

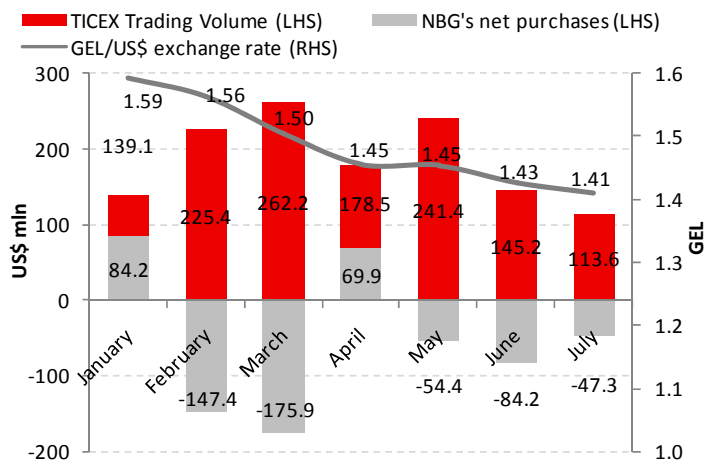


The Georgian economy has maintained stability despite the week-long Russian aggression, demonstrating remarkable resilience.

The Financial Services Sector

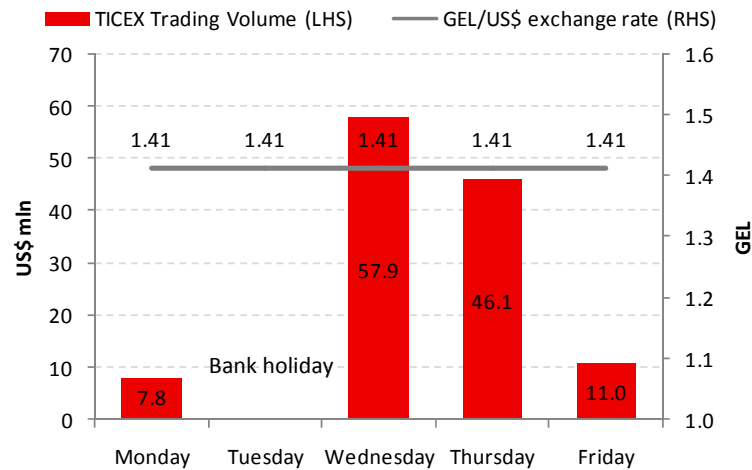
- Since 7 August 2008, the Georgian Lari appreciated by 0.2% against the US Dollar. The average daily turnover on the Tbilisi Interbank Currency Exchange (TICEX) this week was high at US\$30.7 mln.

TICEX monthly trading volume (Jan-Jul 2008)



Source: National Bank of Georgia

TICEX trading volume (this week)



- Since 7 August 2008, the Georgian banks have operated with minimal interruptions (other than in South Ossetia, Upper Abkhazia and several other areas where the Russian troops are currently stationed) and no queues or mass deposit withdrawals have been reported. The Financial Supervisory Agency (FSA) ordered the banks to suspend, until 18 August 2008 all lending activities and to disable the online banking services as a precautionary security measure and imposed on 12 August 2008 a one-day bank holiday due to security concerns. A handful of bank branches throughout the country have been rendered temporarily inoperational as a result of direct damage due to vandalism of the Russian troops and separatist militias. Some bank branches experienced communication problems or were forced to use redundant communication lines on Thursday and Friday due to limited communications infrastructure damage in the Gori area.

Georgia: Key Economic Data	2004A	2005A	2006A	2007A
Nominal GDP (GEL mln)	9,824.3	11,621.0	13,783.9	16,998.6
Real GDP Growth (y-o-y; %)	5.9%	9.6%	9.4%	12.4%
GDP per Capita (US\$)	1,187.2	1,478.4	1,758.7	2,315.2
CPI (e-o-p; %)	7.5%	6.2%	8.8%	11.0%
Net FDI (US\$ mln)	483	542	1,076	2,014.8
Current Account Deficit as % of GDP	-6.6%	-10.7%	-14.9%	-18.9%
GEL/US\$ (e-o-p)	1.83	1.79	1.71	1.59
GEL/EUR (e-o-p)	2.49	2.12	2.26	2.33
Galt & Taggart Index (e-o-p)	194	320	790	1,041

Source: Department of Statistics, Ministry of Economic Development, Ministry of Finance, National Bank of Georgia

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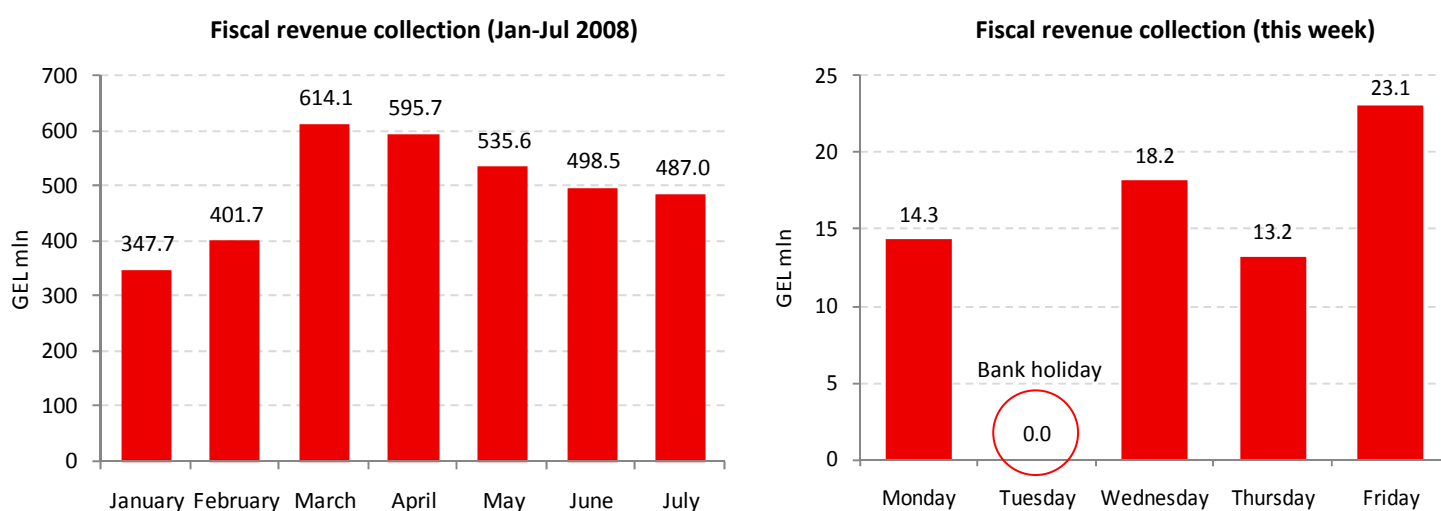
THE GEORGIAN ECONOMY DEMONSTRATES RESILIENCE UNDER EXTREME STRESS

As of close of business today, the foreign currency reserves of the National Bank of Georgia stood at US\$1,253 mln (a 6.4% decrease from US\$1,446 mln as of 31 July 2008).

- In addition, the Future Generations Fund and Stable Development Fund – the two recently established sovereign wealth funds - hold US\$370 mln.
- The trading volume on the Georgian Stock Exchange trading volume this week was 6.1% higher than the average weekly trading volume year to date).

Fiscal Revenue Collection

- The average daily budget revenue collection this week equaled GEL 17.2 mln, a 5.5% higher than the average daily revenue collection in the preceding week and 14.4% higher than the average daily revenue collection in January – July 2008.



Source: Ministry of Finance

Infrastructure & Local Distribution Routes

- No significant interruptions in electricity or natural gas supply to consumers or businesses have been reported this week anywhere in Georgia other than South Ossetia.
- The railway kept functioning more or less normally throughout the week, including moving cargo to and from Azerbaijan and Armenia. Minor repairs were required and carried out mid-week in the Kaspi area. On Thursday and Friday, the Gori station was closed, although trains were able to continue without stopping there. Passenger traffic restrictions were introduced in the Gori area on Thursday as a security precaution.
- The Georgian ports continued to work throughout this week, albeit at a reduced level of activity. The infrastructure of Batumi and Kulevi ports was not damaged. Minor damage of the Poti port infrastructure due to a Russian airstrike has been repaired and the port is in full working condition. Throughout the week, the Russian troops were intermittently present in the Poti port, explaining their presence by security considerations. Several vessels with Poti as their destinations have been diverted to alternative destinations throughout the week.
- This week, there were significant interruptions in airline traffic and one of the civilian aero-navigational radars was destroyed by a Russian air strike. Austrian Airlines, Turkish Airlines, Lufthansa, CSA, BMI and several other airlines canceled all scheduled flights to and from Tbilisi this week. Many of these airlines are expected to resume scheduled flights next week. Georgian National Airlines, Airzena, Air Baltic, Ukraine International Airlines, Dnepravia and Aerosvit Airlines carried out their regular flights this week without any interruptions.
- No major occurrences of bulk buying or hoarding have been reported in Tbilisi or elsewhere except the evening of 11 August 2008, when the Russian tanks were reported to be moving toward Tbilisi.

THE GEORGIAN ECONOMY DEMONSTRATES RESILIENCE UNDER EXTREME STRESS

- No price hikes or chronic shortages of consumer staples, gasoline or other goods have been reported for this week anywhere in Georgia.

International Support

- World Bank, EBRD, IMF, Asian Development Bank issued statements this week, expressing their confidence in the Georgian economy. The statements are set out in the appendix below.
- US Treasury issued a similar statement and Secretary Rice on 15 August 2008, while visiting Tbilisi, commented on the international effort underway to provide an economic package aimed at the enhancement of stability and infrastructure rebuilding.

APPENDIX**Statements of the international financial organisations and US Treasury**

World Bank
Press Release*

11 August 2008

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The Statement of the World Bank

At this extremely critical time for Georgia, the World Bank would like to express its confidence in the country's strong economic fundamentals, including ample foreign reserves, prudent monetary and fiscal policy and wide ranging financial sector reforms that has lead to a strengthened banking sector that today is both liquid and solvent. Moreover, the International Financial Corporation, the World Bank's private sector arm, will stand by its 4 partner commercial banks and remains prepared to support them through these difficult times. We are confident, that the Government will continue to provide prudent economic management that has led the country to these strong fundamentals, and we look forward to supporting Georgia's reform agenda now and in the future.

Over the years the World Bank has committed more than 1 billion USD to Georgia, and its outstanding commitments for existing operations currently stands at 135 million USD. Moreover, in recognition of Georgia's strong commitment to reforms, the World Bank is considering further lending in the amount of 300 - 350 million USD over the next 12 months to support Government's reform agenda and to help finance further rehabilitation of Georgia's critical infrastructure, including roads and municipal works.

**Unofficial translation of the statement released by the World Bank locally in the Georgian Language.*

FOR IMMEDIATE RELEASE

11 August 2008

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EBRD urges rapid resolution of Georgia conflict

The EBRD is closely following the events in Georgia and urges all parties involved to reach, together with active support of the international community, a rapid resolution of the conflict.

During recent years, Georgia has made enormous progress in introducing and implementing key reforms which have accelerated and broadened the development of its economy and attracted substantial amount of foreign investments.

Over the last 4 years, the EBRD has invested significant amounts (about \$150 millions) in the Georgian banking sector through equity, long term funding and trade facilitation guarantees.

The EBRD considers the Georgian banking sector as a whole as efficient, well capitalised and robust. The EBRD will continue to stand by its partner banks and work on active prospective projects in the Georgian financial sector.

The EBRD has a significant role in the financing of investments in Georgian infrastructure projects and currently has loans in place in support of investments in ports, airports, water companies, power generation and distribution, railway, urban transport and roads. The EBRD has provided a high priority to expanding its operations in these sectors.

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The EBRD, owned by 61 countries and two intergovernmental institutions, aims to foster the transition from centrally planned to market economies in central and Eastern Europe and central Asia.

IMF Statement on the Situation in Georgia

The management and staff of the International Monetary Fund are greatly concerned about the recent events in Georgia. The loss of life is tragic. Moreover, the economic damage is regrettable for a country that has worked hard in recent years to improve the economic well-being of its population.

In particular, Georgia has followed sound macroeconomic and financial sector policies, notably in the context of the IMF-supported program under the Poverty Reduction and Growth Facility that ended in September 2007. The Georgian authorities also have implemented wide-ranging economic reforms that have strengthened the financial sector and greatly improved the business climate, resulting in rapid economic growth. At the same time, Georgia's international reserves have increased substantially.

The International Monetary Fund maintains a close policy dialogue with the Georgian authorities and we expect their strong economic policies to be continued. On this basis, we are ready to support Georgia with policy advice, technical assistance and, if needed, financial support using available IMF facilities.

John Lipsky, Acting Managing Director, International
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11 August 2008

**Statement by Deputy Secretary Robert M. Kimmitt
on Support for Georgia's Economy**

Washington – Deputy Secretary of the Treasury Robert M. Kimmitt today issued a statement welcoming the statements of support for Georgia's economy by the International Monetary Fund (IMF), World Bank, and the European Bank for Reconstruction and Development (EBRD), as well as their signals of continued engagement with the Government and their clients and banks in the private sector:

"The U.S. Treasury Department welcomes the statements of support for Georgia's economy made earlier today by the IMF, World Bank, and EBRD."

"Given its sound macroeconomic and fiscal policies and excellent progress in transition to a market economy, Georgia is well placed to weather the current crisis. Georgia's economy has been one of the strongest in the region owing to its proven record of reforms, and this reform effort deserves continued international support. The United States has strongly supported Georgia's reform and economic development programs and is prepared to join other countries to support the International Financial Institutions' future engagement to promote a vibrant economy that builds on the existing foundations," said Kimmitt.

MANILA, PHILIPPINES - The Asian Development Bank welcomes the news that a ceasefire has been announced between Georgia and Russia. Staff are in touch with development partners in Georgia and envisage a coordinated approach to providing assistance.

Georgia, the ADB's newest member, has taken major strides in economic reform in recent years, reflected in the substantial economic gains the country has made since 2004. It has demonstrated resilience in the face of external shocks, with the adoption of a robust macroeconomic policy framework, reinforced with a coherent set of structural reforms.

ADB plans to provide Georgia concessional lending amounting to about \$230 million dollars during 2008-2010. The funding will support improved service delivery in municipal infrastructure, as well as developing and upgrading other infrastructure. Opportunities for private sector operations are also being actively pursued.