



GALT & TAGGART
CREATING OPPORTUNITIES

XVI CIS, Baltic States and Caucasus Bond Congress

JUNE 13—14, 2019, Batumi



Contents

Supportive Macro Fundamentals

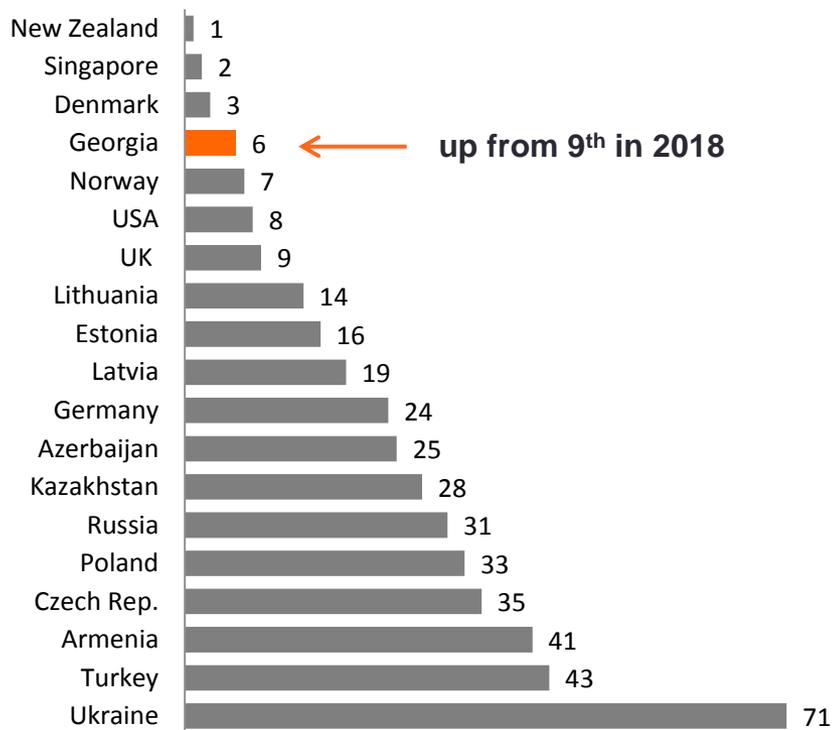
Bonds Market in Georgia

Supportive Taxation Regime for Capital Markets



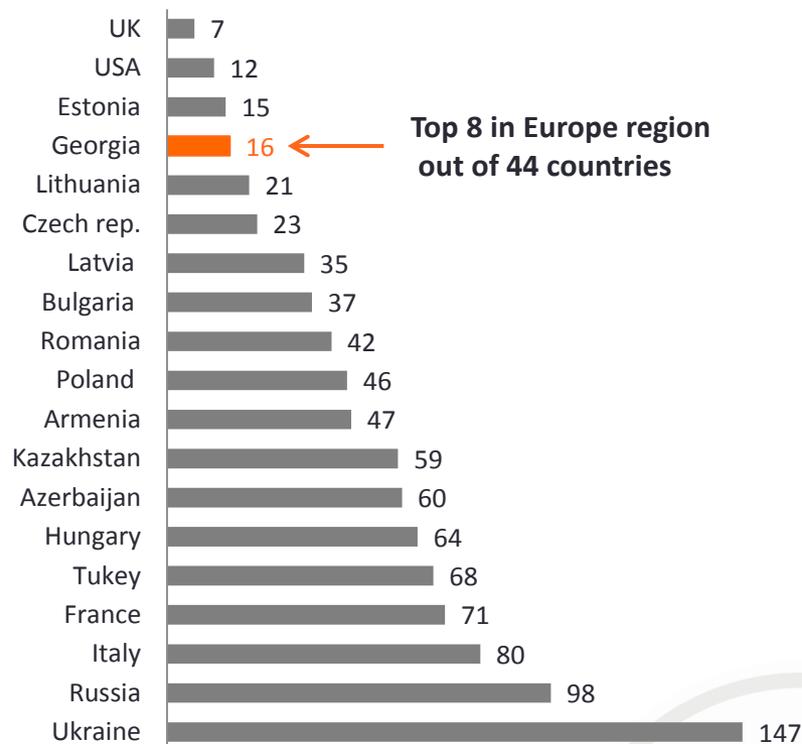
Georgian Economy: Growth Oriented Reforms

Ease of Doing Business, 2019



Source: World Bank

Economic Freedom Index, 2019

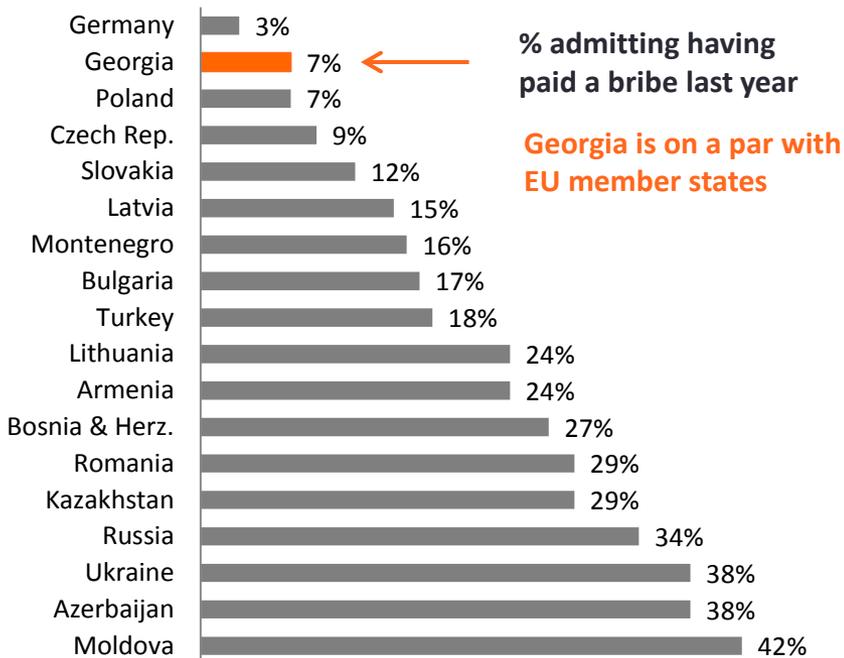


Source: Heritage Foundation



Georgian Economy: Growth Oriented Reforms *(continued)*

Global Corruption Barometer



Source: Transparency International

Georgia Sovereign Credit Ratings



Source: Rating Agencies

Georgian Success Story - Pro-business government



- Efficient, pro-business and corruption-free government
- Business friendly environment with low levels of taxation, simple and fair tax administration
- Stable and conservatively managed banking sector
- Stable and competitively priced energy supply
- Flexible labor legislation
- Solid sovereign balance sheet
- Infrastructure for trade, tourism, logistics and manufacturing

- WTO member since 2001
- Very simple and service-oriented customs policy and administration
- c. 80% of goods free from import tariffs
- No quantitative restrictions

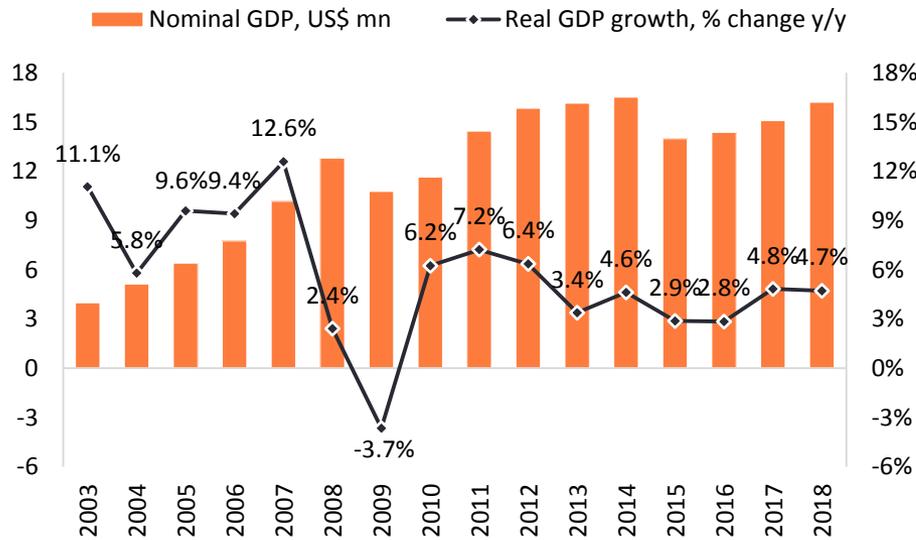
Preferential Trade Regimes:

- DCFTA (Deep and Comprehensive Free Trade Agreement) with EU signed in June 2014
- FTA with CIS countries (Russia, Kazakhstan, etc.)
- FTA with Turkey
- FTA with China
- FTA with Hong Kong
- FTA with EFTA countries (Iceland, Liechtenstein, Norway and Switzerland)
- GSP agreements with USA, Canada, and Japan
- FTA with India under consideration



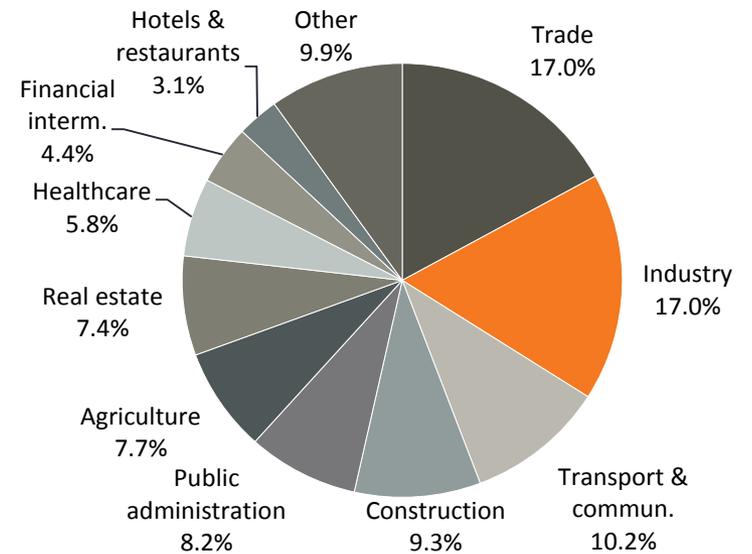
Diversified Resilient Economy

Gross Domestic Product (GDP)



Source: Geostat

Diversified Nominal GDP Structure, 2018

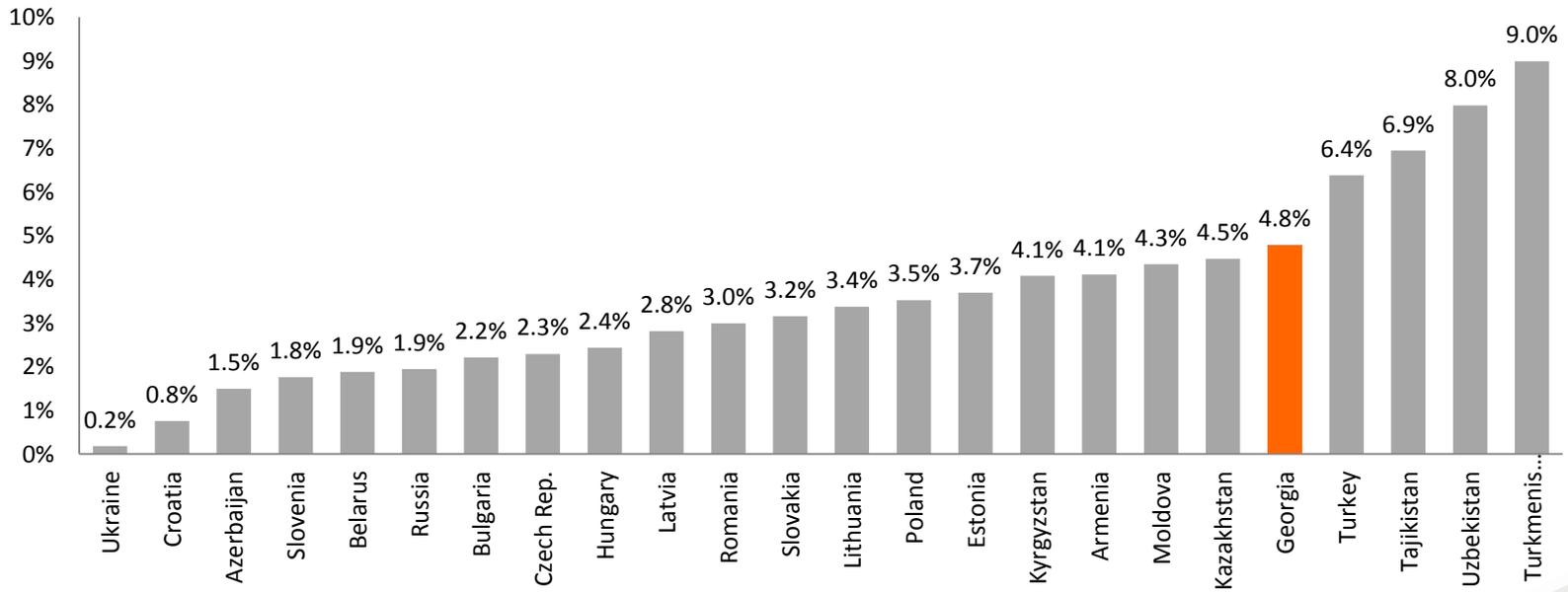


Source: Geostat



Diversified Resilient Economy *(continued)*

Comparative Real GDP Growth Rates (2010-18 average)

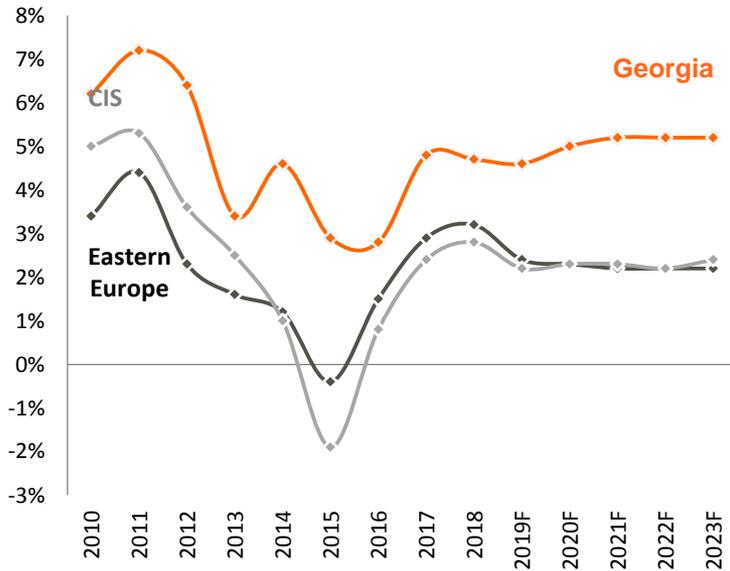


Source: IMF



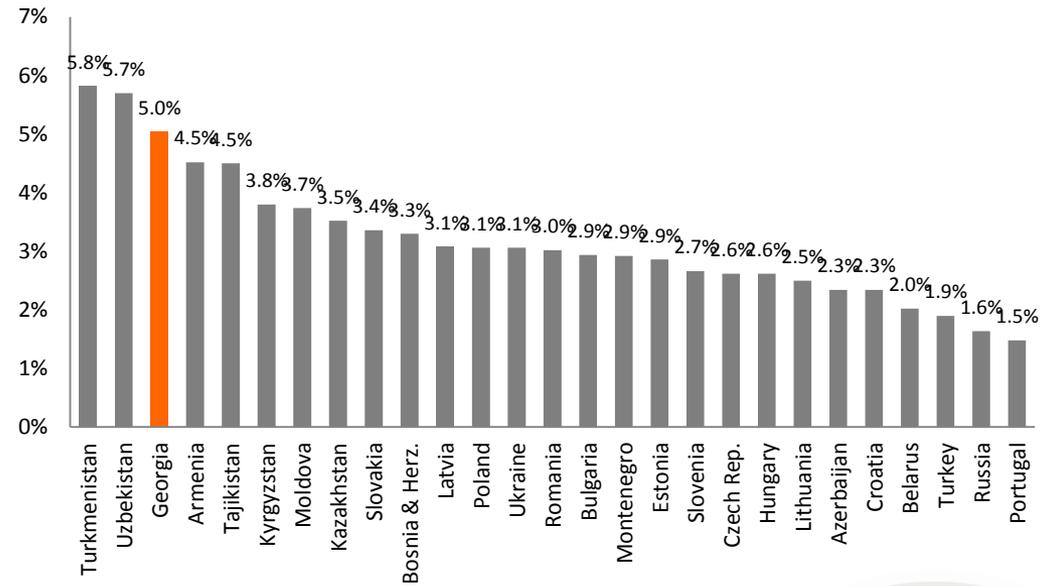
Economic Growth Projections: Georgia vs. Peers

GDP Growth: Georgia vs. Region



Source: IMF, World Economic Outlook April 2019

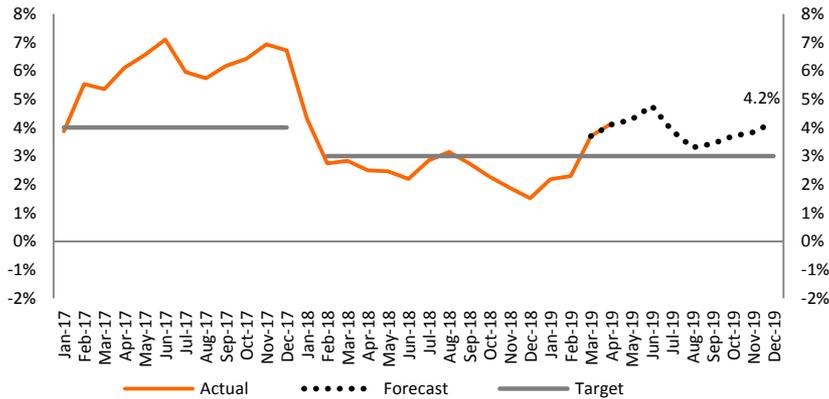
IMF's GDP Growth Projections Over 2019-23 (average)



Source: IMF, World Economic Outlook April 2019

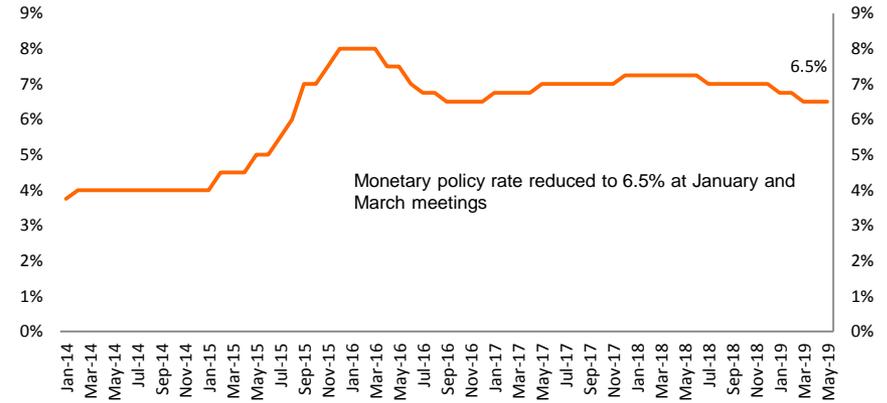
Inflation at 4.1% in Apr-2019 due to one-offs

Annual CPI Inflation in Georgia



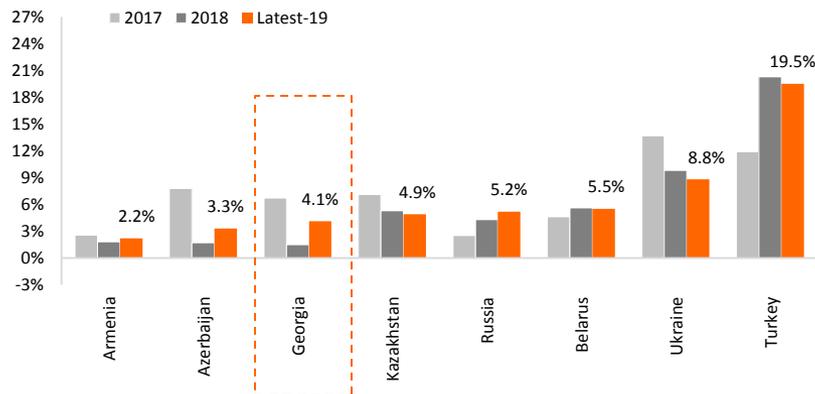
Source: GeoStat

Monetary policy rate in Georgia



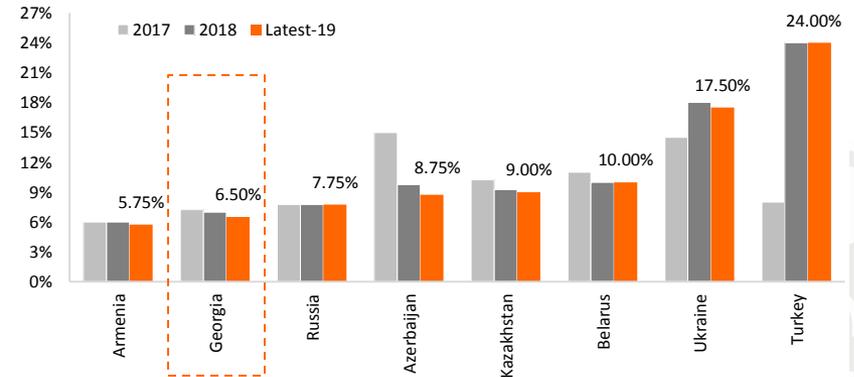
Source: NBG

Annual CPI Inflation: Georgia vs Peers



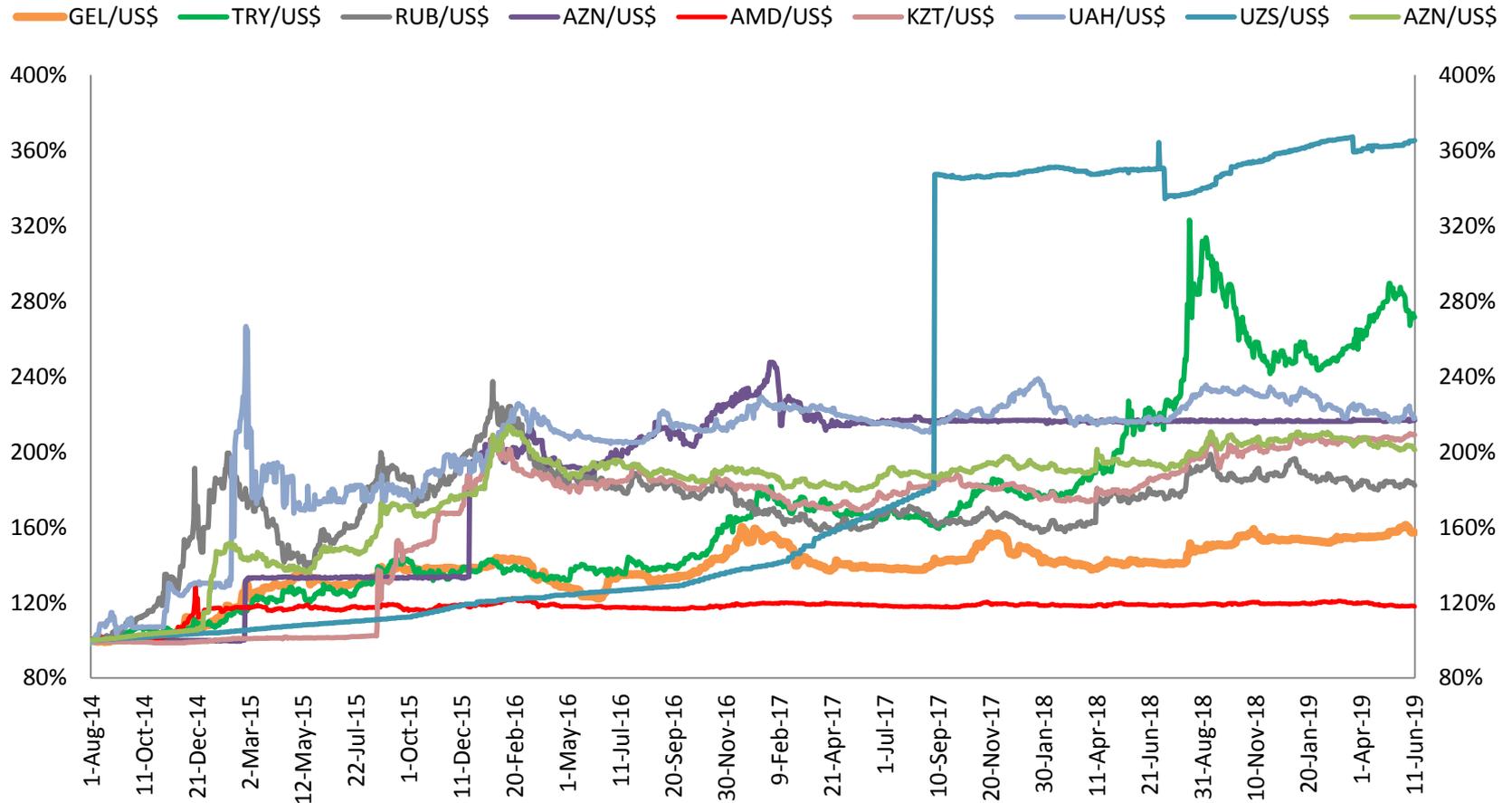
Source: Statistical offices

Monetary policy rate: Georgia vs Peers



Source: Central banks

Regional Currencies vs. US\$

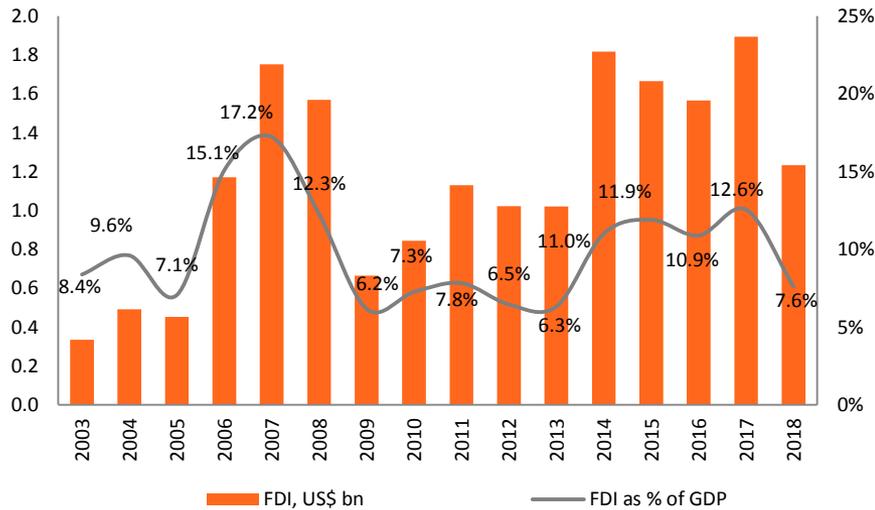


Source: Galt & Taggart, National Bank of Georgia, Bloomberg



Diversified Sources of Capital

Strong foreign investor interest



Source: GeoStat

Tourist arrivals and revenues on the rise

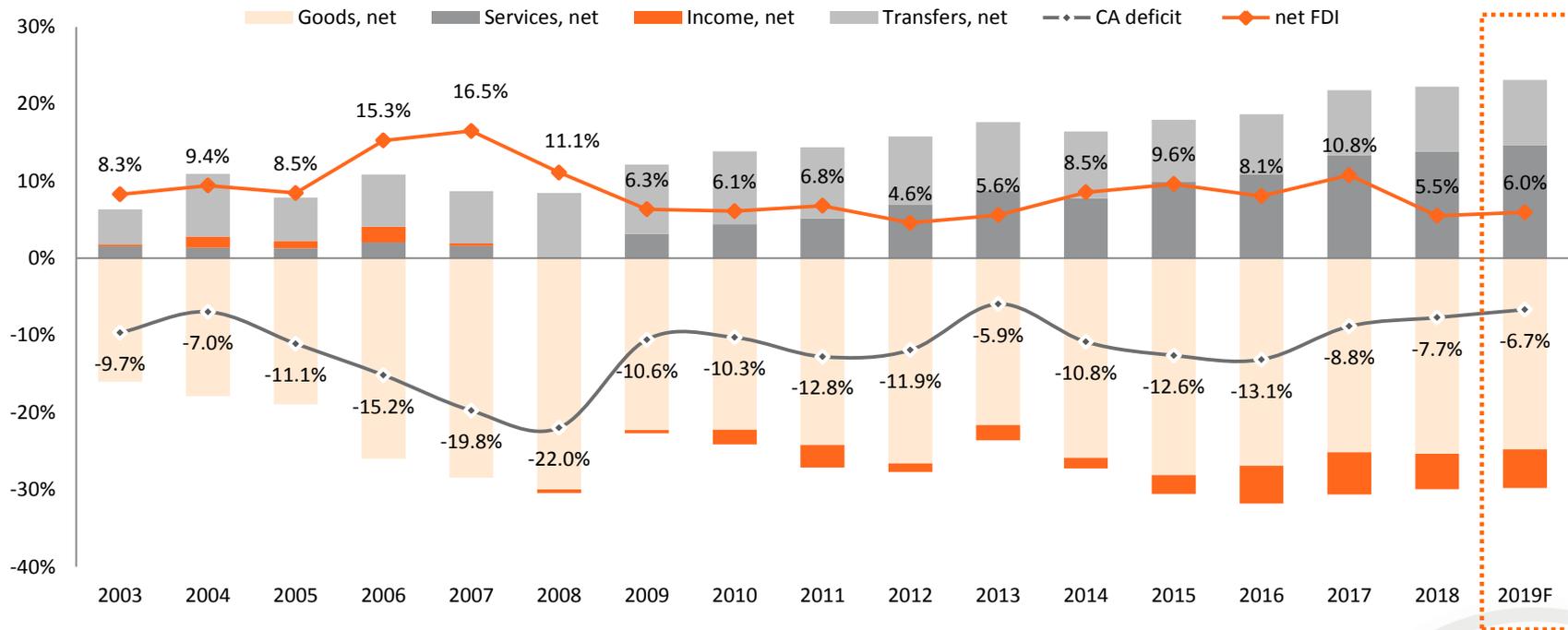


Source: NBG, GeoStat



Current Account Balance Improving Significantly since 2016

Current account balance (% of nominal GDP)

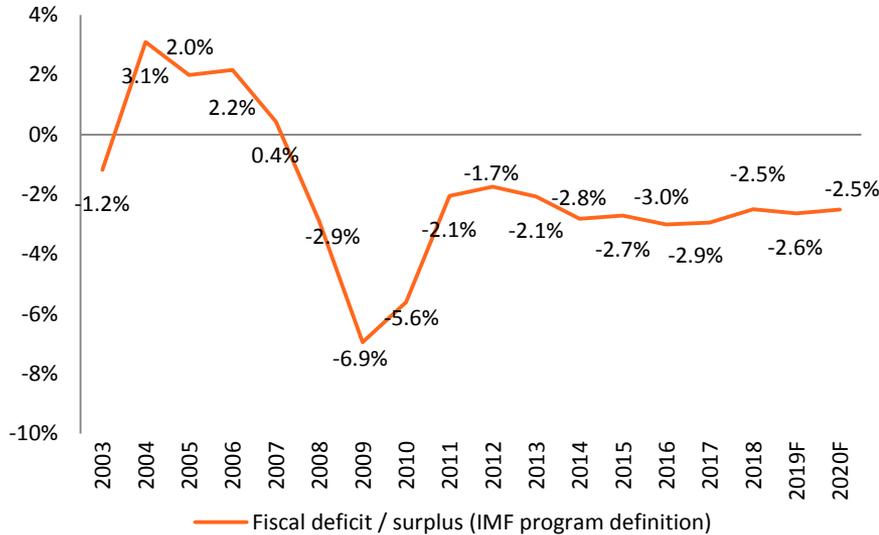


Source: NBG, GeoStat



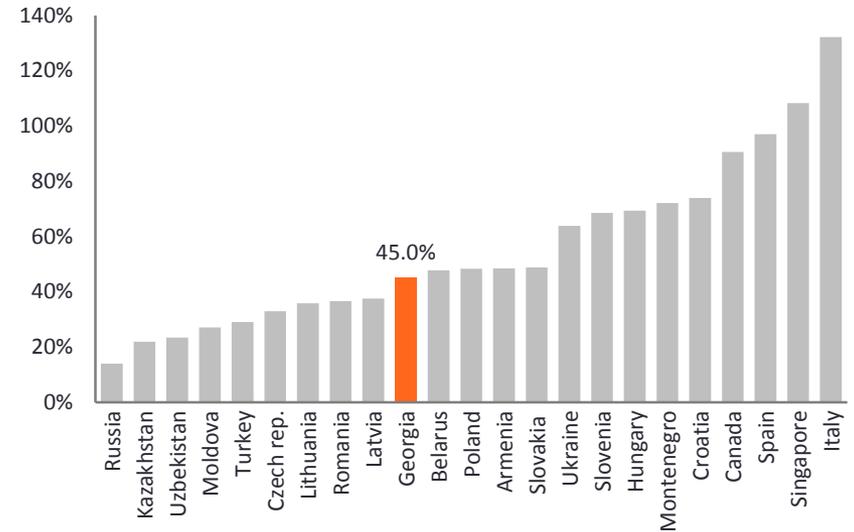
Low Public Debt

Fiscal deficit



Source: MoF, Geostat

Gross government debt/GDP, 2018



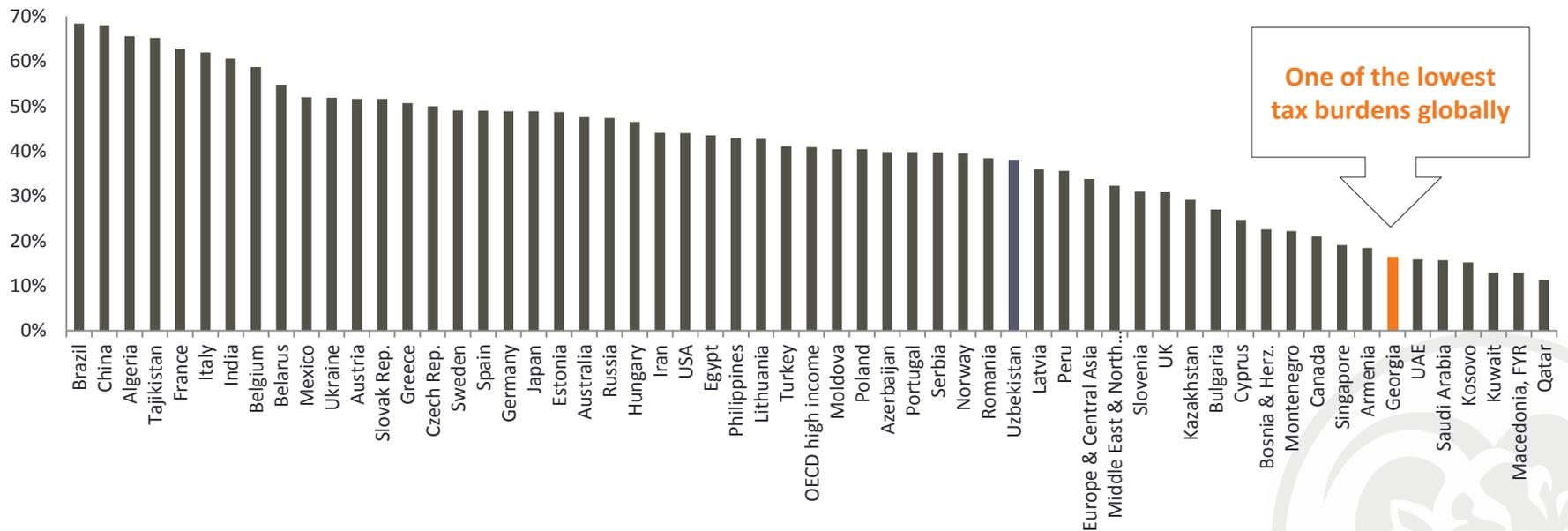
Source: IMF, MoF, G&T



Simple, Low, Efficient, Fair Taxation

- Number of taxes reduced from 21 in 2004 to only 6 flat taxes today
- Certain exemption on capital gains tax
- No wealth tax and inheritance tax
- Personal income tax for interest, dividend, royalty - 5%
- Foreign-sourced income for individuals fully exempted
- No restrictions on currency convertibility or repatriation of capital and profit
- Double taxation avoidance treaties with 52 countries

Ranking per Tax Burdens



Source: World Bank Doing Business 2017

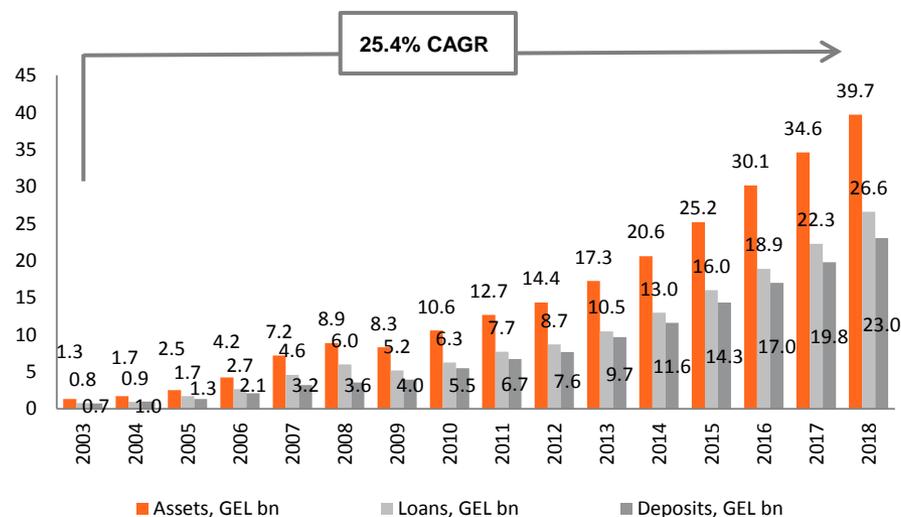
Note: The total tax rate measures the amount of taxes and mandatory contributions payable by the business in the second year of operation, expressed as a share of commercial profits.



Georgian Success Story - Well Capitalized Banking Sector

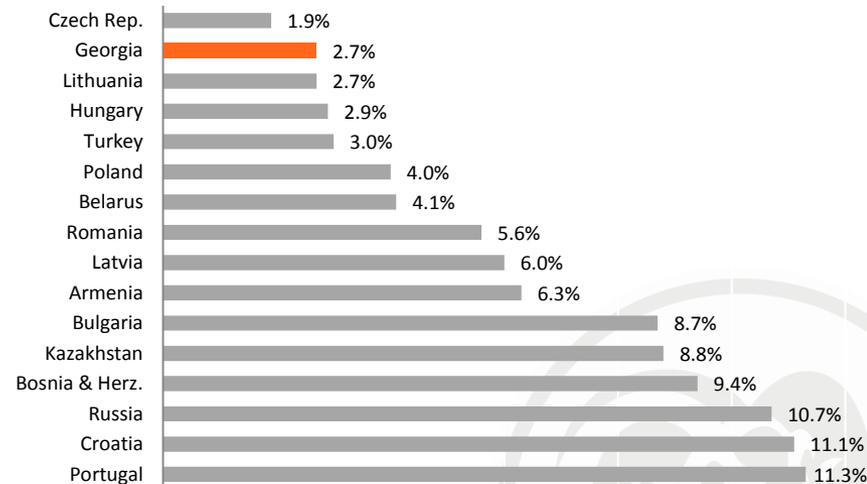
- Prudent regulation ensuring financial stability - high level of liquidity requirements from NBG at 30% of liabilities, resulting in banking sector liquid assets to client deposits of 37% as of Dec 2018
- Resilient banking sector
 - Demonstrated strong resilience towards both domestic and external shocks without single bank going bankrupt
 - No nationalization of the banks and no government ownership since 1994
 - Resilient to different shocks to the economy, room for healthy credits growth with total loans at 64.0% of GDP in 1Q19

Banking sector assets, loans and deposits



Source: NBG

Non-performing loans, latest data

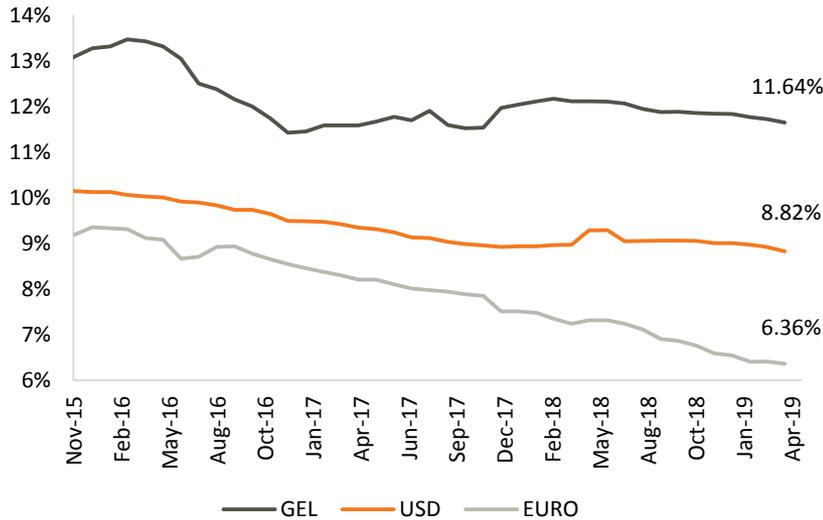


Source: IMF, NBG



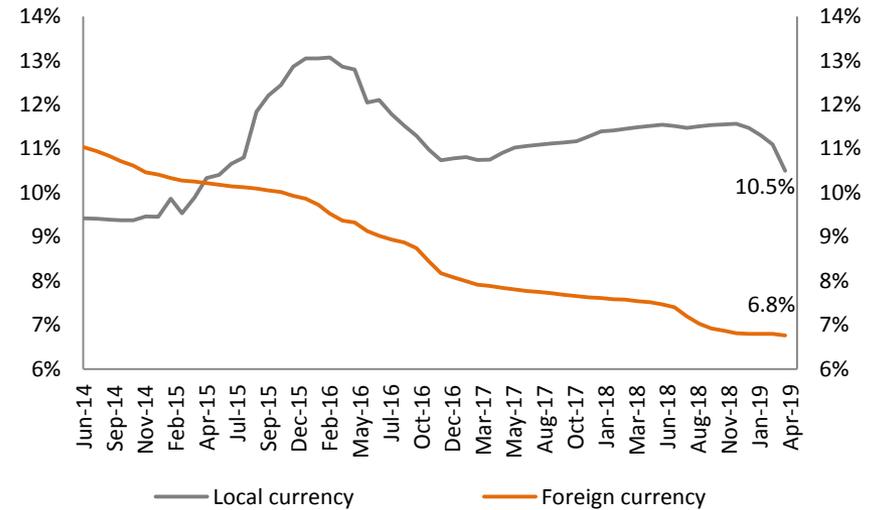
Interest Rates Down, Noticeably on Mortgage Loans in Local Currency

Interest rates on loans to legal entities



Source: NBG

Interest rates on mortgage loans



Source: NBG



Never Enough: Reforms, Reforms, Reforms...

- Capital market reforms
- Pension reform
- One-stop shop services for businesses
- PPP framework
- Deposit insurance
- Accounting reform
- Insolvency legislation
- Insurance reform – 3rd party insurance introduced
- De-dollarization reform
- Education reform



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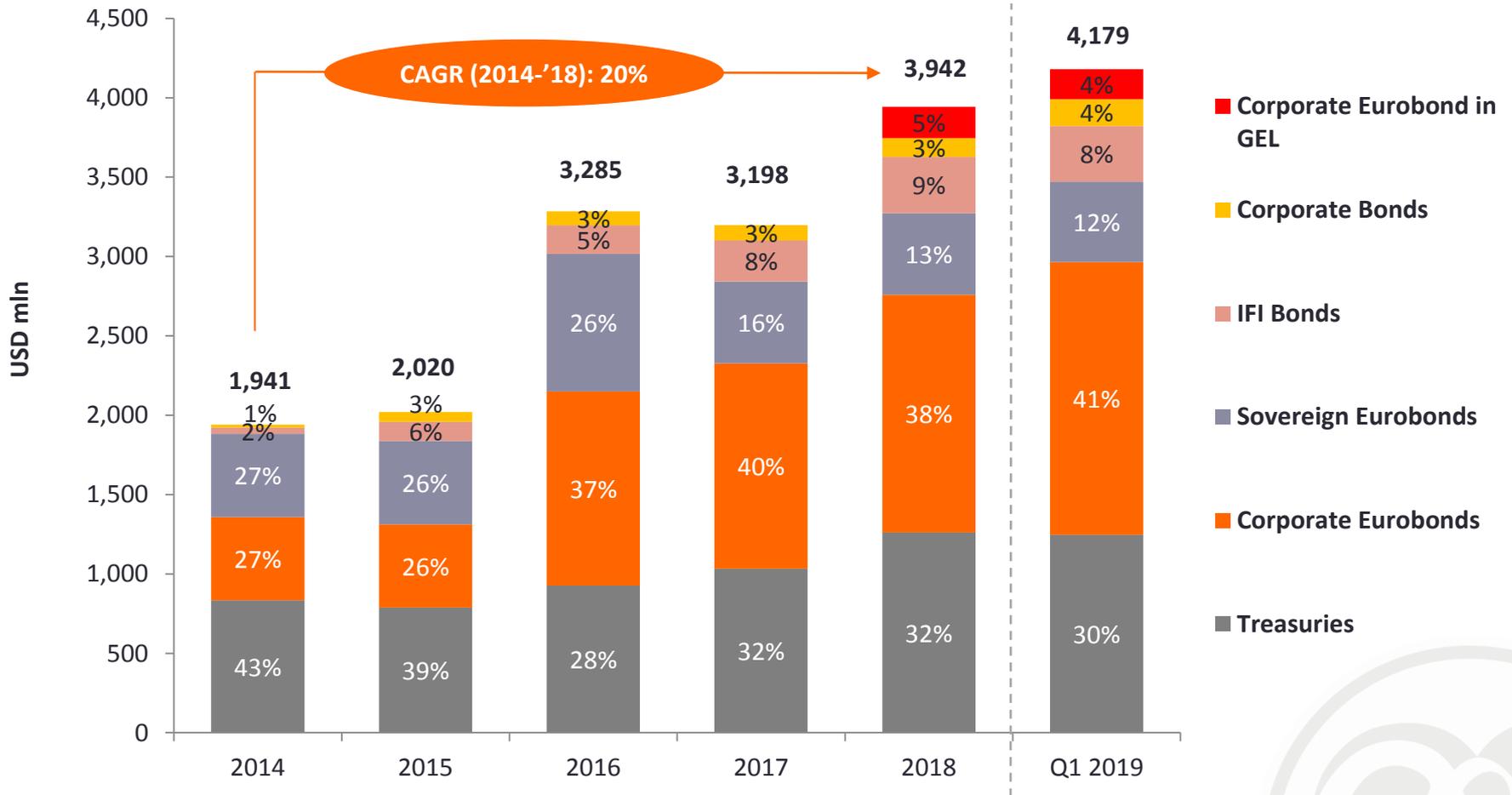
Supportive Macro Fundamentals

Bonds Market in Georgia

Supportive Taxation Regime for Capital Markets



Bonds Market in Georgia



Source: Galt & Taggart, Georgian Stock Exchange, National Bank of Georgia, Bloomberg



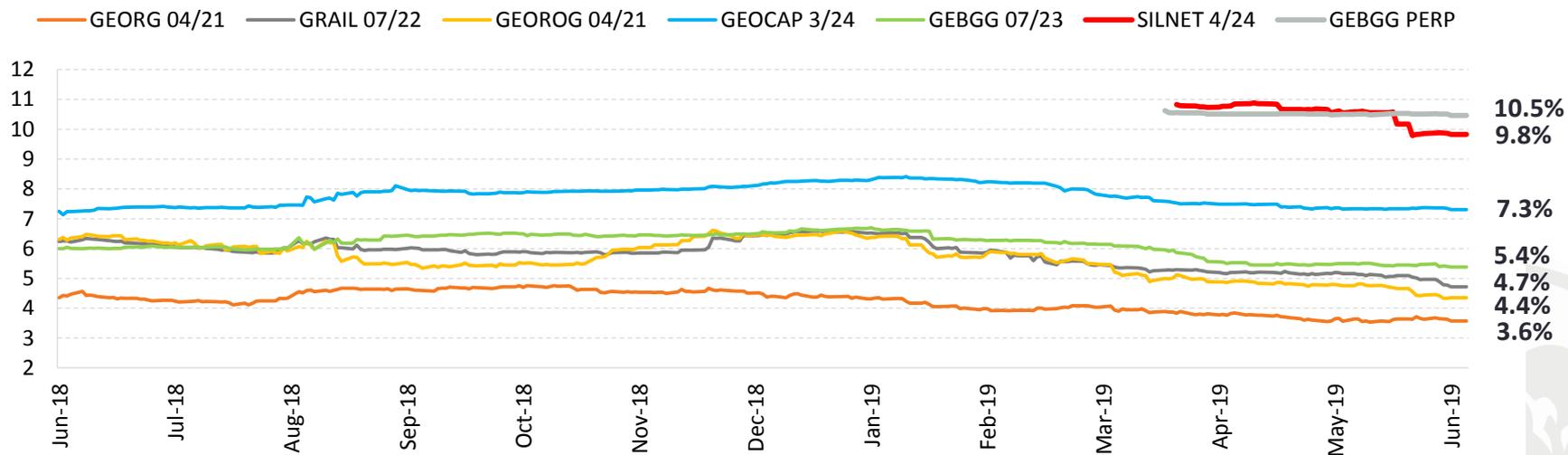
Georgian Eurobond Universe

Issuer	Currency	Amount, mn	Coupon	Maturity date	Ratings (Fitch/S&P/Moody /Scope)	Mid price	Mid yield, %	Z-spread, bps
Georgia Sovereign	US\$	500	6.875%	04/12/2021	BB/BB-/Ba2/-	105.82	3.57	149.05
GRAIL 07/22	US\$	500	7.750%	07/11/2022	BB-/B+/-/-	108.60	4.72	279.84
GEOROG 04/21	US\$	250	6.750%	04/26/2021	BB/B+/-/-	104.26	4.36	241.12
GEBGG 06/20	GEL	500	11.000%	06/01/2020	BB-/-/Ba2/-	n/a	n/a	n/a
GEBGG 07/23	US\$	350	6.000%	07/26/2023	BB-/-/Ba2/-	102.25	5.38	344.20
GEBGG 11 1/8 PERP	US\$	100	11.130%	n/a	B-/-/-/-	103.45	10.46	826.85
GEOCAP 03/24	US\$	300	6.125%	03/09/2024	-/B+/B2/-	95.35	7.30	539.73
SILKNET 04/24	US\$	200	11.00%	04/02/2024	B+/-/-/-	104.40	9.82	788.54

Source: Bloomberg

1) GEBGG 06/20 bonds are in Georgian Lari

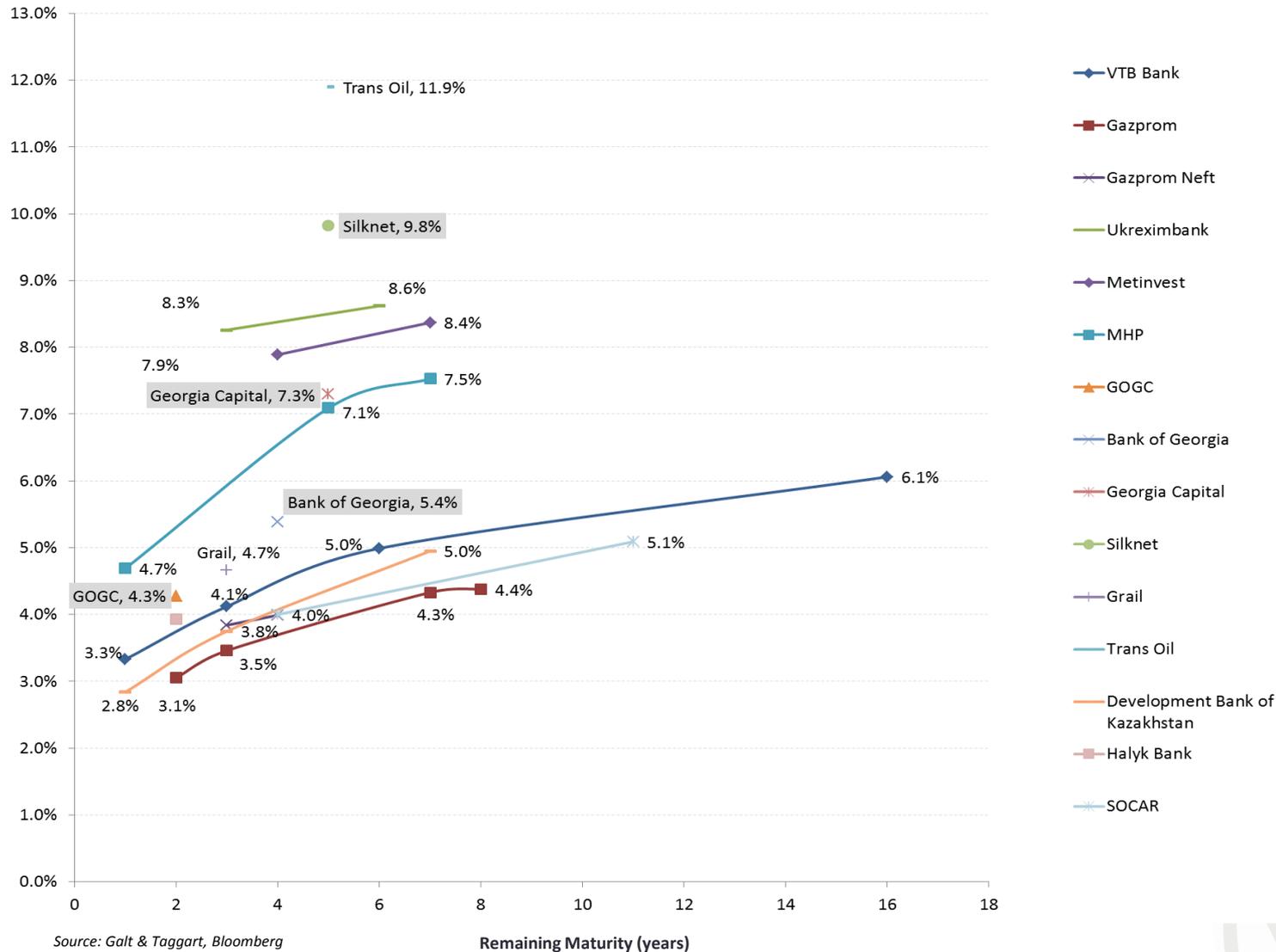
Georgia Eurobonds YTD Performance (%)



Source: Bloomberg

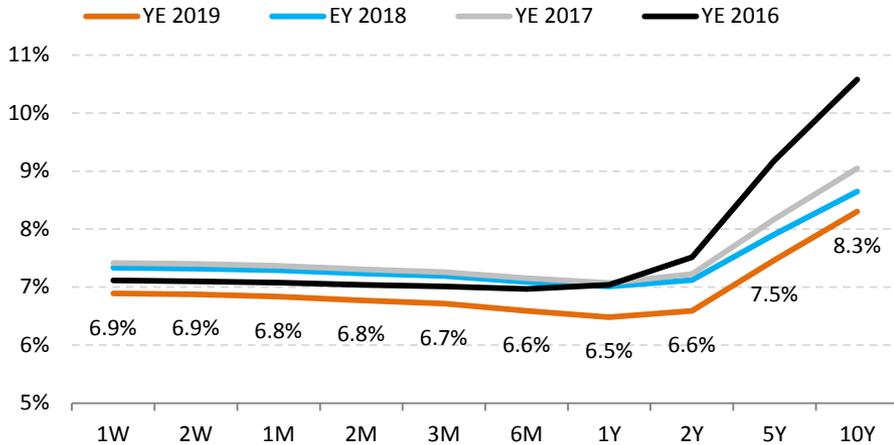


Georgian Corporate Eurobonds vs. Selected Regional Peers



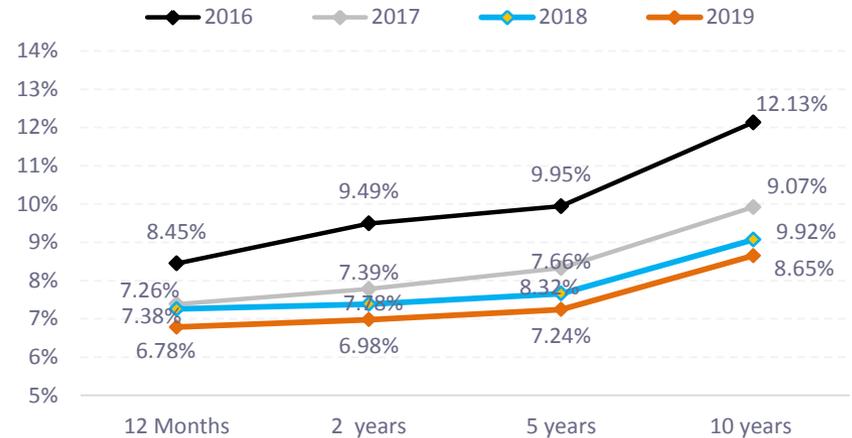
Georgian Government Money Market Instruments

Georgian Lari Instruments Yield Curve



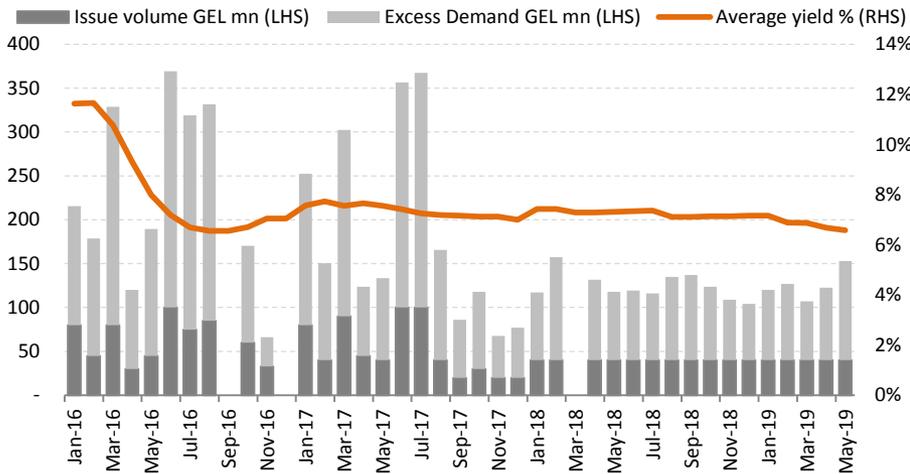
Source: Galt & Taggart, National Bank of Georgia, Ministry of Finance of Georgia

Ministry of Finance (MoF) T-Bills / T-Notes Yield Curve



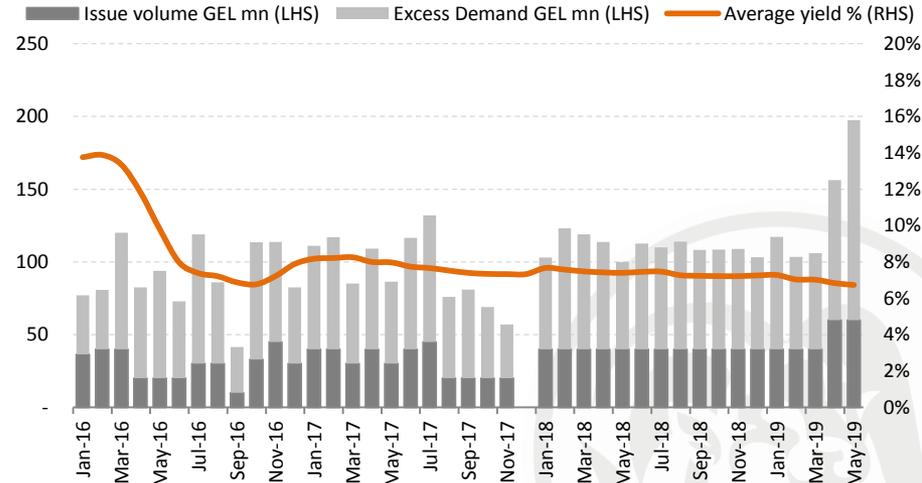
Source: Galt & Taggart, National Bank of Georgia, Ministry of Finance of Georgia

MoF 1 Year T-Bills



Source: Galt & Taggart, National Bank of Georgia, Ministry of Finance of Georgia

MoF 2 Years T-Notes



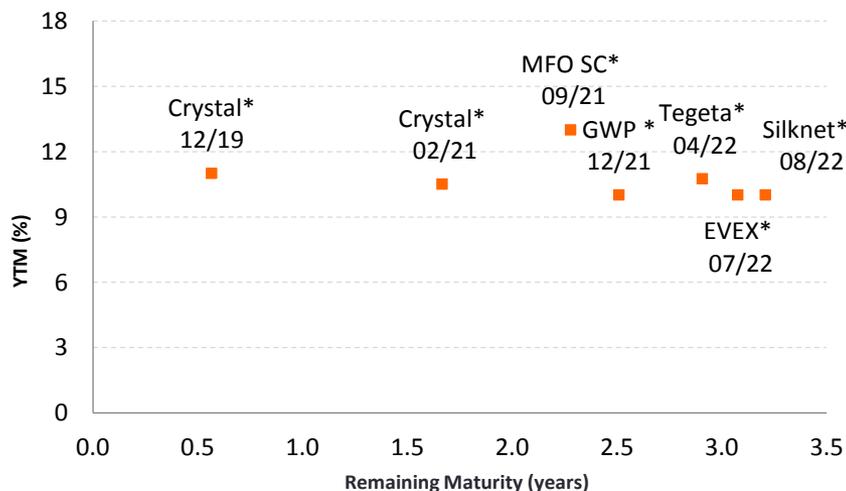
Source: Galt & Taggart, National Bank of Georgia, Ministry of Finance of Georgia



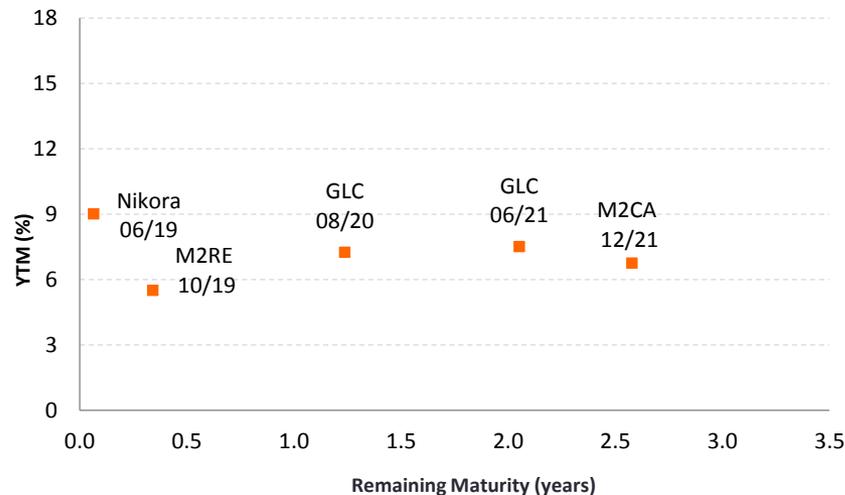
Local Corporate Bonds Universe

Issuer	Currency	Amount, mn	Coupon	Maturity date	Ratings (Fitch/S&P/Moody /Scope)	Mid price	Mid yield, %	Z-spread, bps
GWP 12/21	GEL	30	10.000%	06/12/2021	BB-/-/-	n/a	n/a	n/a
Silknet 08/22	GEL	34	10.000%	18/08/2022	B+/-/-	n/a	n/a	n/a
Crystal 12/19	GEL	10	11.000%	28/12/2019	B/-/-	100.13	10.75	n/a
Crystal 02/21	GEL	15	10.500%	01/02/2021	B/-/-	99.63	10.75	n/a
Swiss Cap. 09/21	GEL	10	12.750%	13/09/2021	B/-/-	100.00	13.00	n/a
Tegeta 04/22	GEL	30	10.750%	30/04/2022	-/-/BB-	n/a	n/a	n/a
M2RE 10/19	US\$	25	7.500%	07/10/2019	-/-/-	100.63	5.50	n/a
M2CA 12/21	US\$	30	7.500%	31/12/2021	-/-/-	101.75	6.75	n/a
GLC 08/20	US\$	10	7.000%	29/08/2020	B+/-/-	99.55	7.38	n/a
GLC 06/21	US\$	5	6.500%	22/06/2021	B+/-/-	97.67	7.75	n/a
Nikora 06/19	US\$	10	9.000%	28/06/2019	-/-/B+	n/a	n/a	n/a

Yields of Local Corporate Bonds (GEL)



Yields of Local Corporate Bonds (US\$)



*Yields are not available, coupon rates are depicted on the chart above
Source: Galt & Taggart, Bloomberg

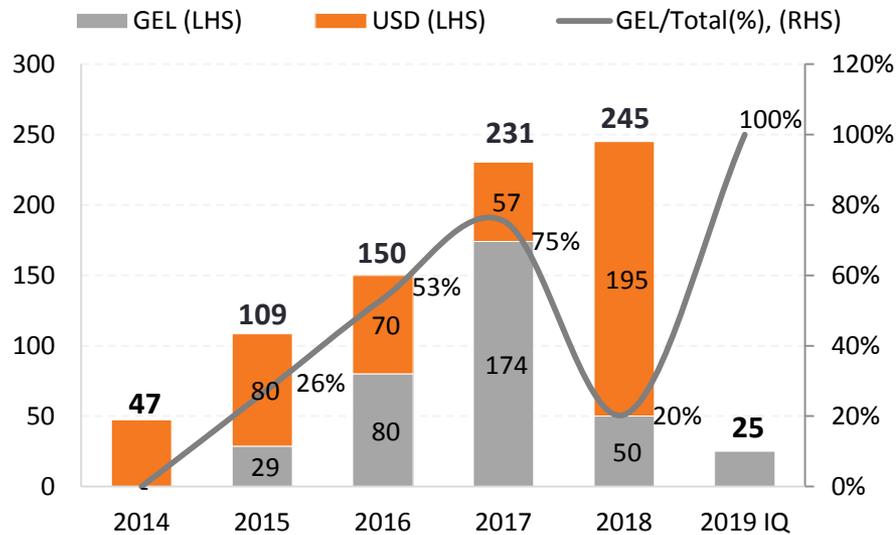
Source: Galt & Taggart, Bloomberg



Corporate & IFI Bonds – New Issues

Since 2014, Corporate and IFI Bond issuances have increased dramatically

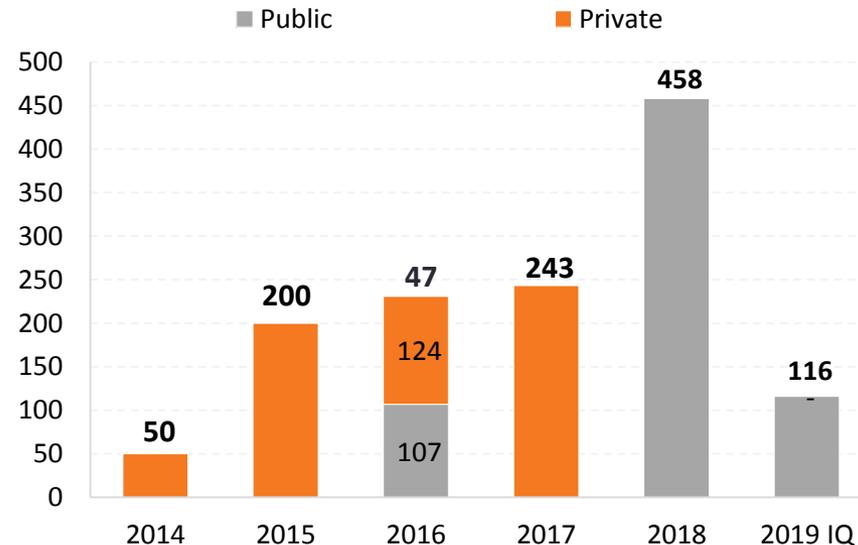
Corporate Bonds - New Issues (GEL mln)



Source: Galt & Taggart, Georgian Stock Exchange, National Bank of Georgia, Bloomberg

- Volume issued (2014- Q1 2019) amounted to **GEL 806 mln**
- Maturities tend to become longer in 2018 compared to previous years
- In 2018, total issuances amounted to GEL 245 mln, **out of which 20% were denominated in GEL**

IFI Bonds - New Issues (GEL mln)



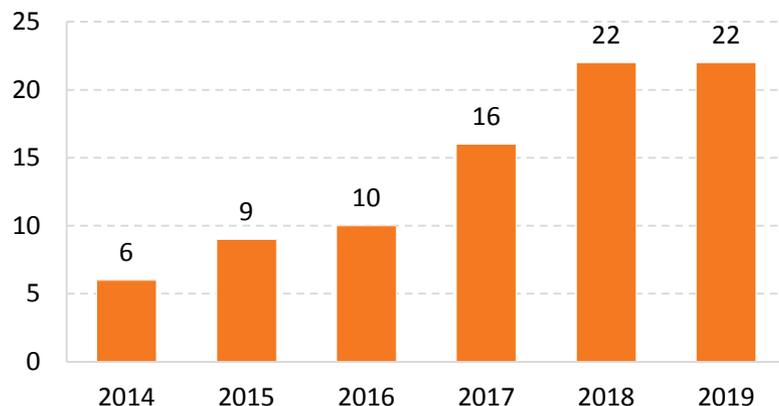
Source: Galt & Taggart, Georgian Stock Exchange, National Bank of Georgia, Bloomberg

- Volume issued (2014- Q1 2019) amounted to **GEL 1,298 mln**
- In 2018, total issuances amounted to GEL 458 mln, **out of which 100% were public placements**



NBG Supporting GEL Denominated Public Issuances

Companies with Credit Ratings



Source: Galt & Taggart

- Significant increase in activity of rating agencies: **Fitch Ratings, S&P, Moody's, Scope**
- NBG accepts certain fixed income securities as collateral for commercial banks under certain conditions:
 - Availability of Rating assigned by one of international rating agencies
 - GEL denomination
 - Public issuance
- Treasuries and IFI bonds can be used as collateral for **repo transaction with a haircut of 90-95%**
- Corporate bonds can also be pledged with a condition that a single bank cannot **pledge more than 30% of total issue** (starting from September 2019 this **threshold will be reduced to 25%**)
- Haircut applied depends on Rating level as well as on the remaining maturity of the security

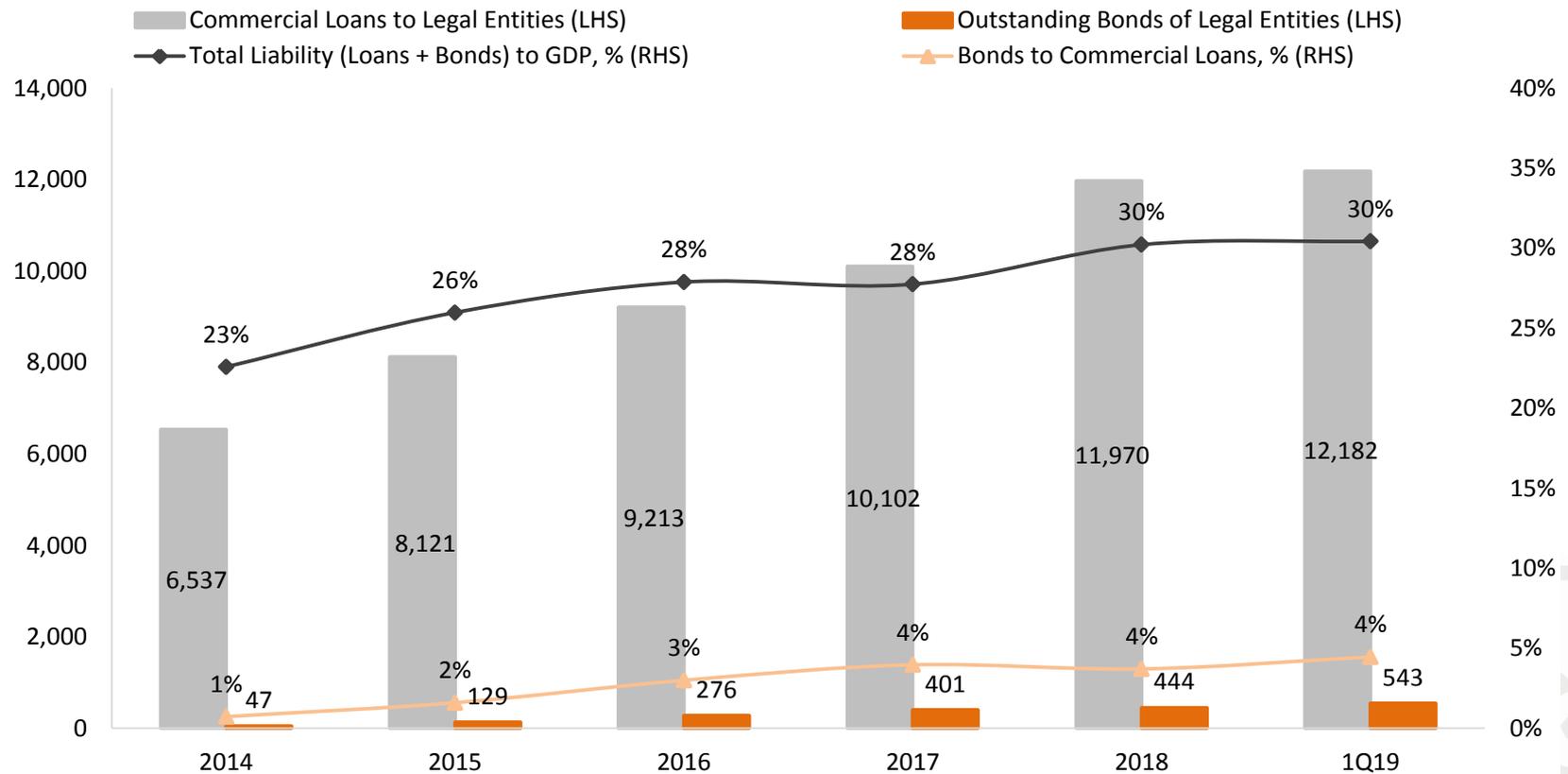
According to the NBG the ratio of the refinancing loan and the interest accrued on it, and/or overnight loan and/or intraday loan to the underlying collateralized securities is following:

	Ratings		Ratio of financing of the loan and the interest accrued		
	S&P, Fitch and Scope	Moody's	Less than 2 years	From 2 to 5 years	More than 5 years
GEL denominated debt securities issued either by the Government of Georgia and by the National Bank of Georgia	-	-	95%	95%	95%
GEL denominated debt securities issued by IFIs	AAA, AA+, AA, AA-	Aaa, Aa1, Aa2, Aa3	95%	95%	95%
	A+, A, A-, BBB+, BBB	A1, A2, A3, Baa1, Baa2	90%	90%	90%
GEL denominated debt securities issued in accordance with the "Law of Georgia on Securities Market" by the resident and non-resident legal entities and securities issued as a private placement till January 1, 2018	AAA < BBB-	AAA < Baa3	90%	85%	80%
	BB+ < BB-	Ba1 < Ba3	85%	80%	75%
	B +	B1	80%	75%	70%

Commercial Loans vs. Bonds (Legal Entities)

Even though Bonds normally are cheaper alternative for companies than Commercial Loans, their share in total debt financing still remains quite low (4% of the total)

Bank Financing (Corporate Loans) vs. Corporate Bonds (GEL mln)



Source: Galt & Taggart



Supportive Macro Fundamentals

Bonds Market in Georgia

Supportive Taxation Regime for Capital Markets



Supportive Taxation Regime for Capital Markets

Since the beginning of 2018, Ministry of Finance has implemented new tax code for securities: To qualify for the **new exemptions**, securities must be publicly listed on the organized market recognized by NBG

Equities			Debt		
	Capital Gains	Dividend		Capital Gains	Interest
Individuals			Individuals		
<i>Residents</i>	0%	5%	<i>Residents</i>	0%	0% (until 2023)
<i>Non Residents</i>	0%	5%	<i>Non Residents</i>	0%	0% (until 2023)
Legal Entities			Legal Entities		
<i>Residents</i>	15%	15%	<i>Residents</i>	15%	15%
<i>Non Residents</i>	0%	5%	<i>Non Residents</i>	0%	0% (until 2023)



THANK YOU!

