

Tbilisi, March 23, 2020

French Embassy in Georgia Tbilisi Economic Service

The interview of the French Ambassador, Mr. Diego COLAS with Mr. Koba Gvenetadze, Governor of the Central Bank of Georgia

The objective of the interview was to take stock of the economic situation and collect answers to questions from French companies based in Georgia.

Questions focused around 4 subjects:

- The economic situation and outlook for development;
- The financial gap as anticipated following the crisis and the funding available to fill it;
- Forecasting the evolution of the exchange rate and inflation;
- The questions of French companies on the tax plan.

1. The economic situation

The Governor did not hide the uncertainty in which the economic players were today and considered that the crisis requires an urgent and strong response.

The economy of Georgia is indeed facing a quadruple shock: stopping tourism, the global fall in oil prices (impact on partner countries Russia, Gulf countries), the foreseeable fall in remittances (Italy), the cessation of investment capital flows. The combined shock will be very significant.

The immediate consequences of these shocks are a drastic drop in demand, depreciation of the GEL, preparation of a national plan to support the economy, preparation of a massive response of support by the IFIs. The government support plan, mainly focused on the tourism and events sector, will probably be extended to other sectors (agriculture, export).

The banking sector is in a rather good situation (strong capitalization, sufficient liquidity, weak non-performing loans). Microfinance institutions, thanks to the reforms carried out over the past 2 years, are better equipped to weather the crisis.

In this situation of uncertainty on demand, the Central Bank left the interest rate unchanged at 9% on March 18, believing that inflation, after a peak could go down as well as up depending on the dynamics demand. NBG may convene an exceptional Stability Committee depending on the evolution of the situation.

2. The financial gap as anticipated today following the coronavirus crisis

The financial gap was not definitively defined at this stage, the situation evolving rapidly. The Governor said he was confident of an appropriate response. Three paths are explored, that of an increase in the IMF program which has, fortunately, been extended for a year. The IMF will be able to cover about half of the gap. Part of it may come from the central budget, where large amounts had been placed in reserve at the end of 2019. Finally, massive support is being built up by donors and IFIs. The economic recovery may occur in the last quarter of 2020.

3. Forecasting the evolution of the exchange rate, of inflation.

On the currency side, with the cessation of tourism, the risk of reduction in foreign currency inflows has materialized, leading to the depreciation of the LARI (14.5% since early March). The psychological limit of the exchange rate of the Lari of 3GEL / 1 USD was crossed causing a short rush towards the exchange offices, calmed since. The Central Bank intervened on the markets twice to sell 20MUSD on March 13, then on March 19 with 40MUSD. The Governor said that the Central Bank was ready to continue its interventions if the situation calls for it. The Governor was closely monitoring the decline in reserves and the re-dollarization of the economy. On the other hand, he said he was less worried about the devaluation since all of Georgia's partners devalued at the same time which would not have as much impact on total inflation as in June (when only LARI had devalued for reasons of internal instability). In a floating exchange system, there can be no strategy to maintain the lari.

The Central Bank has also approved changes that soften the rule for lending to individuals. In particular, the new approach implies less state intervention in credit management, which, according to the NBG, would strengthen the role of financial institutions in risk management, as well as access to financing for the population. active. This rule will make it possible to restart activity, particularly real estate, more quickly after the crisis.

4. Questions from French companies on the tax plan for the economic support program

The tax measures implemented to date:

- The automatic VAT reimbursement system, introduced last year, will be accelerated to double the reimbursed amounts, which will drop from 600MGEL to 1.2Bn GEL in 2020.
- The postponement until November 2020 of payment of taxes on property and income of legal persons in the tourism sector for the period March-June is recorded. This measure costs 35MUSD and will benefit 18,000 companies which employ 50,000 people.
- Interest on loans for hotels with 4 to 30 rooms will be paid by the Government. Measure which will benefit 2000 establishments.
- The two main banks in the country (TBC and Bank of Georgia) offer to restructure the loans of businesses, individuals and micro businesses in the tourism sector for the credit maturities of the next 3 months. Bank of Georgia extends this measure to consumer credit. The Ambassador insisted on the need to extend this measure to other affected sectors.

The Ambassador intervened to call for vigilance regarding the needs for new incentives fiscal, namely real moratoriums on interest and principal on loans, bridging loans, new reduced rate loans, reduction / removal / suspension of business tax.

In addition, he insisted on the consequences of the crisis on employment. The flexibility of Georgian legislation makes it easy to reduce the wage costs of companies and business owners will choose between paying various drafts and employment within their companies. Mass unemployment could result, which will put the recovery at risk and therefore internal stability.

On non-payments by suppliers, the Ambassador asked that the following message be passed to all the economic actors who work with foreign firms, namely that it is good faith, good citizenship and trust that are preparing for the recovery.

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