GRASS FACTCHECK

THE FORMER PRESIDENT OF THE NATIONAL BANK OF GEORGIA

Giorgi Kadagidze:

"Georgia is currently governed by 19 ministries whilst in the case of Switzerland, this number is down to eight."

Teona ABSANDZE
Fact CHEK

On air on Rustavi 2, the former President of the National Bank of Georgia, Giorgi Kadagidze, focused, among other things, upon the necessity and the possibility of a decrease in bureaucratic expenses in Georgia. "Georgia is currently being governed by 19 ministries if we do not count the legal entities of public law and other similar structures. For example, Switzerland, which is one of the most developed countries in the world, is being governed by eight ministries. Of course, the possibility to cut down on bureaucracy is quite high. I believe that it is possible to abolish all state ministries as well as the Ministry of Corrections which is present in almost no European countries."

FactCheck took interest in Giorgi Kadagidze's statement and studied the number of ministries in different European countries.

There is a total of 16 ministries in Georgia in addition to three state ministries. The Ministry of Justice of Georgia ran the penitentiary system until 2008. The Prosecutor's Office joined the Ministry of Justice of Georgia in 2008. Consequently, due to the conflict of interests, the penitentiary system was separated from the Ministry of Justice and established itself as an independent ministry. Despite the fact that the Prosecutor's Office was once again separated from the Ministry of Justice in 2013, the Ministry of Corrections of Georgia was not reintegrated with the Ministry of Justice of Georgia.

Given the examples of various European countries we can definitely say that a country can indeed be governed by fewer ministries and ministers. For example, Switzerland has seven ministries, the Netherlands has 11, Austria has 13 and Germany is governed by 14 ministries (see Table 1). Among the European countries we looked at, Romania turned out to have the largest number of ministries.

Table 1: Number of Ministries in Selected European Countries

Romania	21
Bulgaria	17
France	18
Denmark	17
Portugal	17
Germany	14
Slovakia	14
Latvia	13
Austria	13
Spain	12
Netherlands	11
Switzerland	7

None of the European countries we studied has a Ministry of Corrections or anything of the sort. In addition, most of the countries do not have a separate Ministry of Energy which is often integrated with the Ministry of Economy. Most of these countries also do not have Ministries of Sports. Only Romania, Denmark and Bulgaria feature a separate Ministry of Energy whilst the Ministry of Sports could only be found in Romania and Bulgaria.

CONCLUSION

THERE ARE A TOTAL OF 16 MINISTRIES IN GEORGIA IN ADDITION TO THREE STATE MINISTRIES. AS FOR SWITZERLAND, IT IS GOVERNED BY A TOTAL OF SEVEN MINISTRIES. IN ADDITION, A NUMBER OF EUROPEAN COUNTRIES HAVE A MUCH LOWER NUMBER OF MINISTRIES THAN GEORGIA DOES. EUROPEAN COUNTRIES DO NOT HAVE SEPARATE MINISTRIES OF CORRECTIONS, SPORTS OR ENERGY. **FACTCHECK** CONCLUDES THAT GIORGI KADAGIDZE'S STATEMENT IS **TRUE.**

TRUE

EUROPEAN ENDOWMENT FOR DEMOCRACY
G|M|F The German Marshall Fund of the United States
STRENGTHENING TRANSATLANTIC COOPERATION
Kingdom of the Netherlands

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A Battle for Turf Shakes Up the Investment Banking World

The FINANCIAL

Although unfavorable economic conditions, escalating capital requirements, and stubbornly high costs have continued to depress the performance of many investment banks, the capital markets industry as a whole—including buy-side and sell-side entities, information service providers, and exchanges—thrived in 2015 as divergent institutions vied for territory, according to a new report by The Boston Consulting Group (BCG).

According to the report, global investment banking revenues declined to $228 billion in 2015, down 5% from $239 billion in 2014 and 16% from $271 billion in 2010. Revenue generation, at the lowest level since 2009, was hindered by relatively weak performance in secondary trading and by high business costs overall. In addition, the prospect of central bank tightening in developed markets was swamped by a severe downturn in emerging markets. Revenues from fixed income, currency, and commodities businesses fell by 8% year over year (YOY), from $117 billion to $107 billion. Return on equity for investment banks fell to a postcrisis low of 6% (excluding fines and litigation costs).

The report also says that investment banks have struggled to rationalize their balance sheets in the face of increasing capital costs and leverage ratio requirements. In terms of capital consumption, a minimum leverage ratio of 3%, as well as an enhanced leverage ratio for global systemically important banks, will increase the cost of doing business relative to the size of assets held.

"Ultimately, the right size, the right model, and the right approach are needed to return investment banking to consistent profitability," said Philippe Morel, a coauthor of the report. "Dealers must learn to compete within the critical sectors of the new capital markets ecosystem—data and financial technology. How they fit themselves into increasingly electronic, standardized, and transparent markets will be crucial."

On the cost side, business line transformations and strategic exits from selected activities have begun to filter through to the bottom line. Operating expenses YOY fell by 2%, driven primarily by reductions in head count, operational spending, and lower litigation expenses. Yet since 2010, despite cuts of roughly $8 billion in operating expenses, the overall cost of doing business for investment banks has risen by 4%.

The report says that the capital markets ecosystem, as a whole, was robust in 2015. New pools of value emerged and opportunities arose amid ever-intensifying competition. Moreover, a broader truth came to the fore: the clear fact that investment banks are not the only players competing for revenue. Asset managers, hedge funds, high-frequency traders, exchanges, information service providers, clearing-houses, infrastructure firms, and custodians, for example, all have critical roles. As banks retrench and relinquish control of the value chain, this broader set of industry participants is being presented with an opportunity to compete for revenues that, traditionally, may not have been considered up for grabs. It is no coincidence that the past two years have been among the most active in the history of capital markets M&A. Diverse types of firms are making the necessary strategic moves to capture as large a slice of the future revenue pie as possible.

Business Model Transformation

Investment banks need to transform themselves to compete in tomorrow's capital markets industry, the report says, specifying that six core pillars—vision, distribution, client centricity, IT and operational excellence, organizational vitality, and financial and risk control—are critical to building a comprehensive, sustainable strategy. The report adds that investment banks must explore initiatives that will result in quick wins to fund the journey, take transformational steps to ensure medium-term success, and build a leadership team that personifies the target organization and culture. Such measures, as well as a sense of urgency, will be the key enablers of long-term financial health.

MEETING ROOM – A Cycle of Business Conferences by PASHA Bank

PASHA Bank is launching a new project,cycle of business conferences –MEETING ROOM. The project aims to bring together participants from various industries providing a platform for sharing ideas and best practices as it relates to raising the capital for various projects in respective industries.

The first business conference of MEETING ROOM will be hosted by PASHA Bank in Radisson BluIveria Hotel on May 25th with the topic being "Hotel Development in Georgia – The Best Practices".

The conference is supported by Georgian National Tourism Administration and Colliers International.

It willcover the following topics: Overview of the Hospitality Field, Trends and Expectations by Georgian National Tourism Administration, International Operator Identification and Contracting for Hotel Management, The Requirements for Financing Hotel Projects and the Available Tools.

The presentations will be delivered by following speakers:

George Chogovadze, Head of Georgian National Tourism Administration

Mark Finney, Head of Hotels & Resorts Consulting at Colliers International

Goga Japaridze, CCO, Member of the Board of Directors at PASHA Bank

Goga Kapanadze, CEO at Axis

Tamuna Guledani, Sales and Marketing Manager at Sheraton Metechi Palace

The meeting will be moderated by George Sharashidze, Publisher & General Manager at Newspaper Georgia Today.

"I'm happy to introduce our new project- MEETING ROOM. In the scope of this project, PASHA Bank will be organizing and hostinga cycle of conferences focused on various industries.Since 2013 we have been serving a wide range of business sectors in Georgia and hospitality is one of them.PASHA Bank intends to contribute to the development of this business, as we clearly see its advantages to the economy of Georgia. Our vision is to actively participate in thegrowth and development of the Georgian and regional economy through the funding of value accretive projects," – said Shahin Mammadov, CEO and Chairman of the Board of Directors at PASHA Bank Georgia.

„It is of major importance to get private sector involved in development of hospitality business in our country as each month the number of visitors to Georgia grows intensely and lots of new hotels appear. The mutually beneficial cooperation with business sector is the main reason why National Tourism Administration supports MEETING ROOM.

It should be noted that within January-April about 1 596 916 tourists visited Georgia and the growth compared to the same period of last year is more than 15.4%.In 2016-2017 more than 80 hotels are planned to be built in Georgia." – said Mr. George Chogovadze, Headof Georgian National Tourism Administration.

Rating of Georgian Banks: Fitch Affirms 6 Georgian Banks; Upgrades Liberty to 'B+'

The FINANCIAL -- Fitch Ratings has affirmed Bank of Georgia (BoG, BB-/Stable/bb-), TBC Bank (BB-/Stable/bb-), ProCredit Bank (Georgia) (PCBG, BB/Stable/bb-), Basisbank (Basis, B/Stable/b), Cartu Bank (Cartu, B+/Stable/b+) and Halyk Bank Georgia (HBG, BB-/Stable). Fitch has also upgraded Liberty Bank (LB) to 'B+' from 'B' with a Stable Outlook. A full list of rating actions is attached at the end of this rating action commentary.

"The upgrade of LB reflects the improved profitability of the bank, while maintaining adequate capitalisation and sound asset quality metrics", agency said. "The affirmation of other banks' ratings reflects their strong franchises (BoG, TBC), generally solid capitalisation (more significant at Cartu), sound profitability, ample liquidity and still healthy asset quality metrics (weaker at Cartu), despite high lending dollarisation and the depreciation of the lari in 2015".

"The Stable Outlooks on all bank ratings reflect Fitch's view that the banks' solid profitability and capital buffers should be sufficient to cover potential moderate deterioration of asset quality, while a more severe stress is unlikely, as reflected in the Stable Outlook on the 'BB-' sovereign rating".

KEY RATING DRIVERS

The IDRs of BoG, TBC, LB, Cartu and Basis are driven by their intrinsic strengths, as reflected by their Viability Ratings (VRs).

The IDRs of PCBG and HBG are driven by moderate probability of support for these entities from the banks' majority shareholders, ProCredit Holding AG & Co. KGaA (PCH, BBB/Stable) and Halyk Bank of Kazakhstan (HBK, BB/Stable).

BoG's senior debt rating is driven by the bank's IDR.

VIABILITY RATINGS

BoG (bb-)

BoG has a high loan book dollarisation (68%), which however is typical for the market, while the share of naturally hedged borrowers is limited. However, asset quality metrics are healthy, as reflected in a low 2.8% of non-performing loans (NPLs, over 90 days overdue), in addition to 1.2% of restructured loans, which together were 87% covered by reserves.

"The bank's profitability has been stable through the cycle; in 2015 return on average equity (ROAE) was high at 18%. BoG's solid pre-impairment profitability was sufficient to cover 9% of credit losses in 2015, in addition to the bank's moderate capital buffer, allowing it to absorb a further 3% of potential losses, before breaching the regulatory capital ratios. Fitch Core Capital ratio (FCC) at end-2015 was high at 17.3%, albeit down from 22% at end-2014. The decline in capitalisation was driven by the reorganisation of the BGEO Group, as a result of which a number of subsidiaries were deconsolidated from BoG. Fitch also considers the bank's sound liquidity cushion, which at end-2M16 covered 36% of customer deposits". "Refinancing risks are manageable; BoG's USD360m Eurobond matures in 2017 and accounts for 12% of the bank's funding".

TBC (bb-)

TBC's asset quality metrics deteriorated as restructured loans rose to 4.8% of total loans at end-2015 from 3.2% at end-2014. At the same time reported NPLs were low at 1%. Total problem loans were 73% covered by reserves, which is adequate, in Fitch's view. Loan book dollarisation was high at 65%, in line with the market average.

TBC showed strong profitability metrics through the cycle with a high 19.9% ROAE in 2015. The bank's capitalisation is robust, as reflected in a high 22.4% FCC at end-2015. Equity buffer was sufficient to cover additional 5.7% of potential credit losses, before breaching regulatory capital ratios, in addition to sizeable pre-impairment profits, which allowed it to absorb a further 7.5% of losses.

Liquidity position is healthy with liquid assets covering a high 26% of customer accounts at end-2015, while refinancing risks are manageable.

PCBG (bb-)

PCBG's restructured exposures were high at 12% of gross loans in 2015. The restructured loans resulted from local currency devaluation in 2015, as the share of foreign currency-denominated loans was 83% of PCBG's loan book - significantly higher than the sector average of 65%. Reported NPLs, on the other hand, remained at 2.3% of gross loans at end-2015 and were fully covered by reserves.

Regulatory capitalisation declined in 2015 but was sufficient to provision for an additional 1.3% of gross loans at end-2015. Pre-impairment profitability was solid, allowing the bank to absorb a further 5% of potential credit losses.

The rating also factors in the bank's robust corporate governance and fairly conservative risk management, in line with the ProCredit group of banks.

LB (b+)

LB reported 2% of individually impaired loans at end-2015, while above 90 days overdue loans, which were not classified as individually impaired, comprised additional 5% of gross loans. These were 118% covered by reserves.

LB's credit losses in retail loan book (defined as the increase in all loans overdue by over 90 days, plus write-offs, divided by the average performing loans) increased only moderately to 4.6% in 2015 (3.6% in 2014), which is significantly below the break-even level of about 10%. Also positively the level of foreign currency-denominated loans is low at 3.8%. The bank's capital buffer was moderate at end-1Q16, allowing the bank to additionally provision for up to 2.7% of gross loans.

Some uncertainty exists over the bank's future strategy and governance, as a majority stake in the bank is now controlled by three private individuals, following the foreclosure of pledged shares.

CARTU (b+)

Asset quality is weak, although NPLs declined to 9% at end-2015 from 11% at end-2014, and were 84% covered by reserves. This was partially due to several recoveries in legacy exposures originated in 2011. Profitability metrics remain volatile through the cycle; Cartu reported a high 21% ROAE in 2015, up sharply from 7% in 2014.

Cartu's capitalisation is viewed as strong by Fitch (despite the recent negative trend due to 21% FX-adjusted growth in 2015), allowing the bank to reserve 9% of its gross loans without breaching the regulatory capital ratios. The subordinated debt contributed by the shareholder, equal to 13.7% of risk-weighted assets, provides solid additional loss-absorption capacity, equal to about 21% of gross loans.

BASIS (b)

Basis's NPLs rose to 2.3% of end-2015 gross loans from 1.1% at end-2014, fully covered by reserves. The moderate asset quality deterioration was largely driven by rapid growth and the devaluation of the lari.

Profitability metrics are adequate with 15% ROAE in 2015, albeit the bank's NIMs are generally weaker than at other Fitch-rated banks, due to the lower interest rates the bank offers on its loans to capture market share. Low impairment charges, which accounted for 14% of pre-impairment profit, supported overall profitability.

Capitalisation is strong; the bank could provision 16% of its gross loans at end-2015. However, the robust capitalisation should be viewed in light of the bank's rapid growth.

Related-party funding comprised high 29% of customer accounts at end-2015, down from 38% at end-2014. Liquidity buffer is reasonable, in Fitch's view, allowing the bank to sustain an outflow of 38% of third-party customer accounts at end-2015.

HBG

Fitch does not assign a VR to HBG because of its small size, high management and operational integration with HBK, and significant reliance on parent funding.

SUPPORT RATINGS, SUPPORT RATING FLOORS

The affirmation of BoG's, TBC's and LB's '4' Support Ratings and 'B' Support Rating Floors (SRFs) reflects Fitch's view of the limited probability of support being available from the Georgian government, in case of need. This is because, although the authorities would likely have a high propensity to support these banks in light of their systemic importance/social function, the ability to provide support, especially in foreign currency, may be constrained due to the big size of the banks relative to sovereign reserves.

Cartu's and Basis's Support Rating of '5' and SRF of 'No Floor' reflect the two banks' limited systemic importance, and consequently Fitch's view that state support cannot be relied upon.

PCBG's and HBG's Support Rating of '3' reflects Fitch's view that their parents' propensity to provide support to their subsidiaries is high, but in the case of PCBG its ability to receive and utilise this support could be restricted by transfer and convertibility risks, as reflected in Georgia's Country Ceiling of 'BB'.

The one-notch differential between HBK's and HBG's IDRs reflects the cross-border nature of the parent-subsidiary relationship, and the so far limited track record and contribution of the Georgian subsidiary to overall group performance.

RATING SENSITIVITIES

Rating upside of BoG, TBC and PCBG is limited, as the former two are already at the same level as the sovereign, while the latter is constrained by the Country Ceiling. LB's, Basis's and Cartu's ratings could benefit from an extended track record of profitable growth, while maintaining reasonable asset quality metrics and strengthening their franchises.

The downgrades of IDRs and VRs of BoG, TBC, LB, Basis and Cartu, as well as the VR of PCBG, may result from further rapid growth or a marked deterioration asset quality, leading to a substantial weakening of the banks' capitalisation.

PCBG's and HBG's Long-term IDRs are sensitive to changes in Fitch's assessment of support from their shareholders. PCBG's Long-term IDRs are also sensitive to a change in Georgia's Country Ceiling.

GRASS FACTCHECK

MINISTER OF ENERGY OF GEORGIA

Kakha Kaladze: "The first wind power plant will be built near Gori."

Natia GHVINJILIA
Fact CHEK

On 13 April 2016, the Minister of Energy of Georgia, Kakha Kaladze, stated: "The first wind power plant which will be built in Georgia will be located near Gori, close to the tunnel. We think that we will finish the project in September-October of this year. The construction aggregate will be delivered in August, the preparatory work has already been launched and the ground has already been laid."

FactCheck took interest in the Minister of Energy's statement.

The interest toward renewable energy sources is on the rise throughout the world. The report of the European Wind Energy Association presumes that in the best case scenario, the share of renewable energy for 2030 will constitute 27% of the European Union's total energy resources. Wind energy is the dominant renewable energy source. China is a leading country in terms of wind power capacity with a total output of 114,763 megawatts and produces 31% of installed wind power worldwide. The United States of America is second with 65,879 megawatts (17.8%) wind power capacity. Of European countries, the most developed in this direction is Germany whose installed wind power constitutes 39,165 megawatts (10.6%). In 2015, Germany outperformed the UK in terms of installed wind turbine capacity on the off shore (constructed on the continental shelf) annual wind market.

According to the data of the Ministry of Energy of Georgia, our country has significant potential for wind energy with an annual average capacity estimated to be 4 billion kWh. Active discussions about harnessing wind power in Georgia started in 2013. At that time, the establishment of a new company was announced which would conduct research on wind and solar turbines with a 400 megawatts capacity. To this end, the Ministry of Energy of Georgia signed a memorandum of cooperation with the Aelus Apollo Alto Energy Company. Additionally, in March 2014, the Georgia Energy Development Foundation (GEDF) conducted feasibility studies at potential places for the development of wind energy.

As a result of these studies, several fields were identified for wind turbines. Of these places, those with the best capacities are Mta-Sabueti II (Likhi Range, 600 megawatts), Gori-Kaspi (200 megawatts) and Karavani (200 megawatts).

The start dates for the construction of the wind turbines were changed several times. According to the information of the Ministry of Energy, construction of the Kartli power plant was supposed to start in 2015 after the GEDF finished its research on the technical and economic aspects of the project. However, according to the information of the Ministry of Energy, the work was postponed due to technical details related to the content of the contract.

According to the 2015 report of the Ministry of Energy, the Kartli project, which is going to be the first wind turbine in Georgia, moved to the 2016 construction stage. The Project Manager, Tornike Kazarashvili, stated in his interview with **FactCheck** that the work has already started and that roads and platforms have been built. The project's completion is scheduled to be in September 2016 whilst the turbine's start date is planned for December 2016.

The installed wind power capacity of the Gori wind power plant will be 20 megawatts. Ten wind turbines will be installed on the territory of the train station with a planned capacity of 2 megawatts. The turbines will be connected with each other through underground lines which will terminate at the Gori 220 kWh power plant. This wind energy development project is being carried out with the assistance of the European Bank for Reconstruction and Development (EBRD). The total cost is USD 34.3 million. Of this amount, USD 24 million comprises a loan to Georgia from the EU.

Apart from the Gori project, pursuant to the order of JSC Calik Georgia Windy (a joint enterprise which was founded on 23 July 2015 by the Turkish Calik Enerji Sanayi ve Ticaret A.S. and the Georgian JSC Georgia's Energy Development Foundation), a Turkish company, Enisolar, has been installing 80-metrehigh meteorological towers in the Shida Kartli region, close to the village of Nigoza, and in the Imereti region, in the Sachkhere municipality. Two meteorological towers will be installed for each project. The company will use these towers for research purposes.

CONCLUSION

WIND ENERGY IS WIDELY USED IN DIFFERENT COUNTRIES OF THE WORLD AND ITS SHARE AMONG TOTAL ENERGY RESOURCES HAS BEEN GROWING. IN GEORGIA, THE CONSTRUCTION OF THE FIRST WIND POWER PLANT, KARTLI, HAS ALREADY STARTED WITH THE FINANCIAL SUPPORT OF THE EBRD. THE CONSTRUCTION AGGREGATE WILL BE DELIVERED IN AUGUST 2016 WITH THE PROJECT'S COMPLETION SCHEDULED FOR SEPTEMBER-OCTOBER 2016. THE POWER PLANT WILL BE LAUNCHED IN DECEMBER 2016. **FACTCHECK** WILL COME BACK TO THE ISSUE OF WIND POWER PLANT CONSTRUCTION IN THE FUTURE AS WELL. AT THE PRESENT MOMENT, WE CONCLUDE THAT KAKHA KALADZE'S STATEMENT IS **TRUE**.

TRUE