



BUSINESS ASSOCIATION OF GEORGIA



ECONOMY IN BRIEF
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საქართველოს ბიზნის ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

REAL GDP GROWTH CONSTITUTED 4.8% IN 2017

According to preliminary estimate, average real GDP growth rate was 4.8% in 2017, which is significantly higher than the corresponding rate of the previous year (2.8%). The GDP growth was substantially influenced by external factors. In 2017, export of goods increased by 29.1%, and foreign trade turnover grew by 13.8%. Revenue from tourism, remittances and foreign direct investments also increased in 2017, which led to the decrease of current account deficit

Table 1. Gross Domestic Product

	Q1-Q3 2016	Q1-Q3 2017*	Growth
Nominal GDP (m GEL)	24 573.7	27 469.9	11.8%
Nominal GDP (m USD)	10 609.8	11 110.1	4.8%
GDP per capita (GEL)	6 605.1	7 388.0	11.9%
GDP per capita (USD)	2 851.8	2 988.0	4.8%
Real GDP Growth (percent)	2.9%	4.9%	

* Preliminary Data
Source: GeoStat

Based on data of the first three quarters of 2017, GDP was worth GEL 27.5 billion. Traditionally, trade sector is the largest component of GDP (15%). In the first three quarters, real growth of the sector amounted to 6.2%. Manufacturing industry holds the second place (8.7% of GDP) after trade sector. While the third place is held by construction sector (8.1% of GDP), in which the most rapid - 12.1% real growth was observed in the first three quarters of 2017. It is noteworthy that in the first nine months of 2017 increase was observed in almost all major sectors, except for agriculture, which dropped by 2.8% per annum.

Chart 1. Real Growth of Different Sectors

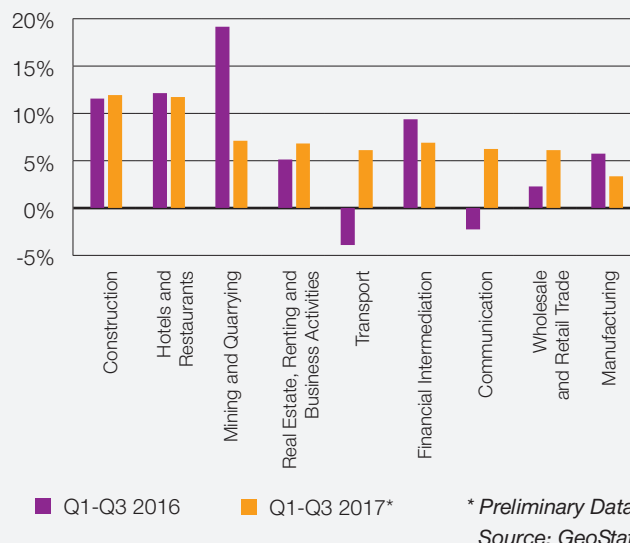
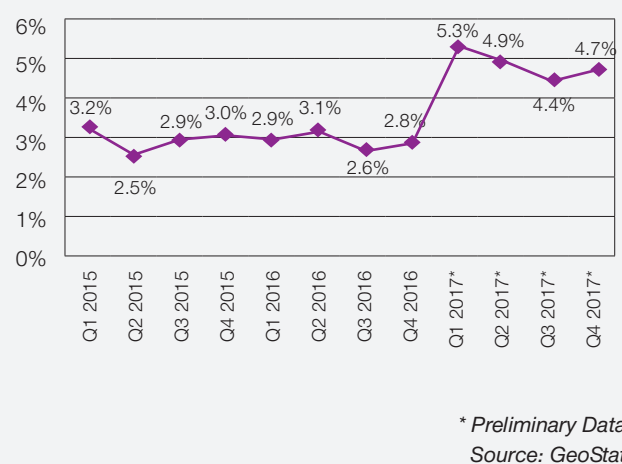


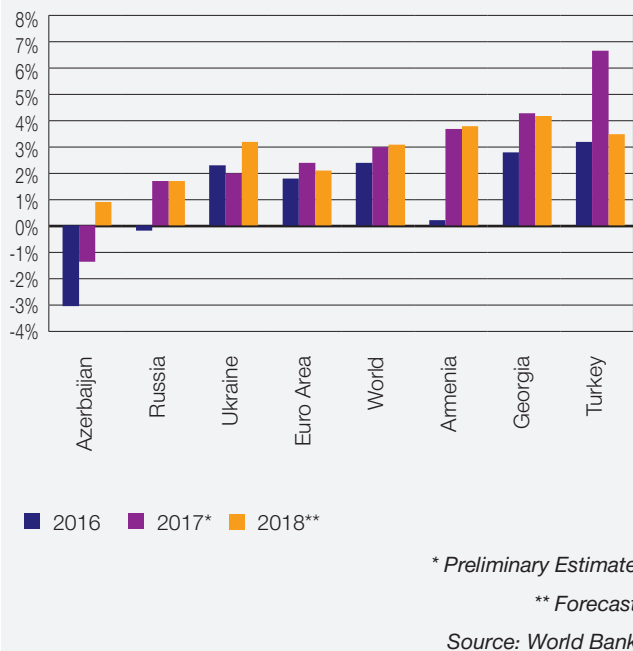
Chart 2. Real GDP Growth in Georgia



According to the forecasts of National Bank of Georgia, real GDP growth in 2018 will be 4.5%. In addition to growth of net exports and consumption, increased investments will also contribute to economic growth, resulting from improved business perceptions and larger government capital expenditures. Stable geopolitical environment in the region is critical for maintaining a high rate of economic growth in 2018.

According to the World Bank’s estimates, real GDP growth in 2018 will be 4.2%. Based on the forecasts, in the current year, economic growth rate in Armenia, Azerbaijan, and Ukraine will be more rapid than in 2017, which will positively affect Georgia. And by taking the advantage of free trade agreement with Europe and China, it is possible to accelerate the economic growth rate.

Chart 3. Real GDP Growth

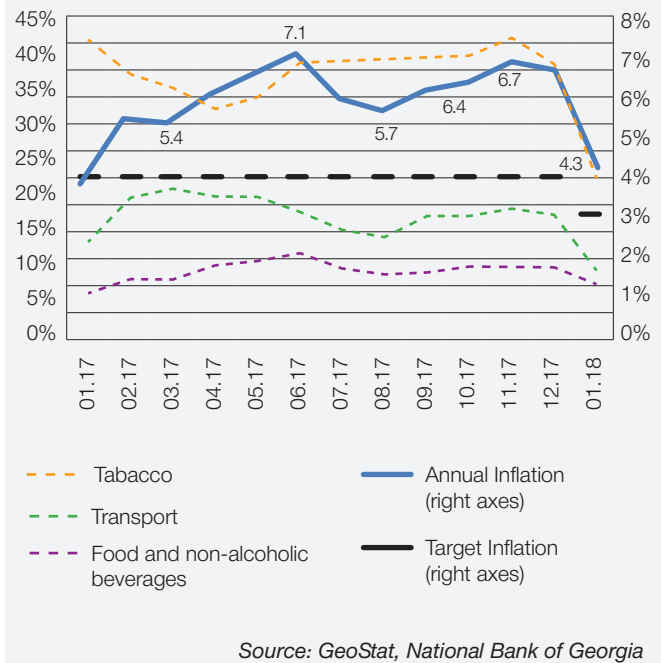


CPI ROSE BY 6.0%, WHILE PPI FOR INDUSTRIAL PRODUCTS GREW BY 8.7% IN 2017

In 2017, the average annual inflation rate for consumer prices was 6.0%. Last year, the major cause of inflation was the rise in prices of tobacco, oil products, and cars, largely due to rising excise on these groups. Inflation of oil products was also driven by an increase in oil prices on the world market. Depreciation of the GEL nominal effective exchange rate resulted in an even higher inflation rate of import-

ed products. In the second half of the year, Inflation rate was also affected by the increased fee of natural gas for consumers.

Chart 4. Annual Inflation



In order to neutralize the factors affecting inflation in 2017, the National Bank gradually increased its monetary policy rate from 6.50% to 7.25%. Presumably, in the first half of 2018 the National Bank will retain the existing rate. In the second half of the year, the gradual easing of monetary policy is expected.

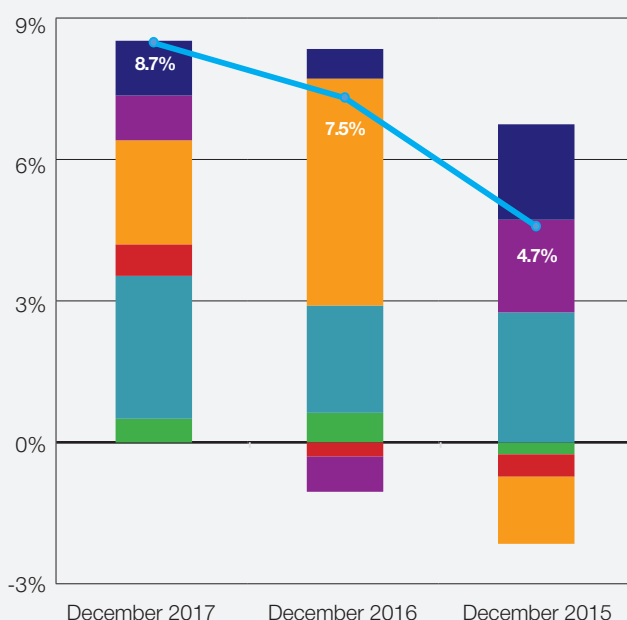
According to the forecasts of National Bank of Georgia, inflation in 2018 will be slightly above the target level (3%). In particular, in the first half of the year, annual inflation will be within 3.5% - 4%, while at the end of the year it will fluctuate around the target level.

Based on data of December 2017, producer price index for industrial products increased by 8.7% annually. Increased prices of manufactured products had a major influence on the growth of this index (7.0 PP) and increased by 8.5% compared to December of the previous year. The most significant increase in this category was recorded in the group of electrical and optical equipments (37.8%), and the biggest decline was observed in the group of leather products (-16.0%).

USD/GEL EXCHANGE RATE KEEPS FLUCTUATING SHARPLY

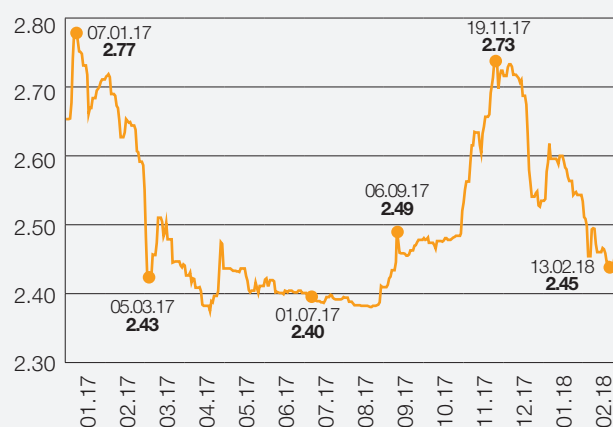
At the beginning of 2017, GEL was strengthened against the currencies of the major trading partners of Georgia and real effective exchange rate (REER) index of GEL increased. However, since May, the REER index declined. During this period, the real exchange rate of GEL depreciated against Turkish Lira, US dollar and Euro. The only exception was Russian Ruble, against which the real exchange rate of GEL declined only in September-November.

Chart 5. Decomposition of PPI for Industrial Products (Change relative to December of Previous Year)



Source: GeoStat

Chart 6. USD/GEL Official Exchange Rate

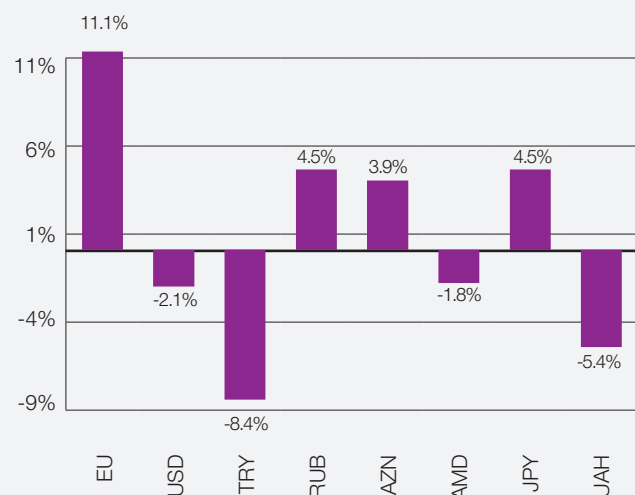


Source: National Bank of Georgia

The trend of GEL appreciation was observed in December, when the real exchange rate of GEL was strengthened against all of the above-mentioned currencies. It is noteworthy that in 2017, nominal effective exchange rate index of GEL had a similar trend.

Overall, in the end of 2017, compared to the beginning of the same year, nominal exchange rate of GEL against USD appreciated by 2.1% and a real appreciation reached 6.1%. However, nominal as well as real exchange rate of GEL depreciated against EUR (by 4.8% and 11.1% respectively).

Chart 7. Change of GEL exchange rate between 1 Jan - 31 Dec 2017¹



Source: National Bank of Georgia

Chart 8. External Merchandise Trade (m USD)



* Preliminary Data
Source: GeoStat

FOREIGN TRADE TURNOVER INCREASED BY 13.8%

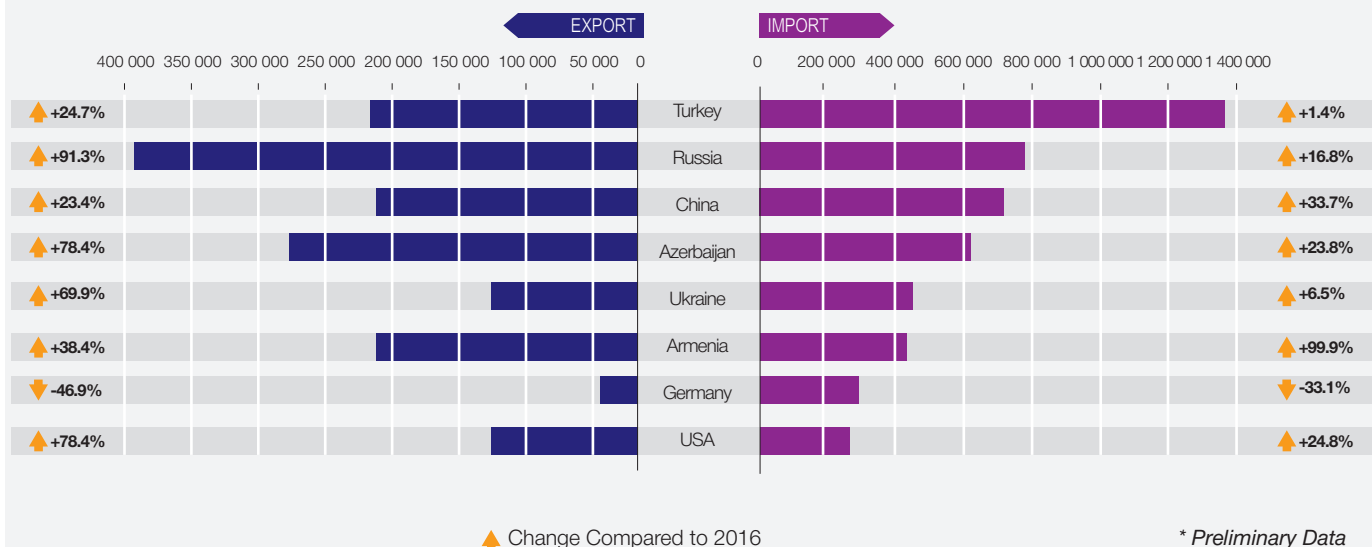
In 2017, foreign trade turnover of Georgia amounted to USD 10 707.4 m. Export of goods was equal to USD 2 728 m, and the import of goods amounted to USD 7 979.4 m. Overall, in comparison with 2016, in 2017, trade turnover increased by 13.8%, and negative trade balance rose by 1.3% and amounted to USD 5 251.5 m.

According to data of 2017, the export of goods increased by 29.1% annually. Its largest share comes to CIS countries (43.3%), as Russia, Armenia, Azerbaijan and Ukraine are among the biggest trading partners of Georgia. Export in EU countries increased by 13% annually and amounts to USD 646.5 m (23.7%).

Copper ores and concentrates, ferroalloys, motor cars, wine and medicaments put up in measured doses are among the leading export commodities. These five commodity groups exceed 45% of total exports. In 2017, the export of hazelnut has been significantly reduced. In total, export of hazelnut amounted to USD 83 m in 2017, which is 53.7% less compared to the of 2016. Such decline in the export of hazelnut was due to the destruction of major part of the harvest in 2017 by fungal infections and pests.

¹ Growth indicates GEL depreciation, while reduction indicates appreciation.

Chart 9. External Merchandise Trade by Country (thousand USD), 2017*



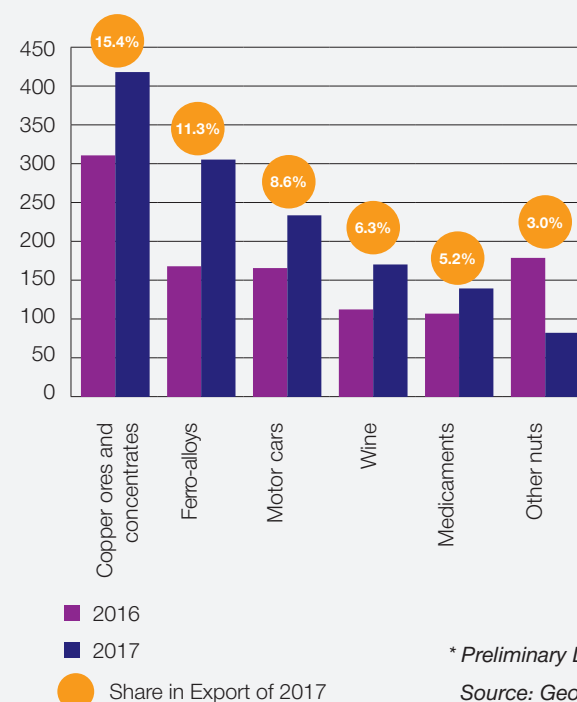
* Preliminary Data
Source: GeoStat

In 2017, 350 000 tons of copper ores and concentrates with a value of USD 420 m were exported. The major export markets of copper are Bulgaria, China, Romania and Spain. In 2017, export of ferroalloys amounted to USD 307 m, which is 80% more compared to the same indicator of 2016. 472 thousand tons of ferroalloys were exported to more than 30 countries, however, 90% of the total volume was exported to three countries: Russia (63.3%), USA (21.5%) and Turkey (4.6%).

In 2017, export of motor cars increased by 40% compared to 2016 and amounted to USD 235 m. Most of the 29 000 motor cars were exported to Armenia (49%), Ukraine (21%) and Azerbaijan (16%).

In 2017, 58 million litres of wine were exported to 55 countries around the world. Compared to 2016, export of wine increased by 50% and amounted to USD 171 m. Russia still remains the main export market for wine - 36 m litres of wine (USD 98.8 m) were exported to Russia in 2017. Wine export to China increased by 45% annually and amounted to USD 20 m (5.4 m litres). As for the EU, only 8% of the total volume of wine were exported.

Chart 10. Major Export Commodity Groups (m USD)



* Preliminary Data
Source: GeoStat

Group of medicaments put up in measured doses was also among major five export commodity groups. Compared to 2016, the export of goods from this group increased by 31% in 2017 and exceeded USD 140 m. However, it should be noted that 72% of this export were classified as re-exports.

Based on preliminary data of 2017, import of goods increased by 9.4% compared to 2016. According to the National Bank of Georgia, imports of consumption goods increased by 9.3%, imports of investment goods - by 7.1%, and imports of intermediate goods - by 10.3%. The major imported goods are oil and oil products, oil gases, motor cars, medicaments and copper ores and concentrates.

Import of oil and oil products amounted to USD 697 m, which is 12% more compared to 2016. The largest importers of oil and oil products are Romania (24.1%), Russia (19.3%), Azerbaijan (16.2%) and Turkmenistan (13.5%). Azerbaijan and Russia are also the largest suppliers of oil gases.

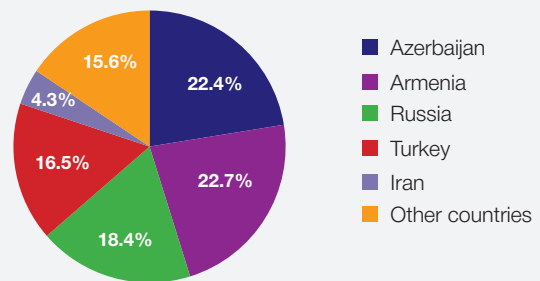
In 2017, more than 61 000 motor cars were imported in Georgia. Half of these were imported from the USA, and nearly one-third - from Japan. The largest importers of medicaments are Turkey (20%), Germany (16%) and Hungary (10%). The major part of the copper was imported from Armenia (67%).

GEORGIA'S INCOME FROM TOURISM AMOUNTED USD 2 750 M IN 2017

7.6 million international visitors entered the country in 2017, which is 18.8% more than the same indicator of the previous year. 46% of visitors were tourists.² It is noteworthy that in 2017 the annual growth of tourists was 27.9%. A total of 3.5 million tourists arrived in the country in 2017.

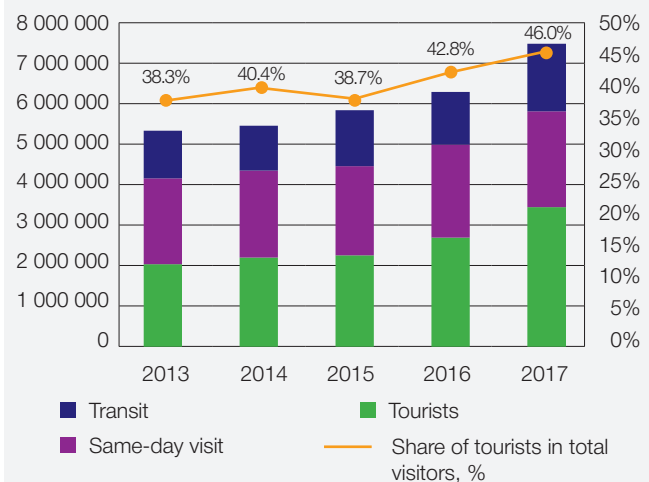
According to the National Bank of Georgia, revenues from tourism grew by 27% and amounted to 2 750 m USD in 2017.

Chart 11. International Visitors by Country, 2017



Source: Georgian National Tourism Administration

Chart 12. Dynamics of Incoming International Visitors



Source: Georgian National Tourism Administration

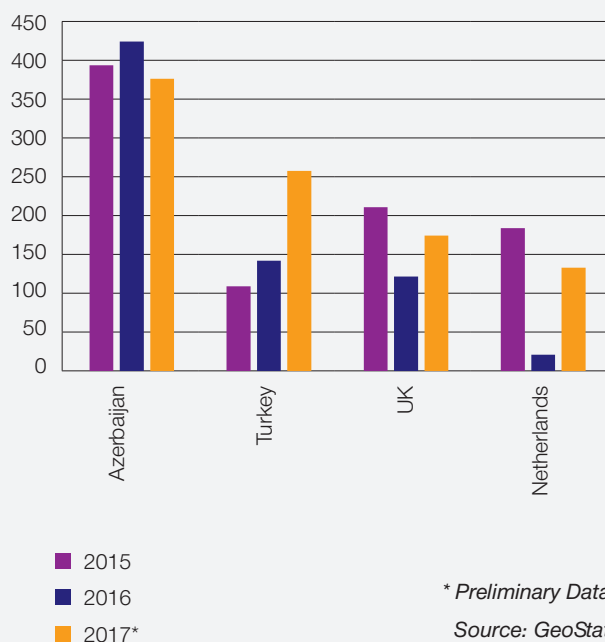
² Visits that last longer than 24 hours.

ANNUAL FDI GROWTH IN 2017 WAS INSIGNIFICANT

According to preliminary data, in total 1 346.5 m USD foreign direct investment were made in Georgia in the first three quarters of 2017, which is about 2.9% more compared to the same indicator of 2016.

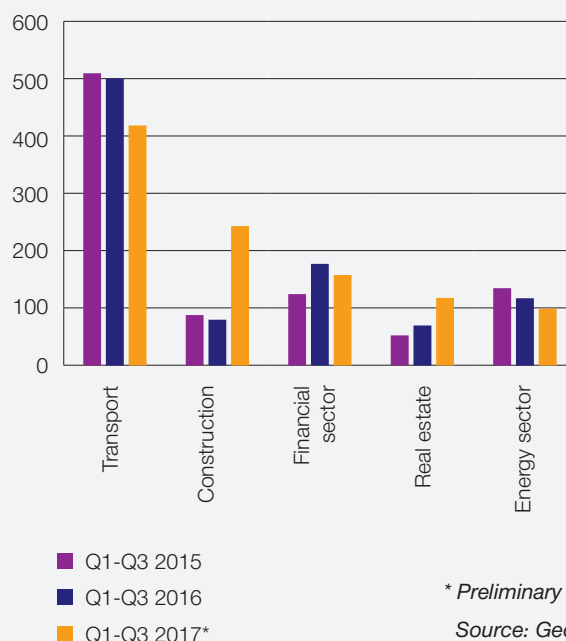
During this period, direct investments from the EU countries exceeded 440 m USD, which is 5.9% more than the same indicator of the first three quarters of 2016. At the same time, investments from CIS member countries declined by 8.3% and amounted to 413 m USD. Such a decline was caused by a decrease in investments from Azerbaijan - a total of 378 m USD worth investments were made from Azerbaijan during the first three quarters of 2017 (-11.3%).

Chart 13. FDI by major investor countries, Q1-Q3 (m USD)



During the first three quarters of 2017, most of the foreign direct investment was made in the transport and communications sectors (33.3%), however, investments in this sector have decreased by 24.7% compared to the previous year. Construction sector takes the second place (17.9%), and financial sector is on the third place (11.6%).

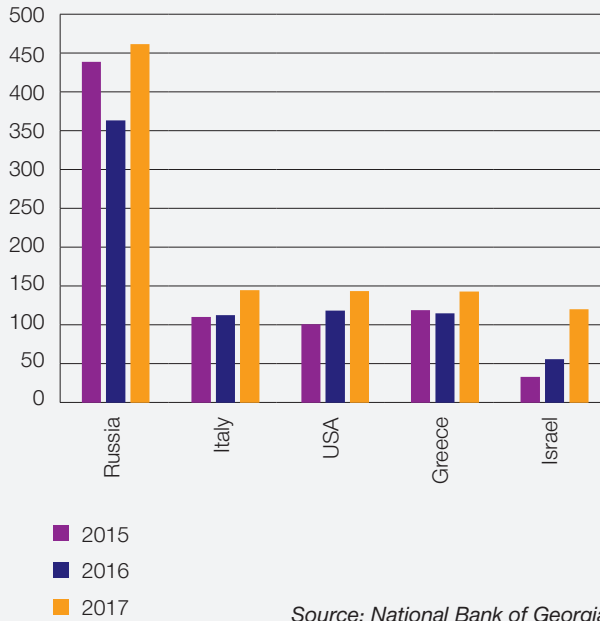
Chart 14. Distribution of FDI among Economic Sectors (m USD)



RECEIVED MONEY TRANSFERS ROSE BY 329 M USD IN 2017

In 2017, money transfers from abroad amounted to 1 379 m USD, which is 31.3% more (329 m USD more) compared to the same indicator of 2016. One-third of the total volume of transfers was made from Russia (455 m USD). In ranking, it is followed by Italy, USA and Greece. Transfers from these countries increased by 20% - 30% annually. Throughout 2017 money transfers significantly increased also from Israel (+114%), Turkey (+38%), Spain (28%) and many other countries.

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



Source: National Bank of Georgia

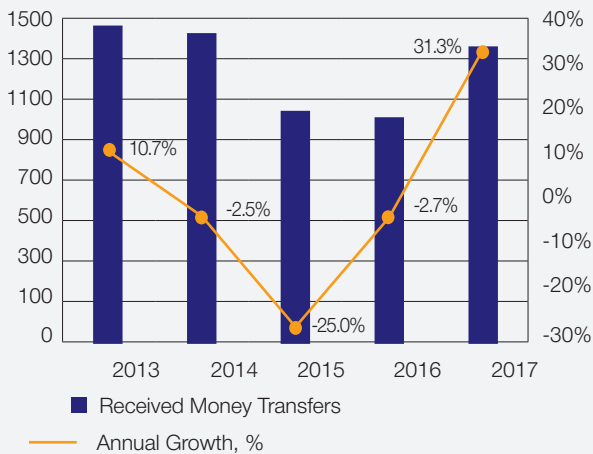
2017 STATE BUDGET REVENUES ARE 13.6% LARGER THAN IN PREVIOUS YEAR

The total revenues of the state budget of 2017 exceeded the budget plan by GEL 132 m and amounted to GEL 11 619 m. Revenues from taxes amounted to GEL 8 991 m. Value added tax, profit and import taxes also exceeded the budget plan. An excise exceeded the budget plan by about GEL 25 m. While the revenues from income tax were 1.7% less than planned.

Compared to 2016, income from profit tax is decreased by 28.4%, which is due to the changes in Tax Code (the so called Estonian model)³. However, the state budget income from profit tax exceeded the budget plan by nearly GEL 17 m (2.2%) and amounted to GEL 756.6 m.

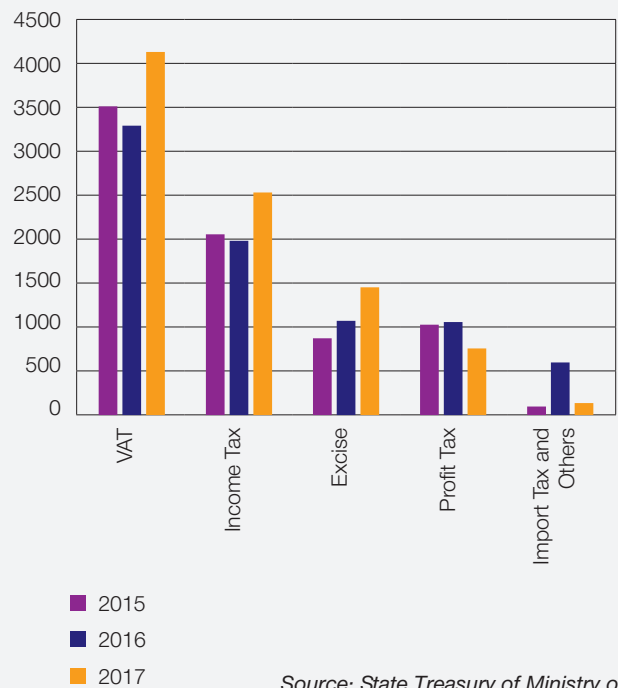
Incomes of the state budget through the growth of liabilities amounted to GEL 1 652 m. Approximately one-fourth of this were from increased domestic liabilities - through selling treasury notes, while the remaining 1 252 m GEL was generated by increasing foreign liabilities (credits).

Chart 16. Received money transfers (m USD)



Source: National Bank of Georgia

Chart 17. State Budget Tax Revenues (m GEL)



Source: State Treasury of Ministry of Finance of Georgia

³ Changes in Tax Code entered into force since July 1, 2017.

Payments of the 2017 state budget exceeded the budget plan by 44 m GEL and was equal to 11 765 m GEL. Most of the payments were directed on social benefits. GEL 1 385 m were spent on labor remuneration, and GEL 1 248 m - on purchase of goods and services.

GEL 476.6 m were spent on service of domestic and foreign liabilities (interest expenses), and GEL 515.4 m were spent on capital repayment.

Revenues of the 2017 state budget exceeded previous year's revenues by 13.6%, while expanses increased by 7.2%. Total negative balance of the budget amounted to 496 m GEL, which is improved by 82 m GEL (by 14.2%) compared to 2016.

Chart 18. Expanses of State Budget (m GEL)

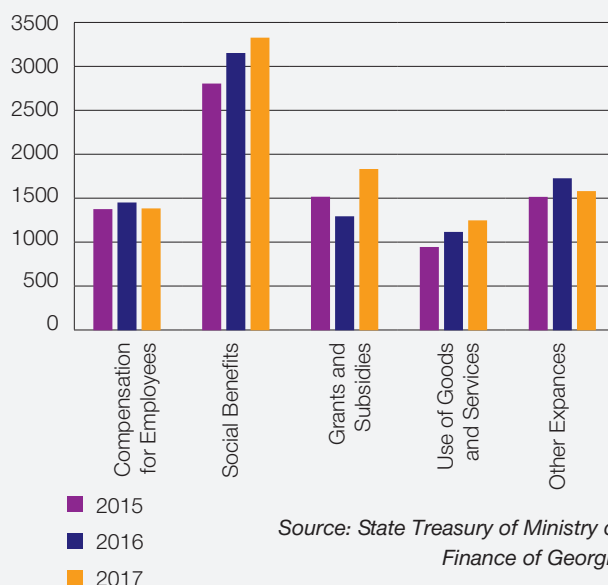
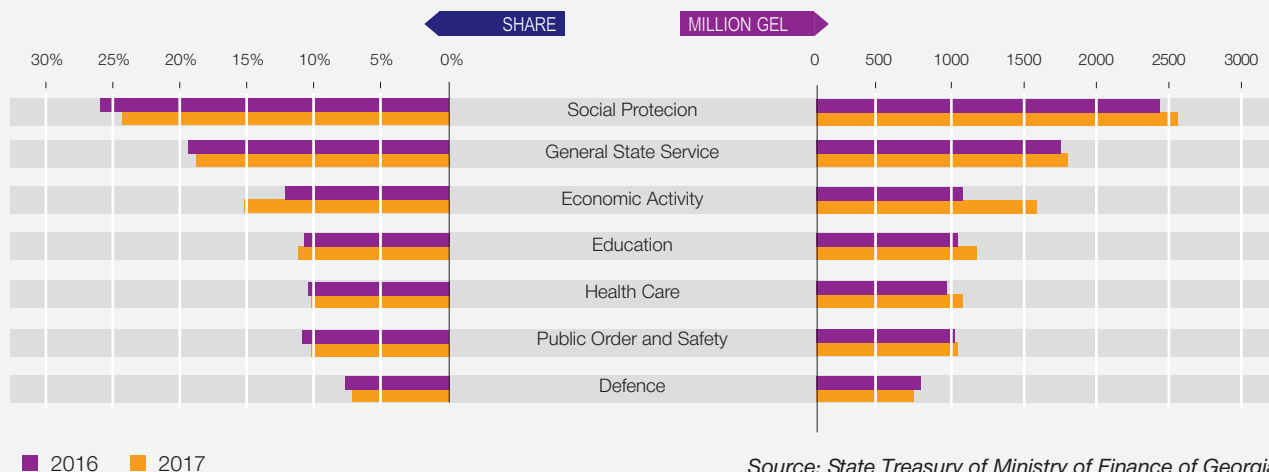


Chart 19. State Budget Expenses by Function



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