

Georgia's trade with the EU: Recent developments

German Economic Team Georgia

Veronika Movchan, David Saha

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Introduction

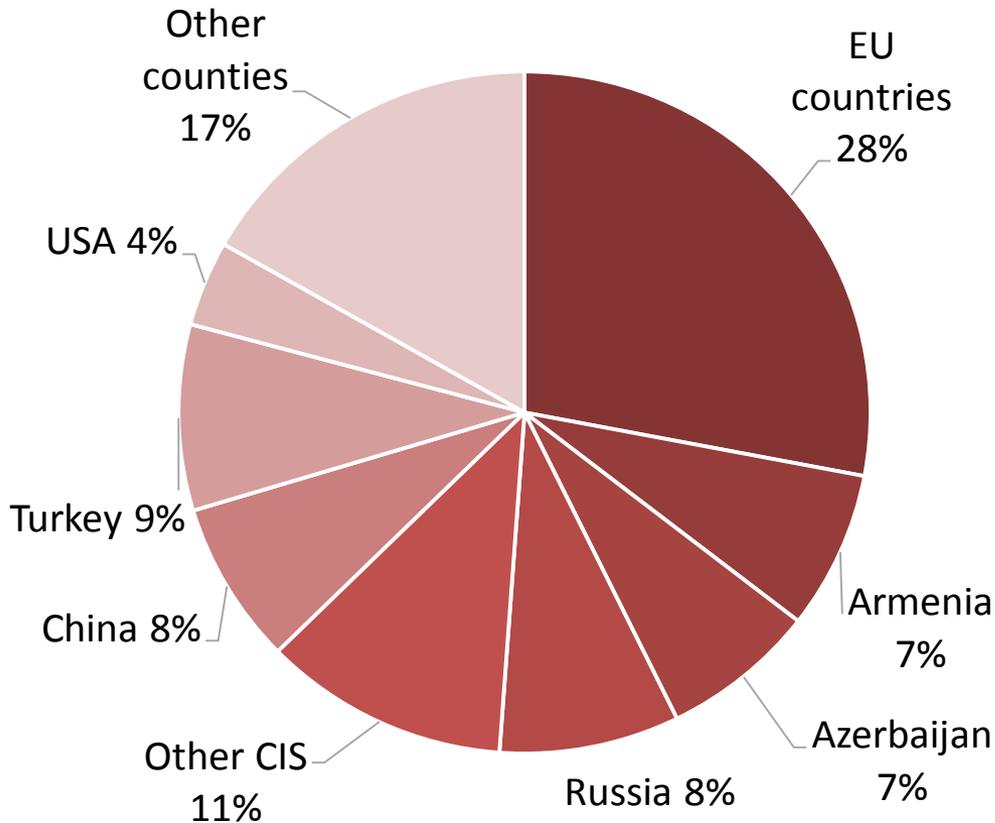
- How important is trade with the EU for Georgia?
 - Role of EU in Georgian exports
 - Role of EU in Georgian imports

- 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

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

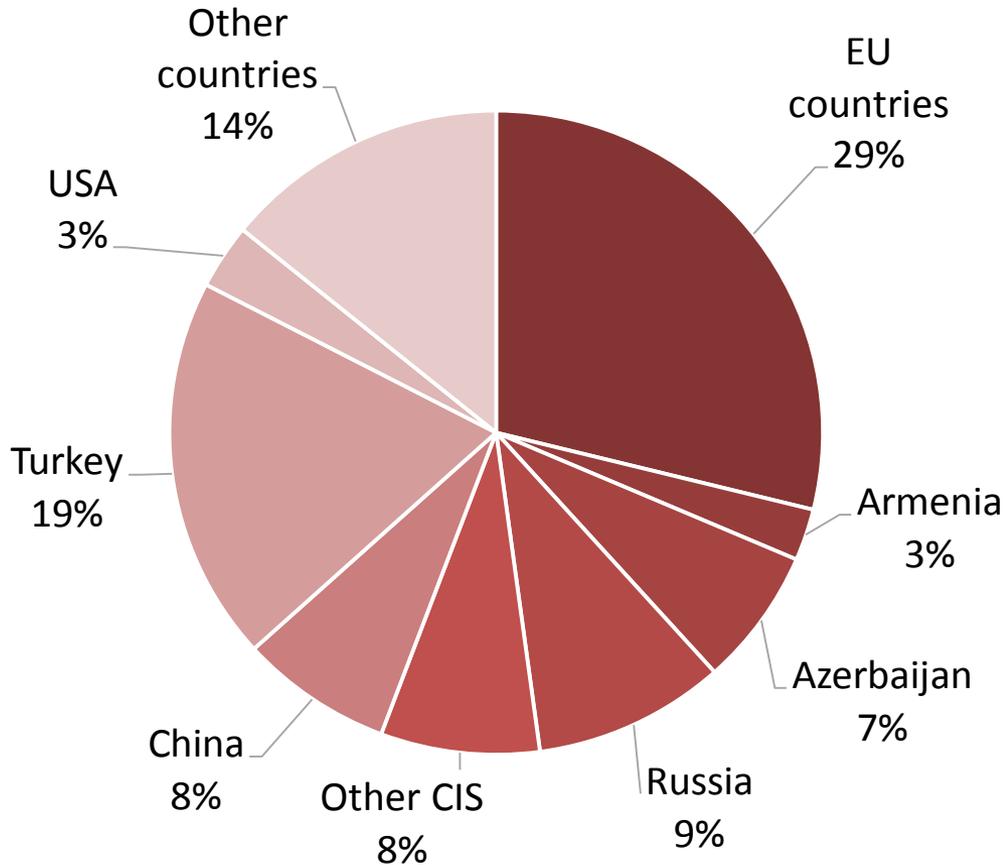


- EU is main export partner for Georgia (28% of exports to EU)
- Value of exports to EU: USD 580 m
- Smaller EU share than for Ukraine (37%) or Moldova (63%)
- Reason: Geographic distance, intensive trade with region

Source: UN Comtrade

Role of EU in Georgian imports

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

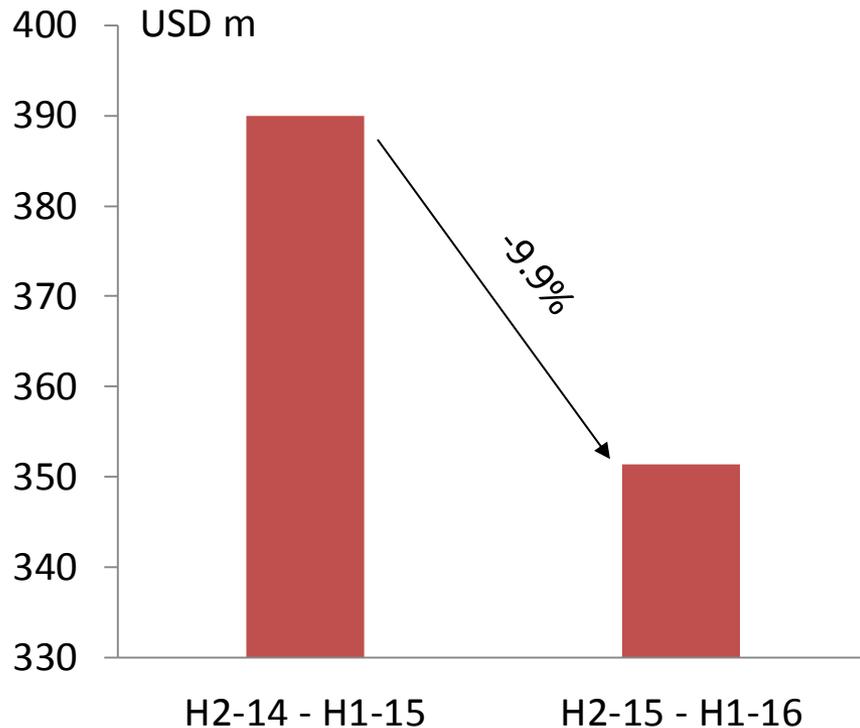


Source: UN Comtrade

- 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

Development of Georgian exports to the EU

Georgia, exports to EU



Source: UN Comtrade

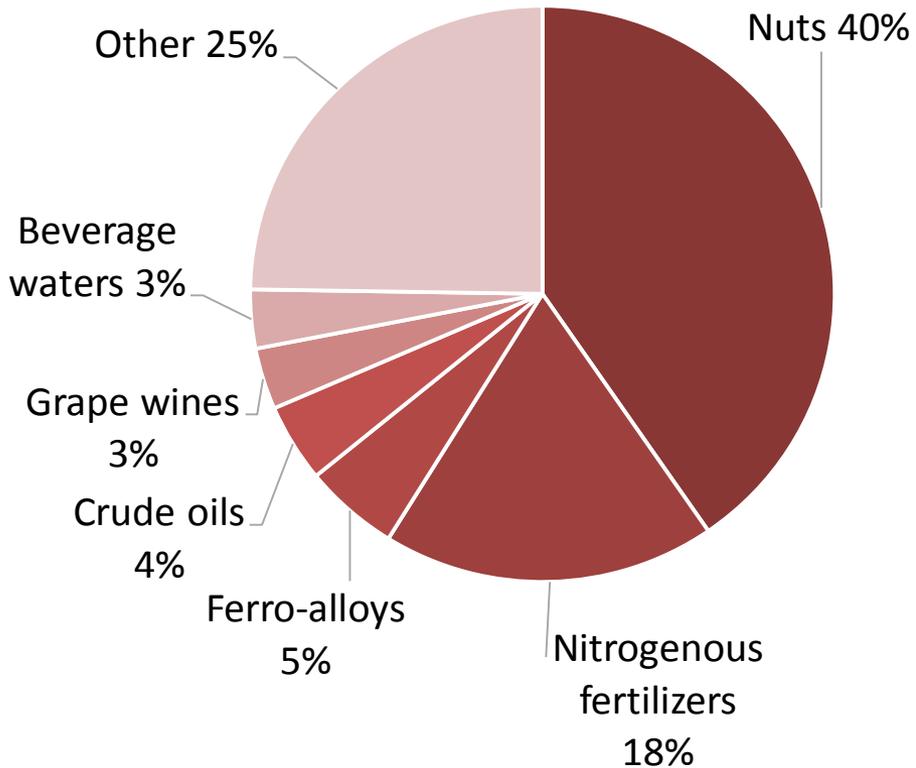
Note: Goods trade only, no re-exports

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?

Product structure of exports to the EU

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



- 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

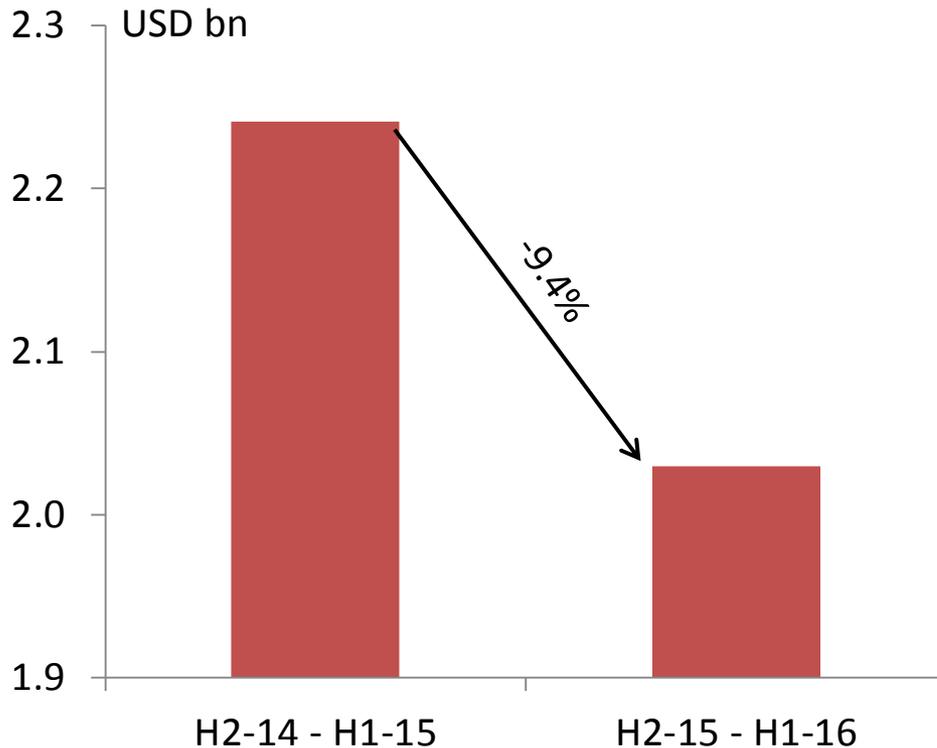
| | Value, USD m | % total | yoy change, USD m | yoy change, %, <i>nominal</i> | yoy change, %, <i>real</i> |
|-------------------------|-----------------|-------------|----------------------|-------------------------------|----------------------------|
| Domestic exports | 351.3 | 100% | -38.6 | -10%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

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

Georgia total imports of goods from EU



Imports from the EU in H2-15 – H1-16

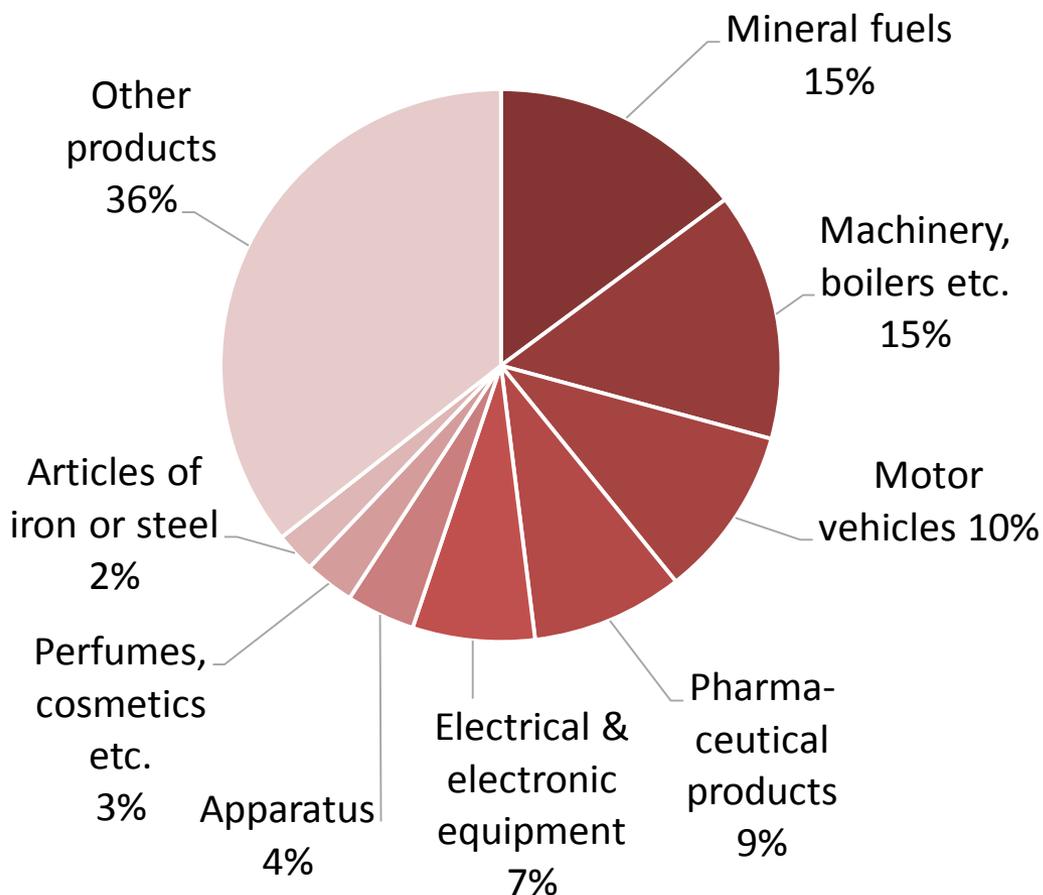
- Decrease of imports by 9.4% yoy
- Differential development of components:
 - Decrease of commodity imports due to price decline
 - Increase of capital goods imports
- Without price changes: Real increase in imports by 0.8%

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



Source: UN Comtrade Monthly

- 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

Decomposition of GE imports from EU by products

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

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**

Contact

Veronika Movchan

movchan@berlin-economics.com

David Saha

saha@berlin-economics.com

German Economic Team Georgia

c/o BE Berlin Economics GmbH

Schillerstr. 59, D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

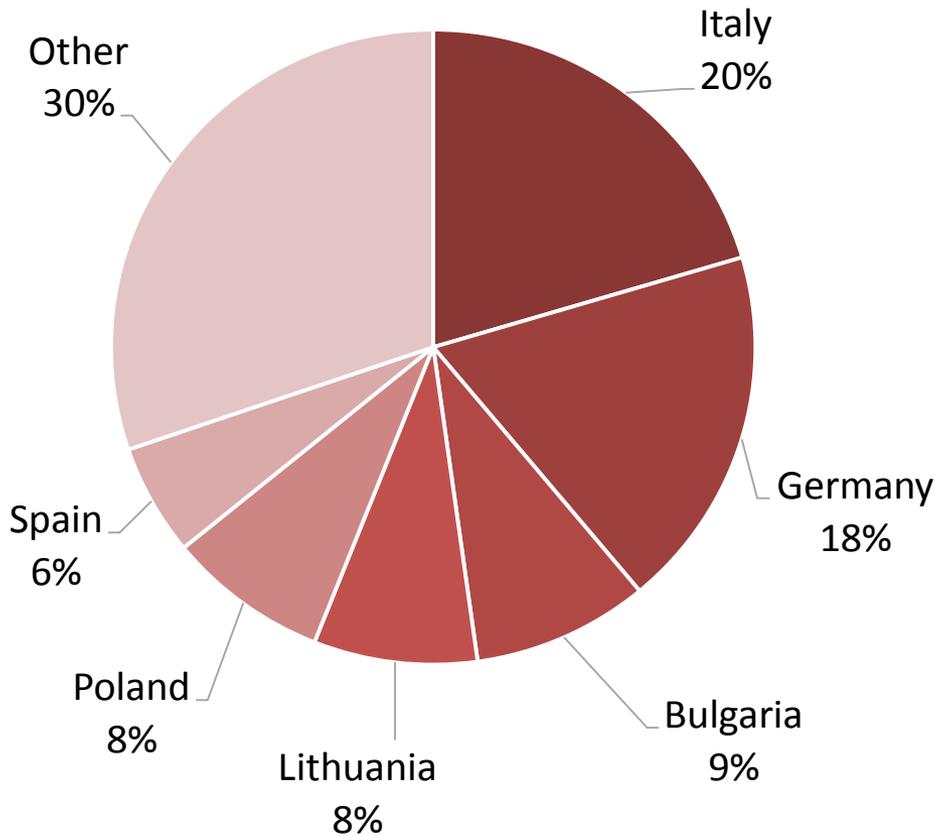
Fax: +49 30 / 20 61 34 64 9

Twitter: @BerlinEconomics



Annex I: Destinations of domestic exports to EU

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

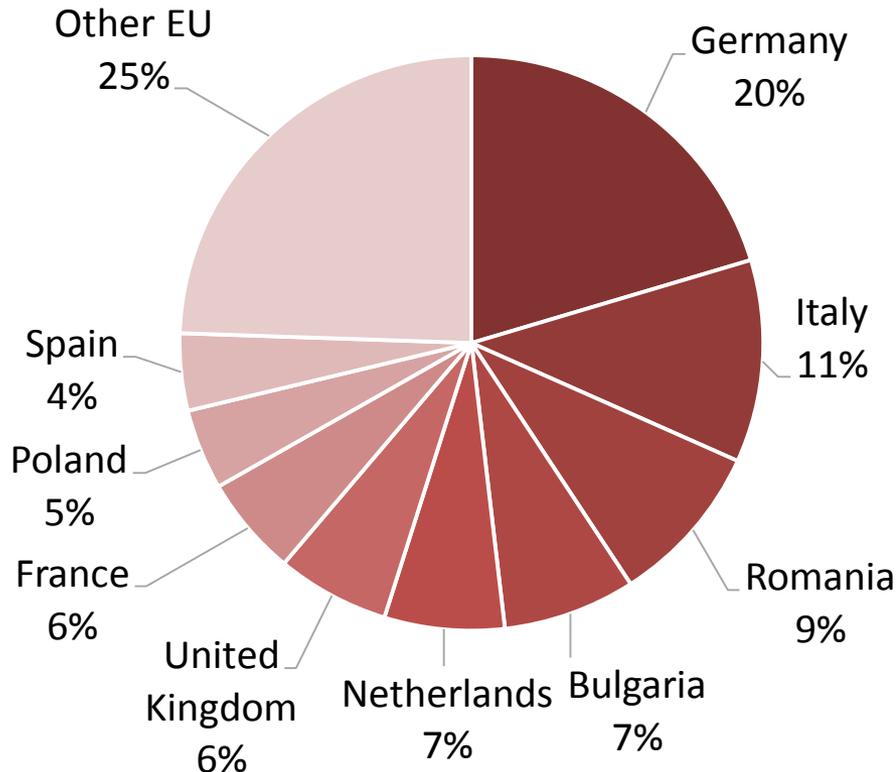


- Top-5 countries account for 64% of total exports to EU
- ‘Core’ destinations for GE in EU are Italy (20%) and Germany (18%)
- For both destinations, over 60% of exports are nuts

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