GEORGIA

Country Strategy

2019-2022
GEORGIA COUNTRY STRATEGY

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### Table 1: Basic Macroeconomic Indicators at a Glance for GEORGIA

Key Long Term Foreign Currency Sovereign Risk Rating at October 2, 2019:

**Moody’s: Ba2 | S&P: BB- | Fitch: BB**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Population (Milion)</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>2. Avg Exch. Rate (Lari/ US$)</td>
<td>2.27</td>
<td>2.37</td>
<td>2.51</td>
<td>2.53</td>
<td>2.62</td>
<td>2.58</td>
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<tr>
<td>3. Inflation (CPI Avg.)</td>
<td>4.0%</td>
<td>2.1%</td>
<td>6.0%</td>
<td>2.6%</td>
<td>3.2%</td>
<td>3.0%</td>
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<tr>
<td>4. Average monthly wages (US$)</td>
<td>396.8</td>
<td>397.2</td>
<td>398.1</td>
<td>2.62</td>
<td>2.5</td>
<td></td>
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<tr>
<td>5. GDP (Lari million)</td>
<td>31,755.6</td>
<td>34,028.5</td>
<td>37,846.6</td>
<td>41,077.5</td>
<td>43,800.0</td>
<td>47,500.0</td>
</tr>
<tr>
<td>6. GDP US$ million</td>
<td>13,988.1</td>
<td>14,377.9</td>
<td>15,086.5</td>
<td>16,207.1</td>
<td>16,723.9</td>
<td>18,389.5</td>
</tr>
<tr>
<td>7. GDP per capita (US$)</td>
<td>3,754.9</td>
<td>3,857.3</td>
<td>4,046.5</td>
<td>4,345.5</td>
<td>4,486.0</td>
<td>4,932.8</td>
</tr>
<tr>
<td>8. Real GDP growth, %</td>
<td>2.9%</td>
<td>2.8%</td>
<td>4.8%</td>
<td>4.7%</td>
<td>4.6%</td>
<td>4.3%</td>
</tr>
<tr>
<td>9. Official Unemployment (end of period) %</td>
<td>14.1%</td>
<td>14.0%</td>
<td>13.9%</td>
<td>12.7%</td>
<td>11.4%</td>
<td>11.2%</td>
</tr>
<tr>
<td>10. Industrial Production Growth, %</td>
<td>0.7%</td>
<td>4.6%</td>
<td>3.4%</td>
<td>2.9%</td>
<td>8.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>11. Agricultural Production Growth %</td>
<td>1.5%</td>
<td>4.6%</td>
<td>3.4%</td>
<td>2.9%</td>
<td>8.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>12. Domestic Credit Growth %</td>
<td>24.3%</td>
<td>19.4%</td>
<td>17.6%</td>
<td>19.1%</td>
<td>19.3%</td>
<td>13.7%</td>
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<tr>
<td>13. Domestic Credit/ GDP</td>
<td>48.8%</td>
<td>54.4%</td>
<td>57.5%</td>
<td>63.1%</td>
<td>76.7%</td>
<td>80.4%</td>
</tr>
<tr>
<td>14. Foreign Direct Investment - $US million</td>
<td>1,735.3</td>
<td>1,656.2</td>
<td>1,902.5</td>
<td>1,218.7</td>
<td>1,700.0</td>
<td>1,640.0</td>
</tr>
<tr>
<td>15. FDI/ GDP</td>
<td>12.4%</td>
<td>11.5%</td>
<td>12.6%</td>
<td>7.5%</td>
<td>10.2%</td>
<td>8.9%</td>
</tr>
<tr>
<td>16. Consolidated Budget Balance/ GDP, %</td>
<td>-1.1%</td>
<td>-1.4%</td>
<td>-0.9%</td>
<td>-0.8%</td>
<td>-2.7%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>17. Total External Debt- US$ million</td>
<td>15.3</td>
<td>15.9</td>
<td>17.3</td>
<td>17.8</td>
<td>17.9</td>
<td>19.7</td>
</tr>
<tr>
<td>18. Total External Debt/ GDP</td>
<td>109.4%</td>
<td>110.7%</td>
<td>114.7%</td>
<td>109.8%</td>
<td>107.0%</td>
<td>107.0%</td>
</tr>
<tr>
<td>19. Public External Debt/GDP</td>
<td>33.0%</td>
<td>33.9%</td>
<td>37.0%</td>
<td>35.5%</td>
<td>34.1%</td>
<td>34.1%</td>
</tr>
<tr>
<td>20. Private External Debt/ GDP</td>
<td>76.5%</td>
<td>76.8%</td>
<td>77.7%</td>
<td>74.3%</td>
<td>72.9%</td>
<td>72.9%</td>
</tr>
<tr>
<td>21. Exports- $US million (Goods)</td>
<td>3,021.0</td>
<td>2,864.7</td>
<td>3,569.9</td>
<td>4,406.5</td>
<td>5,137.2</td>
<td>5,623.1</td>
</tr>
<tr>
<td>22. Imports- $US million (Goods)</td>
<td>6,973.0</td>
<td>6,747.2</td>
<td>7,379.1</td>
<td>8,522.3</td>
<td>9,634.0</td>
<td>10,670.0</td>
</tr>
<tr>
<td>23. Trade Balance US$ mn (Goods)</td>
<td>-3,951.9</td>
<td>-3,882.5</td>
<td>-3,809.2</td>
<td>-4,115.8</td>
<td>-4,496.8</td>
<td>-5,046.9</td>
</tr>
<tr>
<td>24. Trade Balance/ GDP</td>
<td>-28.3%</td>
<td>-27.0%</td>
<td>-25.2%</td>
<td>-25.4%</td>
<td>-26.9%</td>
<td>-27.4%</td>
</tr>
<tr>
<td>25. Current Account Balance $US mn</td>
<td>-1,767.0</td>
<td>-1,885.9</td>
<td>-1,307.5</td>
<td>-1,192.7</td>
<td>-1,328.1</td>
<td>-1,585.1</td>
</tr>
<tr>
<td>26. Current Acct. Bal./ GDP</td>
<td>-12.6%</td>
<td>-13.1%</td>
<td>-8.7%</td>
<td>-7.4%</td>
<td>-7.9%</td>
<td>-8.6%</td>
</tr>
<tr>
<td>27. Forex Reserves (end period- exc gold) US$ m</td>
<td>2,520.6</td>
<td>2,756.5</td>
<td>3,039.3</td>
<td>3,288.8</td>
<td>3,692.6</td>
<td>3,930.9</td>
</tr>
</tbody>
</table>

Sources: National Bank of Georgia; State Department of Statistics, Georgia; IMF Georgia: 2018 Article IV Consultation, Second Review Under the Extended Fund Facility Arrangement, and Request for a Modification of a Quantitative Performance Criterion, IMF Country Report No. 18/198 June 2018; For projections- World Economic Outlook Database, IMF April 2019;
GEORGIA COUNTRY STRATEGY 2019-2022

I. Summary of Recent Developments and Outlook

From 1995-2018, real GDP growth in Georgia has averaged 5.5% a year. In real terms, this represents growth of 3.5 times, and with GDP per capita rising approximately tenfold during this period, Georgia has transitioned from a low income country following independence, to a fast growing lower middle income country. Average annual growth since 2010 has been 4.8%. While this represents a slower rate relative to the 2008 global financial crisis period, it has proven to be far more stable. Growth between 1995-2008 began from a very low base on the one hand, while on the other it fluctuated from year to year, with the economy proving very vulnerable to external shocks. The post-crisis growth has been more consistent and has taken place against a background of stable key macroeconomic indicators. It has also outperformed the rest of the Black Sea Region, which has averaged GDP growth of 2.7% during the 2010-2018.

Recent macroeconomic trends

Faced with the challenges from the regional economic downturn that resulted from the decline in the price of oil and its corresponding impact on key neighboring economic partners, Georgia’s real GDP growth retreated to 2.9% and 2.8% in 2015 and 2016 respectively. As the neighbors recovered, growth accelerated to 4.8% and 4.7% in 2017 and 2018, resulting in an annual average 3.8% growth rate over the period from 2015 to 2018, which is lower than the 5.4% recorded in the previous four year period. Along with the growth rate, the composition of the growth also changed during this time. From 2011 to 2014 growth was mainly driven by domestic trade (+5.8% per annum) and manufacturing (9.6%), while during 2015-2018 period in terms of contribution to growth, domestic trade (+3.3%) was followed by construction (+8.5%), real estate (+8.1%), and financial intermediation (+10.7%). Value added in the agriculture was down 0.3% on the average in the recent four year period compared to 4.4% annual average increase in the previous four year period.

Weak performance in 2015 and 2016, along with depreciation of the local currency resulted in GDP per capita falling from US$ 4,438 in 2014 to US$ 3,755 in 2015. However, since then income per person has been on an upward trajectory, reaching US$ 4,346 in 2018.

External sector

The Georgian current account deficit averaged 10.4% of GDP during the 2015-2018- on the same level as the average 10.3% of GDP in the previous four year period. This deficit rose to 13.7% of GDP in 2016 and then fell to 7.4% of GDP in 2018. Improvement in the external balance was mainly due to a sharp rise in receipts from the tourism industry. The surplus generated by “travel services” increased from 9.0% of GDP in 2014 to 16.6% of GDP in 2018, while there was a marginal decline in other categories. The goods balance deficit, at 25.4% of GDP in 2018, remained the most important deficit item within the balance of payments. From 2015 to 2018, remittances as a share of GDP increased from 9.3% of GDP to 10.9% of GDP.

The external balance in Georgia has traditionally been financed by foreign direct investment (FDI) and the recent years were no exception. For example, in 2018 at 5.7% of GDP, net FDI covered more than 75% of the current account deficit, while in 2017 net FDI was higher than the current account deficit. Azerbaijan has remained the major foreign direct investor to Georgia, followed by the UK and the Netherlands. Annual average FDI from BSTDB member countries to Georgia was up to US$ 0.7bn or corresponding to 43.1% of the total FDI in the 2015-2018 period.
Georgian exports reached a record high US$ 3.4bn in 2018, up 17.3% from 2014, but having bounced back robustly from sharp declines in 2015 and 2016. Increase in exports of copper, cigars and related products, and ferro-alloys drove total export figures, while a negative contribution came from decline in the exports of hazelnuts, motor cars, and fertilizers. In terms of destination, major positive contribution came from the increase of exports to Russia (+58.9% compared to 2014), China (+119.1%), and Bulgaria (+54.9%).

Imports to Georgia reached US$ 9.1bn in 2018 or 6.2% more than in 2014. The increase was driven by imports of industrial supplies and capital goods.

Exports to BSTDB member countries reached US$ 1.9bn in 2018 or up 16.3% compared to 2014. Overall, Azerbaijan was the main export destination for Georgia, followed by Russia, Armenia, Bulgaria, and Turkey. Imports from BSTDB members, on the other hand, were slightly down to US$ 4.3bn in 2018 or 0.3% less compared to 2014. In 2018, four of the top five originating countries for Georgian imports were other BSEC members: Turkey was the main source of Georgia's imports, followed by Russia, while Azerbaijan and Ukraine ranked 4th and 5th.

Public finances

Fiscal revenues and expenditures in 2015-2018 period remained broadly stable, with annual average general government revenue at 28.6% of GDP. Composition-wise, however, there was some change, with the share of profit tax and value added tax declining, while the share of income taxes and excises increased, reflecting recent changes in the tax code.

General government expenditures were also stable, at an average of 29.6% of GDP during the 2015-2018 period. In terms of composition, the share of social benefits, subsidies, and interest increased, while the share of the wage bill and expenses on goods and services fell; capital expenditures were broadly flat. Within the last four year period, however, there are significant fluctuations from year to year. The most important trend is a recent rise in the share of capital expenditures, which rose from 3.0% of GDP (10.1% of total expenditures) in 2016 to 6.2% of GDP (21.0% of total expenditures) in 2018.

With revenues and expenditures broadly flat, the general budget deficit also remained stable at an average of 1.0% of GDP during 2015-2018. As a result, public debt was up from 35.4% of GDP in 2014 to 43.9% of GDP in 2018, with foreign debt accounting for around three quarters of the total public debt.

Inflation, exchange rate, and monetary policy

Annual average inflation in Georgia came in at 2.6% in 2018, below the National Bank’s target of 3.0% and well below the previous year’s 6.0%. Over the four year period, annual average inflation was 3.7% in 2015-2018, slightly higher than the 2.5% over the 2011-2014 period.

Compared to the previous four year period, over 2015-2018 the exchange rate was more volatile and on a depreciating trend. Whereas from 2011-2014 the USD/GEL rate ranged in the narrow 1.6193-1.9527 band, in 2015-2018 it widened to the 1.8780-2.7846 band.

As depreciation and inflation pressures grew, the National Bank of Georgia increased the key policy rate, raising it from 4.0% at end 2014 to 8.0% at end. Subsequently, monetary policy was relaxed slightly but the key policy rate was kept in the 6.5-7.25 range.
Banking sector

The total assets of commercial banks in Georgia increased from 70.7% of GDP in 2014 to 96.6% of GDP in 2018. This expansion of the balance sheet was primarily driven by a surge in loans to the private sector, with the net loans/GDP ratio increasing from 42.1% in 2014 to 61.6% in 2018. Increased term deposits, along with borrowed funds and demand deposits were the main sources of funding for the increasing demand of loans in Georgia. At end 2018, non-bank deposits accounted for 58.2% of total liabilities and equity, followed by borrowed funds (18.4%) and equity capital (13.4%).

The loan dollarization ratio in Georgian banking sector increased from 60.3% in 2014 to 65.4% in 2016, driven partly by the depreciation of the local currency. However, as the exchange rate stabilized and together with pro-active policies pursued by the National Bank, dollarization retreated to 56.3% in 2018. Non-performing loans, per IMF definition, remained broadly stable over the last four years. Following an initial increase from 3.0% in 2014 to 3.8% in 3Q16, the NPL ratio declined to 2.7% by the end of 2018. The dollarization ratio of deposits increased more rapidly in 2015 and 2016, peaking at 71.9% in January 2017. Since then it has followed a declining trend and fell to 63.1% by the end of 2018.

Outlook

According to the official Georgian forecasts, the Georgian economy is projected to grow at an annual average 5.3% in the next four years, with GDP per capita reaching US$ 5,812 by the end of 2022. This rate is in line with the historical average, and represents a slight uptick relative to the rate of growth of the 2015-2018 period. Authorities expect growth to be supported by an acceleration of public investment, while private investment is forecast to be flat as a share of GDP. The higher public investment is to be balanced by reduced current expenditures leading to no change in the total public expenditures as a ratio to GDP. Revenues, on the other hand are estimated to decline slightly over the next four years, thereby resulting in higher fiscal deficits during the 2019-2022 period.

However, the current account deficit is forecast to decline to 7.4% of GDP in 2019-2022. Authorities believe that this will be achieved thanks to rising surpluses in the services balance, which would be larger than the expected expansion of the trade deficit. It is forecast that capital and financial flows will be more than enough to cover the current account deficit, thereby further feeding country’s foreign exchange reserves.

II. Overview of Current BSTDB Portfolio

As at 30 September, 2018, the active BSTDB portfolio in Georgia amounted to 14 operations approved by the Board of Directors (BoD), involving an investment of € 166.3 million. All fourteen operations were signed for € 157.5 million and the outstanding disbursements were at € 118.1 million. Georgia ranks seventh in the BSTDB portfolio in terms of BoD approved operations, with 5.5% of the active portfolio and seventh in terms of signed operations with 6.1% of the total active portfolio. In terms of disbursed amounts outstanding in the total portfolio, Georgia also ranks seventh in the BSTDB portfolio with 6.3%. Relative to the Bank’s active portfolio at the end of 2014, Board approvals increased by 169.7%, signings by 204.3%, and amounts outstanding by 875.2%.
Table 2: Active BSTDB Portfolio in Georgia as at 30 September 2019

<table>
<thead>
<tr>
<th>All Figures in Euros Million</th>
<th>BoD Approval Date</th>
<th>Approved Amount</th>
<th>Signed Amount</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>TBC Bank (Trade Finance)*</td>
<td>15-Nov-02/ 15-Apr-06/ 29-Apr-11</td>
<td>9.2</td>
<td>9.2</td>
<td>-</td>
</tr>
<tr>
<td>Equity to ADM CEECAT Recovery</td>
<td>21-Jul-11</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Batumi (Unfunded Risk)</td>
<td>21-Jul-11</td>
<td>16.0</td>
<td>16.0</td>
<td>-</td>
</tr>
<tr>
<td>SEAF Caucasus Growth Fund Equity</td>
<td>2-Dec-11</td>
<td>3.1</td>
<td>3.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Basis Bank*</td>
<td>10-Feb-12/ 20-Sep-13/ 28-Nov-14</td>
<td>13.8</td>
<td>13.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Terabank*</td>
<td>10-Feb-12</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Bank of Georgia SME**</td>
<td>27-Jun-16</td>
<td>18.6</td>
<td>18.6</td>
<td>18.6</td>
</tr>
<tr>
<td>Energo Pro a.s. Eurobond</td>
<td>17-Nov-17</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Bank of Georgia SME II**</td>
<td>17-Nov-17</td>
<td>23.2</td>
<td>23.2</td>
<td>23.2</td>
</tr>
<tr>
<td>TBC Leasing SME IV*</td>
<td>17-Nov-17</td>
<td>4.6</td>
<td>4.6</td>
<td>2.8</td>
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<tr>
<td>Isbank Georgia SME*</td>
<td>23-Feb-18</td>
<td>6.4</td>
<td>6.4</td>
<td>5.7</td>
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<tr>
<td>TBC Bank SME II*</td>
<td>18-May-18</td>
<td>45.9</td>
<td>37.2</td>
<td>37.2</td>
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<tr>
<td>Crystal SME**</td>
<td>8-Feb-19</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
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<td>Basis Bank SME Dual Currency*</td>
<td>19-Apr-19</td>
<td>14.2</td>
<td>14.2</td>
<td>14.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>166.3</td>
<td>157.5</td>
<td>118.1</td>
</tr>
</tbody>
</table>

* Financing for Operation provided in USD
** Financing for Operation provided in GEL


The evaluation was performed by the Bank’s Evaluation Office as per the respective Evaluation Policy. It reveals the performance of the Bank’s 2015-2018 Country Strategies, to provide accountability and facilitate the decision-making regarding future strategies.

The evaluation of the respective country strategy compares the stated targets with actual results as of end of 2018, and provides an evaluation rating. The 2015-2018 Country Strategy is aligned with the objectives of the Bank’s Business Plan 2015-2018 and was therefore evaluated in that context.

The implementation of the Country Strategy exceeded the targeted volumes at a record high (for any period and country) level of 305.6%, reflecting the priority to increase investments in small shareholder countries. The Bank covered its priorities/sectors to some extent, as some of them remained underinvested, e.g. energy and infrastructure, as well as manufacturing. Consequently, the evaluation rated the performance as Satisfactory. The key evaluation findings are outlined in the following table.
### Table 3: Post Evaluation of 2011-2014 Country Strategy for Georgia

<table>
<thead>
<tr>
<th>Country Strategy</th>
<th>Sectors/Priorities</th>
<th>Target signed: number/ EUR million</th>
<th>Actual signed: number/ EUR million</th>
<th>Evaluation Summary</th>
</tr>
</thead>
</table>
| Georgia          | 1. Financial sector – intermediaries, SME, Trade Finance, leasing.  
                    2. Energy/ Infrastructure: energy (efficiency and renewable), transport, municipal, telecom, IT.  
                    4. “Increase operational activity in smaller shareholder countries” | 4-5/49.4                        | 13/150.8                         | **1. Volume:** 305.6%  

2. **Sector coverage:**  
Basisbank / SME (SME, 2);  
TBC Bank 2 local currency / 3 / back to back / Leasing 4/ (SME, 4);  
Finca Bank Georgia (SME);  
Credo LLC (SME);  
KOR Standard Bank (SME);  
Bank of Georgia / Local Currency (SME, 2);  
IS Bank (SME);  
Energo Pro Eurobond (energy)  

The Bank partially covered its priorities/sectors, as it concentrated in the financial / SME sector.  

3. **Conclusion:**  
Volumes were exceeded threefold, responding to the strategy call of portfolio expansion in small shareholders. While there is certain concentration in the financial sector, the evaluation acknowledges a widened lending diversity with reference to the targeted and actually delivered local currency lending to SMEs, outreaching a variety of sectors at that level. 

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### IV. BSTDB Operational Priorities for 2019 - 2022

The Bank’s role and priorities for Georgia during the 2019-2022 period are outlined in accordance with (i) the priorities and targets laid out in its *Medium-term Strategy and Business Plan 2019-2022*; (ii) updates to the MTSBP 2019-2022, (iii) country needs and objectives, and taking due consideration of (iv) available resources, strategies and policies of BSTDB. BSTDB will seek viable opportunities for

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1 Approved by the Bank’s Board of Governors in February 2019.
operational activity and will closely monitor developments in the Georgian economy in order to stand prepared to support bankable projects. Where possible, the Bank will seek to leverage its presence by co-financing with international financial institutions (IFIs), public sector institutions and private partners, per its mandate.

The intention of the Bank is to provide support for the implementation of Government economic priorities, while being responsive to market demand. The Bank will consider undertaking activities and providing services as may advance its purpose, paying special attention to activities that promote regional cooperation, development of infrastructure, increased and diversified export of goods and services, and new employment creation. The Bank will seek to maintain consistency with the UN’s Sustainable Development Goals in the context of Georgia and its priorities and needs.

Based on the updated 2019-2022 BSTDB Medium Term Strategy and Business Plan, the Bank would expect on average to sign one to two new operations each year, for approximately €30-40 million. Over the four year period, this implies six to seven new commitments (signed operations) for approximately €140 million (a range of €130-150 million).

These indicative targets are based on the Base Case Scenario of Growth of the updated MTSBP 2019-2022, and given appropriate circumstances and sufficient operational opportunities, the Bank would exceed this level in order to continue meeting client needs. In case of higher regional economic growth rates, an improved situation in financial markets, and above all, increased demand for Bank funding coming from private and/or public entities active in the Georgian market, the Bank will welcome the prospect to exceed the projected scenario and achieve higher operational results.

A key consideration for the Bank is to increase its relevance in each Member State. Achievement of such greater prominence has both quantitative and qualitative aspects—how much the Bank plans to do, but also where it plans to do so. In line with the MTSBP 2019-2022, the Bank intends to increase its presence in key infrastructure sectors since on the one hand regional investment rates are low while country needs are high, and on the other hand such operations usually have high cooperation and development impact, and positive economic and social returns that exceed the financial returns of the particular operation. The willingness to provide sovereign guarantees (or equivalent undertakings) for such operations would greatly increase the ability of BSTDB to provide support in these high priority areas, and it improves the risk profile of BSTDB achieving substantially improved risk weightings for that portion of the portfolio.

The Bank will insist that all operations meet criteria of sound banking principles on the one hand, and financial viability/ economic sustainability on the other hand. Within these parameters, and in line with the Bank’s continuing strategy to sustain higher operational activity in smaller shareholder countries, the Bank will explore the possibility of taking on additional risk- or risks- in order to facilitate the undertaking of additional operations. The greater ‘reward’ that justifies the acceptance of more risk is that the Bank would participate in a larger number and volume of operations in smaller countries, and thus better fulfill its mandate to promote economic development, especially where needs are greatest.

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2 Any revisions to the MTSBP 2019-2022 may affect the indicative targets, as country specific figures might need to be revised accordingly with the overall figures
Areas for BSTDB Financing:

Trade Finance and Financial Sector

BSTDB has a particularly rich program of support in the financial sector in Georgia, and since the Bank started up operations, it has offered a wide range of products through selected financial intermediaries in Georgia for the purpose of Trade Finance, Micro Finance, and small and medium enterprise (SME) development. These include:

- Multiple Buyer Credit Facility
- Pre-export finance Facility
- Combined Trade Finance (export/import) product
- Medium –Term Micro and SME Finance product
- Leasing Facility for SMEs
- Local currency term loans for the SME financing

In addition, BSTDB has participated in two SME equity funds where Georgia was a recipient country.

The Bank has an ongoing portfolio with a number of financial intermediaries in Georgia, thorough which it provides the aforementioned trade finance products and micro-enterprise and SME medium term lending. These activities will continue to represent a priority for the Bank, since the small size of most Georgian firms often renders conducting direct operations with these enterprises uneconomical (due to scale) or too difficult (due to informational difficulties and complexity of reaching out to small firms).

In recent years, the financial sector has grown rapidly in size and sophistication, with evolving needs. The Bank has adapted its program of support accordingly and it remains committed to a pro-active strategy of working with Georgian commercial banks and leasing companies as the needs of Georgian banks and SMEs evolve.

For existing operations, the Bank will seek, where possible and practical, to increase the amount of existing trade finance facilities and to renew and/or increase micro and SME loan facilities where performance is good and prospects are favorable. In addition, the Bank will make available medium term financing to fast growing non-bank financial institutions.

The Bank will also maintain its support to the deepening of the domestic financial sector and the priority of the government to promote de-dollarization of the banking sector. To this end, BSTDB will seek to expand its local currency lending program in Georgia by offering Lari denominated loans to smaller banks, while maintaining larger local currency exposures with the top two banks in the country.

As per its ongoing policy, the Bank will also keep in regular contact with complementary international financial institutions (IFIs) such as EBRD and IFC to seek ways to coordinate activities and share experiences, given the opportunities which exist for joint involvement.

Manufacturing

Though it has slowed slightly from previous years, the Georgian economy is still growing robustly and is expected to grow in the range of 4 to 5 percent per annum over the next three to four years. Due to the relatively smaller size of the economy and smaller size of investments in general industries, the focus will mostly be on the small and medium size of enterprises in manufacturing sectors. The Bank will closely follow both foreign and local investments and try to identify new bankable projects
for financing. Traditionally Georgia has potential in sectors like agribusiness (food processing, winery, mineral waters, forestry, mining and light industries. These sectors will continue to be the focus of the Bank for financing. The Bank will give priority to projects that have export potential and import substitution and that bring know-how and technology to the country.

Transportation

Georgia has the potential to benefit from its geographic location as a transit country between Black Sea and Caspian Sea and between Russia and Turkey. However the prevailing state of infrastructure does not allow the country to maximize its potential. Thus, projects in the transportation sector, and especially those in the construction of port facilities, logistic centers, container terminals and warehouses that facilitate the transit of freight and cargo within the region will be a priority for the Bank.

Tourism and Real Estate:

Tourism is an important factor in the Georgian economy. It has a significant impact on the balance of payments. Revenues from international tourism have grown rapidly in recent years contributing about 7% of the GDP, a number which is expected to grow further in the coming years. To support this up and coming sector with its significant foreign exchange generation potential, the Bank will give priority to greenfield tourist development projects such as hotels, resort facilities, and tourism dedicated infrastructure, and it will also consider provision of financing to existing facilities which require modernization and expansion.

There are various projects in the real estate development sector. The Bank will carefully select the opportunities to get involved in the Real Estate sector, with the participation of foreign sponsors and experienced management. Support of retail business is also an area upon which the Bank will focus.

Energy and Infrastructure

Given existing Energy and infrastructure (E&I) needs, so long as projects are ‘bankable’, the Bank will be offering its support.

This applies to all key infrastructure sectors, including energy and electricity, oil and gas upstream, midstream and downstream, transport infrastructure, telecommunications, information technology and municipal and social infrastructure. The existence of an appropriate competitive environment and regulatory framework will be an important consideration in ascertaining ‘bankability’ alongside development impact. Emphasis will continue to be on bankable private sector operations.

In case of the consideration of financing at the privatization stage of any E&I objects, the presence of a strategic investor would be a key factor for the Bank, and the Bank’s assistance would likely come in the form of post-privatization financing to upgrade facilities and restructure. Other involvement in infrastructure operations will need to be via creative arrangements such as public-private partnerships.

The Bank will continue to ensure that all BSTDB E&I operations in Georgia meet sound banking principles and comply with the Bank’s Environmental Rules and Procedures and incorporate, where appropriate, Environmental and Social Action Plans.

The Bank will work in cooperation with EBRD, IFC, EIB, KWF, DEG, FMO, Proparco, other IFIs, commercial banks and ECAs in joint energy and infrastructure sector projects as an important source of the project co-financing as well as the institutional knowledge transfer.
BSTDB Energy and Infrastructure strategy in terms of banking instruments:

- Project Finance limited recourse transactions;
- Corporate recourse financing transactions;
- Exploration of financing in the form of Equity;
- Co-financing of transactions with other IFIs, commercial banks and ECAs;
- Participation in syndicated facilities for E&I deals in Georgia.

Areas of particular focus in Energy and Infrastructure:

- Energy (conventional and renewable) generation, transmission, distribution and storage;
- Oil and gas (upstream, midstream and downstream operations including storage);
- Transportation of all kinds and transport infrastructure;
- Telecommunication and Information Technology;
- Municipal and Social infrastructure of all kinds.