



Research

# Monthly Tourism Update

March 2020

- Number of international travelers decreased by 385 846 (-62.3%), compared to the same period previous year, while number of visitors decreased by 297 119 (-79%) and the number of tourists decreased by 184 320 (-56.1%).
- Net revenues from exporting tourism services in 2019 amounted 3267.7 mln USD, which accounts for 18.4% of Georgian GDP.
- In March 2020, compared to February 2020, hotel price index increased by 5.1%, which can be explained by a market failure.
- In March 2020, compared to the same period of 2019, hotel price index decreased by 12.9%. The average price of 5-star hotels decreased by 43% Year over Year (YoY), while price for 4-star hotel fell by 18.1%, and for 3-star hotels and guesthouses by 5.8% and 3.3% respectively.

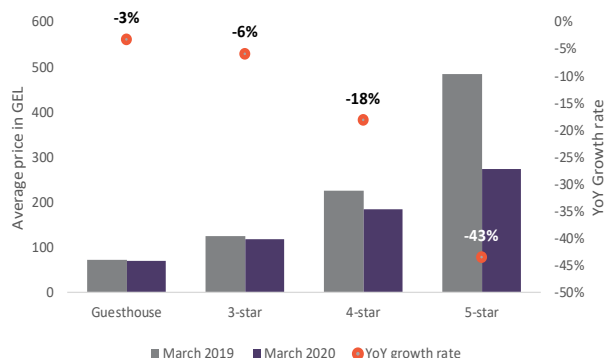
## Effects of COVID-19 on accommodation industry in Georgia

The novel coronavirus COVID-19, and the subsequent crisis labeled as The Great Lockdown by the IMF, affected many sectors of the economy, especially tourism and accommodation. According to Georgia's Balance of Payments, the receipts from travel accounted for 18.4% of the GDP in 2019, which makes Georgian economy more vulnerable to the crisis. In order to stop the virus from spreading, Georgian government closed the border for all foreign visitors on March 18th, which already translated into halving of the number of international travelers in March 2020 compared to February 2020, a fall from 466k travelers to 233k, while the number of tourists declined from 328k in March 2019 to 144k in March 2020 (-56.1%).

In order to mitigate the economic impact of the crisis, some specific packages were implemented by the government. Firstly, according to Revenue Service of Georgia, all entities operating in tourism related industries were provided an income deferral opportunity for four months until 1st of November and additionally an annual property tax deferral was offered to Ltd-s. A nationwide three-months loan deferral is also expected to ease the burden. More importantly, as part of its anti-crisis plan, the Ministry of Economy and Sustainable Development of Georgia introduced a subsidy program, which implies a co-funding of interest payments on loans for 6 months for those registered tourism accommodation facilities that have 4-50 rooms at their disposal and have taken the loan in order to build/renovate the facility. While these measures are likely to have positive impact overall, they are still not targeted well enough: For instance, a sizable number of guesthouses may not have been registered as an individual entrepreneur, which makes them ineligible for tax deferrals. According to GNTA, there are 2575 entities that provide accommodation services registered in Georgia, while there are 14852 such properties listed on Booking.com. Hence, a more inclusive policy could prove to be more effective.

In March 2020, Hotel Price Index increased by 5.1% compared to February 2019, which may seem bizarre given the circumstances. The increase can be explained by a market failure due to the abrupt shock - hotel prices do not reflect the fact that there is currently no market for hospitality industry, meaning that they have temporarily lost their signaling ability. Additionally, during the data collection process, almost all types of properties on booking.com had a message which stated that there was "Limited supply in the region for selected dates", which may imply that many properties were removed temporarily due to the coronavirus shock. When the property is temporarily removed, the website indicates that the property is not available for the selected dates. In fact, 171 hotels from our sample (22.4%) were not available for the selected dates, while in February, our sample included only 69 such hotels (9%). Also, it may be the case that some hosts were reluctant to update the prices, knowing that they would have no customers either way.

Graph 1: Average prices of hotels in March 2019 and 2020; Year over Year (YoY) growth rate of average prices



By looking at the dynamics of average prices in March 2020 and March 2019 (graph 1), it can be observed that the prices of 5-star hotels suffered the biggest, 43.5% year over year (YoY) decrease, followed by 4-star hotel prices, which fell by 18.1%, while prices of 3-star hotels and guesthouses did not change significantly (-5.8% and -3.3% respectively). Thus, the major decline in 4 and 5 star hotel prices compared to the same period in 2019 could be explained as a reaction to falling demand by more luxurious hotels (as their customer base includes not only foreign visitors but also domestic travelers), which would be pointless for guesthouses and 3-star hotels, as currently there is practically no market for them.

## Hotel Price Index

Region	Hotel		3*, 4*, 5*		Guesthouse	
	2020 Mar/ 2020 Feb	2020 Mar/ 2019 Mar	2020 Mar/ 2020 Feb	2020 Mar/ 2019 Mar	2020 Mar/ 2020 Feb	2020 Mar/ 2019 Mar
Kakheti	4,9%	5,8%	-0,5%	0,8%	6,9%	7,5%
Imereti	3,4%	-0,6%	1,2%	4,5%	3,3%	-3,7%
Guria	-7,4%	-31,6%	-8,7%	-9,3%	-6,5%	-43,3%
Shida Kartli	2,8%	21,9%	4,7%	5,6%	0,0%	25,5%
Adjara	7,0%	-26,5%	3,2%	-31,5%	14,3%	-17,8%
Racha	7,8%	13,3%			7,8%	13,3%
Kvemo Kartli	23,9%	-5,3%	58,3%	-7,8%	18,9%	-1,4%
Samegrelo-Zemo Svaneti	-2,0%	-3,2%	0,6%	-16,7%	5,3%	2,3%
Samtskhe-Javakheti	-13,3%	-29,9%	-22,2%	-37,2%	-9,0%	-26,4%
Mtskheta-Mtianeti	-3,7%	-4,0%	-5,3%	-3,2%	-0,7%	-5,4%
Tbilisi	8,5%	-7,7%	6,3%	-7,7%	21,4%	-7,1%
Overall Price % Change	5,1%	-12,9%	1,8%	-14,8%	14,0%	-10,4%

Table 1 : Percentage change of prices in March 2020 over February 2020 and over March 2019.

In March 2020, in Georgia the hotel price index<sup>3</sup> increased by 5.1% compared to February 2020. The 3-star, 4-star and 5-star hotel price index increased by 1.8%, while for guesthouses, the price index increased by 14%.

In March 2020, compared to March 2019, hotel prices in Georgia decreased by 12.9%. The prices of 3\*, 4\*, 5\* hotels decreased by 14.8%, while the prices of guesthouses decreased by 10.4%. In terms of regions, the prices decreased the most in Guria (-31.6%), followed by Samtskhe-Javakheti (-29.9%) and Adjara (-26.5%).

## Average Hotel Prices

In Georgia, the average cost of a room<sup>1</sup> in a 3-star hotel was 118 GEL per night in February 2020. While the average cost of a room in a 4-star hotel in Georgia was 186 GEL per night and the average cost of a room in a guesthouse<sup>2</sup> was 71 GEL per night.

The average prices of 3\*, 4\* star hotels and guesthouses by regions (March 2020, in GEL)



**Graph 2:** In the graph, average prices for standard double rooms in 3 and 4-star hotels and guesthouses are given by region. 5-star hotel prices are provided above.

The average cost of a room in a 5-star hotel in Georgia in March 2020 was 274 GEL per night. In Mtskheta-Mtianeti, the average price was 779 GEL (only one 5-star hotel), followed by Tbilisi - 396 GEL, Samtskhe-Javakheti - 339 GEL and Guria - 331 GEL.

### Basic Economic Indicators

	I 2018	II 2018	III 2018	IV 2018	2018	I 2019	II 2019	III 2019	IV 2019	2019	I 2020
1	363.6	433.3	534.5	468.6	1800	426	498.5	605.7	541.9	2072.1	-
2	1582.4	1979.6	3226.4	1891.1	8679.5	1617.5	2244.8	3375.1	2120.4	9357.9	1333.1
3	839.5	1094.2	1838.3	984.7	4756.8	882.1	1245	1863.6	1089.7	5080.5	765.3
4	550.7	810	1210.6	650.8	3222.1	578.4	877.6	1126.8	685.8	3 268.7	-
5	105.9	126.4	149.9	142.4	524.7	131.3	167.9	181.6	176.2	657.2	-
6	25.3	-8.2	44.9	15.7	77.8	66.2*	28.8*	45.7*	16.4*	157.5*	-

1	GDP in current prices from Accommodation and Food Service activities (mln)	2	Number of International Travelers (thousand persons)	3	Number of Tourists (thousand persons)
4	Revenue from International Tourism (mln USD)	5	The Expenditures of Georgian tourists Abroad (mln USD)	6	Foreign Direct Investment in Hotels and Restaurants Sector (mln USD)

1 The calculation of the hotel price index is based on the recommendations given by the International Monetary Fund (IMF). The elementary aggregate price index is calculated by Jevons index (Consumer Price Index Manual-Theory and Practice (2004), Practical Guide to Producing Consumer Price Indices (2009)). 2 The results are based on the surveying of

standard double hotel room prices of 3, 4, 5-star hotels and guesthouses in 10 regions of Georgia. Hotels were chosen arbitrarily according to random sampling principle. The study contains 71% (312) of all 3, 4 and 5-star hotels and 25% (456 guesthouses) of all guesthouses registered on www.booking.com The 3, 4 and 5-star hotel price data was collected by contact-

ing hotels individually, while the prices of guesthouses were taken from booking.com. The average prices are arithmetic mean of standard double hotel room prices. 3 Guesthouse: a type of accommodation that is characterized by having a small number of rooms and services are usually offered by the resident family. 4 \* Preliminary results