

GEORGIA

Table 1 **2022**

Population, million	3.7
GDP, current US\$ billion	24.6
GDP per capita, current US\$	6667.4
International poverty rate (\$2.15) ^a	5.5
Lower middle-income poverty rate (\$3.65) ^a	19.1
Upper middle-income poverty rate (\$6.85) ^a	55.4
Gini index ^a	34.2
School enrollment, primary (% gross) ^b	100.8
Life expectancy at birth, years ^b	71.7
Total GHG emissions (mtCO2e)	19.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

The economy performed strongly in H1 2023, with growth at 7.6 percent (yoy), and projected at 5.9 percent for 2023 as a whole. Buoyed by strong domestic consumption, employment recovered, and poverty continued to fall. Growth is expected to slow in H2 due to monetary tightening in advanced economies and to easing in money inflows from Russia putting pressure on the currency and increasing financing needs.

Key conditions and challenges

Georgia has made notable gains in income growth and poverty reduction over the past decade. A robust economic management framework saw the GNI per capita (constant 2015 USD) increase from USD 3,048 in 2010 to USD 5,424 in 2022. Poverty (measured by the USD6.85 poverty line in 2017 PPP) is also down from 70 percent at the start of the decade to 55.4 percent in 2021.

Nevertheless, structural challenges persist; notably, weak productivity and limited high-quality job creation. More than a third of all workers are engaged in low-productivity agriculture. Poor learning outcomes and lack of skills restrict private sector growth. Georgia also remains vulnerable to external shocks, largely due to its heavy reliance on tourism and trade openness. Foreign exchange depreciation remains a risk because of high dollarization and persistent dependence on external savings.

The application for EU candidacy, initiated in 2022, provides opportunities for further income growth while requiring significant reforms.

Recent developments

Growth remained robust in H1 2023, although it eased to an estimated 7.6 percent,

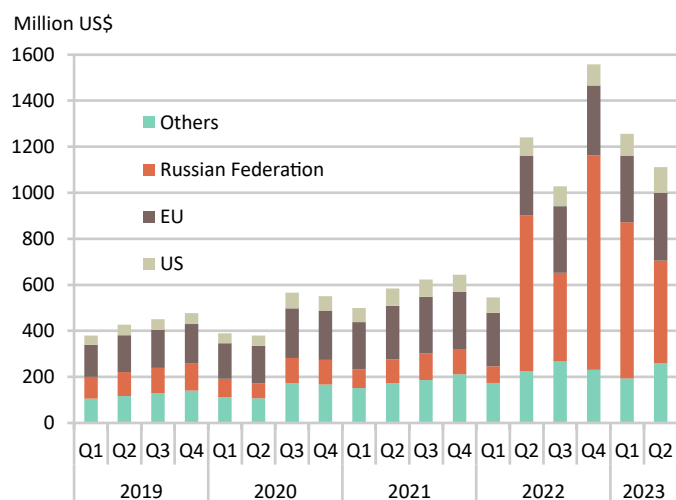
compared to 10.1 percent in H1 2022, driven by a rebound in private consumption. Service exports remained supported by continued recovery in tourism. Unemployment continued to fall, reaching 16.7 percent in June 2023, below pre-pandemic levels.

Inflation has declined sharply. Headline inflation fell to 0.3 percent (yoy) in July 2023, from 9.4 percent in January. The decline was driven by lower commodity prices, particularly for food and fuel, along with a strong Georgian lari (GEL). On the other hand, the price of financial services, personal care, and utilities have continued to put pressure on inflation. Core inflation, which excludes food and energy components, dropped from 7.1 percent (yoy) in January to 3.2 percent (yoy) in July. In response, in August, the National Bank of Georgia (NBS) reduced the monetary policy rate by 25 bps, to 10.25 percent.

The banking sector has remained healthy. Returns on assets and equity reached 3.7 percent and 26.7 percent in June 2023, respectively. The share of non-performing loans (NPLs) stood at 1.5 percent by the end of June, down from 2 percent in June 2022.

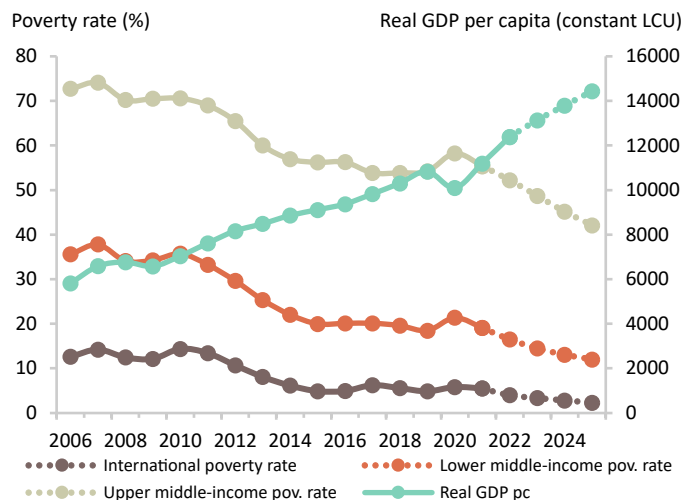
The current account deficit declined to 3.2 percent of GDP in Q1 2023, from 4 percent in 2022. During H1 2023, exports grew by 19.3 percent (yoy) in USD value, mostly driven by re-exports of used cars. Conversely, exports of raw materials (copper, ferroalloys, and nitrogen fertilizers) produced in Georgia declined, as international prices fell considerably, and domestic production declined. Meanwhile, imports expanded by 19.6 percent (yoy), driven by growth in used car imports, whose share of total imports almost

FIGURE 1 Georgia / Gross money inflows 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.

doubled to 18 percent. FDI inflows recorded an improvement in H1 2023 with an 11 percent increase compared to the same period in 2022, driven by the financial, energy, and manufacturing sectors. Money transfers, primarily from Russia, continued to support Georgia's external position and increased by 32.5 percent in H1 2023 compared to H1 2022. International reserves increased to USD 5.4 billion, or approximately 4.4 months of import cover.

Total revenue increased by 13.3 percent (yoy) in real terms in H1 2023, supported by higher collection across the board, except for profits tax. Current expenditures grew by 6.7 percent (yoy), reflecting increases in the wage bill, higher spending on goods and services, and increased (yoy) subsidies to SOEs and social assistance for the most vulnerable. Capital expenditure surged by 20.3 percent yoy in real terms as the pace of project implementation accelerated. Outturns for H1 2023 showed a small overall surplus and a primary surplus at 0.7 percent of GDP, due to the strong revenue performance. The public debt-to-GDP ratio has continued to fall due to rapid economic growth and appreciation of the GEL.

Strong economic growth and improved employment rates resulted in higher real

wages, contributing to increased household consumption. Steady remittance inflows and lower food inflation have also bolstered the population's purchasing power. The poverty rate (below USD 6.85 a day, 2017 PPP terms) is estimated to decrease to 48.7 percent in 2023.

Outlook

Growth is expected to slow in H2 2023 due to a slowdown in trading partners and an easing of money transfer inflows, reaching 5.9 percent this year. Looking ahead, growth is expected to stabilize at around 5 percent of GDP in 2024–2025, supported by robust investments and tourism.

Inflation is expected to end the year below the 3-percent target rate. Monetary policy is expected to be eased to support economic growth while remaining prudent.

Prospects for poverty reduction are positive. The overall poverty rate (measured below USD 6.85 per day, in 2017 PPP terms) is expected to continue declining and reach 45.2 percent in 2024 and 42.1 percent in 2025, driven by higher wages and improvements in the labor market.

On the external side, given the widening trade deficit, the current account is

projected to deteriorate to 6 percent by the end of 2023. The inflow in money transfers in the aftermath of Russia's invasion of Ukraine is expected to ease in the second half of 2023 and subside further in 2024. The current account deficit is expected to remain below pre-war levels in the medium term, due to continued recovery in tourism and continued strong export performance.

The deficit is projected to reach 2.9 percent of GDP in 2023. The government is expected to comply with the GDP fiscal rule deficit ceiling in 2023 and in the medium term. To boost revenue collection, the authorities are committed to the rationalization of tax expenditures.

Substantial risks remain, reflecting Russia's invasion of Ukraine and broader uncertainties. A faster reduction in money inflows, a decline in tourism inflows, further monetary tightening in advanced economies, or an increase in global commodity prices, could hinder growth, put pressure on the currency, and increase debt levels and financing needs. Currency mismatches due to dollarization and a high exchange rate pass-through would also exacerbate vulnerability to currency depreciation. On the upside, money transfer inflows could remain stronger than expected, lifting economic growth.

TABLE 2 Georgia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.8	10.5	10.1	5.9	4.8	4.5
Private consumption	8.8	14.5	-1.8	5.6	4.2	4.4
Government consumption	7.1	7.7	0.7	4.8	5.2	5.9
Gross fixed capital investment	-16.5	-7.2	19.6	2.6	4.8	7.5
Exports, goods and services	-37.6	24.4	38.2	10.0	11.0	10.0
Imports, goods and services	-16.6	11.0	14.4	11.0	9.0	10.0
Real GDP growth, at constant factor prices	-6.6	10.4	10.1	5.9	4.8	4.5
Agriculture	8.1	0.1	2.0	2.5	2.5	2.5
Industry	-6.8	5.9	8.0	4.0	5.0	5.0
Services	-8.1	13.0	11.6	6.7	5.0	4.6
Inflation (consumer price index)	5.2	9.6	11.9	2.3	2.5	3.0
Current account balance (% of GDP)	-12.5	-10.4	-4.0	-6.0	-5.6	-4.7
Net foreign direct investment inflow (% of GDP)	3.6	4.9	7.5	3.9	4.7	4.9
Fiscal balance (% of GDP)	-9.8	-7.1	-3.5	-2.9	-2.7	-2.5
Revenues (% of GDP)	25.2	25.2	27.0	27.0	26.7	26.8
Debt (% of GDP)	60.1	49.6	41.3	39.4	38.9	38.3
Primary balance (% of GDP)	-8.2	-5.7	-2.4	-1.6	-1.5	-1.5
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	5.8	5.5	4.0	3.3	2.8	2.3
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	21.4	19.1	16.5	14.5	13.1	12.0
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	58.3	55.4	52.2	48.7	45.2	42.1
GHG emissions growth (mtCO₂e)	-0.6	3.5	7.8	5.7	1.4	1.6
Energy related GHG emissions (% of total)	55.0	56.8	60.2	62.7	63.6	64.5

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

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2021-HIS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.