



**BUSINESS ASSOCIATION OF GEORGIA**



**ECONOMY IN BRIEF**  
**April 2016**



საქართველოს ბიზნის ასოციაცია  
BUSINESS ASSOCIATION OF GEORGIA

**REAL GDP GROWTH AMOUNTED TO 2.8% IN 2015**

According to preliminary estimates, in 2015 GDP of Georgia was 31 691 m GEL and real GDP growth rate was 2.8%<sup>1</sup>. In 2016 a 3% growth is expected. Nevertheless, current year started with a low growth rate – based on the information provided by National Statistics Office of Georgia (GeoStat), real GDP growth rate of January-February constitutes 1.7%.

According to the estimates of National Bank of Georgia, negative implications of the net export on the economic growth will be less than it was the case in 2015. Stable monetary policy should also foster economic growth, which shall reflect the increase in loans and eventually result in increased investments and domestic consumption. However, if regional instability and economic crisis in Georgia’s trade partners escalates, export and remittances will be reduced and real GDP growth rate will be lower than expected.

**Table 1: Gross Domestic Product**

	2014	2015*	Difference
Nominal GDP (m GEL)	29 150.5	31 691.6	8.7%
Nominal GDP (m USD)	16 507.8	13 959.9	-15.4%
GDP per capita (GEL) <sup>2</sup>	6 491.6	8 497.5	30.9%
GDP per capita (USD)	3 676.2	3 743.1	1.8%
<b>Real GDP growth (percent)</b>	<b>4.6%</b>	<b>2.8%</b>	

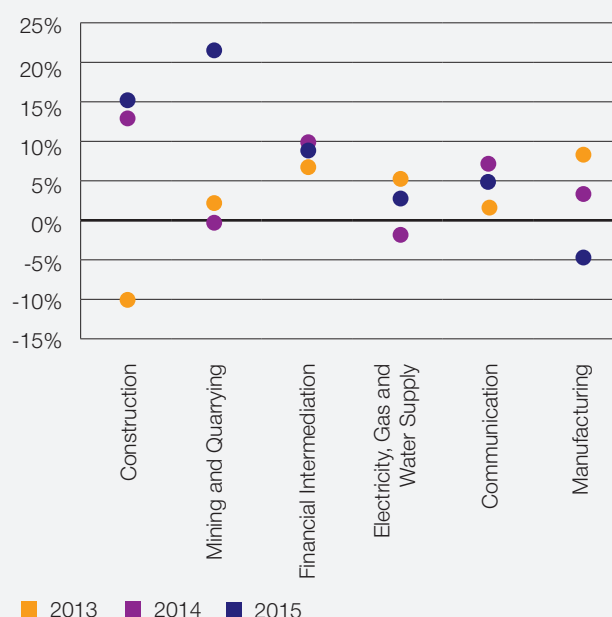
\* Preliminary Estimates

Source: GeoStat

According to 2015 data, the biggest real growth is witnessed in mining industry (21%) and con-

struction sector (15.2%), while manufacturing experienced significant decrease (-4.9%). Industry accounted for nearly a quarter of total production (24.6%) followed with trade (12.4%) and construction (11.3%).

**Chart 1. Real Growth of Different Sectors**



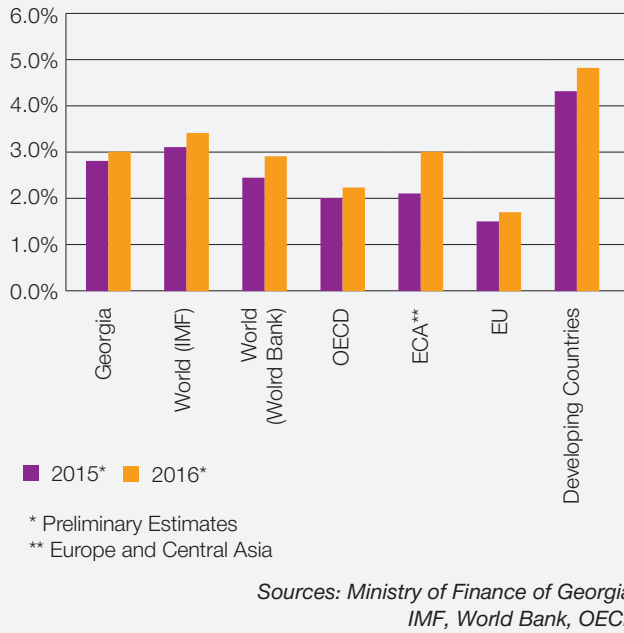
Source: GeoStat

Based on the report of the International Monetary Fund (IMF), global growth amounted to 3.1% in 2015, while 3.4% growth is expected in 2016 and 3.6% growth in 2017. World Bank projects relatively low increase of global economy (2.9% in 2016 and 3.1% in 2017).

1 Adjusted data for 2015 will be published in November 2016.

2 Per capita indicator of 2015 is compiled in line with updated data from 2014 general population census. Pre-census demographic data were used for the calculation of per capita indicators of the previous years. Recalculation of 2003-2014 per capita indicators will be produced in 2016 after release of final 2014 population census data.

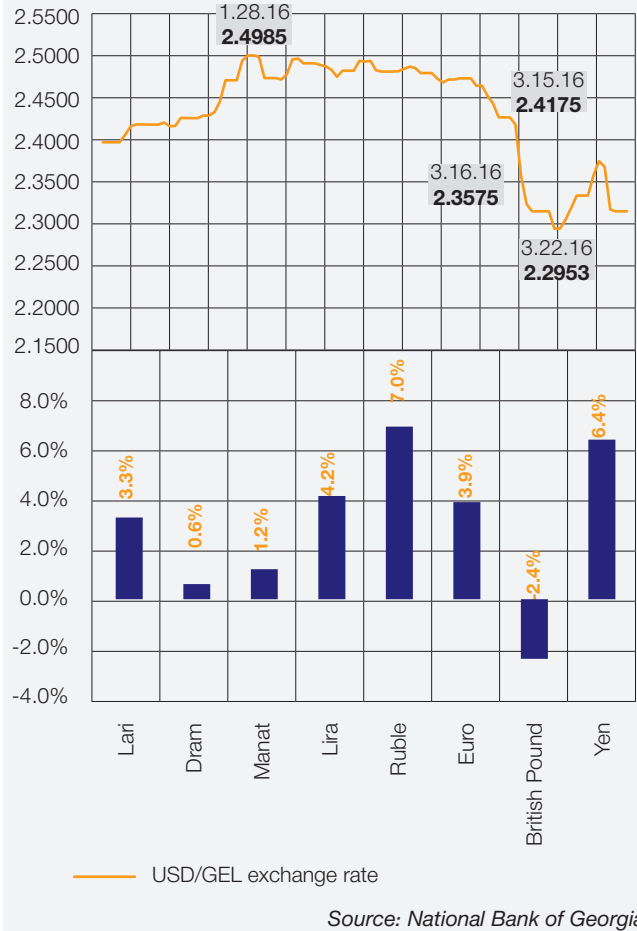
**Chart 2. Real GDP Growth**



### GEORGIAN LARI APPRECIATES AGAINST THE US DOLLAR

In March 2016, average exchange rate of the Georgian Lari against USD amounted to 2.39 and appreciated by 4.2% during the month. In the course of the last year, GEL was depreciating against US dollar and the exchange rate maintained an upward trend. Georgian Lari continued to depreciate even in February and the exchange rate reached 2.5 per USD. In the midst of March, Georgian Lari started to significantly regain its value. On March 16, it has appreciated by 6 Tetri against US dollar compared to the official exchange rate of previous day. In order to balance sharp fluctuation, National Bank of Georgia purchased 5 m and 10 m US dollars on March 17 and 21 respectively. It should be underscored that from November 2014 till February 2016 National Bank of Georgia fourteen times sold US dollar on its Foreign Exchange Auction totally amounting 426 960 000 US dollar, but didn't purchase any.

**Chart 3. Change of exchange rate of the currency against US dollar, following January 1, 2016**



### FOREIGN TRADE DEFICIT DECREASING

In January-February of 2016, based on preliminary assessment, foreign trade turnover amounted to 1 413 m USD. In February, export rate constituted 158.7 m USD, with a 5.1% YOY decrease. As for the import in February, except for the amount of medications for hepatitis C<sup>3</sup>, it equaled to 515 m US dollars and reduced by 11% annually. Accordingly, in the February foreign trade deficit<sup>4</sup> decreased by 13.5% YOY.

<sup>3</sup> In February of 2016, import of medication of Hepatitis C amounted to 208 m USD. Those medicines are imported in the frame of Hepatitis C Elimination Program.

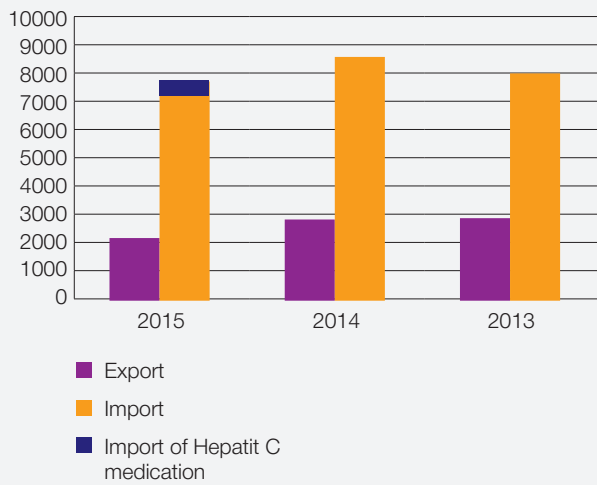
<sup>4</sup> Except the import of Hepatitis C medication.

As for 2015, according to the preliminary assessment, foreign trade turnover, compared to the rate of 2014, decreased and equaled to 9 928 m USD, out of which export amounted to 2 204 m USD and import – 7 724 m USD; however, by extracting the amount of Hepatitis C medication, import of 2015 reduces to 7.3 m US dollars, which is lower compared to the import in 2014 by 15%.

32% of gross external trade turnover is with EU countries, being boosted by 6% (3.2. USD) YOY, while trade with CIS countries reached 28% of gross turnover.

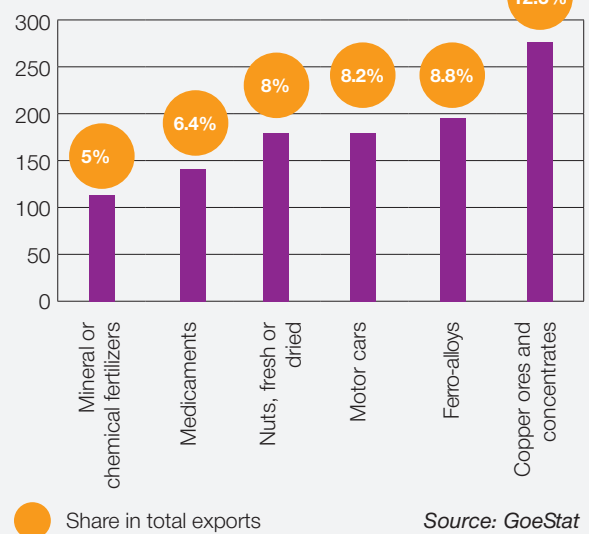
Even though export (-22%) and import (-23%) to and from Turkey is dropped, it still remains to be the biggest trade partner of Georgia with 1.5 bn USD turnover.

Chart 4. External Trade (in m USD)



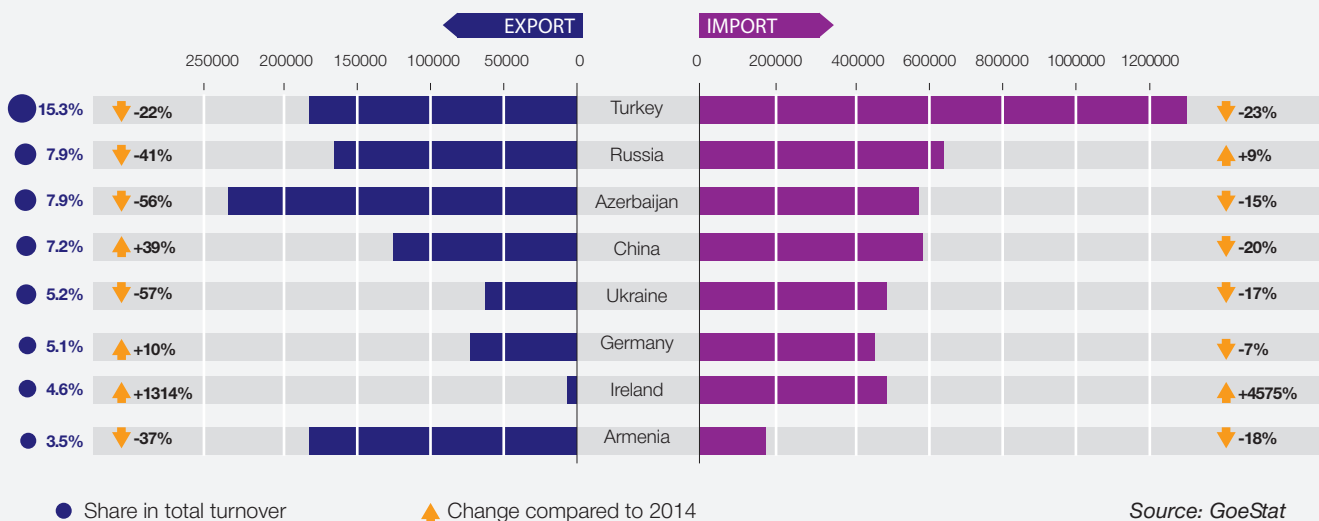
Source: GoeStat

Chart 5. External Trade by Product Groups (in m USD), 2015



Source: GoeStat

Chart 6. External Trade by Countries (in thousand USD), 2015



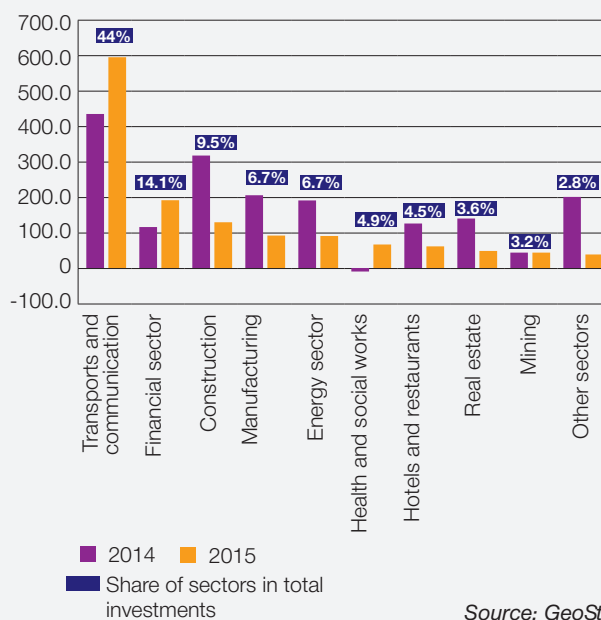
Source: GoeStat

**THE LARGEST SHARE OF FDI IS ALLOCATED IN TRANSPORTS AND COMMUNICATIONS**

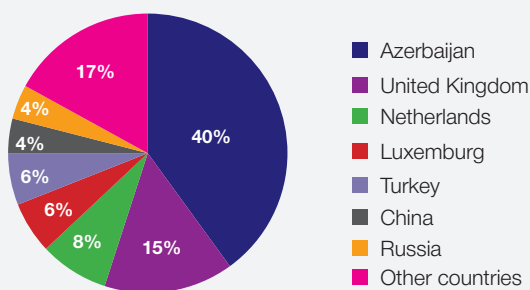
Based on preliminary estimates, the FDI in Georgia in 2015 amounted to 1 351 m USD<sup>5</sup>, which is a 23% down compared to the verified estimates of 2014. In 2015, most of the FDI – 1 bn USD was allocated in equity, while approximately 300 m USD was a reinvestment of earnings. The largest direct investor country is Azerbaijan (40.1%). Direct investments inflow from Azerbaijan has increased by 200 m USD since 2014 and amounted to 542 m USD. Overall investments made by the five largest foreign direct investor countries amounted to over ¾ of total FDI.

The largest share of the FDI have been made in transports and communications. As compared to 2014, investments made in the above sector have increased by 160 m USD. Investments in energy sector have declined by 100 m USD as compared to 2014, which amounts to 7% of the overall FDI.

**Chart 7.** Distribution of FDI among economic sectors (m USD)



**Chart 8.** Shares of FDI by Major Investor Countries, 2015



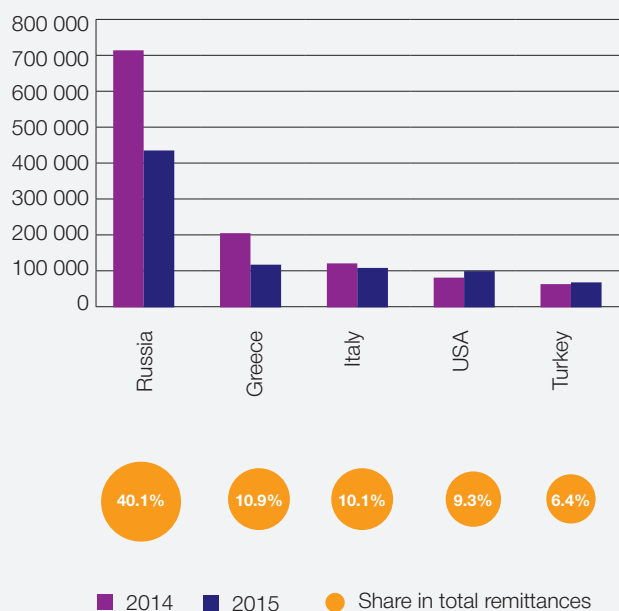
<sup>5</sup> Adjusted data will be published by the GeoStat on August 15, 2016.

**MONEY TRANSFERS IN FEBRUARY HAVE INCREASED BY 13.3 M USD**

In the first two months of 2016 inflow of remittances to Georgia have amounted to 146.4 m USD, which is 7% less than the same index in the first two months of 2015. However, in February remittances have increased by 13.3 m USD compared to January and it is only 2.6% less than the same index from February last year.

In 2015, 1 080 m USD have been received by Georgia in the form of money transfers, 40% of which came from the Russian Federation.

**Chart 9. Money Transfers by Countries – Inflow (in thousand USD)**



Source: National Bank of Georgia

**NUMBER OF INTERNATIONAL VISITORS HAS INCREASED BY 17% IN MARCH 2016**

During the first quarter of 2016, 1 134 thousand international travelers visited Georgia, thus exceeding same index from Q1 2015 by 14.7%. Only in March 451 thousand international visitors arrived to Georgia and it should be emphasized that this number has increased by 16.7% YOY. Most of the visitors came from Azerbaijan (29.2%), Turkey (22.8%) and Armenia (21.1%). Number of arrivals from Iran has increased by 12.5 thousand visitors compared to March 2015.

In 2015, totally 5.9 m international visitors arrived in Georgia, 85% of which entered Georgia by land, while 13% used air transportation to enter the country.

**INFLATION RATE DROPPED BELOW THE TARGET LEVEL**

In March 2016, the annual inflation rate amounted to 4.1%, which is, unlike the previous months, lower than target inflation rate of 2016 (5%). According to National Bank of Georgia, at the beginning of the current year, the inflation rate would have been above the target level, followed by the decline. In the second half of 2016, the inflation rate will remain within the target level. However, if the economic crisis in the region deepens, the inflation rate will be higher than the current projection (by approximately 0.5%).

In March, a 10.2% increase of prices in healthcare sector was the main contributor to the yearly inflation. Prices of medical products, equipment and

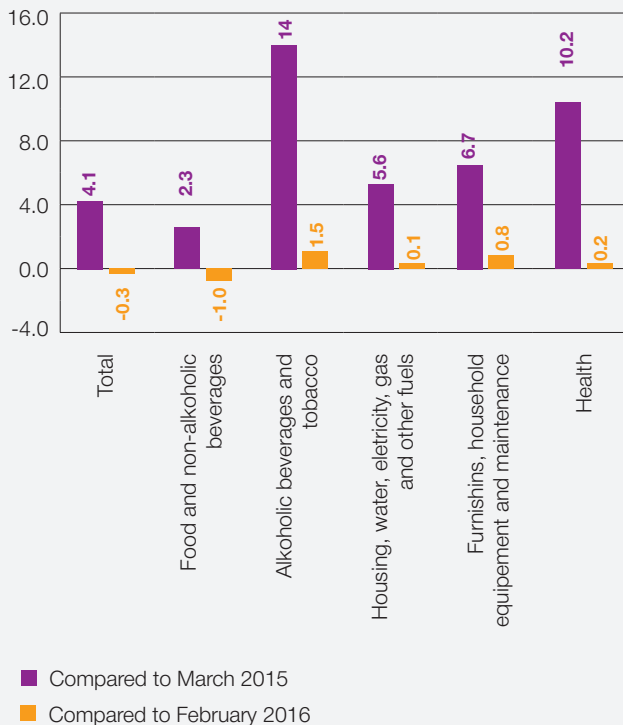
devices have increased by 18.7%. There was a 20% increase in tobacco products prices, while the prices in the group of alcoholic beverages and tobacco increased by 14%. The prices of grocery products and non-alcoholic beverages have increased by 2.3% annually.

According to National Bank of Georgia, in the first quarter, the increase of inflation rate and a devi-

ation from the target rate was preconditioned by the increased input costs, imported inflation and inflation expectations. In the upcoming quarters, expectations will no longer cause the inflation rate deviation from the target. Moreover, in the second half of the year, the share of the imported inflation in the annual inflation rate will be insignificant.

**PRODUCTION TURNOVER INCREASED**

**Chart 10.** Percentage Change in Consumer Prices in March 2016



Source: GeoStat

In February 2016, the VAT payers’ production turnover has increased by 4 032.4 m GEL (10.4%) in comparison to February of the last year. In 2015, during four quarters, the total turnover of the business sector amounted to 52.0 bn GEL, which is a 2.8 bn GEL YOY increase. Over the last year, the turnover in small enterprises has increased by 6.9%, in medium-size enterprises – by 6.4%, while in larger enterprises – by 5.3%.

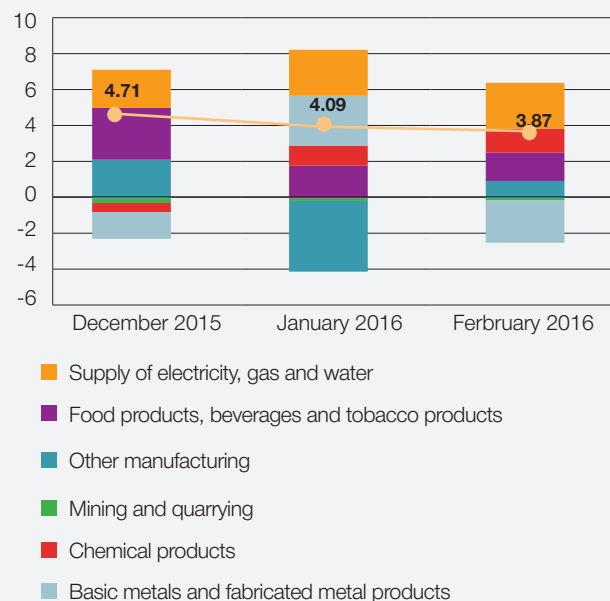
Overall production output in four quarters of 2015 amounts to 27 bn GEL, which is a 3.6% (943 m GEL) increase from the 2014 production output level. Output of large enterprises has increased by 900 m GEL and amounts to 21.8 bn GEL. The output in the healthcare and social services sector has decreased the most (-28%), both in terms of percentage, as well as numerically, the output also has decreased in agriculture (-8.2%) and industrial sectors (-3.7%).

**PRODUCER PRICE INDEX FOR INDUSTRIAL PRODUCTS HAS INCREASED**

Producer Price Index (PPI) for industrial products indicates the change of the average production prices<sup>6</sup>. The PPI of February 2016 has increased by 1.1% MOM, and by 3.9% YOY.

The price increase for supply of electricity, gas and water (by 19.4%) has significantly contributed to the 3.9% annual increase of the index. Over the year, manufacturing cost of chemical products has increased by 25.5%, while production prices of food products, beverages and tobacco products have increased by 4%. In general, manufacturing costs have increased by 1.8%, while the prices for basic metals and metal products have decreased by 14.3%.

**Chart 11.** Decomposition of PPI for Industrial Products



Source: GeoStat.

<sup>6</sup> In calculating the index, price does not include VAT, excise, transportation cost.

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