

Weekly Market Watch

 Weekly Market Watch | Georgia
 May 25, 2015

Economy

Trade deficit decreased 18.1% y/y in April 2015

In April 2015, exports decreased 21.4% y/y to US\$ 186mn, imports fell 19.3% y/y to US\$ 551.3mn, and trade deficit decreased 18.1% y/y to US\$ 365.3mn, according to foreign trade data released by GeoStat. As a result, in 4M15 exports fell 26.1% y/y to US\$ 689mn, imports decreased 7.6% to US\$ 2.3bn, and trade deficit increased 3.3% y/y to US\$ 1.6bn.

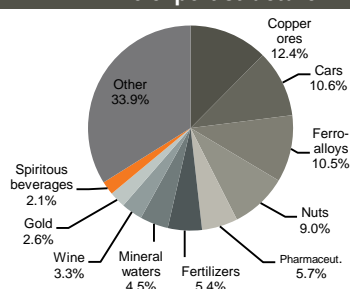
In 4M15, 30% of exports were directed to the EU (+6.4% y/y), 36% to CIS (-51.0% y/y), and 34% to other countries (+1.9% y/y), out of which Turkey (8.4% of total) and USA (6.0%) were the largest export destinations. 62.4% y/y drop in car exports (10.6% of total) had the largest negative impact. Nuts (+145.7% y/y), pharmaceuticals (+74.0% y/y), and gold (+80.4% y/y) were the major Georgian exports expanding significantly in 4M15.

In 4M15, petroleum (-23.5% y/y), gases (+14.0% y/y), cars (-12.2% y/y), pharmaceuticals (+4.3% y/y), and copper ores (+18.5% y/y), represented the top 5 imported commodities. In 4M15, 27% of imports were originated from the EU, 28% from CIS, and 45% from other countries, with Turkey (18.0% of total), and China (9.1%) being the largest trading partners.

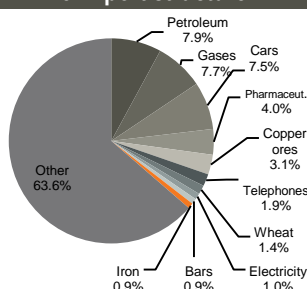
Tax revenues increased 12.8% y/y in 4M15 and 17.2% y/y in April 2015

State budget tax revenues increased by 12.8% y/y (+17.2% y/y in April), reaching GEL 2.4bn in 4M15, according to Treasury Service. VAT receipts increased 10.4% y/y (accounting for 46.2% of total), personal income tax revenues by 11.4% y/y (25.9% of total), corporate income tax receipts by 34.7% y/y (17.2% of total), excise tax receipts by 2.5% y/y (9.5% of total); the rest – import tax and others - decreased, but they have a minor share in total tax revenues. Current spending reached GEL 2.5bn (+11.7% y/y), and capital spending reached GEL 146mn (+54.3% y/y). In 4M15, state budget operating balance and overall balance were in surplus and government deposits stood at GEL 555mn as of 1 May (accumulation of GEL 120mn since the beginning of the year).

4M15 export structure

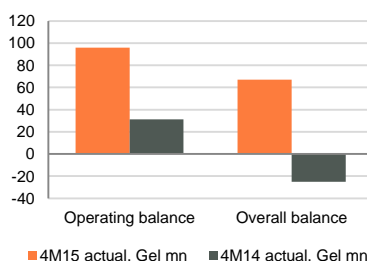


4M15 import structure



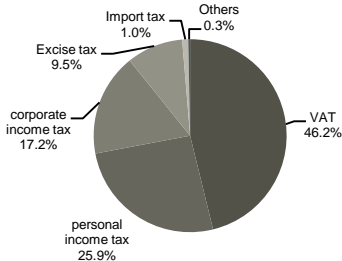
Source: GeoStat

State budget balance



Source: Treasury Service

Tax revenues, 4M15



Key macro indicators

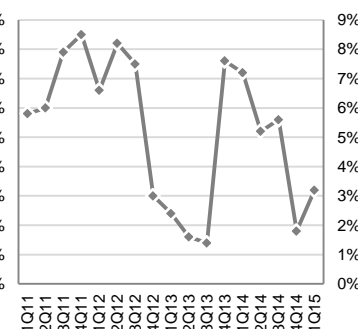
	1Q15	2014	2013
GDP (% change)	3.2%	4.8%	3.3%
GDP per capita (ppp)	...	7,653	7,180
GDP per capita (US\$)	...	3,681	3,600
Population (mn)	3.7**	4.5	4.5
Inflation (eop)	2.5%*	2.0%	2.4%
Gross reserves (US\$ bn)	2.4*	2.7	2.8
CAD (% of GDP)	...	9.7%	5.9%
Fiscal deficit (% of GDP)	...	3.0%	2.6%
Total public debt (% of GDP)	...	35.5%	34.7%

Source: Official data

* As of 4M15

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

Real GDP growth, %



Source: GeoStat, preliminary data for 1Q15

International ranking of Georgia, 2015

Ease of Doing Business # 15 (regional leader)
 Economic Freedom Index # 22 (mostly free)
 Global Competitiveness Index # 69 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

STANDARD & POOR'S BB- Stable Affirmed Nov-2014	Moody's INVESTORS SERVICE Ba3 Positive Affirmed Aug-2014	FitchRatings BB- Stable Affirmed Apr-2015
--	---	---

Source: Rating agencies



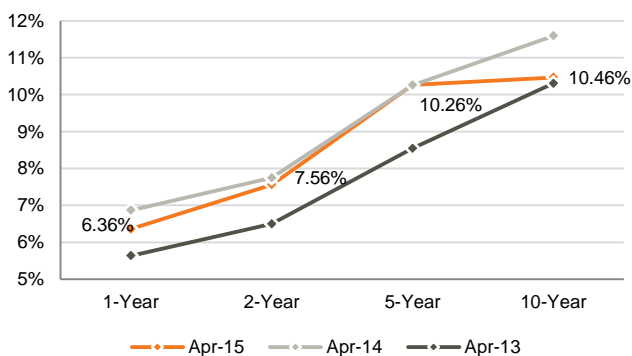
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 301mn) with an average yield of 5.0% (unchanged w/w).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 8.56mn) certificates of deposit, with an average yield of 6.30% (up by 78bps from previous issue).

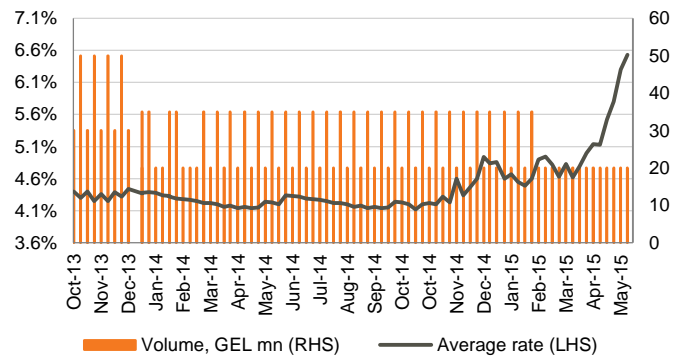
Ministry of Finance Treasury Notes: 364-day, GEL 40mn (US\$ 17.11mn) T-Bills of Ministry of Finance were sold at the auction held at NBG. The weighted average yield was fixed at 8.185%. The nearest treasury securities auction is scheduled for May 27, 2015, where GEL 10mn nominal value 10-year T-Notes will be sold.

T-bills / T-notes, yield curve



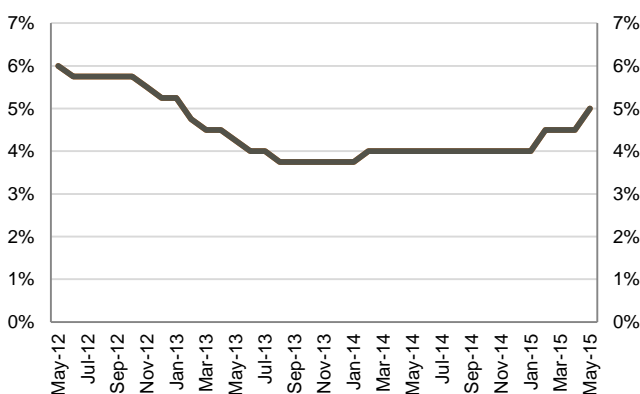
Source: NBG

Certificates of Deposits (weighted average rate)



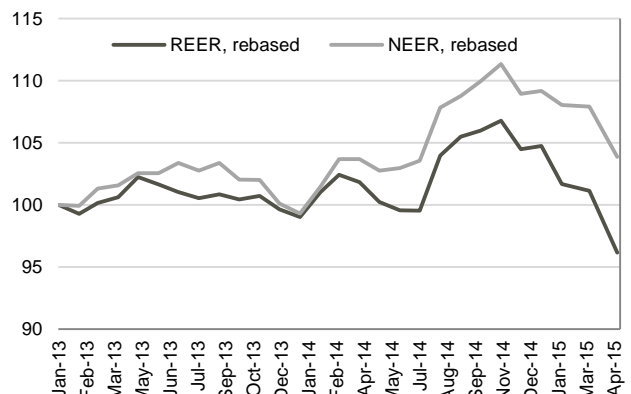
Source: NBG

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

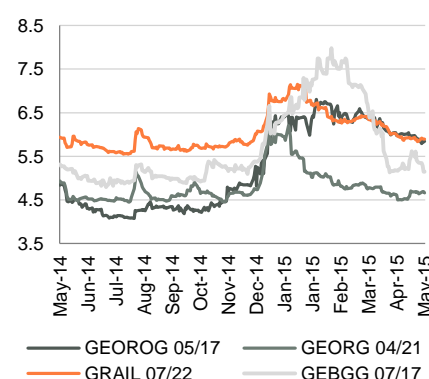


Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG; US\$ 400mn; coupon: 7.75%; maturity: 07/17) closed at 5.4% yield, trading at 104.7 (down 0.2% w/w). GOGC Eurobonds (GEOROG; US\$ 250mn; coupon: 6.875%; maturity: 05/17) were trading at 102.2 (up 0.3% w/w), yielding 5.7%. Georgian Railway Eurobonds (GRAIL; US\$ 500mn; coupon: 7.75%; maturity: 07/22) also traded at a premium at 110.6 (down 0.5% w/w), yielding 5.9%.

Georgian Sovereign Eurobonds (GEORG; US\$ 500mn; coupon: 6.875% maturity: 04/21) went down to 111.2 (down 0.2% w/w), closing at 4.7% yield to maturity.

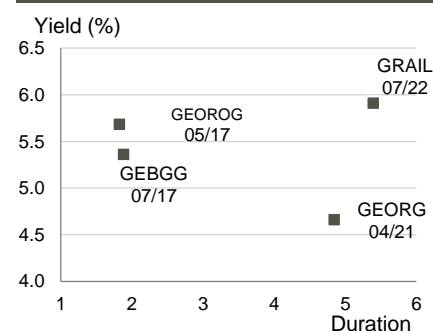
Georgia Eurobonds, YTM (%)



	Local bonds			Eurobonds			
	M ² 06/15	M ² RE 03/17	GLC 09/17	GEOROG 05/17	GEBGG 07/17	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	10	20	10	250	400	500	500
Issue date	06/14	03/15	09/14	05/12	07/12	04/11	07/12
Maturity date	06/15	03/17	09/17	05/17	07/17	04/21	07/22
Coupon, %	8.420	9.500	8.750	6.875	7.750	6.875	7.750
Fitch/S&P/Moody's	-/-	-/-	-/-	BB-/B+/-	BB-/BB-/Baa3	BB-/BB-/Baa3	BB-/BB-/
Mid price, US\$	99.5	100.0	98.0	102.2	104.7	111.2	110.6
Mid yield, %	9.9	9.5	9.7	5.7	5.4	4.7	5.9
Z-spread, bps	n/a	n/a	n/a	440.9	420.3	278	388.3

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-/Baa3	111.3	4.7	278
Azerbaijan	1,250	4.750	18/03/2024	BBB-/Baa3	104.1	4.2	199.3
Bulgaria	323	5.000	19/07/2021	BBB/-	119.3	1.7	-137.7
Croatia	1,250	3.875	30/05/2022	BB/BB/Baa1	103.2	3.4	268.1
Hungary	3,000	6.375	29/03/2021	BB+/BB/Baa1	116.3	3.3	150.8
Romania	2,250	6.750	07/02/2022	BBB-/BBB-/Baa3	120.5	3.3	132.8
Russia	3,500	5.000	29/04/2020	BBB-/BB+/Baa3	104.7	3.9	221.1
Turkey	2,000	5.625	30/03/2021	BBB-/Baa3	109.8	3.8	189.6
Ukraine	1,500	7.950	23/02/2021	CC/CC/Ca	46.8	26.4	2472.3

Source: Bloomberg

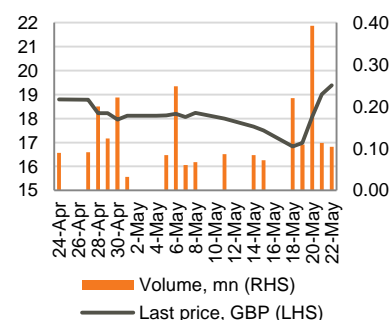
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 19.39/share (+10.80% w/w and +1.36% m/m). More than 939k shares traded in the range of GBP 16.63 – 19.66/share. Average daily traded volume was 130k in the last 4 weeks, more than in the previous month. FTSE 250 Index, of which BOGH is a constituent, has gained 0.96% w/w and 3.16% m/m. The volume of BOGH shares traded was at 2.62% of its capitalization.

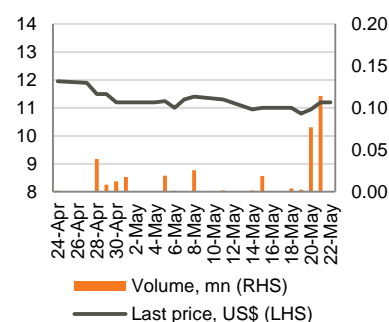
TBC Bank (TBCB LI) closed the week at US\$ 11.20 (+1.82% w/w and -6.28% m/m). More than 197k GDRs changed hands in the range of US\$ 10.80 – 11.20/GDR. Average daily traded volume was 20k in the last 4 weeks, more than in the previous month. The price has decreased 13.85% since the start of trading on June 5, 2014.

On the Georgian stock exchange, Bank of Georgia shares were traded at GEL 35.00 (unchanged w/w), Teliani Valley shares were traded at GEL 0.25 (unchanged w/w), and Liberty Bank shares were traded in the range of GEL 0.012 – 0.013, closing at GEL 0.012 (-7.69% w/w). As a result, the G&T Index decreased to a level of 799.12 (-0.01% w/w).

Bank of Georgia (BGEO LN)



TBC Bank (TBCB LI)



Eastern European banks

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
BGEO*	BGEO	30.02	1,186	4.4%	-0.9%	-14.3%	-7.2%	-29.6%
TBC	TBC	11.20	535	-6.3%	-8.9%	-23.8%	-11.1%	N/A
Halyk Bank	HSBK	7.70	2,100	1.3%	22.2%	-13.5%	-9.4%	-20.7%
KKB	KKB	3.20	1,276	-0.6%	-7.2%	-8.3%	-15.8%	61.5%
VTB Bank	VTBR	3.04	19,668	41.2%	46.3%	54.8%	32.0%	12.0%
Vozrozhdenie Bank	VZRZ	11.35	N/A	0.0%	0.0%	0.0%	0.0%	0.0%
Sberbank	SBER	2.74	N/A	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Bloomberg

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



Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of JSC Bank of Georgia group ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

This document is confidential to clients of Galt & Taggart. Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Galt & Taggart

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: st@gt.ge