

Overview

- Strong drop in GDP (-5.1%) in 2020
- Before the crisis, GDP 2020 was forecast at 4.3%; economy hit hard by pandemic
- Main drivers: lower exports of services and decline in investments
- Key sector: tourism; drop in international visitors by 80%
- Recovery of GDP by 4.3% forecast for 2021, lower rate than before the crisis
- Lari depreciated by 13% in 2020 against backdrop of uncertainty and lower exports
- NBG reacted by sizeable FX interventions; policy rate cut by 1 pp to 8%
- Remittances increased by 8.8% yoy, much stronger than initially anticipated
- Strong anticyclical response by the government to the crisis
- Twin deficits: current account deficit at 9.8%, public deficit of 9.0% of GDP
- Augmented IMF programme crucial for overcoming the crisis

Topics

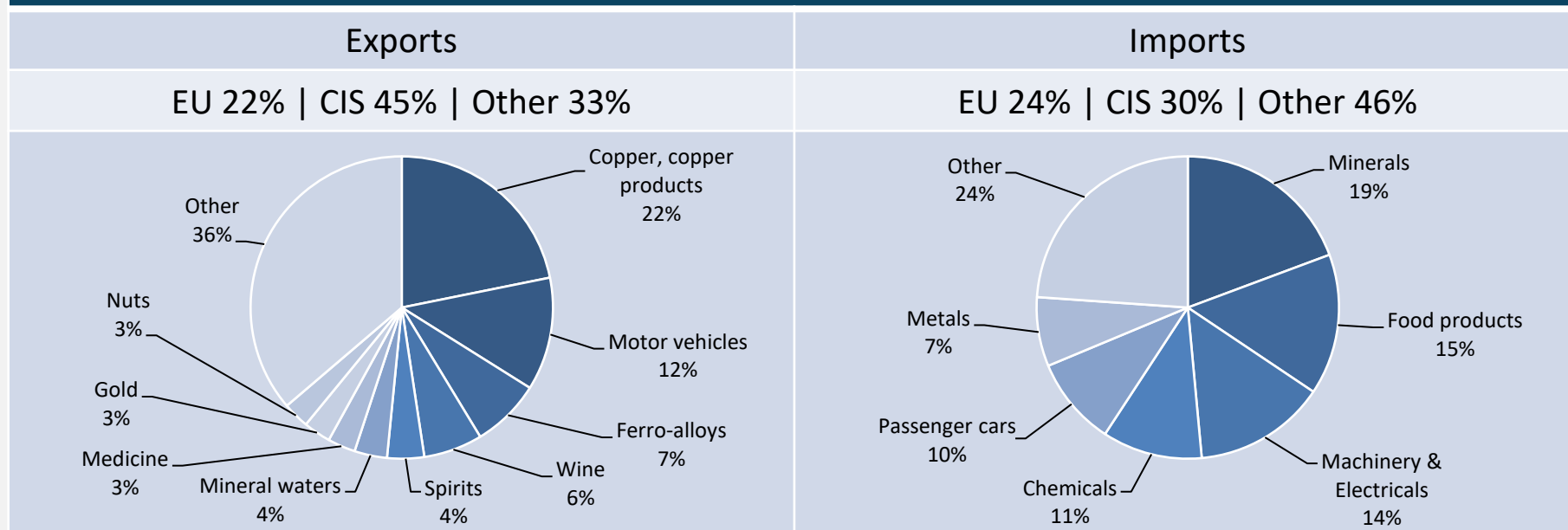
- **Insolvency.** Finally: a modern insolvency legislation for Georgia
- **COVID-19.** Development of cases, domestic measures, economic support

Basic indicators

	Georgia	Armenia	Azerbaijan	Ukraine	Russia
GDP, USD bn	16.2	12.7	42.6	155	1,464
GDP/capita, USD	4,358	4,264	4,219	3,717	9,973
Population, m	3.7	3.0	10.1	41.6	146.8

Sources: German Economic Team, IMF, Geostat, Armstat, State Statistical Committee of Azerbaijan, Ukrstat; estimate for 2020

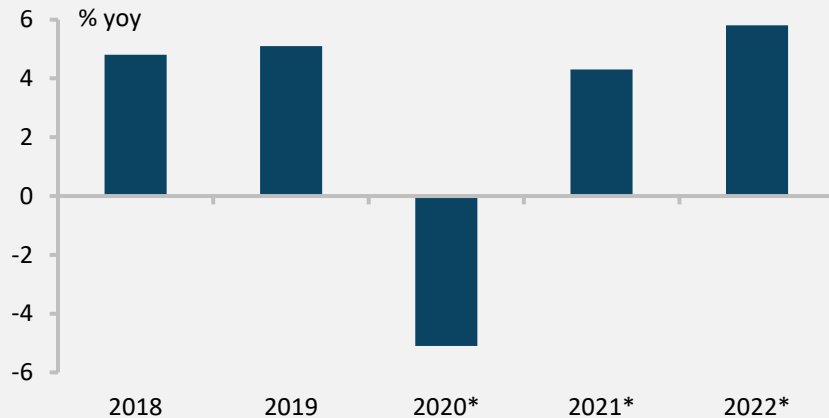
Trade structure



Source: Geostat, 2020; Note: trade in goods

Economic growth

Real GDP growth



Source: IMF, *estimation/forecast

Change in GDP forecasts for 2020

	GDP forecast (% yoy)		Change (pp)
	early 2020	latest	
Georgia	4.3	-5.1	-9.4
Armenia	5.5	-7.3	-12.8
Turkey	3.0	-5.0	-8.0
Iran	2.1	-5.0	-7.1
Azerbaijan	2.1	-4.0	-6.1
Russia	1.9	-4.1	-6.0
Germany	1.1	-5.0	-6.1
EU-27	1.4	-7.4	-8.8

Source: IMF, German Federal Statistics Service, European Commission

Domestic perspective

2020

- Latest GDP forecast: -5.1%

2021

- GDP expected to recover by 4.3%
- Result: return to growth, but at lower rate than before crisis
- Significant uncertainty in forecast, risks to the downside

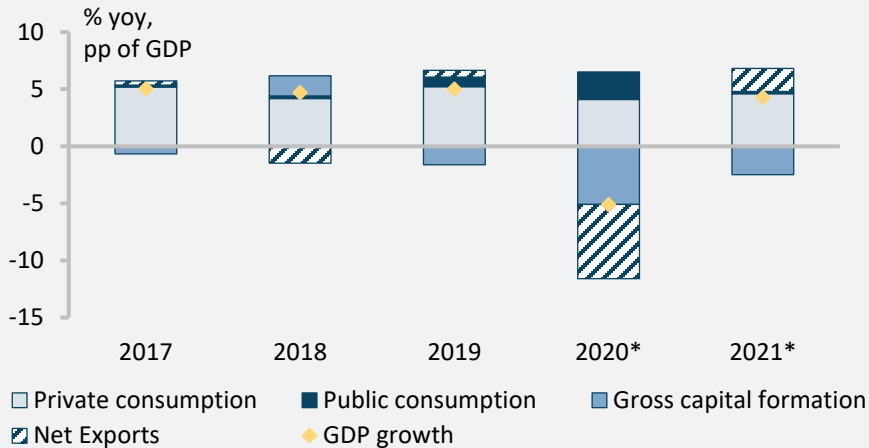
International perspective

- Latest GDP estimates for 2020 at similar level as peers
- But: initially, higher growth estimates for GEO. Shock thus worse than in peer countries

➤ **Significant recession in 2020, recovery in 2021 expected**

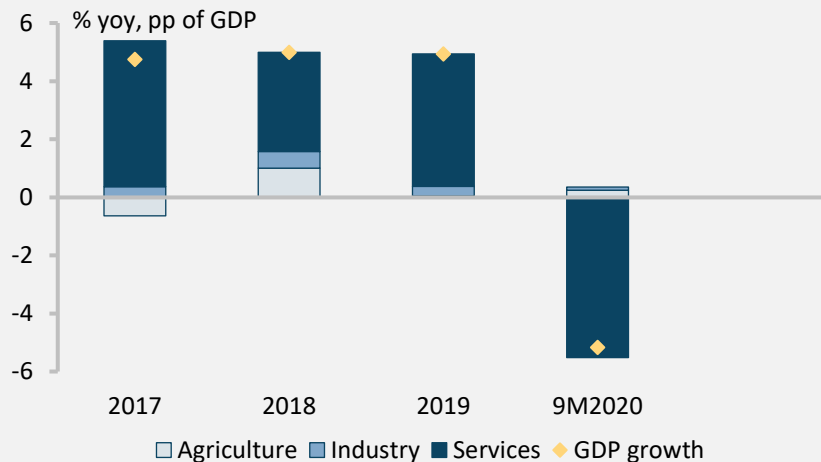
Demand and supply

Contribution to economic growth



Sources: Geostat, IMF, *estimation/forecast

Sectoral contribution to economic growth



Source: Geostat

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Demand-side dynamics

2020

- Strong decline in investment
- Sharp decline in exports, only partially offset by lower imports
- Growth support through private consumption and increase in gov spending

2021

- Recovery in exports and stronger consumption

Supply-side dynamics

- Services key driver of GDP, given its dominant role (71% of GDP)
- 2020: Strong drop in services, esp. tourism

➤ **Strong decline in exports and investment; services hit hardest**

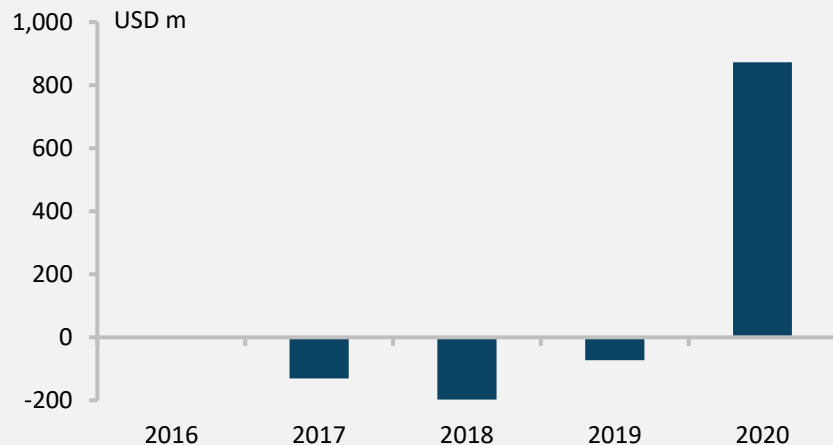
Current account and exchange rate

Exchange rate and FX reserves



Source: NBG, 2020

Net sales of FX by the NBG



Source: NBG

Exchange rate

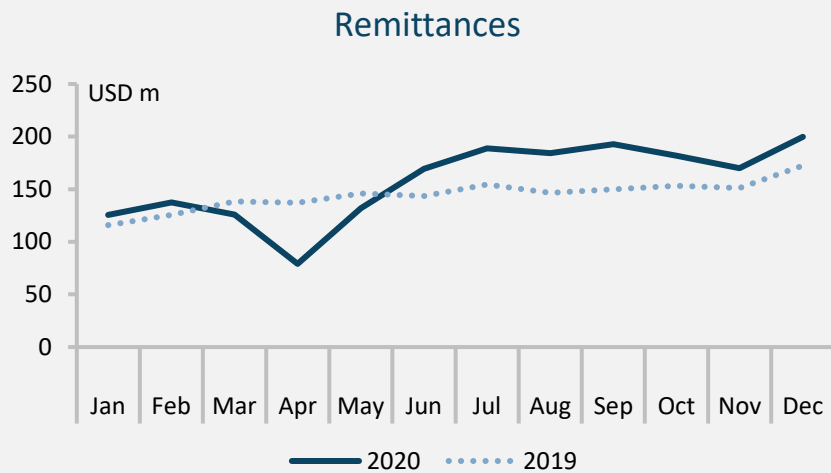
- Lari depreciated 13% vs US dollar in 2020
- Reasons:
 - Significant uncertainty starting in March
 - Decrease in exports and decline in FDI
- Substantial FX interventions by NBG; USD 873 m sold in 2020
- However, FX reserves increased on the back of loans from IFIs

Current account deficit

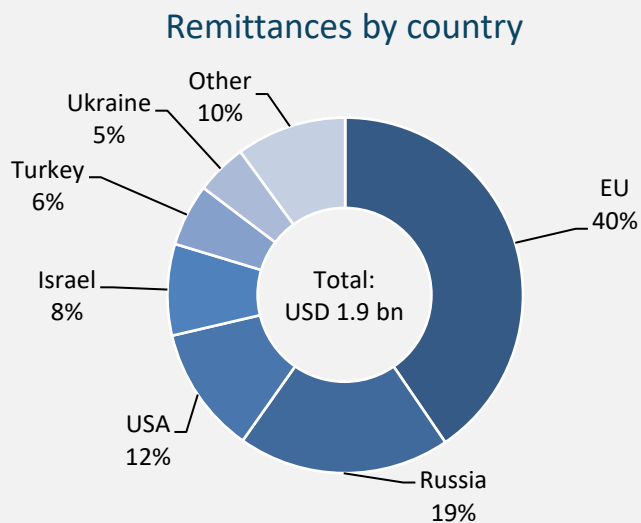
- Strong widening to -9.8% of GDP
- Reasons for increase
 - Lower exports of goods
 - Much lower tourism
- Slight consolidation expected for 2021

➤ **Strong effect of crisis on exchange rate and current account**

Remittances



Source: NBG; Note: based on USD



Source: NBG, 2020

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Long-term trend

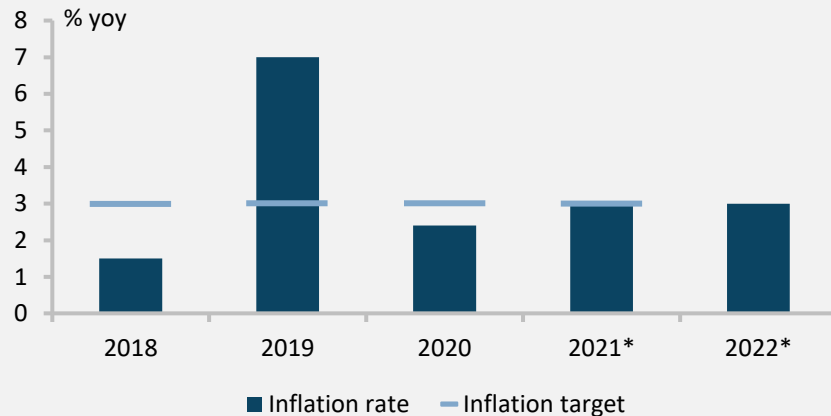
- Remittances have been increasing in Georgia since 2015
- In 2020, they totalled USD 1.9 bn (approx. 12% of GDP)

Remittances in 2020

- Mar to Apr: strong reduction
- NBG projected decline by 30% for the full year
- But: unexpected strong rebound in summer; Q3: +26% yoy
- Result: remittances for full year increased by 8.8% yoy
- **Remittances much stronger than initially anticipated**
- **Main implication:** stable remittances cushion effect of the crisis on consumption and imports

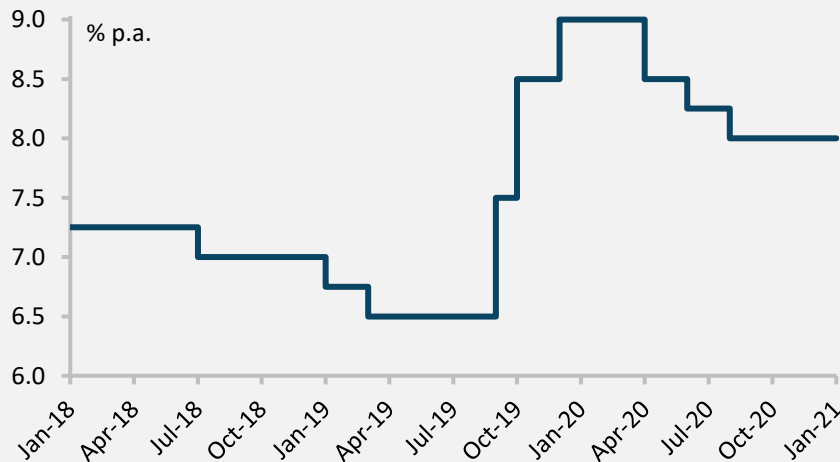
Inflation and monetary policy

Inflation rate and inflation target



Sources: Geostat, IMF, NBG; *forecast; Note: end of period consumer prices

NBG policy rate



Source: NBG

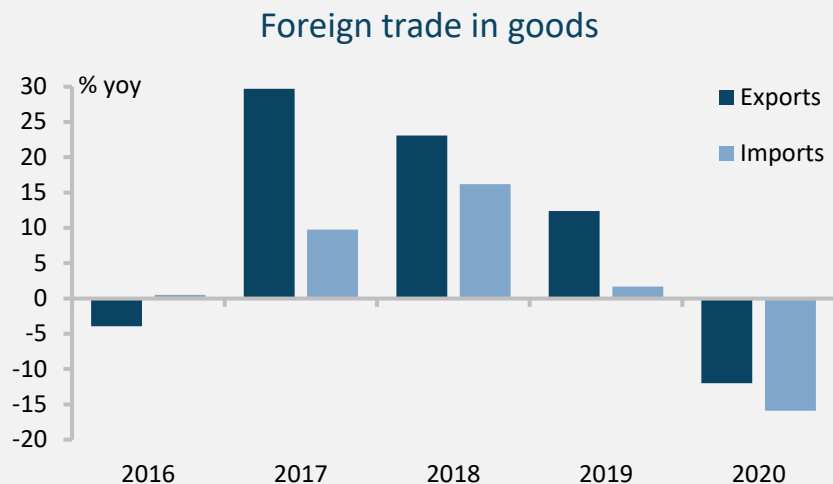
Inflation rate

- First half of 2020: around 6%
- Continuous reduction in second half; at year-end 2020: 2.4%
- Forecast for 2021: NBG's target of 3% will be met

Monetary policy

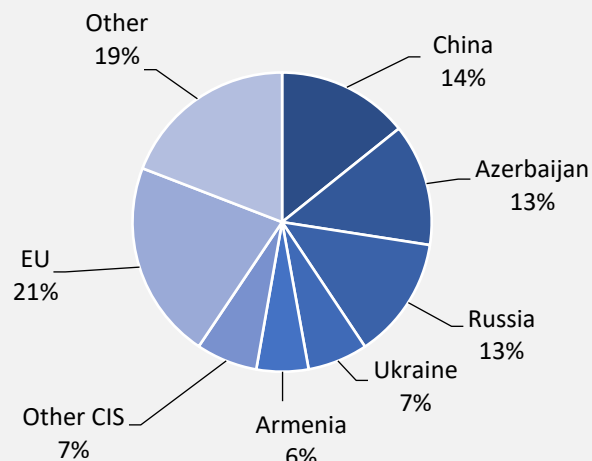
- Start of 2020: policy rate at 9.0%
 - In response to crisis: gradual reduction to 8.0% in three steps
 - But: limited scope for further policy rate reductions
 - Decreases need to be balanced with effect on inflation and exchange rate
 - Fiscal stimulus needs to be accounted for
- **Limited role for traditional monetary instruments to offer support in crisis**

Foreign trade in goods



Source: Geostat; Note: trade in goods

Exports by countries of destination



Source: Geostat, 2020; Note: trade in goods

Exports

- Exports of goods declined by 12.0% yoy in 2020

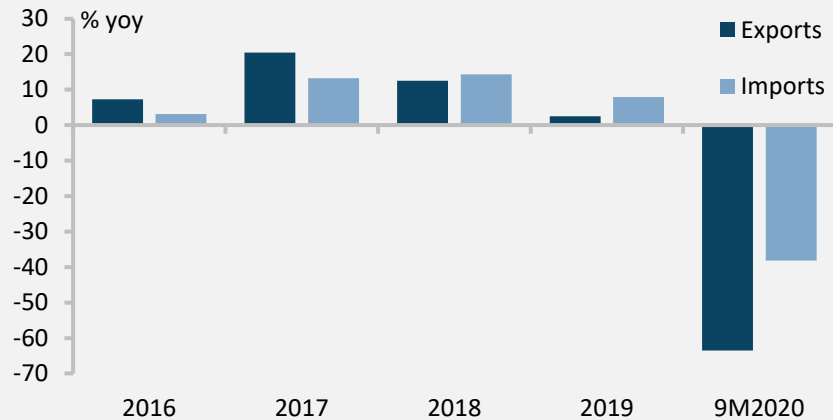
Imports

- Imports of goods decreased by 15.9% yoy in 2020
- Reasons:
 - Depreciation of the Lari
 - Decline in investment and FDI inflows
 - Lower production
 - Logistics problems due to the crisis

➤ **Significant decline in foreign trade in goods**

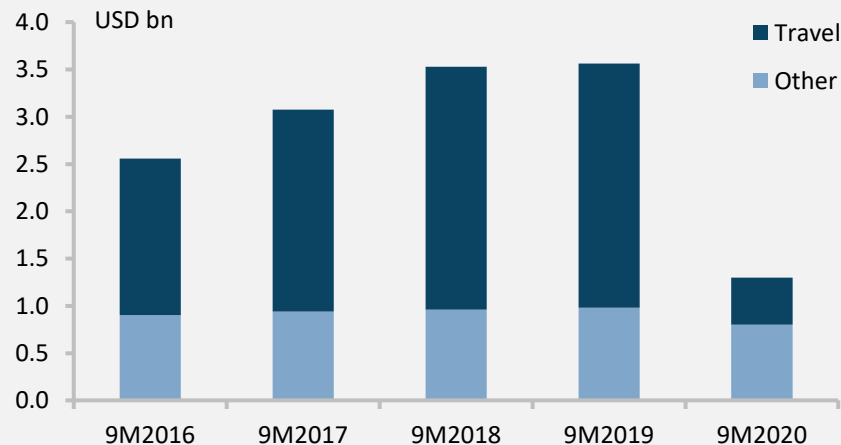
Foreign trade in services

Foreign trade in services



Source: NBG

Revenue from services exports



Source: NBG

Overview

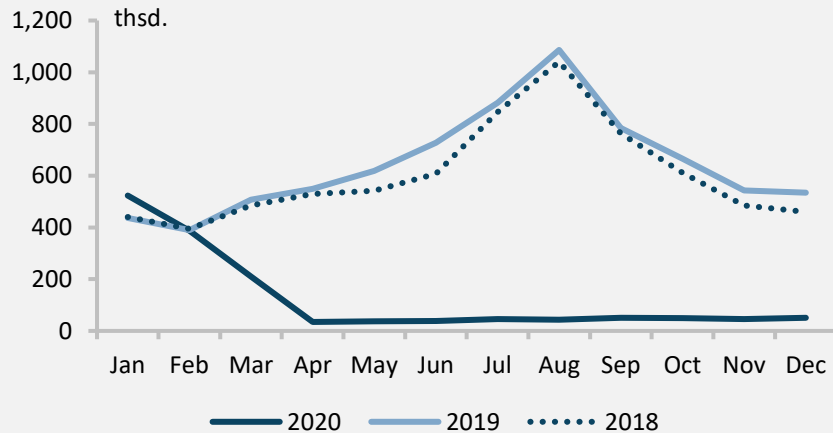
- 2019:
 - Exports of services (USD 4.6 bn) at a comparable level with exports of goods (USD 4.9 bn)
 - Trade surplus of USD 2.2 bn in services
- In usual years: strong dominance of tourism in services exports

9M2020

- Services exports declined by 63.5% yoy
 - Decline driven almost entirely by travel activities / tourism
- **Tourism as key driver for strong decline of services exports**

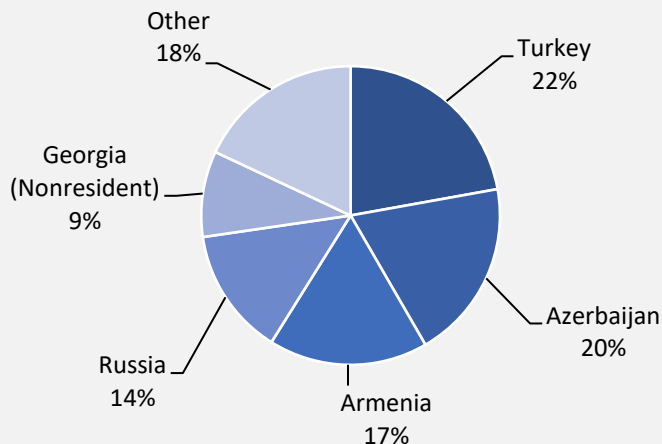
Tourism

International visitors



Source: Georgian National Tourism Administration

International visitors by country



Source: Georgian National Tourism Administration, 2020

Sector overview

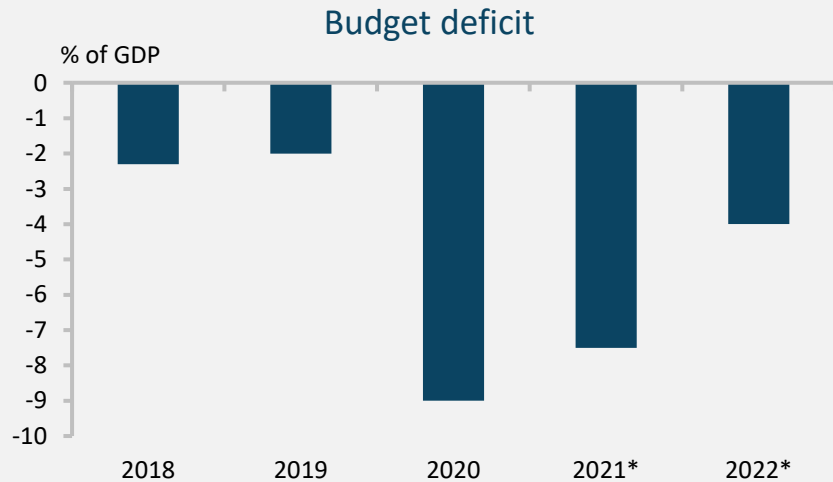
- Approx. 8% of GDP in 2019
- Before crisis: upward trend in number of tourists and revenues
- 2019: 7.7 m international visitors

Tourism in 2020

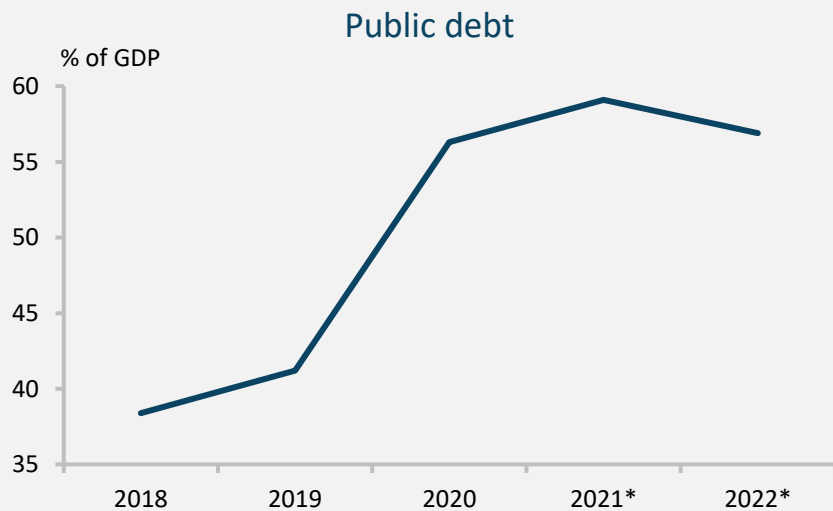
- Full year: drop by 80% yoy
- Significant reduction once crisis began
- Promotion as safe country (when COVID-19 numbers were low) did not impact number of visitors
- Key question for 2021: when can tourism return to normal?

➤ **Lost year for tourism; strong negative impact on GDP and current account**

Public finances and government debt



Source: IMF, *forecast; Note: IMF programme definition



Source: IMF, *forecast

Budget deficit and public debt

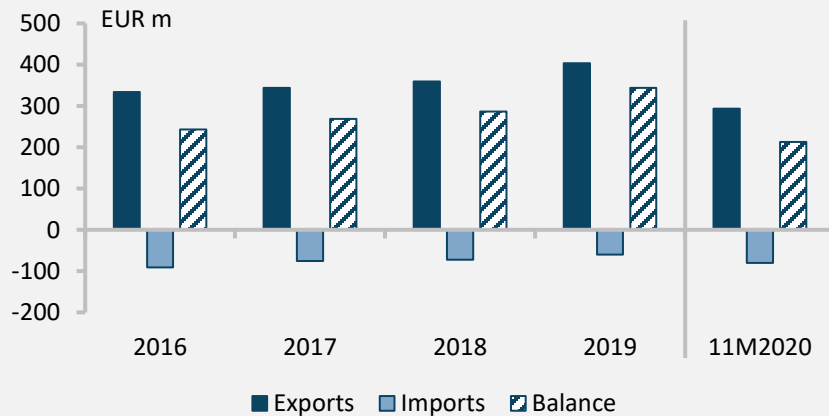
- Deficit in 2020: 9% of GDP
- Reason: anti-cyclical spending to cushion effects of recession
- Result: strong increase in public debt
- Deficit to reduce in 2021, while public debt to decrease by 2022

IMF programme

- May 2020: augmentation by ca. USD 325 m approved
- Programme broadly on track
- **Strong increase in budget deficit and debt in 2020**
- **Consolidation expected for 2021 onwards**
- **IMF support key for overcoming crisis**

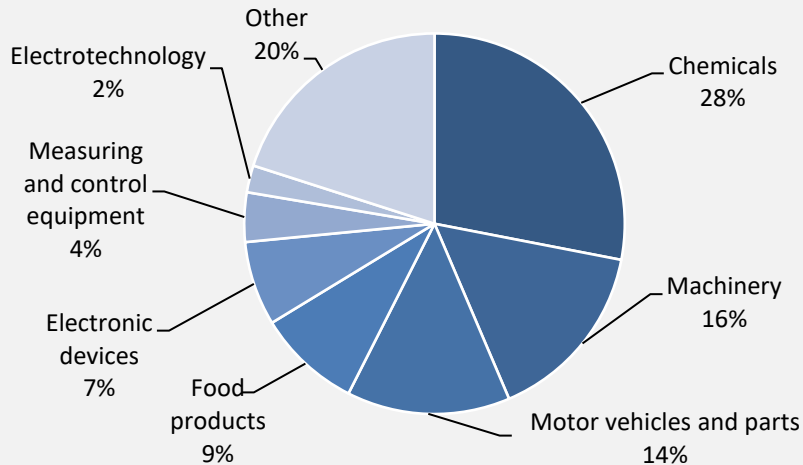
Bilateral trade between Germany and Georgia

German trade with Georgia



Source: German Federal Statistics Service; Note: trade in goods

German exports



Source: German Federal Statistics Service, 11M2020; Note: trade in goods

German exports to Georgia

- Positive dynamics since 2016
- 11M2020: -21% yoy
- Main reason: decline in exports of cars and machinery

German imports from Georgia

- 11M2020: +46% yoy
- Reason: strong increase in automotive parts and fruits
- Possible link to DCFTA
- But: increase from low base

➤ **Crisis breaks positive trend in German exports**

➤ **Germany maintains high bilateral trade surplus**

Finally: a modern insolvency legislation for Georgia

Background

- Current insolvency law (2007) is far away from modern international best practice
- Low ranking of Georgia in World Bank's Doing Business Report 2020 in the category "Resolving Insolvency" (position 64 out of 190 countries)

2020 Law of Georgia "On Rehabilitation and Collective Satisfaction of Creditors"

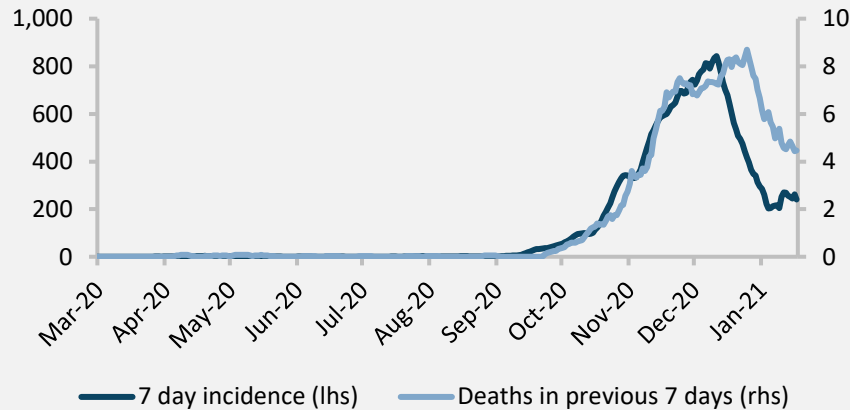
- New law enters into force on 1 April 2021
- Complete change of philosophy: from liquidation to rehabilitation of the enterprise
- New and important role of private and independent insolvency practitioners
- New "Regulated Agreements" allow proceedings supervised by an insolvency practitioner with low key court involvement

Short assessment

- Quantum leap forward for Georgia's insolvency legislation
- State involvement in insolvency proceedings drastically reduced
- Improvement of World Bank's Doing Business ranking in category "Resolving Insolvency" very likely
- Future areas for reform: insolvency proceedings for physical persons including private entrepreneurs and pre-insolvency corporate debt restructuring mechanisms

COVID-19: overview of cases

7 day incidence and deaths



Source: Johns Hopkins University. Figures per 100,000 people

	7 day incidence	Deaths in previous 7 days
Georgia	231	4.3
Azerbaijan	26	1.0
Iran	52	0.7
Turkey	72	1.4
Armenia	83	2.1
Russia	112	2.5
Germany	145	7.2
EU-27	223	5.6

Sources: Johns Hopkins University, Worldometer. Figures per 100,000 people. Data as of 17 January 2021

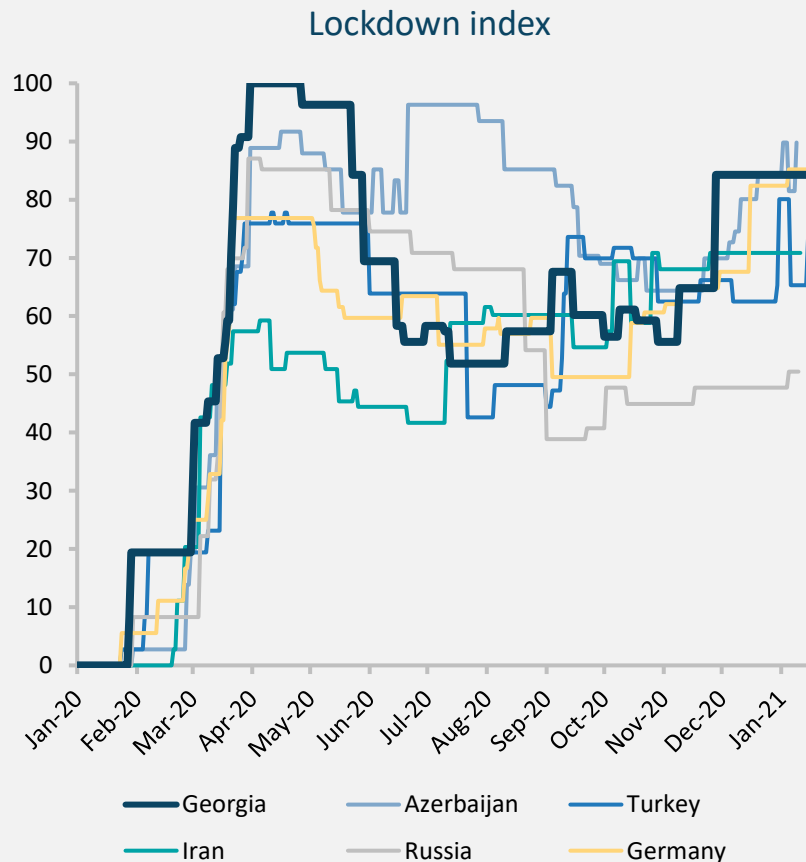
Domestic perspective

- Spring/summer: very limited number of cases
- Sharp worsening starting in October, 7 day incidence over 800 in early December
- Decline in new cases in December

International perspective

- 7 day incidence in GEO much worse than neighbours
- **Drastic worsening of situation in autumn**

COVID-19: containment measures and lifting



Source: Oxford COVID-19 Government Response Tracker

Note: the stringency index aggregates policy responses related to containment, closure and public information campaigns on a scale from 0 (lowest) to 100 (highest)

Domestic perspective

- Measures (selection):
 - Border closure
 - Night-time curfew
 - Two-week quarantine for all Georgians arriving from abroad
 - Closure of public transport (local and intercity)
 - Closure of schools and kindergardens
 - Closure of shopping malls, restaurants and hotels
 - Culmination: lockdown of major cities
- Measures kept number of cases low initially
- Re-tightening of restrictions in the fall, when cases increased drastically

International perspective

- Early and strong response by GEO
- Lifting of measures in summer similar to most peers

COVID-19: support by the government

COVID-19 fiscal support measures

	Actual (9M2020)		Projection 2020	
	GEL m	% of GDP	GEL m	% of GDP
Households	626	1.3	964	1.9
Business	325	0.7	640	1.3
Healthcare	189	0.4	357	0.7
Total	1,140	2.3	1,961	3.9

Source: own display based on data by IMF

International comparison

	Budget deficit (% of GDP)	Fiscal support (% of GDP)
Georgia	9.0	3.9
Armenia	7.0	3.1
Ukraine	5.6	1.6*
Russia	5.3	ca. 3.5/4.5**

Sources: IMF, German Economic Team, Ministry of Finance of Ukraine; *only household and health support; **incl. off-budget measures

Measures (selection)

- Total spending projected at 3.9% of GDP, slightly below initial estimates
- Household support (ca. 50% of total)
 - Targeted support for vulnerable families
 - Subsidies for utility bills
- Business support (ca. 30%)
 - Income tax relief for retaining workers
 - Credit guarantees and grants for SMEs
- Healthcare (ca. 20%) – supplies, treatment

International comparison

- Strong reaction by GEO compared to peers
- **Sizeable economic stimulus, mainly for households**
- **Key contributor to high budget deficit**

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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