Likewise, when job satisfaction decreases, employees are more likely to retreat from volunteering, according to LSE.

The researchers measured job satisfaction on a scale of one to seven and found the chance of an employee volunteering increased by 6.5 per cent with every increase of satisfaction on the scale.

The study also finds that commuting time has a detrimental effect on volunteering. The findings show that those who commute for 50 minutes are 9 per cent less likely to volunteer than those who commute for 20 minutes.

The researchers suggest this could be due to employees seeing increased commuting time as stress-inducing and disruptive to the pattern of their day. Moreover, as long commuting means less time spent in the community, employees with long journeys to work may become less attached to their local area, according to LSE.

At a time when many companies aim to fulfil broader social goals through volunteering programmes for their workers, the findings of this study suggest that paying more attention to the job satisfaction of their employees could also significantly increase their social impact.

Commenting on the role of companies, Dr Daniela Lup from Middlesex University London said: "The finding that job satisfaction affects employees' volunteering should trigger a more serious investigation into the quality of work experiences provided by companies. Unless companies pay closer attention to job quality, their claims of citizenship behavior via volunteering could likely be challenged."

As the state is becoming less involved in the delivery of public services and is looking to boost individuals' engagement in their communities, the finding that commuting is detrimental to volunteering suggests that local volunteering initiatives could be enriched if the realities of work life are considered.

FactCheck

GRASS FACTCHECK

Kakha Okriashvili:

THE MP, A FOUNDER OF THE PHARMACEUTICAL COMPANY PSP

"Of every 1,000 persons in Georgia, 700 of them have a bank loan whilst 30% of the total salaries in the country is spent on paying interest rates alone."

Levan TEVDORADZE
FactChek

VERDICT:

Kakha Okriashvili's statement is **FALSE**.

RESUME:

Figures in Kakha Okriashvili's statement are mostly factually accurate although the data are wrongly interpreted. Specifically, the World Bank's information, which Kakha Okriashvili uses in the first part of his statement, has limitations related to content and technical characteristics. The World Bank calculates the number of individual loan agreements concluded with commercial banks per 1,000 adults and not the number of debtors. Therefore, the aforementioned indicator cannot adequately show the number of debtors. In addition, the World Bank's data do not include the aforementioned indicator for each country. The list incorporates only 70 countries. Georgia is ranked 3rd (after Singapore and Turkey) in the list and not in the world as claimed by the MP.

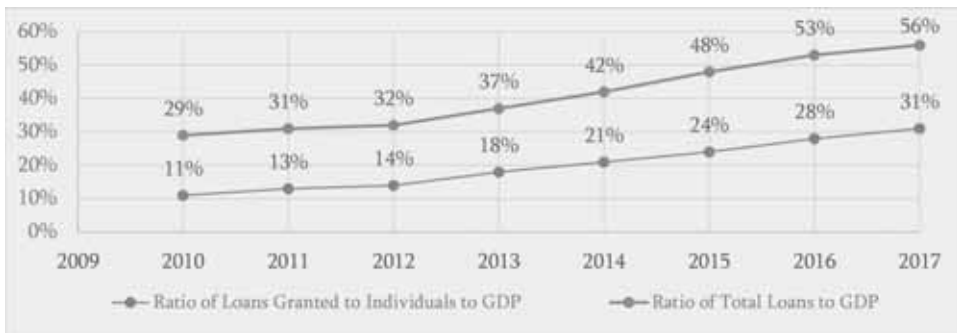
In the second part of his statement, Kakha Okriashvili used the ratio of bank interest income to total salary to highlight the financial burden owed to commercial banks. The use of this indicator to emphasise a financial burden is inappropriate. The estimated amount of salary in the indicator does not equal the total income of a country's population but, in fact, is less. In addition, the indicator shows the labour remuneration of all employed individuals and not only those in debt. On the other hand, the total amount of funds spent on interest rate service includes the obligations of legal entities as well as individuals. At the same time, the total income from interest rate service which banks receive from individuals is 14.3% of the total labour remuneration instead of 30% as claimed by the MP. The aforementioned indicator shows the obligations to commercial banks alone and does not include obligations to every financial institution. However, the MP only emphasised the obligations toward commercial banks in his statement.

ANALYSIS:

Georgian Dream member, Kakha Okriashvili, in his speech before the Parliament of Georgia, stated that of every 1,000 persons in Georgia, 700 of them have bank loans and Georgia ranks second in the world in accordance with the over indebtedness index. The MP added that nearly 30% of the population's total annual income is spent on servicing bank interest rate payments.

The World Bank publishes data of debtors in different countries per 1,000 adults. In the first part of his statement, Kakha Okriashvili speaks about this indicator. In accordance with the World Bank's information, of every 1,000 persons in Georgia, 724 individuals had commercial bank loans in 2016 (updated data are not available) which is highest figure throughout the accounting period. This indicator showed a constant growth in 2010-2014. In 2015, the figure decreased to 685 persons in contrast to the previous year. The figure increased again in 2016.

Graph 1: Ratio of Total Commercial Bank Loans Issued to Households and Georgian Residents to GDP



Source: National Bank of Georgia

Of note is that, The World Bank calculates this indicator by the number of loan agreements concluded by citizens. Therefore, the figure reflects the number of bank loan agreements per 1,000 individuals and not the actual number of debtors. Hence, the number of commercial bank debtors per 1,000 persons is lower as compared to what the figure shows. In the World Bank's data, Georgia is ranked 3rd after Singapore (1,233) and Turkey (804) in terms of the number of debtors to commercial banks. Of note is that the World Bank uses the data of only 70 countries for this indicator. Therefore, a discussion on Georgia's position in the world ranking based on this aforementioned indicator is irrelevant.

In addition, the growth of bank loan consumer numbers does not necessarily mean that this is a negative trend. Increased access to financial resources is a part of a healthy economic process. It is of paramount importance that a debtor pays his dues.

In the second part of his statement, Kakha Okriashvili spoke about the ratio of interest rate service expenditures to the population's total annual income. In accordance with the NBG's information, the total interest income of commercial banks was GEL 2.76 billion at the end of 2017 whilst other incomes associated with debt service (commissions, penalties, etc.) increased that figure to GEL 3.13 billion. Of note is that the aforementioned figure constitutes a sum and includes funds from legal entities as well whilst interest income from individuals amounts to GEL 1.58 billion.

The total income which the politician emphasised in his speech is the amount of labour remuneration generated in Georgia in a specific year. In accordance with the information of the National Statistics Office of Georgia, this figure was GEL 11.03 billion in 2017. The ratio of bank interest income to total income was 25% last year and 28.4% if also including the non-interest income. Despite this, the given ratio does not appropriately describe the volume and burden of interest income. On the one hand, the total income of a population is higher as compared to labour remuneration only. On the other hand, the aforementioned figure shows the total labour remuneration of all employed people in Georgia and not exclusively the salaries of those people who have debts to financial institutions. At the same time, the total interest income includes the obligations of legal entities as well whilst interest income from individuals alone (GEL 1.58 billion) is only 14.3% of the total annual labour remuneration. Of note is that these figures only include obligations to commercial banks and do not include obligations to other financial institutions. Therefore, they show the population's obligations in a reduced form, although Kakha Okriashvili's statement made emphasis on the debts of citizens to commercial banks.

In general, whilst speaking about the existence of over-indebtedness, there is no internationally recognised definition or universal formula for its measurement. One of the criteria of over-indebtedness could be the ratio of domestic household loans to the GDP as well as the amount of overdue loans. In accordance with the National Bank of Georgia's data, the total amount of loans issued for Georgia's residents (both legal entities and physical persons) by commercial banks amounted to GEL 21.4 billion in 2017. Of that amount, GEL 11.8 billion was issued to individuals.

Together with the amount of loans issued for individuals, the ratio of loans to the GDP showed a constant growth in the period of 2011-2017. In 2017, the ratio of commercial bank loans for individuals to the GDP was 31% of the then GDP. This figure is lower as compared to Georgia's neighbour countries. The ratio of domestic household debt to the GDP is within the margins of 15%-16% in Armenia and Russia whilst it is 17.5% in the case of Turkey. The general tendency indicates that the ratio is much higher in developed countries and lower in less developed economies.

In regard to the volume of overdue loans, the total amount of overdue loans in Georgia was GEL 378 million as of April 2018 and constituted 1.65% of the total amount of loans. In light of the absolute growth of overdue loans in the last years(which is natural considering the increased amount of issued loans), its share in the total amount of loans is characterised by a sharp tendency of decrease.

SES increases its reach in Georgia to 562 000 TV homes

SES Reaches 351 Million TV Homes Worldwide

The FINANCIAL

The number of video households served by SES has continued to increase, reaching 351 million TV homes in 2017 according to SES's annual market research, Satellite Monitor. This substantial technical reach, compared with 325 million households in 2016, means that SES is now delivering video content to more than 1 billion global viewers.

Out of the 351 million TV homes, SES directly reaches 145 million, and indirectly serves another 147 million cable homes, 40 million IPTV homes, and 18 million terrestrial homes.

The Satellite Monitor study, conducted for the first time in Georgia in 2015 and providing insights into the Georgian TV market, reveals that SES has increased its reach to 562 000 TV homes in the country, which includes direct reach (DTH), and indirect reach (cable and IPTV). This represents 24% growth compared to last year. SES provides services to approximately 132 000 homes that are subscribed to the MagtiSat TV offers, up from 124 000 homes last year. In addition, the study shows that SES serves 34% of satellite HDTV homes in Georgia.

The SES Satellite Monitor YE2017 results show that satellite is by far the leading TV reception mode in Georgia, reaching 44% of TV homes directly, or over 480 000 DTH homes. This compares with 15%, 16% and 25% for cable, terrestrial and IPTV reception modes respectively.

After the digital switchover which took place in June 2015, analogue TV signals have been rapidly replaced by digital. The survey shows that only 12 000 Georgian TV homes remain with analogue cable TV reception mode, compared to 50 000 homes last year.

The results of the study also indicate a growing uptake of HD and UHD, as 48% of homes own an HD or UHD TV set in YE2017, which compares to 38% in YE2016.

The Satellite Monitor shows that Europe continues to be a strong and resilient market where satellite broadcasting is a highly attractive platform for reliable and cost-effective video delivery to large audiences. SES now reaches 167 million TV homes in Europe, up from 156 million in 2016. This growth is mainly driven by the addition of Turkey and in the Maghreb countries, which together represent an increase of 10 million TV homes. Technical reach across the core markets in Europe was stable.

The study also shows the key role of SES in delivering HD content: today, SES delivers HD content to 107 million homes, which represents two thirds of all European TV homes enjoying HD. As the leading HD platform, SES carries 2,602 HD channels worldwide, out of 7,709 channels in total. In Europe, SES delivers 2,670 TV channels, including 798 in HD.

"With its high percentage of TV homes (97.4%), Georgia is an important developing market for us. We believe that satellite is an optimal TV reception mode in the country with its numerous remote areas. The Satellite Monitor results demonstrate once again that satellite is the central pillar of the Georgian digital broadcasting infrastructure," said Håkan Sjödin, Vice President, Sales Nordic, Baltic and Eastern Europe at SES.

Financing Model of Georgian Higher Education System and its Unintended Implications

By GIORGI KHISHTOVANI, Director at PMC Research and MARIAM SAGHAREISHVILI Researcher AT PMC RESEARCH

The higher education system in Georgia faces many challenges. One of them is the current composition of its financing sources. The financing of higher education institutions is highly concentrated and heavily depends on students' fees. For instance, 72% of the revenue of Ivane Javakhishvili Tbilisi State University is generated from tuition fees, while for Ilia State University this is 75%.

The situation is further complicated by current regulations regarding tuition fees in state universities which are generally set at 2250 Lari (equal to the amount of the state grant for bachelor's and master's programs). Essentially, state universities have no control over their pricing policy while private universities, in order to maintain competitiveness, are frequently compelled to reduce the tuition fee and/or fix it close to 2250 Lari.

This model of financing is neither efficient nor sustainable, because universities are unintentionally prioritizing the quantity of students ahead of the quality of learning. In particular, this model of financing incentivizes universities to:

Increase the number of students admitted to bachelor's programs.

Increase the number of students admitted to master's programs.

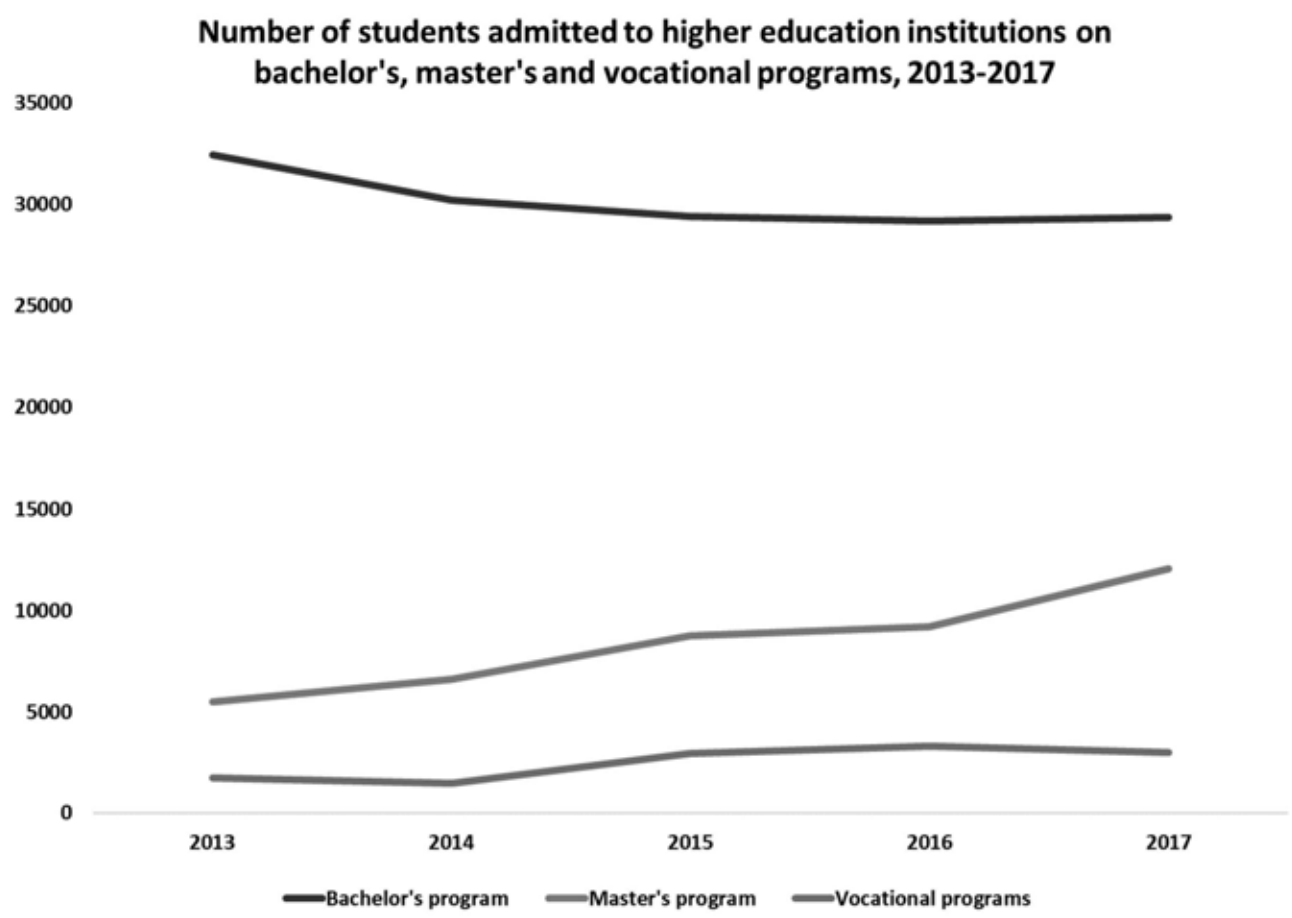
Accelerate the introduction of study programs in the English language to increase the number of foreign students (in accordance with state regulation, state universities can charge higher tuition fees for foreign students compared to Georgian students).

Increase the number of students in higher vocational education programs.

Each of these have unintended and interconnected implications on the entire education system.

Universities' desire to increase the number of students is reflected in statistics, where supply of the number of study places massively exceeds demand. Despite this the data analysis (graph 1) shows that the number of students admitted to bachelor's degrees has been declining since 2013. This can be explained by demographic changes, difficult national entrance exams, decreased quality of learning at school level, all of which contribute to an increased number of students failing to attain a passing score in the school graduate and unified national exams. Therefore, pressure is mounting on general education and unified national exam institutes to simplify pupils' access to bachelor's degrees. Notably, in 2018, the unified national exams will be, in the view of many experts, simplified to allow more pupils to pass the exams.

Graph 1: Number of students admitted to higher education institutions on bachelor's, master's and vocational programs, 2013-2017.



Due to the challenges in admitting more students at bachelor's level, the number of students admitted to master's degrees has been increasing since 2013 (annual 22% increase on average in the last five years). In this case, students are also ready to study on relatively low-quality master's programs due to formal labor market requirements and inadequate regulation of the military service institute in Georgia.

In general, the increasing number of foreign students is a positive development. For several years, the number of foreign students has been increasing every year. For instance, in 2017, compared to 2016, the number of foreign students increased by 25%. This is mainly attributable to the increased number of students in health and welfare programs. However, for all other study programs there was a 1% decline in 2017, compared to 2016. The lack of competitiveness of the programs other than health and welfare can be explained by the fact that some universities are not ready to prepare study programs of a high quality in a foreign language (due to insufficient infrastructure and preparation of academic staff), launch them hastily, which puts the long-term reputation of the Georgian education system at risk. Moreover, by using the limited resources of academic staff on mainly English-language programs might lead the quality of Georgian programs to deteriorate.

In the last several years, the number of students admitted to vocational programs of higher education institutions has been fluctuating. This figure declined in 2014 (1495), compared to 2013; then increased in 2015-2016 (respectively, 2945 and 3326) but declined again in 2017 (2992), compared to 2016. Here, higher education institutions compete with vocational education institutions and prevent keep them from developing. Notably, the number of students in vocational education institutions has declined annually by 10% on average since 2013.

To sum up, if this model of financing of higher education institutions continues:

This could lead to simplified admission process at bachelor's level, resulting in the less prepared freshmen and thus deteriorated quality of education at this educational level;

The tendency of declining tuition fees could also force universities to deteriorate the quality of the education they provide. Therefore, some universities might gain an advantage over competitors by offering easily attainable degrees in programs where the quality of education is low.

This could lead to a double skills mismatch on the labor market. On one hand, the problem of formal over-qualification could prevail (if there is a saturation of graduates with master's degrees) and on the other hand, universities could not be capable of providing master's programs of an international standard.

This could lead to uncompetitive study programs in a foreign language resulting in a reduced number of foreign students in the medium term. In addition, the quality of Georgian programs could decline as more resources are allocated to English-language programs.

This could lead to increased competition between vocational programs of higher education institutions and vocational education institutions, which might hinder the development of the latter.

We propose the following solutions to the current situation:

Liberalize the tuition fee system. If state universities can charge market prices for their study programs, pricing policy can become an instrument of generating more revenue for higher education institutions.

Increase the financial amount of state grants. In this case, universities will be even more encouraged to attract best students and therefore put more emphasize on quality of education (if state is not ready to increase total assignments on this program, this can happen by decreasing the number of beneficiaries).

Strengthen the state program "Study in Georgia", giving active support to universities by improving study programs in a foreign language in order to increase the competitiveness of the Georgian education system, elaborating a financing scheme for foreign students (including scholarships, dormitories, benefits, etc.), simplifying the visa policy for foreign students, and using other active policy instruments.

Support higher education institutions in strengthening Bachelor's Short Cycle Education Programs and introducing Associate Degree Institute in order to provide such institutions with an alternative source of income.

CEOs choice – transform now, or be left behind

The FINANCIAL -- While more than 65 percent of CEOs agree their organization fosters a culture of innovation and disruption, 40 percent are not adapting successfully, according to the Global Consumer Executive Top of Mind survey, No Normal is the New Normal: Make disruption work for your business, conducted by KPMG International and The Consumer Goods Forum. The results of the sixth annual survey reveal a consumer industry at the point of radical change and that CEOs need to make changes on a similar scale to stay competitive.

"Consumer and retail market, these days, is beyond disruption - we are disrupted - and CEOs need to listen to the market, look outward and focus on changing their business," said Willy Kruh, KPMG Global Chair, Consumer & Retail. "It's an increasingly difficult tightrope to walk between dealing with both internal and external continuous disruption, but both are key to creating customer centric organizations. Those companies that cannot authentically connect to customers will get left behind."

Survey results are being released today in conjunction with the annual CGF Global Summit taking place in Singapore from 12 - 15 June 2018, KPMG.

The survey results suggest that in 2 short years, by 2020, the industry landscape could look very different:

New business models: CEOs agree the historical and current business models will not survive continuous disruption.

Fewer physical stores: North American respondents felt this change most keenly, with 37 percent agreeing that they will close stores in the next 2 years.

Increased sales through owned channels: In order to increase speed and efficiency, CEOs agree they will need to sell more product through their own distribution channels. This sentiment was shared equally by North American, European and Latin American respondents, according to KPMG.

"One of the business model transformations we're seeing is putting social purpose at the forefront of strategy," says Peter Freedman, Managing Director, The Consumer Goods Forum. "Consumers, especially the millennials responsible for USD 2.75trn of consumer spending, want to know what a company stands for. Financial returns are no longer enough and consumers are choosing to put their money where there are environmental, social and community benefits."

Looking to the leaders

How will CEOs prioritize changes to stay competitive? Leading digital organizations offer a blueprint for growth:

Prioritize operating efficiency: 76 percent of digital leaders agreed this was a focus for the next 2 years ahead of governance and control, people and culture, revenue growth and business transformation.

Create disruption: 88 percent of digital leaders agree that they lead their industry in disruption rather than watch it happen.

High risk tolerance: Only 17 percent of digital leaders believe innovation is being held back by an aversion to risk.

Double down on customer engagement: Nearly 80 percent of digital leaders will prioritize the customer in order to grow revenue.

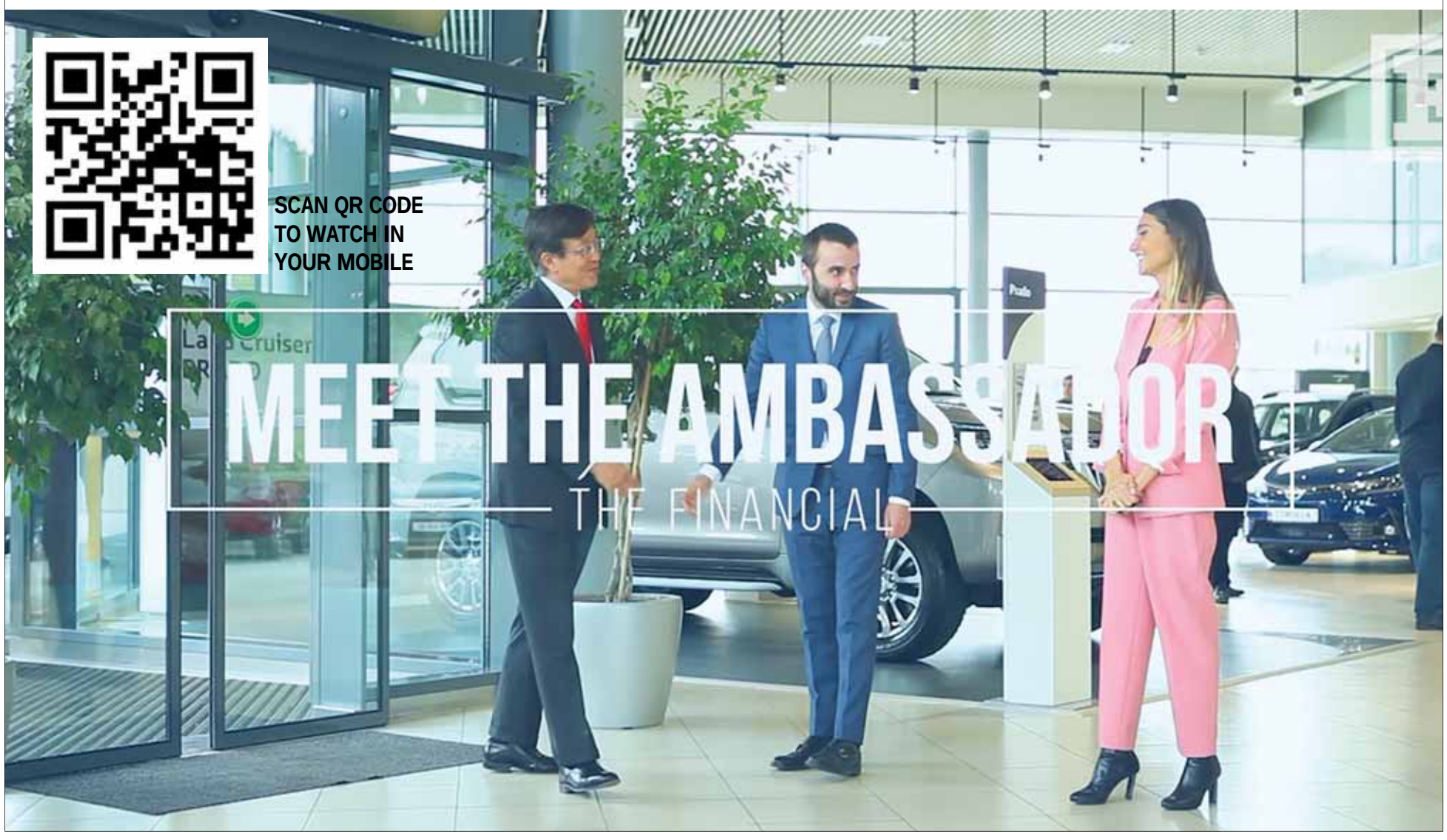
The need for radical transformation is not unique to the consumer and retail industry, as evidenced by KPMG's recent CEO Outlook which found that 71 percent of CEOs are prepared to lead their organization through a radical transformation of its operating model.

"The recent KPMG CEO Outlook survey shows that 60-70 percent of CEOs believe the next 2 to 3 years are going to be more transformational than the last 50," adds Kruh. "We are in the midst of three revolutions - geographic and geopolitical, demographic and technological - that are colliding with each other and turning the world upside down. And companies throughout the world are faced with a landscape that they're not used to."

Freedman added, "To succeed in a world of such intense disruption the survey also suggests we need to think about collaboration in new ways. That's epitomized by the growth of platform companies of course. But in many other ways what used to be a competitive battleground may now provide scope for collaboration and companies that used to be your competitors may now be your potential partners."

financial news

MR. TADAHARU UEHARA, AMBASSADOR OF JAPAN TO GEORGIA TALKED TO THE FINANCIAL AT TOYOTA CENTER TEGETA ABOUT GEORGIA, JAPAN TECHNOLOGIES AND POTENTIALS FOR FUTURE COOPERATION. IN SECOND PART OF THE VIDEO, IRAKLI PAPIASHVILI, DIRECTOR OF TOYOTA CENTER TEGETA EXPLAINED POPULARITY OF JAPAN BRAND TOYOTA AND INTRODUCED NEW CAR BY TOYOTA.



Fitch Affirms JSC Silknet's At 'B+'; off Watch Positive; Outlook Stable

Fitch Ratings-Moscow-22 June 2018: Fitch Ratings has affirmed Georgian-based telecoms company JSC Silknet's Long-Term Issuer Default Rating (IDR) at 'B+' and removed it from Rating Watch Positive following the acquisition of Geocell, Georgia's second-largest mobile operator. The Outlook is Stable.

The affirmation is driven by a significant rise in leverage and FX risks, with the acquisition financing package and available refinancing options likely leading to a majority of total debt being denominated in foreign currency. Silknet's strategy suggests that the company may pursue further diversification including into financial services, which may require additional investments and delay deleveraging.

Silknet is the incumbent fixed-line telecoms operator in Georgia with an extensive backbone and last-mile infrastructure across the country. The company holds sustainably strong market shares of above 35% in fixed-voice, broadband services and pay-TV services by revenue. The acquisition of Geocell in 2018 has turned the company into a full bundle-enabled operator. Silknet's small absolute size is a strategic weakness; it services fewer than 350,000 fixed lines and we expect it to generate an equivalent of approximately USD70 million of EBITDA in 2018, pro-forma for the Geocell acquisition.

Key Rating Drivers

Stronger Operating Profile: The acquisition of the second-largest mobile operator in Georgia has a strong strategic rationale, enabling Silknet to start offering bundled fixed and mobile services and improving its competitive standing versus its key domestic rival Magticom, which is also fully four-play-enabled.

Competitiveness to Improve: We expect Silknet to maintain and gradually improve its competitive position after becoming four-play-enabled (ie offering fixed voice, broadband, pay-TV and mobile services), and on the back of significant network investments already consummated in 2015-2017 and expected in 2018-2019.

Market Share Pressures: Siknet's broadband and pay-TV market shares have been under significant pressure throughout 2017 and 1Q18 as Magticom has actively promoted bundling services to win customers. As a result, Silknet ceded its revenue market share leadership to Magticom in both segments. Silknet's broadband retail revenue market share declined to 37% in 1Q18 from 40% in 2016, and the company's pay-TV market share was estimated at 38% in 1Q18, down from 39% in 2016, according to data by GNCC, the national telecoms regulator.

Intense Competition: An acute rise in price competition, driven by aggressive promotions by Magticom and Silknet's retaliatory price cuts in 2H17, is likely to pressure Silknet's revenue and be a significant drag on margins at least in 2018. While the promotional activity has seemingly abated so far into 2018 with operators keen to increase their tariffs, longer-term market stability is not guaranteed. A recent spike in promotional campaigns suggests that bundling competition may intensify, resulting in significant negative financial impact. According to GNCC, Silknet's broadband revenue fell 4.7% yoy in 1Q18.

Execution Risks in Bundling Strategy: Silknet's strategy of offering bundling services after the mobile acquisition entails significant execution risks, in our view. Aggressive marketing moves are likely to trigger competitive reaction, as evidenced by pricing pressures in 2H17 and Magticom's readiness to exploit the company's bundling capabilities. Nevertheless, Silknet is now better-positioned than smaller competitors without bundled services. Also, lower churn, typically associated with bundled offers, may lead to subscriber acquisition and retention savings.

Substantial Merger Synergies: We believe the acquisition will allow Silknet to achieve significant operating and revenue synergies. The networks of the two merging operators are likely to be, to a large degree, complimentary. The extensive broadband network of Silknet would allow it to more efficiently carry rapidly growing data traffic generated in Geocell's 4G network that is currently in a roll-out phase. Cost synergies are likely to be easily achieved while revenue synergies would depend on the market adoption of bundled services and competitors' moves.

Higher FX Risk: The acquisition financing debt package increased the share of FX debt to in Silknet's total debt to above 70%, leading to higher FX risk as most of the company's revenue is in local currency. Available refinancing options are unlikely to reduce FX exposure, in our view. Fitch has reflected the higher FX risk in tighter downgrade leverage triggers for Silknet.

Financial Services Diversification Plan: The company's diversification strategy suggests that Silknet may expand into financial services to seek synergies with its telecoms operations. While financial services/telecoms integration may take various forms providing longer-term strategic flexibility, immediate benefits are not obvious. For example, acquiring a weak bank may dilute Silknet's credit profile, exposing it to risks not typical of the telecoms industry.

Capex Pressures Cash Flow: We project that ongoing large capex to modernise both mobile and fixed-line infrastructure will pressure free cash flow (FCF) generation in 2018-2019. Silknet continues to actively invest in fibre infrastructure to mass-migrate its remaining ADSL customers and to catch up with peers in terms of 4G coverage. Cash flow generation is likely to improve after the company completes network upgrades in the medium-term. We estimate that FCF margin may reach double digits provided the company maintains its high profitability and keep capex at below 20% of revenue.

Leverage Spikes on Acquisition: We expect Silknet's funds from operations (FFO) adjusted net leverage to spike to 3.3x at end-2018, driven by the Geocell acquisition including significant one-off costs. Leverage is likely to ease back to around 3.0x by end-2019 on the back of acquisition synergies leading to stronger EBITDA and FFO. We estimate that the company's deleveraging capacity will improve after 2019, supported by stronger FCF generation.

Dominant Shareholder Influence: The company's 100% shareholder Silk Road Group can exercise significant influence on the company and has access to Silknet's cash flows as was demonstrated by Silknet bypassing formal restrictions on dividends when it guaranteed GEL35 million of its shareholder's loan in 2016. We treat this guarantee as off-balance sheet debt, and include it in all leverage calculations. Silknet's governance is commensurate with the 'B'-range rating category. Silk Road Group does not publicly disclose its financial results.

Derivation Summary

Silknet benefits from its established customer franchise and the wide network of a telecoms incumbent combined with a growing mobile business similar to its higher-rated emerging markets peers such as Kazakhtelecom JSC (BB+/Stable) and PJSC Tattelecom (BB/Stable). However, Silknet is smaller in size with revenue of less than EUR150 million and faces significantly higher FX risks. Its corporate governance is shaped by dominant shareholder influence.

Key Assumptions

Fitch's key assumptions within the rating case for Silknet include:

- Significant reduction of interconnect revenue proportional to the regulator-announced interconnect rate cuts pressuring headline revenue growth in both fixed-line and mobile segments;
- Broadband revenue growth in high-to-mid single digits, pay-TV revenue growth in the double digits in 2018-2020, gradually declining to high-single digits afterwards;
- High-to-mid single digit mobile revenue growth excluding interconnect;
- Substantial integration synergies following the acquisition of Geocell leading to absolute EBITDA increase and margin improvement in 2018 and 2019;
- Regular dividends in line with the historical pay-outs;
- High capex of above 25% of revenue in both 2018 and 2019, declining to slightly below 20% thereafter.

Rating Senstivities

Positive: Future developments that may, individually or collectively, lead to positive rating action include:

-Improved market positions, stronger FCF generation post-Geocell acquisition, alongside comfortable liquidity and a track record of improved corporate governance, and

-FFO adjusted net leverage sustainably below 2.5x in the presence of significant FX risks.

Negative: Future developments that may, individually or collectively, lead to negative rating action include:

-FFO-adjusted net leverage rising above 3x on a sustained basis without a clear path for deleveraging in the presence of significant FX risks, and

-A rise in corporate governance risks due to, among other things, related-party transactions or upstreaming excessive distributions to shareholders.

Lioidity

Liquidity Reliant on Bank: Silknet heavily relies on TBC Bank (BB-/Stable), its largest creditor and key relationship bank, for refinancing and liquidity support. Liquidity may improve after the company refinances its debt acquisition facilities.

Contact:
Principal Analyst
Irina Andrievskaia
Associate Director
+44 20 3530 1715
Supervisory Analyst
Nikolai Lukashevich, CFA
Senior Director
+7 495 956 9968
Fitch Ratings CIS Ltd
26 Valovaya Street
Moscow 115054
Committee Chairperson
Damien Chew, CFA
Senior Director
+44 20 3530 1424
Media Relations: Julia Belskaya von Tell, Moscow, Tel: +7 495 956 9908, Email: julia.belskayavontell@fitchratings.com

Summary of Financial Statement Adjustments - - Amortisation of content rights is treated as a cash-like operating expense

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria Corporate Rating Criteria (pub. 23 Mar 2018) Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018) Country-Specific Treatment of Recovery Ratings Criteria (pub. 16 Apr 2018)

Additional Disclosures Dodd-Frank Rating Information Disclosure Form Solicitation Status Endorsement Policy

Continued on p. 17

"If women earned as much as men, they would add an additional $160 trillion in human capital worldwide"

Outcome-Based Managers Focus on People and the Finish Line

The FINANCIAL -- Outcome-based cultures let leadership define the end goals and then leave it to individual contributors and their managers to determine processes. This approach allows OBCs to be extraordinarily efficient and adptable, which is the objective, Gallup research shows. However, even if they aren't involved in day-to-day operations, leaders still need to pay close attention to selecting the right workers and then driving their performance through engagement.

When leaders do this, it also enables managers to lean on talent and stay out of the procedural weeds. But this approach doesn't necessarily lighten their managerial load. Perhaps counterintuitively, OBC managers may have a more sprawling role than command-and-control managers do, according to Gallup.

As well as handling the usual administrative tasks, OBC managers have to know their people as people -- and sometimes better than their people know themselves. This includes understanding the interplay of natural tendencies, strengths and weaknesses within the work environment.

Properly equipped with that knowledge, OBC managers can coach each individual's performance to focus on outcomes that align with the organization's strategy and purpose, according to Gallup.

In other words, an OBC manager is an outcome-focused coach who will intentionally catalyze strengths to push performance. Every day. With every worker.

And love doing it.

The Traits of Great Managers

Gallup has studied thousands of managers in hundreds of industries worldwide. The best managers -- in OBCs or not -- all share certain traits:

They enjoy learning their team members' strengths.

They purposefully discover what motivates each person.

They match talent to task.

They trust workers to do their best.

They get out of their workers' way.

To do any of that, a manager must know the employee's abilities. That's what CliftonStrengths is all about. If we add knowledge and skills and build on our greatest talents -- our natural patterns of thought, feeling and behavior -- we can grow those talents into strengths.

Gallup categorizes talents into 34 themes, and the CliftonStrengths assessment identifies the intensity of these themes in each person. With that in hand, OBC managers have a cheat sheet they can use to understand their people, better position them and coach their performance along the path to the defined outcome.

Utter Devotion to the Outcome

OBC managers don't believe controlling people is the best solution, so they don't try. Instead, they have bone-deep confidence that talented people will arrive at the desired outcome with the right help.

Managers who lack that confidence will never be comfortable in an OBC, and they won't resist micromanaging when they should be coaching.

Quality coaching requires the ability to genuinely care about people. That doesn't necessarily mean an OBC manager must develop lifelong friendships with workers. But it does mean OBC managers need to have a holistic view of their employees and allow employees to get to know their manager as a person.

This builds trust -- necessary for an OBC manager's minimal-meddling approach -- but it also gives managers a clearer perspective of people's capabilities.

OBC managers build and use trusting, emotionally genuine relationships in service of the outcome. Not friendship. OBC managers often care deeply for their people and know them well, but they won't hesitate to remove someone if it appears he or she can't perform. The OBC manager's job is to build and sustain a team that can create an outcome. Relationships are the path to that.

The ability to catalyze talents and drive them to productivity and profitability is remarkable. Leaders in OBCs need to seek this skill in the managers they hire.

Fitch Affirms JSC Silknet's At 'B+'; off Watch Positive; Outlook Stable

Continued from p. 15

OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

 In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers. For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001 Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

publicity

Weekly Market Watch

GALT & TAGGART
CREATING OPPORTUNITIES

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

ECONOMY

Real GDP growth revised up to 5.3% in 1Q18

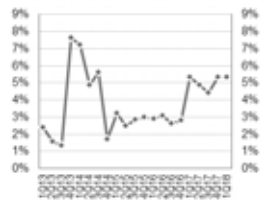
Economic growth in Georgia was 5.3% in 1Q18, revised up from 5.2% rapid estimate figure according to GeoStat. In 1Q18, the fastest growing sectors in real terms were: real estate operations (+13.4% y/y), social and personal service activities (+13.4% y/y), mining (+11.4% y/y), hotels and restaurants (+10.9% y/y) and electricity, gas and water supply (+10.0% y/y). Real growth was down 2.2% y/y in agriculture. The largest sectors were trade (16.9% of total), mining (10.1% of total) and construction (8.9% of total) in 1Q18.

Key macro indicators

	5M18	2017	2016
GDP (% change)	5.5%(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 4M18

Real GDP growth, %



Source: GeoStat
Note: Rapid estimate for 4Q17

Georgia sovereign credit ratings

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

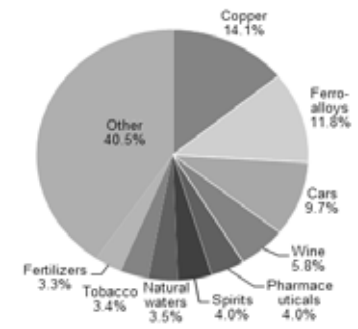
Exports up 50.2% y/y in May 2018

In May 2018, exports growth surged 50.2% y/y to record high US$ 323.3mn, imports were up 25.2% y/y to US$ 803.4mn and the trade deficit widened 12.5% y/y to US$ 480.1mn, according to GeoStat's. Overall, in 5M18, exports increased 28.0% y/y to US$ 1.3bn, imports were up 23.4% y/y to US$ 3.6bn and the trade deficit widened 20.9% to US$ 2.3bn.

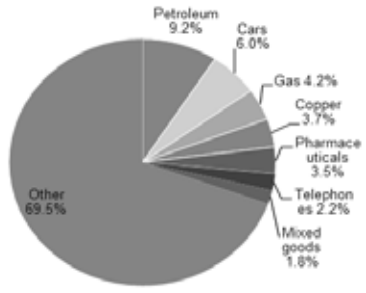
Increased exports of copper (+47.7% y/y), ferro-alloys (+184.6% y/y), cars (+67.1% y/y) and wine (+33.7% y/y) were the major commodities driving exports growth in May 2018. A 23.0% (+13.7% y/y of exports were directed to the EU, 45.5% (+52.3% y/y) to the CIS and 31.5% (+12.5% y/y to other countries.

Petroleum (+36.6% y/y), cars (+20.9% y/y), air-turbines (111x higher y/y) and pharmaceuticals (+29.2% y/y) represented the major imported commodities in May 2018.

Exports by sectors, 5M18

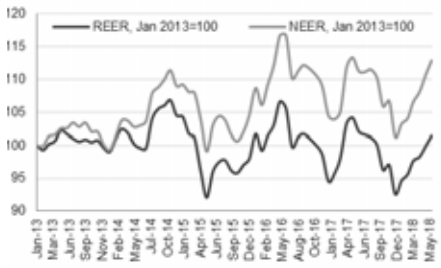


Imports by countries, 5M18



Source: GeoStat

Nominal Effective Exchange Rate and Real Effective Exchange Rate



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

Producer prices up 8.4% y/y in May 2018

Producer price index was up 8.4% y/y in May 2018. Rising prices in manufacturing (+7.1% y/y) and electricity, gas and water supply (+15.2% y/y) contributed the most to the overall index change.

NBG Purchased US$ 10.0mn

On June 22 2018, the NBG intervened on the FX market and purchased US$ 10.0mn on its foreign exchange auction.

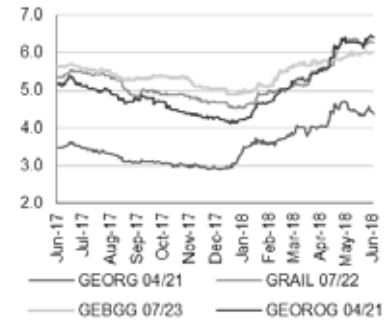
FIXED INCOME

Corporate Eurobonds: Bank of Georgia Group Eurobonds (GEBGG) closed at 6.0% yield, trading at 100.0 (unchanged w/w). Bank of Georgia GEL-denominated Eurobonds (GEB-GG) were trading at 100.5 (unchanged w/w), yielding 10.7%. Georgia Capital Eurobonds (GEOCAP) were trading at 94.4 (-0.4% w/w), yielding 7.3%.

GOGC Eurobonds (GEOROG) were trading at 100.9 (-0.1% w/w), yielding 6.4%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 105.0 (-0.3% w/w), yielding 6.3%.

Georgian Sovereign Eurobonds (GEORG) closed at 106.5 (+0.1% w/w) at 4.4% 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, %	10.75**	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	-/B+/B2	BB-/-/Ba2	BB-/B+/-	BB-/-/B2	BB-/BB-/Ba2	B+/B+/-
Mid price, US$	n/a	102.5	101.3	102.05	94.4	100.5	100.9	100.0	106.5	105.0
Mid yield, %	n/a	5.5%	3.8%	6.00%	7.3	10.7	6.4	6.0	4.4	6.3
Z-spread, bps	n/a	n/a	n/a	n/a	442.0	346.1	354.8	309.6	152.2	341.8

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

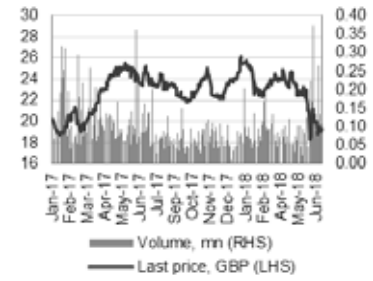
Eastern European sovereign 10-year bond performance

Issuer	Amount, US$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba2	4.4
Azerbaijan	1,250	4.750%	18/03/2024	BB+/-/Ba2	4.9
Bulgaria	323	5.000%	19/07/2021	BBB-/-/-	0.0
Croatia	1,250	3.875%	30/05/2022	BB+/BB+/Ba2	1.1
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	3.7
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	4.0
Russia	3,500	5.000%	29/04/2020	BBB-/BBB-/Ba1	3.7
Turkey	2,000	5.625%	30/03/2021	BB+/-/Ba2	5.8

Source: Bloomberg

EQUITIES

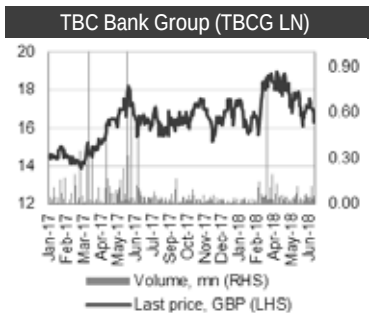
Bank of Georgia Group (BGEO LN)



Source: Bloomberg

Bank of Georgia Group (BGEO LN) shares closed at GBP 19.27/share (-0.01% w/w and -16.21% m/m). More than 686k shares traded in the range of GBP 18.83 – 19.40/share. Average daily traded volume was 140k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, lost 0.03% w/w and 0.91% m/m, respectively. The volume of BGEO shares traded was at 1.40% of its capitalization.

TBC Bank Group (TBCG LN)

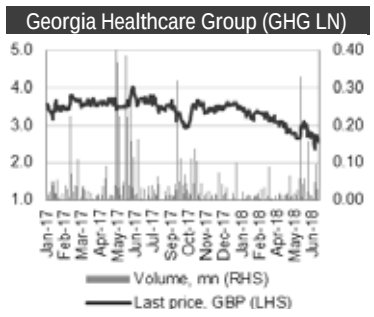


Source: Bloomberg

Georgia Capital (CGEO LN) shares closed at GBP 11.32/share (-8.22% w/w). More than 1,106k shares traded in the range of GBP 11.10 – 12.30/share. The volume of CGEO shares traded was at 2.83% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 16.90 (-0.94% w/w and -3.76% m/m). More than 291k shares changed hands in the range of GBP 16.12 – 17.24 share. Averaged daily traded volume was 44k in the last 4 weeks.

Georgia Healthcare Group (GHG LN)



Source: Bloomberg

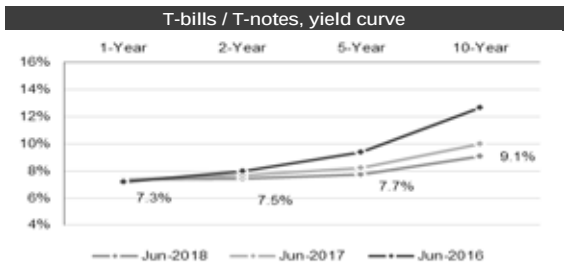
Georgia Healthcare Group (GHG LN) shares closed at GBP 2.55/share (-5.56% w/w and -15.84% m/m). More than 45k shares were traded in the range of GBP 2.55 – 2.69/share. Average daily traded volume was 21k in the last 4 weeks. The volume of GHG shares traded was at 0.03% of its capitalization.

MONEY MARKET

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,100mn (US$ 447.6mn).

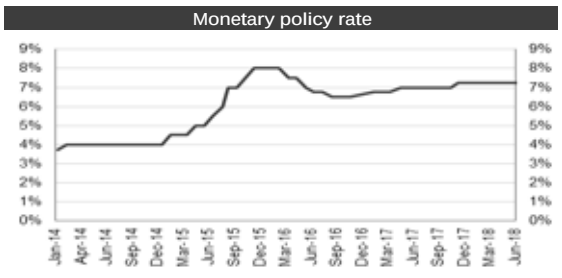
Ministry of Finance Treasury Notes: There was no treasury security auction during 18-22 June 2018. The nearest treasury security auction is scheduled for June 27, 2018, where GEL 30.0mn nominal value 5-year Benchmark bonds will be sold.

T-bills / T-notes, yield curve



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

Monetary policy rate



Source: NBG

GALT & TAGGART

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia
Tel: + (995) 32 2401 111
Email: gt@gt.ge

publicity

| places we strongly reccommend to visit | hotels

ZARAPXANA
15 Lubliana Str.
Tel: 251 00 01
Fax: 253 00 44
info@zarapxana.ge
www.zarapxana.ge


CITY AVENUE Hotel
Agmashenebeli Ave.140B; 0112, Tbilisi, Georgia; Phone: +995 32 2244 144
Email: info@cityavenue.ge; Web: www.cityavenue.ge


GREEN BUILDING
A Class Business Center
6 Marjanishvili Street


Hotel River Side
+(995 32) 224 22 44;
Right bank of Mtkvari , Brosse Street Turn
info@riverside.ge


VINOTEL
P: (+995) 322 555 888
M: (+995) 596 555 885
E: info@vinotel.ge, reservation@vinotel.ge
W: www.vinotel.ge

HOTEL SPUTNIK BATUMI ☆☆☆☆

28, Shervashidze Ascent; Batumi/Georgia
Tel: +995 (422) 27 60 66; +995 577 65 08 08
E mail: sales@hotel-sputnik.com; www.hotel-sputnik.com


HOTEL PUSHKIN
Bochorma street N 3
Tel: (+995 32)2 19 23 53
E mail: info@hotelpushkin.ge


Addr: # 14/14
I.Kurkhuli Str.
Tel : 55 66 55
http://www.laerton-hotel.com/

MARRIOTT
13, Rustaveli Avenue.;
Tel.: 2 779 200
www.TbilisiMarriott.com
tbilisi.marriott@marriotthotels.com

COURTYARD Marriott
4, Freedom Square,
Tel: 2 779 100
www.CourtyardTbilisi.com
courtyard.tbilisi@marriotthotels.com

Citadines APART'HOTEL
4 Freedom Square,
Tel: +995 32 254 70 30
Fax: +995 32 254 70 40
tbilisi@citadines.com

Because life is about living

AMBASADORI
13 Shavteli Str.
Tel: 2439494
info@ambasadori.ge
www.ambasadori.ge

RIXOS BORJOMI
16 Meskheti str.Borjomi
Tel:(+995 32) 2 292292
E-mail: borjomi@rixos.com
www.Borjomi.rixos.com

Sheraton Batumi HOTEL
Tel: +995 422 229000
E-maill: info.batumi@ sheraton.com
www.sheraton.com/batumi


45a M.Kostava St.,
0179 Tbilisi,
Georgia;
Tel.:
(+995 32) 219 11 11
www.hotelcoste.ge

Hotel "O. Galogre"
8, Vakhtang Gorgasali Str. Batumi, Georgia
Tel: +995 422 27 48 45
info@hotelgalogre.com
www.hotelgalogre.com

Radisson BLU IVERIA HOTEL, TBILISI
Radisson Blu Iveria Hotel
Rose Revolution Square 1
Tel.: 240 22 00; Fax: 240 22 01
info.tbilisi@radissonblu.com
radissonblu.com/hotel-tbilisi

Radisson BLU HOTEL, BATUMI
Radisson Blu Hotel Batumi
1, Ninoshvili str., Batumi
Tel/Fax: 422255555
info.batumi@radissonblu.com
radissonblu.com/hotel-batumi

Holiday Inn AN IHG HOTEL
Addrr: 26 May Square
Tel: 2300099
E-mail: info@hi-tbilisi.com
www.hi-tbilisi.com


OLD TIFLIS
Tel: 31 99 99
hotel@tifilis.ge
addr:
#9 Grishashvili Str.

Betsy's Hotel
32-34 Makashvili Street,
0108, Tbilisi, Georgia
Tel.: 293 14 04, Fax: 299 93 11
info@betsyshotel.com
www.betsyshotel.com


Divan Suites Batumi
Address:
Jordania/Z.
Gamsakhurdia
Str. 8/15
(422)255 522
info.batum@divan.com


CRON PALACE HOTEL
№ 1 Kheivani street 12/13; Tbilisi, Georgia
Phone: (+995 32) 2 24 23 21;
Phone: (+995 32) 2 24 23 22
E-mail: reservation@cronpalace.ge


Best Western Tbilisi
Addr: 11, Apakidze str.
Tel.: 2 300 777


Hotel "Tiflis Palace"
3 Vakhtang Gorgasali St,
(+995) 32 2000245
reservation@tiflispalace.ge

Satisfied with your city's sports facilities?

CASTELLO MARE HOTEL & WELLNESS RESORT

Driving along the serpentine road, surrounded by subtropical plants and little villages, with aquamarine Black Sea on your right, you will inevitably spot something really peculiar. Something a bit out of this world - a white tower nesting on a cape among lush green plants.

This property is 1 minute walk from the beach. The magic of Tsikhisdziri, where Castello Mare Hotel and Wellness Resort is located, is nothing else but captivating. Batumi, the summer capital of Georgia, the place to party and stay sleepless, is only 17 kilometres away, but the resort is embraced by serenity and peace. It was a place for summer escapes already 100 years ago, and in the Soviet period a popular sanatorium was operating on that very spot.

Since 2016, Castello Mare welcomes everyone who is in need of relaxation and switching off from routine. Isolated from the rush of life, overlooking the Black Sea, buried in verdure, it feels like an official representation of heaven on earth. Three impressive buildings and a little pearl of the resort, Villa Aphrodite, can accommodate up to 250 guests.

A lovely garden, private pebble beach, fantastic spa facilities, infinity pool, conference halls and meeting rooms, as well as various entertainment facilities are there to make your vacation or business trip extremely pleasant.

Castello Mare consists of three campuses (Victoria, Diana and Alba), and a lovely Villa Aphrodite. In total, the hotel offers more than 100 rooms of 17 categories, and you can be sure that each of them is highly comfortable and has mesmerizing window or balcony view. In our hotel, you treat not just your body, but the deepest corners of your soul by observing pristine nature and endless sea.

Business travelers and organizers of corporative events are going to enjoy the stay in Castello Mare too. It has great facilities for meetings and conferences, and of course, for leisure and after-conference gala events!

Also, it is a popular destination for weddings and photo shootings.

Modernly furnished, the rooms of Castello Mare Hotel&Wellness Resort include flat-screen TV, air conditioning and a private bathroom. For your comfort, you will find free toiletries and a hairdryer. Some rooms also offer a private balcony or a terrace.

PHONE
+995 422 21 28 28
E-MAIL
info@castellomare.com

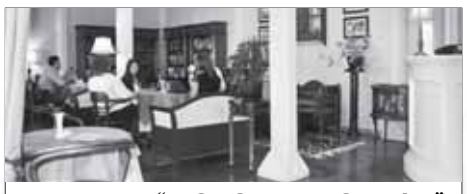
ADDRESS
Tsikhisdziri, Batumi, Adjara, Georgia
PHONE
+995 422 21 28 28

E-MAIL
info@castellomare.com
ADDRESS
Tsikhisdziri, Batumi, Adjara, Georgia

publicity

| places we strongly reccommend to visit | dining

SAKE SUSHI BAR
4, Besiki Str.
Tel: 2 519 966


Literary cafe **"MONSIEUR JORDAN"**
V. Gorgasali st.,17
Tel.: 275-02-07

Dental Design Studio
37 Chavchavadze Ave.
Tel.: 291 30 26; 291 30 76

Red Café - Bistro & Cafe

 # 71 Vazha-phavela Ave.
Tel: 2201 211
info@redcafe.ge

Respublika Grill Bar

19 Pavle Ingorokva str. Tbilisi
+995 555 004151
https://www.facebook.com/RespublikaGrillBar/

PICASSO

4, Vashlovani Str.
Tel: 298 90 86

PREGO

84, Barnovi Str.
Tel: 225 22 58
15, Erekle II.
Tel: 293 14 11
2, MarjaniSvili Str.
Tel: 2 999 723

Strada

1. 7 Sandro Euli St. Tel.**595 99 22 77**
hello@stradacafe.ge Each Day 10:00 – 01:00
2.#5 Marjanishvili Str. **595 99 22 88**

SIANG-GAN

41, Gamsakhurdia Str.
Tel: 237 96 88

BUREGERCLASICO
24|24
40, Chavchavadze Ave. **Tel: 229 42 30**

Book Corner
13[b], Tarkhnishvili Str.
Tel: 223 24 30
contact@bookcorner.ge


Entrée

Tbilisi
13 Taktakishvili Street,
Tel.: (+995 595) 90 71 80
19 Petriashvili Street,
Tel.: (+995 595) 33 82 10
7 Pekini Street,
Tel.: (+995 591) 19 39 68
78 Chavchavadze Avenue (Bagebi),
Tel.: (+995 599) 09 56 70 47
Kote Apkhazi Str (Leselidze),
Tel.: (+995 599) 095670
12 Amaghleba street (Sololaki),
Tel.: (+995 599) 08 34 53
1 Ateni Street,
Tel.: (+995 591) 70 90 22
25 Gagarini street,
Tel.: (+995 591) 19 39 68
24A Pekini street,
Tel.: (+995 591) 96 19 90
7 Mtskheta Str.
Tel.: 599 21 53 83

ENGLISH TEE HOUSE
WHITTARD OF CHELSEA

5, Marjanishvili Str.
Tel: 294 16 20

CAFE CINEMA

Addr: 3 Vekua Street.
(Trade Center GTC)
Tel.: 2 93 61 38

Luca Polare
FINEST ICECREAM & MORE
Mrgvali Baghi Square; 7a Pekini Ave.34 Kote Afkhazi Str;125 David Aghmashenebeli Ave
Tel: +995 322 380802; info@lucapolare.com
www.lucapolare.com; LucaPolareOriginal

1 Brother Kakabadze Str.
Tel: 292 29 45;
Fax: 292 29 46;
tk@mcdonalds.ge

MEPETUBANI

Addr: 3 Erekle II square
Tel: +995 598 77 09 68

LE MARAIS

32 Abashidze Str. **Tel: 222 40 83**

Wendy's
QUALITY IS OUR RECIPE
WWW.WENDYS.GE 995 322 557 557
WENDY'S GEORGIA
37 Chavchavadze Ave. 31 Rustaveli Ave.
37 Tsintsadze Str. 26 May Square
Agmashenebeli Alley 13th km Gori Highway
Tbilisi Mall East Point 22 Abuseridze Str. Batumi
5 Rustaveli Ave. Kutaisi

PROSPERO'S BOOKS

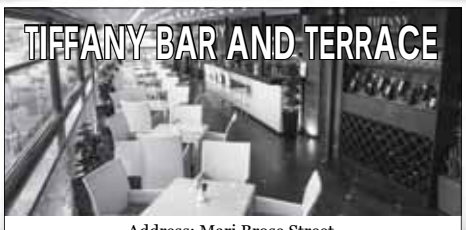
34, Rustaveli Ave.
Tel: (+995 32) 2923 592

TWINS - gift store.
Exclusive decor, designer Items from U.S.
25 Akhvlediani str. Tbilisi

TEKLA PALACE

Phone:
+995 599 27 60 67 /
(032) 2 15 85 90
Addr:
Erekle II's square 10

La Brioche
Addr: Batumi, Georgia, Parnavaz Mepe №25
Tel.: 260 15 36
info@piazza.ge, www.piazza.ge

TIFFANY BAR AND TERRACE

Address: Mari Brose Street,
Open today · 11:30AM–11PM
Phone: 0322 24 22 44

For advertising please contact:
558 03 03 03
marketing@finchannel.com

GOODWILL
Celebrations & Catering

2 18 12 12 / CATERING@GOODWILL.GE / WWW.GOODWILL.GE

publicity