



BUSINESS ASSOCIATION OF GEORGIA



ECONOMY IN BRIEF

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საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

ECONOMY GREW BY 3% IN THE SECOND QUARTER OF 2016

According to the estimates of the Ministry of Finance of Georgia, Gross Domestic Product (GDP) will increase by 3.0% and GDP per capita will exceed 9000 GEL in 2016. On the other hand, recent figures of the National Bank of Georgia predict 3.5% real GDP growth in 2016. As assessed by the National Statistics Office of Georgia (GeoStat), Georgia's GDP in the second quarter of this year makes up 8 059.8m GEL. As a result, compared to the second quarter of the previous year, the increase of nominal GDP amounts to 3.7%, while annual growth of real GDP totals 3.0%.

Table 1: Gross Domestic Product

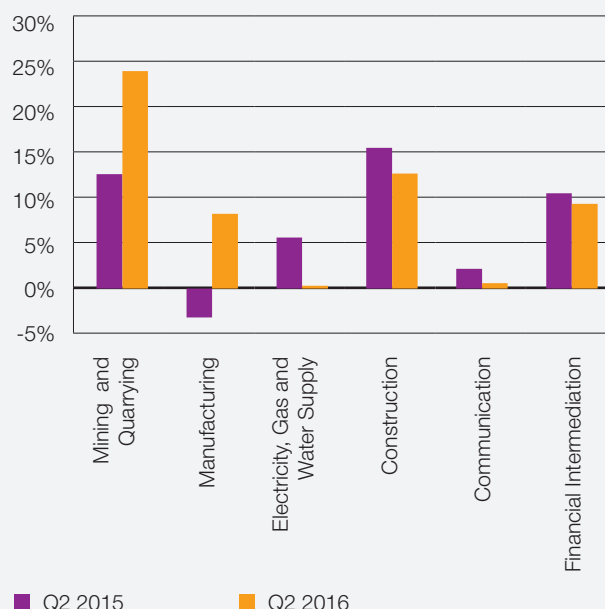
	Q1-Q2 2015	Q1-Q2 2016*	Difference
Nominal GDP (m GEL)	14 667.2	15 410.8	5.1%
Nominal GDP (m USD)	6 732.5	6 661.4	-1.1%
GDP per capita (GEL)	3 949.5	4 142.2	4.9%
GDP per capita (USD)	1 812.9	1 790.5	-1.2%
Real GDP growth (percent)	2.6%	2.9%	

* Preliminary Estimates

Source: GeoStat

The largest annual increase in the second quarter of 2016 was in the mining industry. Similarly, significant growth was witnessed in the construction and hospitality sectors; while GDP growth slowed down in transport and trade sectors.

Chart 1: Real Growth of Different Sectors



Source: GeoStat

INFLATION RATE STANDS LOWER THAN THE TARGET LEVEL

In September 2016, annual inflation equaled to 0.1%. This indicator undershoots the inflation target of 5%; however, it remains close to the projections of National Bank of Georgia. According to the National Bank of Georgia, lower inflation was triggered by the appreciation of GEL nominal exchange rate and the decline in inflation expectations. Moreover, fall of oil and food prices in international markets transmitted on internal market stronger than anticipated. As a result, compared to previous year, there

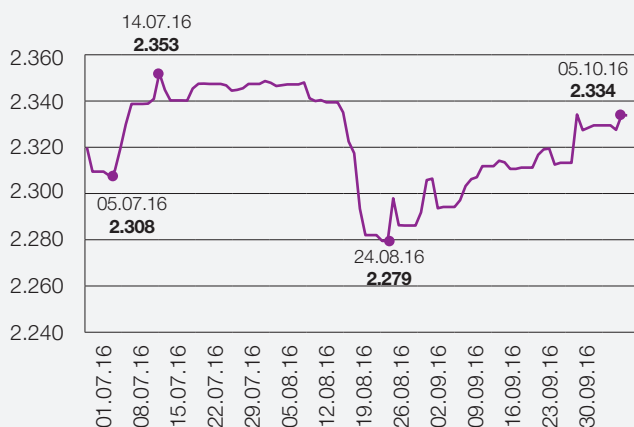
was the highest drop in the price of purchase and operation of means of transportation, which was related to the fall of prices on used vehicles and oil. On that very period, prices rose mostly on spirits and tobacco, which is mainly related to the increase in excise tax.

Estimates of the National Bank of Georgia show that the inflation rate will be also low for the following quarters and reach the target rate by the end of 2017. It should be mentioned, that the inflation target rate will be 4% for 2017 and 3% starting from 2018.

EXCHANGE RATE

In September 2016, GEL nominal exchange rate appreciated by 10.4%. In the course of the same month, official exchange rate of 1 USD equaled 2.31 GEL, while the average rate of 1 EURO amounted to 2.59 GEL. However, in the end of September GEL again started depreciation against USD. During the first 10 days of October, average exchange rate per USD was 2.33 GEL.

Chart 2: USD/GEL exchange rate

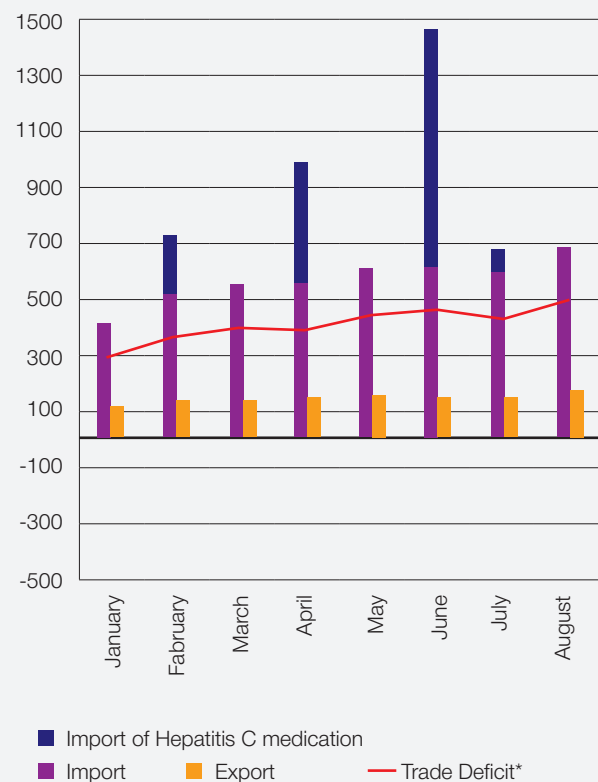


Source: National Bank of Georgia

FOREIGN TRADE DEFICIT IN GOODS INCREASED

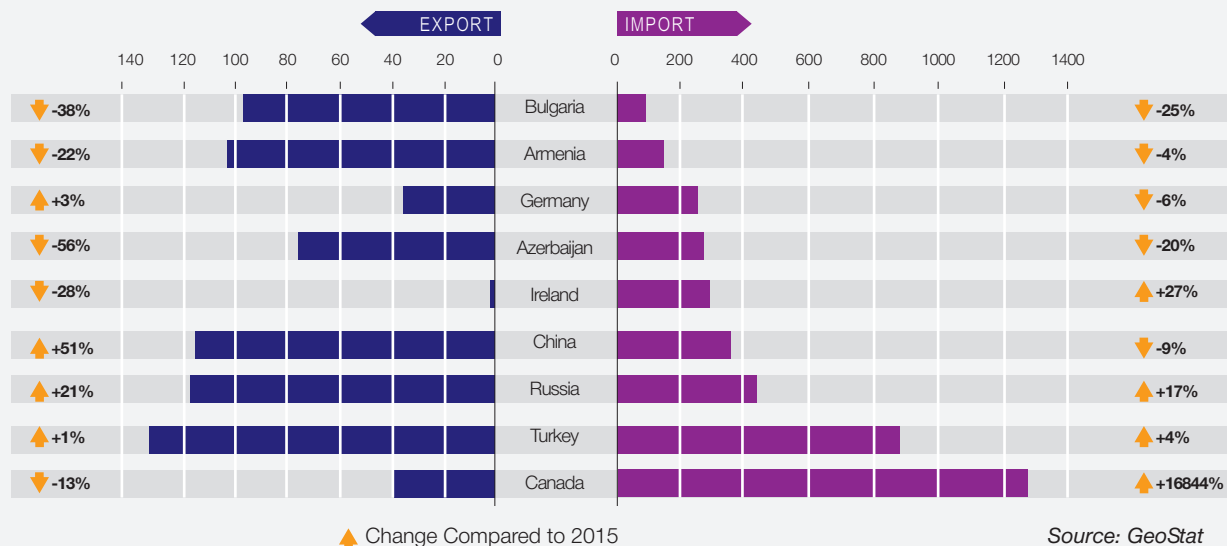
In January-August of 2016, export in goods from Georgia amounted to 1 312m USD, showing 10% lower rate compared to the same rates in the previous year. During the same period, excluding import value of Hepatitis C medication,¹ total goods import made up 4 556m USD, which is 3.5% less than the volume of import of the same period in 2015.

Chart 3: Dynamics of Foreign trade (m USD)



* Excluding Hepatitis C medication import
Source: GeoStat, National Bank of Georgia

¹ In the above-mentioned period, total of 1 557m. USD Hepatitis C medication has been imported. As these medications are imported through the grant, they do not affect current account.

Chart 4: External Trade by Countries (m USD), January-August 2016

Georgia's major export market is Turkey. During the months of January to August of this year, total of 134.4m USD value goods have been exported to Turkey, making up 10.2% of the total export.

Table 2: Change in Exports by Countries, January-August 2016

Switzerland	+44.55 m USD
China	+39.65m USD
Russia	+20.15m USD
Bulgaria	-60.14m USD
Azerbaijan	-96.42m USD

Source: GeoStat

Compared to 2015, during the first eight months of 2016, export in goods increased quantitatively in Switzerland, China, and Russia, whereas export rate dropped in Azerbaijan and Bulgaria. Almost all categories of goods exported to Azerbaijan were subject to decrease, in particular, the re-export of

motor vehicles. On the contrary, since the start of this year, re-export of motor vehicles in Switzerland boosted. China significantly increased re-export of copper ores and concentrates. Only in the first quarter of 2016, re-export of this commodity group to China increased by 27m USD annually, making up 93% of the total export.

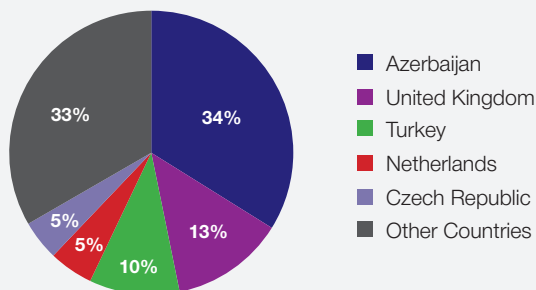
Main export product to Russia is wine, as well as mineral and spring waters. This year's export growth was mainly triggered by the annual growth of beverages, vegetables, citrus, and ferroalloys.

Total annual export in Bulgaria decreased per month, except for February when copper ores and concentrate re-exports increased. Period of June-July should be specially highlighted when the export of crude oil significantly dropped.

THE LARGEST SHARE OF FDIS CONTINUES TO FLOW FROM AZERBAIJAN

In the first part of 2016, FDIs in Georgia made up 834m USD, exceeding the relevant data of 2015 by 11%. The largest part of FDIs flew from Azerbaijan and the United Kingdom.

Chart 5: Shares of Major Investor Countries in total FDI. January-June 2016

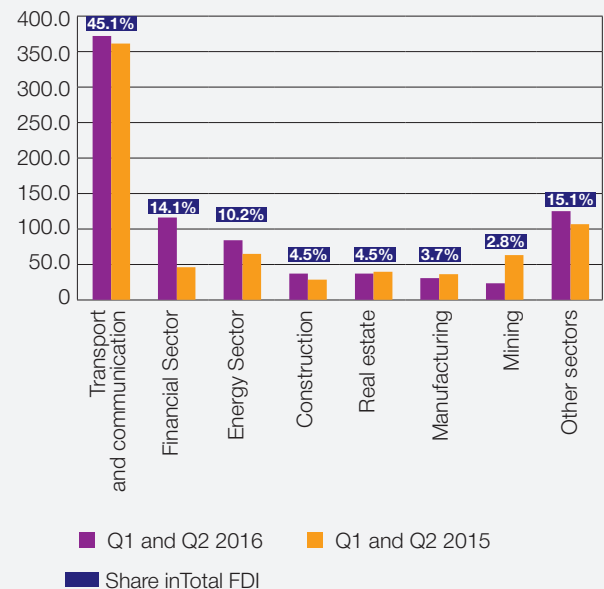


Source: GeoStat

During the reporting period, FDIs amounting to 317m USD came from EU member states and constituted 38% of total FDI. Foreign Direct Investments coming from the Community of Independent States (CIS) hit 300m USD, while international organizations invested 13.4m USD in Georgia.

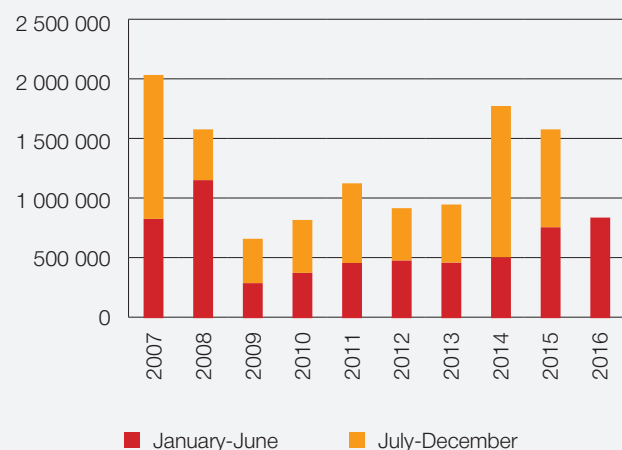
The biggest share of investments was done in the transport sector (358m USD). Investments in the financial sector have also been raised significantly. Slowest growth in investment flow can be witnessed in the mining sector.

Chart 6: Distribution of FDI among economic sectors (m USD)



Source: GeoStat

Chart 7: FDI dynamics (thousand USD)

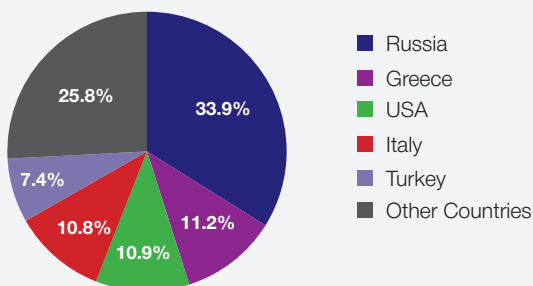


Source: GeoStat

RECENT MONEY TRANSFERS SHOW POSITIVE TREND

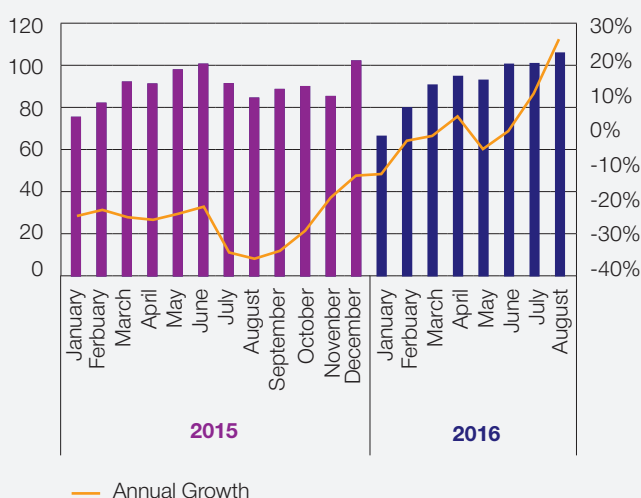
From the beginning of 2016 until September, remittances in Georgia totaled 732m USD. Russia traditionally leads other countries in the flow of remittances in Georgia (248m USD). It should be noted that money transfers from EU member states increased and constituted 33% of total remittances.

Chart 8: Share of Countries in Total Money Transfers - Inflow, January-August 2016



Source: National Bank of Georgia

Chart 9: Dynamics of Received Money Transfers (m USD)



Source: National Bank of Georgia

INTERNATIONAL TRAVELERS

Based on eight months data of 2016, total of 4.9m international visitors visited Georgia, which is 8.6% more than that of the same period in 2015. Most visitors arrived from neighboring countries:

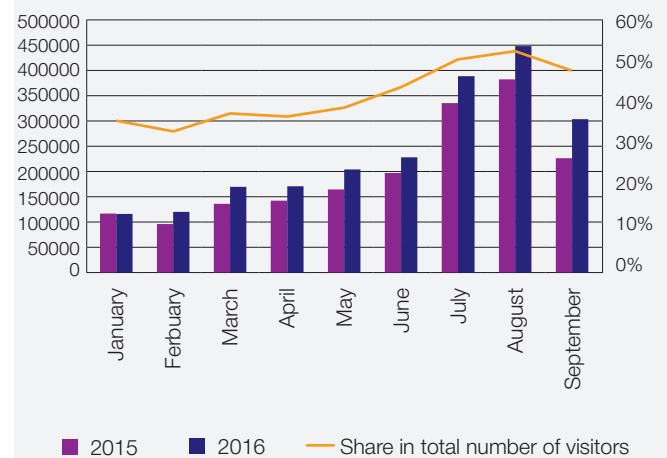
- Azerbaijan – 1 170 thousand
- Armenia – 1 074 thousand
- Turkey – 977 thousand
- Russia – 832 thousand

During the same period, 81% of visitors entered Georgia by land, 17% by air and the rest of the visitors by sea and railway.

48% of visitors were tourists² (2 157 thousand). It should be underscored that compared to the first nine months of the previous year, the number of tourists increased by 19.5%.

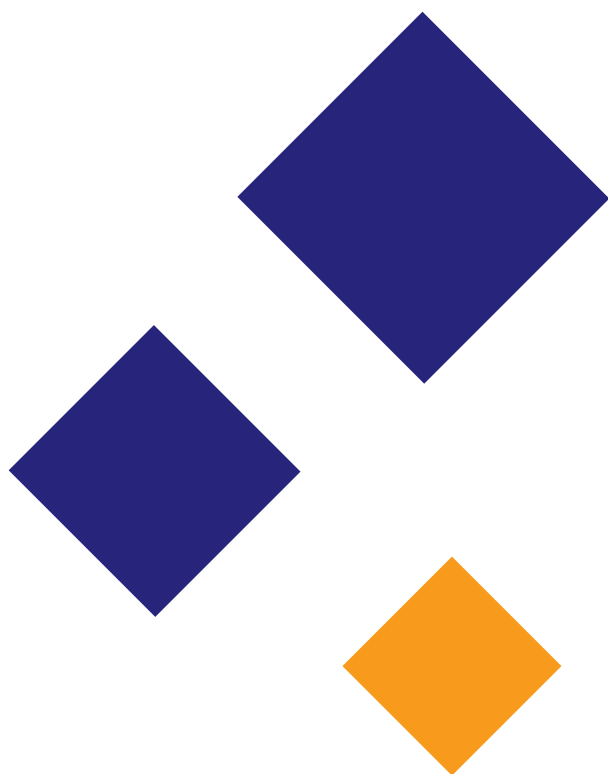
Based on data of National Tourism Administration of Georgia, in the first half of 2016, income from tourism increased annually by 13.2% and amounted to 867.9m USD.

Chart 10: Incoming Tourists Dynamics



Source: Georgian National Tourism Administration

² Foreign nationals who stayed in Georgia 24 hours or more.



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