

Georgia Credit rating discussion



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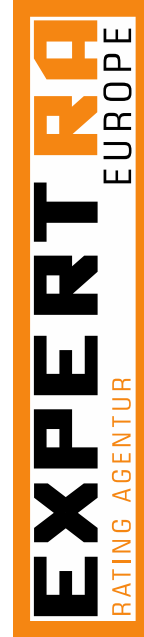
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Frankfurt am Main, 4 June 2020

Georgia Credit rating

Agenda

- About RAEX
- Georgia credit rating
 - Positive Factors
 - Restricting Factors
 - Negative Factors
 - Stress Factors
 - Sensitivity Assessment



About RAEX

Rating-Agentur Expert RA (RAEX-Europe)

- RAEX Group has more than **20 years of experience** in the rating industry
- The Agency is active since 2013 in **Frankfurt am Main**
- In 2015, the CRA was registered by the **European Securities and Markets Authority (ESMA)**
- **Official status** of External Credit Assessment Institution (ECAI)

RAEX-Europe ECAI mapping

Mapping, approved by the European Commission in **April 2018**:

Credit quality step	RAEX-Europe	Fitch	Moody's	S&P
1	AAA, AA	AAA, AA	Aaa, Aa	AAA, AA
2	A	A	A	A
3	BBB	BBB	Baa	BBB
4	BB	BB	Ba	BB
5	B	B	B	B
6	CCC, CC, C, D, E	CCC, CC, C, RD, D	Caa, Ca, C	CCC, CC, R, SD/D

RAEX-Europe activities

- Assigning **credit ratings** to:
 - ✓ Sovereign issuers
 - ✓ Sub-sovereign issuers (regions)
 - ✓ Banks
 - ✓ Insurance companies
 - ✓ Non-financial corporates
- Assigning **non-credit ratings: ESG ratings** (environmental, social and governance)
- Additional **services for stock-exchanges: green bond second opinion**
- **Business-conferences** and presentations in EU
- **Industry and socioeconomic research**

Georgia Credit Rating

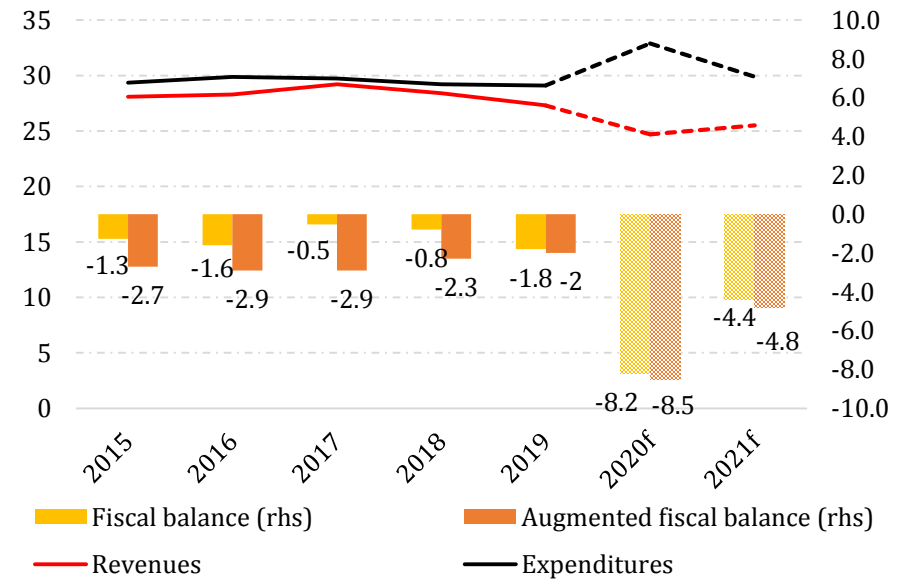
Sovereign rating list of RAEX-Europe:

Country	Sovereign government rating		Dynamics		Outlook		Date
	National currency	Foreign currency	National currency	Foreign currency	National currency	Foreign currency	
Armenia	BB-	BB-	Confirmed	Confirmed	Positive	Positive	10.01.2020
Azerbaijan	BB+	BB+	Confirmed	Confirmed	Negative	Negative	08.05.2020
Belarus	B	B	Confirmed	Confirmed	Positive	Positive	10.01.2020
Georgia	BB	BB	Confirmed	Confirmed	Stable	Stable	03.04.2020
Germany	AAA	AAA	Confirmed	Confirmed	Stable	Stable	28.02.2020
Kazakhstan	BBB-	BBB-	Confirmed	Confirmed	Positive	Positive	13.12.2019
Kyrgyzstan	B	B	Confirmed	Confirmed	Stable	Stable	27.12.2019
Russia	BBB-	BBB-	Confirmed	Confirmed	Positive	Positive	13.12.2019
Tajikistan	B	B-	Confirmed	Confirmed	Negative	Negative	07.02.2020
Uzbekistan	BB-	BB-	Confirmed	Confirmed	Stable	Stable	06.03.2020

Positive factors

- Fiscal deficit remained stable in 2019, but set to widen due to COVID-19
 - Deficit widened up to 1,8% of GDP in 2019, but the augmented fiscal deficit, shrunk slightly to around 2% of GDP
 - We expect a deficit of around 8% in 2020 as a result of COVID-related expenditures increase and revenue decline
- Quality of the fiscal policy has been adequate as it has remained broadly in line with IMF's objectives

Fiscal budget dynamics, % of GDP



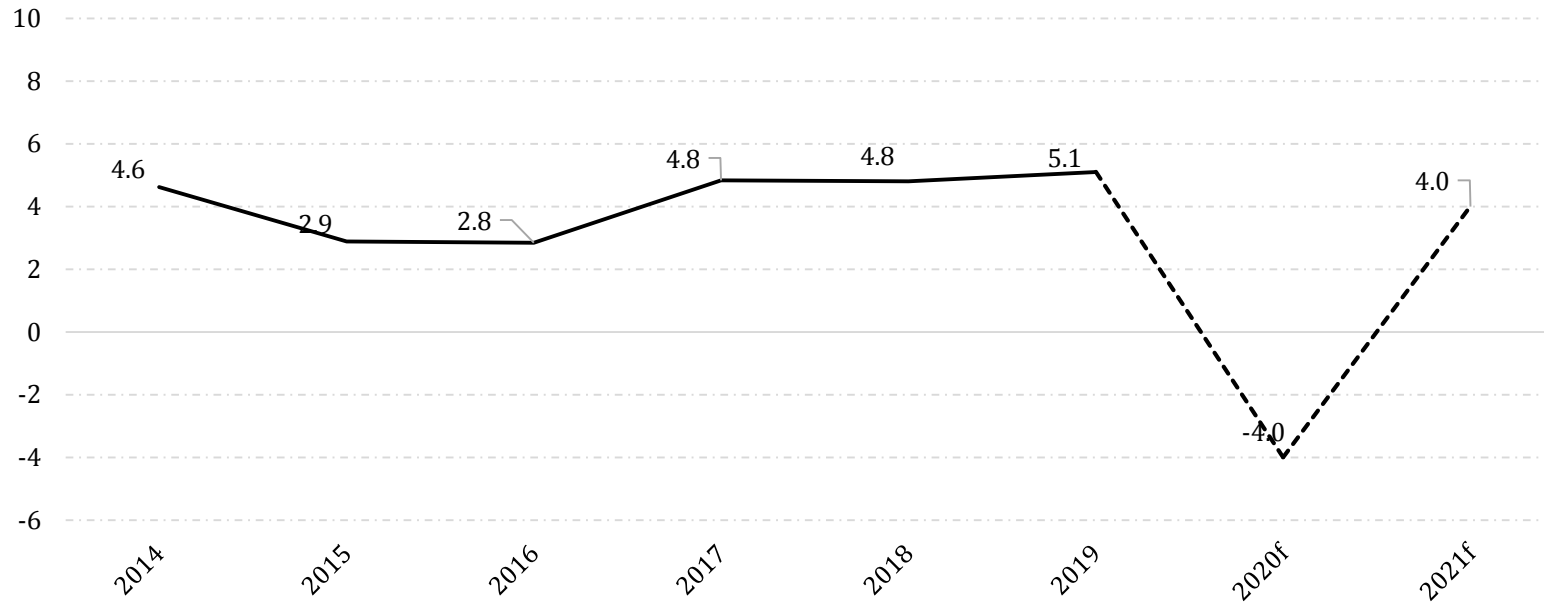
Planned COVID-related expenditures, % of GDP

Item
COVID-19-related healthcare supplies and services
Subsidies to businesses and supply of commodities
Direct transfers for employees in the private sector
Direct transfers to families and vulnerable households
Subsidies for utilities
Healthcare investment

Positive factors

- Solid economic growth in 2019; nonetheless, inevitable contraction in 2020
 - The economy grew by at 5,1% in 2019
 - Sharp contraction of about -4% expected in 2020 due to coronavirus crisis, but back to growth in 2021
- FDI has been stable, but set to decline in 2020

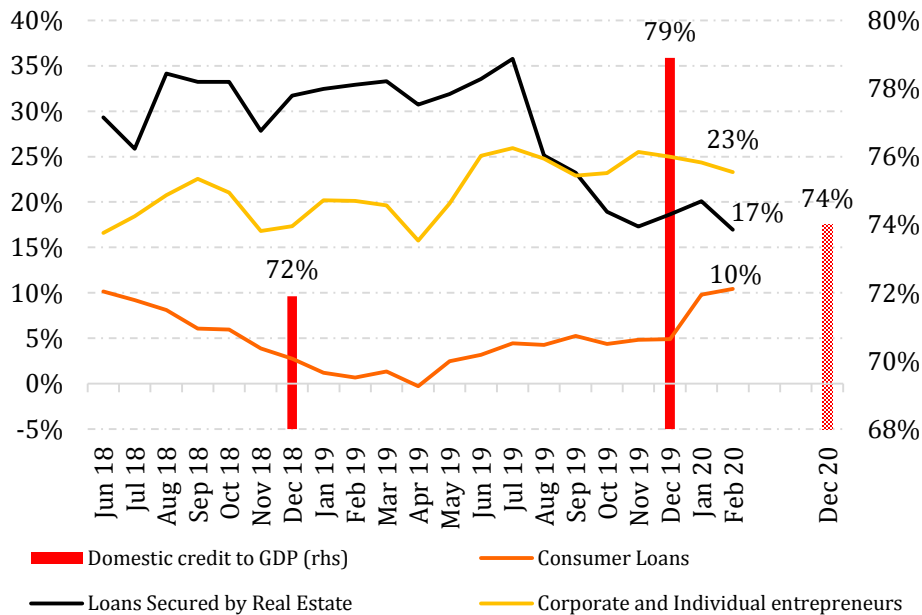
Real GDP growth, %



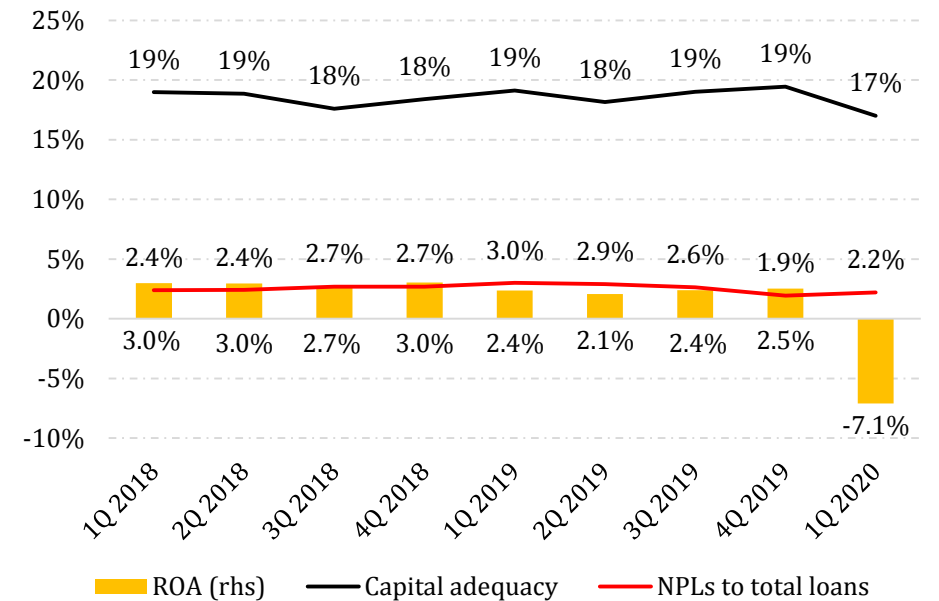
Positive factors

- The banking sector remained solid in 2019, but financial dollarization remains high
 - Credit to the economy continued to increase in a sustained manner
 - Financial soundness indicators showed stability
 - Coronavirus crisis set to stress the system

Loan growth, y-o-y



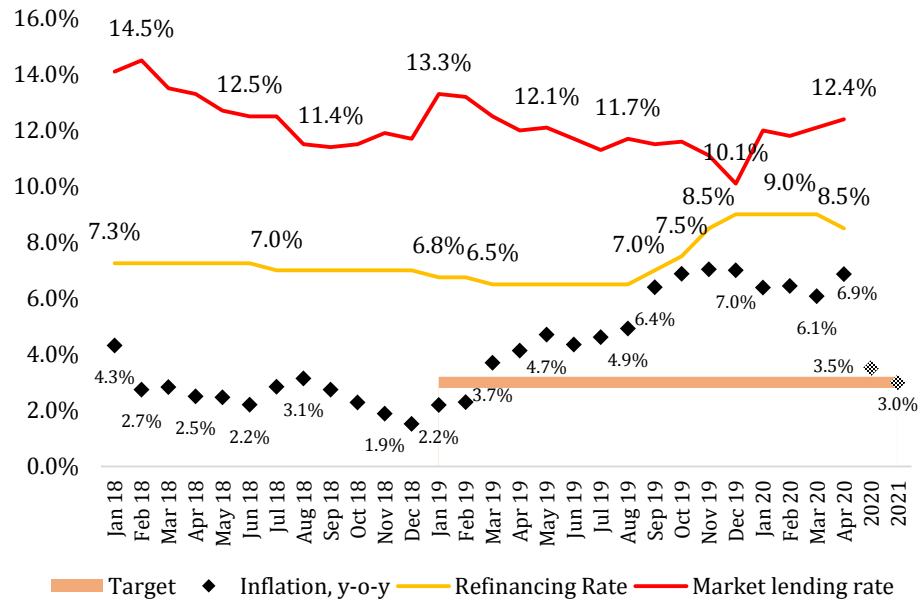
Financial soundness indicators



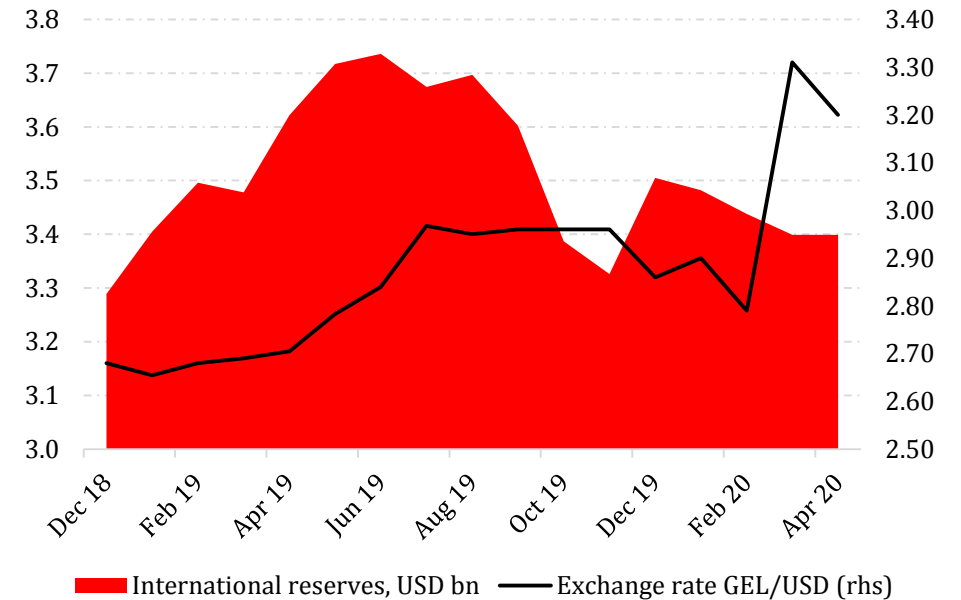
Positive factors

- Favourable quality of the monetary policy
 - Floating exchange rate and inflation targeting regime
 - Inflation rate increased substantially and stood at 7% in 2019 due to one-off effects
 - Reference rate trimmed by 0,5%
 - FX interventions to contain depreciation

Monetary policy dynamics



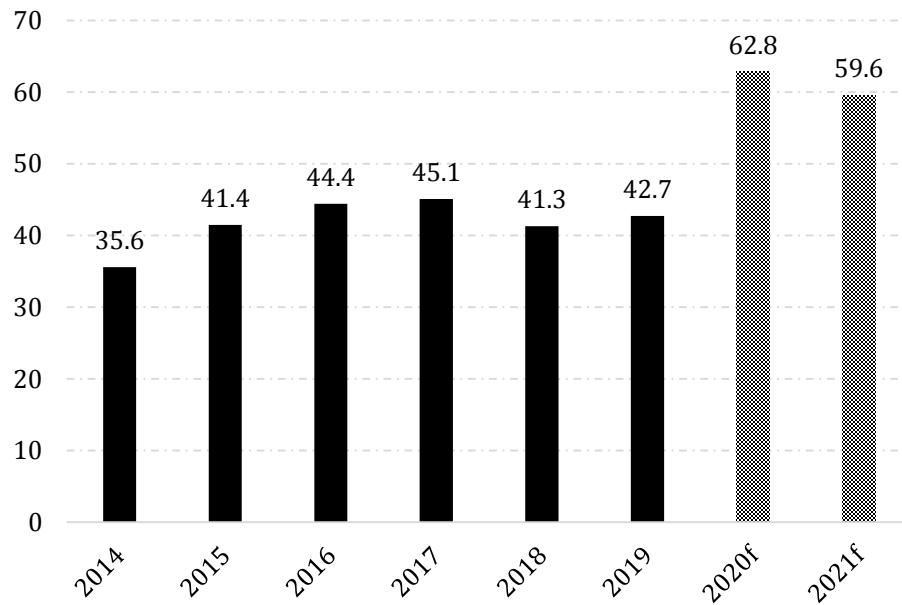
International reserves and exchange rate



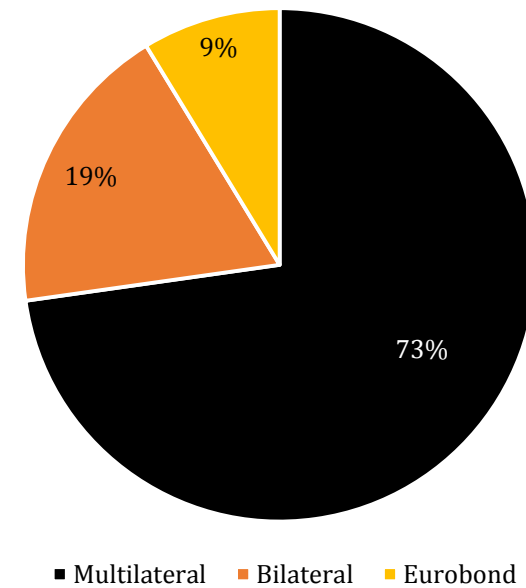
Restricting factors

- Acceptable level of government debt; however, expected to rise due to COVID-19 relief measures
- Debt structure mixed
 - Adequate in terms of maturity and creditors
 - High level of FX-denominated debt

Government debt, % of GDP



Creditors



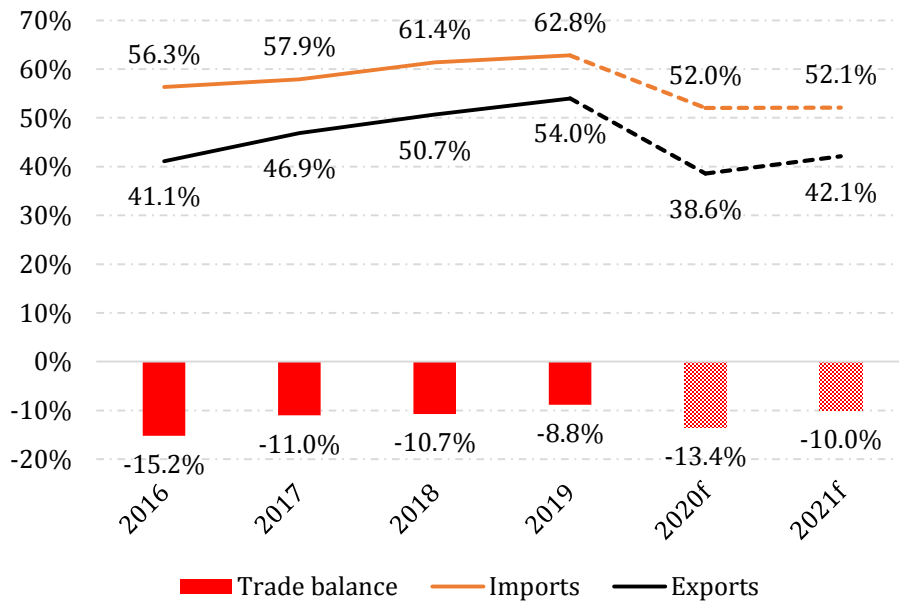
Restricting factors

- Georgia's GDP per capita, at around USD 12 227 for 2019, remains acceptable level relative to peers
- The banking sector's concentration remains elevated
- Institutional development in Georgia remains moderate

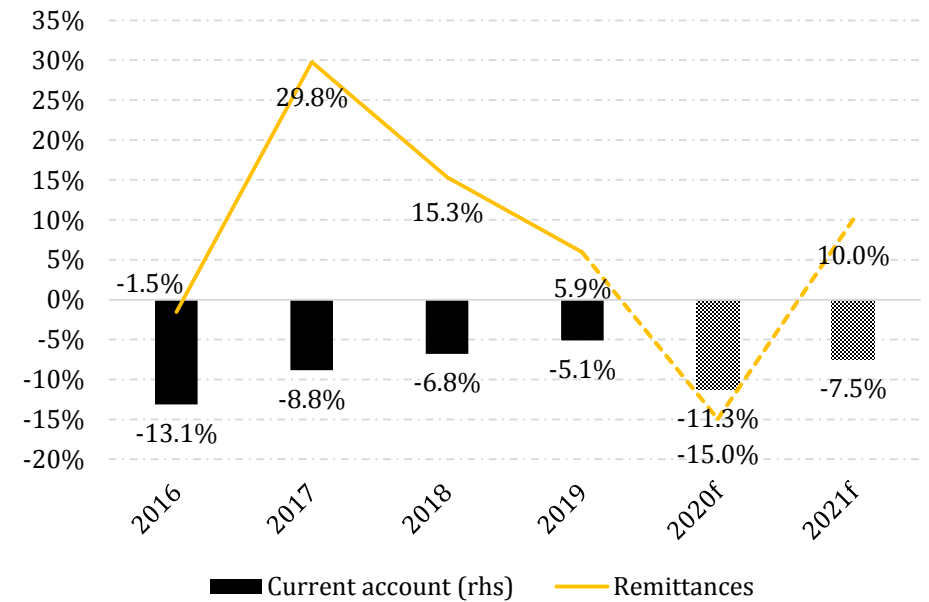
Negative factors

- Georgia's external position remains the weak link for its creditworthiness
 - Trade and current account deficits are wide and expected to widen even further in 2020
 - High dependence on the external sector; namely, tourism, remittances and imports

Trade balance, % of GDP



Current account and remittances, % of GDP



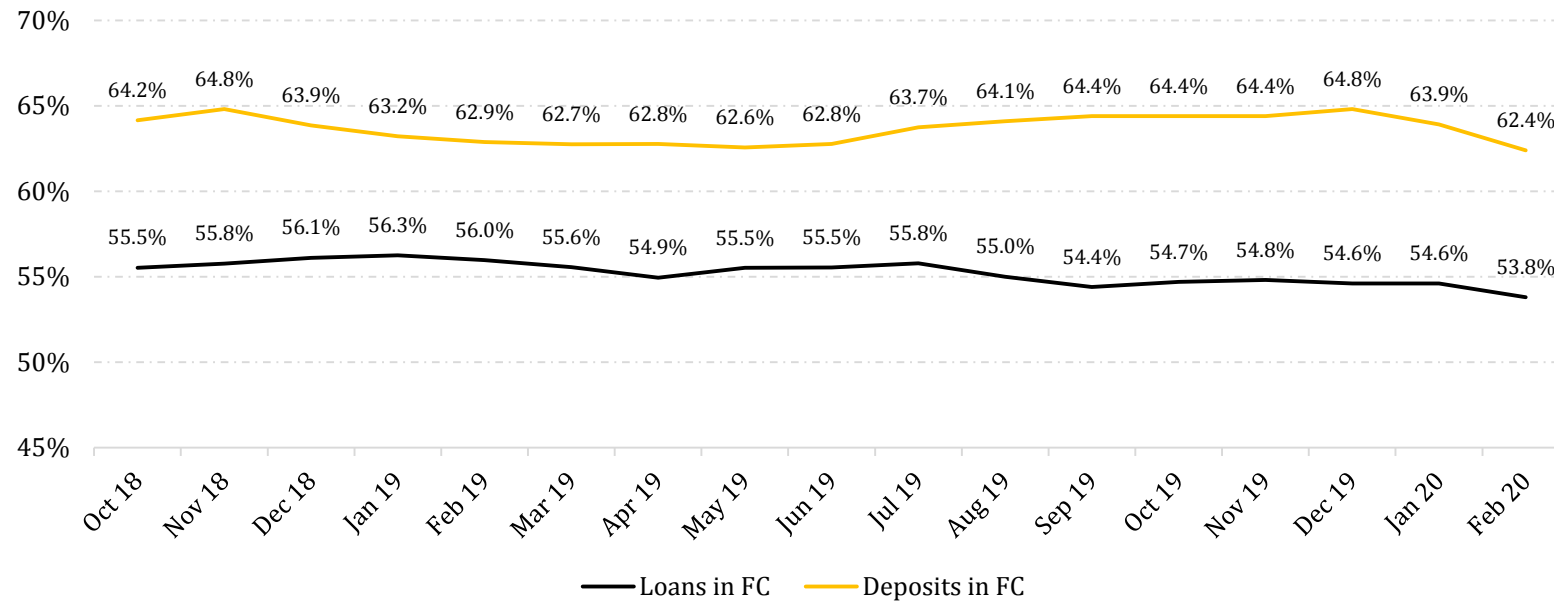
Negative factors

- Contingent liabilities remain elevated and the risk of materialization is moderately high
- The level of unemployment rate, remained elevated at 11,6% in 2019 and is expected to deteriorate in 2020

Stress-factors

- High financial dollarization remains high in Georgia; loans and deposits in FX were equivalent to 54% and 62% of total portfolio as of February 2020 (moderately weak stress-factor);
- Political risk stemming from the unresolved conflict of South Ossetia and Abkhazia with Russia (moderately weak stress-factor).

Financial dollarization, % of total loans



Sensitivity assessment

The following developments could lead to an upgrade:

- Decrease of external exposure by reducing FX-denominated debt, advancing de-dollarization measures, increasing national savings, buffering-up international reserves and further developing productive sectors of the economy in order to reduce reliance on imports;
- A substantial reduction in the amount of contingent liabilities which would reduce the overall government debt level.

The following developments could lead to a downgrade:

- Strong negative impact from the coronavirus crisis, which would negatively affect the exchange rate causing asset deterioration in the financial system and reduction in international reserves as well as economic volatility;
- Deterioration of the fiscal position by widening the fiscal deficit and increasing government debt including contingent liabilities' materialization as a result of additional spending needs due to the coronavirus crisis.



Thank you for your attention!

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