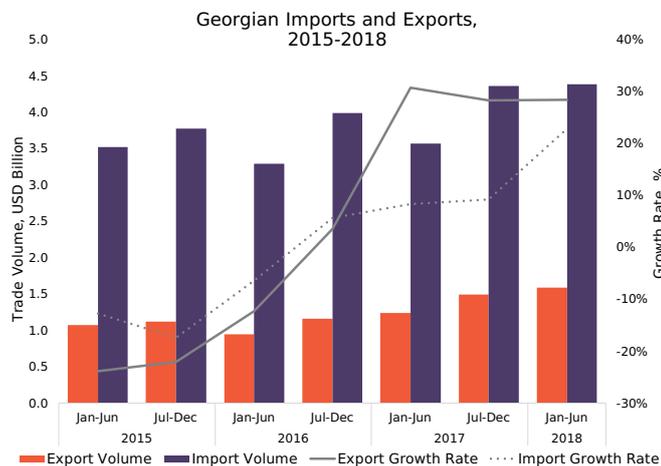


The first half of 2018 produced some interesting figures regarding Georgia's external trade. Even though the existing data is only preliminary, the analysis thereof unveils some curious results. Georgia's exports and imports reached their highest point for the observed period of 2015-2018. In the first half of 2018, Georgia was recorded to have conducted external trade with 133 countries, a record-breaking amount in the observed period. With free trade agreements already in place with China and the EU, we have been able to conduct a rough analysis of the effects of the two agreements so far. To analyze these effects, the observed period is taken from January 2015 to June 2018.

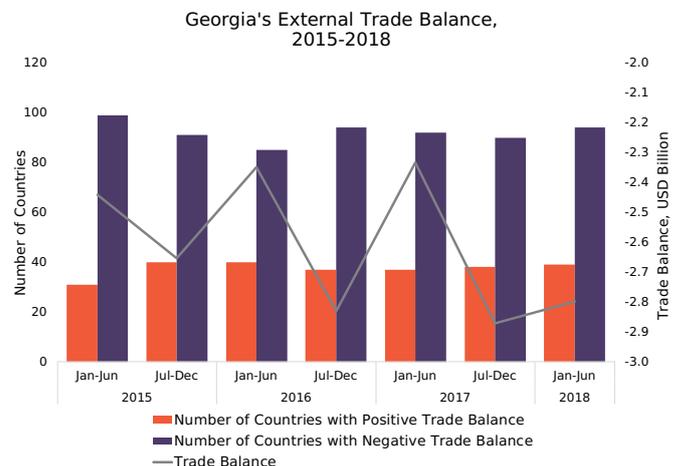
In the first half of 2018, Georgian exports amounted to US\$1.59 bln, which is 28.5% higher than the amount of exports recorded in the corresponding period of 2017. Similarly, for the first half of 2018, Georgian imports amounted to US\$4.39 bln, a 22.9% rise compared to the first half of 2017. Interestingly, in the first half of 2018, both, the exports as well as imports, are the highest throughout the observed period of 2015-2018.

Looking at half-year periods, with the first being January-June 2015, the first half of 2018 saw exports reach their highest recorded share of Georgia's external trade turnover at 26.6%.

The second half of 2016 can be viewed as a turning point for the growth rates of Georgian exports and imports. From this point on, Georgian exports have recorded a higher growth rate than Georgian imports. Meanwhile, after the first half of 2016, both Georgian exports as well as Georgian imports have shown a positive growth rate and this trend continues.



Source: National Statistics Office of Georgia



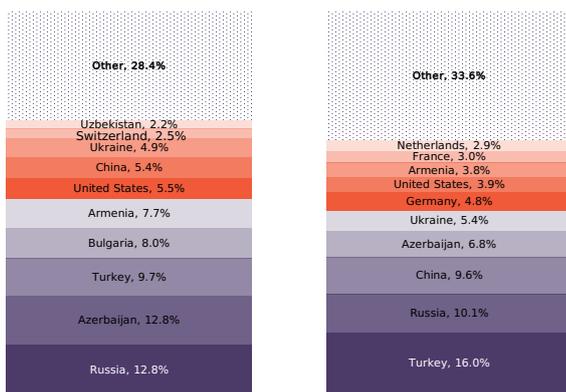
Source: National Statistics Office of Georgia

Analyzing Georgia's external trade balance on a half-year basis shows, interestingly, that the trade balance is characterized by high seasonality with the trade balance improving by an average of US\$0.41 bln in the first half of each year since the start of 2015, compared to the previous period. The first half of 2018 saw a trade balance improvement of a mere US\$0.07 bln compared to the second half of 2017.

In the first half of 2018, Georgia's external trade balance amounted to negative \$2.80 bln, which is a 20.0% increase compared to the corresponding period of 2017.

In the same period, in total, external trade was recorded with 133 countries, which is a 3.1% increase compared to the first half of 2017 and the highest number of countries since the half-year analyses began in 2015.

Georgian Imports and Exports by Countries, Jan-Jun 2018



Source: National Statistics Office of Georgia

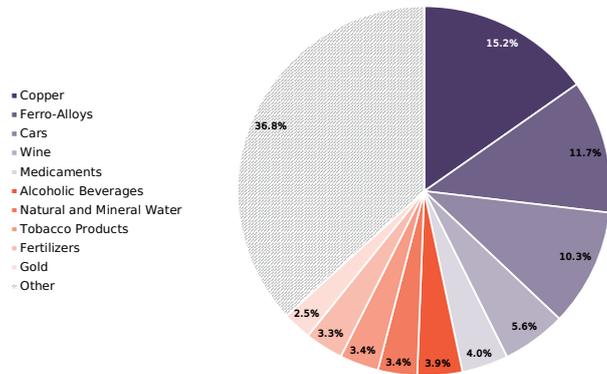
In the first half of 2018, the main export partners for Georgia were Russia, Azerbaijan, and Turkey with Russia and Azerbaijan each receiving 12.8% of Georgia's total exports and Turkey receiving 9.7%.

The makeup of Georgia's import partners for the first half of 2018 differs slightly with China entering the top three: Turkey (16.0% of total imports), Russia (10.1%), and China (9.6%).

While 71.6% of Georgian exports are concentrated among ten main export partners, Georgian imports are slightly more diversified with the ten main import partners contributing 66.4% of Georgian imports.

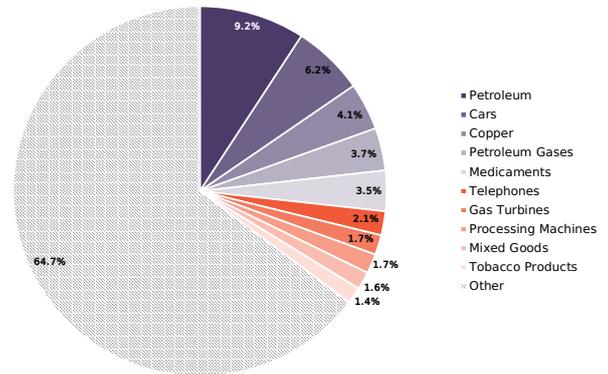
Interestingly, the following seven countries feature in both the top ten export partners and top ten import partners: Armenia, Azerbaijan, China, Russia, Turkey, Ukraine, and the United States.

Major Exported Goods, January-June 2018



Source: National Statistics Office of Georgia

Major Imported Goods, January-June 2018

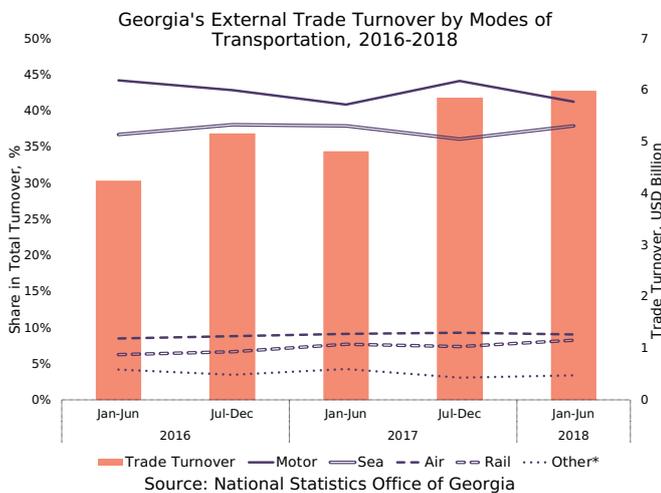


Source: National Statistics Office of Georgia

In the first half of 2018, Georgia's ten most exported goods amounted to 63.2% of total exports. Georgia relies more on imported products and, therefore, the structure of imports is more diverse with the ten most imported products amounting to only 35.3% of total imports.

Interestingly, the contributions of four product types fell in both the list of main exports and main imports, namely cars, copper, medicaments, and tobacco products. This can partially be explained by the common re-export of these four product types.

It is noteworthy that hazelnut and other nuts which had been among Georgia's ten most exported products since 2005, fell to 12th place in the first half of 2018 and amounted to US\$31.6 mln (2.0% of total exports).



Source: National Statistics Office of Georgia

While external trade by means of motor transport and sea transport represent the highest shares in total external trade (averaging at 37.4% and 42.7% respectively over the last 2.5 years), their dynamics are not stable. In the same period, external trade by air transport averaged at 9.0% with a minor increase of 0.6 percentage points from Jan-Jun 2016 to Jan-Jun 2018. On the other hand, from January 2016 to June 2018, external trade by rail transport has increased by 2.0 percentage points and amounted to 8.2% in the first half of 2018.

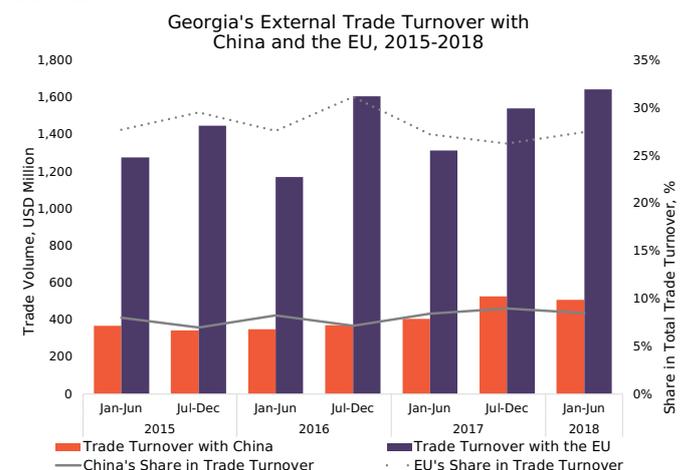
Georgian Railway Cargo in Tonnes			
	Jan-Jun 2017	Jan-Jun 2018	Growth Rate
Local	905,336	935,184	3.3%
Export	459,299	611,235	33.1%
Import	1,212,578	1,431,711	18.1%
Transit	2,687,180	2,037,103	-24.2%
Total	5,264,393	5,015,233	-4.7%

Source: Georgian Railway

Even though the railway cargo volume in the first half of 2018 decreased by 4.7% compared to the corresponding period of the previous year, further investigation shows us that the export and import volumes have increased by 33.1% and 18.1% respectively and that the overall decrease is due to a significant, 24.2% fall in transit volumes.

China and the EU have become important trading partners for Georgia since the signing of both the Association Agreement between Georgia and EU, introducing the DCFTA, in June 2014 (entered into force in July 2016), and the free trade agreement with China in May 2017 (entered into force in January 2018).

Even though it is somewhat early to analyze the effects of these two agreements, we observe a 25.4% increase (-24.2% exports; 44.8% imports) in trade turnover with China in the first half of 2018 compared to the corresponding period of 2017 and 25.2% growth (21.5% exports, 26.3% imports) in the case of the EU. Georgia's trade turnover with the EU is characterized by seasonality with the trade turnover decreasing by an average of US\$291.9 mln in the first half of each year, compared to the previous period, over the course of the past three years. Taking this seasonality into account, the increase in the first half of 2018 in trade turnover with the EU should be considered particularly promising.



Source: National Statistics Office of Georgia

Basic Economic Indicators	2013	2014	2015	2016	2017*	2018 I*
Nominal GDP (mln USD)	16139.9	16507.8	13988.1	14377.9	15164.5	3681.6
GDP per Capita (USD)	3599.6	3676.2	3766.6	3864.6	4078.5	987.1
GDP Real Growth (%)	3.4%	4.6%	2.9%	2.8%	5.0%	5.3%
Inflation	-0.5%	3.1%	4.0%	2.1%	6.0%	3.3%
FDI (mln USD)	1020.6	1818.0	1652.5	1602.9	1861.9	279.3
Unemployment Rate (%)	16.9%	14.6%	14.1%	14.0%	13.9%	-
External Debt (mln USD)	4202	4199	4314	4515	5177	5298
Poverty Rate (relative)	21.5%	21.4%	20.2%	21.0%	22.3%	-

*Preliminary data