



**GALT & TAGGART**

CREATING OPPORTUNITIES



# Macroeconomic overview - Georgia

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April 16, 2021

# Georgia successfully priced US\$ 500mn Eurobond at a record low coupon of 2.750%

## Transaction details

Issuer	Republic of Georgia
Issue Ratings	BB (Fitch) / Ba2 (Moody's)/BB (S&P)
Status	Senior unsecured
Format	RegS/144A
Issue Size	US\$ 500mn
Settlement Date	22 April 2021
Maturity Date	22 April 2026
Coupon	2.750%
Yield	2.875%
Issue price	99.422%
Use of proceeds	General budgetary purposes
Listing/Law	London Stock Exchange/ English Law

On 15 April 2021, Georgia successfully priced a US\$ 500mn, 5-year Eurobond. The coupon rate for the bond was determined at 2.750%.

The Eurobond was met with strong investor demand, with orders reaching US\$ 2.0bn.

The transaction records several milestones for the country, namely:

- Securing the financing at the lowest coupon and yield in the history of Georgia
- The lowest yield and coupon achieved by any country from the region.

Goldman Sachs and J.P. Morgan acted as a Joint Global Coordinators and Joint Bookrunners on the transaction along with ICBC Standard Bank, while local investment banks Galt & Taggart and TBC Capital acted as Co-managers.

Source: Bloomberg, Galt & Taggart Research



**1** Economic trends

2 External sector

3 GEL/USD and inflation

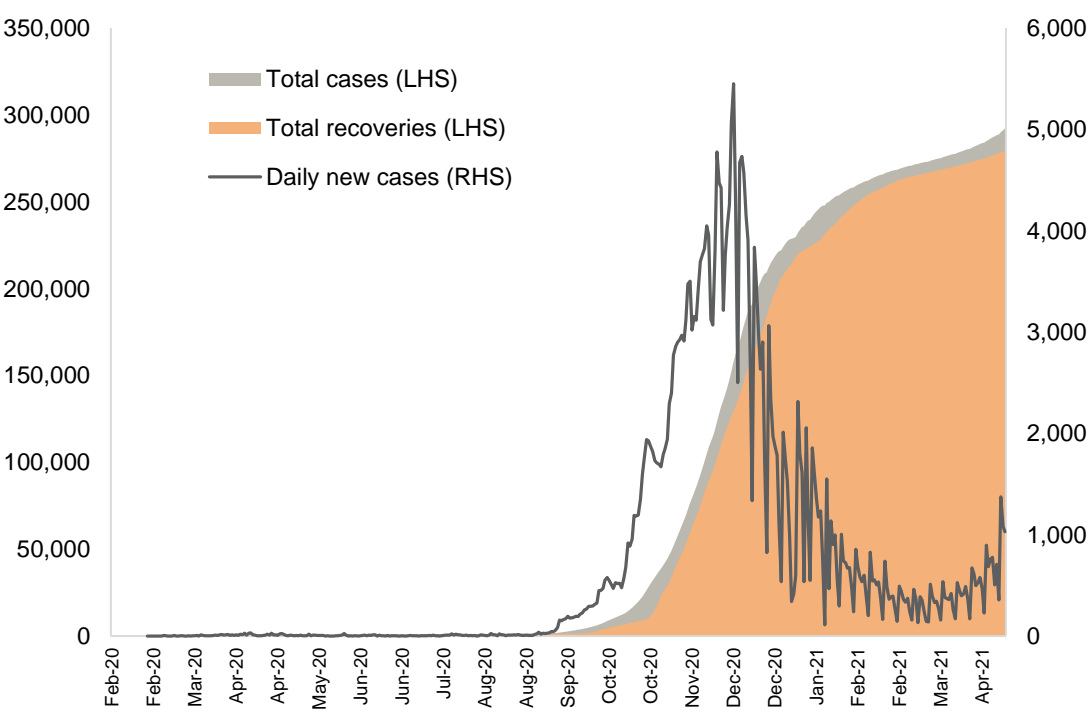
4 Banking Sector

5 Conclusions



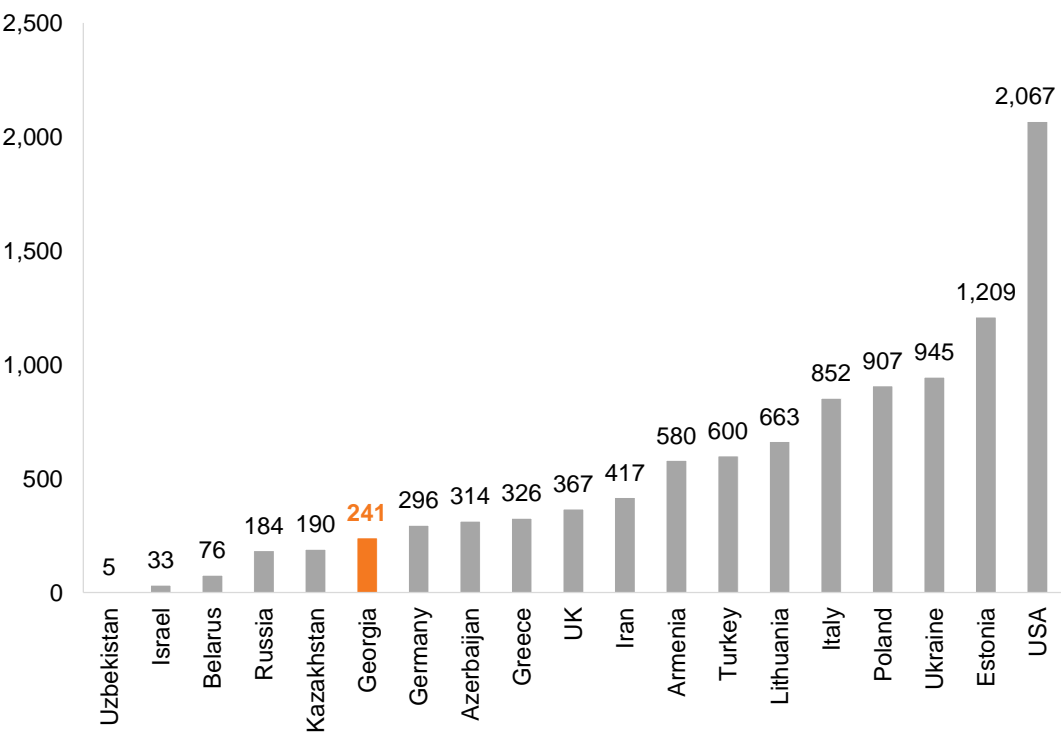
# COVID-19 cases are on the rise since end-March 2021 and there are signs of the third wave

COVID-19 statistics in Georgia, persons



Source: NCDC, as of 15.04.2021

Active COVID-19 cases per 100,000 persons



Source: Johns Hopkins University, as of 15.04.2021



Vaccination is underway in more than 150 countries. However, vaccination rates are low, with only a 5.6% of the world's population vaccinated as of April 16

### COVID vaccination statistics worldwide

Top 10 countries	Vaccinated population, %
Seychelles	69.0%
Israel	59.0%
UK	48.6%
Chile	39.8%
USA	37.9%
Malta	36.7%
Hungary	31.6%
Estonia	20.3%
Lithuania	19.0%
Poland	15.9%
Neighboring countries	
Turkey	14.4%
Azerbaijan	8.4%
Russia	4.7%
<b>Georgia</b>	<b>0.7%</b>

Source: Bloomberg, as of 16.04.2021

### Vaccination process in Georgia

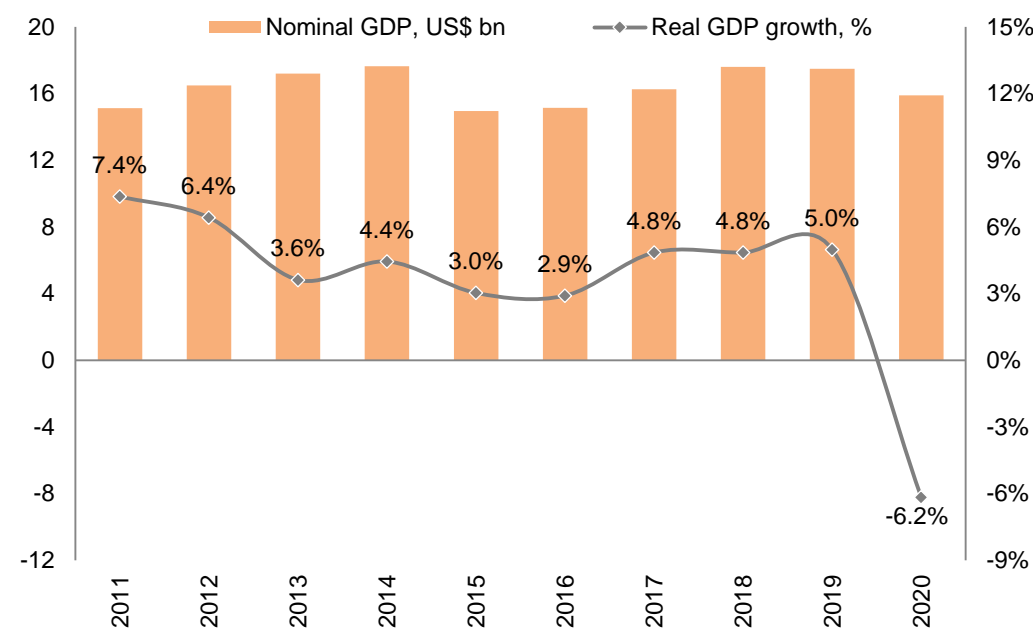
- There are 3 types of vaccines available in Georgia at this stage:
  - 43,200 doses of AstraZeneca
  - 29,250 doses of Pfizer
  - 100,000 Sinopharm
- As of April 16, 24,917 people (0.7%) have been vaccinated in Georgia. As of April, on average 1,318 people get vaccine per day. Acceleration of vaccination rate is expected from 2H21
- According to public statements, Georgia is expecting one million doses of the vaccine Pfizer (date unknown). Notably, negotiations are underway with Novax, Johnson & Johnson and other companies as well.

Source: NCDC



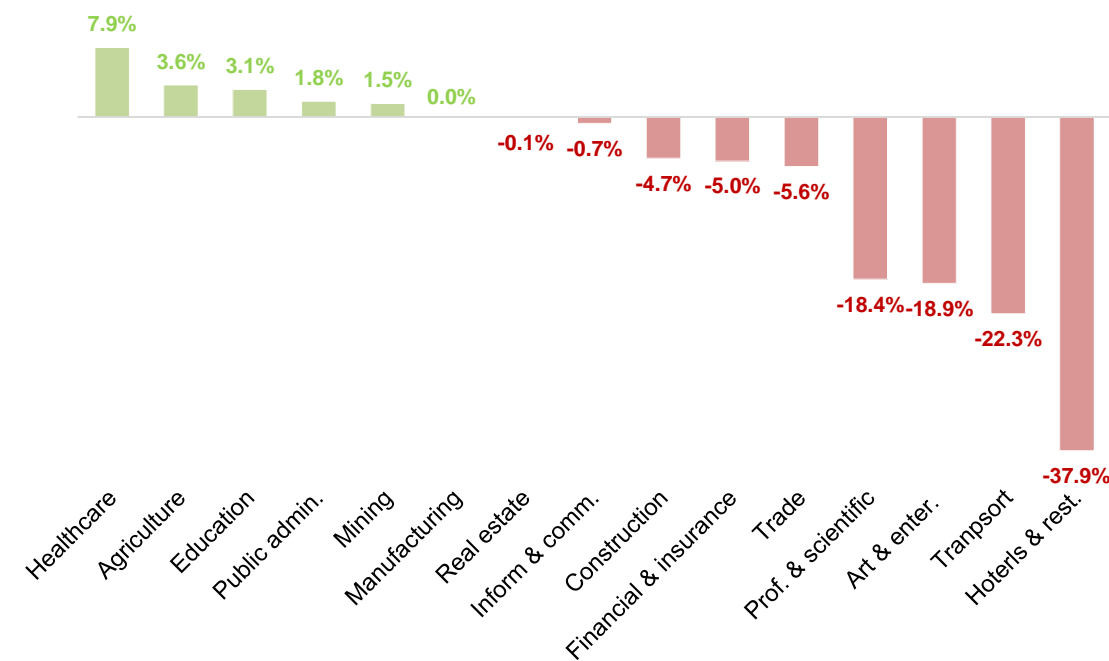
In 2020, Georgian economy contracted by 6.2%. Notably, some sectors recorded positive growth rates

Real GDP growth and nominal GDP



Source: Geostat

Real growth by economic sector, y/y



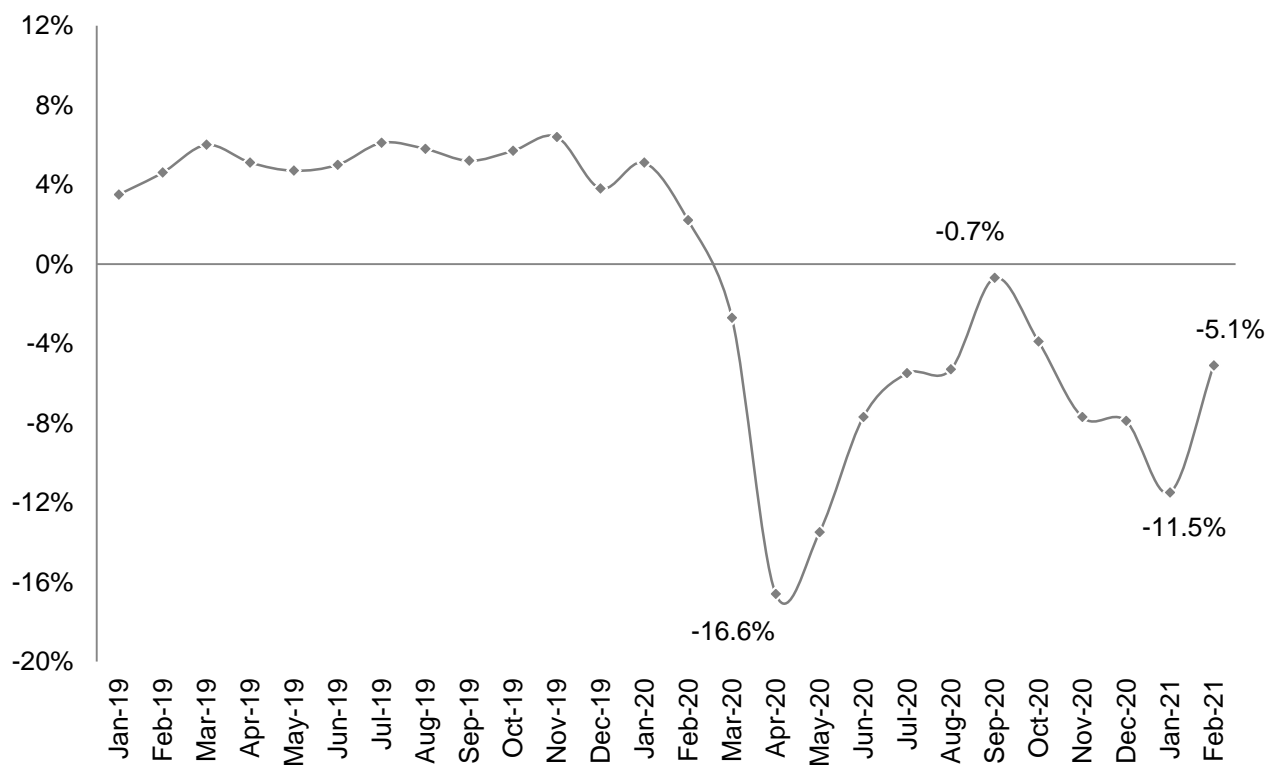
Source: Geostat





# Economic contraction significantly slowed in February 2021 after the gradual easing of restrictions

## Real GDP growth by month



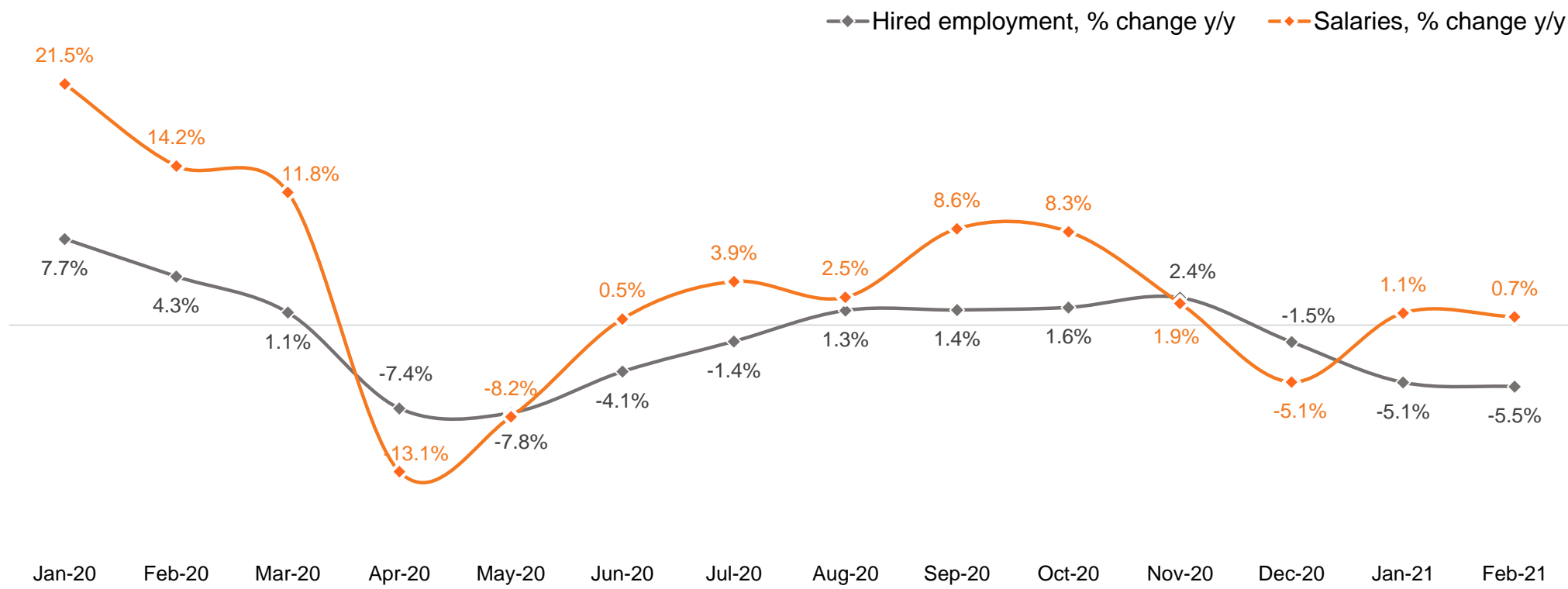
Source: Geostat

Remittances are growing rapidly, exports have accelerated significantly, and tourism revenues are still minimal

Notably, an increase in imports in Mar-21 indicates a recovery of domestic demand.

# Wages increased in January-February 2021, while employment was down

## Hired employment and paid salaries



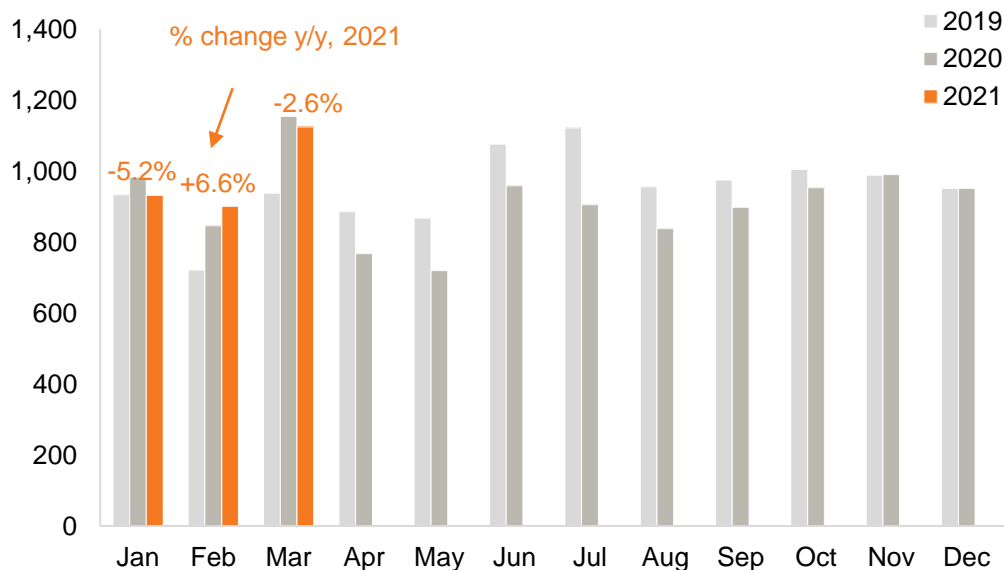
Source: Revenue Service





# Tax revenue plan was met in 1Q21. The fiscal deficit remains high in 2021

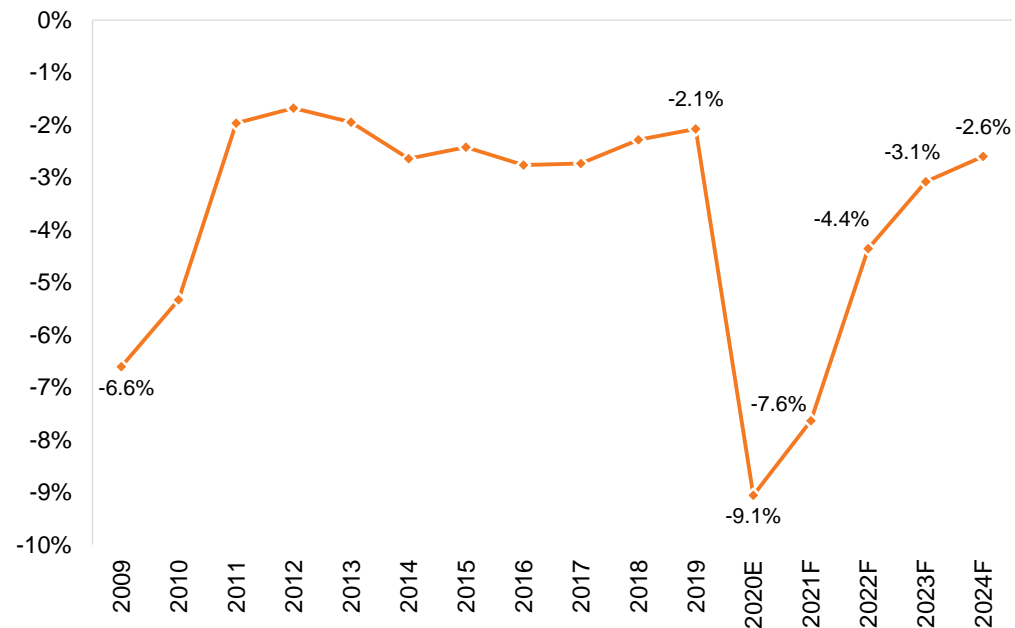
## Consolidated budget tax revenues, GEL mn



Source: MOF

- In 1Q21, tax revenues amounted to GEL 3.0bn and the quarterly plan is fulfilled by 100.3%
- In 1Q21, VAT refunds amounted to GEL 467mn.

## Fiscal deficit, as % of GDP



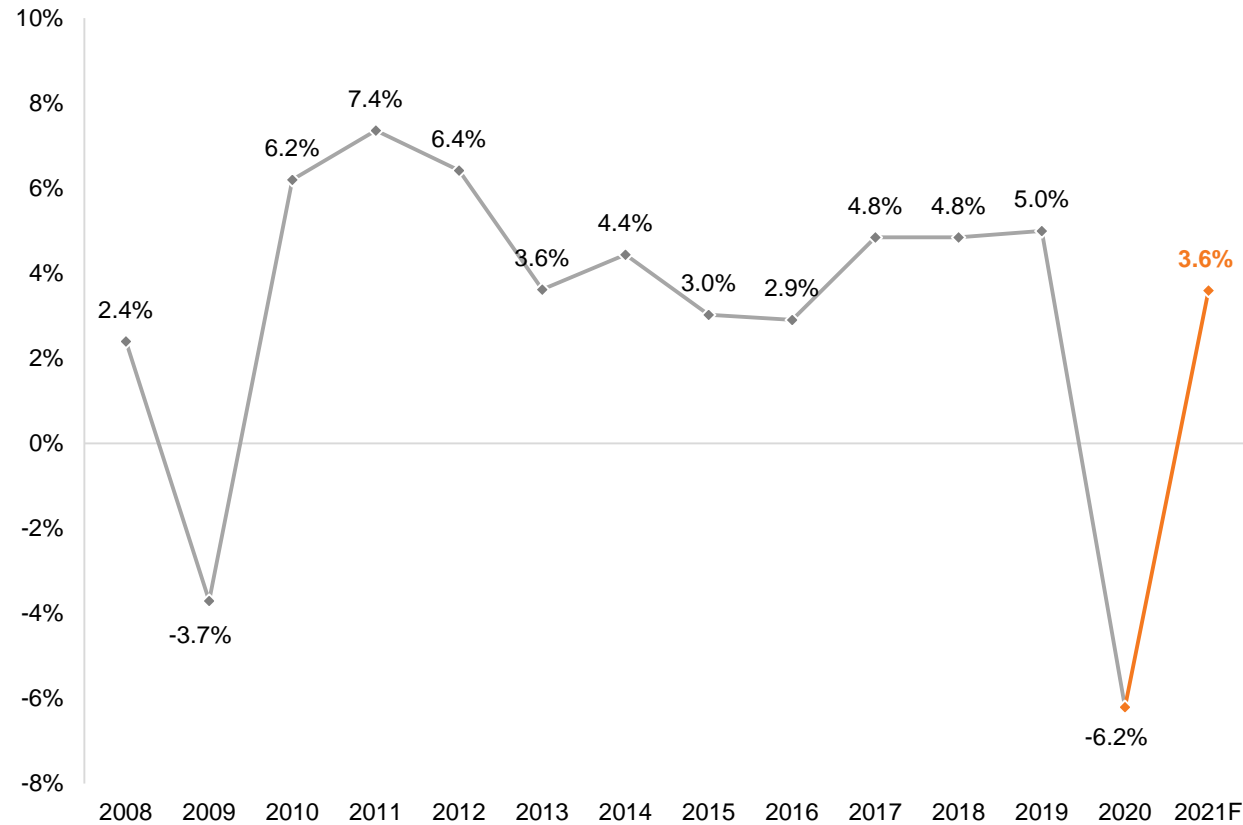
Source: MOF

- Government anti-crisis spending (healthcare, business and household assistance) amounted to 4% of GDP (GEL 2bn) in 2020
- In 2021, anti-crisis spending is planned at 2% of GDP (GEL 1.1bn)
- In 2021, infrastructure projects are projected to increase by 5.2% to GEL 4.3bn
- In the post-pandemic period, it is important to improve fiscal parameters and for this purpose a sharp reduction in current expenditures is needed.



# Slow vaccination process and the delayed recovery of tourism weaken 2021 growth outlook

## Georgia's economic growth forecast



Source: Geostat, Galt & Taggart

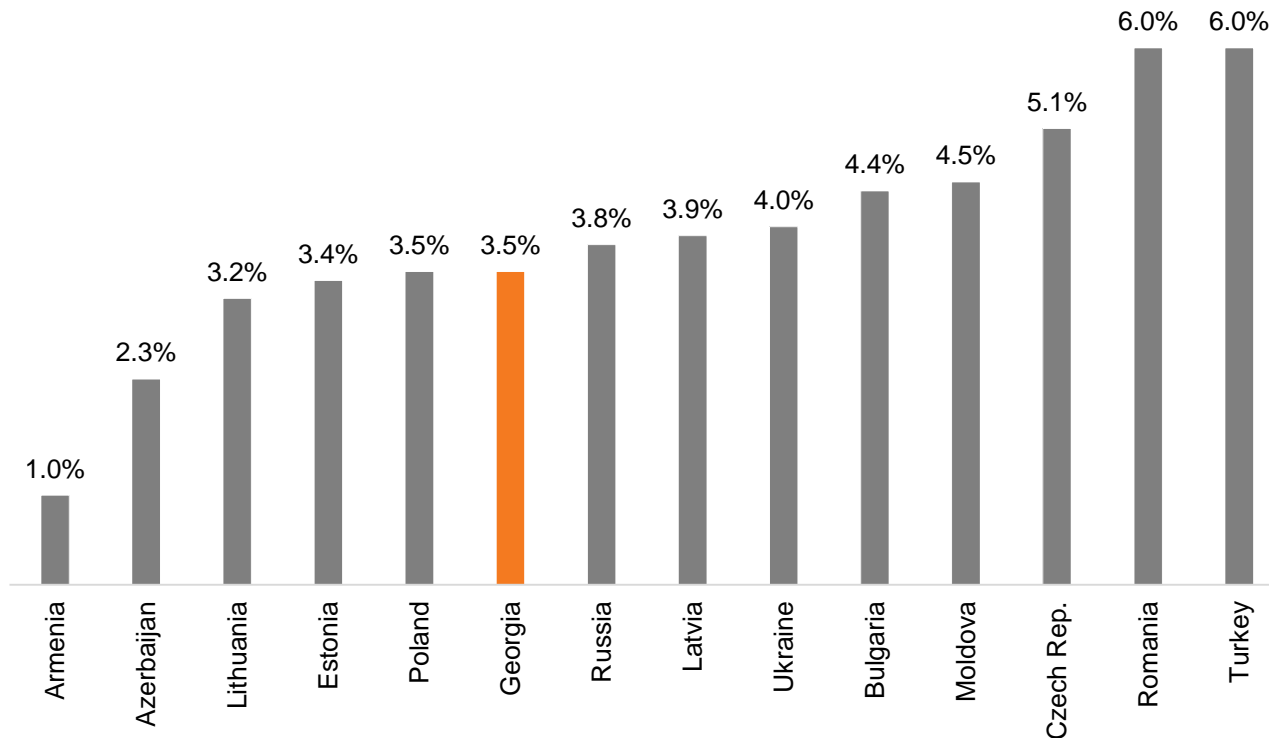
In the beginning of 2021, we had positive expectations for the resumption of tourism, but the slow vaccination process will delay it

Accordingly, we forecast 3.6% economic growth in 2021 (which was our pessimistic scenario, while in the case of tourism recovery our forecast was 5.0%)

Notably, possible repeated economic restrictions will weigh on growth outlook (according to our estimates, the economy lost GEL 16mn per day as a result of previous restrictions).

# IMF reduced Georgia's economic growth forecast from 4.3% to 3.5% for 2021

## IMF's economic growth forecasts for 2021



Source: IMF's WEO, April 2021

- In April 2021, IMF released updated economic forecasts
- After a 3.3% decline in 2020, the IMF expects the world economy to grow by 6.0% in 2021
- IMF reduced Georgia's economic growth forecast from 4.3% to 3.5% for 2021.



1 Economic trends

**2 External sector**

3 GEL/USD and inflation

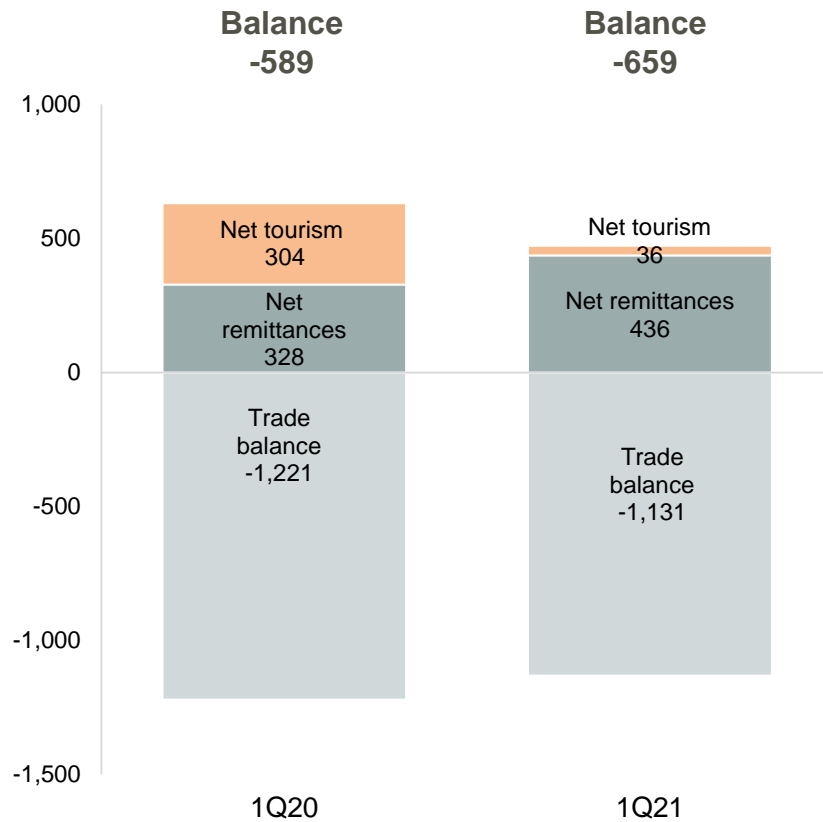
4 Banking Sector

5 Conclusions



# External balance deteriorated by US\$ 69.8mn in 1Q21

## Major categories of external balance, US\$ mn



Source: NBG, Geostat, Galt & Taggart

## Change in 1Q21



Source: NBG, Geostat, Galt & Taggart



Exports increased in Feb-21, while imports continued to fall in double digits. As a result, the trade balance improved by US\$ 154mn in 2M21

### Goods exports

	2M20	2M21	% change y/y
<b>Total exports</b>	<b>531</b>	<b>495</b>	<b>-6.8%</b>
Copper	90	95	5.1%
Ferro-alloys	42	52	23.0%
Cars	105	50	-52.5%
Wine	28	26	-8.3%
Fertilizers	20	19	-8.5%
Mineral water	16	18	17.0%
Spirits	15	18	18.8%
Nuts	7	16	125.4%
Pharmaceutical	9	9	1.5%
Gold	15	9	-42.3%
Other	182	182	0.4%

Source: Geostat

### Goods imports

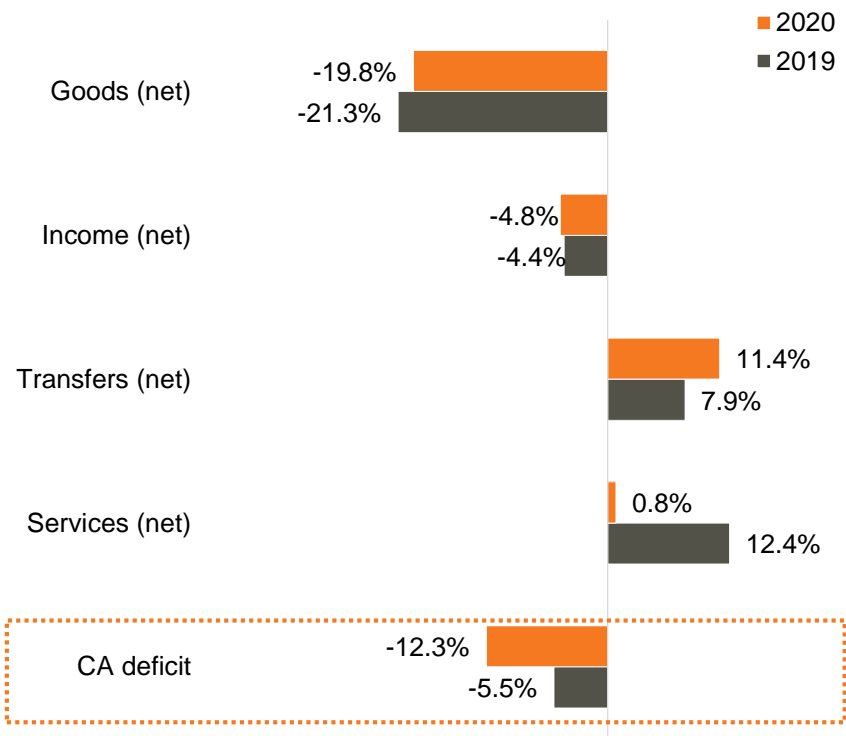
	2M20	2M21	% change y/y
<b>Total imports</b>	<b>1,349</b>	<b>1,159</b>	<b>-14.1%</b>
Cars	137	98	-28.2%
Gases	104	90	-13.8%
Oil	106	83	-21.0%
Copper	75	59	-21.3%
Moving, extracting vehicles	1	41	29.8x
Pharmaceutical	42	39	-6.7%
Trucks	16	29	86.0%
Telephones	34	25	-26.4%
Electricity	21	18	-15.6%
Wheat	10	16	55.9%
Other	803	661	-17.7%

Source: Geostat



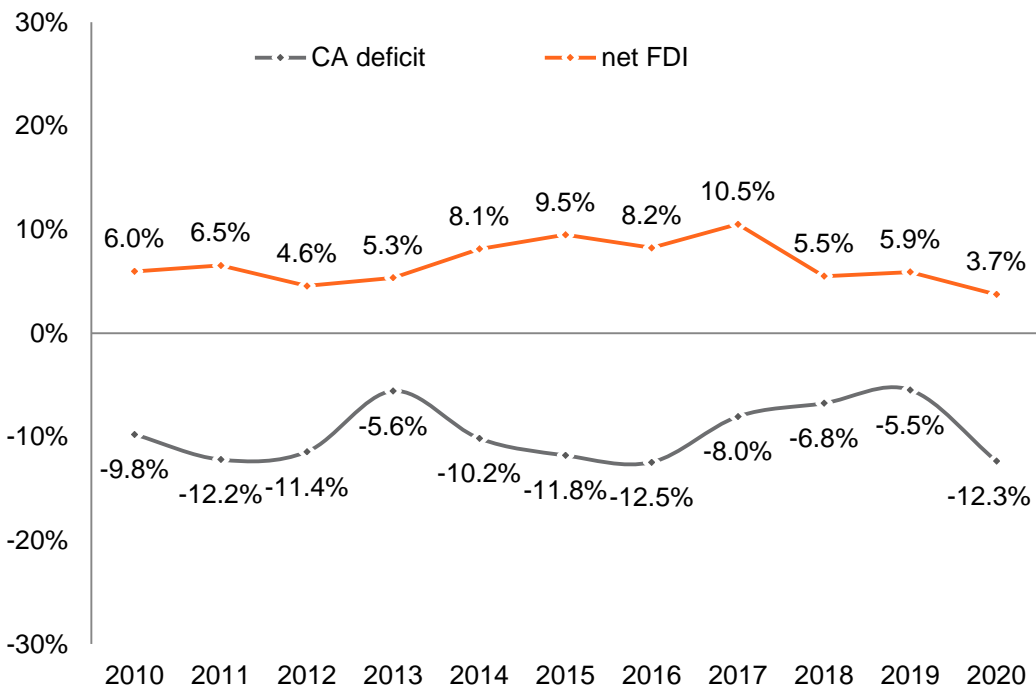
# CA deficit doubled in 2020, due to a sharp deterioration in the services balance

CA balance and its components, as % of GDP



Source: Geostat, NBS

CA deficit and net FDI, as % of GDP



Source: Geostat, NBS





1 Economic trends

2 External sector

**3 GEL/USD and inflation**

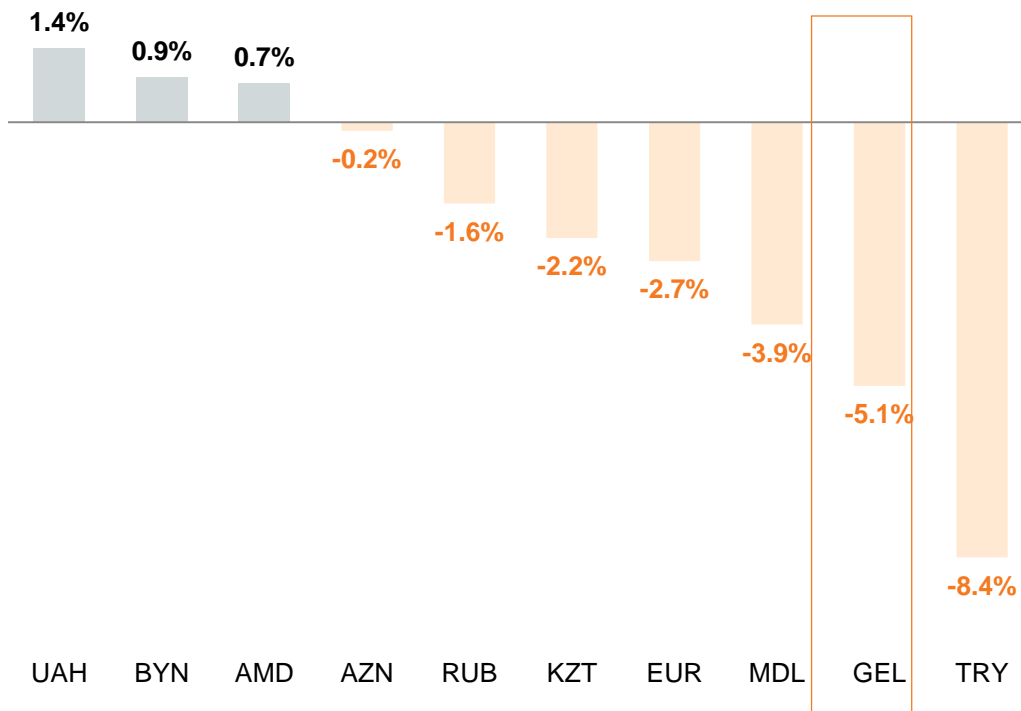
4 Banking Sector

5 Conclusions



# GEL depreciated further in 2021

## GEL and regional currencies against US\$, period 1 January – 15 April, 2021



Source: Central banks  
Note: +/- means depreciation/appreciation

YTD, NBG sold US\$ 212.9mn via FX auctions

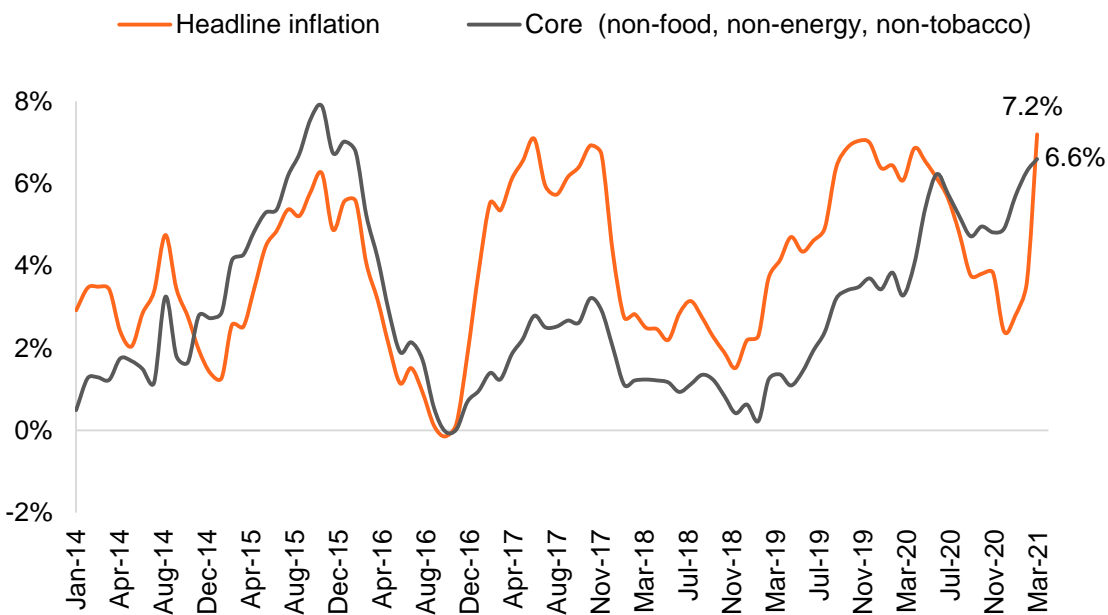
The current fluctuations of the GEL are mainly driven by the expectations of the third wave of Covid-19, political instability and negative expectations arising from the depreciation of the Turkish lira

In 2021, GEL is expected in the range of 3.4-3.5 vs. USD (In case of tourism recovery 3.25-3.4).



# Average annual inflation expected at 6.9% in 2021; further tightening of monetary policy is expected

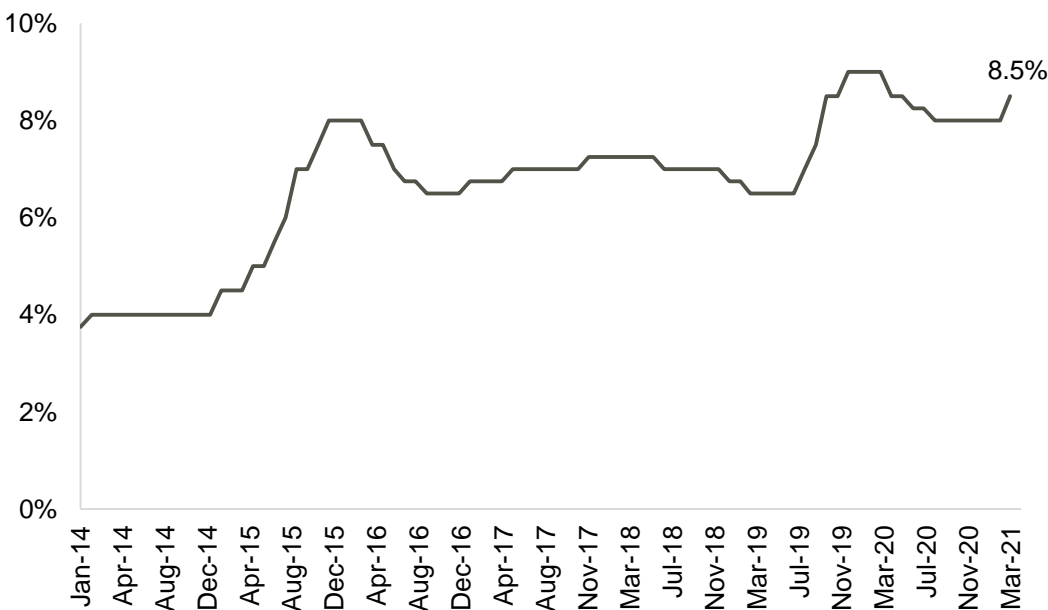
## Annual inflation



Source: Geostat

■ Reduction of annual inflation in December 2020 and January 2021 was related to the government subsidy of utility bills.

## Monetary policy rate



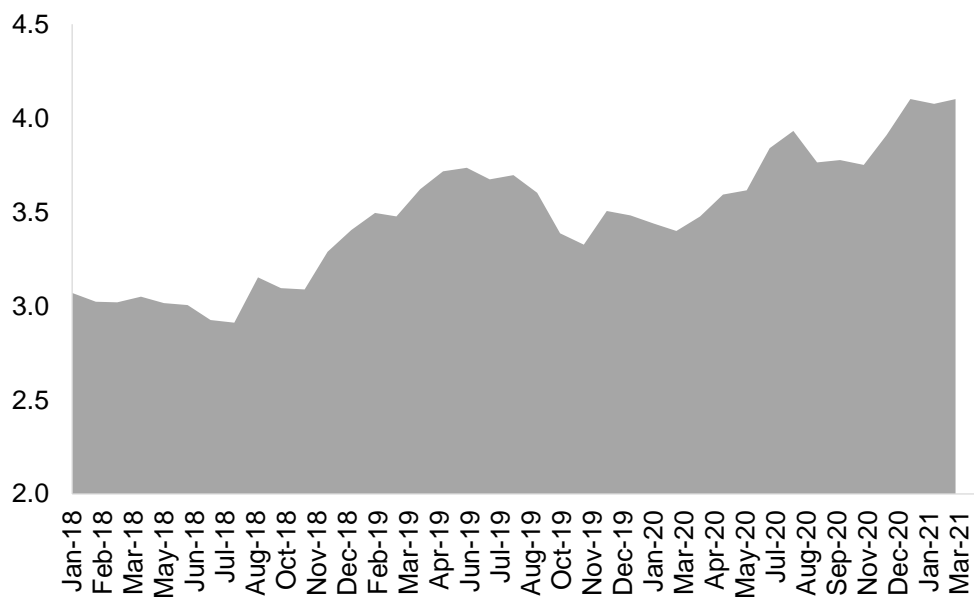
Source: Geostat

■ NBG increased the key rate by 50bps to 8.5% in Mar-21



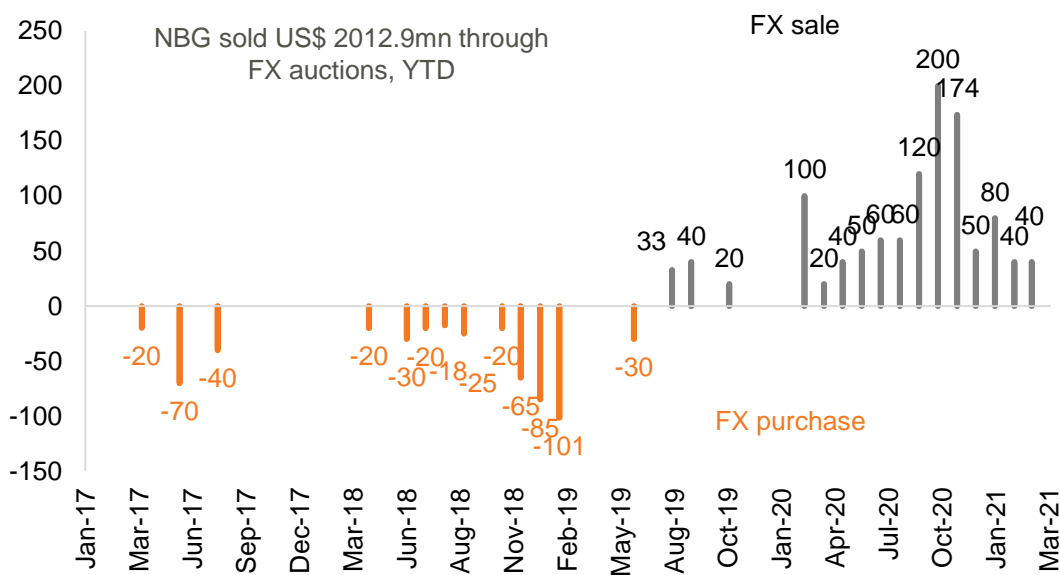
# Gross international reserves are high

International reserves, US\$ bn



Source: NBG

NBG's interventions, US\$ mn



Source: NBG



1 Economic trends

2 External sector

3 GEL/USD and inflation

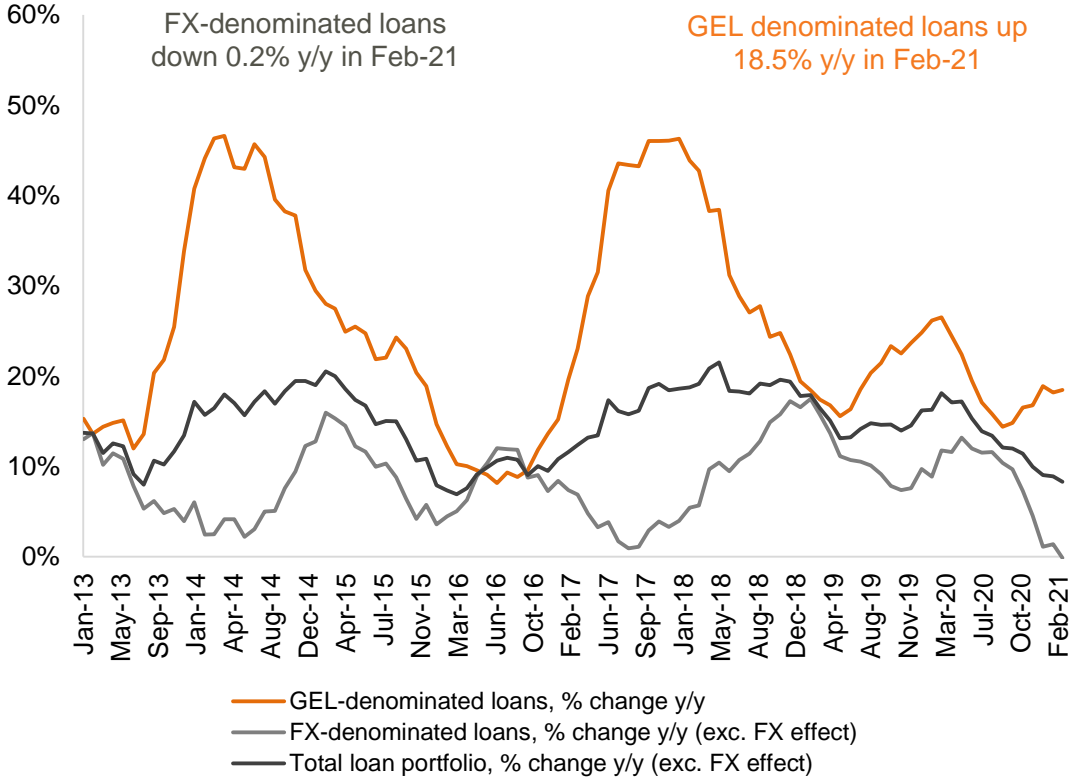
**4 Banking Sector**

5 Conclusions



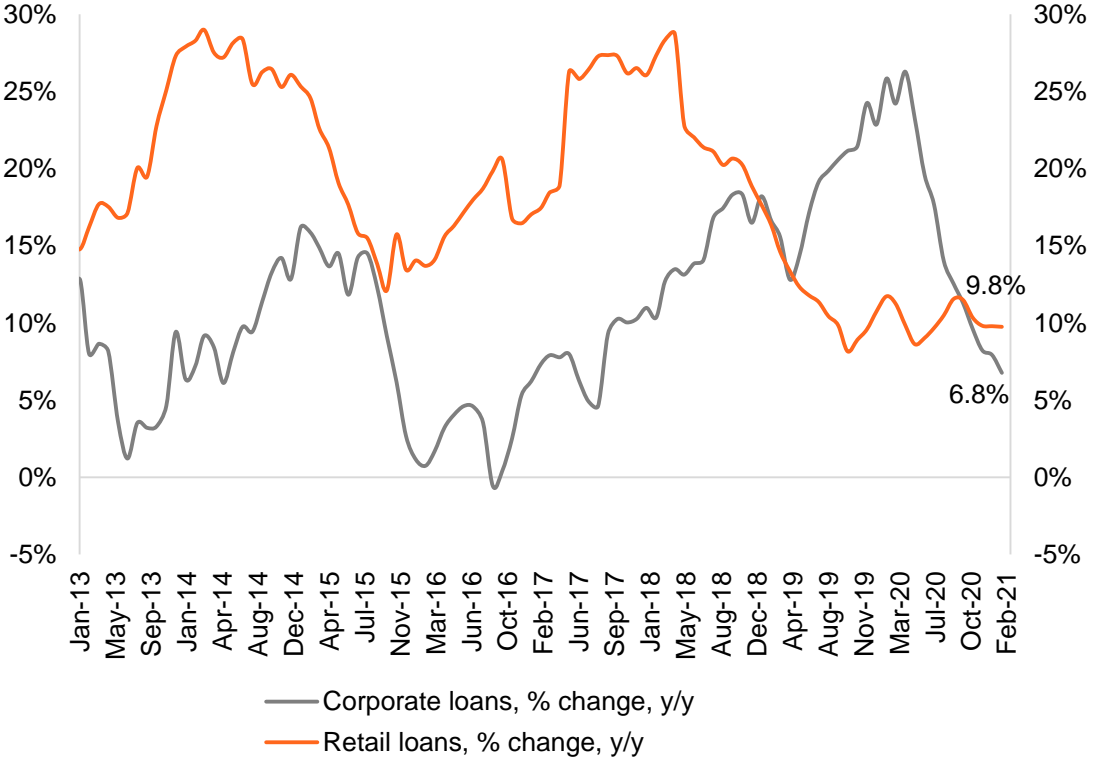
# Banking loan portfolio growth slowed to 8.3% y/y in February 2021

## Bank loan portfolio growth



Source: NBG

## Loan book growth: corporate vs. retail (exc. FX effect)

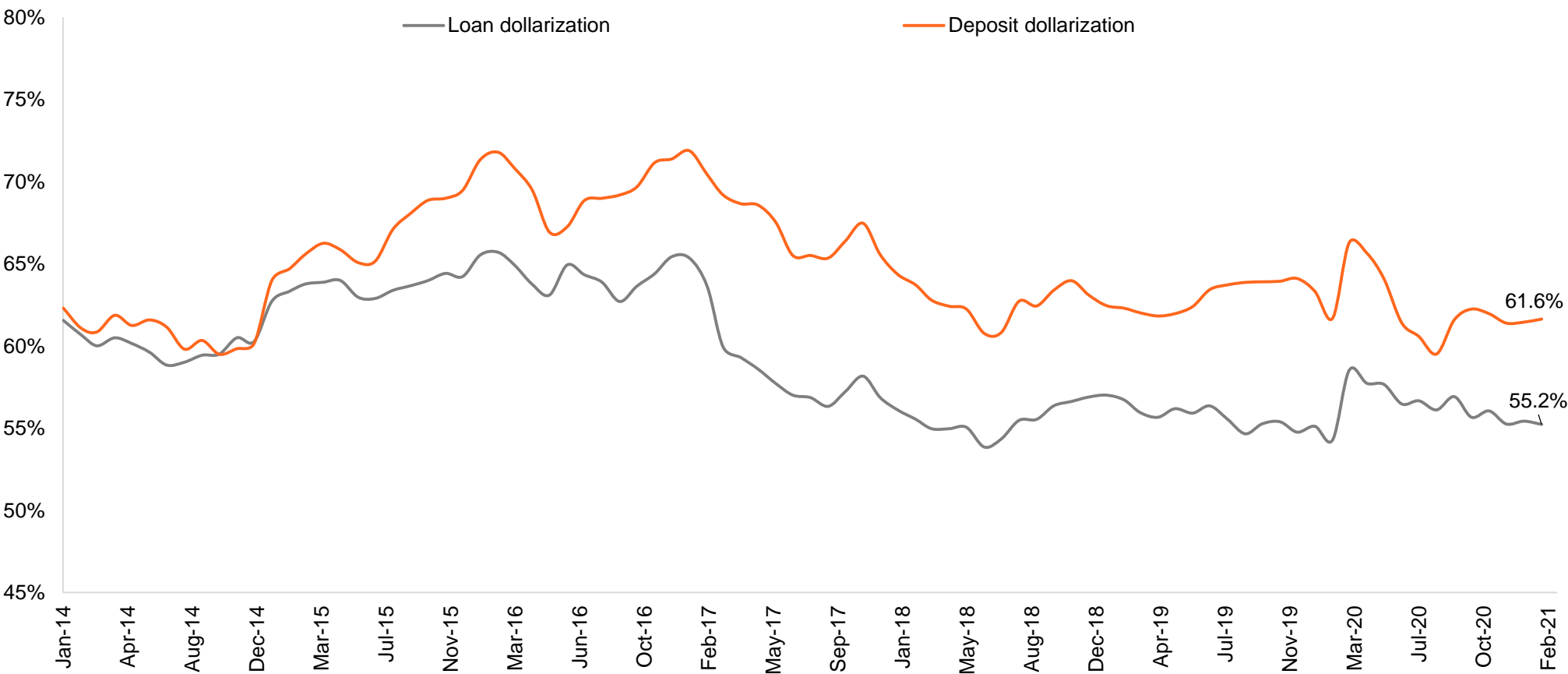


Source: NBG



# Dollarization is expected to rise due to the GEL depreciation

## Loan and deposit dollarization

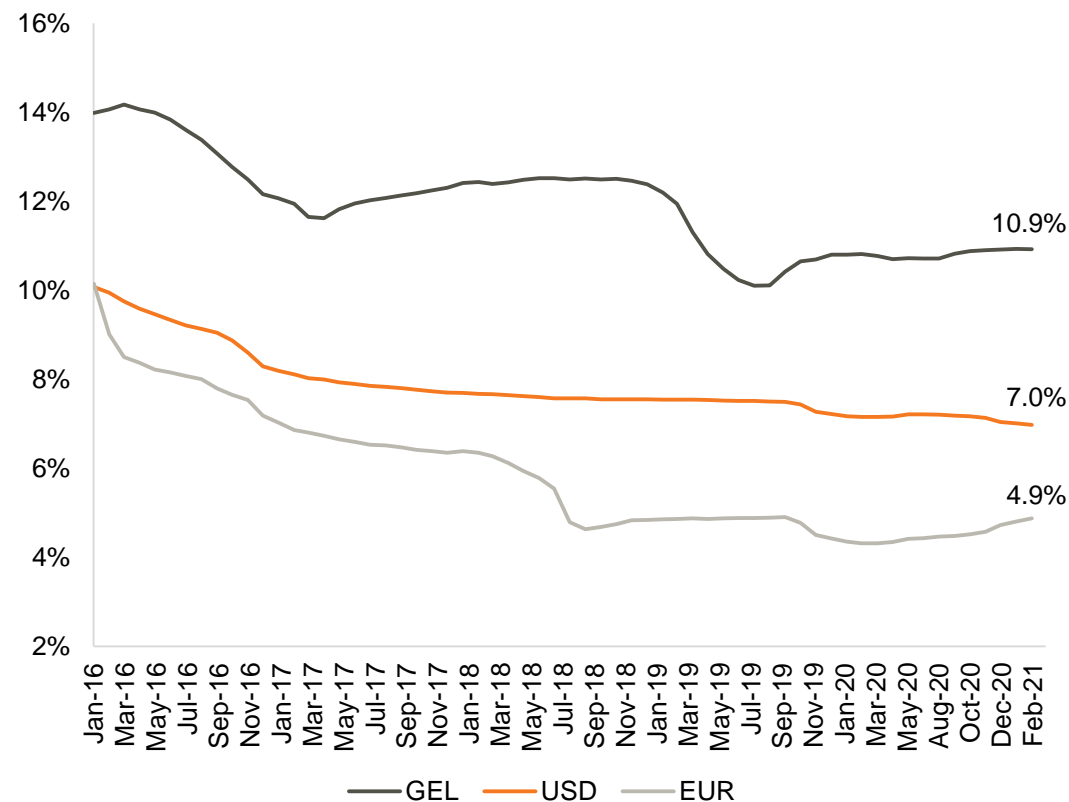


Source: NBG



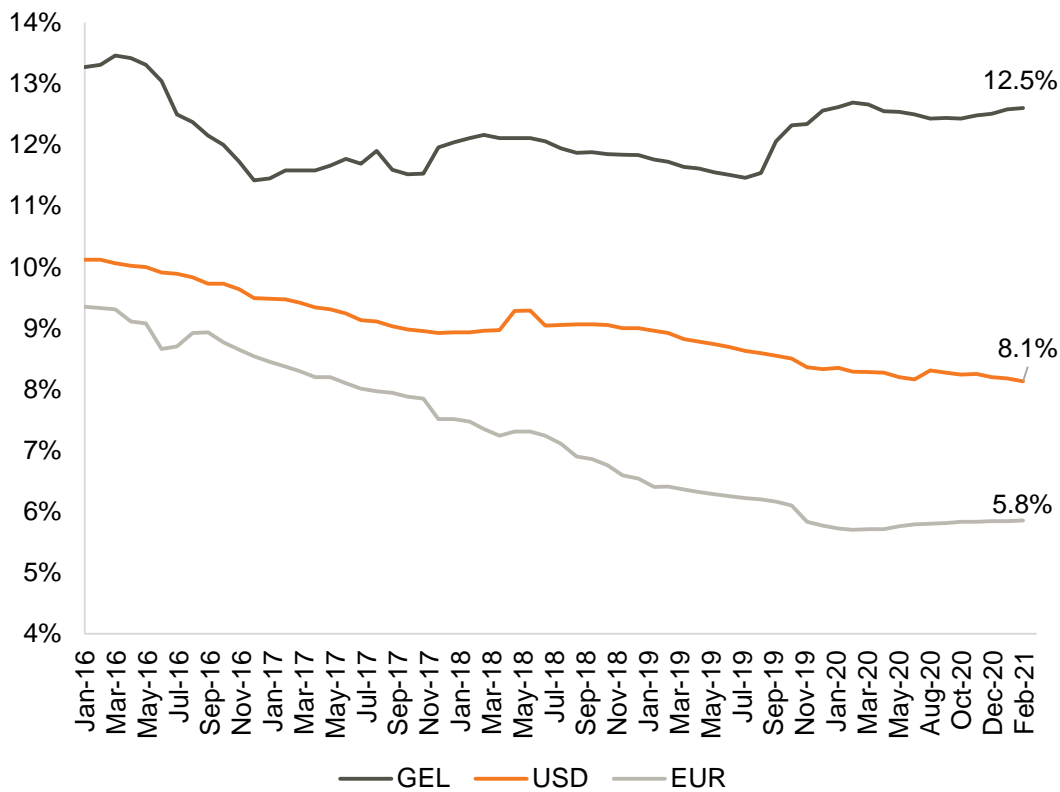
# GEL interest rates expected to increase considering further tightening of monetary policy

Interest rates on mortgages



Source: NBG

Interest rates on loans to legal entities



Source: NBG



1 Economic trends

2 External sector

3 GEL/USD and inflation

4 Banking Sector

**5 Conclusions**



# Conclusion

## GDP

- Due to the slow pace of vaccination and the delayed recovery in tourism, we forecast economic growth in Georgia at 3.6% in 2021.

## Inflation

- We forecast annual average inflation at 6.9% in 2021, and end-year inflation at 8.6%.

## GEL/\$

- In 2021, GEL is expected in the range of 3.4-3.5 vs. USD (in case of tourism recovery 3.25-3.4).

## Refinancing rate

- We expect further tightening of monetary policy, as inflation in March turned out to be higher than expected.

## Bank loans

- We expect loan portfolio growth at 5-7% in 2021 (excluding FX effect).

## Risks

- COVID-19 pandemic and slow vaccination
- Slow tourism recovery
- Political instability and geopolitical tensions





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# Thank you

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Please send us questions by email: [research@gt.ge](mailto:research@gt.ge)

# **Q/A**



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