



BUSINESS ASSOCIATION OF GEORGIA



ECONOMY IN BRIEF

June 2019



საქართველოს ბიზნის ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

REAL GDP GROWTH AMOUNTED 4.8% IN FIRST 4 MONTHS OF 2019

The real gross domestic product in 2018 was increased by 4.7% and exceeded 41 billion GEL. Following the data of the first quarter of 2019, real economic growth was also 4.7%. This growth was incurred by increasing incomes from export and tourism and rising money transfers. Compared to the previous year, acceleration of growth of real GDP was less affected by the loan-stimulated domestic demand.

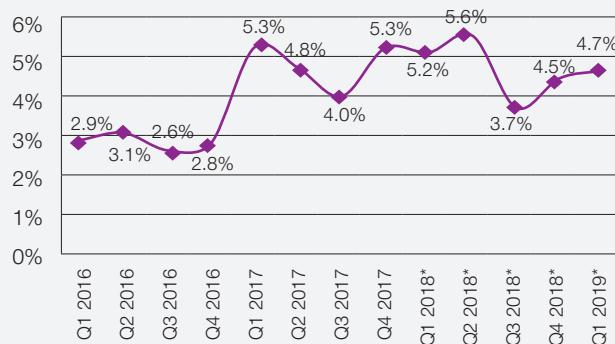
Table 1. Gross Domestic Product

	2017	2018*
Nominal GDP (m GEL)	37,846.6	41,077.5
Nominal GDP (m USD)	15,086.5	16,207.1
GDP per capita (GEL)	10,152.0	11,013.9
GDP per capita (USD)	4,046.8	4,345.5
Real GDP Growth (percent)	4.8%	4.7%

* Preliminary Data

Source: GeoStat

Chart 1. Real GDP Growth in Georgia



* Preliminary Data

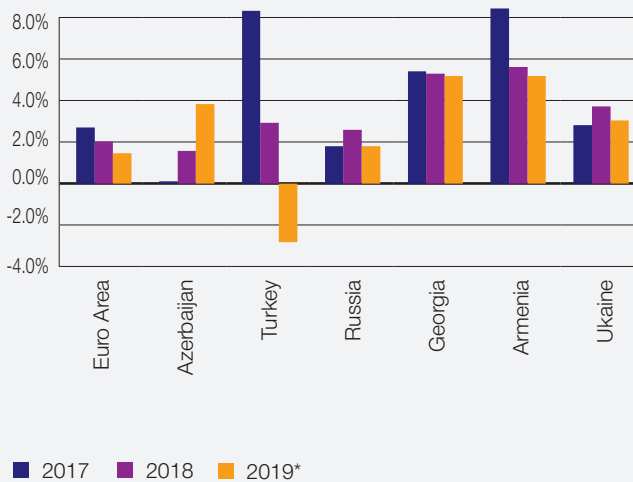
Source: GeoStat

As per International Monetary Fund (IMF) estimates, positive growth rate of global economy dramatically dropped in the second half of 2018. Thus, the world economy showed positive average growth of 3.6%. As per current predictions, for 2019, world growth rate will slow down to 3.3%.

Especially low growth rates will be seen in growing and developing countries of Europe (2018 – 3.6%; 2019 – 0.8%) and as for CIS countries, growth rate will fall from 2.8% to 2.2%.

It is notable that slowing down the economic growth rate in neighboring and partner countries of Georgia will have negative effect on local markets. As per April prediction of the International Monetary Fund, we should expect 4.6% positive growth rate in 2019 in Georgia. As usual, World Bank prediction is more optimistic, with 5.0% positive growth. Similar the international organizations, National Bank of Georgia also forecasts 5.0% positive economic growth in 2019. National Bank considers that, such growth will be due to increased domestic consumption driven by increased credit activity and fiscal stimulus.

Chart 2. Real GDP Growth



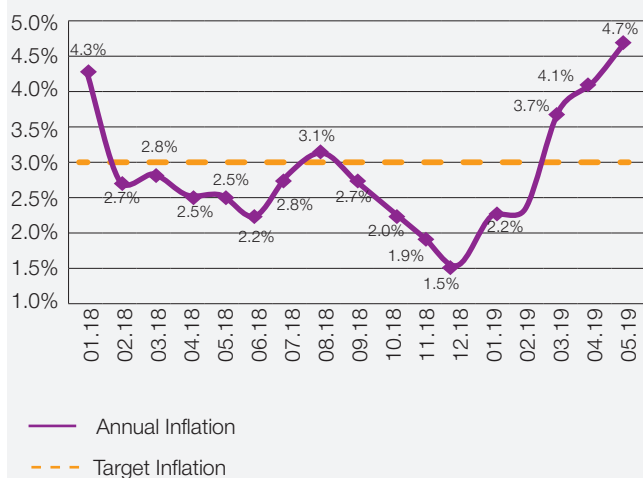
* Projections

Source: GeoStat, World Bank

AVERAGE ANNUAL INFLATION AMOUNTED TO 2.7% IN Q1 2019

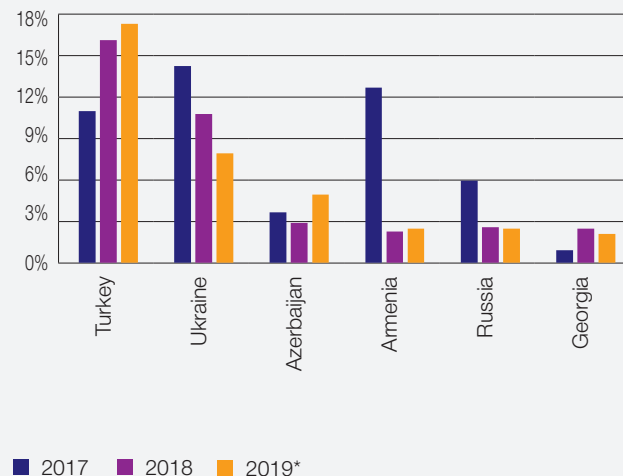
Notwithstanding the increasing of the excise tax on tobacco from the beginning of 2019, average annual inflation in the first quarter was kept lower than target level (3%), verified as of 2.7%. Decreased aggregate demand was the reason of low inflation level in the given period. However, as the National Bank of Georgia predicts, annual inflation rate for the coming quarters will be kept higher than target level, being provisioned by imported inflation. This effect can already be felt. Level of inflation was sharply increasing after January – February and reached 4.7% by the end of May.

Chart 3. Annual Inflation



Source: National Bank of Georgia, Geostat

Chart 4. Consumer Price Inflation



* Forecast
Source: IMF

Despite the accelerated inflation growth rate, the National Bank of Georgia keeps the slow pace of easing the monetary policy that was tightened in the previous years. This year, Monetary Policy Committee cut down the rate by 25 basis points twice. Presently, refinancing rate is kept at 6.5%. If the inflation rate exceeds the target level more than expected, it is expected that the Monetary Policy Committee will reduce the refinancing rate by additional 25 bp.

GEORGIAN LARI DEPRECIATED AGAINST MAJOR TRADE PARTNERS' CURRENCIES

In the fourth quarter of 2018, Georgian Lari was devaluated against the currencies of major trading partner countries¹. In the beginning of 2019, it was comparably revaluated. However, this trend failed to live long. From the start of May, Georgian Lari started to devaluate again against the currencies of almost all trading partner countries – US Dollar, Euro, Dram, Manat, Lira and Ruble.

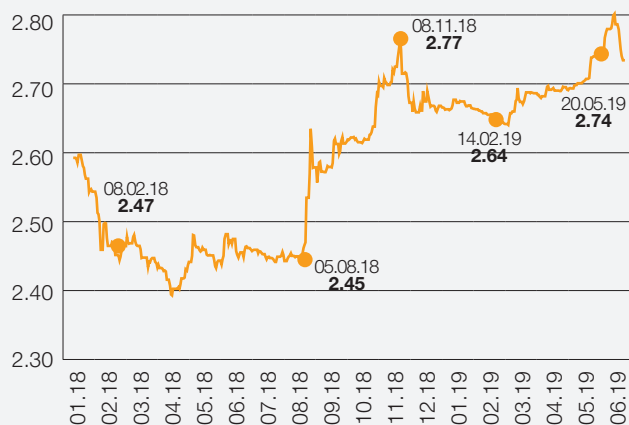
As stated in previous edition, Turkey and Ukraine are tightening their monetary policy. For the purposes of supporting economic processes, eased monetary policy was reverted back to tight policy again by the Central Bank of Russian Federation at the end of 2018. Last year, US Federal Reserve raised its interest rates too. Thus, the processes, ongoing in major trade partner countries of Georgia, has negatively affected commodity, as well as financial flows, reflecting on exchange rate.

SHARE OF EXTERNAL MERCHANDISE TRADE DEFICIT IN TRADE TURNOVER KEEPS SHRINKING

In the first quarter of 2019, commodity export showed positive annual growth of 12.8%, reaching 826 million US Dollars. At the same time, import decreased annually by 4% and constituted 1 996 million US Dollars. Negative trade balance shrank by 13.1% and sums up to 1.17 billion US Dollars. Whereas, foreign trade turnover was almost the same as the previous year's (0.4%). Therefore, share of trade deficit in the entire turnover, decreased to 41.5%. (Chart 6)

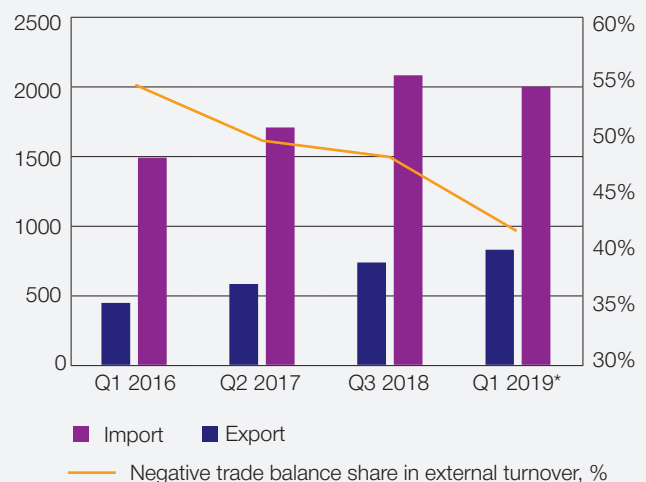
CIS countries still remain as the leading export market for Georgia. Third part of ferroalloys and one fourth of wine are exported to Russia. Azerbaijan buys almost 40% of re-exported motor cars. Due to negative economic processes in Turkey, export growth rate plummeted. However, Turkey is still one of the largest export markets for Georgia.

Chart 5. USD/GEL Official Exchange Rate



Source: National Bank of Georgia

Chart 6. External Merchandise Trade (m USD)

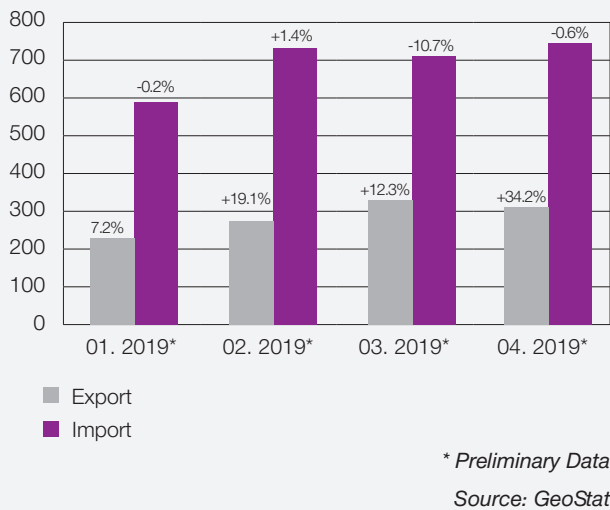


* Preliminary Data

Source: GeoStat

¹ US Dollar, Euro, Ruble, Lira.

Chart 7. Merchandise Export and Import by Months (m USD) and Relative Annual Growth Rates



According to the data of the first quarter of 2019, all large export commodity groups showed the positive annual change. Export of mineral and fresh waters increased by 25%. Wine export was increased by 17%. Export of medicaments is increased by 85% exceeding 52 m US Dollars. Re-export of motor cars is increased by 53%.

Chart 8. Export by Commodity Groups (m USD) Rates

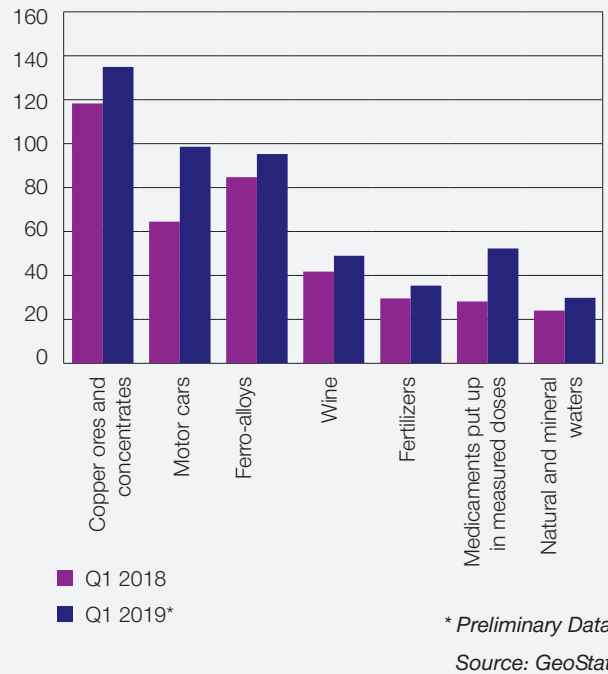
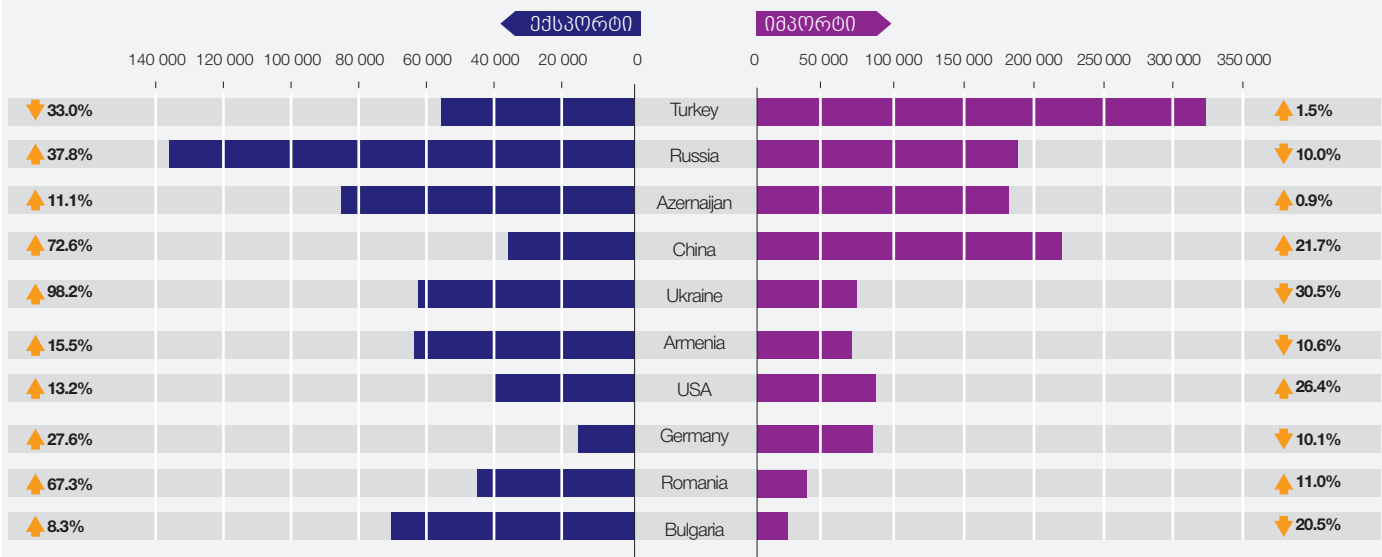


Chart 9. External Merchandise Trade by Country (thousand USD), Q1 2019*



* Preliminary Data
Source: GeoStat

1.6 M INTERNATIONAL TRAVELERS VISITED GEORGIA IN Q1 2019

In the first quarter of 2019, number of international visitors reached 1 618 thousand. Number of annual visits was increased slightly, only by 2.2%. But, compared to 2018, transactions with foreign cards are increased by 20%, in the first quarter of 2019.

Majority of the guests come from the neighboring country. In the given period, number of visits from Russia increased almost by 22%. As for the number of visits from Turkey in the first quarter of the year, it was decreased by 15%, which might be caused by negative economic processes in the country.

Chart 10. International Visitors by Country, Q1 2019

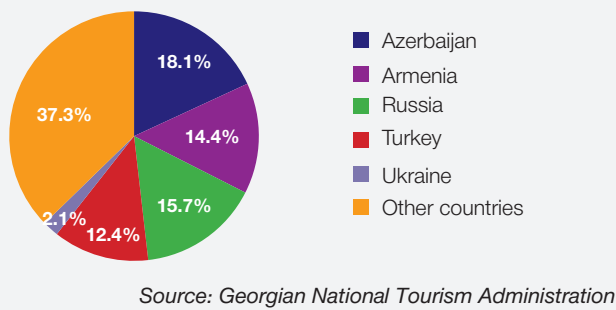
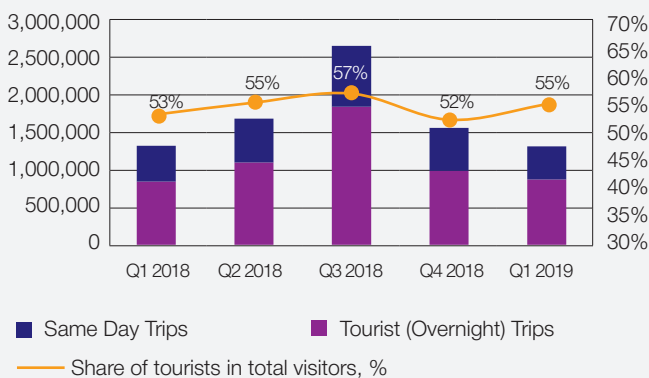


Chart 11. Dynamics of Incoming International Visitors



As for the number of outbound tourists, it exceeded 677 thousand in the first quarter of 2019 and the money they spent abroad reached 360 m Georgian Lari.

FOREIGN DIRECT INVESTMENTS EXCEEDED 1.2 BN USD IN 2018

As per preliminary data, foreign direct investments made in Georgia in 2018 reached 1 232 m US Dollars, which is decreased annually by 34.9%.

Azerbaijan is still the largest investor country, though in 2018, compared to 2017, direct investments from Azerbaijan was halved, dropping to 240 m US Dollars. Significant negative growth is seen in investments from the United Kingdom and the Netherlands. It should be noted that these three countries are the largest investors in Georgia throughout last few years.

Chart 12. FDI by Major Investor Countries (m USD)

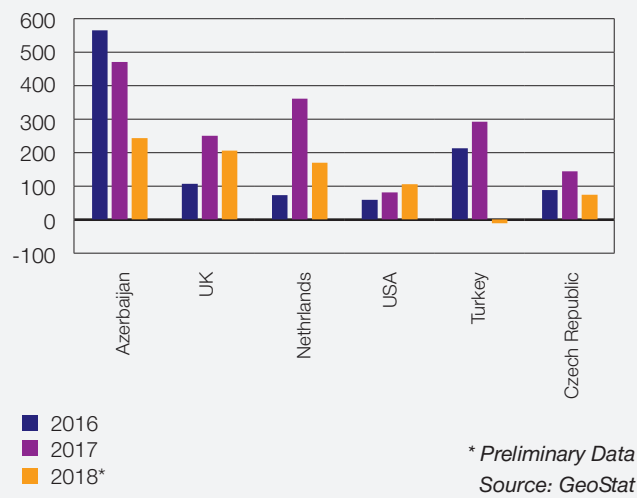


Chart 13. Decomposition of FDI (m USD)

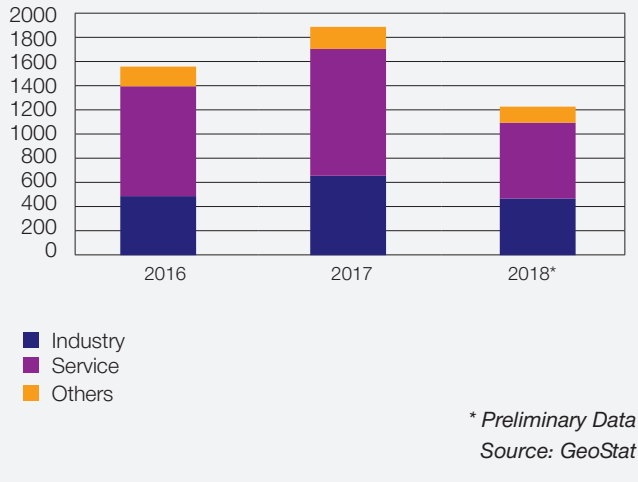


Chart 15. Dynamics of FDI (m USD)

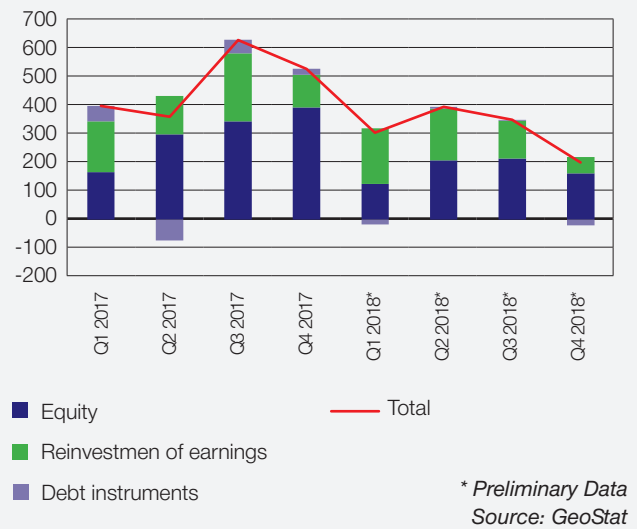
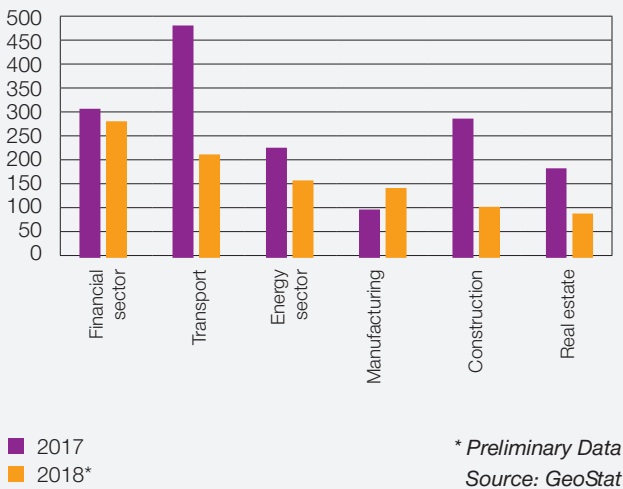


Chart 14. Distribution of FDI among Economic Sectors (m USD)



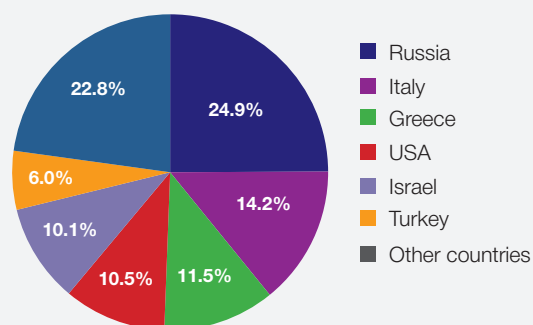
RECEIVED MONEY TRANSFERS EXCEEDED 380 M USD IN Q1 2019

In the first quarter of 2019, received money transfers showed positive annual growth of 6.5% and reached 380 m US Dollars.

In the same quarter, money transfers from Russia and Turkey were decreased. However, annual growth rate of money transfers from Italy and USA exceeded 20%. Slight growth is seen in money transfers from Israel and Greece too.

Transport and communication, construction and real estate sectors are suffering from dramatic drop in terms of the foreign investments. Meanwhile, investments increased in sectors such as manufacturing, agriculture and healthcare. However, growth in these sectors failed to balance the fall in other sectors.

Chart 16. Share of Countries in Inflow of Money Transfers, Q1 2019



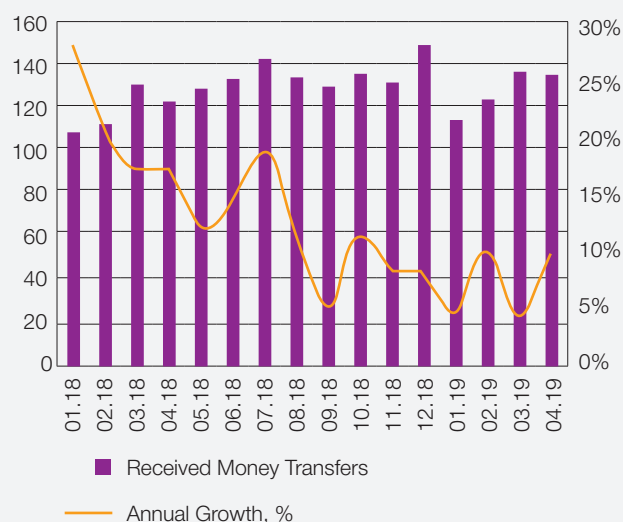
Source: National Bank of Georgia

CURRENT ACCOUNT DEFICIT DECREASED IN 2018

Historically, Georgia's current account balance always was negative. But, in the third quarter of 2018, current account balance turned to surplus. Overall, current account deficit was decreased by 6.4% annually by the end of 2018 and stood at 1 248 m US Dollars.

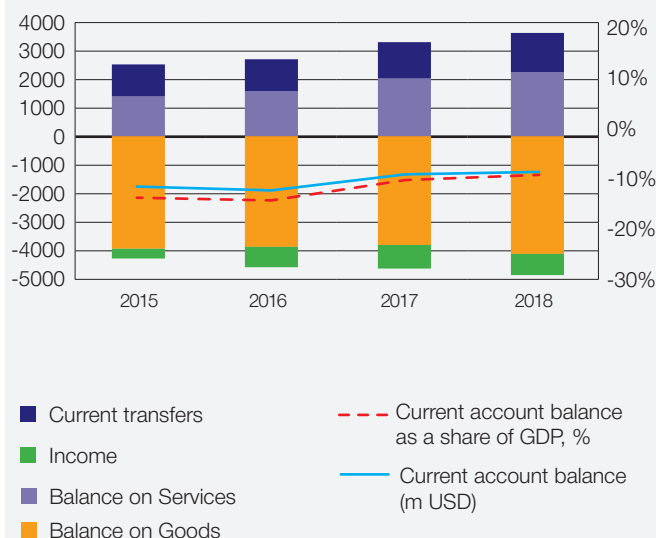
Trade with goods is the main source of the current account deficit in Georgia. Notwithstanding the fact that export incomes were significantly increased (+24%) in 2018, commodity trade deficit got deeper. 11.3% annual growth of income from trade with services failed to balance this deficit. Though, following the growth of current transfers and decrease of deficit of income component, total current account deficit was cut down by 6.4% annually.

Chart 17. Dynamics of Received Money Transfers (m USD)



Source: National Bank of Georgia

Chart 18. Decomposition of Current Account (m USD)



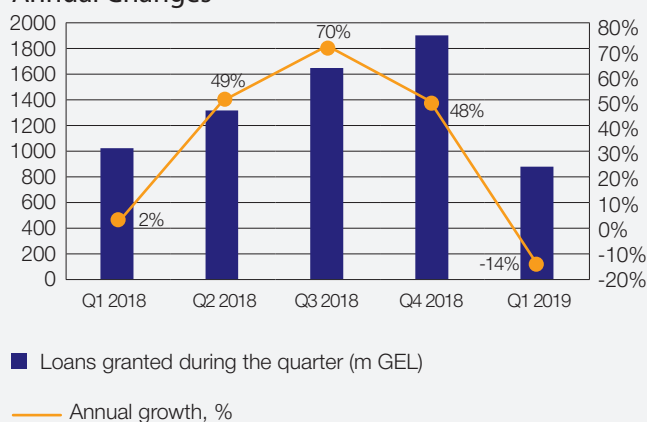
Source: National Bank of Georgia, Geostat

CONSTRUCTION SECTOR OUTPUT DECREASED BY 4.2%

In the first quarter of 2019, output of the construction sector showed negative growth rate of 4.2%, compared to 2018. In the same period, turnover of this sector also fell annually by 3.1%. This decrease might be explained by the regulations that came into force in the beginning of 2019. Tightened landing regulations negatively affected the amount of the loans issued on individuals. Amount of loans to individuals secured by real estate granted in the first quarter of 2019 (both in national and foreign currency) showed negative annual growth of 14%.

As the National Agency of Public Registry informs, during January and February of 2019, there were 27 thousand registrations of primary transactions of real estate, which was 43% lower compared to the same data of 2018. At the same time, number of employees of the construction sector decreased. In the first quarter of 2019, number of employees in the sector was lower by 6.5% annually. Probably, new regulations that apply to the construction will have further negative effect on the turnover and output of the sector.

Chart 18. Loans Secured by Real Estate Granted to the Individuals During the Quarter in National and Foreign Currency (m USD) and Corresponding Annual Changes



Source: National Bank of Georgia

BIBLIOGRAPHY

- National bank of Georgia. Monetary Policy Report. May 2019
- National Statistics Office of Georgia. External Merchandise Trade in Georgia. January-March (Express Data). April 2019
- National Agency of Public Registry of Ministry of Justice of Georgia. Real Estate Market. 2019 (I).
- International Monetary Fund. World Economic Outlook: Growth Slowdown, Precarious Recovery. April 2019
- World Bank Group. Global Economic Prospects – Darkening Skies. January 2019.

The above publication has an informative character and does not serve consultation purpose.
Business Association of Georgia is not responsible for accuracy of data of the sources used in the publication

Economist: Natia Bantsuri

Business Association of Georgia

2 G. Leonidze Street, I Telephone: 995 32 2202215 | email: info@bag.ge

www.facebook.com/BusinessAssociationofGeorgia

www.bag.ge