



BUSINESS ASSOCIATION OF GEORGIA



ECONOMY IN BRIEF
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საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

REAL ECONOMIC GROWTH AMOUNTED TO 0.3% IN DECEMBER

Total gross domestic product (GDP) of the first three quarters of 2016 exceeds 24 billion GEL, which is 5.3% higher than the corresponding rate of the previous year. However, during this period, growth of real GDP amounted to 2.6%.

Largest part of GDP is created in trade. However, contribution of this sector to the real GDP growth only amounted to 1.3% in the first three quarters of last year.

Forestry and logging activities are most noteworthy in terms of nominal change, which has increased by 29% and amounted to 49 m GEL. Manufacture of tobacco products has nearly halved and amounted to 7 m GEL.

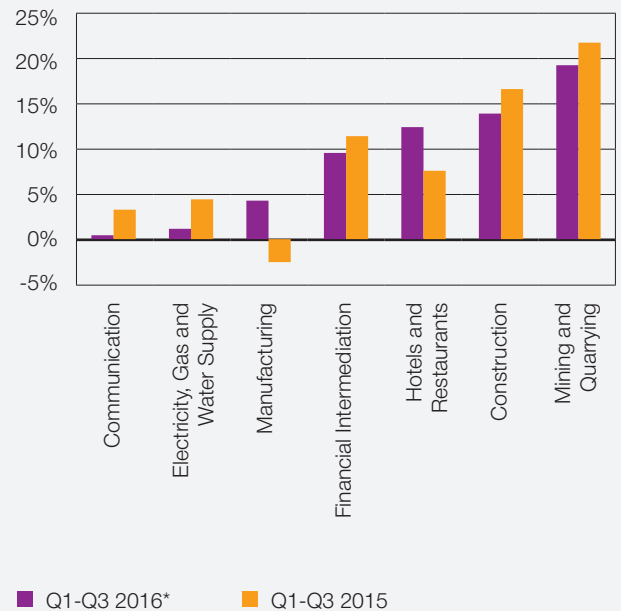
Table 1. Gross Domestic Product

	Q1-Q3 2015	Q1-Q3 2016*	Difference
Nominal GDP (m GEL)	22 973.2	24 184.9	5.3%
Nominal GDP (m USD)	10 305.8	10 439.7	1.3%
GDP per capita (GEL)	6 186.1	6 500.6	5.1%
GDP per capita (USD)	2 775.1	2 806.1	1.1%
Real GDP Growth (percent)	2.9%	2.6%	

* Preliminary Estimates

Source: GeoStat

Chart 1. Real Growth of Different Sectors



* Preliminary Estimates

Source: GeoStat

Based on data of the first three quarters of 2016, mining industry still maintains its leading position by 19% real growth. Growth has also been observed in construction (13.4%) and hotels and restaurants (7.3%) sectors. During the same period, decrease was observed in the transport (-2.3%) and agriculture (-0.7%) sectors. Healthcare and communications sectors stayed almost on the same level as in 2015 with 0.2% and 0.4% real growth in 2016.

According to preliminary data of National Statistics Office of Georgia (GeoStat), in the past year, the lowest yearly growth rate of real GDP (0.3%) was recorded in December. Total real GDP growth rate was 2.2% in 2016. According to the National Bank of Georgia, fiscal stimulus and business confidence had positive impact on this growth, which actually lead to an increase in investments and domestic demand. Foreign trade deficit adversely affected economic growth, which is mainly caused by the processes ongoing in the trading partner countries. In 2017, the National bank is expecting further increase in demand and investment and decrease of foreign trade deficit, thus, forecasting growth of real GDP to reach 4% by the end of the year.

the World Bank, Russia and Azerbaijan are expected to have positive economic growth in 2017, and situation will significantly improve in Kazakhstan. Strengthened economic activity in these countries will have a positive impact on other countries of the region. Increased trade and remittances will support the economy of Georgia and the real GDP Growth will exceed 5%.

MONTHLY INFLATION RATE AMOUNTED TO 2.9% IN JANUARY

In 2016, the average annual inflation was 2.1%. Last year the main cause of inflation was the increase of prices of Alcoholic Beverages and Tobacco group due to the increased excise tax. At the end of the year, nominal exchange rate depreciation eventually led to the increase of prices of imported goods and, therefore, the inflation of imported goods. In the fourth quarter of 2016, imported inflation rose up to 1.6%, while the inflation rate of domestic product hit 2.2%.

Price of tobacco products dramatically increased in December 2016, soon after the increase of excise taxes for tobacco products was announced. In January, after the tax amendments entered into force, the prices of tobacco products increased by 40.2%

On January 1, 2017, excise taxes on automobiles and petroleum products increased as well. In January, the annual increase in prices of transport amounted to 10.8%. Operation of personal vehicles became especially expensive (16.0%).

In January 2017, the price level rose by 2.9% compared with December, while the annual inflation rate amounted to 3.9%. The main contributors to the annual inflation rate were those groups with increased excise taxes: Transport (1.35 pp) and alcoholic beverages and tobacco products (1.14 pp).

Chart 2. Real GDP Growth



* Preliminary Estimates
** Projection
Source: World Bank

World Bank forecasts are more optimistic compared to those of National Bank of Georgia. According to

National Bank expects inflation to rise during the first quarter of 2017, however, it will be maintained

in the range of the target level (4%). In the following quarters, the annual inflation rate will exceed 5%. Such a rise in prices will be partly due to the increased excise tax. However, increased monetary policy rate (by 25 Basis Points) at the end of January and the planned gradual tightening of monetary policy¹ will contribute to the reduction of the inflation rate throughout the year.

OFFICIAL EXCHANGE RATE OF GEL TO USD FLUCTUATES

In the last quarter of 2016, the nominal effective exchange rate of GEL depreciated by 2.9% compared with the third quarter, while the real effective exchange rate depreciated by 3.2%. In the fourth quarter of 2016, Georgian Lari dropped in value against the US Dollar by 7.5%, and it also depreciated against the EUR by 3.8%. At the same time, Georgian Lari appreciated against the Turkish Lira

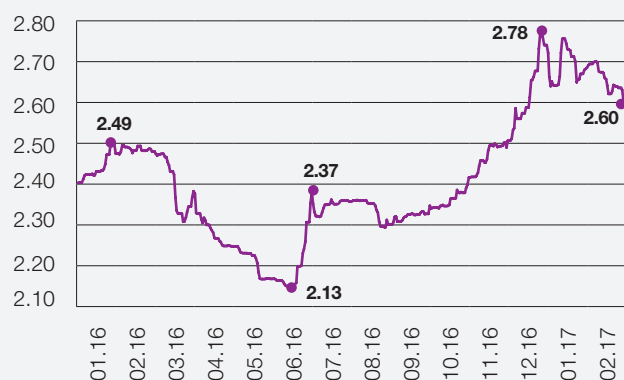
by 3.0% and the average exchange rate amounted 0.76.

In January 2017, Georgian Lari continued devaluation. The average monthly exchange rate of GEL against the US dollar was 2.70, while against the Euro - 2.87. However, at the same time, the Turkish Lira has been still depreciating and at the end of January 1 Lira was equal to 0.71 Lari. Overall, in January, monthly depreciation of the NEER of Lari constituted 0.4%.

FOREIGN TRADE IN GOODS

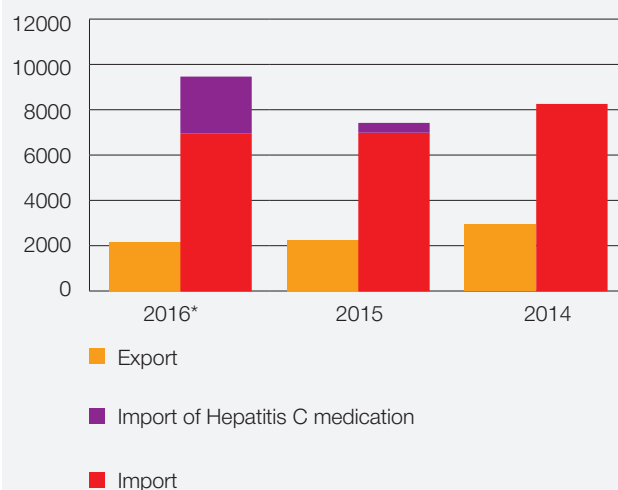
In 2016, exports of goods decreased by 4.1% per year and amounted to 2 114 m US dollars. Import of goods, excluding the imported value of hepatitis C medications, amounted to 7 233 m US dollars², which is 0.7% less than the corresponding figure of 2015.

Chart 3. USD/GEL Official Exchange Rate



Source: National Bank of Georgia

Chart 4. External Merchandise Trade (m USD)

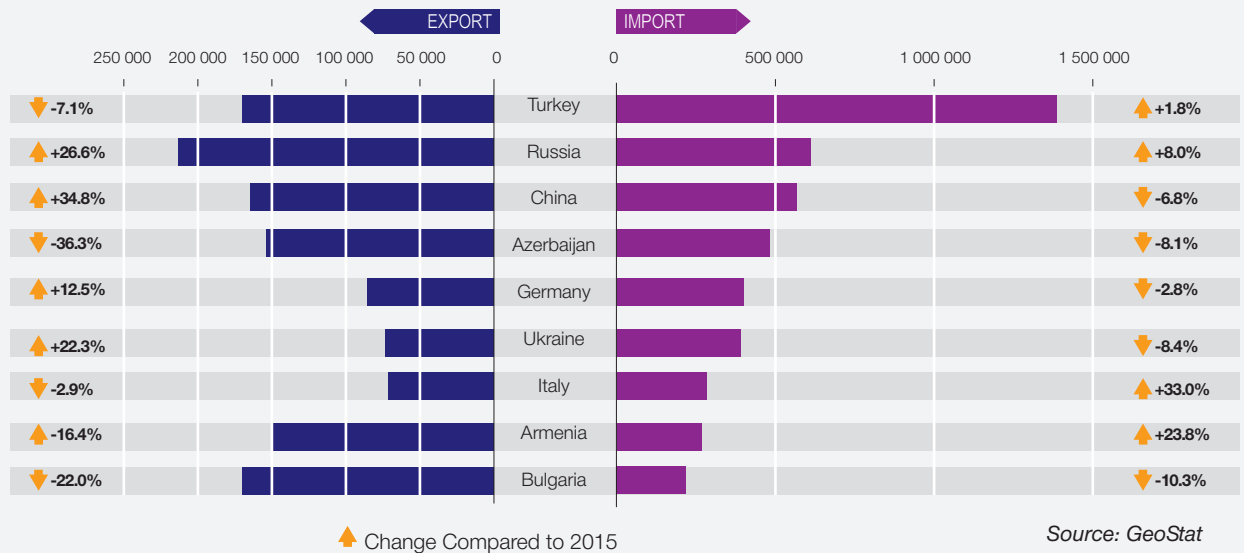


* Preliminary Estimates

Source: GeoStat, National Bank of Georgia

¹ According to the announcement of the National Bank of Georgia, monetary policy rate will be gradually increased up to 7% in the following quarters.

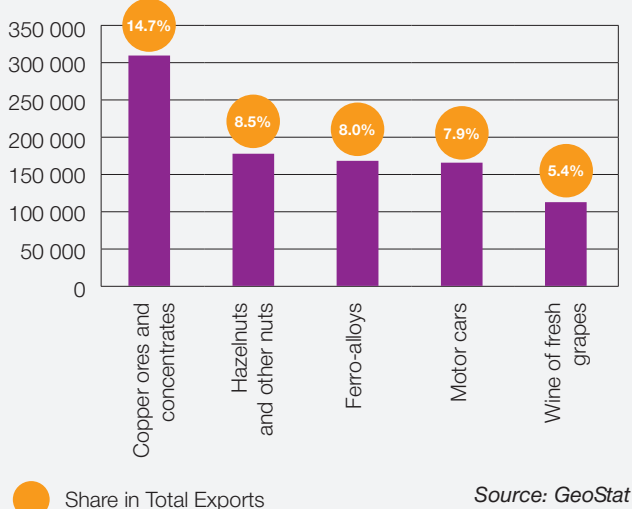
² In 2016, total value of imported medications for hepatitis C amounted to 2 619 m US dollars.

Chart 5. External Merchandise Trade by Country (thousand USD), 2016

Based on 2016 data on imports, Canada takes first place, while the Ireland is in third place with 1 791 m and 844 m US dollars respectively. However, moving these two countries to the leading positions among trading partners was due to imports of hepatitis C medication. Deducting the estimated value of these drugs, imports from Canada and Ireland amounts to 16 m US dollars in total³.

Last year, copper ores and concentrates were mainly exported to Bulgaria and China, while the major part of ferroalloys was exported to the United States and Russia. Italy and Germany were the main export markets for the nuts. Russia remains the largest export market for wine. However, wine exports to China significantly increased last year.

In January 2017, foreign trade turnover of goods increased by 22% year over year and amounted to 651 m US dollars. The volume of imports and exports was 15% and 45% higher respectively, compared to January of the previous year.

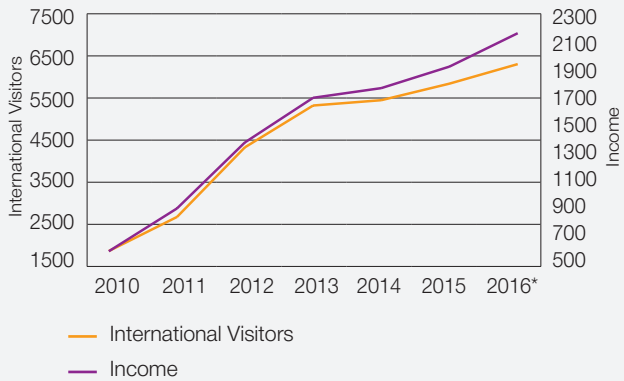
Chart 6. Major Commodity Groups by Exports (thousand USD), 2016

IN 2016, NUMBER OF TOURISTS INCREASED BY 19%

In 2016, number of international visitors increased by 7.6% and amounted to 6.4 m. Of particular note is the growth of international tourist arrivals. In 2016, international tourist arrival rate increased by 19% (total 2.7 m people) compared to the corresponding rate of 2015. Increase of the tourist income led to increased foreign exchange inflows - based on the data of the National Bank of Georgia, in 2016, revenue from tourism increased by 11.9%.

³ Based on an approximate estimate, medications for hepatitis C imported from Canada amounted to 1 782 m USD, while from Ireland - 837 m USD in 2016.

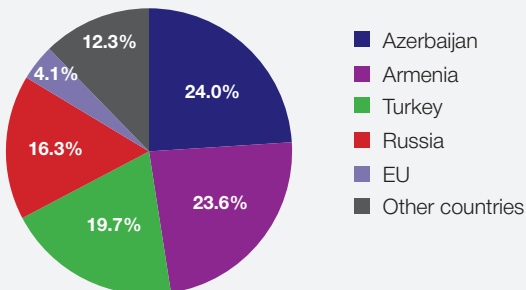
Chart 7. Dynamics of International Visitors (thousand persons) and Income from International Tourism (m USD)



*Preliminary Estimate

Source: Georgian National Tourism Administration

Chart 8. International Visitors by Country of Residence, 2016



Source: Georgian National Tourism Administration

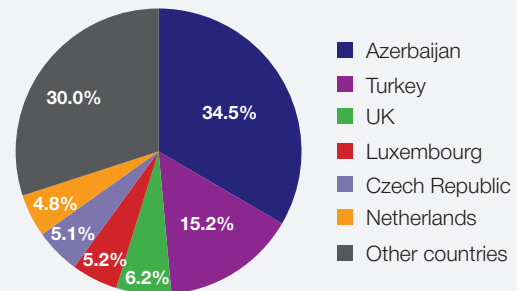
DIRECT INVESTMENTS FROM RUSSIA HALVED

According to preliminary data, foreign direct investments made in Georgia in the first three quarters of 2016 amounted to 1.3 billion US dollars, which is about 5% higher than the corresponding data of 2015.

Total FDI from the CIS countries decreased significantly (-74.1%). Direct investments from Russia halved and amounted to 17.6 m US dollars. However,

investments from Azerbaijan rose up to 433 m US dollars. Direct investments from Turkey, the Czech Republic, and the United States have also significantly increased.

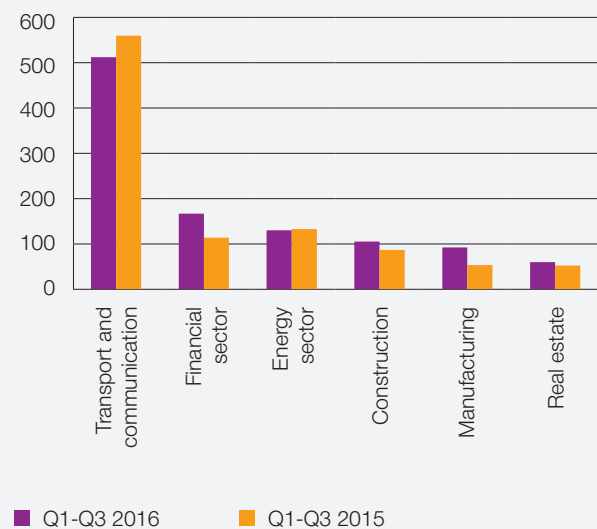
Chart 9. Share of Major Investor Countries in Total FDI, Q1-Q3 2016



Source: GeoStat

During three quarters of 2016, 40% of FDI were made in the transport sector. Financial sector still takes the second place (13%). Energy sector is on the third place with 10.1%.

Chart 10. Distribution of FDI among Economic Sectors (m USD)



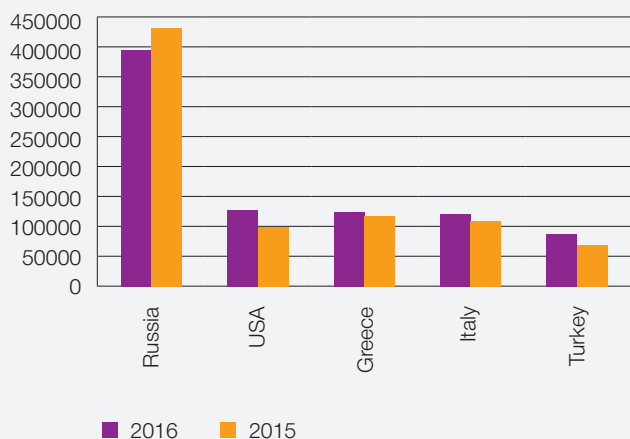
Source: GeoStat

MONEY TRANSFERS

There has been a growth trend in inflow of money transfers since the second half of 2016. In 2016, the total remittances received in Georgia amounted to 1 151 m US dollars, with the 6.6% annual growth.

Compared to 2015, remittances received from Russia decreased by 38.2 m US dollars and its share in total remittances shrunk from 40.1% to 34.3%. At the same time, the share of money transfers received from USA, Italy, Turkey and Israel slightly increased.

Chart 11. Inflow of Money Transfers by Countries (thousand USD)



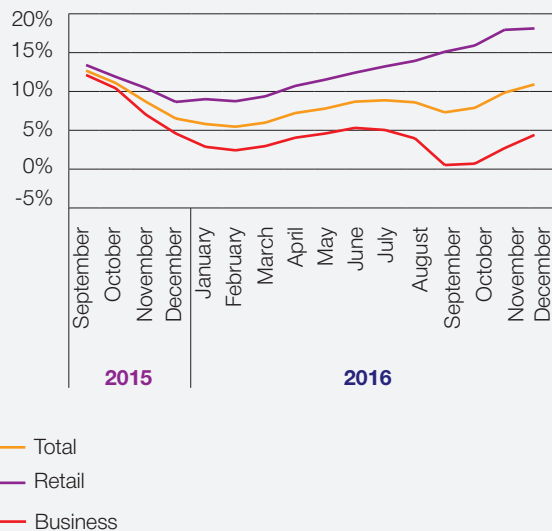
Source: National Bank of Georgia

In January 2017, according to preliminary data, remittances grew annually by 26.1% and amounted to 83.9 m US dollars. Outflow of money transfers from Georgia also increased (+12.6%) and amounted 13 m US dollars.

COMMERCIAL BANKS' LOAN PORTFOLIO CONTINUES TO GROW

In 2016, commercial banks' loans issued for the national economy, with the exclusion of exchange rate effect, increased by 10.7%. This is mainly due to increase in loans issued to households.

Chart 12. Loans to National Economy (Stocks) (thousand GEL)



Source: National Bank of Georgia

By the end of 2016, commercial bank loans to GDP ratio was 56.9%. 60 percent of loans are secured by real estate. At the same time, 34.6% of loans are issued in national currency with the total value of 6.4 billion GEL. 5.7% of loans issued in national currency and 8.8% of loans issued in foreign currency are nonperforming.

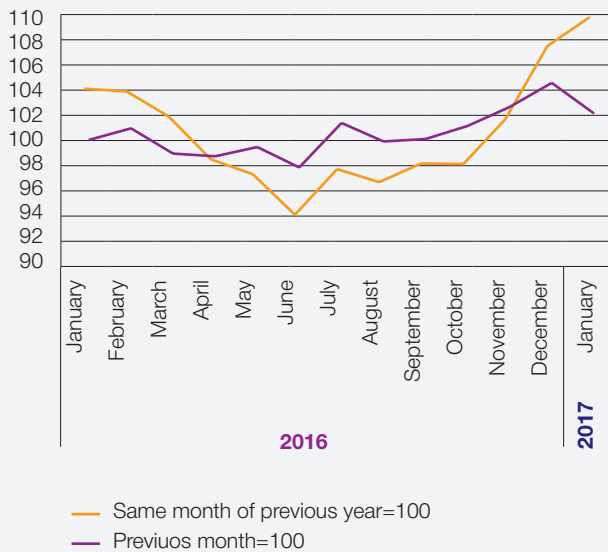
During 2016, National Bank of Georgia started easing monetary policy in the light of declining inflation and gradually cut down the policy rate from 8.0% to 6.5%. Interest rate on loans issued by commercial banks also tended to reduce. In the fourth quarter, weighted average annual interest rate on loans issued in the national currency was 17.6%, while on foreign currency loans - 9.5%.

In parallel with cheaper loans, interest rates on deposits also reduced. At the end of December, the average interest rate on deposits in GEL was 7.7%, and on deposits in foreign currency - 3.1%.

PRODUCER PRICE INDEX IS INCREASING

In January 2017, Producer Price Index for industrial products rose by 2.3% compared to previous month, and annual growth if index was 9.8%.

Chart 13. PPI for Industrial Products

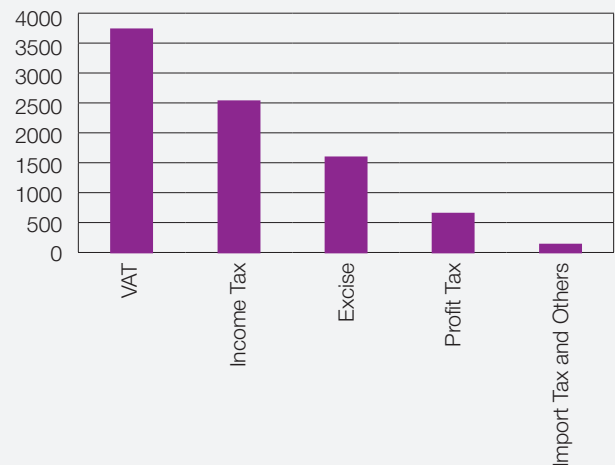


Source: GeoStat

compared to 2016. This growth will be mainly caused by the increase in tax revenues (increase by 840 m GEL). In 2017, it is planned to receive tax revenues of 8 820 m GEL in total.

In 2017 state budget expenses are increased by 577.7 m GEL compared to 2016 budget, and amount to 9 121 m GEL. Funds for subsidies are larger by 155.5 m GEL, social security expenses are increased by 256 m GEL, and labor remuneration is reduced by 50 m GEL.

Chart 14. Planned Tax Revenues to the State Budget 2017 (m GEL)



Source: Ministry of Finance of Georgia

2017 STATE BUDGET PLAN

2017 state budget revenues are planned to amount to 9 489 m GEL, which is larger by 934 m GEL (11%)

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