

Weekly Market Watch

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April 6, 2015

Economy

Real GDP grew 4.9% y/y in February 2015

Real GDP expanded by 4.9% y/y in February 2015, according to GeoStat's rapid estimates, and output growth averaged 2.7% y/y in 2M15. Monthly rapid estimates are based on VAT turnover, fiscal and monetary statistics.

CPI inflation rate was 2.6% y/y and 1.2% m/m in March 2015

The annual inflation rate was 2.6% in March 2015, according to GeoStat. Overall price changes were driven by price increases on food and non-alcoholic beverages (+3.7% y/y, 1.15ppts), health (+6.0% y/y, 0.63ppts), and alcoholic beverages and tobacco (+9.9% y/y, 0.50ppts), while prices in the transport group decreased by 6.6% y/y (-0.79ppts).

The monthly inflation rate was 1.2% in March 2015. Price increases on food and non-alcoholic beverages (+1.2% m/m, 0.37ppts), household appliances (+4.4% m/m, 0.28ppts), and transport (+1.3% m/m, 0.15ppts) had the largest impact.

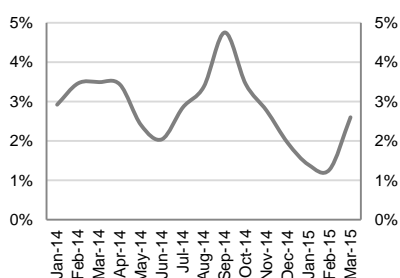
Tax revenues increased 11.1% y/y in 1Q15 and 17.5% y/y in March 2015

Consolidated budget tax revenues increased by 11.1% y/y, reaching GEL 1.9bn (102.4% of the budgeted amount) in 1Q15. Personal income tax revenues increased 4.9% y/y (accounting for 26.3% of total), VAT receipts by 11.8% y/y (44.9% of total), excise tax receipts by 11.3% y/y (9.3% of total), and profit tax receipts by 26.4% y/y (16.9% of total); the rest - receipts from property tax and custom duties - decreased, but they have a minor share in total tax revenues. In 1Q15, state budget capital expenditures reached 108.6% of budgeted amount, according to MOF. Tax revenue grew 17.5% y/y in March, with VAT and profit tax revenues increasing 24.7% y/y and 28.3% y/y respectively (accounting for 67% of total).

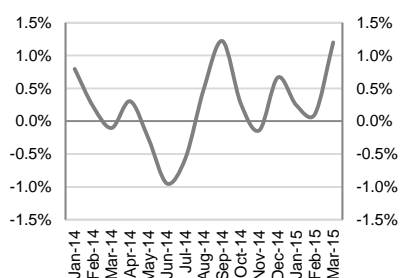
International arrivals down 2.3% y/y and up 32.7% m/m in March 2015

Tourist arrivals fell 2.3% y/y and increased 32.7% m/m to 385,970 visitors in March 2015, according to MIA. Azerbaijan was the top country by arrivals (28.6% of total), followed by Turkey (24.9%), Armenia (23.6%), Russia (12.8%), and Ukraine (2.3%), while arrivals from EU grew 24.7% y/y, reaching 3.9% of total.

Annual CPI inflation (% change y/y)



Monthly CPI inflation (% change m/m)



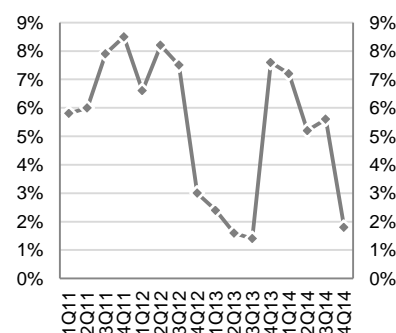
Source: GeoStat

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, G&T Research

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 # 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- Positive Affirmed Oct-2014 |
|--|---|---|

Source: Rating agencies

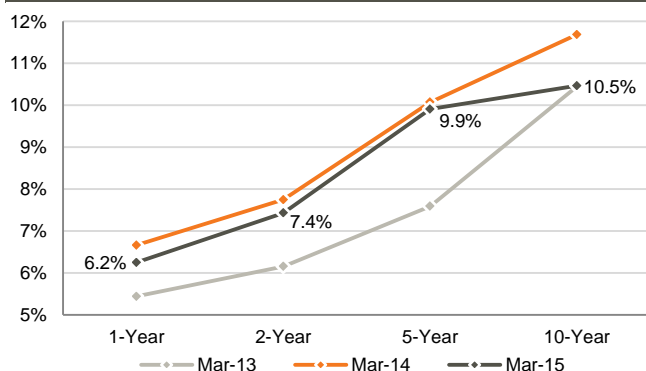
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 6-day refinancing loans of GEL 700mn (US\$ 313mn) with an average yield of 4.50% (unchanged w/w).

Certificates of deposit: NBG sold 181-day, GEL 20mn (US\$ 8.95mn) certificates of deposit, with an average yield of 4.79% (down by 4bps from previous issue).

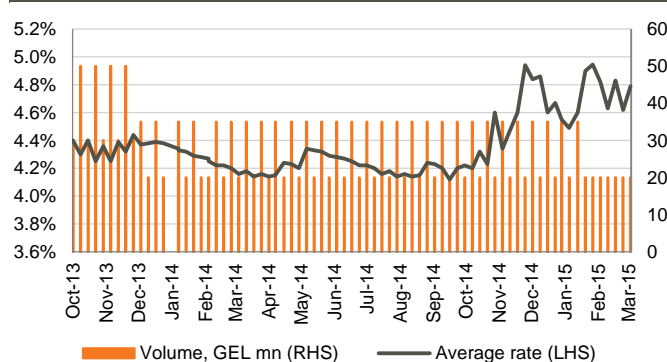
Ministry of Finance Treasury Notes: 364-day, GEL 305mn (US\$ 13.42mn) T-Bills of Ministry of Finance were sold at the auction held at NBG. The weighted average yield was 6.287%. The nearest treasury securities auction is scheduled for April 7, 2015, where GEL 20mn nominal value 2-year T-Notes will be sold.

T-bills / T-notes, yield curve



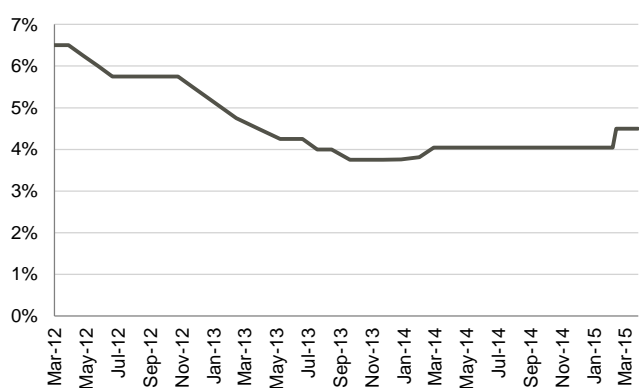
Source: NBG

Certificates of Deposits (weighted average rate)



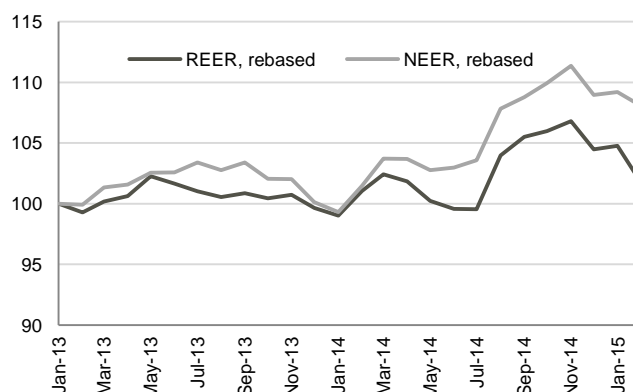
Source: NBG

Monetary policy rate



Source: NBG

Nominal Effective Exchange Rate and Real Effective Exchange Rate



Source: NBG

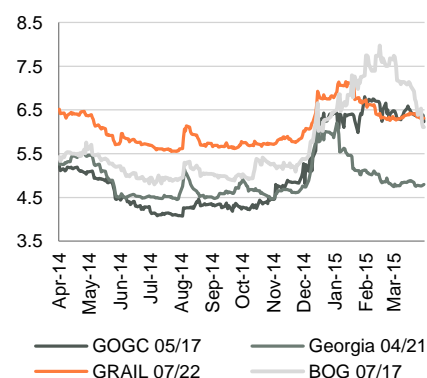
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate.

Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG; US\$ 400mn; coupon: 7.75%; maturity: 07/17) closed at 6.0% yield, trading at 103.6 (up 0.8% w/w). GOGC Eurobonds (GEOROG; US\$ 250mn; coupon: 6.875%; maturity: 05/17) were trading at 101.3 (up 0.2% w/w), yielding 6.2%. Georgian Railway Eurobonds (GRAIL; US\$ 500mn; coupon: 7.75%; maturity: 07/22) also traded at a premium at 108.7 (up 0.6% w/w) yielding 6.2%.

Georgian Sovereign Eurobonds (GEORG; US\$ 500mn; coupon: 6.875% maturity: 04/21) went down to 110.8 (down 0.1% w/w), closing at 4.8% yield to maturity.

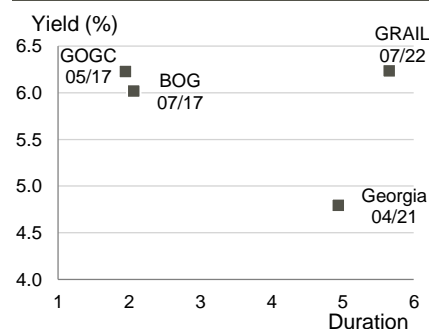
Georgia Eurobonds, YTM (%)



| | Local bonds | | | | Eurobonds | | | |
|-------------------|----------------------|----------------------|-----------|-------------------------|------------|---------------|----------|-------------|
| | M ² 04/15 | M ² 06/15 | GLC 09/17 | M ² RE 03/17 | GOGC 05/17 | Georgia 04/21 | GR 07/22 | BOG 07/17 |
| Amount, US\$ mn | 5 | 10 | 10 | 20 | 250 | 500 | 500 | 400 |
| Issue date | 04/14 | 06/14 | 09/14 | 03/15 | 05/12 | 04/11 | 07/12 | 07/12 |
| Maturity date | 04/15 | 06/15 | 09/17 | 03/17 | 05/17 | 04/21 | 07/22 | 07/17 |
| Coupon, % | 9.500 | 8.420 | 8.750 | 9.500 | 6.875 | 6.875 | 7.750 | 7.750 |
| Fitch/S&P/Moody's | -/- | -/- | -/- | -/- | BB-/B+/- | BB-/BB-/Ba3 | BB-/BB-/ | BB-/BB-/Ba3 |
| Mid price, US\$ | 100.0 | 99.5 | 98.0 | 100.0 | 101.3 | 110.8 | 108.7 | 103.6 |
| Mid yield, % | 8.7 | 9.9 | 9.7 | 9.5 | 6.2 | 4.8 | 6.2 | 6.0 |
| Z-spread, bps | n/a | n/a | n/a | n/a | 496 | 309.6 | 481.3 | 548.8 |

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 | 110.8 | 4.8 | 309.6 |
| Azerbaijan | 1,250 | 4.750 | 18/03/2024 | BBB-/Baa3 | 100.5 | 4.7 | 277.6 |
| Bulgaria | 323 | 5.000 | 19/07/2021 | BBB-/ | 121.6 | 1.4 | -149 |
| Croatia | 1,250 | 3.875 | 30/05/2022 | BB/BB/Ba1 | 105.4 | 3.0 | 257.2 |
| Hungary | 3,000 | 6.375 | 29/03/2021 | BB+/BB/Ba1 | 116.8 | 3.3 | 166.5 |
| Romania | 2,250 | 6.750 | 07/02/2022 | BBB-/BBB-/Baa3 | 121.1 | 3.3 | 158.5 |
| Russia | 3,500 | 5.000 | 29/04/2020 | BBB-/BB+/Baa3 | 102.0 | 4.5 | 304 |
| Turkey | 2,000 | 5.625 | 30/03/2021 | BBB-/Baa3 | 110.0 | 3.7 | 212.6 |
| Ukraine | 1,500 | 7.950 | 23/02/2021 | CCC/CCC-/Caa3 | 41.0 | 29.8 | 2767.9 |

Source: Bloomberg

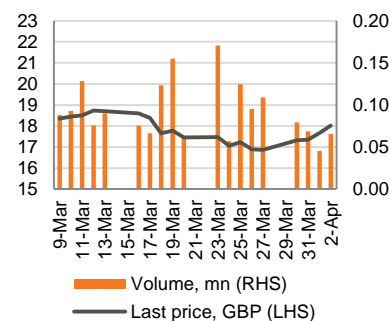
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 18.02/share (+6.88% w/w and -1.64% m/m). More than 280k shares traded in the range of GBP 16.82 – 18.30 /share. Average daily traded volume was 94k in the last 4 weeks, lower than in the previous month. FTSE 250 index, of which BOGH is a constituent, has gained 0.62% w/w and 0.72% m/m. The volume of BOGH shares traded was at 0.71% of its capitalization.

TBC Bank closed the week at US\$ 11.75 (+3.98% w/w and +3.98% m/m). More than 66k GDRs changed hands in the range of US\$ 11.60 – 12.00/GDR. Average daily traded volume was 86k in the last 4 weeks, less than in the previous month. The price has decreased 9.62% since the start of trading on June 5, 2014.

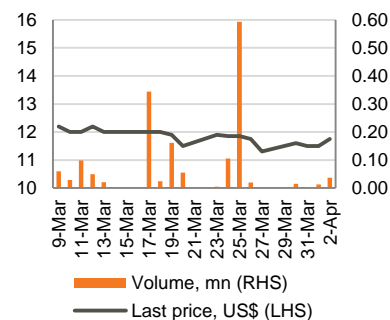
On the Georgian stock exchange, Bank of Georgia shares were traded at GEL 35.00 (unchanged w/w) and Liberty Bank shares were traded in the range of GEL 0.01 – 0.0101 closing at GEL 0.0101 (+1.00% w/w). As a result, the G&T Index slightly increased to the level of 798.91 (+0.001% w/w).

Bank of Georgia (BGEO LN)



Source: Bloomberg

TBC Bank (TBCL LI)



Source: Bloomberg

Eastern European banks

| | Ticker | Share price, US\$ | MCap, US\$ mn | 1M, chg | 3M, chg | 6M, chg | YTD, chg | 1Y, chg |
|--|-------------------|-------------------|---------------|---------|---------|---------|----------|---------|
| | BGEO* | 26.75 | 1,057 | -5.1% | -17.3% | -30.7% | -32.6% | -39.2% |
| | TBC | 11.75 | 575 | 4.0% | -6.0% | N/A | N/A | N/A |
| | Halyk Bank | 8.00 | 2,226 | 21.2% | -11.1% | -29.3% | -22.0% | -12.6% |
| | KKB | 2.95 | 988 | -14.5% | -22.3% | -26.2% | 63.9% | 31.1% |
| | VTB Bank | 2.12 | 13,738 | -3.5% | -3.6% | 6.6% | -29.2% | 1.7% |
| | 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% | -12.7% | 0.0% |

Source: Bloomberg

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

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