Country Context

Over the past decade, Georgia’s economy has grown at an average annual rate of 5%. This was in spite of numerous shocks, including the global financial crisis of 2007–08, the conflict with Russia in 2008, and the regional economic headwinds of 2014.

Poverty declined from 35% in 2006 to 17.1% in 2016. Inequality, which was higher in Georgia than in most other former Soviet states, also declined during the same period, indicating that prosperity was increasingly shared. However, although incomes have increased, the economy has not managed to expand the supply of jobs and reduce unemployment.

As an open economy, Georgia is vulnerable to regional developments, given its historically high current account deficit. Considering the country’s social and infrastructure needs, fiscal pressures should be carefully managed to ensure fiscal sustainability.

At a Glance

- Economic growth improved markedly to 5% in 2017, from 2.8% in 2016, led by the construction, trade, and transport sectors, on the back of an improved external environment. Growth is projected at 4.5% in 2018, led by investments.

- Inflation spiked to 6.7% in 2017 in response to higher excise taxes on tobacco and fuel, but dropped to below 3% by February 2018. Inflation is envisaged to remain well contained at the National Bank of Georgia’s target of 3% in the medium-term.

- The fiscal deficit declined to 3.8% of GDP in 2017, slightly improving from 2016, while fiscal consolidation will continue in 2018 and public investment is expected to remain robust.

- Poverty (US$3.2 purchasing power parity measure) was slightly up to 17.1% in 2016 from 16.7% in 2015 but is expected to return to its declining trend as economic growth recovers and translates into higher incomes.

<table>
<thead>
<tr>
<th>GEORGIA</th>
<th>2017</th>
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<tbody>
<tr>
<td>Population, million</td>
<td>3.7</td>
</tr>
<tr>
<td>GDP, current US$ billion</td>
<td>15.5</td>
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<tr>
<td>GDP per capita, current US$</td>
<td>4,194</td>
</tr>
<tr>
<td>School Enrollment, primary (% gross) (2015)</td>
<td>116.9</td>
</tr>
<tr>
<td>Life Expectancy at birth, years (2016)</td>
<td>74.7</td>
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</tbody>
</table>
The World Bank and Georgia

The World Bank Group has been a key development partner for Georgia since 1992, supporting investment projects and the reform agenda in almost every sector. In 2014, Georgia graduated from the International Development Association (IDA) to become an International Bank for Reconstruction and Development (IBRD)-only borrower.

The overarching objective of the Country Partnership Framework (CPF) for FY14–17 was to achieve faster, inclusive, and sustainable growth while seeking a greater focus on social outcomes and poverty reduction. To achieve this objective, two strategic areas of focus were outlined: (i) strengthening public service delivery to promote inclusive growth and (ii) enabling private sector–led job creation to improve competitiveness.

The theme of the recently completed Systematic Country Diagnostic (SCD) is “From Reformer to Performer.” The study takes stock of Georgia’s important achievements and presents a vision for the country that can now shift gears to end poverty and achieve prosperity for most of its population within a decade.

The key policy areas include: (a) unlocking the productivity growth potential of firms, specifically through accelerating the shift from inward-looking to export-driven development; (b) removing the constraints to social mobility by investing in people and skills creation, particularly in the rural economy; and (c) ensuring that the macroeconomic environment remains supportive.

The new CPF for FY19–22 is currently being finalized and will be presented to the Board of Executive Directors before the end of FY18. The CPF will support the Government of Georgia’s vision of developing a market-based economy while ensuring nationwide prosperity and strengthening the country’s regional position.

Key Engagement

Georgia has made substantial progress on improving its health care system, partially through the introduction of Universal Health Coverage (UHC). The WBG is supporting the Government’s efforts to expand the UHC program. The Bank’s program contributed to an increase in the UHC registration rate from 60% in 2013 to the targeted 90% in 2017. The World Bank, through its Service Delivery Quality Improvement Technical Assistance, also provided comprehensive recommendations on quality improvement measures. The Development Policy Operations series supported the Government’s efforts to further improve health standards in all facilities that provide primary health care, with potential benefits for all users. As a result, 65% of hospitals, outpatient facilities, and laboratories were in compliance with upgraded health standards, allowing the Government to increase UHC coverage.

The International Finance Corporation (IFC) delivered on its commitment to support private sector participation in the health care sector. IFC provided financing of US$39 million to support the expansion plans of two leading private health care companies.

WORLD BANK PORTFOLIO

- No. of Projects: 14
- Lending: $809 Million
- IBRD: $642 Million
- IDA: $157 Million

The new CPF will continue to support human capital development by contributing to the efficient delivery of health services. The program will help explore alternative means of improving the quality of health care and the unit cost of provision. Engagement will focus on undifferentiated access to quality services while working toward sustainable financing models.
**Recent Economic Developments**

The economy performed better in 2017 than earlier estimates indicated. GDP growth improved to 5%, from 2.8% in 2016, led by the trade, construction, and transport sectors in an improved external environment. Exports of goods expanded by 24% on the back of strong demand from Russia, Azerbaijan, Ukraine, China, and the United States, while exports of services improved by 20%, led by a 27% spike in tourism proceeds. Workers' remittances increased by 21% in 2017. Import growth was relatively lower, reflecting gradually firming oil prices. Gross FDI inflows increased in 2017 to 12.3% of GDP, helping strengthen the international reserve position, which stood at four months of imports of goods and services.

Fiscal policy was prudent in 2017. Despite eliminating the income tax on reinvested profits in 2017, revenues increased by 11%, to 28.8% of GDP. To prioritize social and infrastructure spending, the authorities generated savings of about 0.8% of GDP from lower administrative costs in 2017. This helped scale-up public investments to 8.3% of GDP and slightly narrow the fiscal deficit to 3.8% of GDP. Going forward, considerable consolidation of administrative spending, the streamlining of subsidies, and a more efficient social safety net will help to achieve medium-term fiscal consolidation while providing space for capital spending.

The banking sector is well capitalized and profitable and has a low number of nonperforming loans (NPLs). The sector yielded a return on assets of 2.8% and a return on equity of over 20% as of end-2017. Also by December 2017, NPLs represented only 2.4% of gross loans, down from 3.6% as of end-2016. At the same time, systemic vulnerabilities persist, including the large market concentration of the top two banks, the high retail loan growth (including by non-bank financial institutions), and the elevated dollarization against the backdrop of deficient financial safety nets.

**Economic Outlook**

Georgia's growth outlook over the medium term is positive. The more benign external environment should facilitate the development of private sector–led export sectors, encourage FDI, and support consumption from still robust remittances. A steady implementation of the reform program will result in a further acceleration of growth over the medium term to 5% by 2020, particularly by enhancing productivity. Inflation is envisaged to remain well contained, converging to the NBG's target of 3% by year-end 2018, while the current account deficit will narrow to below 9% of GDP by 2020. At the same time, as an open economy, Georgia is vulnerable to regional developments, given its historically high current account deficit, and the risks associated with a high export demand and a decline in remittances.

The considerable consolidation of administrative spending, the streamlining of subsidies, and a more efficient social safety net will help to achieve medium-term fiscal consolidation and provide space for capital spending. Current spending is projected to decline from 24.5% of GDP in 2017 to 23% in 2020, primarily by containing the wage bill and administrative expenses—which rose steadily and steeply for at least four years—and better targeting subsidies and social assistance programs. The fiscal deficit of the general government will be gradually reduced to 3.0% of GDP by 2020, keeping public debt stable.

The continuous expansion of the economy in upcoming years should lead to more employment opportunities and further poverty reduction. In rural areas, employment opportunities outside agriculture will play a critical role in promoting reductions in lagging regions. Pensions and social assistance are expected to play a much smaller role in poverty reduction in the near term, given the more limited fiscal space.
Project Spotlight

Technical Assistance (TA) Project – Improving Efficiency and Transparency in Public Procurement in Georgia

Georgia’s public procurement system is undergoing rapid change as procurement spending rises, becomes more decentralized, and uses new procedures and systems. However, due to a lack of reliable data in an open format, policy makers currently do not possess adequate tools to determine how these changes are affecting performance or to review the performance of individual procurement entities or suppliers.

Administered by the World Bank, the Technical Assistance project seeks to assist the Government in improving public procurement outcomes by enhancing its procedures, processes, systems, and capacity. The project’s key activities are: assessing levels of transparency in Georgia’s public procurement system using the Open Contracting Principles and the Open Contracting Data Standard (OCDS) as a framework, with a subsequent measurable action plan; producing a Production of Data Analytics report with recommendations on public procurement performance; and applying the World Bank’s e-procurement indicators for the ECA region in order to establish a systemic profile, including an assessment of the Georgian E-Government Procurement System (Ge-GP) with the intention of using it in World Bank–financed international tenders.

Through effective cooperation between the World Bank team and the Government, it was possible to generate an evidence-based data analytics report on procurement transactions between 2013 and 2016. The study captured information on 878,900 contracts with an aggregate value exceeding US$5 billion and concentrated on identifying bottlenecks and providing respective recommendations in the following four major directions: (1) Level of Competition, (2) Success Rate of Tenders, (3) Procurement Performance at the Municipal Level, and (4) Participation of Small and Medium Enterprises in Tenders.

Another major outcome of the Technical Assistance project has been transformation of the State Procurement Agency’s (SPA) procurement data into open formats. As part of this work, SPA, together with the World Bank’s open contracting team, completed work on structuring its data following the scheme proposed by the OCDS and launched a dedicated portal (http://opendata.spa.ge/), which generates tender information in a machine-readable format for all public procurement contracts for the years 2014–17.