

III Quarter of Year 2005

The external sector

Trade in goods

Poor data complicate the analysis of trade

Foreign trade turnover increased considerably as major international investment projects and energy and communications rehabilitation programs implemented successfully. This vigorous foreign economic activities simulated positive trends in economy of the country.

Foreign Trade

	January-August. 2004		January-August 2005	
	(US \$ m)	%	(US \$ m)	%
Exports of goods	407.7	100.0	525.2	100.0
of which:				
Scrap Black Metals	56.2	13.8	65.4	12.5
Ferrous Metals	26.4	6.5	52.6	10.0
Wine	29.1	7.1	47.7	9.1
Other Aircrafts	66.4	16.3	38.7	7.4
Copper Ores and Concentrates	23.7	5.8	28.2	5.4
Gold Unwrought or in Semi-Manufactured Forms	13.8	3.4	23.1	4.4
Sugar	26.2	6.4	22.5	4.3
Mineral Waters	10.6	2.6	19.7	3.7
Other Nuts. Fresh or Dried. Whether or not Shelled or Peeled	1.5	0.4	19.0	3.6
Fertilizers	13.5	3.3	18.0	3.4
Other	140.2	34.4	190.3	36.2

Imports of goods

	1095.5	100.0	1390.8	100.0
of which:				
Crude Oil and Petroleum Products	107.2	9.8	181.2	13.0
Automobiles	60.3	5.5	97.7	7.0
Medicines	46.4	4.2	63.4	4.6
Petroleum Gases and Other Gaseous Hydrocarbons	48.5	4.4	57.1	4.1
Sugar	29.5	2.7	43.6	3.1
Other Aircrafts	7.7	0.7	30.6	2.2
Wheat or Meslin Flour	25.4	2.3	28.5	2.0
Wheat	52.2	4.8	25.3	1.8
Electric Power	22.0	2.0	21.0	1.5
Transmission Apparatus for Radio & TV	11.0	1.0	18.9	1.4
Other	685.2	62.5	823.5	59.2

Trade Balance

Source: State Department of Statistics

-687.8 **-865.5**

Georgia remains primarily dependent on low value-added exports

The export composition has illustrated big share of metals, including scrap metals. Turkey imports almost 90% of Georgia's ferrous-alloys and ferrous scrap. Wine and mineral water are also important export items, and are mainly exported to Russia. The share of these two categories increased, stipulated by significant increase in production of these goods. The highest growth was in category of *Other Nuts, Fresh or Dried, Whether or not Shelled or Peeled*. The aircraft repair export decreased by 40% and constituted only 7.4% of total export (rather than 16.3 percent in 2004).

Oil and oil products and electricity remain the largest import commodities, accounting almost 15% of total import expenditure. Their share increased by 2.8% for the previous year, probably caused by the increasing prices of oil and oil products. Georgia continues to import electricity from Russian and Azerbaijan to meet most of its energy requirements. However Georgia has considerable potential for the generation of hydroelectric power. Realization of such useful possibility is highly depends on implementation of successful investments in this sector.

Main trading partners. (January-August. 2005)
(% of total)

Exports to

Russia	16.9
Turkey	17.7
Azerbaijan	11.4
Ukraine	2.9

Germany	2.2
Turkmenistan	7.9
Bulgaria	4.9
USA	2.1
UK	4.4
France	1.1

Imports from

Russia	15.8
Turkey	12.7
Azerbaijan	9.5
Ukraine	8.9
Germany	8.3
Turkmenistan	3.2
Bulgaria	3.5
USA	4.0
UK	2.8
France	3.5

Source: State Department for Statistics

Geographical proximity determines trade partners

Some changes were observed in geographic orientation of Georgian export. Export share to CIS decreased from 44.5% to 39% for this year. After CIS, the EU constitutes major export market with a share of over 20% (instead of 15.6% in the first three quarter of 2004). Although it is notable that EU primarily imports raw materials from Georgia. The main factor explaining Georgia's export patterns is therefore geographical proximity, with Turkey and Russia remaining the country's leading trading partners.

In 2005 import share from CIS increased till 37% instead of 34.4% during the first three quarters of the previous year, due to the growing import expenditures on oil and oil products. However, the composition of ten largest trade partner countries remained the same.

Current account

(US\$ m)	2003	2004	2005*
Goods : exports (FOB)	830.6	1092.5	281.8
Goods : imports (FOB)	-1466.6	-2008.6	-497.2
Trade balance	-636.0	-916.0	-215.4
Service balance	54.0	56.1	20.0
Income balance	32.3	96.8	31.1
Current transfers balance	183.0	413.8	451.0
Current account balance	-366.7	-349.3	-107.2

Source: State Department for Statistics of Georgia.

*for the first quarter

Current-account deficits decreases

Since independence Georgia has had a large current-account deficit, which shows slightly improving tendency. Services exports dropped rapidly after independence, largely because of the collapse of tourism, but service exports recovered in 1998. The service sector development was primarily stimulated by transit infrastructure. An improvement in the goods and services balances in 2004 resulted in a fall in the current-account deficit to 6.7% of GDP in that year (instead of 9.2% in 2003).

Balance of Service could have a potentially increasing effect on the Balance of Payment. However, due to the underdeveloped infrastructure, the scale of realization of the country's tourism and transit potential is far from the needed.

Current transfer balance displayed surplus. Georgian citizens' remittances from abroad more than doubled in 2004. It is notable, that the volume of remittances grows every year.

The trade deficit increased but current account balance remained roughly stable in year-on-year terms in 2004.

Capital Flows and Foreign Debt