

Overview

- High economic growth of 10.4% in 2021, thus exceeding pre-COVID-19 level
- Very strong GDP outlook for 2022 (9.0%), despite war in Ukraine
- Positive impact of sanctions against RUS: relocation of approx. 45,000 people from RUS/BLR, creating additional consumption expenditures of approx. 1.8% of GDP
- Recovery in tourism revenues: level of 2019 expected to be reached or even exceeded
- After initial depreciation, Lari appreciated by around 8% since start of war in Ukraine
- Inflation remains high (11.5% yoy in Jul-22), mainly due to higher commodity prices
- NBG raised policy rate to 11.0% (+0.5 pp) to prevent rise in inflation expectations
- Fiscal deficit reduced to 3.6% of GDP in 2022 on back of strong recovery
- New IMF programme (USD 280 m) anchors sound macroeconomic framework

Special topics

- **Relocation of people from RUS/BLR.** Results of CRRC-GET survey
- **Relocation of people from RUS/BLR.** Economic implications
- **Goods exports to Russia.** GET estimation of the effect of war and sanctions

Basic indicators

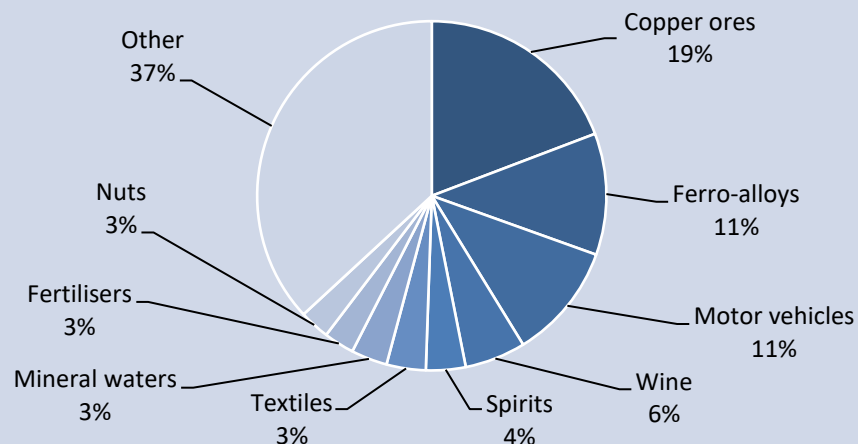
	Georgia	Armenia	Azerbaijan	Ukraine	Russia
GDP, USD bn	18.7	13.9	54.6	200.3	1,775.5
GDP/capita, USD	5,014	4,702	5,398	4,838	12,198
Population, m	3.7	3.0	10.1	41.4	145.6

Sources: National statistical offices, IMF, German Economic Team, IER, Georgian Ministry of Finance; data for 2021

Trade structure

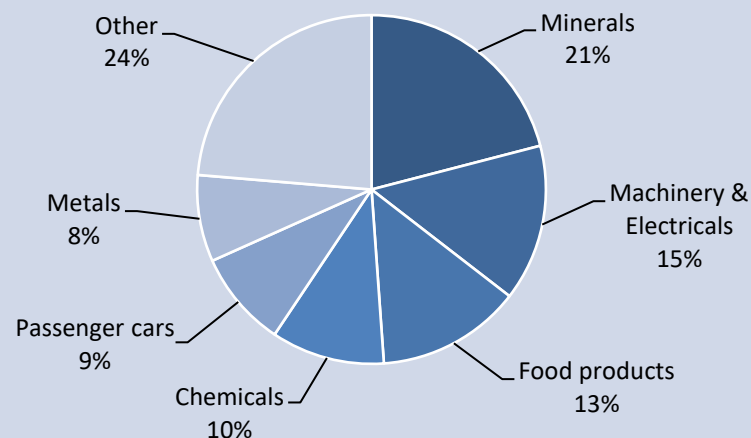
Exports

EU 17% | CIS 48% | China 14% | Other 21%



Imports

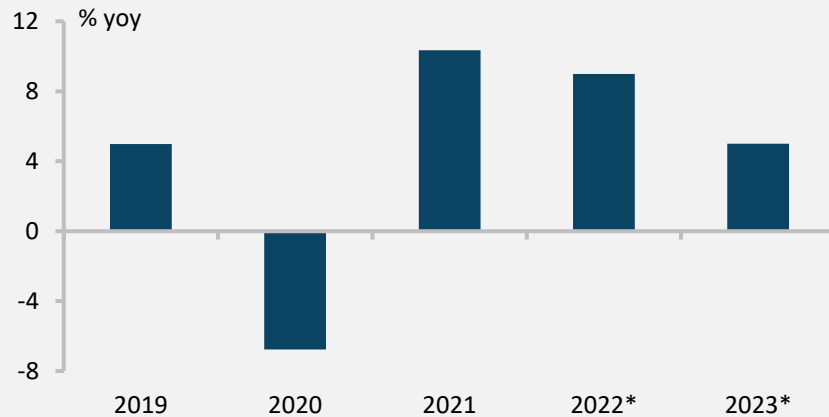
EU 23% | CIS 28% | China 9% | Other 40%



Source: Geostat, 2021; Note: trade in goods

Economic growth

Real GDP growth



Sources: Geostat, NBG; *estimation/forecast

Regional comparison of real GDP growth (% yoy)

	2021	2022	2023
Georgia	10.4	9.0	5.0
Armenia	5.7	4.6	3.3
Azerbaijan	5.6	2.7	2.2
Iran	4.1	3.7	2.7
Turkey	11.0	2.3	3.2
Russia	4.7	-6.0	-3.5
Germany	2.9	1.4	1.3
EU-27	5.4	2.7	1.5

Source: Geostat, World Bank, European Commission; estimates/forecasts

Domestic perspective

2021

- GDP growth: 10.4%
- GDP exceeds level before COVID-19

2022

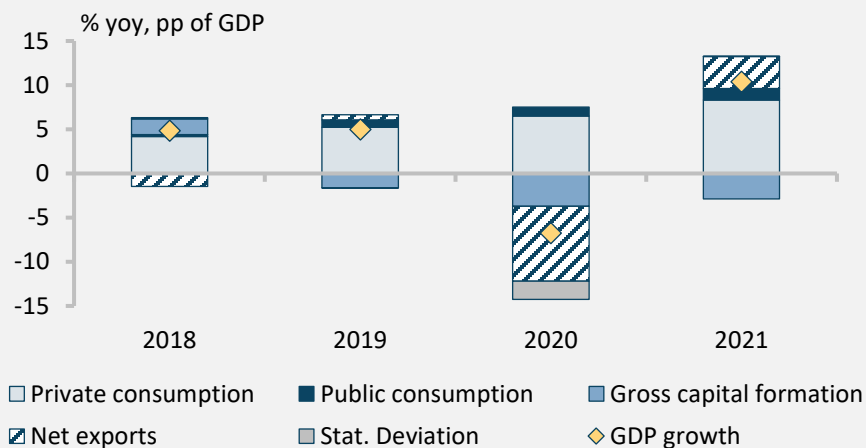
- Initially: pessimism due to significant economic exposure to RUS
- 6M2022: 10.5% yoy
- GDP forecast for 2022: around 9%
- Georgian banks even more optimistic, double-digit growth possible

GEO in a regional perspective

- Strong GDP growth
- Leader in the peer group
- **No negative effect of war on growth**
- **On the contrary: even positive effects in some areas**

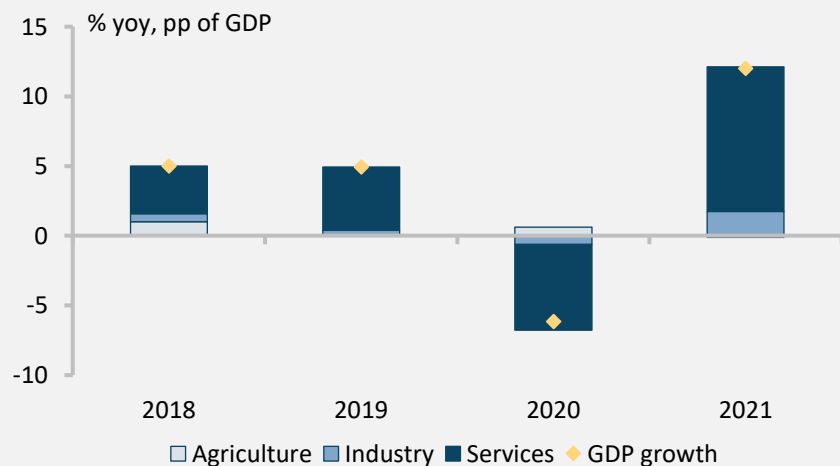
GDP: demand and supply

Contribution to economic growth



Source: Geostat

Sectoral contribution to economic growth



Source: Geostat

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Demand-side dynamics

2021

- Consumption as key driver
- Additionally: recovery in exports (esp. tourism) supports growth

2022

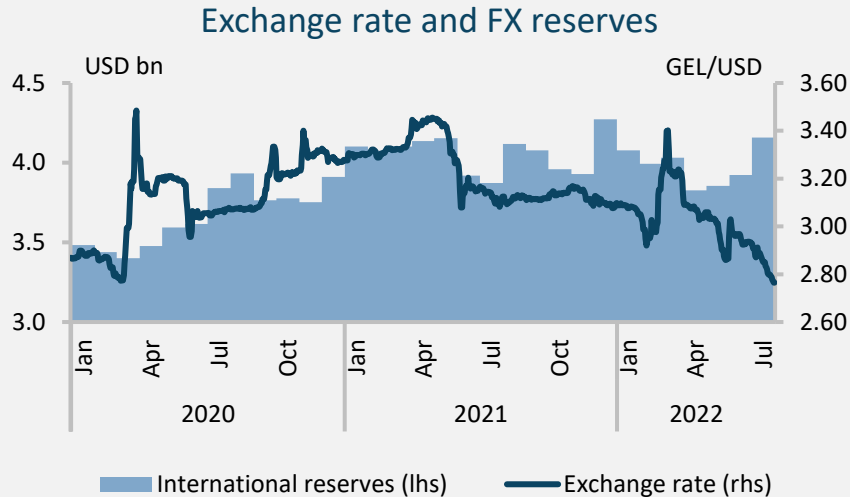
- Growth mainly consumption-driven
- Recovery in tourism and relocation of people from RUS/BLR as main drivers

Supply-side dynamics

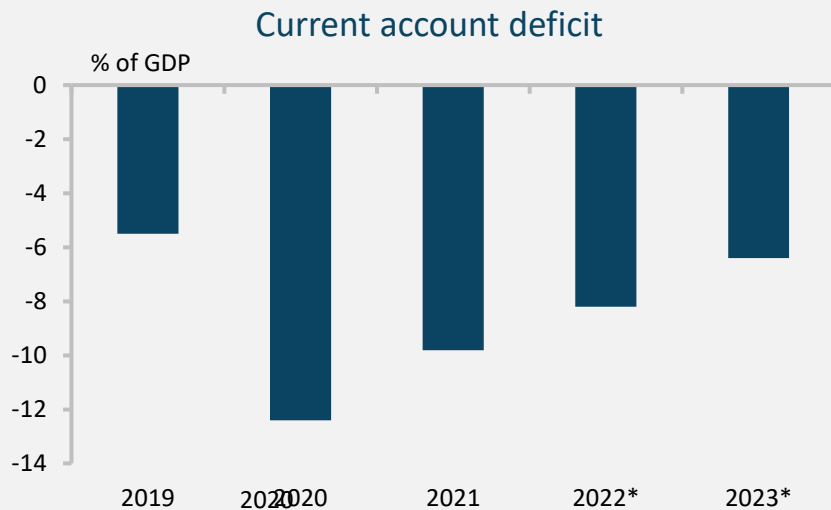
- Dominated by services (77% of GDP)
- 2021: Strong contribution by services, esp. retail trade, tourism and financial services

➤ **Consumption as main driver for growth in 2022**

Current account and exchange rate



Source: NBG



Source: NBG

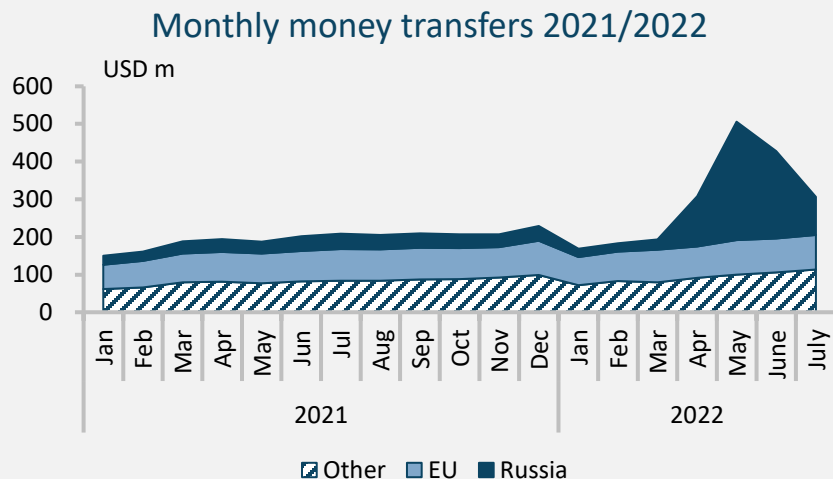
Exchange rate

- Mar-22: strong depreciation to 3.40 GEL/USD due to war in UKR
- Then: strong appreciation due to inflows from relocated people from RUS/BLR, rising (tourism) exports and remittances
- Jul-22: around 2.80 GEL/USD, appreciation of 7.7% since 24 Feb

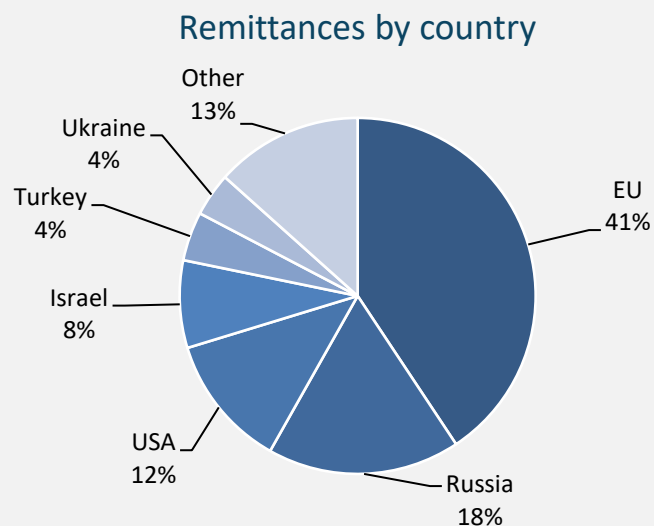
Current account balance

- 2021: -9.8% of GDP
- Estimate for 2022: -8.2% of GDP
- Reasons for decrease:
 - Continuation of recovery in tourism
 - Relocation of people from RUS/BLR
 - Strong dynamics for goods exports
- But: higher energy prices add to deficit
- **Lari appreciation despite war in UKR**
- **Reduction of current account deficit**

Remittances and money transfers



Source: NBG; Note: based on USD



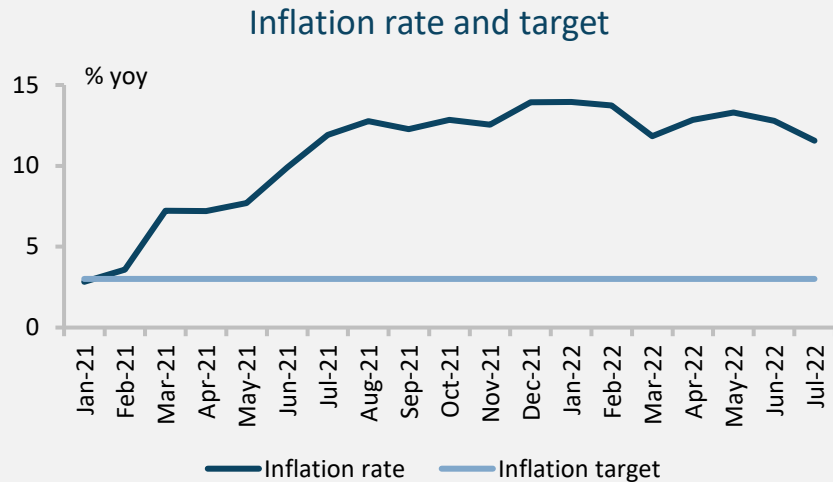
Source: NBG, 2021

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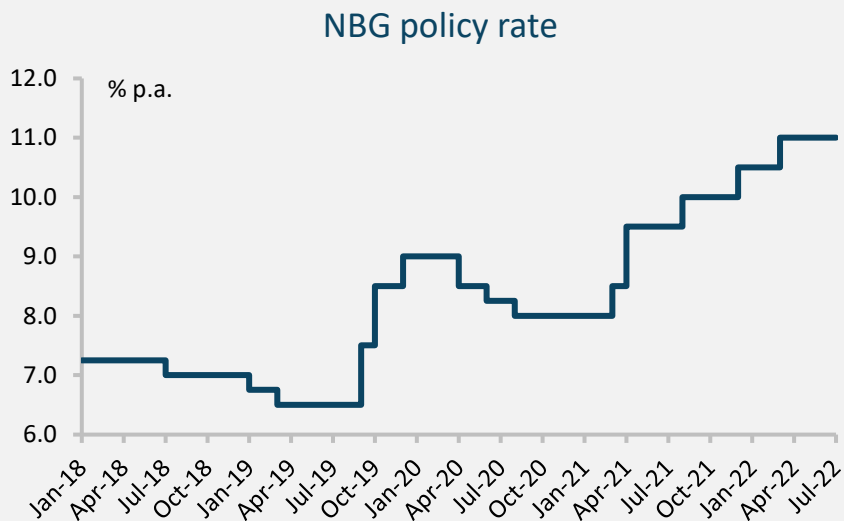
Development in 7M2022

- Expectation after start of war: strong decline of money transfers from RUS due to economic decline
- RUS in 7M2022: +278% yoy, strong increase after war
- Other regions: +16.5% yoy
- Explanation:
 - These money transfers are not remittances in usual sense
 - Instead: effect of (temporary) relocation and repatriation of funds in context of high influx
- Decreasing figures indicate that this is temporary
- **Influx of Russians drives money transfers**

Inflation and monetary policy



Source: Geostat, NBG



Source: NBG

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Inflation rate

- Year-end 2021: 13.9%, very high
- Main reason: supply shock due to rising international food and commodity prices
- Shock continued after start of war
- Jul-22: 11.5% yoy
- Slow decline towards the end of the year to around 7% yoy expected

Monetary policy

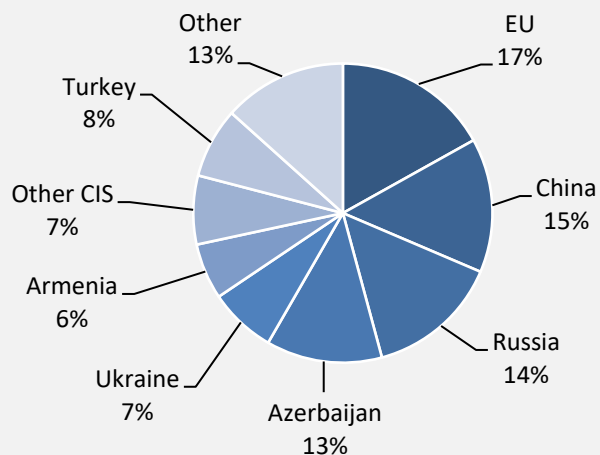
- Mar-22: NBG raised policy rate to 11.0% (+0.5 pp)
- Rationale: prevent increase in long-term inflation expectations
- **Temporarily very high inflation**
- **Continuation of stability-oriented monetary policy**

Foreign trade in goods



Source: Geostat, Ministry of Finance; *estimate, Note: trade in goods

Exports by countries of destination



Source: Geostat, 2021; Note: trade in goods

Exports

- 7M2022: increase by 36.4% yoy
- Main drivers: copper ores (for re-exports), fertilizers and ferro-alloys
- Expectation for full year 2022: +26.9% yoy

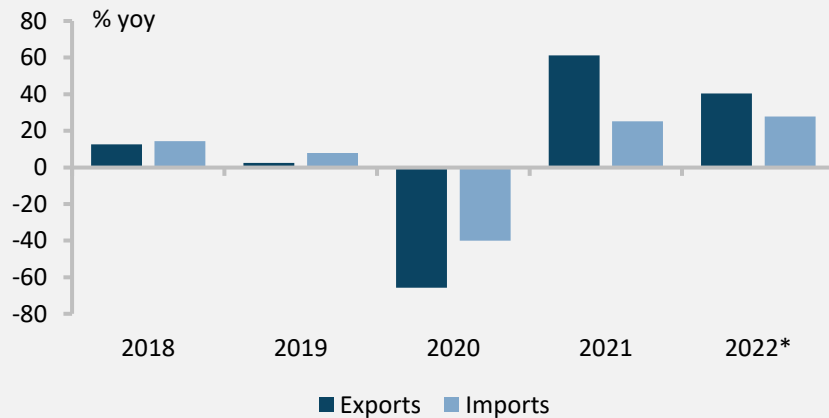
Imports

- 7M2022: increase by 35.3% yoy
- Main drivers: oil products, motor cars and copper ores (for re-export)
- 2022: increase of 21.6% yoy forecast

➤ **Recovery in goods trade continues**

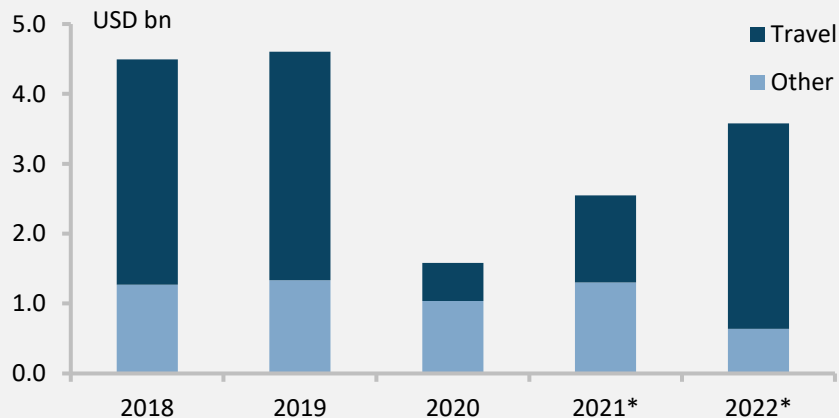
Foreign trade in services

Foreign trade in services



Sources: NBG, Ministry of Finance; *estimate

Revenue from services exports

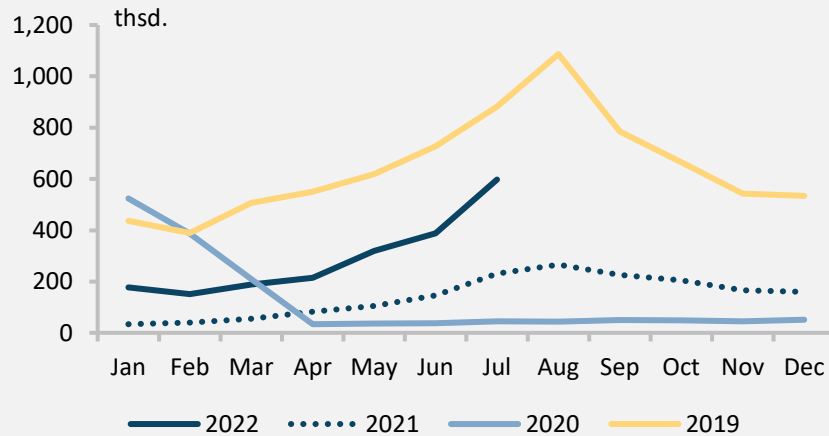


Sources: NBG, Ministry of Finance, TBC Capital, German Economic Team; *estimate

- Usually: services exports dominated by tourism (around 70% of total)
 - 2021: services exports increased by 53.2% yoy due to recovery in tourism
 - Recovery in tourism revenues continues:
 - 2021: 38% of 2019 level
 - 7M2022: 87% of 2019 level
 - Expectation: 2019 level will be reached or exceeded in 2022
 - Major driver: relocation of people from RUS and BLR
 - Not usual vacation tourism, but instead longer stay
 - Relocation due to war in UKR
- **Tourism revenues almost back to level before COVID-19**
- **Influx of people from RUS/BLR as main driver**

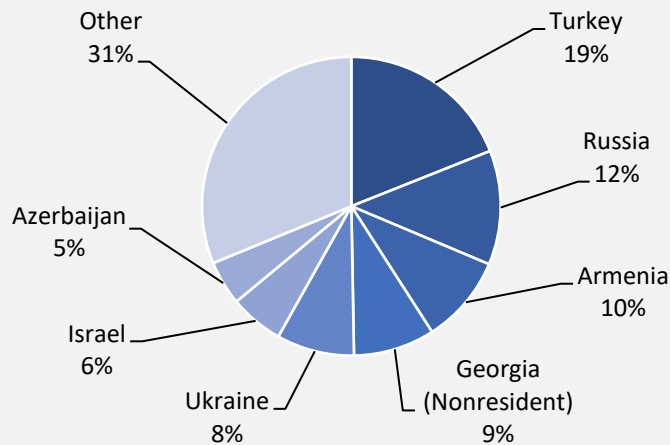
Tourism

International visitors



Source: Georgian National Tourism Administration

International visitors by country



Source: Georgian National Tourism Administration, 2021

Sector overview

- 2019: 7.7 m international visitors, 12% of GDP
- COVID-19 interrupted upward trend in number of visitors

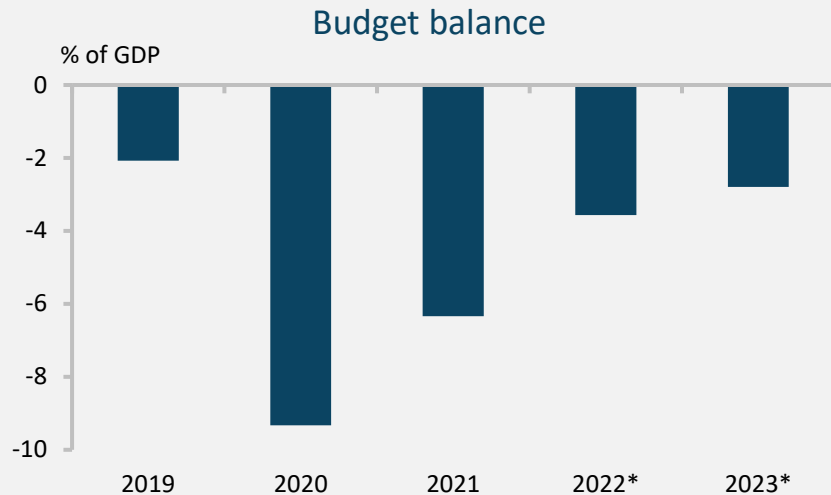
Recent development

- 7M2022: 2.0 m international visitors
- Figures still below 2019, but higher spending per tourist
- Usual vacation tourism from RUS (excl. relocation) likely subdued due to economic downturn in RUS
- Positive outlook for 2022, but uncertainty persists due to war in UKR

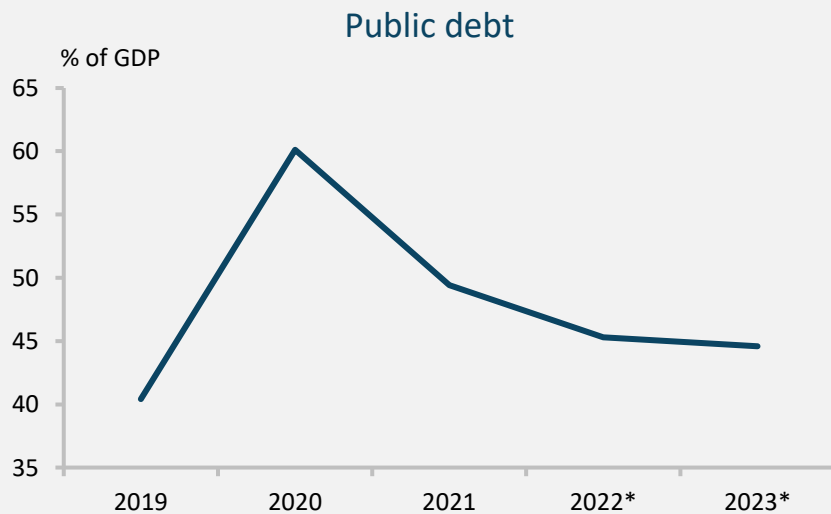
➤ **Recovery in tourism continues**

➤ **War in UKR likely to depress tourism from traditional origin countries**

Public finances



Source: Ministry of Finance, *estimate/forecast; Note: IMF programme definition



Source: Ministry of Finance, *estimate/forecast

Budget balance 2022/2023

- Deficit in 2022: 3.6% of GDP, no effect of war in UKR
- Reason: rising tax revenues on the back of economic recovery
- Deficit rule (3% of GDP) to be observed from 2023 onwards

Public debt

- Debt ratio reduced on the back of strong GDP growth
- Stabilisation at around 45% of GDP

IMF programme

- June: approval of new Stand-By Arrangement (USD 280 m)
- Precautionary funding availability

➤ **No effect of war on public finance**

➤ **New IMF programme approved**

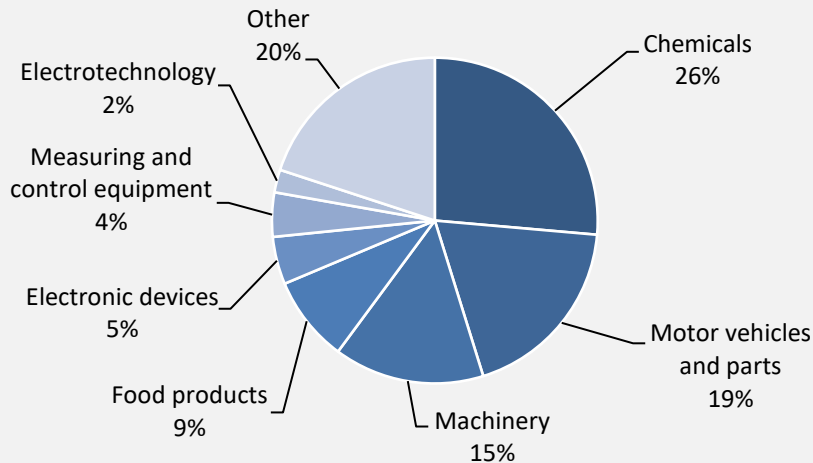
Bilateral trade between Germany and Georgia

German trade with Georgia



Source: German Federal Statistics Service; Note: trade in goods

German exports



Source: German Federal Statistics Service, 2021; Note: trade in goods

Trade balance in 6M2022

- German exports: EUR 216 m
- German imports: EUR 51 m
- Balance: EUR 165 m

German exports to Georgia

- 6M2022: +31.3% yoy
- Main drivers: vehicles, chemical products and machinery

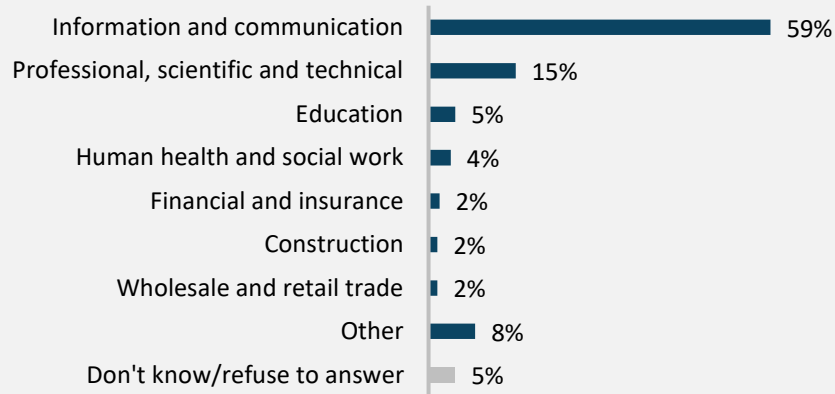
German imports from Georgia

- 6M2022: +27.5% yoy
- Main drivers: iron, textiles, and gold

➤ **Positive trend in bilateral trade continues**

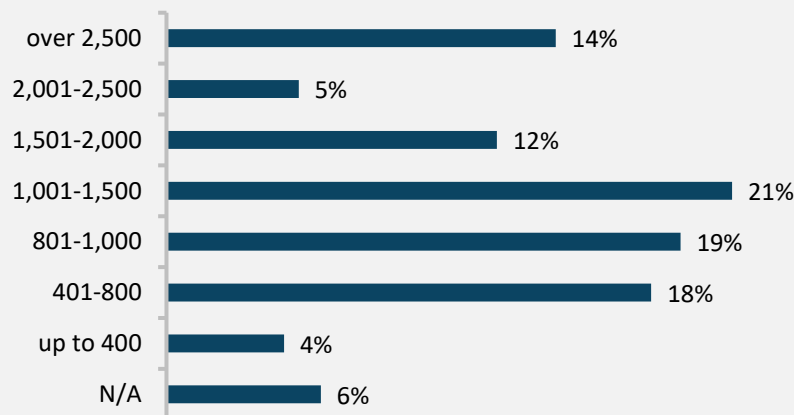
Inflow of people from RUS/BLR: results from own survey

Employment by sector



Source: GET survey results, NACE rev.2 activity codes, N=260

Household expenditure distribution



Source: GET survey results, N=366; values in USD

Relocation of people from RUS and BLR

- Strong inflow since the start of the war
- Until end of May: approx. 45,000 people
 - 31,000 from RUS
 - 14,000 from BLR

Own survey: results

- CRRC-Georgia conducted survey on behalf of GET
- 366 people, entered GEO after 24 Feb
- Main results
 - 84% have a higher education
 - Majority (74%) are employed, mostly in high-skilled activities (86%)
 - Main sector: ITC (59%)
 - Ø monthly income: USD 2,600;
Ø expenditures: USD 1,600
 - 59% plan to stay longer than 6 months

➤ **Significant inflow of highly skilled people with high wages**

Inflow of people from RUS/BLR: economic impact

Summary of impact assessment

	March	April	May	June – December*
Relocated persons	22,200	35,400	41,700	44,900
Relocated households	11,100	17,700	20,850	22,450
Consumption of relocated HH (USD m)	17.8	28.3	33.4	35.9
Total in 2022 (USD m)				330.8

Sources: Ministry of Internal Affairs, NBG, GET. Visitor figures rounded to full hundreds; *Forecast based on values for 31 May, Assumption: two people per household; average monthly consumption expenditure of approx. USD 1,600 assumed based on GET survey (see slide with survey results)

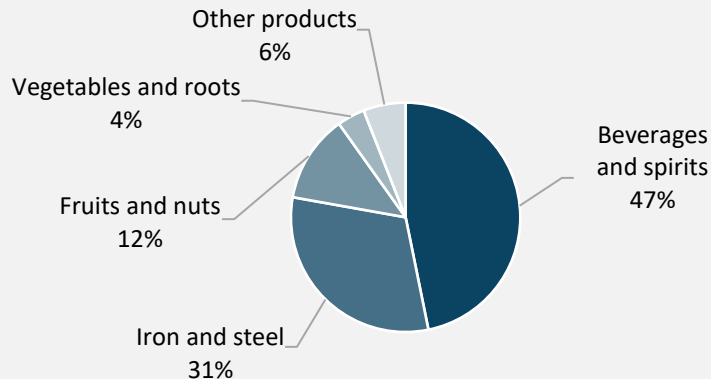
- Assuming that the stock of relocated people remains stable at the value from end of May, the influx will create additional consumption of around **USD 330 m (approx. 1.8% of GDP)** in 2022
- The relocation of approx. 45,000 persons from RUS and BLR entails a positive shock on aggregate demand (and thus GDP growth) and the balance of payments
- Partly explains why Georgia's economy and the GEL/USD exchange rate are only moderately affected by the war in Ukraine

Policy implications

- Economic/political prospects in RUS and BLR severely impaired for the foreseeable future
- May be a chance to attract high-skilled people for the longer term; especially in the IT sector
- Distributional effects (e.g. rising rent prices) would also need to be considered

Goods exports to Russia

Structure of Georgian exports to Russia



Source: WITS, 2021; includes only domestic exports

Goods exports to Russia in 7M2022

	USD m	% yoy		
		Total	Price	Vol.
Ferro-silico-manganese	92.7	10	49	-26
Wine	71.8	1	-5	5
Spirits	28.7	56	42	10
Waters, unsweetened	23.8	-34	-5	-30
Waters, sweetened	16.2	1	-8	10
Other	129.4	-8		
Total	293.8	1		

Sources: Geostat, own calculations; includes only domestic exports

GET research (ex ante analysis)

- Estimation of potential decline of GEO exports to RUS due to war in UKR and weakness of RUS economy
- Economic downturn in RUS likely to depress GEO exports to RUS
- But: GEO may become substitute supplier for Western products
- Overall: limited effect (0.4% of GDP)

Development in 7M2022

- In first months after start of war: decline in volumes and prices for most goods
- But: strong price increase for ferro-silico-manganese offsets losses
- And: increase in volume for some goods
- Overall, 7M2022: +1% yoy

➤ **Georgian exports to Russia resilient**

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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