

Weekly Market Watch

 Weekly Market Watch | Georgia
 July 31, 2017

Economy

NPLs at 3.5% in June 2017

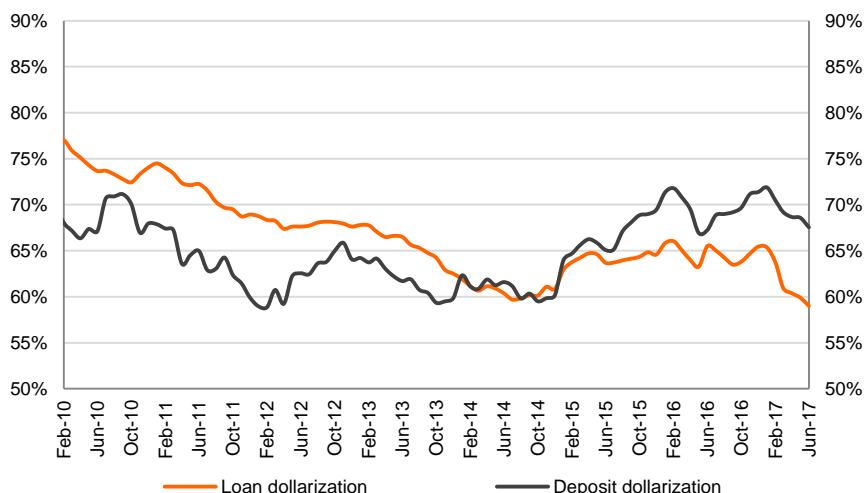
In June 2017, the banking sector loan portfolio increased 13.4% y/y after growing 14.3% y/y in previous month, excluding the exchange rate effect. In unadjusted terms, loan portfolio was up 17.9% y/y and 1.2% m/m to GEL 19.3bn (US\$ 8.0bn). Deposits were up 15.5% y/y excluding the exchange rate effect. In unadjusted terms, deposits were up 17.4% y/y and up 2.8% m/m to GEL 16.8bn (US\$ 7.0bn). Deposit dollarization reached 67.5% (+0.3ppts y/y and -1.0ppts m/m). NPLs stood at 3.5% in June 2017 (-0.2% y/y and m/m).

NBG keeps its policy rate unchanged at 7.0%

At its meeting on 26 July 2017, NBG's monetary policy committee decided to keep the policy rate unchanged at 7.0%. NBG cited that increase in inflation is in line with existing forecast in 2Q17 due to one-off supply side pressures and the inflation will remain above the target rate of 4.0% throughout 2017. The annual inflation rate rose to 7.1% in June 2017; Notably, the excise tax hikes on tobacco and fuels accounted for 2.6ppts in price level growth.

NBG also noted that there is no need for further tightening of monetary policy as the increase in inflation rate is temporary; as one-off factors affecting prices dissipate, inflation will decrease in 2H17 and get close to its target rate at the beginning of 2018. Given the absence of additional shocks in the medium term, the policy rate is expected to decrease to its neutral level based on NBG. The next committee meeting is scheduled for 6 September 2017.

Loan and deposit dollarization



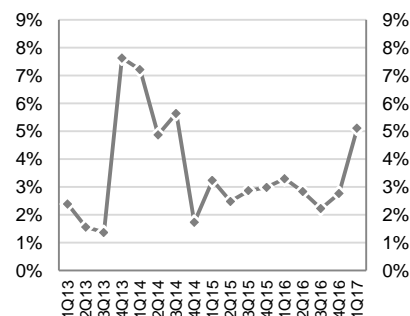
Source: NBG

Key macro indicators

	1H17	2016	2015
GDP (% change)	4.5%	2.7%	2.9%
GDP per capita (ppp)	...	10,044	9,601
GDP per capita (US\$)	...	3,853	3,767
Population (mn)	3.7	3.7	3.7
Inflation (eop)	7.1%	1.8%	4.9%
Gross reserves (US\$ bn)	3.0	2.8	2.5
CAD (% of GDP)	...	13.5%	12.0%
Fiscal deficit (% of GDP)	...	4.1%	3.7%
Total public debt (% of GDP)	...	44.6%	41.4%

Source: Official data, IMF

Real GDP growth, %



Source: GeoStat

International ranking, 2017

Ease of Doing Business # 16 (Top 20)
 Economic Freedom Index # 13 (mostly free)
 Global Competitiveness Index # 59 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

 BB- Stable Affirmed May-2017	 Ba3 Stable Affirmed Mar-2016	 BB- Stable Affirmed Mar-2017
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Source: Rating agencies



Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 1,150mn (US\$ 479.3mn).

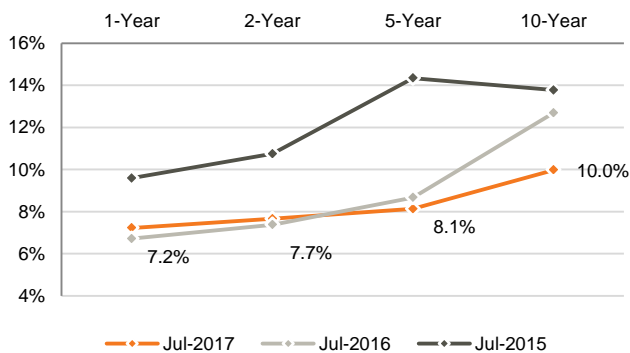
Ministry of Finance Treasury Bills:

3-month GEL 50.0mn (US\$ 20.8mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on July 25, 2017. The weighted average yield was fixed at 7.052%.

Ministry of Finance Treasury Notes:

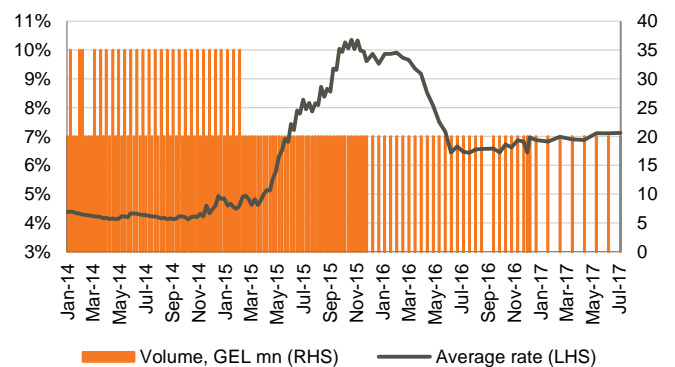
5-year GEL 25.0mn (US\$ 10.4mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on July 26, 2017. The weighted average yield was fixed at 8.130%. The nearest treasury security auction is scheduled for august 2, 2017, where GEL 40.0mn nominal value 1-year T-Bills will be sold.

T-bills / T-notes, yield curve



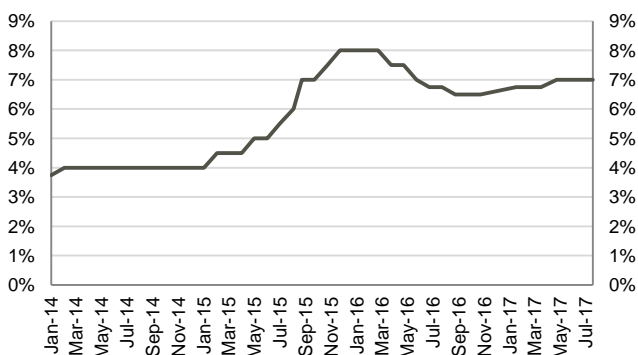
Source: NBG

Certificates of Deposits (weighted average rate)



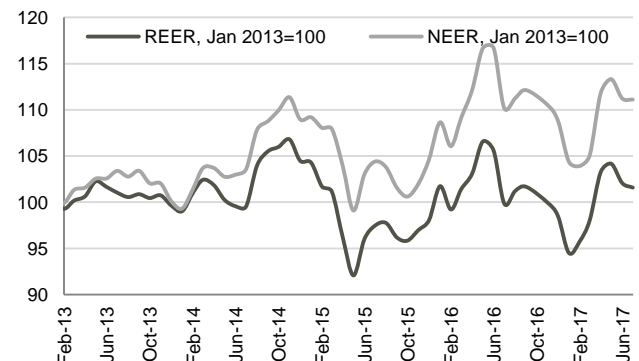
Source: NBG

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

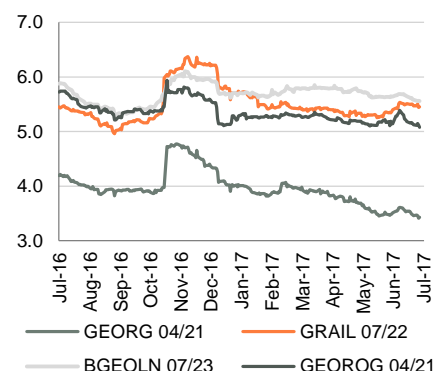


Fixed income

Corporate Eurobonds: BGEO Group Eurobonds (BGEOLN) closed at 5.5% yield, trading at 102.3 (+0.2% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 99.8 (unchanged w/w), yielding 11.1%. GOGC Eurobonds (GEOROG) were trading at 105.5 (+0.1% w/w), yielding 5.1%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 109.8 (unchanged w/w), yielding 5.5%.

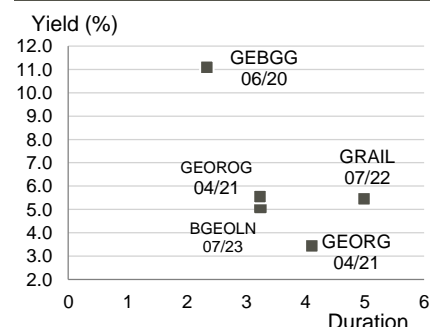
Georgian Sovereign Eurobonds (GEORG) closed at 111.9 (+0.1% w/w) at 3.4% yield to maturity.

Georgia Eurobonds, YTM (%)



Source: Bloomberg

Georgian Eurobond universe



Source: Bloomberg

	Local bonds			Eurobonds				
	GWP 12/21	M2RE 10/19	Nikora 03/18	GEBGG 06/20	GEOROG 04/21	BGEOLN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	30*	25.0	5.0	500*	250	350	500	500
Issue date	12/16	10/16	03/16	06-17	04/16	07/16	04/11	07/12
Maturity date	12/21	10/19	03/18	06-20	04/21	07/23	04/21	07/22
Coupon, %	10.50**	7.5	11.0	11.0	6.750	6.000	6.875	7.750
Fitch/S&P/Moody's	BB-/	-/-	-/-	BB-/Ba3	BB-/B+	BB-/B1	BB-/BB-/Ba3	B+/B+
Mid price, US\$	n/a	101.5	101.2	99.8	105.5	102.3	111.9	109.8
Mid yield, %	n/a	6.75%	9.0%	11.1	5.1	5.5	3.4	5.5
Z-spread, bps	n/a	n/a	n/a	346.1	332.9	165.3	357.3	356.9

Source: Bloomberg

*GWP 12/21 bonds and GEBGG 06/20 bonds are in Georgian lari

**Coupon rate 3.5% over the NBG's refinancing rate

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	111.9	3.4	165.3
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba1	102.1	4.4	235.2
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	119.3	0.1	-29.0
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba2	111.4	1.4	118.2
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	112.8	2.7	90.5
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	116.2	2.9	104.4
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	106.0	2.7	103.4
Turkey	2,000	5.625%	30/03/2021	BB+/BB/Ba1	106.7	3.7	189.3

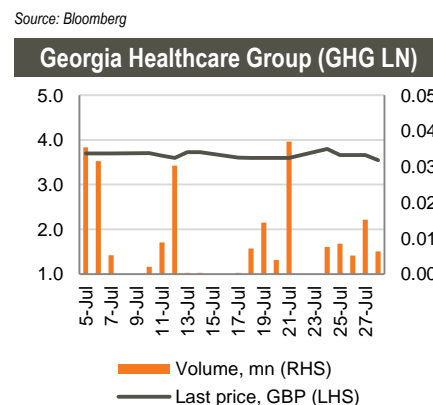
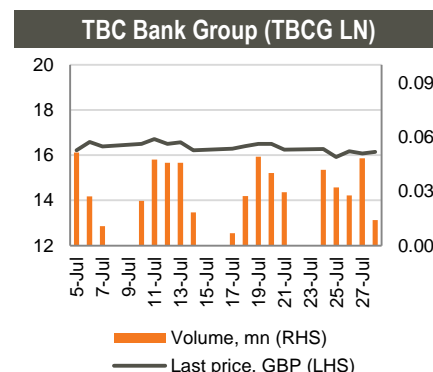
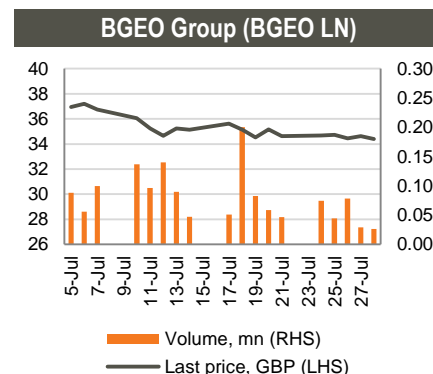
Source: Bloomberg

Equities

BGEO Group (BGEO LN) shares closed at GBP 34.40/share (-0.66% w/w and -0.92% m/m). More than 252k shares traded in the range of GBP 34.10 – 35.39/share. Average daily traded volume was 83k in the last 4 weeks. FTSE 250 Index, of which BGEO is a constituent, lost 0.12% w/w and gained 1.29% m/m. The volume of BGEO shares traded was at 0.64% of its capitalization.

TBC Bank Group (TBCG LN) closed the week at GBP 16.15 (-0.55% w/w and +4.06% m/m). More than 164 shares changed hands in the range of GBP 15.58 – 16.27/share. Averaged daily traded volume was 35k in the last 4 weeks.

Georgia Healthcare Group (GHG LN) shares closed at GBP 3.55/share (-1.39% w/w and +0.85% m/m). More than 42k shares were traded in the range of GBP 3.55 – 3.80/share. Average daily traded volume was 11k in the last 4 weeks. The volume of GHG shares traded was at 0.03% of its capitalization.



Eastern European Banks

	Tick er	Share price, US\$	MCap US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
BGEO*	BGEO	45.27	1,784	-0.4%	-2.3%	21.1%	16.4%	26.6%
TBC*	TBC	20.76	1,099	-2.9%	2.7%	6.3%	9.6%	57.2%**
Halyk Bank	HSBK	9.60	2,639	6.7%	26.3%	66.7%	60.3%	79.1%
KKB	KKB	0.75	299	15.4%	-29.9%	-50.0%	-48.1%	-52.8%
VTB Bank	VTBR	2.05	13,298	-2.1%	-11.7%	-10.4%	-14.0%	1.3%
Vozrozhdenie Bank	VZRZ	11.94	283	-5.1%	-10.1%	-5.8%	-2.5%	21.5%
Sberbank	SBER	11.34	61,172	11.1%	-4.1%	-2.9%	-2.1%	30.1%

Source: Bloomberg

*BGEO and TBC are traded in GBP and are shown in US\$ equivalent

** 1Y change in TBC share prices calculated using GDR price

Healthcare Sector Peers

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
GHG*	GHG	4.78	629	-0.9%	1.2%	7.7%	2.6%	22.2%
Mouwasat	MOUWASAT	41.33	2,067	-2.0%	8.3%	5.2%	4.9%	15.9%
Fortis	FORH	2.62	1,357	-2.2%	-22.2%	-5.6%	-1.6%	-1.1%
Raffles	RFMD	0.94	1,672	-0.8%	-5.4%	-8.4%	-4.5%	-17.8%
IHH	IHH	1.39	11,468	-0.2%	-0.4%	-2.4%	-1.6%	-13.8%
Bangkok Chain	BCH	0.42	1,051	3.7%	9.0%	-2.3%	2.1%	19.1%
Netcare	NTC	1.92	2,807	-3.9%	-3.9%	-19.8%	-17.2%	-16.8%

Source: Bloomberg

*GHG is traded in GBP and is shown in US\$ equivalent



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