

The World Bank in Georgia

Country Snapshot



An overview of the World Bank's work in Georgia

April 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

- The Georgian economy performed well in 2018, growing by 4.9 percent, though economic activity moderated toward the end of the year.
- Annual inflation dropped to 1.5 percent in December 2018 as prices of apparel and communication services declined, overcoming slight upward pressure from higher food, alcohol, and fuel prices and more expensive utilities and health care.
- The fiscal deficit for the year amounted to 2.9 percent of GDP compared to a target deficit of 3.2 percent. Public debt declined further to 43 percent of GDP.
- Poverty was estimated to be 16.3 percent, using the lower-middle-income poverty line (US\$3.2/day, 2011 purchasing power parity). With a decline in the unemployment rate from 13.9 to 12.7 percent, an increase in external transfers, and low price pressures, the poverty rate is expected to have declined in 2018.

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, which 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, Georgia 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 (EU) 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 (CPF) 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 about 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 includes 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) are all scheduled for Board presentation in May 2019. 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 roughly 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.

Key Engagement

In October 2018, the World Bank Group (WBG) launched the Human Capital Project (HCP) at the annual meetings of the WBG and International Monetary

WORLD BANK PORTFOLIO

No. of Projects: 11

Lending: \$699 Million

IBRD: \$542 Million

IDA: \$157 Million

Fund (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 promote investments in human capital.

The WBG team worked with Georgian counterparts ahead of the meetings to develop Georgia's Human Capital Index (HCI) and a strategy to accelerate progress in human capital outcomes.

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 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 Bank is supporting Georgia with investment financing and technical assistance to deliver on its HCP commitment. 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 performed well in 2018, growing by 4.9 percent, though economic activity moderated toward the end of the year.

Strong exports and moderating demand in late 2018 narrowed the current account deficit to roughly 8 percent of GDP. Goods exports grew by 23 percent but remain concentrated.

The import of goods increased by 15 percent as the goods trade deficit widened by 11 percent. This was offset by a 15 percent increase in transfers from abroad and a marked improvement in the services account due to an 18 percent increase in tourism receipts.

The lari exchange rate remained flexible in 2018, with fluctuations driven by seasonal factors as well as the uncertainty stemming from the presidential election cycle.

Annual inflation dropped to 1.5 percent in December 2018 as prices of apparel and communication services declined, overcoming slight upward pressure from higher food, alcohol, and fuel prices and more expensive utilities and health care.

The National Bank of Georgia (NBG) loosened monetary policy slightly in January 2019, cutting its refinancing rate by 25 basis points to 6.75 percent.

Credit expanded by 19 percent in 2018, with mortgage lending accounting for almost 40 percent of the increase in the loan portfolio. More stringent loan approval conditions introduced by the NBG have held back the expansion of the rest of the portfolio.

The banking system remains healthy and profitable, with return on assets (equity) of 2.5 (19.4) percent and nonperforming loans at 2.7 percent of gross loans in December 2018.

The fiscal deficit for the year amounted to 2.9 percent of GDP compared to a target deficit of 3.2 percent. Public debt declined further to 43 percent of GDP.

Poverty was estimated to be 16.3 percent, using the lower-middle-income poverty line (US\$3.2/day,

2011 purchasing power parity). With a decline in the unemployment rate from 13.9 to 12.7 percent, an increase in external transfers, and low price pressures, the poverty rate is expected to have declined in 2018.

Economic Outlook

Georgia's medium-term growth outlook is positive, driven by higher investments, especially by the Government, and stable external demand as growth in Azerbaijan accelerates, stays stable (albeit at modest levels) in Russia, and begins to recover in Turkey.

Economic growth is projected to slow to 4.7 percent in 2019, as the NBG tightens measures for responsible lending, but bounce back to 5 percent by 2021.

The external gap is expected to gradually narrow, as private consumption growth slows and exports, including of tourism services, remain robust.

Although newly introduced measures in the banking sector are likely to slow credit growth and private consumption, they are also expected to strengthen the sector's resilience and its ability to more sustainably support the economy. Inflation will remain low, anchored by credible monetary policy measures.

Fiscal operations will continue to gradually shift from current to capital spending in the medium term, while improvements in efficiency will bring some additional fiscal space for higher capital expenditures. Georgia's public debt is projected to decline to 43 percent of GDP by 2022.

The expansion of the economy will lead to more employment and income-generating opportunities at the bottom of the distribution. Increases in pensions and social assistance in 2019 (also planned for future years) will help reduce poverty further.

Project Spotlight

Empowering Local Community Entrepreneurs Project



A beneficiary from Tskaltubo, Nunu Toradze was able to renovate three bedrooms and a bathroom in her two-story guesthouse using funding from the project.

Job creation is one of the key drivers of poverty reduction in Georgia. Despite substantial reforms, however, almost half of the Georgian population is vulnerable to falling into poverty. At the same time, the availability and quality of job opportunities are scarce.

This challenge is especially pronounced in rural areas and among certain subgroups of the population, such as

women-headed households, youth, internally displaced persons, persons with disabilities, ethnic minorities, and socially vulnerable households.

In response to this challenge, the **Empowering Local Community Entrepreneurs Project**, financed with a grant from the Japan Social Development Fund (JSDF) and implemented by the Biological Farming Association "Elkana," focused on the tourism and hospitality sector in Georgia in order to promote more diversified rural livelihoods, build upon existing traditional skills and knowledge, and leverage those skills for income generation.

This project aimed to improve both skills and household income and to support job opportunities for targeted poor and vulnerable groups in the tourism and hospitality sector in the Kakheti and Imereti regions.

To make that happen, the project provided a range of customized training courses, as well as small grants of up to US\$2,000, to help roughly 2,000 entrepreneurs and 600 micro, small, and/or medium-sized businesses to start up and/or expand their activities, thus creating 761 new jobs in the process. Seventy-five percent of the beneficiaries were women. The project also invested in small community infrastructure in the selected communities.

The small grant from "Elkana" was just a starting point for pensioner Nunu Toradze from Tskaltubo (in west Georgia). She subsequently registered as an entrepreneur and recently received another financial grant through Enterprise Georgia, a government-run program. "I'm a businesswoman," Nunu says proudly, "and the Elkana project has helped me earn my own income."

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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