

Weekly Market Watch

 Weekly Market Watch | Georgia
 September 7, 2015

Economy

Real GDP grew 3.0% y/y in July 2015 and 2.6% y/y in 7M15

Georgia's real GDP grew 3.0% y/y in July 2015, after expanding 2.1% y/y in 2Q15 and 3.2% y/y in 1Q15, according to GeoStat's rapid estimates. As a result, output growth in 7M15 averaged 2.6% y/y, from a higher base in 7M14 (6.4% y/y rapid growth). In July 2015, company registration increased 8.2% y/y, VAT turnover increased 7.4% y/y, tax revenues grew 6.9% y/y, trade deficit improved 12.3% y/y, and loan portfolio grew 15.0% y/y in real terms. Monthly rapid estimates are based on VAT turnover, fiscal and monetary statistics.

Business sector supported strong job creation in 2Q15

In 2Q15, production of goods and services by the business sector grew 22.5% y/y to GEL 7.0bn, with industry, trade, and transport and communications sectors accounting for 60.7% of total production, according to GeoStat. Number of employed persons increased 12.0% y/y (+60.8 thousand persons) in 2Q15, with strong job creation in trade (+20.5% y/y), construction (+26.6% y/y), transport and communications (+11.0% y/y), real estate (+13.5% y/y), and hotels and restaurants (+24.1% y/y) sectors contributing most to employment growth.

International arrivals up 10.0% y/y in August 2015 and up 5.9% y/y in 8M15

After a 9.5% spike in July 2015, tourist arrivals posted another significant growth of 10.0% y/y to 0.85mn persons in August 2015, according to the Ministry of Internal Affairs. Significantly increased arrivals from Armenia (+24.7% y/y, 25.8% of total), Azerbaijan (+8.3% y/y, 22.4% of total), and Russia (+23.1% y/y, 18.8% of total) were the major contributors to growth. Arrivals from the EU increased 2.1% y/y in August 2015. In 8M15, total arrivals increased 5.9% y/y to 3.92mn persons.

Tax revenues posted a strong performance in 8M15, up 11.5% y/y

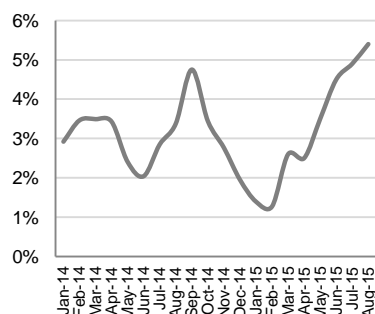
Consolidated budget tax revenues increased 6.9% y/y to GEL 576mn in August 2015 and 11.5% y/y to GEL 5.2bn in 8M15 (89% of 9M15 plan and 66% of annual plan), according to the Treasury Service. In 8M15, personal income tax revenues grew 15.5% y/y (27.0% of total), profit tax receipts +32.2% y/y (14.0% of total), VAT receipts 6.9% y/y (44.0% of total), excise tax receipts +4.5% y/y (10.5% of total), and property tax +10.7% y/y (3.4% of total). The rest – receipts from customs duties and other taxes – decreased, but they have a minor share in total tax revenues.

Inflation rate at 5.4% y/y and 1.0% m/m in August 2015

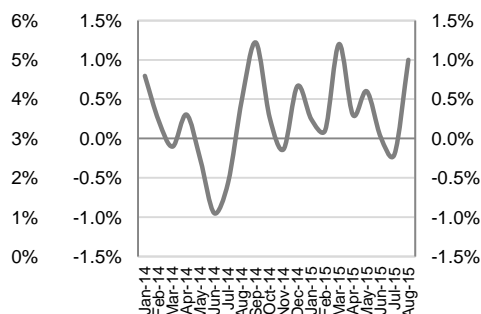
Annual CPI inflation rate was recorded at 5.4% in August 2015, according to GeoStat. Overall price changes were driven by price increases on food and non-alcoholic beverages (+6.3% y/y, +1.86ppts), health (+9.1% y/y, +0.88ppts), and alcoholic beverages and tobacco (+13.1% y/y, +0.68ppts), while prices in the transport category decreased 1.6% y/y.

Monthly inflation rate was 1.0% in August 2015. Price increases in food and non-alcoholic beverages (+2.0% m/m, +0.58ppts) and housing, water, electricity, gas and other fuels (+4.4% m/m, +0.33ppts) and a price drop in the transport category (-0.7% m/m, -0.09ppts) were the major drivers of the monthly inflation dynamics.

Annual CPI inflation (% change y/y)



Monthly CPI inflation (% change m/m)



Source: GeoStat

Key macro indicators

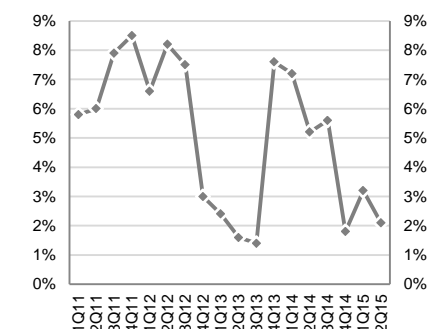
	7M15	2014	2013
GDP (% change)	2.6%	4.8%	3.3%
GDP per capita (ppp)	...	7,653	7,180
GDP per capita (US\$)	...	3,681	3,600
Population (mn)	3.7**	4.5	4.5
Inflation (eop)	5.4%*	2.0%	2.4%
Gross reserves (US\$ bn)	2.5*	2.7	2.8
CAD (% of GDP)	...	9.7%	5.9%
Fiscal deficit (% of GDP)	...	3.0%	2.6%
Total public debt (% of GDP)	...	35.5%	34.7%

Source: Official data

*As of 8M15

**Preliminary results of census, previous data is subject to recalculation

Real GDP growth, %



Source: GeoStat, rapid estimate for 2Q15

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 & POORS 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

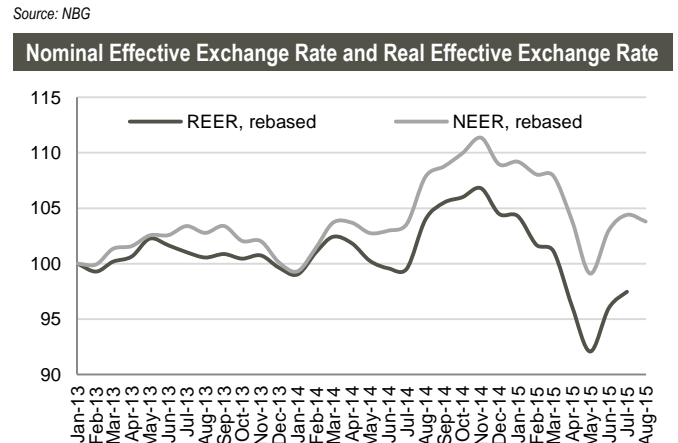
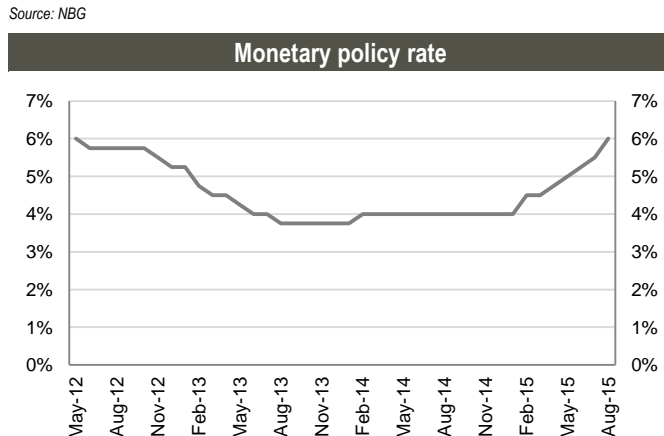
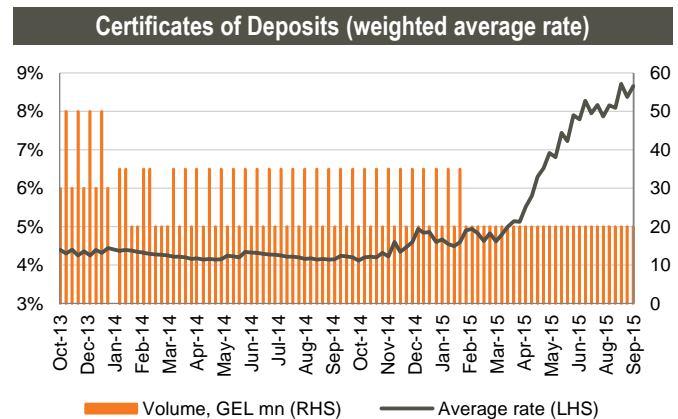
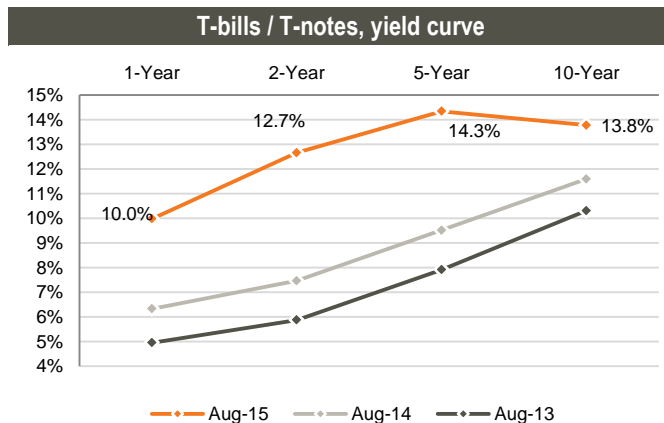


Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 296.3mn) with an average yield of 6.0%.

Certificates of deposit: NBG sold 183-day, GEL 20mn (US\$ 8.5mn) certificates of deposit, with an average yield of 8.66% (down by 6bps from previous issue).

Ministry of Finance Treasury Notes: The nearest treasury securities auction is scheduled for September 9, 2015, where GEL 20mn nominal value 1-year T-Bills will be sold.

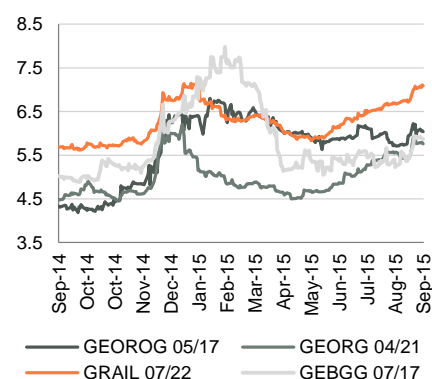


Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG) closed at 5.8% yield, trading at 103.4 (+0.3% w/w). GOGC Eurobonds (GEORG) were trading at 101.2 (+0.1% w/w), yielding 6.1%. Georgian Railway Eurobonds (GRAIL) also traded at a premium at 103.4 (+0.2% w/w), yielding 7.1%.

Georgian Sovereign Eurobonds (GEORG) remained at 105.2 (unchanged w/w), closing at 5.8% yield to maturity.

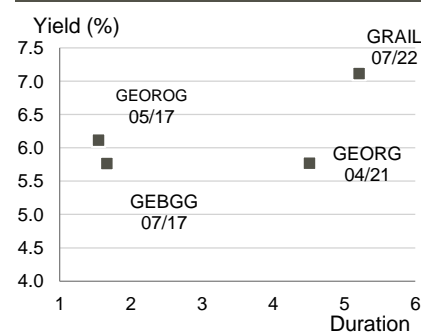
Georgia Eurobonds, YTM (%)



	Local bonds			Eurobonds			
	M ² RE 03/17	EVEX 05/17	GLC 09/17	GEORG 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	May-2012	Jul-2012	Apr-2011	Jul-2012
Maturity date	03/17	05/17	09/17	May-2017	Jul-2017	Apr-2021	Jul-2022
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	101.2	103.4	105.2	103.4
Mid yield, %	10.1	9.5	9.7	6.1	5.8	5.8	7.1
Z-spread, bps	n/a	n/a	n/a	488.6	518.8	408.2	540.2

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	105.2	5.8	408.2
Azerbaijan	1,250	4.750%	18/03/2024	BBB-/Baa3	96.4	5.3	322.6
Bulgaria	323	5.000%	19/07/2021	BBB-/	117.4	1.9	32.1
Croatia	1,250	3.875%	30/05/2022	BB-/BB-/Ba1	101.5	3.6	297.3
Hungary	3,000	6.375%	29/03/2021	BB+/BB+/Ba1	113.9	3.6	193.2
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	117.5	3.7	187.0
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	101.5	4.6	307.8
Turkey	2,000	5.625%	30/03/2021	BBB-/Baa3	106.0	4.4	270.4
Ukraine	1,500	7.950%	23/02/2021	CC/CC/Ca	75.4	14.7	1296.4

Source: Bloomberg

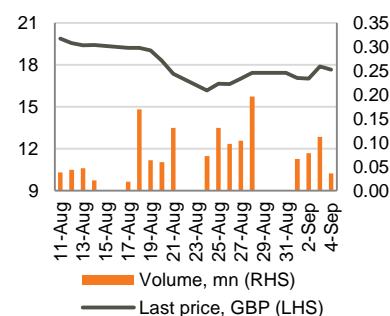
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 17.64/share (+1.20% w/w and -8.13% m/m). More than 488k shares traded in the range of GBP 16.94 – 18.00/share. Average daily traded volume was 79k in the last 4 weeks, more than in the previous month. FTSE 250 Index, of which BOGH is a constituent, has lost 1.63% w/w and 5.11% m/m. The volume of BOGH shares traded was at 1.2% of its capitalization.

TBC Bank (TBCB LI) closed the week at US\$ 9.12 (-7.88% w/w and -8.34% m/m). More than 6k GDRs changed hands in the range of US\$ 9.10 – 9.90/GDR. Average daily traded volume was 3k in the last 4 weeks, less than in the previous month.

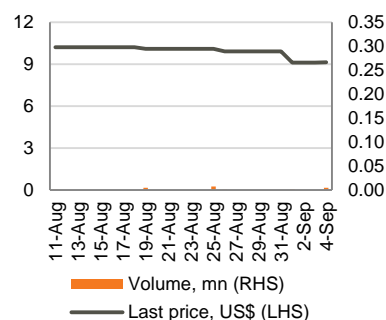
On the Georgian stock exchange, Teliani Valley shares were traded at GEL 0.20 (+29.3 w/w) and Liberty Bank shares were traded at GEL 0.0129 (-0.8% w/w). As a result, the G&T Index went up to 865.13 (+0.10% w/w).

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*	26.79	1,058	-10.7%	-5.3%	-6.3%	-17.2%	-34.4%
	TBC	9.12	447	-8.3%	-18.2%	-22.1%	-27.6%	-44.7%
	Halyk Bank	6.79	1,852	-14.3%	-15.7%	7.8%	-20.1%	-41.4%
	KKB	2.72	1,085	-9.3%	-15.5%	-21.2%	-28.4%	-42.1%
	VTB Bank	1.95	12,656	-12.1%	-31.5%	-8.8%	-15.1%	-12.4%
	Vozrozhdenie Bank	11.35	270	0.0%	0.0%	0.0%	0.0%	0.0%
	Sberbank	4.61	24,887	-3.2%	-10.2%	-3.7%	13.9%	-48.2%

Source: Bloomberg

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

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