

GEORGIA

Table 1	2021
Population, million	3.7
GDP, current US\$ billion	18.7
GDP per capita, current US\$	5039.4
International poverty rate (\$2.15) ^a	5.8
Lower middle-income poverty rate (\$3.65) ^a	21.4
Upper middle-income poverty rate (\$6.85) ^a	58.3
Gini index ^a	34.5
School enrollment, primary (% gross) ^b	99.4
Life expectancy at birth, years ^b	73.9
Total GHG emissions (mtCO2e)	17.4

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2020), 2017 PPPs.
 b/ Most recent WDI value (2020).

Growth averaged double digits during the first half of 2022, and employment is recovering. In addition to robust domestic demand, Georgia has benefited from a strong influx of money transfers from Russia, as well as from the recovery of tourism. The growth forecasts for 2022 have been upgraded, while the current account deficit is expected to narrow. Significant risks persist, although they have become more balanced.

Key conditions and challenges

Over the past decade, Georgia has had a successful development record, underpinned by prudent economic management. Growth averaged 4 percent per annum between 2011 and 2021. The poverty rate declined from 69 percent in 2011 to 53 percent in 2021 (using the international upper-middle-income line at \$6.85 per capita per day 2017 PPP).

Nevertheless, structural challenges persist notably weak productivity and difficulties to create high-quality jobs. Many Georgians in rural areas remain engaged in low-productivity agriculture. Human capital formation remains weak, and poor learning outcomes and skills are a problem for doing business and firm growth.

Due to trade openness and reliance on income from tourism, Georgia is vulnerable to external and global shocks, as shown by recent events. High dollarization and dependency on external savings increase the risks associated with currency depreciation. Still, the swift post-pandemic rebound and the recovery from the initial impact of the Ukraine war and associated sanctions have demonstrated the growing resilience of Georgia's economy.

Recent developments

Economic activity has been stronger than expected, with real GDP growth estimated

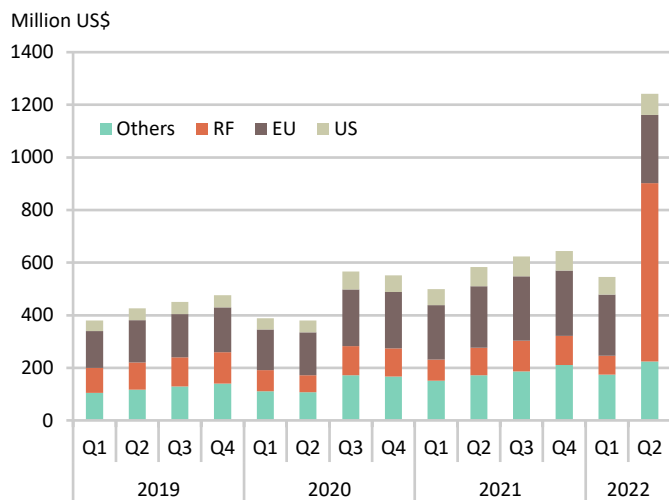
at 10.5 percent (yoy) in the first half of 2022. Growth has been broad-based, driven by transport, energy, hotels and restaurants, and industry. Construction permits increased by 15.6 percent during the first half of 2022 (yoy), suggesting a recovery in domestic investment.

After unemployment increased to 20.6 percent in 2021, labor markets have started to recover, with unemployment decreasing to 18.1 percent in Q2 2022.

After peaking in June, inflation has eased slightly, reaching 10.9 percent (yoy) in August. Higher food and energy prices (as well as utility tariffs) account for most of the inflation this year. According to high-frequency surveys from May 2022, about three-quarters of the respondents from low-income households reported having reduced food consumption in response to rising prices. The National Bank of Georgia (NBS) has kept the monetary policy rate unchanged since March, at 11 percent, after gradually increasing the rate since March 2021 by a total of 300 bps.

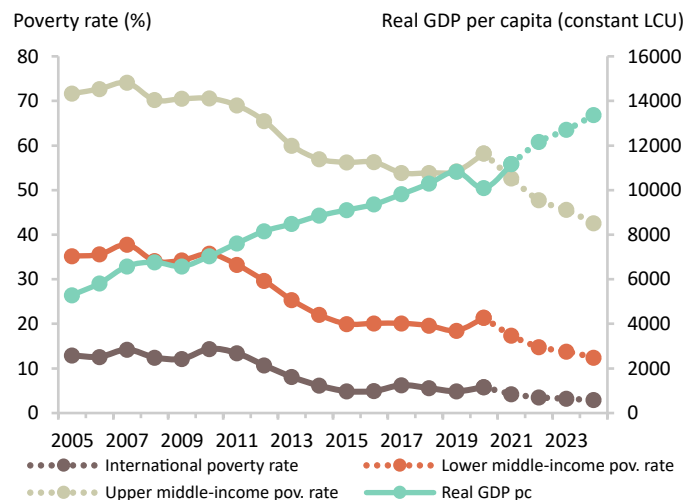
During January-July 2022, exports grew by 36 percent (yoy) in nominal terms. Merchandise exports growth was driven by both increased demand for key commodities (copper ore, ferroalloys, nitrogen fertilizers) and higher prices. Imports expanded by 34 percent (yoy), leading to the widening of the trade deficit by 33 percent (yoy). This has been partly compensated by the recovery in tourism arrivals and a surge in net volume of money transfers (69 percent, yoy) driven by inflows from Russia. These comprise both remittances and transfers (Figure 1) from non-nationals.

FIGURE 1 Georgia / Money inflow by country of origin



Source: National Bank of Georgia.

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



Source: World Bank. Notes: see Table 2.

Banking sector indicators remain healthy. Return on assets (ROA) and return on equity (ROE) reached 3.1 percent and 24.9 percent by end-July, respectively. NPLs declined to 1.9 percent in July, from 2.3 percent in December 2021.

Tax collection by the general government increased by 33.6 percent (yoy) during the first half of 2022, supported by the recovery in consumption. Meanwhile, public expenditures grew by 9.3 percent (yoy) in nominal terms during the first half of 2022, (a reduction in real terms). The fiscal deficit during January-June was about 0.6 percent of GDP, overperforming the fiscal consolidation path planned for the year. The public debt stock has continued to decline, benefiting from the contained deficit and the appreciation of the lari.

Outlook

Projections have been upgraded on account of the strong performance recorded during 2022 so far, with growth projected to reach 8.8 percent by the end of the year.

In the medium term, growth is expected to stabilize around potential.

Inflation will remain in double digits in 2022, although price pressures are expected to diminish towards the end of the year. Inflation would decline in 2023 and beyond, as international oil prices and supply-side bottlenecks ease. The long-term fixed-price contracts for gas supply and a shared border with Russia are expected to help offset any commodity price spikes. Monetary policy is expected to remain tight until inflationary pressures subside. Inflation is likely to have regressive impacts, disproportionately affecting lower-income households and those reliant on incomes from social assistance. These may have longer-term welfare impacts through losses in human capital and other assets.

On the external side, despite the widening trade deficit, the current account balance is expected to improve in 2022, supported by tourism and by the large net money inflows. This unanticipated windfall from the conflict is nonetheless expected to subside by the end of the year.

Following its temporary suspension in the aftermath of the COVID-19 outbreak, the

government of Georgia is expected to comply with the fiscal rule by 2023. The authorities intend to reduce government debt to around 40 percent over the medium term while also increasing the share of domestic debt to close to 30 percent, which would reduce FX vulnerabilities and support capital market development. The authorities are also pursuing further tax administration improvements and a reduction in tax expenditures.

Risks to this outlook are broadly balanced. On the downside, persistent inflation coupled with the tightening of global financial conditions could impact the lari, potentially affecting macro-financial stability due to the high levels of dollarization. The Russian economy could also suffer a more pronounced slump next year, affected by protracted conflict and sanctions, which would negatively affect tourism and remittances in Georgia. Domestic political uncertainty could increase volatility and affect business confidence, as well as the pace of planned reforms. On the upside, money inflows could last longer than initially expected, and Georgia could benefit from some trade diversion as transport corridors are reconfigured.

TABLE 2 Georgia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.0	-6.8	10.4	8.8	4.2	5.0
Private Consumption	7.2	8.8	8.7	6.6	2.2	3.8
Government Consumption	5.7	7.1	7.7	-4.8	4.8	5.2
Gross Fixed Capital Investment	-0.1	-16.5	-7.6	8.4	0.1	3.1
Exports, Goods and Services	9.8	-37.6	30.5	20.0	12.0	13.0
Imports, Goods and Services	6.6	-16.6	12.8	13.0	6.0	9.0
Real GDP growth, at constant factor prices	5.1	-6.6	10.3	8.8	4.2	5.0
Agriculture	0.7	8.1	0.1	3.0	5.0	4.0
Industry	2.7	-6.8	5.9	6.0	5.0	4.0
Services	6.3	-8.1	12.9	10.2	3.9	5.4
Inflation (Consumer Price Index)	5.0	5.2	9.6	10.6	7.0	4.0
Current Account Balance (% of GDP)	-5.5	-12.4	-10.5	-7.5	-6.6	-6.4
Net Foreign Direct Investment Inflow (% of GDP)	6.0	3.5	5.9	6.1	4.8	5.0
Fiscal Balance (% of GDP)	-3.4	-9.8	-7.1	-3.2	-2.8	-2.6
Debt (% of GDP)	41.8	60.1	49.4	42.3	40.4	40.1
Primary Balance (% of GDP)	-2.2	-8.2	-5.8	-1.9	-1.6	-1.5
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	4.8	5.8	4.2	3.5	3.2	2.9
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	18.5	21.4	17.4	14.8	13.8	12.4
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	54.2	58.3	52.7	47.7	45.6	42.6
GHG emissions growth (mtCO₂e)	2.9	-3.4	2.0	3.4	3.7	1.4
Energy related GHG emissions (% of total)	54.0	53.8	55.0	57.3	59.3	60.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

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 (Med (0.87)) based on GDP per capita in constant LCU.