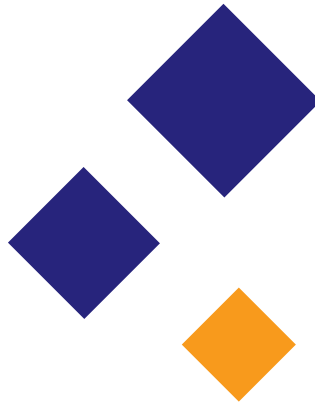




**BUSINESS ASSOCIATION OF GEORGIA**



**ECONOMY IN BRIEF**  
**February 2019**



საქართველოს ბიზნეს ასოციაცია  
BUSINESS ASSOCIATION OF GEORGIA

**REAL GDP GROWTH AMOUNTED 4.8% IN 2018**

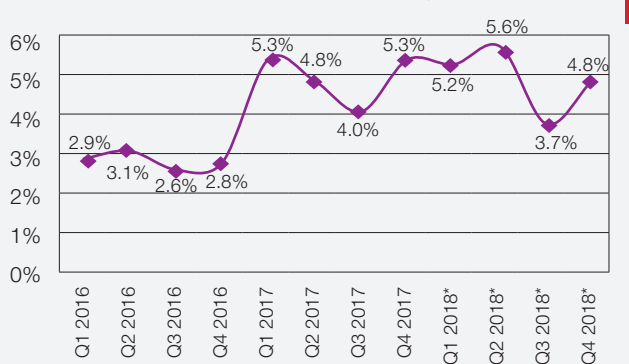
As per preliminary estimate, the real gross domestic product in 2018 increased by 4.8%, which is exactly equal to real GDP growth rate in 2017. In the first half of 2018, economic growth reached 5.4%. This was the result of high growth rate of exports, income from tourism and money transfers. Domestic demand, stimulated by loans, also contributed to economic growth. Relatively to the first half of the year, lower economic growth rate was seen in the second half (Chart 1). On the one hand, this was caused by infrastructure slowdown. On the other hand, significant drop in growth rate of money transfers and tourism income hindered the economic growth. Negative growth in export and import was seen in the second half of the year as well.

**Table 1.** Gross Domestic Product

	Q1-Q3 2017	Q1-Q3 2018*
Nominal GDP (m GEL)	27,319.3	29,827.5
Nominal GDP (m USD)	11,048.8	11,992.7
GDP per capita (GEL)	7,328.1	7,997.5
GDP per capita (USD)	2,963.7	3,215.5
<b>Real GDP Growth (percent)</b>	<b>4.7%</b>	<b>4.8%</b>

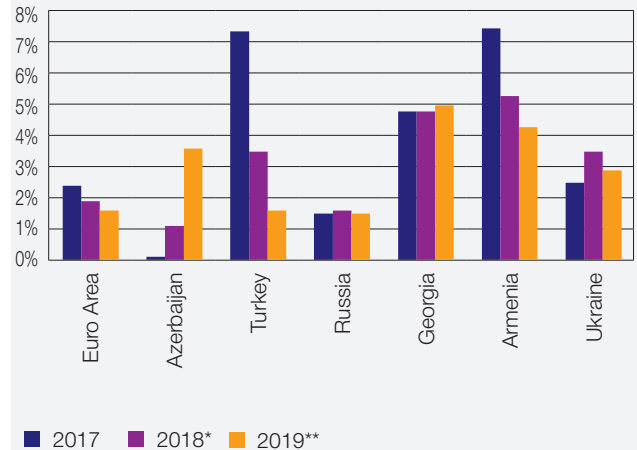
\* Preliminary Data  
Source: GeoStat

**Chart 1.** Real GDP Growth in Georgia



Preliminary Data  
Source: GeoStat

**Chart 2.** Real GDP Growth



\* Preliminary Data

\*\* Projections

Source: GeoStat, World Bank

According to International Monetary Fund (IMF) estimates, growth rate of global economy was 3.7% in 2018, predicting slower - 3.5% growth rate in 2019. Significant drop of growth rate will be seen in emerging and developing Europe (2018 – 3.8%; 2019 – 0.7%). As for CIS, growth rate will decrease from 2.4% in 2018 to 2.2% in 2019.

The World Bank predicts global economic growth to slow till 2.9% in 2019. Amid recent financial tensions in Turkey, dampened consumption and investments along with high inflation and high interest rates, economic growth rate is anticipated to slow down even further; this will have negative affect over the countries of the region, including Georgia. However, National Bank of Georgia forecasts 5% economic growth in 2019.

## AVERAGE ANNUAL INFLATION AMOUNTED TO 2.6% IN 2018

Due to dampened domestic demand and oil price deflation on global market, annual rate of consumer price inflation in Georgia stood at 1.5% in December 2018. Average annual rate of CPI was 2.6% in 2018.

Notwithstanding the fact that economic growth rate decreased in the second half of 2018, the National Bank of Georgia is still slow to ease the monetary policy which was tightened in previous years. In 2018, Monetary Policy Committee only once reduced the rate by 25 basis points and did the same at the end of January this year. Presently, policy rate is 6.75% and it is expected to decrease by 25 basis points by the end of 2019.

In 2019, increase of excise on tobacco will affect the inflation level. However, this will not have significant impact on the level of prices. In 2019, the National Bank target of inflation is still 3%.

In December of 2018, annual inflation reached 20.3% in Turkey, which significantly exceeds the target rate (5%). In response to the increased inflation, Central Bank of the Republic of Turkey significantly tightened the monetary policy in the second half of the 2018. Presently, policy rate is 24%.

Similarly, high inflation is persisting in Ukraine, reaching 9.8% at the end of December 2018. In response to high inflation level, National Bank of Ukraine started tightening monetary policy as well. In 2018, the policy rate was increased from 16% to 18% and is kept that way till now.

Chart 3. Annual Inflation



Source: National Bank of Georgia, Geostat

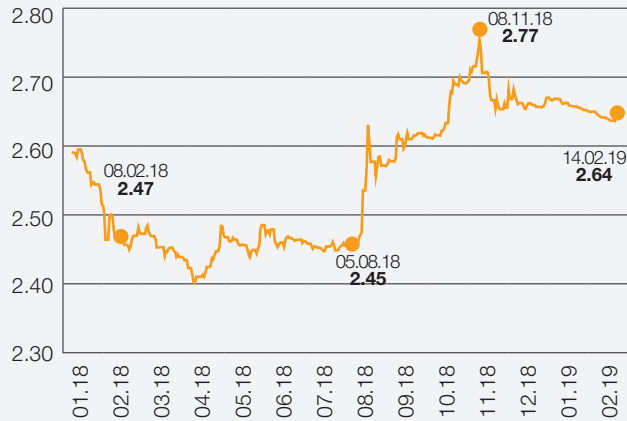
## BY THE END OF 2018 GEORGIAN LARI DEPRECIATED AGAINST MAJOR TRADE PARTNERS' CURRENCIES

In the first quarter of 2018, due to positive external trends, especially decreasing price of oil on global market, Georgian Lari sufficiently appreciated against number of currencies. This trend continued in the second quarter too. In the third quarter, Lari continued appreciating against Ruble and Lira. However, it depreciated against USD and Euro. In August, developments in Turkey negatively affected Georgia and caused sharp depreciation of Lari against USD. In the fourth quarter, Lari depreciated against all major trade partner countries' currencies<sup>1</sup>.

As previously stated, Turkey and Ukraine apply strict monetary policy. To support the economic processes, Russian Central Bank's eased monetary policy in the first half of 2018, was tightened by the end of the 2018. Last year, US Federal Reserve raised its interest rate and, as forecasted, it will further increase throughout 2019. Thus, the processes ongoing in major trade partner countries of Georgia, will have effect on trade, as well as financial flows, consequently, reflecting on exchange rate.

<sup>1</sup> USD, Euro, Lira, Ruble.

**Chart 4. USD/GEL Official Exchange Rate**



Source: National Bank of Georgia

**IN 2018 SHARE OF EXTERNAL MERCHANDISE TRADE DEFICIT IN TRADE TURNOVER SHRANK**

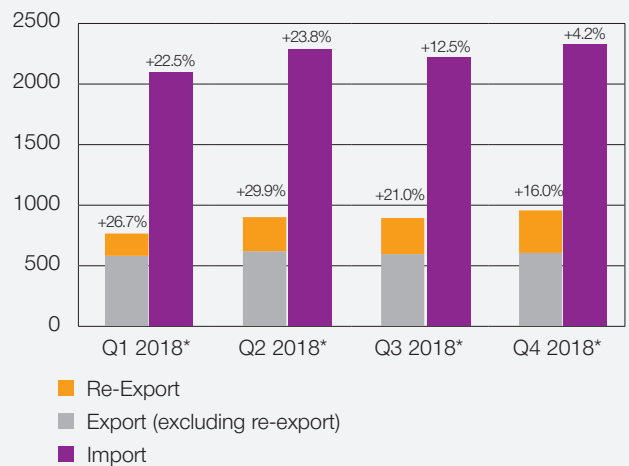
In 2018, commodity export showed positive growth at 22.9% annually, reaching 3 362 m USD. And annual growth of import reached 14.9%. Negative trade balance increased by 10.7% annually, reaching almost 5.8 bn USD. Though, it should be noted that annual growth of foreign trade turnover (17%) exceeds the trade deficit growth rate. Thus, share of trade deficit in the entire turnover decreased to 46.1% (Chart 6).

In 2018, commodity export was significantly increased. CIS countries still remain as the leading export market, covering half of the export made in 2018. Azerbaijan and Armenia are mostly distinguished among them. Annual export growth rate to EU countries are slightly decreased, amounting 11.5%. Amid economic tension in Turkey, export growth rate dropped down critically to 7.4% in 2018 from 25% growth in 2017.

In 2018, three major export commodity groups showed 15-15% growth, namely: ferroalloy, wine, mineral and fresh waters. Increase in re-export of copper ores and concentrates, motor cars, and cigarettes, have also largely contributed to export growth.

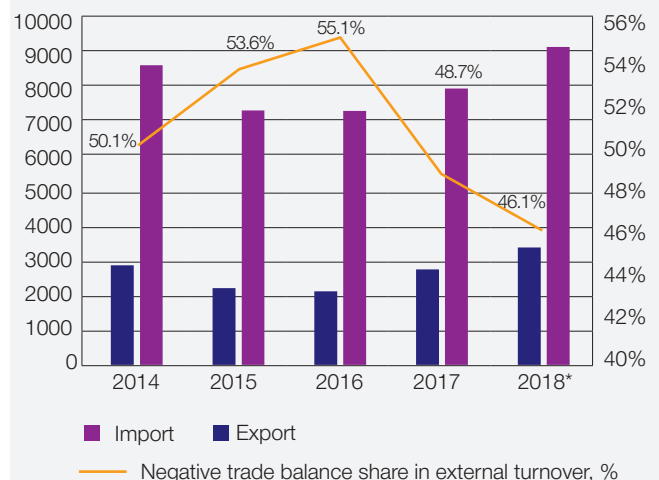
In 2018, the largest import commodities are petroleum oils, copper ores, motor cars, and medications. It should be underlined that in November and December of 2018 import was decreased relative to 2017. That was a result of drop in petroleum oil prices on global market, due to which expenses made for oil imports decreased.

**Chart 5. Merchandise export and import by quarters (m USD) and relative annual growth rates**



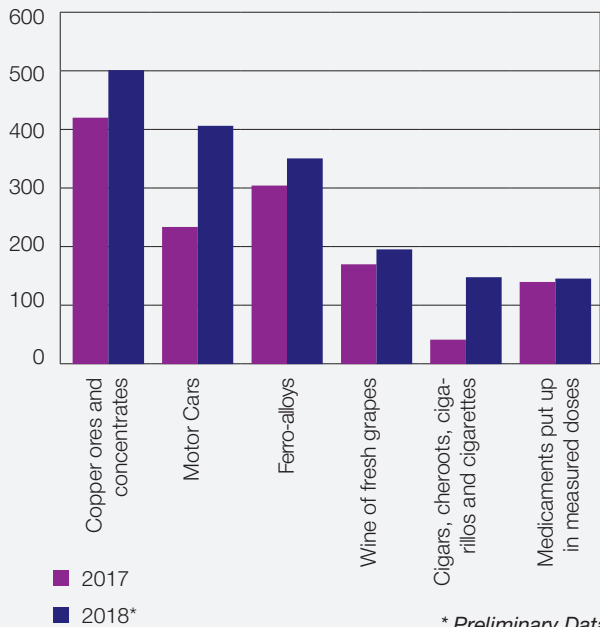
\* Preliminary Data  
Source: GeoStat

**Chart 6. External Merchandise Trade (m USD)**



\* Preliminary Data  
Source: GeoStat

**Chart 7. Export by Commodity Groups (m USD)**



\* Preliminary Data  
Source: GeoStat

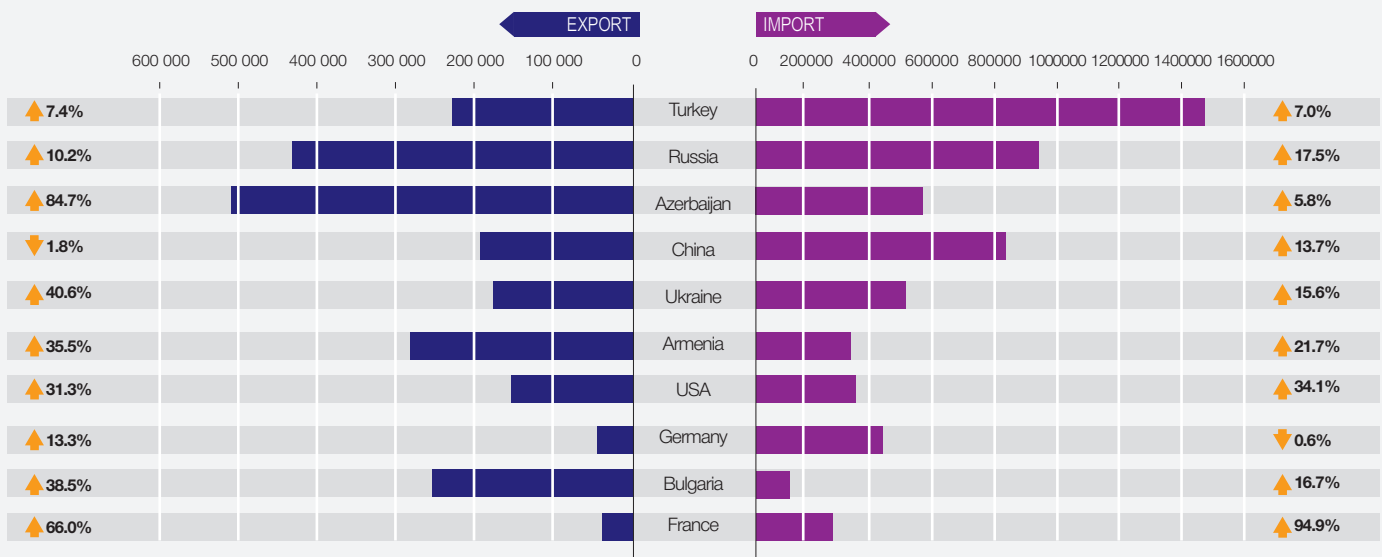
**GROWTH RATE OF INCOME FROM TOURISM FELL IN SECOND HALF OF 2018**

In 2018, number of international visitors have increased annually by 11.1%, reaching 7.2 m. 4.8 m from this were tourists, showing annual 16.9% growth.

Compared to 2017, number of flights in 2018 is increased by 17.3%. And number of visitors traveling by air grew by 24.8%. Besides, number of beds is also increased significantly, exceeding 85 000.

International travel receipts in 2018 is increased with annual 18.4%, reaching 3 202 m USD. In the first half of 2018, income from tourism grew by 29% annually, dropping down to 12% in the second half of the year.

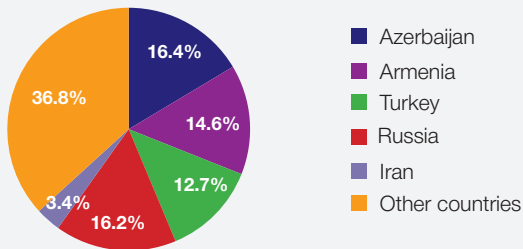
**Chart 8. External Merchandise Trade by Country (thousand USD), 2018\***



▲ Change Compared to 2017

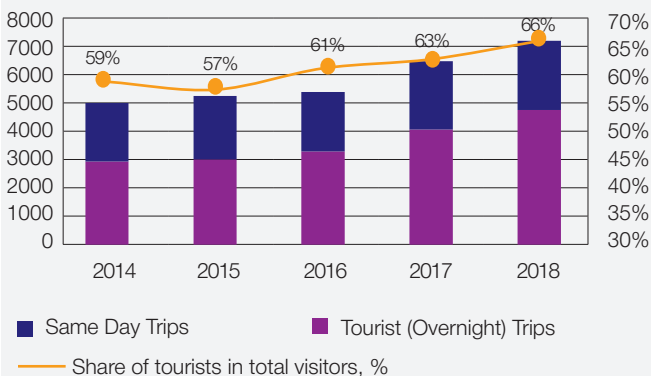
\* Preliminary Data  
Source: GeoStat

**Chart 9.** International Visitors by Country. 2018



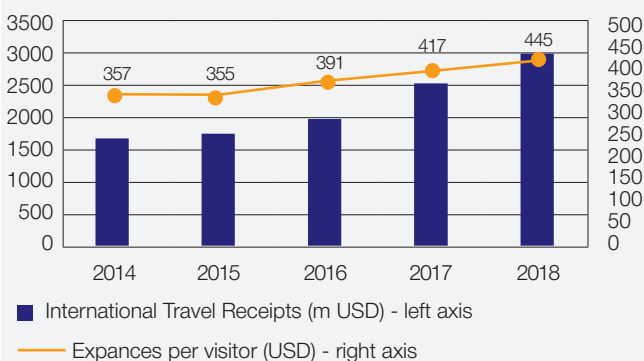
Source: Georgian National Tourism Administration

**Chart 9. Chart 10.** Dynamics of Incoming International Visitors (Thousand Persons)



Source: Georgian National Tourism Administration

**Chart 11.** International Travel Receipts



Source: Georgian National Tourism Administration, National Bank of Georgia

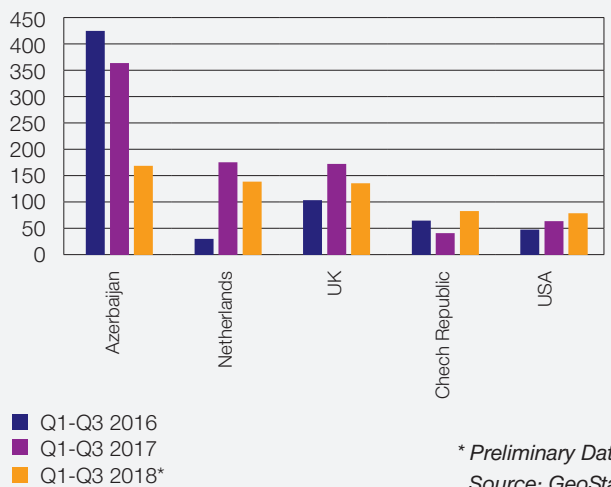
**FOREIGN DIRECT INVESTMENTS ALMOST REACHED 1 B USD**

According to preliminary data, foreign direct investments made in Georgia reached 999 m USD during first three quarters of 2018, which is decreased with annual 27.2%.

Azerbaijan is still the largest investor country, however, in the given period, investments from Azerbaijan were cut to half and amounted 170 m USD. Significant decrease was seen from the United Kingdom and the Netherlands too. It should be noted that all these three countries are among the largest investor countries in recent years.

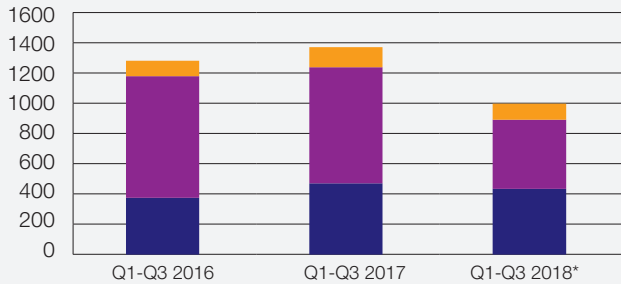
Transports and communication, construction and real estate sectors suffered from dramatic drop in terms of the investments in Q1-Q3 2018. Meanwhile, investments grew in other sectors, such as manufacturing, financial, energy and others. However, growth in these sectors could not offset the drop in other sectors.

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



\* Preliminary Data  
Source: GeoStat

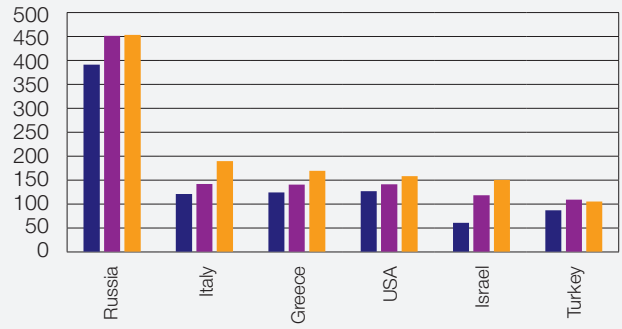
**Chart 13.** Distribution of FDI among Economic Sectors (m USD)



■ Industry  
 ■ Service  
 ■ Others

\* Preliminary Data  
 Source: GeoStat

**Chart 14.** Received money transfers by countries (m USD)



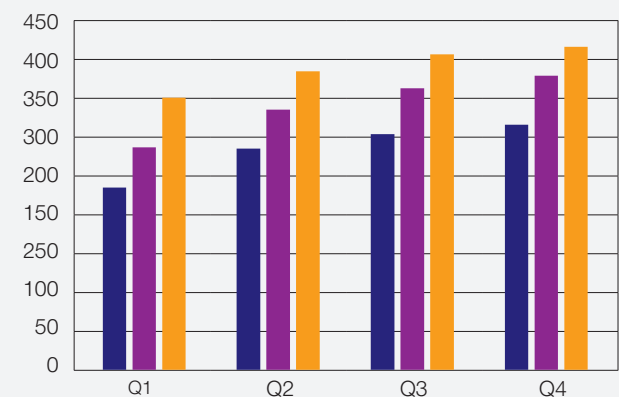
■ 2016  
 ■ 2017  
 ■ 2018

Source: National Bank of Georgia

**RECEIVED MONEY TRANSFERS EXCEEDED 150 M USD IN DECEMBER 2018**

In 2018, received money transfers from the foreign countries reached 1 577 m USD, being 14.3% more compared to 2017. Annual average growth rate of money transfers in the first half of 2018 was 18.3%. As for the last two quarters, money transfers from Russia and Turkey was decreased and annual growth rate of money transfers in the second half of the year fell to 10.9%.

**Chart 15.** Received money transfers (m USD)



■ 2016  
 ■ 2017  
 ■ 2018

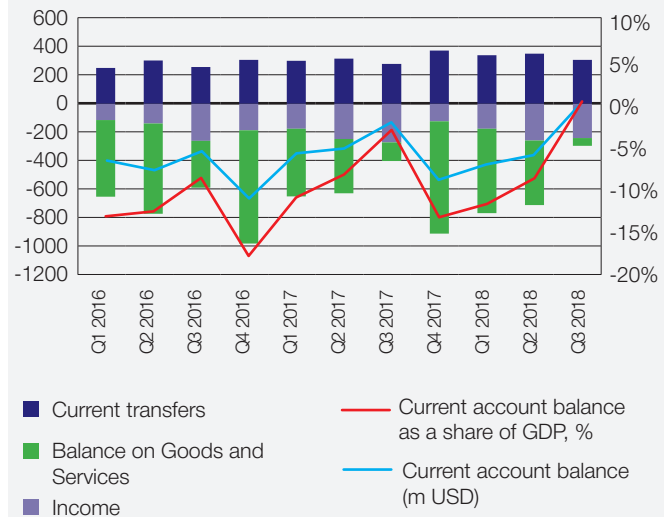
Source: National Bank of Georgia

**CURRENT ACCOUNT DEFICIT TURNED TO SURPLUS**

Current account of Georgia’s balance of payments has been negative throughout years. But in the third quarter of 2018, current account balance turned to surplus of 11.9 m USD, reaching positive 0.3% of GDP.

Major financing source of the current account is the trade with services and the deficit source is trade with goods. As recent years showed, current account deficit is comparably small in the third quarter, as income from service sector is the highest at this time. Income from trade with services, in the third quarter of 2018 increased by 12.0% annually. Meanwhile, due to reduced FDI and domestic demand, demand for import of goods decreased. Consequently, annual growth of commodity export (21.0%) significantly overcame the annual growth of import (12.5%). Thus, share of the negative trade balance in total turnover was decreased by 2.8% annually and negative pressure from commodity trade over current account deficit was eased. As a result, deficit of trade with goods and services shrank (by annual 58%) till 54.4 m USD.

**Chart 16. Decomposition of Current Account (m USD)**



Source: National Bank of Georgia, Geostat

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