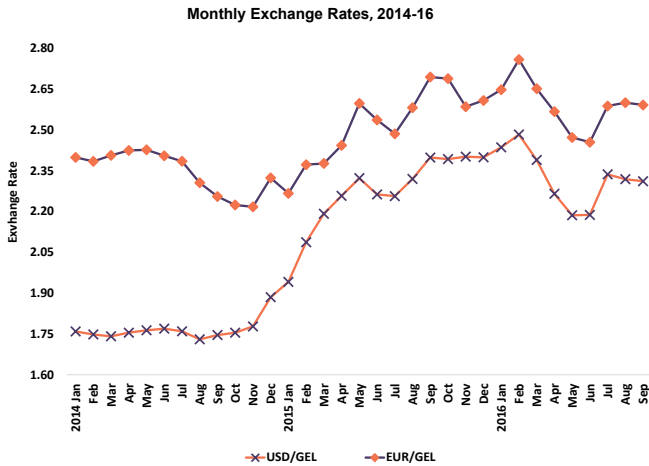


In the third quarter of 2016, compared to the same period of 2015:

- The GEL appreciated against the USD by 0.12% on average;
- The negative trade balance increased (5.7%, USD 73.2 mln.);
- The volume of remittances increased (16.1%, USD 42.4 mln.);
- The volume of deposits denominated in USD also increased (35.8%, USD 1.5 mln USD).



Source: National Bank of Georgia

1. Based on the preliminary data, during the third quarter of 2016, compared to the corresponding period in 2015, the volume of registered export of goods increased (0.1%, USD 0.6 mln.), and so too did the volume of imported goods (40.0%, USD 810.1 mln.). Therefore, the trade balance improved by USD 215.2 mln. (13%).

If the imports of hepatitis C medication are not taken into account, the volume of imports increased only by 4.0% meaning that the negative trade balance amounted to USD 1 357 mln., which is greater than the same indicator in 2015 (5.7%, USD 73.2 mln.).

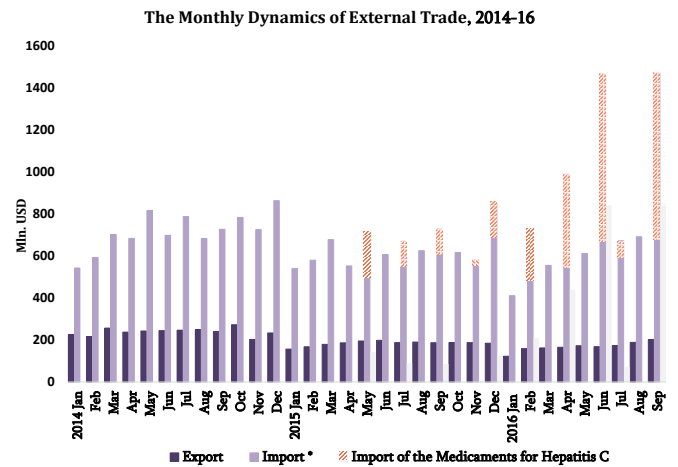
The deterioration of trade balance has had a negative effect on the GEL exchange rate.

In the third quarter of 2016, compared to the same period of 2015, the GEL appreciated against the USD by 0.12% on average, while in the same period the GEL depreciated against the EUR by 0.23%.

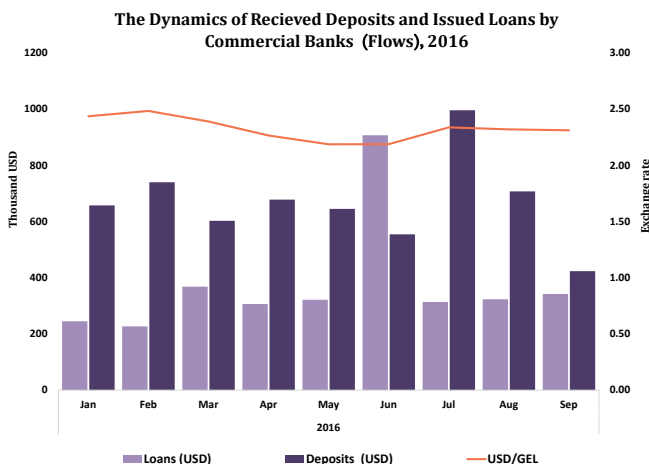
It should be noted that in the given period compared to the second quarter of 2016, the GEL significantly depreciated against both the USD and the EUR (4.9%; 3.8%). This can be explained by the seasonal appreciation of the GEL in the second quarter of 2016.

In this newsletter we will review five external factors affecting on GEL exchange rate:

1. External trade;
2. Dynamics of received deposits and issued loans by commercial banks;
3. Dynamics of international arrivals;
4. Dynamics of money transfers;
5. Purchased and sold foreign currency by National Bank of Georgia.



Source: National Bank of Georgia
National Statistics office of Georgia



Source: National Bank of Georgia

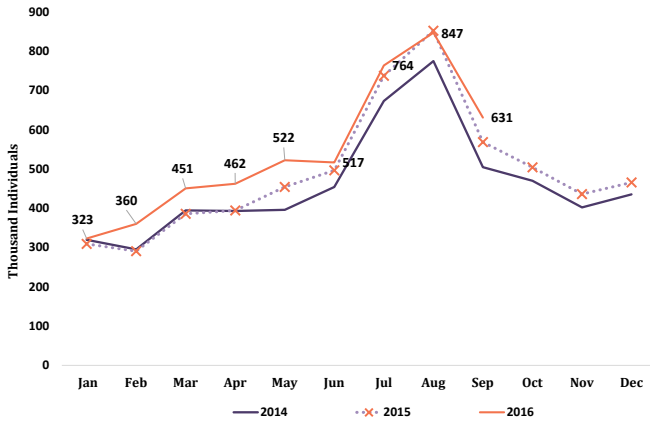
2. An additional source of foreign currency inflow on the market is the increasing volume of loans and deposits denominated in foreign currencies issued by commercial banks.

A significant increase in loans denominated in foreign currencies issued by commercial banks in June this year (an increase of 280% on the previous month) can be explained by the GEL appreciation in previous months (March, April, May).

In the third quarter of 2016, the volume of loans denominated in foreign currencies issued by commercial banks increased month-by-month in August (3.0%) and September (5.9%). However, there is a different situation in case of deposits, 80% increase in July was followed by a decline in August (-29%) and September (-40%), compared to the previous months.

In July 2016 exchange rate depreciated (6.81%) but appreciated in August (-0.77%) and September (-0.32%).

The Dynamics of International Arrivals, 2014-16



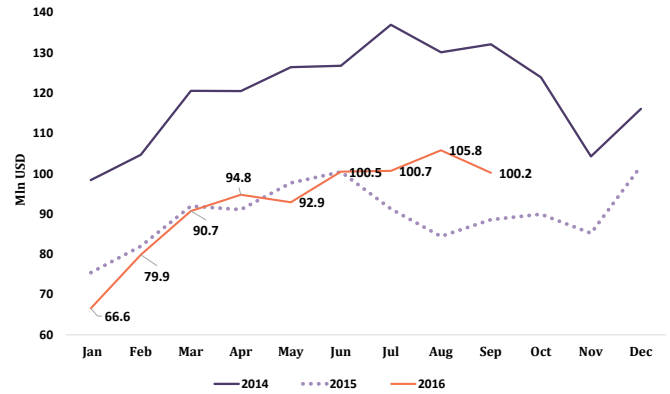
Source: Georgian National Tourism Administration

3. An important source of foreign currency inflow to the country is tourism.

In the third quarter of 2016, compared to the corresponding period of 2015, the number of foreign visitors increased (3.9%, 84,000 individuals).

The increased number of visitors is associated with an enhancement of tourism services which has a positive effect on the GEL exchange rate.

The Dynamics of Money Transfers, 2014-16



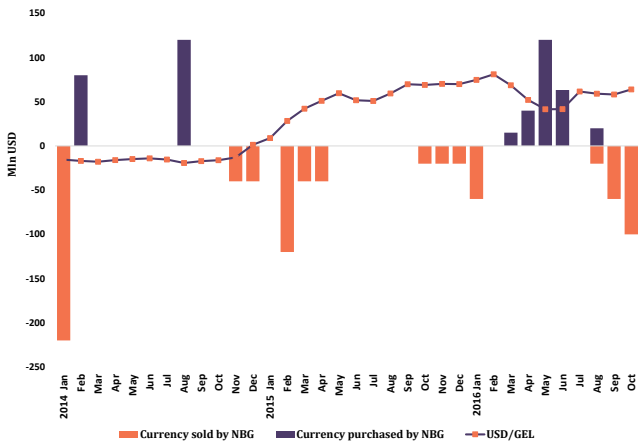
Source: national Bank of Georgia

4. In the third quarter of 2016 compared to the second quarter of the same year, the volume of remittances to Georgia significantly increased (16.1%, GEL 42.4 mln.). Remittances increased in July (10.3%, GEL 9.4 mln.), August (25.3%, GEL 21.4 mln.) and September (13.1%, GEL 11.6 mln.).

Money transfers declined from Russia (-7.3%, 8.7 mln.USD), but the country still remains the major partner in terms of money transfers (35.7% of total transfers). However, there is a significant increase in money transfers from Greece (2.7 times, 23.4mln.USD).

Increased money transfers from Greece reflected positively on the GEL/EUR exchange rate because these transactions are made in the EUR.

Purchased/Sold USD by the National Bank of Georgia, 2014 - 2016



Source: National Bank of Georgia

5. In order to regulate GEL exchange rate, in the third quarter of 2016, National Bank of Georgia (NBG) made the following transaction - bought 20mln. USD foreign currency, and sold 80mln. USD in total.

According to the data of 28th October 2016, National Bank of Georgia sold 100mln.USD only in October, However, NBG holds foreign currency reserves in the amount of 2.5 billion.

Basic Economic Indicators	2013	2014	I 2015	II 2015	III 2015	IV 2015	2015	I 2016	II 2016
Nominal GDP (mln USD)	16139.9	16528.5	3325.0*	3407.6*	3545.0*	6682.3*	13959.9*	3018.8*	3642.6*
Per capita GDP (USD)	3599.6	3680.8	884.5*	913.4*	950.5*	994.7*	3743.1*	811.4*	979.1*
GDP real growth (%)	3.3%	4.8%	3.2%*	2.5%*	2.5%*	2.9%*	2.8%*	2.6%*	3.0%*
Inflation	-0.5%	3.1%					4.0%		
Foreign Direct Investment (mln USD)	941.9	1 758.4	175.3*	354.7*	489.0*	267.9*	1 351.1*	388.6*	445.3
Unemployment Rate (%)	14.6%	12.4%					12%		
External Public Debt (mln USD)	4202	4200	3989	4181	4195	4315	4315	4396	4404
Poverty level (relative)	21.4%	21.4%					20.1%		

Source: National Statistics Office of Georgia
National Bank of Georgia
Ministry of Finance of Georgia

<http://comtrade.un.org/data/>

Forecast*