



Plastic Bags Became Illegal in Georgia

See on p. 11

How Russians and Americans see each other

See on p. 14



8 October, 2018

News Making Money

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UK and China leading on low carbon transition but global emissions are still rising, finds PwC's Low Carbon Economy Index

The FINANCIAL

China tops the Index with the most rapid reduction in carbon intensity of the G20 in 2017. Not one country achieving the decarbonisation rate needed to limit warming to two degrees. Emissions are on the rise again as the transition to a low carbon energy mix lags behind global economic growth. PwC's Low Carbon Economy Index (LCEI) 2018, now in its 10th year, finds that the goal of limiting global warming to two degrees looks even further out of reach as national decarbonisation rates fail to match up to the Paris Agreement.

Continued on p. 8

Economic Growth

Yaroslava BABYCH and
GIORGI MZHAVANADZE
ISET

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The second quarter's buoyant mood is fueled in part by high economic growth rates in neighboring countries reflecting positive dynamics in external factors.

Continued on p. 2

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	Oct 7	Sep 29
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1 EUR	3.0117	▲ 3.0306
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Georgia Booming

Hilton will open two hotels in Tbilisi, General Manager of Hilton Batumi Hotel

Eva BOLKVADZE

"Georgia is a beautiful country with amazing culture, amazing people, great traditions – ev-

erywhere you go you are made to feel at home. It has so much to offer that I really believe in the upcoming years Georgia will become one of the top travel destinations. ", said Torsten Weller, General Manager of Hilton Batumi Hotel in interview with The FINANCIAL.

Hilton will open two hotels in Tbilisi in the near future: A Hilton Garden Inn, second half of 2019 and a Hilton in Tbilisi on Kostavi Street, currently under construction.

Continued on p. 13

"Globalize Georgia" Fabian Hamilton MP, Shadow Minister for Peace & Disarmament

Eva BOLKVADZE
The FINANCIAL

"You have a lot of poverty here. Georgia is one of the best places in the world to make business now. You must internationalize Georgia; globalize," suggests Fabian Hamilton MP, Shadow Minister for Peace & Disarmament.

The FINANCIAL talked to fabian last week.

Q. What was the main purpose of your visit to Tbilisi?

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Continued on p. 6

Business Innovation Forum 2018

Eva BOLKVADZE
The FINANCIAL

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"In 2015, PostEurop de-

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Continued on p. 8



publicity



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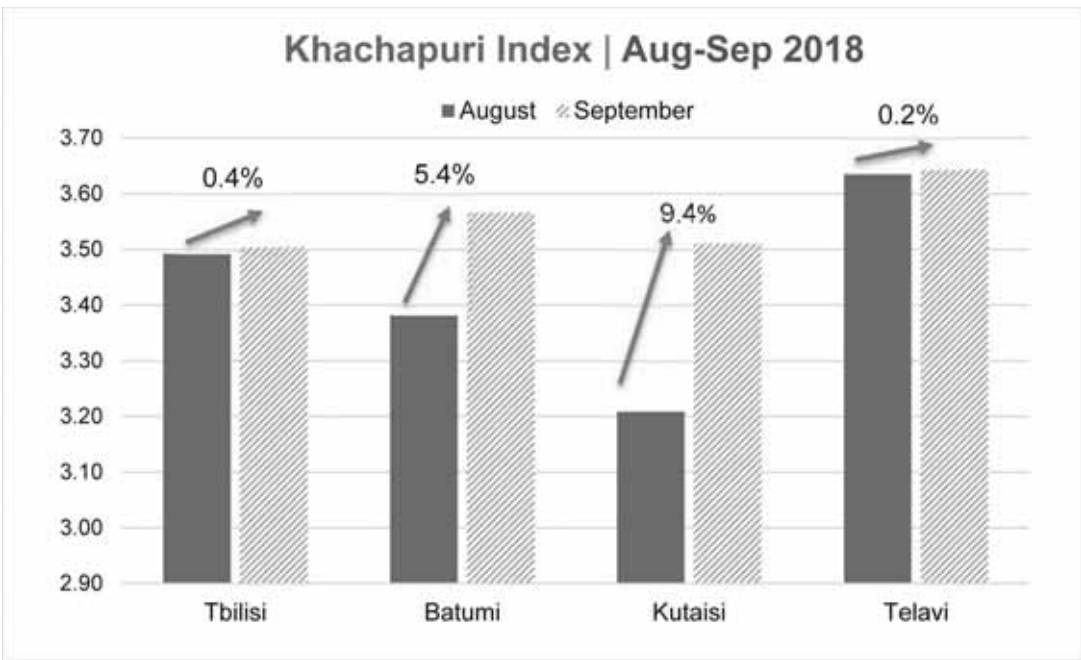
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KHACHAPURI INDEX

For more: WWW.ISET-PI.GE

TELAVI - THE MOST EXPENSIVE CITY IN SEPTEMBER

In September 2018, the Khachapuri Index showed an upward seasonal trend, reaching 3.56 GEL. This is a 3.7% increase over the previous month (August 2018), but is 2.1% lower compared to September 2017 (y/y). Such an increase in prices at this time of year is not unique to the Khachapuri Index. The index is up due to the seasonal decline in the supply of milk and cheese (the main and most expensive khachapuri ingredient), with the supply of fresh milk falling from its peak of May/June.

The average cost of cooking one standard Imeretian khachapuri increased in all major Georgian cities. The price of khachapuri varied across Georgian cities ranging from 3.50 GEL, the minimum observed in Tbilisi, to 3.64 GEL, the maximum observed in Telavi. The high prices of khachapuri can be easily explained by the fact that it is currently Rtvli (harvest) season in Kakheti. Rtvli celebrations start at the end of August and continue until the middle of October. Over this



period, Kakheti is very attractive for tourists.

In the home city of Imeretian

cheese (Kutaisi) we observe the highest price increase compared to the previous month (August

2018). It is expected that this price increase will be shortly transmitted to other cities in Georgia.

ISET ECONOMIC INDICATORS



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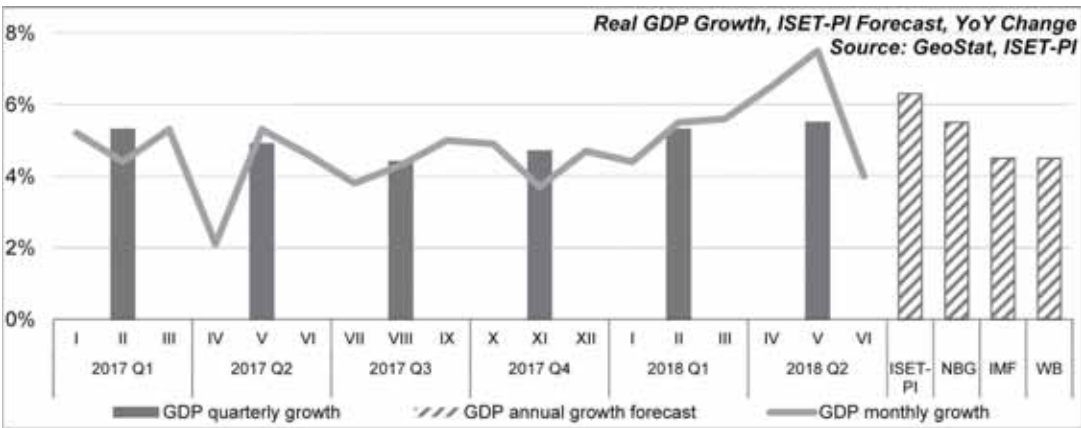
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The second quarter's buoyant mood is fueled in part by high economic growth rates in neighboring countries reflecting positive dynamics in external factors. The Armenia economy advanced 7.2% YoY in Q2 2018, following a 9.6% growth in the previous quarter. Azerbaijan (+1.3% YoY) and Russia (1.9% YoY) benefited from higher oil prices, while FIFA World Cup had an additional positive impact on the latter. The Turkish economy was still growing by 5.2% YoY in the second quarter of 2018. Notwithstanding the relatively respectable figure, this was the weakest growth



rate for Turkey since the last quarter of 2016. Weakened independence of the central bank, sharp depreciation of lira, double digit inflation, and emerging geopolitical threats were the main challenges for the Turkish economy going into the second half of 2018.

All in all, the generally favorable regional economic environment helped boost Georgia's exports of goods and services and the inflows of remittances. Together with continued strong performance of hospitality sector and increased FDI, it stimulated economic growth in Q2 2018. The main internal driver of GDP growth in the reporting period was a continued strong credit expansion, predominantly in the retail sector.

Continued on p. 17

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TBC Bank Denies Role in Okuashvili Affair, Says all Transactions Legal

Chairman of TBC Bank's supervisory board Mamuka Khazaradze denied the recent claims of Zaza Okuashvili, owner of the Omega Group business conglomerate and a Tbilisi-based Iberia TV, that implicated TBC owners in facilitating a fraudulent scheme in 2016, by which Okuashvili allegedly paid off the ex-officials affiliated with the Georgian Dream founder Bidzina Ivanishvili.

Khazaradze said on October 2 that "everything was done in accordance with the law," and warned that "lies and defamation" must end. "Even if you opened a company 20 minutes ago, you have money [on your account] and your director applies [to the bank for withdrawal], the bank is obliged to give the money out," he said, provided all the necessary documentation were in order.

Khazaradze's statement comes two days after Okuashvili claimed in a live interview with Rustavi 2 TV, an opposition-leaning television channel, that he was forced to transfer four million GEL to a shell offshore company, identified as Olympus Ltd, to subsequently withdraw the laundered sum and pay off the ex-officials affiliated with Ivanishvili in exchange for the government agencies settling problems facing the company.

Okuashvili claimed, that the amount was given out without proper documentation and outside the TBC Bank's usual



working hours, under the government pressure.

According to the National Agency of Public Registry of the Ministry of Justice, Olympus Ltd was registered on April 19, 2016 in Georgia but its shares are fully owned by Widepoint Investments Inc., registered in Panama.

Last week, a popular Georgian online news outlet Netgazeti has published photocopies, apparently proving that director of Olympus Alexandre Khachishvili withdrew USD 1 million at 7:22 pm on April 21, 2016; and USD 781 thousand at 12:25 pm on April 22, 2016 from the company's bank account at the TBC Bank, in cash.

TBC Bank's lawyer Ekaterine Egutia claimed Olympus "is not an offshore company," but rather a Georgian limited liability company, and that it has opened its bank account "in full respect of the norms." She also said that "it is a lie as if the transaction was made outside working hours," as the bank operates until 8 pm.

According to Egutia, she could not give out information about this particular transaction due to "banking secrecy," but she underscored that "this was an ordinary transaction," similar to those that "happen in the bank every day."

Source: Civil Georgia

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NEW

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“Globalize Georgia” Fabian Hamilton MP, Shadow Minister for Peace & Disarmament

Eva BOLKVADZE
The FINANCIAL

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Q. How do you envision how to resolve the problem?

A. I think it's very difficult. The Russian Government is not collaborative in any way with the rest of the world. What's quite important is to collaboratively resolve things without people feeling stressed and I think it is possible. These past couple of days I've joined talks about moves to bring Abkhazians together with Georgians, to overcome the fear that is caused by Abkhazians through their very isolation, trying to reduce this isolation. Once you overcome the fear, then hope appears. There is no hope when people think that enemies are on the other side of borders.

We were in a village next to South Ossetia, where the border is. And we saw a volunteer project run by professional people, they looked after displaced people from South Ossetia, who have been supported by the Government, supported by charitable organizations, and by small companies giving donations. That's the kind of thing that's going to make a big difference. Maybe, if people trust all of the charitable organizations, then simply getting contributions from the public is one thing to be done.

Q. How would you evaluate the position of the Georgian Government through these conflicts?

A. I think the Georgian Government has the right attitude. We need to stand up for citizens, and/or the Abkhazians or South Ossetian people. The Government should listen, be calm, and say “right, how is it possible to step by step dismantle this conflict, while ensuring that people don't get hurt, fear is diminished and eventually eliminated, so that the common humanity we have is something that we can communicate to one another?” It's never go-



Short BIO



Fabian Uziell-Hamilton MP, Shadow Minister for Peace and Disarmament

Fabian Hamilton (born 12 April 1955 to a British Jewish family) is a British Labour Party politician who has been the Member of Parliament (MP) for Leeds North East since 1997. He was elected as a councillor to the City of Leeds Council in 1987, stepping down eleven years later in 1998. In Parliament he served as a member of the Administration Select Committee 1997–2001, and has been a member of the Foreign Affairs Select Committee since the 2001 general election. He was also the chairman of the all-party groups on

business services, prison health, and civil contingency, and formerly served as the vice-chairman of the all-party Iran group. He also formerly chaired the All-Party Parliamentary Group for Tibet.

Hamilton was appointed a Shadow Foreign Minister, outside the Shadow Cabinet in January 2016. On 29 June 2016, he was appointed Shadow Minister of State for Europe succeeded by Khalid Mahmood. Hamilton was appointed Shadow Minister for Peace and Disarmament in November 2016. The role covers North Africa, the Middle East, North Korea and Labour Party policy on nuclear weapons.

ing to be easy but it's a battle of the alternatives and having arms raised effectively. Georgia doesn't want violence. I think that's why the Georgian Government is taking the right line.

Q. Would you advise that Georgia continue the integration process with the EU?

A. I'm among the majority of parliamentarians who think it's a bad idea to leave the EU. So yes, I would say that EU integration is good, I'd love to see Georgia as the 29th member of the European Union, whether we leave or not. Yes, I think the EU has done more good for peace and progress, for freedom, for justice,

for equality, the rule of law, than any other organization in human history.

Q. How do you see Georgia's economic perspectives?

A. My experience of economic progress is that you have to have a balance between public services which are paid for by taxation, and the growth of innovation, enterprise and manufacturing. Innovation is key. What's behind the innovation? - Education. The key perspective of a strong economy is based on a high level of education: technical, academic, no matter what kind it is, from school age to university. The best example is South Korea: 15 years ago it was

one of the poorest nations, but now it's among the 10 richest nations. How did they do it? Through university education.

I think Georgians need to keep on concentrating on expanding the economy. You have a lot of poverty here. Georgia is one of the best places in the world to make business now. You must internationalize Georgia; globalize; be ambitious and properly use all the potential for manufacturing or agriculture. Then people will have more responsible income and be more able to charitably ensure that their neighbours are looked after better. And as for the answer to the second question, who knows, it

might force a change too.

Q. How do you see the perspectives of the future of Georgian-British relations?

A. I think there are three aspects: one is that we can increase trade between Georgia and Britain, tourism is also really important; it allows people to people exchange. And safety and security. Georgia and Britain have a long history of relations. We will be one of the strongest supporters of Georgia. I would hope for more British investments in the economy, more two-way trade.

Georgia is a very rich nation, with well-known agriculture, a massive history, and big potential for tourism. So the future looks very good, through diplomatic relations, people to people exchanges, tourism – perhaps in 10 years Georgia will be the destination choice for most British tourists.

Q. Finally, what do you consider to be the main challenge to contemporary peace?

A. I think that with each and every human is the potential for violence and anger. So I think we have first of all to look at ourselves, and ask ourselves what makes us angry, why do we get angry, why does anger bring violence. Very often anger is related to fear and the fear is the reason for anger or violence. That's the first answer.

I think another answer is money. The money that cooperates gives the armies strength. Strength is critically important to human peace. I also think that equality is the 3rd answer. If you look at the conflicts around the world, a lot of them are based on equality. In the occupied territories of Israel, the average income was USD 2000 a year; in the main part of Israel – USD 20 000 a year. For many countries in Africa, because of the big poverty there, clean water is the biggest luxury they could ever imagine. There is enough wealth in the world and resources to support 7 billion people. So I would say that equality; armies' strength; and reducing fear, fear of difference – are a few things we can address to stop conflicts.



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CSR

UK and China leading on low carbon transition but global emissions are still rising, finds PwC's Low Carbon Economy Index

The FINANCIAL

China tops the Index with the most rapid reduction in carbon intensity of the G20 in 2017. Not one country achieving the decarbonisation rate needed to limit warming to two degrees. Emissions are on the rise again as the transition to a low carbon energy mix lags behind global economic growth. PwC's Low Carbon Economy Index (LCEI) 2018, now in its 10th year, finds that the goal of limiting global warming to two degrees looks even further out of reach as national decarbonisation rates fail to match up to the Paris Agreement.

China leads the Index, decarbonising its economy by 5.2% in 2017, according to PwC's 2018 LCEI. China has nearly halved the carbon intensity of its economy in ten years.

The UK has had the fastest low carbon transition since 2000 of all G20 countries. Its absolute carbon intensity is comparable with France, Brazil and Italy.

The top performers in the Index this year are China, Mexico, Argentina and the UK

UK

The UK remains at the top of the G20 leaderboard for its long term low carbon transition since 2000, decarbonising at 3.7% per year. It has reduced emissions by 29% since 2000 while growing the economy by 34%. In the electricity sector, emissions per MWh generated have been cut by 29% in the last decade, due to a combination of policies. Follow-

ing publication of the Government's 'Ultra Low Emission Vehicles' strategy, the number of these cars on the road has grown by 40% per year on average. Although still at a low base compared to other countries, there are more than 140,000 low emissions vehicles on the road at the end of 2017 compared to 10,000 in 2010.

There has been a 33% increase in wind energy across the UK over the past year, and a 22% increase in solar generation.

However fossil fuels remain the dominant source of energy and still account for 80% of the UK's primary energy in 2017, a drop of 1% compared to 2016.

tensity of its economy by 41% in the past ten years putting it on track to achieve its national target (NDC). However, despite these impressive statistics there was still a 1.4% increase in emissions in China in 2017, and its carbon intensity remains above the E7 average.

THE UK LEADS THE G20 FOR ITS RAPID LOW CARBON TRANSITION SINCE 2000

Early figures for 2018 suggest the trend will continue for both electric vehicles and the shift towards renewables.

The UK's decarbonisation rate last year was 4.7%, a little lower than the year before. In 2017, emissions fell by 2.9% as coal and gas demand fell while oil consumption remained constant. These fossil fuels were replaced with renewable generation and there was also a marginal reduction in energy use.

Another cause of the lower rate was relatively low GDP growth in 2017, which some suggest is the result of squeezed household spending power from inflation and uncertainty around the prospect of leaving the EU in March 2019.

The UK's GDP growth has been driven primarily by consistent and strong growth in the service sector, while construction output fell and manufacturing growth remained relatively low compared with other parts of the economy.

"The UK is a global leader in driving the low carbon transition", Jonathan Grant, Director of Climate Change and co-author of the LCEI at PwC UK, said. "Renewables, energy efficiency and dominant growth of the services sectors all contributed to the UK's top performance compared with other G20 countries".

"Following success in decarbonising the electricity sector, achieving the UK's Clean Growth Strategy, which was launched last year, will now depend on faster progress in other sectors, such as transport and industry."

China

China, the world's largest emitter, is outperforming its G20 peers and has demonstrated the highest decarbonisation in 2017 of 5.2%. China has reduced the carbon in-

China has also retained its top position as an engine for renewable growth, and has made significant strides toward meeting its pledge under the Paris Agreement to generate 20% of its energy in 2030 from low-carbon sources.

Still not enough

While many countries have cut carbon intensity of their economies over the past four years, the average 2.6% per year drop remains less than half of what is required to limit warming to two degrees. Not one country is on track this year with the decarbonisation rate needed to achieve the Paris Agreement goal. Without a dramatic step up in decarbonisation efforts, the report warns that at this rate the two degrees carbon budget will run out in less than 20 years.

Twelve pupils per teacher at upper secondary level in EU

The FINANCIAL -- There were an estimated 1.8 million teachers in EU upper secondary school education in 2016. Students usually enter upper secondary school programmes (classified as ISCED level 3) between the ages of 14 and 16. These programmes are typically designed to complete secondary education in preparation for tertiary education or provide skills relevant to employment, or both, according to EUSTat.

Across the EU the average number of pupils per teacher at upper secondary level in 2016 was 12.0, though the figures vary across EU Member States. The highest pupil-teacher ratios were in the Netherlands (17.9), Finland (17.2) and the United Kingdom (16.5). In contrast, the lowest ratios were in Lithuania (7.7), Malta (8.3) and Luxembourg (9.0).

The pupil-teacher ratio is calculated by dividing the number of full-time equivalent pupils by the number of full-time equivalent teachers teaching at ISCED level 3. The pupil-teacher ratio should not be confused with average class size as it does not take into account special cases, like the small size of groups of special needs pupils or specific subject areas, or the difference between the number of hours of teaching provided by teachers and the number of hours of instruction prescribed for pupils.

Business Innovation Forum 2018

Eva BOLKVADZE
The FINANCIAL

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The Plenary Assembly, which is an annual event, was followed (as is tradition) by the Business Innovations Forum, where more than 100 international organizations involved in the postal business participated. Companies presented innovative projects and visions related to the postal business and logistics. In the current year, "Business Innovation



Forum" brought together the most interesting postal startups. Among them were successful companies who work in e-commerce, artificial intelligence, automation and digital marketing.

"In the postal business and development process, innovations are very important. At this time, as before, Estonia still leads in terms of innovation. At the forum, Georgian businesses were represented together with different countries, where they were given the potential and ability to implement their ideas."

I am sure that the projects presented in Tbilisi this year will be successful for many representatives themselves. Our goal was for Georgian innovators to have the oppor-

tunity to talk to experienced foreign representatives, to establish future ties, and I think that they successfully used this opportunity," Chikvaidze said.

At the Business Innovation Forum Georgian Post presented an electronic platform called "Georgian Product to World".

"The product that we have introduced is targeted at an online platform and online market. As a result Georgian entrepreneurs will have the opportunity to place local products in the e-shop through our platform. Customers will be able to not only visualize the product but also purchase online; define the pre-

Continued on p. 11

House Prices Up by 4.3% in the Euro Area

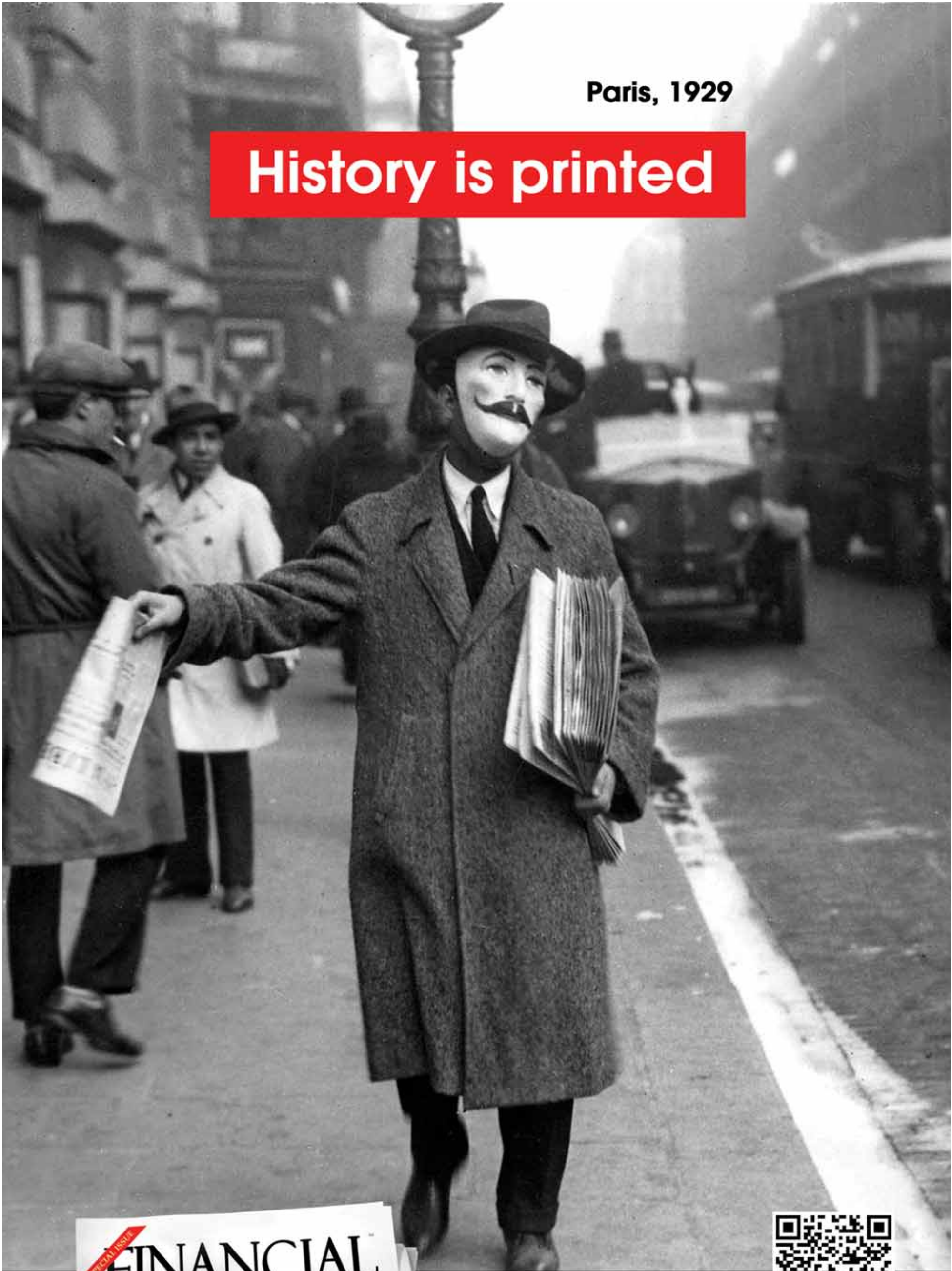
The FINANCIAL -- House prices, as measured by the House Price Index, rose by 4.3% in both the euro area and the EU in the second quarter of 2018 compared with the same quarter of the previous year.

These figures come from Eurostat, the statistical office of the European Union. Compared with the first quarter of 2018, house prices rose by 1.4% in both the euro area and the EU in the second quarter of 2018.

House price developments in the EU Member States

Among the Member States for which data are available, the highest annual increases in house prices in the second quarter of 2018 were recorded in Slovenia (+13.4%), Ireland (+12.6%), Portugal (+11.2%) and Hungary (10.4%), while prices fell in Sweden (-1.7%) and Italy (-0.2%).

Compared with the previous quarter, the highest increases were recorded in Slovenia (+4.2%), Malta (+3.2%), Latvia and Romania (both +3.1%), while the only decrease was observed in Croatia (-0.2%).



Paris, 1929

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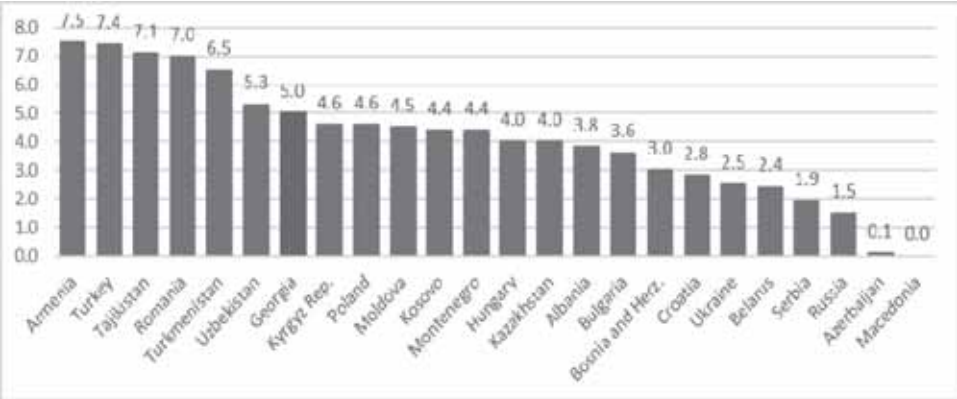


Irakli Kobakhidze:
CHAIRMAN OF GEORGIAN PARLIAMENT



“We had a 5% economic growth last year which is one of the best performances in the region. Estimates are to have a 5.5% economic growth this year.”

Graph 1: Economic Growth Rates of European and Central Asian Region Countries, 2017 (%)



Source: Global Economic Prospects: JUNE 2018, World Bank

Egnate SHAMUGIA
FactChek

VERDICT:
FactCheck concludes that Irakli Kobakhidze's statement is HALF TRUE.

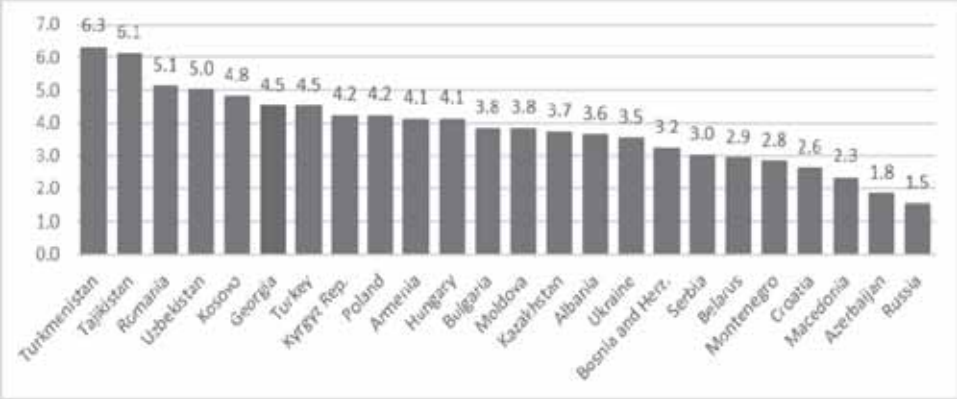
RESUME:
In 2017, Georgia's economic growth constituted 5% which put Georgia in the 7th position of the region's 24 countries. The average regional economic growth is 4.1%. Even though Georgia occupies the 7th position in terms of economic growth rates, it is hard to plainly consider this position as "one of the highest." On the one hand, the economic growth rate of the immediate neighbour countries (Armenia, Turkey) is much higher. On the other hand, the performance of the next five countries in the ranking after Georgia is within the margins of 4.4% - 4.6% which is not considerably below Georgia's result.
In accordance with the Ministry of Finance of Georgia and the World Bank, Georgia's economic growth rate for 2018 is estimated to be 4.5% whilst the International Monetary Fund (IMF) prognosticates a 5.5% economic growth rate for the country. Of note is that the IMF increased its estimates after Georgia showed a 5.5% economic growth in the first seven months of this year. Despite a relatively high economic growth rate in the first half of 2018, Georgia's economic growth constituted 4.6% in July and much lower - 2.0% - in August. In addition, the real economic growth is estimated to be 5% according to the 2019 draft state budget (which the Government of Georgia submit-

ted to the Parliament of Georgia last week). Furthermore, according to World Bank Georgia, the country's economic growth rate is estimated to reach 4.5% which puts it in the 6th position in the region.

ANALYSIS
Speaker of the Parliament of Georgia, Irakli Kobakhidze, spoke about economic growth. He stated that Georgia stands out in the region owing to its 5% economic growth rate in 2017, which was one of the highest performances in the entire region, and a 5.5% estimated economic growth rate for 2018.
It is important to clearly define the region in which Georgia belongs because this does have relevance in terms of making any comparisons. In accordance with the World Bank's methodology, Georgia belongs to the group of European and Central Asian countries (excluding the high-income countries). The characteristics of the economies of these countries are more or less similar. Therefore, Georgia's economic growth rate should be analysed against the group of the 24 non-high-income European and Central Asian countries.
Georgia's economic growth rate was 5% last year whilst the average economic growth rate for the European and Central Asian region was 4.1%. Georgia was ranked 7th of the 24 countries of this group. In turn, the country's high economic growth rate in 2017 is fully related to the improvement in the regional economic situation as compared to previous years and is mostly the result of the high economic growth in Georgia's top trade partners which contributed to the increased foreign demand and the significant growth of Georgia's economy.
In 2015, Georgia was ranked

15th in the region with a 2.9% economic growth rate whilst the average regional economic growth rate constituted 2.4% in the same year. In 2016, Georgia's economic growth was 2.8% which put the country in the 16th position in the ranking whilst the regional average economic growth rate was 2.9%. Uzbekistan, Tajikistan and Turkmenistan showed a strong economic performance within the regional grouping in the same year.
In regard to the economic growth rate estimated for this year, Georgia's 2018 state budget is based on a 4.5% economic growth rate which matches with the prognosis published by the World Bank in June. As concerns the International Monetary Fund (IMF), its initial prognosis was 4.5% and was increased to 5.5% in August. The growth in the IMF's estimates was stipulated by the high actual growth rate (as compared to the estimates) registered in the first half of 2018. However, in accordance with data published by the National Statistics Office of Georgia, economic growth in August was 2.0% whilst the average economic growth rate for January-August 2018 was 4.8%. Therefore, achieving a 5.5% economic growth rate in 2018 seems less likely.
In accordance with the World Bank, a 2.3% economic growth rate is estimated for the European and Central Asian region whilst Georgia's economic growth is prognosticated to reach 4.5%. Based on economic growth estimates, Georgia is ranked 6th in the ranking of the region's 24 countries. In accordance with the World Bank's prognosis, Georgia will rank 5th in 2019 with a 4.8% economic growth rate and maintain this 5th position in 2020 with a 5.0% economic growth rate.

Graph 3: Economic Growth Rate of European and Central Asian Region Countries, 2018 (Forecast %)



Source: Global Economic Prospects: JUNE 2018, World Bank

FUTURE OF TV, Predictions by Deloitte



The FINANCIAL -- By 2023, almost all commercial broadcasters are likely to have launched a direct to market subscription service, either under their own brand, or in collaboration with other partners, new report by Deloitte says.
Broadcasters will be monetising in three ways: via advertising (the dominant revenue source today), via SVOD (offering the absence of advertising, among other benefits)15 and through wholesale agreements with traditional pay TV providers.
Pocket money averages £11.20 per week in the UK.1 The nation's 11-16 year olds, some of whose income is topped up by part-time work, have an average disposable income of £16.30 per week.2
Pay TV starts at £5 a month, or £50 for a 12-month subscription. Pay TV, delivered online, and focused on a specific genre, costs less than a tenth of average pocket money.

UK developments across all facets of pay TV are likely to mirror those in the US. SVOD will increasingly be specialist, not comprehensive, and will often be complementary to traditional TV models. It will fill gaps in the market, rather than displace existing players, at least in the near term.
In some cases, pay TV will come as part of a bundle. Amazon Prime includes multiple subscriptions, including video. According to a survey of US subscribers, Prime Video is the second most important service, after free delivery.

Lord of Living Room

The TV set's size and picture quality are steadily rising, and cost per diagonal inch of TV is falling. This is encouraging TV buyers to opt for ever larger, higher resolution TV sets, with the latest models offering enhanced colour and brightness ranges (HDR, or high dynamic range).

OVER THE NEXT FIVE YEARS, WE EXPECT TOTAL TIME SPENT WATCHING LONG-FORM PROGRAMMES TO REMAIN BROADLY CONSTANT, AT ABOUT FOUR HOURS PER DAY.

The quality of alternative screens will also continue to improve over the next five years - but smartphone, tablet and laptop screens will not get much larger. So TV's relative size advantage compared to other screens will grow even further, consolidating its status as the default display device for long-form content.
In the first half of 2018, the bestselling sizes of TV set at John Lewis were 55 inches and 70 inches (respectively 121 and 189 times the screen area of a five-inch smartphone).
The production of 4K and HDR content will lag the adoption of 4K and HDR ready television sets. But the supply of 4K and HDR content has already started to surge, and has become the default for drama and premier sports. Most films are

available in 4K.
Younger age groups may end up watching more on smartphones or laptops, but this may be because of lack of access to the family TV set, rather than through choice. Among 18-24 year olds, while demand for short-form on smartphones increased year on year to mid-2018, there was little change in the

proportion of people watching live TV, catch-up TV or films on a smartphone.
Over the next five years, broadcasters and dedicated on-demand platforms will increasingly differentiate not just on their brand new productions, but increasingly on the calibre (titles and technical quality) of their back catalogue.
The future of television will include much that is brand new, and will delight for generations to come. That said, a good story, whether a drama, a comedic series or the format of a reality show, is evergreen. TV's attic has many treasures that older viewers would love to see again, buffed to an HD sheen, and which younger viewers will delight in experiencing for the first time. All's well that ends well.

Environment & Law

Plastic Bags Became Illegal in Georgia



The FINANCIAL -- According to the Technical Regulation of the Government of Georgia, plastic bags that are less than 15 microns thick banned beginning October 1, 2018. Selling, importing, and producing plastic bags is now prohibited. Within the same regulation, selling, importing, and producing oxo-degradable plastic bags will also be banned.

“Currently, plastic pollution is one of the world’s most serious environmental problems. To effectively address this problem, every person needs to realize the core of the problem and actively reduce the amount of waste generated in their lives. In addition, it is essential to implement policy change on a global scale, including raising awareness concerning littering and its

negative environmental impact, supporting recycling and reducing the production and consumption of plastic. At this point, less must be more”, commented Caucasus Environmental NGO Network in its statement.

The production of plastic mostly began in the middle of the 20th century. According to researchers at leading universities in the United States, plastic production amounted to 2 million tons in 1950, while in 2015 its annual production amounted to 380 million tons.

According to data, half the amount of plastic produced during 1950-2015 has been produced in the past 3 years. Consequently, plastic production has an annually increasing trend and by 2050,

around 12 billion tons of plastic is expected to accumulate in landfills and in the environment.

Every year 8 million tons of plastic end up in oceans, killing marine life and negatively impacting marine ecosystems. When disposed in the environment, plastic does not decompose easily or immediately, thereby negatively impacting the environment.

There is no easy fix with the current magnitude of global plastic pollution, but producing and selling biodegradable bags as well as recycling will certainly help.

10 recycling corners have already been established in Tbilisi where people can bring their own paper, glass, plastic and aluminium waste to dispose of.

“Business Innovation Forum” 2018

Continued from p. 8

ferred delivery option; calculate the price; and in the event of a purchase, Georgian Post will provide delivery to the any destination in the world,” Chikvaidze told The FINANCIAL.

Issues of social responsibility were discussed at the first day of the Plenary Assembly too. This is a universal postal service. One of the globally-recognized human rights according to the United Nations is to be able to receive information, and World Postal Union, one of the oldest international organizations, is the guardian of this rule. Of course, PostEurop is controlling how well the responsibilities that the countries have to one another are actually carried out.

According to Chikvaidze, Georgia is in the leading place based on the data of 2018: in 10th place among the top 10 countries of Europe, after Great Britain. In terms of quality assessment and 3 quarter data, we are in second place in the world and in first place in Europe in EMS trans-

fers. All of this also formed the basis for the decision made by PostEurop members to hold the Plenary Assembly in Georgia, and this is what made us successfully accomplish and execute the events.

“Very high-ranking individuals were present at the plenary assembly and forum: Chairman of the World Postal Union, and his deputy, Head of the African Union. They had meetings with the Minister of Economy and Sustainable Development of Georgia. The Chairman of the World Postal Union spoke to the Minister about all the success that, he was saying, had not been expected of Georgian Post in such a short time. However, it was also noted that these achievements only became possible after our willingness to share world best practices. Then it was dependent on our skills, how quickly and effectively we were able to implement what we had learned,” he said.

It is noteworthy that during these days, very interesting B2B meetings were held, where some future prospects for Georgian Post were discussed. General Di-

rector of Georgian Post, Levan Chikvaidze, met with the Director of Turkish Post. Turkey is considered one of the most powerful operators worldwide. At the meeting, the Turkish side expressed their intention to develop more closer cooperation, and further intensification of relations and development of a neighbourhood policy.

The Director of Georgian Post said that the main directions of the meeting were logistics and IT. “The logistics network, which Turkey controls, extends to Georgia, so it is very convenient for us to use Turkey in terms of logistics. By the end of the month, an action plan should be prepared which the jointly created teams will work on,” he said.

A second B2B meeting was held with the Polish side, which is willing to restore the Silk Road. The memorandum is planned to be elaborated. This proposal from Poland reaffirms that interest in our country and location is growing more and more.

The FINANCIAL was a general media partner of “Business Innovation Forum.



Ivane Machavariani:



“The production of cannabis for medical purposes in the world is growing and there will be a cannabis market of USD 25 billion by 2024-2025 according to different estimates.”

Mariam KVATADZE-FACTCHEK

VERDICT:

FactCheck concludes that Ivane Machavariani’s statement is TRUE.

RESUME:

In August 2019, Global Market Insights published a research study on the size of the medical marijuana market. The research study analyses markets in terms of the type of medical cannabis, the ways of consumption and the methods for its distribution. It is also noted that the increase in the number of scientific studies about medical cannabis as well as the growing number of countries which have legalized marijuana for medical purposes and the ever-expanding amount of medications based on medical marijuana in the last years will result in a sharply increased market demand for medical cannabis in the future.

In accordance with the research’s estimates, the size of the medical marijuana market exceeded USD 7 billion as of 2017 and is expected to have a 36% cumulative annual growth rate (CAGR) in the period of 2018-2024. As a result, the size of the medical marijuana market will exceed USD 55 billion.

ANALYSIS

On 16 September 2018, on air on TV Imedi, the Minister of Finance of Georgia, Ivane Machavariani, stated: “The production of medical marijuana is increasing annually and there will be a cannabis market of USD 25 billion by 2024-2025.”

On 13 September 2018, the Government of Georgia submitted a bill to the Parliament of Georgia which envisioned the establishment of a legal ground for planting, growing, cultivating and producing the cannabis plant for medical or/and industrial purposes. However, a discussion on the bill at the Parliament was stopped following a public backlash. Cur-

rently, it is unknown whether or not this discussion will be continued.

In August 2018, Global Markets Insight published a research study on the size of the medical marijuana market. The research study analyses the markets in terms of the type of medical cannabis (its use for the treatment of certain diseases), the ways of consumption (inhalation, oral, topical) and the methods for its distribution (dispensers, online). The research study also offers a report on industry analysis, regional perspectives, price trends and a competitive market share and prognosis for 2018-2024. In the study, its authors offer an analysis of industry trends and note that the size of the medical marijuana market was estimated to be over USD 7 billion as of 2017 and is expected to have a 36% cumulative annual growth rate (CAGR) in the period of 2018-2024.

The research estimates are based on the taking into account and analysing of two factors – those contributing to the growth of the market and those possibly impeding its expansion. Of the factors contributing to the growth of the marijuana market are: a growing demand for medical marijuana for the treatment of different diseases, a demand for the legalisation of medical cannabis in different countries of the world and the increasing number of clinical research studies on using marijuana for medical purposes. The factors possibly impeding the development of the medical marijuana industry are: side effects (dizziness, increased heartbeat, sleepiness) of medications based on cannabis which might hamper market growth as well as difficulties associated with medical marijuana business banking (business loans and cooperation with loan issuing institutions).

Currently, nearly 75% of medical marijuana medications are used to relieve chronic pain. In accordance with the existing scholarship, one out of ten people are diagnosed with painful

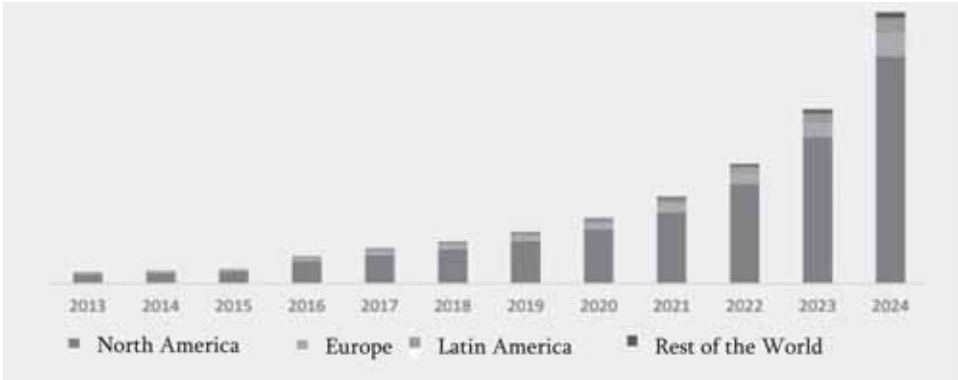
chronic ailments annually. This is precisely what has contributed to the growth of the market demand for marijuana for medical purposes. Researchers assume that the market demand for medical cannabis will increase in light of the growth of neuropathic diseases. In addition, a 37.4% growth in the use of medical cannabis to treat skin diseases (psoriasis and eczema) is expected.

As of 2017, the inhalation segment of the medical marijuana market was assessed at USD 5,330 million based on different sources. Researchers believe that the different advantages of inhalation, such as an easily controlled dosage and the effective absorption of cannabinoids in the body, will only increase the demand for inhaled marijuana. In addition, a 37.2% compound annual growth rate in medical marijuana-based products designated for local consumption (ointments, lotions, gels and poultices which are used for the treatment of skin inflammation) is expected in the period of 2018-2024. As of today, the global medical cannabis market is dominated by the ten largest companies in the world. Some of them merge or expand their cooperation in order to increase their geographic access area, product portfolio and market share. The aforementioned research study notes that the medical cannabis industry is still in the development stage and has yet to undergo an important phase of progress. The USA and Europe are largest regions for the medical marijuana market.

As a result of detailed market analysis, the compound annual growth rate (CAGR) constitutes 36% and the value of the medical marijuana market will surpass USD 55 billion by 2024 according to the final estimates of the research study.

1 In contrast to recreational cannabis, medical cannabis does not contain (or contains a very little amount) the psychoactive substance tetrahydrocannabinol and, therefore, does not cause drug intoxication.

Graph 1: Medical Cannabis Market Size, 2013-2014



Source: Global Market Insights

publicity



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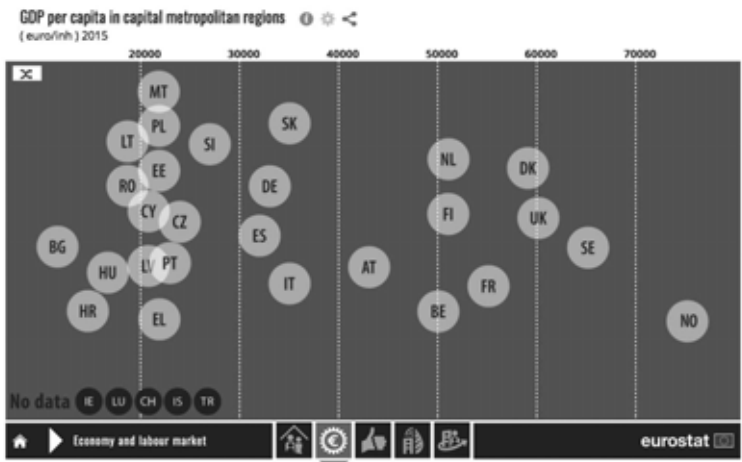
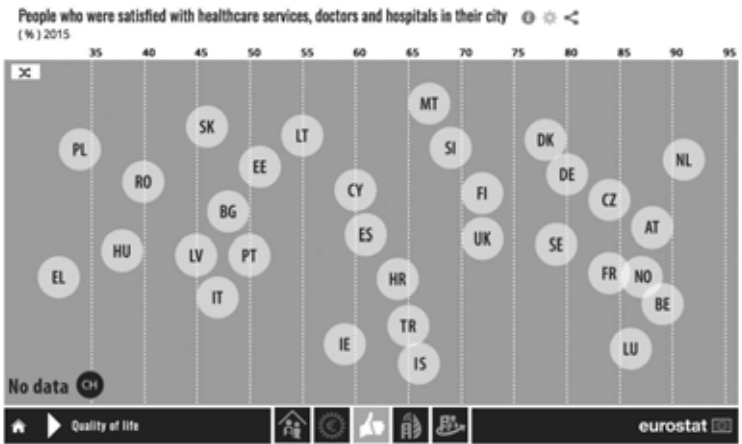
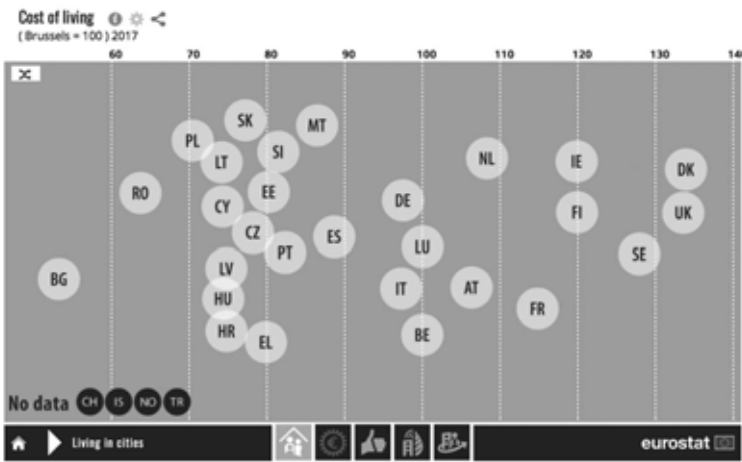
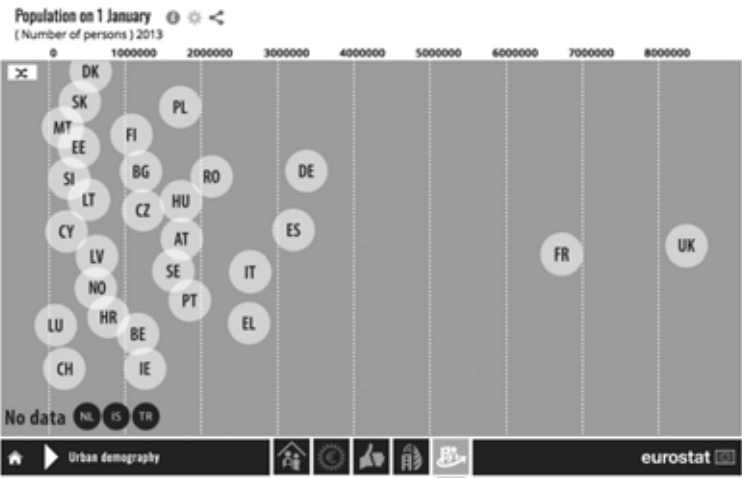
Satisfaction with cultural facilities in EU cities

The FINANCIAL – The results of the most recent European Commission survey of satisfaction with cultural facilities indicate that in 2015, in 20 capital cities in the European Union (EU), over 75 % of respondents were satisfied with the cultural facilities available, such as concert halls, theatres, museums and libraries.

The four EU capitals with 90 % or more of respondents stating satisfaction were Wien (97 %), Helsinki

(94 %), Praha and Stockholm (both 90 %). Those with less than 60 % of respondents satisfied were Lisboa (59 %), Lefkosia (58 %) and Valletta (34 %).

These results are part of a wider presentation of statistics on capital cities which you can find in the interactive tool “My capital in a bubble”. The tool enables you to compare statistics on a range of themes including the labour market, quality of life and selected demographics.



Georgia Booming

Hilton will open two hotels in Tbilisi, General Manager of Hilton Batumi Hotel

Eva BOLKVADZE

“Georgia is a beautiful country with amazing culture, amazing people, great traditions – everywhere you go you are made to feel at home. It has so much to offer that I really believe in the upcoming years Georgia will become one of the top travel destinations.”, said Torsten Weller, General Manager of Hilton Batumi Hotel in interview with The FINANCIAL.

Hilton will open two hotels in Tbilisi in the near future: A Hilton Garden Inn, second half of 2019 and a Hilton in Tbilisi on Kostavi Street, currently under construction. “That shows that Hilton is absolutely confident in the growth of tourism and the booming destination Georgia”, Weller said. “Actually, when you read a lot of magazines, Georgia is already up there in some of the top positions in terms of travel destinations and increased tourism, and I think this is only the beginning of this country’s beautiful journey in the global tourism market”.

Q. Where did you draw your inspiration from in the hospitality industry?

A. From my mother actually. My mother’s parents owned a hotel and I think that being in the hotel business just runs in our genes. I had originally planned to become a lawyer, maybe even a psychologist. But then I did my first work experience at Hilton Munich, then in America, Austria, and now I am in Batumi. I think it all goes back to my mother and my family.

Q. How does the Batumi Hotel differ from other Hiltons?

A. Our hotel differs greatly from other Hilton hotels because of the location – we are located right on the sea. We have 160 rooms with balconies, and this is very unique for a Hilton hotel. It feels a little like a resort when you come to Hilton Batumi; we’re a Hilton branded hotel with a kind of resort feeling.

Q. As General Manager of Hilton Batumi, which managing skills are you steered by?

A. I think it’s all about mindful leadership. You have to lead teams, motivate and empower teams. You have to coach, train, develop, and lead by example. And I think the most important skill is to understand how you are leading. For example, you need to understand what the benefit is for the other person and for the hotel in return.

Q. Which are your recruitment criteria for employees and how are you currently hiring here in Batumi?

A. It’s not only about skills. I think that our business in particular has a lot to do with personality. What I try to do is to not simply follow the framework of hiring someone according to their CV, because their personality might be something distinct from their CV. I think the best would be a mix of both: a great personality with great skills. But sometimes someone’s personality can actually be more important than their skills or education. I mentioned mindful leadership, and I think that it starts by hiring the right people in your business.

Q. How has the year 2018 been so far and what have you been focusing on?

A. 2018 has been a very successful



year. Currently we are focusing very much on further driving up quality. I believe we have to focus on the right things and then results will come about in the end. So what we’re focusing on is our team and environment. We are constantly improving based on guest feedback, we are learning from our guest experiences. Actually, we are not focusing that much on our competitors, because I think that would be the wrong focus. I believe that first of all you need to focus on yourself and on moving in the right direction.

Q. Are there any exciting tourism-related developments happening in Batumi that have affected guest rates at the hotel?

A. Actually we are seeing an increase in new markets, like the United Arab Emirates. Lots of travellers have been coming from Israel in the last 3-4 years. We are spreading out to different markets: the UAE, Moscow, Turkey – these are 3 key markets for us. We are seeing a particular increase in Flydubai flights from the UAE to Batumi. Those kinds of activities are really beneficial for us.

Q. Why should visitors stay at the Hilton and not at any other competitor hotel?

A. There are many advantages. I think the number one is our loyalty programme ‘Hilton Honors’. When you become a Hilton Honors programme member (which is free) you can collect points and use these points everywhere: for example, to buy directly from Amazon; or a book from the Hilton App; to donate points to charity. So I think this is the biggest advantage. And also the location; quality of service; friendliness of our amazing team members; balconies; sky bar on the 20th floor; as well as local food. The fact that we are so local is important I think.

Q. What are the statistics of visitors from the 2018 summer season? Has the number of visitors increased compared to 2017? Asides from Georgians, citizens of which country tend to visit your hotel the most?

A. We are seeing an increase in general. The summer was a little bit difficult. August was better than last year; July was a little bit challenging, I think it was impacted by the World Cup in Moscow. In June we were stronger. Generally speaking, 2018 has been a very successful year. We have had an increase in tourist travellers. As for the countries, the biggest number of tourists visited from Israel, because of charter flights to Batumi. Georgians are our number one visitors, then Russians, Saudi Arabians and people from the UAE, then Americans. Fewer Europeans visit us and that’s a problem, we need to work more on becoming popular as a destination in Batumi for European tourists.

Q. Having spent some time now in Batumi, how different is the hospitality sector in this region compared to other regions?

A. If I compare it to Europe, I think that the high amount of coaching and training we are doing is resulting in great progress, especially in terms of service. To understand how to serve; why you are doing it; why it is important to serve food from the right side – there is a reason behind it all. The people we have in the hotel are highly talented, they are very open to learning; it’s actually great fun to see how people are moving and how they are gaining skills in just a short or long time. Everyone has a big drive to come to work and I think it’s a huge privilege for us to work with such a great team and for team members to work for the company.

global security

Russia Increasing Submarine Capabilities In Mediterranean, Atlantic, U.S. Admiral Warns

The FINANCIAL – Russia is augmenting its underwater battle capabilities in a direct challenge to U.S. and NATO forces in the Atlantic and Mediterranean arenas, a top U.S. admiral has warned.

Admiral James Foggo, who heads NATO's Allied Joint Force Command in Naples, told Pentagon reporters in Washington late on October 5 that Russia is investing heavily in its submarine fleet and wants to build an "asymmetric" threat to the United States and NATO.

While the Russian Navy knows it cannot compete with the number of U.S. and NATO aircraft carriers and other larger surface vessels, he said, "they have continued to do research and development and recapitalize the undersea domain."

Foggo said he was concerned that Russian submarines can fire Kalibr cruise missiles that "if launched from any of the seas around Europe...can reach any one of the capitals of Europe."

He said Russia currently has six Kilo-class diesel-electric attack submarines in the Black Sea and Eastern Mediterranean Sea.

When asked if the navy knows where all Russian subs are at any given time, Foggo, who used to command an attack submarine, declined to elaborate.

"I can tell you that we hold an acoustic advantage and we will continue to do that," he said, referring to the listening technologies that allow sailors to locate subs.



gies that allow sailors to locate subs.

Foggo also gave a preview of upcoming NATO military exercises in Norway which he will command and which will be the biggest such drills since 2002.

He said the exercises will be designed to simulate the alliance's response to a theoretical Russian attack on Norway.

Foggo said Russia has been invited to

send observers to the Trident Juncture exercises, which are due to begin on October 25, and he urged Moscow to accept the invitation to learn more about NATO's capabilities.

"There's a strong deterrent message here," he said.

The Pentagon said the exercises will involve 45,000 troops from the United

States and other NATO member countries, plus Sweden and Finland, which cooperate with the alliance but are not members. Also involved will be about 150 aircraft, more than 60 ships, and 10,000 military vehicles, it said.

With reporting by RFERL, AP and AFP

How Russians and Americans see each other



By JACOB POUSHTER
Pew RESEARCH

Americans' views of Russia have declined in the past year – and so have Russians' views of the United States, according to a new Pew Research Center survey. Currently, roughly a quarter or fewer in each country have a favorable view of the other.

1 - Russian and American views of the other country have declined in tandem since 2017

Russians' views toward the U.S. briefly improved after the election of Donald Trump, but they have fallen to levels last seen near the end of the Obama administration. Only 26% of Russians now have a favorable view of the U.S., down from 41% in 2017. Among Americans, just 21% see Russia favorably, similar to the share who had a favorable view after Russia's 2014 annexation of Crimea (19%).

2 - In the U.S., the partisan gap in views toward Russia has narrowed since 2017

Democratic and Republican views of Russia followed similar trajectories – until Trump's election. For many years, Democrats and Democratic-leaning independents had slightly more favorable views of Russia than Republicans and GOP leaners, and opinions in both groups moved downward in tandem. After Russia annexed Crimea in 2014, for example, opinions dropped substantially among members of both parties. Following Trump's election in 2016, however, favorable opinions of Russia more than doubled among Republicans, while Democrats' views were mostly unchanged. In the Center's latest survey, the share of Republicans with a positive view of Russia fell to 27%, but it was still above the share of Democrats with a favorable view (16%).

3 - Among both Americans and Russians, there is little confidence in the ability of the other nation's president to do the right thing regarding world affairs. Only 21% of Americans have confidence in Russian President Vladimir Putin to do the right thing – similar to the share who had confidence in him over much of the past decade.

Among Russians, no more than about four-in-ten have had confidence in any U.S. leader in surveys conducted since the early 2000s, apart from a brief spike in 2017 after the election of Trump. This year, only 19% of Russians have confidence in Trump. This is roughly half the level of support that Russians gave to Barack Obama during his first term, when relations between the two countries were somewhat better after then-Secretary of State Hillary Clinton hit the so-called "reset button" with Russia.

Continued from p. 19

tourism

Former TV Host Just Opened Hotel in Sighnaghi

Interview with Lali Moroshkina, Owner of Sighnaghi Art Hotel

Q. What was the idea behind the opening of Sighnaghi Art Hotel?

A. After returning from some of my travels, the desire came over me to contribute to the process of tourism development in my country. Georgia, with its amazing views, nature, history and traditions, has the opportunity to be as full of tourists as, say, San Michele (the very place from which I happened to be returning!). It just needs a bit of vision, creativity and love. It was the synthesis of all of these that brought me to Sighnaghi, to my grandmother Sophio Vachnadze's homeland. This is what gave rise to the idea of opening Sighnaghi Art Hotel.

Q. Why did you decide to call it "Sighnaghi Art Hotel"?

A. "Art" – because in the hotel there are displays of the works of both old and new generation artists. We are going to hold various art exhibitions and musical evenings, everything directly related to art.

Q. How does Sighnaghi Art Hotel differ from other hotels located in the city?

A. It's not just a hotel, these centuries-old walls have a soul ... Here, a century ago, there lived a cobbler who was sewing shoes for all of Sighnaghi's inhabitants. I actually found some shoe soles in the cellar and incorporated these into the beautiful décor of the hotel. All of the elements of the hotel here have their



own individual, beautiful history; some sad, and some happy.

Q. What is the mission of the hotel?

A. First of all, our motto is: crystal cleanliness and the best service. Customers should have the feeling that the hotel is treating them as a VIP

person, and at the same time should feel like they are at their own home.

Q. Tell us about the benefits customers can get when staying at your hotel?

A. Customers will get the best service, comfortable beds, quality bathroom accessories, a delicious breakfast, and most importantly – a warm environment. We offer our customers both greeting and farewell services, as well as excursions to the Kakheti region, agrotourism and historical places. We can help couples to arrange marriages in the Sighnaghi municipality as well.

Q. What kind of rooms does the hotel have, and how many?

A. There are 7 rooms: single and double rooms, king-sized beds and twins. All of the rooms are distinguished by their individual designs and special proportions. There is also a common foyer, fireplace, balcony, yard and café.

Q. What are your plans for the future?

A. Our plan for the future is, of course, the expansion of the business ... But we are not rushing it right now.

Q. What is the biggest challenge nowadays in terms of running a hospitality business?

A. In today's world the main thing is to give people maximum warmth, supply them with positive energy and hope that everything will turn out well. I personally believe in Sighnaghi's magical energy! Our guests will definitely come back to get fresh positive energy from us and to realise just how beautiful life is!

Weekly Market Watch



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

ECONOMY

Inflation was 2.7% y/y and 0.3% m/m in September 2018

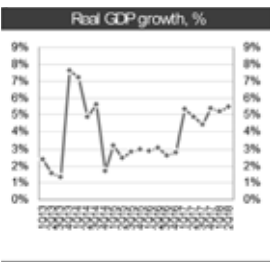
Annual CPI inflation was 2.7% in September 2018 down from 3.1% in August 2018, according to GeoStat. Core inflation was 1.7% up from 1.5% recorded in previous month. Annual price changes were driven by price increases in transport (+6.2% y/y, +0.83ppts),

food and non-alcoholic beverages (+1.8% y/y, +0.55ppts) and healthcare (+5.7% y/y, +0.48ppts) categories. On a monthly basis, there was 0.3% inflation in September 2018. Price increase in education (+3.7% m/m, +0.17ppts) was the major driver of monthly inflation dynamics.

Tourist arrivals up 9.1% y/y in September 2018

Key macro indicators			
	9M18	2017	2016
GDP (% change)	4.8% ¹	5.0%	2.8%
GDP per capita (ppp)	—	10,747	10,053
GDP per capita (USD)	—	4,058	3,857
Population (mn)	3.7	3.7	3.7
Inflation (pp)	2.7%	6.7%	1.8%
Gross reserves (USD bn)	3.2	3.0	2.8
CAD (% of GDP)	10.3% ¹	8.8%	13.1%
Fiscal deficit (% of GDP)	—	3.9%	4.1%
Total public debt (% of GDP)	—	44.6%	44.4%

Source: Official data, IMF
1) As of 8M18
2) As of 1H18



Source: GeoStat
Note: Rapid estimate for 4Q17



Source: Rating agencies

International ranking, 2017-2018	
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

Total international visits to Georgia increased 5.7% y/y to 0.76mn in September 2018, according to the Ministry of Internal Affairs. A 9.1% y/y growth in tourist arrivals (0.54mn trips, 70.2% of

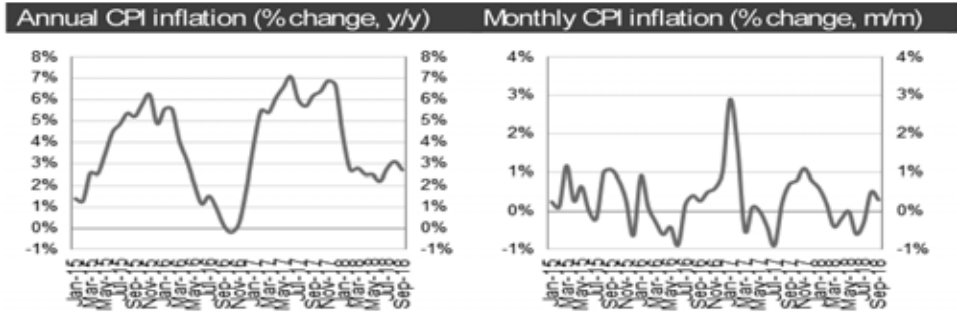
total) drove the growth. Out of top countries, in September 2018, international visitors continued to increase from Russia (+27.8%

y/y) and Azerbaijan (+9.8% y/y), while visitors were down from Armenia (-1.3% y/y), Turkey (-9.1% y/y) and Iran (-41.6% y/y). Total

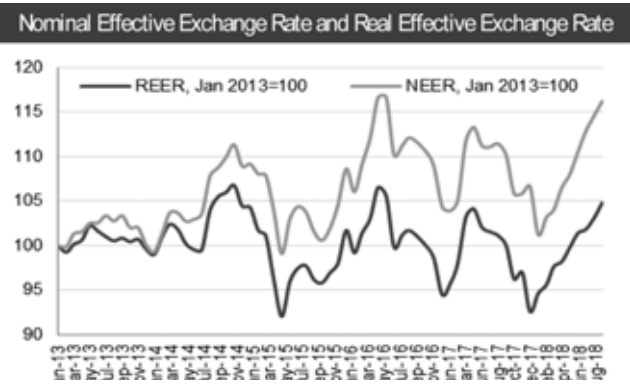
international visitors stood at 5.6mn (+12.9% y/y) in 9M18.

International reserves stood at US\$ 3.2bn in September 2018

Gross international reserves were up 4.2% y/y and up 8.2% m/m to US\$ 3.2bn in September 2018, according to NBG. Growth in reserves was attributed to FX auctions (total purchase of US\$ 25mn in September), government FX operations and/or asset revaluation.



Source: NBG



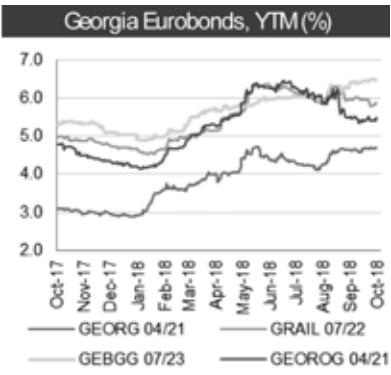
Source: NBG
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate.

FIXED INCOME

Corporate Eurobonds: Bank of Georgia Group Eurobonds (GEBGG) closed at 6.5% yield, trading at 97.9 (-0.1% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.5 (unchanged w/w), yielding 10.7%. Georgia Capital Eurobonds (GEOCAP) were trading at 92.4 (-0.1% w/w), yielding 7.9%.

GOGC Eurobonds (GEOGOG) were trading at 103.0 (-0.2% w/w), yielding 5.4%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 106.1 (-0.4% w/w), yielding 5.9%.

Georgian Sovereign Eurobonds (GEOG) closed at 105.1 (+0.1% w/w) at 4.7% yield to maturity.



Source: Bloomberg

	Local bonds				Eurobonds						
	GWP 12/21	M2RE 10/19	Nikora 06/19	GLC 08/20	GEOCAP 03/24	GEBGG 06/20	GEOGOG 04/21	GEBGG 07/23	GEOG 04/21	GRAIL 07/22	
Amount, US\$ mn	30*	25.0	10.0	10.0	300	500*	250	350	500	500	
Issue date	12/16	10/16	08/17	8/17	03-18	06-17	04/16	07/16	04/11	07/12	
Maturity date	12/21	10/19	06/19	8/20	03-24	06-20	04/21	07/23	04/21	07/22	
Coupon, %	10.50**	7.5	9.0	7.00	6.125%	11.0	6.750	6.000	6.875	7.750	
Fitch/S&P/ Moody's	BB-/A-	-/-	-/-	n/a	-B+/B2	BB-/Ba2	BB-/B+	BB-/B2	BB-/BB-/Ba2	B+/B+	
Mid price, US\$	n/a	102.29	101.3	99.38	92.4	100.5	103.0	97.9	105.1	106.1	
Mid yield, %	n/a	5.25%	3.8%	6.75%	7.9	10.7	5.4	6.5	4.7	5.9	
Z-spread, bps	n/a	n/a	n/a	n/a	468.3	346.1	234.5	332.5	161.3	273.8	

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

Eastern European sovereign 10-year bond performance					
Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba2	4.7
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Baa2	4.5
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	0.1
Croatia	1,250	3.875%	30/05/2022	BB-/BB-/Ba2	0.7
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-/Baa1	3.8
Turkey	2,000	5.625%	30/03/2021	BB+/BB-/Ba2	7.2

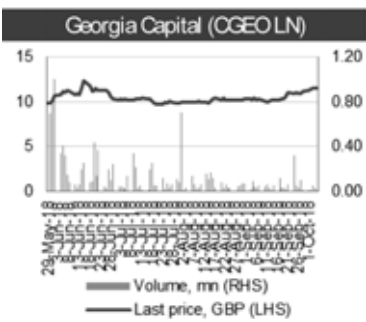
Source: Bloomberg

EQUITIES



Source: Bloomberg

Bank of Georgia Group (BGE LN) shares closed at GBP 17.34/share (+1.32% w/w and +1.59% m/m). More than 365k shares traded in the range of GBP 16.77 – 17.56/share. Average daily traded volume was 58k in the last 4 weeks. FTSE 250 Index, of which BGE is a constituent, lost 1.77% w/w and lost 2.16% m/m. The volume of BGE shares traded was at 0.41% of



Source: Bloomberg

its capitalization. **Georgia Capital** (CGEO LN) shares closed at GBP 11.48/share (+2.87% w/w and +10.49% m/m). More than 108k shares traded in the range of GBP 11.27 – 11.67/share. Average daily traded volume was 54k in the last 4 weeks. The volume of CGEO shares traded was at 0.28% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 16.80 (-0.24% w/w and +3.96% m/m). More than 67k shares changed hands in the range



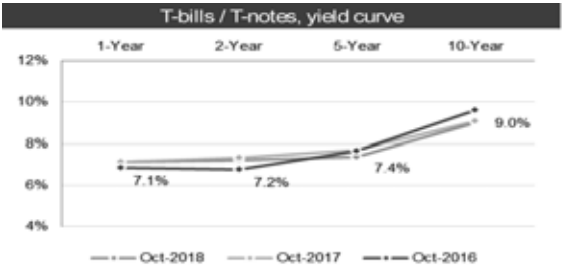
Source: Bloomberg

of GBP 16.56 – 17.66/share. Average daily traded volume was 17k in the last 4 weeks. The volume of TBCG shares traded was at 0.12% of its capitalization.

Georgia Healthcare Group (GHG LN) shares closed at GBP 2.20/share (flat w/w and -3.93% m/m). More than 145k shares were traded in the range of GBP 2.15 – 2.24/share. Average daily traded volume was 18k in the last 4 weeks. The volume of GHG shares traded was at 0.11% of its capitalization.

MONEY MARKET

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,280mn (US\$ 489.3mn).
Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 7.6mn) certificates of deposit, with an average yield of 7.14% (down 0.01ppts from previous issue).



Source: NBG
*Note: As of latest auction.

Ministry of Finance Treasury Bills: 1-year GEL 40.0mn (US\$ 15.3mn) Benchmark Bonds of Ministry of Finance were sold at the auction held at NBG on October 3, 2018. The weighted average yield was fixed at 7.136%. The nearest treasury security auction is scheduled for October 10, 2018, where GEL 40.0mn nominal value 2-year Benchmark Bonds and GEL 20.0mn nominal value 182-days T-Bills will be sold.



Source: NBG

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

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Economic Growth

Continued from p. 12

Inflation

In Q2 2018 the CPI inflation rate fluctuated around the targeted level as the effect of the one-off supply side factors was exhausted in the beginning of the year and lari's effective exchange rates appreciated. **Overall, the annual inflation in April-June stood at 2.9%** - in line with the 3% NBG target. Increasing food and oil prices on international markets were the main drivers of CPI inflation. **The prices on Food and Non-alcoholic Beverages increased by 2.8% and 3.7% YoY respectively. Together with healthcare products (+ 4.5% YoY), these categories contributed 1.36 percentage points (pp) to the overall CPI inflation.** The increase in tariffs on natural gas since August 2017 and the increase in water and electricity tariffs since January 2018 also had a perceptible effect on inflation. The contribution of the latter factors to consumer price increase was 0.4 pp in Q2 2018.

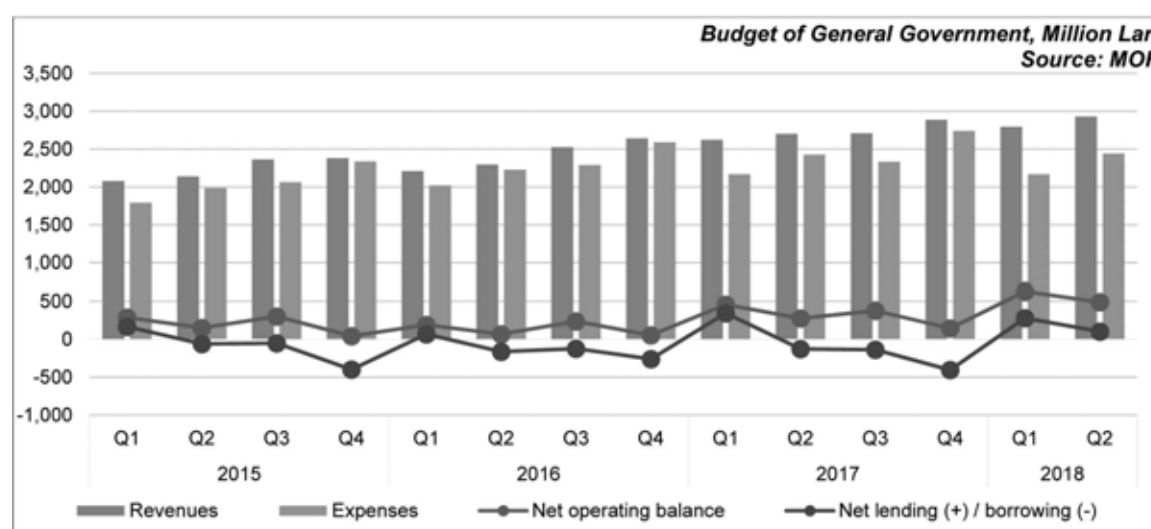
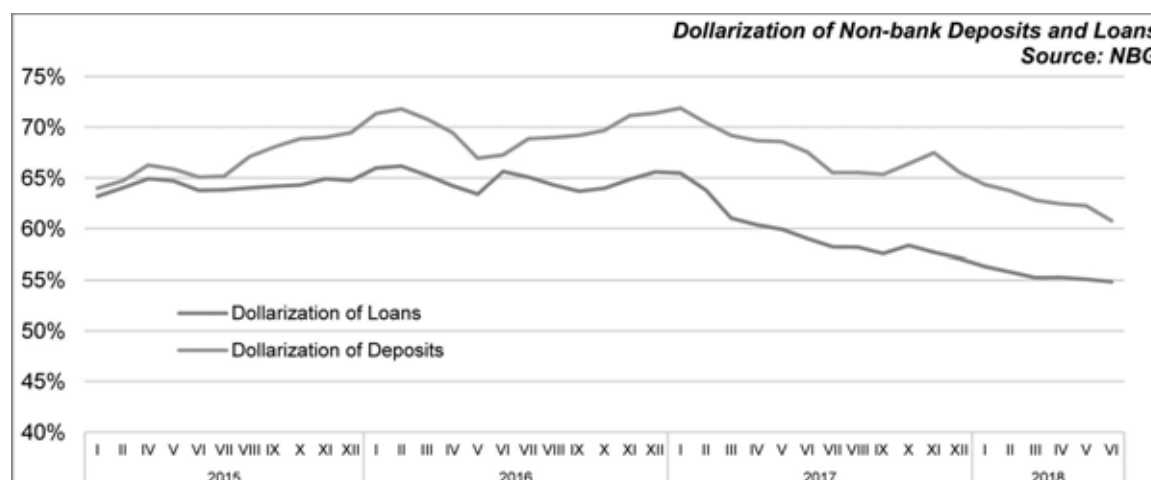
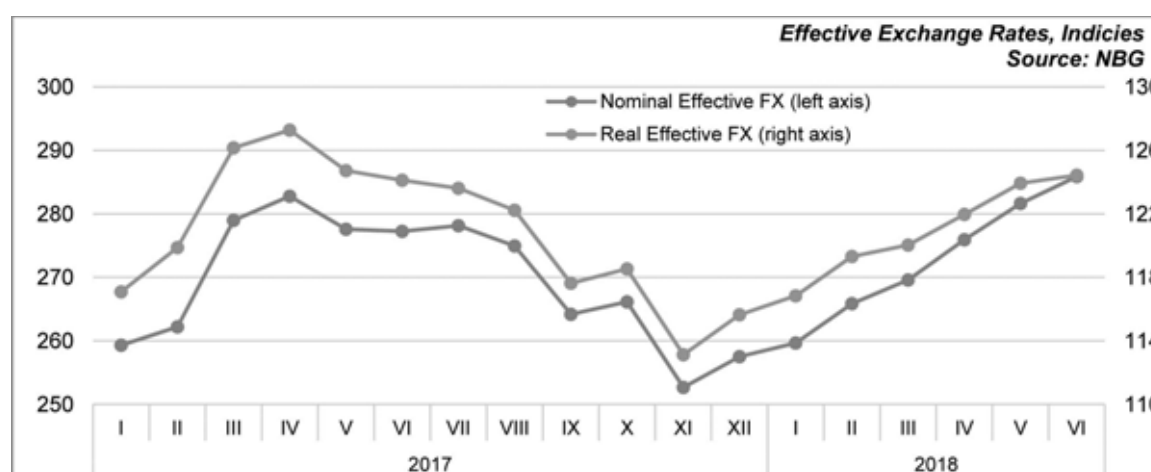
Prices of clothing and footwear dropped by 6.1% YoY. This decrease is explained by the depreciation of the Turkish lira, as Turkey remains the main import source of textile and apparel in Georgia. Together with communication (-1.2% YoY) these categories drove annual inflation down in Q2 2018 (contributing -0.3 pp to total inflation).

According to NBG's forecast made in August 2018: *"Other things equal, the inflation both this year and in the medium term will fluctuate around the target rate. The macroeconomic risks have risen given the regional developments, causing increased volatility on financial markets. However, even in case these risks are realized, the significant deviation of inflation from its target is not expected."*

External Sector

The external merchandise trade of Georgia surged by 25.3% YoY in Q2 2018, driven by both export and import growth.

Total exports jumped by 29.9% YoY and amounted to 860.3 million US dollar. The growth was driven by the doubled re-exports of cars, a tenfold increase in exports of tobacco products and a 40% increase in ferro-alloys exports. Georgian "car" industry, which includes car and spare parts re-exporters and repairers, benefitted from the improving economic performance in the region, especially in Azerbaijan – the major market for car re-exports. This market was lost temporarily starting from 2014 due to a recession in Azerbaijan and the imposed non-tariff regulations on car imports, which allow to import only cars that meet the Euro-4 ecological standard. **It seems that the new excise tax scheme on cars introduced in Georgia in 2017 facilitated adaptation to the Azeri requirements. The hike in exports of tobacco products also could be explained by tax incentives** – increased excise tax on cigarettes and other tobacco products and imposed regulations on tobacco products' promotion, selling and consumption possibly shrank domestic market or just made the exports more profitable for local producers (as exports of tobacco are tax free). The main destination countries for Georgia's tobacco products (mainly cigarettes, manufactured tobacco, and tobacco substitutes) are Azerbaijan, Uzbekistan, and Singapore. Overall, the **main destination markets for Georgian export products in Q2 2018 were Azerbaijan (14.9% of total), Russia (12.3%), Turkey (8.1%), Armenia (8%) and**



China (7.7%). Despite the significant growth of exports to EU during the last years, exports to CIS grew even faster, in Q2 2018 49% of total Georgian exports ended up in CIS countries, while the share of EU countries was only 19%. **This statistics underlines the problem of low diversification of trade and high exposure to regional shocks.**

Imports amounted to 2,323.5 million US dollar in Q2 2018, a 23.8% YoY increase. This figure was mainly driven by the petroleum imports (+31.6% YoY), which was in turn driven by higher oil prices on international markets (the amount of imported petroleum was nearly the same as in the second quarter last year). Imports of gas turbines from Netherlands and motor cars from USA were among other main drivers of import increase in the reporting period. The main source markets for Georgian imports in Q2 were Turkey (16.8% of total), China (10.4%), Russia (10%), USA (6.9%), and Ukraine (5.6%). **Because of growing imports, the**

negative trade balance deepened by 21% YoY.

Both tourism and remittance transfers maintained double-digit annual growth in Q2 2018. The number of international visitors increased by 13.8% YoY, while the change in tourist numbers (visitors who spent 24 hours or more in Georgia) was even higher – a 20.4% annual increase. As usual, the highest share of total visitors to Georgia were from neighboring countries – Russia, Azerbaijan, Turkey, and Armenia. **Leaders in the YoY percentage increase of international visitors in Q2 were China (+92.7% YoY), Germany (56% YoY), and Poland (38.3% YoY).** As a result, international tourism receipts in Q2 showed a 28.6% YoY increase, which means that this year an average tourist spent more than in the previous year.

Driven by higher inflow of money transfers from Italy (+36% YoY), Israel (+30.8% YoY), Greece (+22.3% YoY) and USA (+15.4% YoY) **the volume of total remittances to Georgia**

increased by 14.8% YoY in the reporting period. Money inflow from Russia and Turkey were flat in Q2 due to the depreciation of local currencies against US dollar.

Net foreign direct investment in Georgia also showed positive dynamics in Q2 2018 – a 9.4% YoY increase. Energy sector, transport and communications, and financial sector were the largest FDI recipients. Going forward, the decrease in FDI levels is expected, as BP is finalizing its construction of gas and oil pipelines in the South Caucasus.

Exchange Rate

The positive development of external sector caused the strengthening of national currency exchange rate against the currencies of Georgia's main trading partners, US dollar and the euro in the beginning of 2018. To smooth the currency appreciation, NBG bought 50 million US dollar in four auctions in April-June. Overall, in the Q2 2018, compared to the previous quarter the lari appreci-

ated by 1.6% and 4.4% against the US dollar and euro respectively. In the same period lari strengthened against the Turkish lira and Russian ruble by 13.8% and 9.5% respectively. Lari also gained against Azerbaijani manat by 1.5% and Armenian dram by 1.7%.

These currency trends were reflected in effective exchange rates. In the second quarter of 2018, compared to the previous quarter the Georgian lari appreciated in both nominal and real terms by 6.1% and 4% respectively. That means that **Georgian export goods and services became more expensive, while imports prices lowered.**

*Higher index means appreciation and vice versa

Credit Market

In Q2 2018, total loans (stocks) granted by commercial banks, excluding interbank loans, increased by 25.5% YoY. While this growth was mainly driven by the rapid acceleration of retail loans (+30.3% YoY), business loans also revealed an increasing trend (+19.9% YoY).

Expanding credit activity was one of the drivers of economic growth in Q2 2018, however in the long-term it could create risks in financial sector and rise overindebtedness of Georgian households. To promote sustainable credit practices and improve lending conditions, NBG has published a working draft law on standards for retail loans, which aims to avoid an extensive growth of retail loans over the transition period, and decrease the amount high-risk financial products on the market.

Total deposits of enterprises and households in commercial bank also showed a notable increase of 21.5% YoY in Q2 2018. In contrast with loans, the main drivers of the rise were deposits made by legal entities (+26.7% YoY, probably the growth was affected by CIT reform and, therefore, freed financial resources), while individuals deposits increased by 16.6% YoY.

The results of the dedollarization measures implemented in the beginning of 2017 already had an effect in the short-term. **Dollarization of both loans and deposits fell by 4.2 and 6.7 pp respectively in Q2 2018 compared to the same period of previous year.**

Budget

In Q2 2018, the general budget was in surplus by 102.3 million lari, which was 228.8 million lari higher compared to the same period previous year. Due to higher than expected economic growth budget **revenues from taxes increased by 8.5% YoY** in the reporting quarter. Main sources of increase were revenues from VAT (+14% YoY), custom duties (+1792% YoY) and personal income tax (+17% YoY).

At the same time, **current expenditures of government were flat in Q2,** a 0.7% YoY increase. While compensation of employees (-3.6% YoY) and use of goods and services (-1.9% YoY) contracted in the reporting quarter, government increased social benefits and other expenses by 2.1% and 5.1% YoY respectively.

In Q1 2016, the common budget surplus decreased by 60% year over year, primarily a result of a 12.7% increase in government expenditures, while the income of the common budget increased by only 6.3%. **General government debt stock totaled 13,162 billion lari, a 14% year-over-year increase. From this amount, 21% was domestic debt, while the remaining 79% was foreign debt.**

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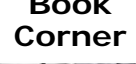
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How Russians and Americans see each other

Continued from p. 14

4 - Russians and Americans generally agree on each country's changing role in the world over the past 10 years. Russians and Americans are both similarly split on the changing nature of American power – but are more likely to say Russia's international importance is rising. Opinions in both countries are divided over whether the

U.S. is playing a more important, equally important or less important role in the world compared with 10 years ago. But there is more agreement that Russia's importance has increased. Around seven-in-ten Russians (72%) say this, as do 52% of Americans. People in both countries also agree that China plays a more important role in the world today than a decade ago (73% and 72%, respectively).

5 - Americans prefer themselves over China as world leader, but Russians prefer 'neither' over the U.S.

When asked to choose between the U.S. and China as the preferred leading power for the world, Americans clearly prefer their own country. But only 13% of Russians choose the U.S. Nearly three times as many Russians prefer China (35%) over the U.S., and a similar share of Russians volunteer "neither," which might indicate displeasure with Russia not being offered as a cat-

egory for this question.

6 - Most Americans say U.S. takes other countries' interests into account; roughly two-thirds of Russians disagree. Americans and Russians strongly disagree over whether the U.S. takes into account other countries' interests when it makes foreign policy. A majority of Americans (57%) say Washington does consider other nations, but nearly two-thirds of Russians (65%) say

it does not. This sentiment in Russia has been consistent since the question was first posed in 2002. Similarly, most Americans since then have also said the U.S. listens to other countries when making foreign policy. In 2002, however, 75% of Americans said this was the case, compared with 57% seen today.

Jacob Poushter is a senior researcher focusing on global attitudes at Pew Research Center.

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Public discussions with construction industry representatives about urban planning of the city is particularly important, and has been seriously lacking in Tbilisi. Population should know the projects that will become part of Tbilisi in the near future. It is important to know what role companies will take in developing green spaces and recreational zones and what kind of environment they are going to offer to Tbilisians.

I am pleased to welcome the construction forum that is planned in November, and I am calling on all interested people to join URBAN Georgia – Forum to provide input in making Tbilisi a City Full of Life.

(More info to be found at: <https://urbantbilisiz2018.eventgrid.com/>)

Kakha Kaladze
Mayor of Tbilisi

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