



# Georgian Economy GDP Recalculation – Economy Expands by 8.6%

Georgia | Economy  
November 18, 2019

## Key Highlights

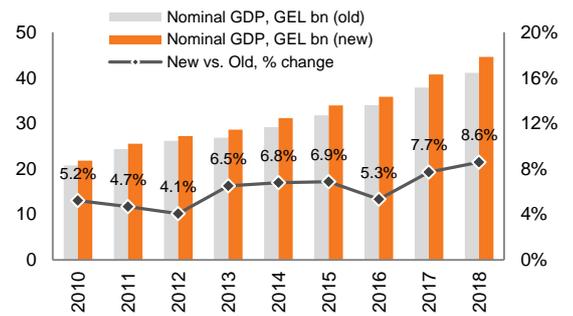
- Geostat changed accounting methodology to a new Standard of National Accounting (SNA 2008), rebased GDP to year 2015 from year 2010 and recalculated GDP data from 2010 to 2018.
- Economy expands by 6.9% to GEL 33.9bn (US\$ 14.9bn) in the base year and by 8.6% to GEL 44.6bn (US\$ 17.6bn) in 2018 compared to old series.
- Nominal GDP and per capita GDP are higher in new series vs. old series in every single year from 2010 to 2018.
- Real GDP growth rate still strong at 4.8% in 2018; averaged 4.7% during 2011-18. Downward revision to the real growth rate recorded only in 2014: 4.4% in new series vs. 4.6% in old series.
- Georgia's GDP per person increased to US\$ 4,722 from US\$ 4,346 in 2018.
- Expansion in nominal GDP improves debt indicators, creating a fresh borrowing space.

**As recommended by United Nations (UN) Statistical Commission** Georgia's Statistical Office (Geostat), along with some other countries (currently c.80 countries globally, including Georgia's neighbors - Turkey and Armenia) adopted the 2008 System of National Accounts (SNA 2008) on November 15, 2019. Along with this new methodology, Geostat also rebased Georgia's Gross Domestic Product (GDP) series to year 2015 from year 2010 and recalculated the GDP historic data from 2010 to 2018. Currently, these changes are reflected in the annual GDP series by economic sectors, while 2010-18 GDP by expenditure and other series of national accounts (savings, investments, etc.) will be released on 29 November 2019. Notably, quarterly figures, including 2019, will be available at the end of 2019.

**According to Geostat, changes in national accounts are related to the new methodology** as well as the significant improvement in data sources, accounting non-observed economy and processing administrative data. The main differences between the old (SNA 1993) and the new (SNA 2008) methodologies refer to changes in measuring Financial Intermediation Services Indirectly Measured (FISIM), capitalization of research and development (R&D) related expenses and output of owner occupied dwellings. Along with the above mentioned methodological changes, Geostat introduced new statistical classification of economic activities (NACE Rev 2) in the National Accounts.

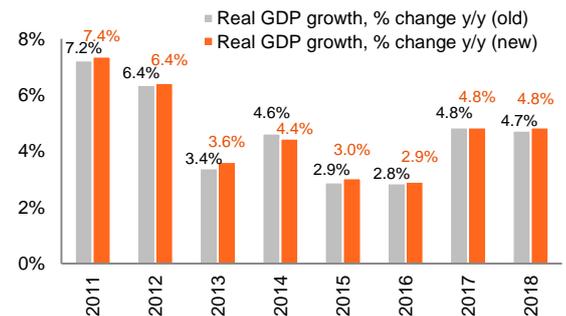
**The adoption of new methodology has some positive implications.** First, the new measurement facilitates international compatibility and reflects the current structure of the economy. Second, higher nominal GDP lowers Georgia's debt ratio, budget deficit, and current account deficit, etc (as % of GDP).

Figure 1: Nominal GDP: New vs. Old



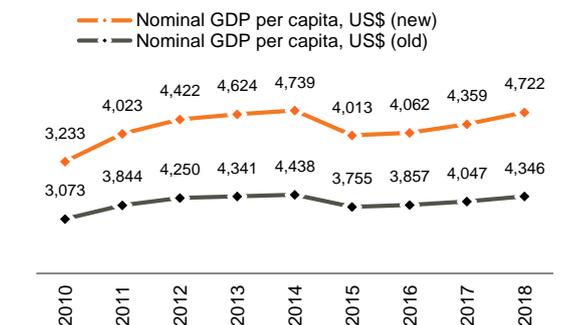
Source: Geostat

Figure 2: Real GDP growth (new vs. old)



Source: Geostat

Figure 3: Per capita GDP (new vs. old series)



Source: Geostat

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**The size of the economy expands during 2010-18**

The new GDP series estimated Georgia's 2015 nominal GDP at GEL 33.9bn, which represents a 6.9% expansion in the size of the economy in base year (see figure 1). The size of the economy expanded by 8.6% in 2018 under the new series, representing an annual growth rate of 9.4% (compared with 8.5% under the old series). According to Geostat, out of 8.6% expansion in 2018 nominal GDP, 3.0ppts is related to the methodological changes while improved data sources increased GDP by 5.6ppts. The per capita GDP also increased by US\$ 376 to US\$ 4,722 in new series vs. old series in 2018.

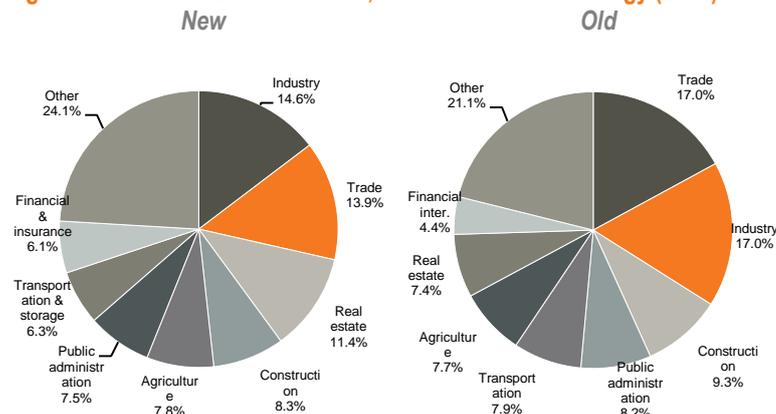
**Services have higher share in new series**

Services share in 2018 GDP increased to 77.6% in new series as compared to 75.3% in old series, reflecting increased level of real estate operations and financial sector, inclusion of R&D, as well as better coverage of tourism, private education, and other non-observed sectors of the economy (based on new data, share of non-observed economy in value added increased to 13.0% from 8.3% in 2018). Meanwhile, industry's share reduced to 14.6% in new series from 17.0% in old series, while agriculture's share remains largely unchanged at 7.8% in 2018.

**Improved key macro indicators**

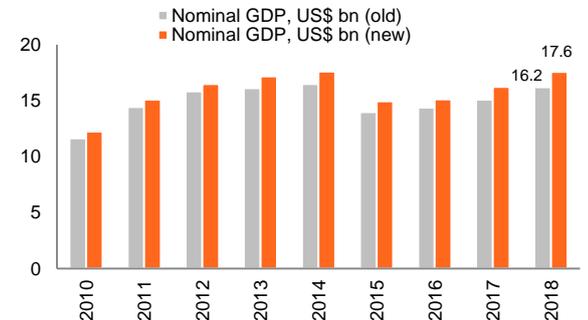
Expansion in nominal GDP level improved the debt indicators – public debt to GDP reduced to 38.9% in 2018 from 42.2% creating a fresh borrowing space. Notably, the tax revenue-to-GDP ratio also reduced, however it still remains high at 23.6% in 2018 compared to the 15-20% average for Georgia's peers. Fiscal deficit reduced to 2.3% of GDP from 2.5% and CA deficit also reduced to 6.8% of GDP from 7.3% of GDP in 2018. The improved macroeconomic indicators expected to positively impact Georgia's sovereign credit rating and the country can move into investment grade sooner than previously anticipated.

**Figure 5: Nominal GDP breakdown, Old vs. New methodology (2018)**



Source: Geostat

**Figure 4: Nominal GDP: New vs. Old**



Source: Geostat

**Table 1: Sectoral shares to GDP (new vs. old)**

Sector	2015		2018	
	Old series	New series	Old series	New series
Agriculture	9.1%	8.8%	7.7%	7.8%
Industry	16.8%	13.9%	17.0%	14.6%
Services	74.1%	77.3%	75.3%	77.6%

Source: Geostat, Galt & Taggart

**Table 2: Selected fiscal indicators, 2018 (as % of GDP)**

	as % of new GDP	as % of old GDP
Tax revenues	23.6%	25.6%
Current expenditures	21.3%	23.1%
Capital expenditures	8.1%	8.8%
Fiscal deficit	2.3%	2.5%
Total public debt	38.9%	42.2%

Source: Geostat, MOF



## Annex 1: Methodological changes and international comparisons

**Table 3: Major changes in GDP calculation in Georgia**

### Changes adopted by Geostat

#### I. Methodological changes related to adoption of SNA 2008

1. Change in accounting of Financial Intermediation Services Indirectly Measured (FISIM)
2. Change in accounting of owner occupied dwellings
3. Capitalization of research and development (R&D)

#### II. Other methodological changes

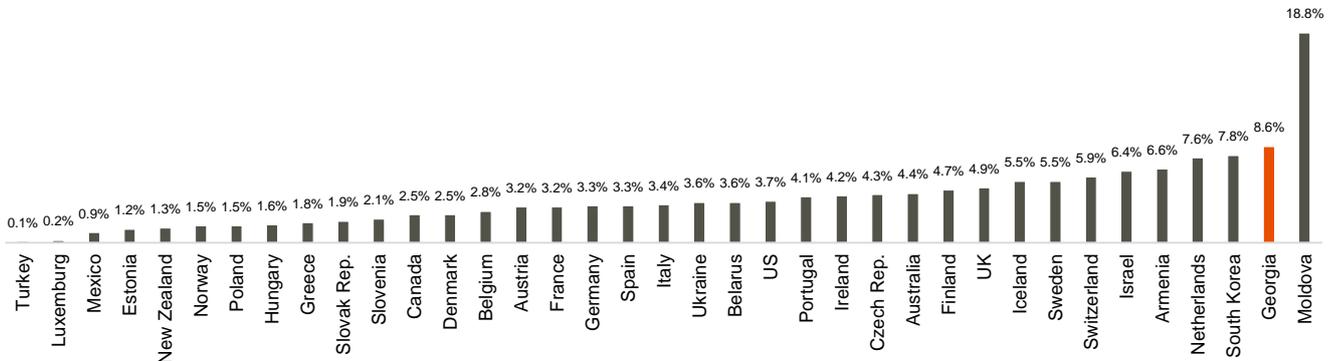
1. Use of New Classifications (NACE Rev. 2 and CPA 2008)
2. GDP calculation based on resources and utilization tables
3. Improve the calculation of non-market production
4. Improving stock change assessment
5. Change in insurance output calculation
6. Improve the sources of price indices
7. Change in base period to year 2015 from year 2010
8. Accrual method in the accounting of taxes

#### III. Improvement in data sources

1. Updating the intermediate consumption structure based on specific surveys
2. Special surveys for accounting non-observed economy in:
  - Agriculture
  - construction
  - Hotels and restaurants
3. Improving the methods of assessment of non-observed economy
4. Considering the output of illegal activities in the GDP
5. Survey of economic entities traded in markets and fairs

Source: Geostat

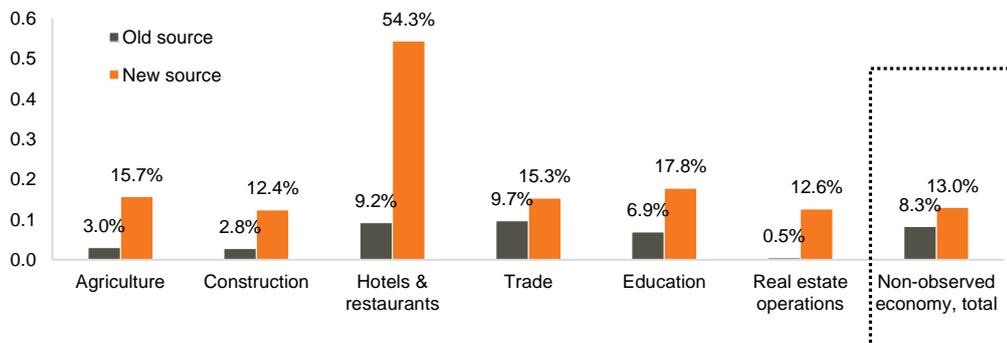
**Figure 6: International comparison: change in GDP level due to the transition to SNA 2008, %**



Source: Geostat

Note: Different dates for each country

**Figure 7: Share of non-observed economy in value added in Georgia: Old vs. New**



Source: Geostat



## Annex 2: Selected Macroeconomic Indicators

Georgia	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>GDP</b>									
Nominal GDP, GEL bn (new)	21.8	25.5	27.2	28.6	31.1	33.9	35.8	40.8	44.6
<i>Nominal GDP, GEL bn (old)</i>	20.7	24.3	26.2	26.8	29.2	31.8	34.0	37.8	41.1
Nominal GDP, US\$ bn (new)	12.2	15.1	16.5	17.2	17.6	14.9	15.1	16.2	17.6
<i>Nominal GDP, US\$ bn (old)</i>	11.6	14.4	15.8	16.1	16.5	14.0	14.4	15.1	16.2
Nominal GDP per capita, US\$ (new)	3,233	4,023	4,422	4,624	4,739	4,013	4,062	4,359	4,722
<i>Nominal GDP per capita, US\$ (old)</i>	3,073	3,844	4,250	4,341	4,438	3,755	3,857	4,047	4,346
Real GDP, % change y/y (new)		7.4%	6.4%	3.6%	4.4%	3.0%	2.9%	4.8%	4.8%
<i>Real GDP, % change y/y (old)</i>	6.2%	7.2%	6.4%	3.4%	4.6%	2.9%	2.8%	4.8%	4.7%
<b>Fiscal indicators</b>									
Tax revenues, % of GDP (new)	22.3%	24.1%	24.5%	23.3%	23.3%	23.6%	24.5%	24.0%	23.6%
<i>Tax revenues, % of GDP (old)</i>	23.5%	25.2%	25.5%	24.8%	24.8%	25.2%	25.8%	25.8%	25.6%
Current expenditure, % of GDP (new)	25.2%	22.0%	22.4%	22.7%	23.8%	23.3%	24.6%	22.6%	21.3%
<i>Current expenditure, % of GDP (old)</i>	26.6%	23.1%	23.3%	24.2%	25.4%	24.9%	25.9%	24.3%	23.1%
Capital expenditure, % of GDP (new)	8.7%	8.3%	8.6%	8.3%	5.8%	5.5%	6.7%	6.4%	8.1%
<i>Capital expenditure, % of GDP (old)</i>	8.7%	9.0%	8.6%	6.2%	5.9%	7.2%	6.7%	8.7%	8.8%
Fiscal deficit, % of GDP (new)	-5.3%	-2.0%	-1.7%	-1.9%	-2.6%	-2.4%	-2.9%	-2.7%	-2.3%
<i>Fiscal deficit, % of GDP (old)</i>	-5.6%	-2.1%	-1.7%	-2.1%	-2.8%	-2.6%	-3.0%	-2.9%	-2.5%
Public debt, % of GDP (new)	31.9%	28.3%	28.8%	29.5%	31.0%	36.7%	40.3%	39.4%	38.9%
<i>Public debt, % of GDP (old)</i>	33.6%	29.6%	30.0%	31.4%	33.1%	39.2%	42.4%	42.4%	42.2%
<b>External and financial indicators</b>									
Current account, % of GDP (new)	-9.8%	-12.2%	-11.4%	-5.6%	-10.2%	-11.8%	-12.4%	-8.1%	-6.8%
<i>Current account, % of GDP (old)</i>	-10.3%	-12.8%	-11.9%	-5.9%	-10.8%	-12.6%	-13.1%	-8.7%	-7.3%
Net FDI, % of GDP (new)	6.0%	6.5%	4.6%	5.3%	8.1%	9.5%	8.2%	10.4%	5.3%
<i>Net FDI, % of GDP (old)</i>	6.3%	6.9%	4.8%	5.7%	8.7%	10.1%	8.6%	11.2%	5.7%
Bank loan portfolio, % of GDP (new)	27.9%	29.5%	31.2%	35.8%	40.8%	47.2%	52.8%	54.7%	59.6%
<i>Bank loan portfolio, % of GDP (old)</i>	29.3%	30.9%	32.4%	38.5%	43.6%	50.4%	55.6%	58.9%	64.7%

Source: NBG, MOF, Geostat, Galt & Taggart

Note: Fiscal balance according to IMF Program Definition



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