

Georgia: roses and thorns



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Georgia delivers strong economic results

We are introducing regular macro coverage of Georgia - one of the most dynamic countries of the CIS region. Georgia's 'Rose Revolution' in 2003 led to dramatic political change, an acceleration of structural reforms and modernisation. We are optimistic about Georgia's economic performance and believe in its gradual political stabilisation.

Highly successful structural reforms

Georgia is the only example of a successful anti-corruption campaign in the CIS region. The fight against corruption has spectacularly strengthened the gains from the other structural reforms. Improvements in tax compliance and tax revenues have made high government investment in infrastructure affordable. Upgrades in infrastructure are stimulating economic modernisation and making it likely that economic growth can be sustained in the mid term, in our view.

We have faith in political stabilisation

However, quick change does not come without some pain, allowing opposition to strengthen and protest forces to build up. Nevertheless, the recent presidential elections confirmed President Saakashvili's mandate for reform. We expect a balance between opposition and pro-president forces to be achieved and to see broader representation across the political spectrum in the new parliament (the parliamentary elections are scheduled for May 2008).

We are positive on the investment boom

The Georgian economy is well diversified. Strong domestic demand is essential for economic growth. Consumer spending growth is impressive, boosted by income and wage growth and easier access to consumer credit. The investment boom has become visible, with strong foreign capital inflows helping to finance a very sizeable current account deficit and provide financial stability. Our baseline scenario suggests that this healthy trend will be sustained in the mid term.

Some important risks should not be ignored

Although optimistic on Georgia's performance, we cannot ignore the risks. These include regional separatism and the potential for regional war, further deterioration in relations with Russia, new gas price rises, high dependence on foreign capital, and inflation risk. These can all significantly affect the rosy picture, although we do not consider this a likely scenario. Currently, Georgia's financial markets are underdeveloped and illiquid, but have the potential to expand in 2008 and even more in 2009-10. We are positive on the lari and expect a moderate appreciation in 2008-09.

Table 1: Georgia: main macro indicators

	2007E	2008F	2009F	2010F
Real GDP (%YoY)	12.0	7.5	8.5	8.5
Industrial production (%YoY)	14.2	8.5	9.0	9.0
Nominal GDP (US\$bn)	10.1	13.0	15.8	19.0
GDP per capita (US\$)	2,294	2,955	3,586	4,321
CPI (end-year %YoY)	11.0	10.5	8.0	7.0
Trade balance (% of GDP)	-39.3	-32.3	-28.5	-27.0
Current account balance (% of GDP)	-18.8	-15.4	-14.6	-14.5
Gross external debt (% of GDP)	42.6	43.8	43.7	41.5
Exchange rate (GEL/US\$) year-end	1.59	1.53	1.50	1.45

Source: National source, Merrill Lynch estimates

General background

Georgia is a small economy in transition (a population of 4.5 million and GDP of US\$10.2bn in 2007) which emerged after the USSR collapse in 1991. A multi-national and multi-faith state, it consists of 19 regions, two of which – Abkhazia and South Ossetiya – are, de facto, not under the control of the central government. This is because, unlike most other former Soviet republics, Georgia immediately descended into civil war. This exacerbated the political and economic shock of the collapse of the former Soviet Union, raised the level of poverty to above 60% of the population and deepened the economic crisis almost to the level of a humanitarian catastrophe. In the mid-1990s, the war ended, leading to a boost in economic growth to two-digit figures and helping to ease the most serious social and economic problems.

The previous communist elite, headed by President Eduard Shevardnadze, won political control in this period. Although this was not bad at the time, as it helped to balance the political interests of various groups and ethnicities and ended the war, it did, however, slow progress towards structural reform and economic liberalisation. Georgia had always had one of the highest levels of corruption of former USSR countries and was constantly beset by political problems.

Georgia



Population (2006)	4.5mn
Area	69600 sq. km
GDP %YoY (2007)	12%
GDP per capita (2007)	US\$2294

Source: Merrill Lynch

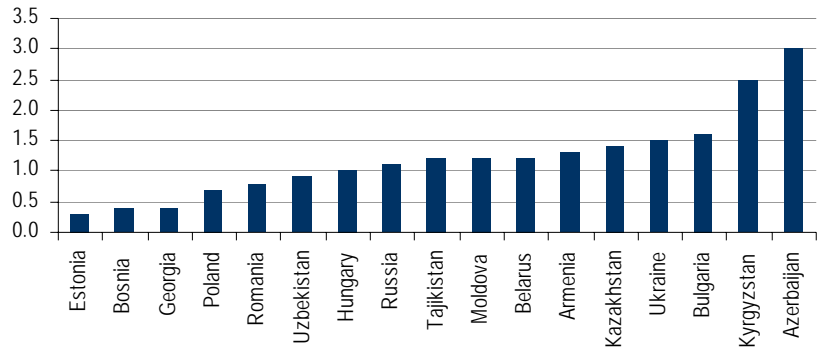
Structural reform and government finances

In November 2003, the peaceful and democratic ‘Rose Revolution’ dramatically changed the political landscape. Since then Georgia’s development has gathered speed and its economic modernisation and integration into the international community accelerated. The transformation was the first ‘colour’ revolution in the region and its success had a great influence on other former Soviet republics, in particular, Ukraine.

The new government launched a major anti-corruption programme, reorganised and optimised government structures, and reduced red tape for businesses. The number of bureaucrats was reduced by 30% accompanied by an increase in salaries for those remaining. Of particular significance is that corruption has been dramatically reduced at “ground” level where it had previously affected the day-to-day existence of ordinary people. For example, the most corrupt part of the police force - traffic police – has been eliminated as a government body while the staff of the general police has been totally changed. This won the government very broad support for its anti-corruption efforts and increased the efficiency of the programme. According to a World Bank study on corruption levels in emerging market countries, Georgia is now enjoying the first fruits of the reform. The so-called corruption tax has come down from 2.7% to 0.4% of total income over the period 2002-05, making Georgia the least corrupt country in the CIS region, and

indicating a significant improvement in the investment climate in general. In Russia, by contrast, this tax is estimated at 1.1% in 2005, which is close to the CIS average (see Chart 1).

Chart 1: Corruption tax (%) – average percent of income used for bribery (2005)

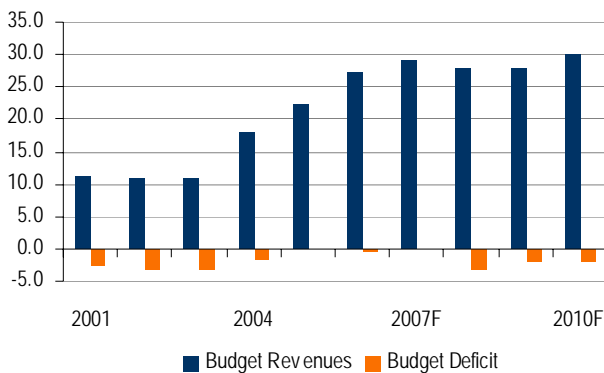


Source: WB BEEPS

In the coming years the Georgian administration will face a new challenge - to stamp out corruption from all levels of the government machine and provide transparency in the government decision-making process. This should help to improve the business climate further and increase the attractions of the region for foreign investors. We believe this is a realistic but challenging target.

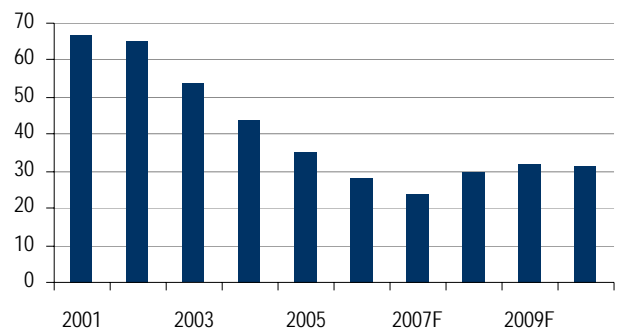
Tax reform is the second success of the administration. It has led to a significant improvement in government finances, reducing the budget deficit to zero in 2007. This is in stark contrast to the 1990s, when tax collection was so poor (around 10% of GDP) that the government could barely support the country around survival level. Tax has been reduced (the personal income tax rate has been cut from 35% to 25%, for example), but budget revenues rose nevertheless to 27.4% of GDP in 2006 and are estimated to increase to 29% of GDP in 2007. Custom reform has helped to stem the flow of smuggled goods and has boosted tax revenues.

Chart 2: Budget revenues and budget deficit (% of GDP)



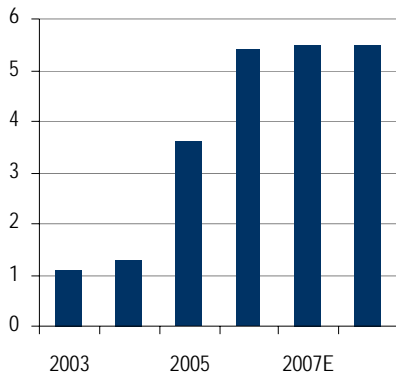
Source: MoF, Merrill Lynch Estimates

Chart 3: Total government debt (% of GDP)



Source: MoF, Merrill Lynch estimates

Chart 4: Government investments into infrastructure (% of GDP)



Source: MoF, Merrill Lynch estimate

The aggressive privatisation programme of 2004-07 helped to solve two important problems. First, privatisation revenues have become the main means of financing the budget deficit, and have helped to reduce government debt to a moderate 23.9% of GDP in 2007. Second, they have helped to improve the expenditure profile by reducing government expenditure (according to Vice PM George Baramidze, the government budget to support the electricity and energy sectors had been cut by factor of 5 by 2007). Privatisations have freed up resources for government investment in infrastructure, which has increased from just 1.0% of GDP in 2003 to 5.5% in 2006-07. The results are very visible – for example, roads are much improved and there are signs of renovation everywhere, adding to the popularity of the reform plan and the reformist administration.

In 2008, the budget deficit is likely to widen to 3% of GDP, which is high but not unduly worrying. Although President Saakashvili's mandate for economic reform was confirmed at the presidential elections of 5 January 2008, it was a less impressive victory relative to his first presidential win (53% of votes vs. 97% in January 2004). The president cannot ignore this drop in popularity. Consequently, the new 2008 budget is more socially oriented and the pensions and wages of public sector employees are to increase more aggressively. The government plans to use one-third of the budget to meet social needs. The fight against poverty has become the main strategic target of the administration. Indeed the government wants swift implementation of the first improvements: in 2008, social expenditure is planned to rise to GEL1.2bn (some 6% of GDP). At the same time, investment in infrastructure will remain high at 5+% of GDP. We expect a satisfactory balance between populist expenditure and financing of structural changes to be achieved. We estimate that the budget deficit will remain under control at around 2% of GDP – Georgia's high economic growth supports an increase in budget expenditures.

In 2008 and beyond, privatisation revenues will start to lose their primary role in budget financing. The government is now ready to increase its borrowing to finance the budget deficit. April 2008 will see the first Georgian sovereign Eurobond. This will be a US\$500mn bond with a 7-year maturity, which we expect to attract solid investor interest.

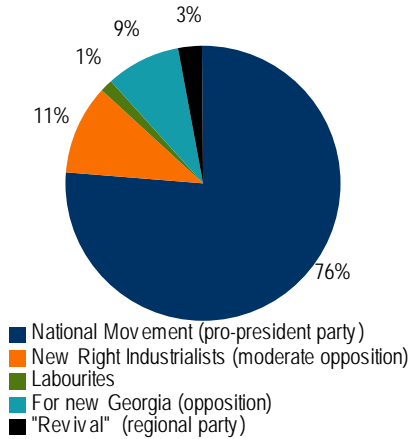
Tax reform will continue in 2008 and beyond. Personal income tax may be gradually reduced from 25% to 15% over a 5-year period; President Saakashvili has stressed that the government is ready to consider a reduction of the tax on company profits from the current 20% to 15%. The proposed tax reform may make the Georgian tax regime one of the most liberal in the world, stimulating investment inflows to the country.

Political cycle

Georgia has not escaped from political turbulence. Indeed last autumn saw a dramatic increase. Aggressive promotion of structural reform although eventually bringing gains is normally initially accompanied by immediate negative consequences for quite sizeable social groups. Those suffering as a result of reforms or who are dissatisfied with their role (such as the bureaucratic class, or those over 40-45 - the new administration is made up of a new younger generation of politicians and young people in general) increase the base of the opposition. The opposition, which had been weak and divided, successfully absorbed all these protest groups and gained in popularity. In November 2007 those opposed to reforms and the Saakashvili's administration organised mass protests and demonstrations in Tbilisi. The violent dispersal of the protesters and

introduction of a state of emergency have made political issue very hot. This situation was resolved by the presidential elections, which returned Saakashvili for a second term. However, the opposition does not accept Saakashvili's victory and is threatening a new wave of mass protests. Although the opposition lost one of its leaders (and very likely the main sponsor) Badry Patarkatsishvili, who died in London from a heart attack in February 2008, it is sufficiently strong to continue to be a thorn in the side of the president.

Chart 5: Parliament structure (elected 28.03.04)



Source: National sources

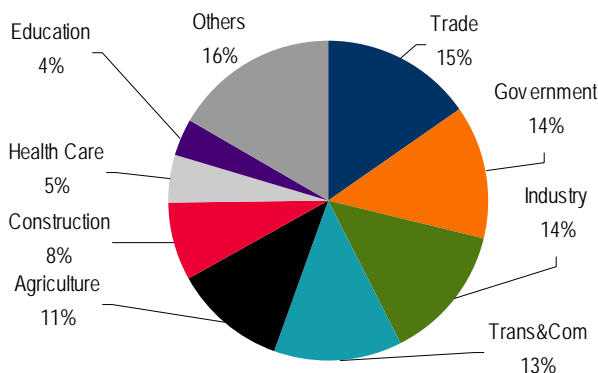
We strongly believe that further violence is unlikely. Parliamentary elections are scheduled for 14-24 May 2008. The parliament needs to be seen to be legitimate and strong – and we expect pro-president forces to win a workable majority particularly as opposition has several leaders and is divided. At the same time, it is clear that the authorities want to reduce the political tension so is encouraging participation of the opposition in the election. Parliamentary election threshold is planned to be reduced from 7% to 5% in March 2008, which should result in a broader political representation in the parliament.

A compromise should see a return to social and political accord and political stability, which is our baseline scenario for the coming 12-18 months. Political stability is absolutely crucial for the investment climate while turmoil could slow down investment expansion and structural reform.

Sustainability of growth & the investment boom

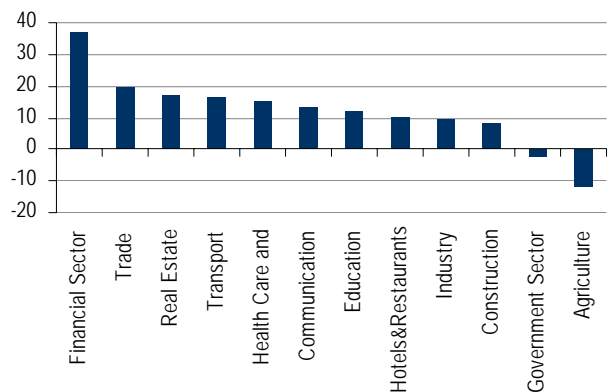
Georgia continues to deliver strong macroeconomic figures, which has strengthened our optimism on future economic trends. GDP growth averaged 9.9% per year in 2003-07 and even accelerated to 12% in 2007. In October 2007, the government upgraded its view on economic growth to 14.5% but the political turmoil in 4Q07 prevented it from achieving this target. Nevertheless, in 2008 and beyond, economic growth rates are likely to remain solid, in our view. The Georgian economy is diversified, with developed sectors in both industry and agriculture. The country was the main fruit and wine producer in the former USSR and the most popular resort and tourist destination, and we believe that the country may use the climate advantage nowadays.

Chart 6: GDP Sector breakdown (Jan-Sep 2007)



Source: Statistics Georgia

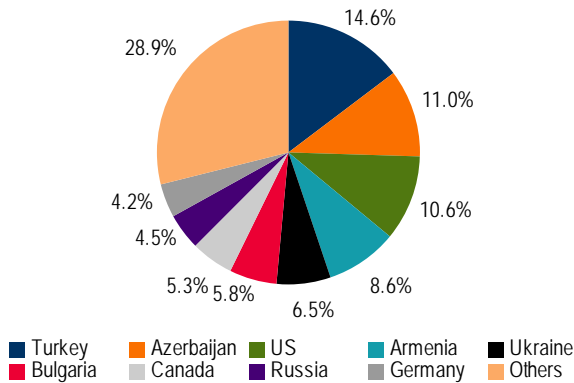
Chart 7: GDP growth – sector breakdown (2006)



Source: Statistics Georgia

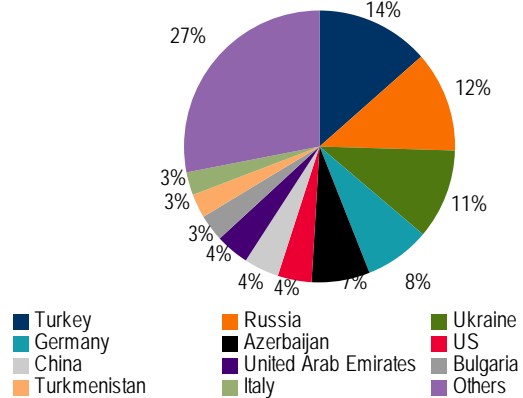
Georgia's trade structure, both by destination and composition of goods, is equally diversified. Previously, Russia was its main trade partner. In 2005, Russia accounted for 18% of Georgia's exports and 15% of its imports. There had been some concerns that the Russian embargo introduced in 2Q06 could curb trade and significantly impair economic growth. Indeed, the embargo reduced Georgian exports of wine and mineral water, which resulted in a 35-37% reduction of exports to Russia (some US\$200mn). Nevertheless, exports are growing while the embargo stimulated Georgia into diversifying its trade structure. We expect trade relations between Georgia and Russia to be gradually restored in 2008-09 and Georgian exports to increase accordingly, although it will not be very easy for Georgian goods to find a new place in the very competitive Russian market.

Chart 8: Exports by destination (Jan-Oct 2007)



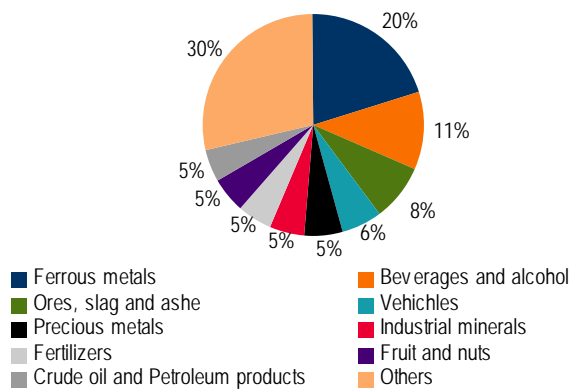
Source: Statistics Georgia, Merrill Lynch estimates

Chart 9: Imports by destination (Jan-Oct 2007)



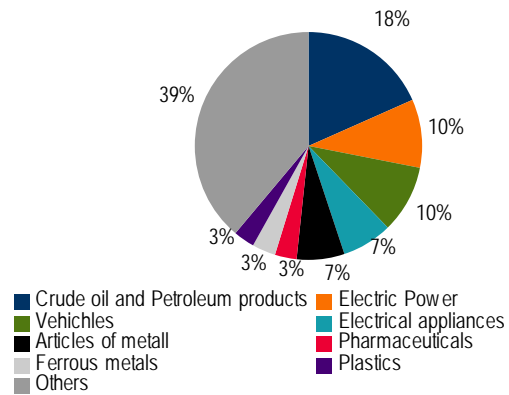
Source: Statistics Georgia, Merrill Lynch estimates

Chart 10: Exports by goods (Jan-Oct 2007)



Source: Statistics Georgia, Merrill Lynch estimates

Chart 11: Imports by goods (Jan-Oct 2007)

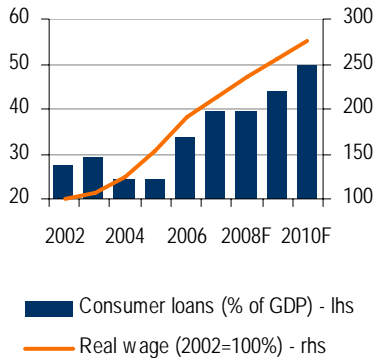


Source: Statistics Georgia, Merrill Lynch estimates

GDP growth is mainly driven by strong domestic demand, sustaining growth trends and making the economy less vulnerable to external shocks. The investment boom is steaming ahead, including government investment and foreign investment inflows. Consumption growth is very evident, supported by income expansion and new credit facilities. Banks are aggressively expanding their retail credit portfolios and, correspondingly, their foreign indebtedness rose

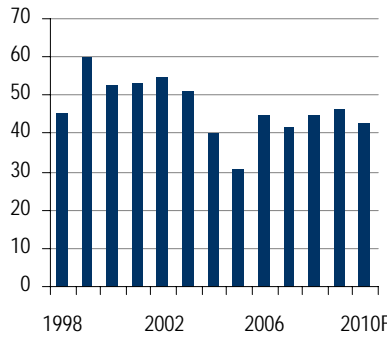
to 10% of GDP in 2007. Although the experience of some other CIS countries (in particular Kazakhstan) shows that such rapid growth may not be healthy, the current level of total foreign debt remains at a manageable 42% of GDP and indeed declined from 44% in 2006.

Chart 12: Consumer credit and real wage expansion



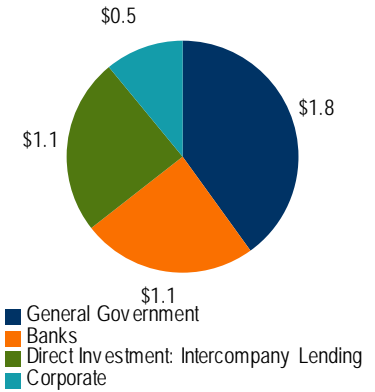
Source: Statistics Georgia, NBG, Merrill Lynch estimates

Chart 13: Gross foreign debt



Source: NBG, Merrill Lynch estimates

Chart 14: Foreign debt breakdown (1 Oct 07)



Source: NBG, Merrill Lynch estimates

Table 2: Georgia's sovereign ratings

Agency	Rating	Outlook	last update
S&P	B+	Positive	31.01.08
Fitch	BB-	Stable	18.07.07

Source: rating agencies

Acknowledging Georgia's success story, S&P has changed its outlook on the country's rating from neutral to positive. If Georgia avoids a new wave of political turbulence (which is our baseline scenario), it could well see its rating upgraded in 2H08, in our view.

What are the key risks?

Even though we are positive on the country, we still see risks, in particular, political.

War scenario

As mentioned, the two Georgian regions of Abkhazia and South Ossetiya are *de facto* independent of Tbilisi. The independence aspirations of these autonomous republics periodically leads to a flare up of tension (usually in the spring and summer seasons). Although these republics have already proved their military strength and strong desire to be separated from Georgia, Tbilisi continues to try to exert control over them. However, the precedent of Kosovo's recent declaration of independence could aggravate the tensions between the government and Abkhazia and South Ossetiya. We believe that violence is avoidable, although we attach a 5-10% probability to the risk of a new wave aggression in the region. This risk is less in South Ossetiya, where 95+% of people have Russian citizenship, than in Abkhazia. The Russian citizenship of a major part of the population in the two republics and Russia's interference in the conflict is an additional irritation for Tbilisi.

Deteriorating relations with Russia

Russia was the most important trade partner for Georgia up to 2006, when political relations between the two countries significantly worsened, affecting all areas of cooperation. Georgia sees Russia's neutrality on Abkhazia and South Ossetia as too friendly (both republics have repeatedly expressed their willingness to join Russia). Russia is not happy with Georgia's intention to join NATO and the potential for NATO bases on Georgian territory. In 2006, Russia placed an embargo on Georgian wine

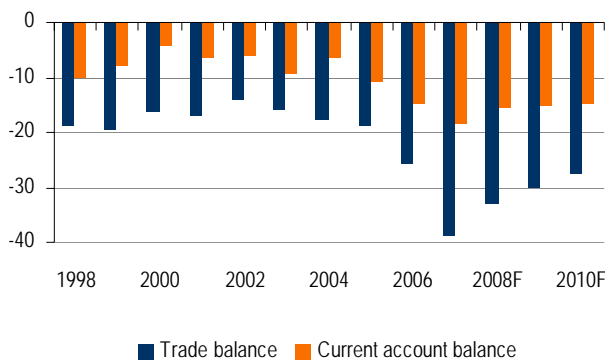
and mineral water, which is still in place. Although Russia justifies its position by referring to the bad quality of these products –possibly a fair criticism – for years this had not bothered the Russian authorities. This supports the view that the embargo was politically motivated. In response, Georgia has withdrawn its support for Russia's entry to the WTO – certainly an unfriendly gesture. Direct transport links have been broken (for example, to reach Tbilisi from Moscow, people now need to fly via Kiev).

Georgia depends on Russian energy, although it has recently managed to significantly reduce this dependence and diversify its energy imports. What is more important is that a substantial part of the Georgian labour force (up to 20-21% of the economically active population) is working abroad, the majority in Russia. We are not sure that Georgia's current account perfectly reflects their wage transfers, but it is clear that these transfers are crucial for the current account balance. We estimate them at some US\$1bn – or some 10% of GDP (President Putin puts the transfers at US\$1.5-2bn a year). Although we believe that further escalation of the political tension between Georgia and Russia are unlikely, we cannot fully ignore this risk, which could seriously affect Georgia's economic stability and widen the current account deficit.

Why is a widening of the current account deficit risky?

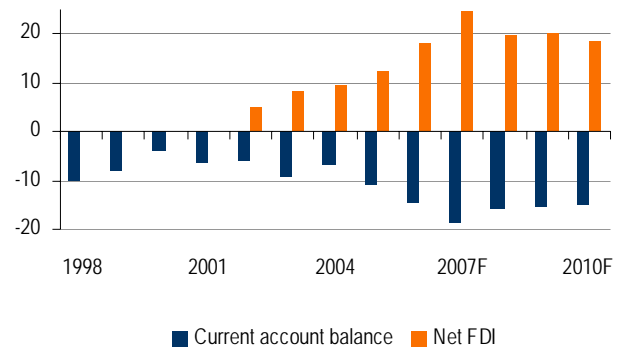
The programme of modernisation and structural reform, together with the strengthening of government institutions, has been very supportive of investment. This has led in turn to strong demand for new equipment and machinery, which has pushed imports up. Rising personal incomes have stimulated imports of consumer goods. Add to that the spike in the natural gas price from Russia, and imports amounted to US\$1.3bn in 2007, up 33% on 2006. Indeed, imports have increased more than fourfold since 2004, while exports have risen more slowly (in part due to the Russian embargo). As a result, the trade deficit is looking exceptionally bad and it is unlikely to tighten in the foreseeable future. The current account deficit is less dramatic (Georgia has a positive balance of services, in particular in transportation).

Chart 15: Trade and Current account deficit (% of GDP)



Source: NBG, Merrill Lynch estimates

Chart 16: Current account balances and net FDI



Source: NBG, Merrill Lynch estimates

As a result, Georgia is very dependent on foreign investment. Currently, net FDIs fully cover and help to finance the current account deficit. However, investor sentiment is crucial. Any perception of political destabilisation may curb investment inflows, which could result in financial destabilisation within 6-12 months. For

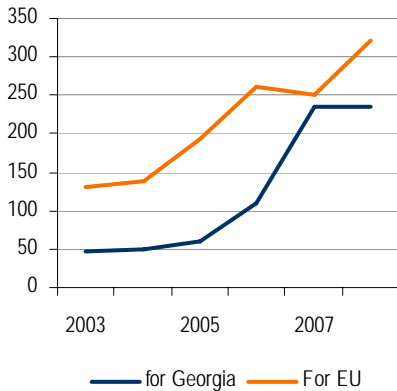
example, the political unrest of November-December 2007 led to investors postponing a number of projects. Consequently, the government has reduced its forecast on foreign investments from US\$3.5bn to US\$2.5bn for 2008 – and we share this view. More political noise may reduce this projection further – potentially affecting the stability of the lari.

Gas puzzle

In 2006, Russia began a policy of gradually increasing the natural gas price for former USSR republics. The pace of increase has depended strongly on the loyalty to the Kremlin of the CIS regime in question. Belarus has benefited from the lowest price, while Ukraine has had to buy Russian gas at US\$230tcm. In 2006, Georgia bought gas at US\$110tcm, but in 2007-08 it will be paying US\$235tcm. Georgia is very keen to cut its dependence on Russian gas altogether by replacing it with Azeri gas. However, it is unlikely to achieve this in full.

Currently, Georgia consumes 2bn cm of natural gas a year, of which Gazprom supplies 1.1bn cm; the state-owned Azeri company GNKAR supplies 0.5bn cm at US\$120tcm and BP supplies 0.3bn cm at US\$63.4tcm from the Shahkdenis field. This means that Georgia gets natural gas at an average price of US\$180.5tcm – similar to Ukraine. Georgia wants to increase gas purchases from Azerbaijan from the current 0.5bn cm to 1.5bn cm and is ready to pay US\$180-190tcm. The Azeri stance is that it may negotiate on price but volumes are unlikely to be increased. Consequently, Georgia will need to continue to buy natural gas from Russia. Although we believe that natural gas price rises and the adjustment to world prices are almost complete (Gazprom sells gas to European customers at 259tcm in Jan-Sep 2007 vs. US\$235tcm for Georgia), energy dependence on Russia with potential 15% price increases looks here to stay.

Chart 17: Gazprom's gas prices (US\$ tcm)

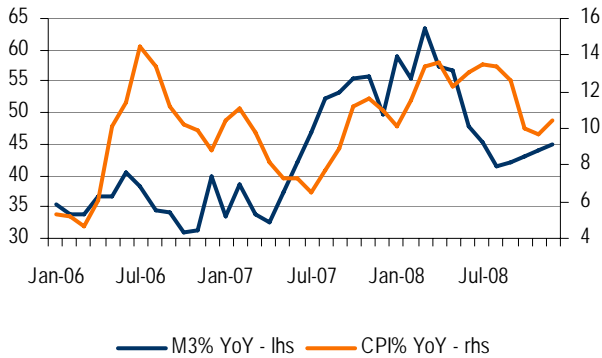


Source: Gazprom

Inflation and the lari

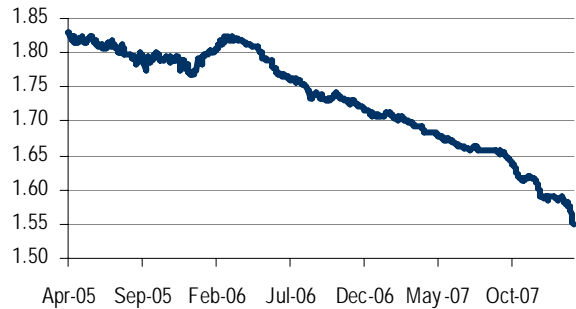
Last year Georgia faced a significant acceleration in inflation, which was not unique but very unpleasant. Although external factors contributed greatly to this acceleration (the global food price effect and hike in energy prices), money supply growth and growth in budget expenditures were the main causes. The government takes the problem seriously. PM Vladimir Gurgenedze has highlighted that high economic growth would be impossible if CPI were to remain above 10%. The government programme United Georgia Without Poverty, approved in January 2008, stresses the role of high economic growth and an increase in employment as a means of reducing poverty. The NBG has full responsibility for keeping inflation below 10% (the official target of the government is 8% for 2008, which is not very realistic in our view). Inflationary pressure looks set to remain high in 2008 – all factors which fuelled inflation in 2007 are still in place. We expect inflation to stay at 10.5% YoY.

Chart 18: Money Supply and inflation



Source: NBG< Merrill Lynch estimates

Chart 19: GEL/US\$



Source: Reuters

Although tackling inflation is a clear priority of the NBG, it is unlikely to be able to set inflation targets in the near future. Georgia's financial markets are insufficiently developed and the range of monetary policy instruments is limited. The NBG raised its refinancing rate from 10% to 11% from 20 February 2008, but this may not be sufficient as a means of curbing inflation. This creates a strong incentive for the NBG to support lari appreciation against the dollar (the dollar is the main hard currency for the country as investment inflows are mainly dollar denominated). Although there are some fundamental risks for the lari (very sizeable current account deficit, which unlikely to shrink in the foreseeable future and foreign indebtedness, which is likely to widen), we are optimistic that capital inflows will continue and we expect the lari to moderately appreciate in 2008-09.

Chart 20: Bank of Georgia share price (US\$)



Source: Bloomberg

Financial markets

Georgia's financial markets are neither sizeable nor liquid. The list of internationally traded Georgian companies is pretty short: Bank of Georgia (BGEO) listed on the LSE, CanArgo Energy (CNR) listed on AMEX and Frontera listed on the LSE. Their total capitalisation amounts to some US\$1bn. In 4Q07, Caucasus Online (the biggest Internet provider in the South Caucasus region) announced plans to raise US\$100mn through a London listing in 2008. We expect a more sizeable IPO flow in 2009-10, up to US\$1bn.

As we already mentioned in this report, in April 2008, Georgia plans its debut Eurobond issuance of US\$500m with a 7-year maturity, which should open foreign capital market for the Georgian corporate sector.

The local debt market is rather illiquid – the secondary market is virtually non-existent. The government is the most active issuer. The MoF does not issue short-term debt while the NBG issues 7-day notes (deposit certificates), which are the key instrument of monetary policy. The NBG places this paper twice a week at an average volume of US\$25-35mn a week. With the increase in the refinancing rate from 10% to 11%, yields are likely to move from 9.5-9.9% on average to 10.8-11.0%. Although there are 22 banks in the Georgian banking system, only the top three banks usually participate in auctions.

The main trade in the FX market is concentrated in GEL/US\$ spot. Average volumes are US\$50-60mn a week.

Key Macro Indicators and Forecasts

Table 3: Georgia: key macro indicators

	2000	2001	2002	2003	2004	2005	2006	2007E	2008F	2009F	2010F
Activity											
Real GDP (%YoY)	1.8	4.8	5.5	11.1	5.9	9.6	9.4	12.0	7.5	8.5	8.5
Industrial production (%YoY)	11.0	-5.0	7.0	15.0	9.0	16.0	10.0	14.2	8.5	9.0	9.0
Unemployment rate year-end (%)	10.3	11.1	12.6	11.5	12.6	13.8	13.6	13.5	13.5	12.0	11.0
Nominal GDP (GELbn)	6.0	6.7	7.5	8.6	9.8	11.621	13.7839	16.86	20.15	23.99	27.95
Nominal GDP (€bn)	3.3	3.5	3.6	3.5	4.1	5.1	6.2	7.4	8.5	10.7	12.8
Nominal GDP (US\$bn)	3.1	3.2	3.4	4.0	5.2	6.4	7.8	10.1	13.0	15.8	19.0
GDP per capita (US\$)	658	697	741	877	1,139	1,416	1,766	2,294	2,955	3,586	4,321
Prices											
CPI (average %YoY)	4.0	4.7	5.6	4.8	5.7	8.2	9.2	9.2	11.2	9.7	7.4
CPI (end-year %YoY)	4.6	3.4	5.4	7.0	7.5	6.2	8.8	11.0	10.5	8.0	7.0
PPI (average %YoY)	5.8	3.6	6.3	3.3	4.6	9.6	11.0	12.5	14.0	10	9
Wage rates (%YoY, nominal)	7.1	30.8	20.0	10.9	24.4	30.2	36.1	32.0	28.0	25.0	20.0
Fiscal balance (% of GDP)											
State government balance	-3.2	-2.5	-3.1	-3.2	-1.6	-0.1	-0.3	0.0	-3.0	-2.0	-2.0
State primary balance	0.0	0.7	-1.0	0.1	-0.1	1.0	1.4	0.6	-2.0	-0.9	-0.8
Total public debt	69.4	66.7	65.0	53.8	43.8	35.2	28.0	24.3	30.0	32.0	31.5
External balance											
Exports (US\$bn)	0.5	0.5	0.6	0.8	1.1	1.5	1.7	2.5	2.8	3.3	3.6
Imports (US\$bn)	1.0	1.0	1.1	1.5	2.0	2.7	3.7	6.4	7.0	7.8	8.8
Trade balance (US\$bn)	-0.5	-0.6	-0.5	-0.6	-0.9	-1.2	-2.02	-3.97	-4.2	-4.5	-5.2
Trade balance (% of GDP)	-16.4	-17.1	-14.2	-15.9	-17.7	-19.0	-26.0	-39.3	-32.3	-28.5	-27.3
Current account balance (US\$bn)	-0.1	-0.2	-0.2	-0.4	-0.3	-0.7	-1.2	-1.9	-2.0	-2.3	-2.8
Current account balance (% of GDP)	-4.2	-6.6	-6.2	-9.3	-6.7	-10.8	-14.9	-18.8	-15.4	-14.6	-14.7
Net FDI (US\$bn)	n/a	n/a	0.2	0.3	0.5	0.8	1.4	2.5	2.5	3.0	3.5
Net FDI (% of GDP)	n/a	n/a	4.8	8.4	9.5	12.5	18.0	24.8	19.2	19.0	18.4
Current account balance plus FDI (% of GDP)	n/a	n/a	-1.4	-0.9	2.8	1.7	3.2	5.9	3.8	4.4	3.7
Export volume (%YoY)	37.7	-5.0	21.4	38.0	31.5	34.7	13.2	47.0	14.3	17.9	9.1
Import volume (%YoY)	8.9	2.2	3.7	35.2	36.9	33.7	37.2	74.2	9.0	11.4	12.8
Foreign exchange reserves (ex gold, US\$bn)	0.11	0.16	0.20	0.19	0.38	0.47	0.93	1.35	1.9	2.3	3.0
Import cover (months of merchandise imports)	1.3	1.8	2.2	1.6	2.3	2.1	3.0	2.5	3.2	3.5	4.1
Debt indicators											
Gross external debt (US\$bn)	1.6	1.7	1.9	2.0	2.09	1.97	3.49	4.3	5.70	6.9	8.0
Gross external debt (% of GDP)	52.7	53.2	54.7	51.1	40.5	30.7	44.9	42.6	43.8	43.7	42.1
Gross external debt (% of exports)	308.8	345.2	308.8	245.7	191.3	133.5	209.5	175.5	203.6	209.1	222.2
Total debt service (US\$bn)	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.6	0.8	0.9	1.1
Total debt service (% of GDP)	3.8	2.2	3.2	4.2	4.4	2.9	3.2	5.4	6.2	5.7	5.8
Total debt service (% of exports)	22.2	14.6	18.2	20.0	20.9	12.6	15.0	22.4	28.6	27.3	30.6
Interest & exchange rates											
Broad money supply, M3 (%YoY)	n/a	18.5	17.9	22.8	42.6	26.4	39.7	49.7	45.0	35.0	33.0
3-month interest rate (avg %)	20.0	19.0	31.0	19.0	8.0	6.0	8.0	9.0	11.0	10.0	7.0
1-year yield (avg %)	n/a	n/a	n/a	n/a	15.0	14.0	13.0	13.0	13.0	13.0	12.0
Exchange rate (GEL/US\$) year-end	2.0	2.1	2.09	2.08	1.83	1.79	1.71	1.59	1.53	1.50	1.45
Exchange rate (GEL/US\$) annual average	2.0	2.1	2.2	2.1	1.9	1.81	1.77	1.67	1.55	1.52	1.47
Exchange rate (GEL/€) year-end	1.9	1.8	2.2	2.6	2.5	2.1	2.3	2.3	2.3	2.2	2.2
Exchange rate (GEL/€) annual average	1.8	1.9	2.1	2.4	2.4	2.3	2.2	2.3	2.4	2.2	2.2

Source: national sources, Merrill Lynch estimates

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