

# Weekly Market Watch

 Weekly Market Watch | Georgia  
 February 22, 2016

## Economy

### Trade deficit down 25.9% y/y in January 2016

In January 2016, the trade deficit shrank 25.9% y/y to US\$ 283.3mn as exports decreased 21.9% y/y to US\$ 122.2mn while imports fell 24.8% y/y to US\$ 405.5mn, according to GeoStat. 32% of exports were directed to the EU (-37.8% y/y), 24% to the CIS (-46.5% y/y), and 44% to other countries (+37.2% y/y, on the back of increased exports to China and Switzerland). Significantly reduced car re-exports (-45.6% y/y) and nut exports (-47.9% y/y) weighed on export growth. Copper ores (+42.2% y/y), fertilizers (+191.5% y/y), crude oil (+25.2% y/y), and gold (+28.4% y/y) were the major export commodities posting increases.

Gases (+3.2% y/y), petroleum (-19.7% y/y), cars (-33.4% y/y), copper ores (+54.5% y/y), and pharmaceuticals (-34.5% y/y) represented top 5 imported commodities in January 2016.

### Money transfers down 11.8% y/y in January 2016

In January 2016, money transfers decreased 11.8% y/y to US\$ 66.5mn, according to NBG. Significantly reduced remittances from Russia (-23.4% y/y, 29.8% of total) and Greece (-35.4% y/y, 11.8% of total) were the major contributors to the drop in total money transfers. Meanwhile, remittances posted growth from USA (+15.1% y/y, 11.3% of total), Israel (+64.5% y/y, 4.8% of total), Germany (+9.1% y/y, 3.1% of total), and Spain (+5.5% y/y, 2.9% of total).

### Producer price index up 0.2% m/m and 4.1% y/y in January 2016

PPI for industrial goods increased 0.2% m/m in January 2016, according to GeoStat. A 3.7% rise in supply of electricity, gas, and water prices contributed the most to the overall index change. Prices were down for manufacturing of basic and fabricated metals (-6.0% m/m) and up for chemical products (+11.6% m/m). Prices were also down for mining and quarrying (-4.6% m/m).

Annual PPI increased 4.1% y/y in January 2016, with supply of electricity, gas, and water prices increasing 19.0% y/y and contributing 2.51ppts to the overall index change. Also, manufacturing prices increased 2.1% y/y, contributing 1.73ppts to the overall index change (in this category, prices were up for the manufacture of food, beverages, and tobacco and chemical products; down for basic and fabricated metals).

### Government's 4 pillar reform plan to boost growth

Giorgi Kvirikashvili, the country's Prime Minister since December 29, 2015, put forth 4 pillars of reform initiatives to speed up economic growth in the face of a challenging external environment. The proposed measures, extensively communicated with and supported by private sector participants, include:

**Tax code amendments aimed at further liberalizing tax and customs procedures** - The deal includes Introduction of the Estonian model, which envisages the application of corporate income tax only to distributed profit; reinvested profit will be exempt. During the tax inspection period, the tax authority will be required to obtain the relevant court judgment in order to seize bank accounts. Only the tax authority will be authorized to conduct tax inspections. VAT will not be applied to the import of fixed assets.

**Governance reform** - Legal persons will receive government services based on a single window principle, similarly to how ordinary citizens currently receive services at public service halls.

**Speeding up infrastructure projects implementation** - The management of infrastructural projects will be modernized to accelerate implementation. Projects that have a particular impact on Georgia's economic development are slated for completion within 3-4 years.

**Education system reform** - The reform intends to create professional and higher education systems that are in line with the demands of the labor market in Georgia.

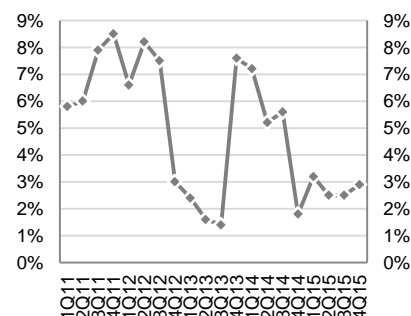
### Key macro indicators

	1M16	2015E	2014
GDP (% change)	...	2.8%	4.6%
GDP per capita (ppp)	...	9,566	9,209
GDP per capita (US\$)	...	3,765	3,676
Population (mn)	3.7*	3.7*	4.5
Inflation (eop)	5.6%	4.9%	2.0%
Gross reserves (US\$ bn)	2.4	2.5	2.7
CAD (% of GDP)	....	10.7%	10.6%
Fiscal deficit (% of GDP)	....	...	3.0%
Total public debt (% of GDP)	...	41.1%	35.5%

Source: Official data, IMF, G&T

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

### Real GDP growth, %



Source: GeoStat

Note: 4Q15 figure based on rapid estimates

### International ranking of Georgia, 2016

Ease of Doing Business # 24 (regional leader)

Economic Freedom Index # 23 (mostly free)

Global Competitiveness Index # 66 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

### Georgia sovereign credit ratings

<b>STANDARD &amp; POOR'S</b>  <b>BB-</b> Stable Affirmed Nov-2015	<b>MOODY'S</b> INVESTORS SERVICE  <b>Ba3</b> Positive Affirmed Mar-2015	<b>FitchRatings</b>  <b>BB-</b> Stable Affirmed Oct-2015
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Source: Rating agencies



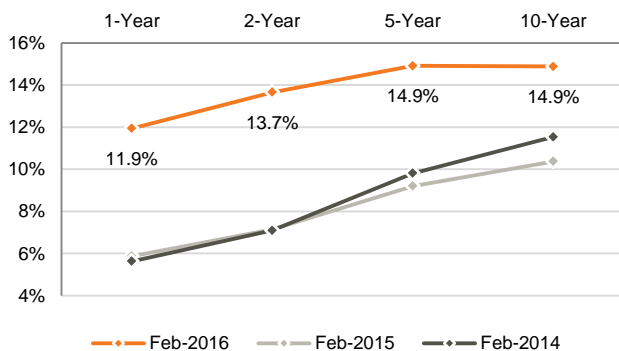
## Money market

**Refinancing loans:** National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 280.9mn).

**Certificates of deposit:** NBG sold 182-day, GEL 20mn (US\$ 8.0mn) certificates of deposit, with an average yield of 9.91% (up by 4bps from previous issue).

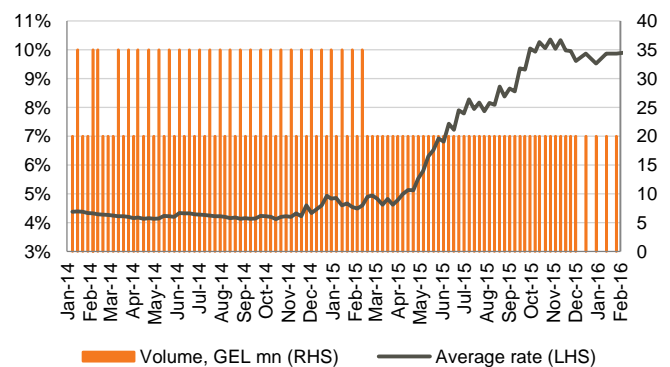
**Ministry of Finance Treasury Notes:** 1-year GEL 45.0mn (US\$ 18.1mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on February 17, 2016. The weighted average yield was fixed at 11.655%. The nearest treasury securities auction is scheduled for February 24, 2016, where GEL 10mn nominal value 10-year T-Notes will be sold.

T-bills / T-notes, yield curve



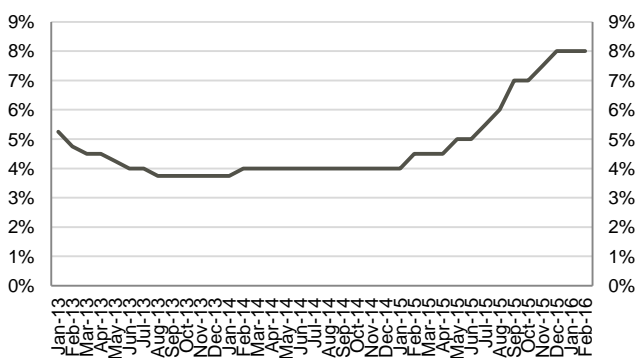
Source: NBG  
\*As of latest auction

Certificates of Deposits (weighted average rate)



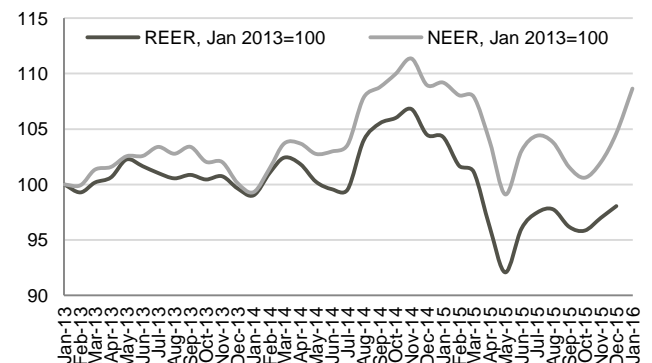
Source: NBG

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

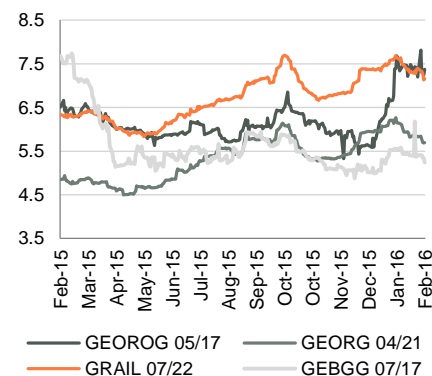


## Fixed income

**Corporate Eurobonds:** Bank of Georgia Eurobonds (GEBGG) closed at 5.2% yield, trading at 103.3 (+0.2% w/w). GOGC Eurobonds (GEORG) were trading at 99.1 (-0.7% w/w), yielding 7.7%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 103.2 (+0.9% w/w), yielding 7.1%.

**Georgian Sovereign Eurobonds (GEORG)** closed at 105.2 (+0.6% w/w) at 5.7% yield to maturity.

**Georgia Eurobonds, YTM (%)**



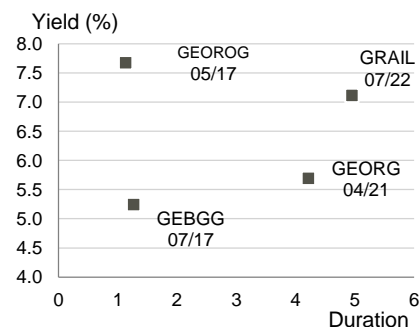
	Local bonds				Eurobonds			
	GWP 11/17	M2RE 03/17	EVEX 05/17	GLC 09/17	GEORG 05/17	GEBGG 07/17	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	6*	20	15	10	250	400	500	500
Issue date	11/15	03/15	05/15	09/14	May-2012	Jul-2012	Apr-2011	Jul-2012
Maturity date	11/17	03/17	05/17	09/17	May-2017	Jul-2017	Apr-2021	Jul-2022
Coupon, %	15.000**	9.500	9.500	8.750	6.875%	7.750%	6.875%	7.750%
Fitch/S&P/Moody's	BB-/B+	-/-	-/-	-/-	BB-/B+	BB-/BB-/Ba3	BB-/BB-/Ba3	BB-/BB-/
Mid price, US\$	100.0*	99.0	100	98.0	99.1	103.3	105.2	103.2
Mid yield, %	15.0	10.1	9.5	9.7	7.7	5.2	5.7	7.1
Z-spread, bps	n/a	n/a	n/a	n/a	712.8	544.7	445.4	592.8

Source: Bloomberg

\*GWP 11/17 bonds are in Georgian lari

\*\*Floating rate with 7.5% over the NBG's refinancing rate

**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	5.7	445.4
Azerbaijan	1,250	4.750%	18/03/2024	BBB-/Baa3	91.5	6.1	462.1
Bulgaria	323	5.000%	19/07/2021	BBB-/B-	120.3	1.1	-239.2
Croatia	1,250	3.875%	30/05/2022	BB/BB/Baa1	101.5	3.6	338.3
Hungary	3,000	6.375%	29/03/2021	BB+/BB+/Baa1	113.6	3.4	232.7
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	119.4	3.1	194.0
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Baa1	103.9	4.0	410.7
Turkey	2,000	5.625%	30/03/2021	BBB-/NR/Baa3	105.6	4.4	319.4

Source: Bloomberg

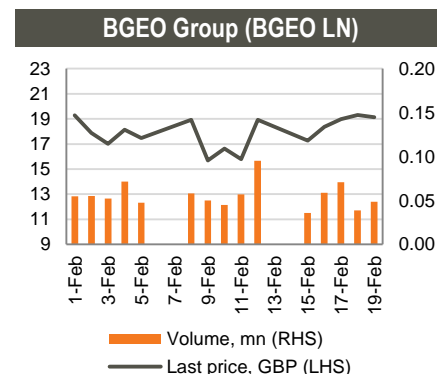
## Equities

**BGEO Group** (BGEO LN) shares closed at GBP 19.13/share (+18.23% w/w and +13.40% m/m). More than 252k shares traded in the range of GBP 16.58 – 19.62/share. Average daily traded volume was 57k in the last 4 weeks, less than in the previous month. FTSE 250 Index, of which BOGH is a constituent, gained 4.53% w/w and gained 0.10% m/m, respectively. The volume of BOGH shares traded was at 0.64% of its capitalization.

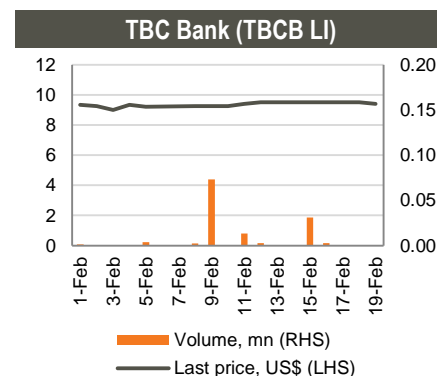
**TBC Bank** (TBCB LI) closed the week at US\$ 9.40 (-1.05% w/w and +0.97% m/m). More than 34k GDRs changed hands in the range of US\$ 9.40 – 9.70/GDR. Average daily traded volume was 7k in the last 4 weeks, more than in the previous month.

**Georgia Healthcare Group** (GHG LN) shares closed at GBP 1.63/share (-2.61% w/w and +0.31% m/m). More than 25k shares were traded in the range of GBP 1.63 – 1.76/share. Average daily traded volume was 9k in the last 4 weeks. The volume of GHG shares traded was at 0.02% of its capitalization.

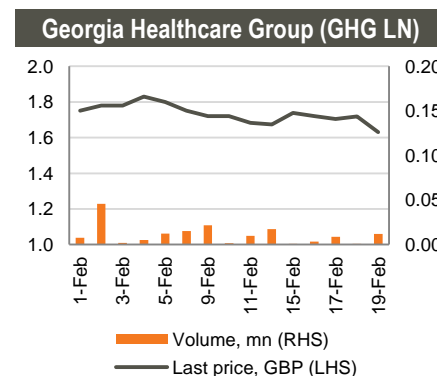
**On the Georgian stock exchange:** Liberty Bank shares were traded at GEL 0.017 (unchanged w/w). As a result, the G&T Index went down to 886.29.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

### Eastern European banks

Eastern European Banks								
Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg	
BGEO*	BGEO	27.43	1,084	14.6%	-4.1%	-7.8%	-15.2%	-16.9%
TBC	TBC	9.40	460	1.0%	10.2%	-6.9%	-25.4%	-27.7%
Halyk Bank	HSBK	3.70	1,009	-17.8%	-38.3%	-50.6%	-56.5%	-42.6%
KKB	KKB	0.84	335	-23.3%	-26.3%	-69.1%	-77.9%	-75.7%
VTB Bank	VTBR	1.82	11,801	5.9%	-20.8%	-11.0%	-20.8%	-14.9%
Vozrozhdenie Bank	VZRZ	6.72	160	1.6%	-28.2%	-18.1%	-8.9%	4.0%
Sberbank	SBER	5.58	30,114	21.4%	-19.9%	22.1%	37.8%	12.7%

Source: Bloomberg

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

### Healthcare sector peers

	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
GHG*	GHG	2.34	300	1.4%	-14.6%	nm	nm	nm
Mouwasat	MOUWASAT	28.23	1,412	5.0%	-5.2%	-24.9%	-14.1%	-23.6%
Fortis	FORH	2.56	1,187	1.4%	5.4%	-8.9%	46.0%	11.8%
Raffles	RFMD	2.97	1,706	7.3%	-1.8%	-8.6%	1.0%	0.7%
IHH	IHH	1.55	12,759	3.9%	0.1%	14.7%	12.7%	7.3%
Bangkok Chain	BCH	0.26	645	4.9%	26.7%	36.5%	7.7%	-1.5%
Netcare	NTC	2.20	3,211	17.4%	-20.2%	-27.7%	-33.1%	-37.2%

Source: Bloomberg

Note: \* GHG 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:** gt@gt.ge