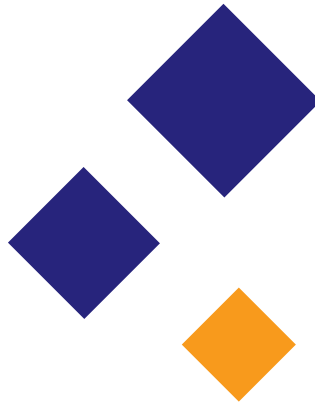




BUSINESS ASSOCIATION OF GEORGIA



ECONOMY IN BRIEF
October 2018



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

REAL GDP GROWTH FOR 2018 IS ESTIMATED AT 5.5%

In the first half of 2018, Gross Domestic Product (GDP) of Georgia was worth 19.3 billion GEL, and the real GDP growth amounted to 5.4%.

In the first two quarters economy of Georgia was strongly affected by external factors. Improved economic conditions in trading partner countries positively impacted exports and remittances. Revenue from tourism also increased. At the same time, higher imports indicate increased domestic demand.

In August, the National Bank of Georgia once again reviewed the estimate of real GDP growth rate for 2018 and fixed it at 5.5%. Similarly, 5.5% is forecasted by the International Monetary Fund (IMF). However, these forecasts do not consider new regulations on loans that are expected to reduce domestic demand and, therefore, the economic growth rate.

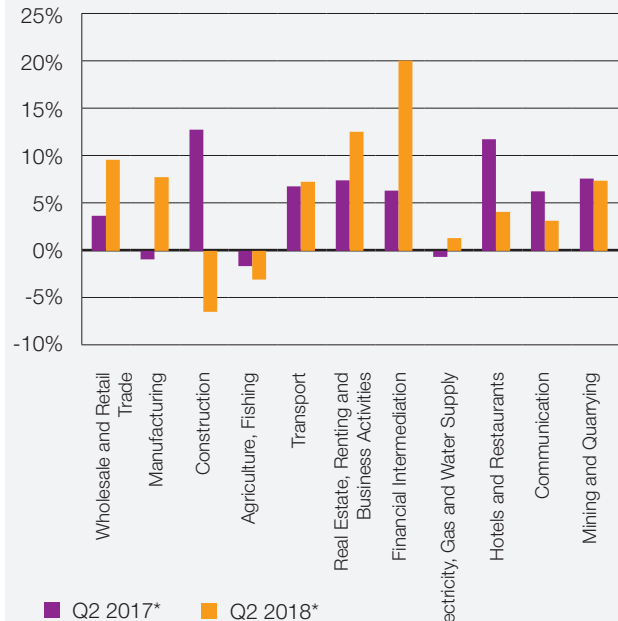
Table 1. Gross Domestic Product

	Q1-Q2 2017*	Q1-Q2 2018*
Nominal GDP (m GEL)	17 528.3	19 318.6
Nominal GDP (m USD)	7 003.2	7 838.7
GDP per capita (GEL)	4 701.8	5 179.8
GDP per capita (USD)	1 878.5	2 101.8
Real GDP Growth (percent)	5.1%	5.4%

* Preliminary Data
Source: GeoStat

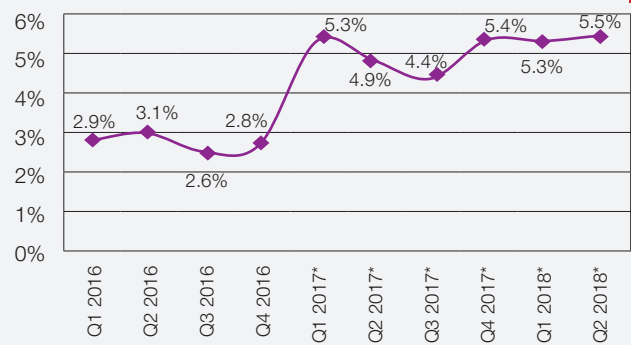
Nearly a third of gross domestic product is created in three sectors - trade, manufacturing and construction. In the first half of 2018, wholesale and retail trade constituted 14.5% of GDP. Manufacturing industry amounted to 9.0%, and construction sector was 7.4%. During this period real growth was observed in almost all sectors. The exception was agriculture, which has been declining since 2016.

Chart 1. Real Growth of Different Sectors



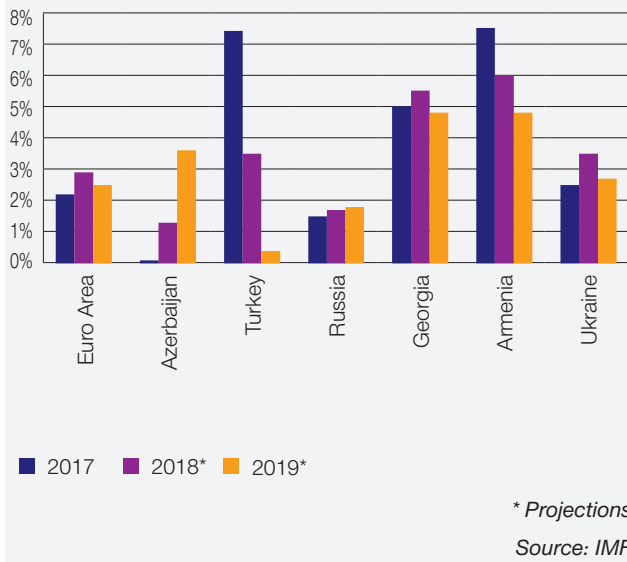
* Preliminary Data
Source: GeoStat

Chart 2. Real GDP Growth in Georgia



* Preliminary Data
Source: GeoStat

Chart 3. Real GDP Growth



In the current month, the International Monetary Fund has cut its global economic growth forecast from 3.9% to 3.7% for 2018-2019. The reason for this reduction is mainly the deterioration of trade relations between the US and China.

Political tensions in Turkey and a sharp drop in investors' confidence have significantly influenced the economic growth rate. IMF forecasts that in Turkey economic growth will settle at 3.5% in 2018. And by 2019, the economic growth will be 0.4%.

According to the IMF forecast, Russia's economy will grow 1.7% this year, while in 2019-2020 it will amount to 1.8%. Increase in oil prices contributes to improving economic conditions in Russia. However, sanctions expected in November will likely result in depreciation of ruble.

Considering all external factors, Ministry of Finance of Georgia forecasts 4.5% economic growth for upcoming year.

ANNUAL INFLATION AMOUNTED TO 2.7% IN SEPTEMBER

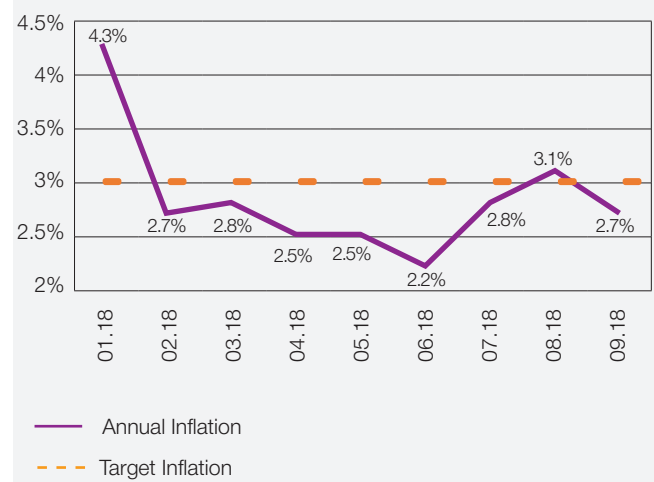
Since February 2018, the annual inflation rate remained below its target level (3%). In September, annual inflation rate of consumer prices was 2.7%.

In response to the low rate of inflation, the National Bank of Georgia slightly eased the monetary policy - the refinancing rate was reduced by 0.25 percentage points and currently stands at 7.0%.

In the third quarter, the transport sector was the biggest contributor to the annual inflation. In particular, cost of operation of personal vehicles has significantly increased. This is caused by rising fuel prices due to increased oil prices in the world market.

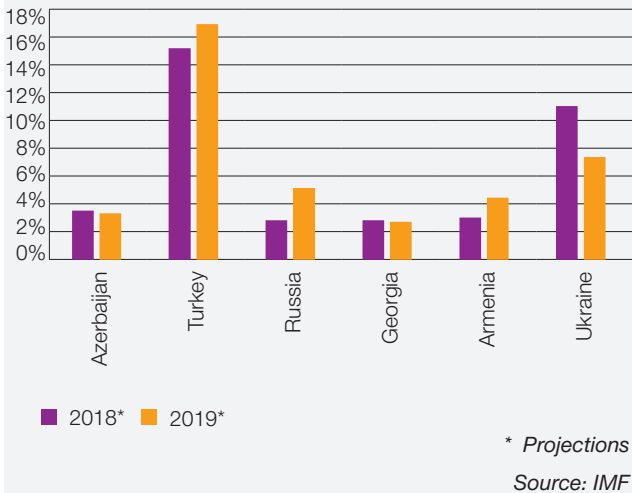
The National Bank of Georgia forecasts that the inflation rate will remain below the target level till the end of the year. According to the International Monetary Fund forecasts, the consumer price inflation will be 2.8% by the end of this year and 2.7% - next year.

Chart 4. Annual Inflation



Source: National Bank of Georgia

Chart 5. Consumer Prices (Annual Percent Change)



It is noteworthy that in September annual inflation in Turkey almost reached 25%, which is the highest rate since 2003. The Ministry of Finance of Turkey has developed a program to cope with high inflation rates. According to the existing information, until the end of the year the prices on goods from inflation basket will be cut, banks will discount high-interest loans issued after August 1, electricity and gas prices will freeze, and VAT rebates will be accelerated.

GEORGIAN LARI DEPRECIATED AGAINST MOST OF OTHER CURRENCIES

In August, the sharp depreciation of GEL against the US dollar was explained by the processes in the country's one of the main trading partners - Turkey and by a sharp depreciation of Lira. The depreciation process was again accelerated in October - only in the first three weeks GEL depreciated against the US dollar by more than 3%. In October, GEL was devalued against currencies of almost all major partner countries - Turkish Lira, Russian Ruble, Azerbaijani Manat, Armenian Dram and others.

NEGATIVE EXTERNAL MERCHANDISE TRADE BALANCE INCREASED

During first three quarters of 2018 external merchandise trade turnover amounted to 9 124.8 m US dollars, which is 20.8% higher than the similar data of 2017. Export of goods was about 2 448.1 m US dollars and imports equaled 6 676.7 m US dollars.

According to data of the first three quarters, export of goods is increased by 25.7% annually. Its largest share (47.4%) comes to the CIS countries. Export in EU countries is increased by 13.2% annually and amounts to 533 m US dollars. Total goods exported to EU member countries amount to 21.8% of total exports.

Chart 6. USD/GEL Official Exchange Rate

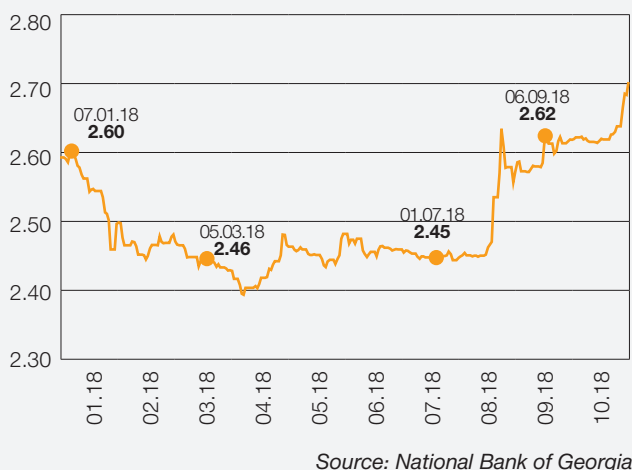


Chart 7. External Merchandise Trade (m USD)

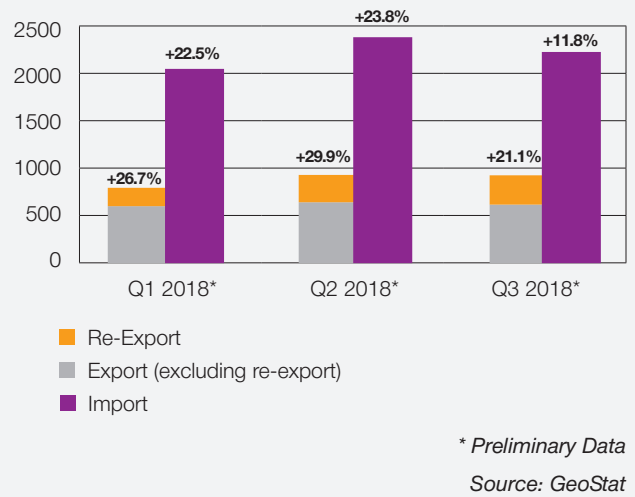
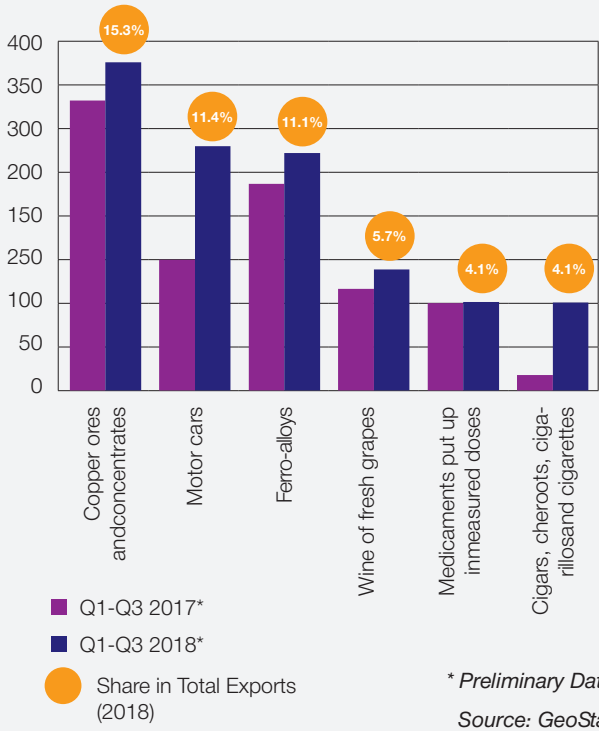


Chart 8. Export by Commodity Groups (m USD)

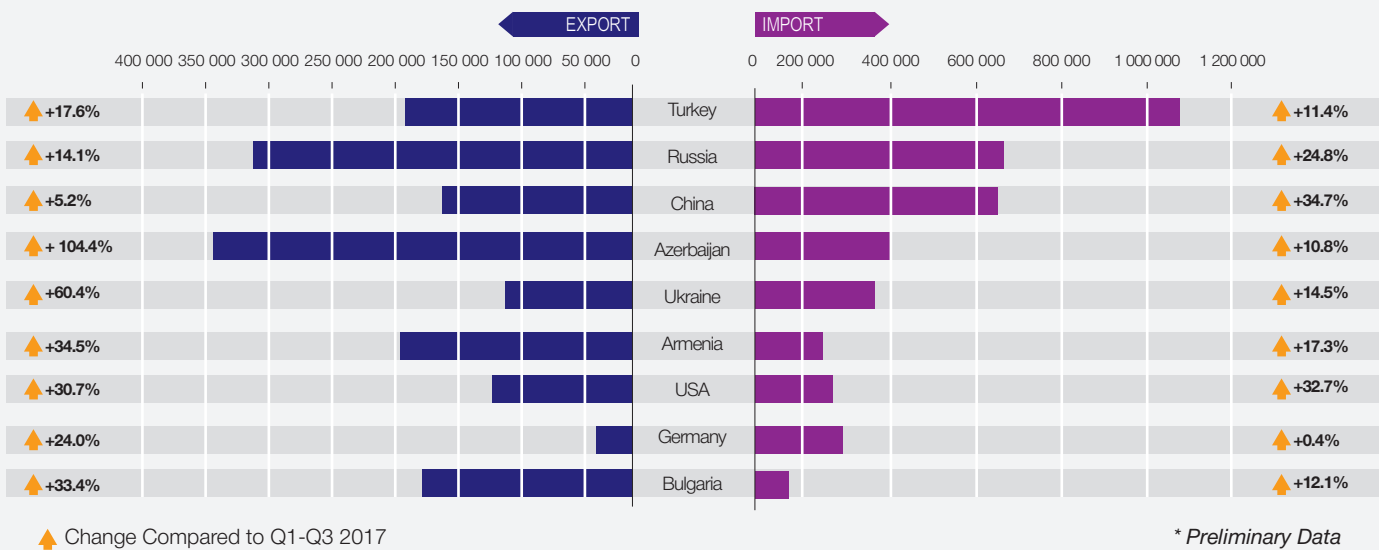


Copper ores and concentrates, ferroalloys, wine, motor cars and medicaments are major export commodities. These five commodity groups constitute almost half of total export.

In the first three quarters of 2018, the import of goods increased by 19.1% compared to the previous year. The largest three import commodities are oil and oil products, motor cars and copper ores. During this period, import of oil and oil products exceeded 644 m US dollars.

Despite the fact that during this year the annual growth rate of export exceeds the growth rate of import (chart 7), the negative balance of trade is rising along with the increasing trade turnover. In the first three quarters, the negative balance increased by 15.5% annually and amounted to 4 229 m US dollars.

Chart 9. External Merchandise Trade by Country (thousand USD), Q1-Q3 2018*



3.8 MILLION TOURISTS VISITED GEORGIA IN Q1-Q3 2018

According to the data of the first nine months of 2018, up to 6.8 million international travelers entered the country, which is 16.6% more than the same indicator of the previous year. 56% of visitors were tourists.¹ According to the data from first three quarters, the number of tourists arriving in the country is increased by 35.6% annually and amounts to almost 3.8 million people.

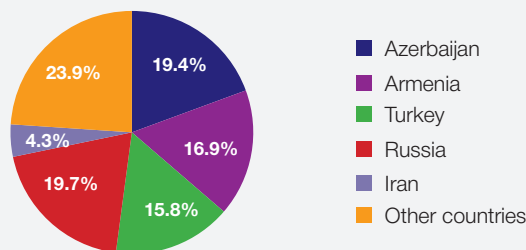
It must be noted that in the World Tourism Organization's (UNWTO) report² Georgia was ranked fourth among the world's fastest-growing tourism destinations.

According to the National Bank of Georgia, revenues from tourism increased by 29% annually during the first six months of this year and exceeded 1 360 million US dollars. Added value created in the tourism sector is 6.1% of GDP.

FOREIGN DIRECT INVESTMENTS ARE DECREASING

According to the preliminary data of the statistics office, the annual decline of direct foreign investments amounted to 27.1% in the first quarter of 2018. In the second quarter FDI increased by 9.4%. In total, in the first half of 2018, foreign direct investments made in Georgia decreased by 9.8% annually and amounted to 676.2 million US dollars.

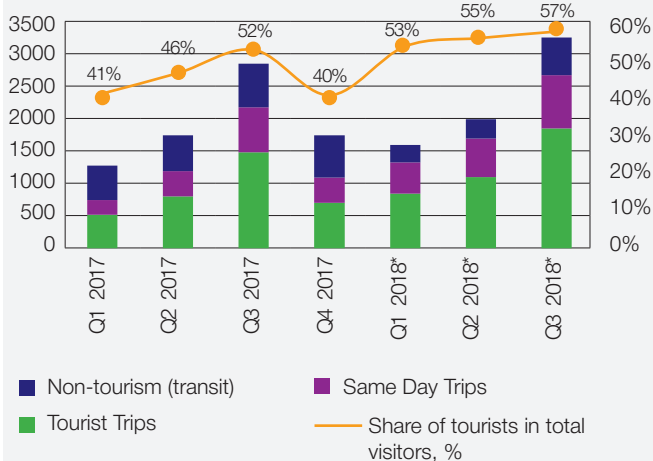
Chart 10. International Visitors by Country, Q1-Q3 2018



Source: Georgian National Tourism Administration

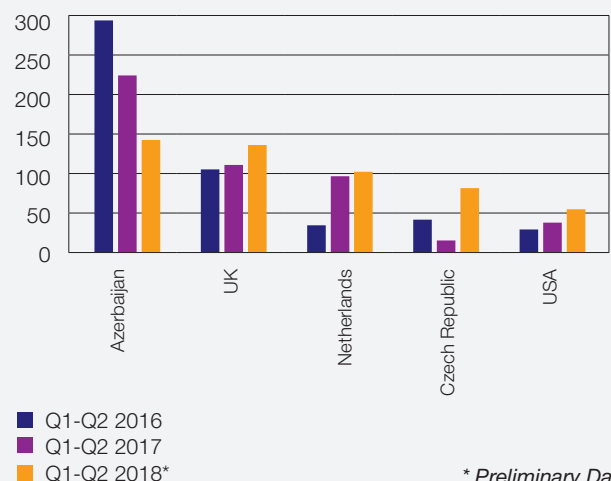
Such a sharp decline in investments in the first quarter is mainly related to the reduction of debt liabilities. However, investments in the equity have also decreased significantly, which Statistics Office explained as a result of transferring ownership of several companies from non-residents to the residents of Georgia. Overall, in the first half of this year, investment in equity was down by almost 32.5%, and reinvestment was up by 22.5%.

Chart 11. Dynamics of Incoming International Visitors (Thousand Persons)



* Preliminary Data
Source: Georgian National Tourism Administration

Chart 12. FDI by major investor countries (m USD)



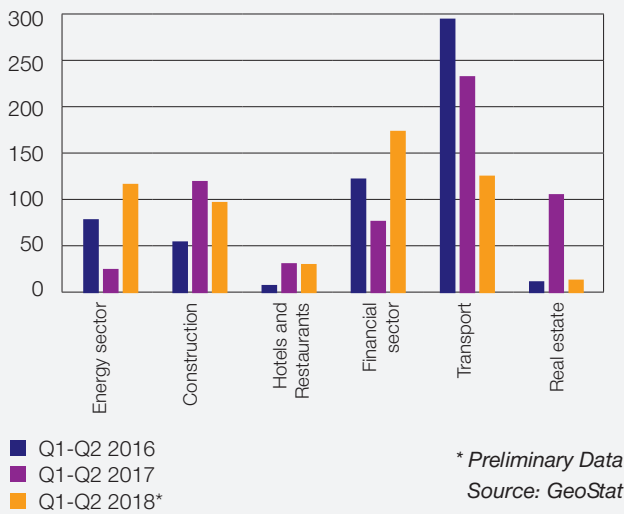
* Preliminary Data
Source: GeoStat

1 Visits that last longer than 24 hours.

2 World Tourism Organization (UNWTO). Tourism Highlights. 2018 edition.

In the first half of this year, investments from Azerbaijan, Turkey and the UAE was sufficiently down. At the same time, investment from the Czech Republic and the UK increased significantly.

Chart 13. Distribution of FDI among Economic Sectors (m USD)



MONEY TRANSFERS EXCEEDED BILLION US DOLLARS

According to the data of three quarters of the current year, foreign remittances amounted to 1 153 million USD, which is 16% (by 159 m USD) higher than the same indicator of the previous year. During this period, remittances increased significantly from donor countries such as Italy (+35.3%), Israel (+34.3%), Germany (+25.5%) and others. Russia is a leading donor country - nearly 30% of the total remittances are from Russia. However, according to the data of three quarters, the annual growth of remittances from Russia amounted to only 1.3%.

Chart 15. Share of Countries in Inflow of Money Transfers, Q1-Q3 2018

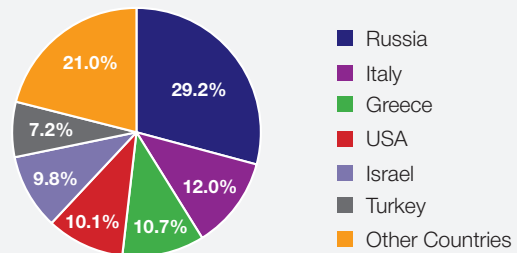


Chart 14. Decomposition of FDI (m USD)

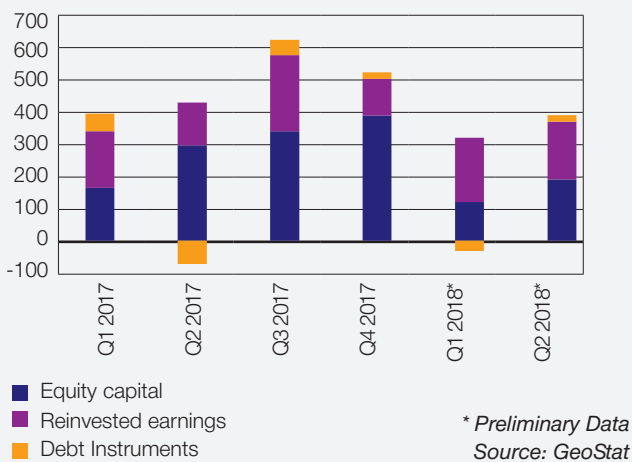
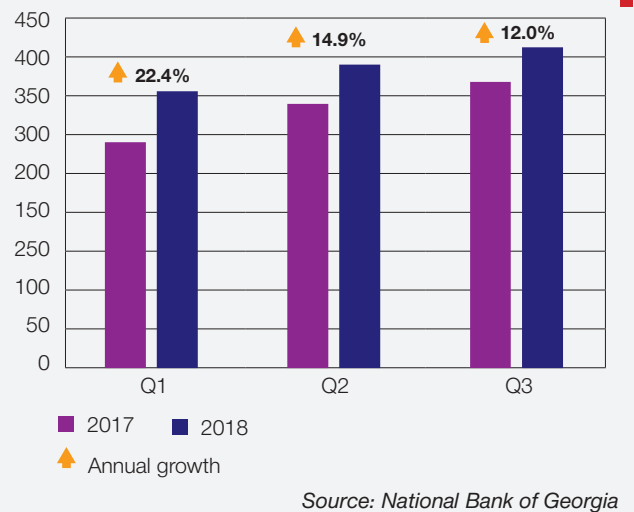


Chart 16. Received money transfers (m USD)



THE DRAFT LAW OF 2019 STATE BUDGET IS UNDER DISCUSSION

The Government of Georgia submitted to the Parliament the preliminary version of the draft law on 2019 state budget of Georgia. The budget project is planned in accordance to basic scenario of 4.5% real GDP growth.

Receipts in the 2019 state budget project amount to 611.7 million GEL. While the budget allocations amount to 12 729.7 million GEL. The budget incomes equal to 10 281.7 million GEL, which is less by 32.6 million GEL (by 3.2%) compared to 2018. This decrease was conditioned by the reduction of the grants. According to the budget project, grants received from international organizations and foreign governments will be lower by 150 million GEL (by 35.6%) and amount to 267 million GEL.

According to the 2019 state budget, tax revenues will amount to 9 565 million GEL, which exceeds the 2018 budget plan by 75 million GEL. It is also planned to attract 2 160 million GEL worth of funds through increasing the liabilities.

Compared to the 2018 state budget, the costs in the 2019 state budget project has decreased by 441.8 million GEL and is equal to 9 279.1 million GEL. 40% of costs is considered for social security, while 16% is for the remuneration of labor.

The 2019 budget deficit will be 1.8% of the GDP. However, with the consideration of transactions made by financial assets, the deficit will be 2.6% of GDP.³ And after considering LEPLs and N(N)LPs founded by the state, this figure will reach 2.8% of GDP.

³ In the first case budget deficit calculations are based on IMF's GFSM 2001 (Governments Finance statistics manual). However, according to existing program with IMF calculations must be based on GFSM 1986. Source: განმარტებითი ბარათი „საქართველოს 2019 წლის სახელმწიფო ბიუჯეტის შესახებ“, საქართველოს კანონის პროექტზე.

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The above publication has an informative character and does not serve consultation purpose.

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