

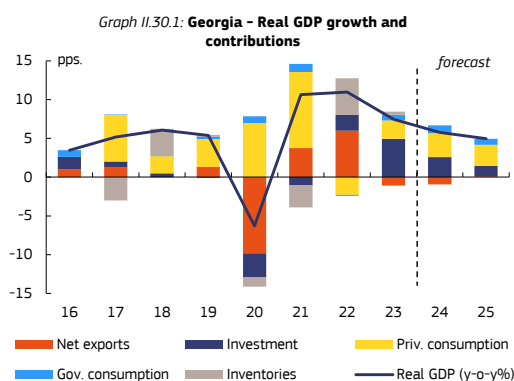
30. GEORGIA

Following the strong performance in 2021-2023, growth is forecast to remain robust at around 6% in 2024 and 5% in 2025, driven by private and public consumption and investment. Inflation is expected to remain well below the central bank's 3% target for most of this year and return to the target in 2025. The current account deficit is projected to widen to around 5% of GDP due to higher demand for imported goods, while the fiscal deficit is expected to further decrease.

Economic growth to remain robust

In 2023, Georgia's GDP growth was strong at 7.5%, although it slowed down from the two-digit expansion recorded in 2021 and 2022. Investment and consumption (both private and government) were the main growth drivers last year. They were stimulated by improved business confidence, rising wages and falling inflation, as well as by the impetus provided by the spending and the creation of new businesses by migrants from Russia. The contribution of net exports turned negative in 2023 as, despite growing revenues from tourism, lower external demand, especially for metallurgical products, weighed on growth of exports, while imports increased slightly faster than exports. On the supply side, the value added in services and construction increased significantly, driven by high domestic demand, while it declined in manufacturing.

Growth is projected to remain robust at 6% in 2024 and over 5% in 2025. Private consumption is set to be the main growth driver thanks to strongly increasing real wages, continuous employment growth and rising loan volumes supported by lower interest rates. Likewise, following the buoyant performance in 2023, investment growth should remain solid, in particular in 2024, supported by demand for lending, good financial results of enterprises in the previous year and strong public investment. The contribution of net exports to growth is expected to remain negative in 2024. The forecast is subject to a high degree of uncertainty linked to the geopolitical situation in the region affecting trade and the large tourism sector, but also to a risk of escalation of already high polarisation of the domestic political scene, which may have an adverse impact on business and consumer confidence.



Labour market improves, but remains challenging

Supported by the steady economic expansion, the situation on the labour market is projected to gradually improve, albeit at a slower pace and from a weak base. The unemployment rate decreased in 2023 by 0.9 pps to 16.4% and is projected to continue falling. Employment went up by 4% in 2023 and is set to grow more moderately until 2025. Wage growth is expected to slow down from the 20% increase (in nominal terms) recorded in 2023 but to remain higher than productivity growth.

Inflation to stabilise around the 3% target

Consumer price inflation fell from 9.8% in December 2022 to 0.5% in March 2024. This can be attributed to several factors such as falling global commodity prices (especially for energy and food) and the impact of the appreciation of the Georgian lari in 2022 and its gradual passthrough to prices. The central bank started to gradually loosen its tight monetary policy stance in May 2023, lowering the policy rate five times by 275 basis points in total, to 8.25% in March 2024.

Inflation is expected to gradually pick up and stabilise at around the 3% target from the second half of 2024. Price pressures stemming from services, partly related to wage growth, are set to push inflation up, while the dampening impact of imported inflation is gradually fading.

Current account deficit to widen

The current account deficit is expected to widen from the 4.3% of GDP recorded in 2023, mainly due to high domestic demand for imported goods, while export growth is restricted by the narrow export base and weak external demand for many items exported from the country, especially for metallurgical products. The deteriorating trade balance of goods is likely to be only partially compensated by a further increase in revenues from tourism, stimulated by investment in this sector and rising number of international flights. The inflow of remittances will slowly decrease, mainly due to the fact that the number of Russian migrants in Georgia (mostly working remotely for foreign companies) is diminishing.

Limited fiscal deficit, with public debt on a downward path

The general government deficit in 2023 turned out to be significantly lower than the 3% of GDP planned in the budget law, which reflected stronger tax revenue growth thanks to the higher-than-projected economic growth and one-off factors linked to increases in fees charged by general government entities. The budget deficit is expected to remain limited in coming years. Revenue is projected to increase substantially in 2024 thanks to the continuous economic growth and discretionary measures, such as increases in gambling fees and a tax reform in the banking sector. Expenditure is also set to rise due to an indexation of public sector wages, increased spending on education, social expenditure and other areas. The general government debt remained at the end of 2023 at the same level of 39% of GDP as a year before and is expected to decrease slightly over the forecast horizon.

Table II.30.1:

Main features of country forecast - GEORGIA

	2023			Annual percentage change						
	bn GEL	Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP	80.2	100.0		:	-6.3	10.6	11.0	7.5	6.0	5.2
Private Consumption	55.3	68.9		:	10.1	12.3	-2.8	3.2	5.0	4.5
Public Consumption	10.2	12.7		:	6.6	7.1	-0.8	6.1	8.0	5.0
Gross fixed capital formation	17.2	21.5		:	-13.1	-4.8	9.9	25.0	11.0	6.0
Exports (goods and services)	39.6	49.4		:	-37.6	23.5	37.4	8.2	6.4	5.9
Imports (goods and services)	45.7	56.9		:	-16.6	8.8	16.9	8.6	7.0	5.0
GNI (GDP deflator)	74.9	93.4		:	-6.6	8.3	11.0	8.3	6.9	5.7
Contribution to GDP growth:		Domestic demand		4.3	4.2	8.8	-0.5	6.9	:	:
		Inventories		0.3	-1.2	-2.9	4.7	0.4	:	:
		Net exports		-0.3	-9.8	3.8	6.0	-1.1	-0.8	0.1
Employment				-2.0	-4.2	-2.0	5.4	4.0	2.0	1.0
Unemployment rate (a)				20.7	18.5	20.6	17.3	16.4	15.8	15.5
Compensation of employees / head				:	:	:	:	:	:	:
Unit labour costs whole economy				:	:	:	:	:	:	:
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				:	6.8	10.2	8.1	2.5	2.0	3.0
Consumer price index				5.0	5.2	9.6	11.9	2.5	2.2	3.0
Terms of trade goods				:	5.7	-2.5	0.4	-4.8	-1.0	0.0
Trade balance (goods) (c)				-23.1	-19.8	-20.0	-20.2	-18.7	-20.2	-20.1
Current-account balance (c)				-11.4	-14.2	-12.2	-4.7	-4.3	-5.0	-5.2
General government balance (c)				-1.3	-8.9	-5.9	-2.2	-1.9	-2.0	-2.0
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				33.9	59.6	49.1	39.2	39.2	38.5	38.1

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.