

ECONOMIC MONITOR

GEORGIA

Overview

- » 2023: real GDP projected to grow by 6.0%, still strong but slowing down as the positive effect of relocation of people (esp. from RUS) starts to fade out
- » 2024: real growth of 5.0%, convergence towards long-term potential
- » Lari stabilises around 2.60 GEL/USD after strong appreciation in 2022, sizeable FX interventions by the NBG to reduce exchange rate volatility
- » Strong reduction in inflation (Jul-23: 0.6% yoy) due to falling international commodity prices and transport costs as well as lari appreciation
- » Only gradual easing of tight monetary policy (policy rate reduced by 1 pp to 10%)
- » Goods trade continue strong dynamics, high importance of re-exports
- » Fiscal rule (budget deficit below 3% of GDP) to be observed in 2023 and beyond

Special issues

- » DCFTA. Positive impulses but only modest nominal increase
- » DCFTA. Still further steps necessary to tap full potential for Georgian exports

Basic indicators

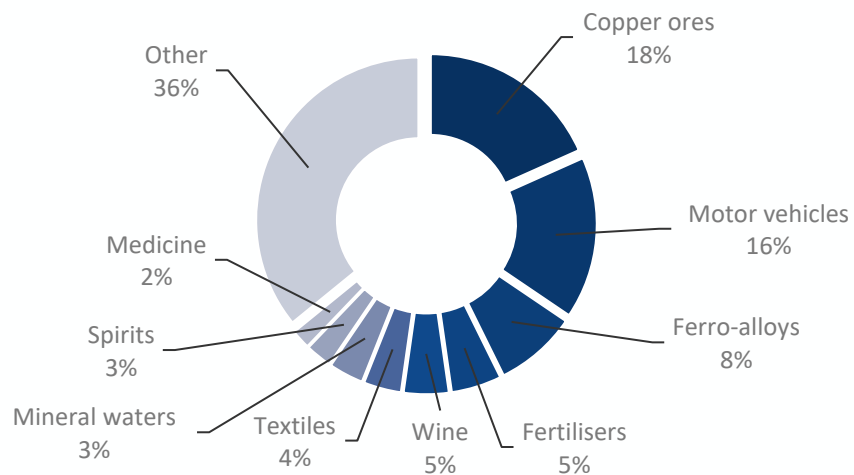
	Georgia	Armenia	Azerbaijan	Ukraine	Russia
GDP, USD bn	24.6	19.5	69.9	151.5	2,215.3
GDP/capita, USD	6,671	6,583	6,826	4,346	15,443
Population, m	3.7	3.0	10.2	34.8	143.4

Sources: National statistics, IMF; Note: data for 2022

Trade structure

Exports

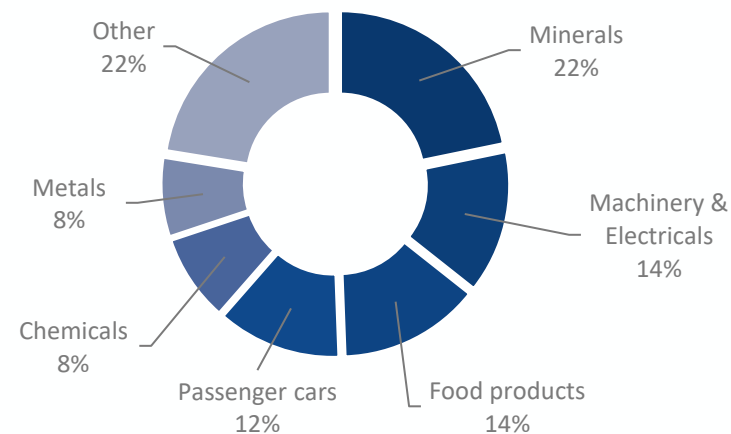
EU 15% | RUS 12% | Other CIS 36% | China 13% | Other 23%



Source: Geostat, 2022; note: trade in goods

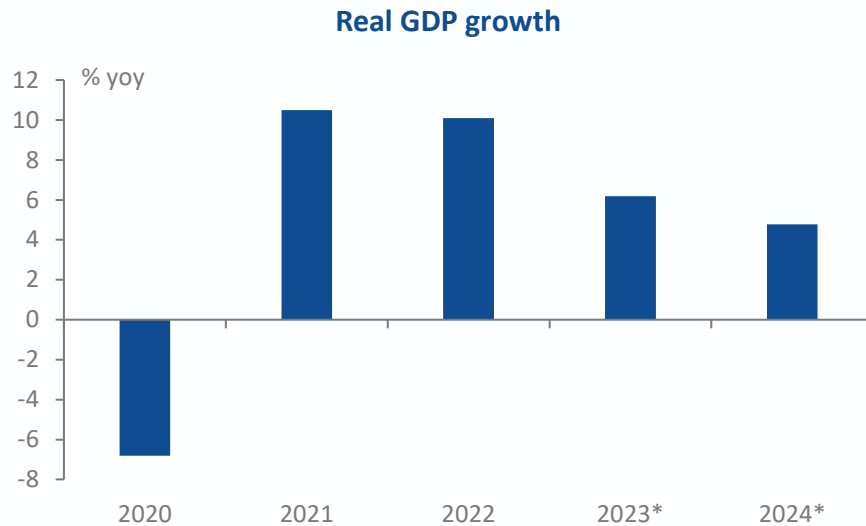
Imports

EU 23% | RUS 14% | Other CIS 23% | China 8% | Other 32%



Source: Geostat, 2022; note: trade in goods

Economic growth



Sources: Geostat, IMF; *estimation/forecast

Regional comparison of real GDP growth (% yoy)

	2022	2023	2024
Georgia	10.1	6.2	4.8
Armenia	12.6	7.0	5.0
Turkey	5.5	4.0	3.0
Iran	3.8	3.0	2.5
Azerbaijan	4.6	2.5	2.5
Russia	-2.1	2.2	1.1
Germany	1.8	-0.5	0.9
EU-27	3.4	0.8	1.4

Sources: Geostat, IMF, Rosstat, European Commission; estimates/forecasts

Domestic perspective

2022

- » GDP growth: 10.1%
- » Second year of double-digit growth

2023

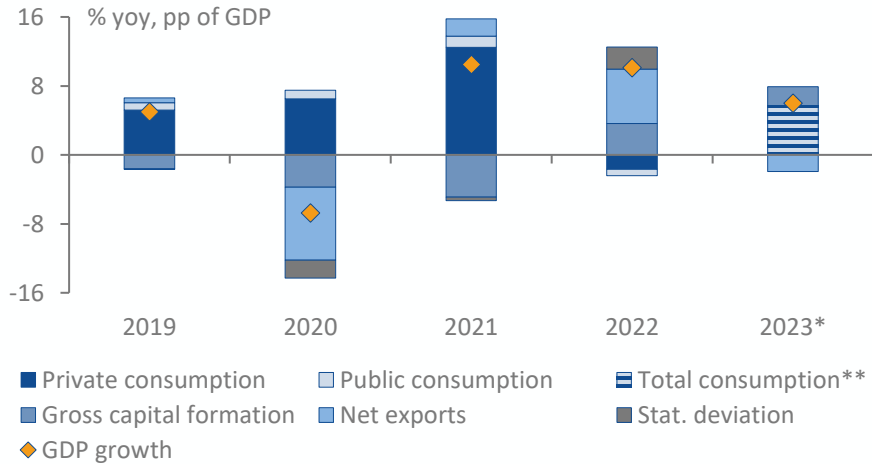
- » 8M2023: 7.0% yoy
- » Forecast for full year: around 6.2%, more optimistic than at the start of the year due to higher domestic demand
- » Third year of growth above long-term growth potential (approx. 5%)
- » Relocation of people from RUS remains crucial factor for the economy

GEO in a regional perspective

- » Strong GDP growth
- » Among the leaders in the peer group
- Third year of strong growth

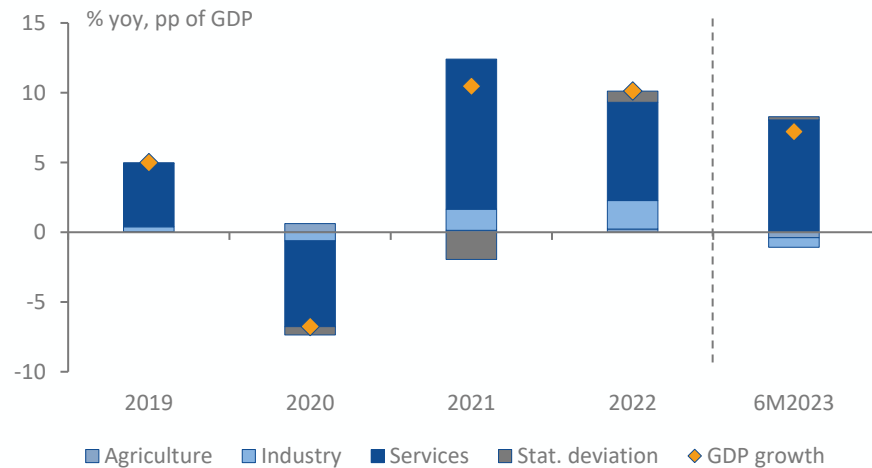
GDP: demand and supply

Contribution to economic growth



Sources: Geostat, NBG; *estimate/forecast; **Note: Data for 2023 only available for total, i.e. the sum of private and public, consumption

Sectoral contribution to economic growth



Source: Geostat

Demand-side dynamics

2022

- » Key factors: relocation and tourism
- » Expenditures of relocated people were treated statistically as tourist revenue, thus driving net exports
- » Additionally: support by investment

2023

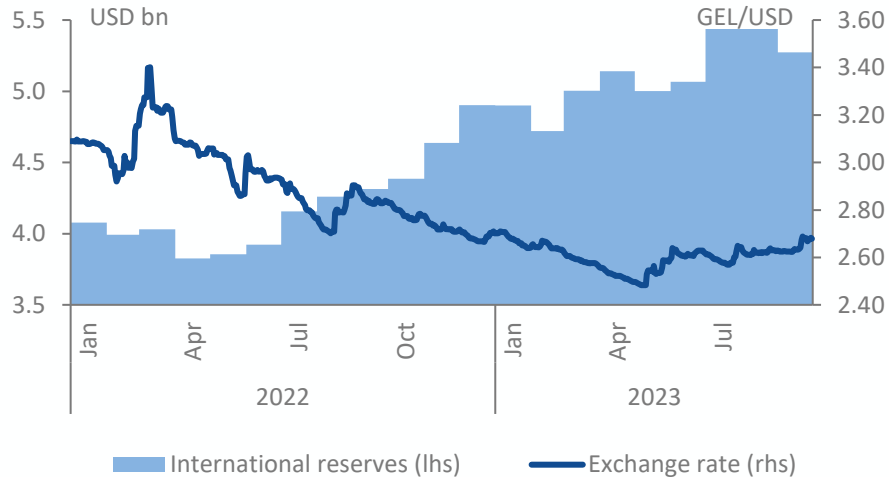
- » Growth mainly consumption-driven
- » Net exports slightly declining due to base effect (relocation fades out)
- » Investment dynamics continue to be strong

Supply-side dynamics

- » Strong dominance of services
- » Economic growth in 2023 driven by consumption and investment

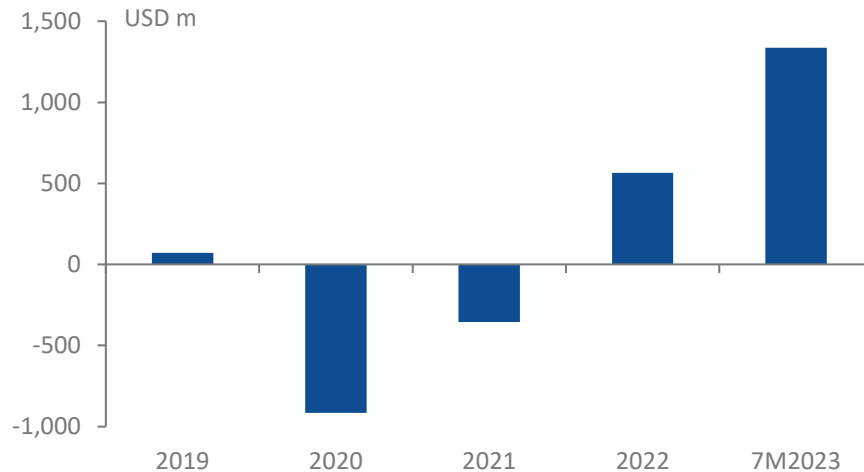
Current account and exchange rate

Exchange rate and FX reserves



Source: NBG

Net purchases of FX by the NBG



Source: NBG

Exchange rate

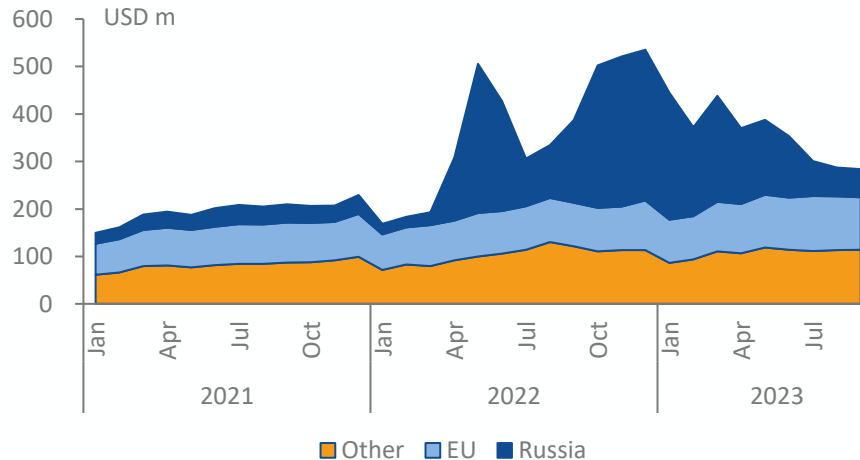
- » 2022: appreciation of 14% due to strong inflows from Russia
- » 2023: initially continuation of trend, now stabilization around 2.60 GEL/USD
- » Large FX interventions by NBG (7M2023: USD 1.3 bn), mainly to decrease volatility of exchange rate

Current account balance

- » 2022: -4.0% of GDP, much lower deficit than in preceding years
- » 2023: -6.1% of GDP, slight increase since special factors (esp. relocation) are not as strong as last year
- Lari stabilises after strong appreciation in 2022
- Significant reduction of current account deficit

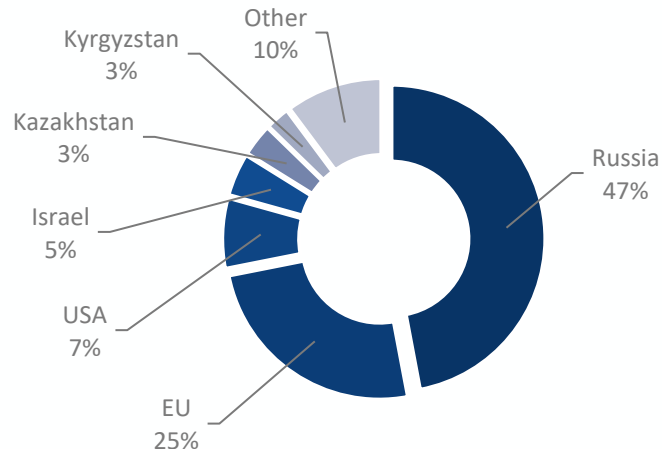
Remittances and money transfers

Monthly money transfers 2021 - 2023



Source: NBG; Note: based on USD

Money transfers by country



Source: NBG, 2022

2022

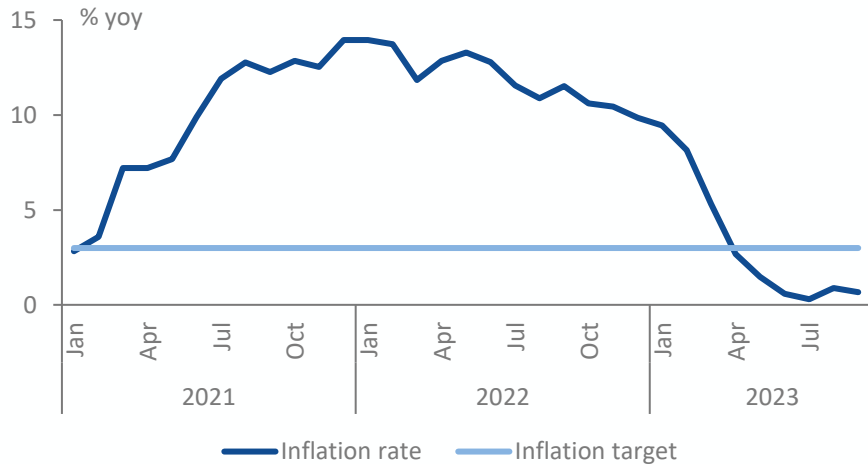
- » RUS: USD 2.1 bn (+402% yoy), share in total increased sharply to 47%
- » Other regions: USD 2.3 bn (+19% yoy)
- » Explanation:
 - These money transfers are not remittances in usual sense
 - Instead: relocation (transfer of savings), temporarily: arbitrage possible
 - Two waves of relocation visible

9M2023

- » Money transfers still at elevated level, but strong slowdown in recent months as relocation effect fades out
- » Total from RUS: USD 1.3 bn
- Very high money transfers from RUS due to relocation, slowing down recently
- Key factor for reduced current account deficit and Lari appreciation

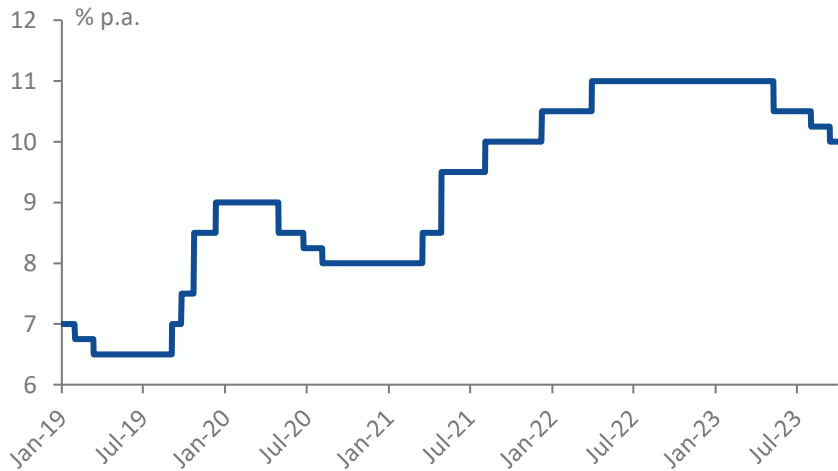
Inflation and monetary policy

Inflation rate and target



Sources: Geostat, NBG

NBG policy rate



Source: NBG

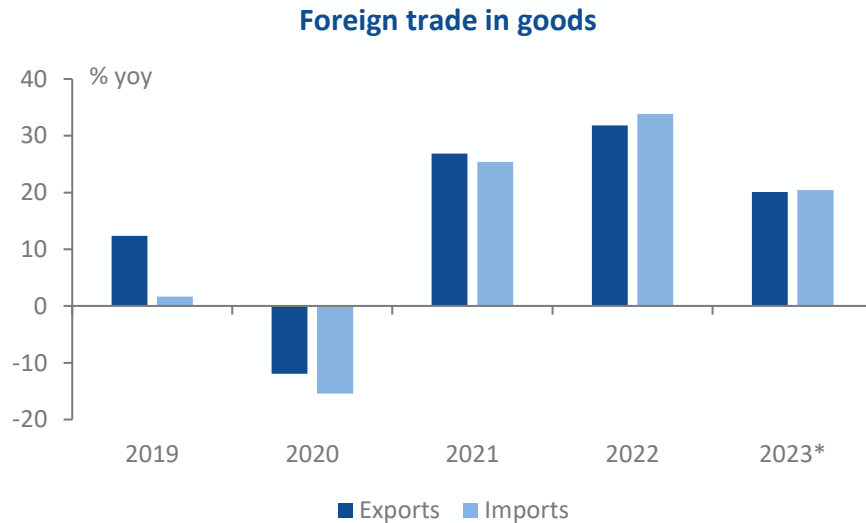
Inflation rate

- » 2022: elevated, 9.8% yoy at year-end, much higher than target
- » 2023: strong reduction, 0.3% yoy in July
- » Reason: decline in commodity prices and transport costs, lari appreciation

Monetary policy

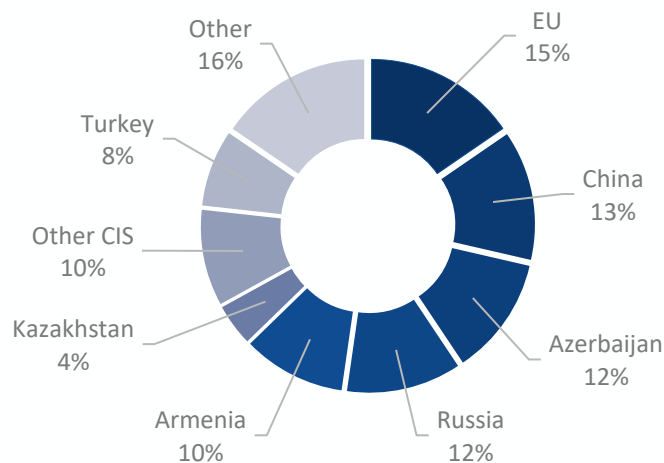
- » Gradual easing of tight monetary policy, reduction of policy rate from 11.0% to 10.0% in three steps
- » However: macroeconomic environment still uncertain, core inflation higher
- » Therefore: only small decreases in policy rate despite strong reduction in inflation
- Inflation decreases strongly
- Slow easing of tight monetary policy

Foreign trade in goods



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

Exports by countries of destination



Sources: Geostat, 2022; Note: trade in goods

Exports

- » 8M2023: increase by 14.4% yoy
- » Main drivers: motor cars (re-exports), wine and waters
- » Expectation for full year: 20.1% yoy

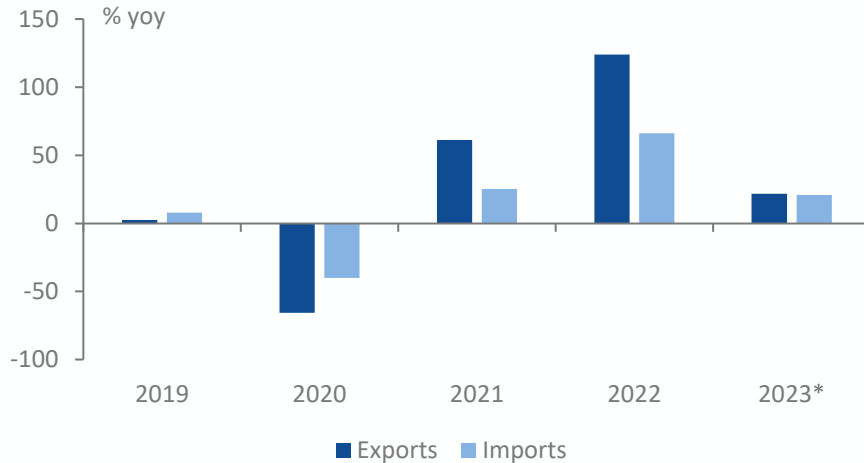
Imports

- » 8M2023: increase by 17.8% yoy
- » Main drivers: motor cars (for re-exports), electrical machinery and gas
- » Expectation for full year: 24.0% yoy

- Continuation of strong dynamics in goods trade
- But: strong role of re-exports

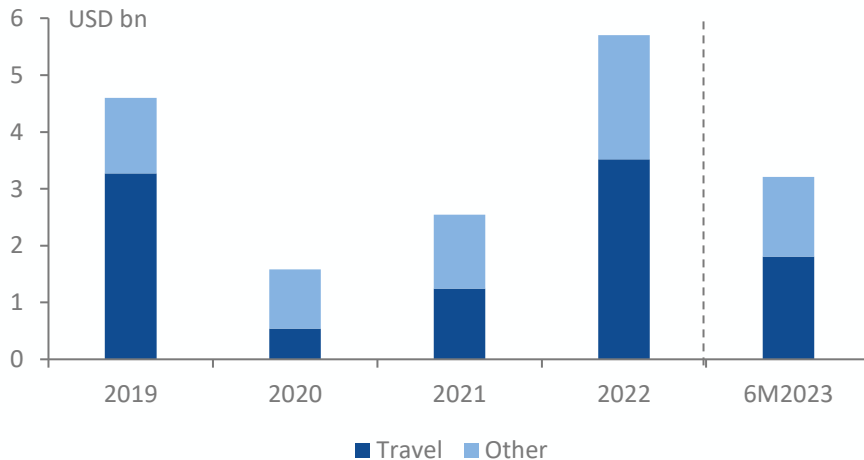
Foreign trade in services

Foreign trade in services



Sources: NBG, Ministry of Finance; *estimate

Revenue from services exports

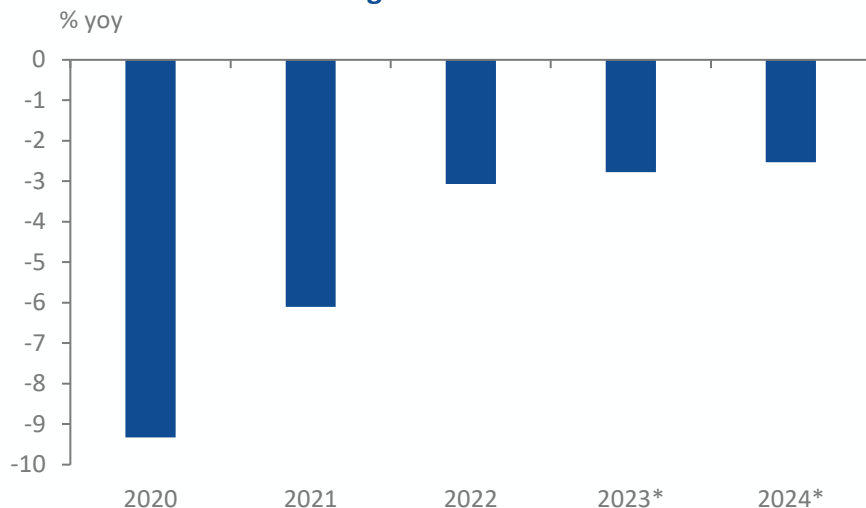


Source: NBG

- » In general: services exports dominated by tourism
- » 2022: services exports rise strongly (123.9% yoy)
 - Main driver: tourism revenues from Russia (487% yoy)
 - Two factors: recovery from COVID-19 and relocation; statistical difficulties in distinguishing between these
- » 2023: normalisation in growth rate to 19.7% yoy expected
- » Explanation: relocation effect fades out, but vacation tourism still with sizeable dynamics
- » Normalisation in services exports dynamics after very strong 2022

Public finances

Budget balance



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

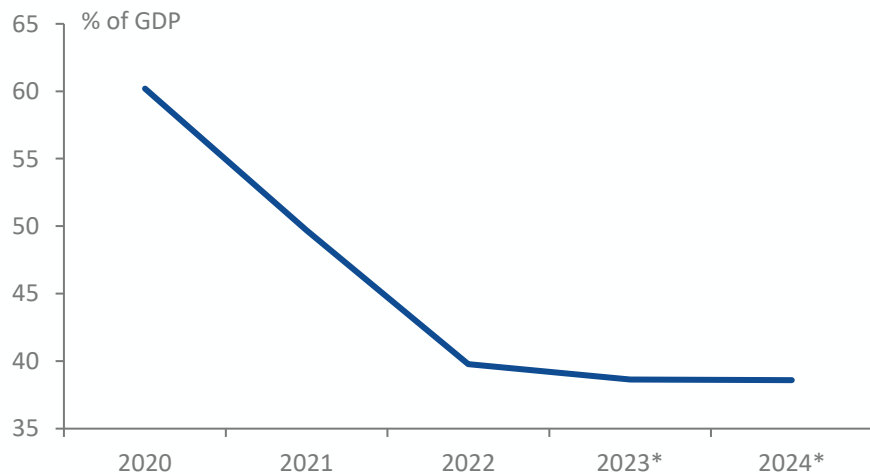
Budget balance

- » Deficit in 2022: 3.1% of GDP, on the back of high tax revenues
- » 2023/2024f: deficit below 3% of GDP

Public debt

- » 2022: strong reduction of the debt ratio on the back of high GDP growth and lari appreciation
- » Expectation for 2023/2024: stabilisation around 40% of GDP

Public debt



Source: Ministry of Finance, *estimate/forecast

IMF programme

- » 2022: approval of precautionary Stand-By Arrangement (USD 280 m), not utilized by authorities so far
- » But: important anchor for sound macroeconomic framework
- Budget consolidation continues
- Debt ratio stabilises

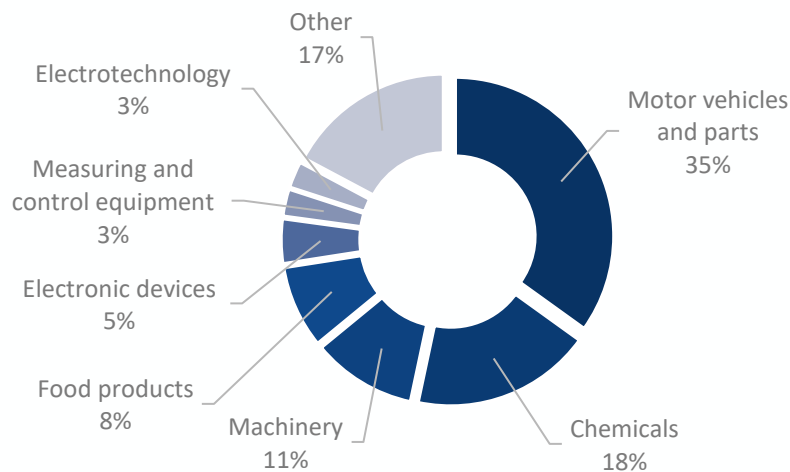
Bilateral trade between Germany and Georgia

German trade with Georgia



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

German exports



Source: German Federal Statistics Service, 2022; Note: trade in goods

Trade balance in 7M2023

- » German exports: EUR 450 m
- » German imports: EUR 56 m
- » Balance: EUR 394 m

German exports to Georgia

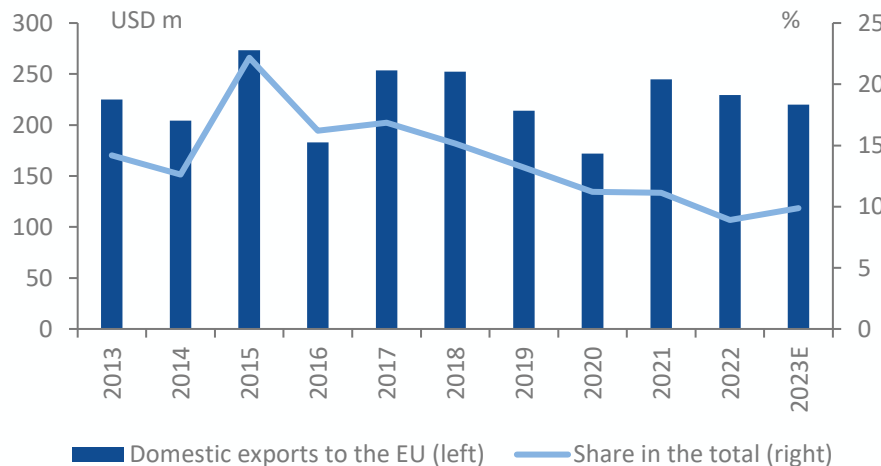
- » 7M2023: +70.5% yoy; strong growth
- » Main drivers: vehicles, machines, pharmaceutical products

German imports from Georgia

- » 7M2023: -3.7% yoy, slight decline
- » Reason: decline in imports of fruits and iron
- Very strong growth in exports on the back of vehicle exports
- Imports remain roughly stable

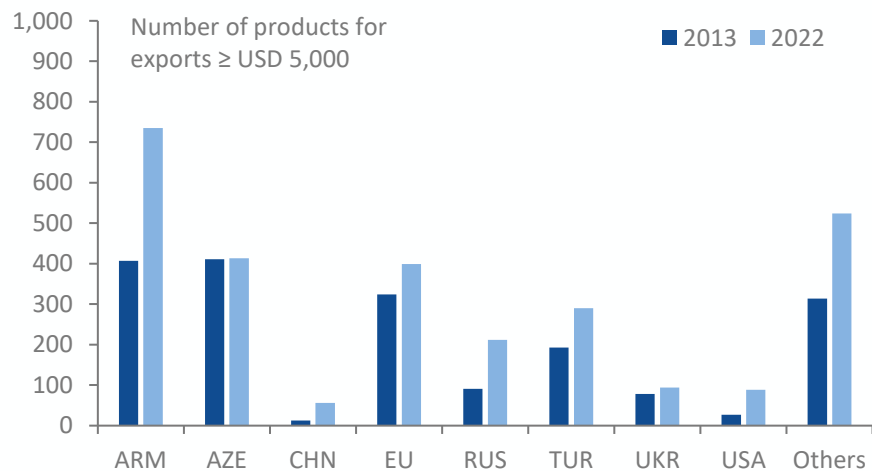
DCFTA: Georgian exports to the EU

Georgian domestic exports to the EU



Sources: WITS, own estimates

Georgia's domestic exports, number of products



Sources: WITS, own estimates; HS 6-digits (sub-heading)

Development of domestic goods exports*

- » 2022: USD 0.2 bn
- » +2% since 2013 (last year before DCFTA)

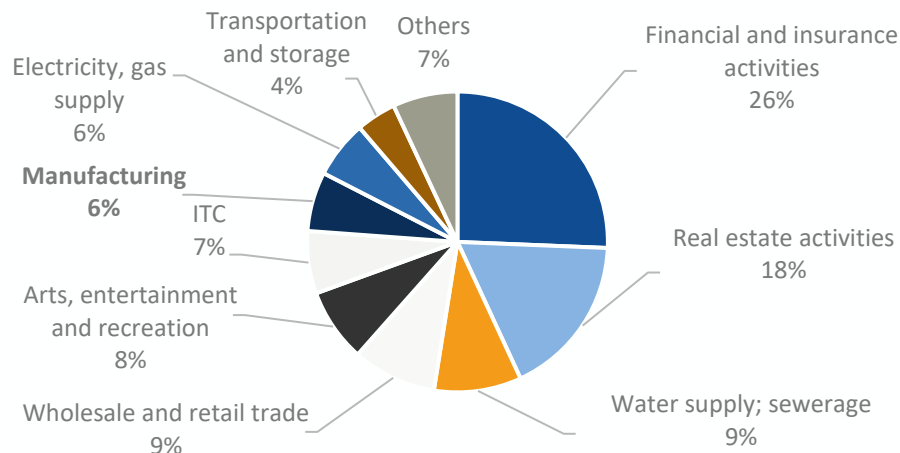
Changes in trade structure

- » Increase in number of exported products (around 400 in 2022)
- » Shift towards consumers goods (44%, +15 pp since 2013)
- » Shift towards processed goods (54%, +21 pp since 2013)
- » But: similar trends for other export destinations
- Modest increase in Georgian exports to the EU
- Advancements in trade structure; however: similar trends elsewhere

*We estimate domestic exports as gross exports minus re-exports, copper ores (difficulties in differentiation) and hazelnuts (harvest affected by marmorated stinkbug during studied period).

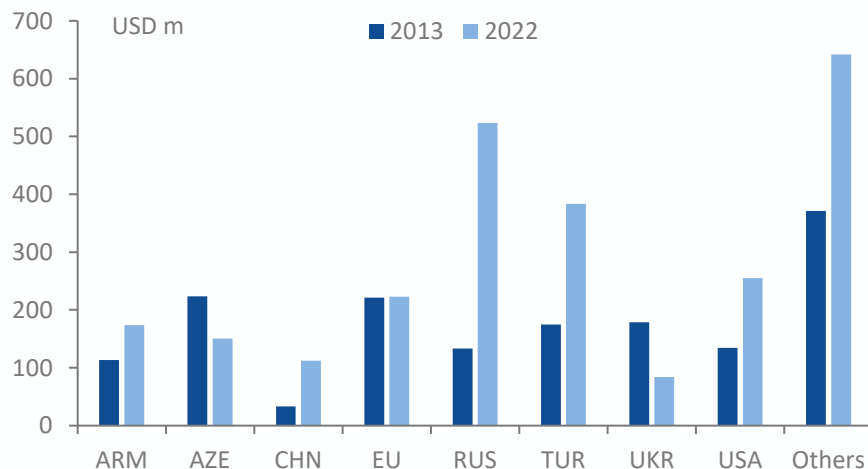
DCFTA: further steps necessary

Structure of FDIs inward inflow in Georgia, 2022



Source: Geostat

Geography of Georgian domestic exports



Source: WITS, own estimates

Reasons for limited DCFTA effect

- » Access to EU market
 - Tariffs low even before introduction of DCFTA
 - Reforms needed to remove non-tariff barriers to trade
- » Domestic production insufficient
 - Critical constraint for export expansion
 - Reasons: high (skilled) labour deficit, insufficiently developed transport infrastructure
 - Limited FDI in manufacturing and agriculture
- » Access to other markets
 - GEO has free trade agreements with all key trading partners except USA
 - Logistics with neighbours easier
- Further steps necessary to fully utilise benefits of DCFTA

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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