

# Weekly Market Watch

 Weekly Market Watch | Georgia  
 July 20, 2015

## Economy

### Parliament adopts amendments to the 2015 state budget

Parliament adopted amendments to the 2015 state budget on July 17, 2015. The amended budget envisages cutting the economic growth forecast from 5.0% to 2.0%, while maintaining the fiscal deficit at 3.0% of GDP. Initially estimated public debt-to-GDP ratio is revised up to 43.7% (out of which 33.9% is external public debt) from 37.2%, driven by IARI depreciation. Deputy Finance Minister told lawmakers on July 17 that the deficit might be even less than 3.0%, as GDP growth might actually reach 3.0% in 2015.

In the approved state budget, tax revenues are reduced by GEL 200mn (initially targeted GEL 7.6bn), while additional funding is planned to be raised from other sources: GEL 185mn from foreign loans, GEL 41mn from EU-funded budget support grants, GEL 20mn from transfer of savings to state budget from legal entities of public law, and GEL 150mn from mobile operators in license fees for providing 4G services. Domestic public borrowing is reduced by GEL 100mn.

Despite the increased revenue plan, overall state budget expenditures for this year remain unchanged at GEL 9.6bn. A funding cut in the amount of GEL 160mn (out of which GEL 70mn on donor funded infrastructure projects) affected most of the ministries. Out of this amount, GEL 105mn is redirected to various infrastructure projects and to partially cover the damage caused by the flood in Tbilisi on June 12-14. External public debt service payments are increased by GEL 53mn. Overall, based on the higher revenue plan, government deposits are set to increase by GEL 25mn to GEL 325mn.

### Trade deficit down 11.4% y/y in June 2015

According to GeoStat's preliminary figures, the trade deficit in June 2015 decreased 11.4% y/y to US\$ 402mn as exports fell 18.9% y/y to US\$ 198mn, while imports were down 14.0% y/y to US\$ 600mn. Detailed statistics will be available on July 21.

### Property registration up 7.3% y/y and company registration up 7.7% y/y in June 2015

Property registration (commercial and residential real estate) increased 7.3% y/y (+17.4% m/m), reaching 49,138 units in June 2015, according to the National Agency of Public Registry (NAPR). Registration increased for both primary (+15.8% y/y, 20.4% of total) and secondary (+5.3% y/y, 79.6% of total) properties.

Company registration increased 7.7% y/y (+7.4% m/m) to 4,019 units in June 2015. Out of newly registered companies, 97.3% were business legal entities while 2.7% comprised non-entrepreneurial (non-commercial) legal entities.

### Producer price index up 1.3% m/m and 10.2% y/y in June 2015

PPI for industrial goods increased 1.3% m/m in June 2015, according to GeoStat. A 1.9% increase in manufacturing prices contributed 1.53ppts to the overall index change. The prices were significantly higher for chemical products (+14.1% m/m). Prices also increased for manufacture of basic metals and fabricated metals (+3.4% m/m).

Annual PPI increased 10.2% y/y in June 2015, with manufacturing prices increasing 12.9% y/y (mostly for manufacture of foods, beverages and tobacco, chemical products and basic metals and fabricated metals), contributing 10.53ppts to the overall index change. Prices were 2.8% lower y/y in the electricity, gas and water supply category, contributing -0.35ppts to the overall index change.

### Money transfers down 20.8% y/y in June 2015

Money transfers decreased 20.8% y/y to US\$ 100.4mn in June 2015, according to NBG. The 35.5% y/y drop in transfers from Russia, accounting for 41.5% of total transfers, was the major contributor to the decline. As in previous months, remittances continue robust growth from USA +27.4% y/y (8.5% of total), Turkey +15.4% y/y (6.7%), and Israel +37.6% y/y (2.7%).

### Key macro indicators

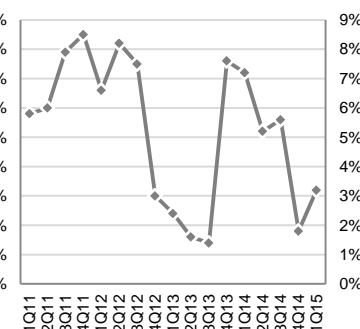
	1H15	2014	2013
GDP (% change)	2.5%*	4.8%	3.3%
GDP per capita (ppp)	...	7,653	7,180
GDP per capita (US\$)	...	3,681	3,600
Population (mn)	3.7**	4.5	4.5
Inflation (eop)	4.5%	2.0%	2.4%
Gross reserves (US\$ bn)	2.5	2.7	2.8
CAD (% of GDP)	...	9.7%	5.9%
Fiscal deficit (% of GDP)	...	3.0%	2.6%
Total public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

<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
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Source: Rating agencies



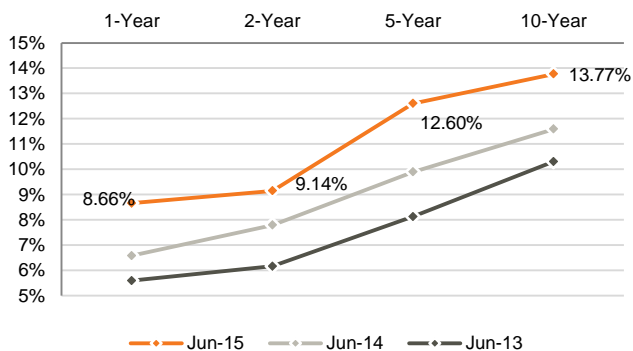
## Money market

**Refinancing loans:** National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 308.4mn) with an average yield of 5.5%.

**Certificates of deposit:** NBG sold 91-day, GEL 20mn (US\$ 8.8mn) certificates of deposit, with an average yield of 7.95% (up by 16bps from previous issue).

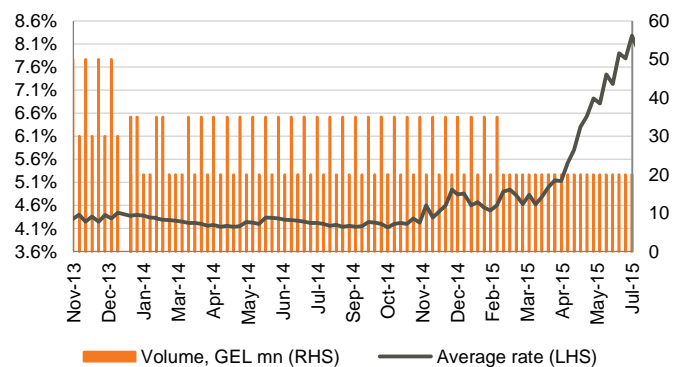
**Ministry of Finance Treasury Notes:** 5 year, GEL 15mn (US\$ 6.6mn) T-notes of Ministry of Finance were sold at the auction held at NBG. The weighted average yield was fixed at 14.337%.

T-bills / T-notes, yield curve



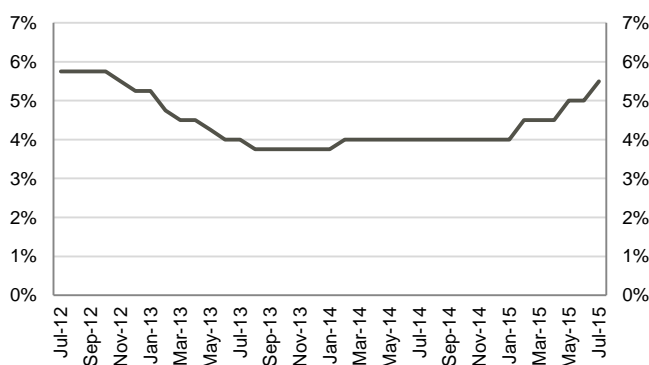
Source: NBG

Certificates of Deposits (weighted average rate)



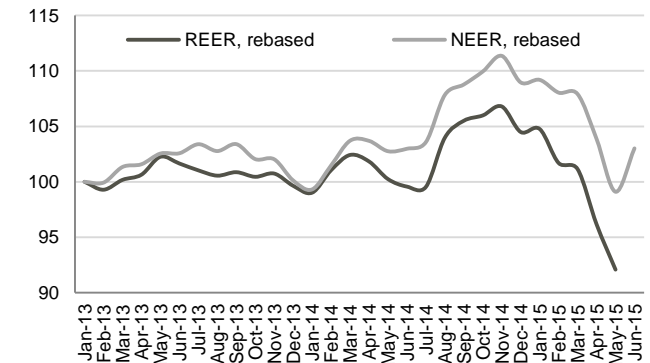
Source: NBG

Monetary policy rate



Source: NBG

Nominal Effective Exchange Rate and Real Effective Exchange Rate



Source: NBG

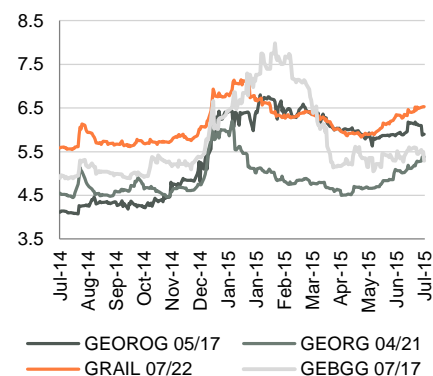
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate

## Fixed income

**Corporate Eurobonds:** Bank of Georgia Eurobonds (GEBGG) closed at 5.2% yield, trading at 104.7 (+0.4% w/w). GOGC Eurobonds (GEOROG) were trading at 101.3 (unchanged w/w), yielding 6.1%. Georgian Railway Eurobonds (GRAIL) also traded at a premium at 106.7 (-0.4% w/w), yielding 6.5%.

**Georgian Sovereign Eurobonds (GEORG)** went down to 107.3 (-0.6% w/w), closing at 5.4% yield to maturity.

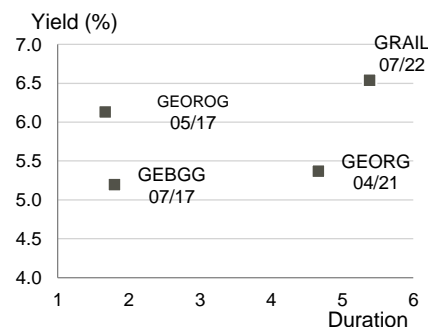
Georgia Eurobonds, YTM (%)



	Local bonds			Eurobonds			
	M <sup>2</sup> 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	104.7	107.3	106.7
Mid yield, %	10.1	9.5	9.7	6.1	5.2	5.4	6.5
Z-spread, bps	n/a	n/a	n/a	542.5	439	340.9	448.5

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	107.3	5.4	341
Azerbaijan	1,250	4.750	18/03/2024	BBB-/Baa3	99.8	4.8	244
Bulgaria	323	5.000	19/07/2021	BBB/-	115.9	2.2	-157
Croatia	1,250	3.875	30/05/2022	BB/BB/Baa1	101.5	3.6	287
Hungary	3,000	6.375	29/03/2021	BB+/BB+/Baa1	114.3	3.6	164
Romania	2,250	6.750	07/02/2022	BBB-/BBB-/Baa3	118.2	3.6	156
Russia	3,500	5.000	29/04/2020	BBB-/BB+/Baa1	103.9	4.1	230
Turkey	2,000	5.625	30/03/2021	BBB-/Baa3	108.5	3.9	200
Ukraine	1,500	7.950	23/02/2021	CC/CC/Ca	56.3	21.9	1953

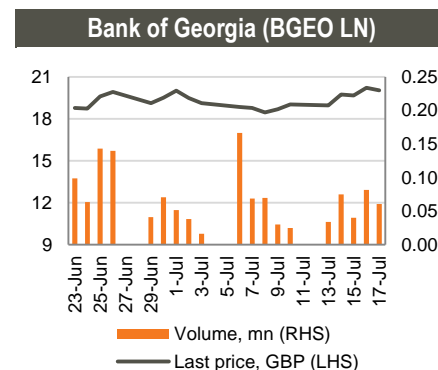
Source: Bloomberg

## Equities

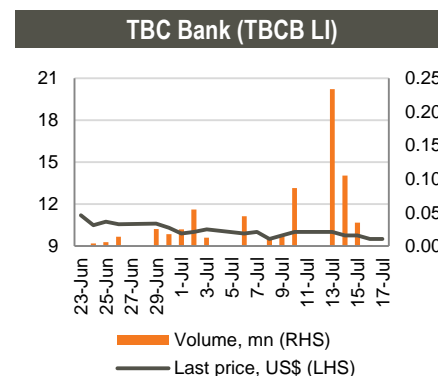
**Bank of Georgia Holdings (BGEO LN)** shares closed at GBP 20.04/share (+5.36% w/w and +7.45% m/m). More than 291k shares traded in the range of GBP 18.77 – 20.41/share. Average daily traded volume was 71k in the last 4 weeks, less than in the previous month. FTSE 250 Index, of which BOGH is a constituent, has gained 1.45% w/w and 0.20% m/m. The volume of BOGH shares traded was at 0.74% of its capitalization.

**TBC Bank (TBCB LI)** closed the week at US\$ 9.51 (-4.9% w/w and -13.55% m/m). More than 374k GDRs changed hands in the range of US\$ 9.51 – 10.00/GDR. Average daily traded volume was 36k in the last 4 weeks, more than in the previous month.

**On the Georgian stock exchange**, Liberty Consumer shares were traded at GEL 0.10 (unchanged w/w). As a result, the G&T Index remained at the level of 799.12 (unchanged w/w).



Source: Bloomberg



Source: Bloomberg

### Eastern European banks

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
BGEO*	BGEO	31.33	1,237	6.9%	2.8%	4.5%	-3.1%	-26.6%
TBC	TBC	9.51	466	-13.5%	-19.4%	-23.3%	-24.5%	-32.1%
Halyk Bank	HSBK	8.16	2,226	3.6%	7.4%	13.5%	-4.0%	-21.5%
KKB	KKB	2.90	1,156	-9.8%	-9.9%	-17.1%	-23.7%	-9.4%
VTB Bank	VTBR	2.58	16,693	-11.2%	17.9%	28.1%	12.0%	10.7%
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

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

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