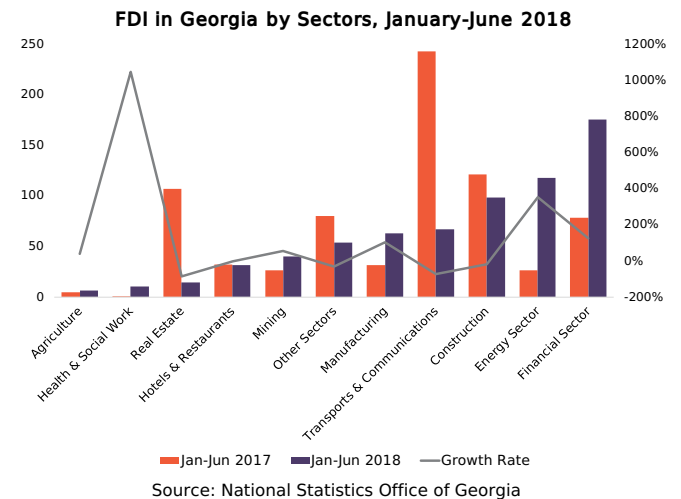
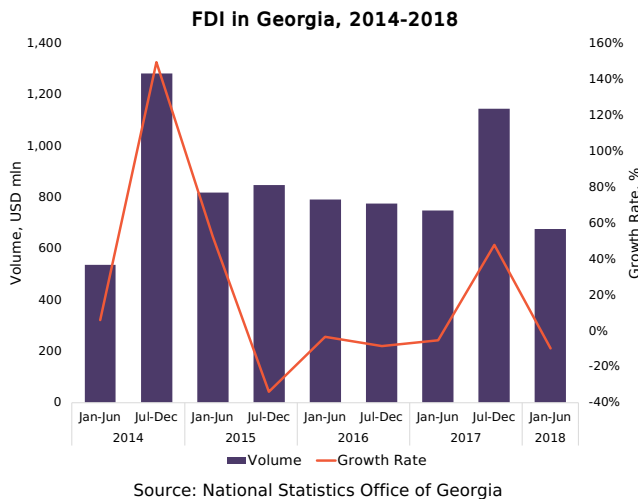


Analysis of the preliminary data on FDI for the first half of 2018 revealed the following general findings:

- The financial, energy, and construction sectors attracted the most FDI;
- Azerbaijan, the United Kingdom, and the Netherlands were the largest investing countries for Georgia;
- Based on the cumulative values of the past 4.5 years, transports and communications is the most attractive sector for FDI in Georgia;
- The shares of FDI from China and the EU in the total FDI in Georgia were their highest since 2014;
- Based on a semi-annual analysis, reinvestments surpassed equity for the first time in the available data of 2013-2018.

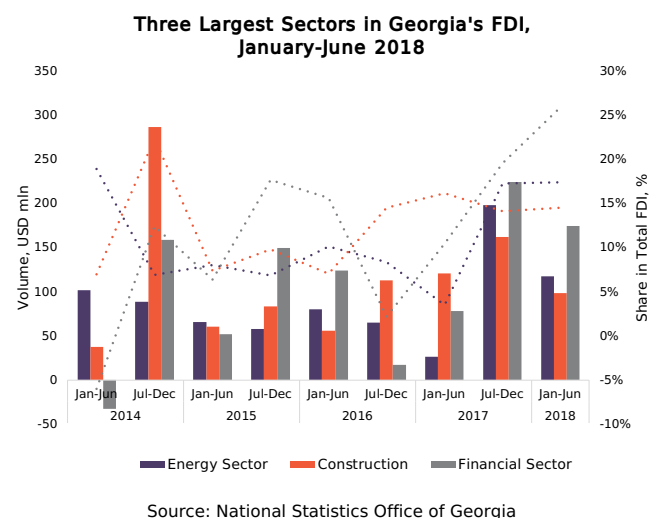
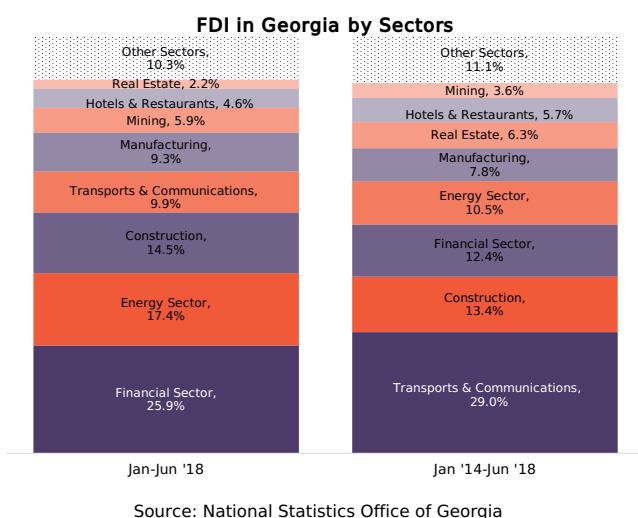


According to the preliminary data, in the first half of 2018, FDI in Georgia amounted to US\$676.2 mln, a US\$73.2 mln (9.8%) decrease compared to the corresponding period of 2017.

Based on a semi-annual analysis, FDI in Georgia has been characterized by a decreasing tendency since the second half of 2015. This decreasing tendency broke only in the second half of 2017 when FDI in Georgia increased by 47.7% compared to the corresponding period of 2016. The recorded data of the first half of 2018 is its lowest since the second half of 2014.

Sectoral analysis shows us that the 9.8% decrease in FDI in Georgia included decreases in FDI in real estate (-86.4%; - US\$92.2 mln compared to the first half of 2017), transports and communications (-72.4%; - US\$175.8 mln), construction (-18.9%; - US\$22.8 mln), and hotels and restaurants (-2.5%; - US\$0.8 mln).

In the first half of 2018, FDI in health and social work saw the largest increase compared to the corresponding period of 2017, amounting to 1,045.1% (US\$9.2 mln). Noteworthy increases were also recorded in FDI in the energy sector (351.1%; US\$91.6 mln), financial sector (123.6%; US\$96.6 mln), and manufacturing sector (100.8%; US\$31.6 mln).



In the first half of 2018, the largest volume of FDI, US\$174.9 mln, was received by the financial sector and amounted to 25.9% of total FDI in Georgia. The second largest receiving sector was the energy sector, which received a total of US\$117.7 mln (17.4% of total FDI in Georgia). The construction sector was third in terms of FDI volume with US\$98.3 mln (14.5% of total FDI in Georgia).

The cumulative values for the period of January 2014 - June 2018, suggests that transports and communications, FDI in which amounted to US\$2.2 bln (29.0% of the cumulative value) in the said period, can be named as the most attractive sector for FDI in Georgia.

### Georgia's Three Largest Investors, 2014-2018

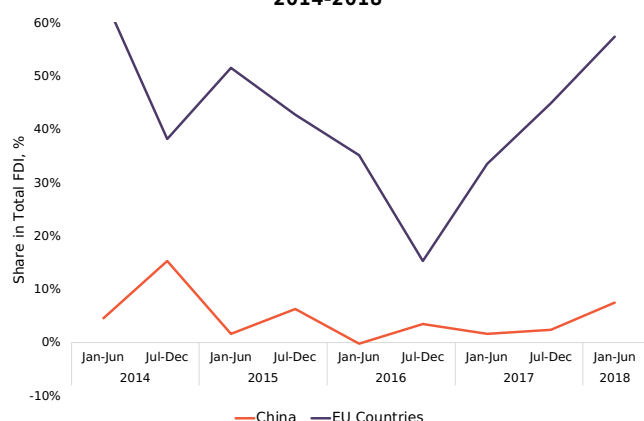
2014		2015		2016		2017		2018
Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun
NLD, 34.1%	AZE, 15.5%	AZE, 30.6%	AZE, 39.1%	AZE, 35.7%	AZE, 35.6%	AZE, 28.7%	NLD, 23.1%	AZE, 20.2%
AZE, 26.5%	CHN, 15.3%	GBR, 21.3%	GBR, 26.5%	GBR, 12.7%	TUR, 20.2%	TUR, 15.7%	AZE, 21.8%	GBR, 19.3%
LUX, 13.0%	NLD, 15.1%	NLD, 15.6%	CHN, 6.3%	TUR, 6.7%	LUX, 8.7%	GBR, 14.1%	TUR, 14.5%	NLD, 14.5%

Source: National Statistics Office of Georgia

In the first half of 2018, the country investing most in Georgia was Azerbaijan with US\$136.5 mln (20.2% of total FDI in Georgia). In this period, the United Kingdom and the Netherlands followed Azerbaijan as the second and third largest investing countries with US\$130.3 mln (19.3% of total FDI in Georgia) and US\$97.8 mln (14.5%), respectively. Based on a semi-annual analysis, since 2014, Azerbaijan has always been one of the three largest investing countries in Georgia.

Meanwhile, Turkey, which had been present in the top three investing countries list since the beginning of 2016, is at the last place in the first half of 2018 with a net outflow of US\$59.5 mln. Partially, this can be explained by Turkcell, its leading mobile network operator (MNO) selling its 41.5% share of a major MNO in Georgia, Geocell, in January 2018. This transaction also partially explains the 811.5% decrease (US\$59.9 mln net outflow) in FDI in communications in the first half of 2018 compared to the corresponding period of 2017. This leads to a more general issue regarding FDI in Georgia: single transactions have the power to have an important impact on the overall picture.

#### EU Member States' and China's Share in Total FDI, 2014-2018



Source: National Statistics Office of Georgia

With free trade agreements in place with China and the EU, FDI inflows from these locations are worth highlighting, since trade can be identified as a driving force behind economic relations. Since 2015, FDI from both China and the EU has been characterized by a negative growth rate (averaging at -273.5% and -34.2% respectively). The trend was halted in the second half of 2017 for both locations and in the first half of 2018 the EU's FDI in Georgia amounted to US\$387.9 mln (a 54.1% compared to the first half of 2017) and China's FDI in Georgia amounted to US\$51.1 mln (a 312.0% increase).

In terms of their share in total FDI, in the first half of 2018 Chinese FDI's share amounted to 7.6%, which is its highest indicator since the first half of 2015. In the same period, the EU's FDI in Georgia amounted to 57.4% of total FDI, which, once again, is its highest indicator since the second half of 2014.

In the observed period, FDI from both China and the EU has always been positive except for the first half of 2016 when FDI from China amounted to negative US\$1.3 mln.

#### Reinvestment and Its Share in Total FDI, 2014-2018

	2014		2015		2016		2017		2018
	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun
<b>Reinvestment (US\$ mln)</b>	154.2	168.7	104.3	53.3	107.4	226.7	308.7	348.9	378.2
<b>Share in Total FDI</b>	28.8%	13.2%	12.8%	6.3%	13.6%	29.2%	41.2%	30.5%	55.9%

Source: National Statistics Office of Georgia

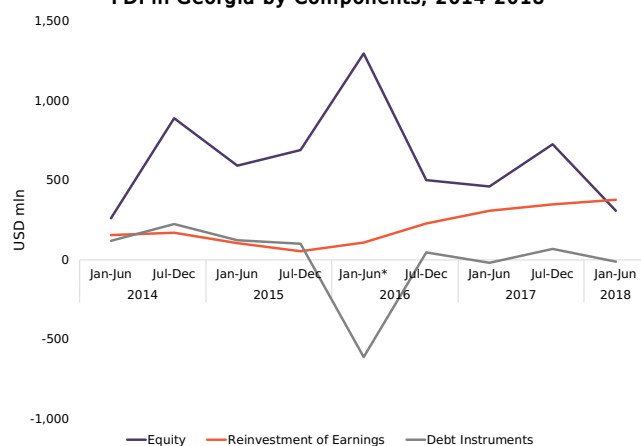
Considering the 2016 tax reform (entered into force in January 2017) which exempted reinvestments from profit tax, it is important to analyze the component parts of FDI in Georgia.

Reinvestments have been characterized by an increasing tendency since the first half of 2016 and in the first half of 2018 they reached US\$378.2 mln.

Based on a semi-annual analysis, reinvestments surpassed equity for the first time in the available data of 2013-2018 by US\$68.1 mln. However, a quarterly analysis shows us that the first quarter of 2017 was the first recorded period when reinvestments exceeded equity. Partially, this can be explained by the above-mentioned tax reform.

\* The abnormality in the values of equity and debt instruments in the first half of 2016 were caused by the capitalization of loans that took place in the first quarter of 2016.

#### FDI in Georgia by Components, 2014-2018



Source: National Statistics Office of Georgia

Basic Economic Indicators	2014	2015	2016	2017	2018 I	2018 II
Nominal GDP (mln USD)	16507.8	13988.1	14377.9	15164.5*	3681.6*	-
GDP per Capita (USD)	3676.2	3766.6	3864.6	4078.5*	987.1*	-
GDP Real Growth (%)	4.6%	2.9%	2.8%	5.0%*	5.3%*	-
Inflation	3.1%	4.0%	2.1%	6.0%	3.3%	2.4%
FDI (mln USD)	1,818.0	1,652.5	1,602.9	1,861.9	279.3*	389.2*
Unemployment Rate (%)	14.6%	14.1%	14.0%	13.9%	14.0%	12.1%
External Debt (mln USD)	4,199.8	4,314.9	4,515.7	5,177.4	5,298.3	5,186.1
Poverty Rate (relative)	21.4%	20.2%	21.0%	22.3%	-	-

\*Preliminary data