BANK OF GEORGIA RESEARCH

Georgia's Tourism Sector
Better than ever

Georgia | Tourism
November 21, 2013

Georgia's tourism sector continues to grow impressively – in 10M13 the number of international arrivals was up 24% y/y to 4.6mn. Georgian tourism activity traditionally peaks in July and August, with those two months representing 1/4 of total annual arrivals on average and this year has been no exception. The y/y growth rate of international arrivals has been strong heading into the fall months, with foreign visits up 20% y/y in 3Q13 and 14% y/y in October. New direct flights from Poland, Ukraine, Russia and Iraq helped significantly boost arrival numbers from these countries. Arrivals from Russia alone were up 50% y/y to 662,291 visitors, representing 15% of total visitors in 10M13 vs. 11% in 2012. We forecast 8.9mn international arrivals or 2.1x of Georgia's population in 2019. To compare – Croatia, Cyprus, Estonia and Montenegro hosted 2.3x, 2.1x, 2.0x and 1.9x of their respective populations in 2011.

Neighbours dominate, but air travel is rising

Neighbouring countries continue to account for the lion's share of foreign arrivals. In 10M13, 87% of arrivals came from Turkey (30%), Armenia (23%), Azerbaijan (19%) and Russia (15%). Air travel is on the rise, however, with 0.5mn visitors arriving via international flights, up 38% y/y. The introduction of new direct flights from Poland, Ukraine, Russia and Iraq helped boost arrival numbers from these countries. Total arrivals via all modes of transport from these four countries alone were up 59% y/y, making up 18% of total 10M13 arrivals vs. 14% in 2012. Accommodation turnover is also rising alongside arrivals growth, which means the hospitality sector could face capacity constraints going forward, especially in the branded hotel segment.

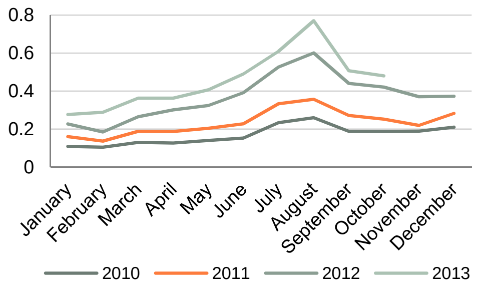
Foreign arrivals on pace for 25% y/y growth

The 4.6mn in international arrivals in 10M13 is above our forecasted number and translates into an annualized figure of 5.5mn in FY13, some 6% above our previous estimate of 5.2mn and puts Georgia on pace for 25% y/y growth in 2013. We forecast annual 8.9mn foreign arrivals by 2019.

NBG growing reserves at unprecedented levels

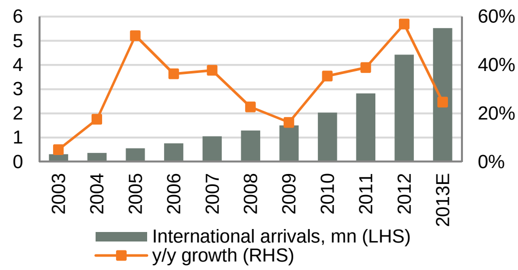
The National Bank of Georgia's gross international reserves have continued to expand, up to US$ 3.1bn in 9M13 from US$ 2.9bn as of YE12, partly as a result of increasing tourism receipts. NBG's net FX buying reached US$ 555mn in 9M13, or 3.6x of that in 9M12. In 9M13, repayment of IMF and other liabilities totaled to US$ 353mn.

Figure 1: International arrivals in Georgia, mn



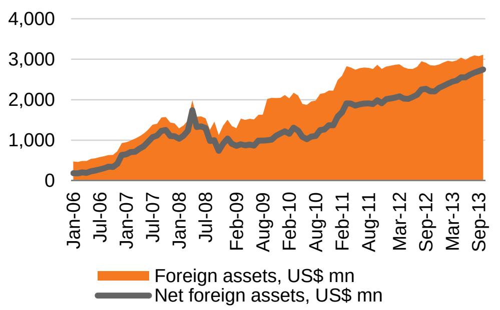
Note: International arrivals – international visitors who cross the national borders of Georgia with foreign passports
Source: GNTA

Figure 2: Total international arrivals by year



Note: 2013 arrivals figure and the growth rate represent annualized 10M13 data
Source: GNTA

Figure 3: NBG gross and net international reserves



Source: NBG

Table 1: International arrivals, forecast

	2012	2013E	2014F	2015F	2016F	2017F	2018F	2019F
Number of international arrivals, mn (current forecast)	4.4	5.5	6.0	6.6	7.1	7.6	8.2	8.9
Number of international arrivals, mn (previous forecast*)	4.4	5.2	5.7	6.2	6.8	7.4	8.1	8.9
Change in projected international arrivals, mn	0.0	0.3	0.4	0.4	0.3	0.2	0.1	0.0

**See our update on Georgia's tourism sector, "Arrivals on the rise", May 2013*
Source: GNTA, BoG Research

Ekaterina Gazadze
Head of Research | egazadze@bog.ge | +995 322 444 444 ext. 3760
Sopho Khelashvili
Analyst | skhelashvili@bog.ge | +995 322 444 444 ext. 3757

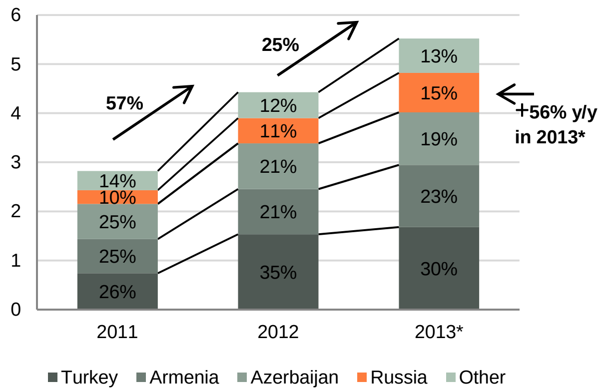
Welcome to Georgia

Neighbouring countries continue to dominate foreign arrivals. In 10M13, Turkey, Armenia, Azerbaijan and Russia accounted for 87% of total foreign arrivals. The number of international arrivals to Georgia reached 4.6mn in 10M13 (+24% y/y), which translates into an annualized number of 5.5mn, which we take as our new annual forecast for 2013.

Leisure and recreation visitors account for 42% of tourism. This 8M13 figure compares to the 40% observed in the previous international visitor survey conducted for the period of July 2011 – April 2012. 59% of Turkish and 33% of Armenian visitors come for leisure, 41% of visitors from Azerbaijan visit friends and relatives, while 35% of Russian visitors are only in transit, likely on their way to neighbouring countries. Of all international visitors[1], 62% or 2.2mn spent a night in Georgia in 8M13.

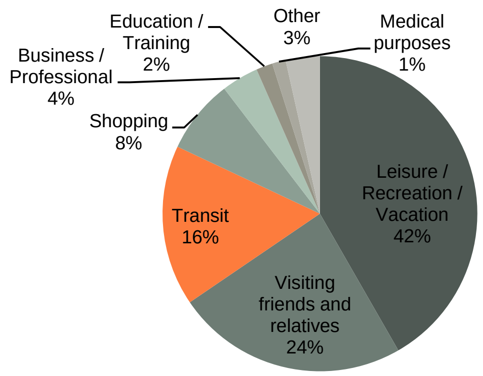
The Georgian government is focused on raising awareness of Georgia's high potential in MICE (Meetings, Incentives, Conferencing and Exhibitions) tourism sector. MICE tourism currently makes up just 3% of international arrivals.

Figure 4: International arrivals by country of residence, mn 10M13



*Annualized figures based on 10M13 proportions
Source: GNTA

Figure 5: International arrivals by purpose of visit, 8M13

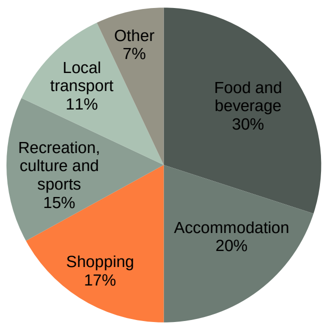


Source: International Visitor Survey conducted by ACT for GNTA

The capital remains the most popular destination for visitors to Georgia, followed by Batumi on the Black Sea coast.

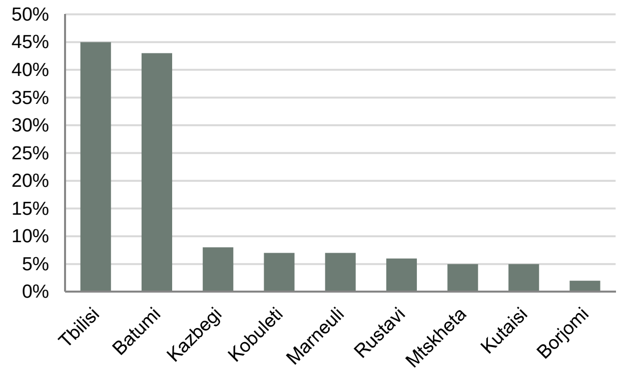
[1] According to UNTWO, a visitor (domestic, inbound or outbound) is classified as a tourist (or overnight visitor), if his/her trip includes an overnight stay.

Figure 6: Spending in Georgia, 8M13



Source: International Visitor Survey conducted by ACT for GNTA

Figure 7: Top visitor locations in Georgia, 8M13



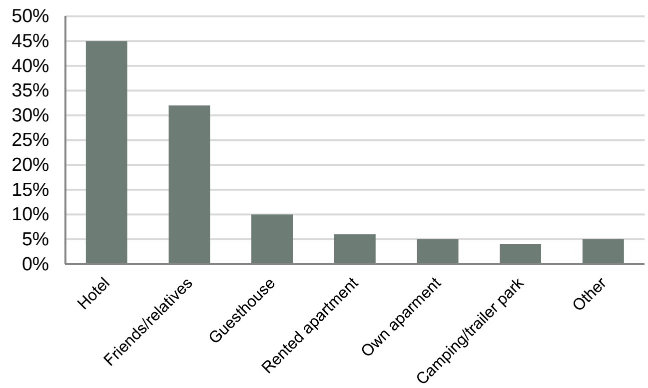
Source: International Visitor Survey conducted by ACT for GNTA

The average duration of a stay in Georgia is 5 nights. The majority of overnight visitors came for leisure purposes (49%), to visit friends and relatives (30%), for transit (7%) and business purposes (5%). Almost half of international overnight visitors said they stayed in a hotel at some point during their stay in the country.

Figure 8: Duration of stay in Georgia by origin of tourist, nights, 8M13

Source: International Visitor Survey conducted by ACT for GNTA

Figure 9: Stay by types of accommodations, 8M13



Source: International Visitor Survey conducted by ACT for GNTA

New direct flights bring Georgia closer to travellers

Air arrivals grew 38% y/y to 0.5mn in 10M13, the fastest growth rate among the four main modes of transportation. However, the distribution of arrivals by mode of transport did not change significantly in 10M13. Not surprisingly, road travel is still the most popular (87%). Only 11% arrived by air, while sea and rail accounted for 1% each.

New direct flights boosted arrivals significantly. New direct flights from Iraq led arrivals to jump nearly 8x y/y to 37,852 in 10M13. Growth also came from Poland (+70% y/y) and Ukraine (+67% y/y) after Wizz Air launched new direct flights to Kutaisi. The number of Russian arrivals rose 50% y/y after direct regular flights were restored and the visa regime was dropped in February 2012. Kazbegi (border checkpoint with Russia) and Kutaisi (newly opened airport) highly benefited from the new trends, with strong growth from a low base.

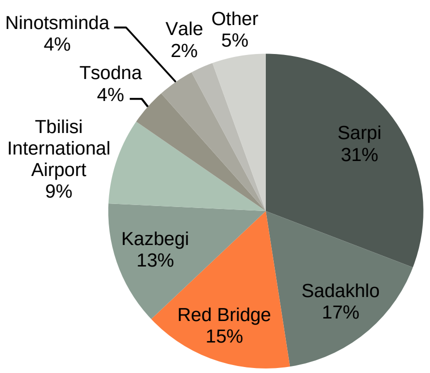
Table 2: International arrivals by border checkpoints

Border checkpoint	Bordering country	10M13	10M12	Chg, y/y
Sarpi	Turkey	1,404,479	1,294,786	8%
Sadakhlo	Armenia	761,960	517,874	47%
Red Bridge	Azerbaijan	702,183	618,147	14%
Kazbegi	Russia	583,090	330,017	77%
Tbilisi International Airport	N/A	404,188	325,998	24%
Tsodna	Azerbaijan	173,591	148,296	17%
Ninotsminda	Armenia	171,407	163,643	5%
Vale	Turkey	104,892	78,407	34%
Kutaisi International Airport	N/A	55,111	1,203	NM
Batumi International Airport	N/A	50,160	41,503	21%
Other	N/A	145,049	164,280	-12%
Total		**4,556,110**	**3,684,154**	**24%**

Source: GNTA

Almost 1/3 of 10M13 international arrivals crossed the Georgian border via Sarpi, the coastal border checkpoint between Turkey and Georgia.

Figure 10: International arrivals by border checkpoints, 10M13



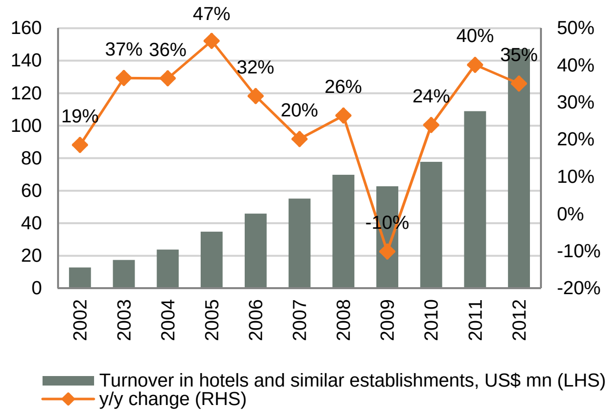
Source: GNTA

Room stock on the rise in Tbilisi and Adjara

Accommodation turnover is rising alongside the growth in arrivals. Between 2002 and 2012, turnover in accommodation units increased 11.5x to US$ 147mn.

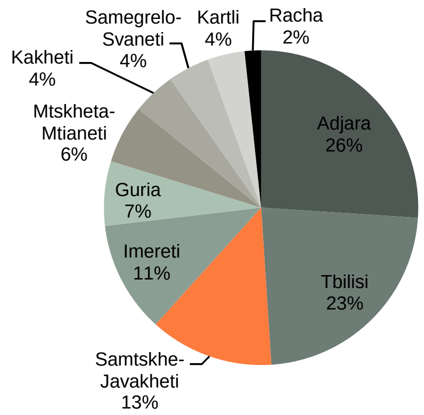
Georgia's room stock is concentrated in Tbilisi and Adjara. The majority of rooms in Adjara are located in Batumi. As of end-2012, the country had 777 registered accommodation units (all organizations registered as having accommodation services), with 14,500 rooms and over 33,000 beds.

Figure 11: Accommodation turnover in Georgia



Source: GeoStat

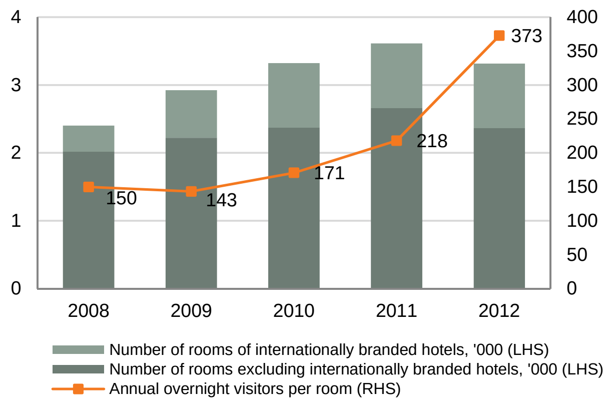
Figure 12: Distribution of rooms by regions, 2012



Source: GeoStat

Visitor growth numbers indicate there is room shortage in Tbilisi and Adjara. The 57% y/y growth in number of arrivals in 2012 outpaced the 5% y/y growth in total number of rooms in Tbilisi and Adjara in 2012, the two most popular destinations for visitors to Georgia. The number of internationally branded hotel rooms remained unchanged since Batumi's most recent opening of Radisson Blu Hotel in 2011 and Tbilisi's most recent opening of Holiday Inn in 2010. Annual overnight visitors per room in 2012 in Tbilisi and Adjara increased 2.5x and 1.9x, respectively since 2008.

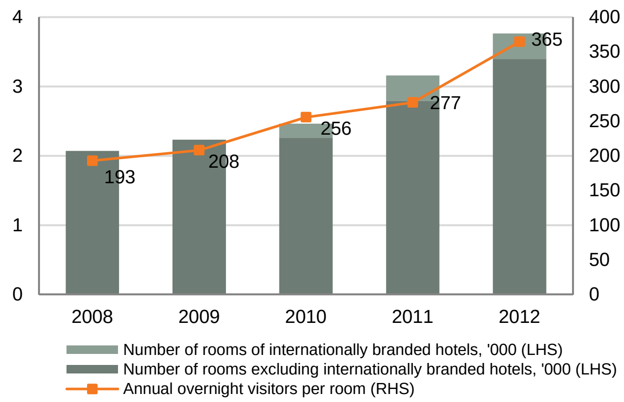
Figure 13: Annual overnight visitors per room, Tbilisi



Note: Number of annual overnight visitors is an approximation calculated by multiplying the total number of arrivals to Georgia by 62% (share of visitors that spend at least one night in Georgia). In the absence of any other indication, we have used the proportion of nights spent in respective location (Tbilisi as per Figure 7) to derive the annual overnight visitors per room.

Source: GeoStat, GNTA, BoG Research

Figure 14: Annual overnight visitors per room, Adjara



Note: Number of annual overnight visitors is an approximation calculated by multiplying the total number of arrivals to Georgia by 62% (share of visitors that spend at least one night in Georgia). In the absence of any other indication, we have used the proportion of nights spent in respective location (Batumi and Kobuleti as per Figure 7), to derive the annual overnight visitors per room.

Source: GeoStat, GNTA, BoG Research

Some of the newly announced projects aim to deliver up to 1,000 rooms in Batumi and 300 rooms in Tbilisi. In our view, the shortage of internationally branded hotel rooms in Tbilisi and Adjara will remain in the medium term.

Contacts

Head of Research
Ekaterina Gazadze | egazadze@bog.ge

Economist
Alim Hasanov | ahasanov@bog.ge

Senior Associate
Giorgi Nakashidze | gnakashidze@bog.ge

Associate
Giorgi Iremashvili | giremashvili@bog.ge

Analyst
Sopho Khelashvili | skhelashvili@bog.ge

Analyst
Suliko Kokhreidze |skokhreidze@bog.ge

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