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Does Marriage Still Matter?

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Tbilisi Preparing to Host 20 Grammy Award Winner at 22nd Jazz Festival

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The report analyzes the key drivers of total shareholder return for 63 leading mining companies. After the severe downturn from 2011 through 2015.

Continued on p. 6

January 2019: Post-Christmas Hangover?

ISET

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CURRENCIES

	Feb 9	Jan 19
1 USD	2.6461 ▲	2.6573
1 EUR	2.9996 ▲	3.0123
100 RUB	4.0075 ▲	4.0221
1 TRY	0.5039 ▼	0.5033

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CURRENT PRICES ON GASOLINE AND DIESEL

11 FEBRUARY, 2019, GEORGIA

Gulf

Prices in GEL	
G-Force Super	2.63
G-Force Premium	2.49
G-Force Euro Regular	2.41
Euro Regular	2.35
G-Force Euro Diesel	2.59
Euro Diesel	2.49
CNG	1.49

Prices in GEL	
Eko Super	2.64
Eko Premium	2.57
Eko Diesel	2.63
Euro Diesel	2.59
Euro Regular	2.49
Diesel Energy	2.53

ლუკოილი

Prices in GEL	
Super Ecto 100	2.69
Super Ecto	2.55
Premium Avangard Ecto	2.44
Euro Regular	2.29
Euro Deasel	2.49

Prices in GEL	
Nano Super	2.58
Nano Premium	2.48
Nano Euro Regular	2.38
Nano Diesel	2.40
Nano Euro Diesel	2.53
GNG	1.45

ROMPETROL

Prices in GEL	
Efix Euro 98	2.64
Efix Euro Premium	2.57
Euro Regular	2.49
Efix Euro Diesel	2.59
Euro Diesel	2.53

ISET ECONOMIC INDICATORS

International School of Economics at TSU

CONSUMER CONFIDENCE INDEX

For more: WWW.ISET-PI.GE

January 2019: Post-Christmas Hangover?

Being a researcher is not only my job, it is my way of life. Every time I get the chance, I start conversations with random people and ask them tons of questions. During a recent taxi ride, after I asked the driver how his business was going, he told me that the demand for taxis had fallen significantly in January. He also added that January is typically a harsh period, and there's not much money left for comfortable trips after the traditional "Supras", as well as the recently introduced "Secret Santa" gift exchanges.

After the conversation, I wondered whether this phenomenon might be reflected in our CCI index. At first glance, I found that his story seemed to be supported by the numbers. Looking carefully at figure 1, almost every January seems to be characterized by a drop in consumer confidence. Fortunately, this year the drop was not significant, at just 1.1 index points. While the reduction in the expectations index (by 5.3 points) – measuring the expectations for the coming 12 months – outweighed the growth of the present situation index (by 3.1 points).

However, it is not clear whether January's overconsumption should be blamed for this recurrent phenomenon. When looking at the monthly change in index points (January compared to December) by survey questions and groups, it is clear that people are more concerned with the general situation in the country rather than their own condition. It is notable that expectations related to unemployment, inflation and the general economy are considerably more negative in January than in December.

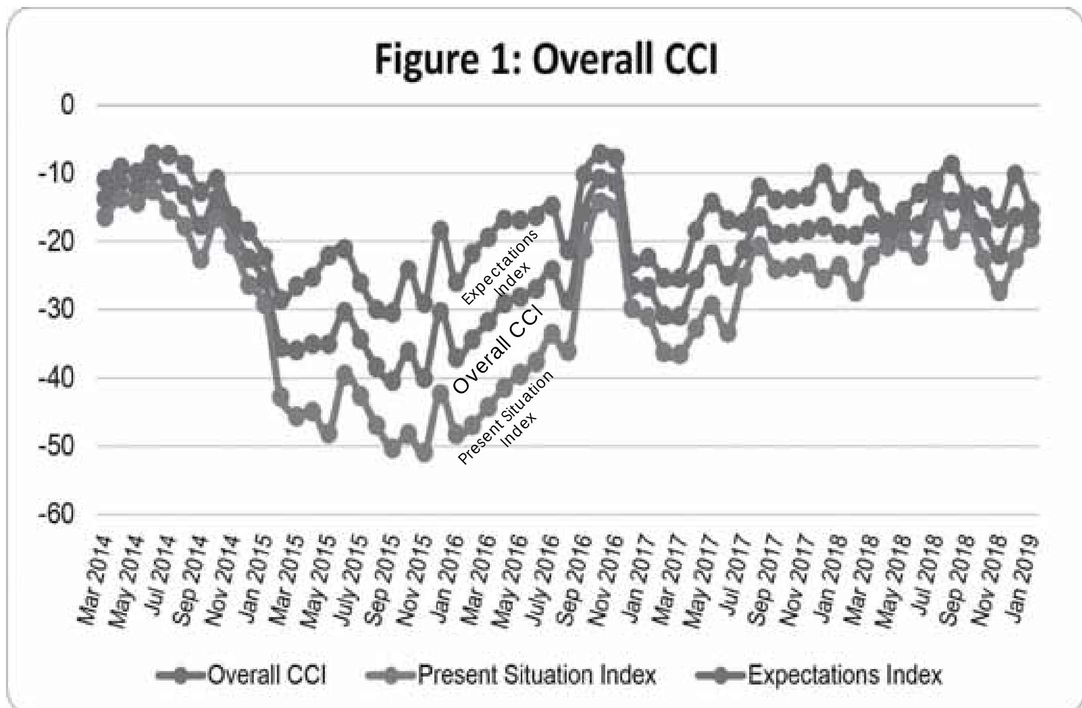
Another topic we would like to emphasize is a very interesting phenomenon which has been observed ever since ISET Policy Institute started calculating the index.

Figure 2 and figure 3 reveal that people from the regions are consistently more optimistic about the future (relative to the present) compared to their peers in Tbilisi. However, their assessments of the present and expectations for the future tend to coincide with those in Tbilisi. Although, when it comes to the regions there is a large gap between these two, with expectations about the future being systematically higher than the perception of the current situation.

Similar gaps can also be observed between the highly educated and the rest of the population, as well as between young and old individuals. It may sound somewhat surprising, but the old and less educated, despite significantly lower scores in the assessment of their current condition, report future expectations in line with the young and highly educated. When it comes to gender, no significant differences emerge.

Continued on p. 14

Table 1: Monthly change in Consumer Confidence (in index points), in groups by questions: January 2019



financial news

Tbilisi Preparing to Host 20 Grammy Award Winner at 22nd Jazz Festival

??????????

The FINANCIAL

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The 22nd Jazz Festival will have its grand opening in the State Conservatoire, with the new project Tbilisi Big-Band & New Jazz Generation. This will be an event where the younger generation of jazz musicians will meet their predecessors to create a tasty musical jam.

Tbilisi Jazz Festival is organized by Eastern Promotions and TBC Status and supported by the Ministry of Tbilisi City Hall and the Ministry of Education, Science, Culture and Sport of Georgia.

On the 1st of March, the Festival will host the legendary headliner himself alongside virtuoso drummer Jonathan Barber and bass player Darek Oleszkiewics.

On the 2nd of March Tbilisi Event Hall will hold the closing event, presenting Pet Metheny playing the album "Beyond the Missouri Sky and more" alongside Tbilisi Symphony Orchestra.

The 22nd Jazz Festival is supported by the Ministry of Education and Science, the Ministry of Sport and Culture, and the Mayor of Tbilisi.

The proud winner of 20 Grammy awards and arguably the most creative guitar player of our era, Pat Metheny is the one and only artist in the music history to win awards in 10 different categories.

His style of playing does not really belong to any specific genre, however without any question the unique mastery of music that Pat Metheny has, simply goes beyond the jazz world as we know it. Metheny is one of those very special people who dares to make an experiment, yet in such a way as to remain appealing to audiences.

Since the age of 13, when he first started playing guitar, he has always been developing as a musician. He graduated from universities Miami and Berklee.

In 1974 he released his first recording with Paul Bley and Jaco Pastorius.

1974-1977 marks a very special period in his career, because of his collaboration with Gary Burton and his band.

In 1978 Metheny established his own band with Lyle Mays (piano), Mark Egan (bass), and Dan Gottlieb (drums). This was the tipping point in Metheny's career as he became a recognized jazz musician whose concerts were always a target for music lovers, eager to fill every single avenue where he performed.

The desire to unleash creative potential in his music always led him to new experiments, therefore he avoided producing predictable music.

It is important to outline several of his works such as:

1980 - Collaboration with Dewey Redman, Mike Brecker and Charlie Haden resulted in an album called 80/81.

1990 - Tour with Herbie Hancock and his quartet.

Trio album with Dave Holland, Roy Haynes.

Collaboration with Joshua Redman.

Recordings with Sonny Rollins.

Each and every recording of Pat Metheny's is a reflection of his uniqueness.

As an example, the 1994 album "Zero Tolerance for Silence" established Pat Metheny as one of the most creative performers of all time.

And his compositions from "ECM RECORDS" once again outlined the reason why he is a world class musician.

"Beyond the Missouri Sky (Short Stories)" an album recorded in 1997 alongside Charlie Haden still remains his most famous work. This is the album that got him a Grammy award, and the album the legendary musician will play in front of his audience at the 22nd Tbilisi jazz festival.

Landmark Bakuriani – Enjoy Skiing Year Round

Who doesn't absolutely love skiing? Well, the great news for all ski lovers is that in 2020 Landmark Bakuriani will be open and ready to host fans of the sport.

Landmark Bakuriani is a hotel-type apartment building, whose architects came up with a creative concept and decided to turn the rooftop of the building into a ski track.

The track is covered with a special material so that it can work every season, no matter the temperature or weather conditions.

What makes this project so special is the collaboration of Dux Development and German-based company Hueck, which has already constructed a very similar building in Copenhagen with the help of a Danish architect.

In order to fully describe the uniqueness of the project, we must mention the amazing inner training facility for skiers, which is basically a 5 meter-long non-stop ski-track (much like the concept of a treadmill). The tracks are created by Austrian company Skiworld pro.

Hotel-type apartments will be placed at the complex. An international company will take responsibility for their management to avoid any discomfort for future hotel management.

The project is located 600 meters from the Didveli piste, which is very convenient for experienced skiers or snowboarders.

A 10-hectare recreation zone surrounds the project, including different types of relaxation zones and an extreme adventure park.

Apartments are spread over 6 floors; 2 floors are dedicated to children's entertainment space and common gathering areas.

The apartments are delivered fully-renovated, fitted with furniture and electrical appliances. The highest standards of all hotel requirements are to be met during the planning process.

There are both enclosed and open parking spaces. The enclosed parking lot is for 30 vehicles serving visitors to the apart-hotel, while an open parking space will be created around the complex to cater for up to 100 vehicles

Apartment owners will be able to turn the apartments into a source of income should they wish.

Features will include:

102-meter roof-top piste;

Ski gym. 2 indoor ski slopes with continuously variable surface speeds from 1-25 km/h;

Fully-renovated apartments, including furniture;

5-star hotel service;

24/7 security service and concierge;

Ski-depot;

Restaurant;

Lobby bar;

Entertainment zone for children;

10-hectare recreation area;

The purchase of an apartment in landmark Bakuriani.

The project has attracted many international brands since the beginning of its construction, and will be completed in December 2020.

"Landmark Bakuriani has a very realistic opportunity to become the key building to represent Georgia as a ski-resort country," proudly stated Irakli Lomidze, the Executive Director of Dux Development.

Ori group, the company that originated in Azerbaijan, has been operating in Georgia for more than 5 years with its sub-companies Dux development and Hueck Georgia.

Dux development has been actively functioning as a construction company, and Hueck Georgia, with the partnership of a German aluminium-manufacturing company, has already constructed buildings such as: the Mercedes-Benz centre; Panorama Tbilisi; Housart Plaza, as well as many more in the South Caucasus region.

"E-commerce will grow by 100% per year"

INTERVIEW WITH VERA PLATONOVA, SENIOR VICE PRESIDENT AND GROUP COUNTRY MANAGER FOR VISA CISSEE

Georgia is the 2nd country in the World on the number of contactless transactions

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Platonova is a highly experienced executive in the payment systems and retail banking sectors. Her seventeen-year career includes strategy development and implementation, business development and operational management. Platonova joins Visa from MasterCard, where she was the General Manager for the company's representative office in Ukraine, Moldova, Georgia and Central Asia for more than eight years.

As part of Visa CEMEA's regional management team, Platonova will also represent CISSEE within the regional and global Visa network, ensuring that best practice from other markets can be offered to the regional payment ecosystem.

The FINANCIAL talked with Platonova about Visa's future visions and development strategy in Georgia.

Q. What is the development strategy of Visa in Georgia and its plans for 2019 specifically?

A. We will definitely pay much more attention to the popularization of cashless payments with Visa in the country. We will be focusing on the work with key stakeholders, key banks, but not only that. We will bring many more resources into the country. Georgia has been identified as one of the key countries we need to focus on. So if we are talking about the mass segment, we are thinking about what additional value we can provide to cardholders to support banks in their efforts to drive cashless and POS usage. We will also bring a number of premium products and benefits to the market. We hope to make Visa top of the wallet and drive usage of this segment because there still is a lot of cash here.

Q. What is Visa's role in developing payment technologies?

A. As you know, Visa is worldwide leader of payment technologies and it's definitely very challenging to retain this position of leadership. Now the whole world is moving to mobiles, to wallets, to all kind of gadgets, which are becoming new payment ways. We see that the future of payment lies not in the plastic world, but more in the world of payment experience. I think our region is one of the most developed globally, especially Georgia. Currently Georgia is the second country in the world by the number of face-to-face contactless payments at POSes), right after Australia.

Q. What is Visa's approach to blockchain in Georgia?

A. Blockchain is a very big and different topic from our core business. In some markets it's a kind of startup trend which is sometimes adopted and sometimes not. Therefore, we really don't build our strategy with a full focus on blockchain solutions because our core business, the world of payment itself, is growing too fast. We need to look at blockchain in 2-3 years and understand how it works and how it can be combined with the everyday experience of people in payments.

Q. What are your greatest challenges when it comes to innovation?

A. I think for all these 60

Continued on p. 12

Counting on Commodity Prices Is Risky, Says New Report from BCG

The FINANCIAL – Amid growing economic uncertainties, mining companies need to develop value creation strategies that are independent of commodity prices and enable them to pursue value creation from multiple angles. So says a new report from Boston Consulting Group (BCG).

Banking on rising commodity prices—which powered performance in the most recent cycle and has largely driven gains in the current recovery—is no strategy in itself, according to the report. "Instead, companies need to return to true strategy in the fullest sense," says Gustavo Nieponice, a senior partner at BCG and coauthor of the report. "They need to secure future growth, be resolute about improving productivity, and manage current and future capital projects in a balanced, disciplined way."

Bright Spots in the Recovery

The report analyzes the key drivers of total shareholder return for 63 leading mining companies. After the severe downturn from 2011 through 2015, when mining turned in the lowest TSR of any major industry, it experienced a welcome rebound. However, a sharp decline during the second half of 2018 has raised questions about how sustainable the recovery is—and what executive teams can do to respond.

Among the report's other key findings:

In 2017 and 2018, revenues and margins grew simultaneously for the first time in seven years.

Higher cash flows and valuations shored up balance sheets, enabling companies to pay down debt.

Although cash reserves improved, project spending remained near decade lows.

Meanwhile, companies have been returning a growing chunk of excess cash to shareholders.

Exploration is on the rebound, particularly among juniors, which now account for almost one-third of all exploration spending.

Despite speculation to the contrary, M&A activity has remained subdued.

Although industry circumstances have improved markedly since 2016, companies cannot afford to be complacent. Since mid-2018, uncertainties in demand and prices, along with rising operating costs, have stirred up headwinds that are challenging the recovery.

Build Resilience, Pursue Profitable Growth

Recent industry and macroeconomic developments underscore the need for value creation strategies that help companies build business resilience while pursuing profitable growth. BCG research has consistently shown wide variation in TSR performance within every industry. "Some companies systematically outperform their peers in value creation," says Thomas Vogt, an associate director at BCG and coauthor of the report. "What are they doing differently? In a nutshell, they understand the key drivers of TSR beyond commodity prices, and the tradeoffs required at different points in the cycle."

The report emphasizes three main avenues for value creation.

Take productivity to the next level. To ensure that cash flows remain sustainable—and to keep up with rising costs—companies must continually and ambitiously adjust their productivity targets. A number of new and emerging technologies promise powerful new ways to unlock value—but as the authors note, developing a cohesive technology strategy that delivers hard benefits can be difficult. "You want to be sure that the business drives technological change, and not the other way around," says Vogt. "A portfolio approach to digital and technology solutions makes sense. Adopt a venture capital mindset: take a range of higher- and lower-risk bets, and actively manage the portfolio of opportunities."

Seek value at every project stage. BCG has found that companies that apply lean principles to projects can reduce capital intensity (the capital required per unit of productive capacity) by from 8% to 17%. Improving construction planning and productivity and aligning incentives can generate another 9% to 23% reduction in capital intensity.

surveys & analysis

Does Marriage Still Matter?

ANI LORTKIPANIDZE, GORBI

Chart 1. Rejectors of Marriage by none religious vs general public (%)

Source: European Value Study, 2017-2018

Chart 2. Rejectors of Marriage by age group (%)

Source: European Value Study, 2017-2018

"Marriage is outdated" became a recently popular idea in many publications based on opinion polls. Truth be told, most of these articles are describing a social perception of marriage in developed democracies. Social scientists have used several arguments to support this statement, two key arguments among many being the decriminalization of same sex marriage and a decline in religiosity. The latter is playing a vital role in marriage and, similar to the state, religion also defines, endorses and regulates marriage. Nevertheless, unlike the state, religion rarely restricts on a racial basis, but it does so regarding those of other faiths.

In this column I am not going to discuss factors that distinguish marriage from other relationships and whether unmarried partnerships can be more permanent compared to married ones, and even what will be the fate of marriage when life expectancy reaches its possible maximum, further expanding the time that a couple stays together.

Personally, I believe the institution will be around even after Mars is colonized, but it will evolve together with humankind. And this is not because I don't like the idea that a government should validate my love, nor because feminists have been objecting to marriage for at least couple of hundred years. From the 1980s onwards, various feminist theorists such as Marjorie Maguire Shultz, Lenore Weitzman and Martha Fineman advocated the use of relationship contracts to replace marriage. The idea is that such contracts enable each couple to come to an agreement that matches their own unique circumstances and preferences. Such contacts are becoming normal, but at a slow pace. Therefore, the question that we can ask is if Orthodox Europe is ready to consider marriage as anachronistic and move to an alternative form, such as even civil partnership?

For the sake of comparability, using the data from the European Value Study (EVS) 2017-2018, and choosing 4 Orthodox countries which are similar to each other in many parameters, I wanted to show our readers how people see the institution of marriage today. These countries are: Georgia, Belarus, Bulgaria, and Russia.

The European Values Study (EVS) is a large-scale, cross-national, repeated cross-sectional survey research program on basic human values that started in 1981. GORBI has been part of the project since 2008 and is the data provider for Georgia and Azerbaijan for 2017-2018 EVS Survey.

As we can see from Chart 1, compared to other countries surveyed, Bulgaria is the biggest believer in the idea that marriage is outdated. Nevertheless, even in Bulgaria, a majority of the population does not agree with the idea that marriage is an outdated institution. Moreover, among these 4 countries, Georgia is the most firm believer in the family institution, with around 91% of the population disagreeing with the idea that marriage is an outdated institution. For Georgians and 3 other Orthodox countries, marriage still matters a lot. Even though in Southern Europe people have less firm beliefs in family institutions, with 36% of Spaniards saying that marriage is outdated, even these number are not the majority, and we can say that overall Europe still believes that the traditional family is a valid institution.

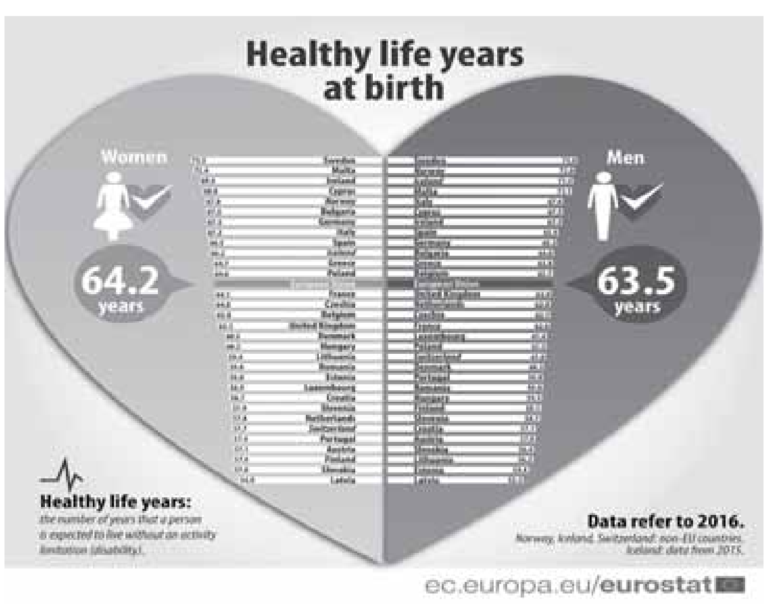
As research by Bosoni and Mazzucchelli (2016) based on the 2008-2009 EVS data demonstrates, religiosity appears to be the most important independent variable for the belief in the institution of marriage for Italians. By looking at Chart 1, we can also easily note that there is difference in how people perceive the family institution according to their religiosity, where religious people tend to believe in marriage much more than non-religious ones. This is true for all of the countries presented, but we see a more extreme gap between the opinions of religious people vs the non-religious in Georgia.

It is interesting to note that for all of the noted countries, belief in the institution of marriage is changing by age. Older people tend to believe more strongly in the family institution than younger ones. This gap is even more visible if we look at Bulgaria and Belarus in Chart 2. If 43% of young Bulgarians (aged 15-24) believe that marriage is an outdated institution, only 12% of older Bulgarians (65 years and older) think the same way. A lurking variable such as religiosity can also be responsible for this trend, since for countries that were part of EVS survey the older people get the more religious they become, and we can also see a positive correlation between religiosity and belief in family institutions.

To summarize, even though religion, social institutions and society in general play a key role in the stability of family institution, new democracies can also contribute, for example by implementing different regulations for married and single taxpayers. And this is even more important for Georgia where unemployment and poverty is almost as widespread as khachapuri.

GORBI is an exclusive member of the Gallup International research network and has more than two decades of experience in survey research (gorbi.com)

Number of healthy years of life: countries compared



The FINANCIAL

In 2016, the number of years a person is expected to continue to live in a healthy condition at birth in the European Union (EU) was estimated to be 64.2 years for women and 63.5 years for men. This represented approximately 77 % and 81 % of the total life expectancy for women and men respectively.

Life expectancy for women in the EU was, on average, 5.4 years longer than that for men in 2016. However, most of these additional years tend to be lived with activity limitation, whereas on average, men tend to spend a greater proportion of their shorter lives free from activity limitation.

The EU country with the highest number of healthy life years in 2016 for both women and men was Sweden (73.3 years for women, 73.0 for men). In contrast, Latvia had the lowest number of healthy life years for women (54.9 years) and men (52.3 years). Extreme values can partly be explained by the way in which activity limitation is measured in the country, impacting, to some extent, on the results.

The number of healthy life years at birth was higher for women than for men in 20 of the EU Member States, with the difference between the sexes generally relatively small. Within those countries there were 4 Member States where the gap was more than 3 years: Bulgaria (+3.5 years), Estonia (+4.6 years), Lithuania (+3.2 years) and Poland (+3.3 years).

However, there were also seven countries where the number of healthy life years for women was lower than for men. The largest differences were in the Netherlands (- 5.0 years), Luxembourg and Portugal (both - 2.5 years) and Finland (- 2.1 years).

Dollar Continues to Exhibit Strength

The US dollar has gained in strength this week on safe haven appeal, amid rising worries about global growth and uncertainty about a US-China trade deal ahead of the March 1 deadline.

The Dollar Index, currently up 0.13%, at 96.41, has gained more than 1.1% in the week, its biggest weekly gain in nearly six months.

Among the major currencies, the Canadian dollar strengthened against the greenback after data showed a bigger than expected increase in Canadian jobs in January. However, Canadian unemployment increased to 5.8% in January, from 4.8% a month earlier.

The Loonie is gaining about 0.3%, having strengthened to USD1.3268, from previous close of USD1.3308.

The Japanese Yen is trading at 109.78 a dollar, up marginally from previous close of 109.81, after having weakened to 109.90 earlier.

The greenback is gaining about 0.14% against the Euro, having edged up from previous close of USD1.1341.

Against the British Pound too the greenback is gaining, rising about 0.12%.

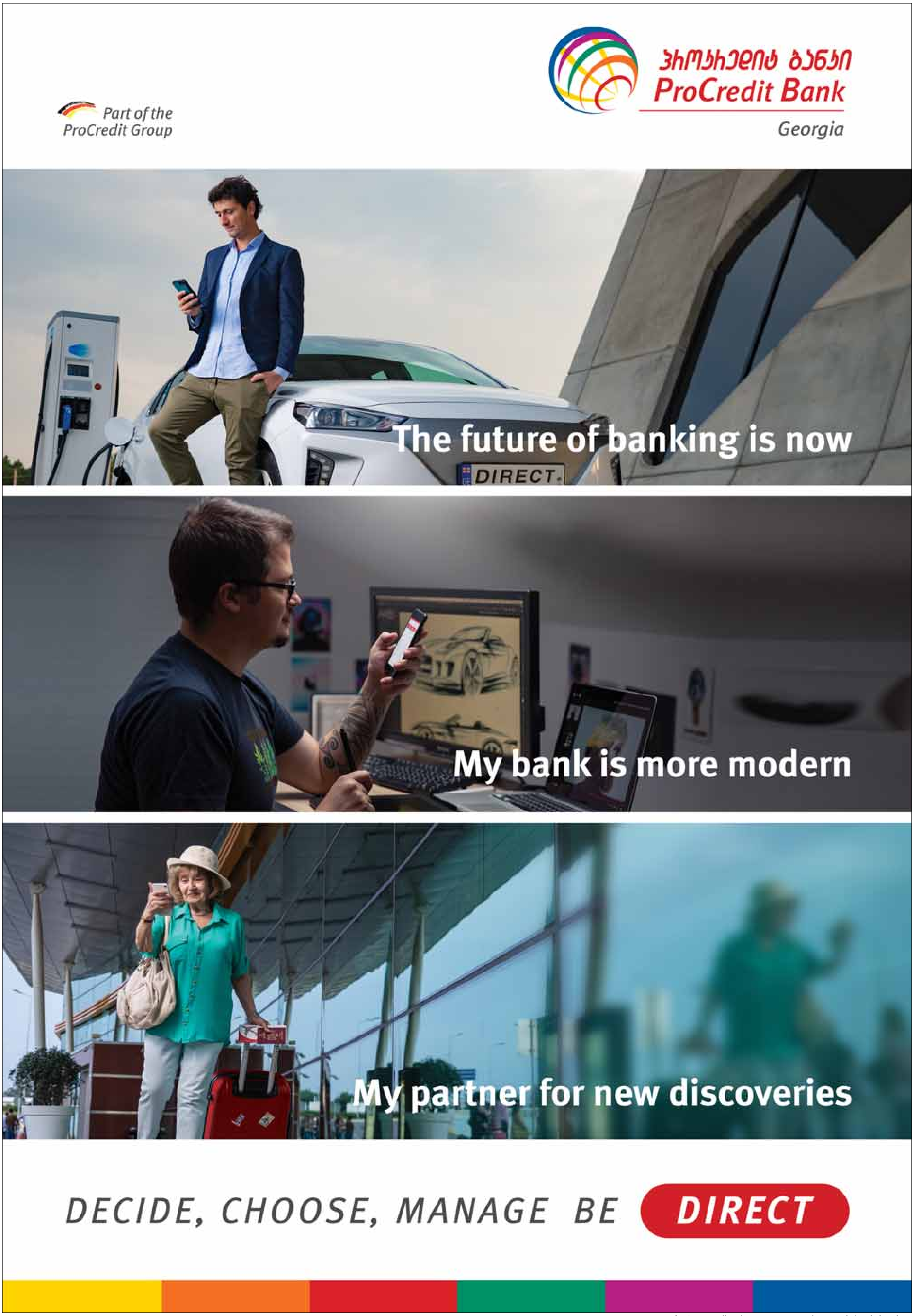
Disappointing economic data out of Germany and the downward revision in Euro area growth forecasts by the European Commission and the Bank of England have dented investor sentiment which has resulted in global stock markets taking a beating.

The European Central Bank President Mario Draghi said last month that risks to the euro area growth tilted to the downside thanks to persistent uncertainties such as protectionism.

US President Donald Trump has reportedly said that he won't be meeting Chinese President Xi Jinping before a March 1 deadline.

US Treasury Secretary Steven Mnuchin and other US officials are scheduled to travel to Beijing next week to continue trade negotiations. Presidents of the two nations had agreed to a 90-day tariff truce in early December 2018.

Alliance News


პროკრედიტ ბანკი
ProCredit Bank
Georgia
Part of the
ProCredit Group
The future of banking is now
DIRECT
My bank is more modern
My partner for new discoveries
DECIDE, CHOOSE, MANAGE BE DIRECT

FactCheck

GRASS FACTCHECK

Zurab Tchiaberashvili:

“The larisation programme, which supposedly was to solve the loan problem, has effectively failed.”

Vakhtang DEMURIA
FactChek

VERDICT:

FACTCHECK CONCLUDES THAT ZURAB TCHIABERASHVILI'S STATEMENT IS TRUE.

RESUME:

In order to partially eradicate the negative consequences of GEL depreciation, the Government of Georgia approved the so-called one-off larisation programme which was active in the period of 17 January to 24 March 2017. This programme allowed citizens to convert their USD denominated loans to GEL with a GEL exchange rate of GEL 0.2 lower than the official figure with the difference being reimbursed as a subsidy from the state budget. The programme covered only those citizens who had taken loans before 1 January 2015 with immobile property as loan collateral.

The Government of Georgia had high hopes for the programme and prognosticated significant benefits. However, the number of programme beneficiaries was lower than initially planned in the end. It is possible to say that the programme was not attractive enough for the majority of borrowers or the Government of Georgia could not properly communicate its message to the public.

When the changes came into force (January 2017), the total volume of loans issued by commercial banks amounted to GEL 18.9 billion. Of this amount, GEL 6.5 billion (35%) was GEL denominated whilst GEL 12.3 billion (65%) was foreign currency denominated. According to the data of 1 April 2017; that is, by the end of the programme, the total amount of issued loans was GEL 18.3 billion. Of this amount, GEL 7.1 billion (39.1%) was GEL denominated whilst GEL 11.2 billion (60.9%) was foreign currency denominated. Therefore, the dollarisation rate dropped slightly as a result of the programme.

The decreased dollarisation can not be fully explained by the processes caused by the aforementioned programme. It is natural, however, that artificial interference has had a certain impact upon the changes in the indicators for a specifically given period. Generally, the programme can be characterised as unsuccessful according to factual data. In particular, only 24.2% (GEL 15.7 million) of the total funds (GEL 65 million) allocated for subsidising the loan conversion process was spent. The actual number of beneficiaries is 5,164 whilst the programme could have covered 33,000 borrowers (as stated by the then Minister of Finance). In accordance with the National Bank of Georgia, the programme could have covered 27,000 borrowers. Therefore, only 17-20% of the total number of borrowers deemed loan larisation to be an acceptable solution.

ANALYSIS

European Georgia Movement for Freedom MP, Zurab Tchiaberashvili, on air on the TV broadcast *Archevani*, stated: “You remember the larisation programme which was to supposedly solve the loan problem. They said that GEL 65 million was to be spent. In fact, upon the programme's completion, only GEL 15 million was spent.”

In his statement, the MP underscored the unsuccessful nature of the programme. In particular, Mr Tchiaberashvili highlighted that the Government of Georgia had high hopes for the aforementioned initiative and thought that the population would receive a number of benefits by alleviating the pressure on GEL. However, the number of programme beneficiaries was ultimately much lower than initially planned which indeed speaks to the ineffectiveness of the programme.

In the second half 2014, GEL started to devalue vis-à-vis USD and a number of other foreign currencies. In parallel with GEL depreciation, the problem of foreign currency denominated debt service became more pressing for the population. GEL depreciation made debt service more expensive for those individuals who had income in GEL and debt obligations in a foreign currency. High-level currency risks are dangerous not for an individual borrower taken separately, but given their scale, this could threaten the entire financial sector. Therefore, it is in a state's interest that individuals (because they are less capable to insure against currency volatility) take loans in the same currency as their income.

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When the changes came into force (January 2017), the total volume of loans issued by commercial banks amounted to GEL 18.9 billion. Of this amount, GEL 6.5 billion (35%) was GEL denominated whilst GEL 12.3 billion (65%) was foreign currency denominated.

In the course of the larisation programme which started on 17 January and ended on 24 March, there was a trend of growth in the percentage figure of GEL denominated loans. According to the data of 1 April 2017; that is, when the programme ended, the total amount of issued loans was GEL 18.3 billion. Of this amount, GEL 7.1 billion (39.1%) was GEL denominated whilst GEL 11.2 billion (60.9%) was foreign currency denominated. Of note is that the GEL exchange rate has to be taken into account whilst analysing the loan dollarisation indicator because the total volume of loans is given in GEL and the appreciation of the national currency reduces the USD denominated loan value in GEL. At the same time, amount of foreign currency denominated loans is affected by restrictions that have been imposed upon individuals for taking loans(under 100 000 GEL) in a foreign currency since January 2017.

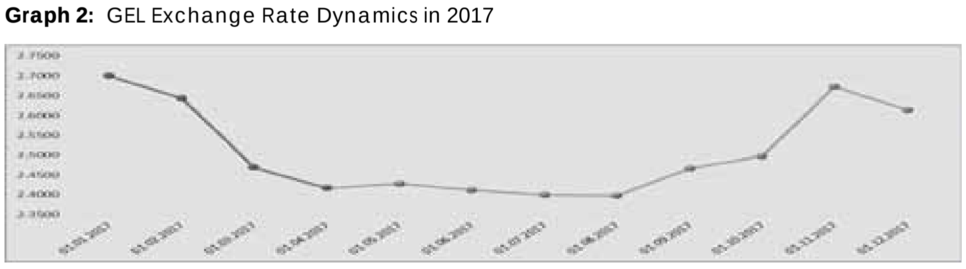
The decreased dollarisation cannot be fully explained by the processes caused by the aforementioned programme. It is natural, however, that artificial interference has had a certain impact upon the changes in the indicators for a specifically given period.

Finally, the programme can be characterised as unsuccessful given the factual data. In particular, only 24.2% (GEL 15.7 million) of the total funds (GEL 65 million) allocated for subsidising the loan conversion process was spent. The actual number of beneficiaries is 5,164 whereas the programme could have covered 33,000 borrowers (as stated by the then Minister of Finance). In accordance with the National Bank of Georgia's position, the programme could have covered 27,000 borrowers. Therefore, only 17-20% of the total number of borrowers deemed loan larisation to be an acceptable solution.

Graph 1: Trend of Changes in Loan Dollarisation Indicator

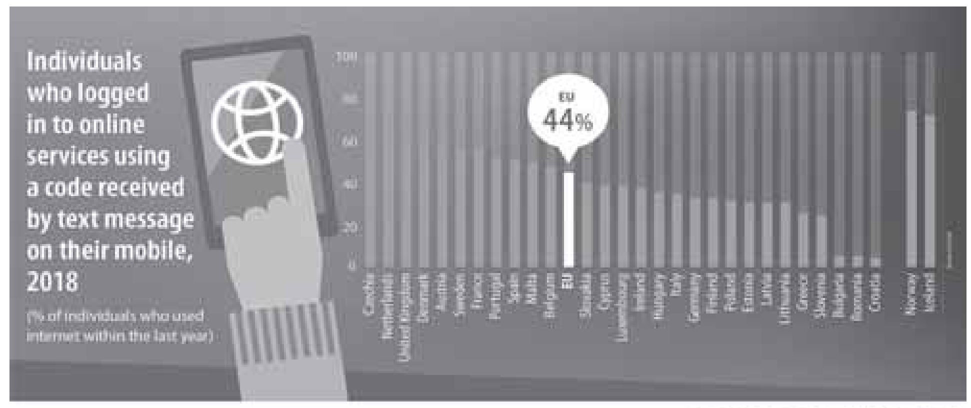
Source: National Bank of Georgia

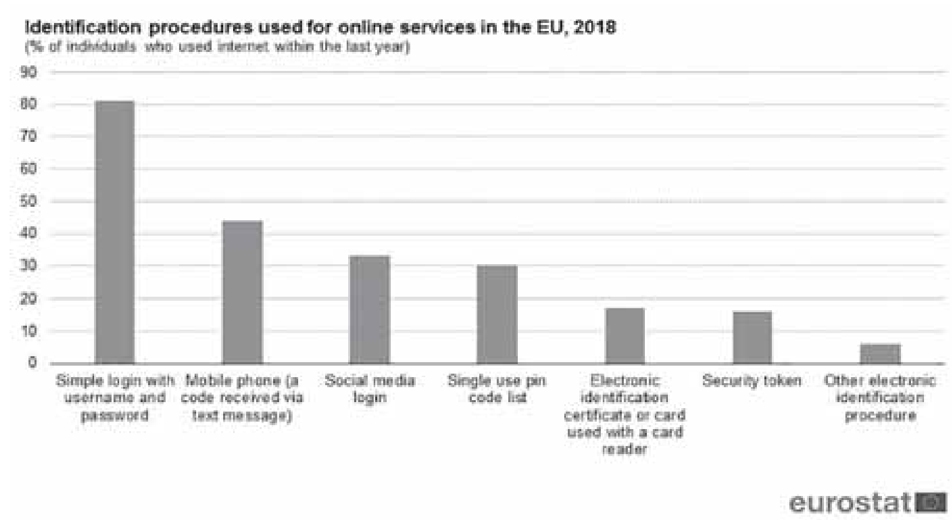
Graph 2: GEL Exchange Rate Dynamics in 2017



Source: National Bank of Georgia

Safer Internet Day: how do you log in online?





In 2018, over 80% of internet users aged 16-74 in the European Union (EU) logged in to online services using their username and password.

Other popular identification procedures were by receiving a code by text message on their mobile phone, which was used by 44% of the EU's internet users. Using social media logins to access other online services (33%) and logging in with a single-use PIN code list (30%) were also popular.

Use of text message identification highest in Czechia, lowest in Croatia

In the EU, most internet users in Czechia (75% of all internet users), the Netherlands (72%), the United Kingdom (61%) and Denmark (60%) logged in to online services using a procedure involving their mobile phone where a code is received through a text message. In contrast, the lowest shares for this type of login procedure were recorded in Croatia (4%), Bulgaria and Romania (both 5%).

Annual retail sales via mail order/Internet are up

The FINANCIAL -- The latest annual figures on the volume of retail sales via either mail order houses or the Internet show a year-on-year increase of 12 % in the European Union (EU) in 2017.

Retail sales by mail order or the Internet have been increasing through much of the last decade and since 2014 annual growth rates have exceeded 9 %. For total retail sales the pace of growth has been slower, with annual growth rates of between 2% and 3% since 2014.

Among the EU Member States for which data are available, Estonia shows the largest annual growth in retail sales via either mail order houses or the Internet between 2016 and 2017 (+36 %), followed by Hungary (+32 %), Romania and Lithuania (both +26 %). In contrast, there were year-on-year falls in Portugal (-9 %) and Finland (-1 %).

The index of the volume of retail trade measures the evolution of the turnover in retail trade, adjusted for price changes (deflated), i.e. the evolution of the total amount of goods sold, based on data adjusted for calendar and seasonal effects.

Ivanishvili's suit to have case heard in Singapore court dismissed

Bidzina Ivanishvili (left) with the President of Azerbaijan, Ilham Aliev, credits: President Administration of Azerbaijan

The FINANCIAL – Former Georgian prime minister Bidzina Ivanishvili failed to have a lawsuit against a Swiss bank involving a US$1.1 billion (S$1.5 billion) trust heard in a court in Singapore instead of Geneva, according to The Straits Times.

Mr Ivanishvili, 62, his wife and three children had sued Switzerland-based investment bank Credit Suisse and trustee Credit Suisse Trust in the High Court, over losses to the Mandalay Trust, of which they are the beneficiaries.

Both the bank and trustee applied last November to stop the court proceedings here and have the case heard in a Swiss court instead - which, they argued, was more appropriate.

Mr Ivanishvili - who was elected prime minister of the former Soviet republic of Georgia in October 2012 and stepped down a year later - is said to be Georgia's richest man and worth US$4.6 billion, according to Forbes.

He settled about US$1.1 billion in the Mandalay Trust in Singapore in March 2005, with the assets held by two investment firms, Meadowsweet Assets and Soothsayer.

In March 2005, US$550 million was transferred to the Soothsayer account at the Singapore branch of Credit Suisse, while the remaining US$550 million was held in the Meadowsweet accounts at the Geneva branch of the bank.

The trust assets were managed and invested by the bank, which provided investment reports detailing the performance of the accounts to the trustee. The Geneva branch was the centre of management for the portfolio.

Between September and October 2015, the bank issued margin calls totalling US$41.01 million on accounts within the Mandalay Trust. The calls were sparked by the drop in the value of the trust fund from US$697.68 million in December 2014 to US$437.8 million in September 2015.

Mr Ivanishvili claims that in the process of following up on these margin calls, he discovered misconduct on the part of his portfolio manager Patrice Lescaudron, according to The Straits Times.

Lescaudron was convicted of embezzlement, forgery and other charges in a Geneva court last year and jailed for five years, newspaper wrote.

In a lawsuit last August, the plaintiffs sought to find the bank liable to account for losses to the Mandalay Trust, among other things.

But the defendants successfully applied for the case to be heard in a Swiss court.

Mr Ivanishvili, represented by a legal team led by Senior Counsel N. Sreenivasan and Mr S. Palaniappan, appealed to the High Court last October.

The bank was defended by Senior Counsel Harpreet Singh Nehal, Mr Jordan Tan and two others, while Senior Counsel Stanley Lai, Mr Kenneth Lim and three others acted for the trustee.

according to The Straits Times, in judgment grounds issued last month, Justice Valerie Thean wrote that issues such as the governing laws of the country, the location of the witnesses, documents and evidence, the need to find a trial venue that better secures a just trial, and the overall nature of the litigation are important factors in this case.

Justice Thean said: "The claim is essentially one framed against the bank for conduct wider than the Mandalay Trust."

She added that the "site" of the events "surrounding the claims against the bank is Geneva, and ought to be tested in Geneva".

The judge found that the plaintiffs' trust case against the trustee is rooted in Singapore, while the case against the bank is rooted in Geneva, which is the central "theatre of action".

Justice Thean ruled that Geneva was the most suitable forum for the case to be heard.

Dismissing the appeal, she said: "Having regard to all the circumstances, it is fair to conclude that the trust relationship was the ancillary relationship, and the banking relationship in Geneva was the primary one."

A version of this article appeared in the print edition of The Straits Times on February 04, 2019, with the headline 'Ex-Georgian PM's suit to have case heard in S'pore court dismissed'.

GRASS FACTCHECK

Maia Tskitishvili:

"Funding for self-government will increase by more than GEL 100 million in 2019 which is 13% more as compared to the previous year."

Egnate SHAMUGIA
FactChek

VERDICT:

FACTCHECK CONCLUDES THAT MAIA TSKITISHVILI'S STATEMENT IS TRUE.

RESUME:

Since 2019, self-governing entities will no longer receive financial assistance in the form of an equalizing transfer because the transfer has been abolished. However, 19% of VAT generated income will now be distributed among municipalities in place of the former equalising transfer.

In 2018, municipalities received a total of GEL 705 million as equalising transfers from the state budget and will receive GEL 946.7 million in 2019, as a result of VAT income distribution, which is GEL 241.7 million (34.3%) more. In addition, the self-governing unit income to consolidated budget incomes ratio will increase from 11.3% to 16.6% in 2019 whilst the self-governing unit income to GDP ratio will increase from 3.2% to 4.7%.

Therefore, both the nominal and relative budget figures for self-governing unit income will increase even more from the beginning of 2019 as compared to the numbers provided in Minister Maia Tskitishvili's statement.

ANALYSIS

The Minister of Regional Development and Infrastructure of Georgia, Maia Tskitishvili, stated at the Local Self-Governance Forum that local self-government funding will increase by more than GEL 100 million in 2019 which constitutes a 13% growth as compared to 2018.

The former equalising transfer has been abolished from the beginning of 2019. This transfer was a form of financial assistance allocated to municipalities from the state budget. It was given to those municipalities whose expenses exceeded their own incomes. The amount of the transfer was determined in accordance with the Budget Code of Georgia and as prescribed by the subordinate normative act within the margins of the difference between revenues and payments.

In the current budget year, the self-governing units will have 19% of the value added tax (VAT) generated income distributed among themselves in lieu of the equalising transfer. The distribution will be carried out in conformity with the criteria as prescribed by law. These criteria include the number of registered people in a municipality, the number of registered children in a municipality under the age of six years, the number of registered children in a municipality between the ages of six and 18 years, the area of municipality and the number of individuals with the status of permanently living in mountainous settlements. Of note is that even if a municipality's income increases from local taxes, levies or other revenues, its VAT income will not decrease whereas there was a decrease in financial assistance from the state budget in the case of the former equalising transfer. The Minister's statement is about VAT income distribution in exchange for the equalising transfer and its consequences.

Prior to 2019, self-governing units received financial assistance in the form of equalising, targeted, special and capital transfers from the state budget. Of these, only the equalising transfer was categorised as a municipality's own income whereas other transfers were not a municipality's own income (article 92.4).

The nominal figures for the equalising transfer from the state budget increased annually between 2010 and 2015. In 2015, the state budget allocated GEL 834.2 million as an equalising transfer to self-governing entities which constituted 10.2% of state budget incomes. After 2015, the volume of equalising transfers dropped substantially as a result of allocating a part of income tax revenues to municipalities. In 2016-2018, the state budget equalising transfer to state budget incomes ratio was 6.8% on average. In regard to 2018, municipalities received GEL 705 million from the state budget as an equalising transfer which constituted 6.8% of state budget incomes.

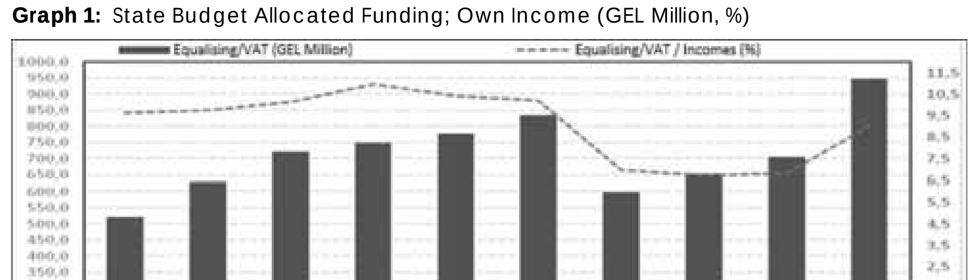
As mentioned previously, municipalities will receive 19% of VAT generated income beginning in 2019. In 2019, GEL 946.7 million of VAT generated income is planned for distribution which constitutes 9% of state budget incomes. Therefore, municipalities will have GEL 241.7 million (34.3%) more income in 2019 as a result of the changes. Of additional note is that the distribution of VAT income means that the incomes of self-governing units will increase in parallel with economic growth.

In 2018, the total income of self-governing units was GEL 1,309.8 million which constituted 3.2% of Georgia's GDP. This figure will increase up to GEL 2,090.3 million in 2019 and constitute 4.7% of the estimated GDP of the same year.[1] Therefore, the budgets of self-governing entities will receive a larger share of government collected financial resources in 2019 as compared to previous years.

In addition, the share of self-governing entities in the 2019 consolidated budget incomes increases up to 16.6% whereas this figure was 11.3% in 2018. In 2010-2018, the self-governing entities income to consolidated budget income ratio was 8.7% on average. Therefore, the share of municipal finances in 2019 public finances (income) is projected to grow whilst the share of the state budget decreases.

1 This figure includes incomes from the budgets of the Abkhazia and Ajara Autonomous Republics.

Graph 1: State Budget Allocated Funding; Own Income (GEL Million, %)



Source: Ministry of Finance of Georgia

Traditional cost-cutting measures aren't enough to solve current profitability crisis in Financial Services industry

The FINANCIAL – With banks struggling to improve their return on capital, many institutions are being forced to restructure and cut costs, says PwC latest research. Even in the asset management industry, where ROE is higher than the financial services industry as a whole, there is downward pressure on margins and profitability. Cost cutting will only deliver so much, PwC says. If financial institutions are to improve profitability in the long term they need to fundamentally improve the productivity of the enterprise.

"The cost cutting agenda adopted by many institutions since the financial crisis has, in essence, de-globalised the industry to make it more local or national, shrunk global footprints, divested businesses, and shed clients", John Garvey, Global Financial Services Leader for PwC stated that. "However, this process has run its course. If profitability is to get anywhere near the highs of fifteen years ago, what's needed now is a fundamental focus on building a sustainable productive business model that can compete with both incumbent institutions and digital-only competitors."

Based on a detailed survey of the global financial services industry, PwC has identified six areas where financial institutions can focus their productivity efforts to boost long term sustainable profitability:

1: Better understanding the workforce

Our experience indicates that by simply tracking hours by task, organisations can improve productivity by 15% to 20%, and the implementation of service catalogues and multi-tier sourcing can bring another 20% improvement.Of the organisations that didn't track work by hours and tasks, 62% believed such tracking would yield productivity benefits.

2: Rethinking change functions

Forty per cent of financial institutions are spending 20% of their entire budget on so-called 'change-the-institution' efforts. However only 15% said they were satisfied with their ability to execute change.

3: Embracing the platform economy

Only 21% of financial institutions employ crowdsourcing tools today. Platforms can run challenges that tap the collective brainpower and resources of a crowd, driven by a sense of competition to develop the best response. We predict that gig employees will perform 15% to 20% of the work of a typical institution within five years. This translates into significant cost savings across the board, along with the potential to improve the level of talent and innovation delivered from the employee base.

4: Improving workforce digital IQ

As people live and work longer, and unemployment rates remain low, digital training and retraining of existing workforces is particularly crucial. Despite its importance, research shows that current efforts are not achieving the desired results. Of the financial-services leaders polled in PwC's 2018 CEO Survey, 75% reported they were concerned about shortages of digital skills within the industry.

5: Bringing an agile mind-set to the mainstream

To keep up with digital-only competitors and rapidly deliver a seamless and instant customer experience, 77% of financial institutions are turning to agile somewhere in their organizations.

6: Mastering digital labour

Over 50% of CEOs believe artificial intelligence (AI) will have a bigger impact than the internet. Getting the balance right between tasks performed by AI and tasks performed by people will be key to future success for financial institutions.

"It is clear what financial institutions need to do to build future profitability and to remain competitive. However doing it and making the necessary changes will be a huge challenge. Very soon we will start to see which CEOs have taken the productivity agenda seriously", added John Garvey.

"E-commerce will grow by 100% per year"

Continued from p. 6

years of Visa's history the challenges have almost unchanged. One is the main challenge is changing the behaviour of cardholders - moving to cashless payments from cash. It's a big fight which we have been fighting for the last few decades. If we take as an example Georgia, one of the most developed markets, only around 30% of its total volume goes through cashless payments, terminals at merchants. The rest is cash from ATMs or cashier desks. This transition from cash to cashless is growing year on year, but we are still not fully there, it is a long way ahead. We rely a lot on the experience of mobile payments because the whole world shows that the behaviour of cardholders changes dramatically once they acquire the possibility to pay by phone.

We are very much involved in all kinds of social projects, in educational projects all around the world to bring cashless experience to the parts of population for which this way of payments is not so obvious. Last year we had a big initiative with National Bank of Georgia, based on our big platform Financial Football. We are trying to approach people from all angles, from social perspectives, from user experience perspectives, and from technological perspectives.

We also pay a lot of attention currently to e-com. In Georgia, around 50% of payments in cross boarder are done in e-com. Overall the share of e-com is only 9% if we look at domestic, though it's growing. That's why we are doing a lot of things to decrease people's fear of paying digitally.

Q. What are the main differences between the habits of Visa users in Georgia and those in other Eastern European countries?

A. I think that users in Georgia are really an example to follow compared to in many of the surrounding countries, including Europe. Georgia was the first country in the region of the CEMEA (90 countries) where Visa launched its Visa payWay card. Since that time Georgia has been the most developed contactless acceptance market with outstanding results (9 out of 10 transactions are contactless here). And people are very open to any innovations. We have 3 issuers wallets, offered by TBC Bank, Bank of Georgia and VTB Bank. They are very popular and this is a sign that the people are much more ready for payment innovations, sometimes even more so than the big corporations.

Q. What prospects do you see for the development of e-commerce in Georgia?

A. E-commerce share is only 9% in the payment volume, and 5% in transactions currently, which is quite small. As I mentioned earlier, in cross-border around 50% of the volume is in e-com. I know that there are a number of good cases of e-com already in the country. From the experience of Ukraine, Belarus, and other countries, which have already started quite big expansion in e-com, I can say that this market can grow by 100% per year, dramatically and very quickly. A lot of responsibility for the quality of this experience lies on banks. We are considering making this experience very easy, like a single click.

Q. What are the main advantages Verified by Visa and how this helps to drive e-com?

A. First of all, the key banks are already certified for the technology 'Verified by Visa'. They know how to make it easy for the cardholders. The second point is that it completely secured. We have done a number of researches on what stops people from paying over the internet. There are a number of points but the first one is security, they are concerned that if something happens they will lose money.

So, first it's important to educate people on the security of payments in e-com. We are working right now with the key banks and some educational staff on how to deliver this message to people. In 90% of cases the leaking of credentials happens because the cardholder discloses their personal data by phone or in some other way. So education and promo activities will bring people into e-com.

Q. How would you evaluate the statistics of Visa card payments during 2018 in Georgia? How have they changed in the last 5 years?

A. What we see from overall statistics on the market, is that there is still high potential for growth. Domestic transactions grew around 35% on year on year basis. If we compare this indicator to 2016-17 it was around 29%. So the market is growing even faster than in previous years. Cross-border transactions grew 53% in 2018, vs. 28% in the previous period. Currently the ratio of payment volumes to total volumes is 27%, in 2017 it was on 22%. So people are paying more and we see it in the volumes.

Another sign of the maturity of the market is the average ticket. It's currently around GEL 50, though this is slowly lowering. So we see that people are making many more transactions for small ticket operations, so meaning they pay more in their usual life. We see the market is growing 43% on payment volumes year on year without any decline. I would say that this is one of the best indicators of market growth in the region. Georgia year over year shows excellent results. People are really changing their behaviour.

Q. What about your competitors, what's your further strategy and special offer for consumers?

A. The competition is great. Without successful and smart competitors we would not be that strong. We identify our strategy in two ways. The first direction is working with banks, merchants, businesses; and here we work to help our partners to bring really high value proposition with Visa cards to their cardholders. There are a lot of ways to achieve this: joint activities; bringing added value benefits; driving technologies; undertaking joint trainings with bankers. And another big direction which we are developing right now is B2C, meaning talking directly to the cardholders.

Here we will intensify our efforts to drive this B2C sector and you will see in the next few years that Visa will be closer to cardholders in delivering messages on how to pay, and what exactly the cardholder can get when they make transactions with Visa. I think we need to popularize this topic much more to deliver the information to people about how they can actually get the benefits. So we will be focusing on bringing added value and also delivering the message explaining how they can easily access the benefits which Visa provides.

Q. Do you think that digital wallets may replace card payments in the near future? If so, how could cards be transformed in the future?

A. I think that plastic is only one of dozens of payment form factors which exists. Definitely plastic year on year will be decreasing in quantity and everything will gradually move to mobile phones, to gadgets, finger print payments, and face recognition payments. But it doesn't mean that cards will disappear entirely. Payment through Visa technology will not disappear. It's not about the card. It's about the fact that you pay. And the fact that there is a network all around the globe uniting all banks which Visa supports to make transactions. That's why we don't have a fear that plastic will disappear. Moreover we are actually pushing this trend for mobile phones to be the main way of making payments ASAP.

Q. What are the global fraud trends? What is the situation in this regard in Georgia?

A. Fraud is a permanent and unrelenting war between payment systems, banks and fraudsters, which sometimes become very smart, however at the same time we are building and strengthening networks to make them much more sophisticated and protect cardholders and their data. Our part of the world is probably one of the most secured in terms of payments. First of all, because we are much faster when it comes to adopting new technologies.

The level of fraud with contactless cards is much lower than with chip cards, and with biometric recognition, it is almost zero. So the more we make the move to modern technologies, the less fraud we have.

Also, Georgian banks are extremely sophisticated. Even with all the support of international payment schemes, the banks themselves are very smart in protecting cardholders. They have online monitoring systems, Visa platforms for how to make payments secure in also online mode. The topic of fraud is not that hot in our part of the world and the main problem still remains the overall financial education of people who sometimes might disclose their personal data.

Q. Georgian banks refuse to cover damages in the event of card fraud and unauthorized use of cards. What is Visa's policy towards this in other countries?

A. We have a so-called "zero liability" policy in all countries in the region under which a cardholder is not responsible for fraud, if he/she has not disclosed their personal information. At Visa we work in any market of our presence in accordance with our own rules and the laws of the country. I really don't think that banks don't want to take on the responsibility of fraud cases. It's probably the condition of the contract and the way the fraud happened. It's a question of investigation in each individual case.

Q. How have the methods of criminals been changing in light of contemporary technological development?

A. Fraudsters sometimes get very smart. They're developing new ways, new technologies and solutions to crack data and get personal info. But at Visa we have strong security controls and are constantly upgrading all of the technologies to protect data. We have a number of platforms which banks also use and which allow identification using big data analytics to identify and prevent fraud and block suspicious transactions at the very moment they're happening.

Q. What is your main security advice for your cardholders?

A. Don't disclose your personal data to anybody. 99% of fraud cases happen when a person gives his or her card to somebody or even tells them their pin code. The security of people lies in their own hands.

Weekly Market Watch

GALT & TAGGART
CREATING OPPORTUNITIES

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

ECONOMY

Inflation was 2.2% y/y and 1.3% m/m in January 2019

Annual CPI inflation was 2.2% in January 2019 up from 1.5% in previous month, according to Geostat. Core inflation was 1.7% in January 2019 up from 0.9% recorded in previous month. Annual price changes were driven by price increases in food and non-alcoholic beverages (+3.2% y/y, +1.00ppts), alcoholic beverages and tobacco (+10.1% y/y, +0.66ppts) and healthcare (+3.4% y/y, +0.28ppts) categories, while prices were down in clothing and footwear (-8.8% y/y, -0.32ppts). On a monthly basis, there was 1.3% inflation in January 2019, affected by price increase in food and non-alcoholic beverages category (+3.2% m/m, +0.98ppts) and alcoholic beverages and tobacco (+5.8% y/y, +0.39ppts).

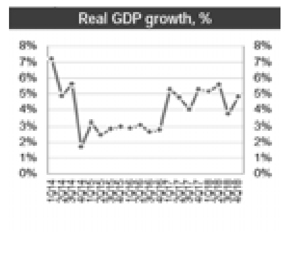
Tourist arrivals up 5.9% y/y in January 2019

Total international visits to Georgia decreased by 0.6% y/y to 0.44mn in January 2019, according to the Ministry of Internal Affairs. Decline in overall visits was affected by fall in same-day arrivals, while tourists arrivals increased by 5.9% y/y (0.31mn trips, 70.0% of total). Out of top countries, in January 2019, international visitors increased from Russia (+16.8% y/y), Ukraine (3.6% y/y) and Israel (+132.1% y/y), while visitors were down from Azerbaijan (-3.4% y/y), Armenia (-5.0% y/y) and Turkey (-20.2% y/y).

Key macro indicators

	2018	2017	2016
GDP (% change)	4.8%	4.8%	2.8%
GDP per capita (ppp)	11,600[1]	10,742	10,065
GDP per capita (US$)	4,363[1]	4,047	3,857
Population (mn)	3.7	3.7	3.7
Inflation (eop)	1.5%	6.7%	1.8%
Gross reserves (US$ bn)	3.3	3.0	2.8
CAD (% of GDP)	6.5%[1]	8.8%	13.1%
Fiscal deficit (% of GDP)	2.3%[2]	2.9%	3.0%
Total public debt (% of GDP)	44.8%[2]	44.8%	44.4%

Source: Official data, IMF
1) As of 9M18
2) Preliminary estimate



Source: GeoStat
Note: Rapid estimate for 4Q17

Source: Rating agencies

International ranking, 2018-19

Ease of Doing Business
6 (Top 10)

Economic Freedom Index
16 (mostly free)

Global Competitiveness Index
66 (improving trend)

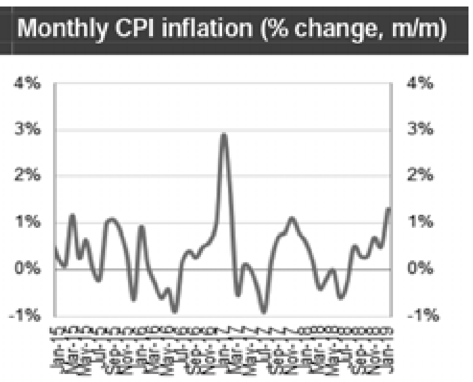
Source: World Bank, Heritage Foundaition and World Economic Forum

International reserves stood at US$ 3.4bn in January 2019

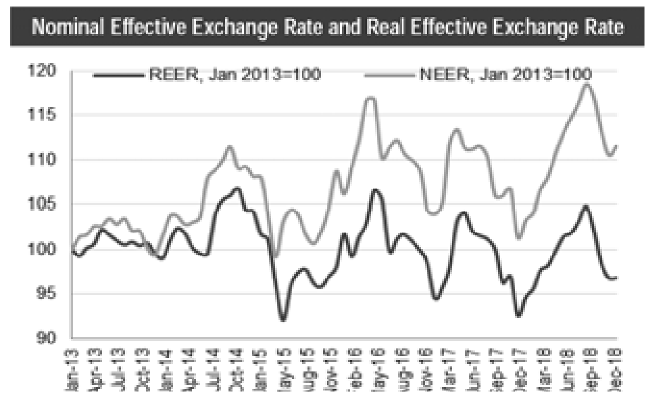
Gross international reserves were up 10.9% y/y to US$ 3.4bn in January 2019 according to NBG. Change in reserves was attributed to FX auctions (total purchase of US$ 85.0mn in January), government FX operations and/or asset revaluation.

NBG purchased US$ 15.0mn

On 6 February 2019, the NBG intervened on the FX market and purchased US$ 15.0mn. The NBG purchased US$ 100mn YTD on its 7 FX auctions.



Source: GeoStat



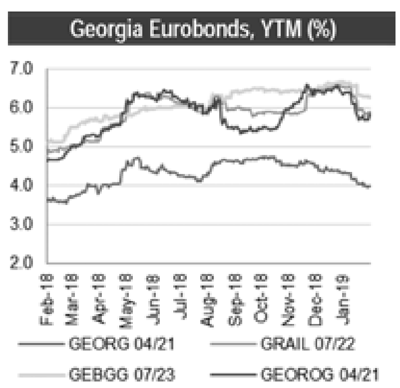
Source: NBG
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate.

FIXED INCOME

Corporate Eurobonds: Bank of Georgia Group Eurobonds (GEBGG) closed at 6.3% yield, trading at 98.9 (+0.1% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 99.5 (-1.0 w/w), yielding 10.6%. Georgia Capital Eurobonds (GEOCAP) were trading at 91.4 (+0.3% w/w), yielding 8.2%.

GOGC Eurobonds (GEOROG) were trading at 101.8 (-0.4% w/w), yielding 5.9%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 105.6 (-0.1% w/w), yielding 5.9%.

Georgian Sovereign Eurobonds (GEORG) closed at 106.1 (+0.1% w/w) at 3.9% 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	GEOROG 04/21	GEBGG 07/23	GEORG 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-/-/-	-/-/-	-/-/-	n/a	-/B+/B2	BB-/-/Ba2	BB-/B+/-	BB-/-/B2	BB-/BB-/Ba2	B+/B+/-
Mid price, US$	n/a	100.95	n/a	100.36	91.4	99.5	101.8	98.9	106.1	105.6
Mid yield, %	n/a	6.00%	n/a	6.75%	8.2	10.6	5.9	6.3	3.9	5.9
Z-spread, bps	n/a	n/a	n/a	n/a	571.0	n/a	329.6	375.5	133.8	334.1

** 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*

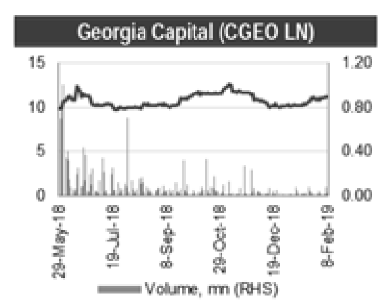
Eastern European sovereign 10-year bond performance

Issuer	Amount, US$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba2	3.9
Azerbaijan	1,250	4.750%	18/03/2024	BB+/-/Ba2	4.2
Bulgaria	323	5.000%	19/07/2021	BBB/-/-	0.0
Croatia	1,250	3.875%	30/05/2022	BB+/BB/Ba2	0.6
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	3.3
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	3.7
Russia	3,500	5.000%	29/04/2020	BBB-/BBB-/Ba1	3.2
Turkey	2,000	5.625%	30/03/2021	BB+/-/Ba2	5.2

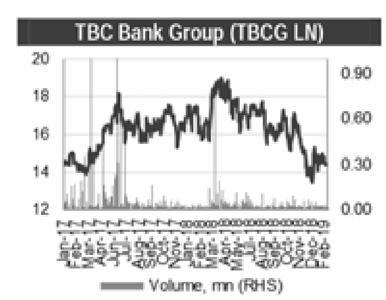
Source: Bloomberg

EQUITIES

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Bank of Georgia Group (BGEO LN) shares closed at GBP 15.85/share (-0.54% w/w and +9.55% m/m). More than 227k shares traded in the range of GBP 15.49 – 16.05/share. Average daily traded volume was 59k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, lost 0.77 % w/w and gained 2.70% m/m. The volume of BGEO shares traded was at 0.46% of its capitalization.

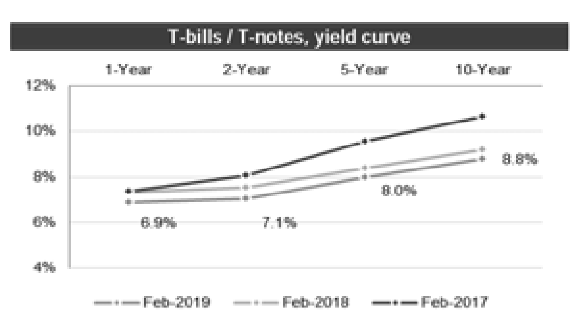
Georgia Capital (CGEO LN) shares closed at GBP 11.14/share (+1.29% w/w and +9.67% m/m). More than 128k shares traded in the range of GBP 10.80 – 11.14/share. Average daily traded volume was 23k in the last 4 weeks. The volume of CGEO shares traded was at 0.34% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 14.08 (-3.03% w/w and -5.38% m/m). More than 52k shares changed hands in the range of GBP 13.82 – 14.96/share. Average daily traded volume was 18k in the last 4 weeks. The volume of TBCG shares traded was at 0.10% of its capitalization.

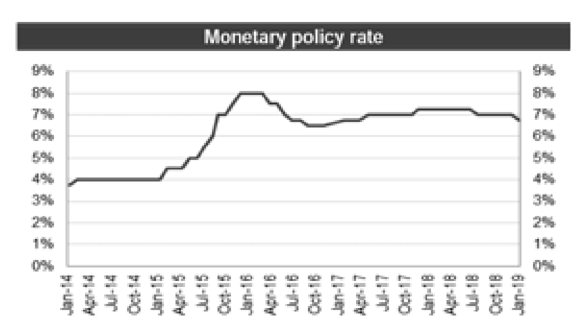
Georgia Healthcare Group (GHG LN) shares closed at GBP 2.35/share (+3.07% w/w and +21.13% m/m). More than 95k shares were traded in the range of GBP 2.21 – 2.35/share. Average daily traded volume was 81k in the last 4 weeks. The volume of GHG shares traded was at 0.07% of its capitalization.

MONEY MARKET

Ministry of Finance T-Bills: 1-year GEL 40.0mn (US$ 15.1mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on February 5, 2019. The weighted average yield was fixed at 6.890%. The nearest treasury securities auction is scheduled for February 12, 2019, where GEL 40.0mn nominal value 2-year Benchmark Bonds and GEL 20.0mm 6-months T-Bills will be sold.



Source: NBG
**Note: As of latest auction.*



Source: NBG

GALT & TAGGART

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ISET ECONOMIC INDICATORS

International School of Economics at TSU

CONSUMER CONFIDENCE INDEX

For more: WWW.ISET-PI.GE

January 2019: Post-Christmas Hangover?

Continued from p. 2

While the reasons behind such phenomena require further research, some behavioral – and policy – implications of such "gaps" might be easy to discern. For example, those people whose expectations for the future are much more optimistic than their perceptions of the present might be more inclined to take on further debt. If this is the case, the introduction of new regulations on responsible lending in the financial system - in force since January 2019 – should be regarded as a step in the right direction.

	Overall	Tbilisi	Rest of Georgia	Higher education	The Rest	Male	Female	Young	Old
Your financial situation, past 12 months	4%	3%	5%	2%	9%	3%	5%	8%	2%
How will your financial situation change, next 12 months?	-2%	-3%	-1%	0%	-5%	-9%	3%	-1%	-2%
How did the general economic situation change in Georgia, past 12 months?	6%	1%	11%	3%	12%	6%	5%	9%	5%
General economic situation, next 12 months	-12%	-11%	-12%	-7%	-19%	-19%	-6%	-4%	-16%
Extent of consumer price rise, past 12 months	-3%	0%	-8%	-2%	-5%	0%	-6%	-3%	-4%
Do you expect prices to increase more rapidly, next 12 months?	-19%	-10%	-28%	-13%	-32%	-22%	-17%	-21%	-18%
Expected level of unemployment in Georgia, next 12 months	-9%	-9%	-8%	-5%	-15%	-9%	-8%	-2%	-12%
Is now the right time for people to make major purchases in Georgia?	3%	0%	4%	4%	5%	7%	0%	9%	0%
Do you expect to increase spending on major purchases compared to the past, next 12 months?	6%	-1%	12%	2%	14%	5%	5%	11%	3%
Is now the right time for people to save in Georgia?	5%	-2%	12%	-4%	23%	5%	4%	11%	3%
Your ability to save, next 12 months?	4%	0%	7%	2%	9%	2%	6%	8%	2%
Your current ability to save?	3%	1%	5%	5%	2%	1%	6%	12%	-1%

Denmark, Sweden, Switzerland Give $14 Million To UN Aid For Eastern Ukraine

The FINANCIAL – The governments of Denmark, Sweden, and Switzerland have announced they will pledge some $14 million over the next three years to a UN project to promote social cohesion and strengthen regional governance in eastern Ukraine.

More than 10,300 people have died since fighting erupted in April 2014 in eastern Ukraine between Russia-backed separatists and Ukrainian forces. Thousands have been wounded and more than 1.5 million people have been internally displaced.

In a press release on February 8 to announce the new initiative, the three states said the "breakdown in trust" in the conflict-hit region "can only be overcome by job creation, poverty alleviation, anti-corruption measures, law enforcement and judicial reform, and the promotion of human rights."

"The trust of citizens in conflict-affected areas in governmental institutions will improve and they will feel safer if administrative, law enforcement, and security capacity are strengthened, and it becomes easier for them to access justice and environmental protection. This project will help to support these changes," said Victor Munteanu, the manager of the UN's Recovery and Peacebuilding Program (RPP).

According to the press release, Denmark has pledged to contribute more than $9 million; Sweden $3 million; Switzerland $2 million.

RPP has addressed priority needs in eastern Ukraine since the armed conflict erupted in the spring of 2014 after Russia seized Ukraine's Crimean Peninsula.

According to the UN, the RPP is aimed at strengthening community security and social cohesion, supporting the economic recovery of conflict-affected communities. It also works to further decentralize and reform the health-care system in government-controlled areas of the Donetsk and Luhansk regions.

The RPP is being implemented by four United Nations agencies and is supported by the European Union, the European Investment Bank and the governments of Denmark, the Netherlands, Norway, Poland, Sweden, Switzerland, and Japan. Its total budget for 2019-2022 is over $50 million.

RFE/RL

German Exports, Imports Rebound in December

BERLIN (Alliance News) - Germany's exports rebounded at a faster-than-expected pace in December, exceeding expectations, and imports followed suit, extending some positive data for the biggest euro area economy after the recent run of weak figures that suggested a slowdown.

Exports rose a calendar and seasonally-adjusted 1.5% from November, when they declined 0.3%, figures from the Federal Statistical Office showed on Friday. Economists had expected 0.5% growth.

The pace of growth was the fastest since May's 1.6% gain.

Imports climbed 1.2% month-on-month, recovering from a 1.3% slump in November. Economists had forecast 0.4% growth.

"Today's trade data is a welcome sign of life, confirming our view that the assessment of the German economy currently needs less black-and-white thinking and is more nuanced," ING economist Carsten Brzeski said.

"While the temporary problems in the automotive sector will gradually be resolved...and should boost exports, the risks and uncertainties from outside the eurozone are clearly the make-it-or-break-it factor for the export sector," the economist added.

On a year-on-year basis, exports decreased 4.5% and imports were unchanged in December.

The non-adjusted trade surplus fell sharply to EUR 13.9 billion from EUR 20.4 billion in November. Economists were looking for a surplus of EUR 17.3 billion.

The statistical office also reported that the current account surplus fell to EUR 21 billion in December from EUR 21.6 billion in November.

For full year 2018, exports rose 3% and imports grew 5.7%, and their values exceeded their record highs. The trade surplus fell to EUR 227.8 billion from EUR 247.9 billion in 2017.

EU countries attracted 3.8% more German exports than a year ago, and imports from the group rose 6.3%. Exports to the euro area increased 4.5% and imports from the bloc climbed 6.9%.

Shipments to the non-EU countries rose 1.9% and imports from these countries grew 5%.

In 2018, the current account surplus dropped to EUR 249.1 billion from EUR 261.2 billion a year ago.

Germany likely avoided a technical recession in the fourth quarter, the economy ministry has said. Average annual growth slowed to a five-year low of 1.5% in 2018.

On Thursday, the European Commission slashed the German growth forecast for this year to 1.1% from 1.8% and the projection for next year was left unchanged at 1.7%.

Airlines: Healthy Passenger Demand Continued in 2018

The FINANCIAL -- Global passenger traffic shows that demand (revenue passenger kilometers or RPKs) rose by a healthy 6.5%, according to the International Air Transport Association (IATA). Although this represented a slowdown compared to the 2017 annual growth of 8.0%, it was another year of above-trend growth.

December RPKs rose 5.3% against the same month in 2017, the slowest year-over-year pace since January 2018 and a continuation of the trend that saw demand growth decelerate to an annualized rate of 5% over the course of the 2018 second half compared to a 9% pace in the first half.

"2018 was another year of strong passenger demand, as aviation continued to support the global economy. We expect similar, if somewhat moderating performance in 2019. Nevertheless, slowing growth in the second half of 2018, coupled with concerns over issues including Brexit and US-China trade tensions, are creating some uncertainty to this positive outlook," said Alexandre de Juniac, IATA's Director General and CEO.

International Passenger Markets

International passenger traffic in 2018 climbed 6.3% compared to 2017, down from 8.6% annual growth the year before. Capacity rose 5.7% and load factor climbed by 0.4 percentage point to 81.2%. All regions recorded year-over-year increases in traffic, led by Asia-Pacific. However, North America and Africa were the only two regions to post stronger demand growth in 2018 compared to the prior year's performance

Asia-Pacific airlines' 2018 traffic rose 7.3%, compared to 2017, driven by robust regional economic expansion and an increase in route options for travelers. Although this was a slowdown from the 10.5% year-over-year growth recorded in 2017 versus 2016, it was strong enough to lead all the regions for a second consecutive year. Capacity rose 6.4%, and load factor ticked up 0.7 percentage point to 80.6%.

European carriers' international traffic climbed 6.6% in 2018 compared to the previous year, which was down from 9.4% growth the year before. Capacity rose 5.9% and load factor increased 0.6 percentage point to 85.0%, which was the highest for any region. On a seasonally-adjusted basis, traffic growth has softened a bit in recent months, likely owing, in part, to uncertainty over the economic backdrop and Brexit.

Middle East carriers' traffic increased 4.2% last year, down from 6.9% growth in 2017. It was the second year in a row of moderating demand growth. Capacity climbed 5.2% and load factor slipped 0.7 percentage point to 74.7%. The deceleration in growth reflects the impact of policy measures and geopolitical tensions, including travel restrictions and the temporary ban on large portable electronic devices. Traffic actually declined 0.1% year-on-year in December, but this may reflect volatility in data.

North American airlines had their fastest demand growth since 2011, with full-year traffic rising 5.0% compared to 2017, an increase from 4.7% annual growth in 2017. Here too, however, demand growth slackened noticeably in the last two quarters. This may be owing to increasing concerns over the US economic outlook and trade tensions with China. Capacity climbed 3.7%, and load factor edged up 1.0 percentage point to 82.6%, second highest among the regions.

Latin American airlines' traffic climbed 6.9% in 2018, a slowdown compared to 8.8% annual growth in 2017. Capacity rose 7.7% and load factor dipped 0.6 percentage point to 81.8%. Traffic was affected by the mid-year general strikes in Brazil as well as by political and economic developments in some of the region's other key economies.

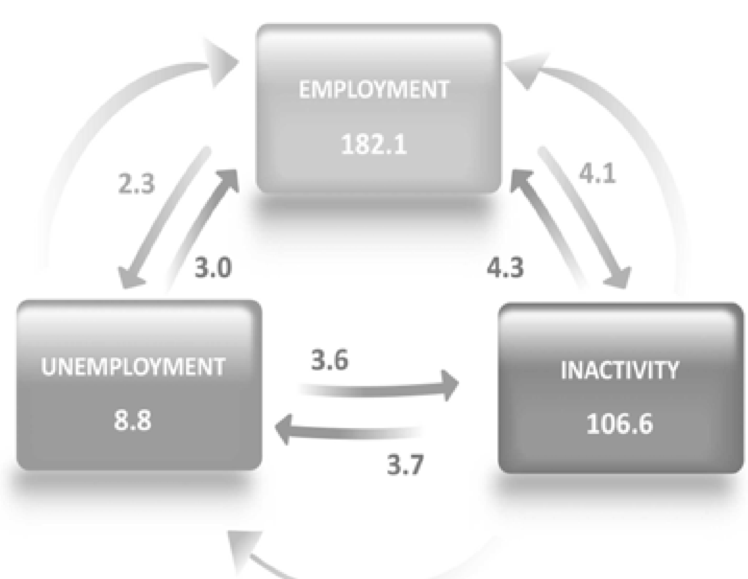
African airlines saw 2018 traffic rise 6.5% compared to 2017, which was an increase compared to 6.0% annual growth in 2017. The strong performance took place in spite of the mixed economic backdrop of the continent's largest economies, Nigeria and South Africa. Capacity rose 4.4%, and load factor jumped 1.4 percentage points to 71.0%.

Domestic air travel climbed 7.0% last year, which was unchanged from the rate in 2017. All markets showed annual growth, led by India and China, which both posted double-digit annual increases. Capacity rose 6.8% and load factor was 83.0%, up 0.2% percentage point compared to 2017.

India's domestic market posted the fastest full-year domestic growth rate for the fourth consecutive year, with an 18.6% annual demand increase. Domestic demand is underpinned by robust economic expansion and increasing numbers of city pairs.

Australia represented the opposite picture, as annual traffic rose just 1.4%, although this was a slight increase over the rate of 2017.

3 million unemployed found work in Q3 2018



The FINANCIAL – Between the second and third quarters of 2018, 3.0 million people (19.3 % of all unemployed in the second quarter of 2018) found a job. During this period, 8.8 million (57.3 %) remained unemployed and a further 3.6 million (23.4 %) became economically inactive. These figures do not include data for Germany.

Of all those initially in employment in the second quarter of 2018, 2.3 million (1.2 %) became unemployed in the third quarter, and 4.1 million (2.2 %) transitioned into economic inactivity.

From those initially counted as economically inactive in the second quarter of 2018, 4.3 million (3.7 %) moved into employment in the third quarter, and 3.7 million (3.3 %) transitioned into unemployment.

The graphic and table below give an overview of all possible transitions and show the changes in labour market status. In the graphic, the figures for employment, unemployment and inactivity refer to the number of people remaining in each status between the two quarters. The grey arrows indicate the direction of net flows.

Bank Of Georgia Launches Real Estate Digital Platform Area.ge

LONDON (Alliance News) - Bank of Georgia Group PLC on Wednesday said it has launched a real estate digital platform Area.ge.

The company said the new product offers a single place for convenient exchange of information among all parties involved in buying, selling, renting and developing real estate in Georgia.

The FTSE 250-listed bank said Area is the first platform which is fully integrated with Bank of Georgia to provide its users a "one-click" live credit limit appraisal and mortgage application experience.

"Bank of Georgia continues to be at the top of digital offerings in the local market, and Area.ge is our latest investment in this endeavour," said Bank of Georgia Chief Executive Archil Gachechiladze.

"Area.ge is equipped with customer propensity detecting systems that enable us to show our clients tailor-made offers within their financial capacity and deliver superior customer experience," added Levan Kobakhidze, Area.ge's general manager.

Bank of Georgia shares were trading 0.6% higher on Wednesday at 1,584.60 pence each.

British Airways Announces 19 Reasons to Fly With BA in 2019

British Airways' new year's resolution is to provide its customers with even more quality and choice in every cabin on every route - with a £6.5bn investment and 19 great reasons to look forward to flying with the airline in 2019. Here are some of the reasons to fly with British Airways this year:

The January sale – on now. Bag a bargain to dozens of top global destinations. Do it now, before everyone else does.

New routes. Customers can try out the airline's new routes to Charleston y'all, with Pittsburgh, Osaka, Kos and Corsica, Ljubljana, Montpellier, among others. It's the airline's most extensive route network in more than a decade.

New aircraft. Customers can fly on one of the carrier's 15 plush new aircraft being delivered this year – including four fabulous A350 aircraft.

A brand-new Club World seat, featuring on the new A350 aircraft, and two 777 aircraft by the end of the year.

WiFi. The best, live streaming WiFi on all short-haul flights and the vast majority of long-haul flights so customers can sit back and enjoy films and TV shows from their favourite streaming service.

A new look for First. New first-class dining, bedding and amenity kits from one of the UK's best-loved designers.

An industry-leading makeover for World Traveller Plus. Look out for new bedding and new dining in this intimate and exclusive cabin.

New lounges for customers to relax and enjoy ahead of their flight, in San Francisco, Johannesburg, Geneva and JFK.

An extended partnership with premium dining supremo Do&Co, the airline's new in-flight caterer from Heathrow and already providing meals in Club Europe.

A new ba.com homepage, making booking with British Airways even easier and more intuitive.

New partners for the British Airways Executive Club, offering even more ways to collect and spend Avios.

Digital bag tags. A UK airline first. Sync your personal baggage tag with the BA app, drop your luggage at the airport, and fly.

Self-service baggage drops at Heathrow T3 offering customers the same service as T5.

Facial recognition technology. More biometric technology at Heathrow, London City and Gatwick, New York JFK, Orlando, Los Angeles, Miami and many more. The system makes boarding faster and more convenient, helping British Airways depart flights on, or ahead of time.

New emissions-free, remote-controlled pushback vehicles for long-haul aircraft to continue to improve punctuality. Short-haul versions reduced pushback delays by more than 70 per cent.

New winter equipment – helping British Airways safely de-ice its fleet of almost 300 aircraft quicker than ever during the frosty winter months.

Hotel reservations. Investment in new technology will see rooms automatically booked for customers who miss their flights due to disruption.

Enhanced customer service. Almost 30,000 staff will receive the airline's all-new customer service training. At T5 – more airport hosts than ever before are being re-trained to manage any customer issue, from re-booking to upgrades, lounge access, baggage and transfer queries and flight information.

And last but not least – look out for British Airways' Centenary celebrations. It's going to be 100 years' old this year, and will be celebrating in style, sharing its heritage and looking at what to expect from flying in the future.

publicity

227,000 SMEs in Germany Sant to Transfer Ownership by the End of 2020

Number of secured management successions is growing

The FINANCIAL

The coming generational transition continues to be a recurring theme on the executive floors of Germany's small and medium-sized enterprises. By the year 2020 alone, 227,000 owner-managers want to pass their company into new hands, according to KfW Research.

The number of bosses who want to transfer their business to a successor within two years thus remains on a high level, according to the current analysis conducted by KfW Research on the basis of the representative KfW SME Panel (previous year's survey: 236,000). Encouragingly, owner-managers are also becoming increasingly aware of the need to face the challenges of the coming generational transition in a timely manner.

Never before have more of them been weighing the options available for withdrawal due to age (59% vs. 55%). The number of secured management successions is also growing. Nearly two thirds of SME owner-managers looking to transfer their business by 2020 have either finalised their succession or are in the process of negotiating with a specific successor. That means some 141,000 small and medium-sized enterprises have an idea of who will take over after the current owner-manager retires (previous year: 137,000).

"I am pleased that the current generation of owner-managers has made succession management a significantly higher priority on their agenda", said Dr Jörg Zeuner, Chief Economist of KfW Group. "Today, around four in ten bosses of small and medium-sized enterprises are over the age of 55. They will soon have to think about retirement and, hence, the continuity of their business. When we consider the weight these enterprises have for the economy as a whole, it becomes clear that a lot depends on successful generational change. The 227,000 SMEs that are ready for succession by 2020 alone employ nearly 2 million workers and 76,000 trainees and apprentices. They invest EUR 9.3 billion, which is roughly 2.4% of all business investment in Germany, and they account for around 6% of total turnover in the SME sector, or EUR 283 billion."

Even if the share of SMEs that are due for succession within the next two years but have made few or no preparations has dropped considerably (-10 percentage points to 16%), time is running out for a substantial number of firms. So far, 36,000 owner-managers have either not even started the process or have merely collected information. An orderly succession usually takes several years of planning – even more so when the successor is not a family member. It is very likely that these managers will not be able to follow through with their previous retirement and succession plans.

While the previous years' surveys always showed a preference for succession within the family, this is now at exactly the same level (45%) as selling the business to an external buyer such as a start-up, financial investor or another enterprise. Factors that may play a role are children's different career choices, or the fact that more existing entrepreneurs have no children compared with previous entrepreneur generations.

"A key bottleneck in the search for external successors is the short supply of emerging entrepreneurs. Because of the good labour market situation, the number of business founders has been declining for years. In 2017, only 557,000 people started their own business. Founders willing to take over an existing business are becoming particularly rare, and recently they numbered only 57,500 a year", said KfW Chief Economist Zeuner. "That is nowhere near enough to meet the high need for successors in the coming years. Teaching business skills and continuing to make entrepreneurship more attractive are therefore core tasks of an education and economic policy that is oriented to the future."

Besides the wish for orderly business succession, planned closure is the second large block in an enterprise's view of the future. After all, not every manager who seriously ponders retirement actually has a plan for their business to continue. Today, 16% of all owner-managers see closure as the only conceivable solution. Owner-managers of micro-businesses with fewer than five employees, in particular, often consider this option (41%), while shutting down is almost not an option for large SMEs (2%). Thoughts of shutting down play much less of a role in manufacturing as well, but nearly half the owner-managers of small and medium-sized enterprises in the construction sector plan to give up their business in the future.

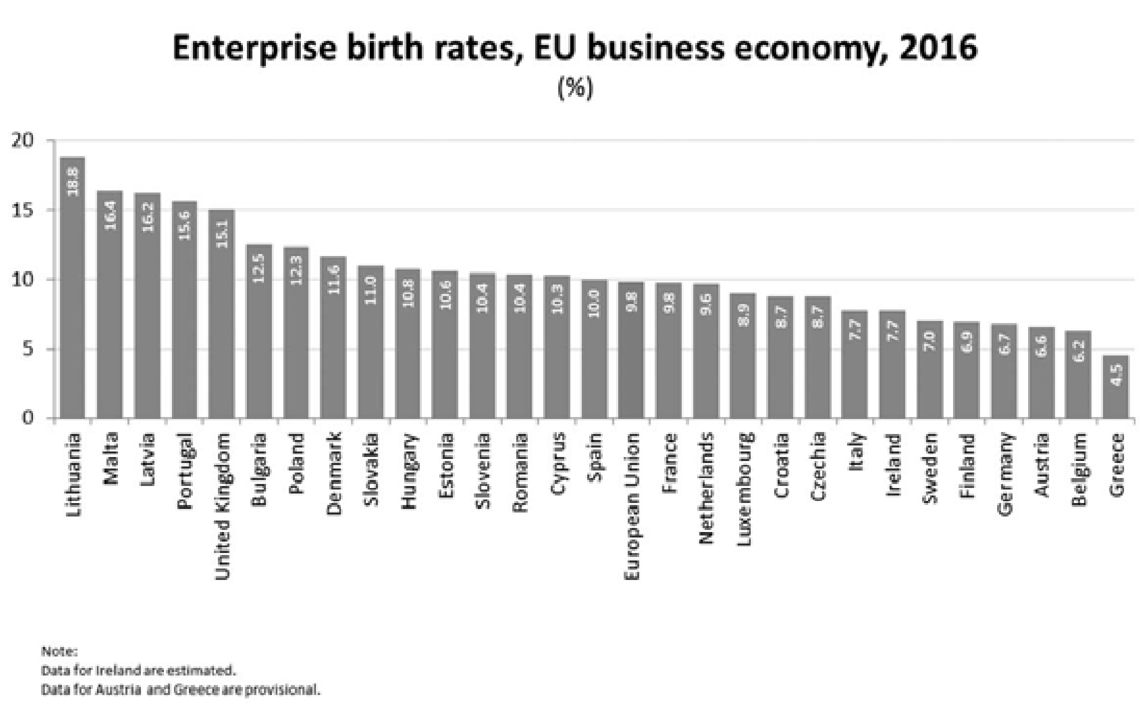
INTERGENERATIONAL TRANSITION HAMPERED MAINLY BY GROWING SHORTAGE OF EMERGING ENTREPRENEURS

Birth rate of enterprises in the EU: 9.8 % in 2016

The FINANCIAL

The number of newly-born enterprises in the European Union (EU) as a proportion of the total number of active EU enterprises stood at 9.8 % in 2016, slightly higher than the corresponding figure in 2015 (9.6 %).

The birth rates were above 16 % in Lithuania (18.8 %), Malta (16.4 %) and Latvia (16.2 %) and were close to the EU average in Spain, France and the Netherlands. At the other end of the scale, the lowest enterprise birth rates were in Greece (4.5 %) and Belgium (6.2 %).



'Hundreds' Of Chinese, Russia Agents 'Operating' In Brussels

Hundreds of Russian and Chinese intelligence agents are operating in Brussels, the EU's foreign service has warned.

The European External Action Service (EEAS) estimates there are "about 250 Chinese and 200 Russian spies in the European capital," Germany's Welt am Sonntag newspaper reported, citing EU diplomats.

According to the report, EU diplomats have been advised to stay away from certain parts of Brussels' European quarter, including a popular steakhouse and a cafe near the European Commission's main building.

The Russian and Chinese intelligence agents chiefly work at the embassies or trade missions of their home countries, according to the report.

Based on reporting by dpa and Welt am Sonntag

Head of Southern Command on Russia in Venezuela: 'Anything's Possible'

WASHINGTON — The United States should not rule out Russian military involvement in Venezuela, according to the new head of U.S. Southern Command. Speaking exclusively in his first in-depth interview since taking command, Navy Admiral Craig Faller told VOA that Russia was acting like a "wounded, declining bear that's just lashing out" against democratic interests in the region.

"I think with Russia, anything's possible," he said. "We've seen what they've done (in Syria), and I think we have to be prepared for what might happen in the future."

QUESTION: "Admiral, let's start with Venezuela. What options have you been asked to provide for the situation in Venezuela."

NAVY ADMIRAL CRAIG FALLER, COMMANDER OF THE U.S. SOUTHERN COMMAND: "We're focused on supporting a political and diplomatic solution and as you'd expect from a combatant commander we're working to ensure that U.S. citizens and property, our diplomats that are there are safe, and so that's where we've been, our efforts have been centered."

QUESTION: "Are you concerned that Russia might do something in Venezuela like it did in Syria? Like we saw how they propped up the (Syrian President Bashar al-)Assad regime there. Could that happen again?"

FALLER: "I think, with Russia, anything's possible. The national defense strategy calls out competition with Russia and China specifically as areas of focus. We've really aligned and done a lot of thinking, planning and resourcing to those. Different cases though. China is an economic powerhouse on the rise, and they have a legitimate economic and business interest around the world. They don't play by the rulebook though. Russia, on the other hand, is almost, you know, a wounded, declining bear that's just lashing out, and I couldn't predict what Russia will do, and I wouldn't want to. We've seen what they've done, and I think we have to be prepared for what might happen in the future."

Voice of America

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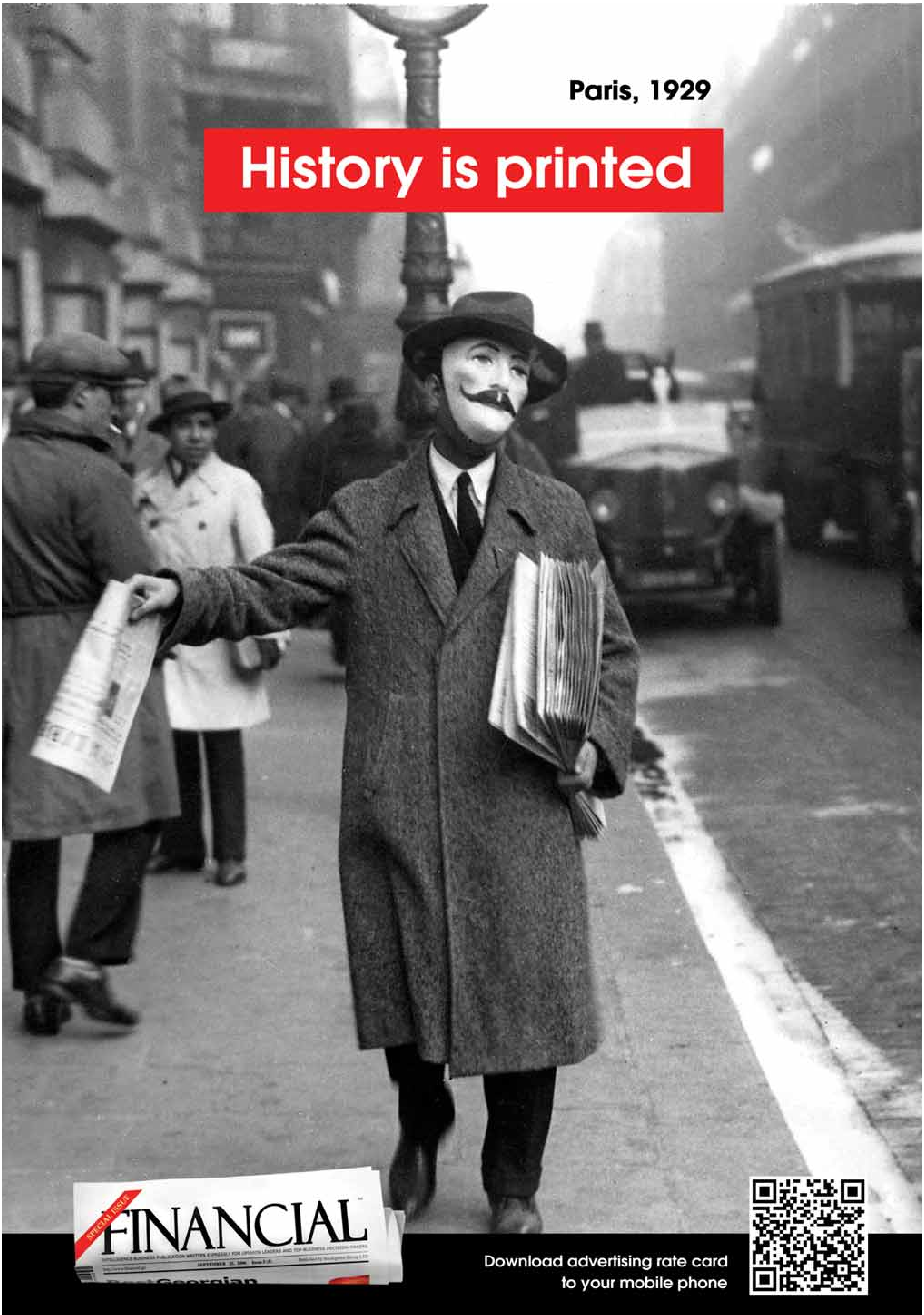
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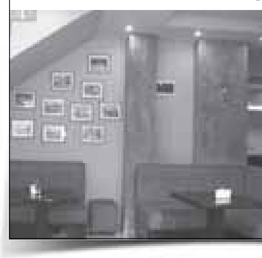
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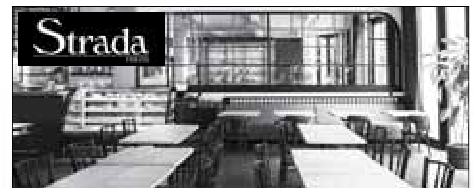
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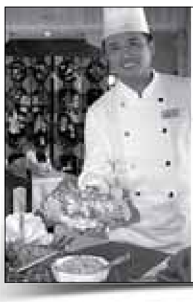
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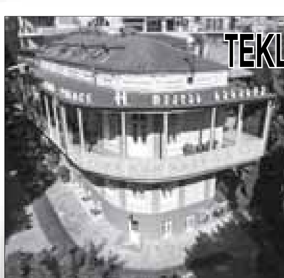
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