



Research

GEORGIA MACRO OVERVIEW

Issue 6

February 2024



Main Findings

Economic Growth

Performance In 2023

Estimates Of Key Fiscal Indicators

Economic and Business Climate

BAG Index: Georgian Business Climate Index

Ifo Index: Georgian Economic Climate Index

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Reserves & Monetary Policy

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Money Transfers

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MAIN FINDINGS

- **Economic growth stabilized.** Georgia's economic growth remained robust (7.5%) in 2023, albeit at a slower pace than the previous two years.
- **These factors present positive developments of 2023:**
 - **Declining rate of inflation.** Both headline (2.5%) and core (3.8%) inflation decelerated considerably in 2023, resulting in key rate cuts.
 - **Further recovery in tourism.** The number of tourists and the income from international travel increased significantly in 2023.
 - **Higher efficiency in the labor market.** With decreased unemployment and eased job openings, labor market efficiency increased in 2023.
 - **Positive business and economic climates.** Throughout 2023, the business and economic climates have been positive, with higher than pre-pandemic expectations for the future.
- **These factors present adverse developments of 2023:**
 - **The diminishing of some one-off factors connected to Russia.** Money transfers from Russia decreased, and trade with Russia declined in 2023.
 - **Demand and prices for Georgia's top exported goods have decreased.** Global demand and prices for copper ores and ferro-alloys have lowered, negatively affecting Georgian exports.

- **Weaker performance was observed in specific sectors during the first 9M of 2023.** Several major sectors experienced a decline annually (manufacturing, health, real estate activities), while certain sectors exhibited slower growth rates than the first 9M of 2022 (accommodation).

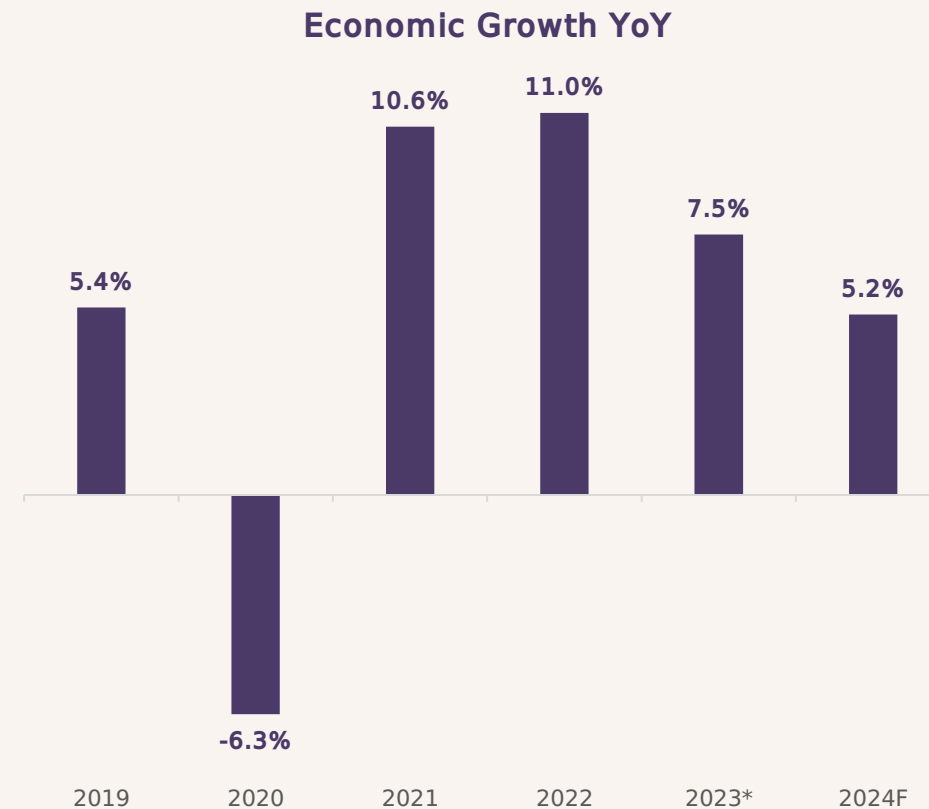
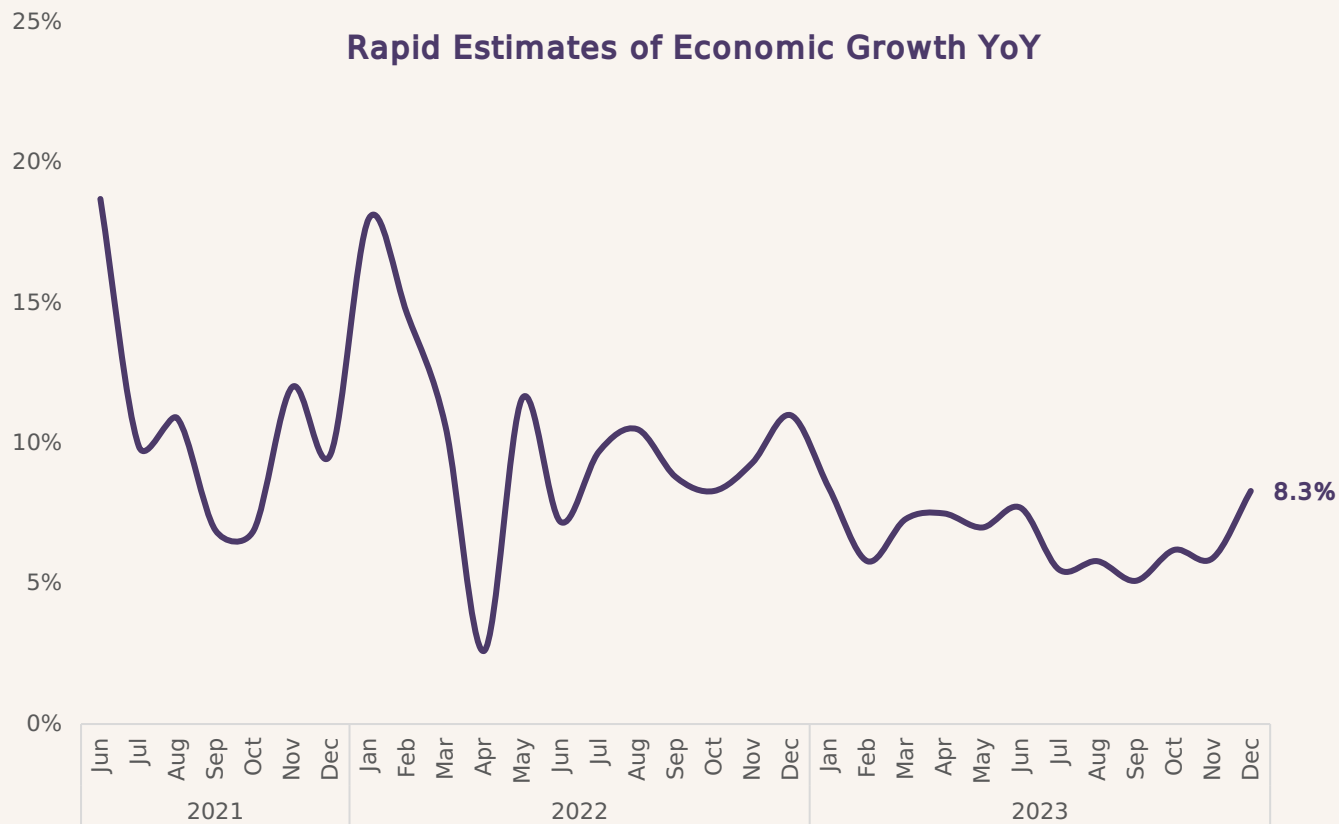
Outlook for 2024

Georgia is reverting to its traditional modest growth pattern

- **Outlook:** In 2024, Georgia's outlook is marked by stable growth, with the climate defined by the attainment of EU candidate status and the anticipation of upcoming elections later this year.
- **GDP:** Slower growth is forecasted for 2024, with a real GDP growth of 5.2% (2.3 pp lower than 2023).
- **Trade:** Export and import growth are projected to decline significantly compared to previous years.
- **Inflation:** Headline inflation is projected to remain below the 3% target, averaging 2.8% in 2024.
- **Fiscal indicators:** Government debt, budget deficit, and CA deficit are expected to remain around the same level in 2024 as in 2023.
- **Tourism:** Further recovery is expected, albeit with risks from regional conflict effects and delayed opening of the Azerbaijani border.



ECONOMIC GROWTH: PERFORMANCE IN 2023



- Georgia's economy has experienced a **slowdown** in growth in 2023. However, despite the deceleration, the economy still maintains substantial growth numbers - the **growth** in 2023 amounted to 7.5%.

- In 2024, Georgia's economic growth is expected to **return** to its conventional patterns as the impact of external factors from the previous year diminishes.

* Preliminary data

** In February 2024, the GeoStat revised its estimates for economic growth.

F: Forecast by the Ministry of Finance of Georgia



ECONOMIC GROWTH: SECTORAL PERFORMANCES

Selected Sectors	Nominal GDP, mIn GEL, 9M 2023*	Real GDP Growth	
		9M 2023* / 9M 2022*	9M 2023* / 9M 2019
Information and communication	1714.7	25.8%	153.2%
Construction	2357.3	17.9%	-1.2%
Education	1720.4	15.9%	47.8%
Wholesale and retail trade	4838.3	13.0%	31.7%
Accommodation and food service activities	1030.6	8.3%	-9.0%
Financial and insurance activities	1549.6	7.2%	31.2%
Real estate activities	3497.8	-1.8%	3.2%
Manufacturing	2913.4	-3.3%	14.3%
Human health and social work activities	1191.9	-11.5%	0.2%

* Preliminary data

- Significant **contributions** to **real GDP growth** In 2023 were made by the sectors including wholesale and retail trade, information and communication, construction, education and accommodation and food service activities.
- Overall, **Information and communication** has shown strong growth in 9M of 2023, compared to 9M of 2022 (+25.8%),

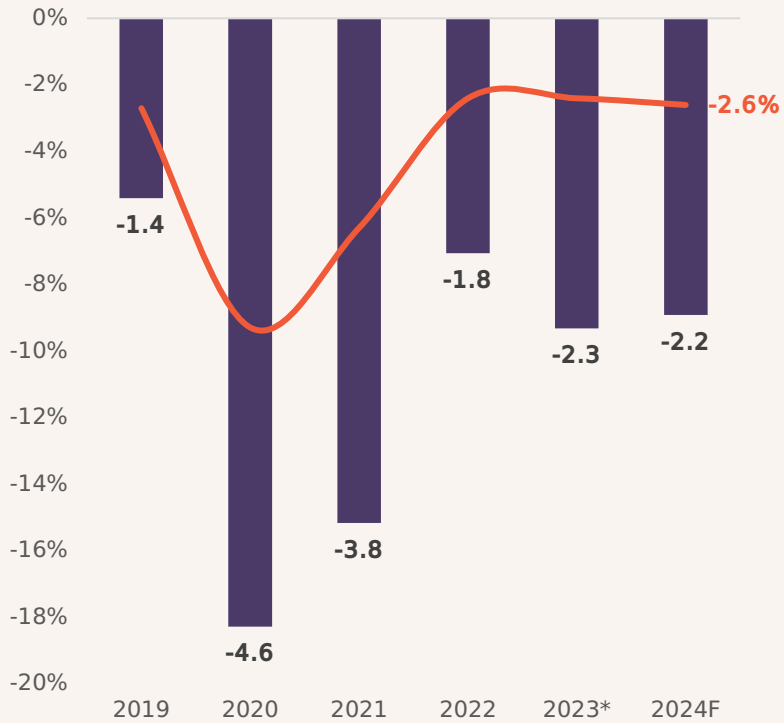
marking the third consecutive year of high growth in the ICT sector in Georgia, in line with the sector boom in the country.

- **Education** has experienced one of the highest growth rates (15.9%) in 9M of 2023, mainly driven by increased budget allocation. Georgia's government raised education spending by up to 30% compared to 2022.

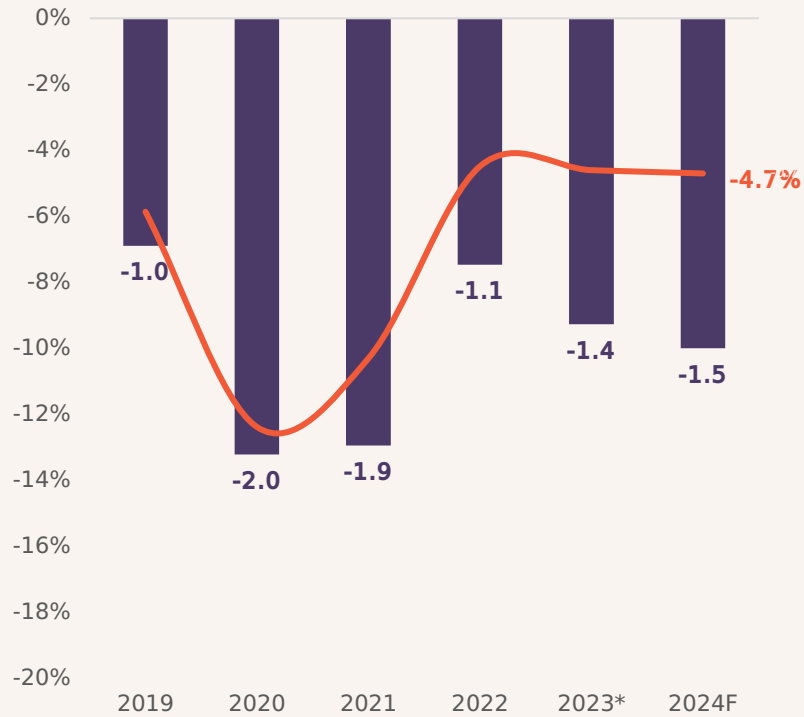


ECONOMIC GROWTH: ESTIMATES OF KEY FISCAL INDICATORS

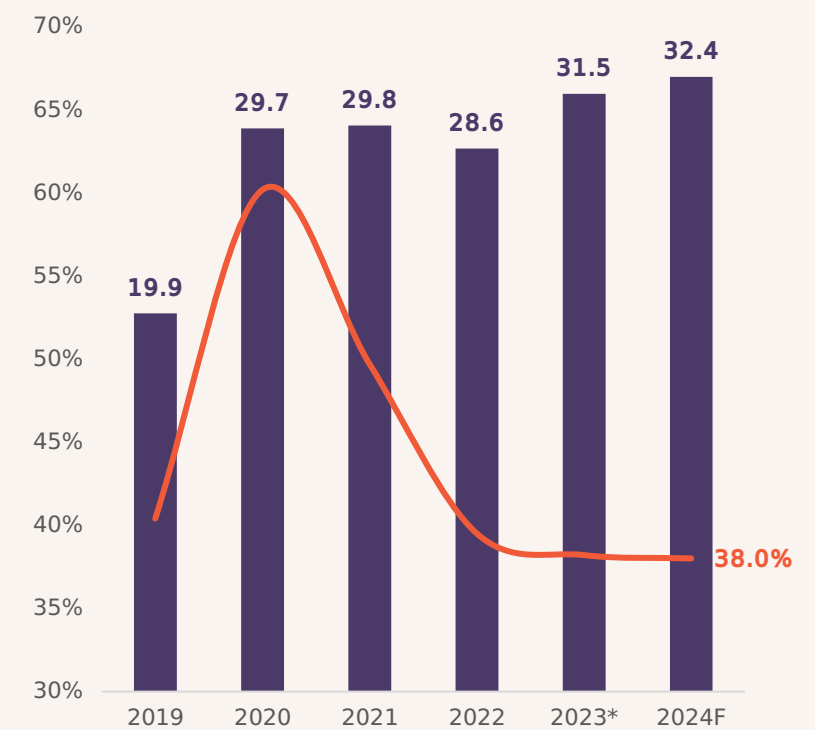
Budget Deficit



CA Deficit



Government Debt



■ Budget Deficit, bln GEL — Budget Deficit, as % of GDP

■ CA Deficit, Bln USD — CA Deficit, as % of GDP

■ Government Debt, bln GEL — Government Debt, as % of GDP

• The Ministry of Finance of Georgia (MoF) has updated its **estimates of key macroeconomic indicators** for 2024.

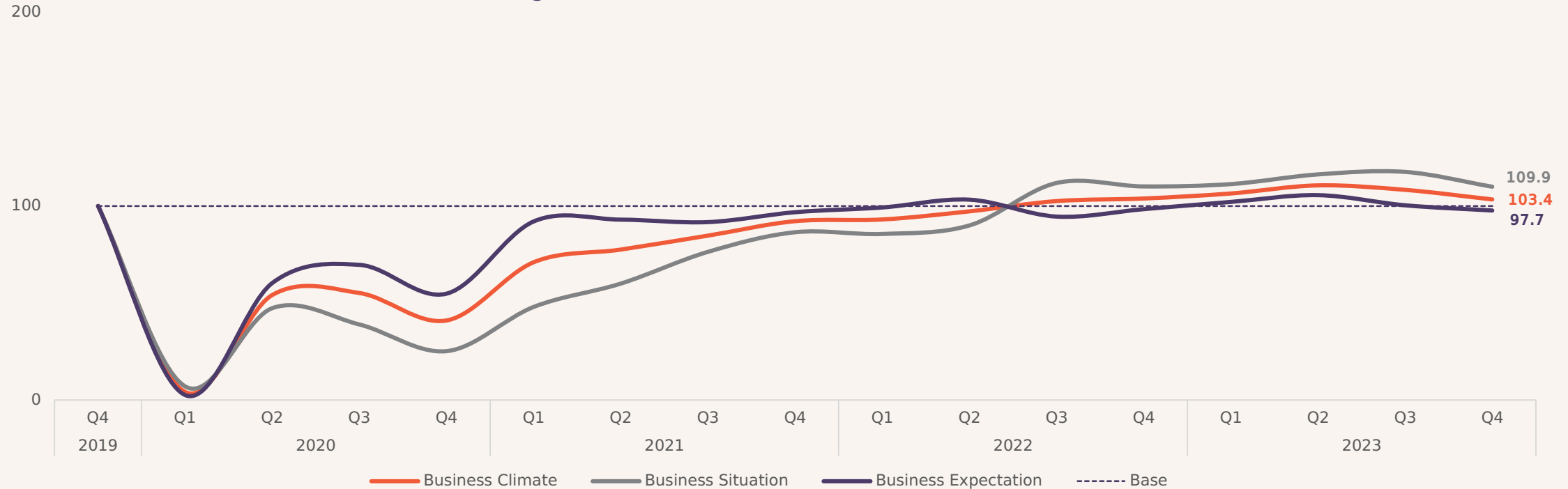
• According to the MoF forecasts for 2024, there are **no significant changes** expected in the budget deficit, current account deficit, and government debt.

* Preliminary data



ECONOMIC AND BUSINESS CLIMATE: BAG INDEX

Georgian Business Climate Index, 2019 Q4=100*



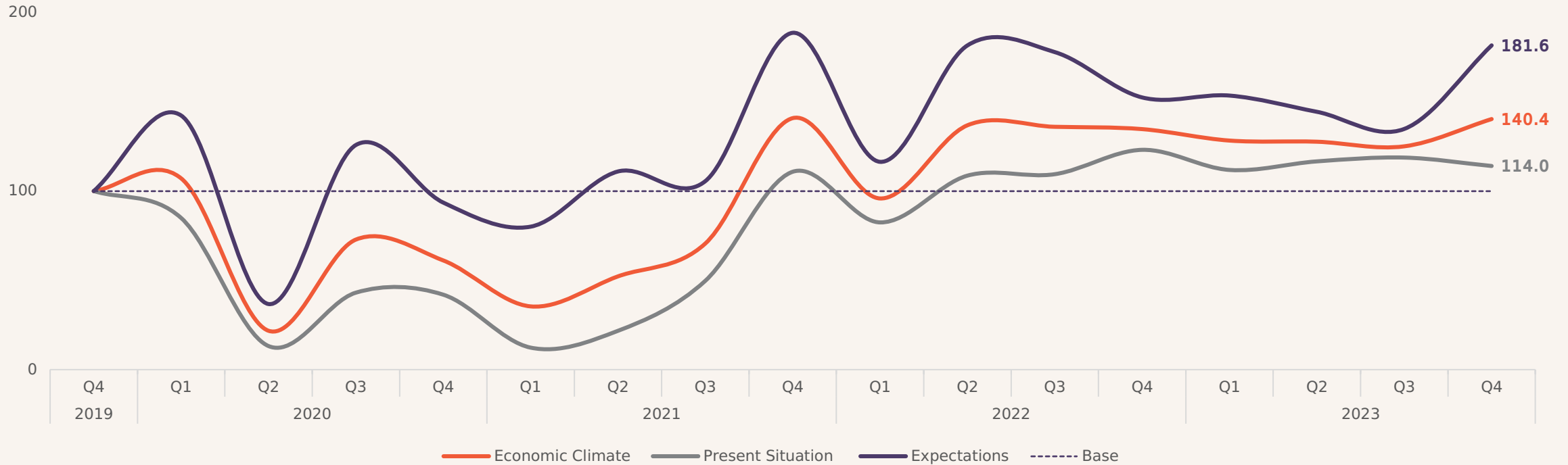
- Georgian businesses assess the business climate to be slightly more favorable than that of the pre-pandemic period. In Q4 of 2023, compared to the pre-pandemic period (Q4 of 2019), the **BAG Business Climate Index** (Q4 of 2019=100) increased by 3.4 points. Though business **expectations** declined (-2.3) compared to the pre-pandemic levels, during this period, the assessment of the present business **situation** improved (+9.9).

- During and after the pandemic, business situation and expectations worsened significantly. However, with the **Russo-Ukraine war**, the assessments of business situation and expectations improved markedly, signaling a positive shift from the pandemic's challenges. However, as the effects of the war begin to diminish, the assessments of business situation and expectations might deteriorate.

* The presented index, derived from the business climate, sets the Q4 of 2019 as the base at 100. It is important to note that values above 100 in the graph indicate that the current climate/present situation/expectations are higher than the assessment based on the reference period of Q4 of 2019, rather than the positive value of the actual index. Conversely, values below 100 suggest a relative decline. This index serves as a standardized tool for evaluating changes in the business environment over time. For the actual climate values, see the [BAG Index](#).



Georgian Economic Climate Index, 2019 Q4=100*



- Georgian economists assess the economic climate to be more favorable than that of the pre-pandemic period. In Q4 of 2023, compared to the pre-pandemic period (Q4 of 2019), the **Georgian Economic Climate Index** (Q4 of 2019=100) increased by 40.4 points. Additionally, during this period, the assessment of the present economic **situation** (+14.0) and

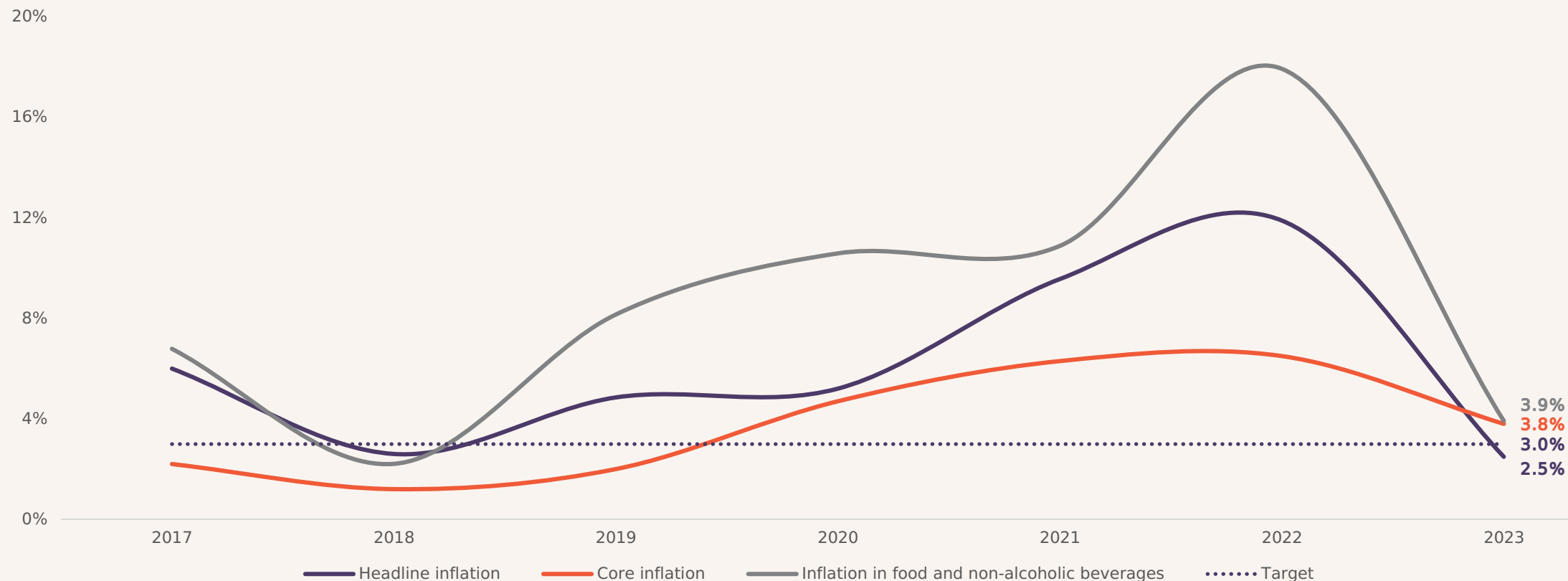
- expectations** (+81.6) improved compared to the pre-pandemic levels.
- The significant rise in expectations in Q4 of 2023 might reflect the optimistic assessments of Georgian economists driven by the anticipation of the European Council's decision to grant Georgia **EU candidate status**.

* The presented index, derived from the economic climate, sets the Q4 of 2019 as the base at 100. It is important to note that values above 100 in the graph indicate that the current climate/present situation/expectations are higher than the assessment based on the reference period of Q4 of 2019, rather than the positive value of the actual index. Conversely, values below 100 suggest a relative decline. This index serves as a standardized tool for evaluating changes in the economic environment over time. For the actual climate values, see [Georgian Economic Climate](#).



KEY MACROECONOMIC INDICATORS: INFLATION

Average YoY Inflation



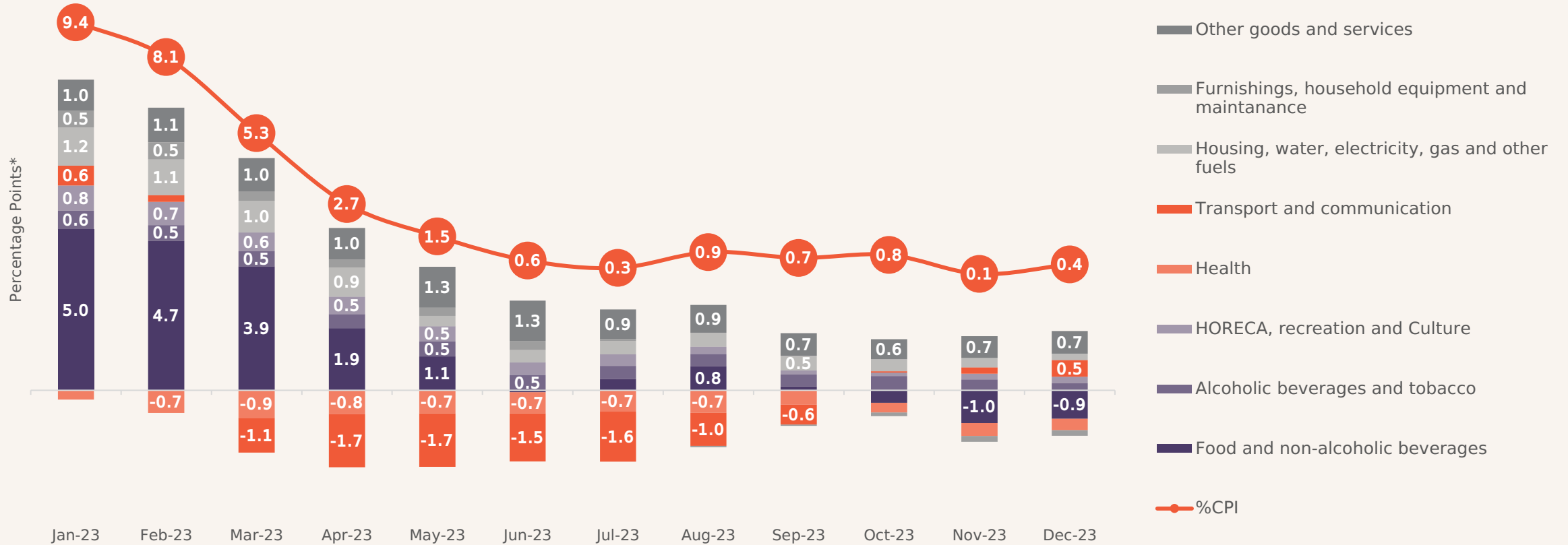
- **Headline inflation** reached below the target level in 2023 (2.5%) and is forecasted to remain below, averaging 2.8% in 2024.
- **Core inflation** followed a decreasing trend in 2023, though

- more steadily, averaging 3.8% in 2023.
- In 2023, the primary inflationary driver of 2019-2022 - **food and non-alcoholic beverages** - has notably declined, easing inflationary pressures.



KEY MACROECONOMIC INDICATORS: INFLATION

Contributions of Different Spending Categories to the Monthly YoY Inflation, pp



- **Inflation** has a declining trend in 2023. Inflation has shown a significant **slowdown** from January to December of 2023, coming down to 0.4 percentage points (pp) from 9.4 pp.

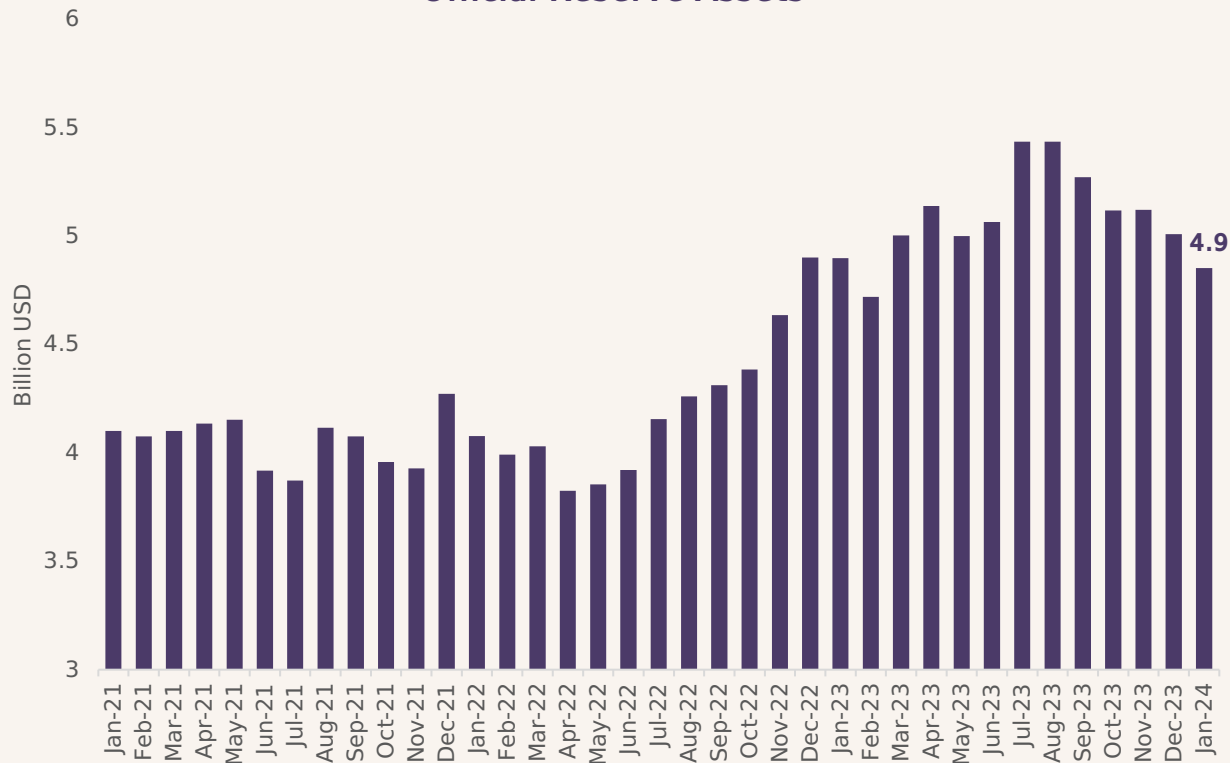
- The reduction in inflation in 2023 can be attributed to lower inflation rates in food and non-alcoholic beverages, along with **deflation** in transport & communication and health.

* The absolute values below 0.5 are not labeled on the graph.

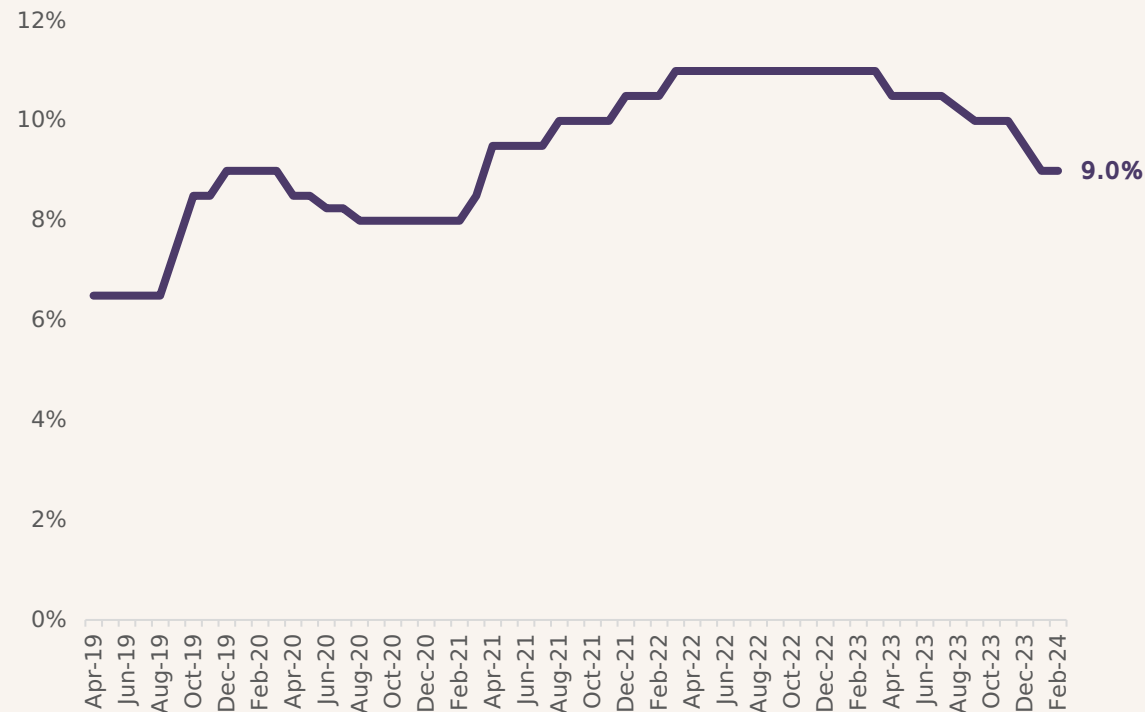


KEY MACROECONOMIC INDICATORS: RESERVES & MONETARY POLICY

Official Reserve Assets



Monetary Policy Interest Rate



- 2023 was record-breaking for **official reserve assets**, reaching an all-time high of US\$5.4 billion in August 2023. After peaking, official reserve assets decreased by US\$583 million as of January 2024, following measures implemented to stabilize exchange rate fluctuations after NBG's September actions.*

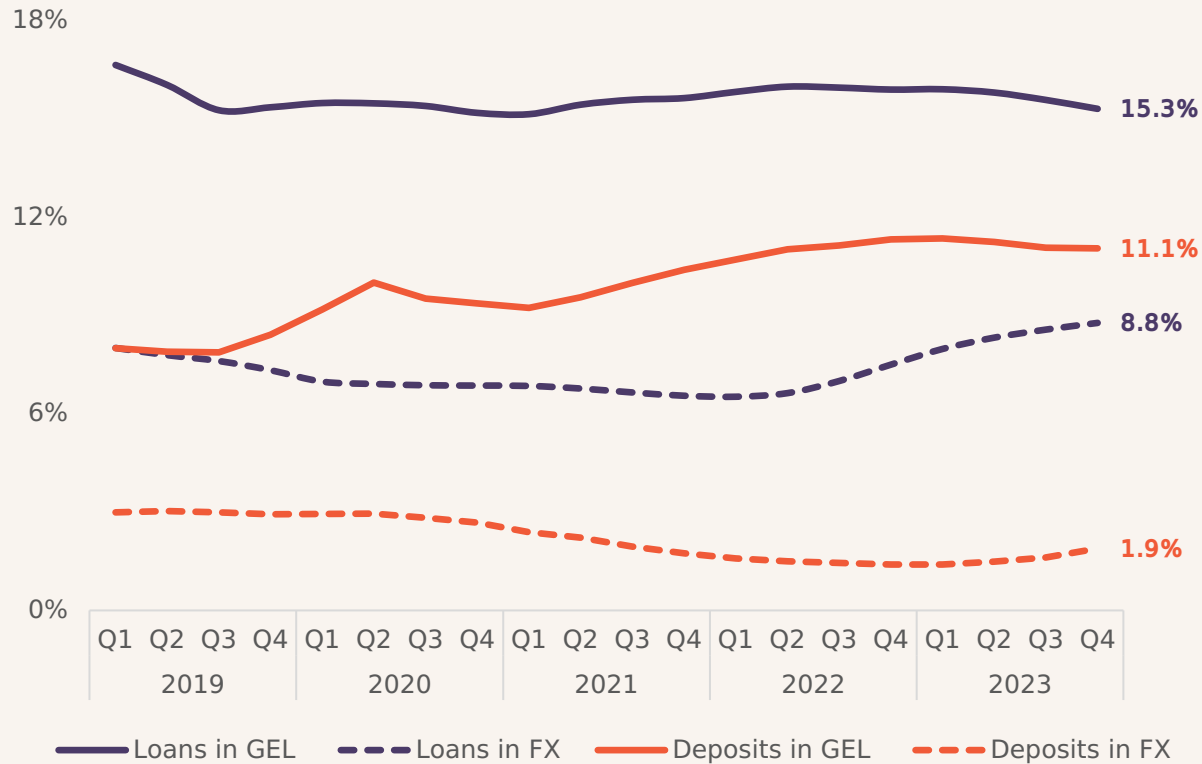
- In January 2024, the NBG decreased the **monetary policy rate** to 9.0%, explaining the decision by lower-than-target inflation. Notably, the NBG anticipates further relaxing its monetary policy stance throughout 2024.

* For more detailed information, please refer to [Macro Overview – issue 5](#), p9.

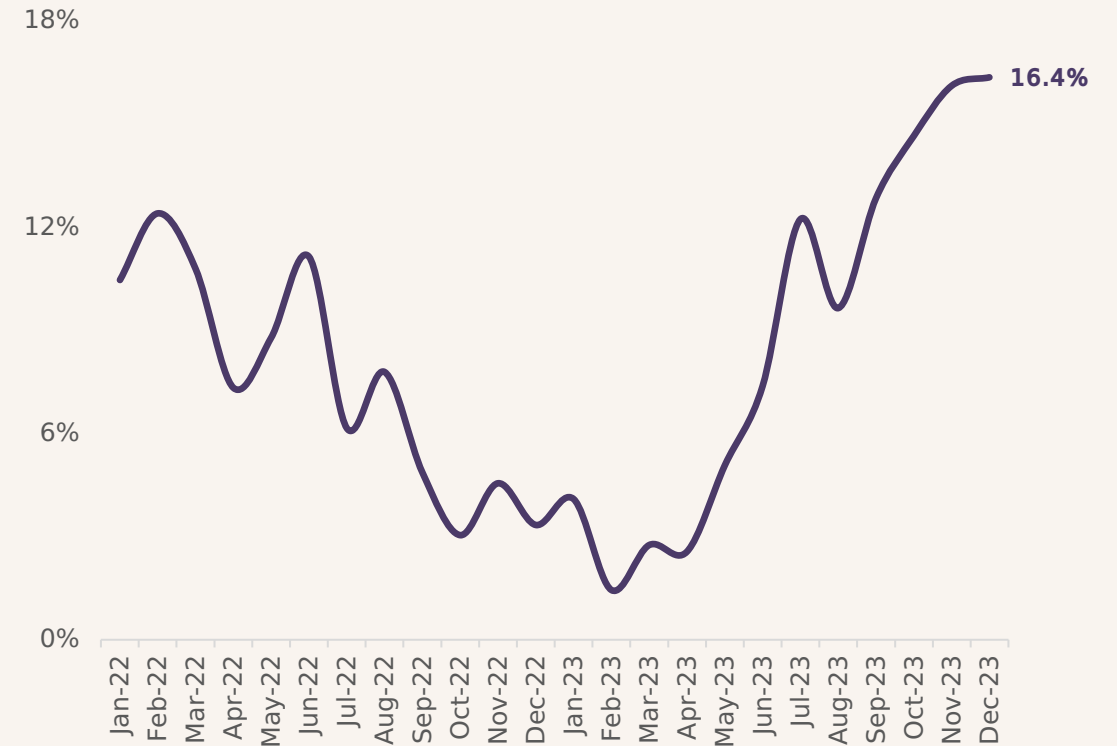


KEY MACROECONOMIC INDICATORS: INTEREST RATES

Interest Rates on Bank Loans/deposits



Private Sector Credit Growth (YoY)



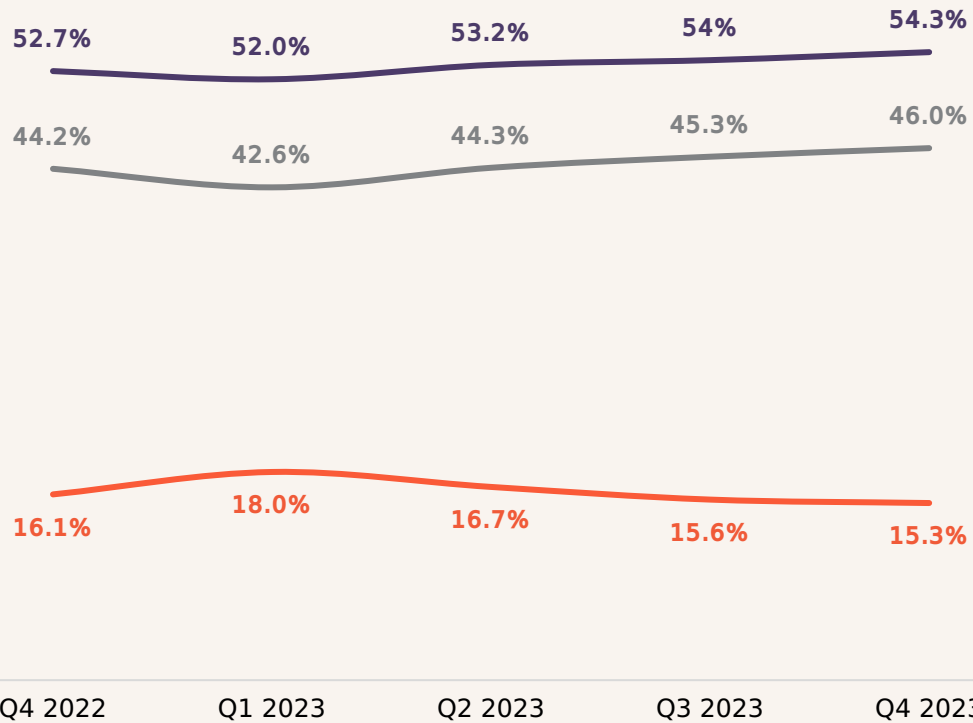
- In 2023, **interest rates** on loans denominated in GEL have remained consistently around 15%, while interest rates on FX loans have increased, aligning with the NBG's policies to mitigate high dollarization in the country.

- In 2023, **private sector credit** increased on average by 9%, with more pronounced growth in the second half of the year.

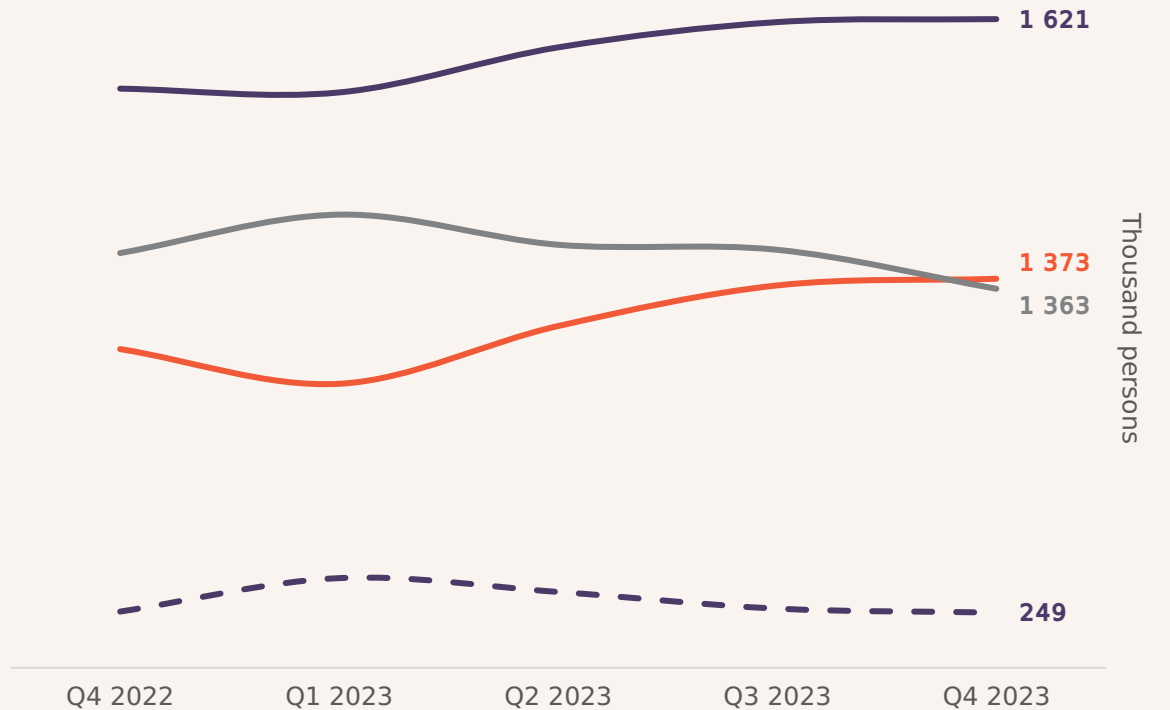


LABOR MARKET: EMPLOYMENT

Labor market indicators



— Unemployment rate — Labor force participation rate — Employment rate



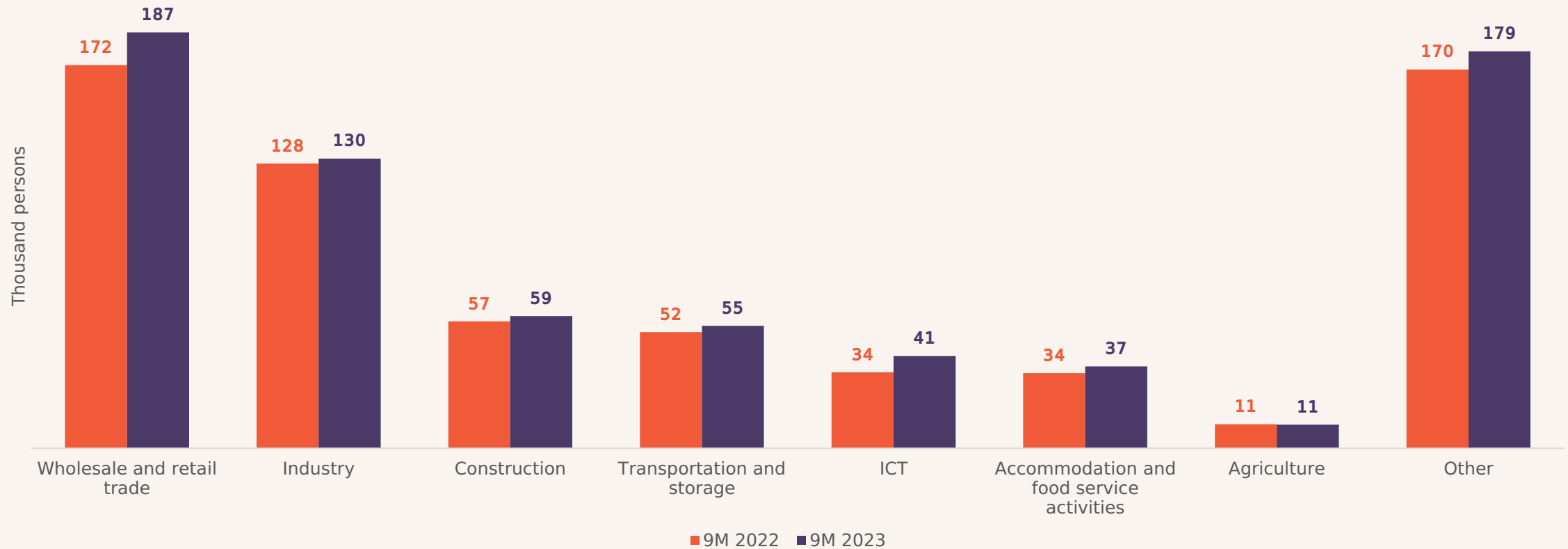
— Labor force — Employed — Population outside the labor force - - Unemployed

- Labor market indicators are showing slow improvements. In Q4 of 2023, compared to Q4 of 2022, the **labor force** increased by 4.3%, and the **population outside the labor force** decreased by 2.4%.

- In Q3 2023, employed individuals **outnumbered** those outside the labor force for the first time, signaling a notable shift in employment dynamics and potentially reflecting improved economic conditions.



Number Of Employees By Kind Of Economic Activity



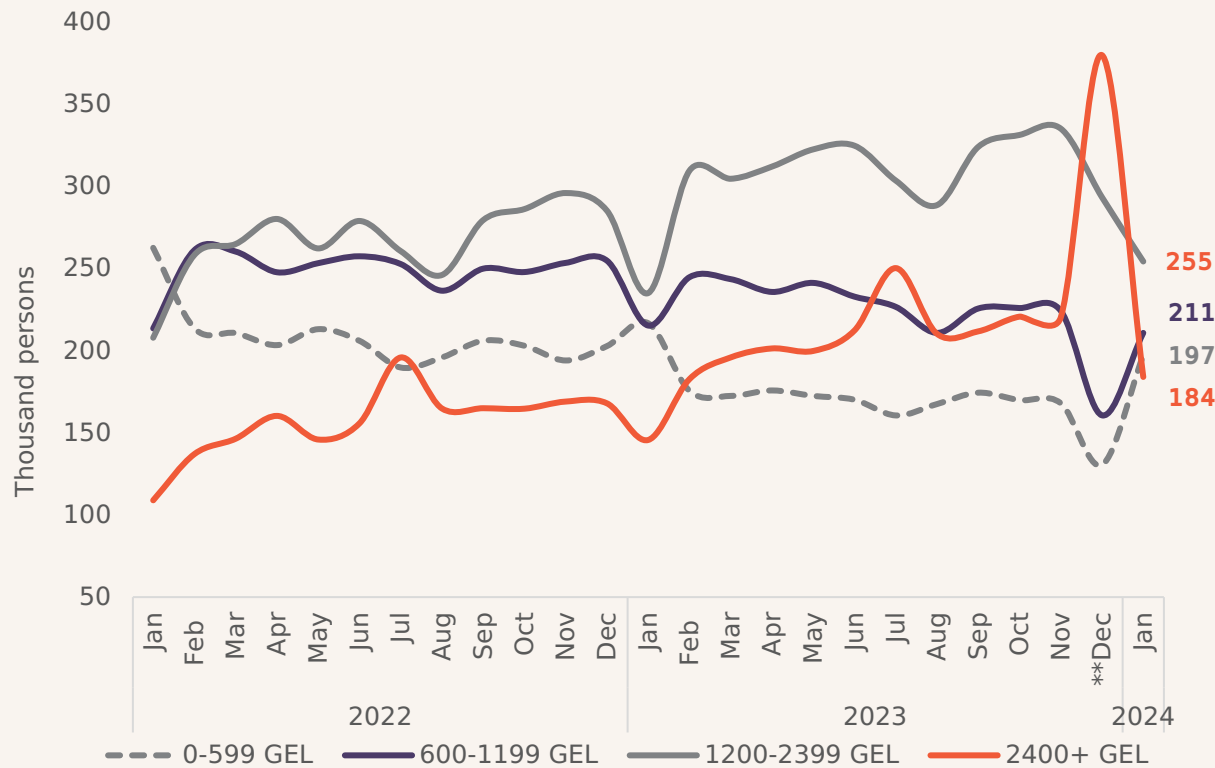
• In 9M of 2023, compared to 9M of 2022, the number of **employees in the business sectors** in Georgia increased by 40

thousand persons (+6.2%, compared to the 9M of 2022), amounting to nearly 700 thousand persons.

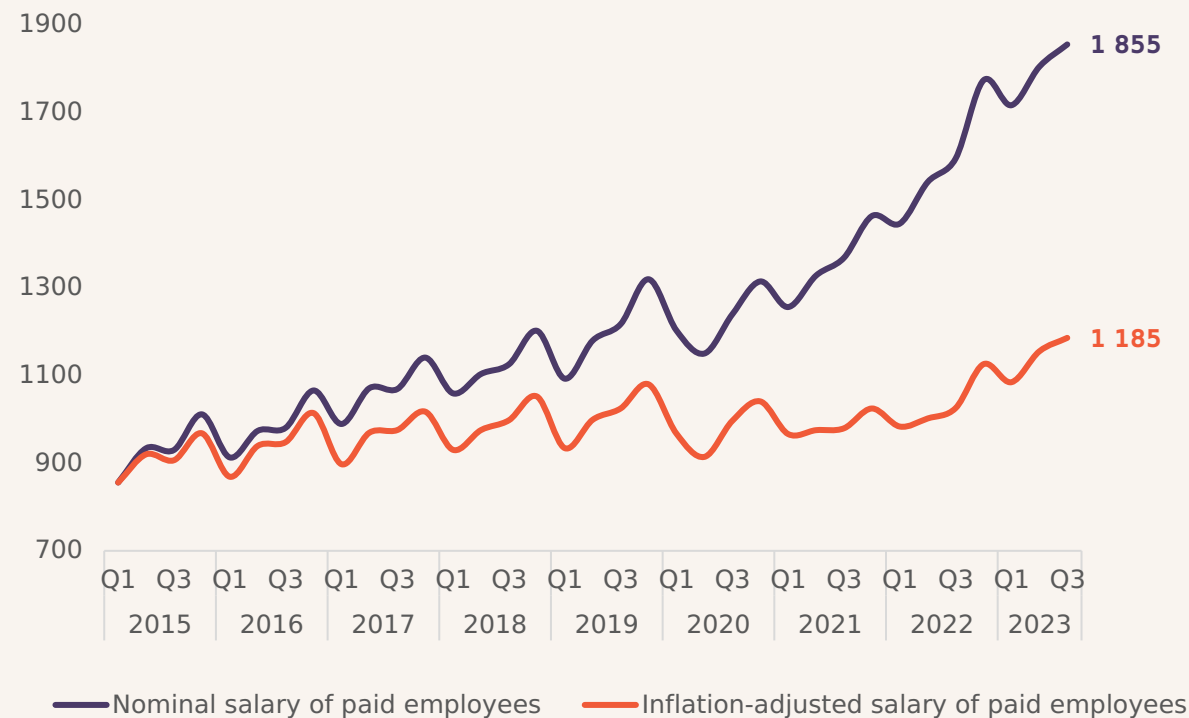


LABOR MARKET: SALARIES

Number of Persons Receiving a Salary, by Salary Range



Nominal and Inflation-Adjusted Salaries of Paid Employees, 2015-2023 Q3



- There is a noticeable trend of decreasing the number of persons in the **lower salary range** (up to 600 GEL), while the number of people in the **higher salary range** (2400 GEL or more) is increasing.

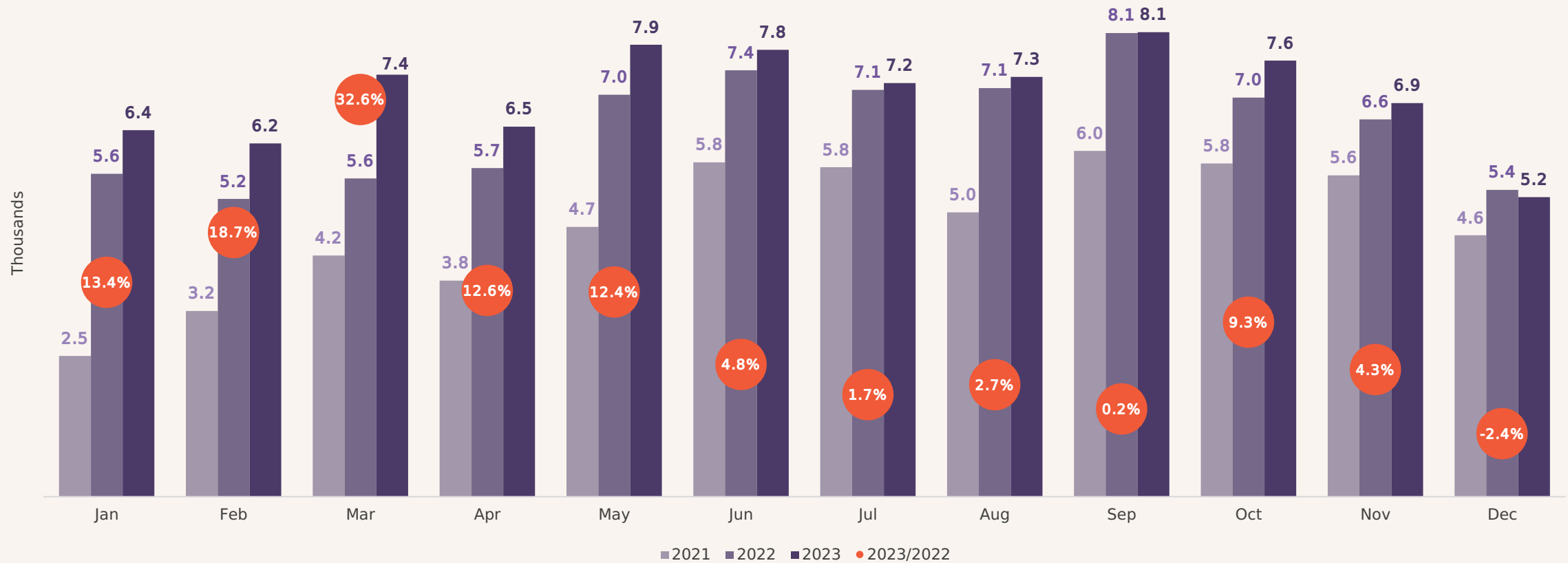
- Compared to the base in Q1 2015, nominal salaries increased by 116.8% in Q3 2023. However, adjusting for inflation, **real salary** growth was 38.5%. During this period, the real growth was highest in Q3 of 2023 (+15.6%, YoY).

*The data provided by Revenue Service is not final and might slightly change. (Last viewed on 13.02.2024). The data represents gross salaries.
 **The decrease of the share of 0-599 GEL and 600-1199 GEL categories in December 2023 was largely due to a notable number of people receiving the 13th salary.



LABOR MARKET: VACANCIES

Number of Published Vacancies on Jobs.ge

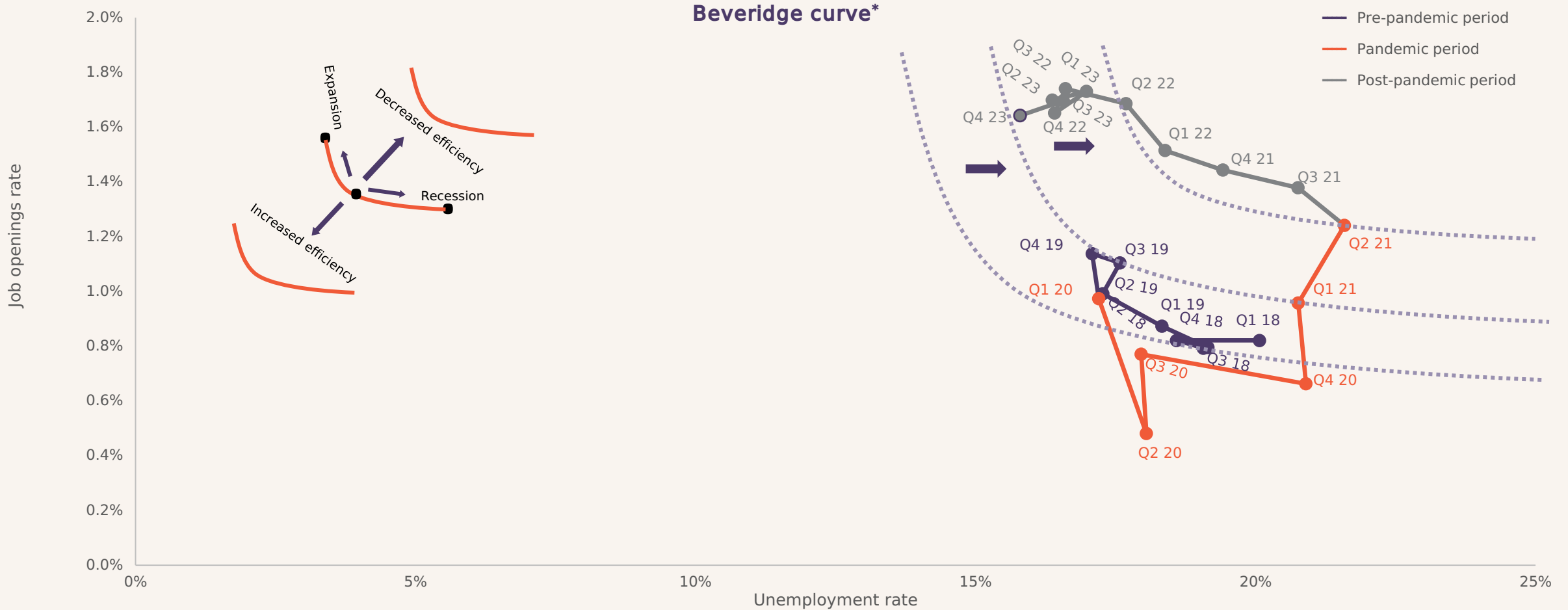


• The number of **vacancies** is increasing, though, it must be noted that the YoY **growth** of the number of vacancies in

2023 (+8.5%) has been significantly lower compared to the YoY growth in 2022 (+36.6%).



LABOR MARKET: BEVERIDGE CURVE



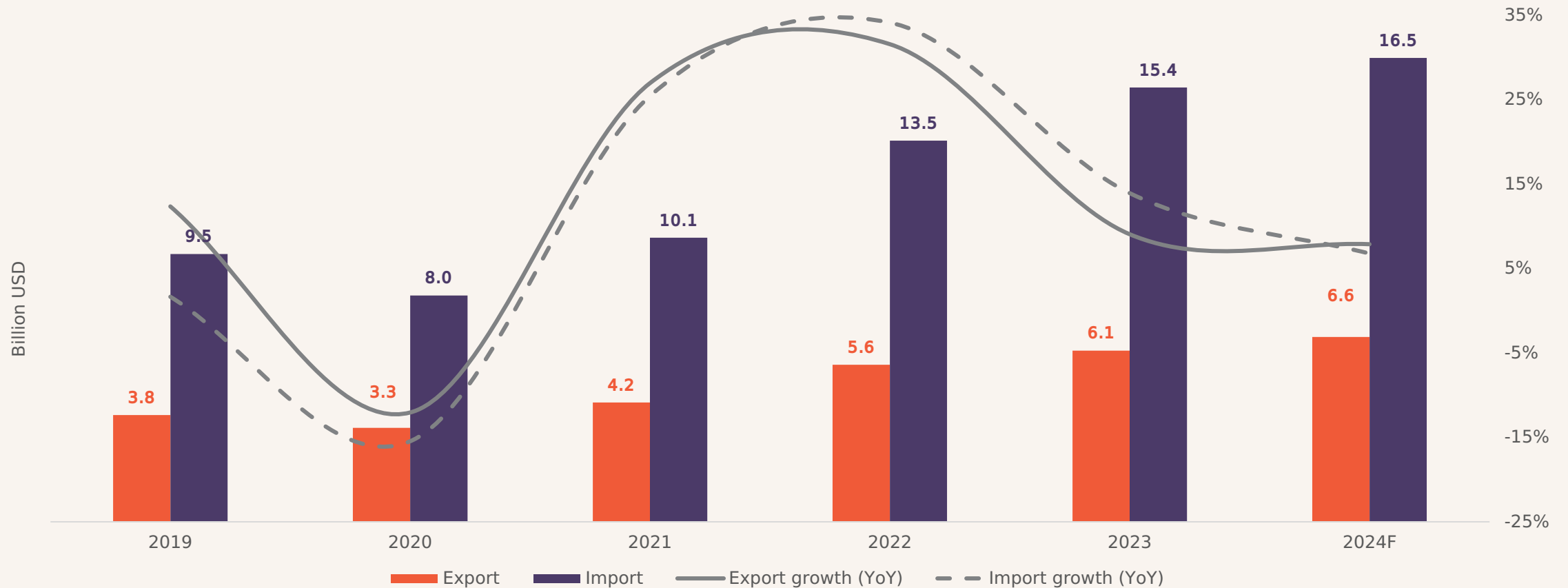
- According to the seasonally adjusted **Beveridge curve**, in Q4 2023, the **efficiency** of the labor market **increased**, compared to Q3 2023, as the unemployment rate decreased and the job

openings rate fell, indicating further movement toward the pre-pandemic efficiency level.

* The Beveridge curve – Employment Tracker



Georgia's Imports and Exports and Growth Rates YoY



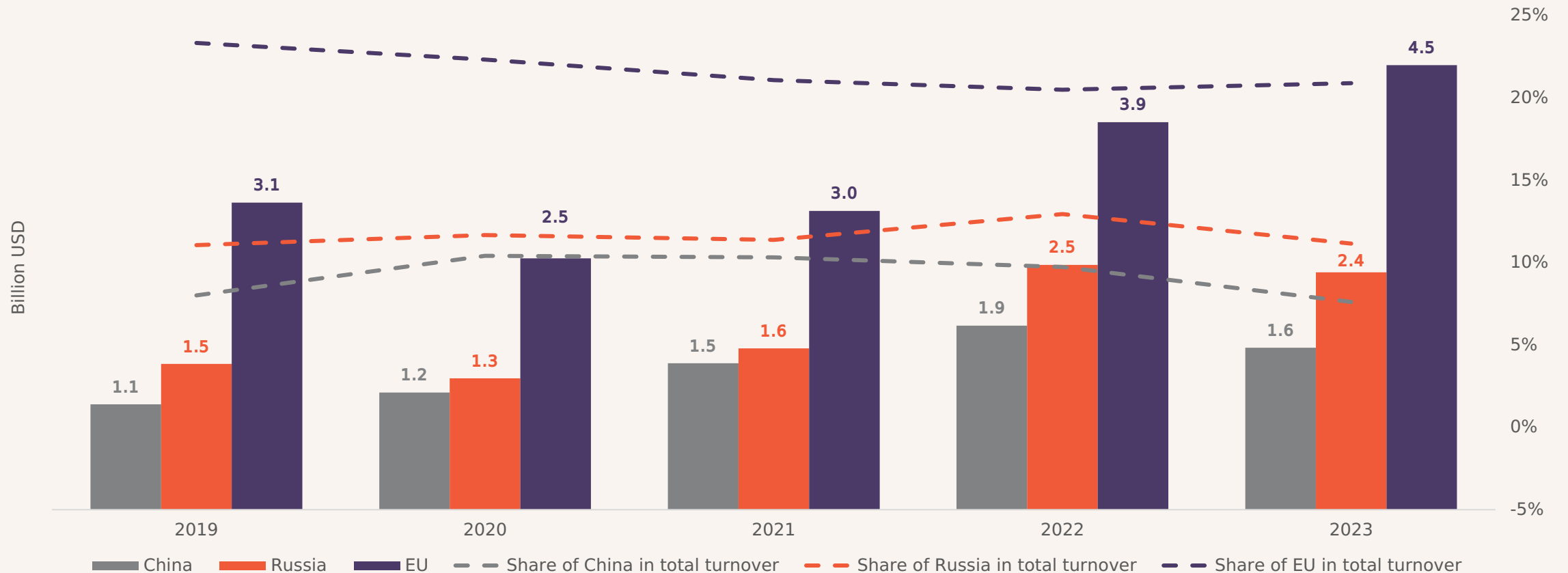
• In 2023, compared to 2022, Georgia's **external trade turnover** increased by 12.5% (exports by 9.1%, imports by 14.0%). Over the same period, the **trade deficit** in Georgia increased by 17.4%.

• In 2024, the MoF projects **exports** to increase by 7.9%, while **imports** are expected to grow by 6.8%.



EXTERNAL SECTOR: TRADE

Georgia's External Trade Turnover With China, Russia, and the EU

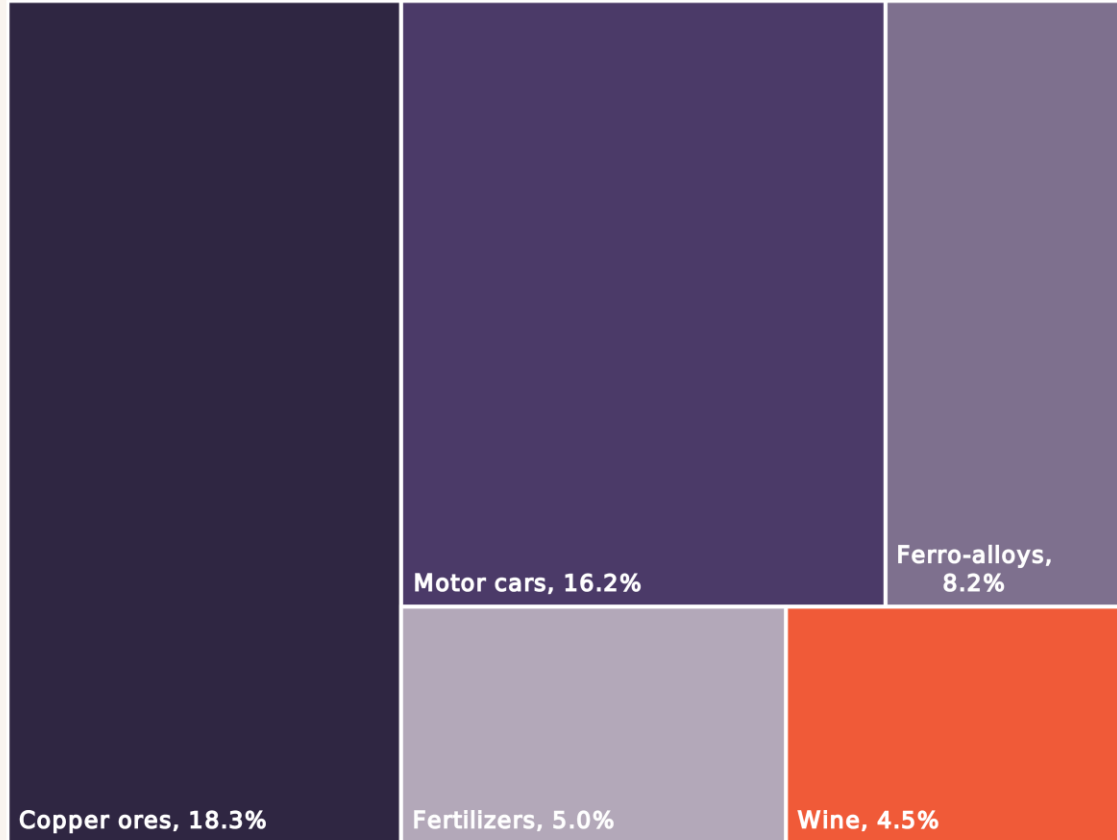


- In 2023, compared to 2022, Georgia's **trade turnover** increased with the EU (+14.7%) and decreased with Russia (-3.1%) and China (-12.0%).

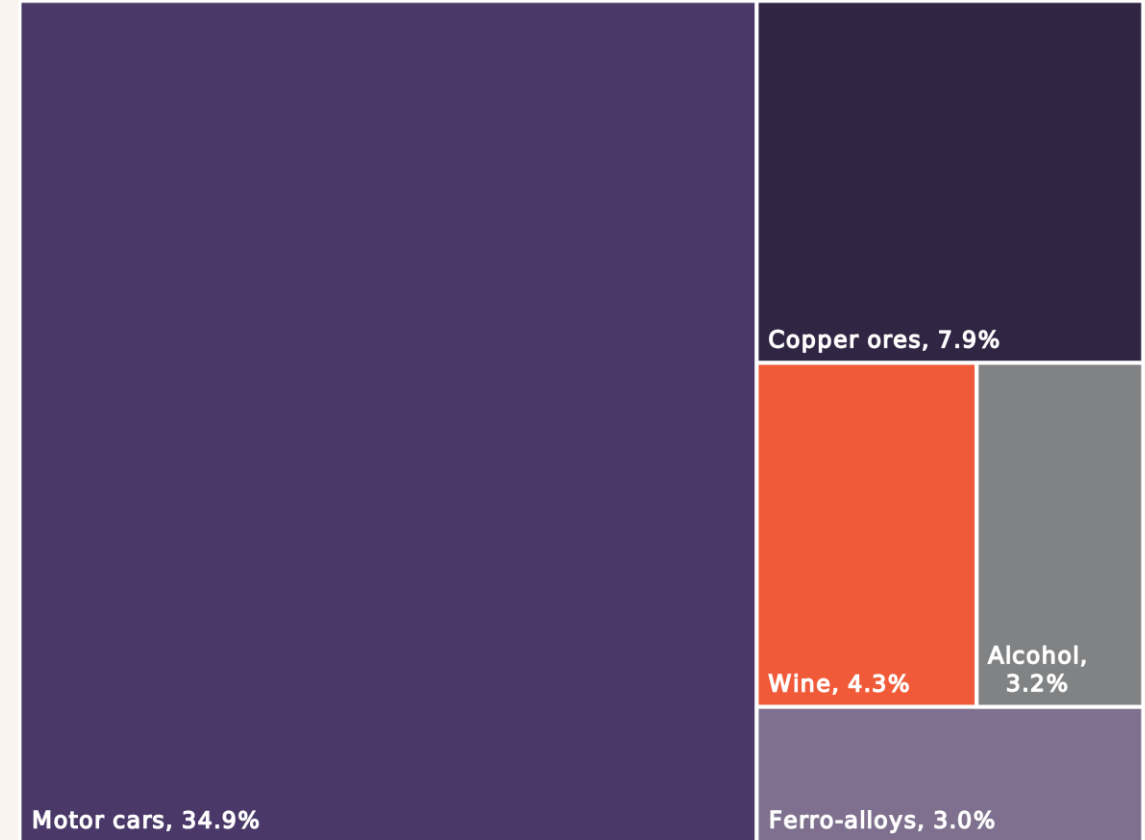
- Similarly, in 2023, compared to 2022, the EU's share in international trade increased (+0.4 pp), while the share of Russia (-1.8 pp) and China decreased (-2.1 pp).



Share of Major Commodity Positions by Exports (2022)



Share of Major Commodity Positions by Exports (2023)

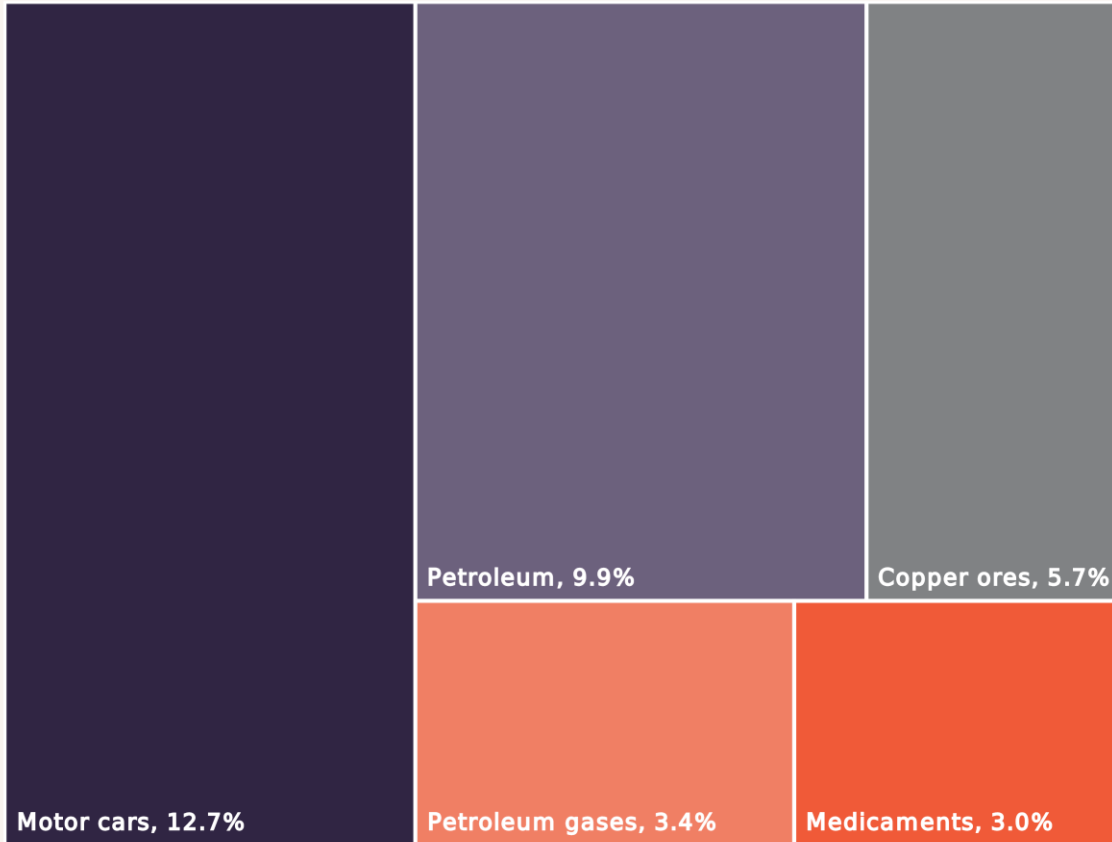


- In 2023, compared to 2022, there was a significant shift in the composition of **primary commodity exports**. Motor cars (US\$ 2.1 bln) took the lead, while the share of copper ores

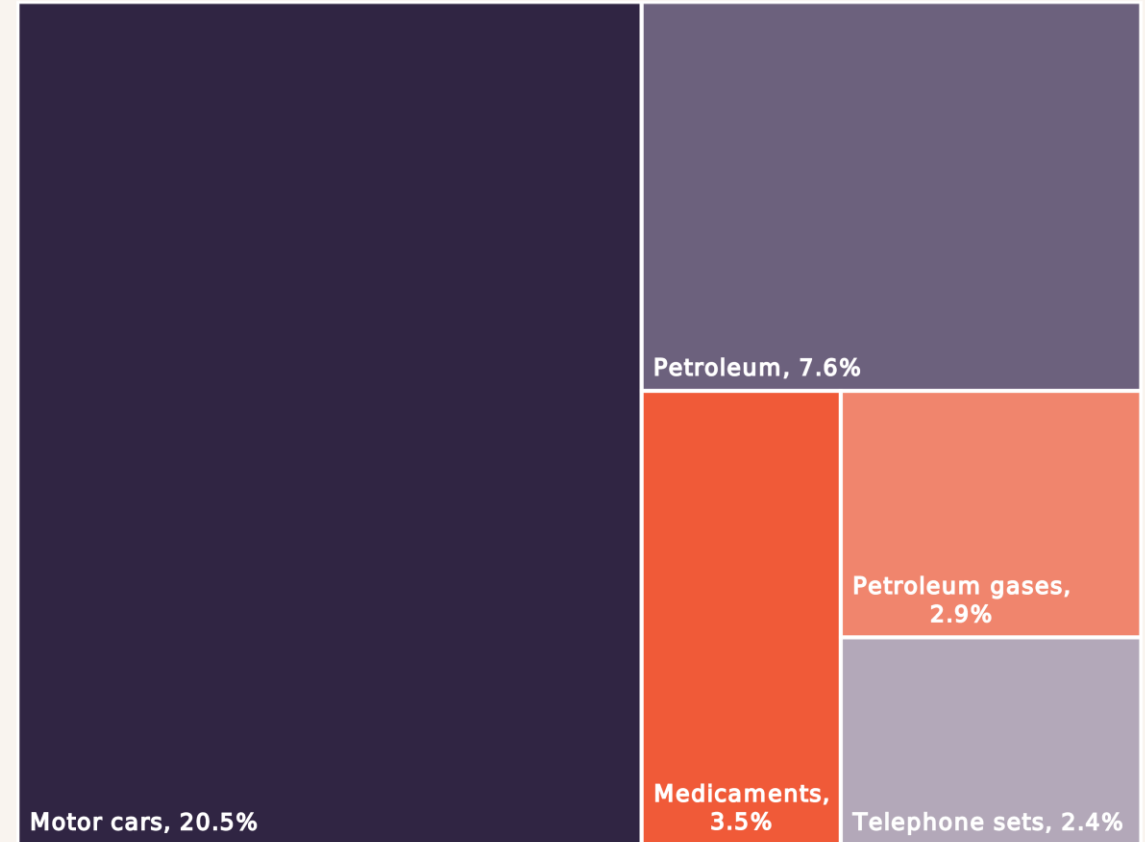
(US\$ 479 mln) and Ferro-alloys (US\$ 181 mln) decreased drastically, aligning with reduced global demand and declining market price of the commodities.



Share of Major Commodity Positions by Imports (2022)



Share of Major Commodity Positions by Imports (2023)



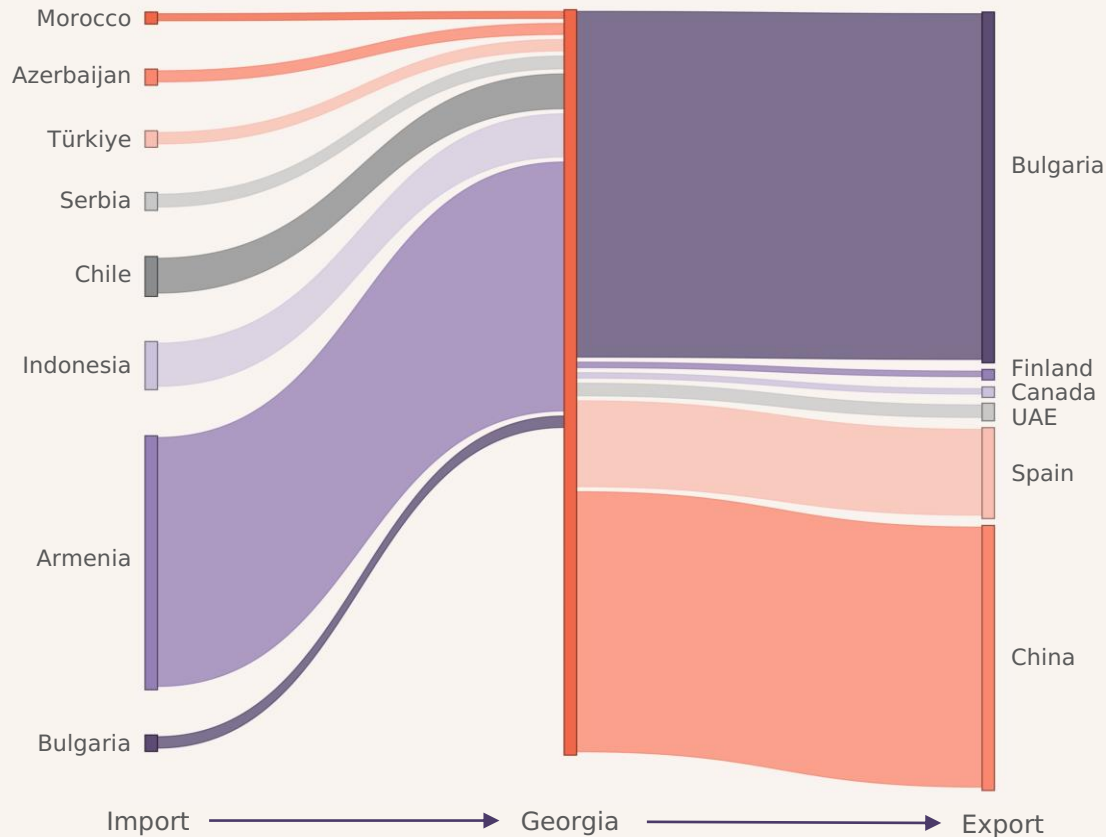
• In 2023, compared to 2022, there were some changes in the composition of **primary commodity imports**. Notably, the share of motor cars (US\$ 3.2 bln) in imports nearly doubled.

• Likewise with exports, the share of **copper ores** (US\$ 237 mln) in the total imports has fallen significantly and no longer held a position within the primary commodity imports in 2023.

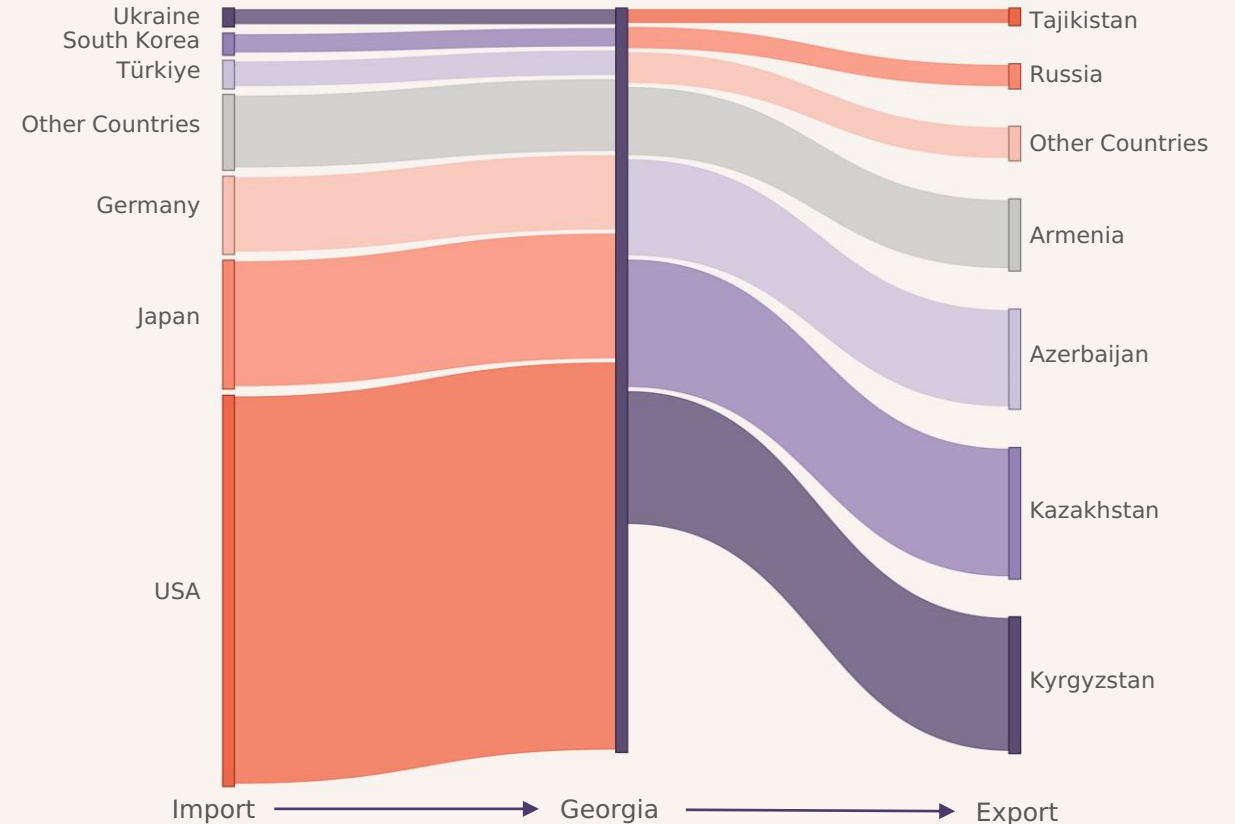


EXTERNAL SECTOR: TRADE OF KEY COMMODITIES

Import-Export Flows of Copper Ores in 2023



Import-Export Flows of Motor Cars in 2023



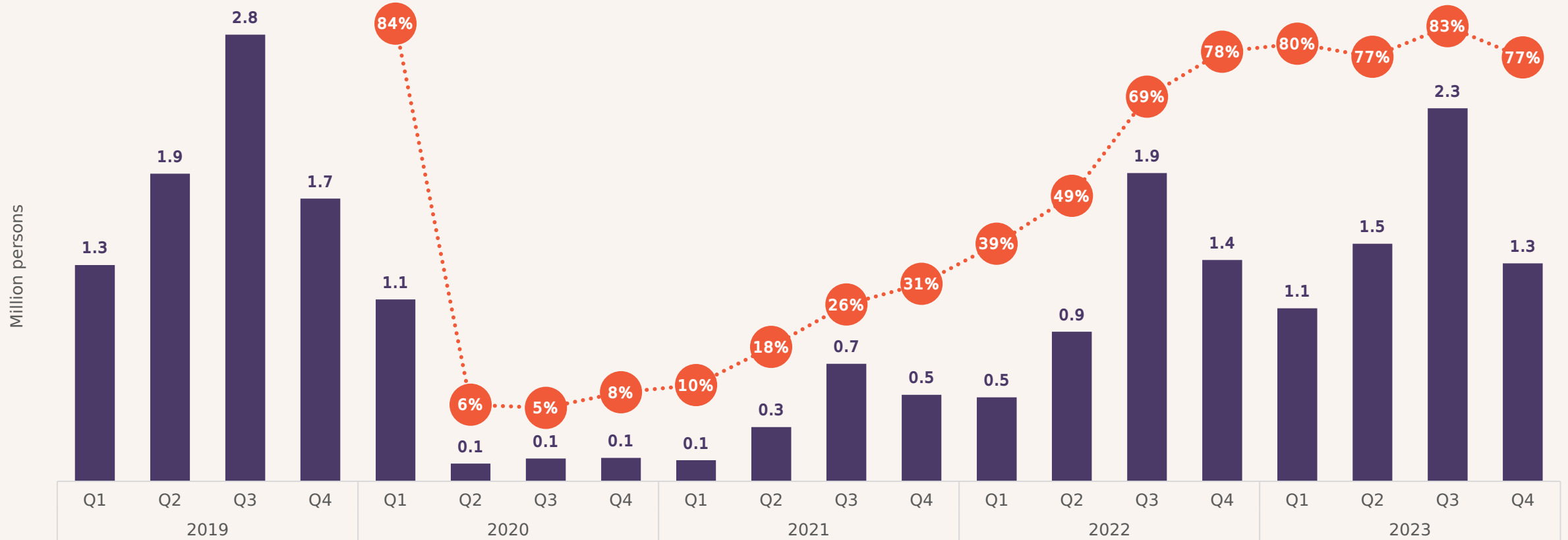
• Copper ores, along with motor cars, are among the most **important commodities** for Georgia's external trade, representing significant shares in both imports and exports.

• Despite Russia's limited share in car exports, exports to Kyrgyzstan (+1,048%) and Kazakhstan (+4,547%) experienced notable increases compared to 2019, suggesting a potential **indirect route to the Russian market**.



EXTERNAL SECTOR: TOURISM

Total Number of International Visitors and Those Visits as a Percentage of Corresponding Figure in 2019



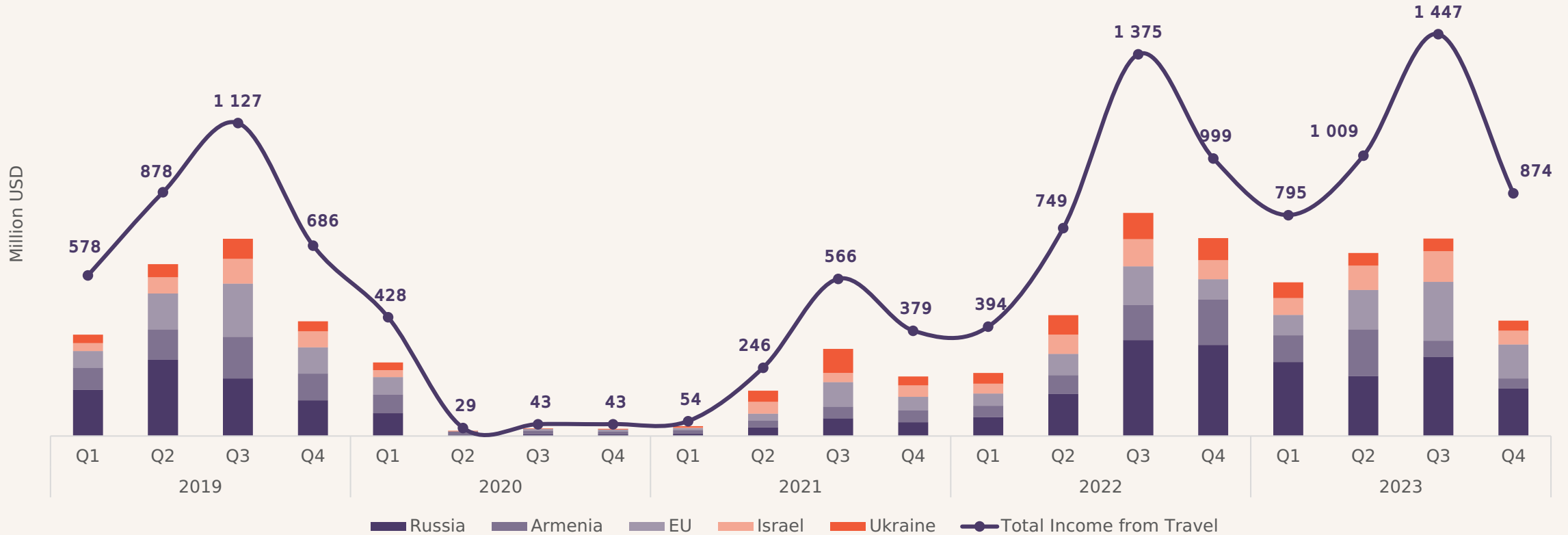
• In 2023, the number of **international visits*** to Georgia reached 80% of the level recorded in 2019.

• In Q4 of 2023, tourism **recovery** was negatively affected by a decrease (-37.1%, YoY) in the number of Israeli tourists, as Israel is one of the top markets for Georgian tourism.

* Individuals who have not yet left Georgia are not included in the statistics.



Total Income From International Travel by Countries



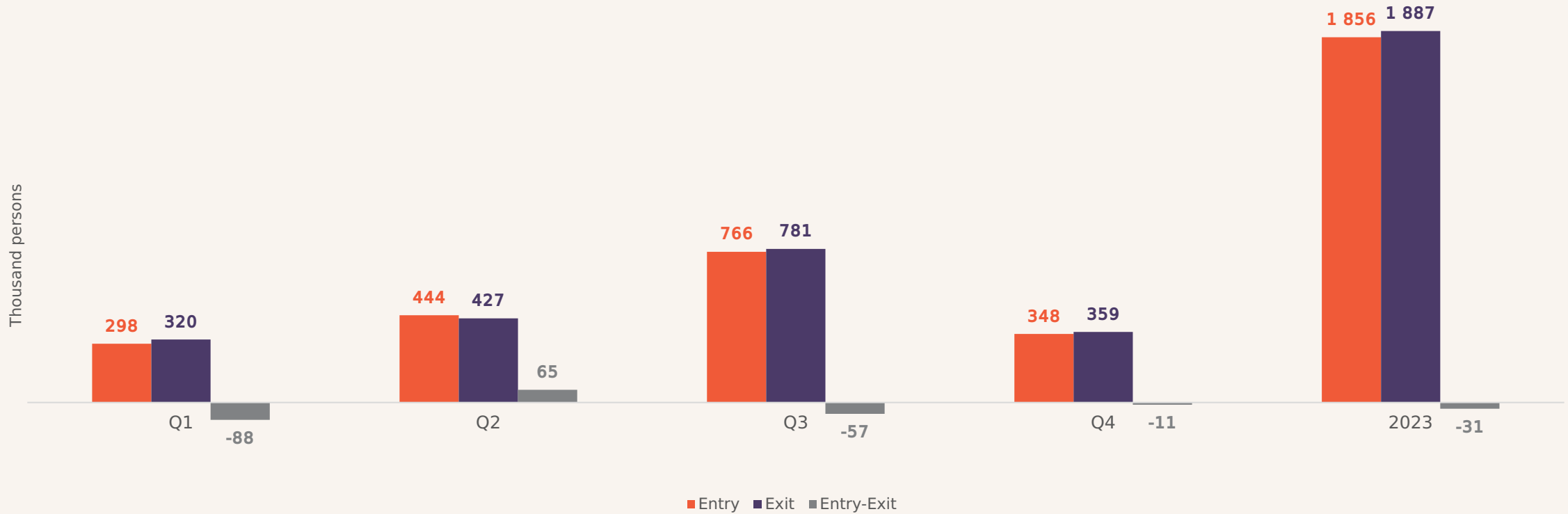
- In 2023, the total **income from international travel*** amounted to US\$4.1 billion, marking an increase of 17.3% compared to 2022 and 26.2% compared to 2019.

- Throughout 2023, the average shares of income from visitors from **Russia** amounted to 23.5% (+0.3 pp, YoY), while it was 13.0% for visitors from the **EU** (+3.3pp, YoY).

* Individuals projected to reside in Georgia for a duration of 1 year or longer, or who have the intention to stay beyond 1 year, are not categorized as visitors. Consequently, expenditure of 30.3% of Ukrainian, 30.5% of Russian and 42.5% of Belarusian citizens residing in Georgia is not included in travel income.



Entries and Exits of Russian Citizens in 2023



- 2023 **border crossings** indicated an initial step in the outflow of Russians from Georgia. Consequently, the impact of Russian citizens on the Georgian economy is expected to decrease gradually in the following period.

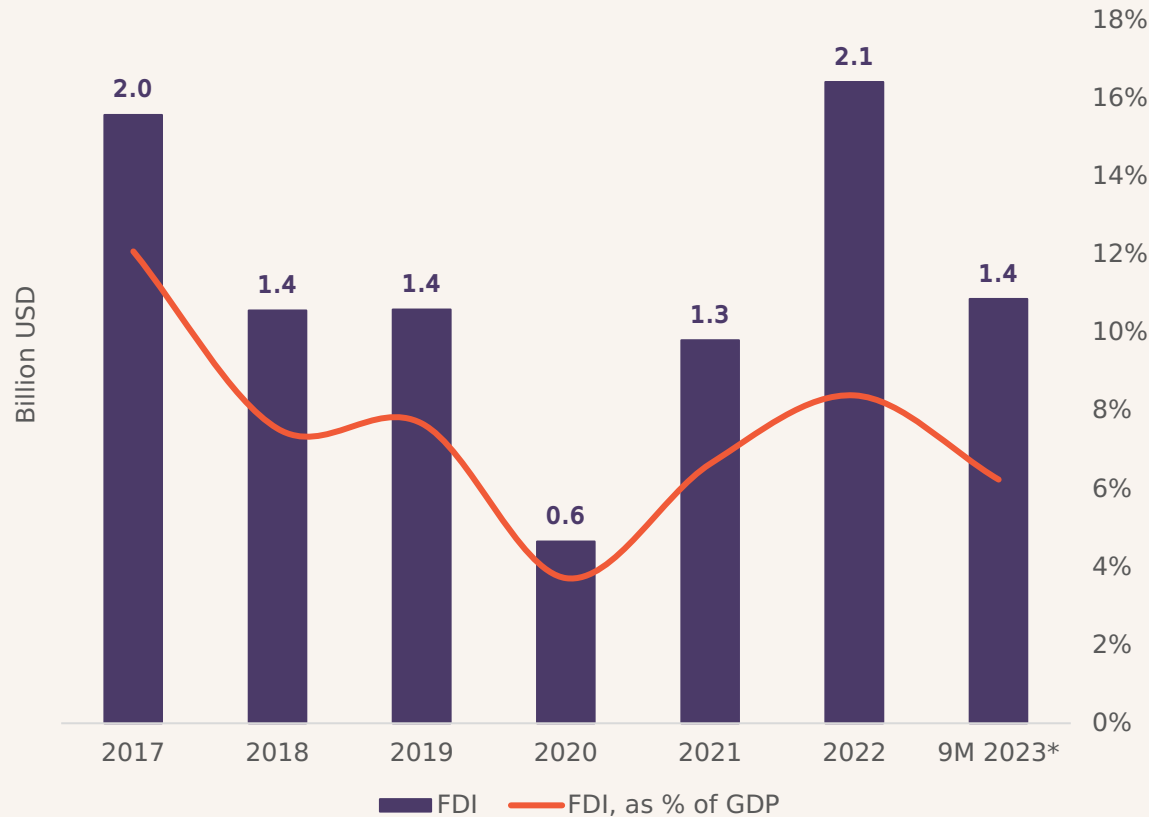
- According to PMC RC's calculations, at least **30 thousand Russians** have remained in Georgia, having arrived in 2022-2023.*

* In 2022, 60 thousand Russian citizens entered (Macro Overview – Issue 3, page 20).

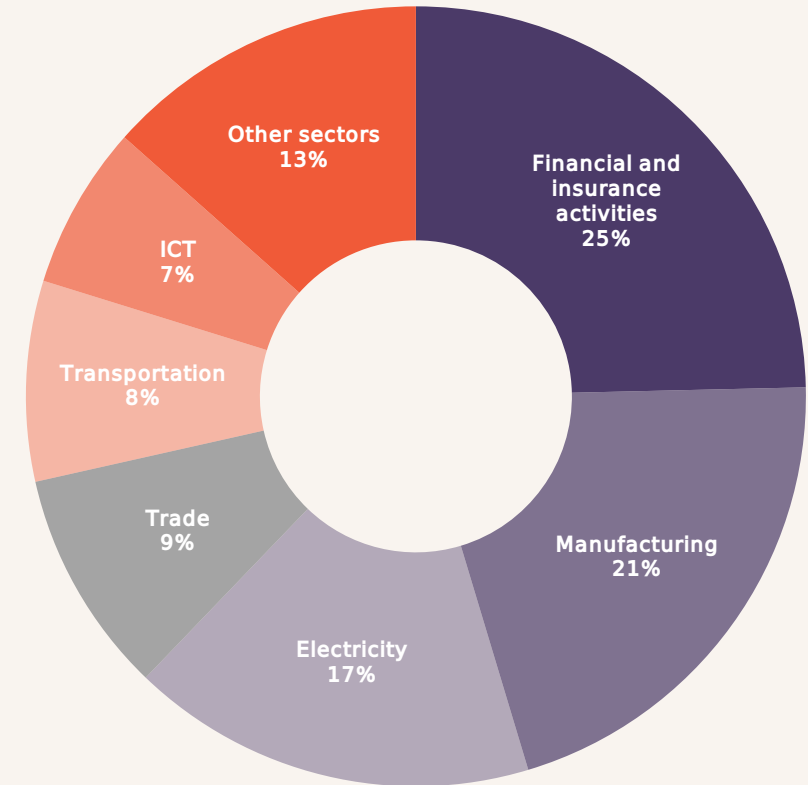


EXTERNAL SECTOR: FOREIGN DIRECT INVESTMENTS

Foreign Direct Investment



FDI in 9M of 2023 by sectors



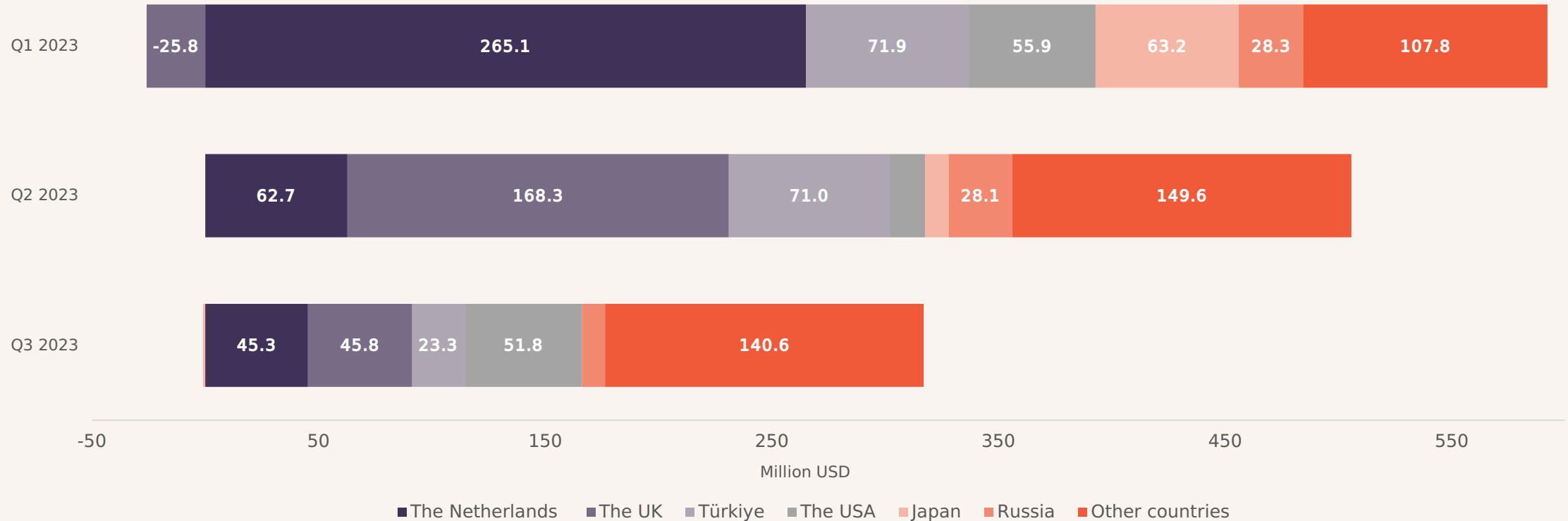
- In the first 9M of 2023, **net FDI inflows** into Georgia reached US\$1.4 billion. Most FDI went to the **financial sector** (US\$342 million), followed by the **manufacturing sector** (US\$288 million).

- In Q3 of 2023, net FDI inflows into Georgia amounted to US\$316 million. Most of the total FDI (US\$80 million) went to the **financial sector**, followed by the **transportation** (19.6%).

* Preliminary data



Foreign Direct Investment by Countries*



- The top investor country in 9M of 2023 was **the Netherlands** (US\$ 373.1 million), largely attributable to the investment made by Dutch company Indorama Holdings B.V, which acquired Rustavi Azot – the largest chemical company in the South Caucasus.

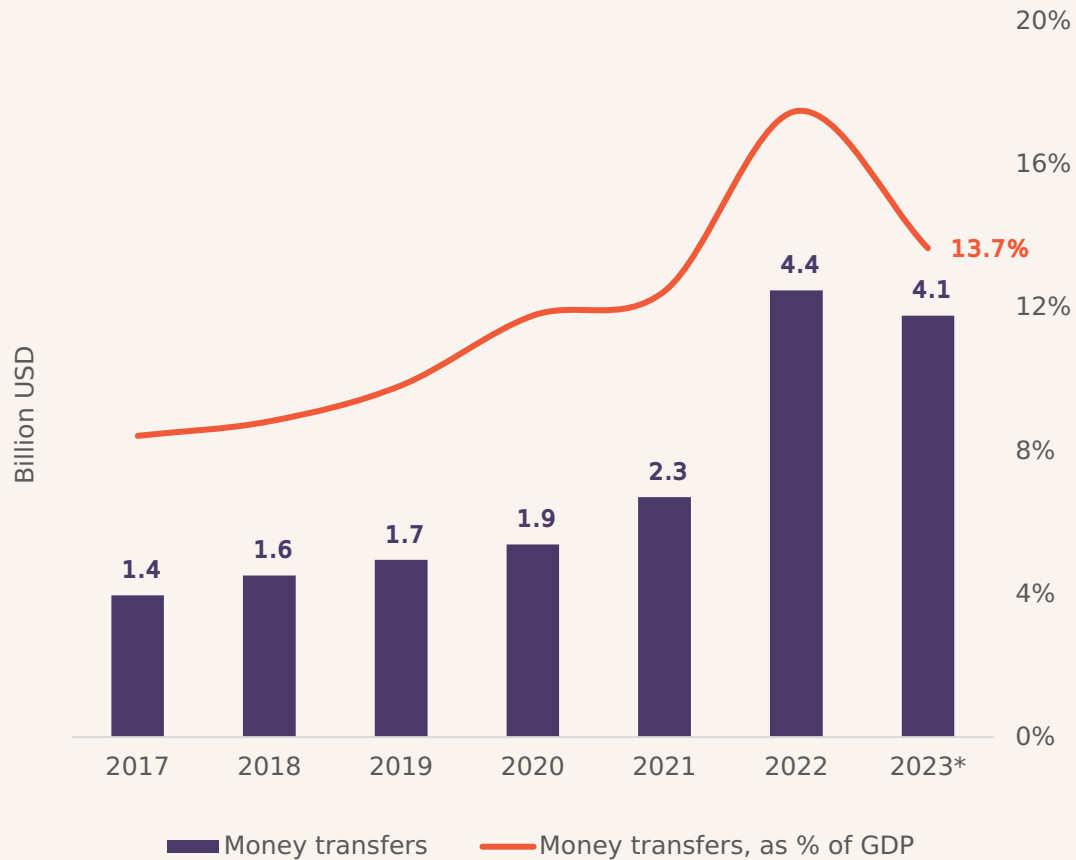
- In 9M of 2023, **the UK** was the second-leading investor country (US\$ 188.2 million) to Georgia. The UK mostly invested in the financial sector, with the FDI inflows derived from reinvesting.

* Preliminary data

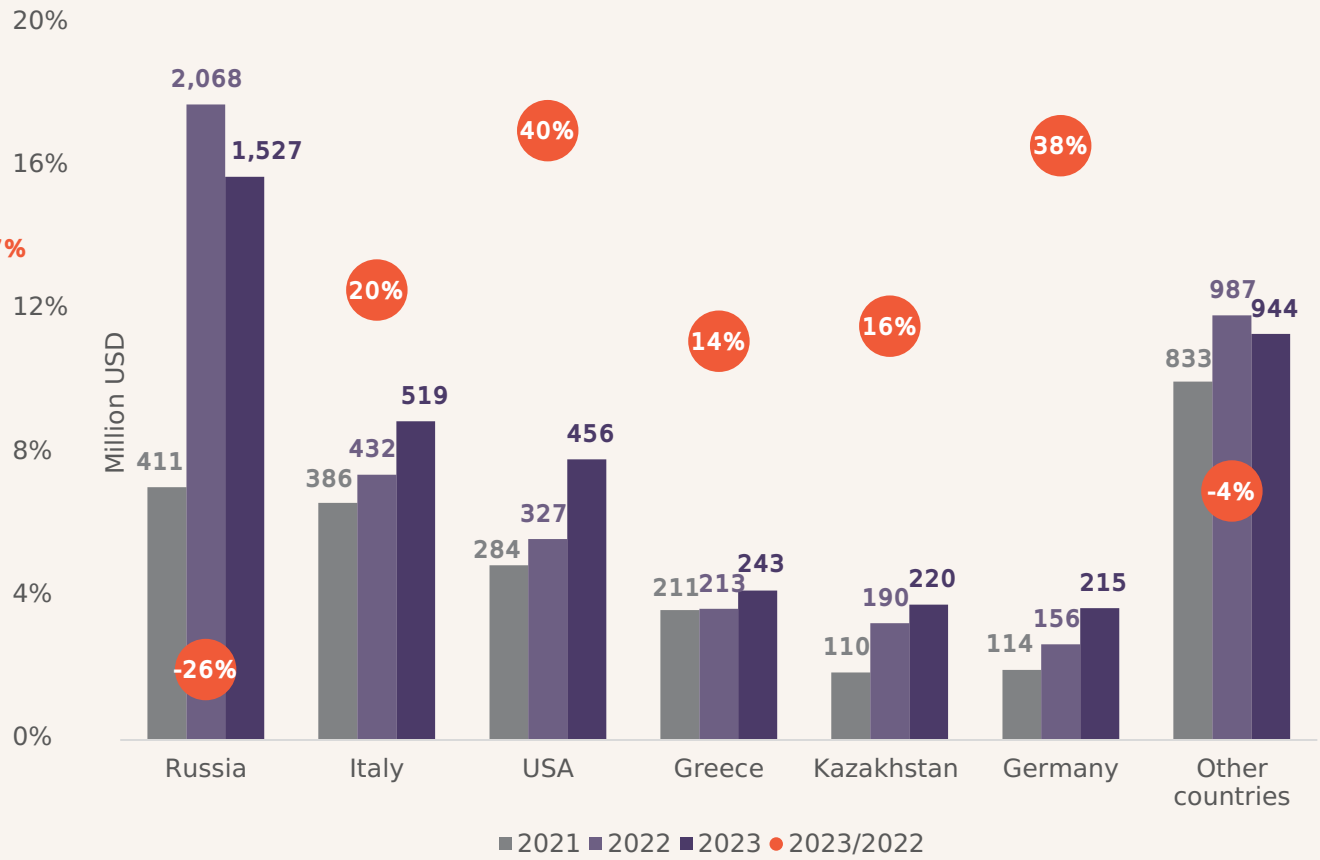


EXTERNAL SECTOR: MONEY TRANSFERS

Money Transfers to Georgia



Money Transfers to Georgia by Countries



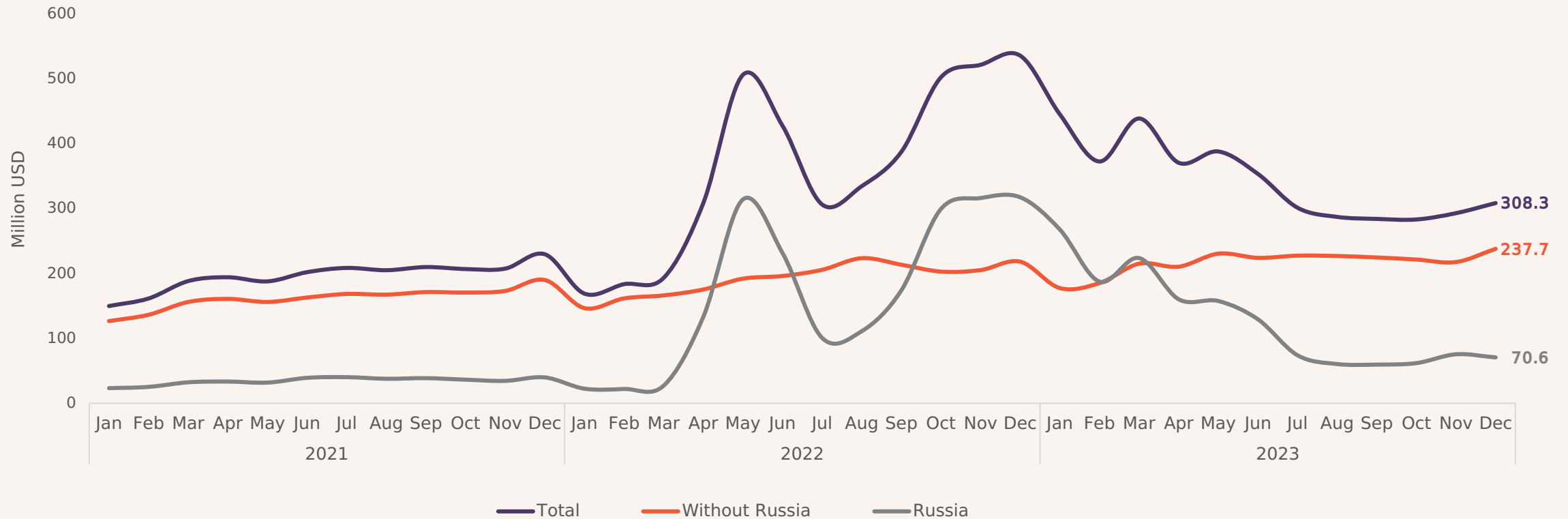
- In 2023, **total money transfers** amounted to US\$4.1 billion. Money inflows have decreased by 5.7% YoY due to a record-high base from the previous year. However, excluding Russia, the money transfers in 2023 increased by 22.1%, YoY.

- In 2023, the highest annual growth in money transfers was recorded from the **USA** (+39.6%), followed by **Germany** (+37.7%) and **Italy** (+20.1%).

* Preliminary data



Money Transfers to Georgia



- Diversity in money transfers increased in 2023. Starting in April 2023, money transfers from Russia have gradually reverted to pre-war levels and started a decreasing trend, narrowing the gap between the total money transfers and the amount excluding Russia's contributions.

- It is essential to highlight that the decreasing trend of money transfers (YoY) from Russia is expected to continue in the first half of 2024, driven by the high base effect and the departure of some Russians from Georgia.



GLOBAL ECONOMIC TRENDS: SOFT LANDING IS POSSIBLE

- **The global economy is balanced due to a steady decline in inflation, although growth is hindered.** Despite tight monetary conditions, sustained activity was driven by stronger private and government spending on the demand side. On the supply side, increased labor force participation, repaired supply chains, and lower energy and commodity prices contributed positively, despite the resurgence of geopolitical uncertainties.
- **Growth forecast has been revised upwards.** Global growth is projected at 3.1% in 2024, higher than 3% in 2023 but below the historical average of 3.8% (2000-2019).

The global forces **are balanced**

- **Faster disinflation may occur than initially expected.** Especially if there is further easing in labor market tightness and a continued decline in short-term inflation expectations, which could prompt central banks to ease monetary policy.
- **The largest global election year to date.** Government spending could stimulate economic activity but also fuel inflation. Fiscal consolidation measures for 2024-25, as announced, might encounter delays amid pressure for greater public spending in several countries.
- **Tech development poses a threat to the labor force.** In the foreseeable future, the rapid advancement of AI has the potential to drive increased investment and catalyze swift growth in productivity, albeit presenting considerable challenges for the workforce.

The following factors carry **downside risks**

- **Disruptions in commodity and supply chains may arise** due to resurfacing geopolitical tensions, particularly in the Middle East. While disruptions have been contained thus far, the situation remains uncertain as the outcome of the upcoming elections in the US will significantly influence the global geopolitical landscape.
- **Core inflation may demonstrate greater durability**, with goods prices remaining historically elevated compared to services. This adjustment might manifest as a sustained increase in services and overall inflation.
- **Market seems overly optimistic about the prospects of early rate cuts.** If they were to reassess their stance, long-term interest rates could rise, pushing governments to feel renewed pressure to implement faster fiscal consolidation measures, potentially dampening economic growth.



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