

For the period of 2014 to 2017, in every first quarter of each year compared to the first quarter of the previous year, the nominal exchange rate of the Georgian Lari (GEL) against the US Dollar (USD) depreciated. This trend stopped this year though as in the first quarter of 2018, compared to the first quarter of 2017, the GEL appreciated by 4.5% and the value of 1 USD was equal to 2.49 GEL (average exchange rate in the first quarter of 2018).

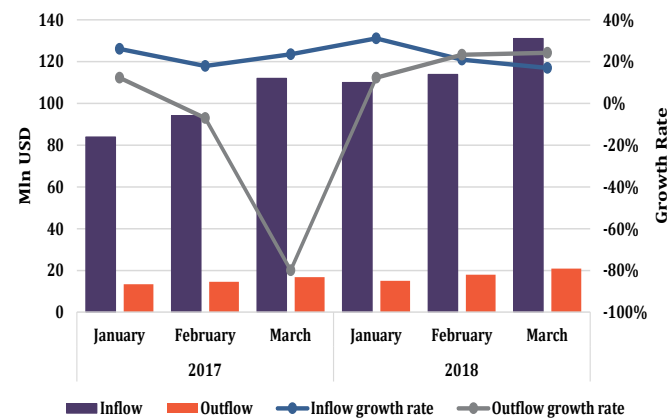
In this bulletin, we will review the important external factors affecting the GEL exchange rate, we will analyze the dynamics of these factors, and assume which could be the main reason behind the GEL's appreciation. The discussed external factors include: money transfers; international travel; foreign direct investment (FDI); external trade; and Georgia's gross external debt.

Georgian Lari Exchange Rate against the US Dollar



Source: National Bank of Georgia

The Dynamics of Money Transfers



Source: National Bank of Georgia

In the first quarter of 2018, the volume of remittances to Georgia amounted to USD 355 mln, an increase of 22.4% compared to the volume of remittances to Georgia in the first quarter of 2017. In the first quarter of 2018, the growth rate of money transfers to Georgia reached its highest level since the first quarter of 2014.

In the first quarter of 2018, the biggest increase in money transfers to Georgia was from Israel (by USD 14 mln; 62%) and Italy (USD 12.7 mln; 41.5%).

In the first quarter of 2018, money transfers going out of Georgia amounted to USD 53.9 mln, an increase of 20.4% compared to the same indicator in the corresponding period of 2017.

Compared to the first quarter of 2017, in 2018 the biggest increases in money transfers going out of Georgia in terms of recipient countries were Russia (by USD 2.6 mln; 13.4%) and Turkey (by USD 1.3 mln; 39.2%).

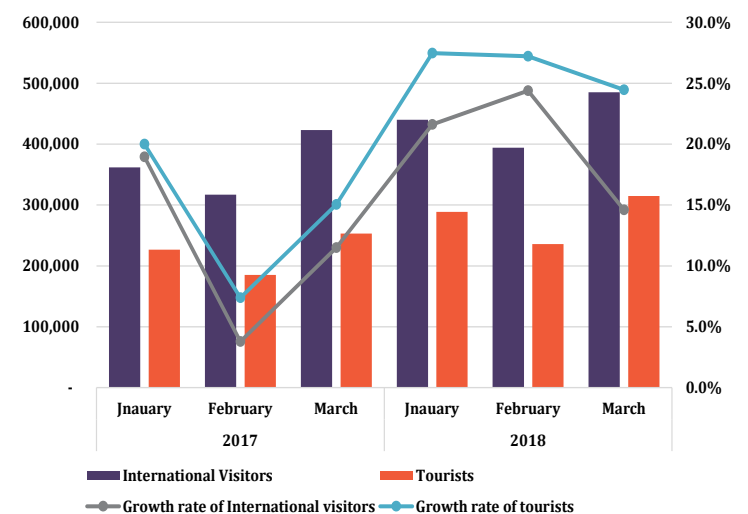
The Dynamics of International Travel

In the first quarter of 2018, 1.6 mln international travelers¹ visited Georgia, an increase of 14.8% compared to the corresponding period of 2017. In the first quarter of 2018, 1.3 mln international visitors² visited Georgia, of whom 839,500 were tourists. These indicators are 19.7% and 26.3% higher, respectively, compared to the same period of 2017.

In the first quarter of 2018, the revenue from international tourism amounted to USD 550.8 mln, an increase of 29.4% compared to the same period of 2017. In the first quarter of 2018, the growth rate of revenue from international tourism reached its highest level since the first quarter of 2014.

In the first quarter of 2018, the expenditure of Georgian tourists abroad amounted to USD 105.9 mln, an increase of 30.2% compared to the first quarter of 2017.

Because of the revenue from international tourism the balance of payments improved by GEL 100.6 mln in the first quarter of 2018, compared to the corresponding period of 2017.



Source: Georgian National Tourism Administration

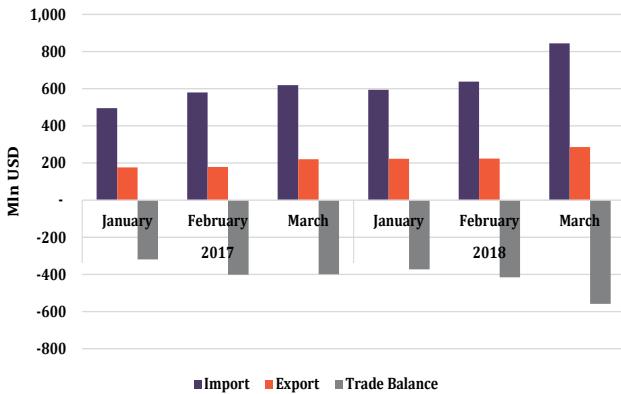
1 International traveler is someone who moves between different geographic locations for any purpose and any duration. It excludes foreign citizens who are Georgian residents and includes Georgian citizens who are foreign residents.

(Source: GNTA).

2 International visitor is a traveler taking a trip to a main destination outside his/her usual environment, for less than a year, for any main purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited. The usual environment of an individual, a key concept in tourism, is defined as the geographical area within which an individual conducts his/her regular life routines. For defining usual environment in Georgia travelers conducting 8 and more trips are excluded from the data.

(Source: GNTA).

The Dynamics of Foreign Trade



Source: National Statistics Office of Georgia

In the first quarter of 2018, the volume of exports amounted to USD 732 mln, an increase of 27% compared to the volume of exports in the first quarter of 2017. The volume of imports amounted to USD 2.1 billion, a 22.6% rise compared to the first quarter of 2017. In the first quarter of 2018, the trade balance worsened by 20.4% (by USD 228 mln).

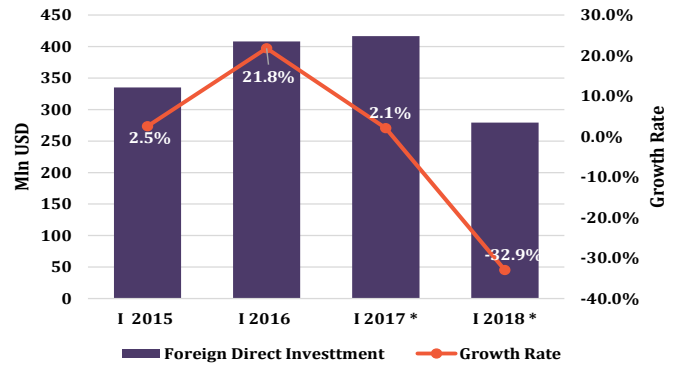
In the first quarter of 2018, the volume of exports increased mostly to Azerbaijan (by USD 45.2 mln; 145 %) and Turkey (by USD 30.6 mln; 55.8%).

In the first quarter of 2018, compared to the corresponding period of 2017, the volume of imports increased mostly from France (by USD 66 mln; 252.3%) and Russia (by USD 63 mln; 42.2%).

The Dynamics of Foreign Direct Investment (FDI)

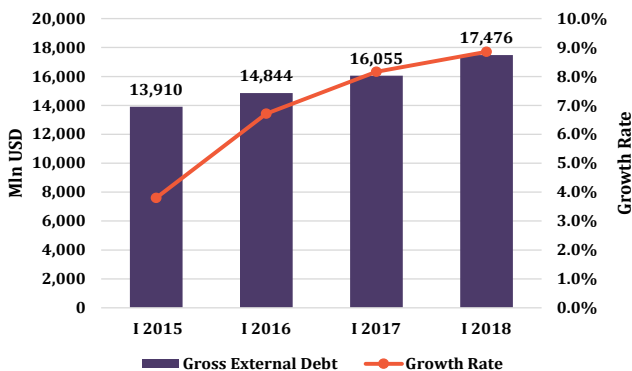
In the first quarter of 2018, compared to the first quarter of 2017, the volume of FDI declined by 32.9% and amounted to USD 279.3 mln.

Importantly, in the first quarter of 2018, compared to the first quarter of 2017, the volume of FDI decreased mostly from Turkey (by USD 151.9 mln, 186.5%) and from Azerbaijan (by USD 45.8 mln; 47.3%).



Source: National Statistics Office of Georgia

The Dynamics of Gross External Debt



Source: National Bank of Georgia

In the first quarter of 2018, the gross external debt of Georgia amounted to USD 17.5 billion, an increase of 8.9% compared to the corresponding period of 2017.

In the first quarter of 2018, the growth of gross external debt amounted to USD 192.6 mln (compared to the fourth quarter of 2017), whereas in the first quarter of 2017 the gross external debt rose by USD 180.5 mln (compared to the fourth quarter of 2016).

In the first quarter of 2018, the volume of public debt amounted to USD 7.4 billion, bank sector loans amounted to USD 3.8 billion, other sectors loans - USD 5.4 billion and intercompany lending was at USD 2.6 billion.

Overall, the appreciation of the GEL in the first quarter of 2018, compared to the corresponding period of 2017, was enabled by the increased volume of money transfers to Georgia, increased international tourism revenue and an increase in the gross external debt. All of these factors contributed to an increase in foreign currency inflow.

The trends in FDI and foreign trade saw an increase in foreign currency outflow from Georgia. Accordingly, these were not among the factors contributing to the GEL's appreciation.

3 Includes general government, national bank, banking, other sectors external debt and direct investment: Intercompany lending.

4 Public debt includes general government, national bank and public corporations.

| Basic Economic Indicators | 2014 | 2015 | 2016 | 2017* | I 2018* |
|---------------------------|---------|---------|---------|---------|---------|
| Nominal GDP (mln USD) | 16507.8 | 13988.1 | 14377.9 | 15164.5 | 3681.6 |
| GDP per capita (USD) | 3676.2 | 3766.6 | 3864.6 | 4067.7 | 987.1 |
| GDP real growth (%) | 4.6% | 2.9% | 2.8% | 5.0% | 5.3 |
| Inflation | 3.1% | 4.0% | 2.1% | 6.0% | |
| FDI (mln USD) | 1818.0 | 1652.5 | 1602.9 | 1861.9 | 279.3 |
| Unemployment rate (%) | 14.6% | 14.1% | 14.0% | 13.9% | |
| External debt | 4199 | 4314 | 4515 | 5177 | 5298 |
| Poverty rate (relative) | 21.4% | 20.2% | 21.0% | 22.3 | |