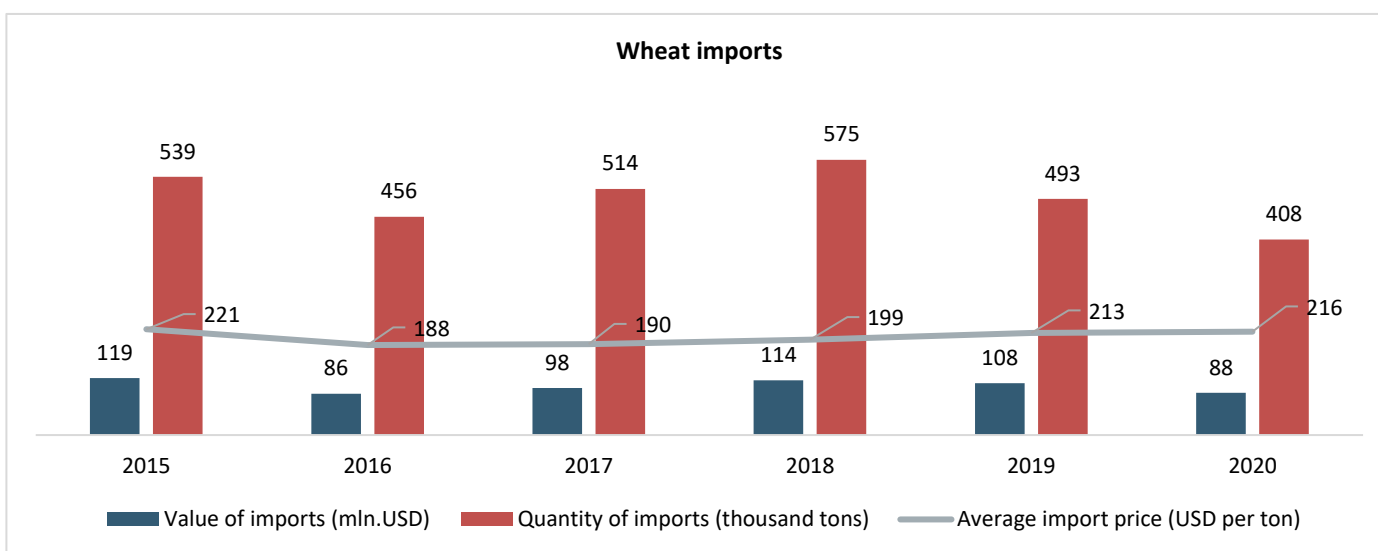


SECTOR AT A GLANCE

GENERAL TRENDS

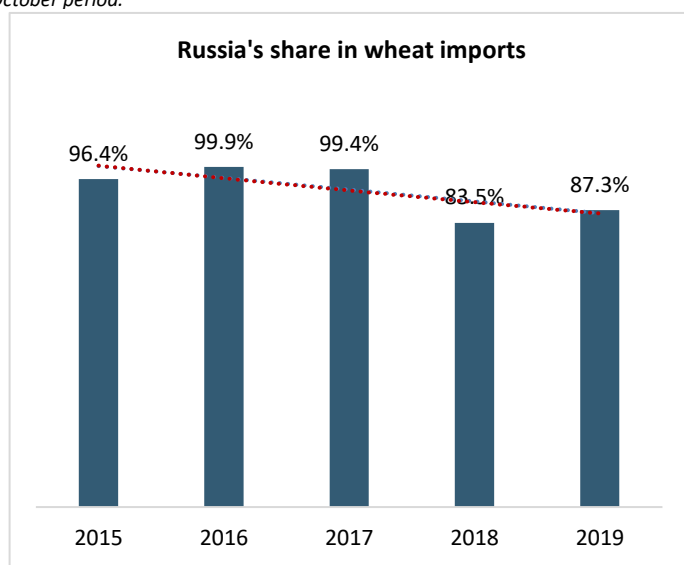
The COVID-19 pandemic raised concerns about the food security of many countries, in particular import-dependent developing countries like Georgia. Trade restrictions imposed by Georgia's trade partners tightened the supply of some cereals and vegetables, signaling the risk of an increase in food prices. While there is no formal evidence of food insecurity due to the pandemic, given that Georgia is a net importer of wheat the state subsidized wheat imports, and, according to the Georgia's Wheat and Flour Producers' Association, Georgia and the USA agreed on imports of 30,000 tons of American wheat to Georgia. 14,000 tons have already been imported, while the rest is planned to be imported by the end of the year. While diversification of import markets is highly desirable, 30,000 tons represents a rather small share from Georgia's total imports of wheat.



Source: UN Comtrade; Note: the figures for 2020 contain data for January – October period.

Over the last 6 years, Georgia has imported on average 500,000 thousand tons of wheat annually and spent on average 100 mln. USD. Most wheat is imported from Russia and the import market is rather concentrated. In 2019, Russia's share constituted 87% of total wheat imports. While, overall, Russia's share ranges from 80% to 100%, there is clearly a declining trend which might be a sign of market diversification.

Georgia's second largest trade partner is Kazakhstan, with 56 thousand tons comprising 11% of total imports in 2019. Kazakhstan is followed by the USA (1.02%), the Islamic Republic of Iran (0.05%), and Turkey (0.01%). The list of suppliers in 2019 also included Greece, Austria, Germany, and France but with very limited shares of total imports.



Source: Trademap, 2020

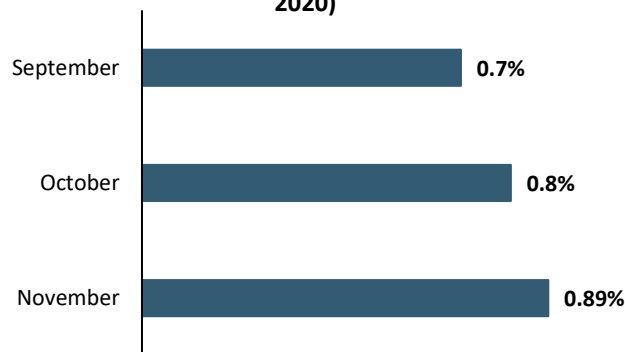
PRICE HIGHLIGHTS

DOMESTIC PRICES

On a monthly basis, the country's price levels have been stable in September-November 2020. The Consumer Price Index (CPI) in November 2020 slightly increased by 0.89% compared to October 2020. In October 2020, prices increased by 0.8% from September 2020. While in September, the corresponding month-over-month price increase was 0.7%.

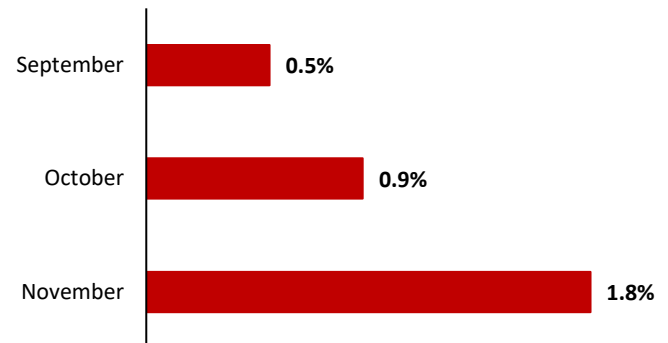
Month-over-month prices for food and non-alcoholic beverages, measured by the Food Price Index (FPI), also remained stable during September-November 2020. In November 2020, food prices slightly increased by 1.8% compared to October 2020, while the corresponding month-over-month price changes in October and September were 0.9% and 0.5% respectively.

MoM % Change in CPI (September-November 2020)



Source: GeoStat, 2020; Note: the index value in the previous month is 100.

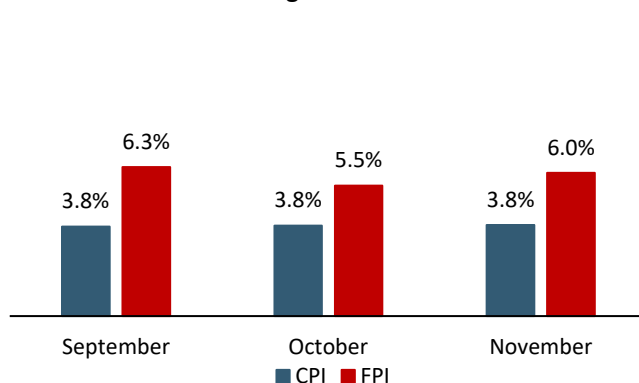
MoM % Change in FPI (September-November 2020)



From an annual perspective, the CPI continued to increase during September-November 2020. Within the indicated period, the inflation rate remained at 3.8%. Meanwhile, FPI marked its highest level during this time period in September at 6.3%.

In November 2020, year-over-year prices of food and non-alcoholic beverages increased significantly by 6%, contributing 1.92 percentage points to the change in total CPI. The main drivers were price fluctuations in the following sub-groups:

Annual % changes in CPI and FPI



Oils and fats (23.2% ↗)

Coffee, tea, and cocoa (12.2% ↗)



Fish (9.1% ↗)

Source: GeoStat, 2020

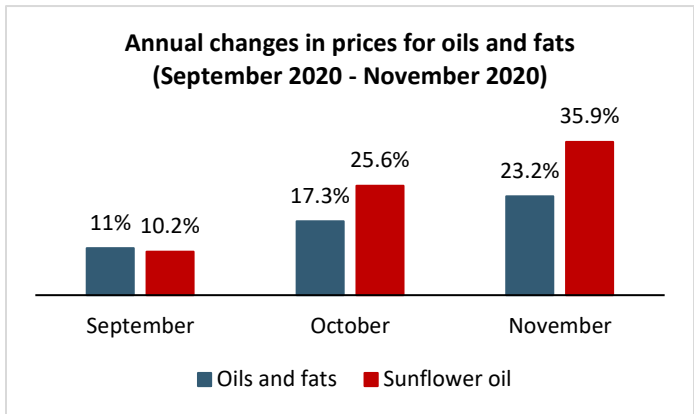
IN THE SPOTLIGHT: VEGETABLE OILS

Over the last year, price increases in the category of oils and fats have been particularly noteworthy. In November 2020, prices in this category sharply increased by 23.2% compared to November 2019. On a monthly basis (compared to October 2020), prices in this group rose by 4.1%.

According to GeoStat data, prices of sunflower oil displayed the largest increase of 35.9% in November 2020, in comparison to the previous year.

There are several factors that might have affected the price of sunflower oils. Similar to other food products, the sunflower oil market in Georgia strongly depends on imports. Moreover, around 90% of this product is imported from Russia and therefore its price is driven by trends on Russian markets. In March 2020, there was [a surge in domestic prices](#) in Russia due to depreciation of the national currency; increased production costs resulted in increased prices for the product. Furthermore, sunflower seed crop yields fell below expectations due to unfavorable weather conditions in summer that further drove Russian sunflower [oil prices up](#). The rise in the Russian market has contributed to the spike in Georgian prices for sunflower oils.

Trends on the international markets do not seem promising. In November 2020, prices for vegetable oils hiked by 14.5% compared to the previous month and marked their highest level since March 2014, while the corresponding year-over-year change was 31% (FAOSTAT, 2020). International prices increased for sunflower oil as well, reflecting [limited supplies from exporter countries](#). Considering the trends in the international markets, Georgian consumers might expect further increases in the prices of vegetable oils, including sunflower oils in upcoming months.

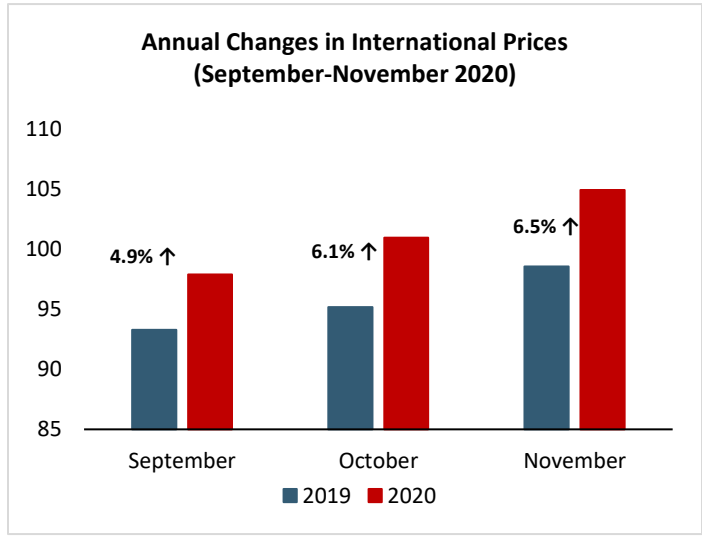


Source: GeoStat, 2020

INTERNATIONAL PRICES

During September-November 2020, international prices exhibited an upward trend on both a monthly and an annual basis. In November 2020, the Food Price Index, measured by the Food and Agriculture Organization (FAO), increased by 3.9% compared to October 2020. During the same month, international food commodity prices rose sharply by 6.5% on an annual basis (compared to November 2019) and marked its highest level since December 2014.

In November 2020, prices increased for vegetable oil (31%), cereals (20%), sugar (11%), and dairy (3%). While meat prices sharply decreased 14% on an annual basis, there were monthly increases for beef and pork meats, with a fall in poultry prices. Such sharp price increases are associated with the negative economic effects of COVID-19.



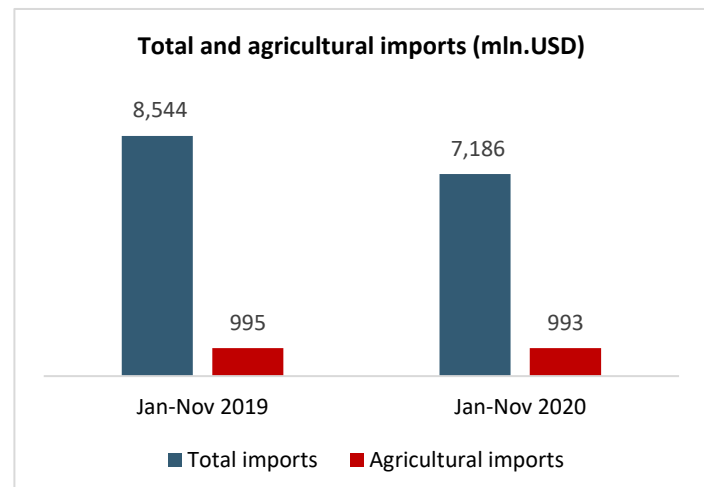
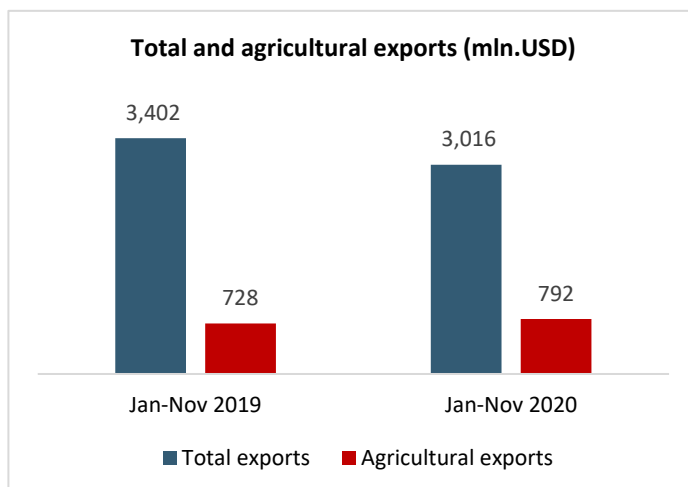
Source: FAO, 2020

TRADE HIGHLIGHTS

Total Georgian exports in January-November of 2020 amounted to 3,016 mln. USD, which is 11% lower than the same indicator in 2019 (3,402 mln. USD). At the same time, agricultural exports increased by 9% from 728 mln. USD in 2019 to 792 mln. USD in 2020.

As for imports, total imports decreased by 16% from 8,544 mln. USD to 7,186 mln. USD. A similar trend is observed in the case of agricultural imports, which slightly decreased by 0.2% from 995 mln. USD to 993 mln. USD during the first 11 months of 2020. Given that the COVID 19 pandemic negatively affected incomes all over the world and caused trade restrictions, the reduction in international trade is not surprising. The depreciation of the Georgian lari puts an additional pressure on imports. Although aggregate demand declined, agricultural imports stayed almost unaffected since food is a necessity.

Interestingly, 2020 is marked by an increase in agricultural exports, which if sustained in the long-run is obviously a positive development for Georgia's international trade.

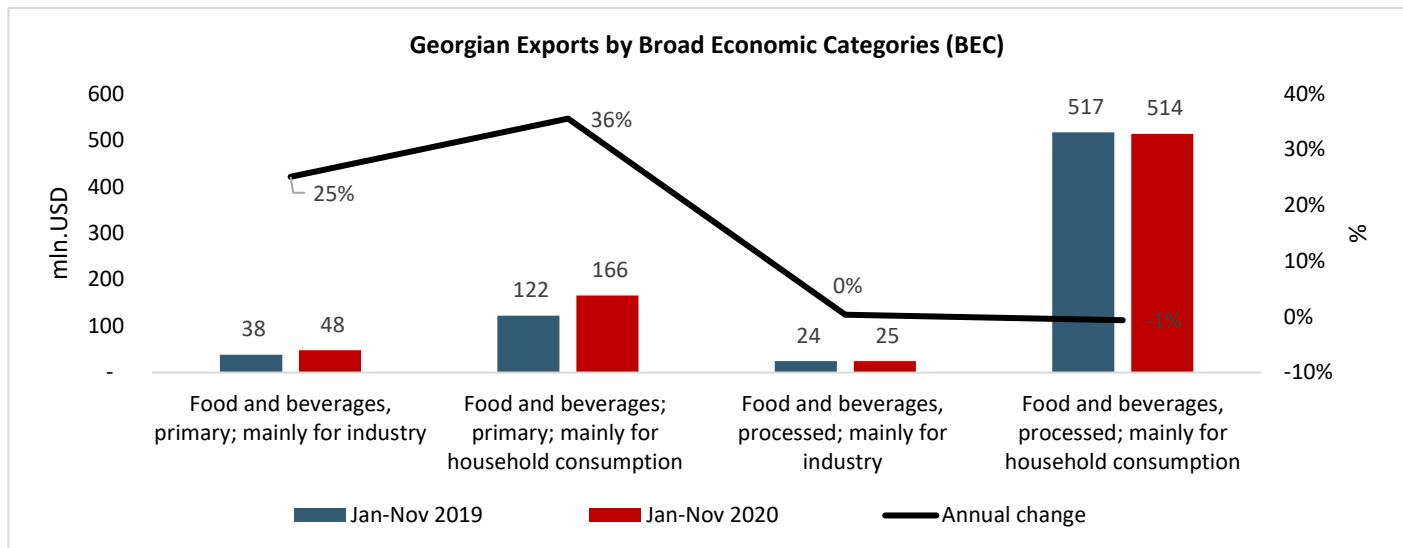


Source: GeoStat, 2020

Note: Agricultural exports and imports include food.

A closer look at the drivers of increased agricultural exports shows that the increase is mostly driven by exports of primary agricultural products rather than processed ones. Thus, according to the broad economic categories, the biggest increase was observed in the exports of primary food and beverages mainly for household consumption (36%). This category is followed by the increase in exports of primary food and beverages mainly for industry (25%) and processed food and beverages mainly for industry (0.4%). At the same time, exports of food and beverages processed mainly for household consumption declined slightly by 1%.

While the increase in exports positively affects the Georgian economy and helps secure financial resources to cover food imports, increased exports of processed foods would allow Georgian exporters and other participants in the value chain to generate higher incomes. Primary products have lower value added and producers, exporters, and other participants in agricultural value chains should direct their efforts towards the export of processed goods.



Source: GeoStat, 2020

Note: Agricultural exports and imports include food; * Year 2020 includes January – August data

POLICY WATCH

Georgia State Budget for 2021

The draft law on Georgia's state budget has been prepared for its third hearing in Parliament. After the contraction of the economy in 2020, the state expects positive economic growth of 5% in 2021. Achieving this growth is conditional on the success of the fight against COVID-19.

For more information follow the link: <https://www.mof.ge/5355>

Import substitution and increased exports

Parliament's Agrarian Committee declares import substitution and increased exports to the EU as priority directions for the next four years. Other key areas include strengthening the education of farmers and increasing the availability of agronomists and veterinarians in the sector.

For more information follow the link: <https://bm.ge/ka/article/importis-chanacvleba-da-eu-s-bazarze-eqsporitis-gazrda---nino-wilosani-prioriteteb-s-asaxelebs-/72248/>

Implementation of agricultural land reform

According to the head of Parliament's Agrarian Committee, the land reform has not been implemented properly. The Land Management Agency, established in 2020, did not manage to collect information about the land fund of Georgia and categories of land, which should serve as a basis for any activities in the agricultural sector.

For more information follow the link: <https://1tv.ge/news/nino-wilosani-miwis-reforma-satanadod-ar-mimdinareobs/>