

Sebastian Staske

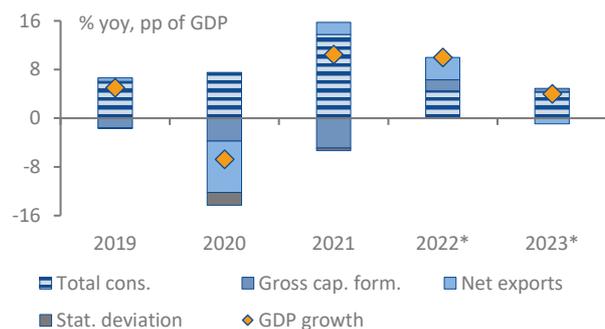
Strong growth continues despite a challenging environment

The Georgian economy grew by 10.1% in 2022, the second consecutive year of double-digit growth. An important factor was the high influx of people from Russia and Belarus, which drove consumption. As a result of this influx, tourism revenues and money transfers also rose strongly. In turn, the lari appreciated by 14% against the US dollar over the course of 2022. Inflation declined slightly to 9.8% yoy at the end of the year, but remained at a high level. Therefore, the NBG kept monetary policy tight. With the current account deficit (5.6% of GDP) and budget deficit (3.1%) declining, Georgia's twin deficits are now much smaller. Growth of around 4.0% is expected for 2023, with inflows from Russia and Belarus remaining a determining factor.

Another year of double-digit growth

Georgia's economy grew by 10.1% yoy in 2022, marking the second consecutive year of double-digit growth, despite a challenging environment. A key factor was the relocation of an estimated 100,000 people from Russia and Belarus over the course of the year. Regionally, only Armenia (which also experienced a surge in immigration) recorded higher growth in 2022 with 12.6% yoy.

Contribution to real economic growth



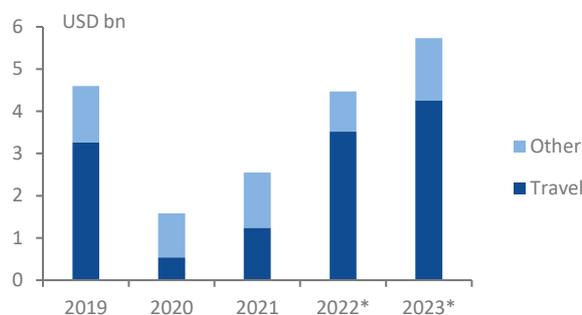
Sources: Geostat, NBG; *estimate/forecast

Growth was supported by all components. The additional expenditures of the relocated people were a strong factor in the increase of consumption and net exports (tourism), the two main drivers of growth in 2022. Additionally, investments contributed to growth partly due to catch-up effects from the COVID-19 pandemic. Forecasts for 2023 suggest a growth of around 4.0% yoy, which will mostly be driven by consumption.

Tourism revenues and money transfers surge

Tourism revenues continued their recovery, reaching USD 3.5 bn and thus slightly exceeding their pre-pandemic level from 2019. The main reason was the influx of people from Russia, where revenues increased by USD 740 m and accounted for 25% of total revenues. The recovery in tourism was the main driver for the increase in services exports and a key factor for high growth. The outlook for the current year is positive, as other regions are still below their pre-pandemic level (e.g. EU at 70%) so there is room for further growth.

Revenues from services exports



Source: NBG; *estimate/forecast

The effects of the influx are also visible in the money transfers. Overall, they reached USD 4.4 bn in 2022, up 86% yoy. The increase was driven overwhelmingly by money transfers from Russia. These flows are closely linked to the relocation.

Strong lari appreciation and tight monetary policy

On the back of increasing tourism revenues, sizeable money inflows and FDI inflows, the lari appreciated by 14% yoy over the course of 2022. International reserves also grew strongly, reaching USD 4.9 bn in Dec-22 (15% yoy). The appreciation has contributed to a slowdown in inflation by limiting the pass-through of higher international prices. However, at 9.8% yoy in Dec-22, inflation remains elevated. Remaining above target for a prolonged period of time, there is an even stronger need for the NBG to prevent a rise in long-term inflation expectations. It has therefore continued its tight monetary policy stance, keeping the policy rate at 11% p.a. With special factors driving global inflation slowly phasing out, inflation in Georgia is expected to normalise over the course of 2023.

Dynamic in goods trade continues

Goods exports increased by 31.8% yoy, mainly driven by re-exports of cars and copper ores, and fertilizer exports. Goods imports increased similarly (33.8% yoy), with growing energy imports being the main driver.

Goods exports to Russia in 2022

| | USD m | Change (% yoy) | | |
|------------------------|--------------|----------------|-------|------|
| | | Total | Price | Vol. |
| Wine | 159.5 | 22 | -20 | 53 |
| Ferro-silico-manganese | 107.8 | -37 | 15 | -45 |
| Spirits | 56.5 | 37 | 11 | 24 |
| Water, unsweetened | 50.3 | -16 | -2 | -14 |
| Water, sweetened | 39.4 | 52 | 1 | 51 |
| Others | 238.3 | 32 | | |
| Total | 651.6 | 7 | | |

Source: Geostat

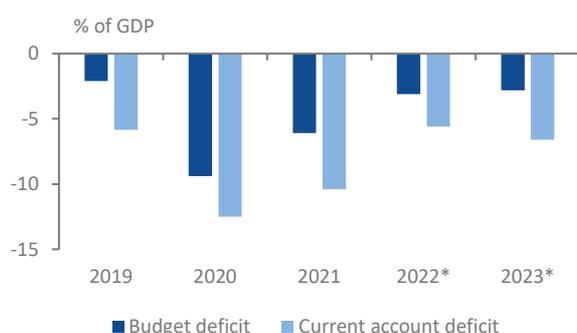
Exports to Russia increased slightly (+7% yoy), as Georgia was partly able to become a substitute supplier for goods for which Western deliveries to Russia were reduced. Additionally, there was an increase in re-exports (especially of vehicles).

Imports from Russia rose strongly (78% yoy), mainly due to increased oil imports. This is partly the result of higher overall oil prices. Even more important, however, is the sharp rise in import volumes, as Russian Urals oil is traded at a discount to other brands.

Sizeable reduction of the twin deficit

The large increase in tourism revenues and money transfers offset the effects of higher energy imports so that current account deficit in 2022 reduced sizeably to 5.6% of GDP (2021: 10.4%).

Budget and current account deficits



Source: IMF; *estimate/forecast; Note: IMF programme definition for the budget deficit

At the same time, high economic growth also contributed to a strong rise in tax revenues, while expenditure increases remained relatively modest. As a result, the budget deficit improved to 3.1% of GDP in 2022 from 6.1% of GDP in 2021. Fiscal consolidation is expected to continue in 2023. High growth and fiscal consolidation also led to a reduction of the debt ratio to 41.2% of GDP, which is expected to stabilize around 40%.

Taken together, these developments have thus contributed to a sizeable reduction of Georgia's twin deficit, which had increased strongly during the pandemic.

Outlook

Despite a challenging environment, Georgia has weathered the effects of the war in Ukraine remarkably well and has benefitted economically from the relocation. Especially the migration of people with a background in IT may be a potential for the development of this sector in Georgia. Looking forward will depend on developments in Ukraine. With a short-term resolution of the war unlikely at the moment, relocated people are likely to stay for a longer time, so relocation will remain a topical issue. However, the uncertainty of migration flows also entails risks. Just like the inflow contributed to growth in 2022, a sudden reversal could be a negative shock to the economy.

This newsletter is based on the 17th edition of our Economic Monitor Georgia (forthcoming).

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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