GEORGIA

Table 1	2018
Population, million	3.7
GDP, current US$ billion	16.2
GDP per capita, current US$	4352
International poverty rate ($1.9)[a]	5.0
Lower middle-income poverty rate ($3.2)[a]	16.3
Upper middle-income poverty rate ($5.5)[a]	43.6
Gini index[a]	37.9
School enrollment, primary (% gross)[b]	102.6
Life expectancy at birth, years[b]	73.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2016).

Georgia's economy expanded by 4.7 percent in 2018, driven by strong exports of goods and tourism services and robust private consumption and investment. Supported by rising investment and prudent economic management, the economy is projected to grow by 4.6 percent in 2019. The national poverty rate, at 21.9 percent in 2017, will return to a declining trend as economic growth remains robust and translates into higher incomes.

Recent developments

The Georgian economy grew by 4.7 percent in 2018, though economic activity moderated towards the end of the year. Financial and tourism-related sectors grew at above 10 percent, compensating for weak performances in agriculture and construction. On the demand side, strong credit growth and external transfers, and improvement in labor markets, supported domestic demand, while a recovery in the region supported exports. The contributions of public consumption and investment remained subdued.

Strong export earnings and easing demand in late-2018 narrowed the external gap to around 8 percent of GDP in 2018. Goods exports grew by 23 percent but remain concentrated. Imports of goods rose by 15 percent. The goods trade deficit widened by 11 percent year on year but was offset by a 15 percent increase in foreign transfers and improvement in the services account as tourism receipts increased by 18 percent. Transfers from Russia accounted for 29 percent of total transfers, while most tourists arrived from Armenia, Azerbaijan, Russia and Turkey. Foreign direct investment (at about 9 percent of GDP in 2018) more than offset the external financing needs.

The exchange rate remained flexible in 2018, with lari fluctuations driven by seasonal factors. The lower current account deficit in late-2018 allowed the National Bank of Georgia to boost reserves to $3.3 billion, the equivalent of four months of imports. With the currencies of key trading partners (Russia and Turkey) coming under pressure in 2018, the nominal and real effective exchange rates appreciated by 8 percent and 3.4 percent, respectively.

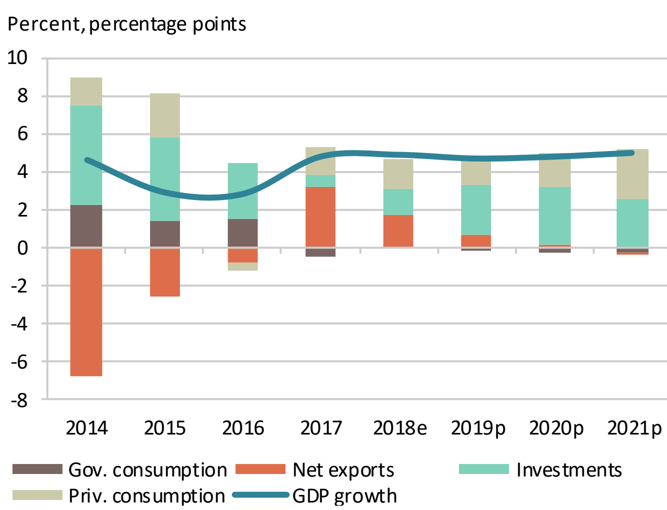
Annual inflation dropped to 1.5 percent in December 2018 as prices of apparel and communication services declined, overcoming slight upward pressure from higher food, alcohol, and fuel prices. In response to softer aggregate demand and the improved external balance, the NBG loosened monetary policy slightly 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. More stringent loan approval conditions introduced by the NBG have contained growth elsewhere in the lending portfolio. Prudential indicators remain healthy; in December 2018, the banking system's return on assets stood at 2.5 percent and return on equity at 19.4 percent. Non-performing loans were modest at 2.7 percent of loans.

While the budget was balanced until November 2018, a surge in spending in December brought the annual fiscal deficit to 2.9 percent of GDP (compared to a target deficit of 3.2 percent). The spike in expenditure was driven by public investment to compensate for spending delays earlier in the year. Current expenses declined slightly, while tax revenue performance was strong. Public debt was at 43.5 percent of GDP.

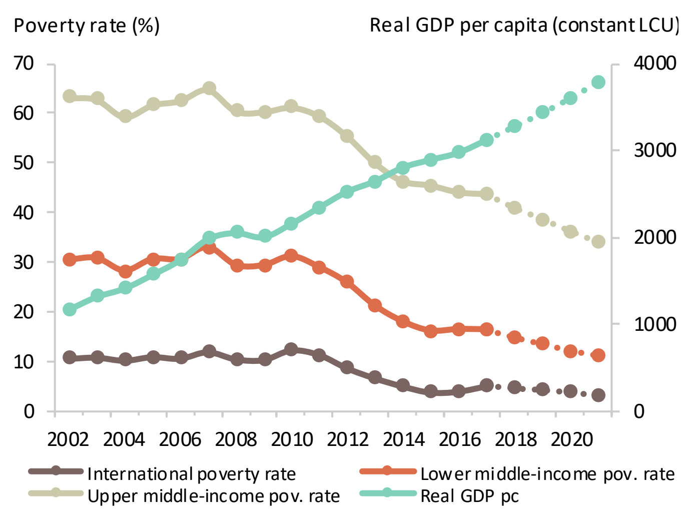
Due to slow employment growth and a pick-up in inflation, the national poverty rate, stagnated at 21.9 percent in 2017.

FIGURE 1 Georgia / Real GDP growth and contributions to real GDP growth



Sources: Geostat; World Bank staff estimates.

FIGURE 2 Georgia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.
Note: Calculations based on ECAPOV harmonization using 2015-HIS.

While pensions contributed positively to poverty reduction, the impact of Targeted Social Assistance and other social programs was negligible. Poverty was estimated at 16.3 percent using the lower-middle-income poverty line ($3.20/day, 2011PPP). With the unemployment rate declining in 2018 from 13.9 to 12.7 percent, external transfers increasing, and weak inflationary pressures, the poverty rate is estimated to have declined in 2018.

Outlook

Georgia's positive medium-term growth outlook is supported by higher investment (public investment in particular) and stable external demand thanks to improving economic prospects in its main trading partners (Azerbaijan, Russia and Turkey). Real GDP growth is projected to slow to 4.6 percent in 2019 as external demand weakens and the NBG tightens measures to encourage responsible lending. Growth will rebound to 5 percent by 2021. The external gap is expected to narrow, as private consumption growth slows and exports (including tourism services) remain robust. While newly introduced measures in the banking sector are expected to slow credit growth and private consumption, they will strengthen the resilience of the sector and its ability to sustainably support the economy. Inflation will remain low, anchored by credible monetary policy.

Fiscal operations will continue to shift from current to capital expenditures in the medium-term, while efficiency improvements will create some additional fiscal space for higher capital spending. Public debt is projected to stabilize around 43 percent of GDP by 2020.

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

Risks and challenges

Substantial quasi-fiscal risks emanate from the state-owned enterprises (SOEs). The liabilities of the 57 SOEs classified as high and medium-risk, total 16.2 percent of GDP and additional risks stem from contingent liabilities generated by the 181 power purchasing agreements (PPAs), which provide state guarantees for the purchase of excess electricity from power generators. While PPAs present a fiscal risk, consumption growth trends suggest the need for additional power capacity. The government will review PPA decisions going forward to ensure compliance with the 2018 Law on Public-Private Partnerships (PPPs). The inclusion of liabilities from PPPs in public debt is also an important step.

Georgia will remain vulnerable to regional developments and the risks associated with a sharp decline in export demand or a reduction in remittance inflows. While the Russian economy has withstood external shocks and the Turkish economy has begun to stabilize, a fresh round of disturbances in either economy could undermine Georgia's prospects for tourism and investment, complicate access to financial markets, and negatively impact economic growth. At the same time, with its stable business environment, Georgia is well placed to attract investors from neighboring countries due to stable operating environment.

Rural poverty will remain a challenge. Providing new job opportunities to workers now employed in low-productive agriculture—and supporting productivity increases in agricultural production—will be critical to reducing rural poverty from current 26.4 percent.

TABLE 2 Georgia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	2.8	4.8	4.7	4.6	4.8	5.0
Private Consumption	-0.6	2.4	2.2	2.2	3.1	4.3
Government Consumption	6.8	-2.1	0.2	-0.6	-1.6	-1.5
Gross Fixed Capital Investment	10.0	1.8	4.3	8.8	9.5	8.0
Exports, Goods and Services	7.7	21.8	9.0	7.5	7.0	7.0
Imports, Goods and Services	6.3	10.4	4.5	5.0	5.4	5.7
Real GDP growth, at constant factor prices	2.9	4.7	4.7	4.6	4.7	4.9
Agriculture	0.3	-2.7	2.5	3.0	3.0	3.0
Industry	6.2	5.7	3.4	3.5	3.3	3.3
Services	2.1	5.2	5.5	5.1	5.4	5.6
Inflation (Consumer Price Index)	2.1	6.0	3.0	3.0	3.0	3.0
Current Account Balance (% of GDP)	-13.1	-8.8	-8.1	-7.9	-7.7	-7.0
Net Foreign Direct Investment (% of GDP)	9.8	10.8	8.6	9.8	10.5	10.5
Fiscal Balance (% of GDP)	-4.2	-3.7	-2.9	-2.8	-2.5	-2.0
Debt (% of GDP)	44.4	44.1	43.6	44.7	43.2	43.1
Primary Balance (% of GDP)	-3.0	-2.4	-1.5	-1.4	-1.1	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.9	5.0	4.5	4.2	3.7	3.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	16.4	16.3	14.8	13.4	12.1	11.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	44.0	43.6	40.9	38.6	36.2	33.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2017-HIS. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.