



## Georgia's Tourism Sector Resisting Regional Turmoil

Georgia | Tourism  
Industry Overview  
June 26, 2015

International arrival numbers have remained stable in 2015 despite the regional economic turbulence. While foreign remittances and exports took significant hits in 5M15, monthly foreign arrivals have been resilient, growing a slight 0.4% y/y in April and a sharp 14.7% y/y in May, driving 5M15 growth rate to 2.0%. Notably, whereas the total number of visitors in 2014 increased by 2.3%, the number of tourists spending more than 24 hours in Georgia increased 7.4% y/y. On the spending side, travel revenues to Georgia increased 3.9% y/y to US\$ 1.8bn in 2014, amounting to 10.8% of GDP.

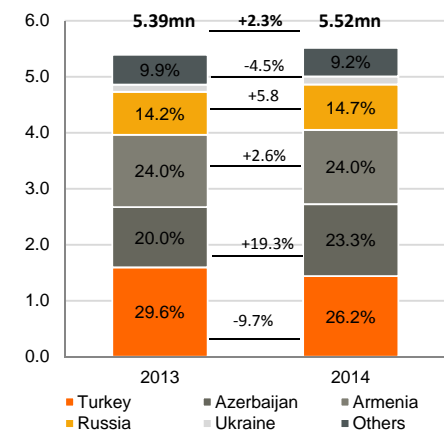
**International arrivals to Georgia have held up well in comparison to other sources of currency inflows.** 4Q14 arrivals increased just 1.0% y/y, driving FY14 growth to 2.3% and 5.5mn total visitors. The weak growth rate relative to recent boom years was driven by a drop from Turkey (-9.7% y/y in FY14) and modest growth from Armenia (+2.6% y/y). In 1Q15, international arrivals declined 2.2% y/y, which compares very favorably to the decreases in exports (-27.8% y/y) and remittances (-22.9% y/y). In addition, monthly arrival figures offer optimism: visitor arrivals rose 0.4% y/y in April and further spiked 14.7% y/y in May, bringing the 5M15 annual growth rate to 2.0%. The high growth in May was largely a result of significant growth from Armenia (+33.1% y/y) and Russia (+42.5% y/y), mostly due to low comparison bases.

**Travel inflows amounted to 10.8% of GDP in 2014.** Total travel revenues to Georgia increased 3.9% y/y in 2014 to US\$ 1.8bn, or per-visitor spending of US\$ 324. That figure is relatively low, compared to peer countries, and partially driven by a low share of tourists – visitors who stay over 24 hours (38% and 40% in 2013 and 2014, respectively). On the upside, while total arrivals increased by just 2.3% y/y in 2014, the number of tourists staying more than 24 hours increased 7.4% y/y. Although January saw a 9.0% y/y decline in the number of tourists who stay over 24 hours, the rate of decline slowed to 2.7% y/y in April before posting 5.3% y/y growth in May.

**Major one-off tourism events to provide some support in 2015.** Major events scheduled for this year will bring an estimated additional 40-50,000 visitors. The EBRD's Annual Meeting, which took place in Tbilisi in May, attracted 2,000 delegates from over 60 countries. Additionally, Georgia's National Tourism Administration's marketing campaigns in Eastern and Western Europe and China should drive growth from those regions, attracting more high-spending visitors.

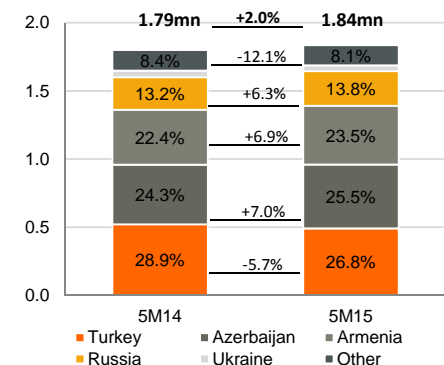
**We now expect around 2.4% y/y growth in arrivals and reiterate our latest forecast of 5.6mn in 2015, based on recent developments.** Despite the depreciation of regional currencies, Georgia remains a cheap and attractive destination in comparison to its peers. As a result, we expect further growth in visitors from neighboring countries (excl. Turkey). On the spending side, we expect tourism to remain a significant contributor to Georgia's external financing inflows in 2015 and the country's tourism policy to attract high spending visitors should help increase tourism spending significantly in the future.

Figure 1: Number of visitors by country, mn



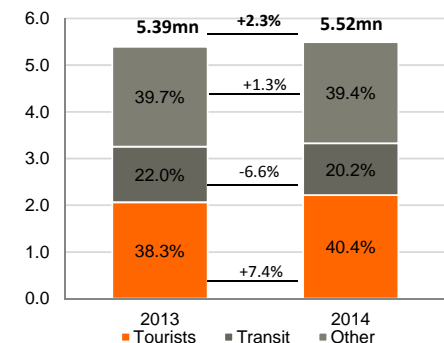
Source: GNTA

Figure 2: Number of visitors by country, mn



Source: GNTA

Figure 3: Number of visitors by type, mn



Source: GNTA

**Nino Papava**

Head of Research | n.papava@gt.ge | +995 32 2401 111 ext. 3760

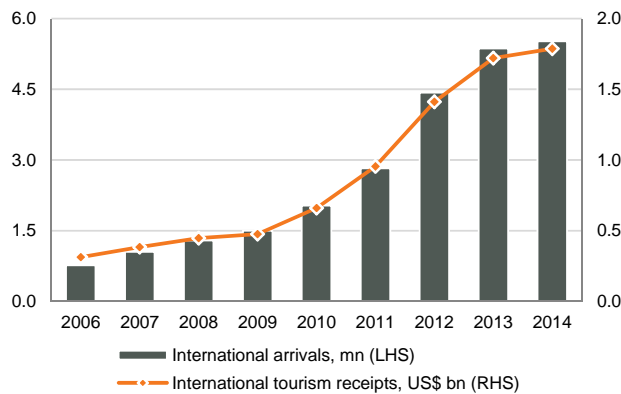
**Giorgi Iremashvili**

Senior Associate | giremashvili@gt.ge | +995 32 2401 111 ext. 4691



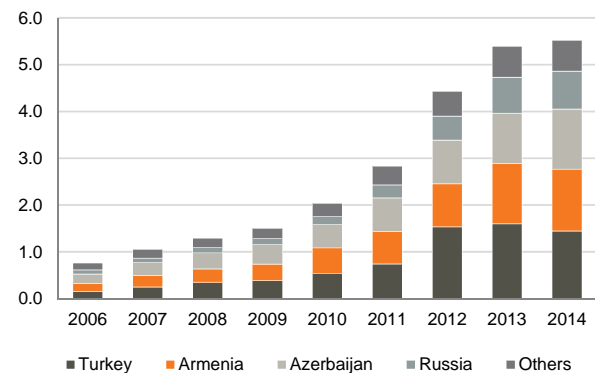
One of the fastest growing sectors in Georgia, tourism has generated an impressive 20.9% CAGR in visitors over 2000-14. However, visitor numbers fell in the last few months of 2014, with full-year growth down to 2.3% and an aggregate 5.5mn visitors in 2014. Turkey was the main driver of the slowdown, partly due to the weak lira and election-related uncertainty. Typically the largest contributor of visitors (29.6% in 2013), Turkey accounted for 26.2% of arrivals in FY14, with the number of visitors down 9.7% y/y. Armenia was the second largest contributor in 2014 with a 24.0% share (flat y/y), followed by Azerbaijan with a 23.3% share (+3.3ppts y/y).

**Figure 4: Total international arrivals, tourism receipts**



Source: GNTA, NBG

**Figure 5: Number of visitors by country, mn**



Source: GNTA

**Tourism revenues account for a significant share in the services balance** – in 2014 they held a 58.7% of service inflows and a 10.8% share of GDP. Total travel inflows rose 3.9% y/y to US\$ 1.8bn last year, or a per-visitor spending of US\$ 324.

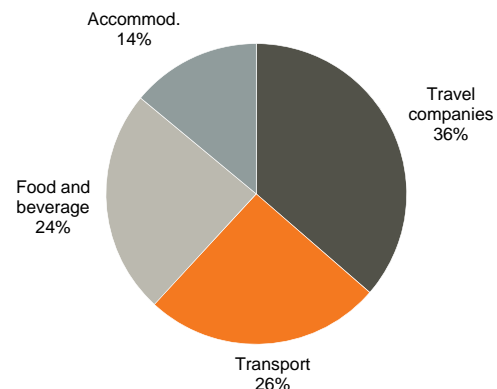
**The value added from tourism increased 10.5% y/y to GEL 1.5bn (US\$ 860mn) in 2014, contributing 6.0% to GDP, up 0.1ppts y/y.** Travel service companies and the accommodation segment were the main drivers, up 12.2% and 14.8% y/y, respectively. Travel agencies accounted for the largest share in tourism-related services (up to 36.4%, +4.0ppts) and transport (+2.1ppts y/y) came second with 25.5%.

**Figure 6: Share of tourism in Georgia's GDP**



Source: GNTA, GeoStat

**Figure 7: Composition of tourism-related services, 2014**



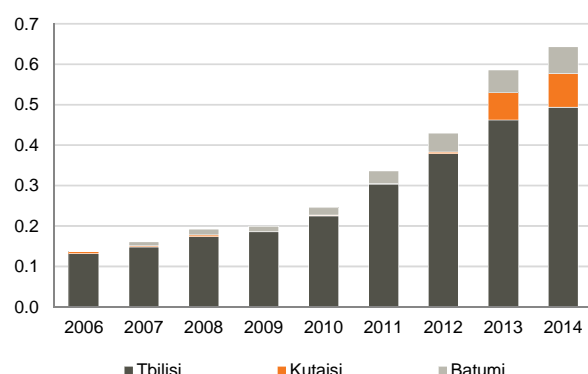
Source: GNTA



**Road travel continues to be the most dominant form of arrival transportation with an 86.3% share in 2014.** Only 11.7% of visitors arrived by air, even though air travel has grown significantly over the past few years (a 21.2% CAGR over 2006-14). Rail and sea accounted for 1.3% and 0.8%, respectively. Road travel continues to dominate as most visitors come from neighboring countries.

**The launch of new direct flights drove 9.8% y/y growth in air arrivals to 0.6mn in 2014** (vs. 36.4% y/y growth in 2013). The great majority of air arrivals came in through Tbilisi International Airport (76.8%, down 2.1ppts y/y) and Kutaisi and Batumi accounted for a further 13.0% and 10.2%, respectively. Despite the smaller shares, Batumi and Kutaisi posted strong growth last year at 19.2% and 22.0% y/y, respectively. The Tbilisi airport can handle 2,000 passengers per hour, while Batumi and Kutaisi can receive up to 500 per hour each.

**Figure 8: Visitor breakdown at international airports, mn**



Source: GNTA

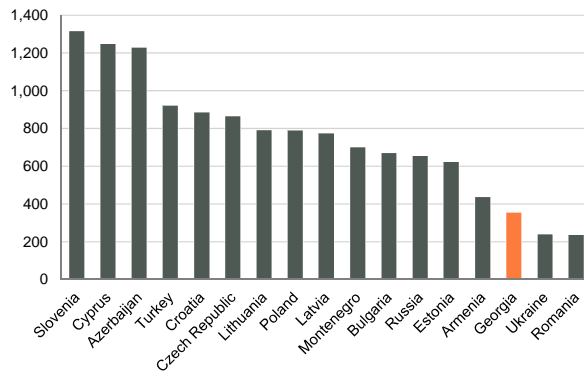
More than 20 foreign airlines and one national carrier offer regular flights from Georgia. The major airlines operating in Georgia include Turkish Airlines, Georgian Airways, Ukraine International Airlines, Pegasus, Belavia, S7, Lufthansa and Qatar Airways. Turkish Airlines holds the largest share of passengers at 22% of all travelers in 2014. Georgian Airways holds second place with 11%, followed by Ukraine International Airlines (9%) and Pegasus (8%). At the end of 2013, flights between Russia and Georgia were resumed. Russian carriers, including S7 Airlines, Transaero, and Aeroflot now perform 20 flights per week from Georgia to Moscow. New airlines like Air Arabia, YANAIR, Dniproavia, and Air Cairo also began regular flights to Georgia in 2014.

For a full list of flights, please see Appendix 4.

**Georgia's tourism policy is aimed at attracting more high-yielding visitors.** Lower-yielding visitors currently outstrip higher-yielding visitors and the country is aiming to attract more visitors from non-neighboring countries to boost average per-visitor spending. Average visitor spending stood at only US\$ 355 in 2013, significantly below Georgia's peers like Croatia (US\$ 887), Montenegro (US\$ 702), Bulgaria (US\$ 671) and Estonia (US\$ 624). The average visitor to peers spends US\$ 750, double that of the average for Georgia, which leaves significant upside.



**Figure 9: International tourism receipts, 2013 (US\$/visitor)**



Source: WB

**Based on recent developments, we forecast about 2.4% y/y growth in arrivals in 2015.** We expect visitor numbers to continue growing in the second half of the year (especially arrivals from Russia) and reiterate our forecast of 5.6mn international arrivals in 2015. The sizable expected arrivals for several events to be held in Georgia, like the UEFA Super Cup, the Olympic Youth Festival, etc., should provide additional support. Lastly, the recent re-introduction of visa-free stay for one year is an important step in the right direction in enhancing Georgia's tourism-friendly environment.

Please see appendices 1 through 3 for updates on the accommodation sector, domestic tourism, and protected areas.



## Appendix 1: Accommodation

**Accommodation turnover has grown significantly over the past few years.**

Accommodation revenue increased 12.0x over 2000-14 to US\$ 156.6mn, despite dropping 0.7% y/y in FY14, but it still remains low at 0.9% of GDP.

**Georgia's room stock is concentrated in Tbilisi and Adjara**, with 19.7% and 25.9% shares, respectively. As of end-2014, the country had 1,221 registered accommodation units (vs 1,065 by end-2013), with over 42,000 beds (vs around 37,000 by end-2013).

Even though there are many hotel projects in the pipeline and we expect moderate growth in international visitors, demand for hotel beds might still exceed supply in Georgia. Our expectation is further supported by the fact that currently the average duration of stay is 4 nights, which is likely to increase as we expect the share of tourists in total visitors to increase. Additionally, visitor arrivals are seasonal, with the summer accounting for a significant share of total arrivals, which should result in a deficit in supply of accommodation units during summer in the future.

The upscale hotel segment has expanded significantly with the recent openings - Rooms Hotel in Tbilisi, Rixos in Borjomi, and Hilton in Batumi. The hotel pipeline remains strong, with several international chains set to enter the market over the next few years.

**Table 1: International brand hotels in Georgia**

| Existing hotels                  | Opening year |
|----------------------------------|--------------|
| Tbilisi Marriott                 | 2002         |
| Courtyard Marriott (Tbilisi)     | 2004         |
| Radisson Blu (Tbilisi)           | 2009         |
| Citadines (Tbilisi)              | 2009         |
| Sheraton (Batumi)                | 2010         |
| Radisson Blu (Batumi)            | 2011         |
| Holiday Inn (Tbilisi)            | 2011         |
| Rooms Hotel (Tbilisi)            | 2014         |
| Rixos (Borjomi)                  | 2015         |
| Hilton (Batumi)                  | 2015         |
| Hotels pipeline                  | Opening year |
| Hualing (Tbilisi)                | 2015         |
| Sheraton (Tbilisi)               | 2016         |
| Millennium Hotel (Tbilisi)       | 2016         |
| Park Inn (Tbilisi)               | 2016         |
| Intercontinental Hotel (Tbilisi) | 2016         |
| Hilton (Tbilisi)                 | 2016         |
| Babillon (Batumi)                | 2016         |
| Kempinski (Batumi)               | 2017         |
| Axis Tower (Tbilisi)             | 2017         |
| Dreamland Oasis (Batumi)         | 2017         |
| Hyatt (Tbilisi)                  | 2018         |

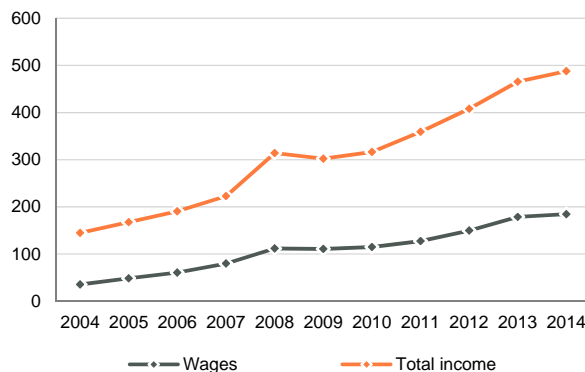
Source: Colliers, G&T Research



## Appendix 2: Domestic Tourism

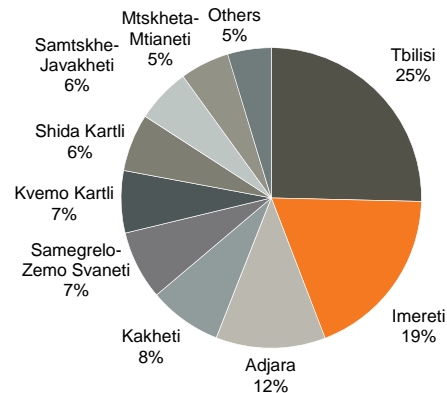
**Domestic tourism holds some growth potential.** Global domestic tourism research indicates that household income is one of the key determinants of domestic tourism. The average monthly total income of the Georgian population grew 3.6x since 2001 to US\$ 496.6mn in 2014, translating into average monthly total income per household of US\$ 487.9. Based on our estimates, Georgia had more than 4.0mn domestic visits or more than 3.2mn unique domestic visitors (representing around 86% of the current population) in 2014, with around 25% visiting the capital.

Figure 10: Average monthly income per household, US\$



Source: GeoStat

Figure 11: Domestic tourism breakdown by region, 2014



Source: GeoStat, G&T Research

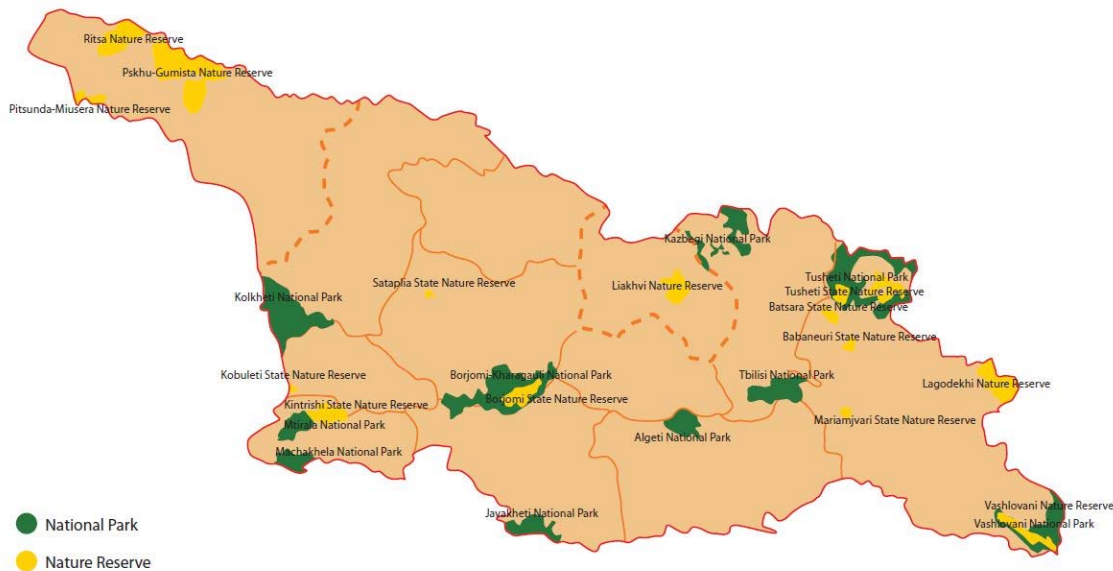
Domestic visitors mainly travel to visit friends and relatives (52% of visits) and only 9% traveled for holiday, leisure, and recreation purposes. Leisure and recreation visitors are most likely to stay at accommodation units, while the majority of domestic visitors stay at homes of their friends or relatives. We believe that with further income growth, the share of visits for holiday, leisure, and recreation purposes will increase, positively affecting domestic visitor spending.



## Appendix 3: Protected areas

Georgia boasts diverse cultural attractions, including 12,000 historical and cultural monuments, 4 of which are included on UNESCO's World Heritage List, 103 resorts and 182 resort areas, 10 national parks, and 2,400 mineral water springs. We expect the current range of tourist destinations to expand into other regions (besides Tbilisi and Adjara) as leisure, eco, and cultural tourism are expected to gain popularity.

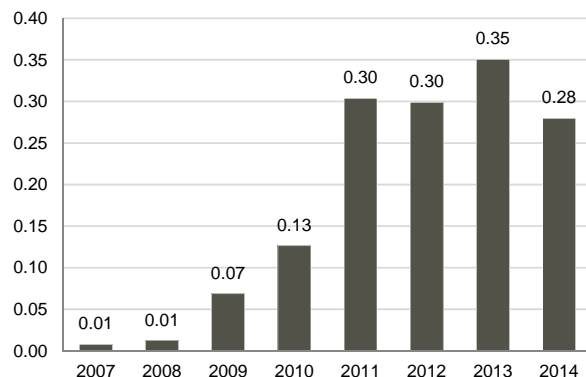
Map 1: Protected Areas of Georgia



Source: Agency of Protected Areas

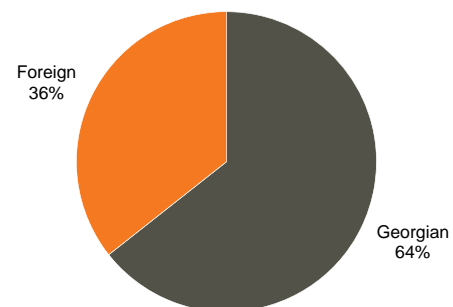
Georgia has seen significant growth in visitor numbers in protected areas since 2007 (88.9% CAGR in visitors over 2007-13), however the number dropped 20.2% y/y in 2014 to 0.28mn. Arrival numbers in protected areas are still quite low and represent huge untapped potential. According to our estimates, less than 3% of foreign visitors and 5% of local visitors visited the National Parks and Natural Reserves which represent Georgia's unique attractions. Conservation and restoration of historical and cultural landscapes, along with marketing activities to raise awareness, are paramount for developing this type of tourism in the country.

Figure 12: Number of visitors to protected areas, mn



Source: Agency of Protected Areas

Figure 13: Visitors breakdown in protected areas



Source: Agency of Protected Areas



## Appendix 4: Direct Flights

Table 2: Direct flights from Georgia

| Flight                   | Company                                      | Flights per week |
|--------------------------|--|------------------|
| Batumi-Istanbul          | Turkish Airlines                             | 7                |
| Batumi-Minsk             | Belavia                                      | 0-2              |
| Batumi-Moscow            | Georgian Airways, S7 Airlines                | 4                |
| Kutaisi-Budapest         | Wizz Air Hungary                             | 2                |
| Kutaisi-Katowice         | Wizz Air Hungary                             | 2                |
| Kutaisi-Minsk            | Belavia                                      | 2                |
| Kutaisi-Moscow           | Georgian Airways, Ural Airlines              | 2                |
| Kutaisi-Vilnius          | Wizz Air Hungary                             | 2                |
| Kutaisi-Warsaw           | Wizz Air Hungary                             | 1                |
| Tbilisi-Aktau            | Skat   | 3                |
| Tbilisi-Almaty           | Air Astana                                   | 5                |
| Tbilisi-Amsterdam        | Georgian Airways                             | 2                |
| Tbilisi-Athens           | Aegian Airlines                              | 2                |
| Tbilisi-Baku             | Azerbaijan Airlines                          | 7                |
| Tbilisi-Batumi           | Georgian Airways                             | 3-7              |
| Tbilisi-Dnepropetrovsk   | Dniproavia                                   | 1                |
| Tbilisi-Doha             | Qatar Airways                                | 7                |
| Tbilisi-Dubai            | Fly Dubai                                    | 7                |
| Tbilisi-Ekaterinburg     | Ural Airlines                                | 1                |
| Tbilisi-Istanbul         | Turkish Airlines, Atlasjet Airlines, Pegasus | 35               |
| Tbilisi-Kiev             | Ukraine Intern. Airlines                     | 12               |
| Tbilisi-Kutaisi          | Georgian Airways                             | 1-2              |
| Tbilisi-Minsk            | Belavia                                      | 7                |
| Tbilisi-Moscow           | Georgian Airways, Aeroflot, S7 Airlines,     | 20               |
| Tbilisi-Munich           | Lufthansa                                    | 7                |
| Tbilisi-Riga             | Air Baltik                                   | 3                |
| Tbilisi-Rome             | Air Italia                                   | 3                |
| Tbilisi-Saint Petersburg | China Southern Airlines                      | 2                |
| Tbilisi-Samara           | Georgian Airways                             | 1                |
| Tbilisi-Sharja           | Air Arabia                                   | 4                |
| Tbilisi-Sharm Al Sheikh  | Air Cairo                                    | 3                |
| Tbilisi-Tel Aviv         | Georgian Airways, Izair, Arkia               | 8                |
| Tbilisi-Urumchi          | China Southern Airlines                      | 1-3              |
| Tbilisi-Vienna           | Georgian Airways                             | 2                |
| Tbilisi-Warsaw           | LOT  | 7                |

Source: GNTA, Georgian Civil Aviation Agency





# Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of JSC Bank of Georgia group ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

This document is confidential to clients of Galt & Taggart. Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

## Head of Research

Nino Papava | n.papava@gt.ge

**Address:** 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

**Tel:** + (995) 32 2401 111

**Email:** research@gt.ge

## Economist

Eva Bochorishvili | evabochoishvili@gt.ge

## Economist

Alim Hasanov | ahasanov@gt.ge

## Senior Associate

Giorgi Iremashvili | giremashvili@gt.ge

## Analyst

David Kutidze | dkutidze@gt.ge

## Analyst

David Niniklashvili | dniniklashvili@gt.ge

## Analyst

Tamar Kurdadze | tamarkurdadze@gt.ge