GEORGIA

Table 1	2021
Population, million	3.7
GDP, current US$ billion	18.7
GDP per capita, current US$	5030.3
International poverty rate ($1.9)[a]	4.2
Lower middle-income poverty rate ($3.2)[a]	17.0
Upper middle-income poverty rate ($5.5)[a]	46.6
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	99.4
Life expectancy at birth, years[b]	73.8
Total GHG Emissions (mtCO2e)	16.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The Russian invasion of Ukraine will adversely impact Georgia's economy. The impact is felt through trade, remittances, FDI, commodity prices, and logistics. This follows a robust recovery from the pandemic in 2021, with the economy growing at 10.4 percent and surpassing its pre-COVID output. The poverty impact is expected to be significant and fiscal pressures from rising social assistance are expected to increase.

Key conditions and challenges

Georgia has had a successful development record, underpinned by prudent economic management, over the past decade. Growth averaged 4 percent per annum between 2011 and 2021. The poverty rate measured by the international upper-middle-income line ($5.50 per capita per day, 2011 PPP) declined from 59 percent in 2011 to 42 percent in 2021.

Nevertheless, critical structural challenges remain, particularly weak productivity and the creation of high-quality jobs. Many Georgians remain in rural areas engaged in low productivity agriculture. Human capital outcomes remain weak, with poor learning outcomes and a lack of linkages of education to private sector needs.

In addition, Georgia's trade openness, and reliance on income from tourism, make it vulnerable to external and global shocks. High dollarization and persistent reliance on external savings further amplify risks. Still, the swift post-pandemic rebound has demonstrated the growing maturity and resilience of Georgia's economic institutions.

Recent developments

GDP increased by 10.4 percent in 2021 following the 6.8 percent contraction of 2020, with output surpassing pre-COVID-19 levels by late-2021. Economic recovery also supported a reduction in poverty, with projections suggesting a decline to pre-pandemic levels in 2021. However, the recovery was uneven, with output in certain sectors, such as hospitality, remaining considerably below pre-pandemic levels. The fifth wave of the COVID-19 pandemic abated in late February, with new cases falling to 6 percent of peak levels on March 10th.

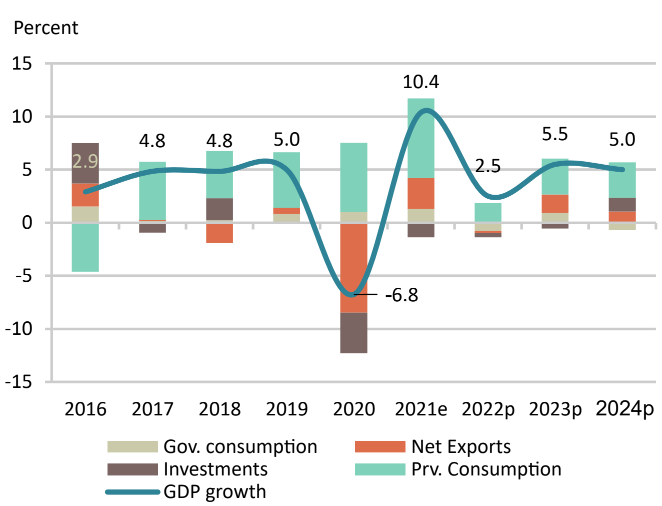
Inflation remained elevated in 2021, averaging 9.6 percent and reflecting higher commodity prices and pass-through from earlier depreciation. Food and fuel prices contributed over five percentage points to overall inflation. In response, the National Bank of Georgia (NBG) tightened monetary policy by 250 basis points in 2021.

Foreign trade increased with the deficit widening in 2021. Exports grew by 27 percent yoy and imports by 25 percent yoy as the trade deficit widened by 26 percent yoy. Still, a gradual recovery in tourism and substantial transfers from abroad helped narrow the current account deficit.

The banking sector remained healthy. The sector's return on assets (ROA) and return on equity (ROE) had improved by end-January 2022 to 4.2 percent and 32.6 percent, respectively. Non-performing loans remained low at 2.3 percent.

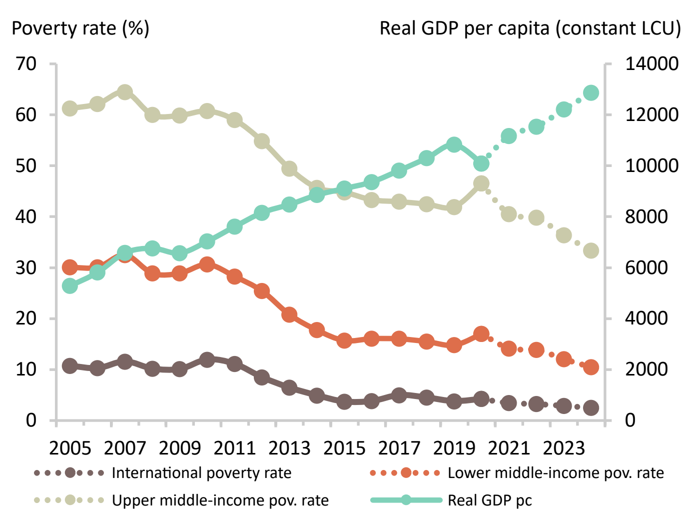
The fiscal deficit narrowed in 2021 to 7.1 percent of GDP (excluding sales of non-financial assets), from 9.8 percent in 2020, and in line with the plan to return to deficit levels prescribed by the fiscal rule (around 3 percent of GDP) by 2023. Public debt to GDP declined to 52 percent of GDP as of

FIGURE 1 Georgia / Real GDP growth and contributions to real GDP growth



Sources: Geostat and staff estimates.

FIGURE 2 Georgia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

end-2021, considerably below the 62 percent registered in 2020, reflecting the strong GDP recovery and the strengthening of the lari.

Outlook

The war in Ukraine is likely to impact the Georgian economy adversely through several channels.

The first channel is goods trade. Both Russia and Ukraine are among Georgia's top 10 trading partners and a key destination for exports, including wine and beverages. There is limited potential to divert some of the affected exports to alternative markets in the short term. In addition, Georgia is reliant on Ukraine and Russia for key imports such as cereals.

The second key channel is tourism. The expected dramatic drop in the arrival of Russian and Ukrainian tourists, who together accounted for 21 percent of visitors in 2021, will put further strain on a sector that is still reeling from the COVID-19 pandemic.

The third channel is remittances, with Russia and Ukraine accounting for over 20 percent of total remittances. Those are at risk of declining sharply because of economic contraction in the host countries, depreciation of the ruble, and challenges in conducting payment transfers from Russia.

Lastly, elevated commodity prices will also affect Georgia. Oil and food prices have increased sharply since the beginning of the war due to uncertainty and disrupted commodity supplies from Russia and Ukraine.

These impacts will cause a slowdown in growth, higher inflation, and widening external balances. Georgia's growth forecast for 2022 has been downgraded to 2.5 percent from 5.5 percent projected pre-war, with considerable scope for further downgrades if the war continues for much longer. The baseline outlook envisions growth recovery from 2023 onward, as easing monetary policy, recovery of tourism, and the restoration of economic links are partly offset by the gradual withdrawal of the fiscal stimulus.

On the external side, due to weaker exports and higher import prices, the current account deficit is expected to widen. Lari volatility has also increased following the onset of the war.

Due to higher commodity prices and regional supply disruptions, inflationary pressures are likely to increase. This may be mitigated partly by long-term fixed-price contracts for gas supply and a shared border with Russia that will maintain basic supply flows. On the upside, recent developments provide an opportunity for Georgia to strengthen the transit potential of the Caucasus Transport Corridor.

The conflict in Ukraine will also likely have significant impact on poverty and vulnerability through the tourism, remittances, and higher energy and food prices (especially wheat) channels.

Georgia is well placed to manage the economic fallout of the war. Buffers remain reasonable; the macro-financial framework is credible; and the banking sector is entering the crisis in relatively strong shape, albeit with the vulnerability of high dollarization. Fiscal discipline has been maintained over the past decade, although planned post-COVID consolidation may decelerate due to the economic slowdown. Still, government deposits are sizeable, and debt is likely to remain below the 60 percent statutory level under the fiscal rule.

TABLE 2 Georgia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.0	-6.8	10.4	2.5	5.5	5.0
Private Consumption	7.2	8.8	8.7	3.0	3.8	4.8
Government Consumption	5.7	7.1	7.7	-4.7	6.0	2.2
Gross Fixed Capital Investment	-0.1	-16.5	-7.6	-4.6	-0.5	2.2
Exports, Goods and Services	9.8	-37.6	30.5	-4.0	11.0	13.0
Imports, Goods and Services	6.6	-16.6	12.8	-5.0	5.0	9.0
Real GDP growth, at constant factor prices	5.1	-6.6	10.3	2.5	5.5	5.0
Agriculture	0.7	8.1	0.1	3.0	5.0	4.0
Industry	2.7	-6.8	5.9	2.0	5.0	4.0
Services	6.3	-8.1	12.9	2.6	5.7	5.4
Inflation (Consumer Price Index)	5.0	5.2	9.6	11.0	6.6	3.8
Current Account Balance (% of GDP)	-5.5	-12.4	-10.5	-13.0	-9.6	-8.2
Net Foreign Direct Investment (% of GDP)	6.0	3.5	5.9	3.9	5.8	6.8
Fiscal Balance (% of GDP)	-3.4	-9.8	-7.1	-4.7	-3.6	-3.0
Debt (% of GDP)	41.8	60.1	49.4	48.8	46.4	46.2
Primary Balance (% of GDP)	-2.2	-8.2	-5.8	-3.3	-2.3	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.8	4.2	3.4	3.2	2.9	2.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	14.8	17.0	14.1	13.9	12.1	10.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	41.9	46.6	40.6	39.8	36.4	33.3
GHG emissions growth (mtCO2e)	1.6	-7.5	2.4	9.0	0.8	-2.9
Energy related GHG emissions (% of total)	52.9	49.2	49.8	53.5	53.6	51.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2020-HIS.Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 based on GDP per capita in constant LCU.