



GALT & TAGGART

CREATING OPPORTUNITIES



Macroeconomic overview - Georgia

April 16, 2021

Georgia successfully priced US\$ 500mn Eurobond at a record low coupon of 2.750%

Transaction details

Issuer	Republic of Georgia
Issue Ratings	BB (Fitch) / Ba2 (Moody's)/BB (S&P)
Status	Senior unsecured
Format	RegS/144A
Issue Size	US\$ 500mn
Settlement Date	22 April 2021
Maturity Date	22 April 2026
Coupon	2.750%
Yield	2.875%
Issue price	99.422%
Use of proceeds	General budgetary purposes
Listing/Law	London Stock Exchange/ English Law

Source: Bloomberg, Galt & Taggart Research

On 15 April 2021, Georgia successfully priced a US\$ 500mn, 5-year Eurobond. The coupon rate for the bond was determined at 2.750%.

The Eurobond was met with strong investor demand, with orders reaching US\$ 2.0bn.

The transaction records several milestones for the country, namely:

- Securing the financing at the lowest coupon and yield in the history of Georgia
- The lowest yield and coupon achieved by any country from the region.

Goldman Sachs and J.P. Morgan acted as a Joint Global Coordinators and Joint Bookrunners on the transaction along with ICBC Standard Bank, while local investment banks Galt & Taggart and TBC Capital acted as Co-managers.



1 Economic trends

2 External sector

3 GEL/USD and inflation

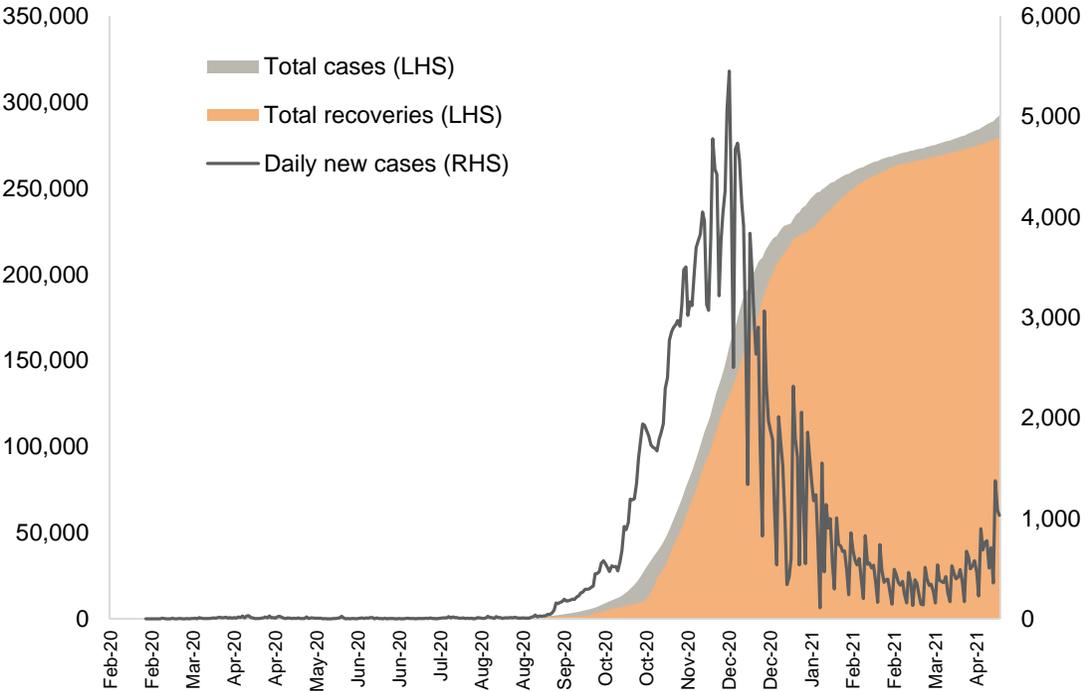
4 Banking Sector

5 Conclusions



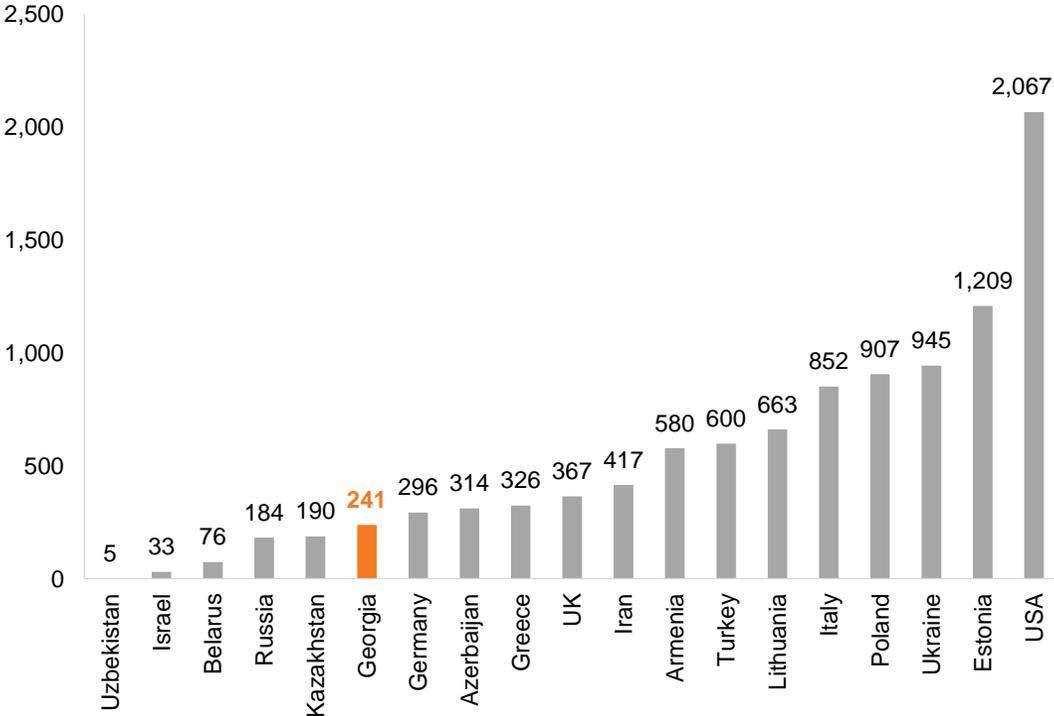
COVID-19 cases are on the rise since end-March 2021 and there are signs of the third wave

COVID-19 statistics in Georgia, persons



Source: NCDC, as of 15.04.2021

Active COVID-19 cases per 100,000 persons



Source: Johns Hopkins University, as of 15.04.2021



Vaccination is underway in more than 150 countries. However, vaccination rates are low, with only a 5.6% of the world's population vaccinated as of April 16

COVID vaccination statistics worldwide

Top 10 countries	Vaccinated population, %
Seychelles	69.0%
Israel	59.0%
UK	48.6%
Chile	39.8%
USA	37.9%
Malta	36.7%
Hungary	31.6%
Estonia	20.3%
Lithuania	19.0%
Poland	15.9%
Neighboring countries	
Turkey	14.4%
Azerbaijan	8.4%
Russia	4.7%
Georgia	0.7%

Source: Bloomberg, as of 16.04.2021

Vaccination process in Georgia

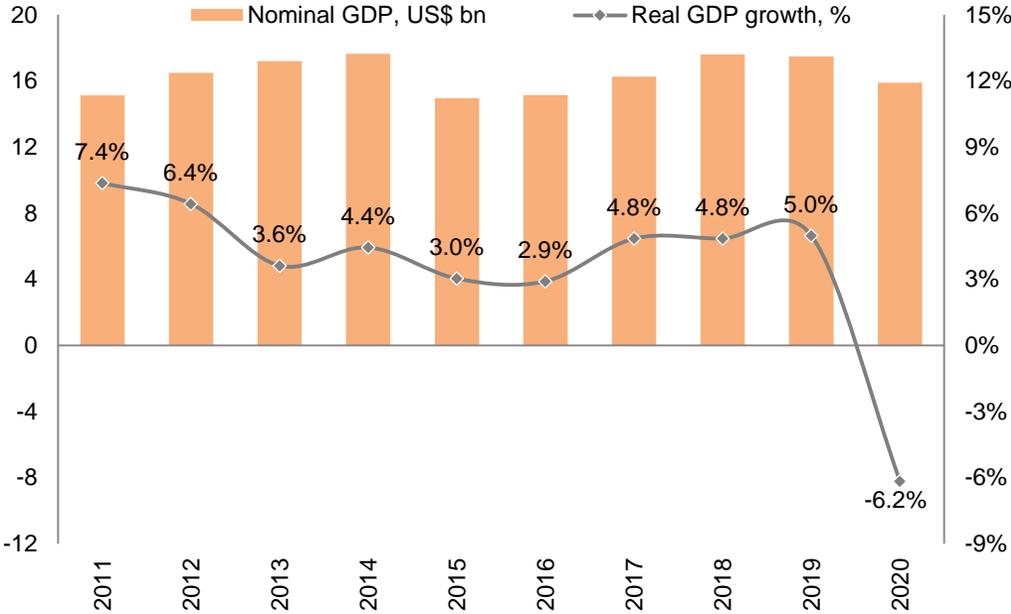
- There are 3 types of vaccines available in Georgia at this stage:
 - 43,200 doses of AstraZeneca
 - 29,250 doses of Pfizer
 - 100,000 Sinopharm
- As of April 16, 24,917 people (0.7%) have been vaccinated in Georgia. As of April, on average 1,318 people get vaccine per day. Acceleration of vaccination rate is expected from 2H21
- According to public statements, Georgia is expecting one million doses of the vaccine Pfizer (date unknown). Notably, negotiations are underway with Novax, Johnson & Johnson and other companies as well.

Source: NCDC



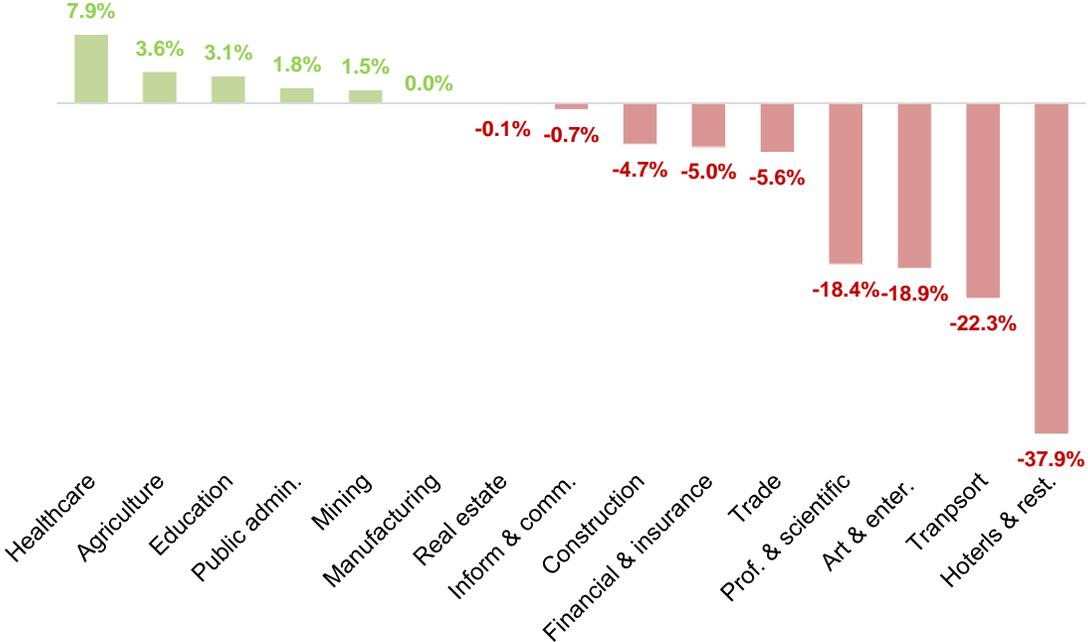
In 2020, Georgian economy contracted by 6.2%. Notably, some sectors recorded positive growth rates

Real GDP growth and nominal GDP



Source: Geostat

Real growth by economic sector, y/y

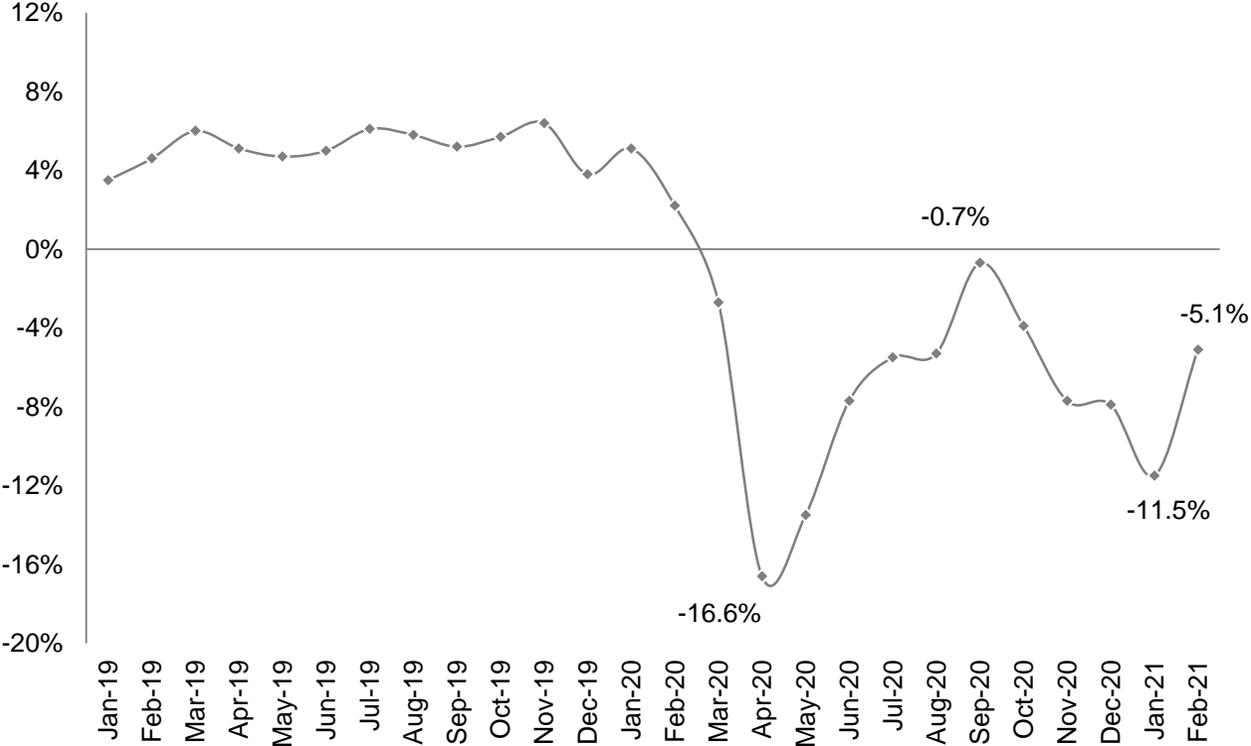


Source: Geostat



Economic contraction significantly slowed in February 2021 after the gradual easing of restrictions

Real GDP growth by month



Remittances are growing rapidly, exports have accelerated significantly, and tourism revenues are still minimal

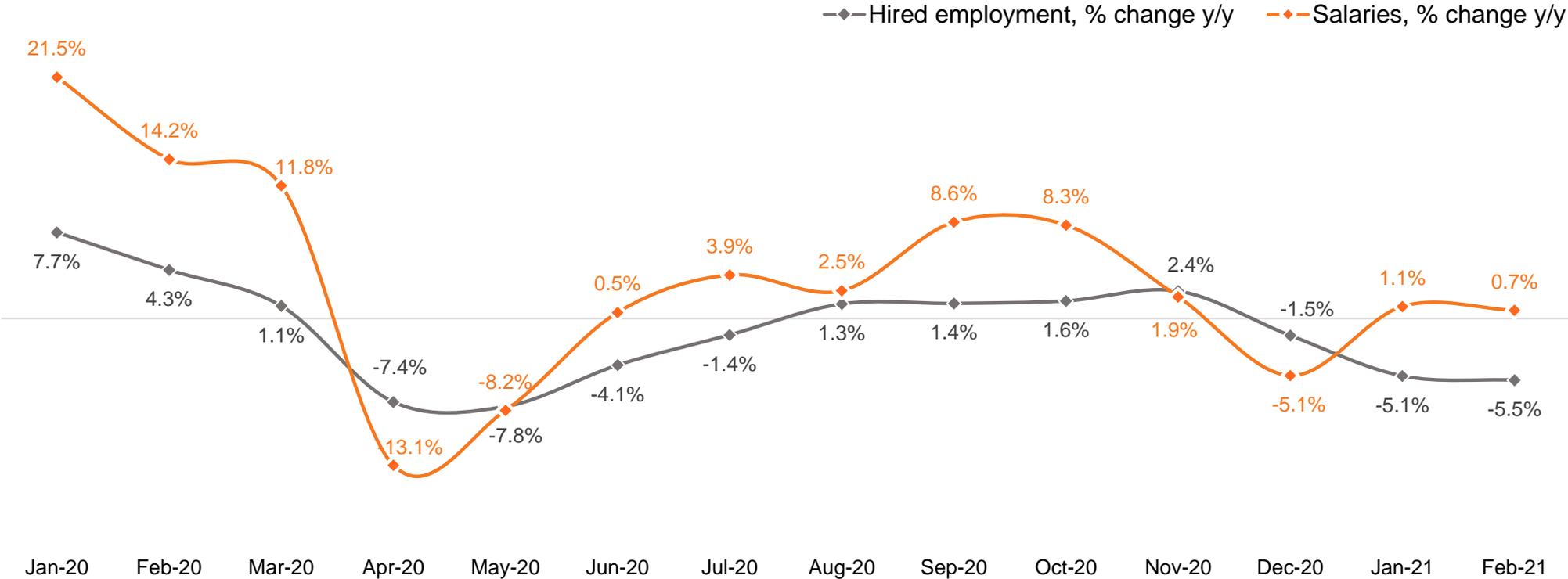
Notably, an increase in imports in Mar-21 indicates a recovery of domestic demand.

Source: Geostat



Wages increased in January-February 2021, while employment was down

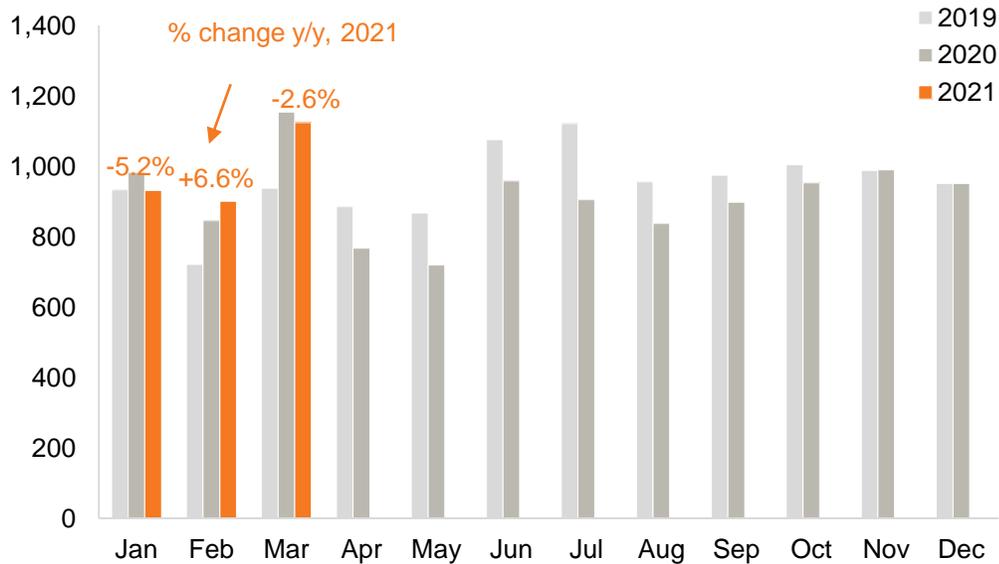
Hired employment and paid salaries



Source: Revenue Service

Tax revenue plan was met in 1Q21. The fiscal deficit remains high in 2021

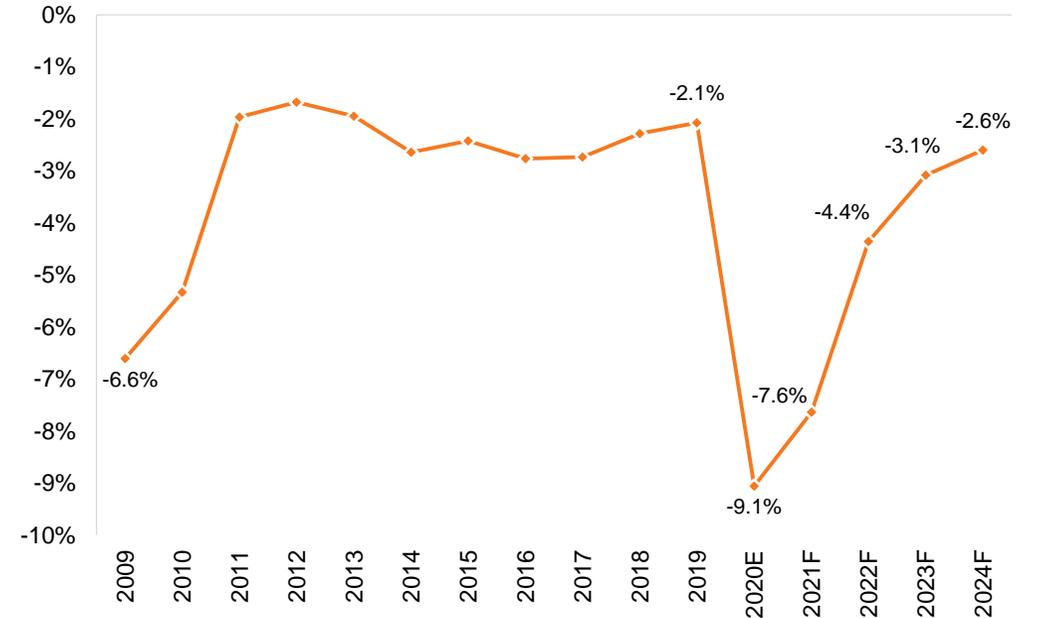
Consolidated budget tax revenues, GEL mn



Source: MOF

- In 1Q21, tax revenues amounted to GEL 3.0bn and the quarterly plan is fulfilled by 100.3%
- In 1Q21, VAT refunds amounted to GEL 467mn.

Fiscal deficit, as % of GDP



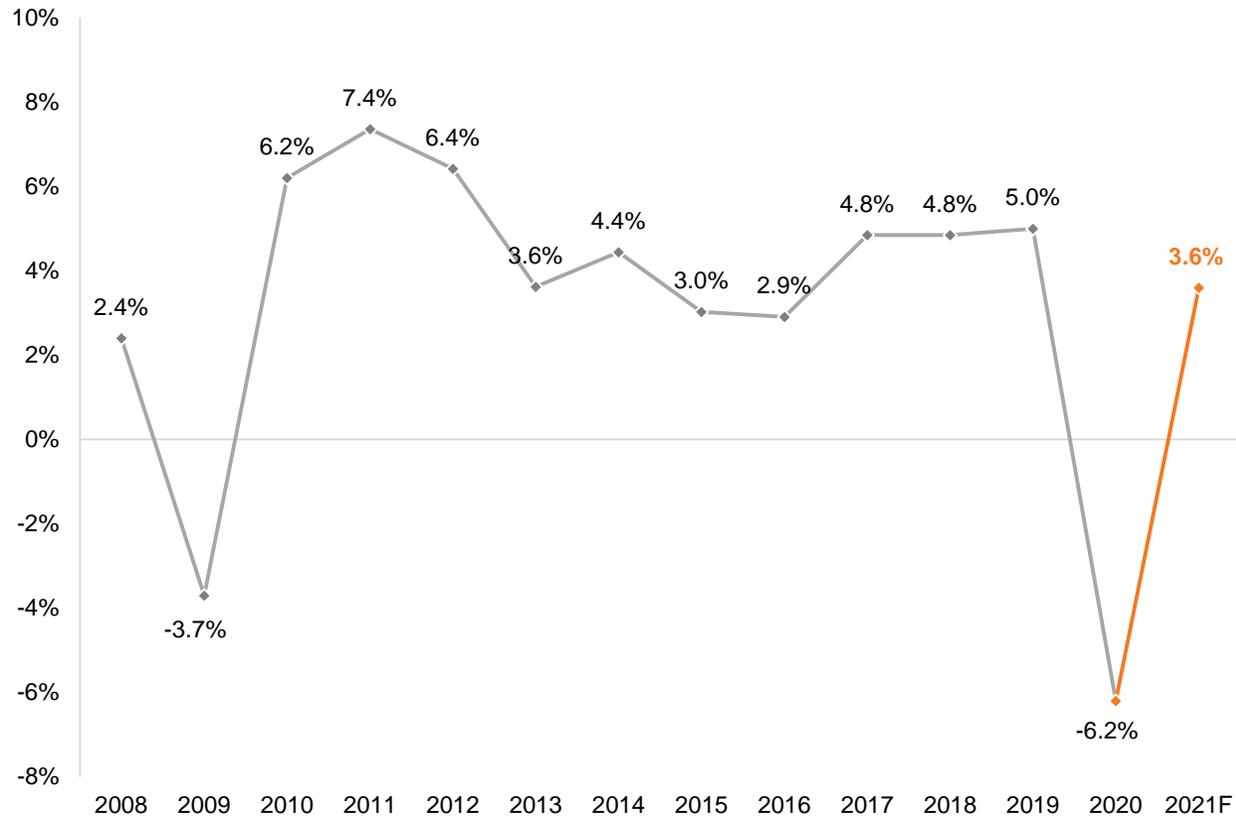
Source: MOF

- Government anti-crisis spending (healthcare, business and household assistance) amounted to 4% of GDP (GEL 2bn) in 2020
- In 2021, anti-crisis spending is planned at 2% of GDP (GEL 1.1bn)
- In 2021, infrastructure projects are projected to increase by 5.2% to GEL 4.3bn
- In the post-pandemic period, it is important to improve fiscal parameters and for this purpose a sharp reduction in current expenditures is needed.



Slow vaccination process and the delayed recovery of tourism weaken 2021 growth outlook

Georgia's economic growth forecast



Source: Geostat, Galt & Taggart

In the beginning of 2021, we had positive expectations for the resumption of tourism, but the slow vaccination process will delay it

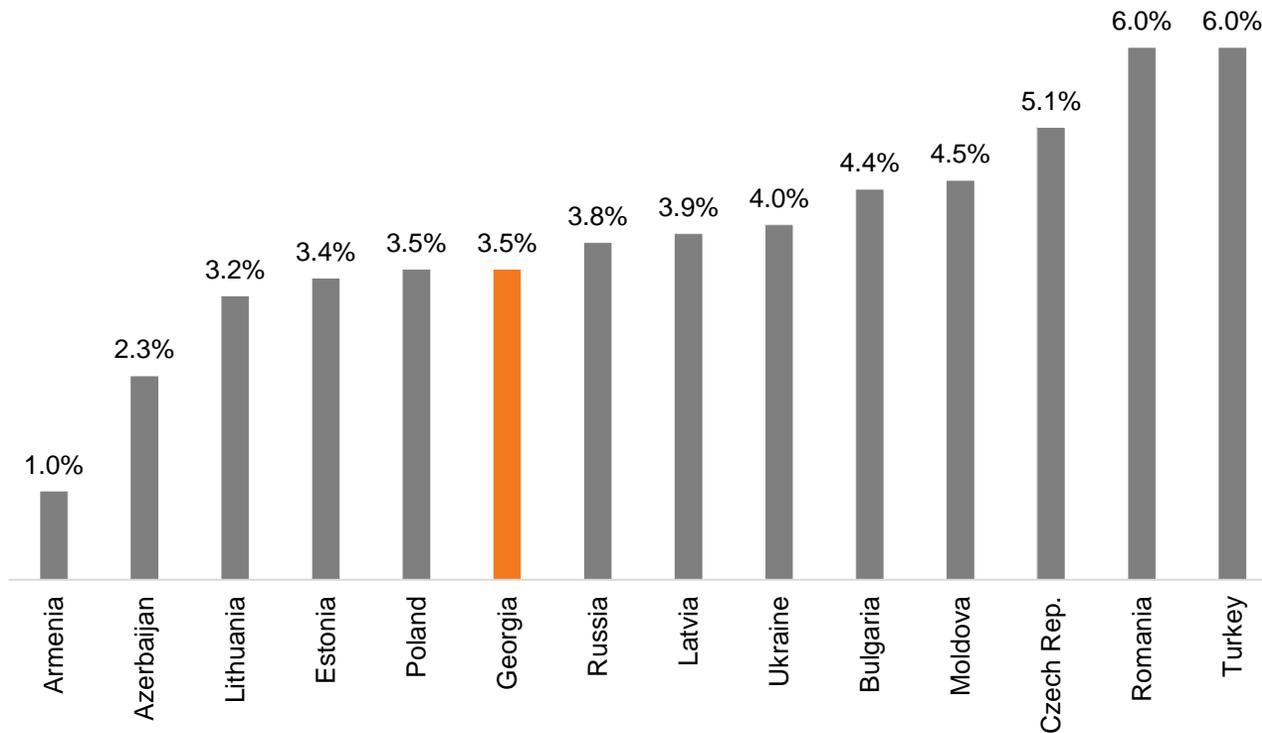
Accordingly, we forecast 3.6% economic growth in 2021 (which was our pessimistic scenario, while in the case of tourism recovery our forecast was 5.0%)

Notably, possible repeated economic restrictions will weigh on growth outlook (according to our estimates, the economy lost GEL 16mn per day as a result of previous restrictions).



IMF reduced Georgia's economic growth forecast from 4.3% to 3.5% for 2021

IMF's economic growth forecasts for 2021



Source: IMF's WEO, April 2021

- In April 2021, IMF released updated economic forecasts
- After a 3.3% decline in 2020, the IMF expects the world economy to grow by 6.0% in 2021
- IMF reduced Georgia's economic growth forecast from 4.3% to 3.5% for 2021.



1 Economic trends

2 External sector

3 GEL/USD and inflation

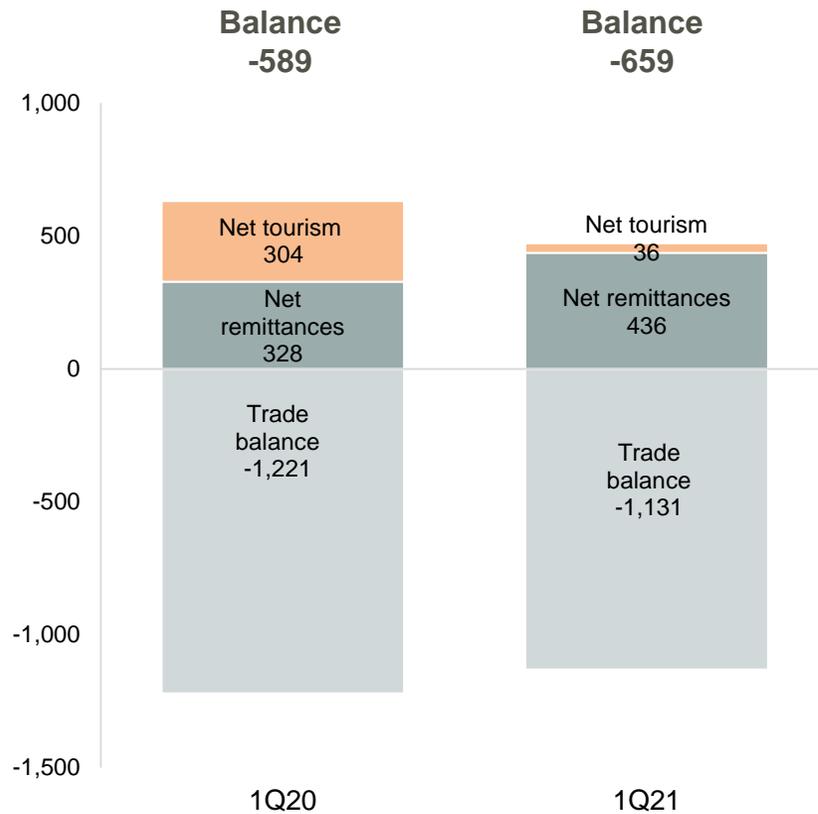
4 Banking Sector

5 Conclusions



External balance deteriorated by US\$ 69.8mn in 1Q21

Major categories of external balance, US\$ mn



Source: NBG, Geostat, Galt & Taggart

Change in 1Q21



Source: NBG, Geostat, Galt & Taggart



Exports increased in Feb-21, while imports continued to fall in double digits. As a result, the trade balance improved by US\$ 154mn in 2M21

Goods exports

	2M20	2M21	% change y/y
Total exports	531	495	-6.8%
Copper	90	95	5.1%
Ferro-alloys	42	52	23.0%
Cars	105	50	-52.5%
Wine	28	26	-8.3%
Fertilizers	20	19	-8.5%
Mineral water	16	18	17.0%
Spirits	15	18	18.8%
Nuts	7	16	125.4%
Pharmaceutical	9	9	1.5%
Gold	15	9	-42.3%
Other	182	182	0.4%

Source: Geostat

Goods imports

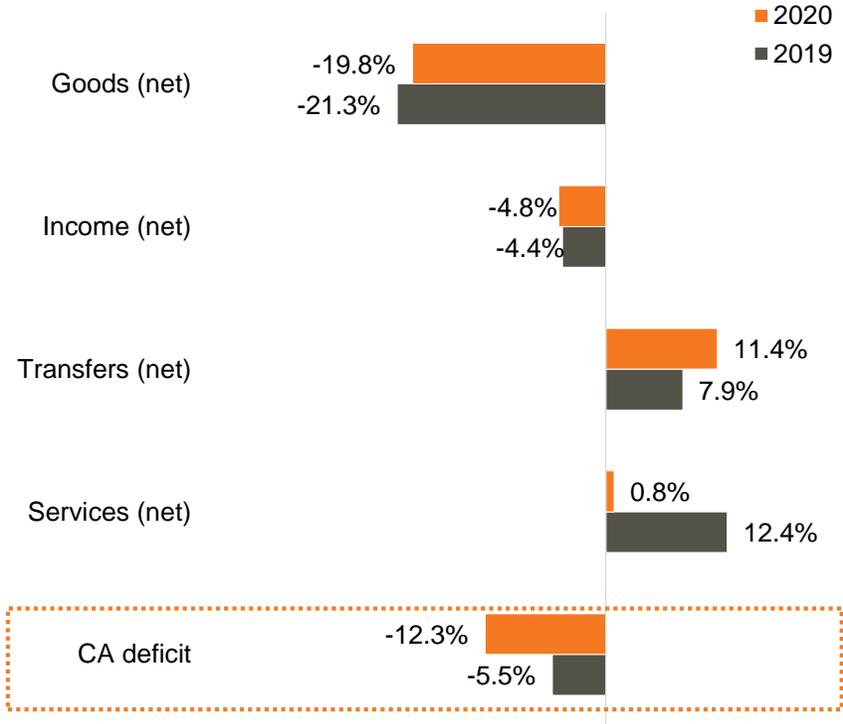
	2M20	2M21	% change y/y
Total imports	1,349	1,159	-14.1%
Cars	137	98	-28.2%
Gases	104	90	-13.8%
Oil	106	83	-21.0%
Copper	75	59	-21.3%
Moving, extracting vehicles	1	41	29.8x
Pharmaceutical	42	39	-6.7%
Trucks	16	29	86.0%
Telephones	34	25	-26.4%
Electricity	21	18	-15.6%
Wheat	10	16	55.9%
Other	803	661	-17.7%

Source: Geostat



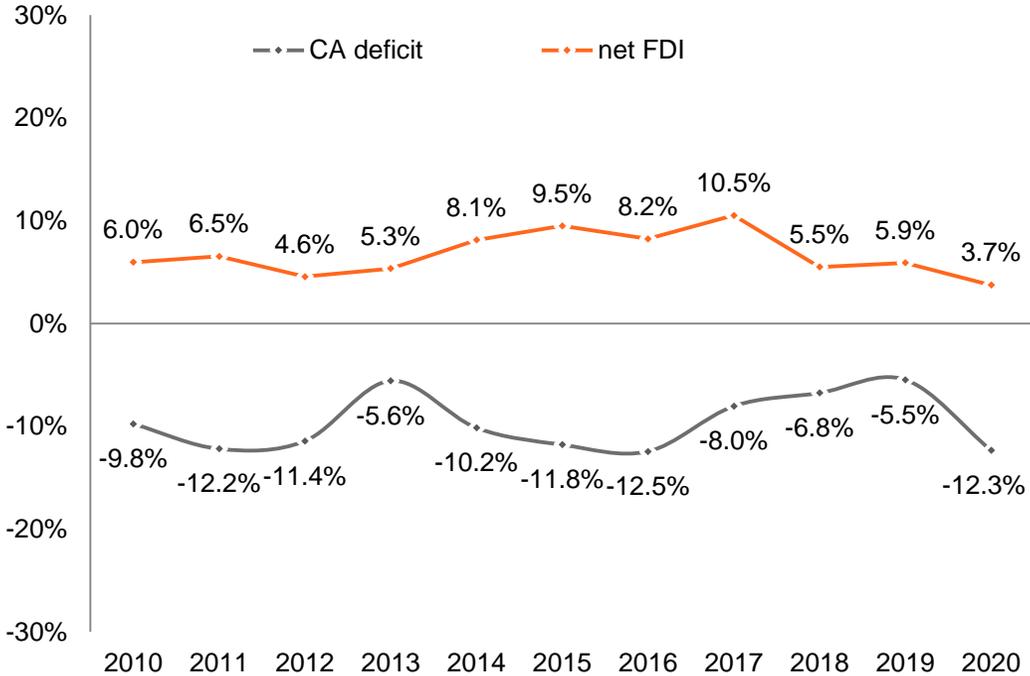
CA deficit doubled in 2020, due to a sharp deterioration in the services balance

CA balance and its components, as % of GDP



Source: Geostat, NBG

CA deficit and net FDI, as % of GDP



Source: Geostat, NBG



1 Economic trends

2 External sector

3 GEL/USD and inflation

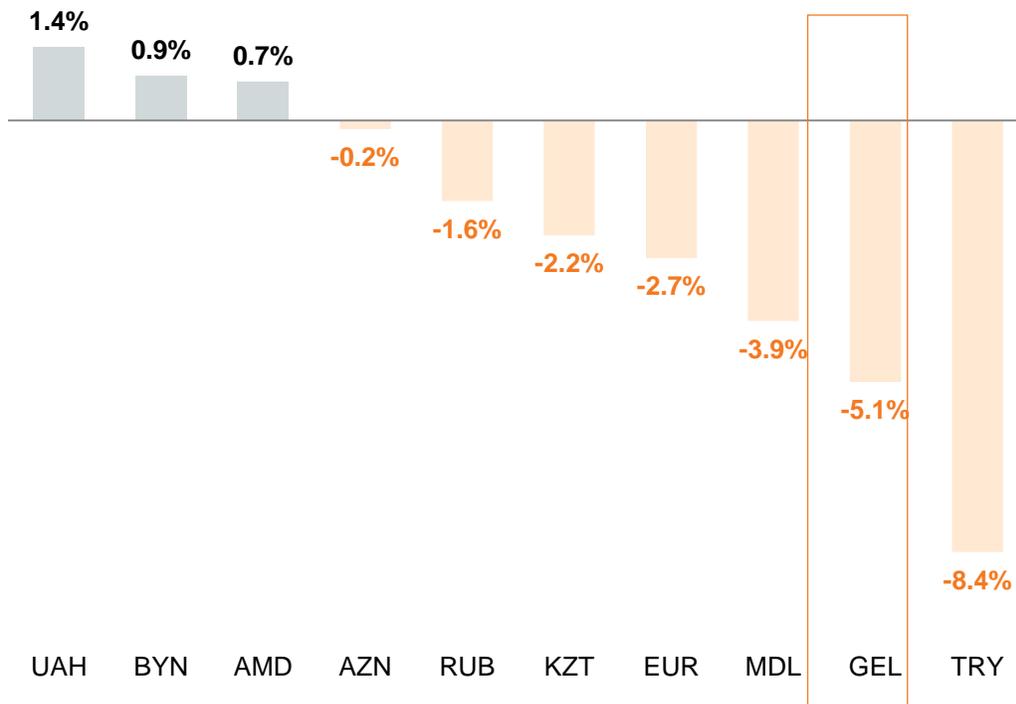
4 Banking Sector

5 Conclusions



GEL depreciated further in 2021

GEL and regional currencies against US\$, period 1 January – 15 April, 2021



Source: Central banks
Note: +/- means depreciation/appreciation

YTD, NBG sold US\$ 212.9mn via FX auctions

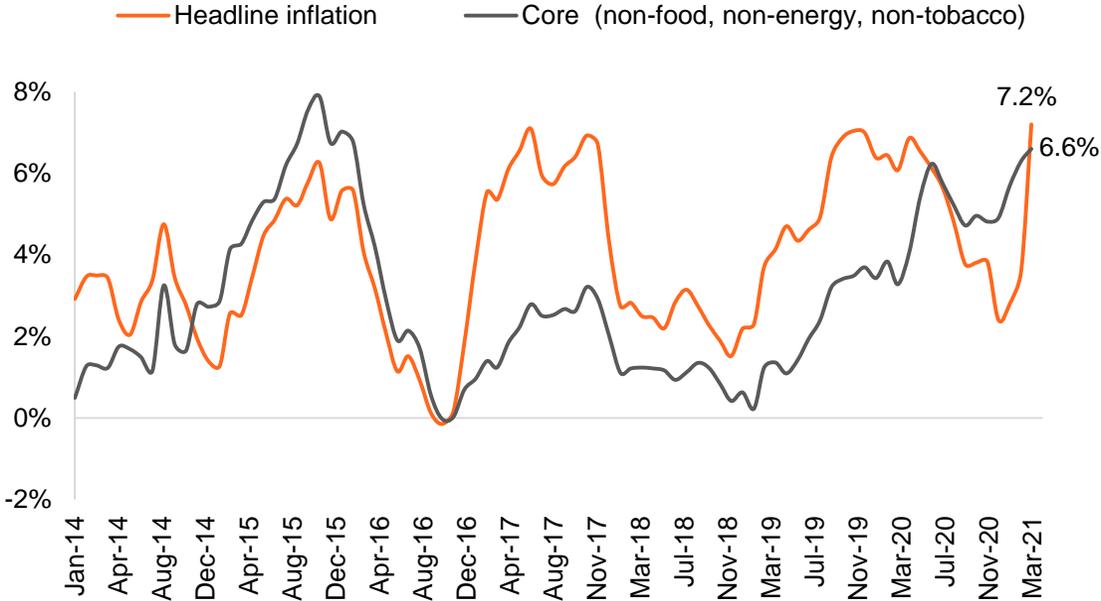
The current fluctuations of the GEL are mainly driven by the expectations of the third wave of Covid-19, political instability and negative expectations arising from the depreciation of the Turkish lira

In 2021, GEL is expected in the range of 3.4-3.5 vs. USD (In case of tourism recovery 3.25-3.4).



Average annual inflation expected at 6.9% in 2021; further tightening of monetary policy is expected

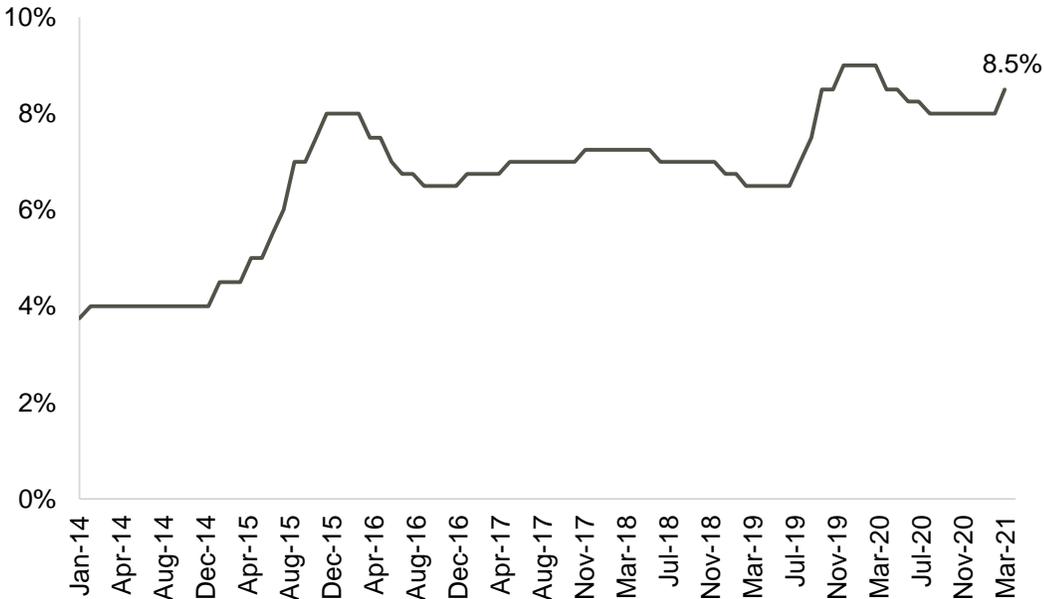
Annual inflation



Source: Geostat

■ Reduction of annual inflation in December 2020 and January 2021 was related to the government subsidy of utility bills.

Monetary policy rate



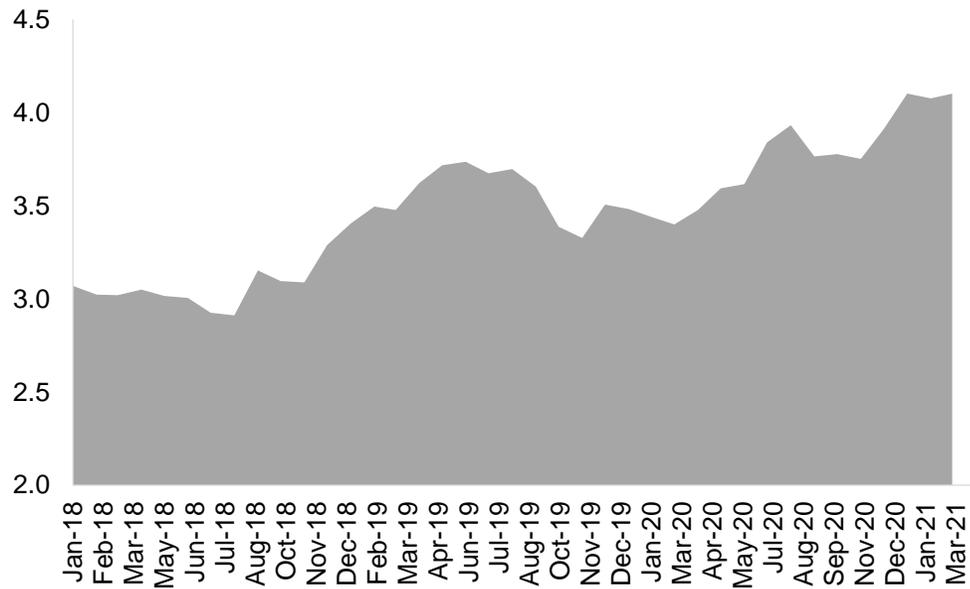
Source: Geostat

■ NBG increased the key rate by 50bps to 8.5% in Mar-21



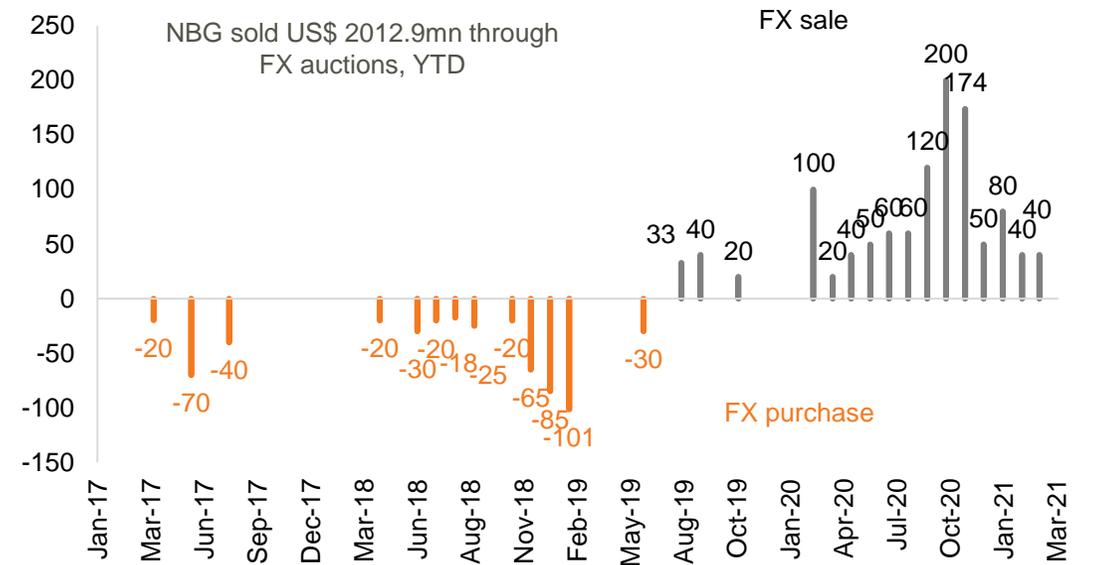
Gross international reserves are high

International reserves, US\$ bn



Source: NBG

NBG's interventions, US\$ mn



Source: NBG



1 Economic trends

2 External sector

3 GEL/USD and inflation

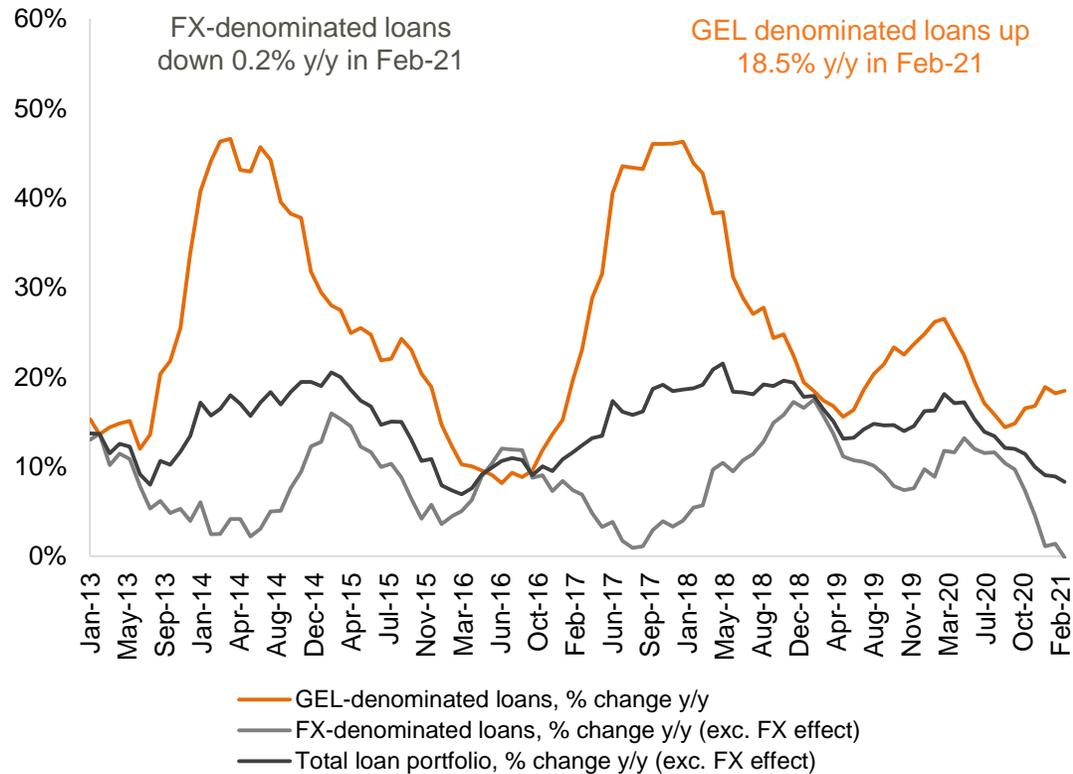
4 Banking Sector

5 Conclusions



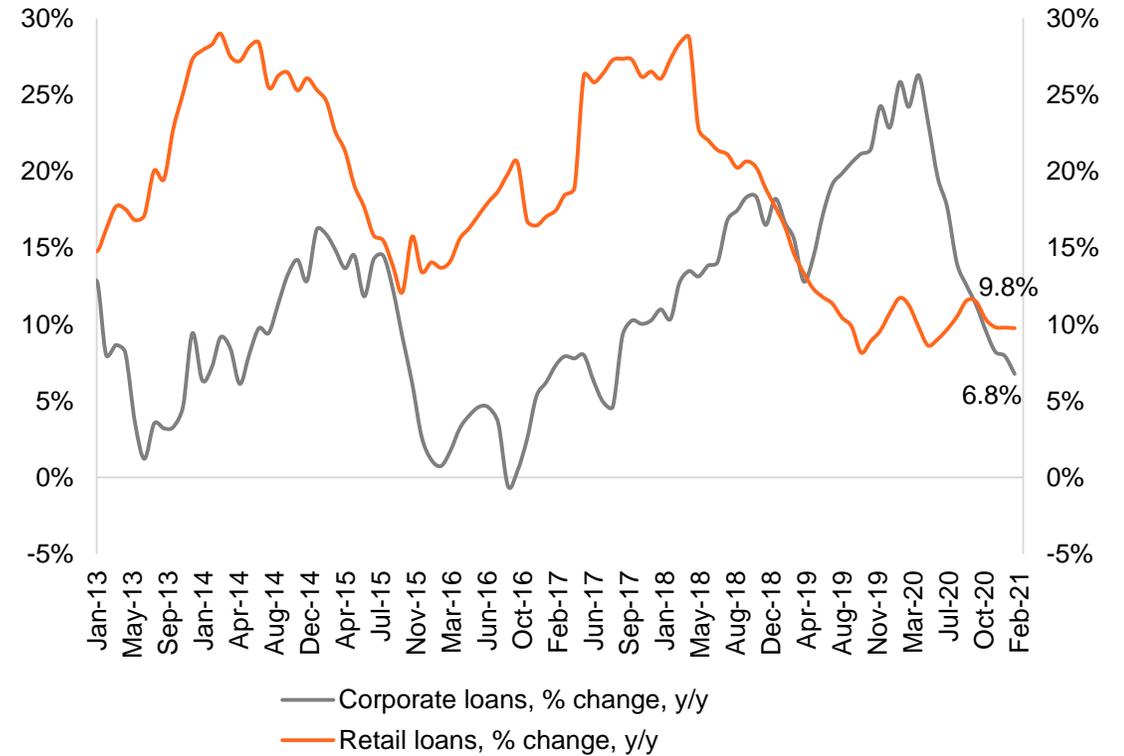
Banking loan portfolio growth slowed to 8.3% y/y in February 2021

Bank loan portfolio growth



Source: NBG

Loan book growth: corporate vs. retail (exc. FX effect)

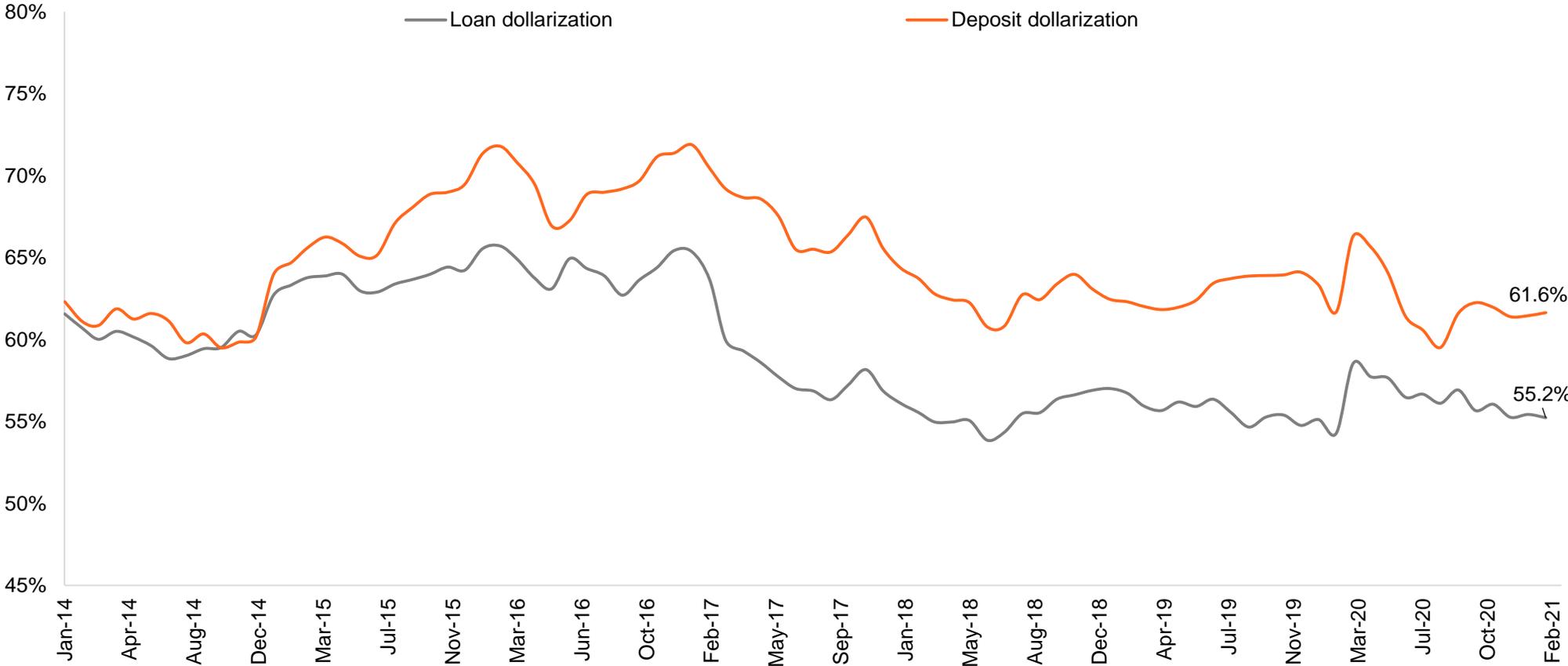


Source: NBG



Dollarization is expected to rise due to the GEL depreciation

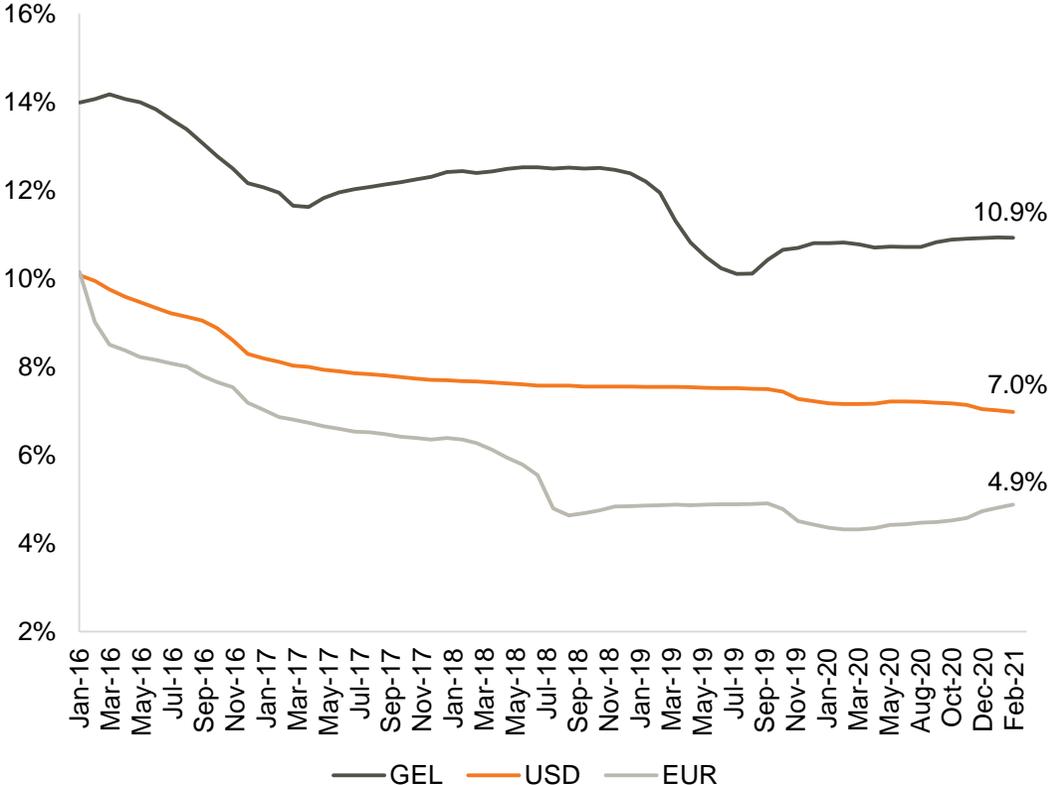
Loan and deposit dollarization



Source: NBG

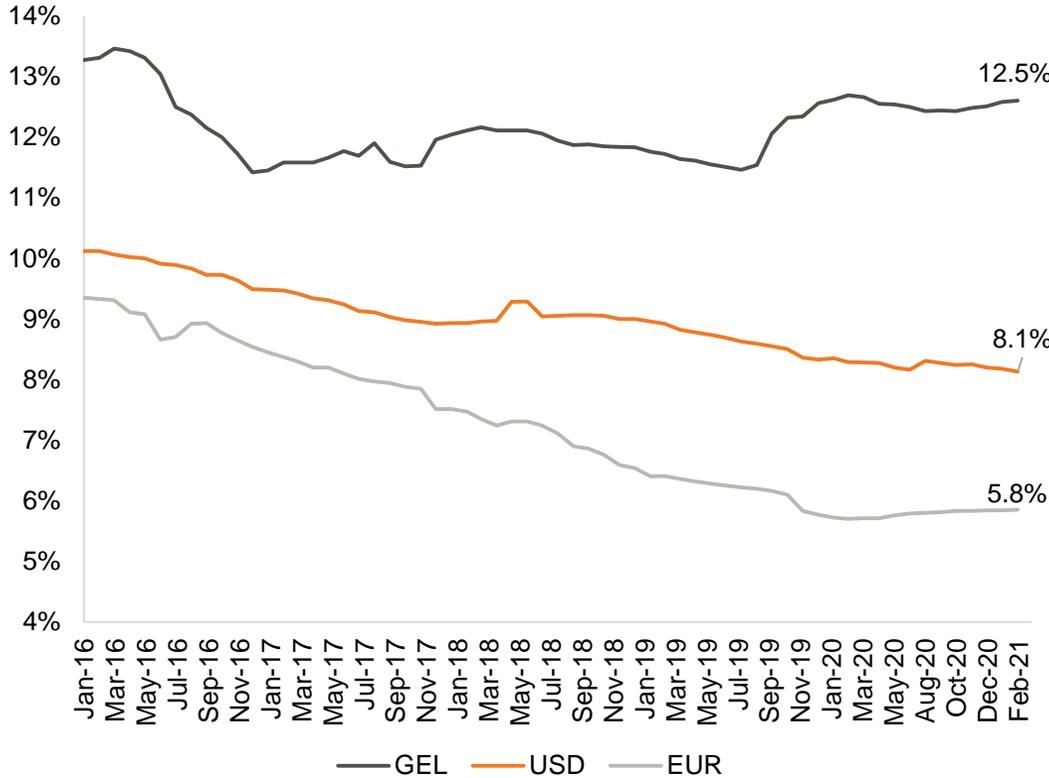
GEL interest rates expected to increase considering further tightening of monetary policy

Interest rates on mortgages



Source: NBG

Interest rates on loans to legal entities



Source: NBG



1 Economic trends

2 External sector

3 GEL/USD and inflation

4 Banking Sector

5 Conclusions



Conclusion

GDP

- Due to the slow pace of vaccination and the delayed recovery in tourism, we forecast economic growth in Georgia at 3.6% in 2021.

Inflation

- We forecast annual average inflation at 6.9% in 2021, and end-year inflation at 8.6%.

GEL/\$

- In 2021, GEL is expected in the range of 3.4-3.5 vs. USD (in case of tourism recovery 3.25-3.4).

Refinancing rate

- We expect further tightening of monetary policy, as inflation in March turned out to be higher than expected.

Bank loans

- We expect loan portfolio growth at 5-7% in 2021 (excluding FX effect).

Risks

- COVID-19 pandemic and slow vaccination
- Slow tourism recovery
- Political instability and geopolitical tensions



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