

Weekly Market Watch

 Weekly Market Watch | Georgia
 July 6, 2015

Economy

Real GDP grew 2.1% y/y in May 2015

Real GDP expanded 2.1% y/y in May 2015, according to GeoStat's rapid estimates, and output growth averaged 2.5% y/y in 5M15. Monthly rapid estimates are based on VAT turnover, fiscal and monetary statistics.

Tax revenues posted a strong performance in 1H15, up 11.9% y/y

Consolidated budget tax revenues increased 11.9% y/y to GEL 3.8bn (102.9% of the budgeted amount) in 1H15. Personal income tax revenues grew 16.3% y/y (26.4% of total), VAT receipts +6.9% y/y (43.6% of total), excise tax receipts +3.5% y/y (9.8% of total), profit tax receipts +33.9% y/y (14.9% of total), and property tax +9.4% y/y (4.1% of total). The rest - receipts from custom duties and other taxes - decreased, but they have a minor share in total tax revenues.

International arrivals up 9.3% y/y in June 2015

After a 14.7% spike in May 2015, tourist arrivals posted another significant jump of 9.3% y/y to 496,758 persons in June 2015, according to the Ministry of Internal Affairs. Significantly increased arrivals from Azerbaijan (+15.2% y/y, 22.8% of total), Armenia (+33.2% y/y, 22.5% of total), and Russia (+47.0% y/y, 18.0% of total) were the major contributors to growth. Arrivals from the EU decreased 0.8% in June.

Gross external debt down 1.1% q/q to US\$ 13.4bn as of end-March 2015

Gross external debt of Georgia amounted to US\$ 13.4bn (-1.1% q/q) and gross external debt excluding intercompany lending stood at US\$ 10.6bn (-0.9% q/q) or 82.8% and 65.5% of last four quarters' GDP, respectively, as of end-March 2015, according to NBG. These figures do not yet fully reflect the depreciation effect on nominal GDP in US\$ terms. The gross debt figure was comprised of general government external debt at US\$ 4.1bn (-4.2% q/q), banking sector external debt at US\$ 2.8bn (+2.7% q/q), intercompany lending at US\$ 2.8bn (-1.7% q/q) and other sectors' external debt at US\$ 3.8bn (+0.1% q/q). Foreign currency denominated external debt accounted for 94.2% of total. Net external debt stood at US\$ 8.8bn (+1.6% q/q).

Current account deficit reached 14.1% of GDP in 1Q15

In 1Q15, current account deficit reached 14.1% of GDP (US\$ 464.8mn), +4.0ppts y/y. Trade deficit, increasing 14.2% y/y, was the major contributor, as exports fell 26.0% y/y, while imports decreased just 7.3% y/y. Positive balances in services and money transfers were enough to finance almost 60% of the trade deficit. Among services, tourism had the largest positive balance, falling 3.9% y/y to US\$ 241.3mn. Current transfers were the largest positive component of the current account in 1Q15, decreasing 6.9% y/y to US\$ 329.9mn. Net FDI and other investments accounted for 8.9% of GDP in 1Q15. Reserves decreased by US\$ 184.8mn.

Inflation rate at 4.5% y/y and 0.02% m/m in June 2015

Annual CPI inflation was recorded at 4.5% in June 2015, according to GeoStat. Overall price changes were driven by price increases on food and non-alcoholic beverages (+5.7% y/y, +1.66ppts), health (+7.4% y/y, +0.72ppts), and alcoholic beverages and tobacco (+11.4% y/y, +0.60ppts), while prices in clothing and footwear and transport categories fell 3.3% y/y and 0.6% y/y, respectively.

Monthly inflation rate was 0.02% in June 2015. Price increases in transport (+3.1% m/m, +0.35ppts) and furnishings and household equipment (+1.4% m/m, +0.10ppts) and price drops in food and non-alcoholic beverages (-1.9% m/m, -0.59ppts) were the major drivers of the monthly inflation dynamics.

NBG raised policy rate by 50 basis points to 5.5%

At its meeting on July 1, 2015, NBG's monetary policy committee increased the policy rate by 50 basis points to 5.5%. The decision to raise the policy rate was guided by increased inflation expectations as well as domestic and external risks affecting the inflation forecast. The committee also signaled the necessity for further gradual rate increase to 6.5% by the end of the year.

Key macro indicators

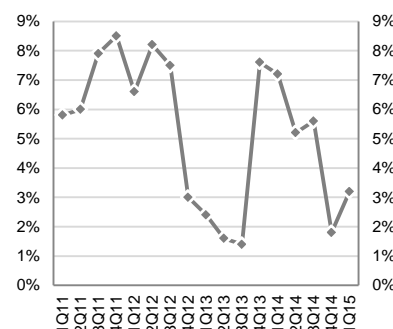
	1H15	2014	2013
GDP (% change)	2.5%*	4.8%	3.3%
GDP per capita (ppp)	...	7,653	7,180
GDP per capita (US\$)	...	3,681	3,600
Population (mn)	3.7**	4.5	4.5
Inflation (eop)	4.5%	2.0%	2.4%
Gross reserves (US\$ bn)	2.4*	2.7	2.8
CAD (% of GDP)	...	9.7%	5.9%
Fiscal deficit (% of GDP)	...	3.0%	2.6%
Total public debt (% of GDP)	...	35.5%	34.7%

Source: Official data

*As of 5M15

**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 & POOR'S 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



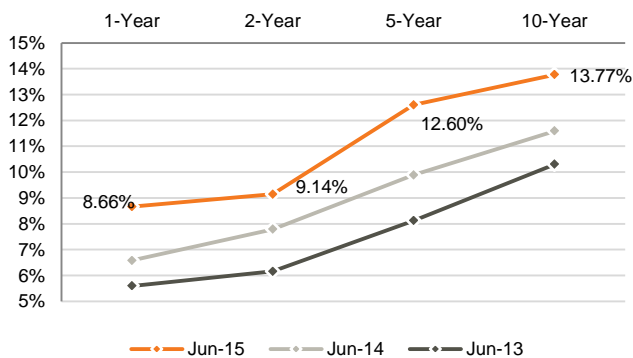
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 311.70mn) with an average yield of 5.5% (+10% w/w).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 8.90mn) certificates of deposit, with an average yield of 7.79% (up by 56bps from previous issue).

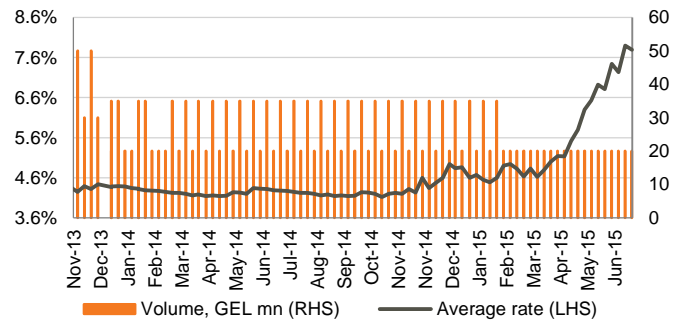
Ministry of Finance Treasury Notes: 364-day, GEL 39mn (US\$ 17.36mn) T-Bills of Ministry of Finance were sold at the auction held at NBG. The weighted average yield was fixed at 9.504%. The nearest treasury securities auction is scheduled for July 8, 2015, where GEL 20mn nominal value 2-year T-Notes will be sold.

T-bills / T-notes, yield curve



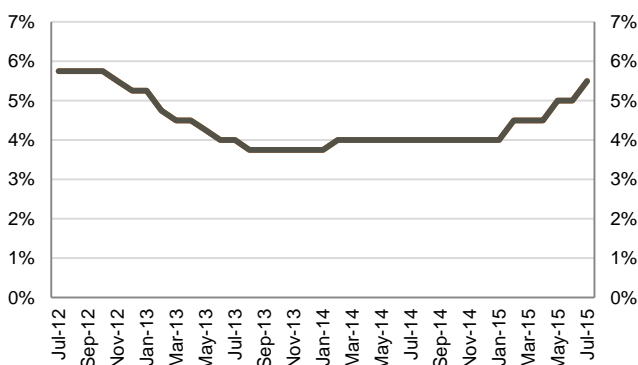
Source: NBG

Certificates of Deposits (weighted average rate)



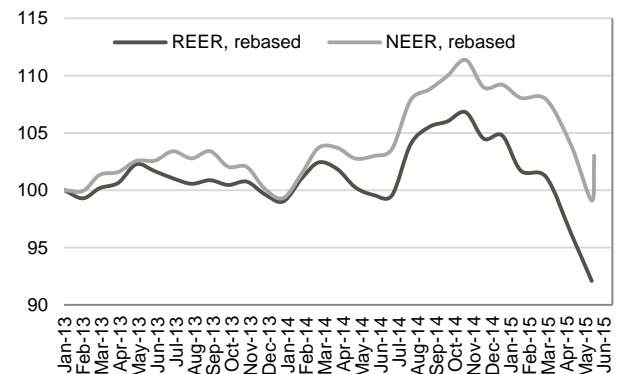
Source: NBG

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

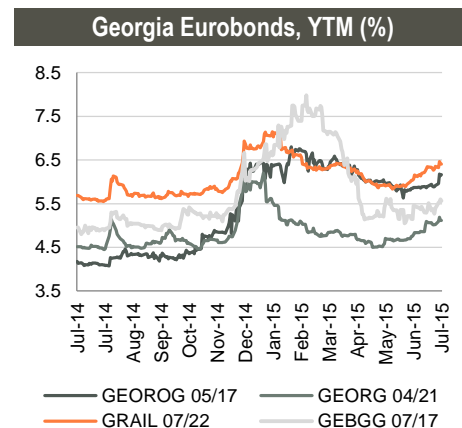
Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG) closed at 5.6% yield, trading at 104.1 (-0.5% w/w). GOGC Eurobonds (GEOROG) were trading at 101.3 (-0.3% w/w), yielding 6.1%. Georgian Railway Eurobonds (GRAIL) also traded at a premium at 107.4 (-0.9% w/w), yielding 6.4%.

Georgian Sovereign Eurobonds (GEORG) went down to 108.7 (-0.5% w/w), closing at 5.1% yield to maturity.

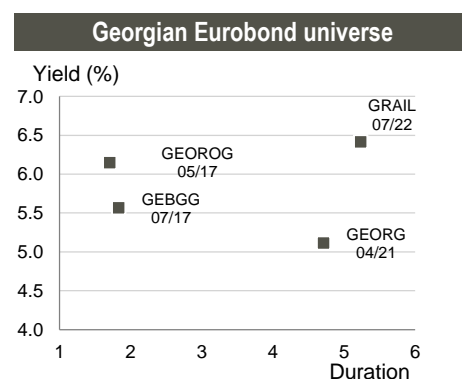
M2 Real Estate local corporate bonds were traded on the GSE at 99.0, yielding 10.1%.

	Local bonds			Eurobonds			
	M ² RE 03/17	EVEX 05/17	GLC 09/17	GEOROG 05/17	GEBGG 07/17	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	20	15	10	250	400	500	500
Issue date	03/15	05/15	09/14	05/12	07/12	04/11	07/12
Maturity date	03/17	05/17	09/17	05/17	07/17	04/21	07/22
Coupon, %	9.500	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\$	99.0	100	98.0	101.3	104.1	108.7	107.4
Mid yield, %	10.1	9.5	9.7	6.1	5.6	5.1	6.4
Z-spread, bps	n/a	n/a	n/a	531.4	471.7	315	440.8

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

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	108.7	5.1	315.0
Azerbaijan	1,250	4.750	18/03/2024	BBB-/Baa3	102.2	4.4	206.2
Bulgaria	323	5.000	19/07/2021	BBB-/Baa3	115.8	2.2	-156.7
Croatia	1,250	3.875	30/05/2022	BB/BB/Baa1	100.5	3.8	297.2
Hungary	3,000	6.375	29/03/2021	BB+/BB/Baa1	114.1	3.6	164.5
Romania	2,250	6.750	07/02/2022	BBB-/BBB-/Baa3	117.6	3.7	160.6
Russia	3,500	5.000	29/04/2020	BBB-/BB+/Baa3	103.4	4.2	309.1
Turkey	2,000	5.625	30/03/2021	BBB-/Baa3	108.1	4.0	208.1
Ukraine	1,500	7.950	23/02/2021	CC/CC/Ca	53.9	22.9	2060.2

Source: Bloomberg

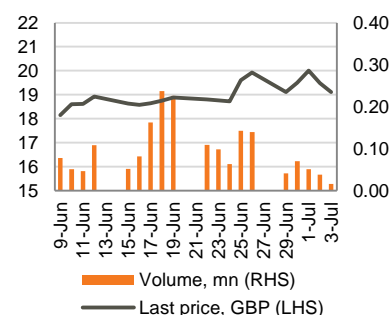
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 19.11/share (-4.07% w/w and -2.25% m/m). More than 217k shares traded in the range of GBP 18.84 – 20.00/share. Average daily traded volume was 92k in the last 4 weeks, less than in the previous month. FTSE 250 Index, of which BOGH is a constituent, has lost 1.18% w/w and 3.57% m/m. The volume of BOGH shares traded was at 0.55% of its capitalization.

TBC Bank (TBCB LI) closed the week at US\$ 10.20 (-3.32% w/w and -9.73% m/m). More than 135k GDRs changed hands in the range of US\$ 9.90 – 10.60/GDR. Average daily traded volume was 14k in the last 4 weeks, more than in the previous month.

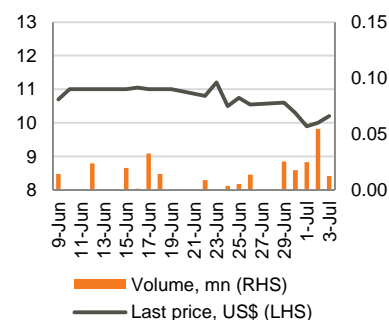
On the Georgian stock exchange, Bank of Georgia shares were traded at GEL 35.00 (unchanged w/w). As a result, the G&T Index remained at the level of 799.12 (unchanged w/w).

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*	BGEO	29.77	1,176	-0.7%	11.3%	-8.0%	-8.0%	-28.3%
TBC	TBC	10.20	500	-9.7%	-13.2%	-18.4%	-19.0%	-29.7%
Halyk Bank	HSBK	8.21	2,240	1.4%	2.6%	-8.8%	-3.4%	-24.0%
KKB	KKB	3.12	1,244	-3.1%	5.8%	-17.8%	-17.9%	43.8%
VTB Bank	VTBR	2.68	17,335	-10.1%	26.2%	21.6%	16.3%	8.5%
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%	0.0%	0.0%

Source: Bloomberg

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

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