

The World Bank in Georgia Country Snapshot



An overview of the World Bank's work in Georgia

October 2019

GEORGIA	2018
Population, million	3.7
GDP, current US\$ billion	15.5
GDP per capita, current US\$	4,068
Life Expectancy at birth, years (2018)	73.5

At a Glance

- Georgia's economy expanded by 4.9 percent in the first half of 2019, driven by strong exports and consumption.
- Inflation accelerated to 4.9 percent year-on-year in July due to the weakening of the lari as well as higher tobacco excises.
- The budget registered a deficit of 0.6 percent of annual GDP by end-July 2019 compared to a 0.5 percent of GDP surplus in 2018. Public debt also increased, reflecting the depreciation of the lari, the pickup in capital spending, and efforts to develop the domestic debt market.
- Poverty declined as growth created jobs. The unemployment rate declined to 12.7 percent in 2018, helping to lower the poverty rate (measured at the national poverty line) to 20.1 percent.

Country Context

Over the past decade, Georgia's economy has grown robustly at an average annual rate of 4.5 percent. This was despite numerous shocks, including the global financial crisis of 2007–08, the conflict with the Russian Federation in 2008, and the drop in commodity prices since 2014 that has impacted key trading partners.

Poverty declined from 32.5 percent in 2006 to 16.3 percent in 2017. The poor have benefited considerably from the Government's social policies, as well as from new economic opportunities.

Although inequality remains high by regional standards, it has been declining in recent years, thanks to strong improvements in the welfare of households in the bottom 40 percent of the income distribution.

Deep reforms in economic management and governance have earned Georgia a reputation of "star reformer." To bolster the private sector, the country has introduced rules and regulations that make it easier to do business, and the country's international ratings on governance and the investment climate have soared.

The Deep and Comprehensive Free Trade Area agreement with the European Union and the Free Trade Agreement with China are expected to boost trade integration. Moreover, energy, tourism, and agribusiness can potentially help to integrate the country further into the regional and global economies.

The World Bank and Georgia

The new Country Partnership Framework for FY19–22, developed in collaboration with the Government of Georgia and endorsed by the Board on May 22, 2018, aims to support sustainable and inclusive growth and improvements in living standards.

The current active portfolio consists of 11 investment projects with total commitments of US\$699 million, of which roughly US\$330 million is undisbursed. About 60 percent of commitments are concentrated in the ongoing East-West Highway and secondary roads projects and 18 percent is in urban development. The remaining 20 percent covers energy, land management and irrigation, and the innovation ecosystem. Three more investment projects in the education, energy, and health sectors are currently at various stages of preparation.

The FY19 lending pipeline included three operations with total International Bank for Reconstruction and Development (IBRD) financing of about US\$220 million: the Georgia I2Q - Innovation, Inclusion, and Quality Project (US\$100.5 million IBRD loan), the Energy Supply Reliability and Financial Recovery Project (US\$70 million IBRD loan), and the Energy Supply Reliability and Financial Recovery Guarantee Project (US\$50 million IBRD guarantee). Four more IBRD lending operations, with total commitments estimated at US\$140 million, are envisaged for delivery in FY20.

In addition to the investment portfolio, there is an active program of four recipient-executed trust fund operations of about US\$15.4 million, of which approximately 36 percent is undisbursed.

Although the Bank's investment portfolio is predominantly in infrastructure, the overall partnership is broader, with in-depth dialogue and analytical and knowledge activities in many areas, such as public administration, health, education, and pensions.

WORLD BANK PORTFOLIO

No. of Projects: 11

Lending: \$699 Million

IBRD: \$542 Million

IDA: \$157 Million

Key Engagement

In October 2018, the World Bank Group launched the Human Capital Project (HCP) at the annual meetings of the WBG and IMF in Indonesia, with the goal of accelerating investments in human capital as a critical step toward boosting inclusive and sustainable growth. Georgia is one of the “early adopters” of the HCP, participating at the launch of the project and expressing a commitment to accelerate investments in human capital.

The HCP has created an excellent opportunity to elevate the dialogue on human development in Georgia from the social sector ministries to the ministries of finance and economy and the highest levels of government. The Bank team ensures a “whole of government” approach to human capital development by bringing together all the relevant government ministries/agencies to help Georgia develop an action plan to strengthen human capital investments.

Demand for the Bank's support has grown substantially. The Government realizes that it must boost investment in human capital, including in early childhood development (ECD), as one of the most effective ways to build valuable skills for future labor markets.

The proposed Georgia Innovation, Inclusion, and Quality Project (I2Q), which is currently under preparation, aims to improve education innovation, quality, and equity in strategic areas, including ECD, with the aim of generating long-term improvements in human capital and productivity.

Recent Economic Developments

The Georgian economy picked up pace in the first half of 2019, growing at 4.9 percent and accelerating to 5.1 percent by July. While domestic demand was supported by higher consumption, investment contracted due to the completion of several infrastructure projects and declining foreign direct investment (FDI). Net exports improved considerably, reflecting slowing imports and the increased re-export of used cars and copper ores. On the supply side, all sectors, except mining and electricity production, positively contributed to growth.

The unemployment rate declined to 12.7 percent in 2018, helping to lower the poverty rate (measured at the national poverty line) to 20.1 percent. This was driven by a 3.4 percentage point decrease in rural poverty, while urban poverty fell by 0.6 percentage points. These trends continued in the first half of 2019 as the unemployment rate declined further to 12 percent.

Inflation accelerated to 4.9 percent year-on-year (y-o-y) in July 2019 due to the weakening of the lari as well as higher tobacco excises. In response, the authorities tightened the monetary policy rate in early September by 50 basis points to 7 percent.

The trade balance continued to improve as export of goods expanded by 12.4 percent and imports were 4.7 percent lower in the first seven months of 2019. Money transfers (including remittances but also other transfers) rose by 7 percent. The growth of tourism proceeds moderated to 7.8 percent in January–July from 21 percent in 2018. In the first quarter of 2019, the current account deficit of 6.2 percent of GDP was well covered by FDI as well as portfolio investments of 6 percent and 4 percent of GDP, respectively. This allowed the National Bank of Georgia to accumulate record high international reserves.

The budget registered a deficit of 0.6 percent of annual GDP by end-July 2019 compared to a 0.5 percent of GDP surplus in the same period

of last year. This was result of a faster outturn in government spending and a revenue increase (by 10 percent y-o-y) in January–July. Public debt has increased by 7.4 percent since the start of the year, reflecting the depreciation of the lari, the pickup in capital spending (mostly foreign financed), and efforts to develop the domestic debt market.

After moderating in early 2019, credit growth accelerated to 13.5 percent y-o-y in August (excluding the foreign exchange effect). The credit expansion was driven mainly by lari-denominated loans. Deposits grew by 8 percent in August y-o-y, driven primarily by lari deposits.

Economic Outlook

Growth is projected to slow to 4.4 percent in 2019, adversely affected by the ban on all flights between Russia and Georgia, which is estimated to cost the economy around 0.6 percent of GDP. This will be partially offset by stronger net exports, a recovery in credit growth, and some fiscal stimulus. Growth is projected to slow further in 2020, reflecting the full-year effect of fewer arrivals from Russia, the delay in some larger planned infrastructure projects, and more moderate credit growth as international financial markets tighten.

On the other hand, some expansion of government spending, as well as improved air connectivity to and recovery in Turkey, is expected to partially mitigate the growth moderation. Growth is therefore projected to recover over the medium term as some of the constraints to growth dissipate.

Although more moderate, growth will remain positive and create more employment and other income-generating opportunities at the bottom of the income distribution. Public spending (for example, higher pensions or discretionary increases in social assistance) may also help to reduce poverty further, although the impact on fiscal sustainability will need to be considered carefully.

Project Spotlight

Supporting Georgia's Digital Ambitions through an Integrated Approach



Over the past two decades the World Bank Group has been supporting Georgia in defining and realizing its digital ambitions.

Georgia has viewed digital technologies as an enabler of economic development, service delivery, and inclusive growth.

Many of the significant reforms that followed the Rose Revolution in 2003 harnessed information technology to reduce corruption, simplify procedures, and expand

access. Since then, and over the past two decades, Georgia has put in place policies that have boosted access to mobile telephone and internet services and fostered a more dynamic innovation ecosystem.

The World Bank Group has been partnering with Georgia in this process, supporting the country in defining and realizing its digital ambitions over those two decades. Starting with support to establish an independent telecommunications regulatory agency in 1999, the World Bank has more recently been closely involved in supporting the infrastructure needed for a competitive and innovative digital economy.

World Bank development policy engagement supported the introduction in 2016 of advanced wireless networks using 4G technology, which led to a tripling of the use of mobile broadband services to over 3.9 million subscriptions. The Bank is currently working with the Government to define and support the connection of villages across the country to high-speed internet services in a project that is slated to begin in 2020.

In 2014, the Bank supported the Government's efforts to develop more effective innovation policies through the establishment and operationalization of the Georgian Innovation and Technology Agency (GITA) and the Research and Innovation Council under the Prime Minister. In 2016, IBRD financed the Georgia National Innovation Ecosystem (GENIE) Project, which has aimed to boost innovation by firms and to increase their participation in the digital economy. Between 2019 and 2021, the project will support the training of up to 3,000 information technology specialists, creating the workforce needed for Georgia's digital transformation.

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/georgia>



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