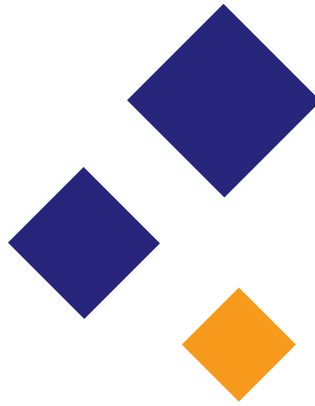




BUSINESS ASSOCIATION OF GEORGIA



ECONOMY IN BRIEF

June 2018



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

GEORGIAN ECONOMY GREW BY 5.2% IN Q1 2018

Gross Domestic Product of Georgia exceeded 38 billion GEL in 2017. Nominal GDP growth rate was 11.8%, and real growth rate was 5.0%.

Economic growth in 2017 was substantially influenced by external factors - significant increase was observed in export of goods. Revenue from tourism, remittances and foreign direct investments also increased in 2017. The positive impact of the foreign sector is still remained in parallel with the revival of the economy in the neighbouring and major trade partner countries. In the first quarter of this year, exports rose by 28.4%, revenues from tourism increased by 28.8%, and remittances - by 22.4%. Inflation rate decreased and was maintained close to the target. As a result, the growth rate of the economy is also high in the first quarter of 2018.

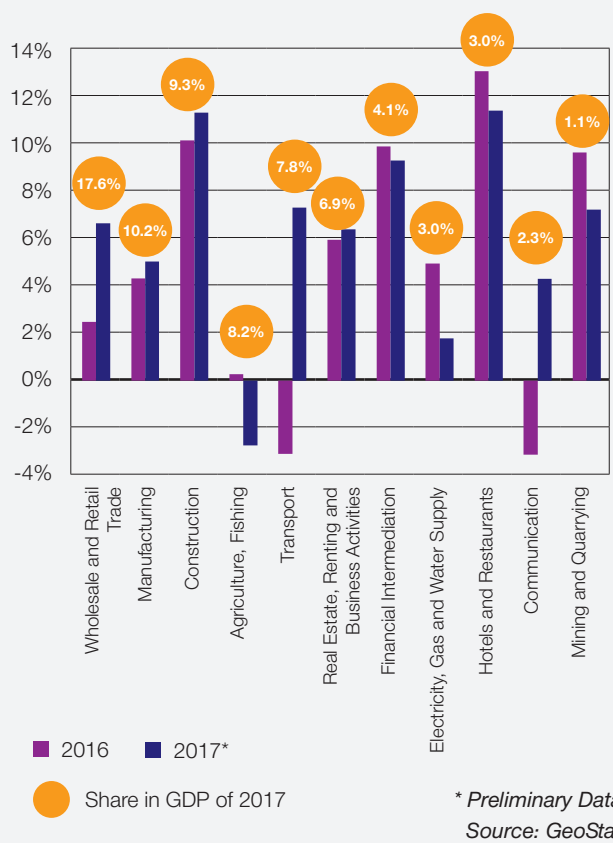
Table 1. Gross Domestic Product

	2016	2017*	Growth
Nominal GDP (m GEL)	34 028.5	38 042.2	11.8%
Nominal GDP (m USD)	14 377.9	15 164.5	5.5%
GDP per capita (GEL)	9 146.4	10 231.4	11.9%
GDP per capita (USD)	3 864.6	4 078.5	5.5%
Real GDP Growth (percent)	2.8%	5.0%	

* Preliminary Data
Source: GeoStat

Based on the 2017 data, trade and industry sectors are the largest contributors to GDP (17.6% and 16.4% respectively). As for the real growth of the sectors, growth rate in trade, transport and communications sectors was significant in the past year. Compared to 2016, real growth of hotels and restaurants sectors slightly decreased, but was still maintained at the high level (11.2%). High growth was also observed in the construction sector. Last year, growth of real GDP was observed in almost all major sectors, except agriculture (-2.7%).

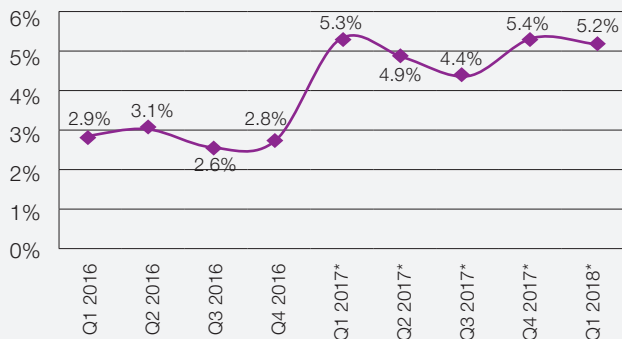
Chart 1. Real Growth of Different Sectors



According to preliminary data, the average economic growth was 5.2% in the first quarter of 2018. This was significantly higher than the forecasts published by the National Bank of Georgia in February. Accordingly, in May, the National Bank of Georgia corrected the data and increased the average growth rate of real GDP forecasted for 2018 from 4.5% to 4.8%.

According to the International Monetary Fund’s (IMF) evaluation, economic growth of the region exceeded expected rate in the previous year, which was influenced by rise in oil prices, remittances and higher external demand. However, according to the IMF, these factors will not be enough to maintain similar growth rate in 2018-2019.

Chart 2. Real GDP Growth in Georgia

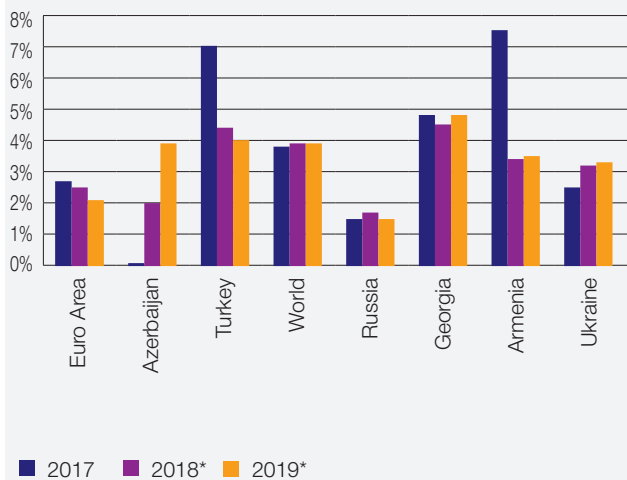


* Preliminary Data
Source: GeoStat

cle prices was observed and as a result, the overall level of inflation increased. Inflation effect caused by increased excise expired since 2018. In addition, oil prices have also decreased in the first quarter of this year. Therefore, in the first quarter of 2018, consumer price inflation was significantly reduced and reached 3.3%. And in April, inflation rate slipped to 2.5%.

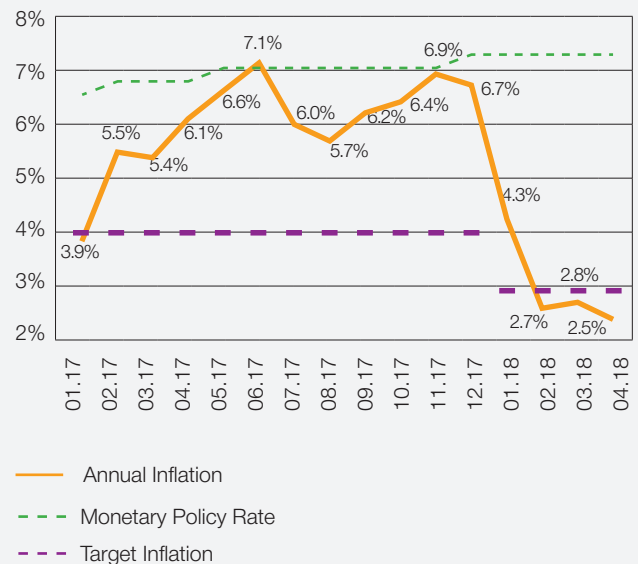
According to the National Bank's estimates, inflation risks have not been sufficiently weakened and, therefore, refinancing rate is maintained at 7.25%. According to the latest forecast, inflation growth rate will be within the target level for the current year. If the forecast is correct, from the second half of the year, we shall expect easing of monetary policy in 2017 - slightly, but gradually the refinancing rate will be reduced.

Chart 3. Real GDP Growth



* Forecast
Source: IMF

Chart 4. Annual Inflation



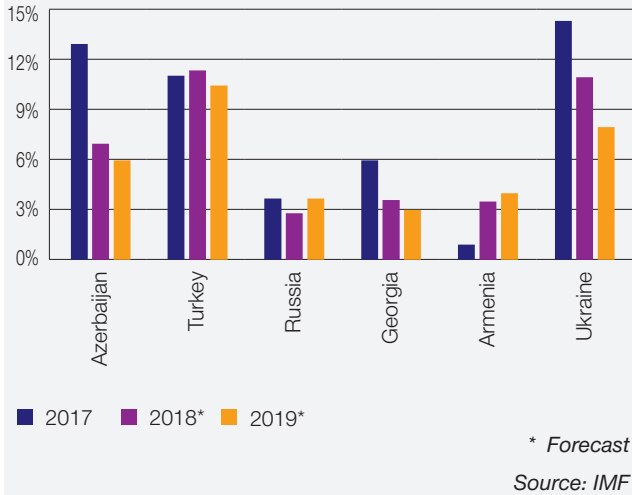
Source: National Bank of Georgia

ANNUAL INFLATION AMOUNTED 3.3% IN THE FIRST QUARTER OF 2018

In 2017, consumer prices exceeded the target level.¹ The high rate of inflation was caused by temporary factors, namely by rise in excise and oil prices on the international market. Since 2017, the rise in tobacco, oil products and vehi-

¹ Inflation target of National Bank of Georgia in 2017 was 4%, and starting from 2018 it will be 3%.

Chart 5. Consumer Price Inflation



As shown on Graph 7, Turkish Lira significantly depreciated lately. In the light of strengthened US Dollar on the international market, double-digit inflation rate in Turkey, a growing budget deficit and different political statements led to a rapid depreciation of Lira. Although Turkey is one of the biggest trading partners of Georgia, impact of depreciated Lira on Lari will be slight and short-term. With the widespread belief, Georgia's economy is heavily dependent on Turkey. Therefore, expectations resulting from impairment of Lira have become the cause of fluctuations in the exchange rate of GEL. However, in the coming months, stabilization of exchange rate of GEL is expected along with the increased inflow of tourists.

AT THE END OF MAY, GEORGIAN LARI DEPRECIATED AGAINST US DOLLAR

In the first quarter of 2018, GEL was strengthened against currencies of almost all major trading partner countries. Strengthening of exchange rate of GEL against the US Dollar, Euro, Ruble, Lira, Manat and Armenian Dram is worth of noting. In April, the trend slightly changed and GEL depreciated against Manat and Dram. Strengthening of GEL against Euro, Ruble and Lira is still maintained. Overall, at the end of April, the real exchange rate of GEL was strengthened by 5.5% after December 2017.

Chart 7. USD/GEL and USD/TRY Exchange Rates

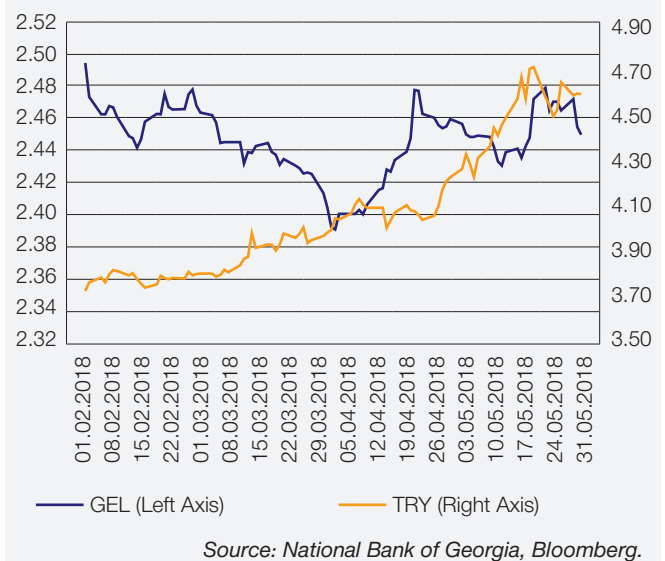


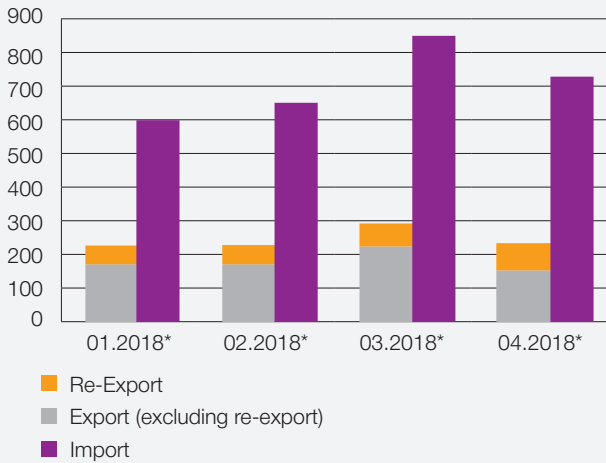
Chart 6. USD/GEL Official Exchange Rate



EXTERNAL MERCHANDISE TRADE TURNOVER WENT UP BY 23.3% IN Q1 2018

In the current year, the economic recovery of the main trading partner countries of Georgia was significantly reflected on external trade with goods. According to preliminary data of the first quarter, exports increased by 28.4%, while imports increased by 21.6% annually. Foreign trade turnover rose by 23.3% and amounted to more than 2.8 billion USD.

Chart 8. External Merchandise Trade
(m USD)

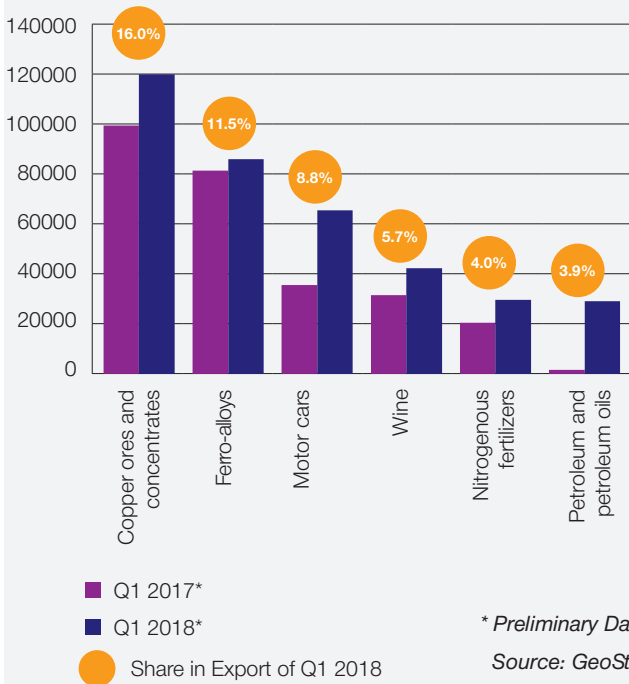


* Preliminary Data
Source: GeoStat

In the first quarter of 2018, the registered export of goods exceeded 740 million US dollars, which is 164 million US dollars more than the same indicator of previous year. Exports of wine, beverages, mineral and fresh waters was increased during this period. Exports of ferroalloys and re-export of copper concentrates, cigarettes, light vehicles and oil products was also increased.

As for imports, the total value of the first three months amounted to 2.1 billion US dollars. The imports of petroleum and petroleum oils increased by 53% annually during this period. Increased imports of motor cars, automatic data processing machines, wheat and meslin, as well as tobacco products is also noteworthy. However, at the same time, demand on the medicines put up in a measured doses has been reduced and the annual decrease of imports amounted to 22%. Imports of petroleum gases and electricity also decreased in the first quarter.

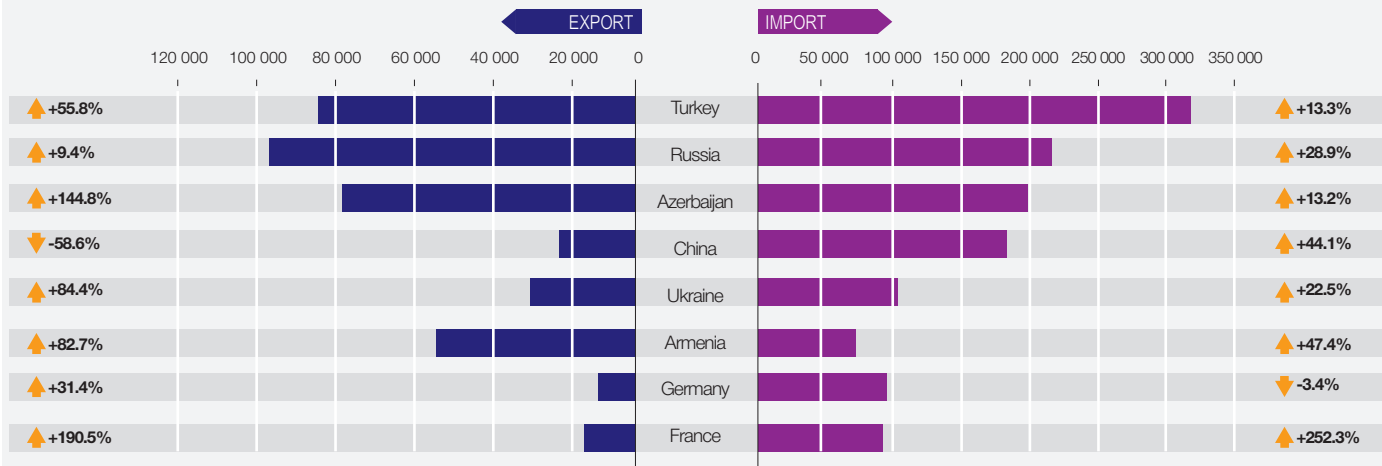
Chart 9. Major Export Commodity Groups
(m USD)



* Preliminary Data
Source: GeoStat

Annual rate of exports in EU countries has been increased by 31.4% and amount to 209 million US dollars, which is 28% of total exports. The largest part of the goods is still exported to neighbouring countries. 43.6% of total exports are exported to Russia, Turkey, Azerbaijan and Armenia. The situation is similar in case of import - goods imported from four neighbouring countries is 38.3% of total imports. China and Ukraine are also among the major trading partner countries, however, export in China is reduced by 58.6% (by 29 m USD) in the first quarter.

Chart 10. External Merchandise Trade by Country (thousand USD), Q1 2018*



▲ Change Compared to Q1 2017

* Preliminary Data

Source: GeoStat

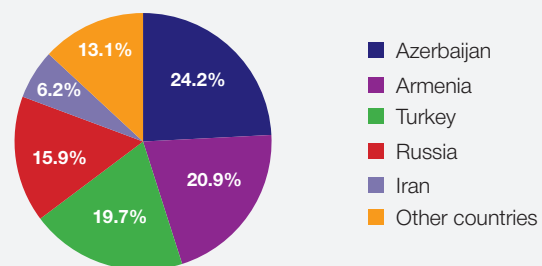
1.5 MILLION INTERNATIONAL TRAVELLERS VISITED GEORGIA IN Q1 2018

According to the data of the first three months of the current year, in total 1 463 thousand international travellers visited Georgia, which is 15.5% more than the same indicator of the first quarter of the previous year. Out of this, 660 thousand, i.e. 45% of total visitors were tourists.²

Especially noteworthy is the increase in the number of tourists - this indicator has increased by 28.2% annually. Such an increase in tourism flow is positively reflected on the revenues from tourism sector. According to the National Bank of Georgia, in the first quarter of 2018, revenues from tourism amounted to 560 m US dollars, which is 28.8% more than the same indicator of the previous year.

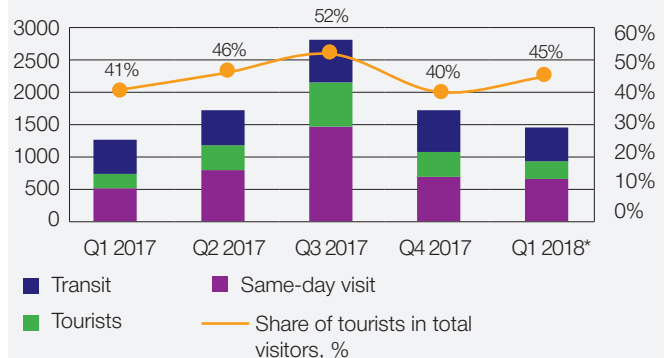
According to the data of the first quarter of the current year, the visitor arrivals by air are increased by 36% and amounts to 313 thousand people. Visitor arrivals by land are increased by 11% and in total amounts to more than 1 130 thousand people.

Chart 11. International Visitors by Country, Q1 2018



Source: Georgian National Tourism Administration

Chart 12. Dynamics of Incoming International Visitors (Thousand Persons)



* Preliminary Data

Source: Georgian National Tourism Administration

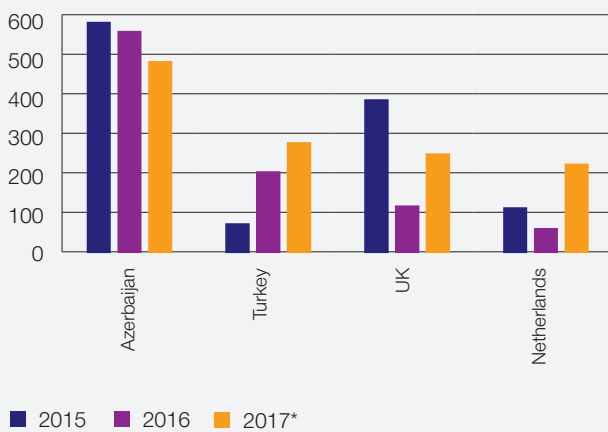
² Visits that last longer than 24 hours.

FOREIGN DIRECT INVESTMENTS FROM EU ALMOST DOUBLED

According to preliminary data, direct foreign investments made in Georgia in 2017 amounted to 1 861.9 m US dollars, which is 16.2% more than the same indicator in 2016.

During this period, direct investments from EU countries exceeded 733 m US dollars, which is 92% more than the same indicator in 2016. Investment growth from the UK, the Netherlands and the Czech Republic was remarkable. Last year, investments also increased from Turkey, the United Arab Emirates and China. However, investments from CIS member countries fell by 16% and amounted to 523 m US dollars. This decline was mainly caused by a reduction of investments from Azerbaijan - in total, investments worth of 482 m US dollars was made from Azerbaijan in 2017, which is decreased by 13.6% annually.

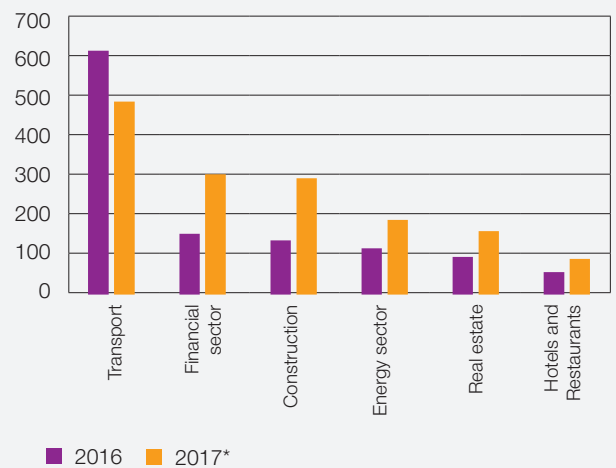
Chart 13. FDI by major investor countries (m USD) Q1 2018



* Preliminary Data
Source: GeoStat

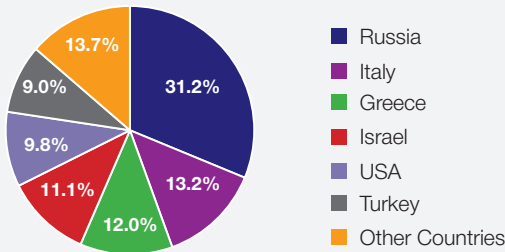
Major part of the foreign direct investment is directed towards transport sector. However, compared to 2016, foreign investments in this sector decreased by 21% and amounted to 488 m US dollars in 2017. Financial sector holds the second place, where foreign investments have almost doubled and increased from 154 m US dollars to 304 m US dollars. There was also a significant change in construction sector, where foreign investments increased by 157 m US dollars and amounted to 295 m US dollars.

Chart 14. Distribution of FDI among Economic Sectors (m USD) (m USD) Q1 2018



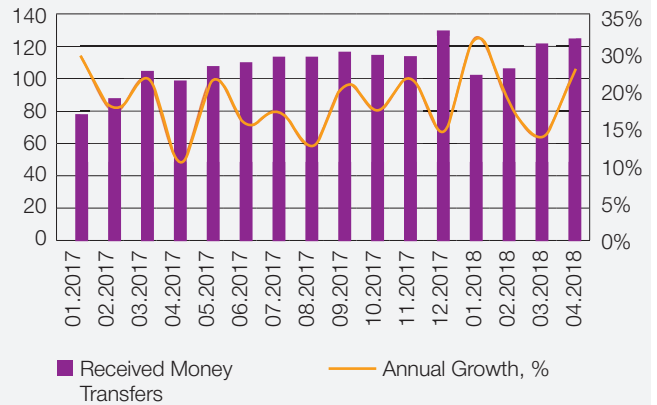
* Preliminary Data
Source: GeoStat

Chart 15. Share of Countries in Inflow of Money Transfers (m USD), Q1 2018



Source: National Bank of Georgia

Chart 16. Dynamics of Received money transfers (m USD)



Source: National Bank of Georgia

MONEY TRANSFERS EXCEEDED 350 M USD IN Q1 2018

In the first quarter of 2018, remittances from abroad amounted to 355 m US dollars, which is 22.4% more (65 m USD more) than the indicator of the same period of the previous year. Russia

still holds the leading position among these countries (102.4 m USD), but the annual growth of remittances from Russia in the first quarter was just 7.7%. During this period, remittances increased mostly from Israel (+14 m USD), Italy (+13 m USD), and Greece (+9 m USD).

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