

Weekly Market Watch

Weekly Market Watch | Georgia
October 5, 2015

Economy

Real GDP grew 2.3% y/y in August 2015 and 2.8% y/y in 8M15

Georgia's real GDP grew 2.3% y/y in August 2015, according to GeoStat's rapid estimates. As a result, output growth averaged 2.8% y/y in 8M15. Monthly rapid estimates are based on VAT turnover, fiscal and monetary statistics.

International arrivals up 12.6% y/y in September 2015 and up 6.7% y/y in 9M15

After a 10.0% spike in August 2015, tourist arrivals posted another significant growth of 12.6% y/y to 0.6mn persons in September 2015, according to the Ministry of Internal Affairs. Significantly increased arrivals from Turkey (+9.0% y/y, 24.3% of total), Armenia (+6.9% y/y, 22.1% of total), Azerbaijan (+6.0% y/y, 21.4% of total), and Russia (+12.6% y/y, 16.0% of total) were the major contributors to growth. Arrivals from the EU increased 9.6% y/y in September 2015. In 9M15, total arrivals increased 6.7% y/y to 4.5mn persons.

Inflation rate at 5.2% y/y and 1.1% m/m in September 2015

Annual CPI inflation rate was recorded at 5.2% in September 2015, according to GeoStat. Overall price changes were driven by price increases in food and non-alcoholic beverages (+4.2% y/y, +1.28ppts), health (+9.8% y/y, +0.92ppts), and furnishings and household equipment (+11.6% y/y, +0.73ppts), while prices in the transport category decreased 1.8% y/y.

Monthly inflation rate was 1.1% in September 2015. Price increases in food and non-alcoholic beverages (+1.2% m/m, +0.37ppts), housing, water, electricity, gas and other fuels (+2.4% m/m, +0.23ppts), and a price drop in the transport category (-0.9% m/m, -0.11ppts) were the major drivers of the monthly inflation dynamics.

Tax revenues posted a strong performance in 9M15, up 11.3% y/y

Consolidated budget tax revenues increased 10.5% y/y to GEL 758.9mn in September 2015 and 11.3% y/y to GEL 5.9bn in 9M15 (102.4% of the budgeted amount), according to the Treasury Service. In 9M15, personal income tax revenues grew 15.6% y/y (26.9% of total), profit tax receipts +30.1% y/y (14.5% of total), VAT receipts +6.7% y/y (43.7% of total), excise tax receipts +5.5% y/y (10.6% of total), and property tax +10.3% y/y (3.1% of total). The rest – receipts from customs duties and other taxes – decreased, but they have a minor share in total tax revenues.

Government targets a 3% deficit in the 2016 draft budget

The government has submitted to the Parliament an initial draft of 2016 state budget, which sets economic growth at 3% and GDP deflator at 4.5% for 2016. Fiscal deficit is set at 3% of GDP (the same as in 2015), total expenditures at 29.5% of GDP, and taxes at 25.0% of GDP (both slightly lower than 2015 estimates). Total public debt to GDP is set at 42.8% of GDP (2015E 43.3%), of which external public debt is expected to reach 33.9% of GDP (2015E 34.2%).

Current account deficit down 16.2% y/y in 2Q15 to 10.4% of GDP

The current account (CA) deficit decreased 16.2% y/y in 2Q15 to US\$ 354.7mn. The major contributor to the CA deficit was a negative trade of goods balance, which improved 7.0% y/y on the back of lower goods imports (-14.3% y/y). The positive balance in services and remittances financed 76.5% of the goods trade deficit, with tourism revenues posting 7.1% y/y growth (US\$ 460.1mn) in 2Q15. Net FDI was the largest source (and at the same time contributor) of CA deficit funding and amounted to US\$ 314.3mn (+121.1% y/y) or 9.2% of GDP.

Georgia shows improvement in international rankings

According to the 2015-2016 Global Competitiveness Report by the World Economic Forum (WEF), Georgia has moved from 69th position to 66th (among 140 countries).

Georgia scored significantly higher in all indicators in the World Bank's Worldwide Governance Indicators 2014 report compared to outcomes over 1996-2013. These indicators capture six key dimensions of governance - voice and accountability, political stability and lack of violence, government effectiveness, regulatory quality, rule of law and control of corruption.

Key macro indicators

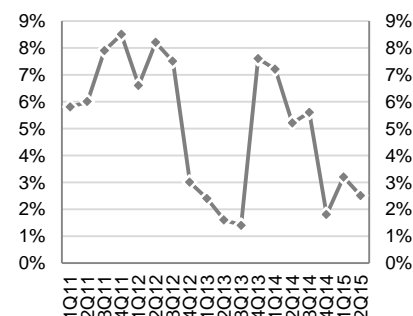
	8M15	2014	2013
GDP (% change)	2.8%	4.8%	3.3%
GDP per capita (ppp)	...	7,653	7,180
GDP per capita (US\$)	...	3,681	3,600
Population (mn)	3.7**	4.5	4.5
Inflation (eop)	5.2%*	2.0%	2.4%
Gross reserves (US\$ bn)	2.5	2.7	2.8
CAD (% of GDP)	...	10.6%	5.8%
Fiscal deficit (% of GDP)	...	3.0%	2.6%
Total public debt (% of GDP)	...	35.5%	34.7%

Source: Official data

*As of 9M15

**Preliminary results of census, previous data is subject to recalculation

Real GDP growth, %



Source: GeoStat

International ranking of Georgia, 2015

Ease of Doing Business # 15 (regional leader)
 Economic Freedom Index # 22 (mostly free)
 Global Competitiveness Index # 66 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

STANDARD & POORS BB- Stable Affirmed May-2015	Moody's INVESTORS SERVICE Ba3 Positive Affirmed Mar-2015	FitchRatings BB- Stable Affirmed Apr-2015
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Source: Rating agencies



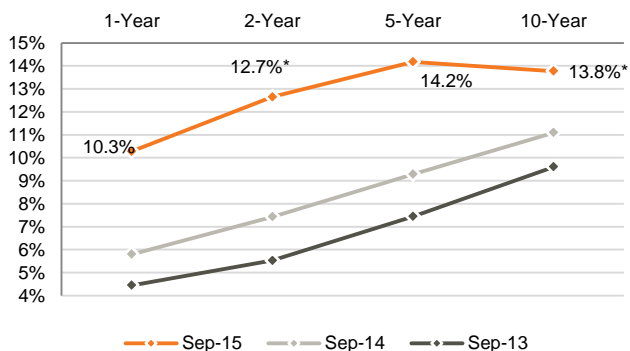
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 293.4mn) with an average yield of 7.0%.

Certificates of deposit: NBG sold 182-day, GEL 20mn (US\$ 8.3mn) certificates of deposit, with an average yield of 10.05% (up by 75bps from previous issue).

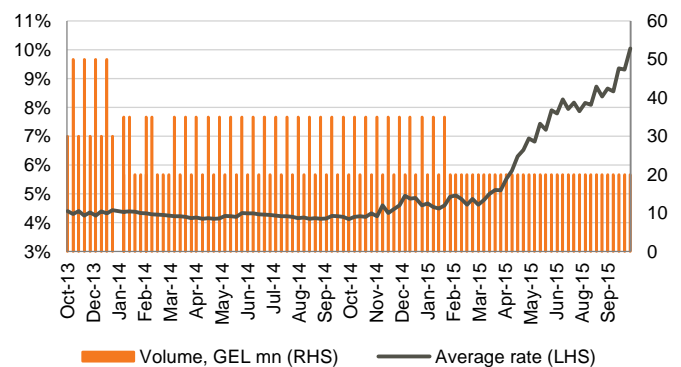
Ministry of Finance Treasury Notes: The nearest treasury securities auction is scheduled for October 7, 2015, where GEL 10mn nominal value 2-year T-Notes will be sold.

T-bills / T-notes, yield curve



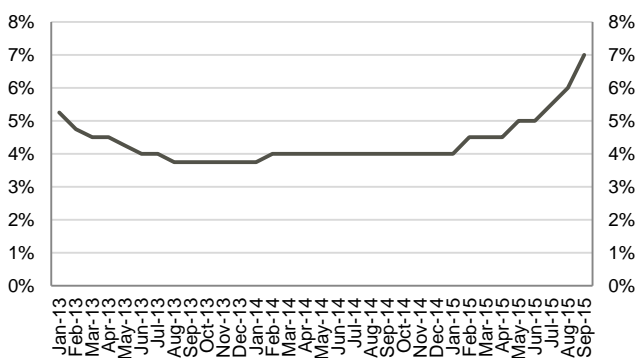
Source: NBG
*As of latest auction

Certificates of Deposits (weighted average rate)



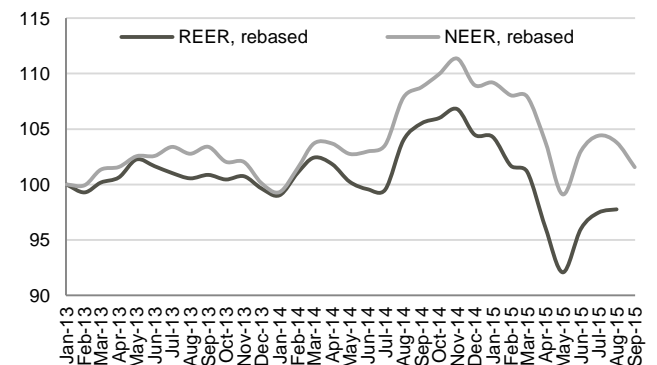
Source: NBG

Monetary policy rate



Source: NBG

Nominal Effective Exchange Rate and Real Effective Exchange Rate



Source: NBG

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

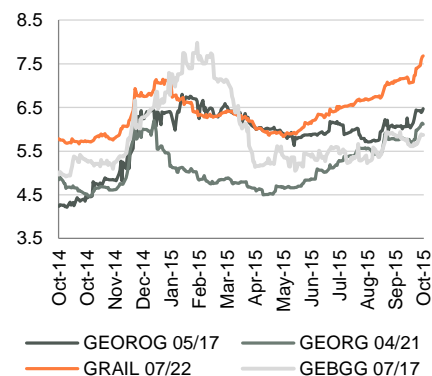


Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG) closed at 5.9% yield, trading at 103.0 (-0.4% w/w). GOGC Eurobonds (GEOROG) were trading at 100.5 (-0.1% w/w), yielding 6.5%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 100.4 (-0.8% w/w), yielding 7.7%.

Georgian Sovereign Eurobonds (GEORG) closed at 103.7 (-0.5% w/w) at 6.1% yield to maturity.

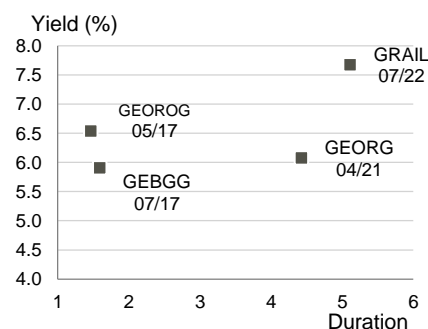
Georgia Eurobonds, YTM (%)



	Local bonds			Eurobonds			
	M2RE 03/17	EVEX 05/17	GLC 09/17	GEOROG 05/17	GEBGG 07/17	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	20	15	10	250	400	500	500
Issue date	03/15	05/15	09/14	May-2012	Jul-2012	Apr-2011	Jul-2012
Maturity date	03/17	05/17	09/17	May-2017	Jul-2017	Apr-2021	Jul-2022
Coupon, %	9.500	9.500	8.750	6.875%	7.750%	6.875%	7.750%
Fitch/S&P/Moody's	-/-	-/-	-/-	BB-/B+/-	BB-/BB-/Ba3	BB-/BB-/Ba3	BB-/BB-/
Mid price, US\$	99.0	100	98.0	100.5	103.0	103.7	100.4
Mid yield, %	10.1	9.5	9.7	6.5	5.9	6.1	7.7
Z-spread, bps	n/a	n/a	n/a	594.7	528.9	460.8	605.5

Source: Bloomberg

Georgian Eurobond universe



Eastern European sovereign 10-year bond performance

Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid price, US\$	Mid yield, %	Z-spread, bps
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba3	103.7	6.1	460.8
Azerbaijan	1,250	4.750%	18/03/2024	BBB-/Baa3	95.3	5.4	365.6
Bulgaria	323	5.000%	19/07/2021	BBB-/	117.6	1.8	-243.3
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba1	100.4	3.8	325.6
Hungary	3,000	6.375%	29/03/2021	BB+/BB+/Ba1	115.1	3.3	198.9
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	118.5	3.5	193.8
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	103.5	4.1	287.8
Turkey	2,000	5.625%	30/03/2021	BBB-/Baa3	105.1	4.6	314.5
Ukraine	1,500	7.950%	23/02/2021	CC/CC/Ca	79.3	13.8	1225.4

Source: Bloomberg

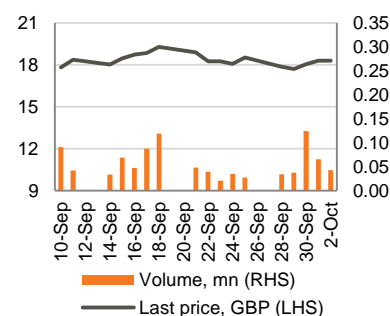
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 18.28/share (-1.35% w/w and +7.53% m/m). More than 304k shares traded in the range of GBP 17.49 – 18.68/share. Average daily traded volume was 57k in the last 4 weeks, less than in the previous month. FTSE 250 Index, of which BOGH is a constituent, has lost 0.02% w/w and lost 0.53% m/m. The volume of BOGH shares traded was at 0.77% of its capitalization.

TBC Bank (TBCB LI) closed the week at US\$ 8.89 (-3.89 w/w and -2.31% m/m). More than 91k GDRs changed hands in the range of US\$ 8.89 – 9.25/GDR. Average daily traded volume was 11k in the last 4 weeks, more than in the previous month.

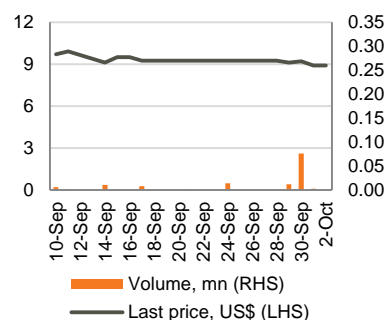
On the Georgian stock exchange, Liberty Bank shares were traded at GEL 0.013 (+4.0% w/w). As a result, the G&T Index remained at 909.86 (unchanged w/w).

Bank of Georgia (BGEO LN)



Source: Bloomberg

TBC Bank (TBCB LI)



Source: Bloomberg

Eastern European banks

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
	BGEO*	27.83	1,099	6.9%	-8.5%	4.0%	-14.0%	-27.8%
	TBC	8.89	435	-2.3%	-11.1%	-24.3%	-29.4%	-43.7%
	Halyk Bank	6.25	1,705	-0.8%	-26.5%	-21.9%	-26.5%	-44.6%
	KKB	2.89	1,152	6.3%	-7.4%	-2.0%	-23.9%	-27.7%
	VTB Bank	1.95	12,624	-0.2%	-29.1%	-8.1%	-15.3%	0.4%
	Vozrozhdenie Bank	11.35	270	0.0%	0.0%	0.0%	0.0%	0.0%
	Sberbank	4.62	24,928	1.6%	-10.0%	-1.4%	14.0%	-39.4%

Source: Bloomberg

Note: * BGEO is traded in GBP and is shown in US\$ equivalent



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