

Weekly Market Watch

Weekly Market Watch | Georgia
March 9, 2015

Economy

Inflation rate was 1.3% y/y and 0.1% m/m in February 2015

The annual inflation rate in Georgia was recorded at 1.3% in February 2015 according to GeoStat. Overall price changes were driven by the price increases on healthcare (+6.4% y/y, 0.67ppts), food and non-alcoholic beverages (+1.9% y/y, 0.60ppts), and alcohol and tobacco (+8.1% y/y, 0.42ppts), while prices in the transport group decreased by 7.8% y/y (-0.94ppts).

February monthly inflation rate was 0.1%. Price increases on healthcare (+0.9% m/m, 0.09ppts) and alcohol and tobacco (+1.0% m/m, 0.05ppts), and a price drop in the transport group (-2.4% m/m, -0.27ppts), caused by lower fuel prices, were the major drivers of the monthly inflation rate in February.

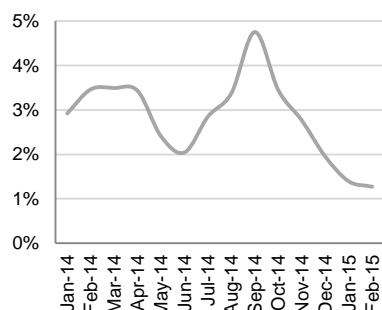
Total tax collection increased 6.5% y/y in 2M15

Consolidated budget tax collection increased by 6.5% y/y, reaching GEL 1.05bn (13% of annual plan) in 2M15. The budgeted tax collection in 2015 is 11% higher than the 2014 annual estimate. Personal income tax receipts increased by 4.5% y/y (accounting for 28.4% of total), VAT receipts by 6.5% y/y (54.6% of total), excise tax receipts by 16.7% y/y (11.7% of total) and profit tax receipts by 12.3% y/y (3.2% of total); the rest (receipts from property tax and customs duties) decreased, but they have a minor share in total tax receipts. In 2M15 state budget expenditures reached GEL 1.3bn (+12.9% y/y), comprising 13.5% of the annual plan and 60% of the 1Q15 plan. The government has announced a plan to decrease current expenditures in 2015 in light of the reduced growth forecast.

Gross international reserves stood at US\$ 2.5bn end-February 2015

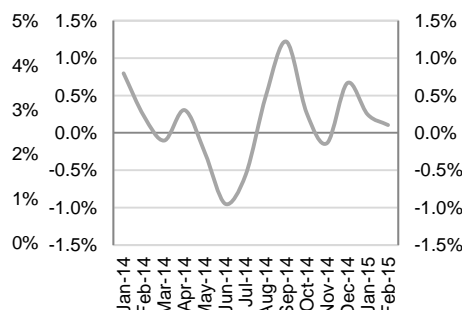
Gross international reserves stood at US\$ 2.5bn (-5.4% m/m) and net foreign assets of NBG stood at US\$ 2.23bn (-5.8% m/m) as of end-February 2015, according to NBG. The decline was driven by the NBG FX interventions in February. The IMF mission visiting Georgia during February 23-March 4, 2015 commented, "The mission fully supports the NBG's policy to refrain from intervening in the foreign exchange market and to allow the Lari to float. The main objective of the NBG is to ensure price stability: achieving this goal depends on having a floating exchange rate. In addition, the floating rate allows the exchange rate to absorb external shocks. Intervening to resist shocks that will likely be long-lasting would only waste Georgia's foreign currency reserves and slow the reduction of Georgia's trade deficit with the rest of the world."

Annual inflation (CPI)



Source: GeoStat

Monthly inflation (CPI)

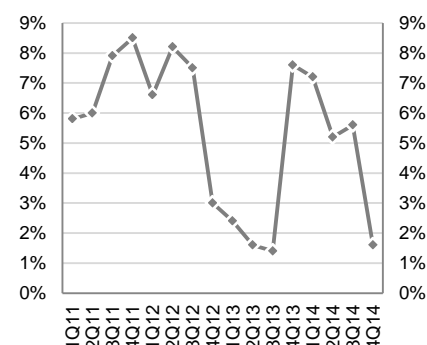


Key macro indicators

	2014E	2013
GDP (% change)	4.7%	3.3%
GDP per capita (PPP)	7,666	7,156
GDP per capita (US\$)	3,700	3,597
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)	35.0%	34.7%

Source: Official data, G&T Research

Real GDP growth, %



Source: GeoStat, 4Q14 data preliminary

International ranking of Georgia, 2014

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 May-2014	MOODY'S INVESTORS SERVICE Ba3 Positive Affirmed Sep-2014	FitchRatings BB- Positive Affirmed Oct-2014
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Source: Rating agencies



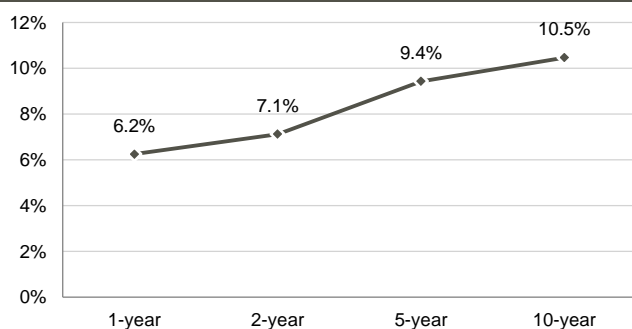
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 332mn) with an average yield of 4.50% (unchanged w/w).

Certificates of deposit: NBG sold 182-day, GEL 20mn (US\$ 9.5mn) certificates of deposits, with an average yield of 4.82% (down by 8bps from previous issue).

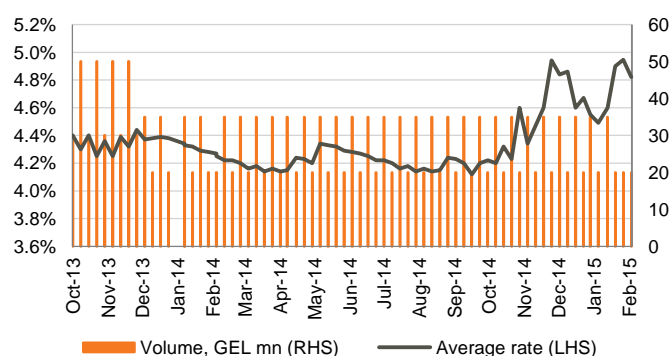
Ministry of Finance Treasury Notes: 350-day, GEL 40mn (US\$ 18.76mn) T-Bills of Ministry of Finance were sold at the auction held at NBG. Minimum yield was 5.950%, maximum yield was 6.479% and the weighted average yield was fixed at 6.249%. The nearest treasury securities auction is scheduled for March 11, 2015, where GEL 25mn nominal value 703-day T-Notes will be sold.

T-bills / T-notes, yield curve



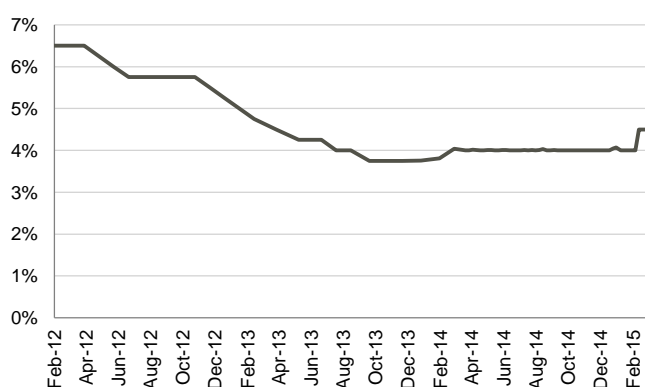
Source: NBG

Certificates of Deposits (weighted average rate)



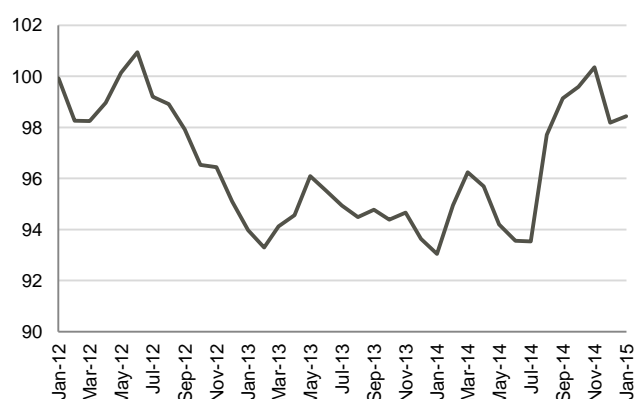
Source: NBG

Monetary policy rate



Source: NBG

Real Effective Exchange Rate



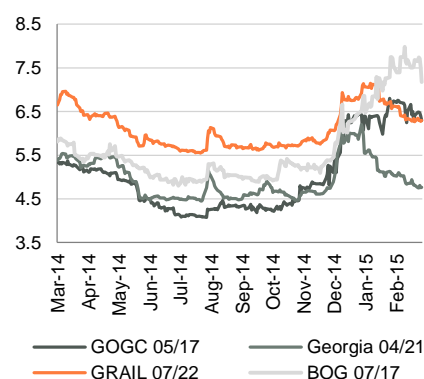
Source: NBG

Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG; US\$ 400mn; coupon: 7.75%; maturity: 07/17) closed at 7.2% yield, trading at 100.2 (up 0.1% w/w). GOGC Eurobonds (GEOROG; US\$ 250mn; coupon: 6.875%; maturity: 05/17) were trading at 101.3 (up 0.3% w/w) yielding 6.2%. Georgian Railway Eurobonds (GRAIL; US\$ 500mn; coupon: 7.75%; maturity: 07/22) also traded at a premium at 108.4 (down 0.2% w/w) yielding 6.3%.

Georgian Sovereign Eurobonds (GEORG; US\$ 500mn; coupon: 6.875% maturity: 04/21) went up to 111.0 (up 0.2% w/w) closing at 4.8% YTM.

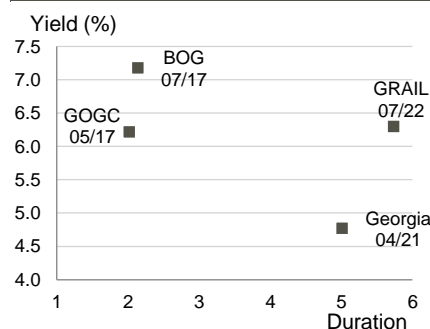
Georgia Eurobonds, YTM (%)



	Local bonds			Eurobonds			
	M ² 04/15	M ² 06/15	GLC 09/17	GOGC 05/17	Georgia 04/21	GR 07/22	BOG 07/17
Amount, US\$ mn	5	10	10	250	500	500	250
Issue date	04/14	06/14	09/14	05/12	04/11	07/12	07/12
Maturity date	04/15	06/15	09/17	05/17	04/21	07/22	07/17
Coupon	9.500%	8.420%	8.750%	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\$	102.2	102.8	100.0	101.3	111.0	108.4	101.2
Mid yield, %	9.00%	8.00%	8.75%	6.2	4.8	6.3	7.2
Z-spread, bps	n/a	n/a	n/a	581.6	270.3	422.1	577.7

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	111.0	4.8	270.3
Azerbaijan	1,250	4.750%	18/03/2024	BBB-/Baa3	101.3	4.6	225.1
Bulgaria	323	5.000%	19/07/2021	BBB-/	122.4	1.3	-165.1
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba1	106.6	2.8	227
Hungary	3,000	6.375%	29/03/2021	BB+/BB/Ba1	115.7	3.5	144.9
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	121.1	3.3	119.4
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Baa3	97.5	5.6	360.8
Turkey	2,000	5.625%	30/03/2021	BBB-/Baa3	107.8	4.2	211.2
Ukraine	1,500	7.950%	23/02/2021	CCC/CCC-/Caa3	45.0	27.0	2611.9

Source: Bloomberg

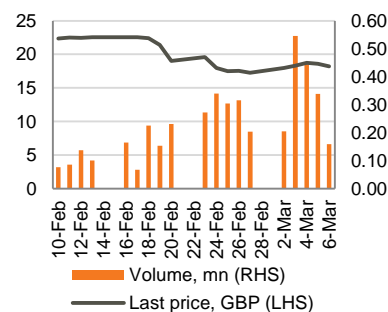
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 18.23/share (+5.68% w/w and -17.74% m/m). More than 1.5mn shares traded in a range of GBP 17.17 – 18.86/share. Average daily traded volume was 223k in the last 4 weeks, higher than in the previous month. FTSE 250 index, of which BOGH is the constituent, has lost 0.01% w/w and gained 3.52% m/m. The volume of BOGH shares traded was at 4.0% of its capitalization.

TBC Bank closed the week at US\$ 12.15 (+5.65% w/w and -10.00% m/m). More than 450k GDRs changed hands in the range of US\$ 10.90 – 12.50/GDR. Average daily traded volume was 79k in the last 4 weeks, higher than in the previous month. The price has decreased 6.54% since the start of trading on June 5, 2014.

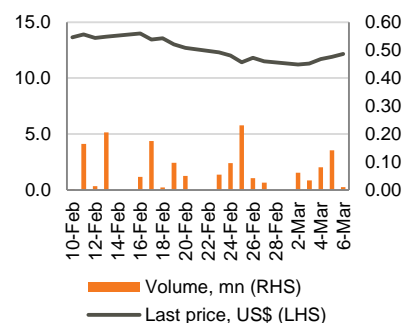
On the Georgian stock exchange, Caucasus Energy & Infrastructure shares were traded at GEL 0.85 (unchanged w/w). As a result, the G&T Index remained unchanged at 799.13.

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*	27.45	1,592	-18.1%	-14.7%	-34.8%	-30.8%	-28.8%
	TBC	12.15	595	-10.00%	-7.6%	N/A	N/A	N/A
	Halyk Bank	6.30	1,753	-3.1%	-21.0%	-45.2%	-38.5%	-30.0%
	KKB	3.45	1,155	7.5%	-8.0%	-18.6%	91.7%	72.5%
	VTB Bank	2.10	13,609	3.0%	5.0%	-7.0%	-29.9%	9.7%
	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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