

Weekly Market Watch

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October 26, 2015

Economy

Trade deficit down 9.1% y/y excluding c-hepatitis medicine imports in 9M15

In September 2015, exports decreased 22.3% y/y to US\$ 186.3mn, imports fell 12.2% y/y to US\$ 637.7mn excluding donated c-hepatitis medicine imports, and the trade deficit decreased 7.2% y/y to US\$ 451.4mn (while trade deficit was up 10.5% y/y based on original data), according to foreign trade data released by GeoStat. The major drag on exports came from re-exports (mainly cars) decreasing 44.9% y/y, while Georgian originated exports fell just 11.2% y/y. Exports to the EU increased 8.0% y/y, while exports to the CIS markets shrank 40.8% y/y. In September 2015, a pickup in intermediate goods imports (+6.7% y/y) limited the drop in gross imports, while consumption goods (excluding one-offs) imports decreased 29.9% y/y, with savings from lower oil prices and car imports being the major contributors.

In 9M15, exports decreased 23.6% y/y to US\$ 1.6bn, imports fell 14.1% y/y to US\$ 5.3bn excluding donated c-hepatitis medicine imports, and trade deficit contracted 9.1% y/y to US\$ 3.7bn (while trade deficit decreased 1.3% y/y based on original data). 29% of exports were directed to the EU (+2.1% y/y), 38% to the CIS (-44.2% y/y), and 33% to other countries (-3.4% y/y), out of which Turkey (8.9% of total), and China (5.3% of total) were the largest export destinations. A 65.5% y/y drop in car exports (8.6% of total) had the largest negative impact. Nuts (+6.3% y/y), pharmaceuticals (+46.8% y/y), crude oil (+236.8% y/y), and gold (+64.9% y/y) were the major Georgian exports increasing significantly in 9M15.

In 9M15, pharmaceuticals (+134.8% y/y, including c-hepatitis medicines), petroleum (-27.5% y/y), cars (-34.3% y/y), gases (+21.6% y/y), and copper ores (+12.6% y/y) represented top 5 imported commodities. 33% of imports came from the EU (+6.9% y/y), 25% from the CIS (-6.0% y/y), and 42% from other countries (-19.6% y/y), with Turkey (17.0% of total), and China (7.9% of total) being the largest trading partners.

State budget - resilient revenues in 9M15

State budget total inflows exceeded the plan by GEL 17mn, reaching GEL 7.3bn in 9M15, according to Treasury Service data. Taxes accounted for 77.2% of total inflows or GEL 5.6bn (2.2% above plan), while the rest - GEL 1.7bn (5.7% below plan) was mobilized from grants, credits, privatization and others. Privatization was 20.3% above plan reaching GEL 212.6mn (GEL 73.6mn received from the sale of fixed assets and GEL 136.6mn from the sale of a radiofrequency license).

Total budget outflows reached GEL 6.9bn (4.1% below plan), out of which current spending reached GEL 5.9bn (2.5% below plan), or 84.6% of total, capex reached GEL 417.2mn (23.9% below plan), and the rest (GEL 644.2mn) was spent to meet other obligations.

As a result of resilient revenues, lower current spending and underspending in capex, the state budget overall deficit reached GEL 29.2mn, compared to a planned deficit of GEL 525.9mn and government deposits increased by GEL 349.3mn to GEL 783.7mn as of 1 October 2015.

Producer price index down 1.3% m/m and up 6.4% y/y in September 2015

PPI for industrial goods fell 1.3% m/m in September 2015 after increasing 1.1% in August, according to GeoStat. A 1.4% decrease in prices for manufacturing contributed most to the overall index decline. The prices were also down for basic and fabricated metals (-4.7% m/m), and for food, beverages and tobacco (-1.1% m/m).

Annual PPI retreated to 6.4% in September 2015 after hitting 9.3% in August, with manufacturing prices increasing 7.5% (mostly for foods, beverages and tobacco, basic and fabricated metals, and paper and publishing), contributing +6.11ppts to the overall index change. Prices were up 2.6% y/y in the electricity, gas, and water supply category, contributing +0.41ppts to the overall index change.

Georgia is in a position to improve its credit rating

In a new report that looks into 29 frontier markets, Moody's identifies a number of benchmarks for assessing progress, such as the ability to implement institutional reforms, government's fiscal responsibility and relatively rapid GDP growth. But Moody's says that "only a few" are likely to make much progress over the next 2 to 3 years. Moody's mentions Georgia along with 2 other countries, that are in a position to see their rating rise, as these countries have sought to control spending and have strengthened institutions to create more stable and predictable environments that are attractive to investors. Moody's defines frontier markets as sub-investment grade countries that rely primarily on concessional financing to fund their external public debt needs.

Key macro indicators

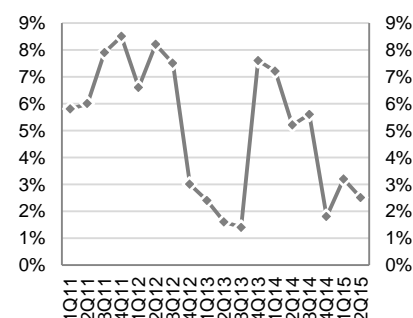
	9M15	2014	2013
GDP (% change)	2.8%*	4.8%	3.3%
GDP per capita (ppp)	...	7,653	7,180
GDP per capita (US\$)	...	3,681	3,600
Population (mn)	3.7**	4.5	4.5
Inflation (eop)	5.2%	2.0%	2.4%
Gross reserves (US\$ bn)	2.5	2.7	2.8
CAD (% of GDP)	...	10.6%	5.8%
Fiscal deficit (% of GDP)	...	3.0%	2.6%
Total public 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

International ranking of Georgia, 2015

Ease of Doing Business # 15 (regional leader)
 Economic Freedom Index # 22 (mostly free)
 Global Competitiveness Index # 66 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

STANDARD & POORS BB- Stable Affirmed May-2015	Moody's INVESTORS SERVICE Ba3 Positive Affirmed Mar-2015	FitchRatings BB- Stable Affirmed Oct-2015
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Source: Rating agencies



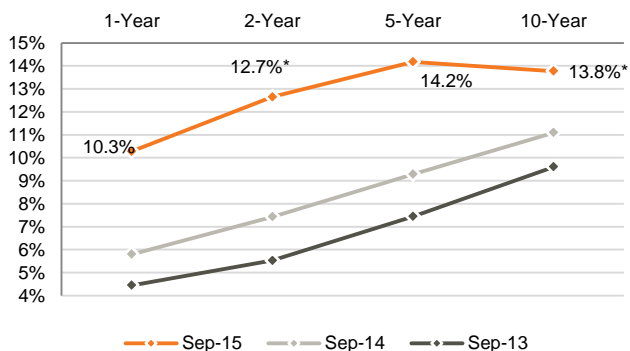
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 293.3mn) with an average yield of 7.0%.

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 8.4mn) certificates of deposit, with an average yield of 10.06% (up by 12bps from previous issue).

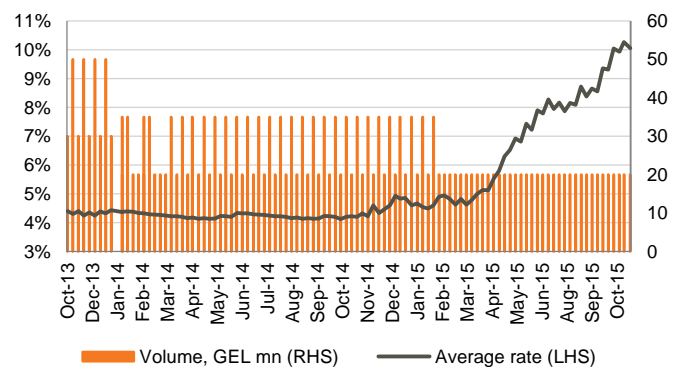
Ministry of Finance Treasury Notes: The nearest treasury securities auction is scheduled for November 4, 2015, where GEL 10mn nominal value 2-year T-Notes will be sold.

T-bills / T-notes, yield curve



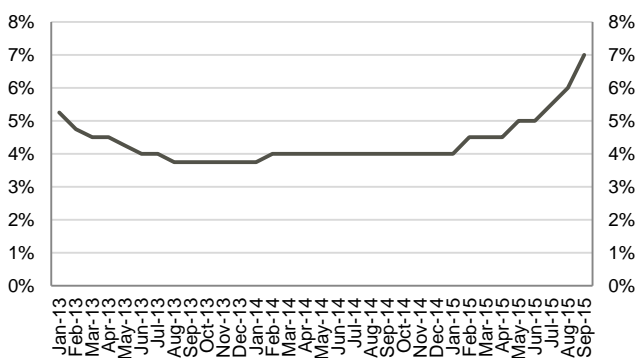
Source: NBG
*As of latest auction

Certificates of Deposits (weighted average rate)



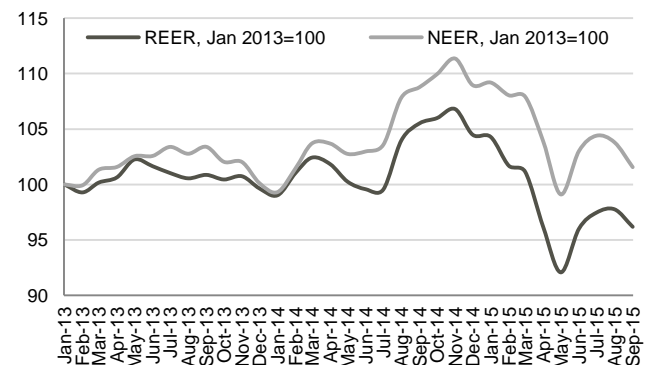
Source: NBG

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



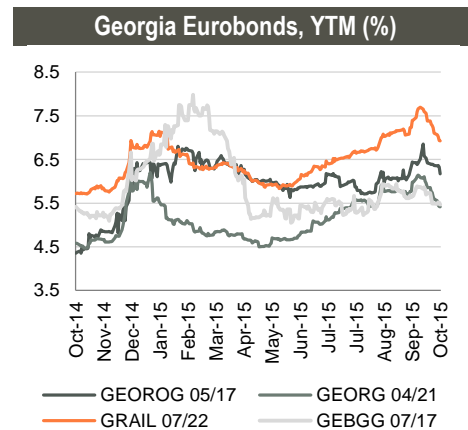
Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG) closed at 5.4% yield, trading at 103.8 (+0.2% w/w). GOGC Eurobonds (GEOROG) were trading at 101.4 (+0.8% w/w), yielding 5.9%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 104.3 (+0.9% w/w), yielding 6.9%.

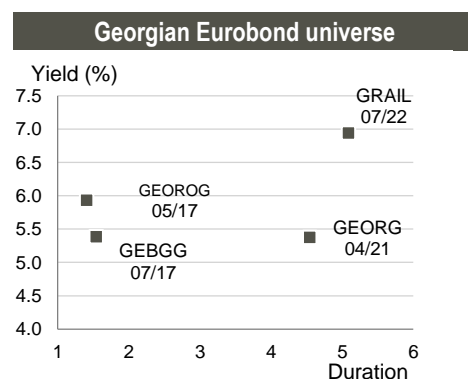
Georgian Sovereign Eurobonds (GEORG) closed at 107.0 (+0.9% w/w) at 5.4% yield to maturity.

	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	101.4	103.8	107.0	104.3
Mid yield, %	10.1	9.5	9.7	5.9	5.4	5.4	6.9
Z-spread, bps	n/a	n/a	n/a	584.9	457.0	382.7	545.5

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	107.0	5.4	382.7	
Azerbaijan	1,250	4.750%	18/03/2024	BBB-/Baa3	96.9	5.2	329.6	
Bulgaria	323	5.000%	19/07/2021	BBB-/Baa3	118.7	1.6	-235.6	
Croatia	1,250	3.875%	30/05/2022	BB-/BB-/Ba1	101.1	3.7	317.1	
Hungary	3,000	6.375%	29/03/2021	BB+/BB+/Ba1	115.8	3.2	170.5	
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	119.9	3.2	159.2	
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	105.7	3.6	224.7	
Turkey	2,000	5.625%	30/03/2021	BBB-/Baa3	108.4	3.9	238.0	
Ukraine	1,500	7.950%	23/02/2021	CC/CC/Ca	79.4	13.9	1233.8	

Source: Bloomberg

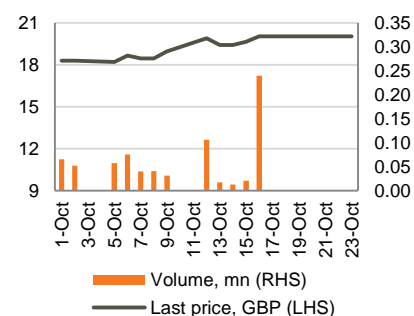
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 21.35/share (+6.64% w/w and +16.99% m/m). More than 179k shares traded in the range of GBP 19.96 – 21.35/share. Average daily traded volume was 56k in the last 4 weeks, more than in the previous month. FTSE 250 Index, of which BOGH is a constituent, has gained 1.94% w/w and gained 3.36% m/m. The volume of BOGH shares traded was at 0.45% of its capitalization.

TBC Bank (TBCB LI) closed the week at US\$ 8.74 (-0.76% w/w and -5.51% m/m). More than 148k GDRs changed hands in the range of US\$ 8.74 – 9.20/GDR. Average daily traded volume was 26k in the last 4 weeks, more than in the previous month.

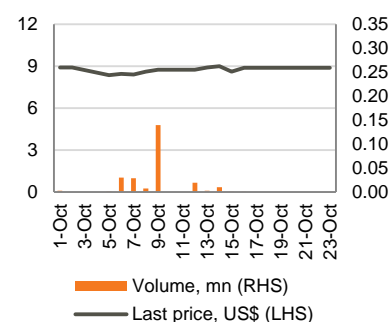
On the Georgian stock exchange, Liberty Bank shares were traded at GEL 0.0129 (unchanged w/w), and Liberty Consumer shares were traded at GEL 0.11 (-17.0% w/w). As a result, the G&T Index went down to 909.59 (-0.03% w/w).

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*	30.92	1,221	11.0%	-0.9%	4.9%	-4.4%	-23.8%
	TBC	8.88	435	-4.0%	-11.2%	-26.0%	-29.5%	-38.3%
	Halyk Bank	6.08	1,658	-3.5%	-26.2%	-21.0%	-28.5%	-37.3%
	KKB	2.89	1,152	6.3%	-0.3%	-10.2%	-23.9%	-27.8%
	VTB Bank	2.45	15,883	24.9%	-2.5%	11.3%	6.6%	31.8%
	Vozrozhdenie Bank	11.35	270	0.0%	0.0%	0.0%	0.0%	0.0%
	Sberbank	6.10	32,920	27.6%	18.0%	2.9%	50.6%	-14.8%

Source: Bloomberg

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

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