



GEORGIA	2019
Population, million	3.7
GDP, current US\$ billion	15.7
GDP per capita, current US\$	4,764
Life Expectancy at birth, years (2018)	73.5

### At a Glance

- Growth accelerated to 5.1 percent in 2019, driven by consumption and exports. Inflation increased to 7 percent by end-2019, triggering monetary policy tightening.
- The COVID-19 pandemic has clouded the outlook, with economic activity projected to stagnate in 2020. In case of a prolonged outbreak scenario, GDP could contract by roughly 2 percent.
- The downturn will be partly cushioned by a fiscal stimulus of around 2 percent of GDP. This will push the fiscal deficit to approximately 5.2 percent of GDP in 2020 compared to 3.4 percent in 2019.
- The national poverty rate fell to 20.1 percent in 2018, but gains could be reversed as the outlook dims.

### Country Context

Georgia has established a strong record of reforming its economy and raising the living standards of its citizens. Growth has been robust and resilient, entrepreneurship is vibrant, and living conditions have been steadily improving.

Between 2010 and 2019, Georgia's GDP per capita grew at an average annual rate of 4.8 percent. Coupled with a system of targeted social transfers, this helped to nearly halve the poverty rate from 37.4 percent in 2007 to 20.1 percent in 2018 and to improve living conditions.

The country has a sound macroeconomic framework, an attractive business environment, and robust public financial management arrangements. The World Bank's World Governance Indicators continue to rank Georgia among the best countries in Europe in terms of control of corruption. In the Bank's Doing Business (DB) 2020 report, Georgia remained one of the most business friendly countries globally, ranked 7 out of 190 countries.

The country has a shared consensus on national priorities, including participation in Euro-Atlantic integration, more efficient government, stronger growth, and a better functioning welfare state.

This has paved the way for the signing of an Association Agreement with the European Union (EU), including a Deep and Comprehensive Free Trade Area preferential trade regime. Free trade agreements with the EU and China position Georgia well to attract foreign direct investment (FDI).

## 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 12 investment projects with total commitments of US\$751.95 million, of which roughly US\$258.49 million has already been disbursed. About 37 percent of commitments are concentrated on the ongoing East-West Highway and Secondary Roads Projects, 17 percent on energy and extractives, 14 percent on education, and 13 percent on urban development. The remaining 19 percent covers water, macroeconomics, and trade, as well as private and financial sector development.

In FY20, Additional Financing for the Irrigation and Land Market Development Project, with a total International Bank for Reconstruction and Development (IBRD) commitment of US\$20.43 million, and an Economic Management and Competitiveness Development Policy Operation (DPO), with an IBRD commitment of US\$49.6 million, were approved by the board. One more IBRD lending operation (Additional Financing for the Second Regional Municipal and Infrastructure Development Project), with a total commitment estimated at US\$40 million, is envisaged for FY20 delivery.

In addition to the investment portfolio, there is an active program of four recipient-executed trust fund operations of about US\$16.23 million, of which roughly 96 percent has been disbursed.

Although the Bank's investment portfolio has been predominantly in infrastructure, it is currently transitioning to human capital, economic competitiveness, and resilience to align with CPF objectives.

There is strong client demand, and the teams are preparing the following projects for FY21 delivery: Log-In Georgia, the Integrated Regional and Local Development Project, and Human Capital Development, as well as COVID-19–related emergency operations, such as the Fast Track COVID-19 Facility (FTCF), Additional Financing for the Economic Management and Competitiveness DPO, and the Economic Recovery and Jobs Project.

The Bank's overall partnership with the Government of Georgia is broader, with in-depth dialogue and analytical and knowledge activities in many areas, such as public administration, financial inclusion, gender, health, education, and pensions.

### WORLD BANK PORTFOLIO

No. of Projects: 12

Lending: \$751.95 Million

IBRD: \$691.9 Million

IDA: \$50 Million

Other: \$10.05 Million

### Key Engagement

The World Bank supports Georgia's aspiration to play a leadership role and become a regional hub for logistics, energy, trade, innovation, and tourism in the Silk Road Corridor through better connectivity and infrastructure, including digital infrastructure.

The arrival of the COVID-19 pandemic has underlined the critical importance of digital technologies and connectivity. With the World Bank's assistance, closely coordinated with the Government, Georgia has been progressing on its digital journey and unlocking an increasing number of digital opportunities.

The support provided by the Bank includes assistance on regulatory reforms, such as the introduction of fourth-generation (4G) mobile broadband services in 2015. The Bank has also financed training programs, for example, helping over 900 small businesses in rural areas get online, and has worked closely with the Government to help define the country's National Broadband Development Strategy (NBDS) to increase access to affordable broadband services, which was adopted by the Government in January 2020.

Currently, the Bank is preparing a new project named Log-In Georgia that will be supporting the Government's plan to connect more than 700 villages to fiber optic cable networks. This project, due to begin in late-2020, aims to increase the coverage of high-speed broadband internet services and promote the use-cases of broadband, such as financial inclusion, access to public services, health information, and education, in those villages.

This will continue Georgia's growth story, including in more rural households and businesses, and help to build resilience in a globalized, digitized world that has proved to be invaluable in the wake of the COVID-19 pandemic.

The Bank has also been partnering with Georgia to reform its national innovation ecosystem through the introduction of an entrepreneurship support program and incentives for the uptake of digital technologies by businesses and individuals.

The World Bank–financed Georgia National Innovation Ecosystem (GENIE) Project (2016–21) aims to boost innovation by firms and to increase their participation in the digital economy.

In order to help Georgian start-ups to develop new products and grow, the GENIE project's grants programs have been stimulating new and innovative early-stage enterprises; funding projects showing significant

innovation and market potential; and supporting young scientists who are pursuing commercially relevant research results in Georgia's universities and research and development institutes.

Between 2019 and 2021, the project will be supporting the training of up to 3,000 information technology specialists, creating the workforce needed for Georgia's digital transformation.

Overall, the World Bank supports Georgia in its goal of becoming a more competitive, digital, and business-friendly economy that provides better jobs and opportunities for its people.

## Recent Economic Developments

GDP expanded by 5.1 percent in 2019 despite deteriorating sentiments during the second half of the year following the suspension of flights from Russia. Declining unemployment and growing wages, robust external transfers, and higher public spending supported consumption. Investments recovered in the second half of the year.

The poverty rate responded to stronger growth, with the national poverty rate falling to 20.1 percent in 2018 after stagnating at 21.9 percent in 2017.

Rural and urban poverty declined by 3.5 and 0.6 percentage points, respectively. The unemployment rate decreased from 12.7 percent in 2018 to 11.6 percent in 2019.

Inflation increased to 7 percent by end-2019, well above the central bank's target of 3 percent, driven by the depreciation of the lari in the second half of the year, as sentiments weakened. In response, the central bank increased the policy rate to 9 percent.

The current account deficit narrowed to roughly 5.1 percent of GDP in 2019 in response to robust growth in exports,

tourism services, and remittances. On the financing side, net FDI inflows amounted to 5.6 percent of GDP.

Fiscal policy remained prudent as the estimated deficit of 3 percent of GDP in 2019 supported domestic demand. Public debt is estimated to have increased marginally to 41.8 percent of GDP.

## Economic Outlook

Real GDP growth is projected to sharply slow to near zero in 2020 as the impact of COVID-19 adds to an already challenging external environment. This will be partly cushioned by a fiscal stimulus of roughly 2 percent of GDP, including higher capital and social spending, tax deferrals, accelerated value added tax refunds, and support for the businesses most affected.

This will push the fiscal deficit to around 5.2 percent of GDP in 2020. The external balance is also expected to widen sharply, as reduced tourism proceeds and remittances are only partially offset by shrinking imports as demand moderates.

At the same time, a scenario involving a prolonged outbreak, in which the GDP could contract, is increasingly likely.

Growth is expected to recover to 5 percent over the medium term as the shock and some of the key constraints to growth dissipate. The fiscal balance will gradually decline to about 3 percent of GDP as prescribed by the fiscal rule.

With growth moderating sharply in 2020 and with the labor-intensive sectors increasingly vulnerable, poverty reduction could stagnate or even deteriorate, and a significant number of Georgians could fall into a lower income threshold. Higher social spending will only partially mitigate this situation.

## Project Spotlight

### Supporting Georgia's Human Capital by Helping Enhance the Quality of Education



Overall, the Georgia Human Capital Project is expected to benefit approximately 116,000 preschool and general education students.

Georgia considers education to be the key driver for growth, competitiveness, and inclusion.

The Government of Georgia is committed to reforms and to increased investment in education from less than 3 percent of GDP in 2018 to up to 6 percent by 2022. Georgia is also an early adopter of the Human Capital Project.

In the CPF for FY19–22, the World Bank has placed a strategic focus

on investing in human capital, including support to the education system to improve its quality and relevance.

The World Bank supports Georgia's Human Capital by helping enhance the quality of education through the Innovation, Inclusion and Quality Project (I2Q), which is aimed at narrowing the skills gap between learning outcomes and labor market expectations.

The US\$102.7 million project, launched on March 5, 2020, has five overall goals: expanding access to and improving the quality of early childhood education and care; fostering quality teaching and learning in general education; strengthening financing options and promoting the adherence of higher education to international standards; strengthening the system and stakeholder communication; and supporting project management, monitoring, and evaluation.

The project will also ensure that special consideration is given to gender equality and support for vulnerable populations, including students and schools with a low socioeconomic status located in rural and remote areas, as well as ethnic minorities and students with diverse learning needs.

Overall, the project is expected to benefit approximately 116,000 preschool and general education students.

As a response to the pandemic, the I2Q project's resources can also be used to support the Government's efforts to promote distance education and reduce the negative impact of COVID-19 on student learning, particularly for the vulnerable during the school closures, without having to restructure the project.

The resources applied to support emergency COVID-19 responses will be replenished to implement the original objectives of the project.

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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