



Georgia's Tourism Sector 9M14 Update

Georgia | Tourism
November 5, 2014

The number of international arrivals to Georgia grew 2.1% y/y in 9M14 to 4.2mn. On a full-year basis this translates into 5.6mn for 2014 (vs 5.4mn in 2013), which would be short of our expectations. A lower number of arrivals from Turkey (26.5% of all arrivals and the largest contributor) was the principal reason for the slowdown, mainly due to the economic situation in that country. Arrivals excluding Turkey increased 8.0% y/y in 9M14, including from Russia (+7.1% y/y), Poland (+36.1% y/y), Belarus (+48.8% y/y) and Ukraine (+21.1% y/y). We expect other countries to continue growing robustly, creating opportunities for hotel developments. The hotel pipeline remains strong with more than 10 upscale and midscale international brand hotels set to open by 2016; however we still think that demand is likely to outpace supply. Georgia's National Tourism Administration continues to pursue active promotional campaigns and Georgia expects to host several important events in 2015 including the EBRD's annual shareholder meeting, the European Youth Olympic Festival and the UEFA football Super Cup.

Visitors from other countries

The number of international arrivals to Georgia grew by just 2.1% y/y in 9M14 to 4.2mn, which translates into an annual 5.6mn for 2014 vs 5.4mn in 2013. Visitor numbers were flat in August and down by 1.0% y/y in September. Fewer arrivals from Turkey were the main reason for the slowdown partly due to the weak Turkish lira and the elections there. Typically the largest contributor of visitors, with 29.7% in 2013, Turkey's contribution fell to 26.5% in 9M14 (number of arrivals -11.2% y/y in 9M14). Armenia was the second largest contributor in 2013, remaining flat this year (22.4%) and being outpaced by Azerbaijan with a 23.3% share. On a positive note, total visitors (excluding Turkey), grew by 8.0% in 9M14.

Growth to be 5-6% p.a. till 2019

We have revised our forecast and expect 5.6mn visitors this year vs. our previous forecast of 6.1mn (the downward revision was mainly due to an unexpected slowdown in Turkish visitors). We now envisage an overall growth rate of 5-6% per annum until 2019 and annual visitor growth of 8-9% ex-Turkey. We forecast around 7.4mn international visitors in 2019 or 1.7x of the current population.

Visitor spending is stable

In terms of tourism receipts, visitor spending per capita was US\$ 332 in 1H14 vs US\$ 333 in 1H13. In FY14, we expect around 4.9% y/y growth in tourism receipts and estimate that spending per visitor will grow 2.1% y/y to US\$ 327 from US\$ 321 in FY13.

Important tourist events lined up for 2015

Georgia's National Tourism Administration is continuing its active promotional campaign in Western and Eastern Europe, in the CIS and other countries. In addition, there are major events lined up for 2015 which we estimate will bring in additional 40-50,000 visitors. The events are important for the country's image, in our view. Tbilisi, in particular, will host a number of events in the near future including the European Youth Olympic Festival 2015 and UEFA football Super Cup in 2015.

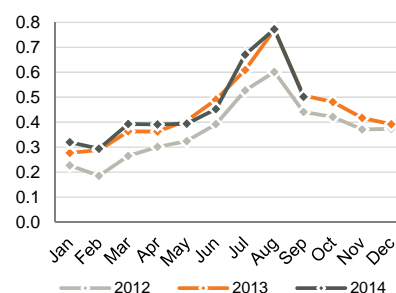
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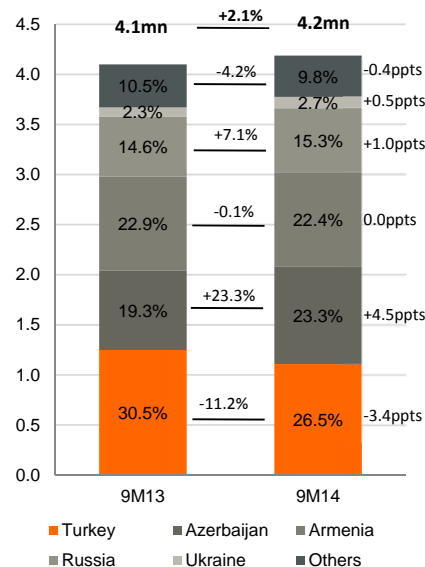
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Figure 1: International arrivals trend, mn



Source: GNTA

Figure 2: Number of visitors by country, 9M13 vs 9M14 (mn)



Source: GNTA



During 9M14, arrivals from Russia increased 7.1% y/y as direct flights were introduced between Russia and Georgia. The number of arrivals from Belarus (+48.8% y/y), Poland (+36.1% y/y) and Ukraine (+21.1% y/y) also increased, stimulated by active promotional campaigns and the introduction of direct flights to some destinations. The accessibility of destinations at an affordable cost is important for the future growth of international arrivals to Georgia, and the announcement of new budget airlines entering the market such as Air Arabia and Air Cairo is positive in this regard.

We forecast that growth will remain robust (at 5-6% per annum on average) and demand for hotel beds to exceed the current supply in Georgia by around 40% in 2019. Our expectation is based on the rising trend of visitors from Western and Eastern European countries (shares of which are very small currently) as well as CIS, where active marketing campaigns are taking place. We assume that the share in arrivals of Eastern European countries (where per capita GDP is higher than in the most CIS countries) to gradually grow which may result in more tourism inflows in the future.

We expect growth in arrivals from other countries (besides Turkey) to remain robust, creating opportunities for hotel developments. The current hotel pipeline remains strong with more than 10 upscale and midscale international brand hotels due to open by 2016; however we still think that demand is likely to outpace supply, especially in the medium and lower price brackets. There are more than 400 hotels (of which less than 5% are branded) in operation in Georgia with roughly 11,000 rooms. The future pipeline mainly concentrates on major tourist attractions, the capital Tbilisi and seaside resort Batumi.

Table 1: International brand hotels pipeline, Georgia

Name	City	Opening year
Rixos	Tbilisi	N/A
Park Inn	Tbilisi	2015
Millennium Hotel	Tbilisi	2016
InterContinental	Tbilisi	2016
Kempinski	Batumi	N/A
Crown Plaza	Batumi	N/A
Hilton	Batumi	N/A
Swiss Hotel	Batumi	N/A
Babylon Tower	Batumi	N/A
Radisson Blu	Tsinandali	2016
Rixos	Borjomi	2014
Crown Plaza Borjomi	Borjomi	N/A

Note: We updated the table to include Rixos Hotel Borjomi

Source: Tophotelprojects

On September 1, Georgia introduced visa requirements for citizens of 13 countries, among them Iraq and several Latin American and Caribbean states. Visa-free entry was maintained for more than 90 countries and territories (see appendix for the complete list). Citizens of those countries will be able to stay in the country without a visa for a maximum of 90 days in any 180-day period. We do not expect new legislation to hinder international arrivals in the future.



Appendix

Table 2: Countries with visa-free entry to Georgia

1. Antigua and Barbuda	48. Armenia
2. Argentina	49. Austria
3. Barbados	50. Azerbaijan
4. Belize	51. Belarus
5. Bosnia and Herzegovina	52. Botswana
6. British dependent territories – Guernsey, Jersey, Isle of Man;	53. Bulgaria
7. British overseas territories – Bermuda, Cayman Islands, British Virgin Islands, Falkland Islands, Turks and Caicos	54. Colombia
8. Canada	55. Costa Rica
9. Australia	56. Croatia
10. Dominican Republic	57. Cyprus
11. Commonwealth of the Bahamas	58. Ecuador
12. Czech Republic	59. El Salvador
13. Germany	60. Estonia
14. Brazil	61. Finland
15. France	62. Honduras
16. French territories - French Polynesia, New Caledonia	63. Kazakhstan
17. Luxembourg	64. Latvia
18. Hellenic Republic	65. Lithuania
19. Holy See	66. Malta
20. Hungary	67. Mauritius
21. Iceland	68. Moldova
22. Ireland	69. Panama
23. Italy	70. Poland
24. Japan	71. Romania
25. Denmark	72. San Marino
26. Bahrain	73. Serbia
27. Belgium	74. Seychelles
28. Denmark territories – Faroe islands, Greenland;	75. Singapore
29. Netherlands territories – Aruba, the Netherlands Antilles;	76. Slovenia
30. Norway	77. South Africa
31. Saudi Arabia	78. Tajikistan
32. Spain	79. Turkey
33. Sweden	80. Uzbekistan
34. Thailand	81. Russian Federation
35. Netherlands	82. Saint Vincent and the Grenadines
36. Kyrgyzstan	83. Slovak Republic
37. Lebanese Republic	84. Israel
38. Malaysia	85. Kuwait
39. Montenegro	86. Qatar
40. Nation of Brunei	87. Oman
41. New Zealand	88. Switzerland
42. Portugal	89. Turkmenistan
43. Principality of Liechtenstein	90. Ukraine
44. Principality of Andorra	91. United Arab Emirates
45. Principality of Monaco	92. Great Britain
46. Korea	93. Mexico
47. Albania	94. United States of America

Source: Ministry of Foreign Affairs of Georgia

Table 3: Countries Georgia imposed visa requirements on, as of September 1, 2014

1. Bolivia	8. Peru
2. Chile	9. Saint Kitts and Nevis
3. Commonwealth of Dominica	10. Saint Lucia
4. Cuba	11. Suriname
5. Guatemala	12. Trinidad and Tobago
6. Iraq	13. Uruguay
7. Paraguay	

Source: Ministry of Foreign Affairs of Georgia



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