

Weekly Market Watch

Weekly Market Watch | Georgia
December 15, 2014

Economy

FDI up 99% y/y in 3Q14, six-year high

Georgia's 3Q14 FDI increased 99% y/y (237% q/q) to US\$ 508mn according to GeoStat's preliminary figures. The construction sector was the largest FDI recipient with 36% of total, followed by the transport and communications sector (21%) and real estate (12%). China topped the list of investors with US\$ 149mn (29% of total), with the Azerbaijan coming second at US\$ 95mn (19%).

Money transfers up 0.2% in 11M14

Money transfers increased 0.2% y/y in 11M14, with Russia accounting for 50% of total, followed by Greece (14.1%), Italy (8.3%), USA (5.5%) and Turkey (4.4%). In 11M14 remittances significantly increased from Turkey (+53.7%), Germany (+36.7%), Italy (+11.2%) and USA (+8.6%). However, money transfers decreased 16.2% y/y in November. Remittances from Russia accounting for 43.9% of total in November experienced the biggest decline 30.3% y/y this year. In November, money transfers strongly grew from Turkey, Israel, Germany and USA.

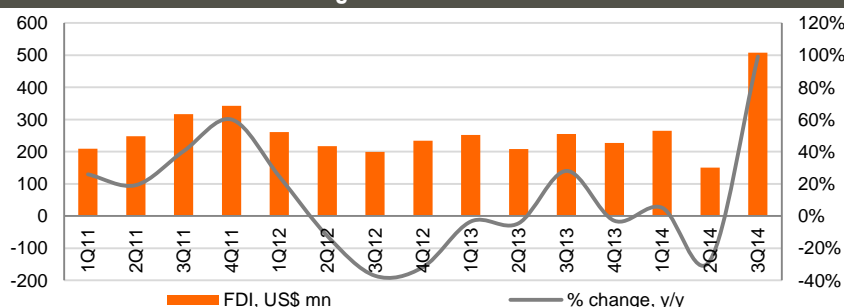
Elimination of tax-free threshold for personal income tax

Government initiated changes to the tax code for elimination of tax-free threshold of personal income tax for low-income earners from 2015. Existing threshold (introduced at end-2012) of an annual GEL 1800 (around US\$1000) enables low-income groups to reclaim paid taxes from the government. This change will save significant amounts in the budget from 2016 as personal income tax refund costs GEL 130-140mn or 0.4% of GDP in 2014.

Georgia enjoys continued support from international community

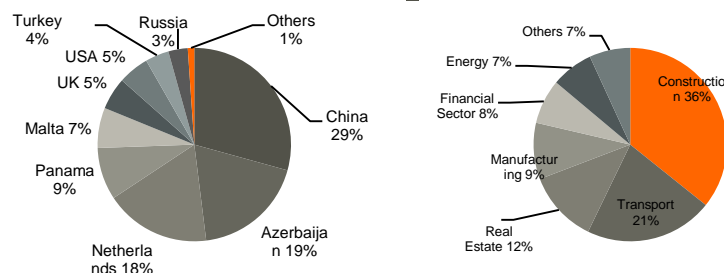
On 11 December EU and Georgia signed Eur 46mn Macro-Financial Assistance program. The program is intended to strengthen Georgia's balance of payments and to support reforms. On 10 December US congress agreed to allocate US\$ 30mn under Foreign Military Financing for Georgia in 2015 fiscal budget.

Foreign Direct Investments



Source: GeoStat

FDI by Countries and by Sectors, 3Q14



Source: GeoStat

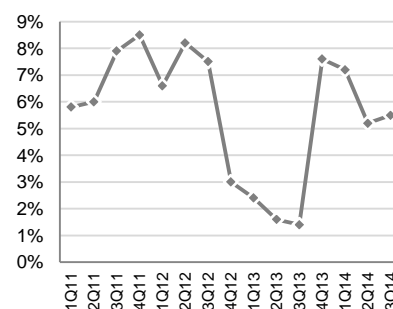
Key macro indicators

	10M14	2014F	2013
GDP (% change)	5.6%	5.0%	3.3%
GDP per capita (US\$)	na	3,720	3,600
Population (mn)	4.5	4.5	4.5
Inflation	2.8%*	4.5%	2.4%
Gross reserves (US\$ bn)	2.6	2.8	2.8
CAD (% of GDP)	na	8.0%	5.9%
Fiscal deficit (% of GDP)	1.6%	3.0%	2.6%
Total public debt (% of GDP)	33.1%	35.0%	34.7%

Source: Official data, G&T Research

* as of November

Real GDP growth, %



Source: GeoStat

International ranking of Georgia, 2014

Ease of doing business # 15 (regional leader)
Economic freedom index # 22 (mostly free)
Global competitiveness rank # 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

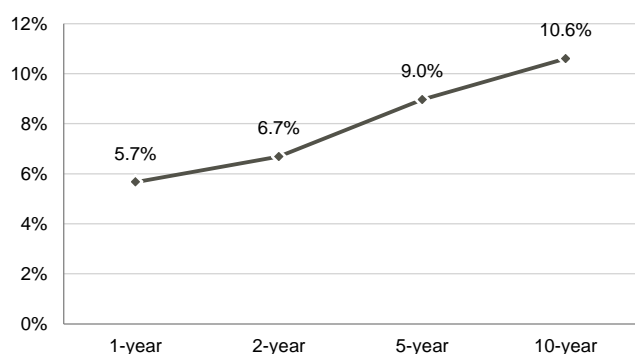
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 330 mn (US\$ 174mn) with an average yield of 4.00% (unchanged w/w).

Certificates of deposit: NBG sold 182-day, GEL 20mn (US\$ 10.4mn) certificates of deposits, with an average yield of 4.47% (down by 13bps from previous issue).

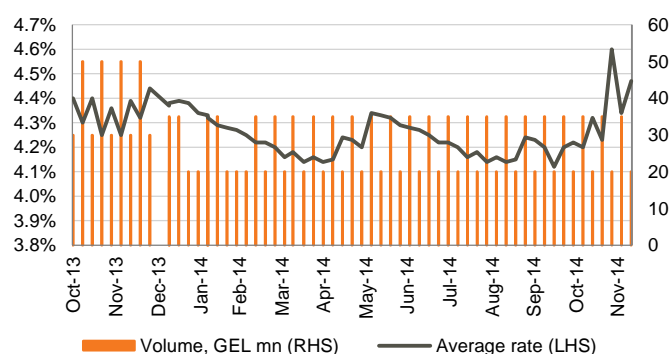
Ministry of Finance Treasury Notes: The nearest treasury securities auction is scheduled for December 17, 2014, where GEL 20mn nominal value 2-year, coupon rate 6.625% T-Notes will be sold.

T-bills / T-notes, yield curve



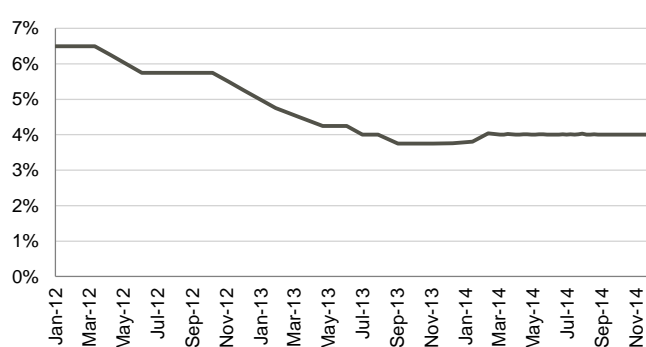
Source: NBG

Certificates of Deposits (weighted average rate)



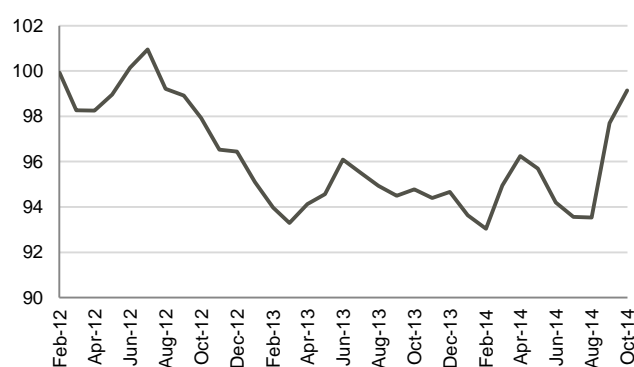
Source: NBG

Monetary policy rate



Source: NBG

Real Effective Exchange Rate



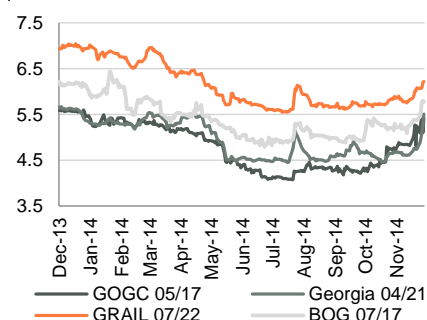
Source: NBG

Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG; US\$ 400mn coupon: 7.75%; maturity 07/17) closed at 5.8% yield, trading at a premium, at 104.6 (down 1% w/w). GOGC Eurobonds (GEOROG; US\$ 250mn, coupon: 6.875%; maturity: 05/17) were trading at a premium, at 103.3 (down 0.4% w/w) yielding 5.4%. Georgian Railway Eurobonds (GRAIL; US\$ 500mn, coupon: 7.75% maturity: 07/22), also traded at a premium at 109.1 (down 0.9% w/w) yielding 6.2%.

Georgian Sovereign Eurobonds (GEORG; US\$ 500mn, coupon: 6.875% maturity: 04/21) went down to 107.2 (-4.4% w/w) closing at 5.5% YTM.

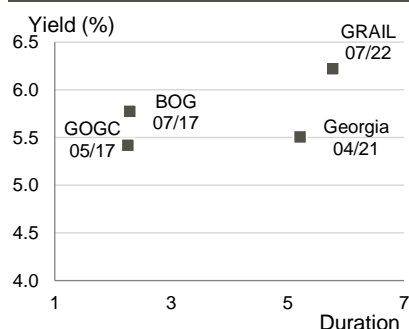
Georgia Eurobonds, YTM (%)



	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-/Baa3	BB-/BB-/	BB-/BB-/Baa3
Mid price, US\$	102.2	102.8	100.0	103.3	107.2	109.1	104.6
Mid yield, %	9.00%	8.00%	8.75%	5.4	5.5	6.2	5.8
Z-spread	n/a	n/a	n/a	458.9	264.9	420.8	565.4

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
Georgia	500	6.875%	12/04/2021	BB-/BB-/Baa3	107.2	5.5	367.3
Azerbaijan	1,250	4.750%	18/03/2024	BBB-/BBB-/Baa3	96.8	5.2	290.2
Bulgaria	323	5.000%	19/07/2021	BBB-/	117.2	2.2	-166.7
Croatia	1,250	3.875%	30/05/2022	BB/BB/Baa1	102.3	3.5	293.1
Hungary	3,000	6.375%	29/03/2021	BB+/BB/Baa1	114.6	3.7	195.8
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	120.3	3.5	143.9
Russia	3,500	5.000%	29/04/2020	BBB/BBB-/Baa2	94.2	6.3	475.6
Turkey	2,000	5.625%	30/03/2021	BBB-/Baa3	109.9	3.8	203.4
Ukraine	1,500	7.950%	23/02/2021	CCC/CCC/Caa3	64.5	17.6	1582.4

Source: Bloomberg

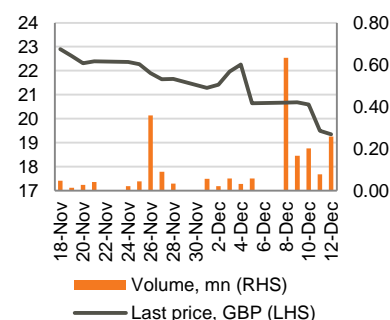
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 19.35/share (-6.30% w/w and -16.95% m/m). More than 900K shares traded in a range of GBP 18.74 – 20.96/share. Average daily traded volume was 123k in the last 4 weeks, more than in previous month. FTSE 250 index, of which BOGH is the constituent, has also been trending downwards (-3.91% w/w and -1.46% m/m). The volume of BOGH shares traded was at 2.3% of its capitalization.

TBC Bank closed the week at US\$ 12.5 (-4.94 w/w and -13.79% m/m), more than 109k GDRs changed hands in the range of US\$ 12.00 – 13.75/GDR. Average daily traded volume was 15k in the last 4 weeks, lower than in previous month. The price has decreased 3.85% since the start of the trading on June 5, 2014.

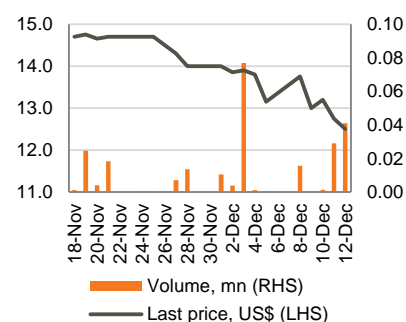
On the Georgian stock exchange Bank of Georgia shares were traded in the range of GEL 35.00 – 40.00 closing at GEL 40.00 (+14.28% w/w). Liberty Bank shares were traded at GEL 0.0139 (unchanged w/w). Teliani Valley shares were traded at GEL 0.25 (-37.5% w/w) and Caucasus Energy and Infrastructure shares were traded at GEL 0.8 (+14.29% w/w), as a result G&T Index increased to the level of 910.57 (+13.68% 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*	BGEO	30.41	1,592	-17.4%	-22.2%	-24.3%	-23.4%	-16.9%
TBC	TBC	12.50	616	-13.8%	-22.4%	N/A	N/A	N/A
Halyk Bank	HSBK	7.15	2,031	-20.6%	-37.8%	-31.1%	-30.2%	-26.3%
KKB	KKB	3.53	1,180	0.7%	-14.0%	76.3%	95.8%	120.3%
VTB Bank	VTBR	2.00	12,760	6.0%	-5.3%	-25.4%	-33.2%	-28.0%
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%	-12.7%	-11.2%
BSPB	BSBP	30.41	1,592	-17.4%	-22.2%	-24.3%	-23.4%	-16.9%

Source: Bloomberg

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

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