

# Weekly Market Watch

 Weekly Market Watch | Georgia  
 September 28, 2015

## Economy

### Trade deficit down 3.0% y/y (-9.5% y/y excluding one-offs) in 8M15

In August 2015, exports decreased 23.3% y/y to US\$ 190.0mn, imports fell 8.8% y/y to US\$ 622.5mn, and the trade deficit narrowed 0.5% y/y to US\$ 432.6mn, according to foreign trade data released by GeoStat. The major drag on exports came from re-exports decreasing 53.2% y/y, while Georgia originated exports fell just 9.5% y/y. Exports to the EU increased 10.3% y/y, while exports to the CIS markets shrank 46.6% y/y. In August 2015, a pickup in capital and intermediate goods imports limited the drop in gross imports, while consumption goods imports continued the downward trend, with savings from lower oil prices and car imports being the major contributors.

In 8M15, exports fell 23.8% y/y to US\$ 1.5bn, imports decreased 10.2% y/y to US\$ 4.9bn, and the trade deficit contracted 3.0% y/y to US\$ 3.5bn (-9.5% y/y excluding one-offs). 28% of exports were directed to the EU (+1.3% y/y), 38% to the CIS (-44.6% y/y), and 34% to other countries (-2.5% y/y), out of which Turkey (9.1% of total) and USA (5.6% of total) were the largest export destinations. A 65.6% drop in car exports (8.6% of total) had the largest negative impact. Nuts (+33.0% y/y), pharmaceuticals (+42.1%), crude oil (+218.3% y/y), and gold (+70.4% y/y) were the major Georgian exports increasing significantly in 8M15.

In 8M15, petroleum (-27.5% y/y), pharmaceuticals (+112.7% y/y), cars (-31.4% y/y), gases (+22.1% y/y), and copper ores (+6.7% y/y) represented the top 5 imported commodities. 32% of imports came from the EU (+2.3% y/y), 25% from the CIS (-5.6% y/y), and 43% from other countries (-19.7% y/y), with Turkey (17.3% of total) and China (8.1%) being the largest trading partners.

### NPLs remain under control

In August 2015, the loan portfolio grew 14.9% y/y, excluding the exchange rate effect (+37.8% y/y and +2.2% m/m in unadjusted terms), to GEL 15.3bn (US\$ 6.5bn). Deposits grew 6.5% y/y, excluding the exchange rate effect (+29.1% y/y and +4.4% m/m in unadjusted terms), reaching GEL 13.4bn (US\$ 5.7bn). NPLs remain under control at 3.3% in August, +0.1ppts m/m and - 0.2ppts y/y.

### NBG increases its policy rate by 100bps to 7.0%

At its meeting on September 23, 2015, NBG's monetary policy committee increased the policy rate by 100bps to 7.0%. The decision to raise the policy rate was guided by increased inflation expectations related to lari depreciation. The annual growth in consumer prices came in at 5.4% in August. NBG cited that price pressures remain on the supply side - increase in intermediate costs due to weaker lari and higher prices on certain imported goods, intensified by the one-off increase in the electricity tariff. However, the rise in inflation has been limited by the weak aggregate demand and lower world prices of oil and food products. NBG also cited that the impact of the existing external shock on the US\$/GEL exchange rate has been exhausted and no further pressure is anticipated. NBG expects inflation to move to the target level by the end of 2016 and being committed to price stability, it reassured the application of all relevant policy instruments to prevent the negative expectations affecting the growing inflationary process recently. According to NBG, the changes in monetary policy will depend on the dynamics of expected inflation, tendencies in economic growth, and global and regional economic environment. Next monetary committee meeting will take place on 4 November 2015.

### Result of the FX auction

On September 22, 2015, NBG offered US\$ 40mn on the FX auction, but demand was limited to US\$ 27mn, and lari quickly gained 1.7% against the dollar in a day.

### International cooperation continues

Georgia and Germany completed talks on intergovernmental cooperation in the field of financial and technical cooperation and signed a protocol on September 24, 2015 in Tbilisi. Germany continues to support investment projects in energy, infrastructure, and agricultural sectors in Georgia. Priority areas of cooperation are also vocational education, small and medium business development, metrology, environmental protection, and the strengthening of local self-government.

### Key macro indicators

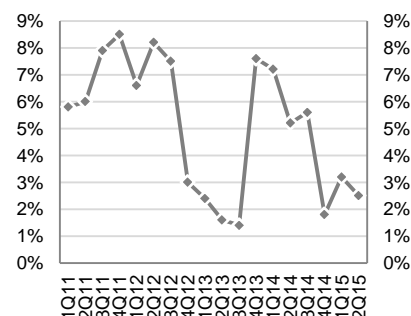
	8M15	2014	2013
GDP (% change)	2.8%*	4.8%	3.3%
GDP per capita (ppp)	...	7,653	7,180
GDP per capita (US\$)	...	3,681	3,600
Population (mn)	3.7**	4.5	4.5
Inflation (eop)	5.4%	2.0%	2.4%
Gross reserves (US\$ bn)	2.5	2.7	2.8
CAD (% of GDP)	...	9.7%	5.9%
Fiscal deficit (% of GDP)	...	3.0%	2.6%
Total public debt (% of GDP)	...	35.5%	34.7%

Source: Official data

\*As of 1H15

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

### Real GDP growth, %



Source: GeoStat, preliminary 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

<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



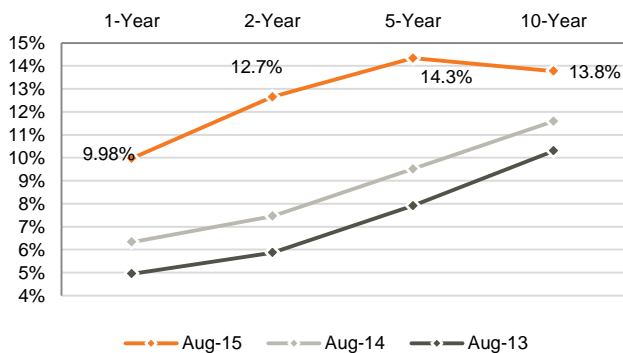
## Money market

**Refinancing loans:** National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 290.8mn) with an average yield of 7.0%.

**Certificates of deposit:** NBG sold 91-day, GEL 20mn (US\$ 8.3mn) certificates of deposit, with an average yield of 9.31% (up by 75bps from previous issue).

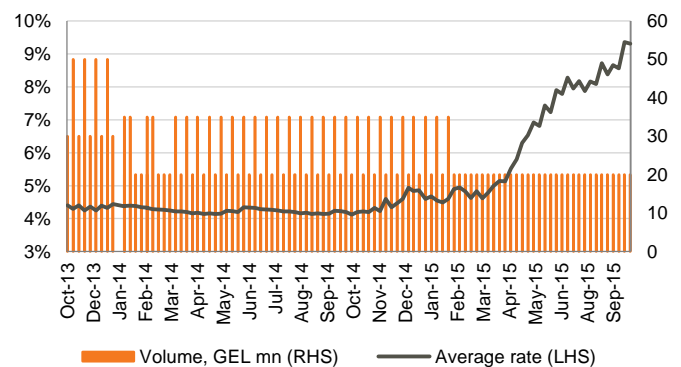
**Ministry of Finance Treasury Notes:** 5-year, GEL 10mn (US\$ 4.15mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on September 23, 2015. The weighted average yield was fixed at 14.175%.

T-bills / T-notes, yield curve



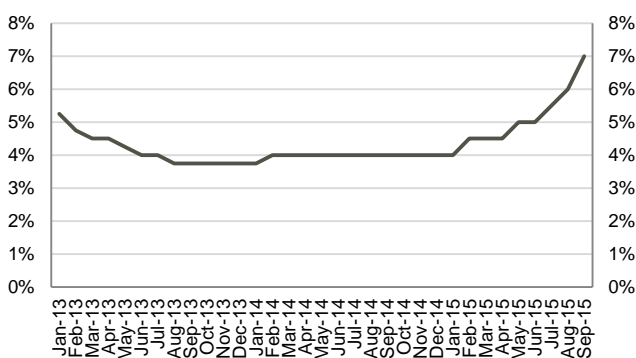
Source: NBG

Certificates of Deposits (weighted average rate)



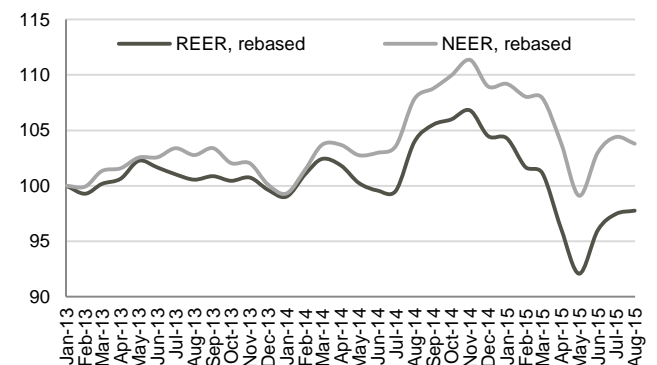
Source: NBG

Monetary policy rate



Source: NBG

Nominal Effective Exchange Rate and Real Effective Exchange Rate



Source: NBG

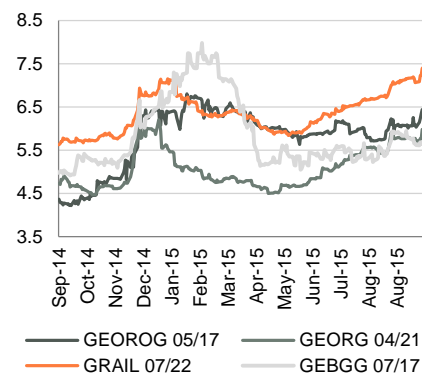
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate

## Fixed income

**Corporate Eurobonds:** Bank of Georgia Eurobonds (GEBGG) closed at 5.7% yield, trading at 103.4 (-0.1% w/w). GOGC Eurobonds (GEOROG) were trading at 100.6 (-0.5% w/w), yielding 6.5%. Georgian Railway Eurobonds (GRAIL) also traded at a premium at 101.2 (-2.3% w/w), yielding 7.5%.

**Georgian Sovereign Eurobonds** (GEORG) closed at 104.2 (-1.3% w/w), closing at 6.0% yield to maturity.

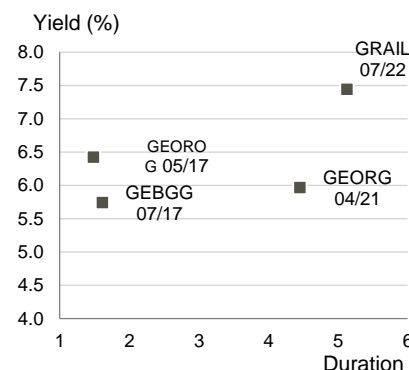
Georgia Eurobonds, YTM (%)



	Local bonds			Eurobonds			
	M2RE 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	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	100.6	103.4	104.2	101.2
Mid yield, %	10.1	9.5	9.7	6.5	5.7	6.0	7.5
Z-spread, bps	n/a	n/a	n/a	585.5	482.2	432.0	585.3

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	104.2	6.0	432.0
Azerbaijan	1,250	4.750%	18/03/2024	BBB-/Baa3	94.8	5.5	353.0
Bulgaria	323	5.000%	19/07/2021	BBB/-	118.5	1.6	-56.0
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba1	101.0	3.7	305.7
Hungary	3,000	6.375%	29/03/2021	BB+/BB+/Ba1	114.4	3.5	187.6
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	118.4	3.5	175.1
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	103.4	4.2	272.5
Turkey	2,000	5.625%	30/03/2021	BBB-/Baa3	105.0	4.6	297.1
Ukraine	1,500	7.950%	23/02/2021	CC/CC/Ca	78.6	13.9	1239.6

Source: Bloomberg

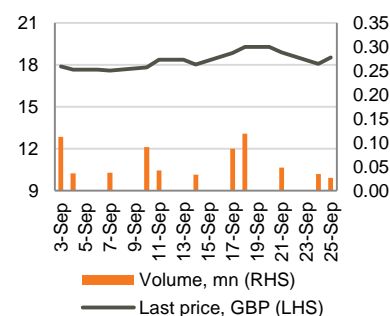
## Equities

**Bank of Georgia Holdings (BGEO LN)** shares closed at GBP 18.53/share (-3.89% w/w and +11.29% m/m). More than 170k shares traded in the range of GBP 17.97 – 19.14/share. Average daily traded volume was 59k in the last 4 weeks, less than in the previous month. FTSE 250 Index, of which BOGH is a constituent, has lost 0.89% w/w and gained 0.47% m/m. The volume of BOGH shares traded was at 0.43% of its capitalization.

**TBC Bank (TBCB LI)** closed the week at US\$ 9.25 (unchanged w/w and -8.42% m/m). More than 15k GDRs changed hands at US\$ 9.25/GDR. Average daily traded volume was 5k in the last 4 weeks, more than in the previous month.

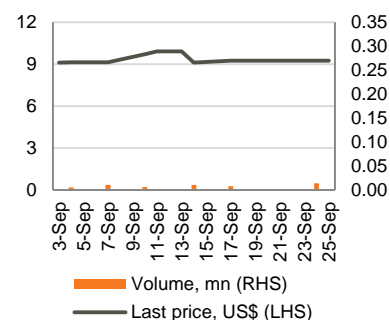
**On the Georgian stock exchange**, Liberty Bank shares were traded at GEL 0.013 (+4.0% w/w). As a result, the G&T Index remained at 909.86 (unchanged w/w).

**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*	28.12	1,111	7.6%	-8.8%	9.7%	-13.1%	-28.6%
	TBC	9.25	453	-8.4%	-14.0%	-21.9%	-26.6%	-41.8%
	Halyk Bank	6.18	1,686	-2.8%	-31.3%	-9.1%	-27.3%	-46.2%
	KKB	2.89	1,152	6.3%	-9.7%	-14.5%	-23.9%	-27.8%
	VTB Bank	2.00	12,961	0.8%	-28.1%	-7.0%	-13.0%	-5.6%
	Vozrozhdenie Bank	11.35	270	0.0%	0.0%	0.0%	0.0%	0.0%
	Sberbank	4.85	26,147	12.9%	-7.8%	6.6%	19.6%	-42.4%

Source: Bloomberg

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

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## **Galt & Taggart**

**Address:** 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

**Tel:** + (995) 32 2401 111

**Email:** st@gt.ge