Georgia’s trade with the EU: Recent developments

German Economic Team Georgia

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Introduction

- How important is trade with the EU for Georgia?
  - Role of EU in Georgian exports
  - Role of EU in Georgian imports

- Development of Georgia-EU trade
  - Development of exports to EU
  - Development of imports from EU
  - Development of real trade (exports and imports without effect of price changes)

- Data: Until second half of 2016 (H1-16)
Role of EU in Georgian exports

- EU is main export partner for Georgia (28% of exports to EU)
- Value of exports to EU: USD 580 m
- Smaller EU share than for Ukraine (37%) or Moldova (63%)
- Reason: Geographic distance, intensive trade with region

Georgian exports by destination, H2-15 – H1-16

- EU countries 28%
- USA 4%
- Turkey 9%
- China 8%
- Russia 8%
- Armenia 7%
- Azerbaijan 7%
- Other CIS 11%
- Other counties 17%
- Other 17%

Source: UN Comtrade
Role of EU in Georgian imports

- EU also main source of Georgian imports (29% of imports from EU)
- Value of imports from EU: USD 2.0 bn
- Large trade deficit with EU of USD 1.4 bn (as with other partners)
- EU share of trade deficit corresponds to EU share in trade

Imports of Georgia by source, H2-15 – H1-16

- EU countries: 29%
- Turkey: 19%
- China: 8%
- Other CIS: 8%
- Russia: 9%
- Armenia: 3%
- Azerbaijan: 7%
- USA: 3%
- Other countries: 14%
- Other: 14%

Source: UN Comtrade
Development of Georgian exports to the EU

Exports to the EU in H2-15 – H1-16

- Decrease of almost 10% yoy
- Reason: Decline of prices for main export goods
- Without price effects, increase of real exports by 27%
- Price effects play a large role
- What is the product structure of Georgia’s exports to the EU?

Source: UN Comtrade
Note: Goods trade only, no re-exports
Product structure of exports to the EU

Exports to EU by product, H2-15 – H1-16

- Nuts 40%
- Nitrogenous fertilizers 18%
- Ferro-alloys 5%
- Crude oils 4%
- Grape wines 3%
- Beverage waters 3%
- Other 25%

- Large concentration of exports to the EU on very few products
- Two commodities (nuts and nitrogen fertilizers) account for 58%
- Share of nuts increased from 23% to 40% of exports to EU over 6 years
- Lack of export diversification exposes Georgia to commodity price risk

Source: UN Comtrade Monthly
## Nominal and real change in export by product

<table>
<thead>
<tr>
<th>Product</th>
<th>Value, USD m</th>
<th>% total</th>
<th>yoy change, USD m</th>
<th>yoy change, %, nominal</th>
<th>yoy change, %, real</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic exports</td>
<td>351.3</td>
<td>100%</td>
<td>-38.6</td>
<td>-10%</td>
<td>27%</td>
</tr>
<tr>
<td>Nuts</td>
<td>141.9</td>
<td>40%</td>
<td>-50.3</td>
<td>-26%</td>
<td>16%</td>
</tr>
<tr>
<td>Nitrogenous fertilizers</td>
<td>64.8</td>
<td>18%</td>
<td>37.9</td>
<td>141%</td>
<td>200%</td>
</tr>
<tr>
<td>Ferroalloys</td>
<td>18.5</td>
<td>5%</td>
<td>-4.4</td>
<td>-19%</td>
<td>1%</td>
</tr>
<tr>
<td>Crude oils</td>
<td>15.4</td>
<td>4%</td>
<td>-2.4</td>
<td>-13%</td>
<td>6%</td>
</tr>
<tr>
<td>Grape wines</td>
<td>12.1</td>
<td>3%</td>
<td>0.6</td>
<td>5%</td>
<td>14%</td>
</tr>
<tr>
<td>Beverage waters</td>
<td>11.6</td>
<td>3%</td>
<td>0.1</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Women’s wove overcoats</td>
<td>7.1</td>
<td>2%</td>
<td>1.4</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>Flour and meal of nuts</td>
<td>5.3</td>
<td>2%</td>
<td>2.8</td>
<td>107%</td>
<td>254%</td>
</tr>
<tr>
<td>Other products</td>
<td>74.5</td>
<td>21%</td>
<td>-24.3</td>
<td>-25%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Source: UN Comtrade Monthly*

- Real increase of EU exports in all major goods
- Nominal decreases particularly for commodities (nuts, ferroalloys, crude oil)
- **Nominal decrease of exports clearly caused by commodity price decreases**
Goods imports: Nominal decrease, slight real increase

Imports from the EU in H2-15 – H1-16

- Decrease of imports by 9.4% yoy
- Differential development of components:
  - Decrease of commodity imports due to price decline
  - Increase of capital goods imports
- Without price changes: Real increase in imports by 0.8%

Source: UN Comtrade
Note: Data excludes a large donation of vaccines
Product structure of GE imports from EU

Imports from the EU by product, H2-15 – H1-16

- Diversified structure of imports
- Main components:
  - Capital goods (machinery, electrical equipment, apparatus)
  - Commodities (esp. mineral fuels)
- Decline of oil price depressed mineral fuel imports
- Capital goods imports driven by investments in Georgia

Source: UN Comtrade Monthly
### Decomposition of GE imports from EU by products

<table>
<thead>
<tr>
<th>Imports</th>
<th>Value, USD m</th>
<th>% total</th>
<th>yoy change, USD m</th>
<th>yoy change, %, nominal</th>
<th>yoy change, %, real</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>2029.7</td>
<td>100%</td>
<td>-211.1</td>
<td>-9%</td>
<td>1%</td>
</tr>
<tr>
<td>Mineral fuels</td>
<td>299.2</td>
<td>15%</td>
<td>-157.7</td>
<td>-35%</td>
<td>-1%</td>
</tr>
<tr>
<td>Machinery, boilers etc.</td>
<td>294.9</td>
<td>15%</td>
<td>32.0</td>
<td>12%</td>
<td>26%</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>203.0</td>
<td>10%</td>
<td>-21.9</td>
<td>-10%</td>
<td>-45%</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>178.1</td>
<td>9%</td>
<td>-14.0</td>
<td>-7%</td>
<td>-12%</td>
</tr>
<tr>
<td>Electrical &amp; electronic</td>
<td>143.2</td>
<td>7%</td>
<td>-24.4</td>
<td>-15%</td>
<td>-7%</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apparatus</td>
<td>80.7</td>
<td>4%</td>
<td>22.2</td>
<td>38%</td>
<td>36%</td>
</tr>
<tr>
<td>Perfumes, cosmetics etc.</td>
<td>58.6</td>
<td>3%</td>
<td>-2.6</td>
<td>-4%</td>
<td>2%</td>
</tr>
<tr>
<td>Articles of iron or steel</td>
<td>47.7</td>
<td>2%</td>
<td>9.4</td>
<td>25%</td>
<td>62%</td>
</tr>
<tr>
<td>Other products</td>
<td>724.2</td>
<td>36%</td>
<td>-54.1</td>
<td>-7%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: UN Comtrade Monthly

- Nominal decrease mainly caused by imports of oil, vehicles, and equipment
- Vehicle imports down due to effective end of regional used car re-exports
- Growth of capital goods imports (e.g. machinery, apparatus)
Conclusions

- EU is the largest trade partner of GE accounting for 28% of exports and 29% of imports
- Exports decreased in nominal terms, but increased in real terms by 27%
  - Contraction of nominal exports due to commodity price declines and Georgia’s large export concentration in commodities
- Imports decreased 9% nominally, especially because of decline of oil price
  - Growth of capital goods imports due to solid investment activity in Georgia

- Georgia’s exports remain exposed to commodity price shocks
- Georgia-EU DCFTA should be used as an opportunity to diversify export portfolio in the coming years
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Annex I: Destinations of domestic exports to EU

Exports to the EU by destination, H2-15 – H1-16

- Top-5 countries account for 64% of total exports to EU
- ‘Core’ destinations for GE in EU are Italy (20%) and Germany (18%)
- For both destinations, over 60% of exports are nuts

Source: UN Comtrade Monthly
Annex II: Sources of GE imports from EU

Imports from EU by source, H2-15 – H1-16

- Top-5 countries account for 55% of total imports from EU
- ‘Core’ source countries are Germany (20%) and Italy (11%)
- Machine-building products including vehicles account for more than a half of imports from Germany, and more than a third – from Italy

Source: NBG
Annex III: Calculation of export figures

- Re-exports were excluded from export data
- Estimates of GE re-exports are based on:
  - UN Comtrade Monthly information on GE re-exports (obtained from reports of GE officials)
  - Corrected for underestimation of re-exports of following products:
    - Copper ores (HS 2603) is assumed to be 100% re-exported
    - Crude oil (HS 2709) is assumed to be re-exported for volumes above the level of domestic production derived from the International Energy Agency (IEA) balances
    - Petroleum oils, other than crude (HS 2710) is assumed to be 100% re-exported
- Estimates of real exports and imports are based on:
  - Unit value for 4-digit HS product of previous year
  - Net weight of product in current year