



BUSINESS ASSOCIATION OF GEORGIA



ECONOMY IN BRIEF

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საქართველოს ბიზნის ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

REAL GDP GROWTH MAY EXCEED 4% IN 2017

According to the preliminary estimate, the gross domestic product (GDP) is 17.4 billion GEL in the first half of 2017. In the first quarter of 2017 real GDP growth rate amounted to 5.1% and in the second quarter GDP growth rate equaled to 4.7%.

Table 1. Gross Domestic Product

	Q1-Q2 2016*	Q1-Q2 2017*	Difference
Nominal GDP (m GEL)	15 667.7	17 384.1	11.0%
Nominal GDP (m USD)	6 771.7	6 944.0	2.6%
GDP per capita (GEL)	4 211.3	4 675.4	11.0%
GDP per capita (USD)	1 820.1	1 867.6	2.5%
Real GDP Growth (percent)	3.1%	4.9%	

* Preliminary Data
Source: GeoStat

During this period, 13.1% of GDP was created in trade sector. However, according to the data of the second quarter, real growth rate of this sector amounted to only 3.7%. In the second quarter, highest growth rate was recorded in construction (16.4%) and hotels and restaurants (12.9%) sectors. While the agricultural sector declined by 2.4%.

Chart 1. Real Growth of Different Sectors

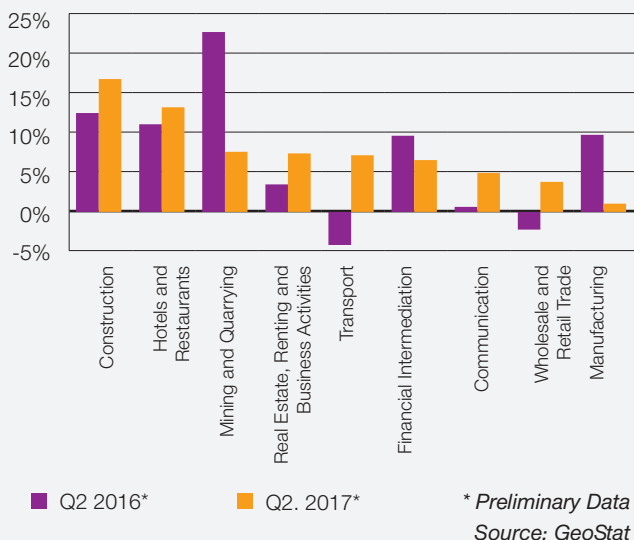
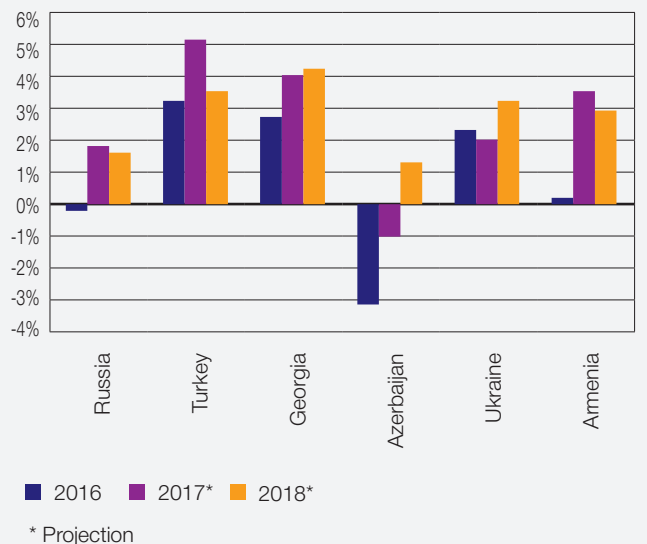


Chart 2. Real GDP Growth in Georgia



* Preliminary Data
Source: GeoStat

Chart 3. Real GDP Growth



Acceleration of economic growth has been caused by both internal and external factors. In the first half of the year, revenues from tourism, investments, and exports have increased. According to the preliminary estimates, real GDP growth will be 4% this year. However, if these positive internal factors and the trend of economic recovery in Georgia's trade partner countries are maintained (Chart 3), it is expected that the economic growth will exceed 4% in 2017.

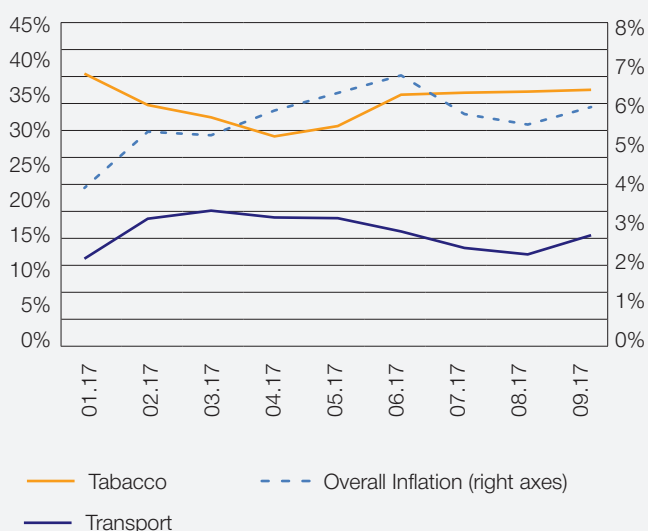
The Government of Georgia predicts 4.5% economic growth in 2018. Accordingly, the nominal GDP is expected to exceed 40.4 billion GEL in the next year. The Asian Development Bank also predicts 4.5% growth. As usual, the International Monetary Fund's forecast is more conservative, according to which 4.2% growth is expected in the next year. Forecast of the European Bank for Reconstruction and Development (EBRD) is similar (4.2%). While according to the forecast of the World Bank 4.0% growth is expected in 2018 in Georgia.

ANNUAL INFLATION AMOUNTED 6.2% IN SEPTEMBER

In the first half of 2017, the annual inflation rate exceeded the target rate (4%). Deviation of annual inflation rate from the target rate was due to an increase in excise tax and also in oil and food prices on the world market at the beginning of the year. The impact of these factors on annual inflation will be maintained till the end of the year.

At the end of September, the annual inflation rate was 6.2%. The main contributor to inflation was raising prices for food, fuel and tobacco.

Chart 4. Annual Inflation



Source: GeoStat, National Bank of Georgia

Effect of excise tax increase on annual inflation will be neutralized from 2018. The National Bank predicts that inflation rate will be maintained in the range of the target rate¹ throughout the next year. International Monetary Fund predicts 3.0% inflation in 2018, while the Asian Development Bank expects higher - 4.0% inflation.

GEORGIAN LARI KEEPS DEPRECIATING AGAINST US DOLLAR

In September 2017, the nominal exchange rate of GEL depreciated by 5.6%. During this period, Georgian Lari depreciated against US dollar, Euro, Turkish Lira and Russian Ruble. In September, average price of 1 USD was about 2.49 GEL.

Chart 5. USD/GEL Official Exchange Rate



Source: National Bank of Georgia

Since May, the exchange rate of GEL against EUR has been gradually depreciating, and in the second half of September price of 1 EUR exceeded 2.97 GEL. In September, the exchange rate of GEL against EUR amounted to 2.94 GEL on average.

¹ For 2018, the inflation target will decrease to 3%.

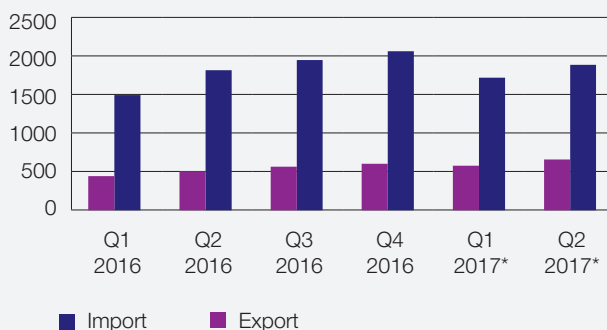
IN THE FIRST HALF OF 2017 EXPORT OF GOODS ROSE BY 30%

Georgia's foreign trade turnover in the first half of 2017 amounted to 4 822.4 million USD, which is 13.5% more compared to the same indicator of 2016. Export of goods was equal to 1 234.2 m USD, while the import of goods amounted to 3 592.8 m USD.

According to data of the first two quarters, export of goods increased by 30.1% annually. Its largest share (38.4%) comes to CIS countries, as Russia, Armenia, Azerbaijan, and Ukraine are among the largest trading partners of Georgia. Export in EU countries is increased by 30% annually and amounts to 294.7 m US dollars. Major goods exported to EU countries are copper ores and concentrates, fertilizers and hazelnuts.

Copper ores and concentrates, ferro-alloys, wine, motor cars and medicaments are among the Georgia's leading export commodities. These five commodity groups are almost half of the total exports.

Chart 6. External Merchandise Trade (m USD)

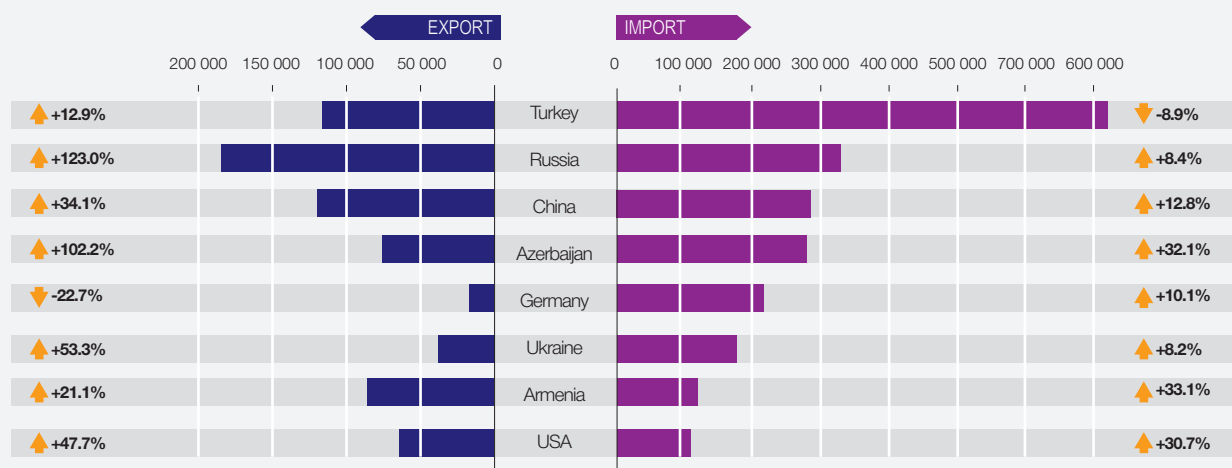


* Preliminary Data

Source: GeoStat

Despite the increase of export rate, its structure has not been significantly changed. However, in comparison with the first half of 2016, export of hazelnut has been significantly reduced (by 40 m USD) and amounted to 29.9 million US dollars. As a result, the share of this commodity group in total export shrank from 7.4% to 2.4%. Due to the destruction of the major part of harvest by fungal infections and pests this year, further reduction of the hazelnut exports should be expected in the second half of the year.

Chart 7. External Merchandise Trade by Country (thousand USD), Q1-Q2 2017*

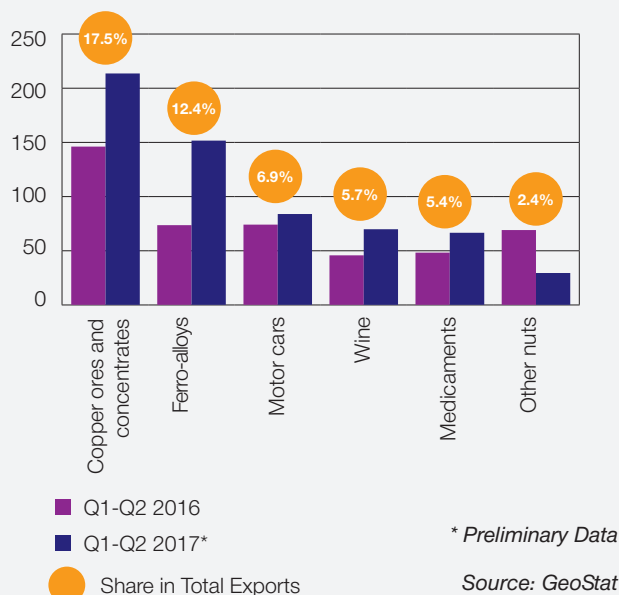


▲ Change Compared to Q1-Q2 2016

* Preliminary Data

Source: GeoStat

Chart 8. Major Export Commodity Groups (m USD)



By the first half of 2017, exports of copper ores and concentrates amounted to 216 m US dollars. Its major part is exported to China (47%), while 52% of it is exported to three EU countries – Bulgaria (31%), Romania (11%) and Spain (10%). The export of ferroalloys exceeds 153 m US dollars and its main export market is Russia (46%) and the USA (29%). Russia is also the main export market of wine (57%). However, wine export in China is characterized by a positive trend. Compared to the first half of the previous year, wine export to China increased by 1 500 tons and the price of exported wine amounted to 10 m US dollars (compared to 4.8 m US dollars). As a result, China’s share in total wine exports increased by 3 percentage points and amounted to 14.2 %.

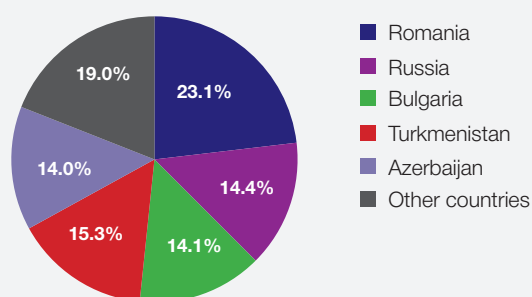
According to data of the first six months, motor cars (85 m USD) and medicaments (67 m USD) are also among five largest export commodity groups, the largest share of which is re-export². Although only 7% of cars were exported to Azerbaijan, the value of

export in Azerbaijan amounted to 19.3 m USD. Almost half of the cars were exported to Armenia, but exports amounted to only 17.2 m USD. Large numbers of the cars were exported to Russia (22%) and Ukraine (14%) as well.

Largest amounts of medicaments are imported from Ukraine (15%), India (8%), Russia (7%), and Turkey (6%). While the biggest export markets are Uzbekistan (40%), Azerbaijan (16%), and Russia (8%).

In the first half of 2017, import of goods increased by 8.9% compared with the previous year. Three of the largest import commodities are petroleum and petroleum oils, petroleum gases and motor cars. During this period, import of petroleum and petroleum oils exceeded 285 million USD. Romania is the largest supplier, but as shown in the chart 9, Turkmenistan and other countries are also importing significant volume. As for the petroleum gases, its import exceeded 182 million US dollars in the first half of the year. 91.6% of gas were imported from Azerbaijan, up to 8.4% - from Russia and the share of total imports from other countries is up to 1%.

Chart 9. Import of Petroleum and Petroleum Oils, Q1-Q2 2017*



* Preliminary Data
Source: GeoStat

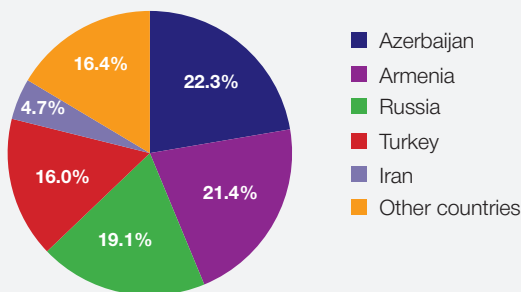
² About 93% of export of motor cars and 70% of export of medicaments were classified as re-exports.

2.8 M TOURISTS VISITED GEORGIA DURING FIRST THREE QUARTERS OF 2017

According to the data of the first 9 months of 2017, more than 5.8 million international visitors entered the country, which is 19.2% more than the same indicator of the previous year. 48% of visitors were tourists. At the end of the third quarter, the number of tourists arriving in the country is increased by 28.8% annually and amounts to 2.8 million.

According to the preliminary estimates, income from tourism in the first half of the year has increased by 26% compared to the previous year.

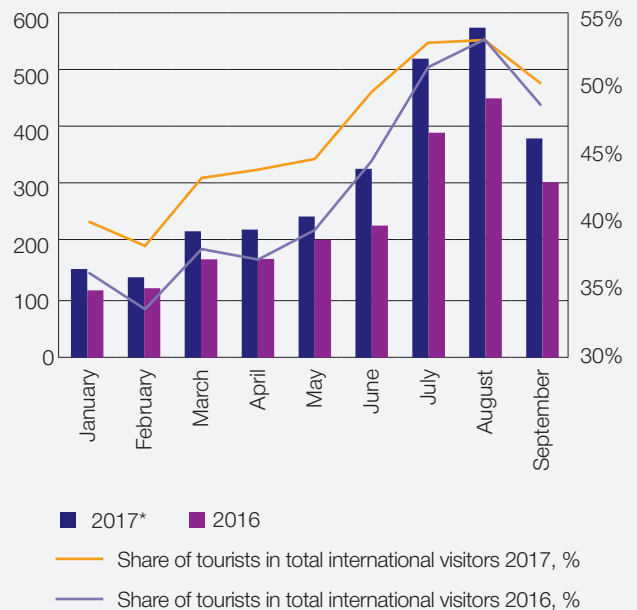
Chart 10. International Visitors by Country, Q1-Q3 2017*



* Preliminary Data

Source: Georgian National Tourism Administration

Chart 11. Dynamics of Incoming International Tourists (Thousand persons)



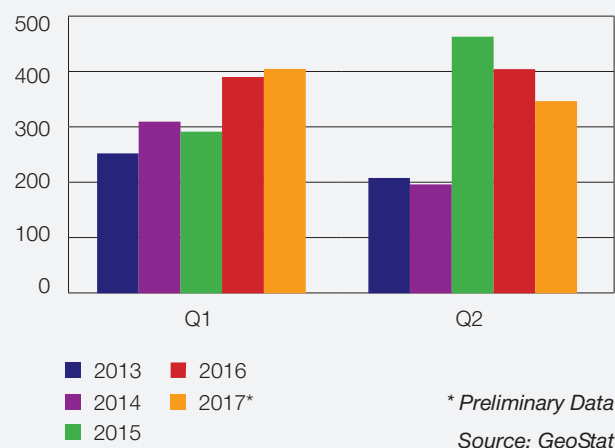
* Preliminary Data

Source: Georgian National Tourism Administration

IN THE FIRST HALF OF 2017 FDI DECREASED BY 5.5%

In total 751 million USD foreign direct investment was made in Georgia in the first two quarters of 2017. In the first quarter the annual growth of investments amounted to 3.7%, while the second quarter data was declined by 14.3% compared to the same indicator of the previous year. As a result, in the first half of 2017, foreign direct investment decreased by 5.5% compared to the previous year.

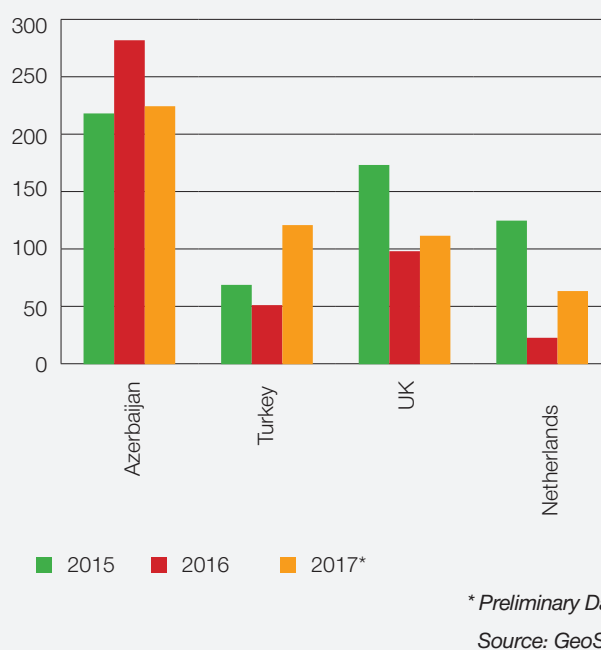
Chart 12. FDI during Q1-Q2 of last five years (m. USD)



Azerbaijan still has a leading position among the investor countries. It is followed by Turkey, the United Kingdom and the Netherlands. 30% of total foreign direct investment in Georgia in the first half of the year has been made from Azerbaijan and amounted to 224 million US dollars. 94% of it was invested in the transport and communications sectors. However, it is noteworthy that compared to the first half of 2016, investments made from Azerbaijan has decreased by 20% (by 57 m USD).

Turkey ranks second by 120.8 million USD investments and amounts to 16% of total FDI. Compared to the previous year, investments have increased by 136% (by 69.5 m USD) from Turkey. During this period, about 70% of investments from Turkey were made in construction sector, while 23.5% - in transport and communication sector. Investments made from the UK equals to 15% of total foreign direct investments and are mainly concentrated in the financial sector (89%). While investments from the Netherlands equal to 8.5% of the total foreign direct investment and are relatively diversified - manufacturing (38%), mining (22%) and energy (11%).

Chart 13. FDI by major investor countries, Q1-Q2 (m. USD)



In the first half of the current year, foreign direct investments were mainly made in the transport and communications sector (36.2%). However, investments in this sector have decreased by 30.2% compared with the previous year. Investments in the energy sector are also significantly reduced (by 49.2 m USD). Overall, in the first half of the year, investments are decreased in six out of the ten largest sectors compared to the previous year. The growth was observed only in four sectors. Among them are the construction and real estate sectors, as in these two sectors investment has been increased by almost 160 million US dollars in comparison with the previous year. As a result, 16.7% of total FDI were made in the construction, and 12.7% - in the real estate sectors.

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

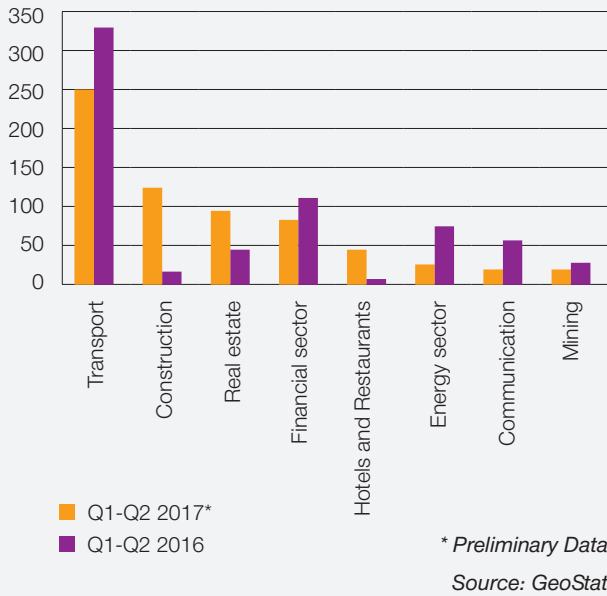
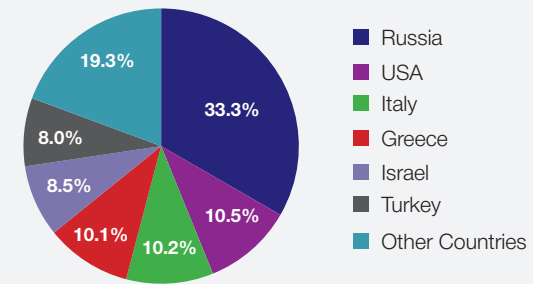


Chart 15. Share of Countries in Inflow of Money Transfers, Q1-Q3 2017

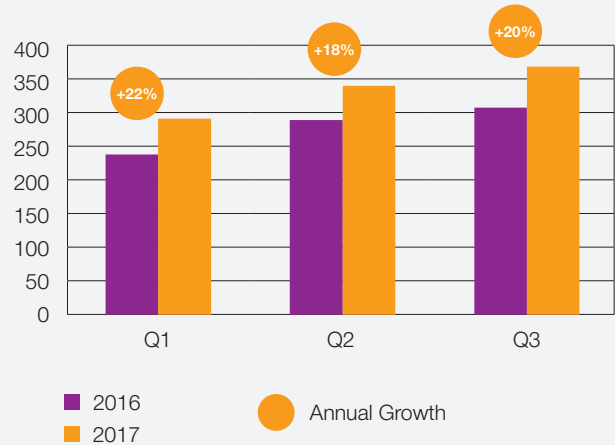


Source: National Bank of Georgia

RECEIVED MONEY TRANSFERS ARE RISING

During the 9 months of 2017, 996 million USD money transfers were made to Georgia, which is 57% more compared to the same indicator of the previous year. The volume of transfers has been significantly increased from Israel (+163%), Turkey (+72%), Russia (+54%), Ukraine (+69%) and many other countries.

Chart 16. Received money transfers (m USD)



Source: National Bank of Georgia

THE DRAFT LAW OF 2018 STATE BUDGET IS UNDER DISCUSSION

The Government of Georgia submitted to the Parliament the preliminary version of the draft law on 2018 state budget of Georgia. The budget project is planned in accordance to base scenario of 4.5% real GDP growth.

Receipts in the 2017 state budget project amount to 12 298.0 million GEL. While the budget allocations amount to 12 364.6 million GEL. The budget incomes equal to 10 120.0 million GEL, which is increased by 630.5 million GEL (by 6.6%) compared to 2017. This growth was conditioned by the increase of the tax revenues. According to the 2018 state budget, tax

revenues will amount to 9 470.0 million GEL, which exceeds the 2017 budget plan by 650 million GEL. It is also planned to attract 2 038.0 million GEL worth of funds through increasing the liabilities.

Compared to the 2017 state budget, the costs in the 2018 state budget project has increased by 383.3 million GEL and is equal to 9 504.5 million GEL. 36% of costs is considered for social security, while 15% is for the remuneration of labor.

The 2018 budget deficit will be 1.6% of the GDP. However, with the consideration of transactions made by financial assets, the deficit will be 3.3% of GDP³.

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 2018 წლის სახელმწიფო ბიუჯეტის შესახებ“ საქართველოს კანონის პროექტზე.

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