



Economy

Real GDP growth was 5.8% y/y in Aug-23

Georgia's economy expanded by 5.8% y/y in Aug-23, in line with our expectations. Cumulatively, real growth came in at 7.0% y/y in 8M23. The growth in August was driven primarily by the financial, construction, manufacturing and trade sectors. In contrast, the real estate, transportation & storage and ICT sectors contracted during the same period. We expect GDP growth at 6.8% for the full year 2023.

CA deficit at 4.9% of GDP in 2Q23

The Current Account (CA) deficit came in at 4.9% of GDP, up from 4.6% in 2Q22, mainly due to an increased negative income balance caused by a surge in reinvestments. The merchandise trade deficit, traditionally the major contributor to deficit creation, increased by 13.0% y/y to US\$ 1.2bn, as exports increased by 15.3% y/y and imports were up 14.4% y/y. Meanwhile, positive services balance grew significantly by 49.4% y/y to US\$ 788.9mn, driven by ICT (+138.9% y/y to US\$ 168.4mn) and tourism revenues (+34.8% y/y to US\$ 1.0bn). Net FDI remained the key funding source for the CA deficit, accounting for 6.3% of GDP in 2Q23. Notably, the NBG revised 1Q23 and 2022 CA deficit figures upwards to 5.9% of GDP (up from previous estimate of 3.2%) and 4.6% of GDP (up from 4.0%), respectively.

Overall, in 1H23, CA deficit came in at 5.3% of GDP, down from 8.6% of GDP in 1H22. We forecast CA deficit at 4.5% of GDP in 2023, up from our previous forecast of 3.8%, reflecting revisions in official statistics for 1Q23 and 2022.

Bank lending increased by 14.6% y/y in Aug-23

In Aug-23, the banking sector loan portfolio increased by 14.6% y/y (+0.9% m/m), excluding FX effect, after a 14.5% y/y growth in previous month. In unadjusted terms, loan portfolio rose by 11.1% y/y (+0.5% m/m), reaching GEL 48.0bn (US\$ 18.3bn), after growing 13.6% y/y in July. By sector, corporate loans accelerated further, up by 16.0% y/y growth in August (+14.7% y/y in July, exc. FX effect) and retail loans were up 13.5% y/y (+14.2% y/y in July). Notably, the mortgages growth slowed to 9.9% y/y in August (+11.3% y/y in July). In Aug-23, loan dollarization stood at 41.6% (+1.16ppts y/y and -0.84ppts m/m) and NPLs at 1.7% (-0.04ppts y/y and +0.01ppts m/m).

Bank deposits increased by 20.1% y/y (+0.4% m/m, exc. FX effect) to GEL 48.1bn (US\$ 18.3bn) in Aug-23. In terms of currency breakdown, GEL deposits growth came in at 38.0% y/y (+41.2% y/y in previous month) and FX deposits growth (exc. FX effect) slowed to 7.2% y/y (+13.3% y/y in previous month). As a result, the level of deposit dollarization stood at 49.7% (-8.36ppts y/y and -0.91ppts m/m) in Aug-23.

Government targets a 2.5% deficit in the 2024 draft budget

The government has submitted to the Parliament an initial draft of 2024 state budget, which sets economic growth at 5.2% and GDP deflator at 3.0% for 2024. Fiscal deficit planned at 2.5% of GDP for 2024 at consolidated level, representing an improvement compared to 2023E. Notably, tax revenues expected to increase by 9.4% y/y to 24.9% of GDP and privatization revenues are set at GEL 350mn. Total expenditures for 2024 budgeted at 30.5% of GDP, with capex accounting for 7.6% of GDP, down from 8.6% in 2023E. Total public debt to GDP is projected at 38.2% (2023E 38.4%), reflecting reduced share of external debt (2024F 26.6% of GDP vs. 2023E 27.7%) and an increased share of domestic debt (2024F 11.7% of GDP vs. 2023E 10.7%).

NBG sold US\$ 7.6mn

On 25 September 2023, NBG intervened in the FX market and sold US\$ 7.6mn out of offered US\$ 30mn to curb sentiment-related GEL depreciation pressure. Notably, the NBG is a net buyer of US\$ 1.4bn year-to-date by our estimates.

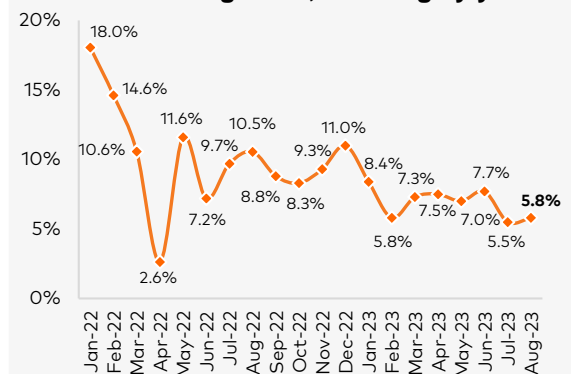
Key macro indicators

| | 2021 | 2022 |
|------------------------------|------------|--------|
| Real GDP growth (% change) | 10.5% | 10.1% |
| GDP per capita (ppp) | 16,997 | 20,244 |
| GDP per capita (US\$) | 5,023 | 6,672 |
| Population (mn) | 3.7 | 3.7 |
| Inflation (eop) | 13.9% | 9.8% |
| Gross reserves (US\$ bn) | 4.3 | 4.9 |
| CAD (% of GDP) | 10.4% | 4.6% |
| Fiscal deficit (% of GDP) | 6.1% | 3.1% |
| Total public debt (% of GDP) | 49.7% | 39.8% |
| Fitch/S&P/Moody's* | BB/BB/Baa2 | |

Source: Official data, Rating agencies, Galt & Taggart

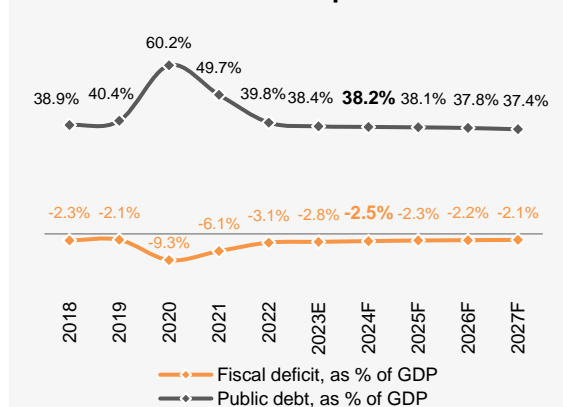
*Latest sovereign credit ratings

Real GDP growth, % change y/y



Source: Geostat

Fiscal deficit and public debt



Source: MOF

Money market

Ministry of Finance T-bills/T-notes:

5-year GEL 90.0mn (US\$ 33.7mn) Benchmark bonds were sold at the auction held at NBG on September 26, 2023. Total demand was 1.5x higher and the weighted average yield was fixed at 8.264%, down by 0.050ppts from previous auction held in Aug-23.

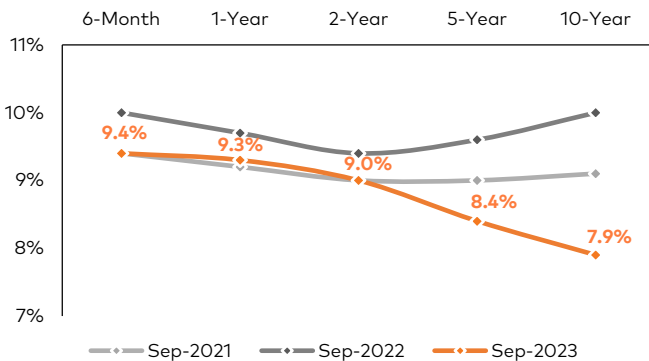
The nearest treasury security auction is scheduled for October 3, 2023, where GEL 20.0mn 6-month T-bills and GEL 40.0mn nominal value 2-year Benchmark Bonds will be sold.

T-bills / T-notes in 2023

| Maturity | YTD placements, GEL mn | Remaining placements, GEL mn | Outstanding amount, GEL mn* |
|--------------|------------------------|------------------------------|-----------------------------|
| 6-month | 180 | 60 | 400 |
| 1-year | 180 | 60 | |
| 2-year | 384 | 120 | |
| 5-year | 876 | 150 | 7,339 |
| 10-year | 615 | 240 | |
| Total | 2,235 | 630 | 7,739 |

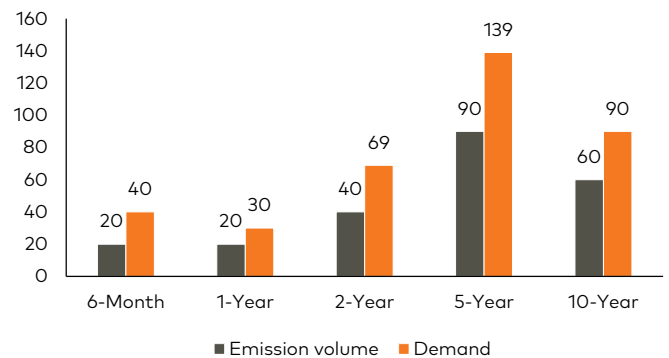
Source: MoF
*As of August 2023

T-bills / T-notes, yield curve



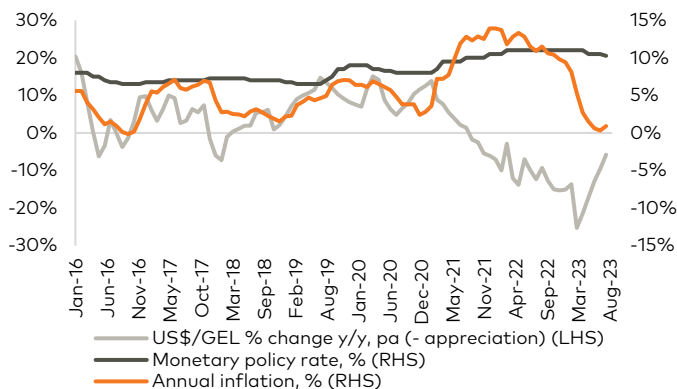
Source: NBG

Emission volume vs. demand on latest T-bills / T-notes auctions, GEL mn



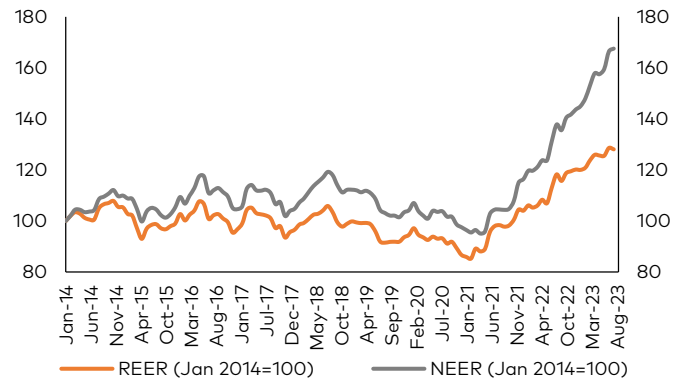
Source: NBG

Monetary policy rate, inflation and FX rate



Source: NBG

Nominal and real effective exchange rates



Source: NBG

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

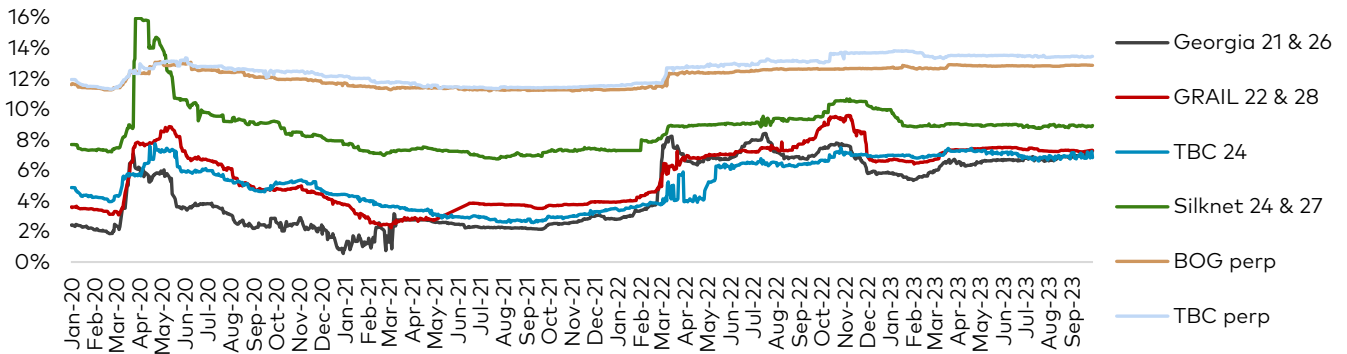


Fixed income

Corporate Eurobonds: Georgian Railway Eurobonds (GRAIL) traded at 86.97 (-0.15% w/w), yielding 7.32%.

Georgian Sovereign Eurobonds (GEORG) closed at 89.65 (-0.32% w/w) at 7.26% yield to maturity.

Georgian Eurobonds, YTM



Source: Bloomberg

Georgian Eurobonds performance

| Issuer | Currency | Amount, mn | Coupon | Maturity date | Ratings (Fitch/S&P/Mood y/Scope) | Mid price | Mid yield, % | Z-spread, bps |
|-------------------|----------|------------|---------|---------------|----------------------------------|-----------|--------------|---------------|
| GEORG 04/26 | USD | 500 | 2.750% | Apr-26 | BB/BB/Ba2 | 89.65 | 7.26 | 250.72 |
| GRAIL 06/28 | USD | 500 | 4.000% | Jun-28 | BB-/BB-/- | 86.97 | 7.32 | 291.34 |
| GEBGG 11 1/8 PERP | USD | 100 | 11.125% | n/a | B-/-/- | 99.13 | 12.88 | 682.70 |
| SILKNET 01/27 | USD | 300 | 8.375% | Jan-27 | BB-/-/B1 | 98.39 | 8.94 | 432.98 |
| TBC 06/24 | USD | 300 | 5.750% | Jun-24 | BB-/-/Ba2 | 99.25 | 6.83 | 131.68 |
| TBC PERP | USD | 125 | 10.775% | n/a | B-/-/- | 97.12 | 13.47 | 851.18 |

Source: Bloomberg



Fixed income

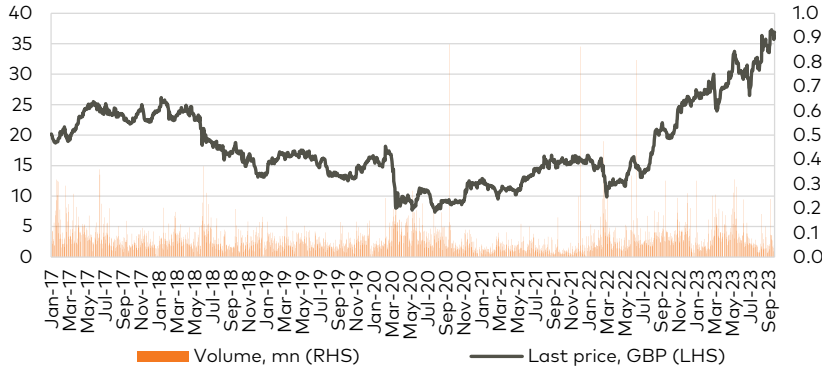
Georgian local bonds performance

| Issuer | Currency | Amount, mn | Coupon | Maturity date | Ratings (Fitch/S&P/Moody/Scope) | Mid price | Mid yield, % | Z-spread, bps |
|----------------------------|----------|------------|------------------|---------------|---------------------------------|-----------|--------------|---------------|
| Bakhvi Hydro Power | USD | 1.2 | 9.40% | Nov-27 | -/-/- | n/a | n/a | n/a |
| Energy Development Georgia | USD | 10 | 8.50% | Jun-25 | -/-/- | n/a | n/a | n/a |
| Evex Hospitals | GEL | 50 | Ref rate + 3.10% | Nov-24 | -/-/BB | n/a | n/a | n/a |
| Geo. Beer Company | GEL | 25 | Ref rate + 4.00% | Dec-23 | -/-/BB- | n/a | n/a | n/a |
| Georgia Real Estate | USD | 35 | 8.50% | Oct-24 | -/-/- | 99.99 | 8.50 | n/a |
| Geo. Renewable Power Oper. | USD | 80 | 7.00% | Oct-27 | -/-/- | 100.00 | 7.00 | n/a |
| Geosteel | USD | 15 | 9.00% | Apr-25 | -/-/- | 99.99 | 9.00 | n/a |
| IG Development | USD | 15 | 6.75% | Jan-24 | -/-/- | 99.93 | 6.88 | n/a |
| IG Development | USD | 15 | 8.50% | Jul-24 | -/-/- | 99.77 | 8.75 | n/a |
| Lisi Lake Development | USD | 12 | 6.50% | Dec-24 | -/-/B+ | 99.70 | 6.75 | n/a |
| Lisi Lake Development | USD | 10 | 8.50% | Dec-24 | -/-/B+ | 100.00 | 8.50 | n/a |
| MFO Crystal | GEL | 25 | TIBR6M + 4.75% | Feb-25 | B-/-/- | n/a | n/a | n/a |
| MFO MBC | GEL | 15 | TIBR3M + 4.50% | Dec-24 | -/-/B+ | n/a | n/a | n/a |
| MFO Rico Express | GEL | 130 | TIBR1D + 2.00% | Mar-26 | -/-/B+ | n/a | n/a | n/a |
| Nikora | GEL | 35 | TIBR3M + 3.50% | Nov-25 | -/-/B+ | n/a | n/a | n/a |
| Nikora Trade | GEL | 35 | TIBR3M + 3.50% | Nov-24 | -/-/B+ | n/a | n/a | n/a |
| SRG Real Estate | USD | 20 | 9.00% | Apr-26 | -/-/- | 99.99 | 9.00 | n/a |
| TBC Leasing | GEL | 100 | TIBR3M + 3.00% | Mar-26 | BB-/-/- | n/a | n/a | n/a |
| TBC Leasing | GEL | 15 | TIBR3M + 2.75% | Jun-26 | BB-/-/- | n/a | n/a | n/a |
| Tegeta Motors | GEL | 150 | TIBR3M + 3.50% | Dec-25 | -/-/BB- | n/a | n/a | n/a |
| Tegeta Motors | USD | 20 | 8.50% | Apr-25 | -/-/BB- | 99.61 | 8.75 | n/a |
| Tegeta Motors | EUR | 5 | 7.00% | Apr-25 | -/-/BB- | 99.61 | 7.25 | n/a |
| Tegeta Motors | GEL | 20 | TIBR6M + 3.50% | Dec-25 | -/-/BB- | n/a | n/a | n/a |
| Georgia Capital | USD | 150 | 8.5% | Aug-28 | -/BB-/- | 101.23 | 8.19 | n/a |
| SRG Real Estate | USD | 20 | 9.25% | Sep-26 | -/-/- | 101.26 | 8.63 | n/a |

Source: Bloomberg

Equities

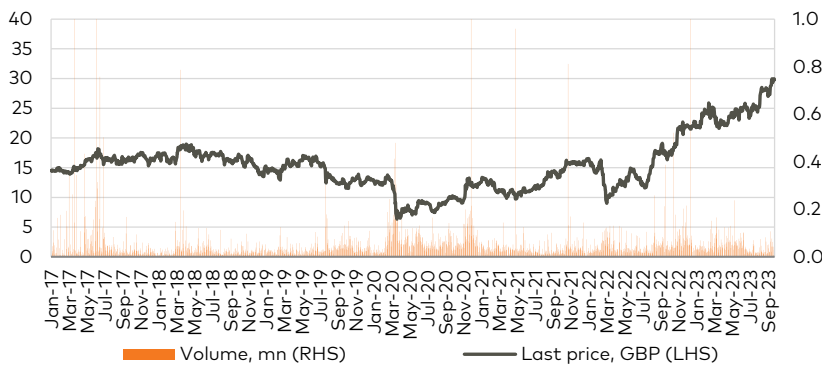
Bank of Georgia Group (BGEO LN)



Source: Bloomberg

Bank of Georgia Group (BGEO LN) shares closed at GBP 36.90/share (+0.82% w/w and +4.09% m/m). More than 200k shares traded in the range of GBP 35.55 - 37.00/share. Average daily traded volume was 59k in the last 4 weeks. The volume of BGEO shares traded was at 0.44% of its capitalization.

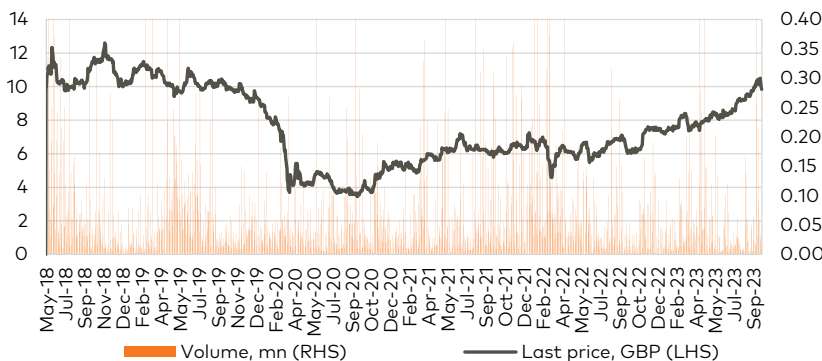
TBC Bank Group (TBCG LN)



Source: Bloomberg

TBC Bank Group (TBCG LN) closed the week at GBP 29.85/share (+1.88% w/w and +6.04% m/m). More than 168k shares changed hands in the range of GBP 29.15 - 30.15/share. Average daily traded volume was 41k in the last 4 weeks. The volume of TBCG shares traded was at 0.31% of its capitalization.

Georgia Capital (CGEO LN)



Source: Bloomberg

Georgia Capital (CGEO LN) shares closed at GBP 9.84/share (-3.53% w/w and +3.25% m/m). More than 109k shares traded in the range of GBP 9.81 - 10.52/share. Average daily traded volume was 77k in the last 4 weeks. The volume of CGEO shares traded was at 0.25% of its capitalization.

Equities, continued

Eastern European banks

| | Ticker | Currency | Share price | Mcap, mn | 6M chg | y/y chg | YTD chg | P/E | | | P/B | | |
|--------------------|--------|----------|-------------|----------|--------|---------|---------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | | | | | | 2022 | 2023F | 2024F | 2022 | 2023F | 2024F |
| Bank of Georgia | BGEO | GBP | 36.90 | 1,694 | 37.7% | 88.8% | 41.7% | 2.74x | 4.16x | 4.50x | 0.90x | 1.09x | 0.92x |
| TBC | TBC | GBP | 29.85 | 1,646 | 33.0% | 82.7% | 31.5% | 4.10x | 5.08x | 4.46x | 1.04x | 1.17x | 1.00x |
| Halyk Bank | HSBK | USD | 13.34 | 3,638 | 16.0% | 34.7% | 20.2% | 2.69x | 2.60x | 2.33x | 0.78x | 0.70x | 0.59x |
| Akbank | AKBNK | TRY | 33.46 | 173,992 | 79.4% | 197.2% | 71.2% | 1.40x | 3.11x | 3.04x | 0.55x | 0.86x | 0.73x |
| Garanti | GARAN | TRY | 53.25 | 223,650 | 94.2% | 183.2% | 77.3% | 1.91x | 3.70x | 3.70x | 0.73x | 1.20x | 0.99x |
| Isbank | ISCTR | TRY | 25.74 | 257,399 | 90.5% | 242.3% | 101.6% | 0.84x | 4.22x | 3.60x | 0.60x | 1.07x | 0.87x |
| PKO | PKO | PLN | 34.72 | 43,400 | 23.8% | 59.6% | 14.6% | 10.98x | 7.97x | 6.63x | 1.03x | 0.99x | 0.93x |
| PEKAO | PEO | PLN | 100.95 | 26,496 | 20.7% | 65.0% | 16.7% | na | 5.01x | 5.80x | na | 0.96x | 0.89x |
| Millennium | MIL | PLN | 5.70 | 6,914 | 33.9% | 72.7% | 24.5% | na | 2.32x | 3.01x | 1.04x | 1.01x | 0.93x |
| Mbank | MBK | PLN | 395.30 | 16,786 | 32.3% | 94.5% | 33.5% | na | 4.60x | 5.13x | 1.10x | 1.07x | 0.94x |
| BRD | BRD | RON | 15.62 | 10,886 | 30.4% | 42.0% | 20.2% | 6.81x | 7.34x | 8.02x | 1.31x | 1.39x | 1.34x |
| Banca Transilvania | TLV | RON | 22.10 | 17,650 | 26.7% | 46.4% | 25.2% | na | 7.22x | 7.12x | 1.60x | 1.48x | 1.34x |
| Komercni | KOMB | CZK | 672.00 | 127,713 | -4.4% | 8.4% | 2.6% | 8.36x | 8.10x | 8.55x | 1.21x | 0.96x | 0.96x |
| Mean | | | | | | | | 4.42x | 5.03x | 5.07x | 0.99x | 1.07x | 0.95x |
| Median | | | | | | | | 2.74x | 4.60x | 4.50x | 1.04x | 1.07x | 0.93x |

Source: Bloomberg, S&P Capital IQ

Investment management companies

| | Ticker | Currency | Share price | Mcap, mn | 6M chg | y/y chg | YTD chg | P/E | | | P/B | | |
|--------------------------------|--------|----------|-------------|----------|--------|---------|---------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | | | | | | 2022 | 2023F | 2024F | 2022 | 2023F | 2024F |
| Georgia Capital | CGEO | GBP | 9.84 | 431 | 27.3% | 63.5% | 34.8% | na | na | na | 0.38x | na | na |
| Tinc Comm | TINC | EUR | 12.10 | 440 | 0.3% | -2.4% | -3.2% | 18.33x | na | na | 0.99x | na | na |
| Sabancı Holding | SAHOL | TRY | 59.70 | 121,812 | 44.0% | 133.8% | 32.4% | 1.77x | 3.38x | 2.59x | 0.77x | 0.80x | 0.59x |
| Deutsche Beteiligungs | DBAN | EUR | 31.50 | 592 | 17.8% | 50.7% | 12.9% | na | 5.44x | 5.81x | 1.00x | 0.88x | 0.79x |
| Eurazeo | RF | EUR | 56.45 | 4,472 | -11.2% | 7.2% | -2.8% | 8.89x | 9.51x | 7.67x | 0.78x | 0.56x | 0.46x |
| Carlyle Group | CG | USD | 30.52 | 11,052 | -0.4% | 16.3% | 2.3% | 8.50x | 10.02x | 7.54x | 1.70x | 3.09x | 2.11x |
| Wendel SE | MF | EUR | 75.05 | 3,333 | -22.4% | 4.7% | -13.9% | 6.63x | 6.11x | 6.03x | na | 1.03x | 0.93x |
| HgCapital Trust | HGT | GBP | 3.89 | 1,781 | 18.8% | 18.8% | 11.0% | na | na | na | na | na | na |
| NB Private Equity Partners | NBPE | GBP | 15.82 | 690 | 11.8% | 5.5% | -1.1% | na | na | na | na | na | na |
| Oakley Capital Investments | OCI | GBP | 4.48 | 796 | 1.1% | 19.5% | 6.8% | na | na | na | na | na | na |
| Princess Private Equity | PEY | EUR | 10.65 | 736 | 15.3% | 0.5% | 26.2% | na | na | na | 0.65x | na | na |
| Symphony International Holding | SIHL | USD | 0.48 | 247 | 2.6% | 7.1% | 7.4% | na | na | na | 0.47x | na | na |
| Mean | | | | | | | | 8.82x | 6.89x | 5.93x | 0.84x | 1.27x | 0.98x |
| Median | | | | | | | | 8.50x | 6.11x | 6.03x | 0.78x | 0.88x | 0.79x |

Source: Bloomberg, S&P Capital IQ

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