Georgian Economy

Gaining Momentum

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Executive Summary

With three rounds of elections in the near past and a clear European path underscored by the signing and ratification of the EU Association Agreement, the Georgian story is again turning positive. The Free Trade Agreement with the EU, which comes into force September 1, 2014, sets a clear roadmap for the country to further streamline and harmonize economic policy towards European standards. These steps and the recent spate of upbeat economic data are laying the groundwork for further economic growth.

Investment growth surged to 28% in 1Q14 and we expect it will continue growing robustly. Public and private investments began to grow again and increased 19% and 29% y/y in 1Q14, respectively. Imports of investment goods increased 9ppts q/q to 17% y/y in the 2Q, public investment spending surged to 43% y/y and total domestic credit growth averaged 21% y/y in the 2Q, which are all signs of improved investment activity. We expect the trend to continue for the remainder of the year.

We expect output growth will come in at 5.0% in 2014. The economic recovery took hold in 4Q13 and, continued into 1H14 as GDP expanded 7.1% and 5.1% y/y in 1Q and 2Q, respectively. Based on improved consumer and business confidence and planned fiscal and monetary stimulus, we expect output growth at 5.0% this year.

Regional tensions pose a limited risk on the growth outlook. The slowdown in Russia, which will likely be intensified by western sanctions and crisis in Ukraine, pose a minimal risk to Georgian growth because Russia and Ukraine account for a relatively small share of goods exports (13% in 2013) and FDI (just 4.2% of net cumulative FDI over 2004-1Q14). Remittances constitute Georgia's largest exposure to Russia, but they have proven resilient during past turbulence including the recent economic crisis and the 2008 war.

FDI will be reliable source of current account deficit funding in 2014 and beyond. Alongside the economic recovery, a recent increase in imports suggests the C/A deficit will widen to an estimated 8.0% in 2014. Nevertheless, FDI related to the EU DCFTA will be reliable source of C/A funding in the coming years.

Exports are continuing to grow, and imports have also started to rise on the back of recovering consumer and business confidence. The EU DCFTA will further spur exports and enhance the diversification and competitiveness of Georgian products.

Inflation remains subdued at 2.0% in 1H14. With inflation well below the NBG's 6.0% target for 2014, monetary policy is likely to remain loose to stimulate the economy, in our view.

Loose monetary policy and a planned fiscal expansion are adding fresh stimulus to the economy. The accommodative monetary policy has prompted loan growth of 21% in recent months, and loan dollarization is on a downward trend. Fiscal policy will be expansionary this year, with the debt-to-GDP ratio at a comfortable 36%.

The economy has ably absorbed the currency depreciation and the new equilibrium exchange rate looks to be supporting competitiveness. The real effective exchange rate (REER) is boosting the competitiveness of exports and the tourism sector.

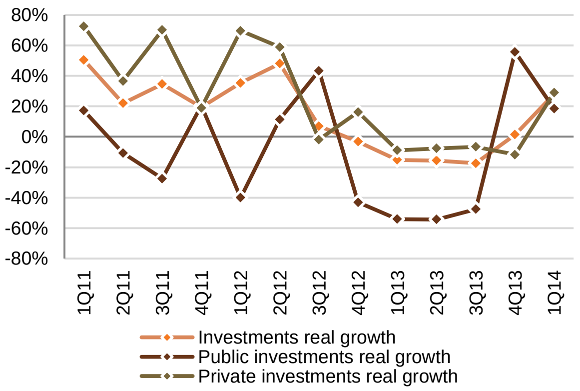
Looking at Georgia's growth in 2014 and beyond, we believe external challenges can be mitigated by coherent economic policies. Today's Georgia – corruption-free, open, and flexible, with a clear political vector and signs that democratic institutions are working – is well-placed to serve regional markets. Recent positive developments, a clear roadmap for fresh reforms and the government's commitment to the enactment of the plan can help the economy reach new heights.

Economic Activity

The pace of investment growth surged to 28.1% in 1Q14. Public investments began to grow again from 4Q13 and increased 18.5% y/y in 1Q14, while a recovery in investor sentiment boosted private investment growth rate to 28.9% y/y in 1Q14.

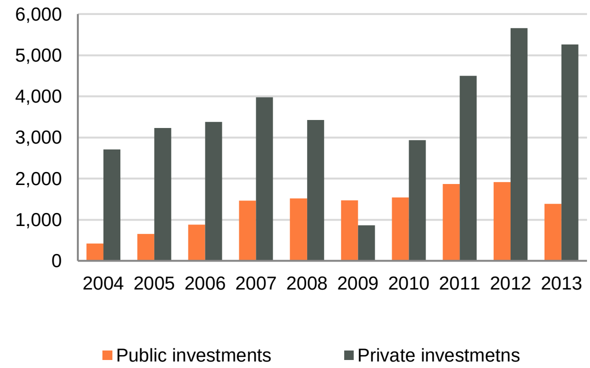
Investments are poised to grow robustly for the remainder of 2014, in our view, driven by stronger investor confidence and planned public infrastructure spending. The increase in imports of investment goods at 17.3% y/y in 2Q14 from 7.8% y/y in 1Q14, the surge in public investment spending to 43.3% y/y and the 21.3% y/y growth in total domestic credit in 2Q14 reflect improved investment activity and will continue for the rest of 2014, in our view.

Figure 1: Real investment growth, %



Source: GeoStat, MOF, BoG Research
Note: Deflated using GDP deflator

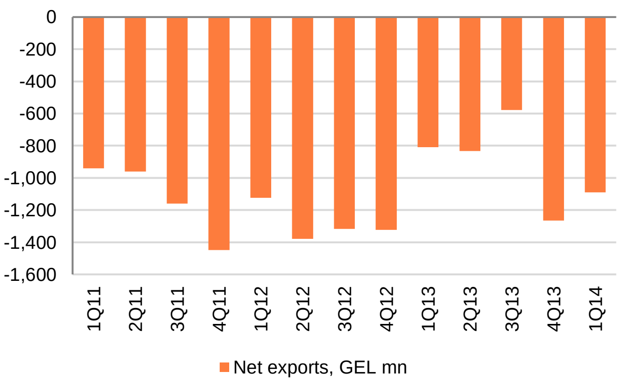
Figure 2: Investments, GEL mn



Source: GeoStat, MOF, BoG Research

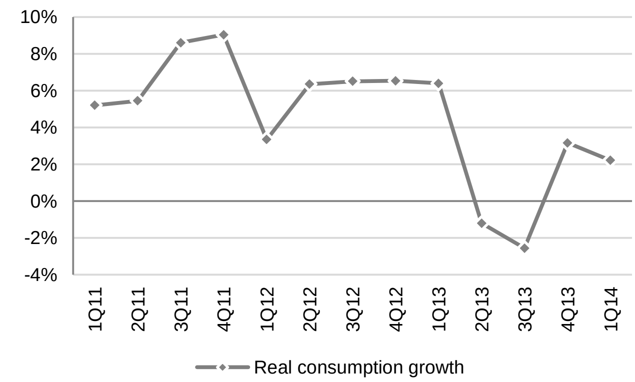
Net exports drove growth in 2013, while imports have picked up in 2014. Consumer demand picked up in 4Q13 and the growth came in at 2.2% y/y in 1Q14. Renewed private consumption and improved investor sentiment have translated into a recovery of imports (16% y/y growth in 1H14) which diminishes the contribution of net exports to economic activity in 2014 vs. 2013 (import stagnated in 9M13). However, FDI and public investment spending traditionally stimulate imports of goods and the 1H14 increase in imports (including the 17.3% y/y growth in investment goods imports in 2Q14) is a good sign of economic recovery, in our view.

Figure 3: Net exports, GEL mn



Source: GeoStat

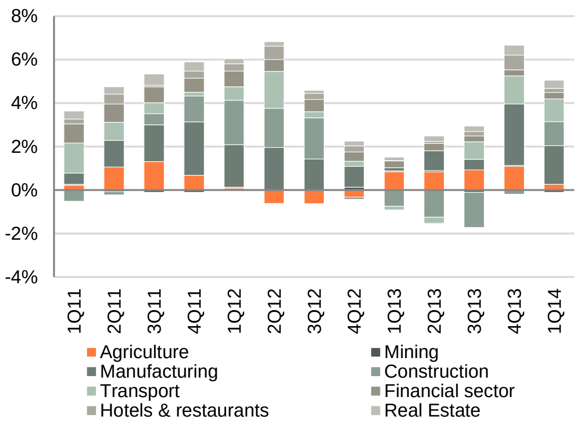
Figure 4: Real consumption growth, %



Source: GeoStat, BoG Research
Note: Deflated using CPI

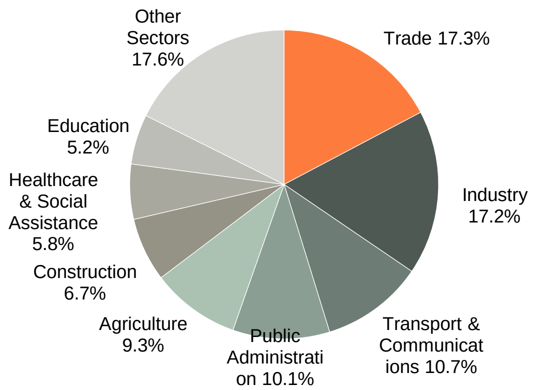
The growth base in 1Q14 was diversified, with manufacturing generating the largest increase at 16.7% (a 1.8ppt contribution to growth). Construction (+14.0%), trade (+11.1%), and real estate (+10.1%) were the other top performers. Agriculture's growth was modest at 2.7%, mainly driven by a high comparison base. Mining was the only sector in the red in 1Q14 at -13.6%, but the strong growth by other sectors was more than sufficient to outweigh the negative impact and prompt 7.1% total GDP growth in 1Q14. We expect construction (which posted the largest decline among all sectors in 2013 at 10.6% y/y) will continue to grow robustly in 2014 on the back of recovering private investment and public infrastructure spending, which is a priority of the government.

Figure 5: Contributions to real GDP growth



Source: GeoStat, BoG Research

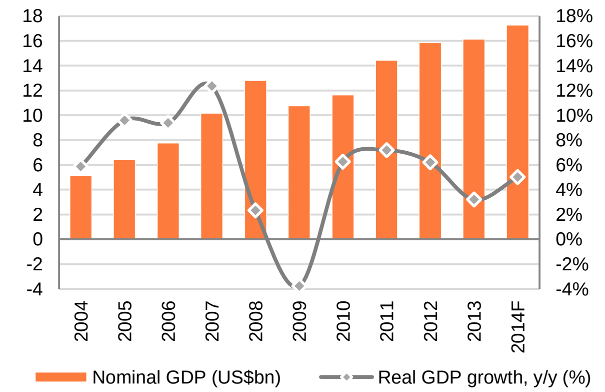
Figure 6: Georgia's GDP structure, 2013



Source: GeoStat

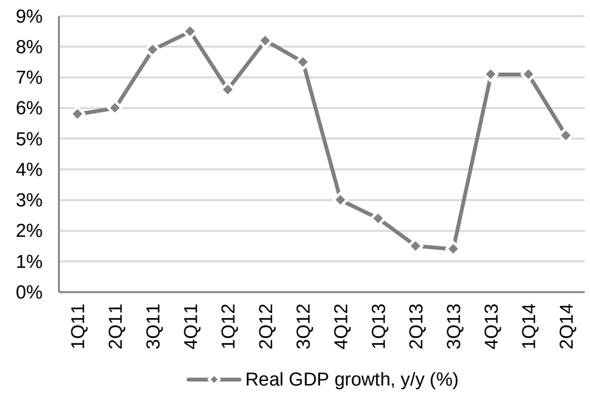
GDP expanded 7.1% and 5.1% y/y in 1Q14 and 2Q14, respectively. The 1Q demonstrated strong GDP growth by 7.1% y/y gaining strength from 4Q13 higher public spending and from improved consumer and investor sentiment, albeit from a lower base. Growth slowed modestly to 5.1% in 2Q14 on the back of lower net exports contribution due to lower export growth (8% in 2Q14 from 23.1% in 1Q14) coupled with a pick-up in imports. However, trade turnover growth of 14.3% y/y, tax collection growth of 9.2% y/y and credit growth of 21% y/y in 2Q14 are all reflection of improved consumer and business sentiment.

Figure 7: Nominal and real GDP growth



Source: GeoStat, BoG Research

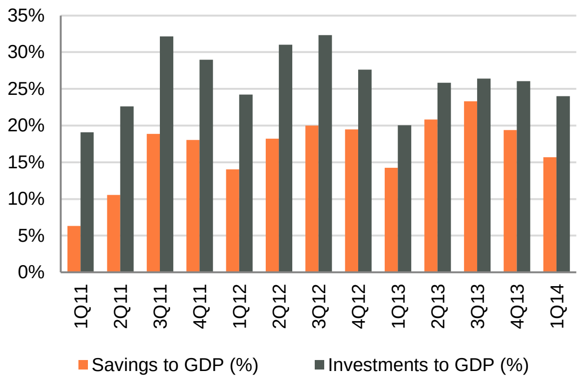
Figure 8: Quarterly real GDP growth



Source: GeoStat
Note: 2Q14 data is preliminary

Savings and investments to GDP picked up in 1Q14. Despite the renewal in investments (24% of GDP in 1Q14 vs. 20% to GDP in 1Q13), the national savings ratio to GDP increased by 1.4ppts to 15.7% y/y in 1Q14**.**

Figure 9: Savings and investments, quarterly



Source: GeoStat, BoG Research

External Sector

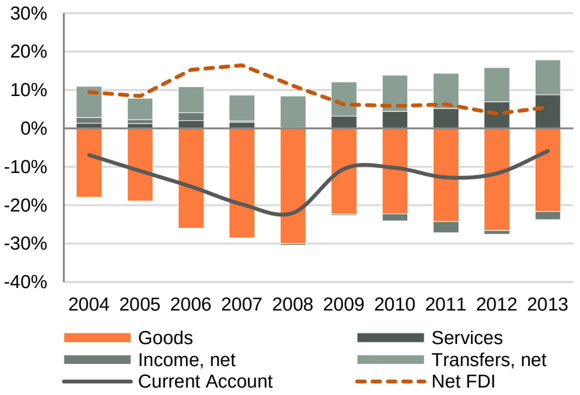
Balance of Payments

In 2013 Georgia's current account (C/A) deficit narrowed 6ppts y/y to 5.9% of GDP on strong external demand and stagnant imports due to weak public and private investments. Exports increased after Russia lifted the embargo on Georgian wine, mineral water, and vegetables. Tourism receipts (8.7% of GDP) and money transfers (9.1% of GDP) also strengthened external accounts.

The strong growth in merchandise imports in 1H14 suggests that the C/A deficit will widen to a projected 8.0% of GDP in 2014. The 1Q14 trade deficit reached to 23.5% of GDP as merchandise imports grew 16.3% y/y. Net services and net transfers were enough to largely finance trade deficit at 68.3%. The 1Q14 C/A deficit reached 10.0% of GDP and net FDI at 6.4% of GDP was a significant source of financing. Despite the resumption of import growth we expect the C/A deficit to widen just 2.1ppts y/y to 8.0% of GDP in 2014 on the back of strong tourism receipts.

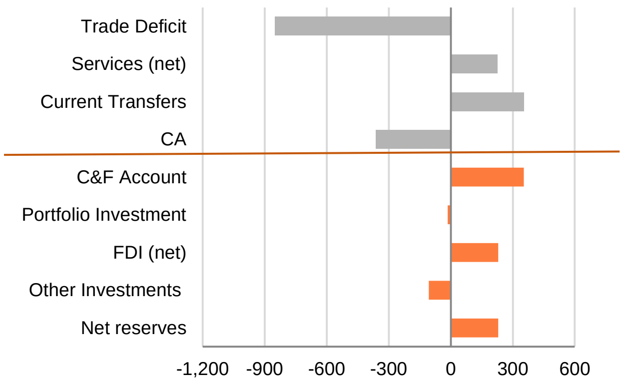
The EU DCFTA-related FDI will be reliable source of C/A funding in coming years, in our view. Notably, FDI is also one of the factors generating C/A deficit; lower FDI, lower C/A deficit.

Figure 10: BOP, % of GDP



Source: NBG, GeoStat

Figure 11: BOP 1Q14, US$ mn



Source: NBG

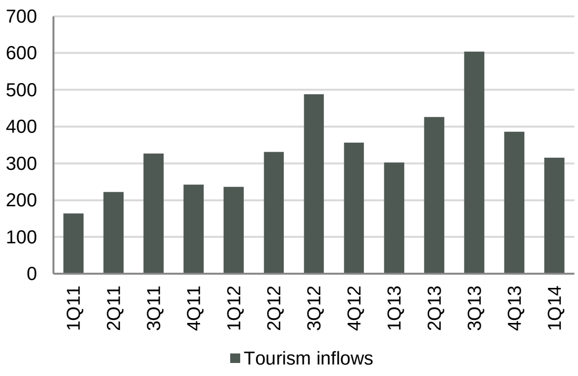
Tourism

Despite the moderate 4.1% y/y growth of gross tourism revenues in 1Q14 tourism receipts are an important source of narrowing the C/A deficit and a significant source of foreign currency. Last year, tourism generated income of US$ 1.7bn.

The sluggish 2.0% y/y growth in tourist arrivals in 1H14 came mainly as arrivals from Turkey declined 14.8% y/y. Despite the decline, Turkey is still the top country by international arrivals (29%) to Georgia, followed by Azerbaijan (24%) and Armenia (22%). The impact of the Turkish drop-off on tourism sector was largely compensated by 14% y/y growth in arrivals from Eastern and Western European countries in 1H14, with higher per-visitor spending. Visitor arrivals rose significantly from Lithuania (89%), Poland (53%), Belarus (45%), Belgium (22%), and Austria (20%).

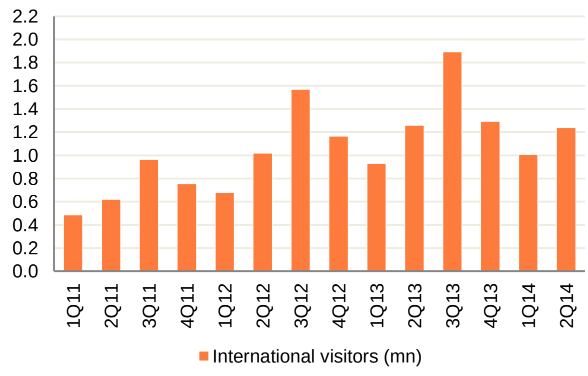
We expect surge in tourists in 3Q14. In addition to the traditional seasonal peak in the 3Q, we expect the number of international visitors will rise significantly in 3Q14 as tourists arrive for a number of festivals. We expect net services (proxy for tourism revenues) to come in at 9.2% of GDP in 2014.

Figure 12: Tourism revenues, US$ mn



Source: NBG

Figure 13: International visitors, mn

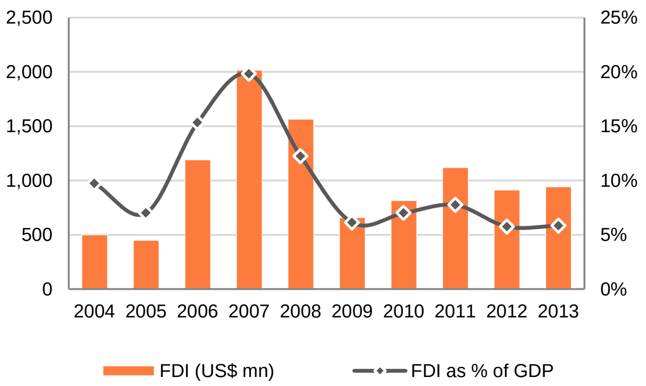


Source: GNTA

Foreign Direct Investments (FDI)

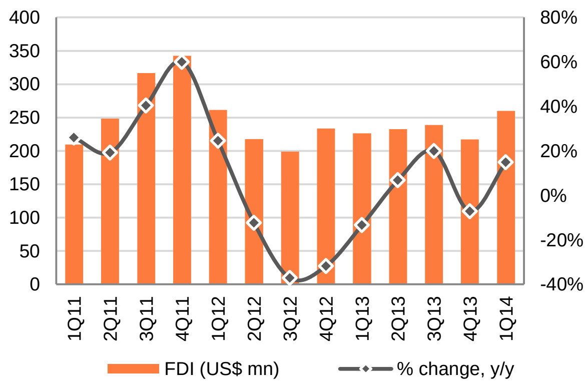
1Q14 net FDI increased 15% q/q to US$ 260mn, or 7.2% of GDP. The EU DCFTA will further support FDI inflows in coming months and beyond, in our view (see BOX 1).

Figure 14: Annual net FDI



Source: GeoStat

Figure 15: Quarterly net FDI

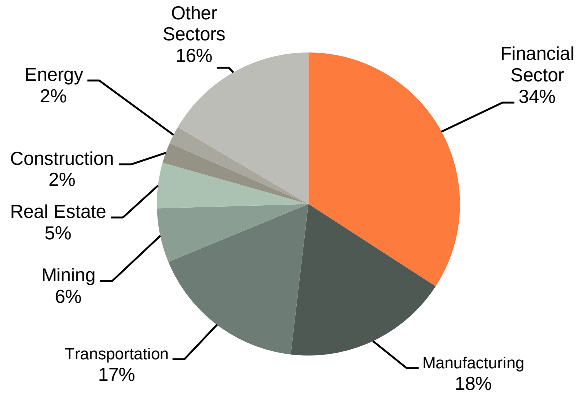


Source: GeoStat

The financial sector was the largest FDI recipient in 1Q14 with 34% of net inflows, followed by the manufacturing sector (18%) and transport and communications (17%).

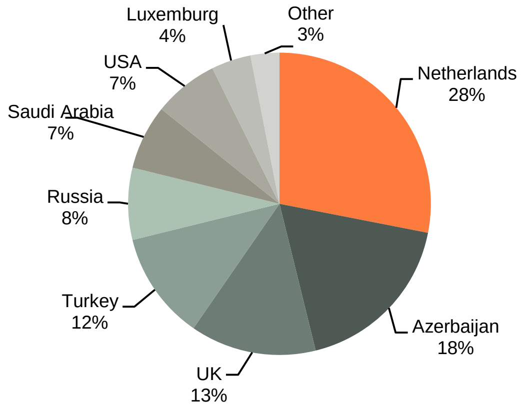
Netherlands topped the list of investors with US$ 73mn (28% of net inflows), with Azerbaijan coming second at US$ 47mn (18%) in 1Q14. While net FDI from Russia increased considerably from US$ 0.6mn in 1Q13 to US$ 19.8mn in 1Q14, its share in net cumulative FDI (2004-1Q14) remains limited at just 3.7%.

Figure 16: FDI by sector, 1Q14



Source: GeoStat

Figure 17: FDI by country, 1Q14



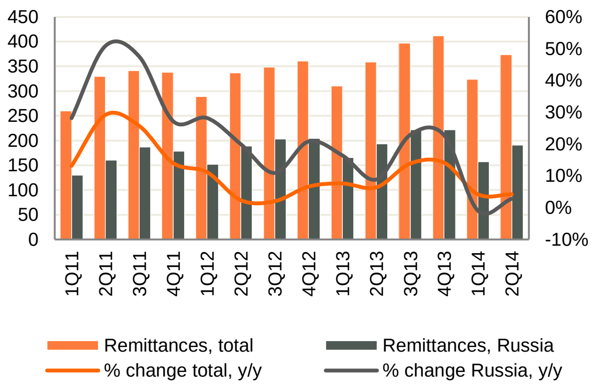
Source: GeoStat

Remittances

Although remittances from Russia decreased 3.1% in 1H14, total remittances grew 4.2% y/y. Geopolitical tensions and an economic slowdown in Russia affected money transfers, which accounted for half of Georgia's total remittances (48% and 51% of total remittances in 1Q14 and 2Q14). Ukraine posted the largest decline in 2Q14 (28%), but its share in total remittances is minor at 1.8%.

1H14 remittances increased significantly from Turkey (+63.5%), Germany (+38.6%), and Spain (+17.9%). As remittances have proven resilient during past turbulence we anticipate that net transfers (a proxy for remittances) will account for 9% of GDP in 2014.

Figure 18: Remittances, US$ mn



Source: NBG

Foreign trade

Georgia remains committed to transparent trade relations and has signed free trade agreements with the EU (see Box 1) and almost all neighbours. The DCFTA with the EU is essential to further penetrating European markets; more importantly it highlights Georgia's goal for European integration.

BOX 1: EU-Georgia Deep and Comprehensive Free Trade Agreement (DCFTA)

Georgia and the EU signed an Association Agreement in June 2014 and Georgia's parliament ratified the agreement in July 2014. The deal includes a DCFTA, which is the major vehicle for Georgia's economic integration with the EU and guarantees the free movement of goods, services, and capital within the EU, the world's largest market. Along with trade liberalization, the DCFTA also requires regulatory reforms in public procurement, food safety/sanitary and phytosanitary regimes, and customs and trade facilitation, including border enforcement of intellectual property rules, regulatory framework for services, and technical barriers to trade/industrial standards. The DCFTA becomes effective September 1, 2014.

Below are Georgia's expected immediate and long-term gains from the DCFTA:

Trade in Goods:
Import duties on all goods imported from Georgia to the EU will be removed immediately. Some agricultural products (meat, dairy, sugar products, and cereals) will be subject to monitoring of trade flows to ensure that exports to the EU correspond to true Georgian production capacity.

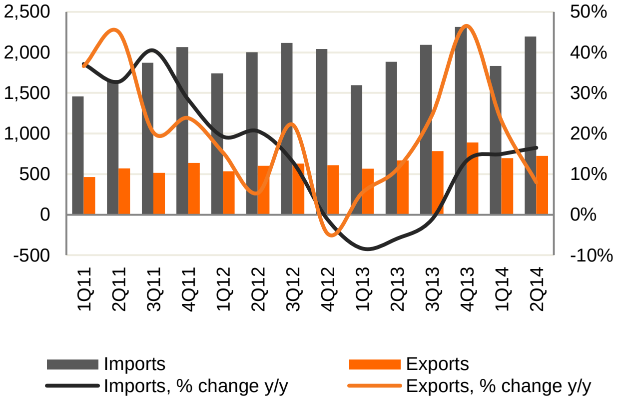
Trade in Services:
Georgia and EU will enjoy improved mutual access for service providers, which will enhance FDI inflows to Georgia and spur the transfer of knowledge.

Public Procurement:
Georgian companies can access EU public procurement markets, subject to legislative and institutional changes.

Economic Benefits:
Different studies suggest the DCFTA may increase Georgian exports 9-12% and boost GDP growth 4%. Additionally, Chinese and other investors are considering using Georgia as a platform to export to European markets. We therefore believe the EU DCFTA, coupled with a favourable economic environment, low taxes and labour costs, relatively cheap energy and important maritime gateways, offers excellent opportunities for doing business in Georgia. As a result, we expect a significant increase in FDI and economic activity, including in the near term.

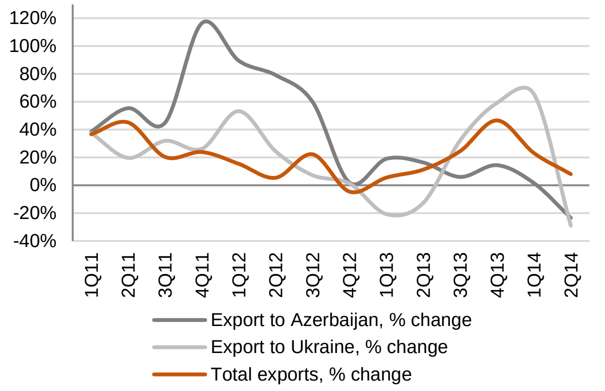
Growth in exports slowed to 8.0% y/y in 2Q14 from 23.1% in 1Q14. At the start of 2014 export growth continued from 2013's 22.4% as Russia lifted its embargo on Georgian products. However, growth slowed starting from the 2Q as Azerbaijan introduced restrictions on used car imports on 1 April 2014 and the instability in Ukraine weighed on Georgian exports. Exports to Azerbaijan decreased 23.5% y/y (mainly used car re-exports) and to Ukraine 29.1% y/y in 2Q14. Thanks to a diversified export market structure, 2Q14 export growth remained well above zero despite the negative developments. We expect car re-exports to Azerbaijan will resume as Georgian exporters adjust to new standards. We also believe the EU DCFTA will further support export growth and outweigh the negative impact of CIS market developments.

Figure 19: Foreign trade, US$ mn



Source: GeoStat

Figure 20: Exports to Azerbaijan and Ukraine

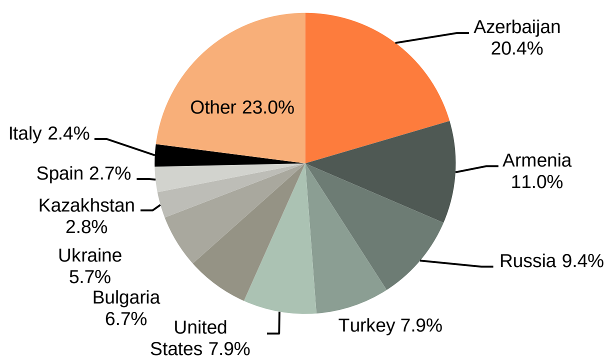


Source: GeoStat

The EU's share in total exports increased 3.8ppts and the CIS' share fell 1.7ppts in 1H14. On the back of the developments in regional markets, the CIS' share in total exports decreased from 55.2% in 1H13 to 53.4% in 1H14. Nevertheless, exports to Russia surged and accounted for 9.4% (3.4% in 1H13, mainly on the base effect) of total exports in 1H14. Russia recently hinted at a potential suspension of its free trade agreement with Georgia (leading to imposition of import duties on Georgian products), and the anticipated slowdown from this probable move will limit any further rapid expansion of Russia's share in total exports, in our view.

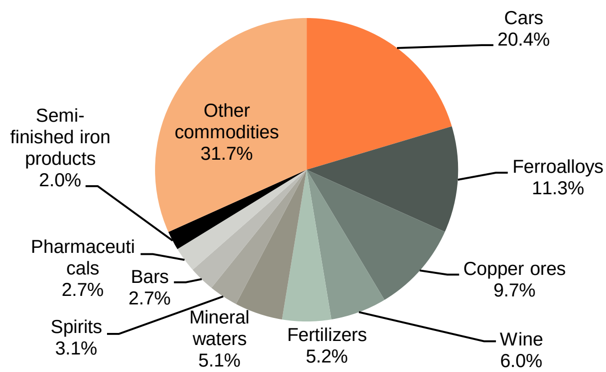
Car re-exports and ferroalloys led external trade at 20.4% and 11.3% of 1H14 exports, respectively.

Figure 21: Export breakdown by country, 1H14



Source: GeoStat

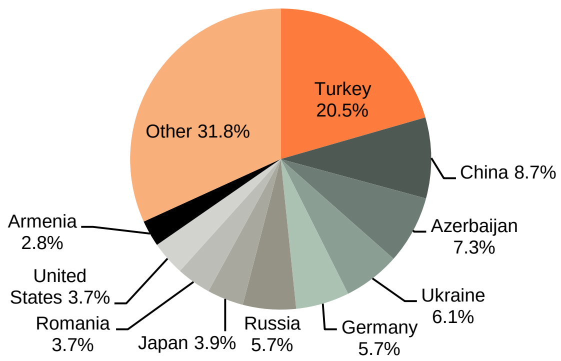
Figure 22: Export breakdown by product, 1H14



Source: GeoStat

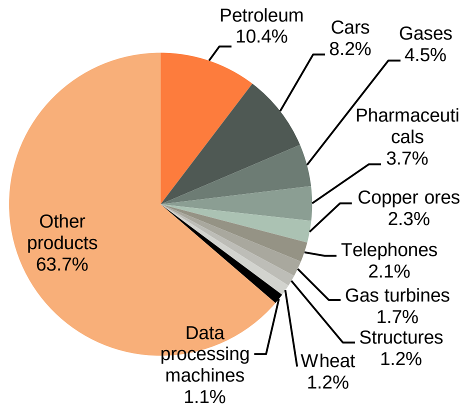
Oil products and cars were the largest imported items in 1H14, accounting for 10.4% and 8.2% of total imports, respectively.

Figure 23: Import breakdown by country, 1H14



Source: GeoStat

Figure 24: Import breakdown by product, 1H144

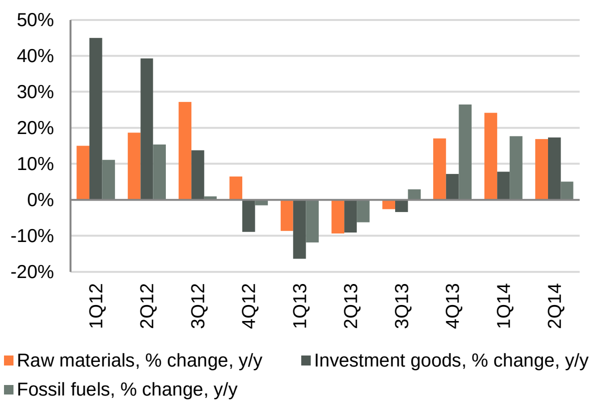


Source: GeoStat

Imports picked up in 4Q13 alongside the economic recovery and have continued to grow this year at 15.0% and 16.5% in 1Q14 and 2Q14, respectively. Import growth fell off in 9M13 on the back of sluggish economic activity; imports of all categories of goods contributing to the real economy decreased, with investment goods seeing the largest drop at -9.4%.

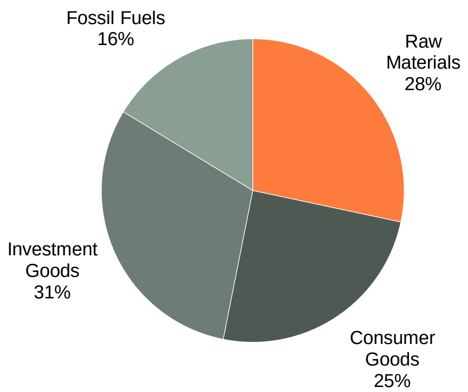
Investment goods imports began rising in 4Q13 and continued into 2014 (at 7.8% and 17.3% in 1Q14 and 2Q14, respectively). With the government planning to accelerate public investment projects and with the expected DCFTA-related increase in FDI we believe imports of this category of goods will continue to rise towards the year-end.

Figure 25: Import growth by selected categories



Source: NBG, BoG Research

Figure 26: Share in total imports, 1H14



Source: NBG, BoG Research

BOX 2: Impact of regional tensions - Georgia's connections to Russia and Ukraine

The difference between Georgia's and Ukraine's exposure to Russia were outlined in a note on May 8, 2014. Here we review some key facts from the combined effect of the Russia-Ukraine standoff:

Trade: In 1H14 Russia and Ukraine together accounted for 15.2% (13.2% in 2013) of Georgia's exports and 11.8% of imports (15.1% in 2013).

Energy Trade: Georgia is a net electricity exporter, while it imports natural gas mainly from Azerbaijan

FDI: Russia and Ukraine accounted for just 4.2% of net cumulative FDI over 2004-1Q14 (2.5% of GDP).

Banking Sector: Only one Russian bank (VTB bank) and one Ukrainian bank (Privat Bank) operate in Georgia. They account for 8.0% of banking system assets in Georgia.

Remittances: Georgia's largest exposure to Russia is through remittances. In 2013, Georgia received US$ 801mn in workers' remittances from Russia, 54.3% of total remittances (5.0% of GDP). It is noteworthy that remittances from Russia proved resilient throughout the recent financial crisis and the 2008 war with Russia. In 2013, remittance inflows from Ukraine accounted for 3.1% of total remittances (0.3% of GDP)

Tourism: Visitors from Russia and Ukraine accounted for 14.2% and 2.4% of total tourists in 2013.

On balance, Georgia's dependence on Russia and Ukraine is relatively limited and the 1H14 developments discussed in this report suggest that the impact of Russia and Ukraine on the Georgian economy may be overstated.

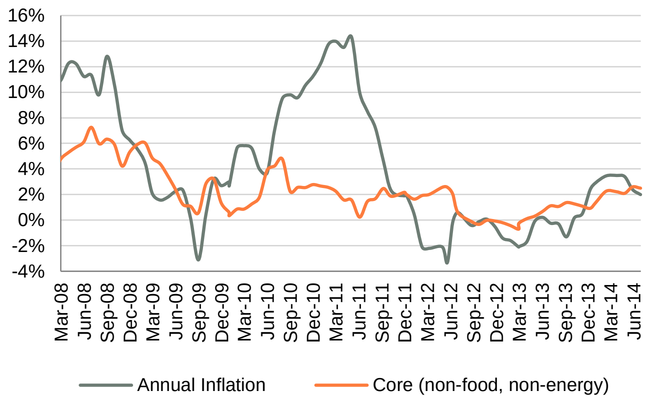
Monetary Policy and Banking Sector

Inflation

Annual inflation picked up in December 2013, reached a peak in February/March 2014 (3.5%) before retreating to 2.0% in June 2014, far below the NBG's 6.0% target for 2014. Towards the end of 2013, rising food prices and renewed economic activity pushed inflation up to 2.4% in December 2013. Price increases on food, beverages, tobacco, and healthcare further drove inflation to 3.5% in February/March 2014, before decreasing to 2.0% in June mainly driven by developments in food and utilities prices.

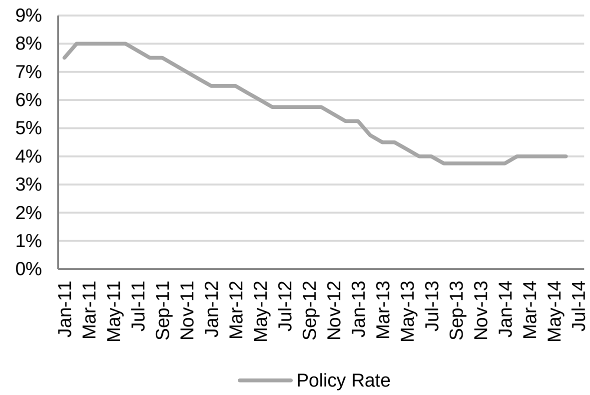
The National Bank continues to stimulate the economy with accommodative monetary policy. As inflation remained subdued in 1H14, the NBG has continued on its path of stimulus by keeping the policy rate unchanged at 4.0% since February 2014.We expect the loose monetary policy stance to continue over the medium term – the NBG recently announced that the exit period will be more protracted than initially anticipated.

Figure 27: Inflation trends in Georgia



Source: NBG

Figure 28: Monetary policy rate



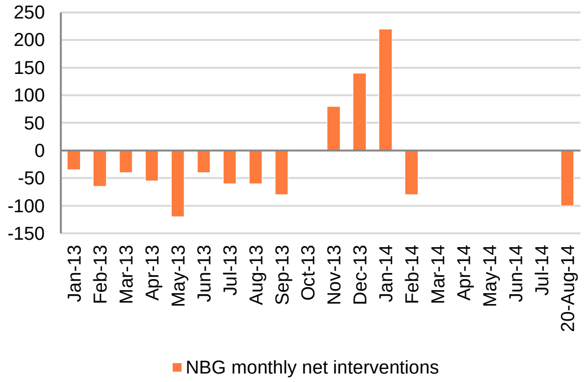
Source: NBG

Exchange rate and official foreign reserves

The NBG resumed market interventions in August for the first time since February. Over 2013 the lari remained largely stable, but the rapid fiscal expansion in 4Q13 (the 2013 fiscal deficit reached 2.6% of GDP, compared to a budget surplus in 9M13) prompted a depreciation of the lari. The central bank, which had been accumulating reserves over 9M13, reacted by selling US$ 440mn from November to January (net purchases of US$ 115mn over the January 2013 to January 2014 period). Despite the interventions, the lari depreciated 5.4% against the dollar. Since mid-February the lari has remained broadly stable, and it even strengthened slightly recently on the back of tourism inflows. As a result, the NBG returned to the FX market and began rebuilding reserves in August 2014.

Gross foreign reserves are sufficient to finance 3.0 months of merchandise and services imports as of end-1H14. As a result of the depreciation pressures and central bank action, the NBG's reserves decreased from US$ 3.1bn in October 2013 to US$ 2.6bn in February 2014. Notably, that decrease included a US$ 200mn repayment to the IMF. We currently forecast end-2014 foreign reserves at US$ 2.8bn thanks to tourism and FDI inflows.

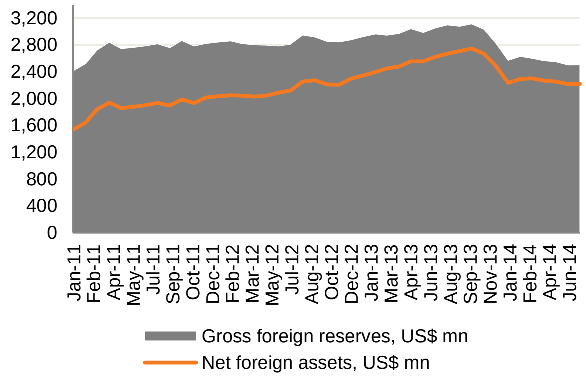
Figure 29: NBG FX interventions, US$ mn



Source: NBG

Note: Negative sign imply accumulation of foreign reserves

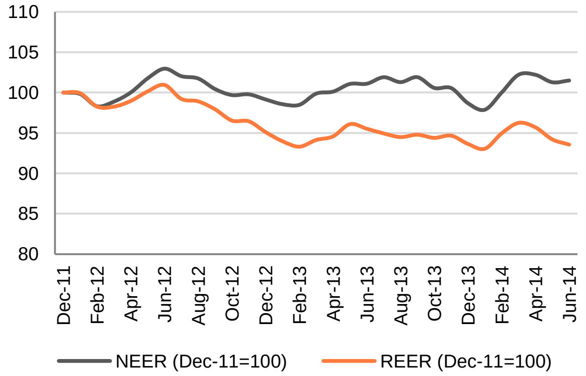
Figure 30: NBG gross and net international reserves



Source: NBG

Lari's depreciation had moderate effect on nominal and real effective exchange rates. Although the lari depreciated against US$ and Euro (5% and 9% respectively) nominal and real effective exchange rates changed slightly, as Georgia's other major trading partners' (Turkey, Russia, Ukraine) currencies experienced far sharper depreciation against US$. During February-April REER slightly appreciated, but driven by higher inflation in Turkey, Russia and Ukraine depreciated further 2.0% y/y in May/June 2014. NEER remained broadly flat in 1H14.

Figure 31: Nominal and real exchange rate indices



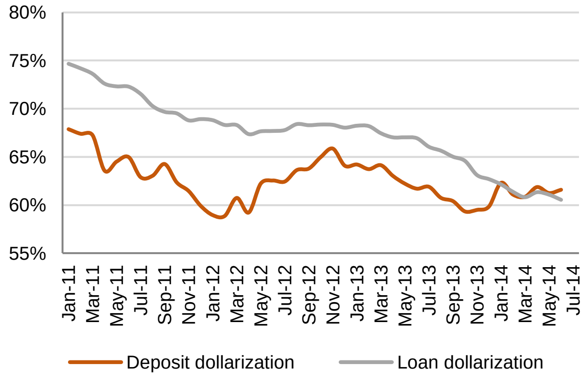
Source: NBG, BoG Research

Note: NEER and REER are calculated as weighted averages of the nominal exchange rates and real effective exchange rates of 14 main trading partners.

The dollarization of loans and deposits is on the decline. Georgia is highly dollarized, meaning that monetary policy's ability to boost aggregate demand is limited. However, loan dollarization recently retreated sharply (from 68.2% in January 2013 to 60.5% in June 2014), driven by increased lari consumer lending.

Deposit dollarization had been on a downward trend for most of 2013 (from 64.2% in January 2013 to 59.3% in October 2013), however depreciation pressures at the end of 2013 pushed customers to convert lari deposits to US$. Nevertheless, as of June 2014 the dollarization of deposits is down 2.6ppts from January 2013 to 61.6%. This is a positive sign that suggests a stabilization of the consumer mood towards the domestic currency.

Figure 32: Dollarization ratios

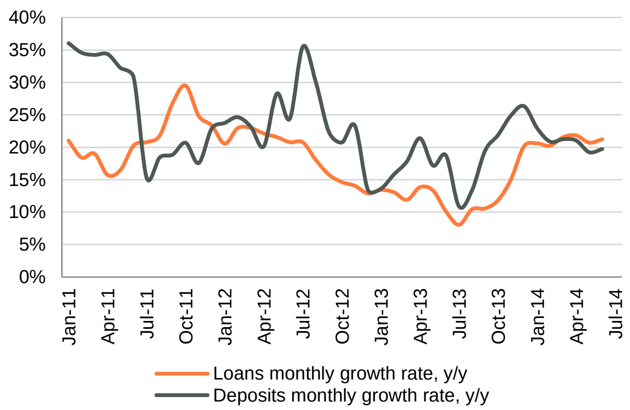


Source: NBG

Banking sector

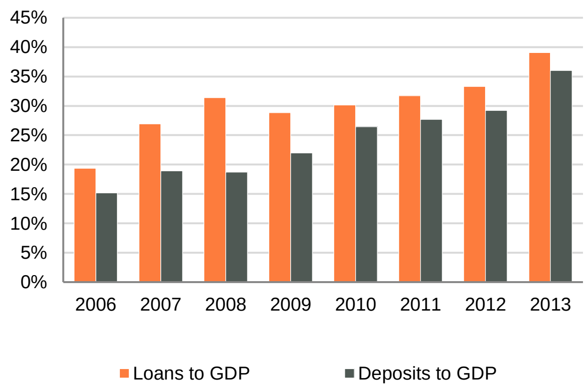
Growth in total loans and deposits increased at the end of 2013 and stabilised in 1H14. Improved consumer confidence and signs of economic recovery helped increase lending. Total loan growth averaged 21.0% in 1H14, 8ppts higher y/y, while deposits growth averaged 20.8%. With positive economic developments taking hold and total lending remaining below 40% of GDP (2013), there is ample room for healthy credit growth.

Figure 33: Total loan and deposit growth



Source: NBG

Figure 34: Loans and deposits to GDP

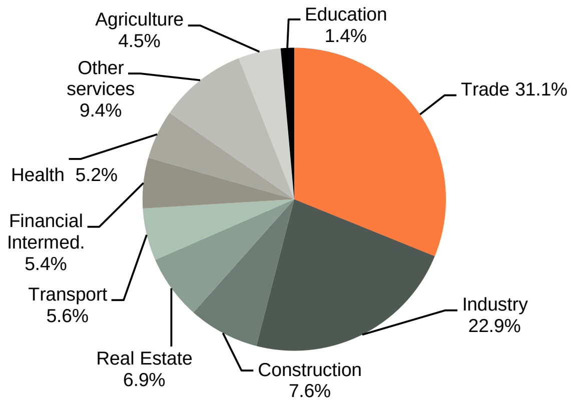


Source: NBG, GeoStat, BoG Research

The banking sector portfolio is diversified. As of 1H14, trade holds a 31.1% share of the loan book, followed by industry (22.9%) and construction (7.6%). Although lending to agriculture has increased since 2013, its share is still low at 4.5%.

Household lending was stronger than corporate lending, with mortgages accounting for 45% of all consumers lending in 1H14. 1H14 consumer lending growth averaged 31.5% versus 14.9% for the corporate lending growth rate.

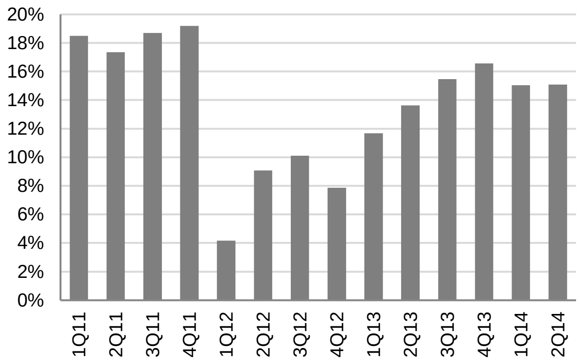
Figure 35: Corporate loan-book breakdown, 1H14



Source: NBG

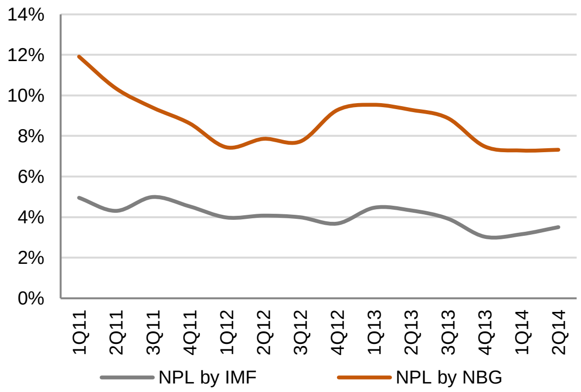
Banking sector profitability increased and NPLs are on downward trend in 1H14. Banking sector ROE increased in 1H14: 3.4ppts higher y/y at 15.0% in 1Q14 and 1.5ppts higher at 15.1% in the 2Q. NPLs have been on a downward trend since September 2013. As of 2Q14 NPLs stood at 7.3% (or 3.5% by the standard 90-day-overdue definition).

Figure 36: Banking sector ROE



Source: NBG

Figure 37: Banking sector NPLs



Source: NBG

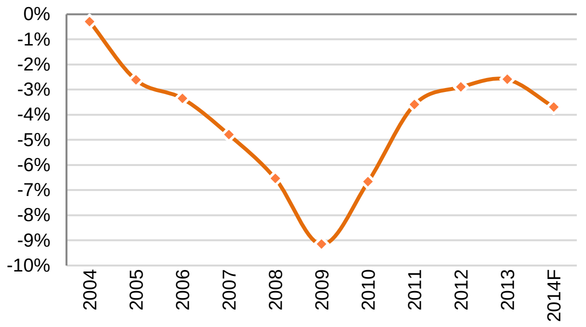
Note: The NBG's definition of NPLs is more conservative than the standard (IMF) 90-day-overdue definition

Fiscal Policy

Georgia's fiscal deficit looks poised to widen to an estimated 3.7% of GDP in 2014 (initially planned at 3.9%), as the government plans to catch up on delayed infrastructure projects. Poor execution of capex projects had narrowed the fiscal deficit to 2.6% of GDP in 2013, but planned stimulus projects are sure to widen the deficit. The government remains committed to gradually reducing the fiscal deficit to 3.0% of GDP in 2015 and to maintain sustainable public debt levels.

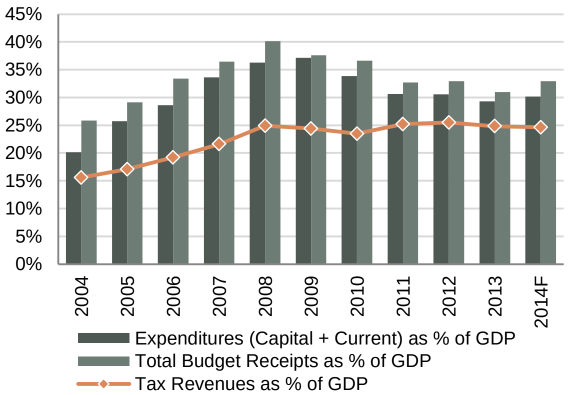
However, no large fiscal expansion has occurred yet and capital spending is lagging behind budgeted figures. As of 1H14, public infrastructure spending reached 79% of the planned amount. With the government remaining committed to infrastructure spending public spending will pick up in 2H14, in our view.

Figure 38: Fiscal deficit to GDP



Source: MOF

Figure 39: Expenditures and revenues to GDP



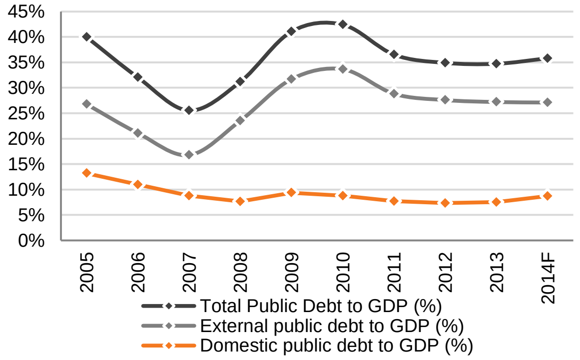
Source: MOF, GeoStat

1H14 budget revenues came in above expectations. Consolidated budget revenues exceeded the plan by 2.5% or GEL 82mn as the government frontloaded some revenue by eliminating a special rule on VAT on imports from June 1, 2014. Early estimates suggest tax revenues will be strong in 2014.

Internal borrowing increased in 2014, but the public debt portfolio is still dominated by external borrowing. External public debt accounts for 78% of all public debt. Internal borrowing accelerated in 2014, and part of the debt is used to stimulate lending via banks.

Georgia's public debt-to-GDP projection of 35.8% for 2014 is well below the legislated 60% cap. Georgia's fiscal strategy appears to be consistent with this cap. Because the bulk of Georgia's external debt carries fixed and low interest rates, public debt service costs remain affordable, low, and sustainable to external shocks.

Figure 40: Public debt ratios



Source: MOF, GeoStat

Macro Statistics

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	*2014F*	*2015F*
Economic activity												
Real GDP growth,y/y	5.9%	9.6%	9.4%	12.3%	2.3%	-3.8%	6.3%	7.2%	6.2%	3.2%	*5.0%*	*6.0%*
Nominal GDP, GEL mn	9,824	11,621	13,790	16,994	19,075	17,986	20,743	24,344	26,167	26,825	*29,240*	*32,500*
Nominal GDP, US$ mn	5,125	6,411	7,762	10,172	12,801	10,767	11,637	14,439	15,847	16,126	*16,700*	*18,500*
Nominal GDP per capita, US$	1,188	1,484	1,764	2,315	2,921	2,455	2,623	3,231	3,523	3,597	*3,720*	*4.120*
Population mn, eop	4.3	4.3	4.4	4.4	4.4	4.4	4.4	4.5	4.5	4.5	*4.5*	*4.5*
Prices												
CPI,% change, eop	7.5%	6.2%	8.8%	11.0%	5.5%	3.0%	11.2%	2.0%	-1.4%	2.4%	*4.5%*	*5.0%*
CPI, % change, average	5.7%	8.2%	9.2%	9.2%	10.0%	1.7%	7.1%	8.5%	-0.9%	-0.5%	*4.0%*	*4.8%*
GDP deflator, % change	8.4%	7.9%	8.5%	9.7%	9.7%	-2.0%	8.5%	9.5%	1.2%	-0.7%	*3.8%*	*4.8%*
Exchange rates												
US$/GEL, eop	1.83	1.79	1.71	1.59	1.67	1.69	1.77	1.67	1.66	1.74	*…*	*…*
US$/GEL, average	1.92	1.81	1.78	1.67	1.49	1.67	1.78	1.69	1.65	1.66	*1.75*	*1.75*
Fiscal indicators												
Consol. budget deficit to GDP	-0.3%	-2.6%	-3.4%	-4.8%	-6.5%	-9.2%	-6.7%	-3.6%	-2.8%	-2.6%	*-3.7%*	*-3.0%*
Total public external debt to GDP	34.5%	26.8%	21.1%	16.8%	23.5%	31.7%	33.6%	28.8%	27.6%	27.2%	*27.1%*	*26.2%*
Total public debt to GDP	50.5%	40.0%	32.0%	25.5%	31.2%	41.0%	42.4%	36.5%	34.9%	34.7%	*35.8%*	*35.0%*
External accounts												
Merchandise export, US$ mn	1,092	1,472	1,667	2,088	2,428	1,894	2,462	3,254	3,502	4,246	*4,631*	*5,232*
Merchandise import, US$ mn	-2,008	-2,686	-3,686	-4,984	-6,264	-4,293	-5,052	-6,748	-7,718	-7,738	*-8,628*	*-9,625*
Merchandise trade balance, US$ mn	-916	-1,214	-2,019	-2,896	-3,836	-2,400	-2,590	-3,494	-4,216	-3,492	*-3,997*	*-4,393*
Services trade balance, US$ mn	69	84	158	161	21	340	513	747	1,101	1,410	*1,546*	*1,786*
Transfers net, US$ mn	414	359	524	688	1,060	968	1,098	1,329	1,408	1,469	*1,498*	*1,543*
Current account balance, US$ mn	-354	-710	-1,176	-2,009	-2,813	-1,134	-1,193	-1,841	-1,854	-951	*-1,328*	*-1,465*
Current account balance to GDP	-6.9%	-11.1%	-15.1%	-19.8%	-22.0%	-10.5%	-10.3%	-12.7%	-11.7%	-5.9%	*-8.0%*	*-7.9%*
FDI, inflows to GDP	9.6%	7.1%	15.1%	17.2%	12.2%	6.1%	7.0%	7.3%	5.8%	6.3%	*7.0%*	*7.0%*
Gross international reserves, US$ mn	387	479	931	1,361	1,480	2,110	2,264	2,818	2,873	2,823	*2,863*	*3,063*
Gross inter. reserves in months of imports of goods and services	1.9	1.7	2.5	2.8	2.4	4.8	4.4	4.2	3.8	3.6	*3.3*	*3.3*

Source: GeoStat, NBG, MOF, IMF, BOG Research

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