

# Weekly Market Watch

 Weekly Market Watch | Georgia  
 May 4, 2015

## Economy

### Real GDP grew 4.3% y/y in March 2015 and 3.2% y/y in 1Q15

Georgia's real GDP grew 3.2% y/y in 1Q15 as output expanded 4.3% y/y in March, 4.9% y/y in February and 0.5% y/y in January, according to GeoStat's rapid estimates. 1Q15 expansion is notable given the high base effect of 1Q14, when GDP grew 7.2% y/y. Growth of the credit portfolio and increased public capital spending supported the expansion, while decrease in external earnings was the major drag on growth, based on 1Q15 preliminary estimates.

### Georgia's population 3.7mn - preliminary results of census

According to the preliminary results of the population census conducted in November 2014, Georgia's population totaled 3.7mn, which constitutes a 14.7% (641,900 persons) decrease compared to the 2002 census data (4.4mn persons). The major decline of 23.8% in rural population, with urban population shrinking by just 6.3%, changed the rural/urban population composition significantly. Rural population accounted for 42.6% of total (47.7% in 2002) and urban population accounted for 57.4% of total (52.3% in 2002). The final census data, to be published in April 2016, will affect GDP per capita recalculations, employment rate, and Georgia's international rankings.

### International arrivals up 0.4% y/y and up 2.2% m/m in April 2015

Tourist arrivals increased 0.4% y/y (+2.2% m/m) to 394,634 visitors in April 2015, after three consecutive months of y/y decreases in 2015, according to MIA. As a result, tourist arrivals declined by 1.6% y/y in 4M15. Turkey was the top country by arrivals, accounting for 26.2% of total (-1.7% y/y), followed by Armenia (24.6% of total, -1.3% y/y), Azerbaijan (22.8% of total, +8.0% y/y), and Russia (14.8% of total, -0.7% y/y), while arrivals from EU grew 6.8% y/y, reaching 4.7% of total in April 2015.

### Loans/deposits continue growing, NPLs are low

Loans and deposits continued growing in March 2015, according to NBG. Excluding the exchange rate effect, the loan portfolio increased 18.2% y/y (+37.1% y/y in unadjusted terms) to GEL 14.6bn (US\$ 6.5bn). Deposits grew by 11.5% y/y excluding the exchange rate effect (+29.9% y/y in unadjusted terms), reaching GEL 12.6bn (US\$ 5.6bn). In March 2015, non-performing loans reached 3.3% (+0.1ppts m/m and +0.2ppts y/y).

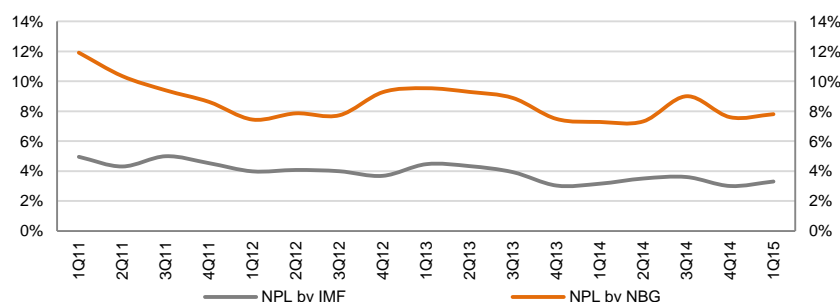
### NBG sold US\$ 40mn

NBG sold US\$ 40mn on the FX market to support the lari on 28 April 2015. It was NBG's fifth intervention this year after the Bank sold US\$ 160mn at four earlier auctions (in total, US\$ 60mn higher than the net sales in the same period of last year). The lari has weakened 3.3% against the dollar in April and 23.8% ytd, 14.7% against the Euro and 7.5% against the Turkish lira ytd.

### EIB opened a regional office in Tbilisi

The European Investment Bank (EIB) opened its regional representative office for the South Caucasus in Tbilisi on April 30, which underlines Georgia's regional hub economy status.

### Non-performing loans



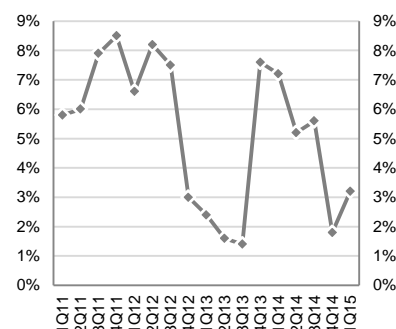
Source: NBG

### Key macro indicators

	2014E	2013
GDP (% change)	4.8%	3.3%
GDP per capita (ppp)	7,666	7,156
GDP per capita (US\$)	3,681	3,560
Population (mn)	4.5	4.5
Inflation (eop)	2.0%	2.4%
Gross reserves (US\$ bn)	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

### 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

<b>STANDARD &amp; POORS</b>  <b>BB-</b> Stable Affirmed Nov-2014	<b>Moody's</b> INVESTORS SERVICE  <b>Ba3</b> Positive Affirmed Aug-2014	<b>FitchRatings</b>  <b>BB-</b> Stable Affirmed Apr-2015
---	---	---

Source: Rating agencies

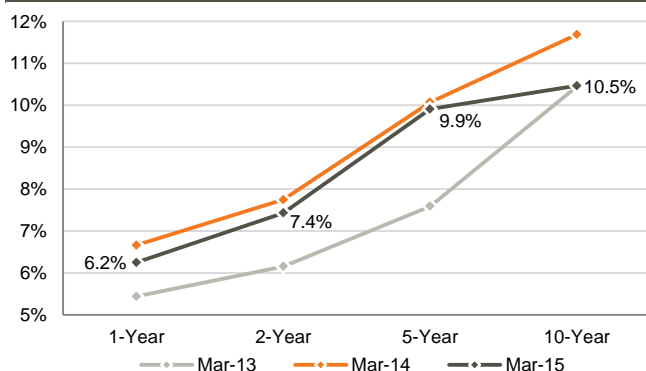
# Money market

**Refinancing loans:** National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 303mn) with an average yield of 4.50% (unchanged w/w).

**Certificates of deposit:** NBG sold 182-day, GEL 20mn (US\$ 8.66mn) certificates of deposit, with an average yield of 5.52% (up by 38bps from previous issue).

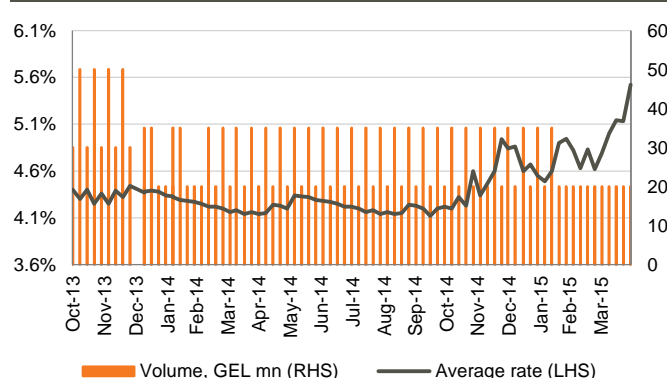
**Ministry of Finance Treasury Notes:** 336-day, GEL 20mn (US\$ 8.66mn) T-Bills of Ministry of Finance were sold at the auction held at NBG. The weighted average yield was fixed at 6.469%. The nearest treasury securities auction is scheduled for May 6, 2015, where GEL 20mn nominal value 2-year T-Notes will be sold.

**T-bills / T-notes, yield curve**



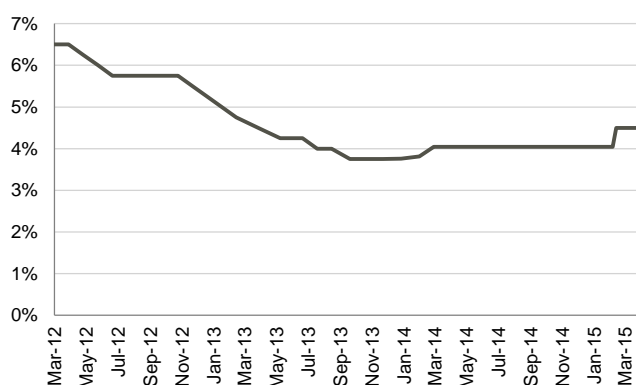
Source: NBG

**Certificates of Deposits (weighted average rate)**



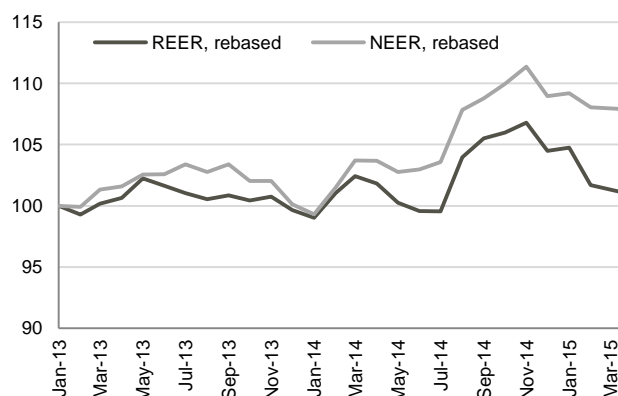
Source: NBG

**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

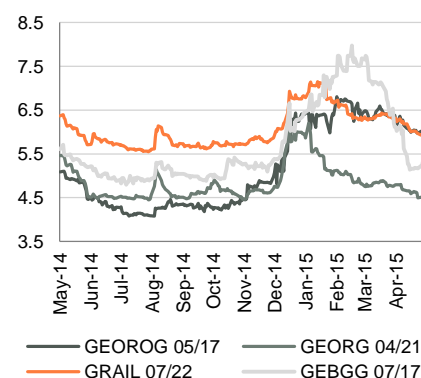


## Fixed income

**Corporate Eurobonds:** Bank of Georgia Eurobonds (GEBGG; US\$ 400mn; coupon: 7.75%; maturity: 07/17) closed at 5.2% yield, trading at 105.1 (down 0.2% w/w). GOGC Eurobonds (GEOROG; US\$ 250mn; coupon: 6.875%; maturity: 05/17) were trading at 101.6 (unchanged w/w), yielding 6.0%. Georgian Railway Eurobonds (GRAIL; US\$ 500mn; coupon: 7.75%; maturity: 07/22) also traded at a premium at 110.4 (up 0.4% w/w) yielding 6.0%.

**Georgian Sovereign Eurobonds** (GEORG; US\$ 500mn; coupon: 6.875% maturity: 04/21) went down to 112.1 (down 0.2% w/w), closing at 4.5% yield to maturity.

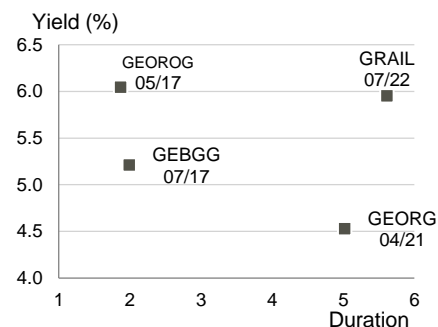
Georgia Eurobonds, YTM (%)



	Local bonds			Eurobonds			
	M <sup>2</sup> 06/15	M <sup>2</sup> 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-/Ba3	BB-/BB-/Ba3	BB-/BB-/
Mid price, US\$	99.5	100.0	98.0	101.6	105.1	112.1	110.4
Mid yield, %	9.9	9.5	9.7	6.0	5.2	4.5	6.0
Z-spread, bps	n/a	n/a	n/a	445.7	413.3	271.2	384.6

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	112.1	4.5	271.2
Azerbaijan	1,250	4.750	18/03/2024	BBB-/Baa3	104.5	4.1	200.6
Bulgaria	323	5.000	19/07/2021	BBB-/	121.3	1.4	-136.4
Croatia	1,250	3.875	30/05/2022	BB/BB/Baa1	104.7	3.1	260.6
Hungary	3,000	6.375	29/03/2021	BB+/BB/Baa1	116.5	3.3	137.6
Romania	2,250	6.750	07/02/2022	BBB-/BBB-/Baa3	120.3	3.4	146.8
Russia	3,500	5.000	29/04/2020	BBB-/BB+/Baa3	101.7	4.6	289.9
Turkey	2,000	5.625	30/03/2021	BBB-/Baa3	109.2	3.9	201.6
Ukraine	1,500	7.950	23/02/2021	CC/CC/Ca	46.3	26.6	2497.1

Source: Bloomberg

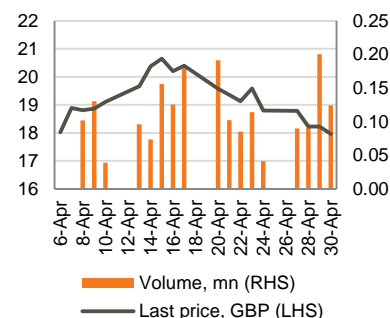
## Equities

**Bank of Georgia Holdings (BGEO LN)** shares closed at GBP 18.12/share (-3.62% w/w and +2.55% m/m). More than 660k shares traded in the range of GBP 17.78 – 19.11 /share. Average daily traded volume was 115k in the last 4 weeks, more than in the previous month. FTSE 250 Index, of which BOGH is a constituent, has lost 1.47% w/w and gained 2.01% m/m. The volume of BOGH shares traded was at 1.86% of its capitalization.

**TBC Bank (TBCB LI)** closed the week at US\$ 11.20 (-6.28% w/w and -2.61% m/m). More than 77k GDRs changed hands in the range of US\$ 10.90 – 11.90/GDR. Average daily traded volume was 20k in the last 4 weeks, less than in the previous month. The price has decreased 13.85% since the start of trading on June 5, 2014.

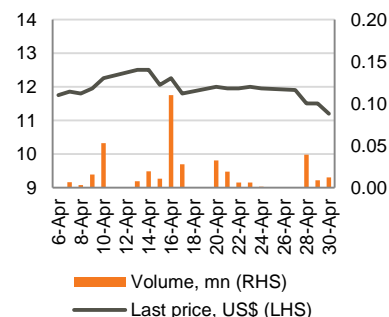
**On the Georgian stock exchange**, there were no trades. As a result, the G&T Index remained at the same level of 798.28 (unchanged w/w).

### 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*	27.39	1,082	4.5%	-11.6%	-33.1%	-15.3%	-39.5%
	TBC	11.20	548	-2.6%	-14.8%	-24.3%	-11.1%	N/A
	Halyk Bank	7.75	2,156	9.0%	33.4%	-20.9%	-8.8%	-13.9%
	KKB	3.22	1,078	0.6%	0.3%	-14.1%	-15.3%	46.4%
	VTB Bank	2.49	16,136	20.9%	27.4%	31.8%	8.3%	18.1%
	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

## 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