

GEORGIA

Key conditions and challenges

Table 1 2020

Population, million	3.7
GDP, current US\$ billion	15.9
GDP per capita, current US\$	4271.7
International poverty rate (\$ 19) ^a	3.8
Lower middle-income poverty rate (\$3.2) ^a	14.9
Upper middle-income poverty rate (\$5.5) ^a	42.0
Gini index ^a	35.9
School enrollment, primary (% gross) ^b	99.3
Life expectancy at birth, years ^b	73.6

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2019), 2011 PPPs.

(b) WDI for school enrollment (2019); life expectancy (2018).

The COVID-19 pandemic hit Georgia hard. Mobility restrictions, a sudden halt to tourist arrivals, and weak external demand drove an estimated economic contraction of 6.2 percent in 2020. The poverty rate increased by an estimated 5.4 percentage points. Job and income losses were severe. The fiscal deficit and public debt rose above statutory levels as the crisis put pressure on fiscal and external balances. The recovery will be gradual. The current forecast—with output recovering to pre-COVID levels in 2022—remains subject to considerable downside risks.

Georgia has a strong record of implementing economic reforms and raising the living standards of its citizens. Economic growth has been strong—averaging 5 percent per annum between 2005 and 2019—and poverty (national measure) declined rapidly to 19.5 percent in 2019, almost half its 2007 rate, spurred by sound macroeconomic policies and improving governance. However, the economy has not created sufficient employment, and many Georgians remain engaged in low-productivity agricultural activities. Georgia’s export basket, which is relatively small and undiversified, underscores the economy’s incomplete structural transformation. Georgia’s human capital outcomes are also weak—learning outcomes and linkages to private sector needs are weak.

The COVID-19 outbreak threatens to reverse Georgia’s past economic gains. Stringent measures, including curfews, a ban on public transport, lockdowns, and border closures, allowed the country to contain the pandemic’s spread in early 2020. However, the easing of measures in the summer contributed to a significant second surge in late 2020—Georgia became one of the 20 most affected countries in the world in terms of reported cases per million population. The authorities enacted a second strict lockdown from end-November to early February, leading to a reduction of COVID cases

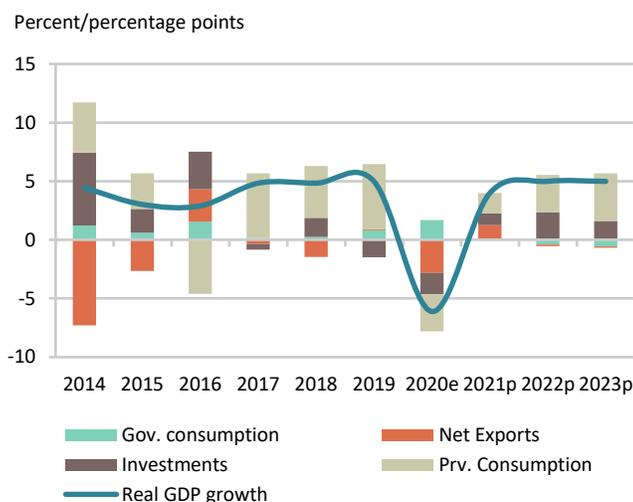
and permitting a gradual reopening of the economy starting March 2021.

Recent developments

The economy fell into recession in 2020, contracting by 6.2 percent. Following a strong start to the year, economic activity collapsed after March as the authorities introduced pandemic-related lockdown measures. The shock has been broad-based, but the transport, tourism, and construction sectors suffered the largest impacts. Job and income losses were severe. The unemployment rate reached 20.4 percent in the fourth quarter of 2020. More than one-third of the employed were unable to work at the peak of the restrictions. Poverty is estimated to have risen by 5.4 percentage points in 2020 (using the national poverty line); even as government’s sizeable support package likely prevented an even greater increase in poverty.

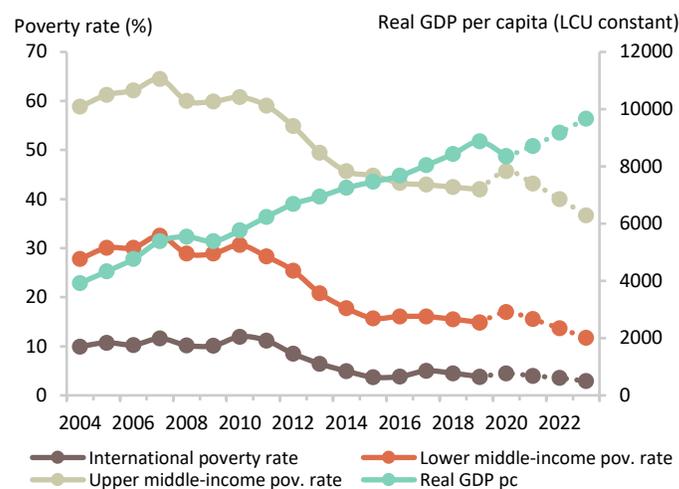
The economic shock also put pressure on the external accounts. The current account deficit reached 12 percent of GDP in the first nine months of 2020, driven by weak services exports as border closings halted tourist arrivals. The deficit was only partially offset by an improving net income balance and transfers from abroad—remittances remained resilient (this could, however, reflect the rising formalization of transfers)—and a narrowing trade deficit driven by import compression as domestic demand weakened. On the financing side, substantial public borrowing fully financed the gap and allowed for

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



Sources: Geostat and WB staff calculations.

FIGURE 2 Georgia / Poverty rate and GDP per capita



Source: World Bank. Note: see Table 2.

reserves accumulation. Official reserves rose to \$3.9 billion by the end of 2020 (representing nearly 5 months of goods and services imports). However, the external debt-to-GDP ratio jumped to 124 percent of GDP by end-September, up from 102 percent of GDP a year earlier.

The government's fiscal response to the pandemic—estimated at over 7 percent of GDP—drove a widening of the fiscal deficit in 2020, with government spending up by 19 percent year on year. Simultaneously, revenue collection fell by round about 4 percent compared to 2019. As a result, the fiscal deficit widened to 9.7 percent of GDP and public debt to over 60 percent of GDP, above the limits prescribed by the fiscal rule, triggering the rule's escape clause. Support from development partners and stepped-up domestic debt issuance fully met the government's financing needs.

Annual inflation moderated in the second half of 2020 after reaching 7 percent in April 2020. A modest recovery of the lari and lower oil prices helped bring inflation down to 2.4 percent by end-2020 (this includes 2 percentage point downward adjustment owing to a government utility subsidy). The National Bank of Georgia (NBG) responded by lowering its policy rate by 100 basis points between April and August to 8 percent, keeping it steady through February.

The banking sector remained profitable in 2020 despite the frontloading of potential losses in March, as mandated by the NBG. The share of nonperforming loans rose to 2.6 percent in 2020 from 1.9 percent in 2019. Annual credit growth moderated but remained robust at 13 percent in December 2020.

Outlook

Georgia's economy is projected to recover in 2021, growing by 4 percent, with the key baseline assumption that there are no further severe waves of COVID-19 infections that necessitate additional lockdowns and ongoing political impasse is resolved. The recovery will be supported by fiscal stimulus in the form of accelerated capital spending, tax deferrals, accelerated VAT refunds, and targeted support for the most affected businesses, as well as higher social spending. The fiscal deficit is expected to remain elevated at around 7 percent of GDP in 2021.

The external deficit is expected to narrow in 2021 compared to 2020. Still, it will remain high at about 11 percent of GDP as the services sector recovers gradually, and import flows pick up in line with firming economic activity. Recovering FDI and sustained support from international

financial institutions are expected to cover Georgia's external financing needs and help maintain a comfortable reserves cushion.

The pace of recovery beyond 2021 will be contingent on vaccine rollout and the restoration of international trade and investment. Under a baseline scenario in which no third wave of infections materializes and a significant share of the population is vaccinated by 2022, economic growth could recover to 5.0 percent in 2022 and 2023. The baseline scenario projects that the fiscal deficit will narrow to reach the levels prescribed by the fiscal rule (3 percent of GDP) by 2023. The pandemic's impact on poverty and inequality will depend on the severity and duration of the crisis and the policy response. Under the baseline scenario, the poverty rate is expected to decline gradually, returning to pre-crisis levels by 2023.

Delayed vaccinations, further restrictions and prolonged political tensions represent the key downside risks to this outlook. Either scenario could lead to a slower recovery in 2021 and a more modest recovery in the medium term, with output not returning to pre-COVID levels until 2024. A delayed recovery could also pose risks to macro-financial stability, given Georgia's high rate of dollarization, unhedged balance sheets, and high gross external debt.

TABLE 2 Georgia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.8	5.0	-6.2	4.0	5.0	5.0
Private Consumption	5.8	7.2	-4.0	2.2	4.0	5.2
Government Consumption	1.6	5.7	11.8	0.7	-2.4	-3.7
Gross Fixed Capital Investment	1.9	-0.1	-8.3	4.4	10.5	6.8
Exports, Goods and Services	10.1	9.8	-30.2	20.9	10.0	9.7
Imports, Goods and Services	10.3	6.6	-19.2	11.5	7.3	7.1
Real GDP growth, at constant factor prices	5.2	5.1	-5.9	3.7	5.1	5.0
Agriculture	13.8	-0.6	3.6	0.7	2.1	2.6
Industry	0.2	2.7	-2.8	3.6	3.8	3.6
Services	5.8	6.4	-7.7	4.0	5.8	5.6
Inflation (Consumer Price Index)	2.6	5.0	5.3	4.0	3.0	3.0
Current Account Balance (% of GDP)	-6.8	-5.5	-12.0	-11.0	-9.4	-7.9
Net Foreign Direct Investment (% of GDP)	5.3	5.9	4.3	5.5	6.8	6.4
Fiscal Balance (% of GDP)	-2.6	-3.4	-9.7	-7.5	-4.4	-3.0
Debt (% of GDP)	41.4	41.8	62.5	62.5	61.1	59.8
Primary Balance (% of GDP)	-1.4	-2.2	-8.2	-5.7	-2.9	-1.4
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	4.5	3.8	4.5	4.0	3.6	2.9
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	15.5	14.9	17.0	15.5	13.7	11.8
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	42.5	42.0	45.7	43.2	40.0	36.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2019-HIS. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 1 based on GDP per capita in constant LCU.