



Georgian Tourism Sector – 1H18 Update

Tourism Boom Continues

Georgia | Tourism
Georgia's Tourism Sector
August 27, 2018

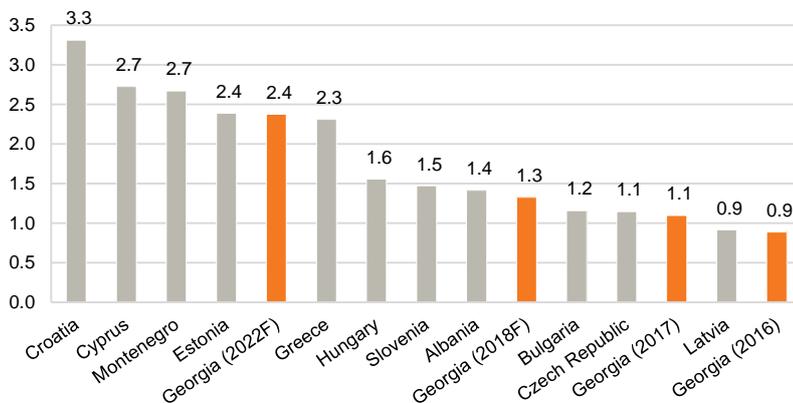
Tourism is booming: visitor trips (tourist trips and same-day trips combined) were up 16.4% y/y to 3.0mn in 1H18. Tourist trips drove the growth, reaching 1.9mn visitors and accounting for 64.5% of the total in 1H18. This comfortably translates into our total tourist trip forecast for 2018 of 4.9mn. Leisure and recreation is the predominant purpose of visits to Georgia, and visitors enjoy Georgian cuisine the most. With Georgia's regions attracting a growing number of visitors and the regional accommodation market undersupplied, the timing for the hotel development in Georgia's regions looks right.

Neighbors dominate but share has consistently fallen since 2015. Visitor trips (tourist trips and same-day trips combined) were up 16.4% y/y to 3.0mn in 1H18. The top source markets (Armenia, Azerbaijan, Turkey and Russia) accounted for 72.0% (73.0% in 1H17) of the total trips and contributed 10.8ppts to the overall growth of 16.4%. In 1H18, from the top four source countries, the largest individual contribution to overall growth came from Russia (+27.9% y/y). Visitor trips from Turkey (+20.4% y/y) and Azerbaijan (+10.6% y/y) also posted double-digit increases while visitor trips from Armenia increased modestly (+3.9% y/y). The secondary source markets contributed 5.5ppts to overall growth in visitor trips with Iran (+41.0% y/y), Israel (+36.8% y/y) and Germany (+44.4%) driving the increase.

Tourist trips drove growth, accounting for 64.5% of total in 1H18. Tourist trips rose 22.9% y/y to 1.9mn in 1H18, which we expect to comfortably translate into our total tourist trip forecast for 2018 of 4.9mn.

We expect tourist trips to reach nearly 9mn by 2022. We have revised our forecast upwards and now expect 8.8mn tourist trips in 2022 (up from 7.6mn previously), or 2.4x the country's population based on a new methodology (see Table 1 and Box 1 for clarification). This increase will see Georgia overtake Hungary (1.6x), Slovenia (1.5x), Albania (1.4x) and Bulgaria (1.2x) according to their 2016 ratios. However, this would still be below the proportions found in Croatia (3.3x), Cyprus (2.7x) and Montenegro (2.7x) in 2016.

Figure 4: Tourists to country's population, 2016

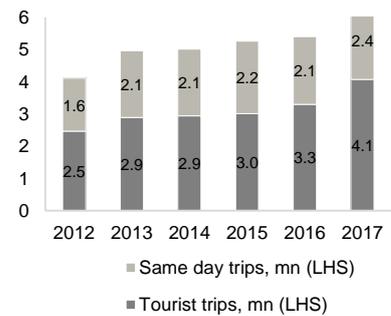


Source: UNWTO, WB, GeoStat, G&T Research

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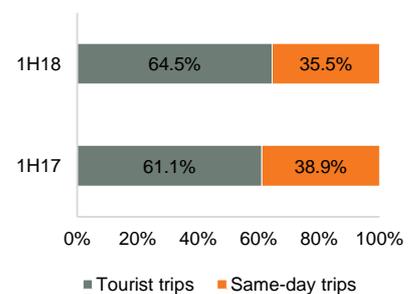
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Figure 1: Visitor trips by type, annual



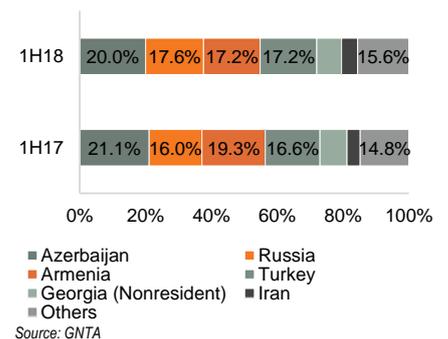
Source: GNTA

Figure 2: Visitor trips by type, 1H



Source: GNTA

Figure 3: Visitor trips by country



Source: GNTA



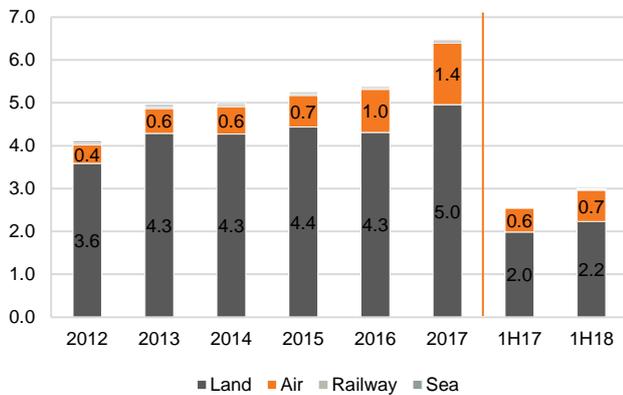
Table 1: Forecast of tourist trips

	2015	2016	2017	2018F	2019F	2020F	2021F	2022F
Tourists, mn (previous forecast, <i>old</i> methodology*)	2.3	2.7	3.5	4.2	5.1	5.9	6.8	7.6
Tourist trips, mn (current forecast, <i>new</i> methodology)	3.0	3.3	4.1	4.9	5.9	6.9	7.9	8.8
% change y/y	2.5%	9.5%	23.4%	21.2%	19.2%	16.8%	14.5%	12.3%

*See our update on Georgia's tourism sector, "Tourism at Full Speed", May 2018
Source: GNTO, G&T Research

Air arrivals grew 30.6% y/y to 0.7mn in 1H18 – the fastest growth rate among the four main modes of transportation. New direct flights and increased frequency of flights to Western Europe, the Middle East and post-Soviet countries drove the growth in air arrivals. Road travel is still the most popular with 74.4% of travelers using road transportation in 1H18.

Figure 5: Visitors trips by mode of transportation



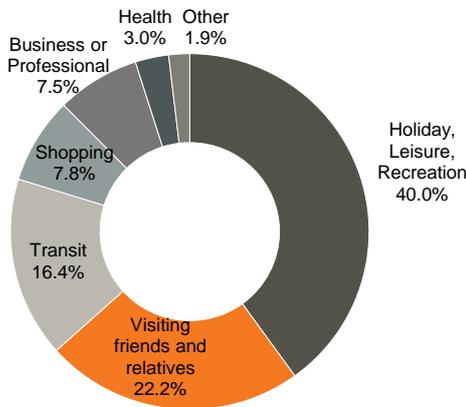
Source: Civil Aviation Agency

Leisure and recreation is predominant purpose of visits to Georgia. Some 40.0% of visitor trips to Georgia were for recreational purposes in 1H18, up from 33.2% in 1H17. Visiting friends/relatives was the second most common reason for visiting Georgia, likely driven by non-resident Georgian citizens. We expect the share of leisure/recreation visitors to increase most in the arrival mix given Georgia's ambition to become a four-season tourist destination.

Visitors enjoy Georgian cuisine most. Spending in Georgia by international visitors was up 49.3% y/y to GEL 3.3bn in 1H18. Some 28.1% of visitor expenditure is on food and drinks (GEL 0.9bn), followed by accommodation (GEL 0.7bn) and leisure/recreation (GEL 0.6bn). Furthermore, recent developments in modern retail spaces have boosted visitors' shopping expenditure, which rose 32.1% y/y in 1H18 to GEL 0.5bn.

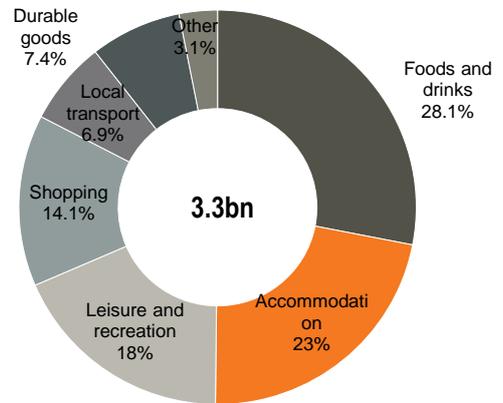


Figure 6: Visitor trips by purpose of visit, 1H18



Source: GeoStat

Figure 7: Tourist spending in Georgia, 1H18

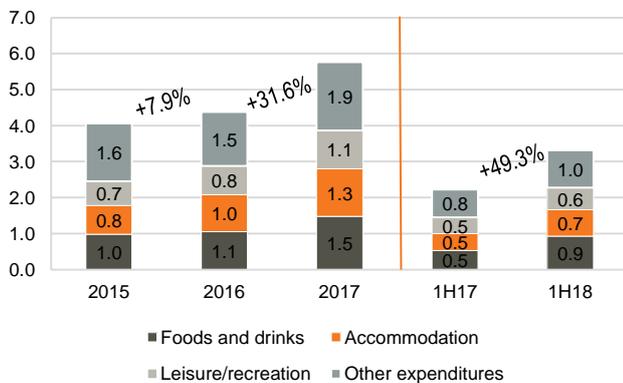


Source: GeoStat

Visitors from Turkey, Azerbaijan and Armenia have the shortest duration of stay and lowest spending per arrival. Some 51.1% of visitors from these countries do not spend the night in Georgia. Therefore, per-visitor spending from these countries is the lowest, however these visitors contributed significant tourism revenues overall in 2017 (GEL 2.2bn, 37.9% of total).

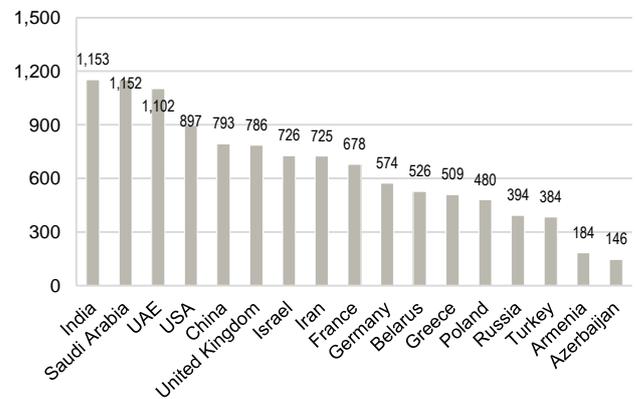
Visitors from India, Saudi Arabia and UAE spend most in Georgia. Despite accounting for 28.0% of visitor trips in 2017, visitors from secondary source markets contributed 42.1% of total expenditure in 2017 (GEL 2.4bn, 42.1% of total).

Figure 8: Spending in Georgia by year, GEL bn



Source: GeoStat

Figure 9: Average spending per trip by country, US\$



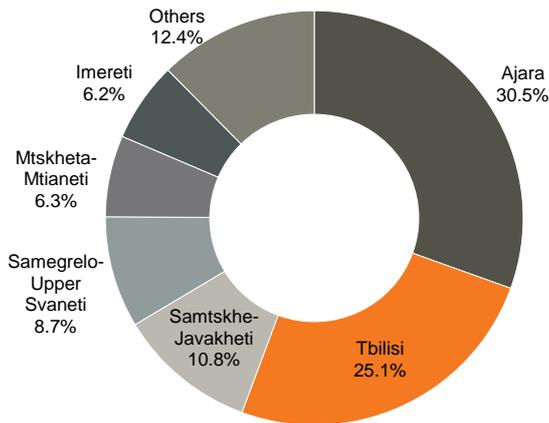
Source: GeoStat

Georgia's room stock is concentrated in Tbilisi and Adjara while other regions are attracting a growing number of visitors. As of 1H18, Georgia had 2,342 registered accommodation units (all organizations registered as having accommodation services) with 34,000 rooms and nearly 84,000 beds. Some 55.6% of room stock is located in Adjara (30.5%) and Tbilisi (25.1%). Tbilisi remains the most popular tourist destination; however, Kakheti (+31.2%), Mtskheta-Mtianeti (+35.3%) and a number of other regions (+44.8%) saw significant increases in tourist trips in 1H18; these areas lack accommodation stock. With Georgia's regions attracting a growing number of visitors and the regional accommodation market undersupplied, the timing for the hotel development in Georgia's regions looks right. (See our update on Georgia's tourism sector, "Tourism at Full Speed", published May 2018).



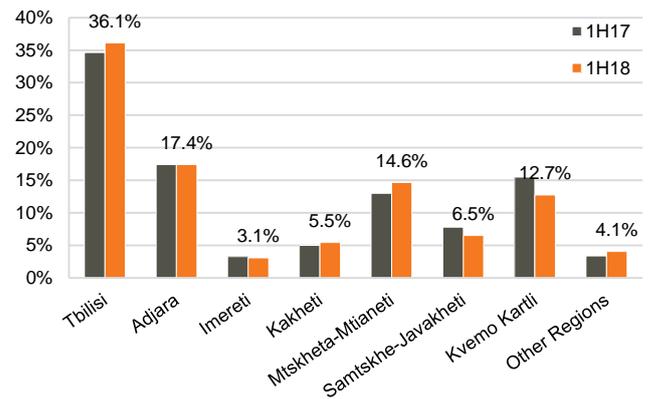
House rentals (via Airbnb) filling budget accommodation supply gap in Tbilisi and Adjara. Of the total 27.7mn nights that visitors spent in Georgia in 2017, 42.6% (11.8mn) were in hotels and hotel-type accommodation, 14.9% (4.1mn) were in rented homes and apartments via Airbnb and the rest were in the private home of a relative/friend, which is driven by non-resident Georgian citizens.

Figure 10: Distribution of rooms by region, 1H18



Source: GNTA

Figure 11: Visitor destination by region



Source: GeoStat

BOX 1: New methodology for tourism statistics

GNTA has moved to a new methodology for compiling tourist-related statistics in 2018. The methodology is aligned with UNWTO standards and allows for more accurate and comprehensive peer comparison. GeoStat also conducted an international visitor survey, which explores tourist characteristics such as spending patterns, duration of stay, average spending by visitors, purpose of visit, etc.

The international travellers statistics based on new methodology registers the following categories:

- International traveler trips:
 - Tourist trips (overnight stay)
 - Same-day trips
 - Other trips (non-tourism trips). This category includes trips to usual environment and trips of travelers aged 15 or below. Travelling to usual environments is defined as travelling to other country eight or more times a month.
- Tourist trips and same-day trips are pooled in international visitor trips (which is subject of our analysis).
- The new methodology includes Georgian citizens who live abroad and excludes foreign residents who live in Georgia.
- The new methodology does not register transit visitors separately (which was one of the separate categories in old methodology).

Table 2: International traveler breakdown according to the new methodology

	2011	2012	2013	2014	2015	2016	2017	1H18
1. International traveler trips, mn (3+4+5)	3.1	4.7	5.7	5.9	6.3	6.7	7.9	3.6
2. International visitor trips, mn (3+4)	2.7	4.1	5.0	5.0	5.3	5.4	6.5	3.0
3. Tourist (overnight) trips, mn	1.8	2.5	2.9	2.9	3.0	3.3	4.1	1.9
4. Same-day trips, mn	0.9	1.6	2.1	2.1	2.2	2.1	2.4	1.1
5. Other (non-tourism), mn	0.4	0.6	0.8	0.9	1.0	1.3	1.4	0.6

Source: G&T Research



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