

Weekly Market Watch

 Weekly Market Watch | Georgia
 May 11, 2015

Economy

Inflation at 2.5% y/y and 0.3% m/m in April 2015

Annual inflation was recorded at 2.5% in April 2015, according to GeoStat. Overall price changes were driven by price increases on food and non-alcoholic beverages (+2.7% y/y, +0.84pppts), health (+6.4% y/y, 0.65pppts), and alcoholic beverages and tobacco (+11.0% y/y, +0.56pppts), while prices in the transport group decreased by 5.1% y/y (-0.60pppts).

The monthly inflation rate was 0.3% in April 2015. Price increases on transport (+1.8% m/m, +0.20pppts), alcoholic beverages and tobacco (+1.0% m/m, +0.06pppts), and health (+0.5% m/m, +0.05pppts) were the major drivers of monthly inflation dynamics.

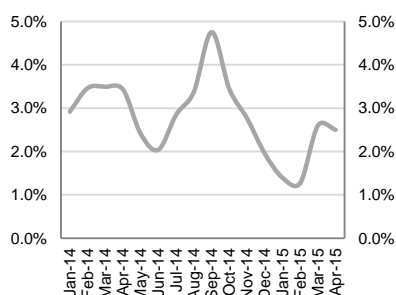
NBG increases policy rate by 50 basis points to 5.0%

At its meeting on May 6, 2015, NBG's monetary policy committee increased the policy rate by 50 basis points to 5.0% and projected a further gradual rate increase to 5.5% by the end of the year. Inflation was well below the target in April, but NBG expects it to rise gradually toward the 5.0% target by end-2015. The decision to raise the policy rate signals the central bank's commitment to price stability in a flexible exchange rate environment with increased inflation expectations. NBG also mentioned that the weaker lari has already started to affect import demand, which facilitates the adjustment of external imbalance and fosters domestic demand.

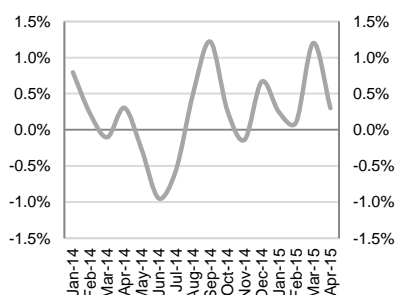
Gross international reserves stood at US\$ 2.4bn end-April 2015

Gross international reserves stood at US\$ 2.4bn (-0.9% m/m) and net foreign assets of NBG stood at US\$ 2.2bn (-1.0% m/m) as of end-April 2015, according to NBG. The decrease in reserves resulted from interventions on the FX market, as NBG sold US\$ 40mn (1.6% of total) in April. However, reserves shrank by just US\$ 22mn, reflecting effects of revaluation and/or government FX operations.

Annual CPI inflation (% change y/y)

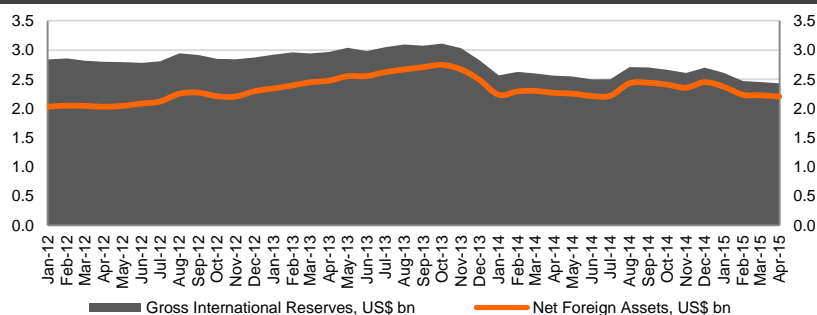


Monthly CPI inflation (% change m/m)



Source: GeoStat

International Reserves



Source: NBG

Key macro indicators

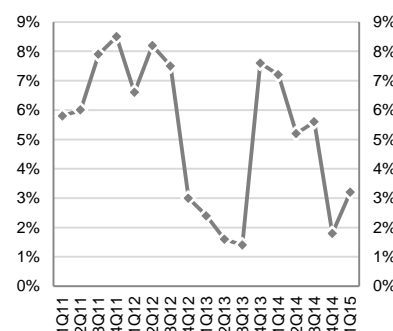
	1Q15	2014	2013
GDP (% change)	3.2%	4.8%	3.3%
GDP per capita (ppp)	...	7,653	7,180
GDP per capita (US\$)	...	3,681	3,600
Population (mn)	3.7**	4.5	4.5
Inflation (eop)	2.5%*	2.0%	2.4%
Gross reserves (US\$ bn)	2.4*	2.7	2.8
CAD (% of GDP)	...	9.7%	5.9%
Fiscal deficit (% of GDP)	...	3.0%	2.6%
Total public 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 & POORS BB- Stable Affirmed Nov-2014	Moody's INVESTORS SERVICE Ba3 Positive Affirmed Aug-2014	FitchRatings BB- Stable Affirmed Apr-2015
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Source: Rating agencies



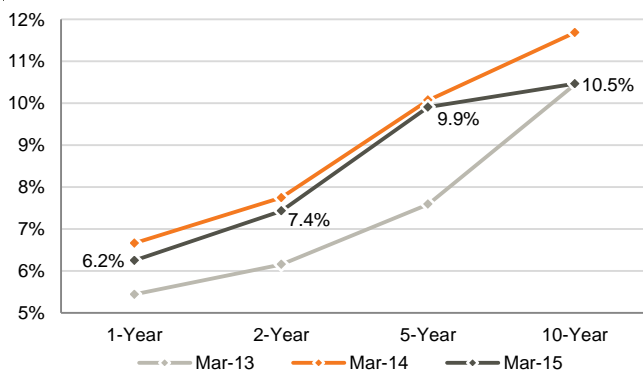
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 301mn) with an average yield of 5.0% (+11.11% w/w).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 8.61mn) certificates of deposit, with an average yield of 5.80% (up by 67bps from previous issue).

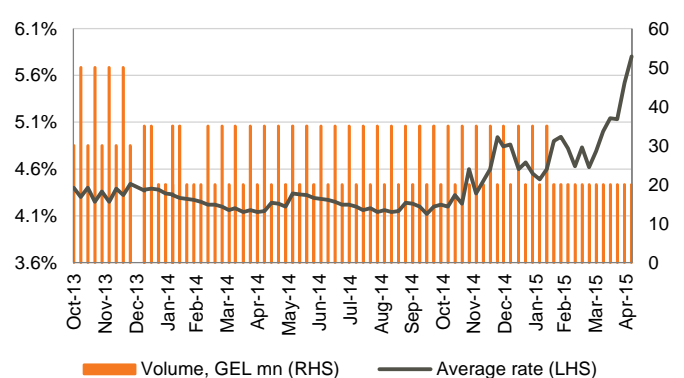
Ministry of Finance Treasury Notes: 2-year, GEL 20mn (US\$ 8.61mn) T-Notes of Ministry of Finance were sold at the auction held at NBG. The weighted average yield was fixed at 8.254%. The nearest treasury securities auction is scheduled for May 13, 2015, where GEL 15mn nominal value 5-year T-Notes will be sold.

T-bills / T-notes, yield curve



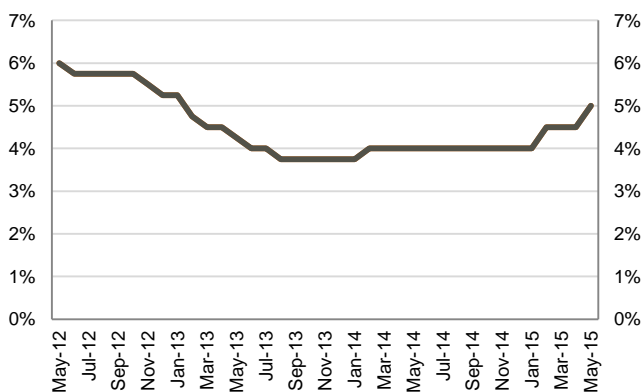
Source: NBG

Certificates of Deposits (weighted average rate)



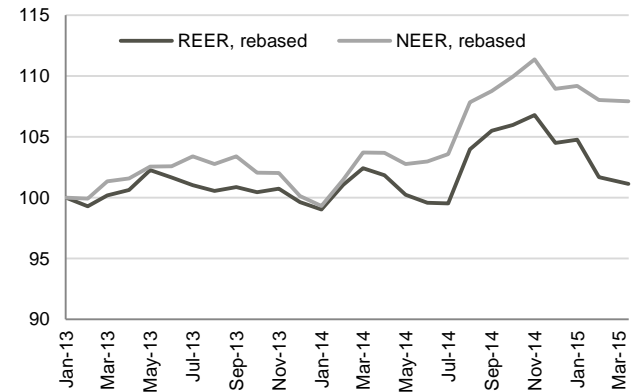
Source: NBG

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

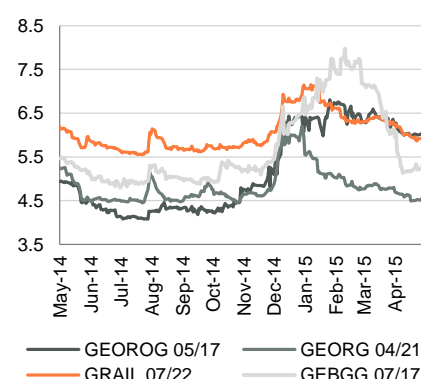


Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG; US\$ 400mn; coupon: 7.75%; maturity: 07/17) closed at 5.6% yield, trading at 104.4 (down 0.7% w/w). GOGC Eurobonds (GEOROG; US\$ 250mn; coupon: 6.875%; maturity: 05/17) were trading at 101.8 (up 0.2 % w/w), yielding 5.9%. Georgian Railway Eurobonds (GRAIL; US\$ 500mn; coupon: 7.75%; maturity: 07/22) also traded at a premium at 111.0 (up 0.6% w/w) yielding 5.8%.

Georgian Sovereign Eurobonds (GEORG; US\$ 500mn; coupon: 6.875% maturity: 04/21) went down to 111.2 (down 0.9% w/w), closing at 4.7% yield to maturity.

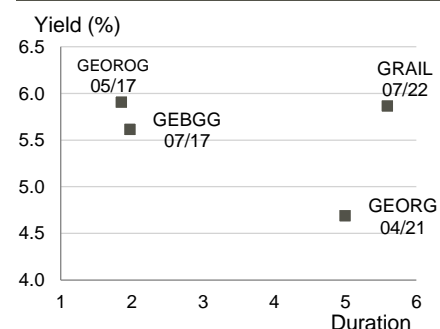
Georgia Eurobonds, YTM (%)



	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	101.8	104.4	111.2	111.0
Mid yield, %	9.9	9.5	9.7	5.9	5.6	4.7	5.8
Z-spread, bps	n/a	n/a	n/a	447.7	414	274.1	398.9

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	111.2	4.7	276.6
Azerbaijan	1,250	4.750	18/03/2024	BBB-/Baa3	104.4	4.1	199.9
Bulgaria	323	5.000	19/07/2021	BBB-/	121.3	1.4	-137
Croatia	1,250	3.875	30/05/2022	BB/BB/Baa1	103.6	3.3	266.9
Hungary	3,000	6.375	29/03/2021	BB+/BB/Baa1	115.8	3.4	153
Romania	2,250	6.750	07/02/2022	BBB-/BBB-/Baa3	119.4	3.5	159
Russia	3,500	5.000	29/04/2020	BBB-/BB+/Baa3	102.9	4.3	259.9
Turkey	2,000	5.625	30/03/2021	BBB-/Baa3	109.3	3.8	202.4
Ukraine	1,500	7.950	23/02/2021	CC/CC/Ca	48.2	25.5	2373.8

Source: Bloomberg



Equities

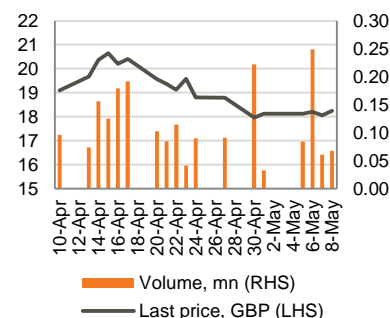
Bank of Georgia Holdings (BGEO LN) shares closed at GBP 18.24/share (+0.66% w/w and -3.03% m/m). More than 460k shares traded in the range of GBP 17.62 – 18.57/share. Average daily traded volume was 120k in the last 4 weeks, more than in the previous month. FTSE 250 Index, of which BOGH is a constituent, has gained 2.60% w/w and 2.05% m/m. The volume of BOGH shares traded was at 1.11% of its capitalization.

TBC Bank (TBCB LI) closed the week at US\$ 11.40 (+1.79% w/w and -3.39% m/m). More than 47k GDRs changed hands in the range of US\$ 10.50 – 11.90/GDR. Average daily traded volume was 19k in the last 4 weeks, less than in the previous month. The price has decreased 12.31% since the start of trading on June 5, 2014.

On the Georgian stock exchange, there were no trades. As a result, the G&T Index remained at the same level of 798.28 (unchanged w/w).

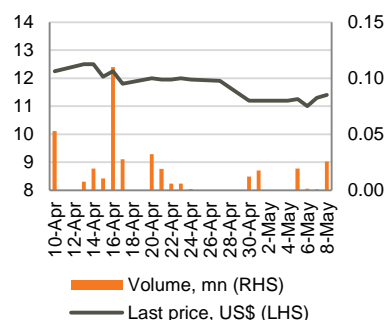
Last week **m2 Real Estate bonds** were admitted to GSE's trading system in B category listing, ticker - \$m203H.

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*	28.19	1,114	0.5%	-17.9%	-21.3%	-12.8%	-37.7%
	TBC	11.40	558	-3.4%	-21.4%	-21.9%	-9.5%	N/A
	Halyk Bank	8.12	2,259	6.3%	24.5%	-4.5%	-4.5%	-13.6%
	KKB	3.22	1,078	0.0%	0.3%	-19.5%	-15.3%	34.2%
	VTB Bank	2.58	16,745	19.1%	24.6%	45.7%	12.3%	9.5%
	Vozrozhdenie Bank	11.35	N/A	0.0%	0.0%	0.0%	0.0%	0.0%
	Sberbank	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

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