



BUSINESS ASSOCIATION OF GEORGIA



ECONOMY IN BRIEF
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საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

REAL GDP GROWTH REACHED 5% IN THE FIRST QUARTER OF 2017

The Gross Domestic Product (GDP) in Georgia was worth 33.9 billion GEL in 2016. Nominal GDP growth rate was 6.8%, while real GDP growth rate was only 2.7%. In 2016 real GDP growth rate was the lowest in the last seven years.

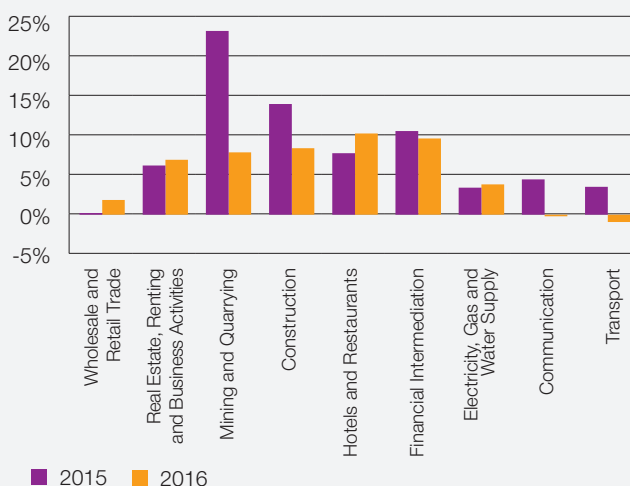
Table 1. Gross Domestic Product

	2015	2016	DIFFERENCE
Nominal GDP (m GEL)	31 755.6	33 921.6	6.8%
Nominal GDP (m USD)	13 988.1	14 322.8	2.4%
GDP per capita (GEL)	8 550.9	9 117.7	6.6%
GDP per capita (USD)	3 766.6	3 852.5	2.3%
Real GDP Growth (percent)	2.9%	2.7%	

Source: GeoStat

According to 2016 data, the largest share in the sectorial structure of GDP is held by industry (17.1%) and trade (16.3%). As for the real growth of sectors, it decreased compared to 2015, though it remained positive in almost every major sector, except for the transport and communications. The hotels and restaurants sector recorded the highest growth rate (9.9%). Financial sector growth rate was also high amounting more than 9%.

Chart 1. Real Growth of Different Sectors

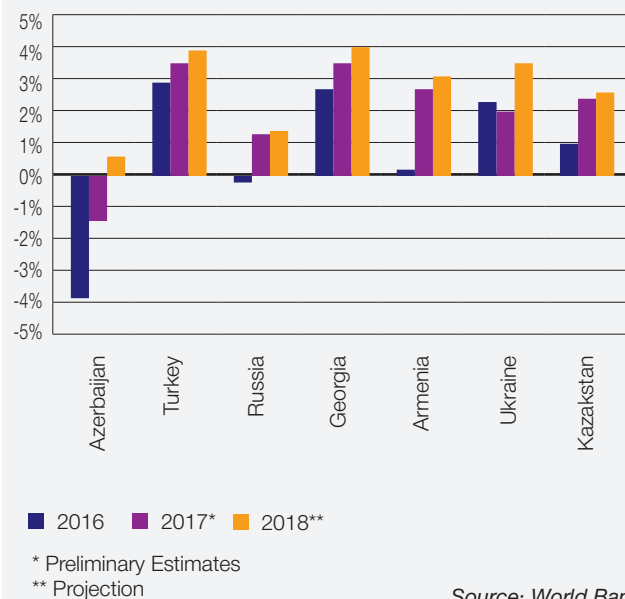


Source: GeoStat

According to the National Bank of Georgia, real GDP growth will be 4% in 2017, which is due to increased domestic demand. In the wake of the corrected exchange rate and stabilized economic and political environment in the region, improvement of the net export is projected by 2017. Based on the existing forecasts, net exports will have a small but positive effect on real GDP growth during this year. The year 2017 began with a relatively high growth rate of economy and according to preliminary data, the average real GDP growth in the first quarter amounted to 5%.

The World Bank forecasts real GDP of Georgia will grow by 3.5 % in 2017, while the overall growth rate of Europe and Central Asia will reach 1.9%.

Chart 2. Real GDP Growth



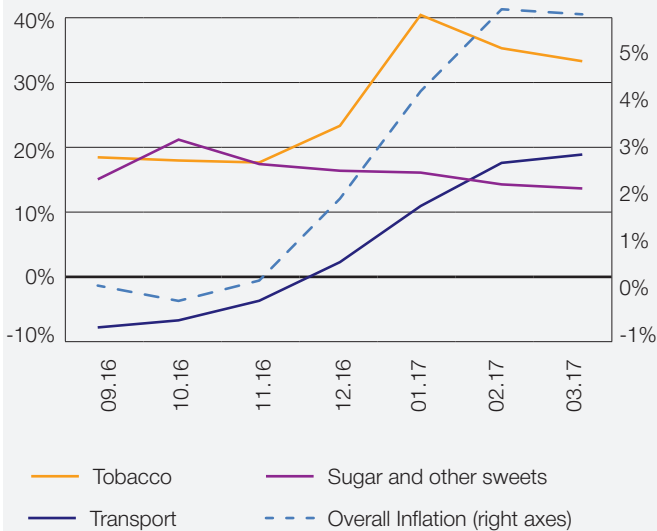
Source: World Bank

ANNUAL INFLATION REACHED 5.4% IN MARCH

In the first quarter of 2017, the average level of inflation was almost 5 percent. An increase in excise duty on fuel and tobacco has led to increase in the inflation rate since January of this year. In March,

the annual inflation rate was 5.4% and the highest contributor to this was the increase in transport prices (18.7%). Annual increase in tobacco prices exceeded 33%, while food and non-alcoholic beverages group recorded an annual inflation of 5.4% in March, partly due to a sharp increase in sugar prices on the world market.

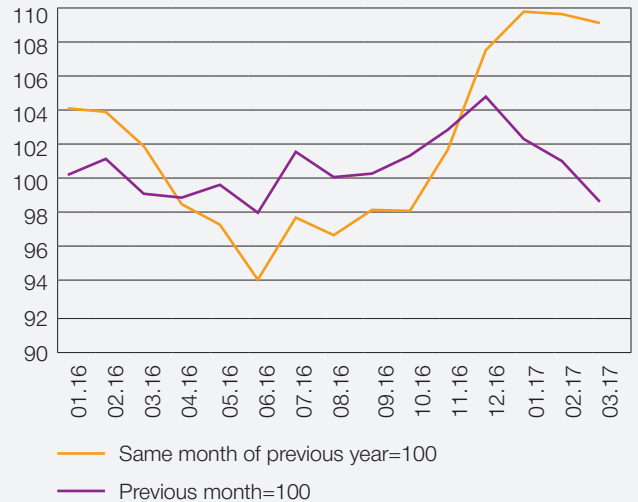
Chart 3. Annual Inflation



Source: GeoStat, National Bank of Georgia

In March 2017, the producer price index for industrial products grew by 9.1%. Increased prices of manufactured products (8.6%) was the major contributor to the growth of the index.

Chart 4. PPI for Industrial Products



Source: GeoStat

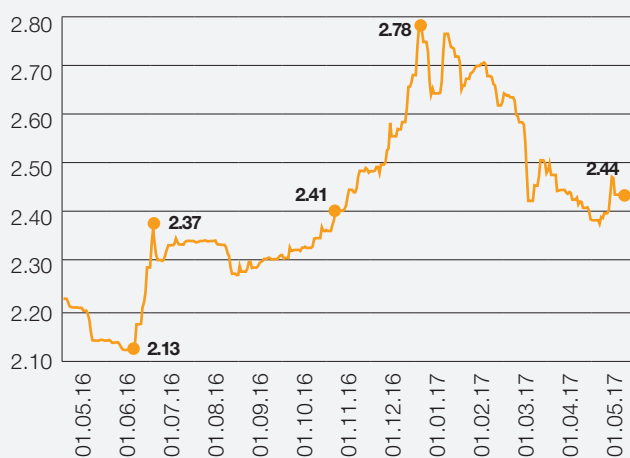
LARI APPRECIATED AGAINST USD BY 4.3% IN THE FIRST QUARTER 2017

In the first quarter of the current year, the real effective exchange rate of GEL was up by 1.4% compared with the previous quarter. In this period, the real exchange rate of GEL has increased against the US dollar, Euro, Lira and Ruble. Strengthening of Lari real exchange rate was especially noticeable during the February-March period.

Significant devaluation of the nominal effective exchange rate of GEL was observed in December of the past year, and remained at a low level in January and February. During this period, Georgian National Currency devaluated against US dollar and Euro. In March, the NEER index was up by 6.4% compared to February. In the first quarter, Georgian Lari strengthened against US dollar by 4.3% and average monthly exchange rate fell to 2.47 GEL per USD in March.

In the first quarter, nominal exchange rate of GEL strengthened against Turkish Lira (7.3%) as well. While against the Euro, it has devaluated by 3%. However, in April Lari started appreciating against Euro too and the average exchange rate of GEL-EUR fell to 2.64.

Chart 5. USD/GEL Official Exchange Rate

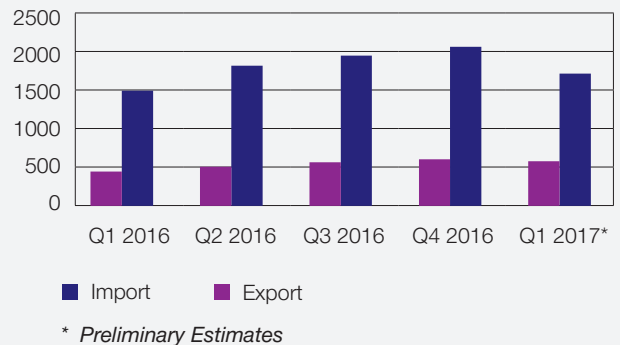


Source: National Bank of Georgia

EXPORTS CONTINUES TO INCREASE, BUT IT IS STILL BELOW THE 2014 LEVEL

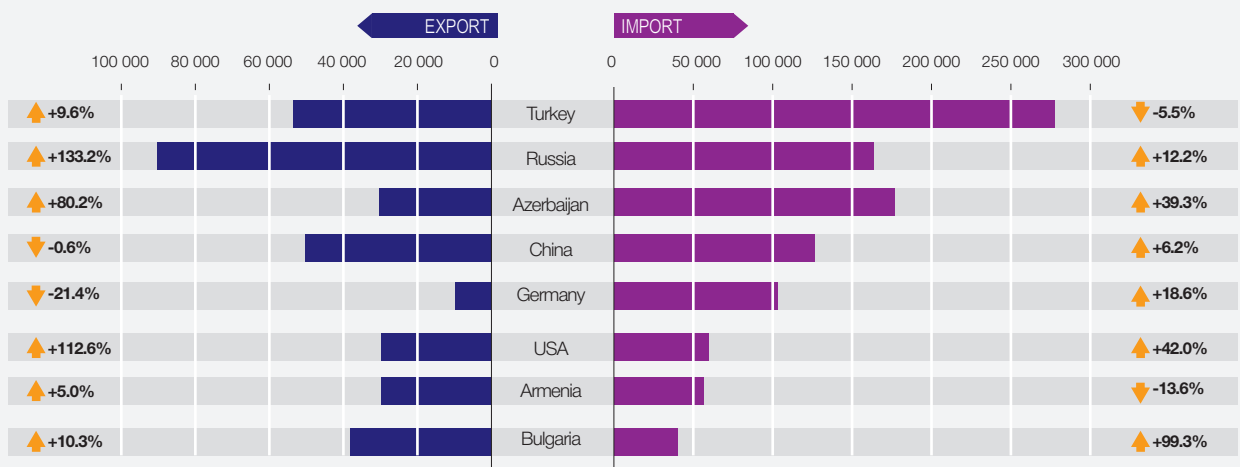
In the first quarter of 2017, foreign trade turnover amounted to 2 285 m US dollars. From this, import amounted to 1 708 m and export to 577 m US dollars. It should be noted that import increased by 14.9% and export increased by 30.3% compared to the first quarter of last year. Despite the fact that the total export of the first quarter of the current year improved compared to 2015-2016, it still lag behind the export volume of the first quarter of 2014 (969 m US dollars).

Chart 6. External Merchandise Trade (m USD)



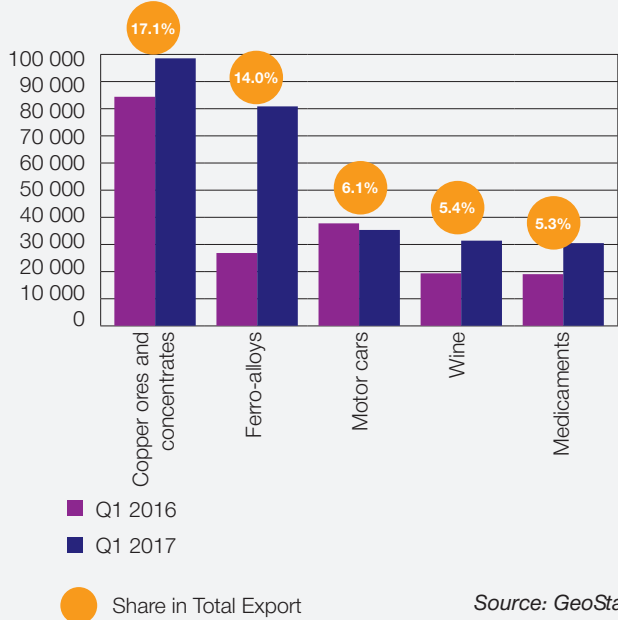
Source: GeoStat, National Bank of Georgia

Chart 7. External Merchandise Trade by Country (thousand USD), Q1 2017



▲ Change Compared to Q1 2016

Source: GeoStat

Chart 8. Major Commodity Groups by Export
(thousand USD), Q1 2017

More than 60% of wine exported in the first quarter of 2017 and almost half of ferroalloys and mineral waters were sold on Russian market. Along with the growth of export in Russia, the share of export in CIS countries has also increased and amounted to 35.5% of total export. The share of export in EU countries has also increased compared to the previous year and equals to 28%.

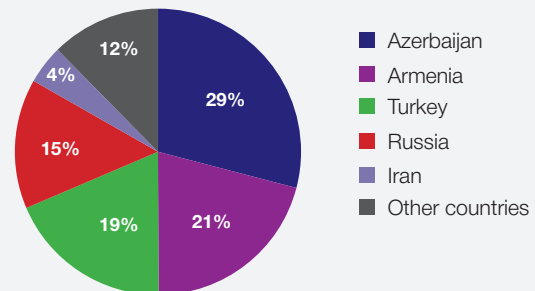
In the first quarter, the largest share of import was carried out from Turkey (16.2%), though its volume decreased by 5.5% yearly. During the same period, 84% of major imported commodity group – petroleum gases were imported from Azerbaijan. Import from Germany increased by 19%, which is partly related to import of new buses.

ABOUT HALF A MILLION TOURISTS VISITED GEORGIA IN THE FIRST QUARTER OF 2017

In the first quarter of 2017, 1 266 thousand international visitors arrived in Georgia, which is 11.4% higher than the previous year's indicator. More than

40% of visitors were tourists (514 thousand people). The number of visitors has increased significantly from Russia, Iran and Armenia.

According to the National Bank of Georgia, revenues from tourism in the first quarter of this year amounted to 435 m US dollars, which is 15% higher than the revenue index of the first quarter of last year (57 m US dollars).

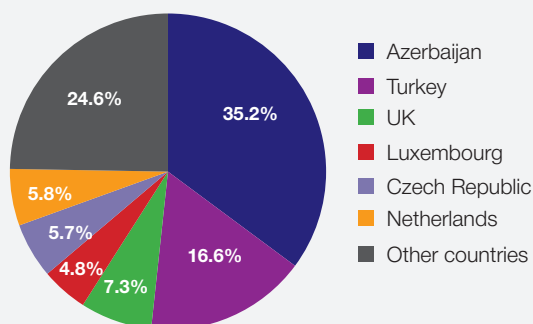
Chart 9. International Visitors by Country, Q1 2017**Chart 10. Dynamics of Incoming International Tourists**

IN 2016, FDI FROM TURKEY INCREASED BY 200 MILLION USD

According to preliminary data, foreign direct investments made in Georgia in 2016 amounted to 1 645 million US dollars, which is approximately 5% (81 m US dollars) higher than the total foreign direct investment of 2015.

The largest investor is Azerbaijan with 578 m US dollars investment. Compared to 2015, an investment from Turkey increased by 200 m US dollars and takes the second place with 272 m US dollars investment after Azerbaijan. The United Kingdom, the Netherlands and Luxembourg still remain among the largest investors, however, direct investments from these countries decreased by 353 m US dollars in total, compared to 2015. In 2016, direct investments from Russia and China have also been significantly reduced. At the same time, investments from the Czech Republic increased by 76 m US dollars and it ranks fifth among investor countries.

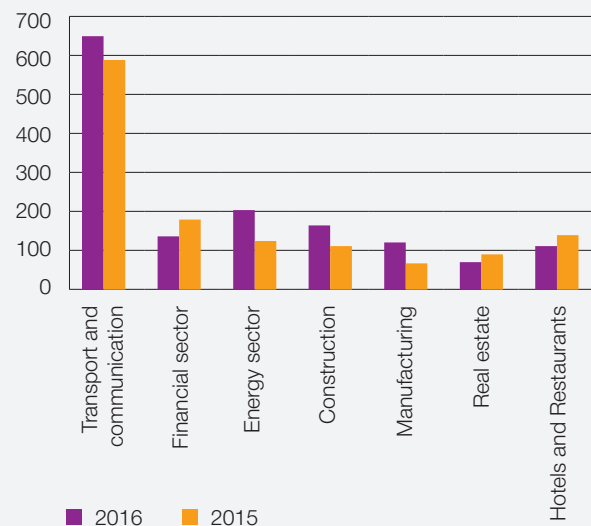
Chart 11. Share of Major Investor Countries in Total FDI, 2016



Source: GeoStat

In 2016, 40% of foreign investments were made in transport sector, 12% - in energy sector, and 10% - in construction sector. Compared to 2015, investments in manufacturing industry increased by 80% and amounted to 120 m US dollars. While foreign investments in the healthcare and social assistance sectors decreased by 113 m US dollars (81%) in 2016 and amounted to 27 m US dollars.

Chart 12. Distribution of FDI among Economic Sectors (m USD)

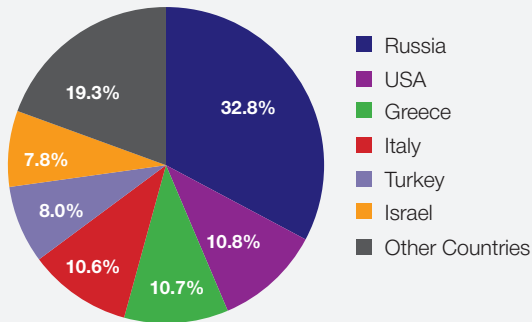


Source: GeoStat

RECEIVED MONEY TRANSFERS ARE RISING

In the first quarter of 2017, received money transfers amounted to 290 m US dollars, which has increased by 18.2% (53 m US dollars) compared to the first quarter of the previous year. Russia still takes leading position among remittance-sending countries (95 m US dollars). In the first quarter, remittances from Russia increased by 20 m US dollars (21.2%). In the same period, the number of transfers from Israel (49%), Turkey (27.8%), the United States (16.3%), and Greece (12.3%) have also increased.

Chart 13. Share of Countries in Inflow of Money Transfers, Q1 2017

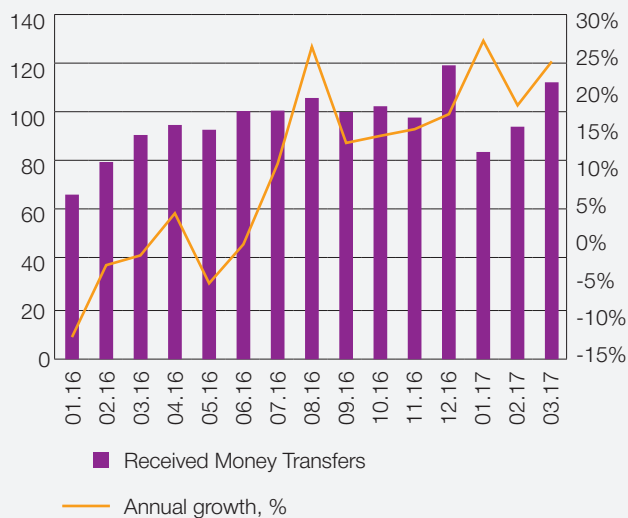


Source: National Bank of Georgia

STATE BUDGET TAX REVENUE IN THE FIRST QUARTER

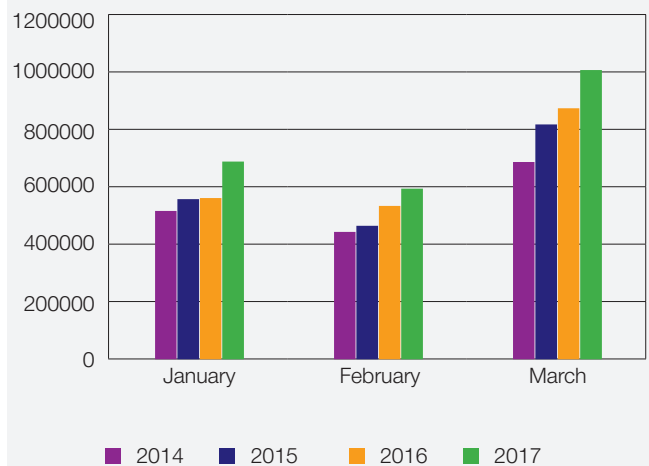
Since 2017, a number of amendments made to the Tax Code have been enacted, which has been reflected on the tax revenue mobilized in the budget¹. In the first quarter of the current year, the state budget tax revenues amount to 2.3 billion GEL, which is 16.2% more than it was in the first quarter of previous year and exceeds the budget plan by 8.5%. The profit tax exceeds budget plan by 26% and amounts to 260 m GEL. However, the biggest share of tax revenue comes from VAT, which exceeds budget plan by 160 m GEL (20%) and amounts to 960 m GEL.

Chart 14. Dynamics of Received Money Transfers (m USD)



Source: National Bank of Georgia

Chart 15. State Budget Tax Revenues (Thousand GEL)



Source: Ministry of Finance of Georgia State Treasury

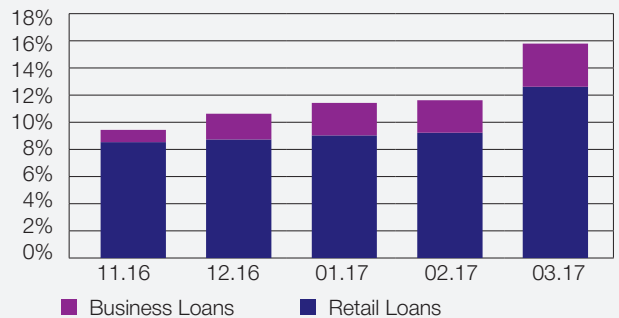
¹ Corporate income tax reform; Increased Excise tax rates on tobacco products, cars, oil, oil products and oil distillates; Taxation of motor cars with property tax; Taxation of advances received by supplier of goods/ services by VAT; Changes in taxation of the activity of bookmaker organized in system-electric form.

THROUGH LARIZATION PROGRAM LOANS OF ABOUT 80 MILLION USD WERE CONVERTED IN GEL

Under the initiative of the Government of Georgia, within the framework of a loan Larization program launched in January, approximately 80 m US dollar loans have been converted in GEL and volume of loans in Lari exceeded 7.5 billion GEL at the end of the first quarter. As a result, the dollarization rate of loans in the first quarter decreased by 4.3 pp and reached 60.0%.

In the first quarter of the current year, total annual growth of loans amounted to 15.9%, which is mainly driven by the growth of retail loans.

Chart 16. Annual Growth of Loans



Source: National Bank of Georgia

At the end of the first quarter, non-bank deposits in the banking sector amounted to 16.1 billion GEL, which is 12.6% more than the indicator of the same period of the previous year. Larization ratio of deposits reached 31%. 85% of the foreign currency deposits are in US dollar and 13% in Euro.

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