

SECTOR AT A GLANCE

NEW DRAFT STRATEGY OF GEORGIA'S RURAL AND AGRICULTURAL DEVELOPMENT 2021-2027

On 30 August 2019, a public hearing to discuss Georgia's Rural and Agricultural Development Strategy for 2021-2027 was conducted at the Ministry of Environmental Protection and Agriculture (MEPA). The new strategy document represents a roadmap for Georgia's rural and agricultural development for the next decade.

The strategy outlines three major goals to be achieved by 2027:

1. Increasing the competitiveness of agricultural and non-agricultural sectors;
2. Sustainable management of natural resources, preservation of ecosystems, and climate change adaptation;
3. Ensuring food/feed safety and the development of efficient veterinary and plant protection systems.

Each goal has a set of indicators with respective baseline and target values. Four of the indicators used to measure the competitiveness of agricultural and non-agricultural sectors (Goal 1) are summarized in more detail below:

#	Indicator	Unit	2009	2018	2027*	Increase between 2009-2018	Increase between 2018-2027*
1	Output of agricultural production and food made from processing agricultural products	Million GEL	4,653	9,300	12,000	100%	29%
2	Output in the business sector	Million GEL	--	450	770	--	71%
3	Export of food and agricultural products	Million USD	316	959	1,300	203%	36%
4	Average monthly income of rural households	GEL	447	880	1,200	97%	36%

Source: GeoStat, 2019. *Based on draft strategy projections. Note: All numbers are in nominal value.

Indicator 1. The new draft strategy suggests that, in comparison to 2018, by 2027 the output of all agro-food production (primary as well as processing) will increase by 29% in nominal value. If we compare this growth to the same indicator for the past ten years (2009-2018), it is more than three times lower. Equally, the inflation between 2009-2018 was about 35%, and if the same inflation rate is maintained over the next ten years, the total value of agro-food production, in real terms, might not increase at all or only increase very slightly.

Indicator 3. According to the new draft strategy, the export of agro-food products is projected to increase by 36% within the next ten years. This figure is also rather low compared to the growth rate of 200% over the last ten years (2009-2018). Such high growth rates, as observed from 2009-2018, clearly cannot always be maintained, however the projection is still quite slight.

Indicator 4. Between 2009-2018, the average monthly income of rural households increased by 97%, whereas over the next ten years this indicator is predicted to grow by only 36% (almost three times less). This increase is again defined in nominal terms, while in real terms, the income of rural families might deteriorate given the high inflation rate.

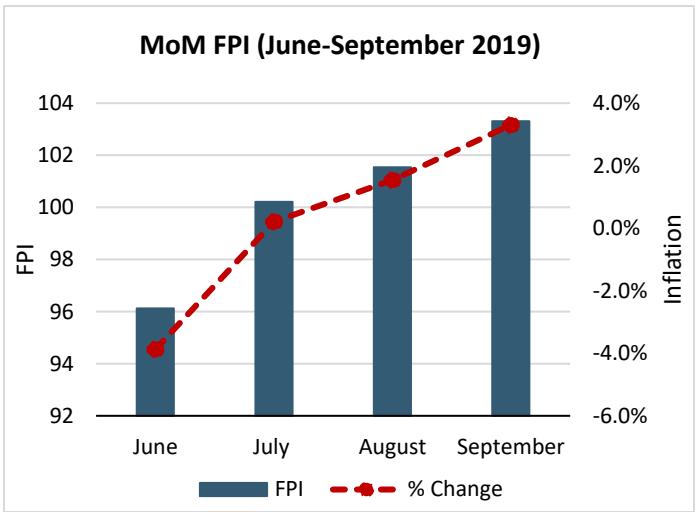
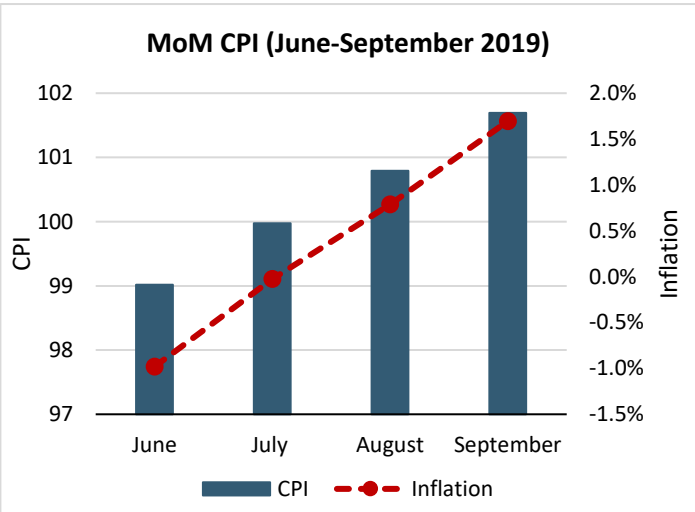
It should be noted that the strategy does not sufficiently cover such important topics as agricultural land registration, consolidation and market development, or of youth involvement in agriculture. Both of these issues are extremely important for the sustainable development of the sector.

PRICE HIGHLIGHTS

DOMESTIC PRICES

On a monthly basis, the country's price levels increased between June-September 2019. The Consumer Price Index (CPI) in September 2019 was 1.7% higher than in August 2019. While in August, the corresponding price increase was 0.8% from July 2019. In June, the month-over-month change in the CPI was -1% (compared to May 2019).

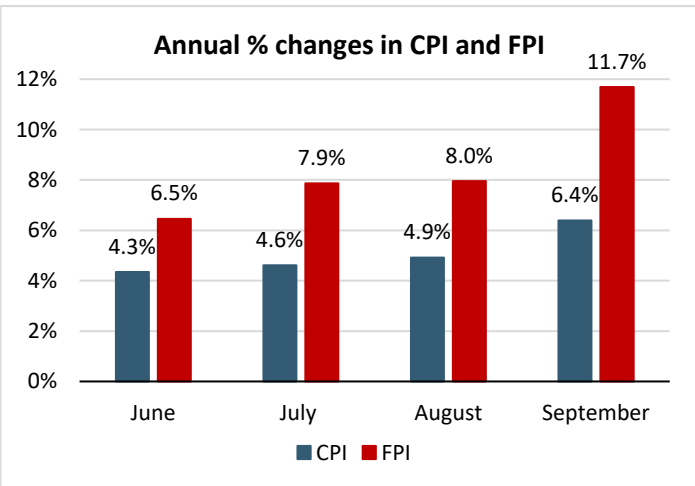
During the same period, prices for food and non-alcoholic beverages, measured by the Food Price Index (FPI), also exhibited an upward trend. In September 2019, food prices increased by 3.3% compared to August, while the corresponding month-over-month price change was 1.5% in August 2019 and 0.2% in July.








Source: GeoStat, 2019. Note: the index value in the previous month is 100.

From an annual perspective, from June-September 2019, the CPI has been increasing. In August 2019, the CPI increased by 4.9% compared to the previous August of 2018. In September 2019, annual inflation marked its highest level, 6.4%, for the period.

In September 2019, the year-over-year prices for food and non-alcoholic beverages increased drastically by 11.7%, contributing 3.49 percentage points to the change in the total CPI. The main drivers were price fluctuations in the following sub-groups:



-  **Fish (16.3%↑)**
-  **Milk, cheese, and eggs (14.6%↑)**
-  **Sugar, jam, and confectionary (13.2%↑)**
-  **Meat (12.6%↑)**
-  **Bread and cereals (10.8%↑)**

Source: GeoStat, 2019.

SPOTLIGHT

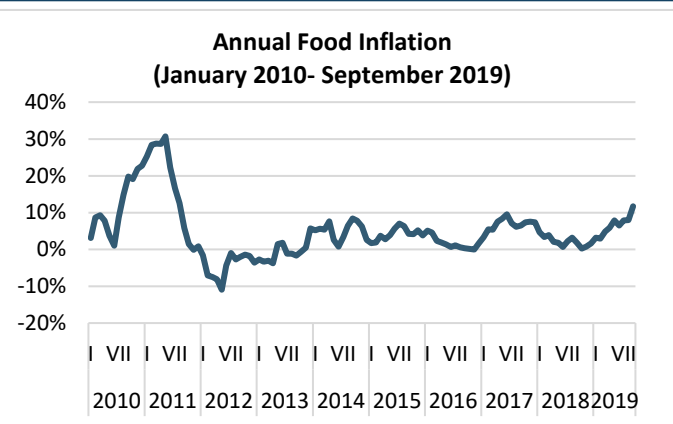
Annual food inflation has reached its highest levels since August 2011: in September 2019, the year-over-year prices for food and non-alcoholic beverages increased considerably, by 11.7% compared to September 2018. During the same period, the Georgian lari depreciated against the US dollar by 14%. Furthermore, the exchange rate between the lari and the dollar also reached its highest level, at 2.97 (NBG, 2019). The depreciation of the Georgian lari put upward pressure on the prices of imported goods, including imported food products. Georgia is a net importer of the following commodities:

Fish - In September 2019, fish prices experienced a significant 16.3% increase in comparison to September 2018. Geostat data shows that the core prices of frozen fish (17%) and smoked fish (17%) increased.

Sugar, jam, honey, chocolate, and confectionaries - From this group sugar prices increased the most, by 33% on an annual basis. The Food and Agriculture Organization (FAO) show that international prices of sugar increased by 4.1% compared to September 2018. Aside from the depreciation of the lari, international trends might have placed additional upward pressure on sugar prices.

Wheat bread and cereals - Starting from November 2018, products in this category have been, on average, trading above last year's prices. In September 2019, the price of wheat bread increased by 11.4% following the increased price of wheat flour (a 14.8% increase on an annual basis).

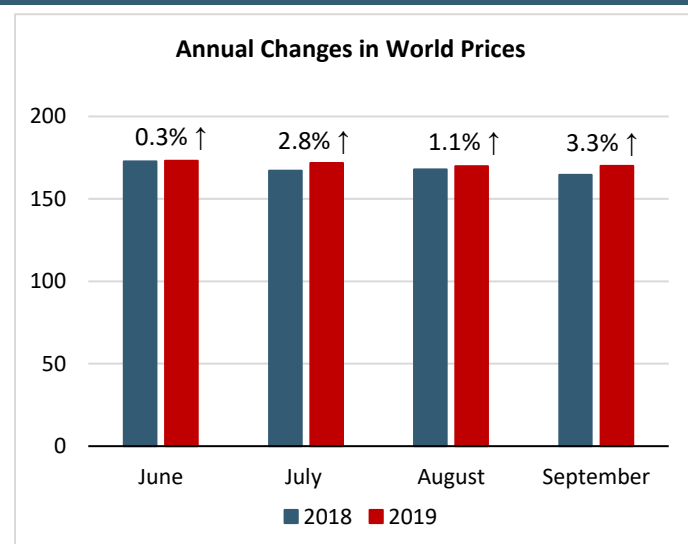
Milk, cheese, and eggs - The exchange rate is partially responsible for the upward trend in price. The sharpest price increases were observed in Imeruli cheese (26%), reflecting the increased price of raw milk (9%). Due to the depreciation of the lari against the dollar, the price of imported milk powder (used as a substitute for fresh milk) increased, which forced up the price of cheese.



Sources: GeoStat, 2019.

INTERNATIONAL PRICES

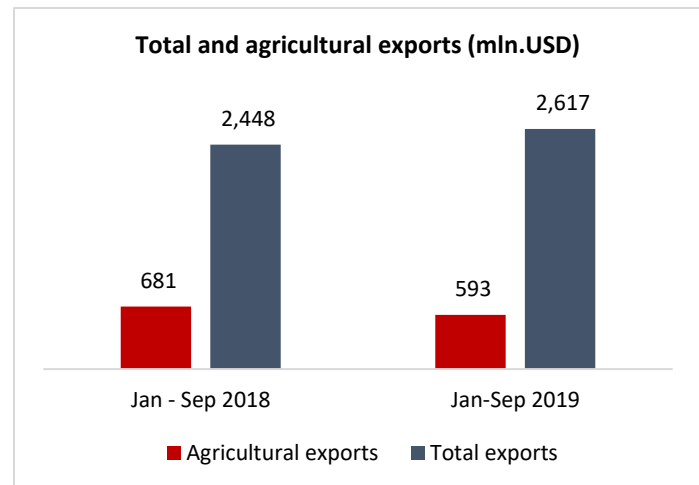
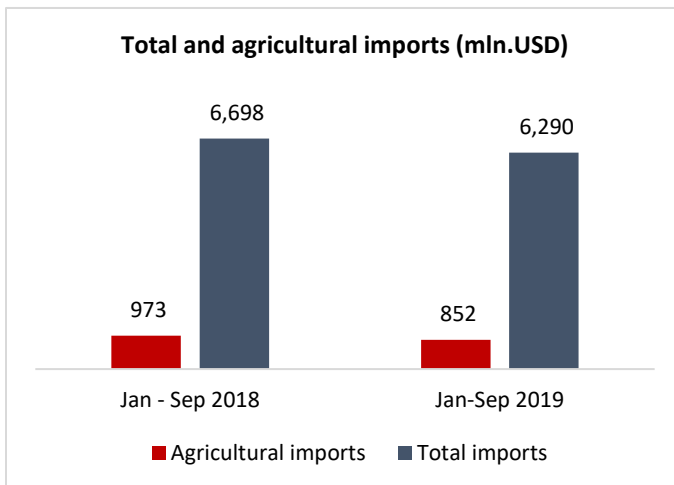
Between June-August 2019, international prices decreased for three consecutive months. In September, the Food Price Index, measured by the Food and Agriculture Organization (FAO), remained unchanged compared to August 2019. The price for sugar decreased (-3.9%). Whereas, prices increased for vegetable oil (1.4%). It is noteworthy that prices for meat (0.8%), dairy (-0.6%), and cereal (-0.1%) remained largely unchanged from the previous month. From an annual perspective, international prices are higher than last year: the FAO September 2019 Food Price Index increased by 3.3% compared to September 2018. Annual price increases were observed for meat (10.8%), sugar (4.1%), dairy (1.3%), and vegetable oil (0.6%). Whereas, prices decreased for cereal (-3.9%).



Source: FAO, 2019.

TRADE HIGHLIGHTS

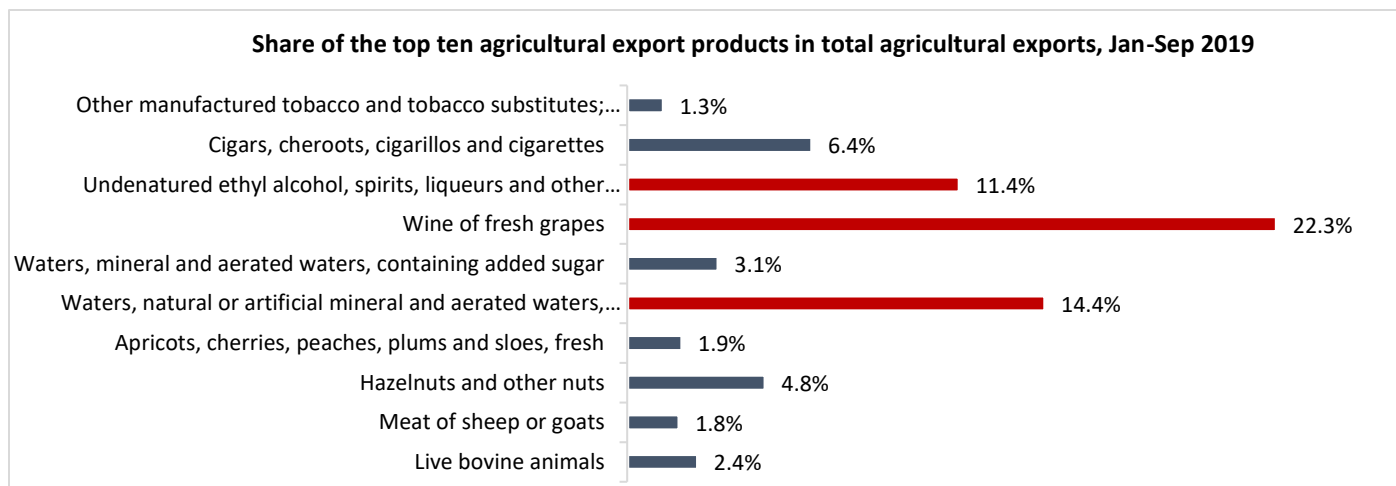
Year-over-year total Georgian exports increased by 7% from January-September (from 2,448 mln. USD in 2018 to 2,617 mln. USD in 2019). While these total exports increased, agricultural exports and imports, as well as total imports, declined. The latter decreased by 6% (from 6,698 mln. USD in 2018 to 6,290 mln. USD in 2019), whilst agricultural exports declined by 13% and there was a 12% reduction in agricultural imports.



Source: Geostat, 2019; MoF 2019. Note: Agricultural exports include food exports.

TOP AGRICULTURAL EXPORT AND IMPORT COMMODITIES

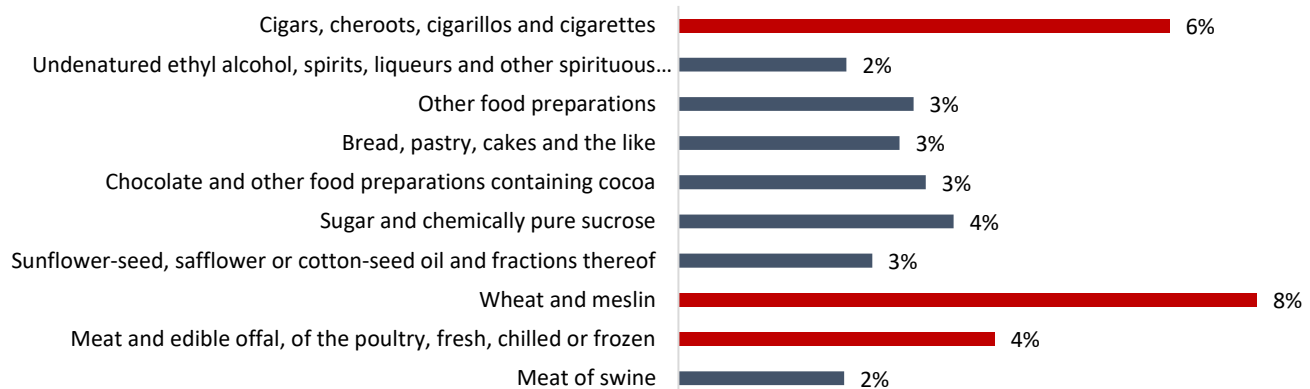
According to the latest statistics, wine holds first place within Georgian agricultural export products from January-September 2019; the share of wine in total agricultural exports is 22%. Mineral waters and alcoholic spirits stand at second and third place, with respective shares of 14% and 11%. The top ten products also include cigarettes (6%), hazelnuts (5%), alongside other agricultural products. It is noteworthy that after the extremely successful export years of 2013-2016, when hazelnut exports averaged 176 mln. USD, the average export value was just 76 mln. USD in the last two years (2017 and 2018). Since this January-September, hazelnut exports have reached just 32 mln. USD, signaling that 2019 might be even worse than the previous years in terms of hazelnut export. Overall, the export of the top ten products constitutes almost 70% of total Georgian agricultural export.



Source: Geostat, 2019; MoF 2019.

For the top agricultural import products, wheat and meslin keep their traditional first place, constituting 8% of total agricultural imports. Wheat is followed by cigarettes (6%) and poultry (4%). The other major import products are chocolate, other food preparations, bread, pastry, cakes, etc. The share of major products from the total agricultural import varies from 2% to 8%. Imports of the top ten agricultural products together constitute 38% of total agricultural imports.

Share of the top ten agricultural import products in total agricultural imports, Jan-Sep 2019



Source: Geostat, 2019; MoF 2019.

POLICY WATCH

Systematic Land Registration might be started in Georgia

On 30 September 2019, during a governmental meeting the new Prime Minister, Giorgi Gakharia, talked about the need of systematic land registration in Georgia. According to Mr. Gakharia, because of uncompleted land registration, a lot of land is unused, which represents a lost opportunity. For that reason, he tasked the Minister of Finance to allocate financial resources for a 4-year project devoted to systematic land registration.

For more information follow the link: <https://www.interpressnews.ge/ka/article/565983-giorgi-gaxariam-pinansta-ministrs-micis-sistemuri-registraciis-proektis-dapinanseba-daavala/>

Swiss Agricultural School Caucasus (SASC) to open in Georgia in 2020

Next year the Swiss Agricultural School Caucasus (SASC) will open in the village of Sarkineti, in the Dmanisi municipality, it will be developed according to Swiss standards, and will specialize in cattle breeding, dairy, and cheese processing. SASC's main activity will be a three-year vocational programme in cattle breeding and milk processing. In addition, farmers and amateurs will have the opportunity to take short-term professional courses. Along with theoretical courses, the school will also offer practical training for students.

For more information follow the link: <https://agenda.ge/en/news/2019/2590>

ISET Policy Institute – Agricultural Policy Research Center
<http://iset-pi.ge/index.php/en/research/aprc>

Authors: Salome Gelashvili s.gelashvili@iset.ge
Daviti Zhorzholiani d.zhorzholiani@iset.ge
Nino Kakulia n.kakulia@iset.ge
Salome Deisadze s.deisadze@iset.ge