

GEORGIA

Table 1

	2023
Population, million	3.7
GDP, current US\$ billion	30.5
GDP per capita, current US\$	8218.4
International poverty rate (\$2.15) ^a	4.3
Lower middle-income poverty rate (\$3.65) ^a	15.0
Upper middle-income poverty rate (\$6.85) ^a	47.7
Gini index ^a	33.5
School enrollment, primary (% gross) ^b	103.4
Life expectancy at birth, years ^b	71.6
Total GHG emissions (mtCO ₂ e)	18.1

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2022), 2017 PPPs.
 b/ WDI for School enrollment (2023); Life expectancy (2022).

Growth reached 9.1 percent in H1 2024, driven by strong private consumption due to rising real wages. Unemployment decreased and poverty continued to decline. Growth is projected at 7.5 percent for 2024. Weakening exports and remittances suggest a widening of the current account deficit in 2024. The fiscal deficit is expected to reach 3 percent. Risks to the outlook remain, notably related to the October Parliamentary elections.

Key conditions and challenges

Over the past decade, Georgia has achieved considerable progress in income growth and poverty alleviation following earlier market reforms and strengthened macroeconomic management. Nevertheless, structural challenges persist, notably weak firm-level productivity growth and limited high-quality job creation. About a third of workers remain engaged in low-productivity agriculture; Georgia also has a large share of self-employed in other sectors. Access to finance, particularly for SMEs, and skills mismatches, are among the critical obstacles, firms face. Georgia's economic openness and reliance on tourism further increase its vulnerability to external shocks, such as geopolitical tensions, global market volatility, and pandemics. Nonetheless, the recent granting in December 2023 of EU candidate status presents Georgia with a strategic opportunity to accelerate reforms. The EU accession process could provide a platform for enhancing governance, aligning regulations, and boosting economic resilience, thereby enabling Georgia to converge with more prosperous EU member states.

Recent developments

Georgia's economy expanded by 9.1 percent in H1 2024, driven by public and

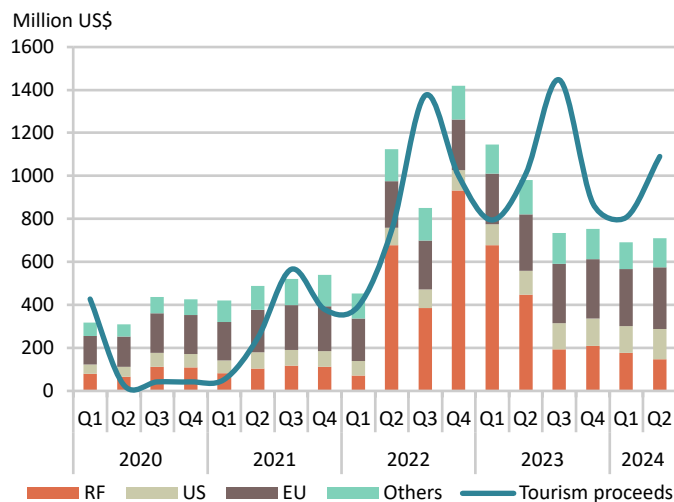
private consumption. Domestic demand has been bolstered by rising real wages (up 10.9 percent in H1, yoy) along with strong credit growth (up 20.4 percent in real terms in H1, yoy). On the supply side, growth was led by services, including education and transportation followed by public administration and trade.

Annual inflation moderated to 1 percent (yoy) in August, despite a 7-percent (yoy) rise in the transport and hospitality sector. Core inflation was 0.9 percent (yoy), down from 2.7 percent a year ago. The Central Bank has lowered its policy rate by a cumulative 150 basis points since the beginning of the year, reflecting easing inflationary pressures.

The banking sector remains profitable, with return on assets reaching 4.2 percent in June 2024 and return on equity reaching 24.4 percent. NPLs are low at 1.6 percent in June 2024.

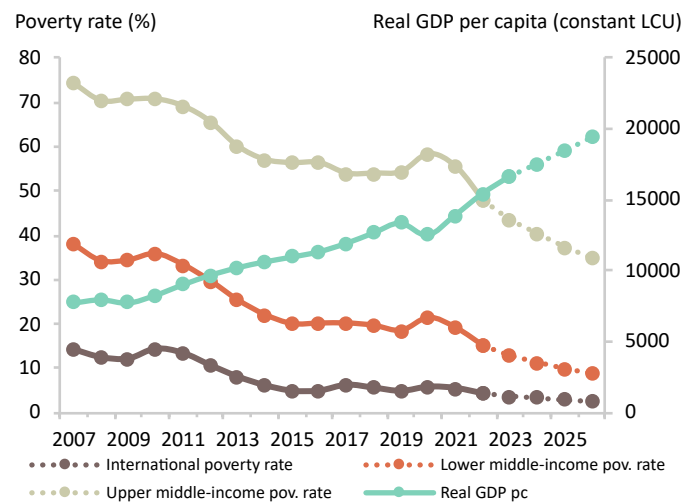
The current account deficit narrowed by 1.5 percentage points (yoy) in H1 2024, to 6.0 percent of GDP, despite a deficit rise of 16.9 percent in the trade of goods. This was offset by positive contributions from the services sector and current transfers. Exports of goods fell 7.8 percent (yoy) in H1 2024, driven by weaker domestic exports (down 11.5 percent, yoy) as commodity exports slowed, whereas imports grew 2.4 percent (yoy). Gross money transfers fell 30.3 percent (yoy) in H1, with inflows from Russia decreasing 71.4 percent (yoy). However, this decline was partly offset by increased inflows from the EU, US, and UAE. Proceeds from international visitors increased 5 percent (yoy) in H1 2024. On the financing side, lower net FDI

FIGURE 1 Georgia / Gross money transfers from abroad and tourism proceeds



Sources: Geostat, NBG, and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

inflows, which accounted for about 3.6 percent of GDP in H1, highlighted weak external investor confidence.

The GEL depreciated by 4.1 percent against the USD in the first eight months of 2024. The GEL remains 11.8 percent stronger than its end-2021 level. Official reserves fell 14 percent (yoy) in July to USD 4.7 billion, equivalent to 3.3 months of imports.

Georgia's fiscal performance remained solid and a deficit of 0.1 percent of projected GDP was recorded in H1 2024. General government revenues increased 18.5 percent (yoy) in nominal terms, mainly due to a 21.4 percent rise in tax receipts. Current expenditures rose 16 percent (yoy), while capital expenditure surged 27 percent. Public debt stood at 40.4 percent of GDP at end-June 2024.

Georgia's economic expansion has translated into tangible benefits for its population, with the poverty headcount (USD 6.85, PPP 2017) continuing to decline, from 47.7 percent in 2022 to 43.6 percent in 2023. During H1 2024, unemployment

fell 3 percentage points, to 13.7 percent as of end-June, which was accompanied by a higher labor force participation rate.

Outlook

Growth is expected to reach 7.5 percent in 2024, buoyed by private consumption driven by robust real wages and employment figures. In the medium term, growth is expected to moderate to 5 percent, returning to its potential rate. Supported by robust growth, poverty is expected to keep falling in the medium term.

Inflation is forecast to stay below the 3-percent target in 2024 and return to the target level by end-2025. Monetary policy is expected to be eased to support economic growth, while remaining prudent.

The current account deficit is forecast to widen to around 5.5 percent of GDP in 2024 and 2025, due to the slowing of exports and remittances from Russia. Nonetheless,

the deficit is projected to remain below the level of 10.3 percent recorded in 2021.

On the fiscal side, tax revenues are expected to remain strong, contributing 25 percent of GDP in 2024, boosted by the tax hikes on gambling, effective from July 2024. Total expenditure is anticipated to rise to 31 percent of GDP due to election-related expenditure; the deficit is expected to remain at 3 percent of GDP, as per the fiscal rule.

Key downside risks include uncertainties surrounding the post-election landscape and Georgia's commitment to making decisive progress on EU accession. Other risks include geopolitical tensions in the region, a faster reduction in remittances, lower tourism revenues, and rising global commodity prices, all of which could impede growth and increase debt levels. Ensuring the independence of the central bank, maintaining sound monetary and fiscal policy with sufficient buffers, and ensuring exchange rate flexibility will be essential to mitigating potential shocks and safeguarding macroeconomic stability.

TABLE 2 Georgia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	10.6	11.0	7.5	7.5	5.2	5.0
Private consumption	12.3	-2.8	3.6	4.3	2.9	2.2
Government consumption	7.1	-0.8	6.2	15.9	10.1	9.6
Gross fixed capital investment	-4.8	9.9	30.8	14.3	5.2	6.5
Exports, goods and services	23.5	37.4	8.2	2.5	6.0	7.0
Imports, goods and services	8.8	16.9	8.6	3.5	4.0	5.0
Real GDP growth, at constant factor prices	12.2	9.8	7.9	7.5	5.2	5.0
Agriculture	2.3	-1.8	-2.8	2.5	2.5	3.0
Industry	1.0	15.1	5.1	5.0	5.0	5.0
Services	17.4	9.6	10.0	8.7	5.5	5.2
Inflation (consumer price index)	9.6	11.9	2.5	2.2	3.0	3.0
Current account balance (% of GDP)	-10.3	-4.5	-4.4	-5.5	-5.4	-4.9
Net foreign direct investment inflow (% of GDP)	4.9	7.1	4.3	3.4	4.0	4.4
Fiscal balance (% of GDP)	-7.0	-3.5	-2.9	-3.0	-2.8	-2.6
Revenues (% of GDP)	24.9	26.6	27.6	28.2	27.1	26.9
Debt (% of GDP)	49.0	39.1	38.1	37.7	37.2	37.2
Primary balance (% of GDP)	-5.7	-2.4	-1.4	-1.2	-0.9	-0.6
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	5.5	4.3	3.7	3.1	2.8	2.5
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	19.1	15.0	12.9	10.9	9.5	8.5
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	55.4	47.7	43.6	39.2	36.4	33.8
GHG emissions growth (mtCO₂e)	2.7	0.7	-1.2	0.3	-0.1	0.5
Energy related GHG emissions (% of total)	55.6	56.0	55.9	56.4	56.6	56.8

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 2022-HIS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2022) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.