

# FINANCIAL

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## How Americans see their country and their democracy

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## In Georgia, the Press is Sinking, but Labor is at the Bottom

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9 July, 2018

News Making Money

<http://www.finchannel.com>

## Marriage proposal on the Moon for 145 million dollars

The FINANCIAL -- Starting in 2022 it will be possible to ask for the beloved's hand in marriage while flying over the lunar surface to the sound of Franck Sinatra's "Fly Me to the Moon". The one-week interplanetary flight will be carried out using a self-contained and autonomous spacecraft allowing the two lovers to travel alone.

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The ApoteoSuroprise agency, a French marriage proposal planner specialized in creating extravagant proposals, introduces a whole new service for 145 million dollars which will allow 21st century handsome princes to propose while flying around the Moon.

## How to Manage an Employee Who's Having a Personal Crisis

Everyone has life events that distract them from work from time to time — an ailing family member, a divorce, the death of a friend. You can't

expect someone to be at their best at such times. But as a manager what can you expect?

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## Georgia's growth has slowed down, IMF. Why?

The FINANCIAL

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Georgia climbed the rankings of the Doing Business Indicators reducing the distance to the frontier to about 20 percent in 2017. At the same time, Georgia was aided by growth in trading partners,

which supported the country's net exports. "However, as the gains from the first wave of structural reforms declined and the external environment deteriorated after the 2008 global financial crisis, productivity growth in Georgia slowed down", IMF said.

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## Global insurance premiums continued to rise in 2017

The FINANCIAL -- Global insurance premiums increased 1.5% in real terms<sup>1</sup> to nearly USD 5 trillion in 2017, after rising 2.2% in 2016. Global life premiums increased 0.5%

in 2017, while global non-life premiums rose 2.8%.

Growth in both the life and non-life sectors slowed. Falling life premiums in advanced markets such as the US and

Western Europe were the main cause of drag on overall global premium growth.

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## 3 Ways Digitalisation is Shaping the Future of Taxation

The FINANCIAL -- Digital transformations and technologies should be seen as an aid and not a hindrance to fair and efficient tax systems, argued participants at an international tax conference in Munich, Germany.

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## CURRENCIES

July 7 June 30

	July 7	June 30
1 USD	2.4460 <span style="color: green;">▲ 2.4516</span>	
1 EUR	2.8635 <span style="color: red;">▼ 2.8537</span>	
100 RUB	3.8692 <span style="color: green;">▲ 3.9019</span>	
1 TRY	0.5310 <span style="color: green;">▲ 0.5348</span>	



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Prices in GEL

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G-Force Euro Regular	2.39	Eko Diesel	2.52
Euro Regular	2.34	Euro Diesel	2.48
G-Force Euro Diesel	2.49	Euro Regular	2.42
Euro Diesel	2.46	Diesel Energy	2.42



Prices in GEL

	WAVES Super	Prices in GEL
Super Ecto 100	2.60	Super Ecto 100
Super Ecto	2.53	Super Ecto
Premium Avangard Ecto	2.36	Premium Avangard Ecto
Euro Regular	2.26	Euro Regular
Euro Diesel	2.36	Euro Diesel
GNG	1.45	GNG



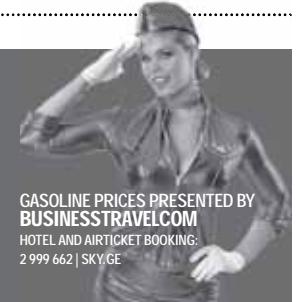
Prices in GEL

	SITA Super	Prices in GEL
Nano Super	2.58	Efix Euro 98
Nano Premium	2.48	Efix Euro Premium
Euro Regular	2.38	Euro Regular
Nano Diesel	2.38	Efix Euro Diesel
Euro Diesel	2.48	Euro Diesel



Prices in GEL

	ROMPETROL Prices in GEL
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Efix Euro Premium	2.52
Euro Regular	2.42
Efix Euro Diesel	2.48
Euro Diesel	2.42



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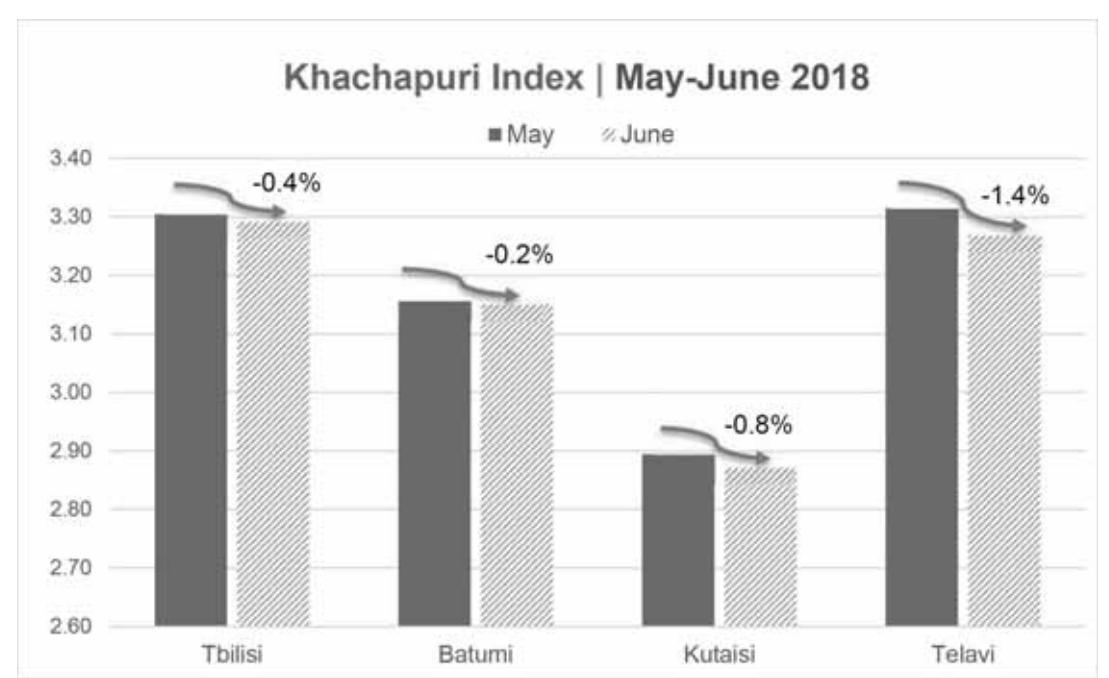
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## DOWNWARD SLOPING TRAJECTORY CONTINUES

The average cost of cooking one standard Imertian Khachapuri in June 2018 stood at 3.15 GEL, which is 0.7% lower month-on-month (compared to the previous month), and 2% higher year-on-year (compared to the same month of last year).

The main contributors to the m/m Khachapuri Index deflation were cheese (down 0.6%) and flour (down 1.1%). The Kh-Index fell in all Georgian cities. At 3.27 GEL, Telavi saw the largest drop in the Index (-1.4%). Tbilisi (3.29 GEL) and Batumi (3.27 GEL) experienced declines of 0.4% and 0.2%, respectively. Kutaisi was the cheapest city at 2.87 GEL (down by 0.8%). The price difference between the most expensive (Tbilisi) and the cheapest (Kutaisi) city reached 0.42 GEL.

It is not surprising that in June, Tbilisi and Telavi remained most expensive cities in Georgia. According to [Georgian National Tourism Administration](#), in June 2018, international traveler trips went up by 14.2% compared to the same month



last year. It may be that in June, the main destinations for tourists were Tbilisi and Kakheti, rather than the seaside. However,

it is expected that in July, more people will visit seaside cities, taking into consideration the weather (19°- 39°). Thus,

this will increase demand in Batumi for milk and milk products, which will push khachapuri's price upward.

# Governments Around The World Must Rethink Their Structure In The Face of Disruption

Rising Citizen Expectations, Rapid Technological Change, and Increasing Complexity Are Putting Major Pressure on Government—and Making the Traditional Hierarchical Public-Sector Structure Dangerously Outdated

## The FINANCIAL

Powerful forces are transforming societies everywhere—but the structure of most governments remains unchanged. The public sector must move away from its siloed design to create a more agile organization—or risk a precipitous decline in effectiveness and legitimacy, according to a new report by The Boston Consulting Group (BCG), a global management consulting firm and the world's leading advisor on business strategy.

The report describes four important structural changes for government: the creation of priority clusters that bring together policy areas that have significant overlap (such as education and labor), the establishment of functional accelerators to enhance government expertise in areas such as AI, the adoption of agile ways of working, and the creation of a single multichannel inter-

face with citizens.

"Remaking the government blueprint is a complex undertaking," says Christopher Daniel, a BCG partner and coauthor of the report. "But public-sector leaders don't need to have all the answers to begin. They should start with some well-designed pilots, experiment, learn, and adjust accordingly. We are past the time for discussion—we need action."

## Creating Momentum For Change

To begin the process of creating a new government blueprint, BCG has identified three important steps that public-sector leaders can take:

Governments need to create a vision that articulates both a strong case for transformation and the outlines of the new structure. The vision should identify which areas

have significant connection and overlap and are therefore good candidates for combining into priority clusters.

One group or entity must drive the restructuring. In order to avoid potential conflicts of interest, this group should be independent of any existing government offices.

Governments need to get started with some initial, high-impact changes. This can include the creation of a few priority clusters and pilots to embed agile approaches—the use of cross-functional teams to develop, test, and refine new programs or policies—throughout the organization.

"Governments today understand that they must deliver for their citizens," says Vincent Chin, coauthor and senior partner at BCG. "Doing that requires a fundamental transformation of their existing structures and systems. Pioneering governments have shown that citizen-centric programs are possible—but not without an overhaul of their entire service delivery system."

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# Georgia's growth has slowed down, IMF. Why?

The FINANCIAL

**A**verage productivity growth of Georgia decreased from around 5 percent in 2004-08 to 1.5 percent in 2011-15, according to IMF. Business surveys indicate that labor skills have increasingly become an obstacle to growth. While Georgians are highly educated, they do not have the relevant skills demanded by businesses, said IMF.

Georgia climbed the rankings of the Doing Business Indicators reducing the distance to the frontier to about 20 percent in 2017. At the same time, Georgia was aided by growth in trading partners, which supported the country's net exports. "However, as the gains from the first wave of structural reforms declined and the external environment deteriorated after the 2008 global financial crisis, productivity growth in Georgia slowed down", IMF said.

The years of high TFP (measured with total factor productivity (TFP) growth were accompanied by marked improvements in the business and regulatory environments as well as robust growth in trading partners.

However, Georgia has potential for higher growth, IMF believes. There is an opportunity to increase productivity, given that (1) the production and export base can be broadened; (2) unemployment is high and employment is concentrated in low-productivity sectors; and (3) the business environment can be further improved. Additionally, the quality and stock of human capital can be further improved, and physical capital can be increased to fully exploit the country's comparative advantage as a platform for markets and as a tourist destination in the region.

Improving education and skill matching is key to increasing growth potential, IMF believes. "As a small open economy, Georgia needs to fully reap the benefits of tighter global integration and competitiveness", report said.

"Improving key infrastructure is crucial to leveraging Georgia's strategic position as a logistic hub for the region. Enhancing the business environment will help attract private capital and will strengthen the role of the private sector in generating sustainable and inclusive growth. Finally, bolstering the quality of human capital will support the diversification of production and exports toward more complex and higher value-added goods".

Improving education and skill matching is key to increasing growth potential.

According to the Global Competitiveness Report, an "inadequately educated workforce" is generally ranked as among the most problematic issues for businesses. In Georgia, the quality of education must be improved, especially in rural areas where educational outcomes are particularly bad, which contributes to high unemployment. Enrolment in universities is about 50 percent of Georgian students, lower than 60 percent in Central and Eastern Europe and 70 percent in Western Europe—and vocational training is not popular. As a result, there is considerable skill mismatch in the labor market, and businesses lament the lack of technical specialists in various fields, from agriculture to engineering.

"Addressing all these challenges requires a comprehensive reform package. Since the 2016 Parlia-



mentary elections, the governing coalition has united around a robust reform agenda—the so-called 4-Point Plan. This is composed of an improvement in tax administration and the tax system to enhance the role of private sector activity; an increase in infrastructure investments to leverage Georgia's strategic position; improvement in government efficiency to enhance the business environment; and education reform that addresses the skill mismatches in the labor market." The government has made clear its plans and has already taken some actions toward the implementation of its reform agenda. To improve government efficiency and the business environment, the government plans to set up a Business House to provide a one-stop shop for public services to enterprises; introduce International Financial Reporting Standards for corporations; and reform insolvency law. To increase the stock of human capital, the government has embarked on a path to implement comprehensive education reform that includes curriculum standards, the introduction of a new framework for teachers, vocational training, and adult learning. However, more must be done in terms of upgrading the quality of early childhood education, improving learning outcomes, enhancing vocational training, and strengthening education in science and technology".

"Finally, to improve the stock of physical capital, the government aims at scaling-up infrastructure spending to transform Georgia into a transport and logistics hub connecting Europe and Asia".

## Fiscal Policy Package

The government's fiscal package has positive effects on GDP and growth, according to IMF report. "The scaling up in productive public investments and public capital stock allows for higher productivity in private firms. Moreover, by replacing taxes on capital with taxes on consumption, the government moves to a less distortionary way of

financing its spending. As a result, real GDP increases by 3 percent in the new steady state. In converging to the new steady state, GDP growth increases by about 0.4 percentage point in the medium term. In the long run, the growth of the economy remains driven by productivity and population growth".

"The lower tax burden on firms generates higher private investment.<sup>10</sup> Private investment increase steadily both in levels and as a share of GDP, and in the new steady state investment share to output ends up being about 1 percentage point of GDP higher than in the baseline. The dynamics are further helped, at least temporarily, by a moderate decrease in the cost of borrowed funds".

"Because higher consumption taxes do not fully cover higher government spending and the revenue losses from lower capital taxes, public debt initially goes up".

"The public debt-to-GDP ratio increases by about 3 percentage points with respect to the baseline, and then progressively declines back to 45 percent of GDP in the new steady state—it is assumed that the government does not want to increase its debt-to-GDP ratio. As government investment progressively declines to a level only slightly higher than in the baseline and current spending remains contained, the fiscal balance deteriorates only mildly in the medium run. Moreover, higher consumption taxes—together with a higher tax base—support the fiscal adjustment".

The increase in real wages puts upward pressure on prices of domestically produced goods, and the central bank moderately increases the policy rate, according to IMF report.

The increase in the interest rate is consistent with the initial appreciation of the lari. The appreciation of the lari, as well as the import component of demand (also from higher government and private investment), temporarily deteriorates the current account—which worsens by a maximum of 1.5 percent of GDP. However, as higher productivity allows for lower prices, the real effective exchange rate depreciates, and the current account returns to its

which are mostly concentrated in rural areas, also remain relatively high compared to regional comparators. Most of Georgia's labor resources are locked in low productivity jobs, while a large share of youth with higher education is unemployed.

Business surveys indicate that labor skills have increasingly become an obstacle to growth. Comprehensive education reform—including improvements to early childhood, general, and higher education; enhanced vocational training; and upgrades to sector management—that is well integrated into the government's reform agenda would help produce a better-skilled workforce and support more robust and inclusive growth.

"More supportive labor market policies, including improved labor matching services and more flexible employment opportunities, would enhance job creation", IMF said.

While Georgians are highly educated, they do not have the relevant skills demanded by businesses.

"The World Bank's 2015 STEP survey highlights important differences between labor demand and supply. In particular, businesses demand mostly low and middle technically skilled workers while the majority of job seekers are university graduates. This may reflect a lack of information about labor market demands or social pressures to pursue higher education, irrespective of relevance of the field of study. The survey also shows that employers have had difficulties filling job vacancies due to a lack of required skills".

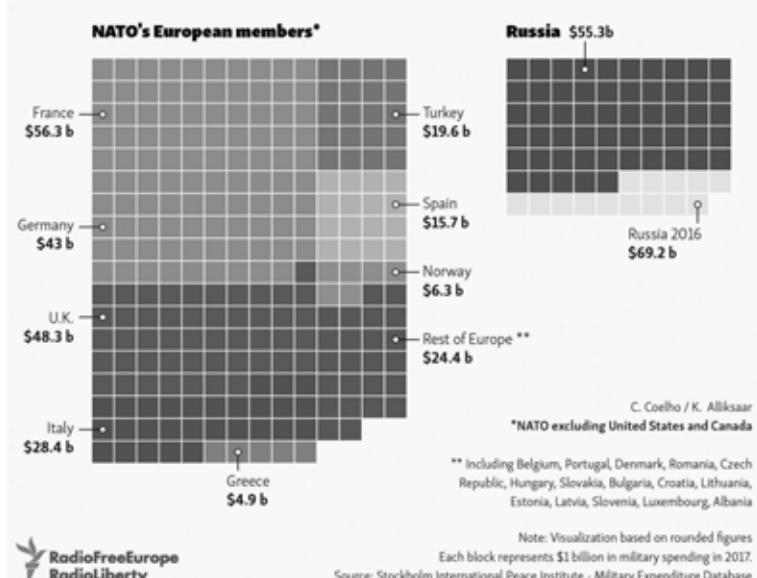
## Luxembourg - most cars per inhabitant in the EU

The FINANCIAL -- In 2016, the EU had on average 505 cars per 1 000 inhabitants. Amongst the Member States, Luxembourg topped the list with 662 cars per 1 000 inhabitants, followed by Italy (625 cars), Malta (615 cars), Finland (604 cars) and Cyprus (595 cars).

At the other end of the scale, the lowest number of cars were recorded in Romania (261 cars: 2015 data), Hungary (338 cars), Latvia (341 cars) and Croatia (374 cars).

### Military Spending: Russia Vs NATO

Russia, one of the world's top military spenders, reduced its defense budget by 20 percent in 2016-2017 to \$55.3 billion. Here's how it compares to NATO's European members.



# Marriage proposal on the Moon for 145 million dollars

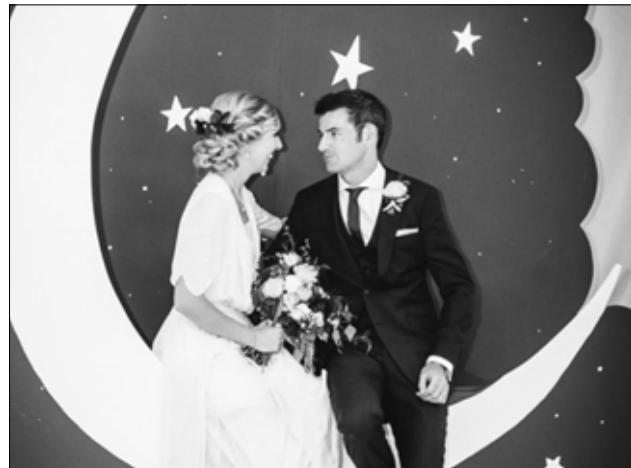
The FINANCIAL -- Starting in 2022 it will be possible to ask for the beloved's hand in marriage while flying over the lunar surface to the sound of Frank Sinatra's "Fly Me to the Moon". The one-week interplanetary flight will be carried out using a self-contained and autonomous spacecraft allowing the two lovers to travel alone.

The ApoteoSuroprise agency, a French marriage proposal planner specialized in creating extravagant proposals, introduces a whole new service for 145 million dollars which will allow 21st century handsome princes to propose while flying around the Moon. Reaching for the Moon in the name of love is about to become a reality, the ultimate goal of the Paris-based agency being to "stage the craziest and most outstanding marriage proposal of the last 13.8 billion years".

From March 2022, elite lovers will be able to book the all-included service and five months later find themselves enjoying the following program:

- Twelve weeks of pre-requisite technical and physical training.

- Takeoff on D-Day from the Kennedy Space Center in Cape Canaveral, Florida.



- Richard Strauss's "Thus spoke Zarathustra, Op.30" (Theme from 2001 Space Odyssey) resounding in the two space tourists' helmets when the first effects of weightlessness are felt.

- Arrival in lunar orbit, three days later, flying over the satellite's grayish surface at only 200/300 kilometers altitude.

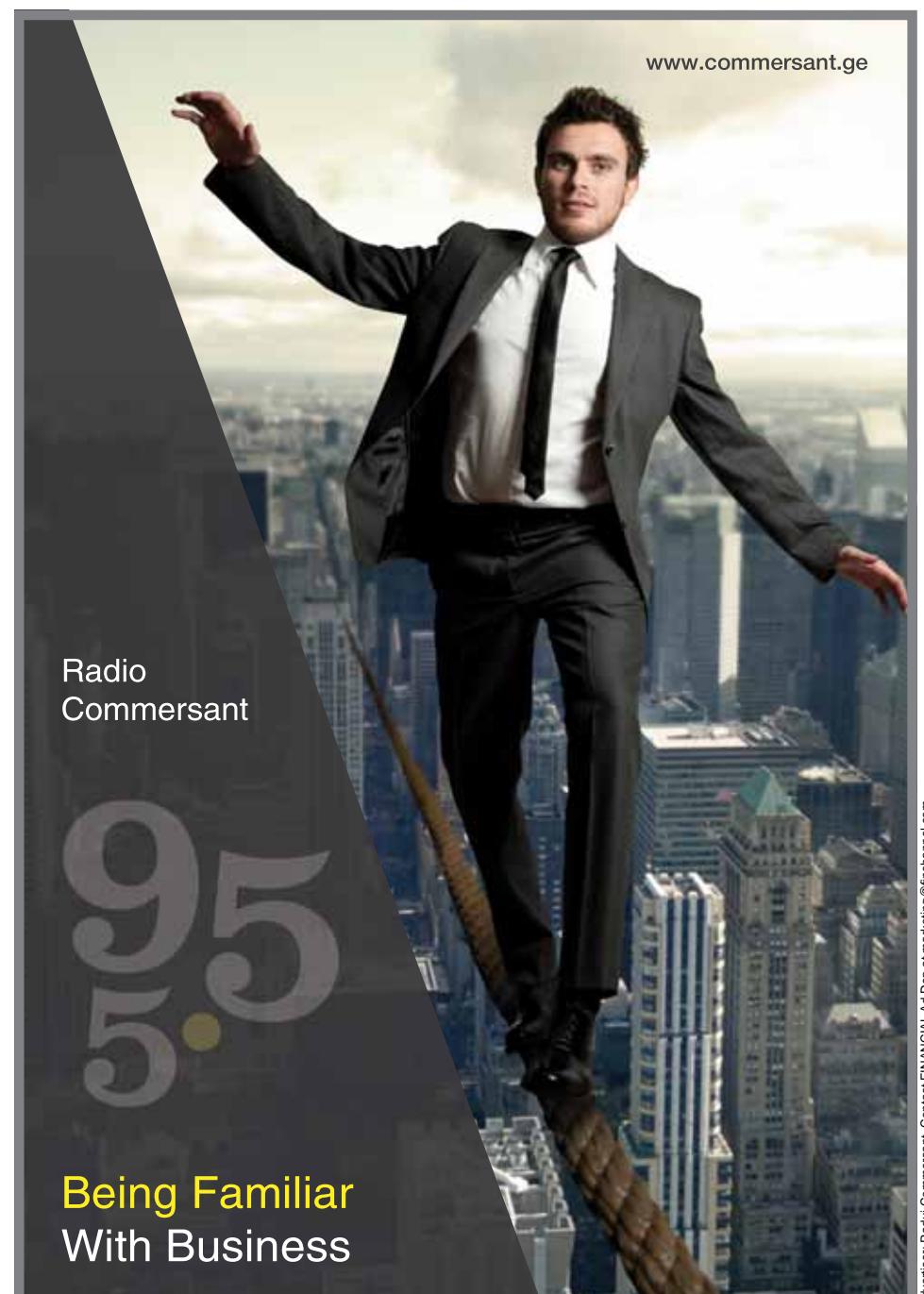
- Cut-off of all communication with Earth for around thirty minutes while the capsule flies over the dark side of the Moon.

- The Frank Sinatra song "Fly Me to the Moon" played halfway through the orbital flight, allowing the suitor to

make his marriage proposal far from any form of human life (engagement ring secretly hidden in his spacesuit).

- A spectacular Earth-rise seen from behind the lunar craters and return trip of nearly four days before atmospheric re-entry and final touchdown.

The flight-plan followed by the space capsule will mirror that of the mythical Apollo 8 mission in 1968. The spacecraft, traveling at a speed of up to 38,000 km/h, will be equipped with eight cameras allowing the couple to immortalize their entry into the history of the conquest of space and the conquest... of love!



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## financial news

# How to Manage an Employee Who's Having a Personal Crisis



**Carolyn O'HARA**  
Harvard BUSINESS SCHOOL

**E**veryone has life events that distract them from work from time to time — an ailing family member, a divorce, the death of a friend. You can't expect someone to be at their best at such times. But as a manager what can you expect? How can you support the person to take care of themselves emotionally while also making sure they are doing their work (or as much of it as they are able to)?

## What the Experts Say

Managing an employee who is going through a stressful period is "one of the real challenges all bosses face," says Linda Hill, professor at Harvard Business School and author of *Being the Boss*. Most of us try to keep work and home separate, but "we all have situations in which our personal and professional lives collide," and how you handle these situations with your employees is often a test of your leadership. You need to be empathetic and compassionate while also being professional and keeping your team productive. It's a fine line to maintain, says Annie McKee, a senior fellow at the University of Pennsylvania Graduate School of Education and author of *How to Be Happy at Work*. Here's how to manage an employee going through a personal crisis.

## Make yourself available

"People don't always feel comfortable telling their boss" that a parent is gravely ill or that they feel stressed out in the wake of a crumbling relationship, says McKee. They may be too overwhelmed, or embarrassed that it is causing them to be late repeatedly or to miss deadlines. Often a manager's first challenge is simply recognizing the warning signs that an employee is going through a difficult time. Invest time in building good relationships with employees so you'll be able to detect any problems early on. If you maintain an atmosphere of compassion in the office, people are more likely to proactively come to you when they're going through a tough period.

## Don't pry

As a leader, you need to be able to show empathy and care, but you also must avoid becoming an employee's personal confidante. After all, your job as manager is not to be the office shrink. So don't ask a bunch of questions about the employee's problems. As the person with more power in the relationship, the em-



ployee may feel compelled to tell you more than they're comfortable with. "You want to build a caring relationship with employees, not a friendly relationship," says Hill. Many managers make the mistake of confusing being liked with being trusted or respected. A good manager "has the ability to read and understand other people's needs and concerns," says McKee, while still keeping everyone focused on the major task at hand: accomplishing work.

## Listen first, suggest second

When you speak to an employee about their current struggles, "listen first instead of immediately advocating for some particular course of action," says Hill. They may just want a sounding board about the difficulties of caring for a sick relative or an opportunity to explain why a divorce has affected their attention span. If you immediately suggest they take a leave of absence or adjust their schedule, they may be put off if that's not what they were thinking. Instead, ask what both of you can do together to address the issue of performance during the difficult period. "Try to use the word 'we,'" advises Hill, as in "How can we support you?" The employee may have an idea for a temporary arrangement — some time off, handing off a project to a colleague, or a more flexible schedule for a few weeks — that is amenable to you.

## Know what you can offer

You may be more than willing to give a grieving employee several weeks of leave, or to offer a woman with a high-risk pregnancy the ability to work from home. But the decision isn't always yours to make. "You may be very compassionate but you may be in a company where that's not the way it works," says Hill. Of course, if you have the leeway to get creative with a flexible schedule, an adjusted workload, or a temporary work-from-home arrangement, do what you think is best. But also be sure you understand your company's restrictions on short- and long-term leave, and what, if any, bureaucratic hurdles exist before promising any-

thing to your employee. Explain that you need to check what's possible before you both commit to an arrangement.

If the employee needs counseling or drug or alcohol services, there may be resources provided by your company's medical insurance that you can recommend. But investigate the quality of those resources first. "The last thing you want to do is send a suffering employee to avail themselves of a program or supposedly helpful people who then fall short," says McKee.

## Check in regularly to make sure they're doing ok

Whether you've settled on a solution yet or not, check in with your employee occasionally by dropping by their desk (keeping their privacy in mind) or sending a brief email. Not only will your employee appreciate that you care, you'll get a better sense of how they are coping. "You can simply ask, 'Do you feel like you've got a handle on it?'" says Hill. "And if they do, you can say, 'Let's just keep in touch so neither one of us has too many surprises. Or if you get a little over your head, I hope you'll feel free to come to me and we can do some more problem solving and make further adjustments if necessary.'"

## Consider workload

You also have to consider whether prolonged absences will adversely affect clients or team members. If so, mitigate those risks by easing the person's workload. If there are people who are willing and able to take on some of the individual's projects, you can do that temporarily. Just be sure to reward the people who are stepping in. And then set timelines for any adjustments you make. If the person knows that their situation will last for 6-8 weeks, set a deadline for you to meet and discuss what will happen next. Of course, many

situations will be open-ended and in those cases, you can set interim deadlines when you get together to check in on how things are going and make adjustments as necessary. Whatever arrangements you make, be crystal clear about your expectations during this time period. Be realistic about what they can accomplish and set goals they can meet. "For this to be useful," says McKee, "it's got to be specific and it has to be grounded in reality."

## Be transparent and consistent

Be conscious of the fact that other employees will take note of how you treat the struggling colleague and will likely expect similar consideration if they too run into difficult times in the future. "If you want to get productive work out of people, they need to trust you and believe that you'll treat them fairly," says Hill. Remember that policies may be precedent-setting. Every situation will be unique, but you want to be comfortable with policies in case you are called to apply them again. Keep in mind that solutions could apply to "the next person and the next and the next after that," says McKee.

## Principles to Remember Do:

Set a tone of compassion in the office. It will not only give your employees confidence to approach you with struggles, but also give you the ability to spot warning signs.

Be creative with solutions. A flexible schedule may allow a person to maintain their output without much disruption.

Check in from time to time, both to reassure the employee and to make sure that further adjustments or accommodations aren't needed.

## Don't:

Act more like a therapist than a manager. Your heart may be in the right place, but don't get involved in your employee's personal problems.

Make promises you can't keep.

Research your company's policies before you offer time off or alternative work arrangements.

Treat similar situations among employees differently. Employees will note — and resent — the inconsistency.

## Case Study #1: Set realistic work goals with the employee and delegate some of their work

Alicia Shankland, a senior HR executive with more than 20 years of experience, managed two different women through the intensely stressful, emotional months of fertility treatment. In both cases, the treatments continued for nearly a year, so the women were away from work frequently for medical appointments and procedures. They also experienced severe ups and downs from the hormone drugs and the emotional devastation of miscarriages.

What's more, the schedule of fertility treatments didn't fit neatly into any of the existing standard HR leave policies. "There was no way to make a 30-60-90 day plan to accommodate all the unknowns," Shankland said.

In each case, she endeavored to make as many allowances as possible, and the women used sick time, flex time, and personal days. She worked with each of them to set concrete, realistic work goals that allowed them to focus on the most critical deliverables while delegating other duties, and teammates pitched in to make sure duties weren't neglected or dropped. "We managed through it as a tight-knit team," she says.

A happy outcome was that the team was well prepared to cover for the maternity leaves that were eventually taken by each woman. "It actually showed us all that we could play multiple roles," Shankland says. When the women returned from their respective maternity leaves, they were both at "110 percent." Each had "exceptionally successful years at the company that more than made up for the time when they needed extra hands to make it through."

## Case Study #2: Act with compassion and offer flexibility if possible

When David, a professional at a financial services firm, heard that the husband of one of his team members had been diagnosed with terminal brain cancer, he knew it was going to be a long and emotional roller coaster for her. Within weeks of the initial, grave diagnosis, doctors suggested that the cancer may not be spreading as fast as initially thought, and that the hus-

.....

Continued on p. 13



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# surveys & analysis



MERAB PACHULIA, GORBI

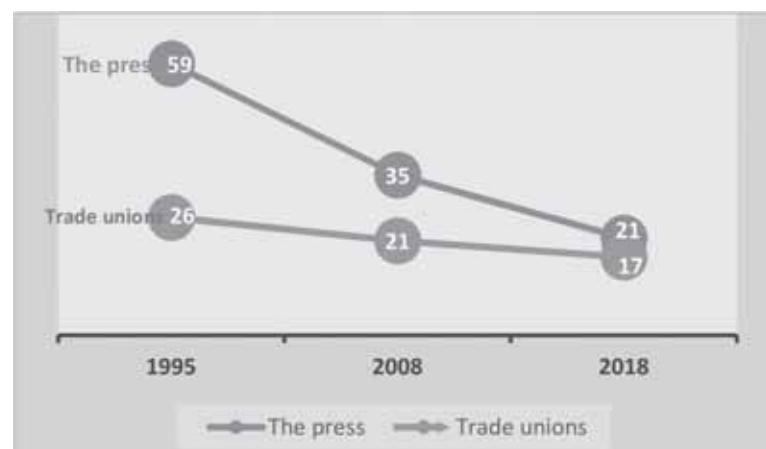
## In Georgia, the Press is Sinking, but Labor is at the Bottom

**A**fter 29 years in the survey business with access to rich data archives, I can confidently describe the dynamics of Georgian society in numbers and speculate about trends. In previous columns, I wrote about the evolution of positive attitudes towards the Georgian armed forces and how trust in political parties has dramatically declined over the last two decades. In this column I will present trust curves of two other important institutions: the press and trade unions. Why the press and trade unions in the same column? Simply because both are important pillars in any modern society that can sometimes be very useful in improving quality of life. And, you can see the drastic declines of both by glancing at Chart 1.

Trade Unions (TU) have a long history in Georgia. Until 1990, they used to be important instruments for managing the working class and were much glorified during colorful May Day parades. Since Georgia's independence, their only major achievement was getting Georgia to join the International Labor Organization and ratify basic labor rights conventions. Well, to be fair, in recent times they have also attempted to bargain for increases in salaries and safety for coal miners and metro drivers.

After the collapse of the Soviet system, Georgian TUs began "privatizing" inherited state assets at a frenzied pace, and the interests of the workers were largely confined to the dustbin. During this period of wild capitalism, TUs effectively operated as regular criminal organizations, stealing property and cash that had

Graph 1. Confidence in Press and Trade Unions (%)



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

been collected during the previous 70 years. The same happened with the Communist Party and the Young Komsomol Union, leaders and other "smart" people. They pocketed the money and, in some cases, later invested it back in banking or infrastructural projects.

I cannot recall any true TU achievements, but I do remember cases when employees were fired from large businesses such as banks and GSM companies during Saakashvili's regime because they had attended opposition rallies. Business owners could not resist the "advice" of the security services and TUs were not in the position to back them up.

In 1995, when GORBI first measured trust towards TUs, the figure

was a low 26%. Today, it's even lower – only 17% of surveyed respondents have confidence in the institution. It is not surprising given the very rare appearance of TU leaders in the media to discuss their initiatives, and successful cases where they bargained with investors or local businesses.

Press is way older than the concept of TUs in Georgia. The country's first newspaper "Sakartvelos Gazeti" (Georgia's Newspaper) was published in 1819, containing stories about governments decrees, articles, news from Russia, etc. At first, only about 200 copies were printed, probably because of the low literacy rate and absence of distribution services at the time. Today,

ironically, daily circulation is below 3,000 but weekly copies for one or two items exceeds 30,000, still a meager amount for a population of 3.7 million.

Under Soviet rule, Georgia had a few newspapers, which were very well distributed, had a huge circulation and were very cheap, cheaper than the propaganda they were preaching. After the first two decades following independence, Georgian print press had some ups but overall, the newspaper business is down and on its way out. Despite huge efforts from the international community, independent print form did not manage to transition to the digital era and failed to be competitive. The extinction of newspapers is well reflected in survey findings: 23 years ago, a majority (59%) of surveyed respondents had trust in the press. By 2018, this number had dropped to 21%, and the saga continues.

Based on the same data, respondents' education and age is highly correlated with confidence in the press. While 34% of those with incomplete education have "a great deal" or "quit a lot" of confidence in the press, the same is true with only 2% of those with PhD degrees. Whereas almost every third (30%) elderly respondent (aged 65 or over) is confident in the press, among the youngest group of respondents (18-24-year-olds) only 13% share such confidence.

Overall, this sharp decline in confidence in the press and TUs is not good news. Yes, the internet will soon be universally-accessible in Georgia, and everyone will be able to

receive and watch the news on their phones. But as in most developed democracies, print media still exists and in some countries (Australia is the good example) circulations are even recovering. I do not see a bright future for print media in Georgia; it feels like no one needs them and most efforts are now in the digital realm. We already have a few success stories of newly-established internet-based magazines and it seems they have some prospects.

As for TUs, I believe they have a future and should soon become stronger and more involved in generating employment and economic growth. After all, the small but still present labor class needs a lot of support, education on workers' rights and organization to defend itself, as in any normal environment. But they will certainly need a lot of help from Georgia's friends to catch up with the new realities and adequately address current challenges. I wonder if TUs will be the next target of the donor community or if selected NGOs will remain the privileged partners.

*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](http://gorbi.com))



# 3 Ways Digitalisation is Shaping the Future of Taxation

The FINANCIAL -- Digital transformations and technologies should be seen as an aid and not a hindrance to fair and efficient tax systems, argued participants at an international tax conference in Munich, Germany. Tax authorities around the world are publicly grappling with the challenge of adapting revenue collection models to a global economy that is continually reshaped through transformative digital technologies, according to ICC.

In March, the European Commission released two legislative proposals for taxing of digital firms. A host of other countries, including India, Brazil, Colombia and Vietnam are also planning or proposed new taxes on the digital economy. A recent report from the Organisation for Economic Cooperation and Development (OECD) noted that more than 110 countries will work to build a consensus on digital tax by 2020 within the OECD/G20 Inclusive Framework on base erosion and profit-shifting (BEPS).

Last Friday, private sector representatives joined with policy makers and academics to discuss how digitalisation is shaping the future of taxation at a conference organised by ICC, Business at OECD (BIAC) and BusinessEurope in Munich. Here are three main takeaways:



## gains for tax administrations

While often perceived as a threat or challenge to the collection of tax revenue, participants agreed that digital technologies also have the potential to revolutionise compliance and enquiry work. The OECD, in their 2018 report,

shows how digitalisation has already had a threefold positive impact on tax administration: enhancing the effectiveness of tax compliance, improving taxpayer services and reducing tax compliance burdens.

For instance, greater amounts of third-party data available to tax authorities allows more reporting to be automated, saving both sides time and money, and can also be used to

tackle underreporting, evasion or fraud. Data recording software adopted by several tax administrations that notes sales data at the time of a transaction—and can be submitted directly to tax authorities—has already increased some countries' value-added tax (VAT) revenues by up to 20%.

## Digital business models are transformative, but also pervasive

The way we work has already digitalised to such an extent that it is misleading to 'ring-fence' the digital economy from the economy at large. 95% of businesses in OECD countries benefit from a high-speed Internet connection and the volume of data created across the globe is expected to double each year. The emergence of new business models made possible through digital technologies, though, is compelling tax authorities to adapt their tax administrative systems as well as their approach to taxation of digitalised businesses.

The Internet enables companies to scale across global markets without a significant physical presence—a feature that is notably helping small businesses to export to an unprecedented degree. Digitalisation is also often accompanied by the growing

importance of intangible assets, such as intellectual property, and data.

## A global approach is needed to adopt tax rules to the digitalised world

The European Commission proposals include the introduction of an interim turnover-based tax (equalisation levy), where businesses would be taxed based on revenue as opposed to profits. The OECD report also discusses such interim measures and identifies the constraints they present, but specifically does not recommend them.

At the event, private sector participants were united in stating their concerns over the drawbacks of such short-term measures, such as the expected risk of double taxation and increased compliance and administrative costs, as well as the arbitrary thresholds for being subject to the proposed interim tax.

While digitalisation presents new challenges and opportunities, participants agreed that the principles of a fair tax system—consistency, predictability, neutrality—are just as relevant as ever for both public authorities and business and that a global approach to taxing a globalised digital economy is what all stakeholders are aiming for.

The ProCredit Bank Georgia logo, featuring a globe icon and the text "პროკრედიტ ბანკი" and "ProCredit Bank Georgia".

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## financial news

# Inflation Rate in Georgia, June 2018

The FINANCIAL -- In June 2018 the monthly inflation rate amounted to -0.6 percent. Compared to the same month of the previous year the Consumer Price Index change (annual inflation rate) posted a 2.2 percent increase.

The following table shows percentage changes in prices for the commodity groups of the consumer basket as well as the relevant contributions to the overall monthly inflation rate.

The monthly inflation rate was mainly influenced by price changes for the following groups:

Food and non-alcoholic beverages: prices in the group decreased by 2.6 percent, contributing -0.79 percentage points to the overall CPI change. Prices decreased for the following subgroups: fruit and grapes (-14.6 percent), vegetables (-13.9 percent), milk, cheese and eggs (-2.3 percent), oils and fats (-0.8 percent). In the meantime, the prices increased for meat (0.9 percent);

Transport: prices went up by 0.8 percent, contributing 0.1 percentage points to the overall index change. Prices increased for operation of

personal transport equipment (1.5 percent). Meanwhile, the prices were lower for the subgroup of purchase of vehicles (-2.1 percent);

Alcoholic beverages and tobacco: prices in the group were up by 1.1 percent, with a relevant contribution of 0.08 percentage points to the monthly inflation. Prices increased for the subgroup of tobacco (1.6 percent).

The following table shows percentage changes in prices for the commodity groups of the consumer basket, as well as the relevant contributions to the overall annual inflation rate in June 2018.

The annual inflation rate was mainly influenced by price changes for the following groups:

Transport: prices in the group were higher by 4.6 percent, with a relevant contribution of 0.63 percentage points to the overall index growth. Prices within the group increased for operation of personal transport equipment (8.3 percent). Meanwhile, prices were lower for the subgroup of purchase of vehicles (-10.8 percent);

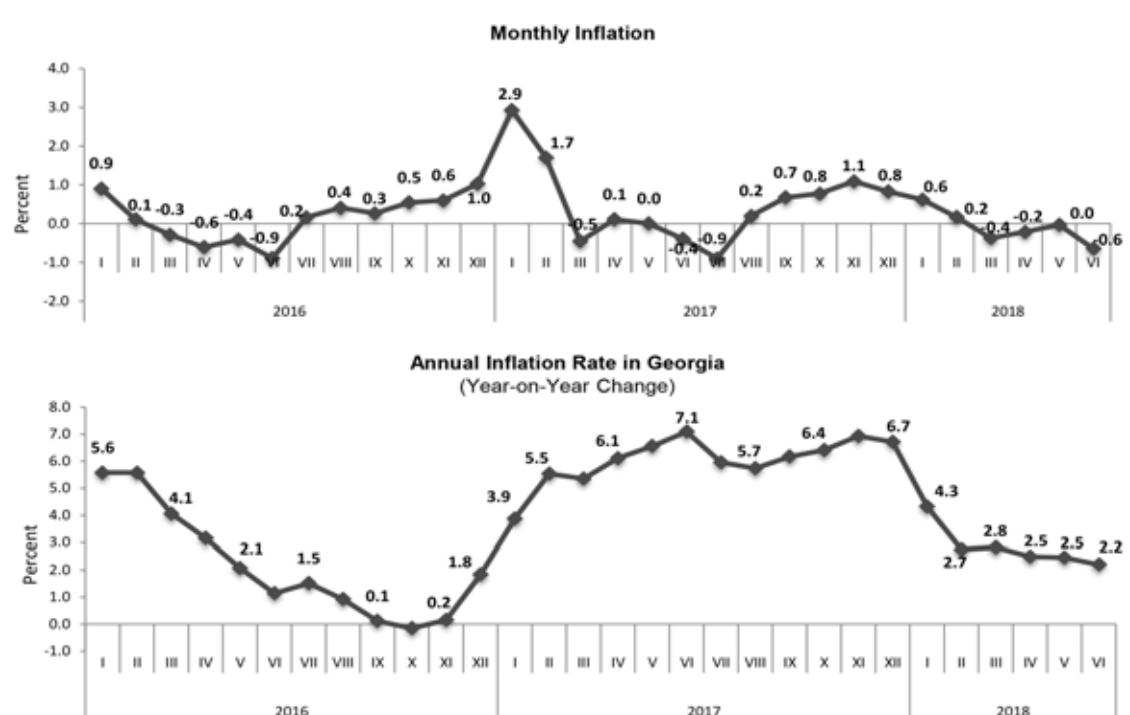
Housing, water, electricity, gas

and other fuels: prices went up by 5.2 percent, contributing 0.43 percentage points to the annual inflation. The prices were higher for the subgroups of water supply and miscellaneous services relating to the dwelling (7.7 percent) and electricity, gas and other fuels (5.8 percent);

Health: prices increased by 5.1 percent, with a relevant contribution of 0.43 percentage points to the annual index change. Within the group prices were higher for the following subgroups: medical products, appliances and equipment (9.2 percent), out-patient services (3.4 percent) and hospital services (2.4 percent);

Alcoholic beverages and tobacco: prices in the group increased by 4.9 percent, contributing 0.34 percentage points to the annual inflation. Prices were higher for the subgroup of tobacco (8.9 percent);

Clothing and footwear: prices decreased by 7.7 percent, which resulted in a -0.29 percentage point contribution to the overall inflation. Prices went down both for clothing (-7.9 percent) and footwear (-6.8 percent).



# Global insurance premiums continued to rise in 2017

The FINANCIAL -- Global insurance premiums increased 1.5% in real terms<sup>1</sup> to nearly USD 5 trillion in 2017, after rising 2.2% in 2016. Global life premiums increased 0.5% in 2017, while global non-life premiums rose 2.8%.

Growth in both the life and non-life sectors slowed. Falling life premiums in advanced markets such as the US and Western Europe were the main cause of drag on overall global premium growth. Emerging markets, especially China, continued to drive growth. The Swiss Re Institute expects global non-life premiums to rise, led by the US, where the economy is strengthening. It also predicts that global life insurance premiums will improve over the next few years, driven by strong growth in China, according to Swiss Re.

The annually published “world insurance” sigma report on premium volumes and growth trends reveals that the expansion of global premiums has slowed to 1.5% from 2.2% in 2016. Global life premiums increased to roughly USD 2.7 trillion in 2017, while global non-life premiums rose to approximately USD 2.2 trillion. Growth in both the life and non-life sectors slowed.

Falling life premiums in advanced markets such as the US or Western Europe were the main cause of drag on life premium growth. Slower, but still solid growth in emerging markets led to the slowdown in the non-life sector.

Nevertheless, emerging markets, especially China, remain an important driver of global premium



SINCE THE GLOBAL FINANCIAL CRISIS OF 2008/2009, EMERGING ASIA, LED BY CHINA, HAS BECOME THE LARGEST SOURCE OF GROWTH IN THE GLOBAL INSURANCE MARKETS

growth. China continued to be among the world's fastest growing insurance markets, particularly in life.

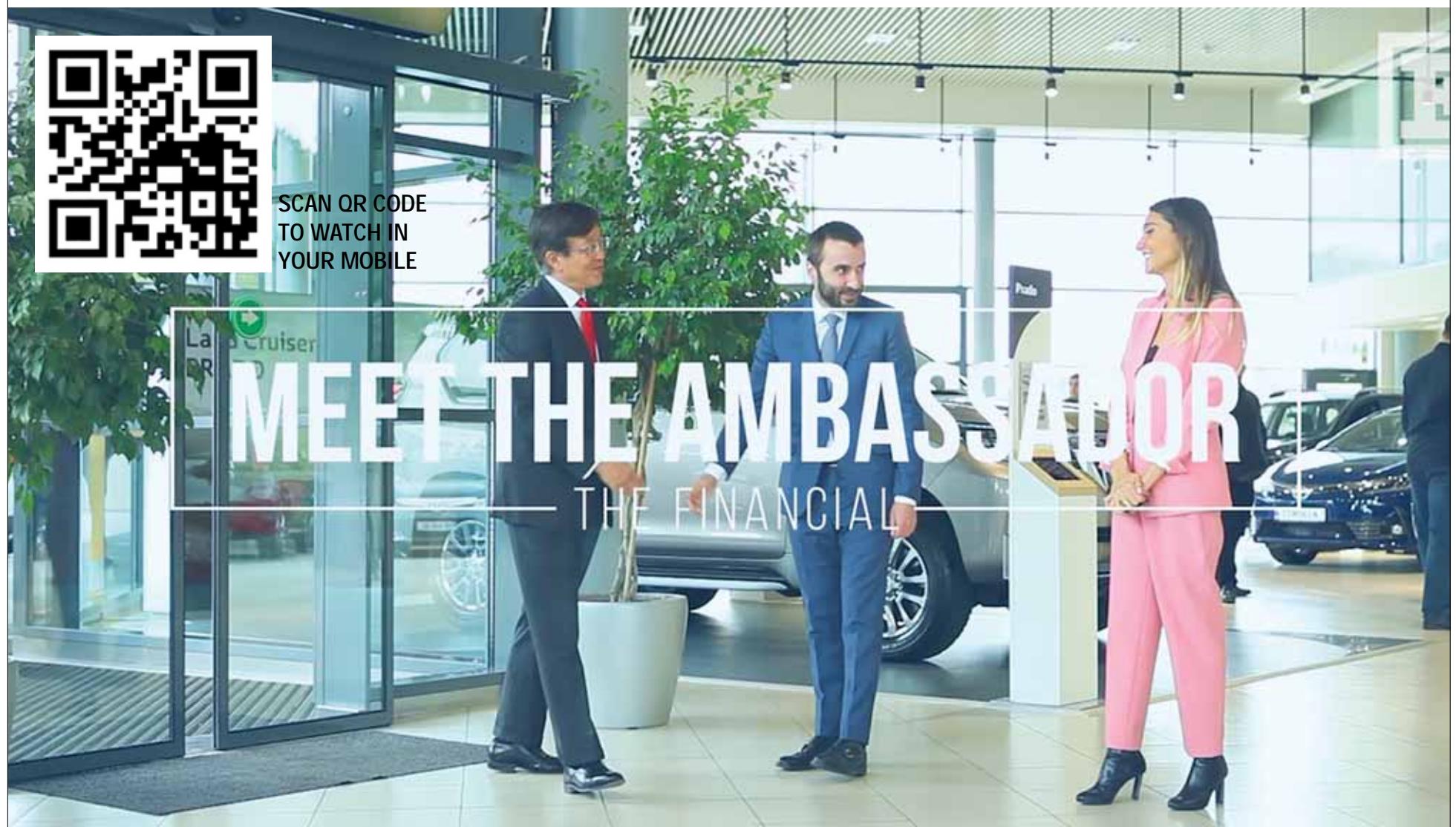
## Emerging markets premium growth continues

In emerging markets, life and non-life premiums increased 14% and 6.1% respectively in 2017. In the non-life sector, growth in 2017 has slowed but still remained robust. The slowdown in emerging markets was largely driven by China, where the speed of expansion halved to a still solid 10%. The insurance markets in emerging countries have outperformed the corresponding economies for decades, given the current low levels of insurance penetration. In these markets, incomes, revenues and assets of individuals and companies are growing, which in turn boosts the demand for insurance.

boosts the demand for insurance. China continued to be the main growth engine in emerging markets. Compared to 2016, growth slowed in the region but remained robust. The Chinese life market grew by 21% in 2017, well above its ten year average of 14%. China is now the second largest life market globally after the US and accounts for more than half of emerging market life insurance premiums written, or 11% of the world total.

Continued on p. 13

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.



**Koba Gvenetadze:**



**“Interest rates are decreasing for loans issued to legal entities and individuals and the interest rate spread is also shrinking.”**

**Valeri KVARATSKHELIA**  
**FactChek**

**VERDICT:**  
FactCheck concludes that Koba Gvenetadze's statement is **TRUE**.

#### RESUME:

In parallel to the development of the banking sector, market interest rates for loans in Georgia have been characterised with a clear tendency of decrease between 2002 and 2018. At the same time, interest rates are decreasing at a slower pace for loans to individuals denominated in the national currency as compared to loans to individuals denominated in a foreign currency or loans issued to legal entities.

The interest spread, which is the difference between interest rates on loans and interest rates on deposits, also has a clear tendency of decrease. As with interest rates for loans, the pace of the decrease for the interest spread is also slower for operations made by individuals in the national currency. The figure itself is substantially higher as

compared to the difference in operations made by individuals in the national currency and by legal entities in any currency.

#### ANALYSIS:

The President of the National Bank of Georgia, Koba Gvenetadze, in his speech at the Parliament of Georgia, stated that interest rates for loans issued to both legal entities and individuals are characterised by a tendency of decrease. The same applies to the interest rate spread.

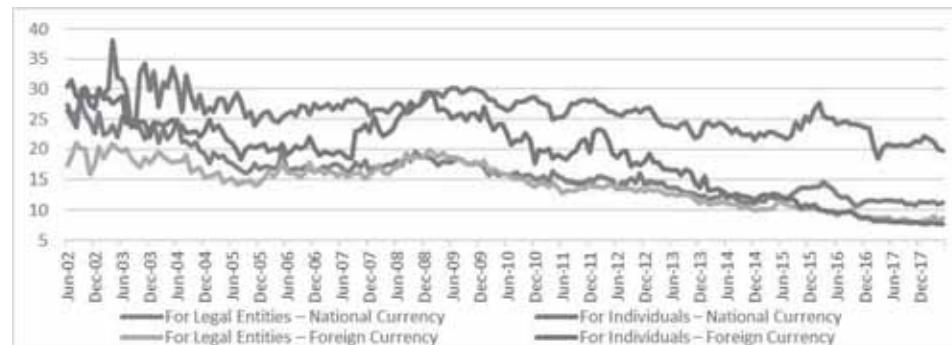
As illustrated by the graph, the interest rates for loans in Georgia have a general tendency of decrease. However, differences are still visible if we take a look at borrower and loan currency. Specifically, the pace of decrease for loan interest rates issued to individuals in the national currency is much slower as compared to the interest rate decrease in loans issued in the national currency or to the interest rate decrease in loans in any currency issued to legal entities. At the same time, the interest rate change amplitude (the difference between the highest and the lowest points during a certain period of time) is higher in regard to

individuals rather than legal entities.

Of note is that in parallel with the decrease in the interest rate for loans issued in a foreign currency, a short-term increase in loans issued in GEL has been visible since 2015. This is stipulated by the increased demand for loans issued in GEL which in turn was caused by the following reasons: the sharp depreciation of GEL and the service of debts issued in a foreign currency becoming more expensive alongside fluctuating expectations. However, the interest rate for loans denominated in GEL still continued to decrease following a short-term growth.

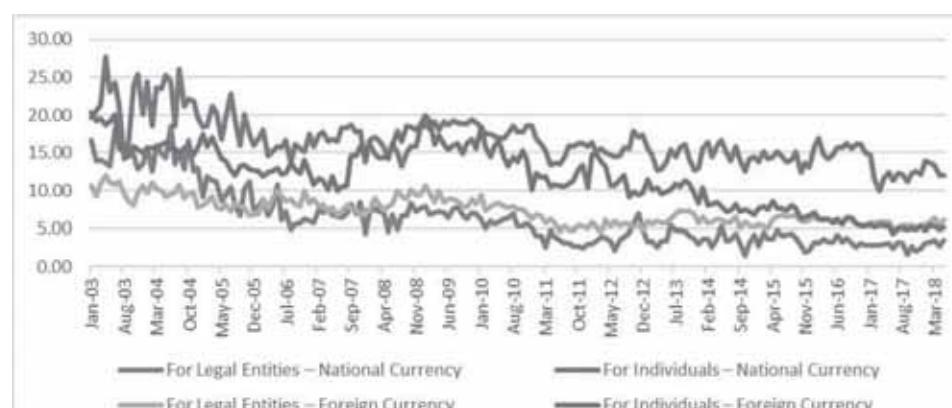
As illustrated in the graph, the interest rate spread has a clear tendency of decrease similar to the interest rate. Therefore, the interest rate for loans is getting closer to the interest rate for deposits. An analysis of borrower and loan currency demonstrates that the interest rate spread decreases slower in the case of individuals making operations in the national currency and the spread itself is relatively high. The figure is the lowest in operations made by legal entities in GEL.

Graph 1: Loan Interest Rate Change Tendency in Georgia



Source: National Bank of Georgia

Graph 2: Changes in Interest Rate Spread



Source: National Bank of Georgia

## Fitch Rates Georgian MFO Swiss Capital ‘B-’; Outlook Stable

The FINANCIAL – Fitch Ratings has assigned JSC Microfinance Organization Swiss Capital a Long-Term Issuer Default Rating of ‘B-’. The Outlook is Stable. Fitch has also assigned the company's proposed local bond an expected senior unsecured ‘B-(EXP)’, aligned with the IDR.

“The ratings of Swiss Capital reflect its business focus on consumer and micro lending in the high-risk Georgian operating environment, its rapid recent growth, and market and refinancing risks resulting from a concentrated funding profile with a high share of foreign currency”, agency said. “The ratings also reflect the company's high risk appetite, which has resulted in large credit losses. Such losses are being compensated by wide interest rate spreads, while capitalisation is seen as a strength and should support future rapid growth”.

“The ratings are constrained by Swiss Capital's mono-line business model, as the company is focused on consumer and micro lending in Georgia. The franchise is narrow as the company accounts for a low 5% of total microfinance sector assets, despite significant lending

expansion in 2014-2017 (43% average loan growth).“

“Swiss Capital at end-2017 reported a 15% non-performing loans ratio (NPLs, loans overdue over 90 days to gross loans), while reserve coverage of NPLs was low at 44% (11% and 51% at end-2016, respectively). The unreserved portion of problem loans was 14.5% of equity at end-2017, which is moderate in Fitch's view. At the same time, the NPL origination ratio (defined as net increase in NPLs plus write-offs divided by average performing loans) was 10% in 2017, up from 3% in 2016.

“Positively, the majority of loans are secured either with vehicles (64% of the total) or with real estate (20%). Loans in foreign currency, which Fitch views as higher-risk composed 20% of end-2017 total loans but this portfolio is in run-off mode due to regulatory restrictions.

“Swiss Capital demonstrates strong, albeit rather volatile, profitability, with the pre-tax profit-to-average assets ratio at 12% in 2017, down from 30% in 2016. Wide interest rate margin (45% in 2017) was driving the bottom-line results. Due to these wide margins impairment

charges were a moderate 23% of pre-impairment profit (4% of average loans), but would increase to over 50% should the company fully provide for the new NPLs generated in 2017. Fitch expects Swiss Capital's profitability to moderate due to recent regulatory initiatives to cap the interest rate for microfinance organisations at 50% (2017 interest yield amounted to 49.6% of average portfolio).

“The main funding sources for Swiss Capital are concentrated and short-term with the main sources being secured bank loans (39% of total funding at end-2017), unsecured promissory notes and other loans (38%) and related-party funding (23%). Regulator-imposed limitations on promissory notes restricting individuals to hold less than GEL100,000. Swiss Capital therefore needs to refinance GEL3.7 million of promissory notes (12% of end-2017 funding). Management plans to refinance those with a debut issue of local bonds and/or bank financing. Short-term funding (maturing in 2018) is a significant 48% of total debt, making Swiss Capital reliant on refinancing and new borrowings”.

## TBC Bank Criticised for Lack of Females in the Boardroom

The FINANCIAL -- FTSE 350 companies are falling short of their targets for female appointments in the boardroom. For them to meet the 2020 government-backed targets they will have to make more than 40% of their appointments over the next two years go to women.

According to figures released by the Hampton-Alexander review on Wednesday, companies are still far away from achieving the long-term goal of having 33% female boardrooms. There are still ten firms which have boards that are entirely male.

Labor MP Rachel Reeves said that the ten companies with all-male boards must drag themselves out of the dark ages. She said that women bring a more diverse and valuable perspective to the running of a business, compared to the old boys' network. Many of the biggest companies still have a long way to go with regard to the 2020 goals, and progress has so far been at a snail's pace, with too few women taking the helm of big companies. There is no excuse, today, for having an all male board.

## Golden Brand Company XS Toys to Launch Online Store in 2018

The FINANCIAL -- Children's toy store chain in Georgia 'XS Toys' is going to launch an online store this year, where customers will be able to buy all their top quality toys online. Giorgi Benashvili, Sales and Marketing Manager at XS Toys, believes that the new online store will make it easier for customers to access the full range on offer at XS Toys.

"We also plan to open new stores in Georgia in the future," said Benashvili.

As of today there are five XS Toys stores located in the key

shopping centres in Georgia's capital Tbilisi and one store in the Black Sea resort town of Batumi.

XS Toys offers top quality products, presenting them in a friendly and modern environment designed and developed in-house. Particular attention is given to the TV and online content-based characters and exclusive XS Toys product lines. Over 20,000 sorts of toys are sold at XS Toys stores.

There are six branches of XS Toys in Georgia, of which

five are in the capital Tbilisi and one in the Black Sea resort town of Batumi. Tbilisi's branches are located in Tbilisi Mall shopping centre (on the second floor); shopping gallery Merani at 42, Rustaveli Ave (third floor); City Mall shopping centre at 1, Kavtaradze Str (second floor); East Point shopping centre (first floor); and Galleria Tbilisi shopping centre (fourth floor). In Batumi XS Toys is located on Era Square at the crossroads of Gamsakhurdia and Abashidze streets.

# For the first time, U.S. resettles fewer refugees than the rest of the world

The FINANCIAL -- Canadian Border Services Officer Boakye-Cotie processes a Syrian refugee family at Toronto Pearson International Airport in December 2015. Non-U.S. countries resettled more than twice as many refugees as the U.S. in 2017.

The number of refugees resettled in the United States decreased more than in any other country in 2017, according to a Pew Research Center analysis of new data from the United Nations High Commissioner for Refugees (UNHCR). This represents the first time since the adoption of the 1980 U.S. Refugee Act that the U.S. resettled fewer refugees than the rest of the world.

The U.S. has historically led the world in refugee resettlement. Since 1980, the U.S. has taken in 3 million of the more than 4 million refugees resettled worldwide.

Number of refugees resettled in the U.S. falls below total from the rest of the world for the first time in 2017. But in 2017, the U.S. resettled 33,000 refugees, the country's lowest total since the years following the Sept. 11 terrorist attacks and a steep drop from 2016, when it resettled about 97,000.



Non-U.S. countries resettled more than twice as many refugees as the U.S. in 2017 – 69,000 – even though refugee resettlement in these nations was down from 92,000 in 2016.

Previously, the closest the rest of the world had come to surpassing the U.S. on this measure was 2003, when the U.S. resettled about 28,000 refugees and the rest of the world resettled about 27,000.

Many top nations resettling refugees saw decreases in 2017. Despite a sharp single-year decline in refugee resettlement, the U.S. still resettled more refugees (33,000) than any other one country. Following the U.S. were Canada

(27,000), Australia (15,000) and the United Kingdom (6,000). Sweden, Germany, Norway and France each resettled about 3,000 refugees. Per capita, Canada led the world by resettling 725 refugees per 1 million residents, followed by Australia (618) and Norway (528). The U.S. resettled 102 refugees per 1 million U.S. residents.

Overall, the world resettled 103,000 refugees in 2017, down from 189,000 in 2016. The broad-based decline included decreases in other leading countries in refugee resettlement, such as Canada and Australia, though the drops in these countries were more modest than those in the U.S.

# Global insurance premiums continued to rise in 2017

Continued from p. 6

## Premiums in advanced markets face headwinds

Non-life premium growth in advanced markets remained broadly stable in 2017 at 1.9%. In the US, the non-life industry benefitted from higher rates in motor business, while prices in commercial lines remained under pressure.

Life premiums in advanced markets, which fell 2.7% in 2017, were the primary cause of the drag on global growth.

Asia has been an important contributor to premium growth on two occasions since 1960. In the late 1970s and early 1980s, life insurance in Japan was in high demand due to the soaring levels of household saving and the country's less developed social security system for old age provision. Since the global financial crisis of 2008/2009, Emerging Asia, led by China, has become the largest source of growth in the global insurance markets, although penetration levels have been gradually increasing across all regions. The regional structure of global insurance markets has shifted from Europe and North America to Advanced and Emerging Asia since 1960.

The life sector in advanced markets has failed to recover from the 2008 financial crisis. Well documented factors, such as the depressed economic environment, stagnant wages combined with low interest rates and changing solvency regimes made traditional savings products with interest rate guarantees both unattractive for consumers and life insurers.



**Koba Gvenetadze:**

PRIME MINISTER OF GEORGIA



**"International reserves increased by USD 282 million in 2017 and now constitute USD 3 billion whilst the reserve adequacy level is getting closer to 90%"**

**Valeri KVARATSKHELIA**

FactChek

**VERDICT:**  
FactCheck concludes that Koba Gvenetadze's statement is TRUE.

## RESUME:

The official reserves of the National Bank of Georgia increased by USD 283 million over the course of 2017 and constituted USD 3.04 billion by the end of the year. Similar to the previous period, the National Bank's interventions on the currency market, received foreign grants and loans as well as the Government of Georgia's operations denominated in foreign currency comprise a set of factors affecting changes in the reserves.

The reserve adequacy index was 86% for Georgia in 2017. This index assesses the level of sufficiency of existing reserves for a country's service of certain obligations as well as its needs alongside its abilities to make payments if certain short-term difficulties arise (force majeure, crisis). In accordance with the International Monetary Fund's methodology, the adequacy index figure should be within the margins of 100%-150%. Therefore, Georgia's official reserves did not meet the established requirements last year.

## ANALYSIS

The President of the National Bank of Georgia, Koba Gvenetadze, in his speech at the Parliament of Georgia, stated that the country's international reserves increased by USD 282 million in 2017 and con-

stituted USD 3 billion. Mr Gvenetadze also claimed that in terms of adequacy, the level of reserves was close to the 90% mark.

Having sufficient official international reserve volumes is one of the indicators of a country's economic stability. The essential function of international reserves is to ensure liquidity in the economy during the periods of crisis. At the same time, reserves are a form of guarantee that a country is able to serve its external obligations and make payments in foreign currency without hindrance. Reserves can consist of monetary gold, foreign currency, special drawing rights (SDR) and any other assets as defined by the Organic Law on the National Bank of Georgia. Most (90%) of Georgia's international reserves comprise reserves in foreign currency.

The official reserves of the National Bank of Georgia were constantly growing in the period of 2004-2012 and increased from USD 196 million (2003) to USD 2.87 billion. In light of the 2014-2015 currency crisis, the international reserves dropped to USD 2.52 billion. In light of the relatively stable GEL exchange rate at a new equilibrium, the reverse process to fill up the reserves has started.

At the end of 2017, Georgia's international reserves increased by USD 283 million as compared to the same period of the previous year and constituted USD 3.04 billion. Throughout 2017, the primary factors affecting the volumes of international reserves were the NBB's interventions on the currency market (net purchases of USD 129.8 mln), foreign grants and loans (USD 497 mln), the Government of Georgia's currency expenses (USD 230 mln) and service of

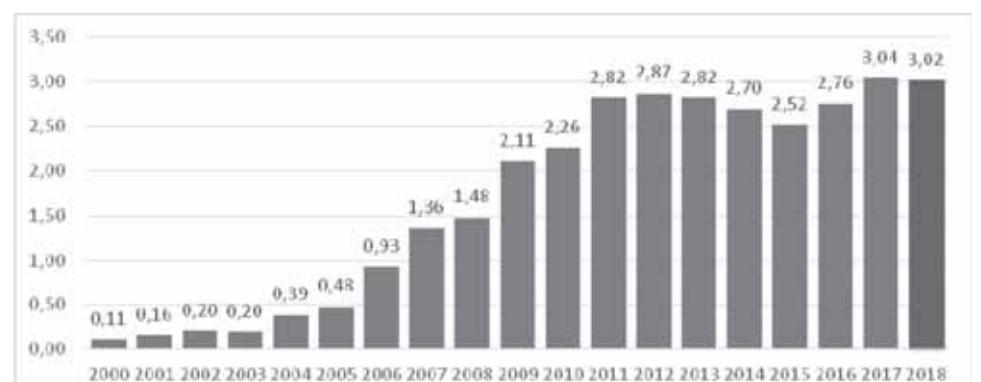
foreign debt (USD 272 mln).

However, the absolute figures for international reserves do not contain complete information because when considering the characteristics of an economy, a certain volume of international reserves might be considered high for one country but could be extremely low for another. Therefore, specific indicators have been elaborated in order to assess reserve adequacy. To this end, the International Monetary Fund (IMF) developed the ARA methodology. The IMF put Georgia's international reserve adequacy level at 86% at the end of 2017 according to the ARA methodology. The ARA Metric, whose ratio is used to assess reserve adequacy, is calculated by the following formula for countries with floating exchange rates: ARA Metric = 5% x Exports + 5% x Broad Money + 30% x Short-term Debt + 15% x Other Liabilities. In accordance with this methodology, this figure should be within the range of 100%-150%. Therefore, Georgia cannot yet meet the reserve adequacy requirements. That requirement was met in 2006-2007, 2010-2011 and in 2013.

Apart from the aforementioned ratio, another indicator to assess reserve volumes is the import coverage ratio. In accordance with this approach, a country's international reserves should exceed the estimated volumes of imports for the next three months (the ratio should exceed 3). As of 2017, the import coverage ratio for Georgia was 3.6; that is, Georgia's international reserves were sufficient as of 2017 to cover the value of imports for the next 3.6 months.

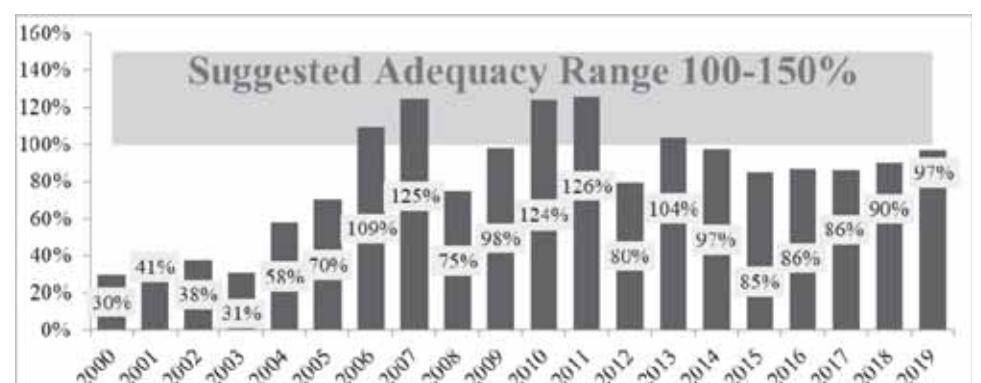
1. 2018 figures are as of 31 May.

Graph 1: Official International Reserves1 (USD Billion)



Source: National Bank of Georgia

Graph 2: Reserve Adequacy (IMF ARA Methodology)



Source: International Monetary Fund

# How to Manage an Employee Who's Having a Personal Crisis

Continued from p. 6

band may have months to live, rather than mere weeks. That did little to lessen the emotional devastation. "It was so difficult to predict," he said. It's such an emotional time, and "you can't ask for a timeframe. She wants to have a diagnosis and she wants to be able to maintain a regular work schedule. But she just doesn't know." From a manager's standpoint, he said, "you have to take that burden off the employee."

David recognized that it would be better to offer the

woman more flexibility, a shift she happily embraced. The management team restructured her job away from her responsibilities in client services, which demanded high close rates and availability, to duties that weren't as time sensitive. "This provided our team with less reliance on her and also gave her the freedom to focus on her important family matters that were the priority," he said. She also agreed to switch her compensation from salaried to hourly, which allowed the firm the flexibility to carry on the arrangement indefinitely.

Ten months after the diag-

nosis, she was still with the company in the modified arrangement. "You have to act with compassion," said David, "while also being responsible to clients and other employees." Critical to the firm's success? Making sure they could continue to be flexible. "Sometimes you just don't know how a situation will end," David said. "You need to keep an open mind."

*Carolyn O'Hara is a writer and editor based in New York City. She's worked at The Week, PBS NewsHour, and Foreign Policy*

## financial news

# ICC Looks to Establish a Branch of ICC International Arbitration Court in Georgia

**The FINANCIAL -- The International Chamber of Commerce (ICC) Georgia, which is referred to as the 'voice of business' in the country, is focusing on pushing for the establishment of a branch of the ICC International Arbitration Court in Georgia.**

"If this happens it will result in a major improvement of the business climate in the country considering that the Judiciary is still perceived by investors and businesses to be unreliable," said Fady Asly, Chairman of ICC.

The ICC was officially established in 2002 as the Georgian chapter of the International Chamber of Commerce. Since taking office in early 2008, ICC Georgia's selected board of directors has been extremely active and dedicated to improving the business and investment climate in the country.

The Georgian National Committee of the ICC is the largest and most vocal global business association. It includes over 350 corporate and youth members and 27 business associations.

Today ICC Georgia unites leading companies and business associations within Georgia. A dynamic and energetic business organisation in the country represents a wide array of business sectors and partner organisations.

ICC Georgia has had the opportunity to engage many of



FADY ASLY, President of International Chamber of Commerce

the policy makers in a dialogue including the President of Georgia, Speaker of Parliament, Prime Minister and cabinet of ministers, opposition leaders, members of diplomatic missions and international financial institutions.

ICC continues to support businesses in Georgia and also

business-oriented projects and initiatives, among them Golden Brand – one of the most influential and prestigious business awards in Georgia. "Like every year, ICC worked in close cooperation with The Financial and Global Idea regarding Golden Brand. ICC is a staunch supporter of the event

and of both *The Financial* and *Global Idea*," said Asly.

"The Golden Brand Awards has become the most prestigious event for the business community in Georgia and soon to be outside Georgia as well," he added.

**Q. What are the most interesting fields of the Georgian economy currently for investors?**

A. Currently tourism, the hospitality business, real estate development and small industries are the major focus of investors, and we are witnessing a global interest in Georgia and especially from neighbouring countries and the GCC countries.

Georgia has become a very serious destination for investors. As Chairman of Channel Georgia Consulting, a firm based in the UAE, I am in daily contact with investors from the GCC and I am amazed by the incredible interest of Arab investors in Georgia.

**Q. The Government is trying to foster entrepreneurial spirit among the young generation and encourage the creation of new businesses. We see new start-up businesses are appearing in the country. How optimistic are you about these new businesses? Will this new generation of business society bring new developments to Georgia's business environment?**

A. The Government is very supportive of start-up businesses; let's not forget that small and medium size businesses have to become the

backbone of the economy.

Young people have very good business ideas; the limiting factor though remains access to finance.

We have noticed that the Government is well aware of this issue and is working on a strategy to ensure the financing of smaller and start-up businesses.

**Q. In general, how has Georgia's business society been changing year after year?**

A. The business society today is very different from what it was twenty years ago; businesses have learned international business practices and have adjusted to those standards.

The notion of fair competition is developing, and business-people understand now that competition requires cost-cutting, high level services, and highly performing staff; of course this is benefiting businesses and consumers alike and is resulting in an efficient economy.

**Q. The number of foreign investors/companies is also increasing in Georgia. Are there equal conditions for any foreign company in the country? Or which of them face the most challenges?**

A. I believe that there is a level playing field in Georgia for all businesses whether foreign or local; of course Georgian businesses will always be at an advantage considering that they know who is who, they know the rules and the mentality, but this is very normal for local businesses in any country.

Having said that, under the law everyone is equal and that's why Georgia is moving forward so fast.

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# The most important intelligence isn't artificial...

A new report offers a glimpse into the future of a career in banking, predicting six surprising new types of jobs and how the digital revolution will evolve the role of people in the workforce

The FINANCIAL

**C**onsensus is growing that mixed, or augmented reality (MR/AR) will be our primary interface to the digital world in the future, research commissioned by HSBC, Human Advantage: The Power of People, analyses the challenges and opportunities facing the banking industry. Paper says designing complex three-dimensional interfaces and making them slick and intuitive will be a major new employment area for the future, requiring skills in aesthetic design, branding, user experience and 3D mechanics.

"Many of the roles and job titles of tomorrow are unknown to us today," said Josh Bottomley, Global Head of Digital, Retail Banking & Wealth Management, HSBC. "One thing is certain, however - artificial intelligence will not replace human intelligence. Blending the best technology with the power of people will be the difference between good and great when it comes to customer experience."

## Algorithm Mechanic

A rising proportion of decision-making is made by algorithms, fed on a variety of input data to reach rapid conclusions. However, these algorithms operate in a fast-changing environment of shifting regulations, new information, and evolving products. Constantly tuning these algorithms to optimise banking customer experience, and avoid 'computer says no' moments, will be a skill in growing demand, research paper said.

"As we shift to a low-code/no-code environment for technology operation, this role will require skills in risk management, service design, and financial literacy, rather than technological proficiency".

## Conversational Interface Designer



Machines have become progressively more human in their interactions over the years. Chatbots are already used in banking to answer simple queries and gather information. Where instructions used to be complex strings of code, we can now speak to our machines and they will interpret our needs. Conversational interface design is an emerging skill to help us take best advantage of voice and text chatbots, and one that will only grow in importance as the technology becomes more mainstream.

Key skills: Building natural, low-friction interfaces that go beyond solving immediate challenges to surprise and delight customers requires a mixture of creative, linguistic, and anthropological skills.

## Universal Service Advisor

The separation between digital, physical and remote service environments is breaking down. At any moment a customer may want serving in a branch, via chat app,

voice, or in augmented or virtual reality. As mixed reality becomes the main interface between people and machines, highly skilled service agents, empowered to support customers across a variety of products, will be able to switch seamlessly between virtual and physical environments from anywhere anytime to meet customer needs.

Key skills: Critical skills for tomorrow's customer advisor are a combination of product and domain knowledge with excellent customer communication and empathy. This will require a level of comfort with the key communications technologies, including performing in a virtual environment.

## Digital Process Engineer

Many banking customer interactions - from onboarding to replacing a lost card - follow standardised flows that balance security and regulatory requirements with the desire for a slick customer experience. The rate of change of these processes is likely to increase, as is their complexity,

as they combine service and information components from multiple sources. A digital process engineer analyses, assembles and optimises these workflows, adjusting them constantly to maximise throughput and minimise friction.

Key skills: The digital process engineer will need great discovery skills, to understand large and interconnected workflows and diagnose problems and bottlenecks, and creative skills to help them to prototype and test solutions.

## Partnership Gateway Enabler

In an increasingly networked business world, the digital relationships with banking partners, like fintechs and global technology companies, will need careful monitoring, maintenance, and negotiation. With both cash and customer data potentially flowing between organisations, someone will need to keep a watchful eye on utilisation and conduct, as well as ensuring performance and regulatory compliance.

Key skills: Gateway Controllers will balance technical knowledge of the digital interfaces with an understanding of security and risk management. Communications skills for partner engagement will also be highly valued.

## Core skills – the three C's

Examining the six future roles, a common set of transferable skills emerge; it is these skills that will continue to differentiate humans from machines in the workforce. The report terms them the 'Three Cs': Curiosity, Creativity and Communication.

Co-author of the report, Applied Futurist, Tom Cheesewright, comments: "The role of humans and robots in tomorrow's workforce has been hotly debated the world over, but the positive impacts of automation have largely been overlooked. Whilst machines will continue to take on the more robotic processes, increased emphasis will be placed on our 'most human' resources; qualities like curiosity, creativity and empathy will continue to set us apart from machines."

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# How Americans see their country and their democracy

Abigail GEIGER  
Pew RESEARCH CENTER  
AMERICA

**O**n the Fourth of July, Americans celebrate the birth of the nation and the values that have sustained the country and its democracy in the nearly 250 years since the adoption of the Declaration of Independence.

Americans' views vary when it comes to how they see the United States' standing in the world and the state of its democracy. Here are key findings from Pew Research Center surveys:

A majority of Americans believe the U.S. is one of the greatest nations in the world. More than eight-in-ten (85%) said in a June 2017 survey that the U.S. either "stands above all other countries in the world" (29%) or that it is "one of the greatest countries, along with some others" (56%). While large shares in all adult generations say America is among the greatest countries, those in the Silent Generation (ages 73 to 90 in 2018) are the most likely to say the U.S. "stands above" all others (46%), while Millennials are the least likely to say this (18%).

At the same time, nearly seven-in-ten Americans (68%) say the U.S. is less respected abroad than it was in the past. There have been considerable changes in how Republicans and Democrats view the global level of respect for the U.S., according to a survey conducted last year. Last fall, 42% of Republicans and Republican-leaning independents said the U.S. is less respected than it was in the past, the lowest share saying this in more than a decade. In comparison, 87% of Democrats and Democratic leaners said the U.S. is less respected than it was in the past, an increase from 58% in 2016.

Americans generally agree that democracy is working at least somewhat well in America, but many say that "significant changes" to the political system are needed. Nearly six-in-ten Americans say democracy



is working somewhat (40%) or very well (18%), according to a spring 2018 survey. But many Americans see the country falling short when it comes to some of the core elements of democracy. While 84% of the public says it is very important that "the rights and freedoms of all people are respected" in the U.S., just 47% say this describes the country very or somewhat well. When asked to compare the U.S. political system with others in developed countries, only about four-in-ten Americans (41%) say it is "best in the world" or "above average," while 57% say it is "average" or "below average."

Most Americans say they have achieved the "American dream"

or are on their way to achieving it. Just 17% of Americans say the American dream is "out of reach" for their family, according to an August 2017 survey.

The American dream has different meanings for Americans. Majorities say "freedom of choice in how to live" (77%), having a good family life (70%) and the ability to retire comfortably (60%) are essential to their view of the American dream. About half or fewer Americans say making valuable community contributions, owning a home and having a successful career are essential to the American dream. And just 11% say becoming wealthy is key to their view of the American dream.

About two-thirds of Americans say the country's openness to people from around the world is "essential to who we are as a nation." Just 29% say that if America is too open to people from other countries, "we risk losing our identity as a nation," according to a summer 2017 survey. Eight-in-ten Millennials say America's openness is key to the nation's identity, compared with 68% of Gen Xers, 61% of Boomers and 54% of Silents. Democrats and Democratic-leaning independents are more likely than Republicans and Republican leaners to say that America's openness is essential to the country's identity (84% vs. 47%).

A majority of Americans say the U.S. is a better place to live as a result of its growing racial and ethnic diversity. Just 9% of Americans say growing racial and ethnic diversity makes the country a worse place to live, according to a survey conducted this spring. Partisans differ in their views: While seven-in-ten Democrats and Democratic-leaning independents say the growing diversity in the U.S. makes it a better country to live, 47% of Republicans and Republican leaners say the same. More highly educated adults are more likely to embrace the effect of growing diversity on the country.

## Mothers who follow five healthy habits may reduce risk of obesity in children

The FINANCIAL – Children and adolescents whose mothers follow five healthy habits—eating a healthy diet, exercising regularly, keeping a healthy body weight, drinking alcohol in moderation, and not smoking—are 75% less likely to become obese when compared with children of mothers who did not follow any such habits, according to a new study led by Harvard T.H. Chan School of Public Health.

When both mother and child adhered to these habits, the risk of obesity was 82% lower compared with mother and children who did not.

One in five children in the U.S.

aged 6-19 have obesity, putting them at risk of diabetes, heart disease, and other metabolic conditions later in life. While it is known that genetics play a role in obesity, the rapid increase of the disease in recent years is likely due to changes in lifestyle and diet, indicating that "nurture" more than "nature" is fueling the current obesity epidemic, according to HSPH.

For this study, researchers focused on the association between a mother's lifestyle and the risk of obesity among their children and adolescents between 9 and 18 years of age. They examined data from 24,289 children enrolled in

the Growing Up Today Study who were born to 16,945 women enrolled in the Nurses' Health Study II.

The researchers found that 1,282 of the children, or 5.3%, developed obesity during a median five-year follow-up period. Maternal obesity, smoking, and physical inactivity were strongly associated with obesity among children and adolescents.

While the greatest drop in obesity risk was seen when mothers and children followed healthy lifestyle habits, many of the healthy habits had a noticeable impact on the risk of childhood obesity when assessed in-

dividually. Children of women who maintained a healthy body weight (body mass index 18.5-24.9) had a 56% lower risk of obesity compared with children of women who did not maintain a healthy weight, while children of mothers who did not smoke had a 31% lower risk of obesity compared with children of mothers who smoked.

The risk of obesity was also lower among children of mothers who consumed low or moderate levels of alcohol compared with children of mothers who abstained from alcohol. Because so few mothers in the Nurses' Health Study II were considered heavy drinkers, the re-

searchers could not determine the association between heavy use of alcohol and the risk of obesity in children.

To the surprise of the researchers, mothers' dietary patterns were not associated with obesity in their children, possibly because children's diets are influenced by many factors, including school lunches and available food options in their neighborhoods.

The findings of this study highlight the crucial role a mother's lifestyle choices can have on their children's health and bolster support for family- or parent-based intervention strategies for reducing childhood obesity risk.

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# Weekly Market Watch



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## ECONOMY

### Tourist arrivals up 20.7% y/y in June 2018

Total international visitors to Georgia increased 14.2% y/y to 0.61mn visitors in June 2018, according to the Ministry of Internal Affairs. A 20.7% y/y growth in tourist arrivals (0.40mn trips, 65.9% of total) drove the international visitors' growth. Out of top countries by visitors, in June 2018, international visitors continued to increase

	Key macro indicators		
	1H18	2017	2016
GDP (% change)	6.1% <sup>(1)</sup>	5.0%	2.8%
GDP per capita (ppp)	...	10,644	10,043
GDP per capita (US\$)	...	4,068	3,857
Population (mn)	3.7	3.7	3.7
Inflation (eop)	2.2%	6.7%	1.8%
Gross reserves (US\$ bn)	3.0	3.0	2.8
CAD (% of GDP)	11.6% <sup>(2)</sup>	8.7	12.8%
Fiscal deficit (% of GDP)	...	3.9%	4.1%
Total public debt (% of GDP)	...	44.6%	44.4%

Source: Official data, IMF

1) As of 1Q18

2) As of 5M18

from Russia (+27.5% y/y), Azerbaijan (+10.0% y/y) and Turkey (+14.7% y/y). While visitors were down from Armenia (-5.5% y/y) and Iran (-5.4% y/y).

	Key macro indicators		
	1H18	2017	2016
GDP (% change)	6.1% <sup>(1)</sup>	5.0%	2.8%
GDP per capita (ppp)	...	10,644	10,043
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Fiscal deficit (% of GDP)	...	3.9%	4.1%
Total public debt (% of GDP)	...	44.6%	44.4%

Source: GeoStat

Note: Rapid estimate for 4Q17

Georgia sovereign credit ratings		
<b>STANDARD &amp; POOR'S</b>	<b>Moody's INVESTORS SERVICE</b>	<b>FitchRatings</b>
BB- Stable Affirmed May-2017	Ba2 Stable Affirmed Sep-2017	BB- Positive Affirmed Mar-2018

Source: Rating agencies

## International ranking, 2017

### Ease of Doing Business s# 9 (Top 10)

### Economic Freedom Index # 16 (mostly free)

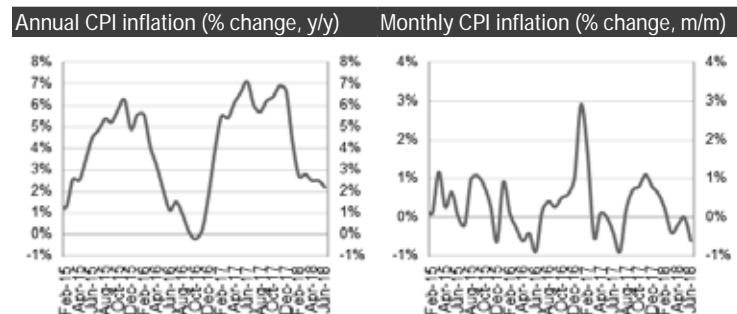
### Global Competitiveness Index # 59 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

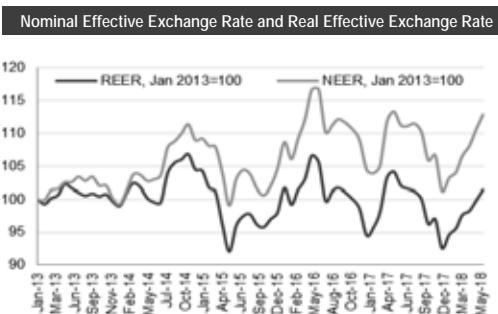
driver of monthly inflation dynamics.

### International reserves up 1.6% y/y in June 2018

Gross international reserves were up 1.6% y/y to US\$ 3.0bn in June 2018, while reserves were down 0.3% m/m, according to NBG. NBG Purchased US\$ 30mn on auctions held throughout June, 2018. Change in reserves was attributed to government FX operations and/or asset revaluation.



Source: GeoStat



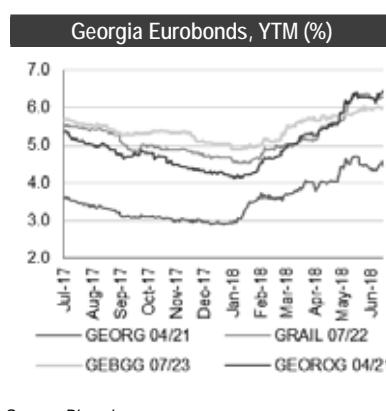
Source: NBG  
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate.

## FIXED INCOME

**Corporate Eurobonds:** Bank of Georgia Group Eurobonds (GEBGG) closed at 6.1% yield, trading at 99.7 (-0.2% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.5 (+0.5% w/w), yielding 10.7%. Georgia Capital Eurobonds (GEOCAP) were trading at 94.2 (-0.1% w/w), yielding 7.4%.

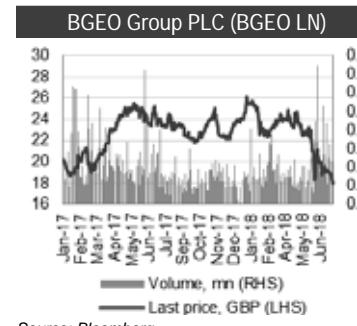
**GOGC Eurobonds** (GEORG) were trading at 101.0 (+0.2% w/w), yielding 6.3%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 105.5 (+0.3% w/w), yielding 6.2%.

**Georgian Sovereign Eurobonds** (GEORG) closed at 106.7 (+0.1% w/w) at 4.2% yield to maturity.

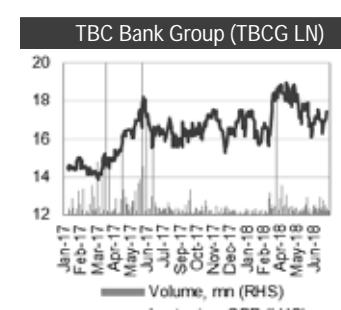


Source: Bloomberg

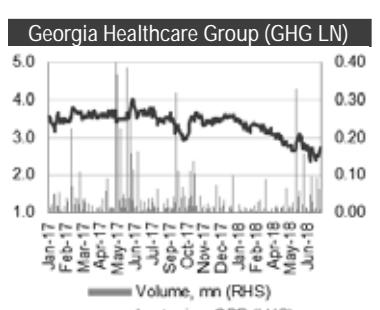
## EQUITIES



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

volume of BGEO shares traded was at 0.66% of its capitalization.

**Georgia Capital** (CGEO LN) shares closed at GBP 10.15/share (-1.44% w/w and -7.71% m/m). More than 261k shares traded in the range of GBP 10.15 – 10.51/share. The volume of CGEO shares traded was at 0.67% of its capitalization.

**TBC Bank Group** (TBCG LN) closed the week at GBP 17.32 (-0.8% w/w and +0.81% m/m). More than 97k shares changed

hands in the range of GBP 17.08 – 17.68/share. Average daily traded volume was 42k in the last 4 weeks.

**Georgia Healthcare Group** (GHG LN) shares closed at GBP 2.73/share (+8.55% w/w and +1.87% m/m). More than 83k shares were traded in the range of GBP 2.51 – 2.80/share. Average daily traded volume was 23k in the last 4 weeks. The volume of GHG shares traded was at 0.06% of its capitalization.

Local bonds			Eurobonds		
GWP 12/21	M2RE 10/19	Nikora 06/19	GLC 08/20	GEOCAP 03/24	GEBGG 06/20
Amount, US\$ mn	30*	25.0	10.0	300	500*
Issue date	12/16	10/16	08/17	03-18	06-17
Maturity date	12/21	10/19	06/19	03-24	06-20
Coupon, %	10.50**	7.5	9.0	7.00	6.125%
Fitch/S&P/Moody's	BB-/B+	-/-	-/-	n/a	-B+/B2
Mid price, US\$	n/a	102.5	101.3	102.05	94.2
Mid yield, %	n/a	5.5%	3.8%	6.00%	7.4
Z-spread, bps	n/a	n/a	n/a	n/a	451.2

\* 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

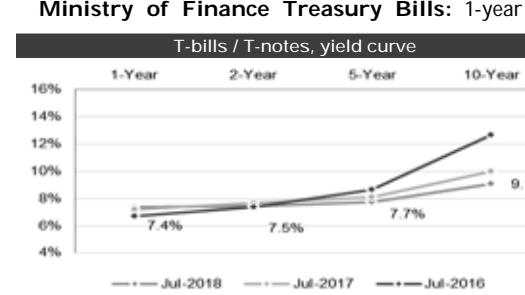
Eastern European sovereign 10-year bond performance					
Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody's)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB+/BB/Ba2	4.3
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba2	4.8
Bulgaria	323	5.000%	19/07/2021	BBB-/BB/Baa2	0.0
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba2	1.0
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	3.6
Romania	2,250	6.750%	07/02/2022	BBB-/BBB/Baa3	3.9
Russia	3,500	5.000%	29/04/2020	BBB-/BBB/Ba1	3.4
Turkey	2,000	5.625%	30/03/2021	BB+/BB/Ba2	5.6

Source: Bloomberg

## MONEY MARKET

**Refinancing loans:** National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 780mn (US\$ 318.7mn).

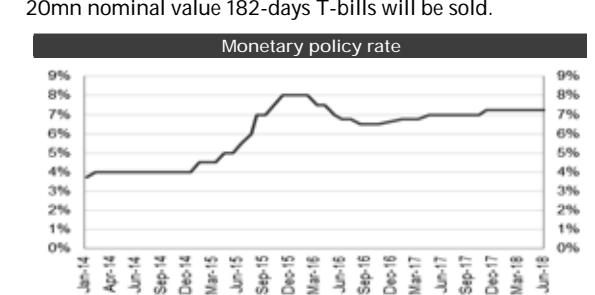
**Ministry of Finance Treasury Bills:** 1-year GEL



Source: NBG

\*Note: As of latest auction.

40.0mn (US\$ 16.4mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on July 4, 2018. The weighted average yield was fixed at 7.364%. The nearest treasury security auction is scheduled for July 11, 2018, where GEL 40mn nominal value 2-year Benchmark bonds and GEL 20mn nominal value 182-days T-bills will be sold.



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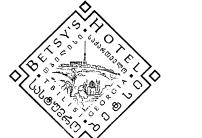
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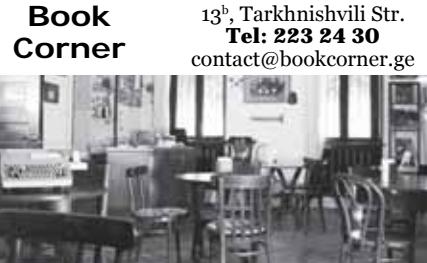
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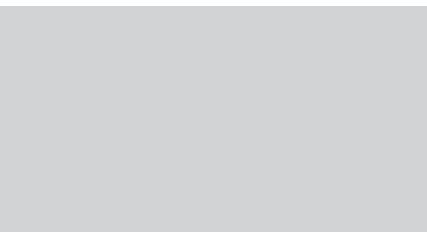
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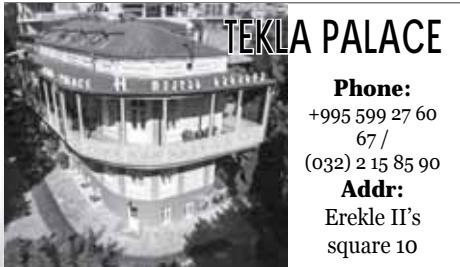
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