



Research

GEORGIA MACRO OVERVIEW

Issue 7

October 2024

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Economic and Business Climate

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Ifo Index: Georgian Economic Climate Index

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MAIN FINDINGS

- From January to August 2024, the Georgian economy demonstrated robust performance, with an **average real GDP growth rate of 9.6%**. **Education** and **transportation and storage** were the key contributors to growth in the first 6M of 2024, with contributions of 14.6% and 13.3%, respectively.
- **These factors present positive developments of 2024:**
 - **Inflation has remained below the target**, with **headline inflation** at 1.1% and **core inflation** at 1.7% during the first 9M of 2024. The largest contribution to inflation in a given period came from transportation and communication industry.
 - **Positive signalling of monetary policy rate:** In May 2024, the monetary policy rate was reduced to 8.0%. This decrease led to credit expansion, boosting domestic demand and positively impacting economic growth.
 - **Increased trade turnover:** In the first 9M of 2024, compared to the 9M of 2023, Georgia's trade turnover **increased by 3.7%**. However, it should be noted that the growth rate has declined.
 - **Strong growth in tourism income:** In the first half of 2024, income from international travel increased compared to both the previous year and pre-pandemic levels.
 - **Higher efficiency in the labor market:** Key labor market indicators slightly improved in the 6M of 2024. Higher efficiency in the labor market is further demonstrated by the seasonally adjusted Beveridge Curve, which shows that in Q2 of 2024, as in the previous quarter, labor market efficiency continued to expand.

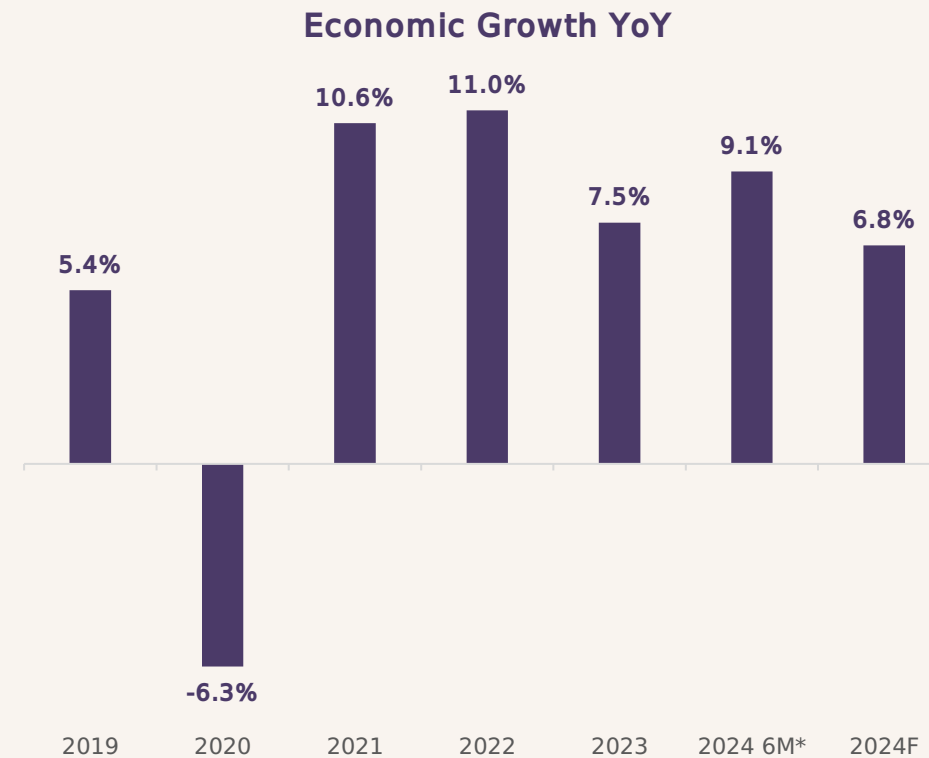
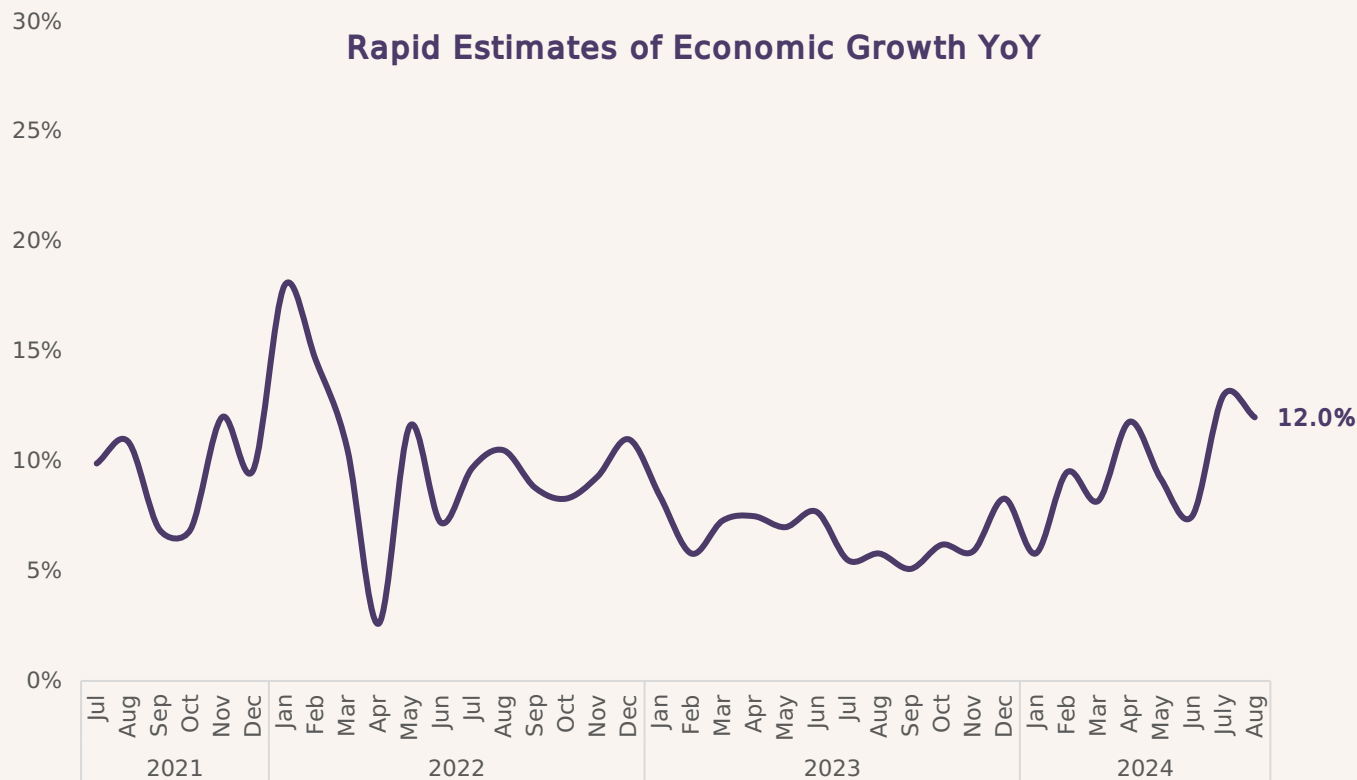
- **These factors present adverse developments of 2024:**
 - **Weaker FX inflows:** in the first half of 2024, three out of four major sources of foreign exchange earnings (FDI, remittances, exports) experienced YoY decline.
 - **Volatile Business Confidence:** In 2024, the business climate has been particularly erratic, significantly affected by political instability in the country.
 - **Signs of currency fluctuation:** Since the beginning of October, the Georgian lari (GEL) has begun to depreciate against the US dollar, making the NBG to engage in open market operations.

Outlook till the end of 2024

- **GDP:** Strong economic indicators have led the NBG to an upward revision of the annual growth forecast, with the Georgian economy now expected to grow by 6.8% in 2024.
- **Inflation:** From the current standpoint, average inflation in 2024 is anticipated to be 1.9% according to the NBG.
- **Monetary Policy Rate:** To manage the impact of increasing domestic demand and rising imported inflation, the monetary policy rate is expected to remain at 8% until the end of the year, with no further reductions anticipated.
- **Fiscal indicators:** According the Ministry of Finance of Georgia, the budget deficit is projected to reach 2.6% of GDP, while government debt is expected to increase to 33.7 billion GEL, accounting for 38.4% of the anticipated nominal GDP.



ECONOMIC GROWTH: PERFORMANCE IN 2024



- In the first two quarters of 2024, the Georgian **economy grew by 9.1%**, exceeding the 8.0% growth recorded during the same period in 2023.
- From January to August 2024, the average real GDP growth was 9.6%, with the highest growth rates observed in July and August, at 13% and 12%, respectively.

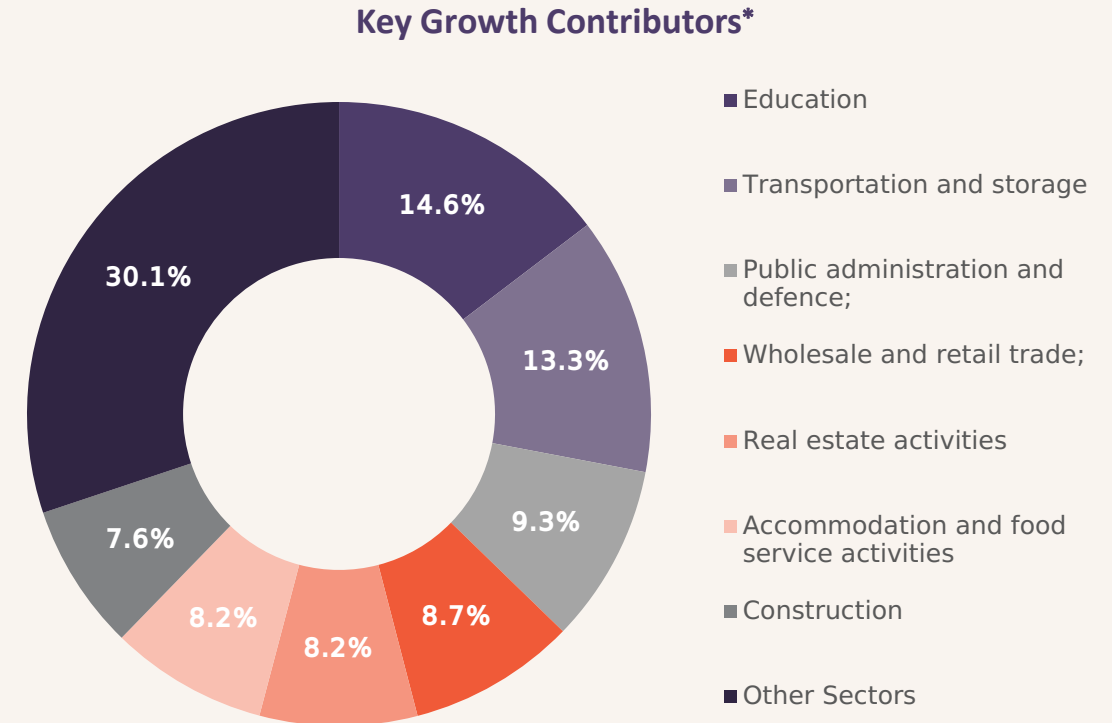
- In July, the National Bank of Georgia revised its annual GDP growth forecast for 2024, raising it from 5.6% to 6.8%.
- **Strong domestic demand** and **low inflation** are key factors behind the higher-than-expected growth rate.

* Preliminary data; F: Forecast by the National Bank of Georgia



ECONOMIC GROWTH: SECTORAL PERFORMANCES

Selected Sectors	Nominal GDP, mln GEL, 6M 2024*	Real GDP Growth 6M 2024* / 6M 2023*
Education	2,221.2	25.0%
Accommodation and food service activities	1,421.5	23.0%
Professional, scientific and technical activities	808.1	14.2%
Transportation and storage	2,087.8	13.2%
Public administration and defence; compulsory social security	2,773.4	13.1%
Construction	2,847.2	11.8%
Electricity, gas, steam and air conditioning supply	967.9	-9.0%



- **Education** and **accommodation and food service activities** were the fastest-growing sectors in the first 6M of 2024, achieving year-on-year (YoY) growth rates of 25.0% and 23.0%, respectively.
- The **energy sector** saw a 9.0% decline compared to the same period in the previous year. This drop can be attributed to

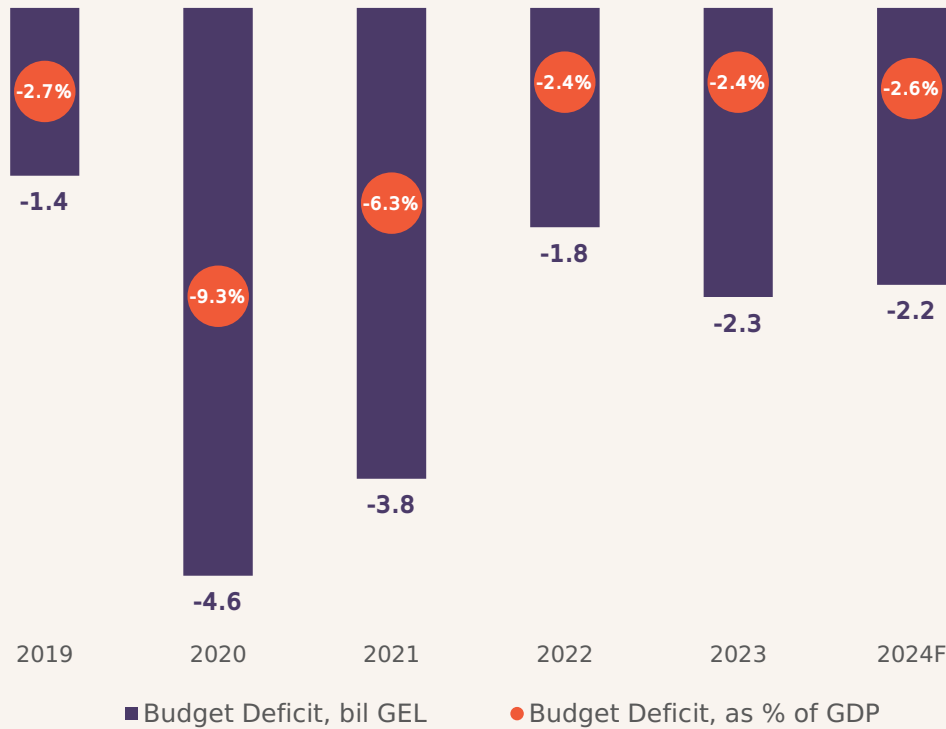
- reduced domestic production from thermal power plants, whose output decreased by 26.3% in the first 6M of 2024.
- **Education** and **transportation and storage** were the key contributors to growth in the first 6M of 2024, with contributions of 14.6% and 13.3%, respectively.

* Preliminary data

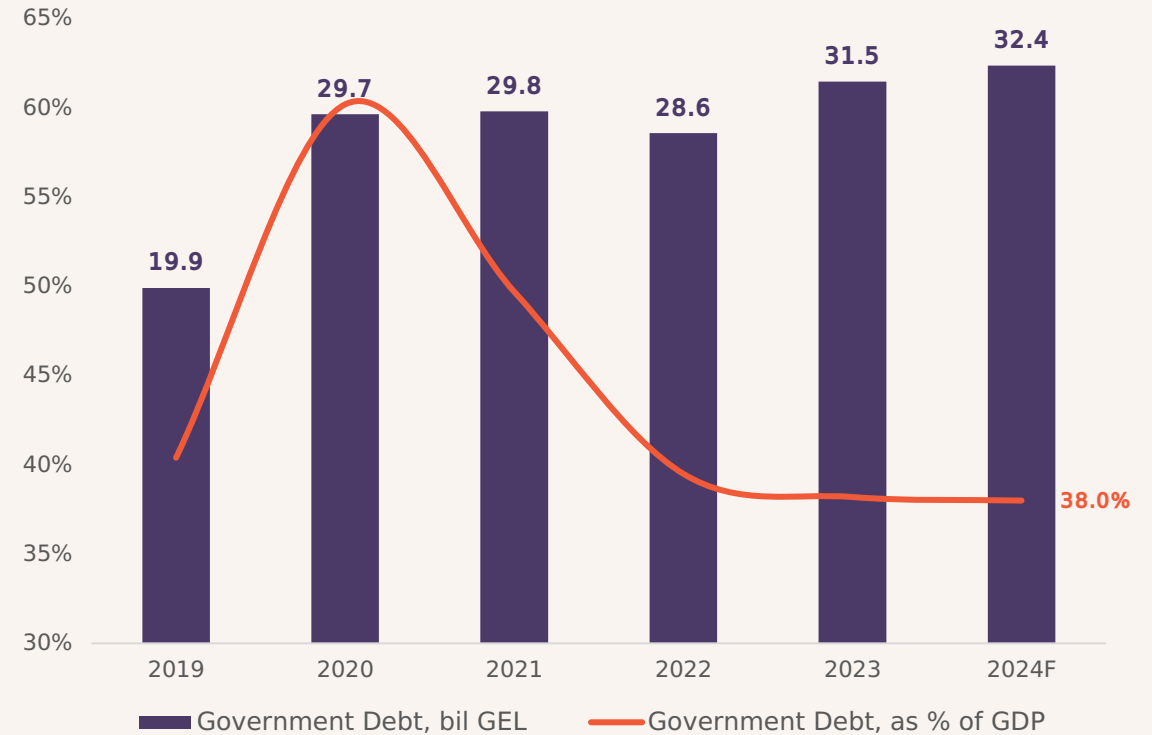


ESTIMATES OF KEY FISCAL INDICATORS

Budget Deficit



Government Debt



- By the end of August 2024, the budget deficit had reached 539 million GEL. Historical trends suggest that the majority of the deficit typically accumulates in the second half of the year, indicating a likely further increase. According to the Ministry of Finance of Georgia, the deficit is projected to reach 2.2 billion GEL by the end of 2024, which is the 2.6% of

projected nominal GDP.

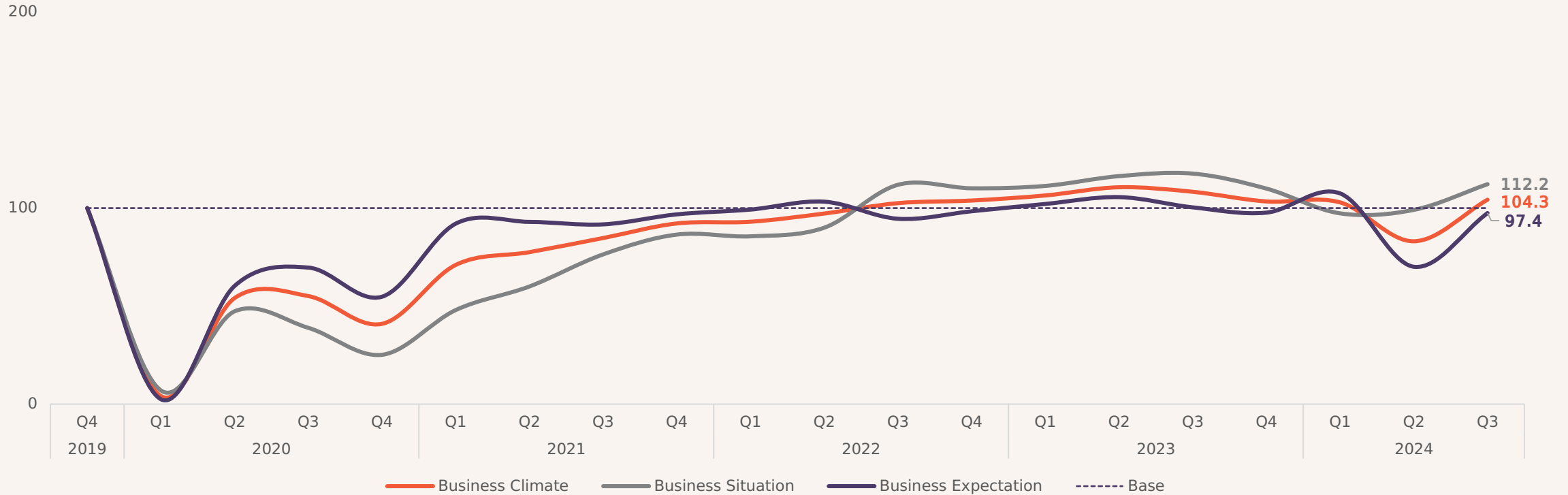
- As of the end of August 2024, government debt had increased by 3.4% compared to the end of 2023. The Ministry of Finance of Georgia projects that by year-end, government debt will rise further to 33.7 billion GEL, representing 38.4% of the forecasted nominal GDP.

F: Forecast by the Ministry of Finance of Georgia



ECONOMIC AND BUSINESS CLIMATE: BAG INDEX

Georgian Business Climate Index, 2019 Q4=100*



- In Q3 of 2024, Georgian businesses assess the **business climate** to be slightly less favorable than that of Q3 of 2023 (-4.0 points). During this period, both **present business situation** (-5.4 points) and business **expectations** (-2.9 points) deteriorated.
- In 2024, Georgia's business climate experienced a notable

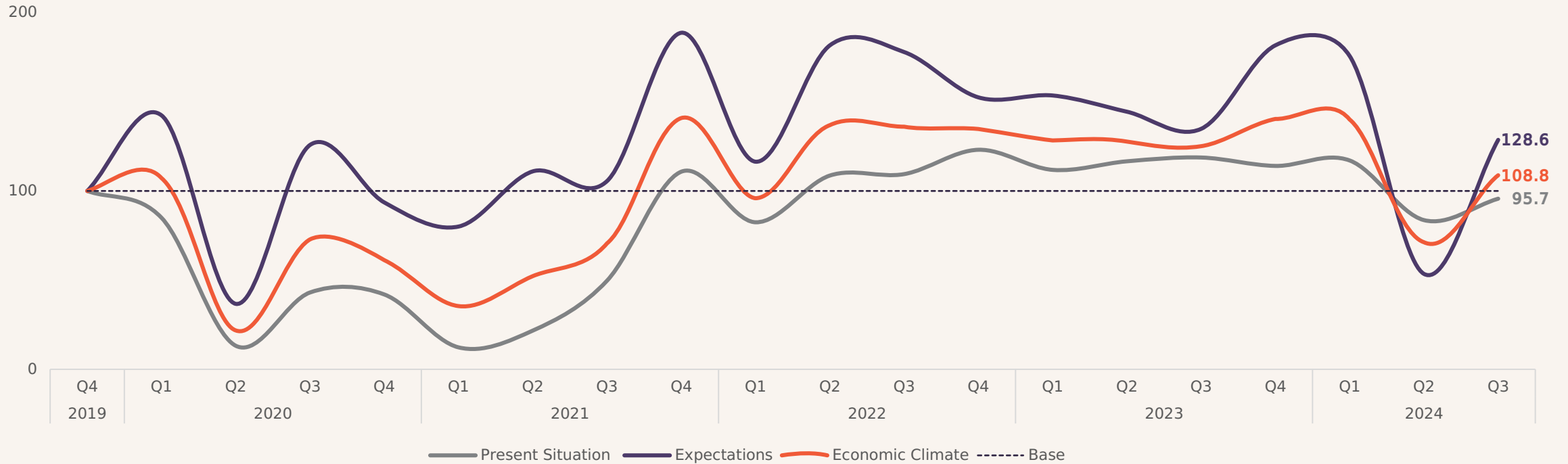
decline in Q2, driven by **political instability** and widespread **civil protests** against the bill on Transparency of Foreign Influence. While business expectations improved in Q3, they remained below the pre-pandemic level, in contrast to optimistic expectations that businesses had in the beginning of 2024.

* 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](#).



ECONOMIC AND BUSINESS CLIMATE: IFO INDEX

Georgian Economic Climate Index, 2019 Q4=100*



- Despite a noticeable recovery compared to Q2, the **Georgian Economic Climate** in Q3 of 2024 did not return to Q1 levels. Specifically, the Georgian Economic Climate Index in Q3 2024 decreased by 32 points compared to Q1. Furthermore, during the same period, the assessment of the **present economic situation** and **future expectations** declined by 21 and 47

points, respectively.

- The sharp decline in expectations in Q2 of 2024 reflects the pessimistic outlook of Georgian economists, driven by **political instability** and concerns over the anticipated negative impact of the bill on Transparency of Foreign Influence on the economy.**

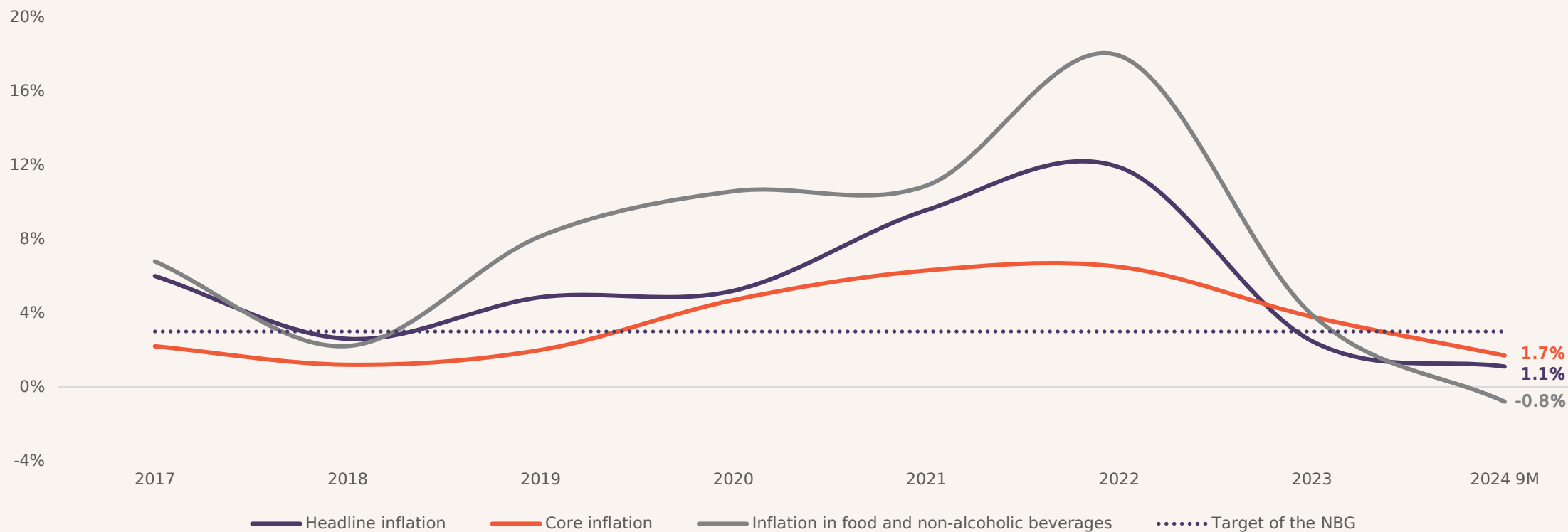
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** For more information, refer to [Georgian Economic Climate, Q3 of 2024](#).



KEY MACROECONOMIC INDICATORS: INFLATION

Average YoY Inflation



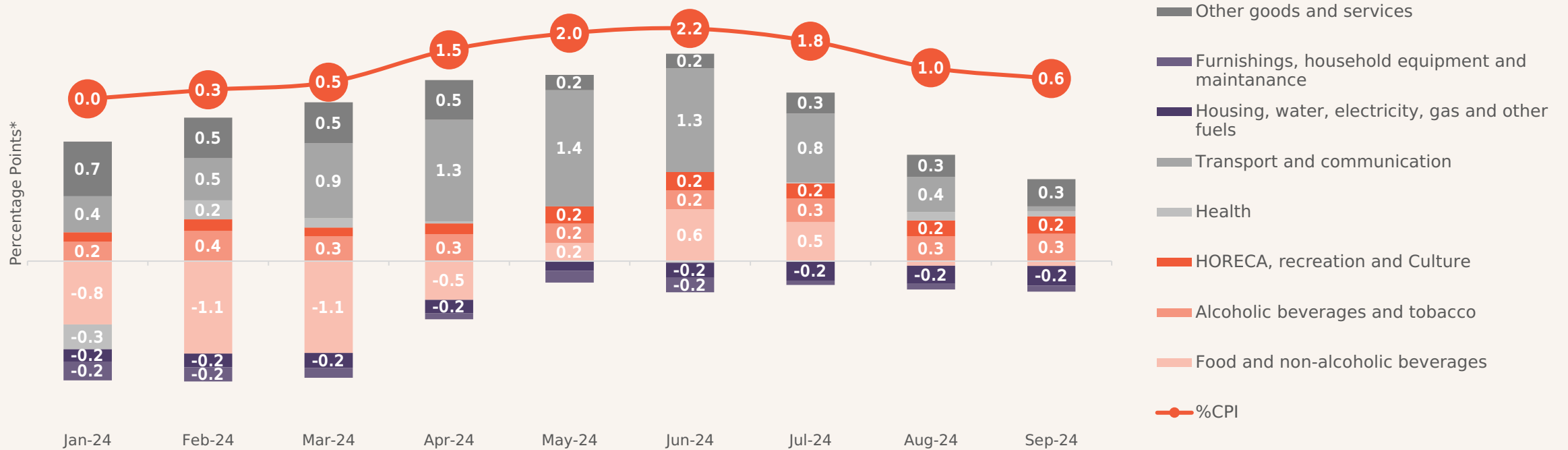
- **Headline inflation** remained below the target level during the first 9M of 2024, at 1.1%.
- **Core inflation** followed a decreasing trend after 2023, reaching average 1.7% for first three quarters of 2024.

- The **low level of inflation** resulted from a strict monetary policy combined with minimal external shocks.
- However, rising domestic demand and the impact of imported inflation, primarily driven by higher energy prices, are putting **upward pressure** on inflation.



KEY MACROECONOMIC INDICATORS: INFLATION

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



- Monthly year-over-year (YoY) inflation remained **below the target level** throughout the year. An upward trajectory was observed in the second quarter, culminating in a peak of 2.2% in June, after which inflation steadily declined, reaching 0.6% in September.
- The primary factor exerting downward pressure on inflation in the first quarter was the decline in prices for **food and non-alcoholic beverages**. However, this base effect dissipated in

May, and inflation returned to positive territory.

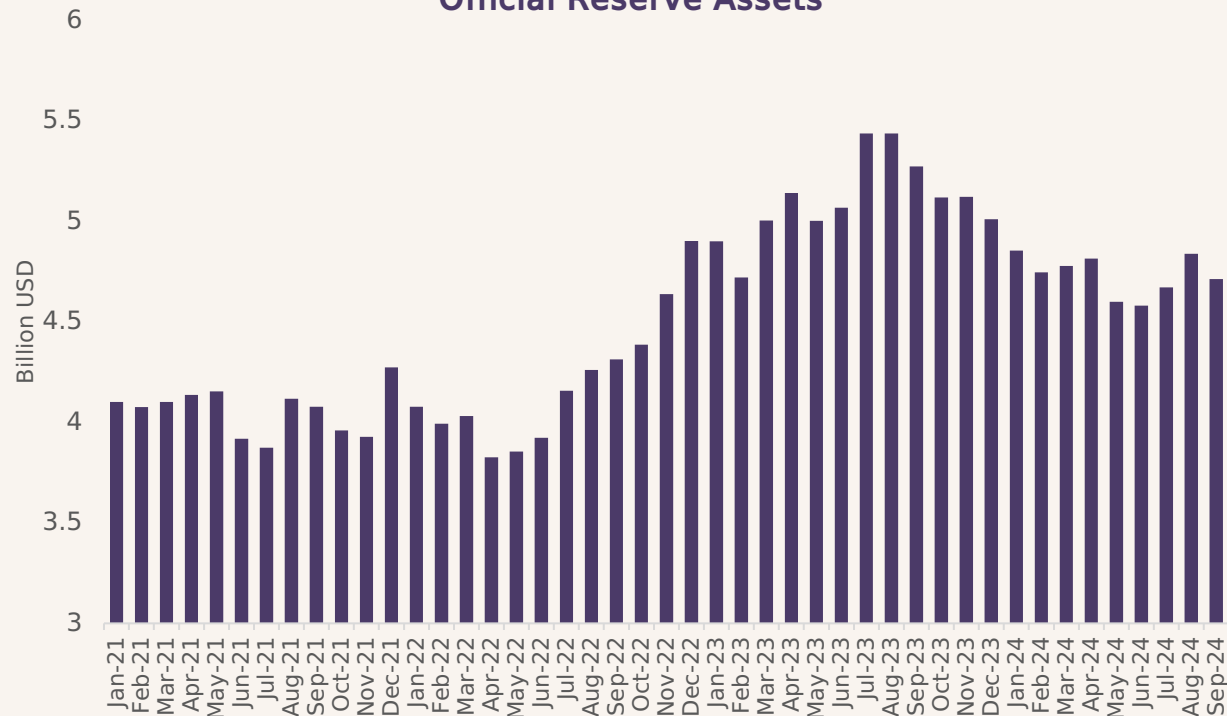
- **Deflation in the housing, water, electricity, gas, and other fuels sector** was driven by a one-time reduction in electricity tariffs. This effect will persist until the end of the year and will phase out in January 2025.
- The largest contribution to inflation in the first 9M of 2024 came from transportation and communication industry.

* The absolute values below 0.2 are not labeled on the graph.



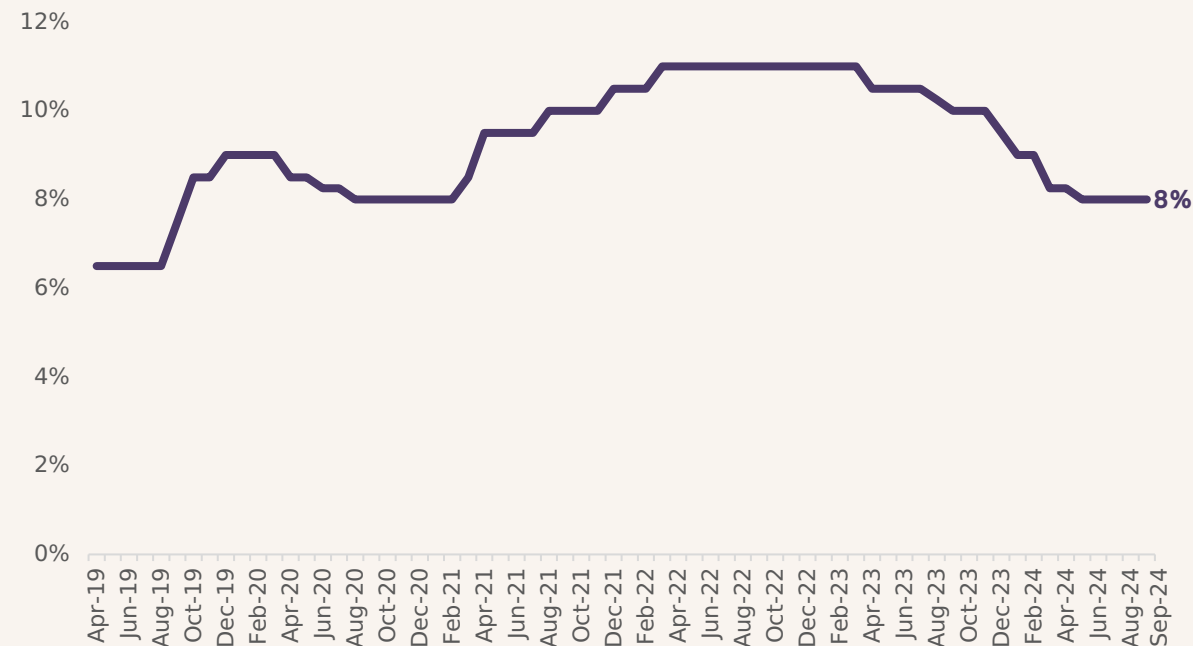
KEY MACROECONOMIC INDICATORS: RESERVES & MONETARY POLICY

Official Reserve Assets



- Since the beginning of 2024, the National Bank of Georgia (NBG) began accumulating **reserves**. However, due to exchange rate fluctuations caused by domestic instability at the end of Q1, the NBG had to sell some reserves to stabilize the currency.
- Due to the appreciation of the US dollar since the beginning of October, the National Bank of Georgia (NBG) had to intervene through open market operations, which resulted in

Monetary Policy Interest Rate

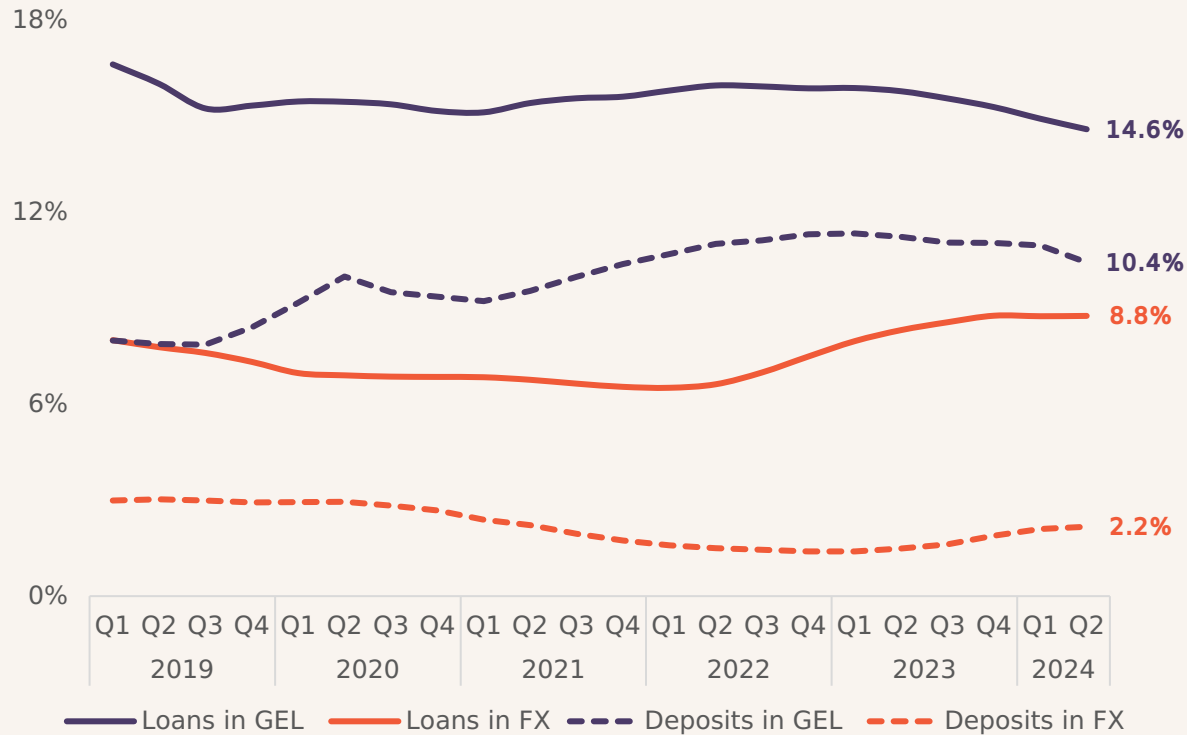


- a further reduction of foreign reserves.
- Due to improved macroeconomic conditions, including low inflation and minimal external shocks, in May 2024 the NBG lowered the **monetary policy rate** to 8%.
- To manage the impact of increasing domestic demand and rising imported inflation, the monetary policy rate is expected to remain at 8% until the end of the year, with no further reductions anticipated.

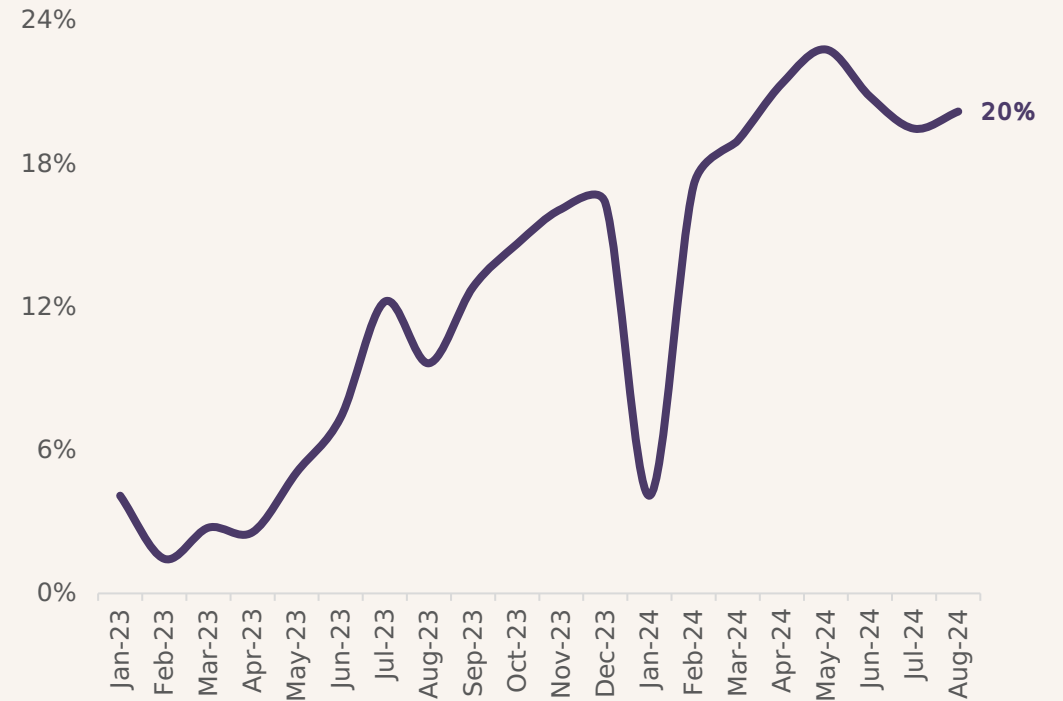


KEY MACROECONOMIC INDICATORS: INTEREST RATES

Interest Rates on Bank Loans/deposits



Private Sector Credit Growth (YoY)

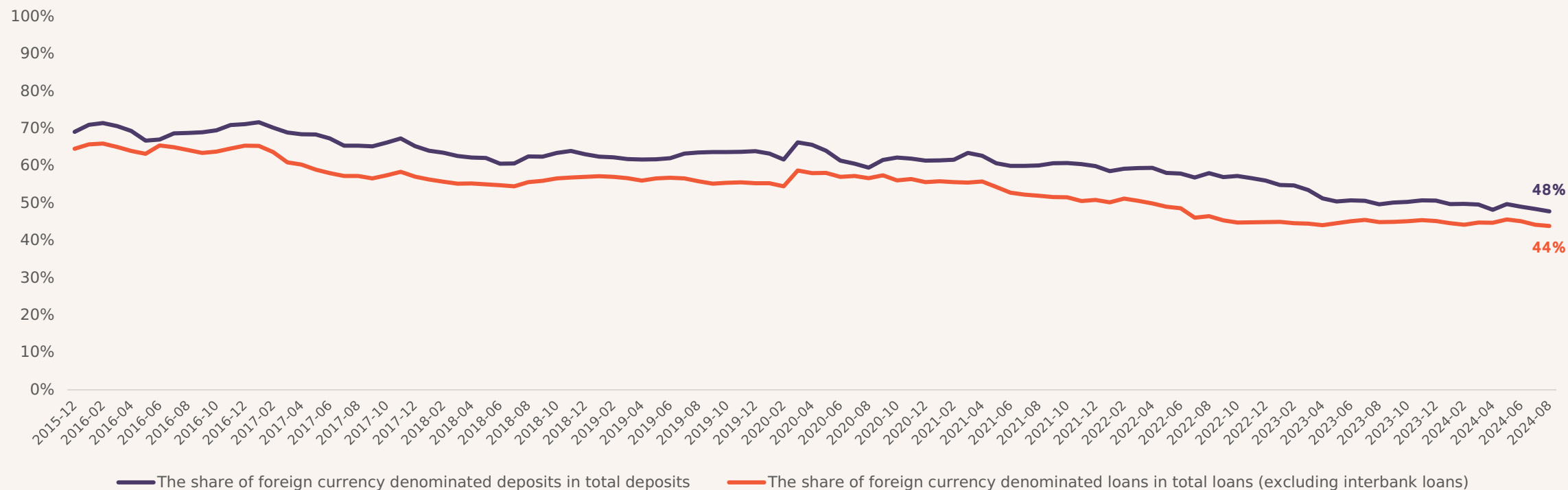


- In 6M 2024, **interest rates on loans** denominated in GEL decreased slightly to 14.6% following the decreased monetary policy rate, while interest rates on FX loans have remained stable.

- Due to monetary easing and overall positive economic indicators, significant expansion in **private sector credit** has occurred. In the first 8M of 2024, the average growth rate of private sector credit reached 18%.



Deposit and Loan Dollarization



- A high share of foreign currency-denominated loans and deposits is a common phenomenon in developing countries. However, under such circumstances, exchange rate fluctuations create risks for financial stability. In an effort to reduce the share of foreign currency-denominated loans and deposits, the Government of Georgia has actively implemented dedollarization policies since 2017.
- **Financial dollarization** has significantly **decreased** in recent

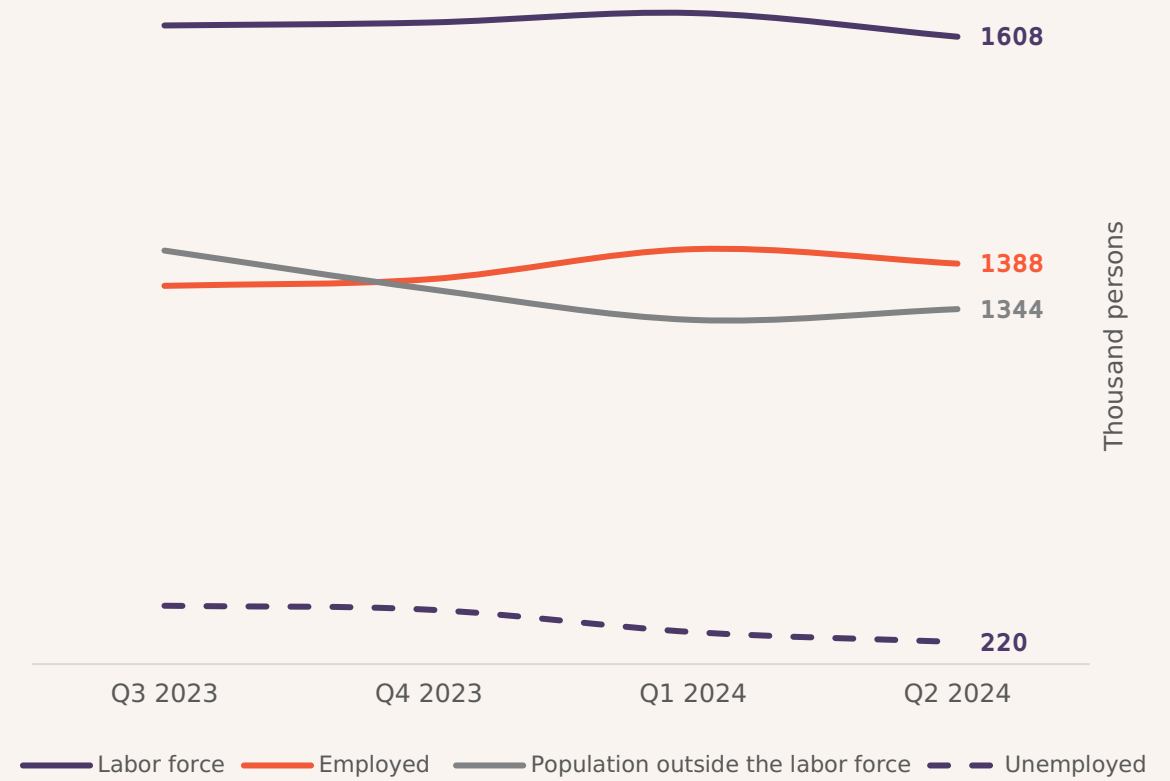
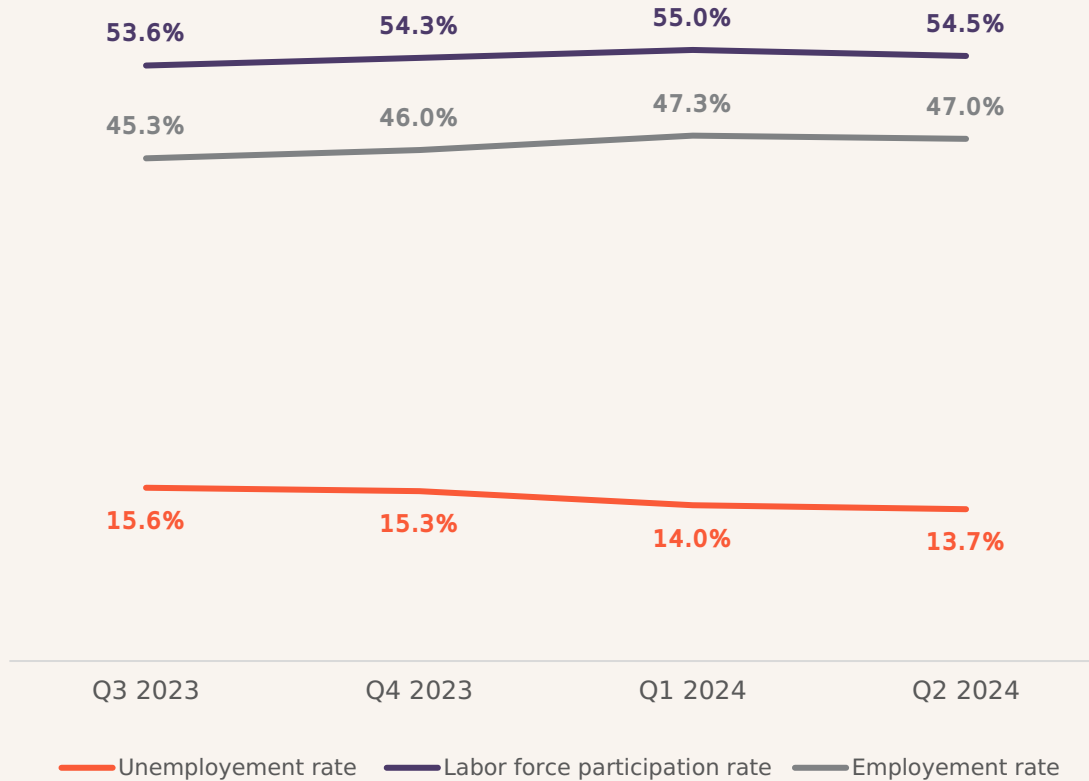
years. As of August 2024, the dollarization of loans and deposits reached 43.9% and 47.8%, respectively. Importantly, the gap between these parameters is low, minimizing currency mismatch risks and overall threats for financial stability.

- Financial dollarization is on the decline; however, the optimal level for the economy has yet to be determined or established by the relevant authorities.



LABOR MARKET: EMPLOYMENT

Labor market indicators

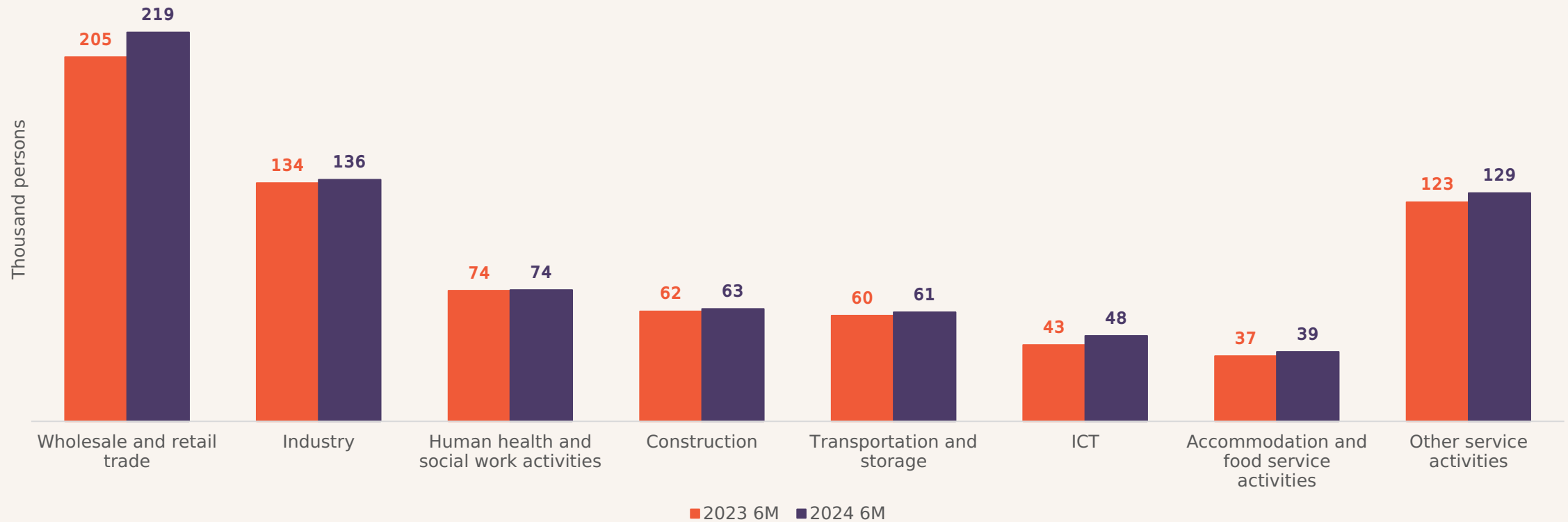


- Labor market indicators slightly improved. In Q2 of 2024, compared to Q2 of 2023, the **labor force** increased by 0.8%, and the **population outside the labor force** decreased by 4.4%.

- Meanwhile, in Q2 of 2024, the **unemployment rate** gradually decreased by 3.0 percentage points (pp), and the **employment rate** increased by 2.7 pp compared to the corresponding period in 2023.



Number Of Employees By Kind Of Economic Activity



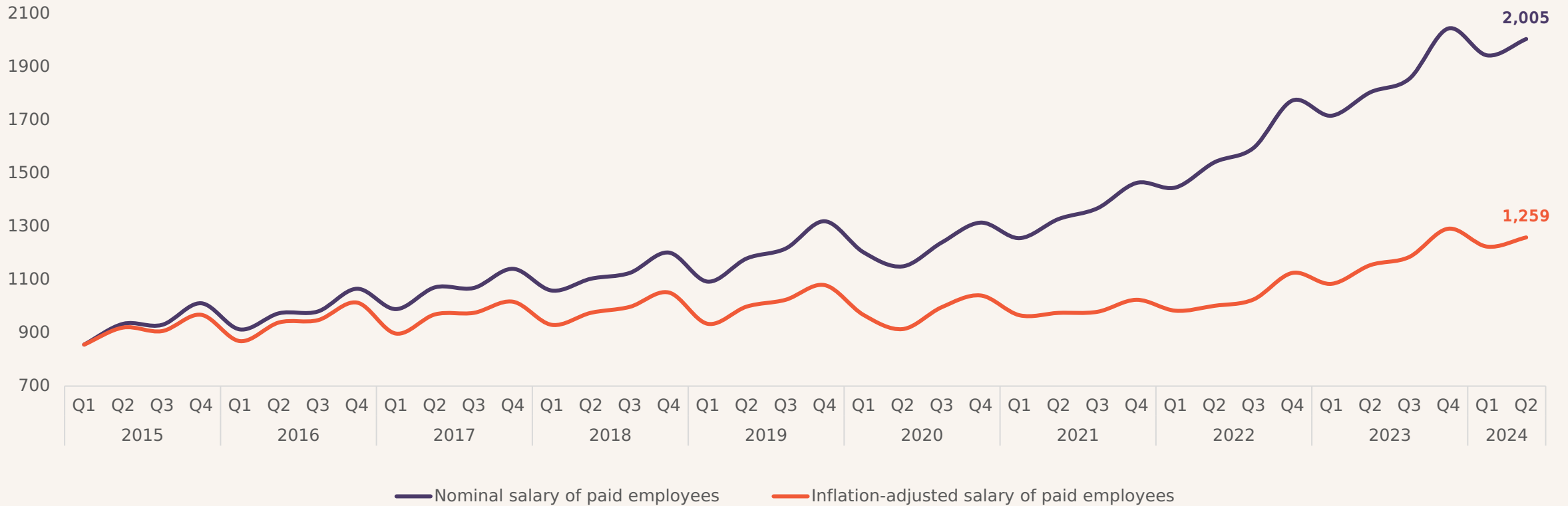
• In the first 6M of 2024, compared to the 6M of 2023, the number of **employees in the business sectors** in Georgia

increased by 32 thousand persons (+4.4%), reaching nearly 770 thousand persons.



LABOR MARKET: SALARIES

Nominal and Inflation-Adjusted Salaries of Paid Employees, 2015-2024 Q2



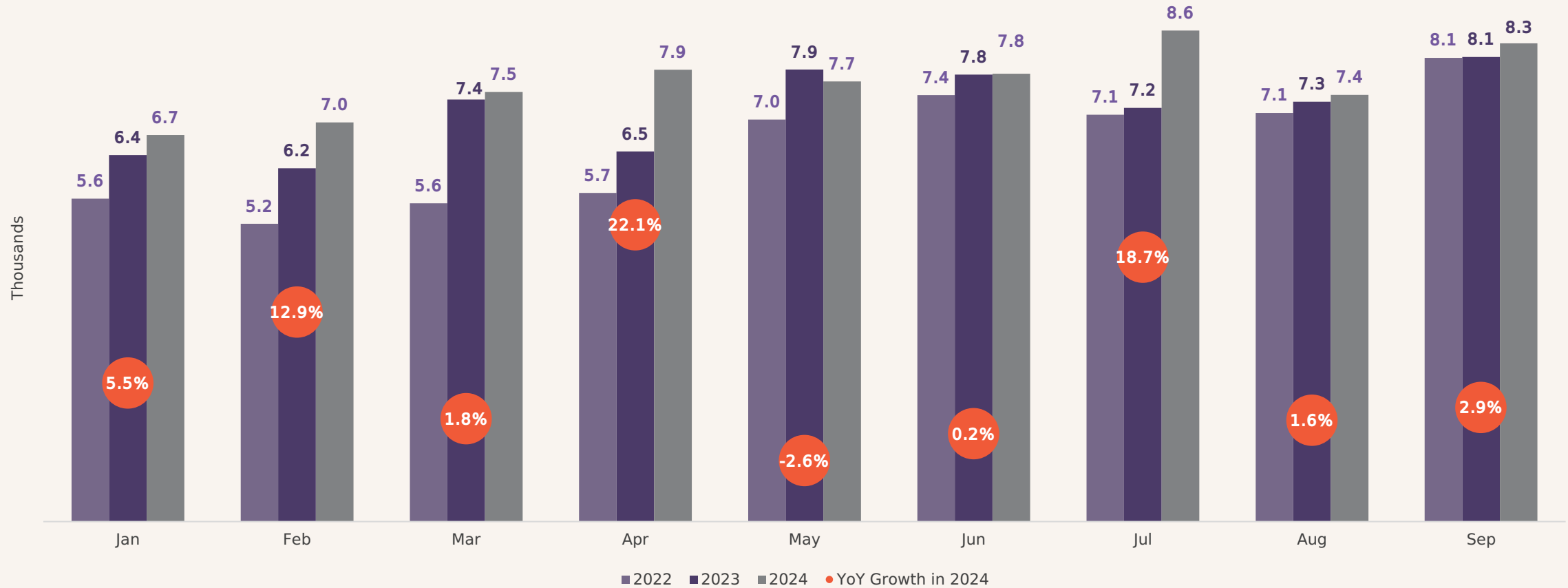
- Relative to the base level established in Q2 2015, **nominal salaries** increased by 134.3% in Q2 2024. However, when

adjusted for inflation, the growth in **real salaries** was 47.1%. In Q2 2024, the real year-on-year growth rate was 9.0%.



LABOR MARKET: VACANCIES

Number of Published Vacancies on Jobs.ge

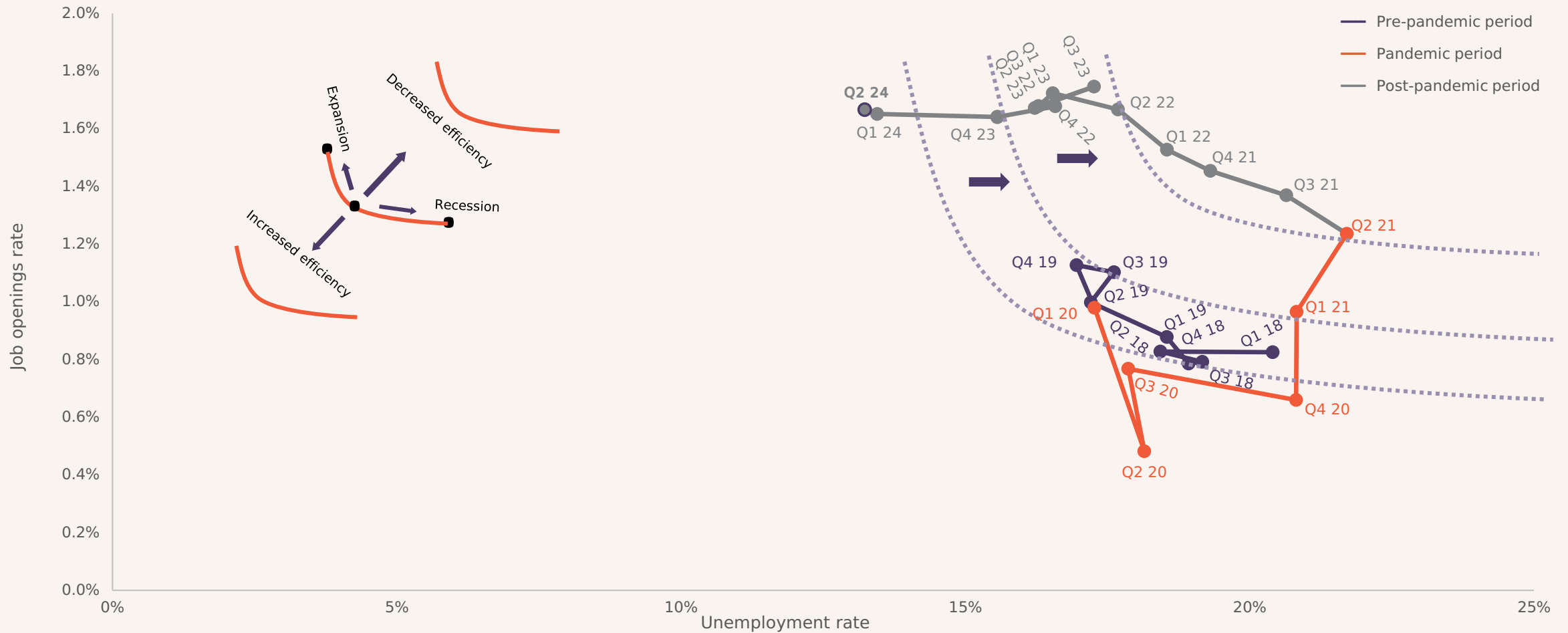


• The number of **vacancies** is increasing, though, it must be noted that the **YoY growth** of the number of vacancies in 8M

of 2024 (+7.5%) has been lower compared to the YoY growth in 2023 (+12.4%).



LABOR MARKET: BEVERIDGE CURVE*



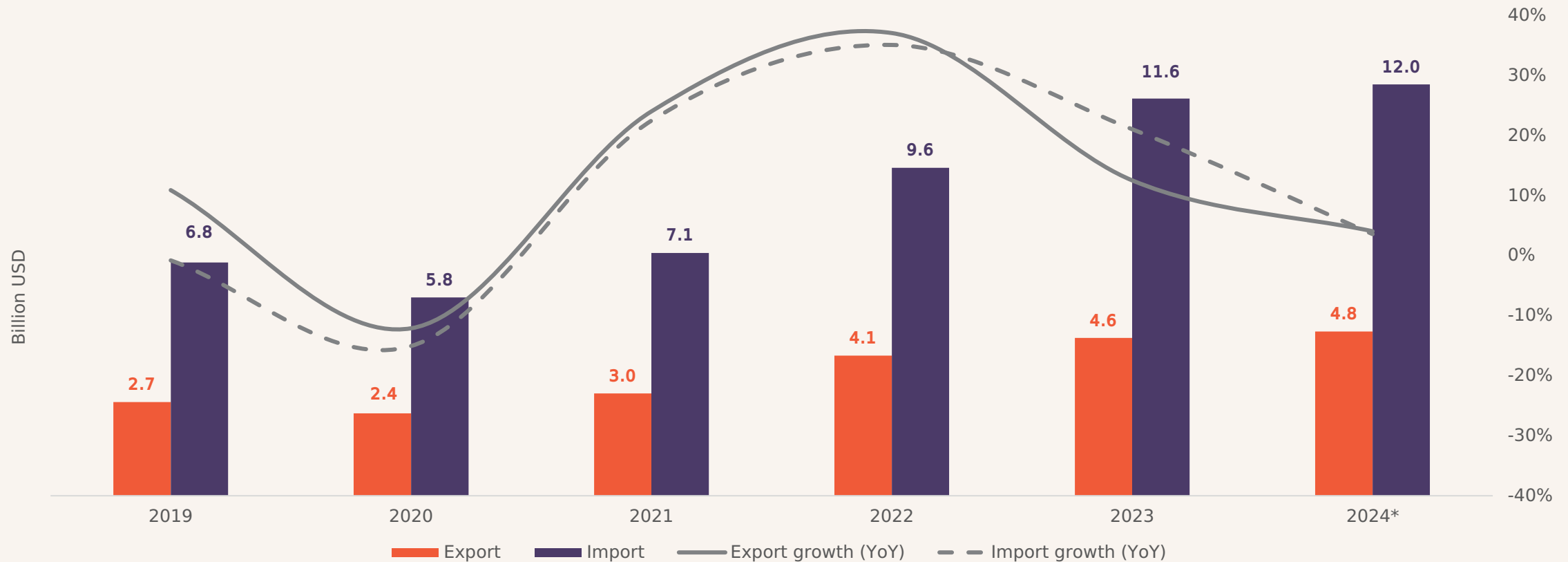
• According to the seasonally adjusted Beveridge Curve, in Q1 of 2024, compared to Q3 of 2023, the **efficiency of the labor market** increased, as the unemployment rate decreased, and

the job openings rate increased. The same trend continued in Q2 of 2024, though at a slightly slower pace, indicating potential return to the pre-pandemic levels.

* The Beveridge curve - Employment Tracker



Georgia's Imports and Exports and Growth Rates YoY (9M)



- According to the preliminary data, In the first 9M of 2024, compared to the 9M of 2023, Georgia's **trade turnover** increased by 3.7% (exports increased by 4.1%, imports increased by 3.6%). Over the same period, the **trade deficit** in Georgia increased by 3.3% and reached US\$7205.6 million.

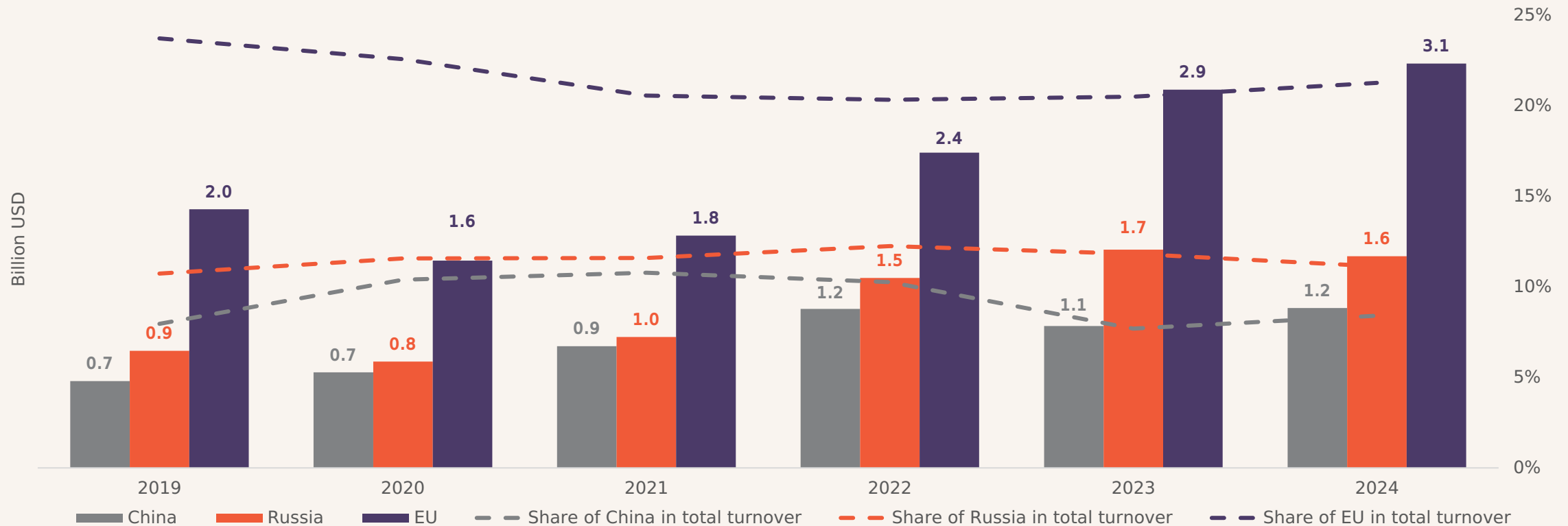
- Importantly, the growth rates of both exports and imports have declined, as in 9M 2023, exports and imports increased by 12.5% and 21.1%, respectively, compared to 9M 2022.

* Preliminary data



EXTERNAL SECTOR: TRADE

Georgia's External Trade Turnover With China, Russia, and the EU (8M)



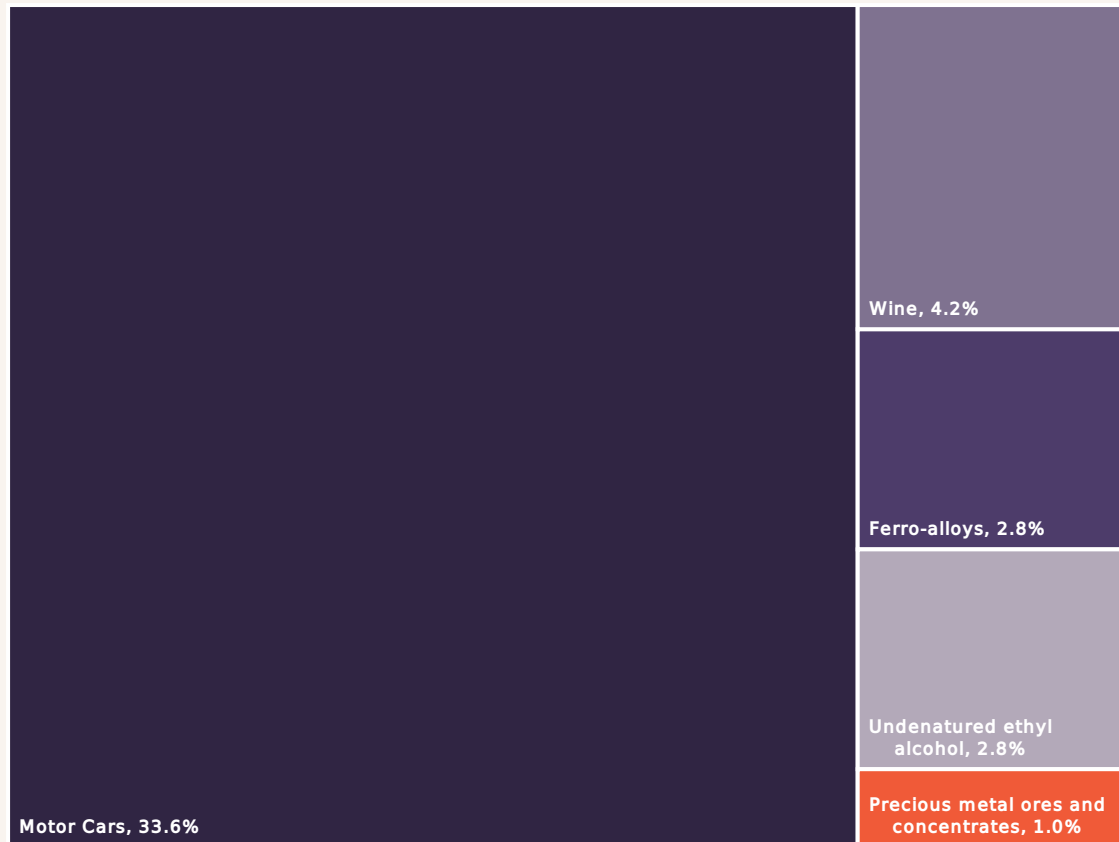
- In the first 8M of 2024, compared to the 8M of 2023, Georgia's **trade turnover** increased with China (+12.6%) and the EU (+6.9%) and decreased with Russia (-3.0%).
- Similarly, in the first 8M of 2024, compared to the 8M of 2023, the share of the EU (+0.8pp) and China (+0.7pp) in international trade increased, while the share of Russia

decreased (-0.7 pp).

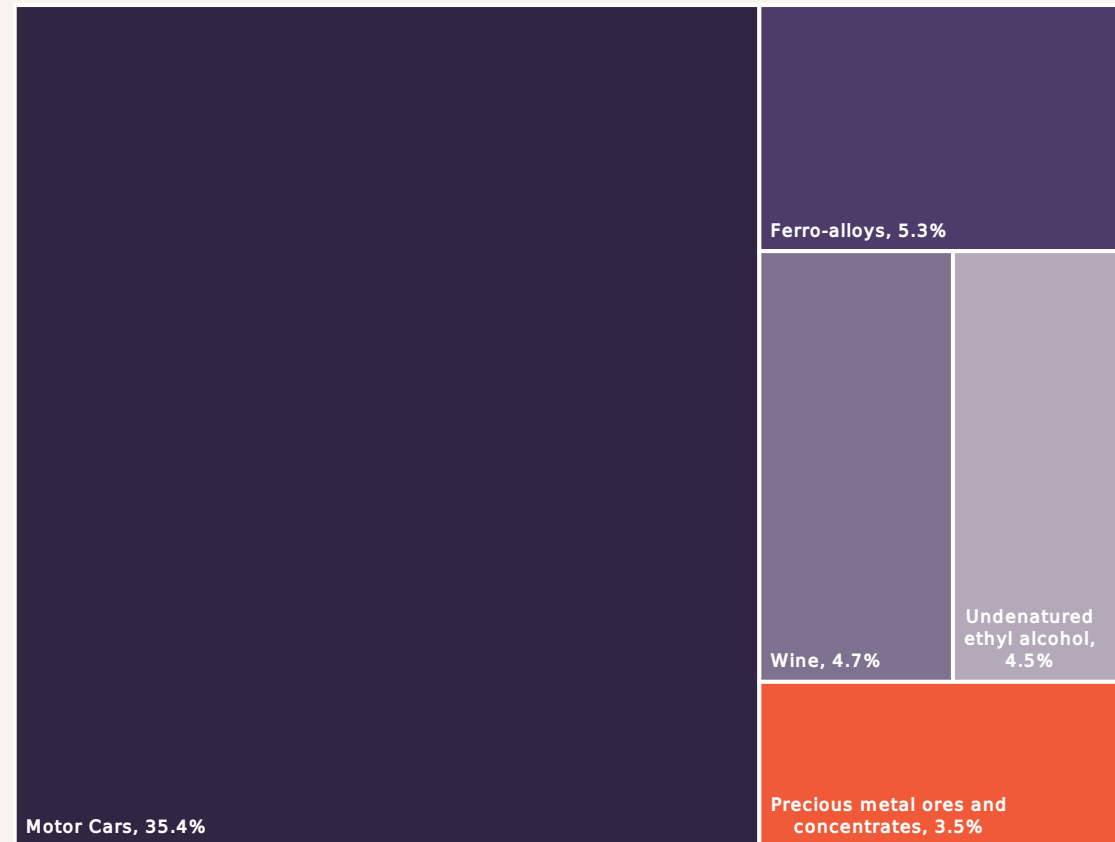
- It is important to note that calculating precise trade statistics for Russia poses challenge, as the country may engage in trade indirectly by using third-party countries to circumvent sanctions.



Share of Major Commodity Positions by Exports (2023 8M)



Share of Major Commodity Positions by Exports (2024 8M)

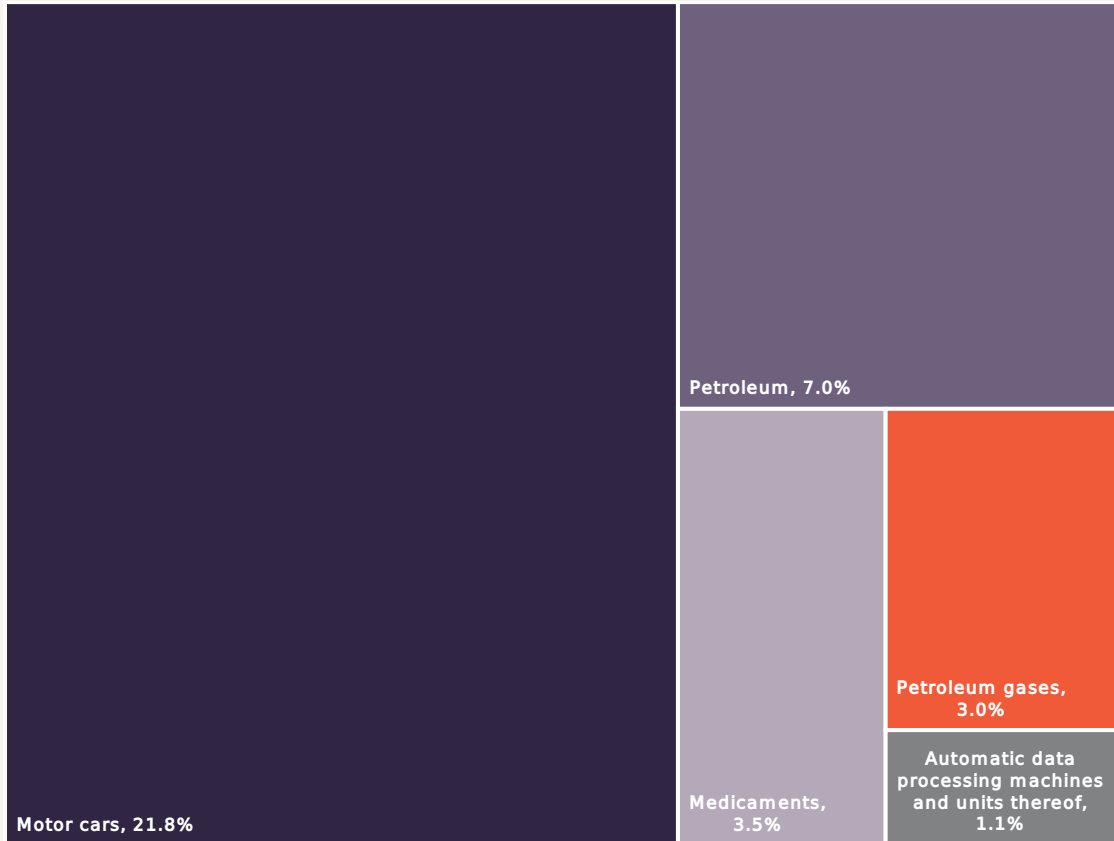


- In the first 8M of 2024, motor cars (US\$ 1.5 bln) took the lead of the primary export commodities, while the share of precious metal ores and concentrates (US\$ 102 mln)

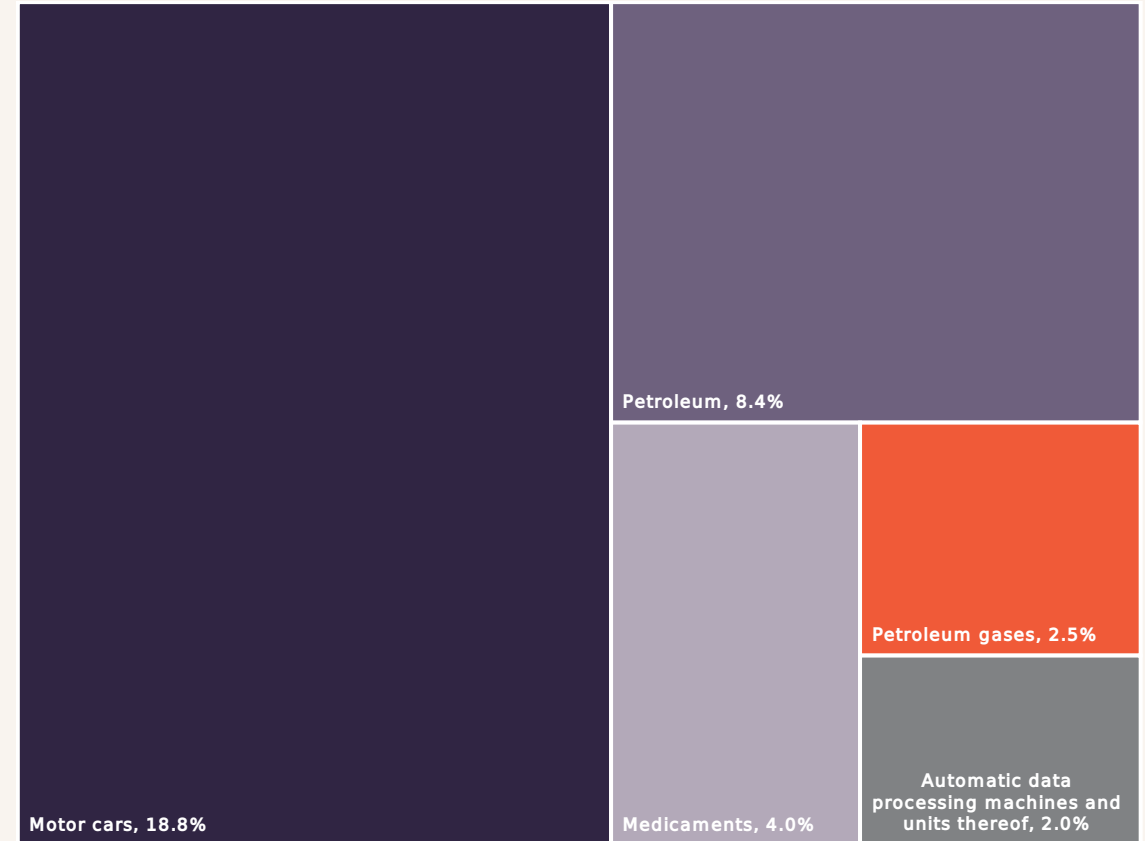
increased significantly, compared to the 8M of 2023, showing a record-high growth of 261% YoY.



Share of Major Commodity Positions by Imports (2023 8M)



Share of Major Commodity Positions by Imports (2024 8M)



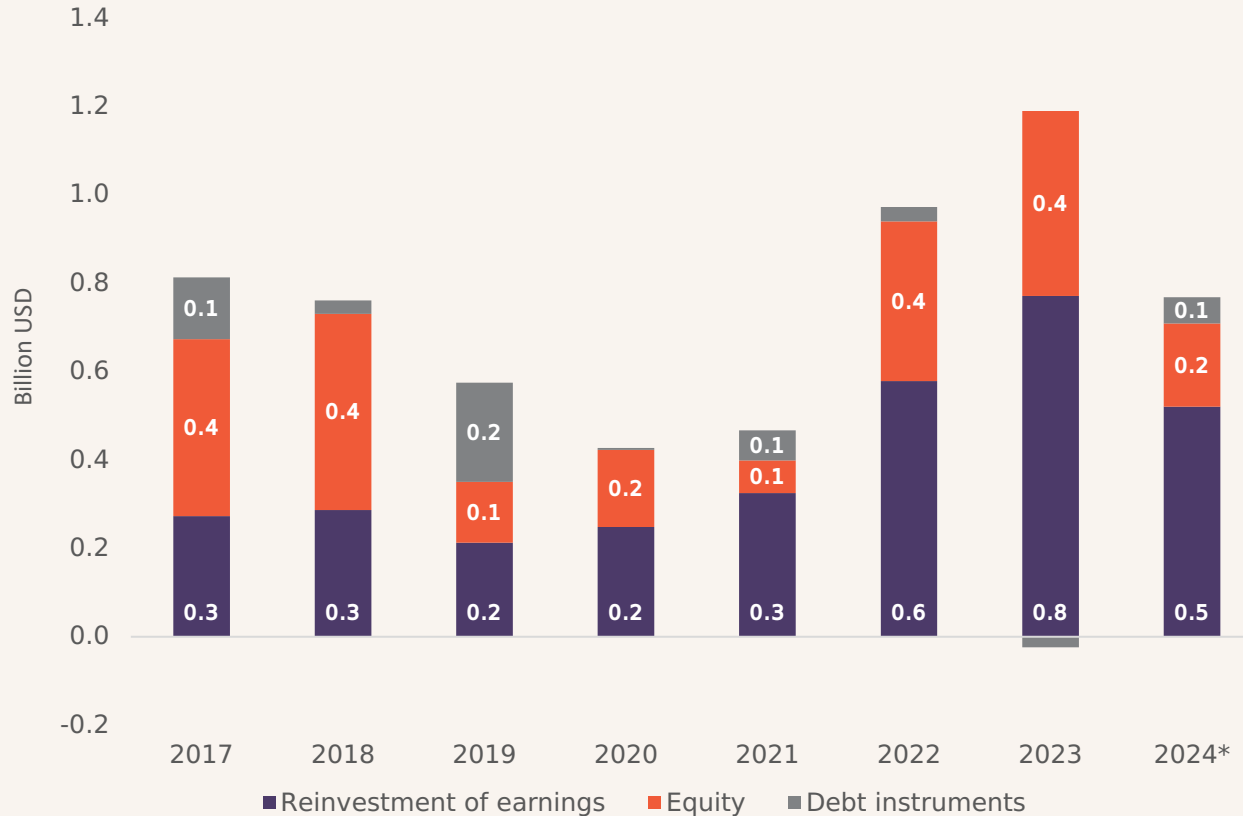
- In the first 8M of 2024, compared to the 8M of 2023, there were no significant changes in the composition of **primary**

commodity imports. Motor cars keep leading position (18.8%) followed by petroleum (8.4%) and medicaments (4.0%).

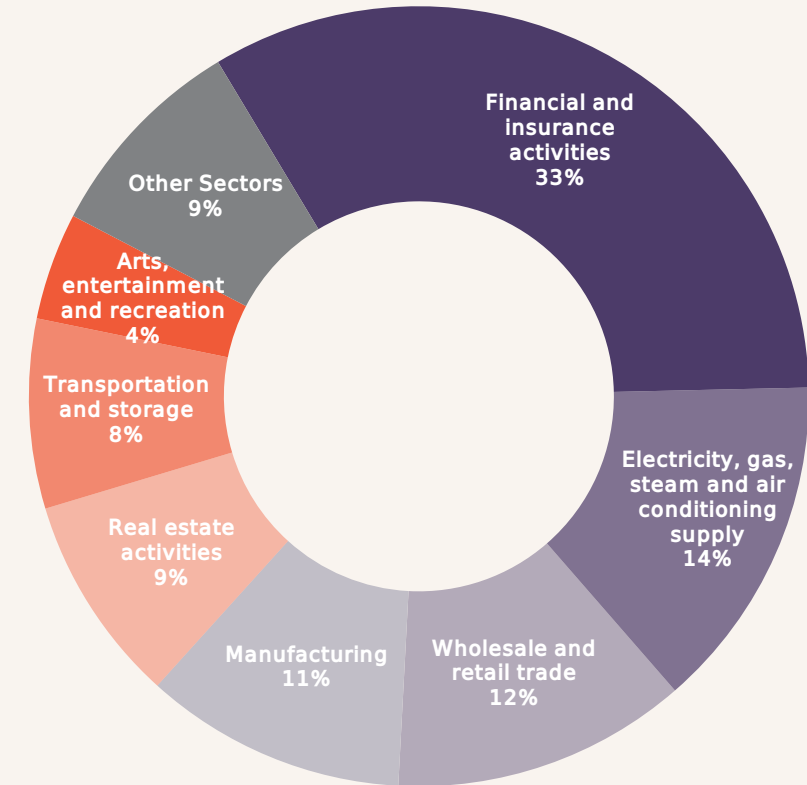


EXTERNAL SECTOR: FOREIGN DIRECT INVESTMENTS

Foreign Direct Investment by components (6M)



FDI in 2024 by sectors (6M)



- In the first 6M of 2024, **net FDI inflows** into Georgia reached US\$0.8 billion. Most FDI went to the **financial sector** (US\$256 million), followed by the **energy sector** (US\$107 million).

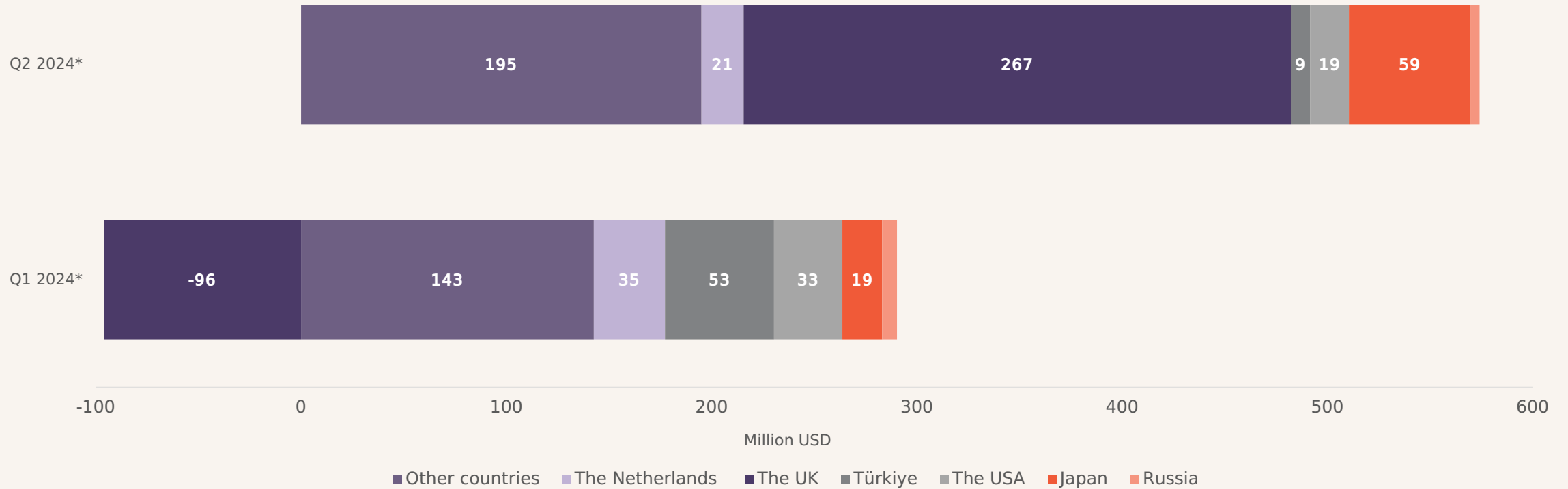
- **Reinvested profits** represent the largest component of FDI,

* Preliminary data

accounting for 68% of total FDI during the first six months of 2024. However, for the first time since 2019, reinvested profits in the first two quarters **declined** compared to the same period in the previous year.



Foreign Direct Investment by Countries*



• The top investor country in 6M of 2024 was **the UK** (US\$ 170 million). The UK mostly invested in the financial sector, with the FDI inflows derived from reinvesting.

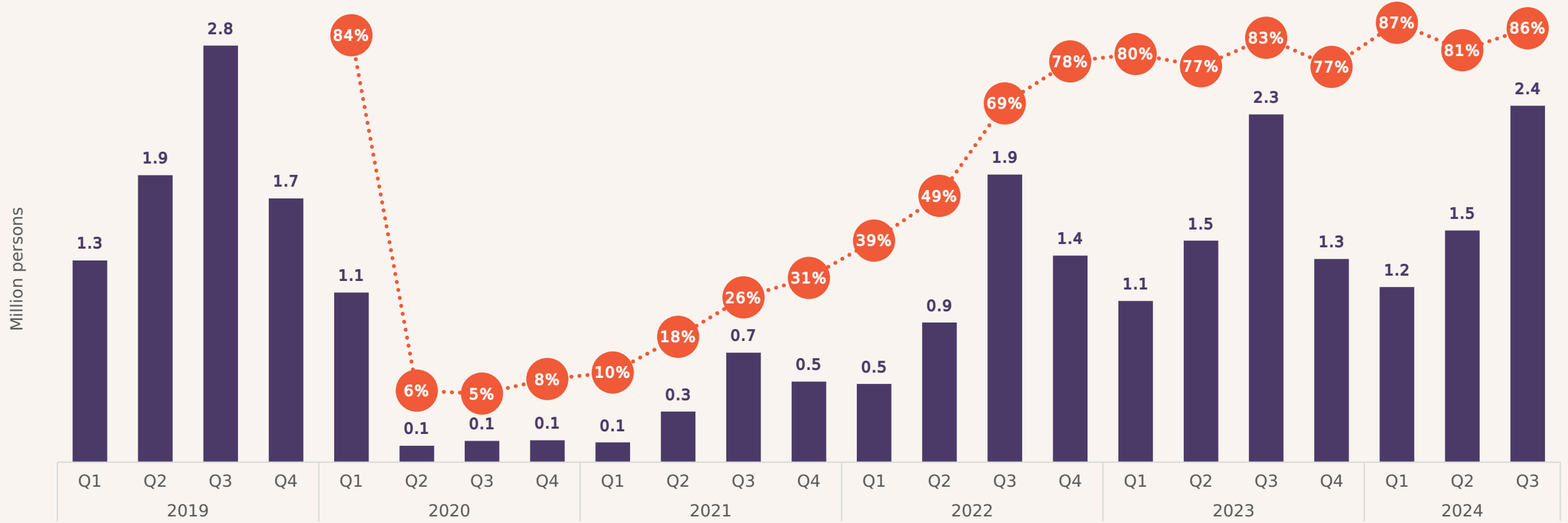
• In 6M of 2024, **Japan** was the second-leading investor country (US\$ 79 million) to Georgia, with investment mostly in the energy, trade, and accommodation sectors.

* Preliminary data



EXTERNAL SECTOR: TOURISM

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



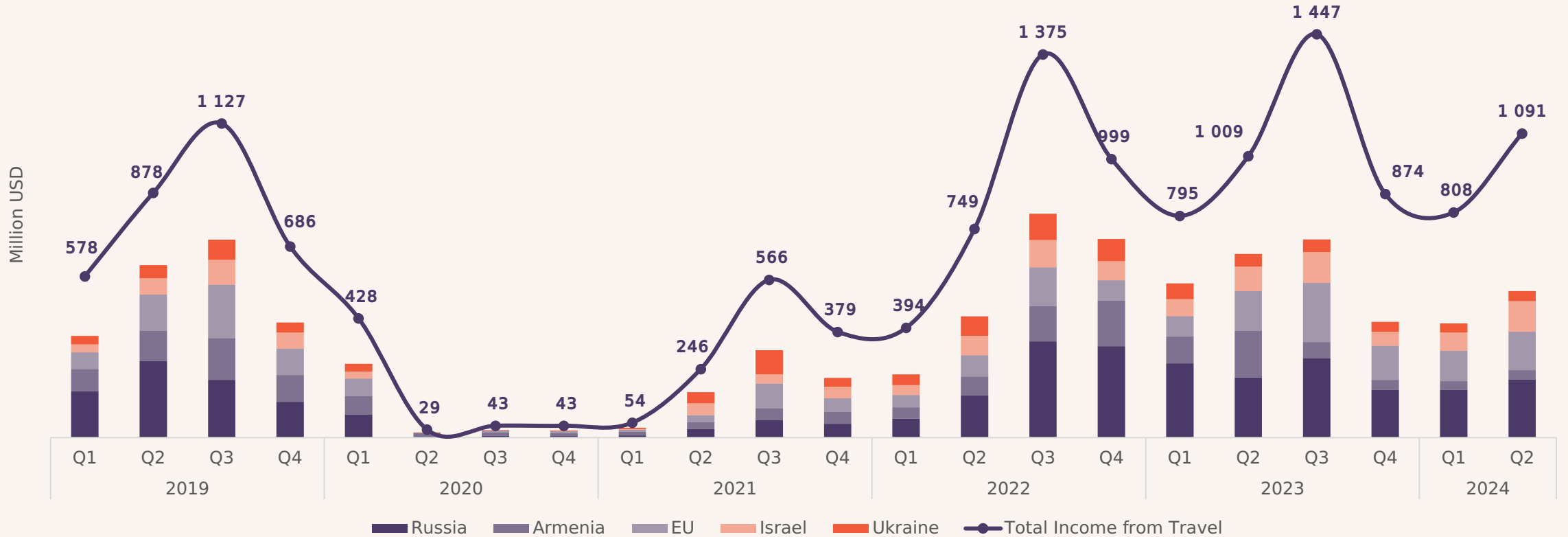
• In the first 9M of 2024, the **number of international visits** to Georgia* has not recovered to pre-pandemic levels, reaching only 84.3% of the figures recorded in 2019.

• However, in terms of **overnight visits**, which did not recover to pre-pandemic levels in Q2 of 2024, this figure in Q3 of 2024 slightly surpassed the total of the same period in 2019.

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



Total Income From International Travel by Countries



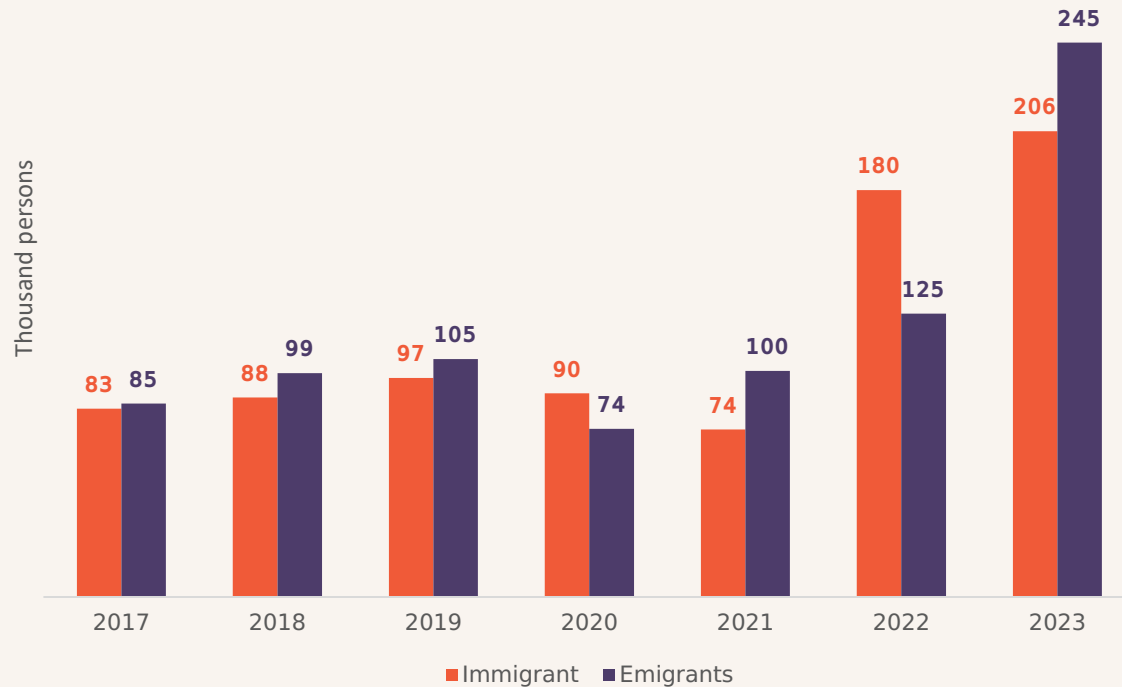
- In 6M of 2024, the total **income from international travel*** amounted to US\$1.9 billion, marking an increase of 5.2% compared to 6M of 2023 and 30.4% compared to 6M of 2019.

- Throughout 6M of 2024, the average shares of income from visitors from **Russia** amounted to 20.2% (-7.3 pp, YoY), while it was 13.0% for visitors from the **EU** (+1.4 pp, YoY).

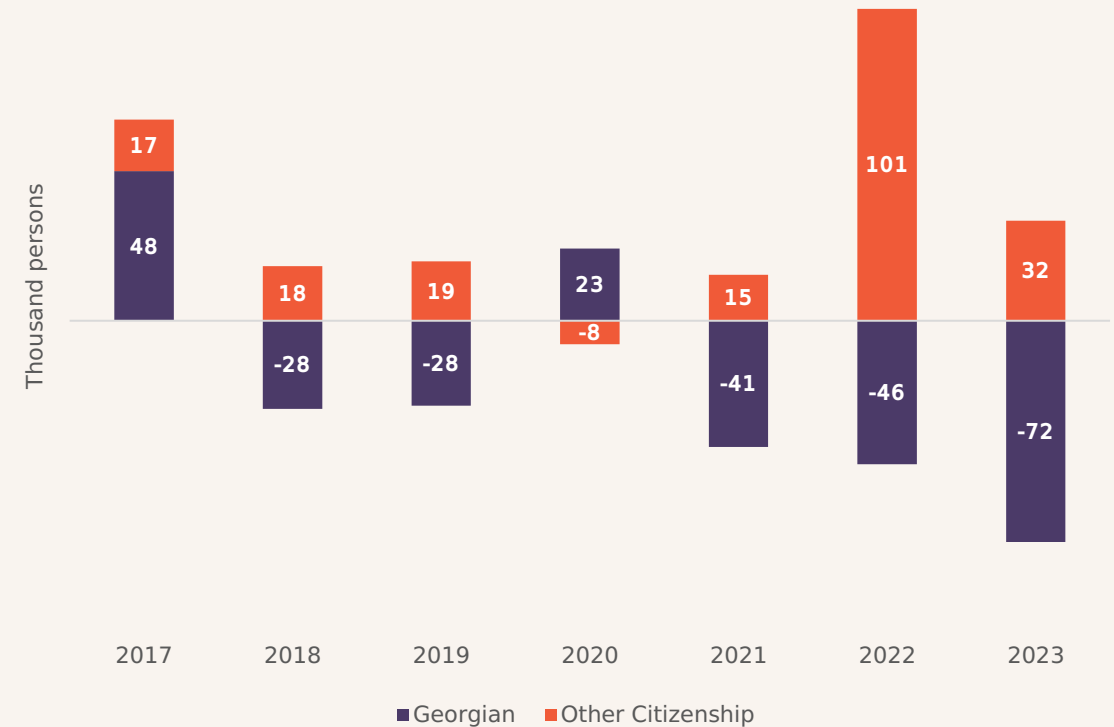
* Individuals projected to reside in Georgia for a duration of 1 year or longer, or who have the intention to stay beyond 1 year, are not categorized as visitors. Consequently, expenditure of 24.3% of Ukrainian, 17.0% of Russian and 16.5% of Belarusian citizens residing in Georgia is not included in travel income.



Migration from and to Georgia



Net Migration Rate of Georgian and Other Citizens

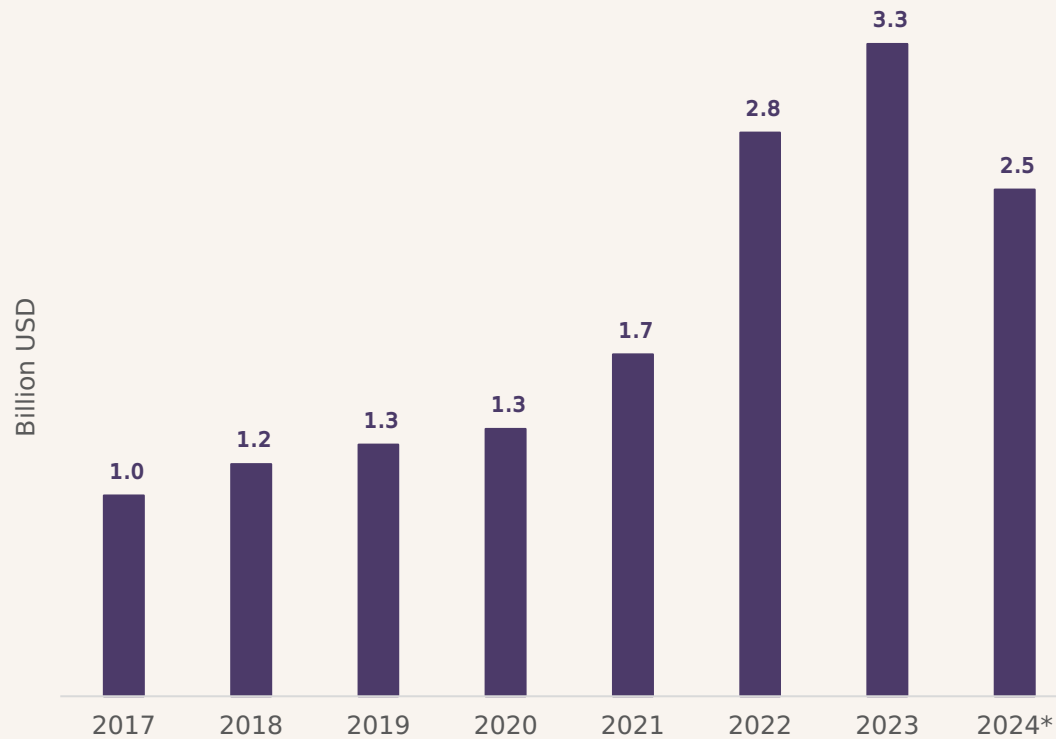


• In 2023, Georgia experienced a **net migration loss** of 39 thousand people, largely driven by the emigration of Georgian citizens. During this period, 72 thousand Georgians

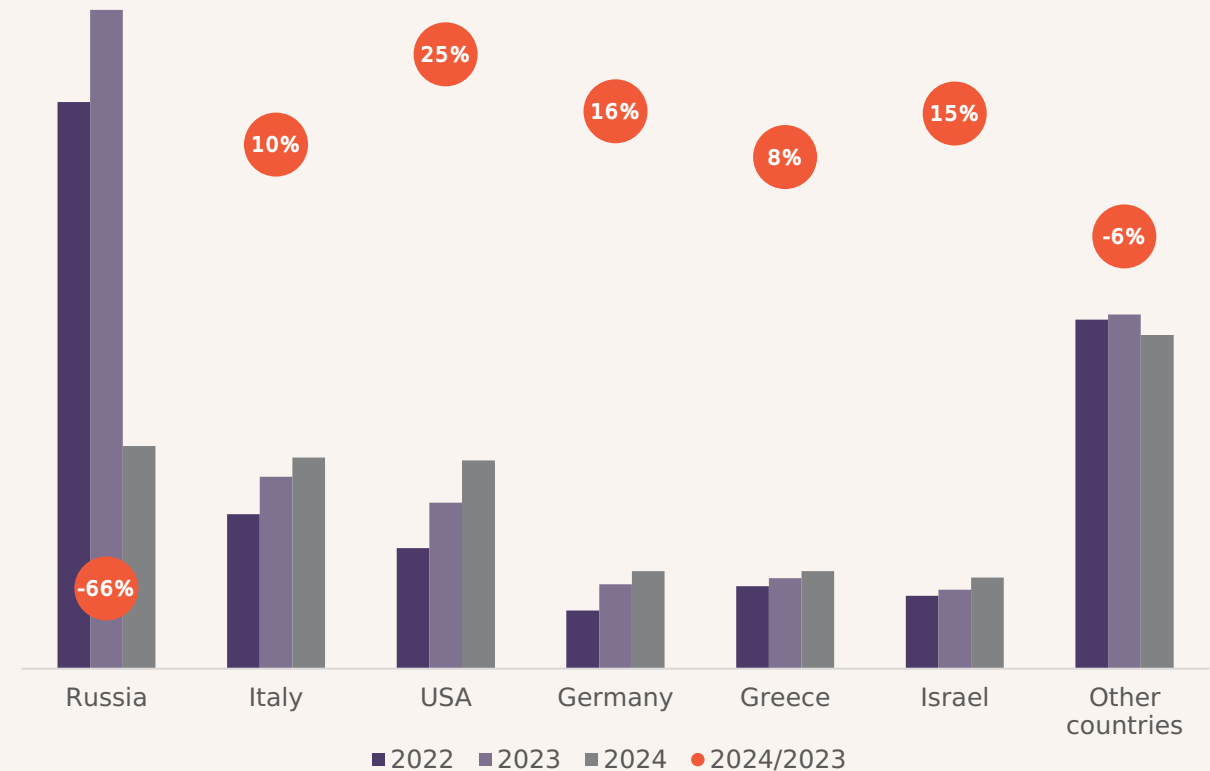
left the country. In contrast, the net migration of foreign nationals was positive, with 31 thousand individuals moving to Georgia from abroad.



Money Transfers to Georgia (9M)



Money Transfers to Georgia by Countries (9M)



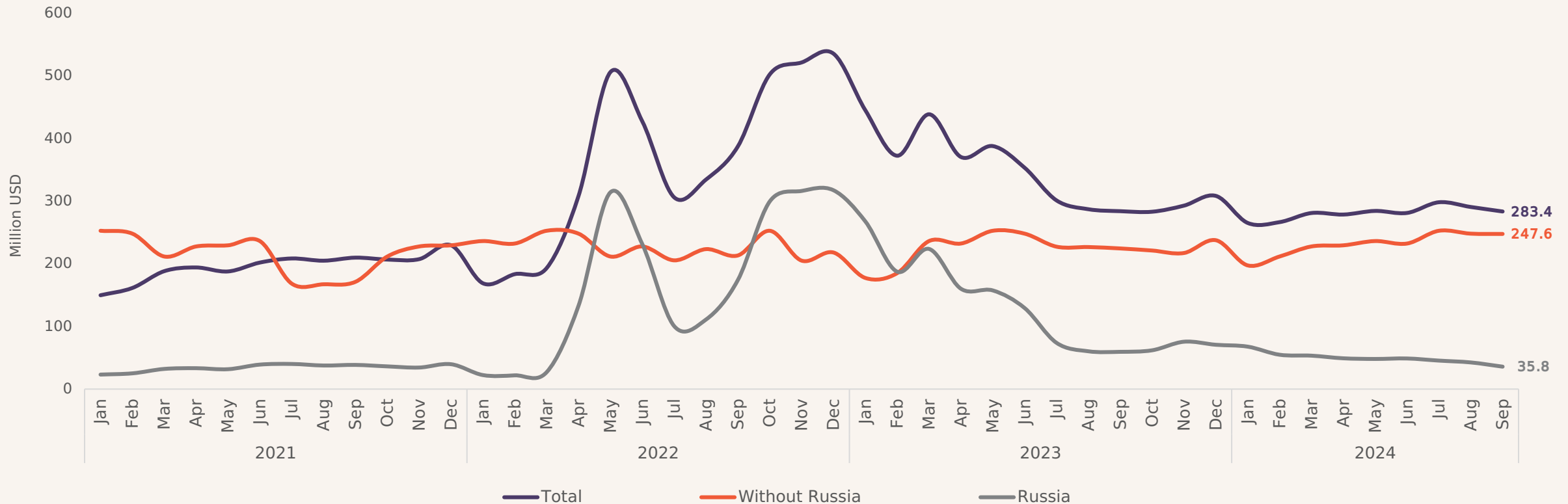
• In 2024 9M, **total money transfers** amounted to US\$2.5 billion, decreasing by 22.3% YoY. However, excluding Russia, the money transfers increased by 7.6% YoY during the same period.

* Preliminary data

• In 2024 9M, the highest annual growth in money transfers was recorded from the **USA** (+25.5%), followed by **Germany** (+15.7%) and **Israel** (+15.3%). During this period, money transfers from Russia decreased by 66.2%.



Money Transfers to Georgia



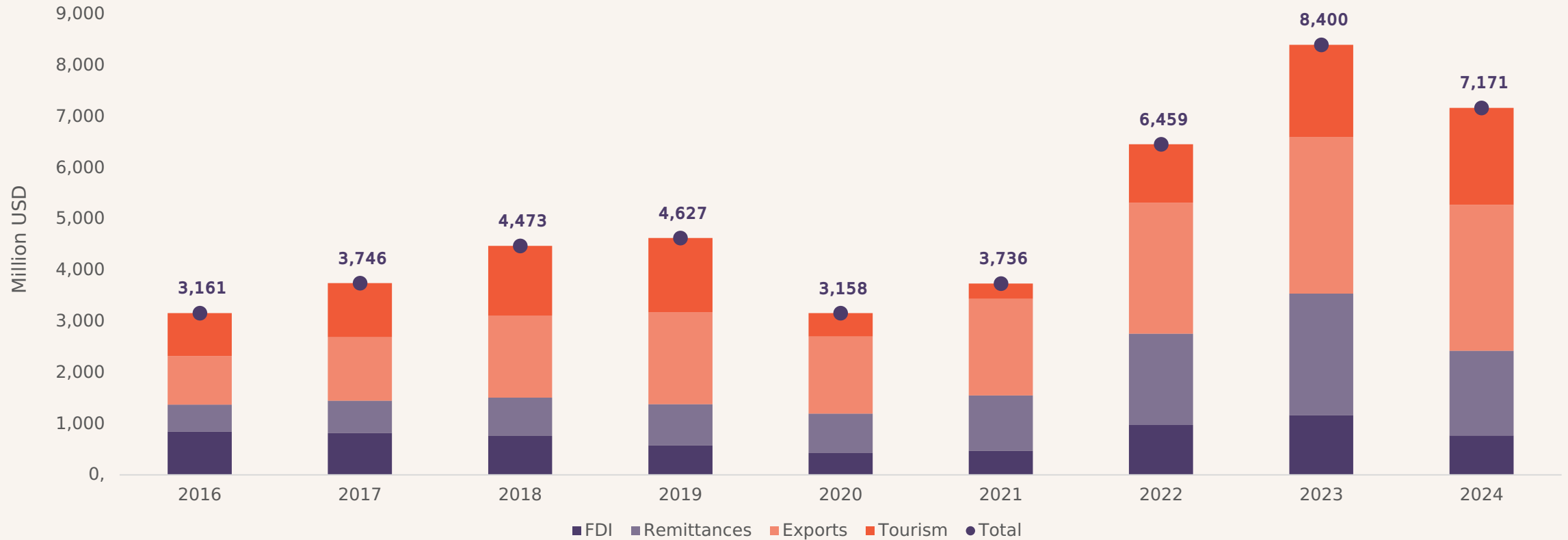
- The diversity of money transfer sources increased in 2023. Beginning in April 2023, money transfers from Russia gradually returned to **pre-war levels** and entered a declining trend, narrowing the gap between total money transfers and the amount excluding contributions from Russia.

- For the first time since 2022, money transfers from the USA and Italy **surpassed** those from Russia in July, continuing into the following months as well.



EXTERNAL SECTOR: FOREIGN EXCHANGE INFLOWS

Foreign Exchange Inflows in Georgia (6M)

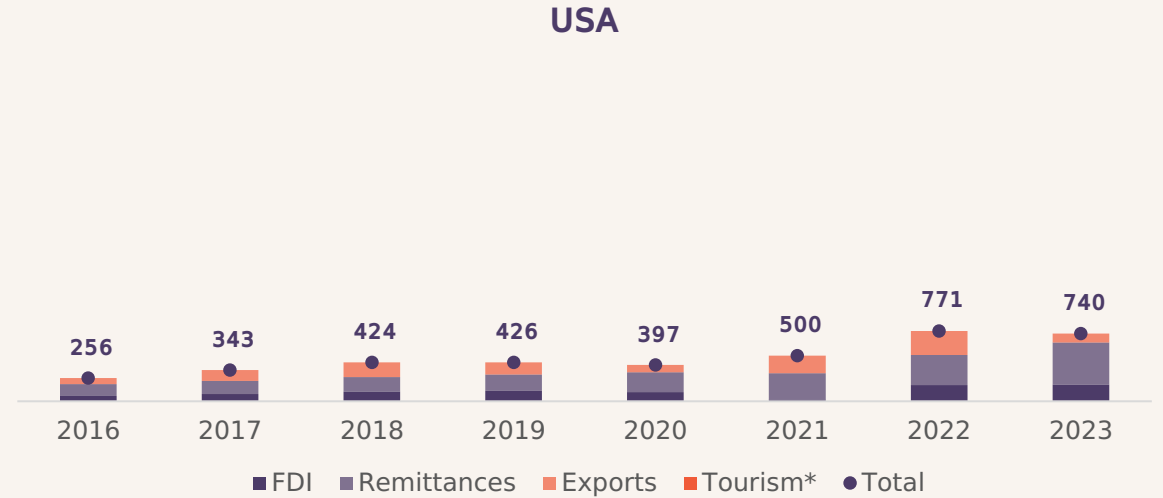
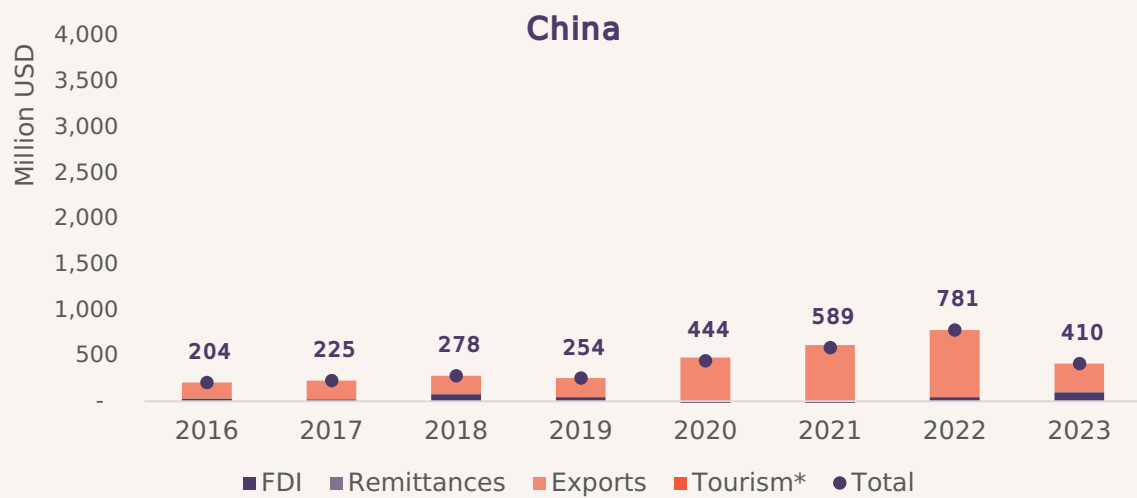
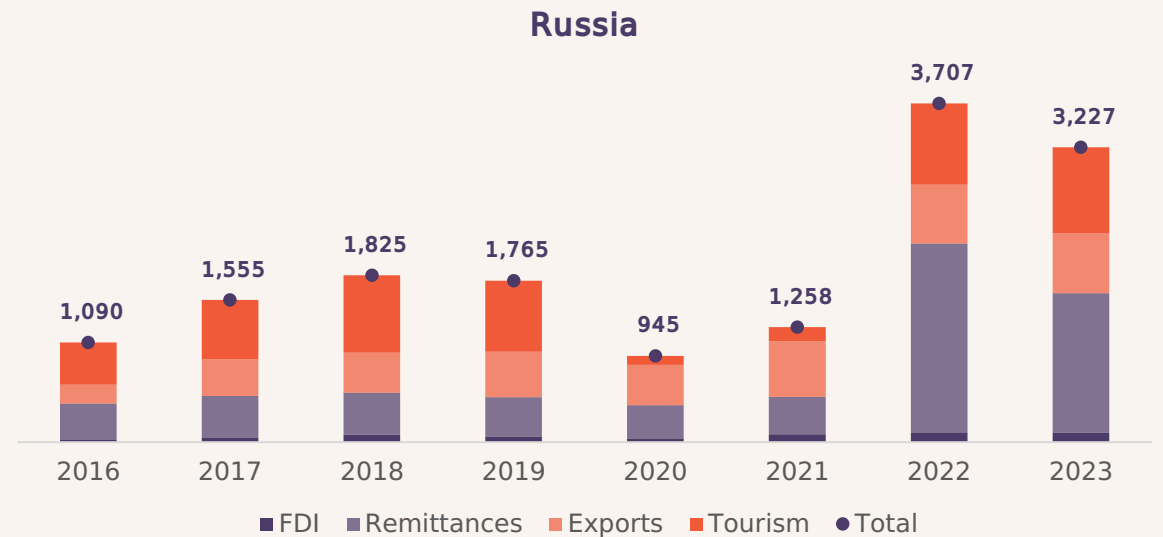
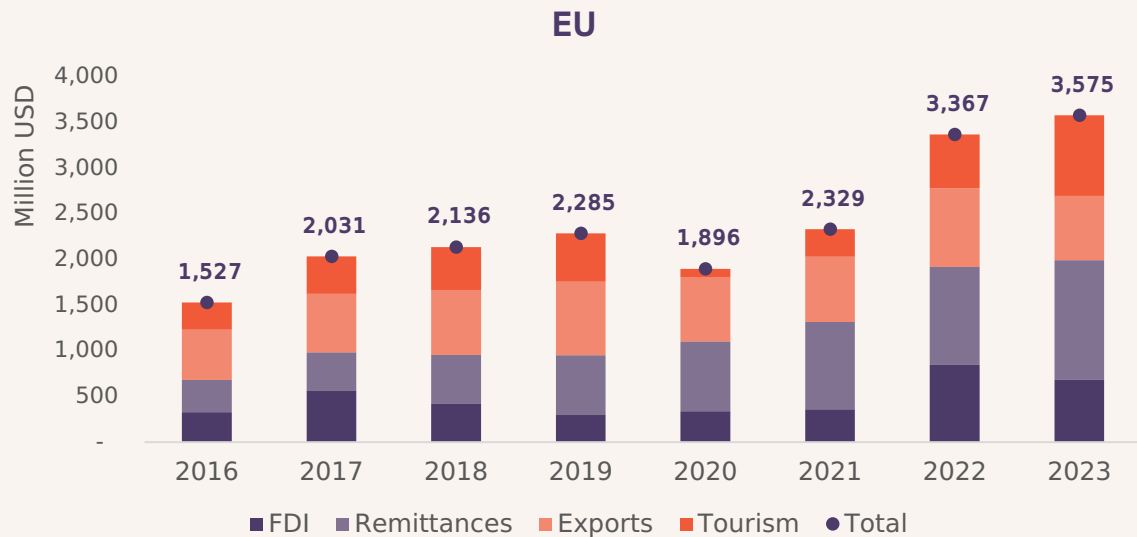


• In the first 6M of 2024, total **foreign exchange inflows** amounted to US\$ 7 billion, which is 15% less, compared to the first 6M of 2023.

• In the first half of 2024, all major sources of foreign exchange experienced a YoY decline, except for tourism, which remained strong.



EXTERNAL SECTOR: FOREIGN EXCHANGE INFLOWS



* Data on income from international travel is not available for China and the USA due to the relatively small scale of such revenue from these countries.



GLOBAL ECONOMIC TRENDS

Global economic growth

- Global economic growth is forecast to remain stable at just above 3% in 2024 with offsetting regional revisions.
- Growth in advanced economies is expected to converge, with the U.S. seeing a slight slowdown and the euro area showing modest recovery, driven by stronger services and exports.
- Emerging markets and developing economies are projected to see upward growth revisions, particularly in Asia, where China and India are expected to drive stronger activity.
- World trade is projected to rebound, growing at an annual rate of 3.25% in 2024-2025, keeping pace with global GDP expansion. While geopolitical trade barriers continue to rise, the trade-to-GDP ratio is expected to hold steady, even as manufacturing activity remains weak.

Slower global disinflation

- Global inflation reduction is expected to slow in 2024 and 2025, with inflation in services remaining persistently high, while disinflation in goods prices strengthens.
- The gradual cooling of labor markets and declining energy prices in advanced economies are expected to bring down the inflation by the end of 2025, assuming no significant disruptions from the ongoing conflict in the Middle East.
- Inflation in emerging markets and developing economies is projected to decline more slowly than in advanced economies.
- Central banks are expected to begin lowering monetary policy rates till the end of 2024, though the pace of rate normalization will vary across regions due to differing inflationary pressures.

- The upcoming U.S. elections create significant uncertainty for the global economy due to stark differences in economic policies, particularly on trade, taxes, energy, and immigration, which could lead to varying impacts on international trade, global energy markets, and cross-border economic relations.
- The ongoing conflict in the Middle East, especially around the Red Sea, raises concerns about potential disruptions to global energy supplies and shipping routes, which could lead to increased costs and market volatility.



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