

THE SECTOR AT A GLANCE

GDP AND EMPLOYMENT IN AGRICULTURE

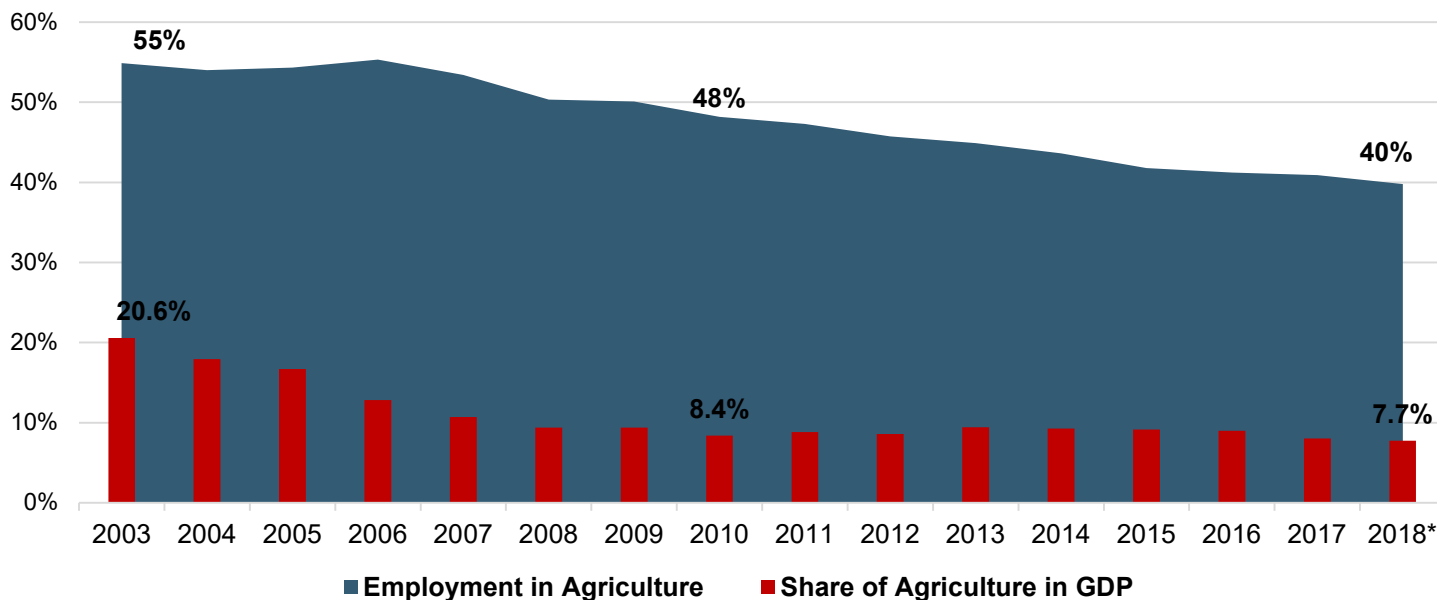
According to GeoStat’s preliminary data for 2018, Georgia’s economy grew by 4.7%- the same rate as in 2017. As 2017 was a challenging year for Georgian agriculture, the sector experienced -3.8% negative growth. Unlike 2017, agriculture in 2018 had a positive and rather modest growth rate of 0.7%. As expected, agriculture keeps proportionally shrinking within the country’s overall GDP- it stood at 7.7% in 2018 compared to 8.0% in 2017.

The weak stake of agriculture in the overall GDP is not necessarily an issue, given that the world average was 6.4% in 2017 (CIA estimate). The figure is even lower in developed countries, which vary between 1% and 3%. Thus, the decline would not be harmful to the Georgian economy, if not for the fact that around 40% of the labor force is still employed in agriculture. According to the World Bank estimate (2018), the world average employment in agriculture is 26%, though it does not exceed 5% in the developed world (OECD countries).

With such significant employment in agriculture (nearly 40%), Georgia is comparable to countries like Gabon, Ghana, Haiti, India, Kenya, Morocco, Nigeria, Pakistan, Vietnam, etc. Drawing a comparison from the 2018 World Bank estimate, Georgia’s four neighboring countries each have lower employment in agriculture: Azerbaijan (37%), Armenia (33%), Turkey (19%) and Russia (7%).

Noteworthy, most of Georgian farmers are so-called “farmers by default” rather than “farmers by vocation”. The high employment rate in agriculture is exacerbated by a lack of employment opportunities in other sectors. Additionally, most “farmers by default” cannot meet the labor market’s requirements, in terms of skills or education, even for the existent jobs. Thus, high employment figures in agriculture, paired with the declining share of agriculture in GDP, signal a need for better vocational education and subsequent structural changes.

Employment in Agriculture vs. Share of Agriculture in GDP



Source: National Statistics Office of Georgia (GeoStat), 2019. *Preliminary data. World Bank estimate, 2019

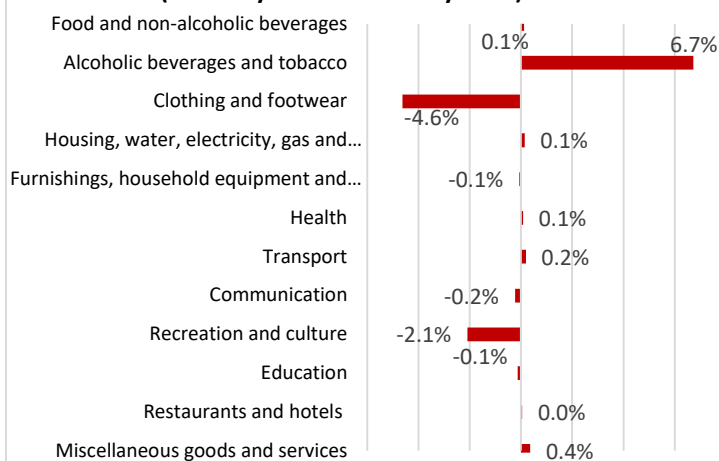
PRICES

DOMESTIC PRICES

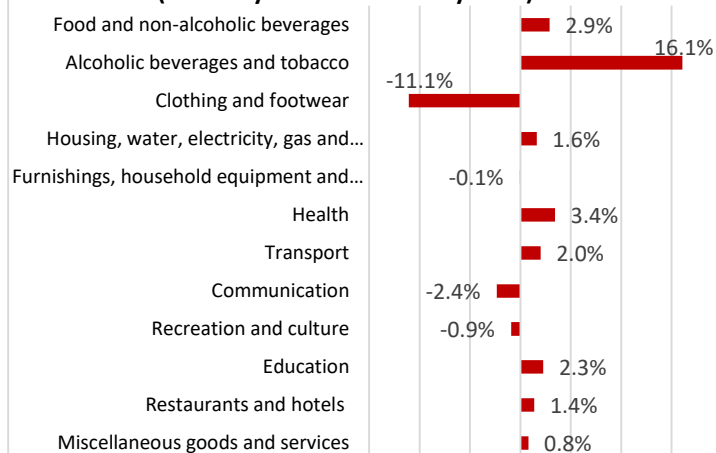
On a monthly basis, Georgian price levels remained relatively steady; the Consumer Price Index (CPI) in February 2019 increased slightly, by 0.3%, compared to the previous month. Month-over-month prices hardly changed (0.1%) in the category of food and non-alcoholic beverages.

In comparison to February 2018, the CPI experienced a 2.3% increase. On an annual basis for food and non-alcoholic beverages, the prices increased by 2.9%, contributing to a 0.9 percentage change in the total CPI.

**Percentage Change in Prices MoM
(February 2019 vs. January 2019)**



**Percentage Change in Prices YoY
(February 2019 vs. February 2018)**



In February 2019, the sharpest price fluctuations on an annual basis were observed within the following subgroups:

Fish (12.5% ↗)



Meat (4.3% ↗)



Bread and cereals (10.2% ↗)



Fruit and grapes (-23.6% ↘)



Vegetables (7.6% ↗)



Sugar, jam, honey, chocolate and confectioneries (-3.4% ↘)

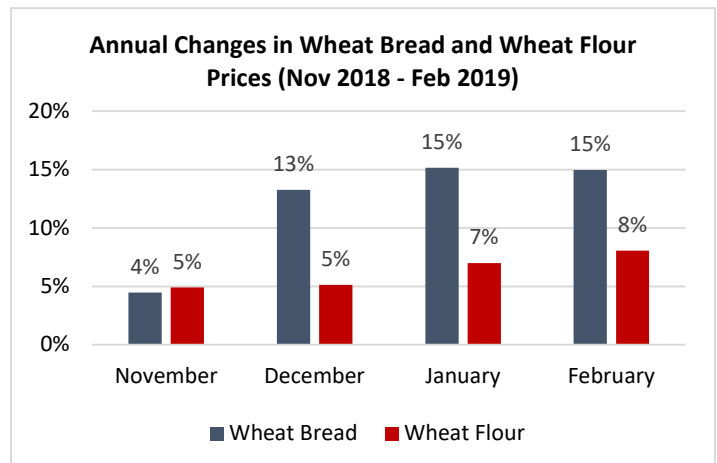


WHEAT FLOUR - IN THE SPOTLIGHT

Over the last few months, the prices of wheat bread and cereals have been particularly notable. Starting in November 2018, the products in this category have been, on average, trading above last year's prices. In February 2019, the price of wheat bread and cereals increased by 10.2% compared to February 2018. Within the same period, the price of wheat bread increased by 15%, reflecting the increased price of wheat flour (an 8% increase on an annual basis). According to the trade data for February 2019, imports of wheat flour to Georgia amounted to 1650.70 tons- 4% higher than in the previous year (1588.31 tons).

Projections for wheat production in 2019 do not seem promising. According to the United States Department of Agriculture (USDA), the projected world output of wheat will be 734.75 million metric tons, 4% lower than the respective indicator from the previous year (763.18 mln. metric tons). Whilst, the projected total use of wheat will be 747.23 mln. metric tons, therefore higher than the projected output. This implies that the end stocks for 2019 will be lower than the previous year.

Remarkably, Russian wheat production is expected to be lower by 16%, while the corresponding change in Russia's wheat export may decrease by 11%. Considering that Georgia is a net importer of wheat flour and Russia is the main importing country (Russia provides approximately 90% of Georgia's wheat imports), Georgian consumers might expect further price increases in wheat and wheat products in 2019.

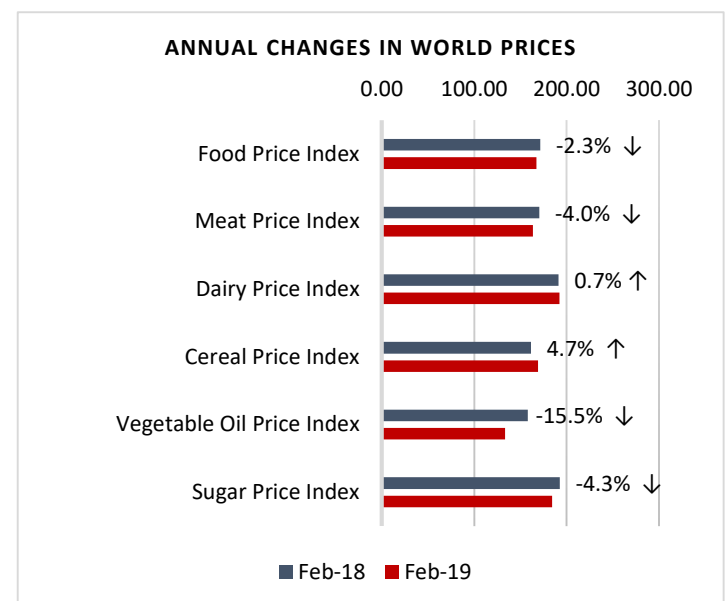


Source: GeoStat, 2019

INTERNATIONAL PRICES

International prices increased in February 2019. The Food Price Index, measured by the Food and Agriculture Organization (FAO), increased by 1.7%, compared to January 2019. On an annual basis, international prices maintained a downward trend: the FAO Food Price Index has decreased by 2.3% since February 2018. The main drivers were the weaker prices of vegetable oil, sugar, and meat.

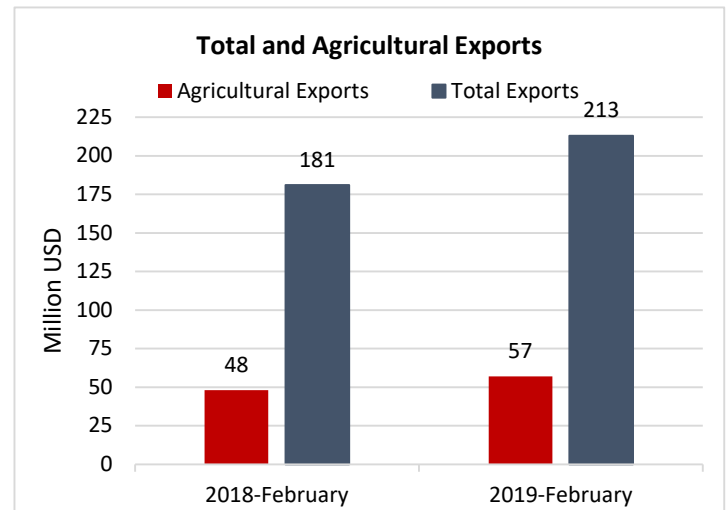
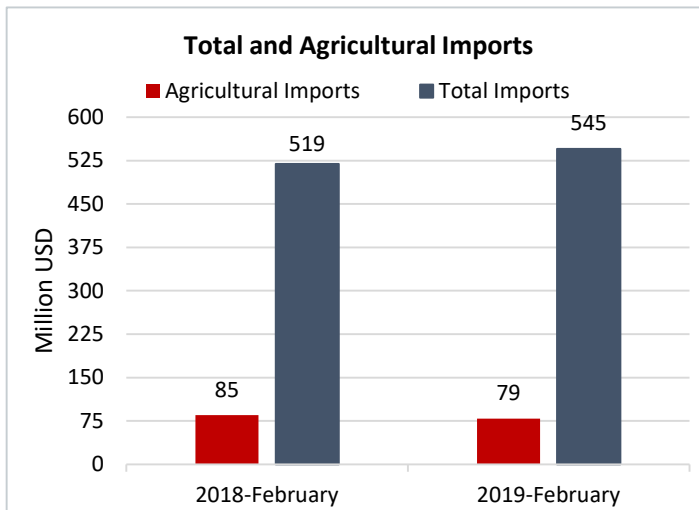
The FAO Vegetable Oil Price Index, in February 2019, experienced the sharpest decrease of 15.5% from the previous year, and, during the same period, the price of sugar and meat reduced by 4.3% and 4%, respectively. Whereas, the FAO Cereal Price Index increased by 4.7%. The FAO Dairy Price Index also increased, but only slightly by 0.7%.



Source: FAO, 2019

TRADE HIGHLIGHTS

In February 2019, Georgia's agricultural exports (including food) equaled approximately 57 mln. USD, almost 27% of the total Georgian export value. When comparing this indicator to February 2018, the share remains practically unchanged. As to imports for February 2019, Georgia's agro imports exceeded 79 mln. USD, which is roughly 15% of all Georgian imports. Year-over-year (compared to February 2018), agricultural imports declined by 6%.



Source: MoF data

Note: Agricultural exports include food exports.

SHEEP PRODUCTS AND MEAT - IN THE SPOTLIGHT

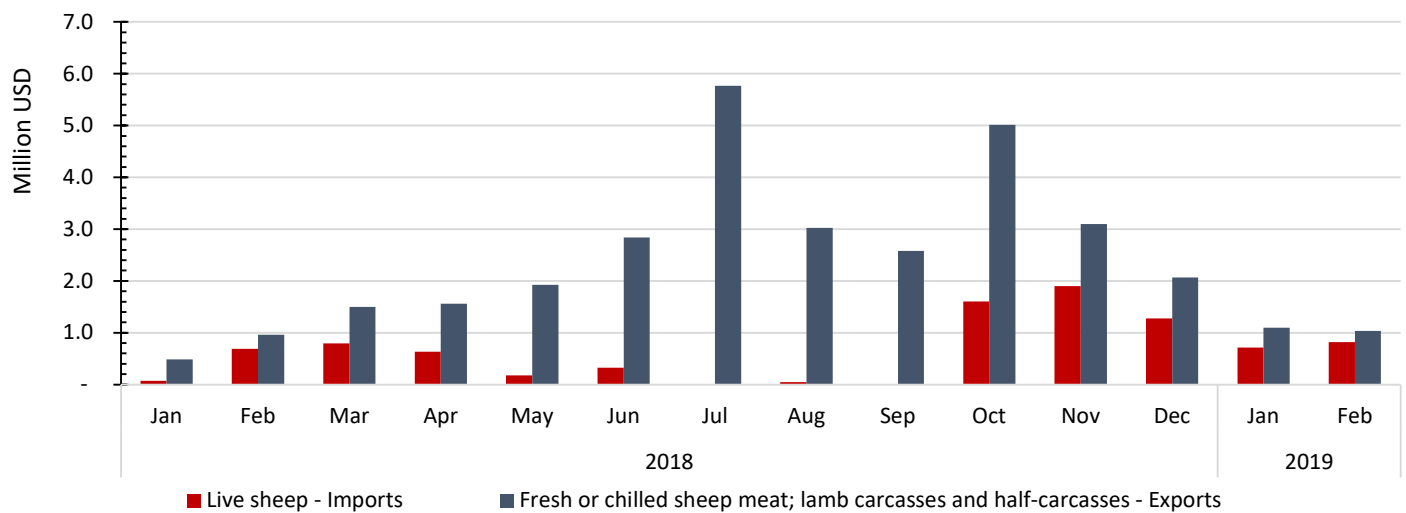
The beginning of 2019 was active for the sheep trade in Georgia, although the key imported and exported sheep products differed significantly. The official trade data, by GeoStat, suggests the country was actively buying live animals and selling the meat in return.

Though the beginning of the year is not the high season for *live sheep* (HS code 010410) imports (there were no imports in January or February of 2014 and 2017 at all), over the last two months Georgia spent more than 1.5 mln. USD on *live sheep* on the international market- over twice the expenditure of January-February 2018. The import of these animals has gained particular influence over the last three years, with 2018's total imports (7.5 mln. USD) surpassing the 2014 record value with a 3.4 mln. USD margin.

The export of sheep meat also boomed in the first two months of 2019, and the dynamics were more striking than with live sheep imports, in absolute as well as relative terms. Interestingly, Georgia started to sell *fresh and chilled sheep meat* (lamb carcasses and half-carcasses- HS code 020410) to foreign countries for the first time in 2017, and that year reached annual sales of 14 mln. USD, and subsequently managed to double annual sales over the following 12-month period (31 mln. USD in 2018). Thus far, the data for 2019 is also promising, and according to GeoStat, for this January and February combined the exports of *fresh or chilled sheep meat* (lamb carcasses and half-carcasses) amounted to 2.1 mln. USD, which is 0.7 mln. USD (approximately +47%) greater than the corresponding figure from 2018.

Ruling out re-exports, or re-imports, it is noteworthy that in January-February 2019 *live sheep* exports were only worth 0.1 mln. USD, while *fresh and chilled sheep meat* (lamb carcasses and half-carcasses) was not imported to Georgia at all. For a further breakdown of the monthly data, see the graph below.

Live Sheep and Meat



Source: GeoStat

POLICY WATCH

The APMA Program for Co-financing Agricultural Machinery Purchases

The Agricultural Projects Management Agency (APMA) has started a new program for co-financing purchases of agricultural machinery. APMA co-financing for one beneficiary cannot exceed 50% of the cost of the agricultural equipment to be purchased, with a limit of 150,000 GEL. The co-financing may be less than 50%, if the value of the applicant's submitted project exceeds 300,000 GEL.

The agricultural equipment to be purchased should be new and meet the following two requirements: 1) the agricultural equipment must be manufactured no more than 2 calendar years prior to purchase; 2) at the time of the purchase, it must be subject to warranty conditions.

Beneficiaries of the program are required to be a citizen of Georgia, a natural entity, or an individual entrepreneur or a registered commercial legal entity (including agricultural cooperatives) in which the state does not own a share/interest.

For more information: <http://apma.ge/projects/read/mechanization/>

Petition for Georgian Wheat to be Included on the UNESCO Safeguarding – Intangible Heritage List

Georgia is petitioning for Georgian wheat to be placed on the UNESCO Safeguarding – Intangible Heritage List. The application was signed by the Minister of Environmental Protection and Agriculture of Georgia, and the Minister of Education, Science, Culture and Sport of Georgia.

Georgian wheat is divided into 14 species and 188 varieties. Previous archaeological studies confirm that it dates back 8000 years.

For more information: <http://agenda.ge/en/news/2019/869>