

# German-Georgian economic relations in the context of the COVID-19 pandemic

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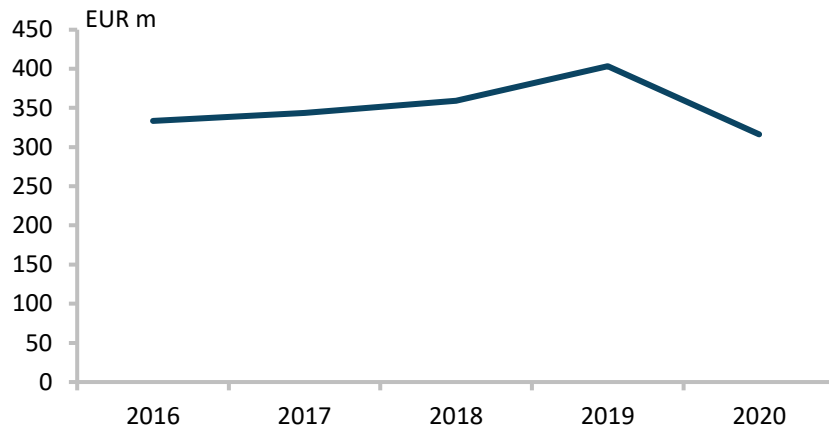
# 1. Introduction

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- German-Georgian economic relations take place in the framework of the EU-GEO free trade agreement (“DCFTA”), which was signed in 2014
- In this policy briefing, we look at recent developments and the impact of COVID-19 on the following economic indicators:
  - German exports to Georgia
  - German imports from Georgia, including the identification of potential for higher imports
  - Trade in services, with a focus on tourism
  - German foreign direct investment (FDI) in Georgia

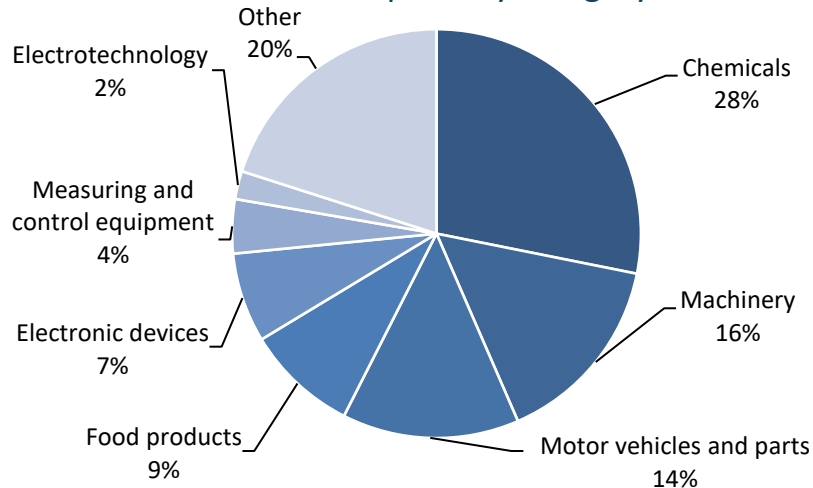
## 2. Exports of goods to Georgia

German exports to Georgia



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

German exports by category



Source: German Federal Statistics Service, 2020; Note: trade in goods

### General overview

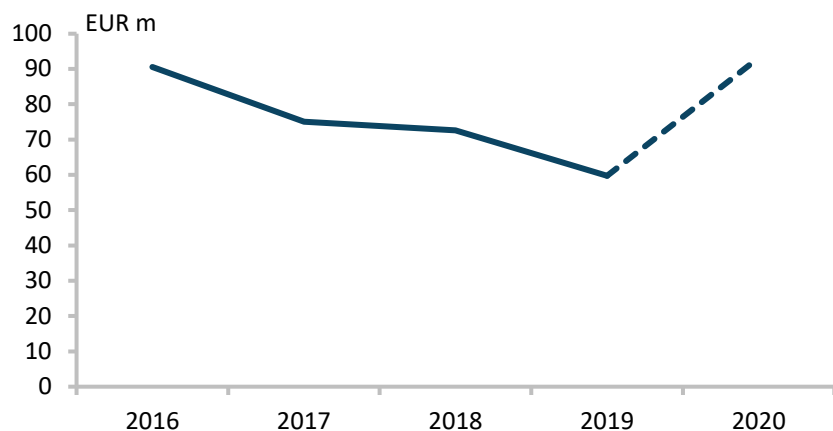
- Since 2016, positive growth dynamics
- 2019: approx. EUR 400 m
- Main export goods:
  - Chemicals
  - Machinery
  - Cars (and parts)

### 2020

- Decline by 22% yoy
- Main reason: decline in exports of cars and machinery
- **Crisis causes strong decline in exports, interrupts positive trend**

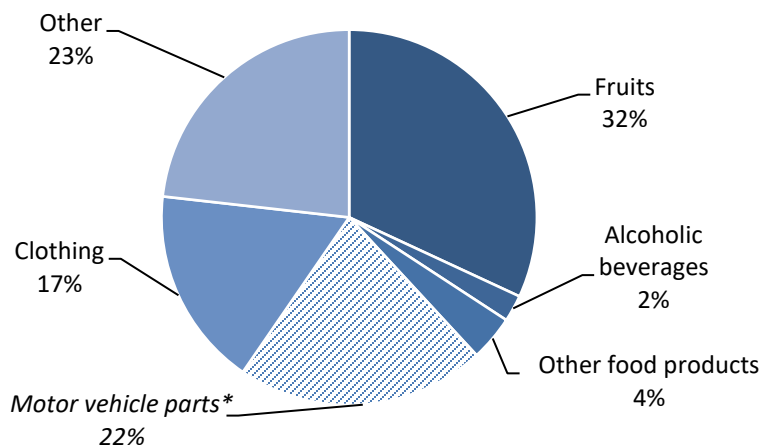
# 3. Imports of goods from Georgia

### German imports from Georgia



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

### German imports by category



Source: German Federal Statistics Service, 2020; Note: trade in goods;

\* Official statistics as of April 2021, figure seems unrealistically high

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### In general

- Imports of Georgian less than EUR 100 m p.a.
- In recent years: reduction in imports
- Main import goods: fruits and other agricultural goods; apparel

### 2020

- Increase by 56% yoy (as reported by DEU statistics)
- Main reasons:
  - Higher imports of fruits
  - But also: imports of automotive parts increased from EUR 6,000 to EUR 20 m!
  - Numbers are not plausible and not supported by GEO statistics
  - GET contacted German Statistics Service to try to clarify the issue

➤ **Unclear situation regarding imports**

➤ **Anyway: large DEU surplus in trade balance**

# Potential for higher agricultural imports from Georgia

## Top 15 products

1	Fresh cranberries, blueberries, etc.
2	Fixed vegetable fats and oils and their fraction
3	Fresh peaches, incl. nectarines
4	Fresh or chilled potatoes
5	Solid residues resulting from the extraction of soya-bean oil
6	Nuts and other seeds, incl. mixtures, prepared or preserved
7	Mixtures of fruit juices
8	Jams, jellies, marmalades, purées or pastes of fruit
9	Crude sunflower-seed oil
10	Solid residues resulting from the extraction of sunflower seeds
11	Fresh apples
12	Juice of fruit or vegetables
13	Tomatoes, fresh or chilled
14	Fresh or dried walnuts, shelled
15	Apple juice, unfermented, Brix value $\leq$ 20

Source: German Economic Team, based on Policy Briefing PB/02/2019

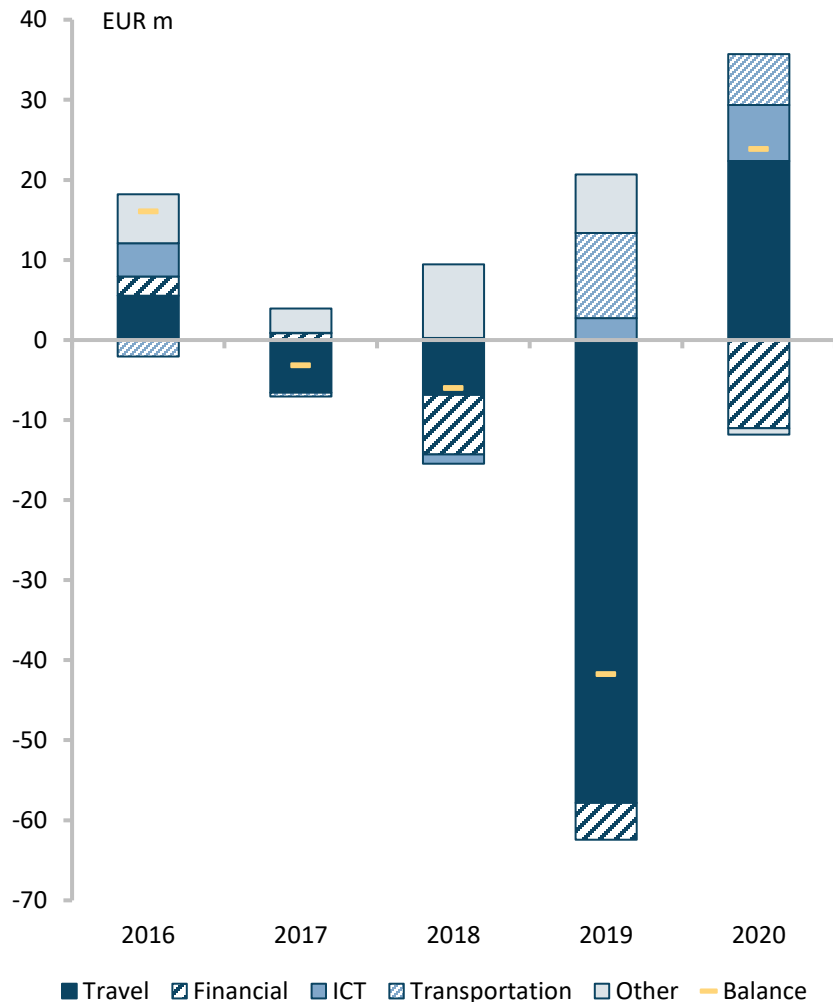
- Imports from GEO rather small
- Question: is there potential for higher imports?
- If so, in which sector, for which goods?

## Research by GET

- Clear potential in agro-food sector
- Identification of concrete products with high potential (top 15 products)
- Why so far potential not grasped?
  - Limited volume of production
  - Bottlenecks in transport and logistics
- What to do?
  - Attraction of productive FDI from DEU/EU
- Why?
  - Access to shelves in the EU
  - Knowledge transfer
  - Capital for investments in infrastructure
- **Potential for higher imports of agricultural goods from GEO**
- **FDI necessary to grasp potential**

# 4. Trade in services

German trade with GEO in services by category



## In general

- Georgia is a service-oriented economy (approx. 76% of GDP), with large foreign trade in services

## Main imports of services from GEO

- Tourism and travel-related services
- In recent years: stronger imports of financial services

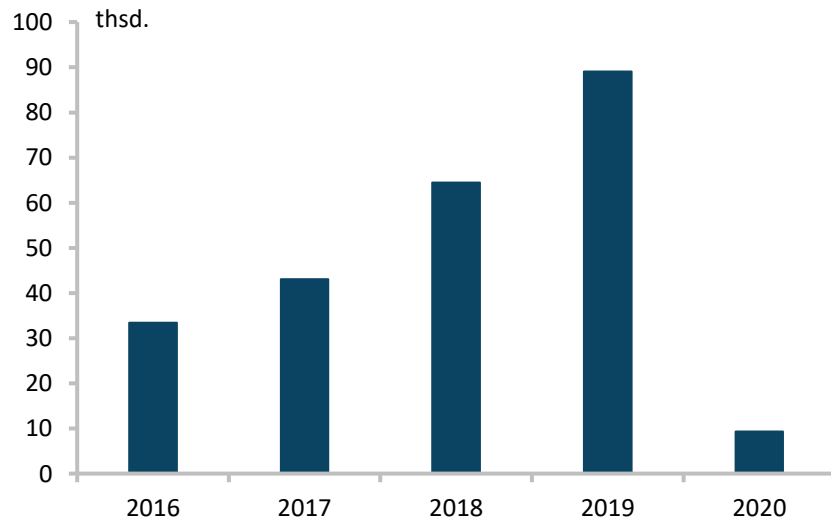
## 2020

- Strong decline in tourism led to much lower imports of services from GEO
- Implication: usual German deficit in services balance with GEO turned into a surplus
- However: imports of services likely to increase in 2021 or in 2022 at the latest

➤ **Strong decline of services imports from GEO in 2020, due to restrictions in tourism**

# Tourism

German visitors to Georgia



Source: Georgian National Tourism Administration

## 2019

- Almost 90,000 German visitors to Georgia
- Expenditures:
  - Approx. 600 EUR per visit
  - Total: approx. EUR 54 m

## Trends 2016-2019

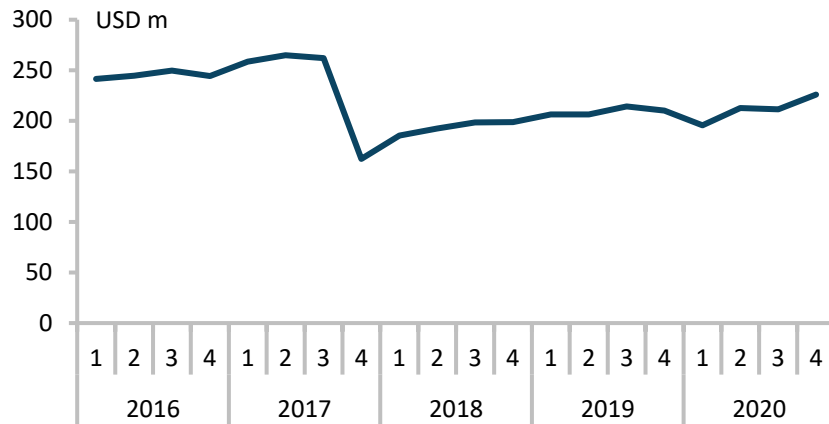
- German tourists in GEO: average increase by 39% p.a.
- Comparison: total tourists to GEO grew by 13% on average

➤ **Strong dynamic between 2016 and 2019**

➤ **Positive development interrupted by pandemic**

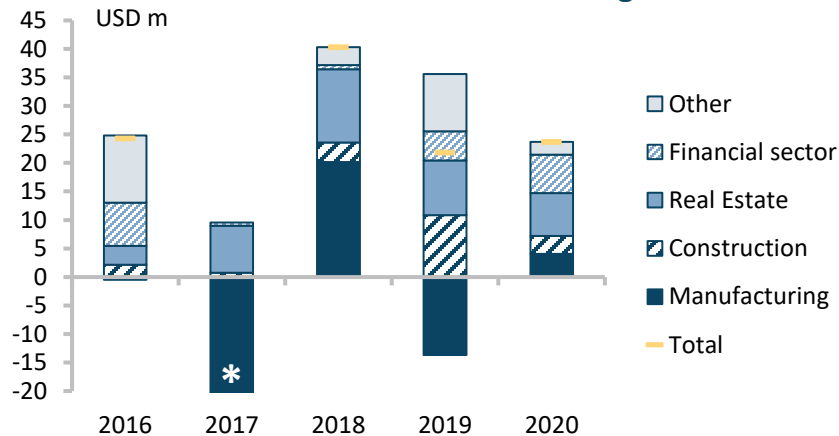
# 5. German FDI in Georgia

Stock of German FDI in Georgia



Source: Geostat, end-of-quarter

Flow of German FDI in Georgia



Source: Geostat; \*value for manufacturing (-94.5) not fully visible to allow better comparison for the other years

## Overview

- Positive dynamics of German FDI in GEO since 2018
- Main areas:
  - Manufacturing
  - Construction
  - Real estate
  - Financial sector

## 2020

- Slight increase in flows (7% yoy)
- For comparison, total FDI flows to Georgia in 2020 declined by 53% yoy
- **Increase in German FDI to GEO despite pandemic**



## 6. Conclusions

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- Strong impact of pandemic on German exports to GEO; 2020: -22%
- Situation regarding imports from GEO less clear, due to open questions regarding DEU statistics
- GET identified significant potential for higher imports of GEO agricultural products
- Productive FDI into GEO agro-food sector is necessary to grasp this potential
- Imports of travel-related services (tourism) from GEO declined heavily in 2020, but are likely to recover soon
- German FDI continue to show positive dynamics despite the pandemic; positive feature

# Annex: German goods and services balance with Georgia

(EUR m)	2016	2017	2018	2019	2020
<b>Goods balance</b>	<b>278</b>	<b>324</b>	<b>326</b>	<b>389</b>	<b>260</b>
<i>Goods exports</i>	<i>360</i>	<i>393</i>	<i>391</i>	<i>444</i>	<i>348</i>
<i>Goods imports</i>	<i>82</i>	<i>68</i>	<i>65</i>	<i>55</i>	<i>88</i>
<b>Services balance</b>	<b>16</b>	<b>-3</b>	<b>-6</b>	<b>-42</b>	<b>24</b>
<b>Goods and services balance</b>	<b>294</b>	<b>321</b>	<b>320</b>	<b>347</b>	<b>284</b>

Source: Deutsche Bundesbank; for services only balance available

# 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.

## CONTACT

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