

Weekly Market Watch

Weekly Market Watch | Georgia
October 3, 2016

Economy

Real GDP up 2.9% y/y in August 2016

Georgia's economy expanded 2.9% y/y in August 2016, better than 2.1% y/y reported in previous month, according to GeoStat's rapid estimates. As a result, output growth averaged 2.7% y/y in 8M16. Monthly rapid estimates are based on VAT turnover, fiscal and monetary statistics.

NPLs at 4.0% y/y in August 2016

In August 2016, the banking sector loan portfolio increased 8.2% y/y, excluding the exchange rate effect (+7.0% y/y and -1.1% m/m in unadjusted terms), to GEL 16.4bn (US\$ 7.1bn). Deposits increased 10.2% y/y, excluding the exchange rate effect (+8.7% y/y and -1.6% m/m in unadjusted terms), to GEL 14.6bn (US\$ 6.3bn). NPLs stood at 4.0% in August 2016, up 0.7ppts y/y and up 0.1ppts m/m.

NBG sold US\$ 40mn

Last week, NBG intervened on the FX market and sold US\$ 40mn, aimed at curbing fluctuation of the national currency. Overall, NBG bought total of US\$ 278mn and sold US\$ 140mn at 20 interventions YTD. GEL weakened 0.1% w/w and strengthened 3.6% YTD against the US\$.

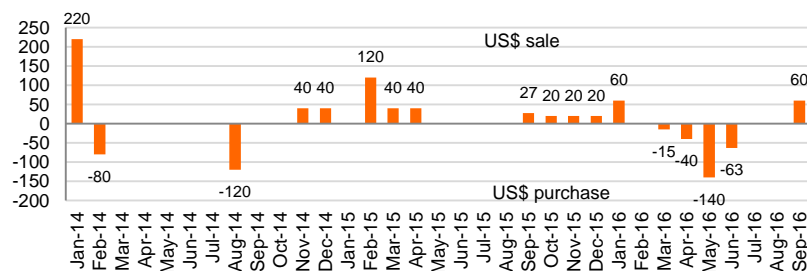
Georgia improves ranking in Global Competitiveness Index

World Economic Forum global competitiveness report of 2016-2017, released on 28 September 2016, named Georgia the most improved Eurasian economy, up 7 places in the ranking at 59th out of 138 countries.

Current account deficit stood at 13.4% of GDP in 2Q16

Current account deficit narrowed to 13.4% of GDP in 2Q16 from 14.2% of GDP in 1Q16, increasing 32.6% y/y in nominal terms to US\$ 486.9mn, according to NBG. Merchandise trade deficit, traditionally the major contributor to deficit creation, increased 119.5% y/y as exports (-16.8% y/y) were down and imports (+58.6% y/y) were up. However, excluding donated C-hepatitis medicine imports, goods imports were down 4.6% y/y in 2Q16. Positive balance in services and current transfers compensated 86.2% of trade deficit. Among services, tourism had the largest positive balance, increasing 12.0% y/y to US\$ 515.3mn (14.1% of GDP). Net current transfers, the largest positive item of the current account, were up 273.1% y/y to US\$ 1.5bn, on the back of 7.5x increase in the government sector transfers due to the international aid received for hepatitis-C elimination program. Net FDI, significant item for financing the current account deficit, amounted to US\$ 380.6mn (10.5% of GDP, up 8.6% y/y). The largest investment inflows were directed to transport and communications sector.

Foreign exchange auctions



■ NBG monthly net interventions US\$ mn

Source: NBG

Key macro indicators

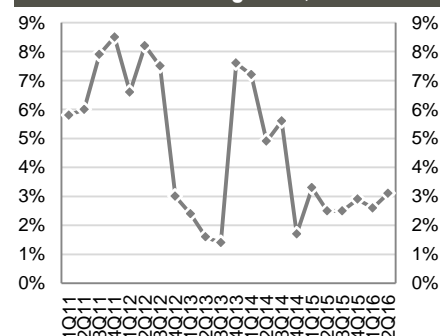
	8M16	2015	2014
GDP (% change)	2.7%	2.8%	4.6%
GDP per capita (ppp)	...	9,630	9,209
GDP per capita (US\$)	...	3,759	3,676
Population (mn)	3.7 ⁽¹⁾	3.7 ⁽¹⁾	4.5
Inflation (eop)	0.9%	4.9%	2.0%
Gross reserves (US\$ bn)	2.9	2.5	2.7
CAD (% of GDP)	13.4% ⁽²⁾	11.8%	10.6%
Fiscal deficit (% of GDP)	...	3.8%	3.0%
Total public debt (% of GDP)	...	41.5%	35.5%

Source: Official data, IMF

(1) Preliminary results of census, previous data is subject to recalculation

(2) As of 2Q16

Real GDP growth, %



Source: GeoStat

International ranking of Georgia, 2016

Ease of Doing Business # 24 (regional leader)
 Economic Freedom Index # 23 (mostly free)
 Global Competitiveness Index # 59 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

STANDARD & POOR'S BB- Stable Affirmed Nov-2015	MOODY'S INVESTORS SERVICE Ba3 Stable Affirmed Mar-2016	FitchRatings BB- Stable Affirmed Apr-2016
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Source: Rating agencies

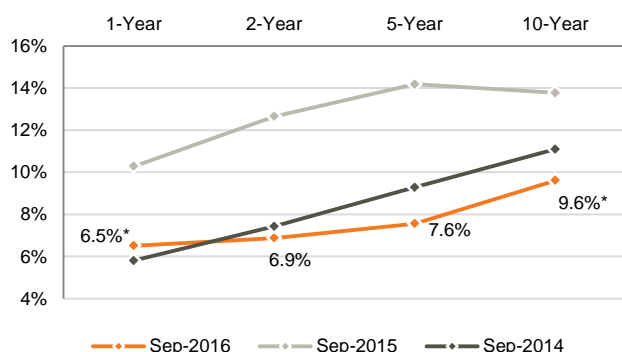
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 980mn (US\$ 420.9mn).

Certificates of deposit: NBG sold 182-day, GEL 20mn (US\$ 8.6mn) certificates of deposit, with an average yield of 6.58% (up 1bps from previous issue).

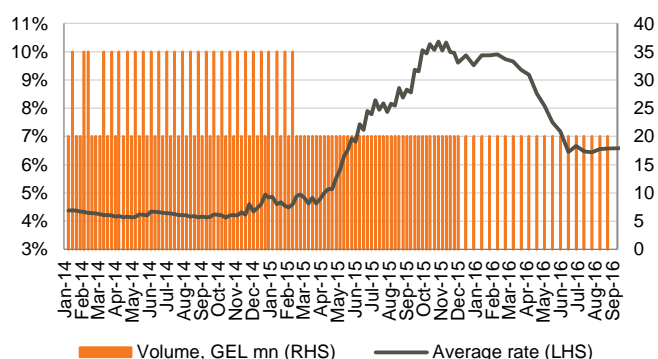
Ministry of Finance Treasury Notes: 5-year GEL 10mn (US\$ 4.3mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on September 21, 2016. The weighted average yield was fixed at 7.555%. The nearest treasury securities auction is scheduled for October 5, 2016, where GEL 33mn nominal value 2-year T-Notes will be sold.

T-bills / T-notes, yield curve



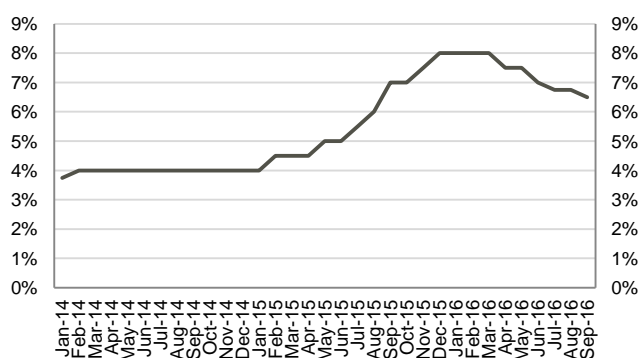
Source: NBG
*As of latest auction

Certificates of Deposits (weighted average rate)



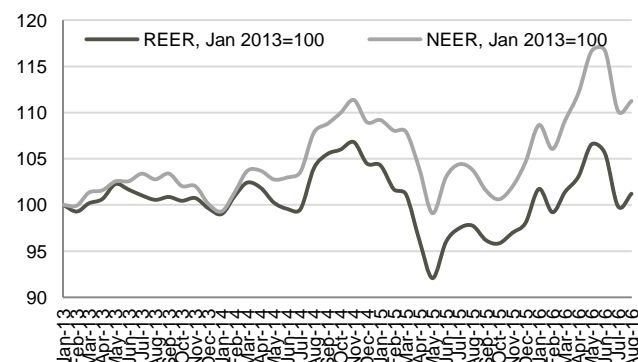
Source: NBG

Monetary policy rate



Source: NBG
Note: Next revision of a monetary policy rate is scheduled for 26 October 2016

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

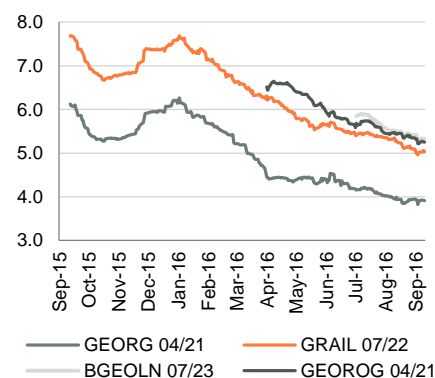


Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (BGEOLN) closed at 5.3% yield, trading at 103.8 (-0.1% w/w). GOGC's Eurobonds (GEOROG 05/17) were trading at 101.9 (unchanged w/w), yielding 3.8% and (GEOROG 04/21) were trading at 105.5 (-0.6% w/w), yielding 5.4%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 112.9 (-0.9% w/w), yielding 5.1%.

Georgian Sovereign Eurobonds (GEORG) closed at 112.1 (-0.2% w/w) at 3.9% yield to maturity.

Georgia Eurobonds, YTM (%)



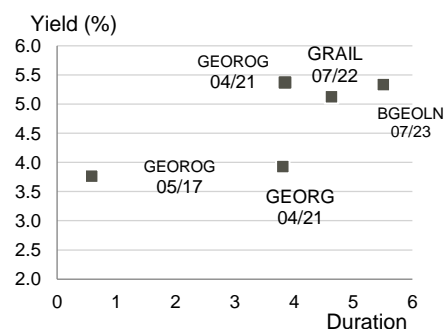
	Local bonds					Eurobonds				
	Nikora 03/18	GWP 11/17	M2RE 03/17	EVEX 05/17	GLC 09/17	GEOROG 04/21	GEOROG 05/17	BGEOLN 07/23	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	5	6*	20	15	10	250	250	350	500	500
Issue date	03/16	12/15	03/15	05/15	09/14	Apr-2016	May-2012	Jul-2016	Apr-2011	Jul-2012
Maturity date	03/18	12/17	03/17	05/17	09/17	Apr-2021	May-2017	Jul-2023	Apr-2021	Jul-2022
Coupon, %	11.00	14.00**	9.50	9.50	8.75	6.750	6.875	6.000	6.875	7.750
Fitch/S&P/Moody's	-/-	BB-/-	-/-	-/-	-/-	BB-/B+	BB-/B+	BB-/B1	BB-/BB-/Ba3	BB-/BB-/
Mid price, US\$	103.04	100.0*	101.35	101.78	101.56	105.5	101.9	103.8	112.1	112.9
Mid yield, %	8.750	15.0	6.50	6.50	7.125	5.4	3.8	5.3	3.9	5.1
Z-spread, bps	n/a	n/a	n/a	n/a	n/a	406.4	285.4	401.8	269.2	391.0

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	112.1	3.9	269.2
Azerbaijan	1,250	4.750%	18/03/2024	BB+/-/Ba1/-	103.9	4.1	279.0
Bulgaria	323	5.000%	19/07/2021	BBB-/	121.0	0.5	-243.5
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba2	108.3	2.3	236.0
Hungary	3,000	6.375%	29/03/2021	BB+/BB+/Ba1	116.0	2.6	136.0
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	120.7	2.6	138.5
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	108.0	2.6	147.5
Turkey	2,000	5.625%	30/03/2021	BBB-/NR/Baa3	106.7	4.0	277.0

Source: Bloomberg

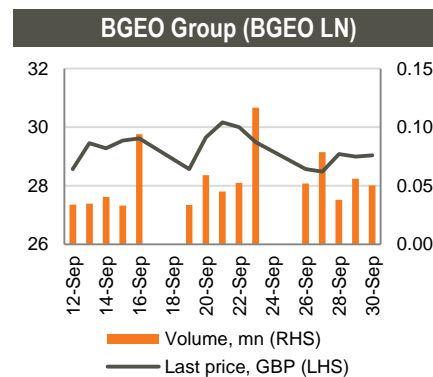
Equities

BGEO Group (BGEO LN) shares closed at GBP 29.04/share (-1.53% w/w and +2.25% m/m). More than 275k shares traded in the range of GBP 28.24 – 29.44/share. Average daily traded volume was 56k in the last 4 weeks, more than in the previous month. FTSE 250 Index, of which BGEO is a constituent, lost 0.29% w/w and gained 0.14% m/m. The volume of BGEO shares traded was at 0.70% of its capitalization.

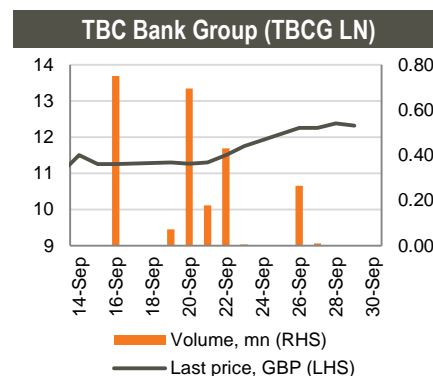
TBC Bank Group (TBCG LN) closed the week at GBP 12.70 (+10.39% w/w and +15.98% m/m). More than 327k shares changed hands in the range of GBP 12.00 – 12.70/share.

Georgia Healthcare Group (GHG LN) shares closed at GBP 2.96/share (-6.77% w/w and +9.53% m/m). More than 75k shares were traded in the range of GBP 2.96 – 3.25/share. Average daily traded volume was 23k in the last 4 weeks. The volume of GHG shares traded was at 0.06% of its capitalization.

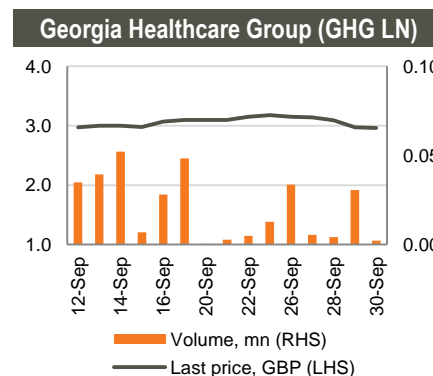
On the Georgian stock exchange, There were no trades. As a result, the G&T Index remained at 908.54 (unchanged w/w).



Source: Bloomberg



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	37.79	1,493	1.7%	8.6%	28.7%	16.8%	38.4%
TBC	TBC	12.70	624	16.0%	N/A	N/A	N/A	N/A
Halyk Bank	HSBK	6.40	1,759	2.9%	30.6%	52.9%	-24.7%	8.3%
KKB	KKB	1.34	532	-16.0%	-16.0%	6.8%	-64.9%	-53.8%
VTB Bank	VTBR	2.23	14,425	9.8%	8.4%	2.8%	-3.2%	10.2%
Vozrozhdenie Bank	VZRZ	11.39	271	7.7%	13.4%	54.6%	54.5%	24.8%
Sberbank	SBER	9.38	50,611	2.5%	7.7%	35.9%	131.6%	90.0%

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	3.85	507	8.9%	0.1%	61.7%	N/A	N/A
Mouwasat	MOUWASAT	31.42	1,571	-7.1%	-8.5%	3.4%	-4.4%	-4.2%
Fortis	FORH	2.51	1,162	-3.8%	7.4%	-6.2%	42.8%	-2.7%
Raffles	RFMD	1.12	1,962	-0.6%	0.3%	1.1%	14.7%	6.1%
IHH	IHH	1.53	12,623	-4.6%	-7.2%	-8.5%	11.4%	12.7%
Bangkok Chain	BCH	0.35	871	4.2%	-1.0%	14.1%	45.4%	85.6%
Netcare	NTC	2.45	3,582	7.5%	15.4%	3.7%	-25.4%	-6.4%

Source: Bloomberg

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

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