

GEORGIA MACRO OVERVIEW

Issue 3



Research

2023

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Main Findings



Unexpected Growth in 2022

Key Indicators



Economic and Business Climate

BAG Index: Georgian Business Climate

Ifo Index: Georgian Economic Climate



Key Macroeconomic Indicators

Gross Domestic Product

Inflation and Prices

Gross International Reserves & Monetary Policy



Labor Market

Employment

Salaries

Vacancies

Beveridge Curve



External Sector

Trade

Tourism

Migration

Foreign Direct Investments

Remittances



Global Economic Trends

Growth Slowing Down



Expectations for 2023

Expectations for 2023

State Budget 2023 - Key Indicators





MAIN FINDINGS

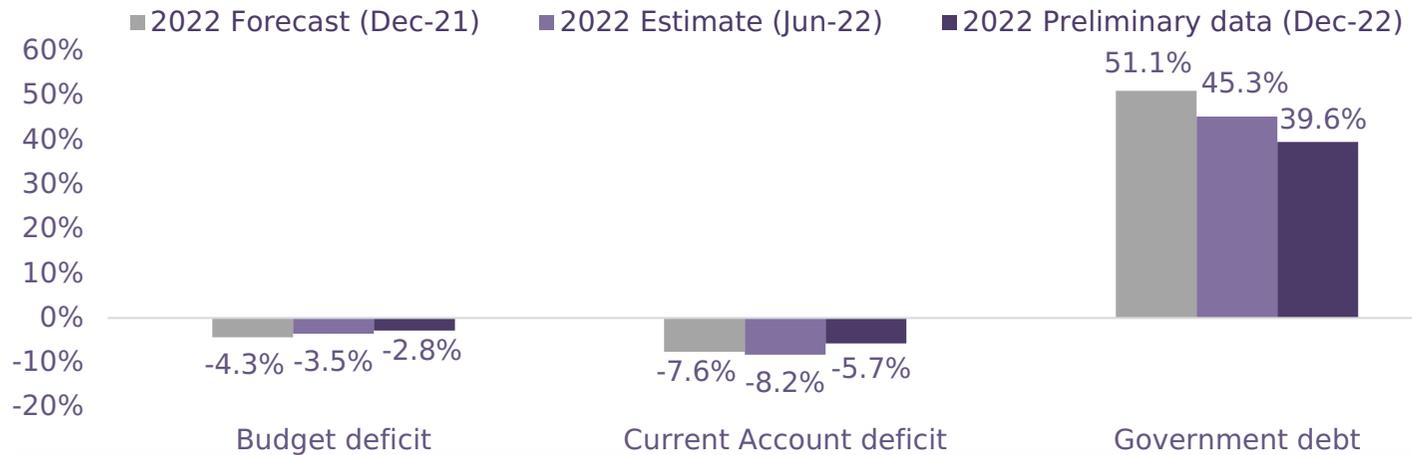
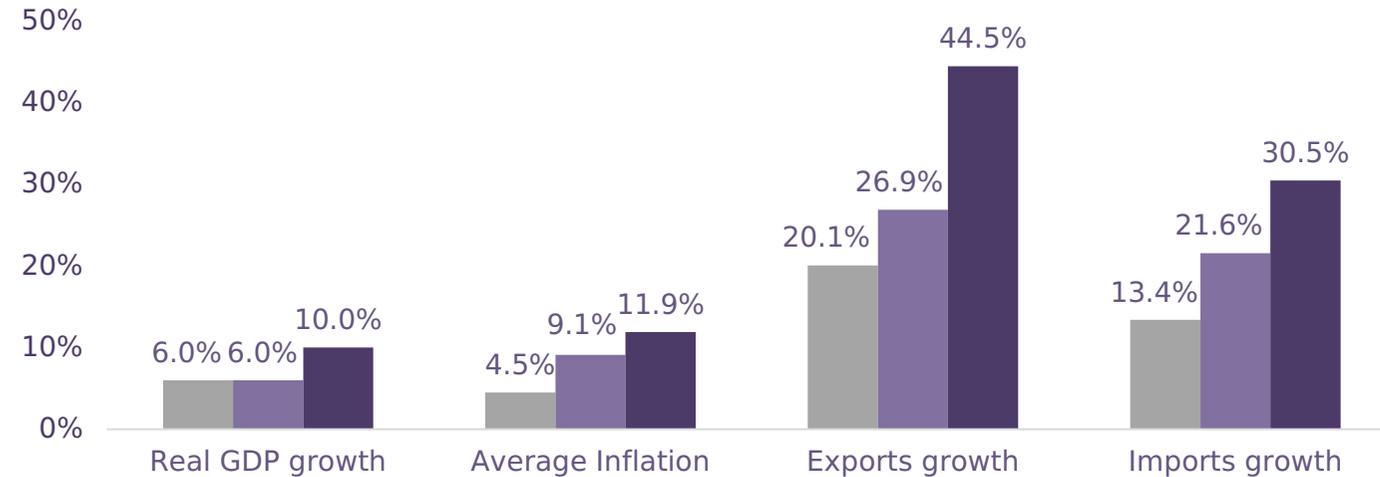
- The year of 2022 brought **turmoil** to the world economy, with negative effects initially expected for Georgia as well.
- However, the Georgian economy **fared significantly better than expected** in 2022, growing by an estimated 10% in real terms.
- We believe that this growth could be attributed to a combination of one-off factors, such as:
 - The inflow of a considerable number of **migrants** from Russia, Belarus, and Ukraine.
 - Extremely high inflow of **remittances** from Russia.
 - The low base effect due to the **recovery of tourism** in 2021 being only partial and the low base effect in January and February, due to the severe lockdown restrictions imposed in the corresponding months of 2021.
 - The increase in demand for and prices of certain commodities affecting **exports** positively.
- Despite the double-digit growth, **looming challenges** remain in the Georgian Economy:
 - The average **inflation** (11.9%) in 2022 was the highest since 1999.
 - Despite an all-time low*, **unemployment** remains high while a total 15+ **population** has fallen below 3 million for the first time in Georgia's independence history.
 - **Labor market** efficiency stays lower compared to the pre-pandemic period, making it harder for businesses to find new employees.
- The geopolitical situation in the region has given a new importance to Georgia through its participation in the so-called **middle corridor**, giving rise to new opportunities.
- Despite the one-off nature of the current economic growth, **businesses** in Georgia are quite **optimistic** about the future and after the re-opening of the economy in Q1 of 2021, the share of companies that hire more workers each quarter is increasing. The main issues for businesses remain the regulatory environment and the judicial system.
- For 2023, **lower growth** (approximately 5%) is forecast in Georgia, amid expectations of slowing growth worldwide and **fading one-off factors**. Rising global inflation, as well as the looming threat of a global recession, further exacerbated by the effects of a protracted war in Ukraine, all represent **risk factors for 2023**.

* The figures in 1998-2009 and in 2010-2022 are incomparable as the labor force survey methodology was changed by Geostat in 2020. Thus, this statement excludes labor force statistics, derived by old methodology, from 1998-2009.



UNEXPECTED GROWTH IN 2022: KEY MACROECONOMIC INDICATORS

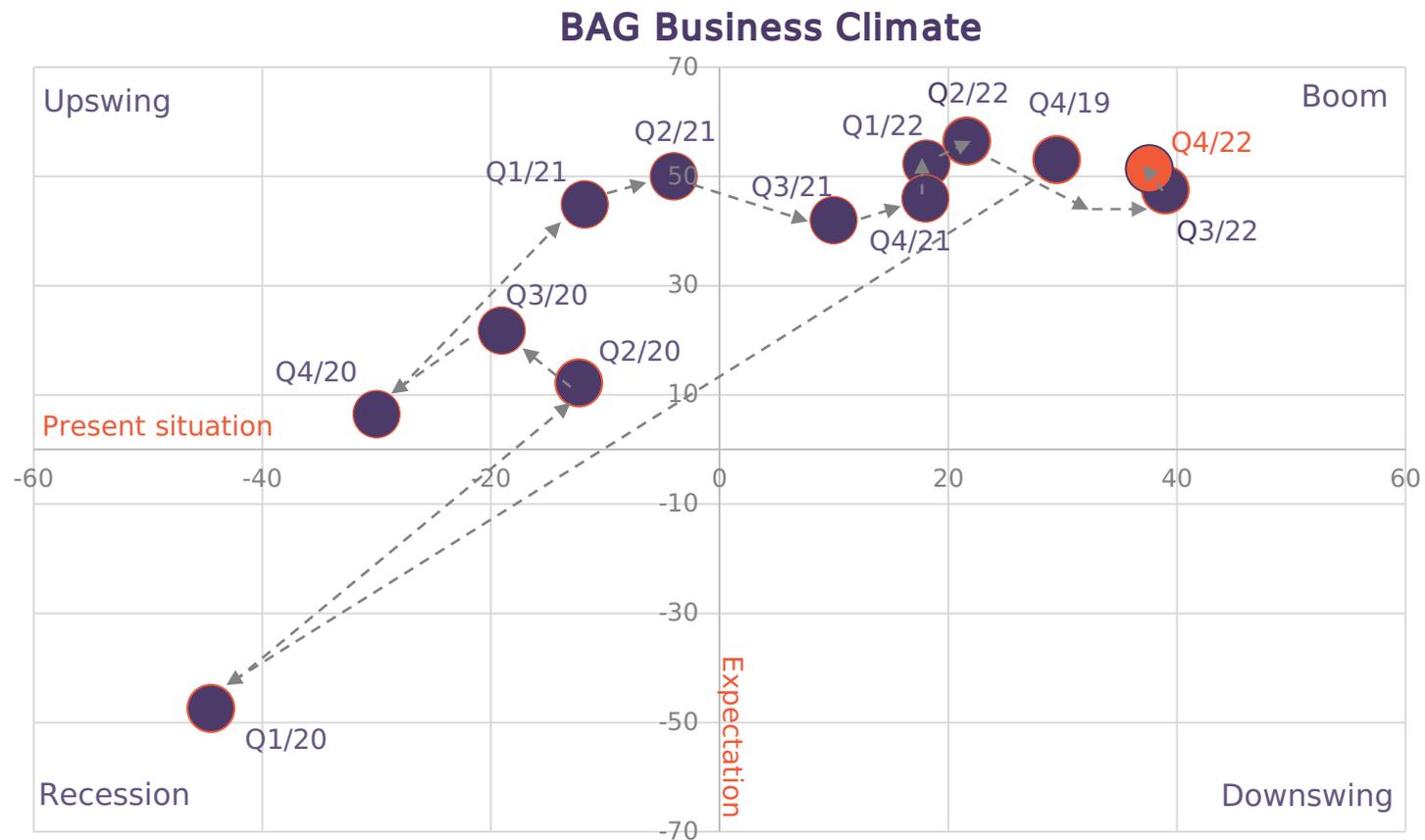
Key macroeconomic indicators from 2022 state budget *Baseline scenario



- In December 2022, the Ministry of Finance (MoF) updated its estimates for key macroeconomic indicators for 2022, **showing better than expected** performance in most of them, except inflation.
- In preliminary estimates for 2022, the **government debt, as percent of GDP** was 39.6%, which was lower than **pre-pandemic** levels.



BAG INDEX: GEORGIAN BUSINESS CLIMATE



- Since Q3 of 2021, a selection of surveyed businesses have delivered positive assessments about the current situation (i.e. the situation at the time of responding) and their expectations for the next quarter. Notably, despite the war in Ukraine, the evaluation of the **present situation** for businesses has **remained positive**, surpassing pre-pandemic levels in both Q3 and Q4 of 2022.
- In Q4 of 2022, compared to Q3 of 2022, the **present business situation indicator** improved in the construction and service sectors and worsened in the manufacturing and trade sectors. While the **business expectations indicator** was positive for all sectors, expectations significantly improved for the construction sector and worsened significantly for the manufacturing sector.



IFO INDEX: GEORGIAN ECONOMIC CLIMATE

Georgian Economic Climate



- Similar to the surveyed Georgian businesses, Georgian economists also **positively assessed the economic climate** in Q4 of 2022.
- In Q4 of 2022, economists' assessment of the present economic situation improved, though not to the same degree as for the surveyed businesses. However, the surveyed economists' **expectations** for Georgia's economic situation for the next six months were **negative**.



KEY MACROECONOMIC INDICATORS: GROSS DOMESTIC PRODUCT

Nominal GDP and Real GDP Growth rate by Economic Activities 2022						
Economic Activities	Quarters			Sum of Three Quarters		
	Q3 2022 (Mln GEL)	Q3 22/21	Q3 22/19	Q1-Q3 2022 (Mln GEL)	Q1-Q3 22/21	Q1-Q3 22/19
Wholesale and retail trade	2500.3	8.8%	11.6%	6575.1	3.2%	13.1%
Manufacturing	1922.1	5.5%	3.5%	5144.7	9.9%	16.1%
Real estate activities	1628.0	-6.3%	0.1%	4360.3	-3.3%	2.8%
Construction	1304.1	20.3%	19.4%	3240.8	21.0%	31.7%
Transportation and storage	1144.8	29.0%	29.4%	2908.2	28.6%	25.6%
Information and communication	875.8	74.9%	131.5%	2029.9	45.1%	93.7%
Education	624.0	2.5%	13.0%	2023.8	5.3%	25.7%
Accommodation and food service activities	831.1	11.7%	-20.8%	1728.3	20.6%	-15.1%
GDP at market prices	19284.3	9.8%	12.0%	51191.2	10.3%	14.8%

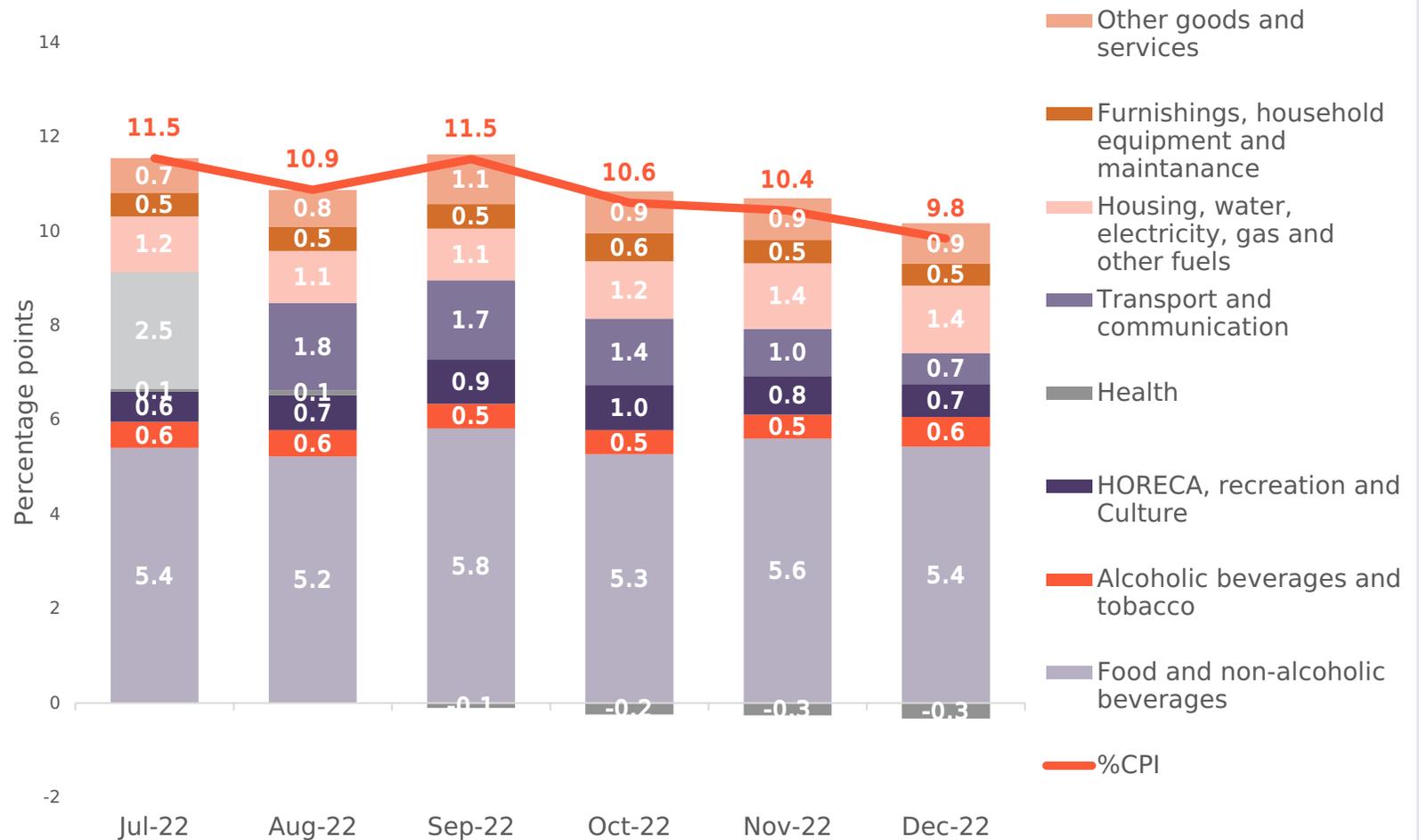
*Bolds indicate percentage above the average

- Real GDP rose by **9.8%** in Q3 of 2022 compared to Q3 of 2021 and increased by **12.0%** compared to Q3 of 2019. Comparing the aggregate of the first three quarters of 2022 to that of 2021 and 2019 also reveals a similarly positive growth trend.
- The **main contribution** of real GDP growth in Q1-Q3 of 2022 compared to the corresponding periods of 2019 and 2021 is attributed to an increase in the **information and communication sector**. Furthermore, the rapid growth of transportation and storage could be attributed to the rising importance of the so-called **middle corridor**.



KEY MACROECONOMIC INDICATORS: INFLATION

Contributions of different spending categories to the monthly YoY inflation, pp

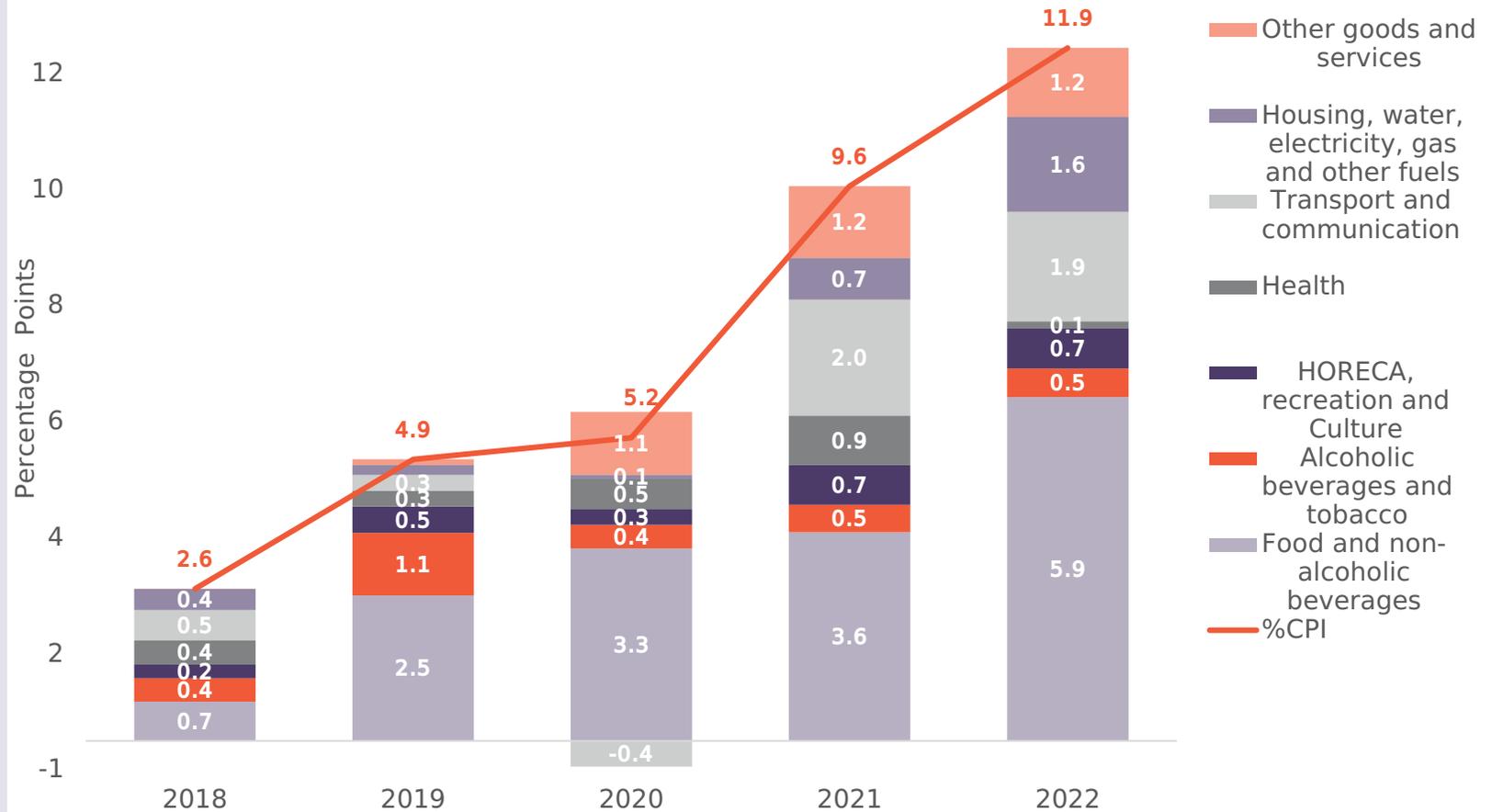


- From January through November 2022, **double-digit** YoY inflation was prevalent, however, it declined to 9.8% in December 2022.
- The main contributor to inflation has been the increase in prices of **food and non-alcoholic beverages**, while healthcare contributes negatively to inflation.



KEY MACROECONOMIC INDICATORS: INFLATION

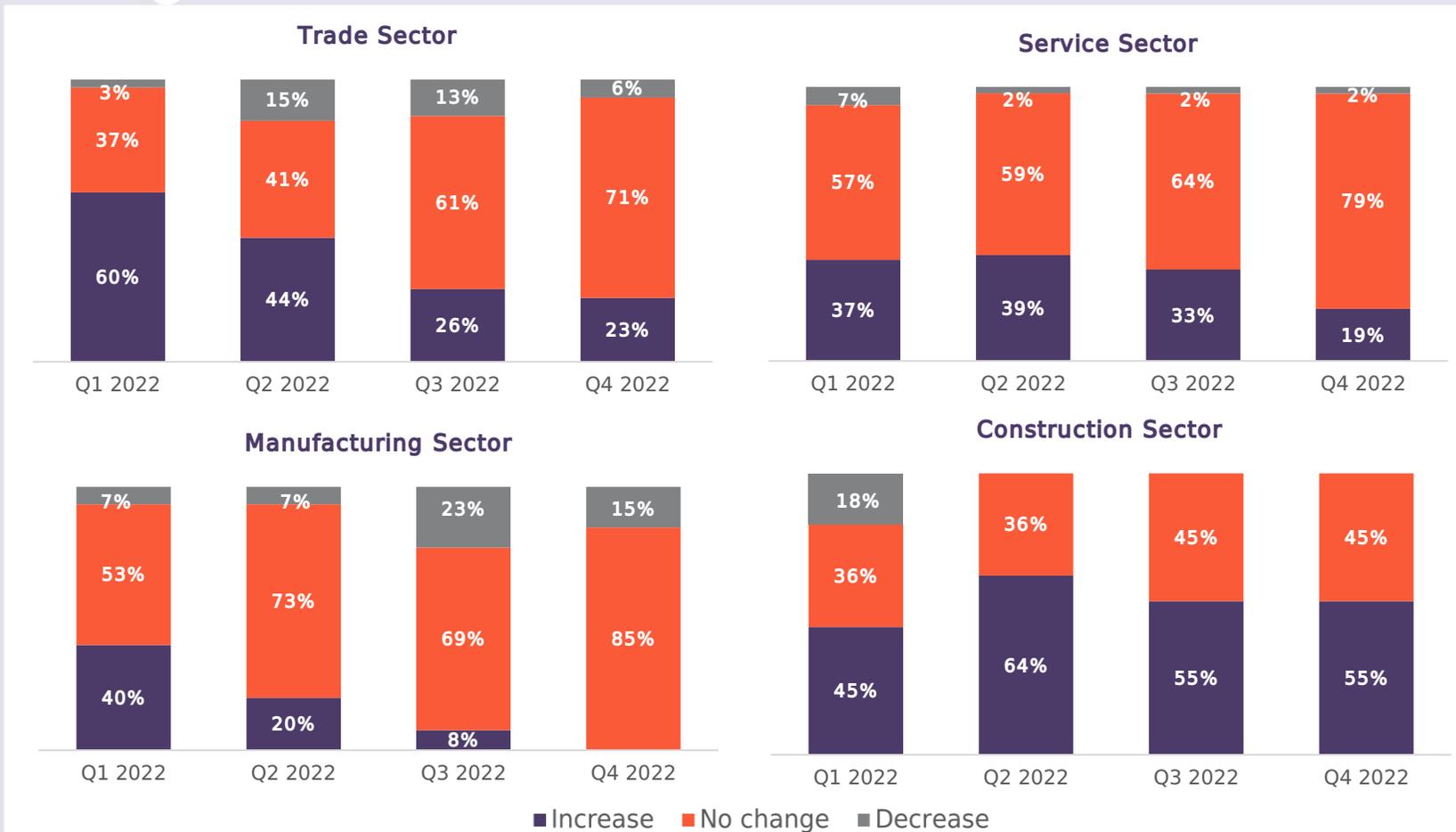
Contributions of different spending categories to the average YoY monthly inflation of the given year, pp (2018-2022)



- Prices of **food and non-alcoholic beverages** surged to become major inflation contributors in 2022, owing to supply chains being heavily disrupted by conflict, while the prices in the **housing sector** might have been affected by an **increased** influx of migrants, mainly from Russia.



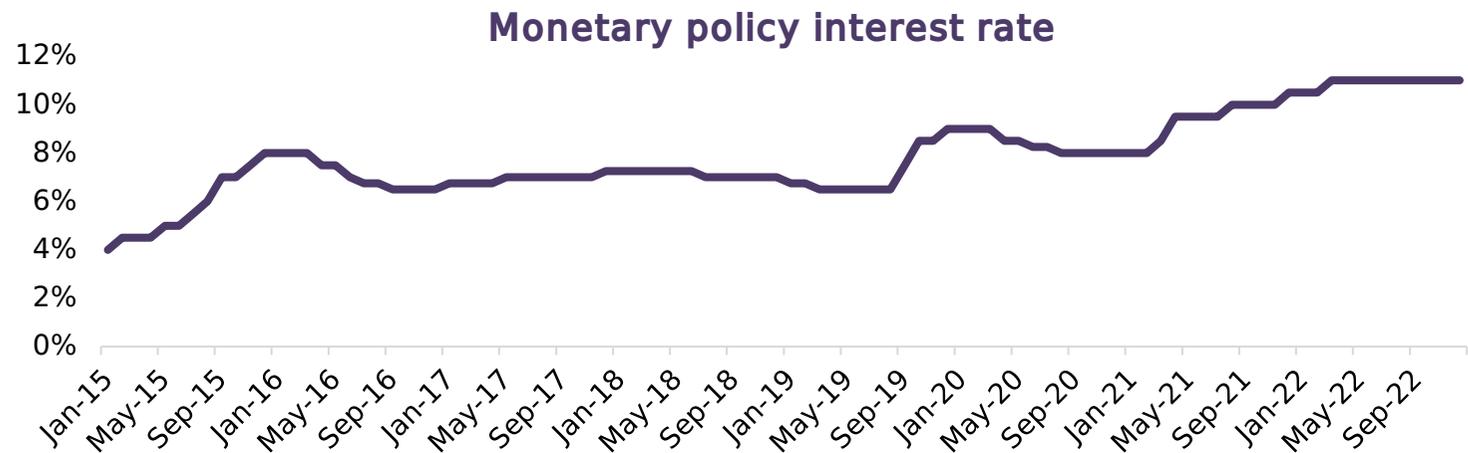
BAG INDEX: PRICES



- According to the **BAG Index**, in Q4 of 2022, **22%** of the surveyed companies **increased their sales prices**. Looking at sectors, the share of companies increasing their sales price was highest for the **construction sector**, which could be attributed to the increased prices for construction materials and/or spiking demand for real estate due to the Russo-Ukraine war.
- The price increase dynamics were **least prevalent** in the **manufacturing sector**, in which none of the companies stated that they had increased prices for their products in Q4 of 2022.



KEY MACROECONOMIC INDICATORS: GROSS INTERNATIONAL RESERVES & MONETARY POLICY

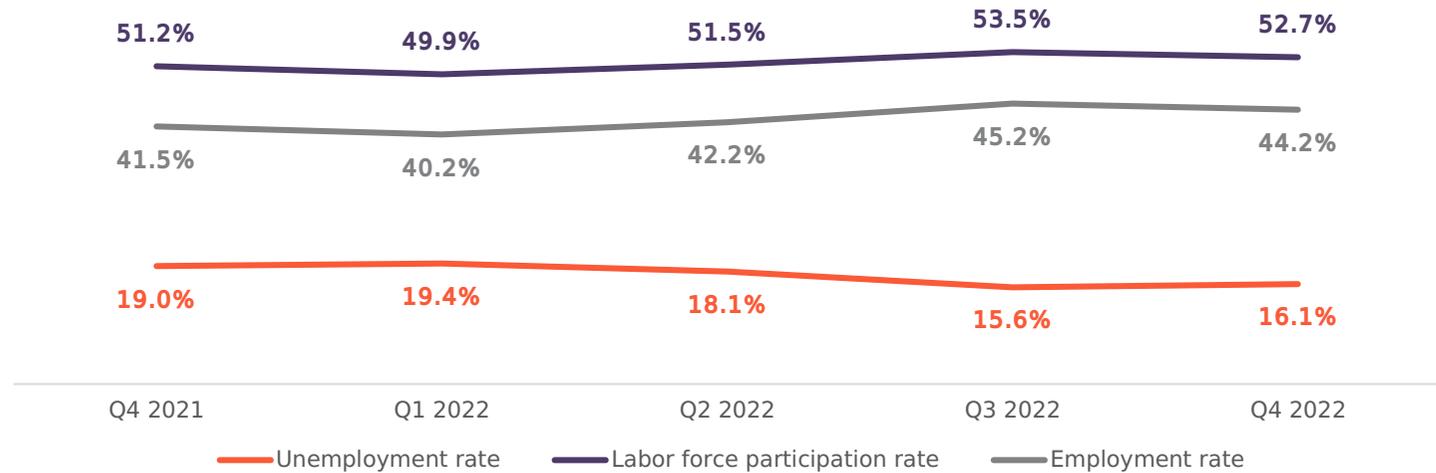


- In December 2022, the **Official Reserve Assets** recorded an all-time high of US\$4.9 bln, increasing by 14.7% compared to December 2021. The increase in international reserves was largely attributed to the NBG purchasing **foreign currency**.
- The NBG has also maintained a **tight monetary policy**, with the key rate at **11.0%** for X months already, answering to inflationary pressures. According to the NBG, policy easing will begin only after the actual level of inflation approaches the target level.



LABOR MARKET: EMPLOYMENT

Labor market indicators

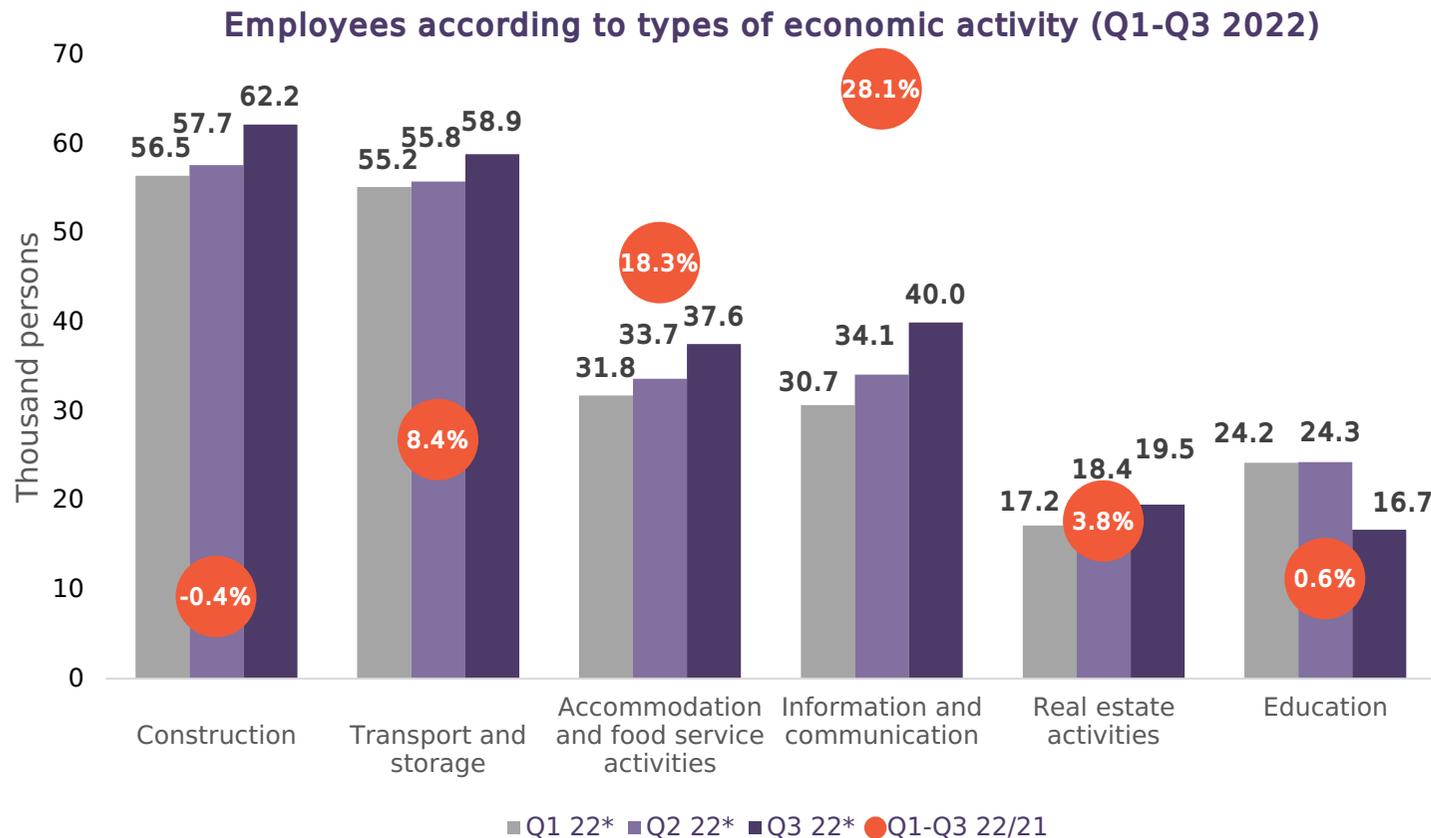


- Meanwhile, in 2022, compared to 2021, the **labor force** increased by 17,960 persons, while the **unemployment rate** in 2022 decreased to a record low of 17.3%.
- The total number of **15+ population in Georgia** fell to 2,989 thousand in 2022, marking an annual average of less than 3 million for the first time.
- As the **lack of specialists** is among the leading factors **hindering business** activity, according to the Q4 2022 BAG Index, 24.5% of surveyed businesses **employed foreign applicants** temporarily living in Georgia since the Russia-Ukraine war.

Thousand persons	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Labor force	1536.1	1490.7	1551.5	1609.4	1554.7
Employed	1244.2	1201.1	1269.9	1358.6	1305.2
Population outside the labor force	1465.1	1496.3	1458.9	1396.8	1397.4
Unemployed	291.9	289.6	281.6	250.7	249.5
Total 15+ population	3001.2	2987.0	3010.4	3006.2	2952.1



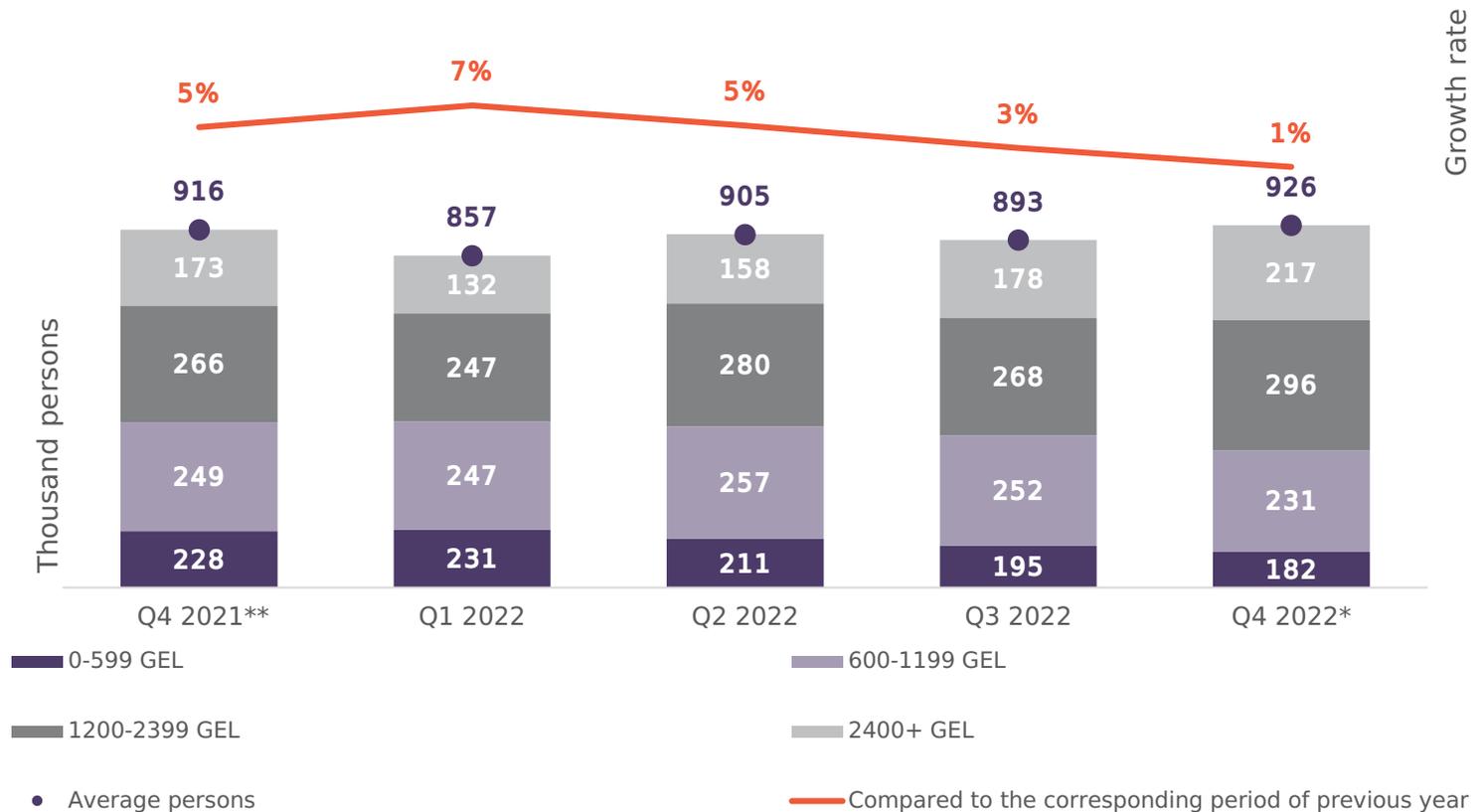
LABOR MARKET: EMPLOYMENT



- In Q3 of 2022, employment in all sectors besides education had increased compared to the previous quarter. The **highest growth** was observed in the **information and communication sector**, which increased by 17% compared to Q2 of 2022, while employment in the education sector fell by 31%.
- Part of the high growth rate in the information and communication sector can be attributed to an increased **external supply**. Similarly, growth in real estate and accommodation and food service activities can be explained by heightened demand from migrants.
- The **BAG Employment Barometer** recorded a growing trend and **remained positive** for all surveyed sectors.



Number of persons receiving salary



- In 2022, the share of persons receiving a salary of up to **599 GEL** per month averaged **23%**, while the share of persons receiving a salary of more than **2400 GEL** averaged **19%**.
- In 2022, the average number of persons receiving a salary increased by approximately **21,100** compared to the corresponding period of 2021.

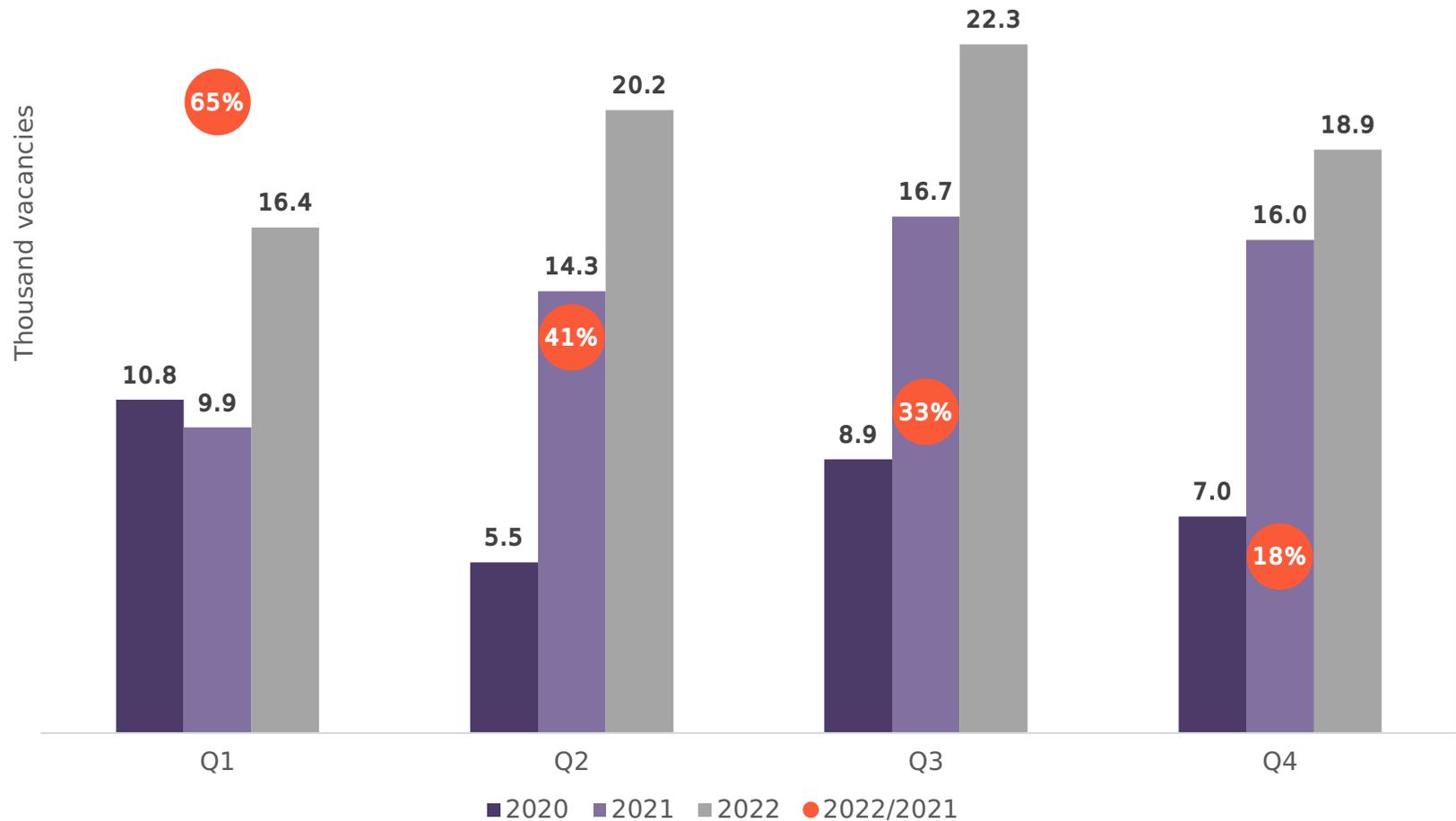
* The data provided by the Revenue Service are not final and might slightly increase (last viewed on 22 February 2023).

**The decrease in the share of salaries in the 0-599 GEL and 600-1999 GEL categories in December was most likely due to a notable number of people receiving the 13th wages



LABOR MARKET: VACANCIES

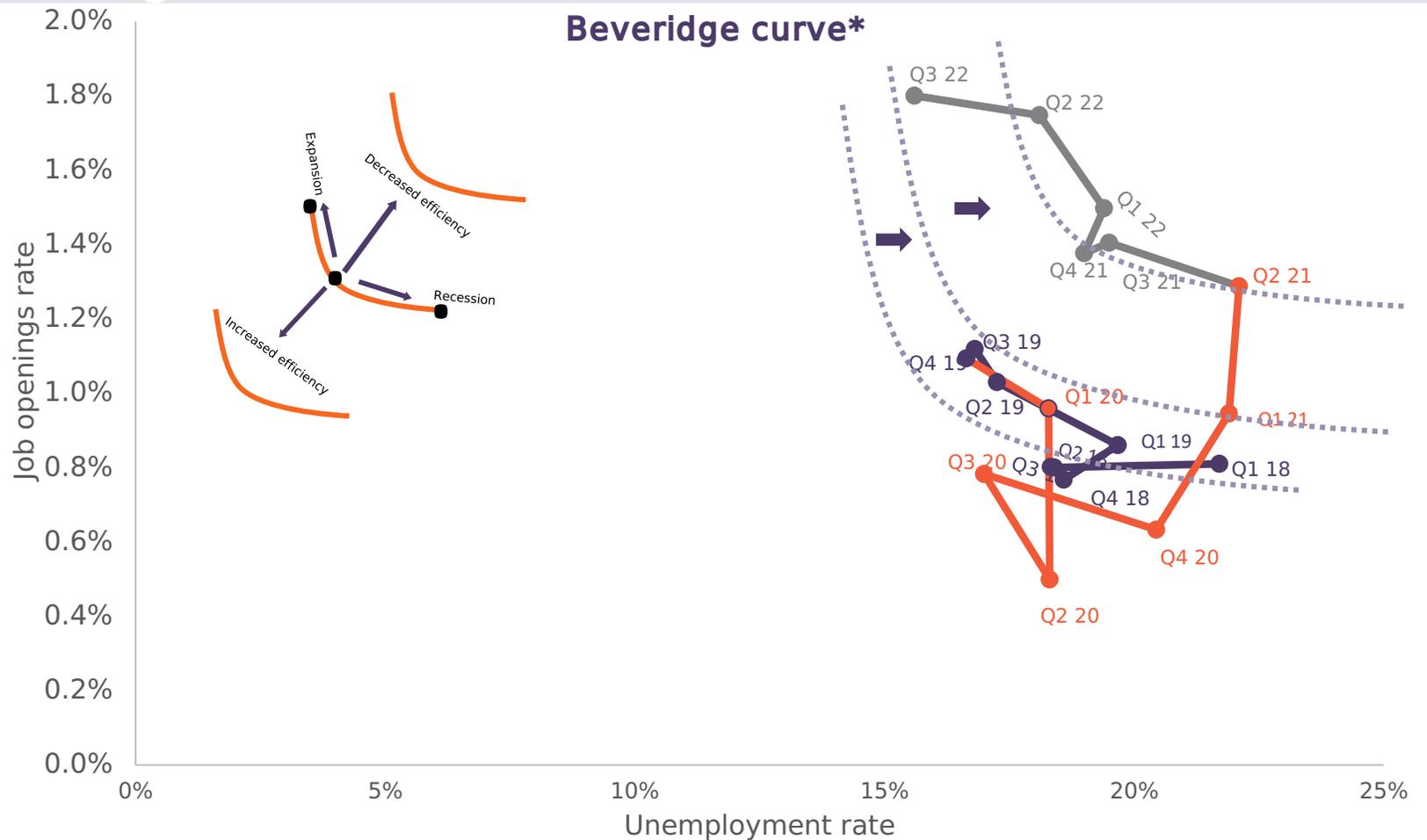
Number of published vacancies on Jobs.ge



- Though the **number of vacancies** was higher in every quarter of 2022 compared to the corresponding period from 2021, its YoY growth has a noticeable downward trend.



LABOR MARKET: BEVERIDGE CURVE



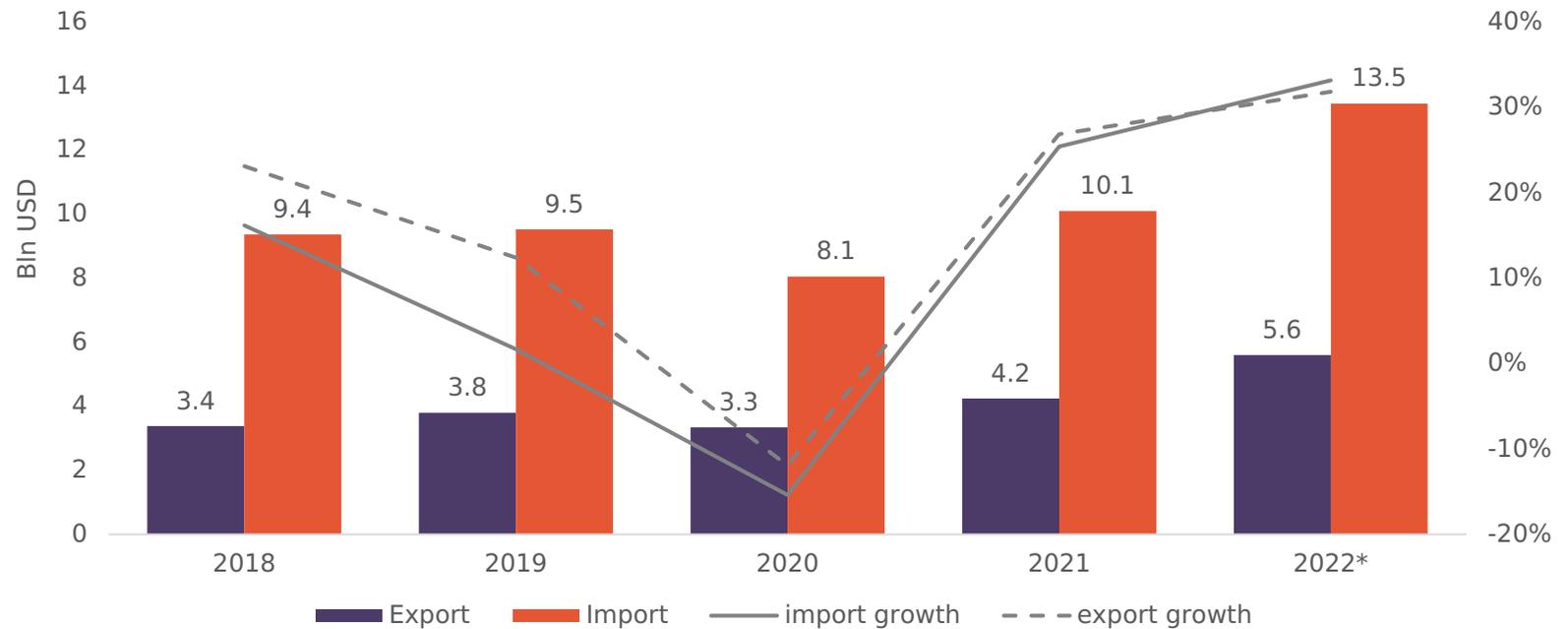
- According to the **Beveridge curve**, labor market efficiency decreased in the post-pandemic period (Q3 of 2022), compared to the pre-pandemic period (Q4 of 2019).
- By comparing Q3 of 2022 to Q4 of 2019, it could be perceived that the unemployment rate is nearly the same, while the number of job openings has increased markedly, which indicates that **finding new employees has become harder** for employers, which could be attributed to different factors, including labor force migration, the flow of personnel from a given sector to adjacent sectors, and increased wage expectations of job-seekers.

* [The Beveridge curve - Employment Tracker](#)

Source: PMC Research



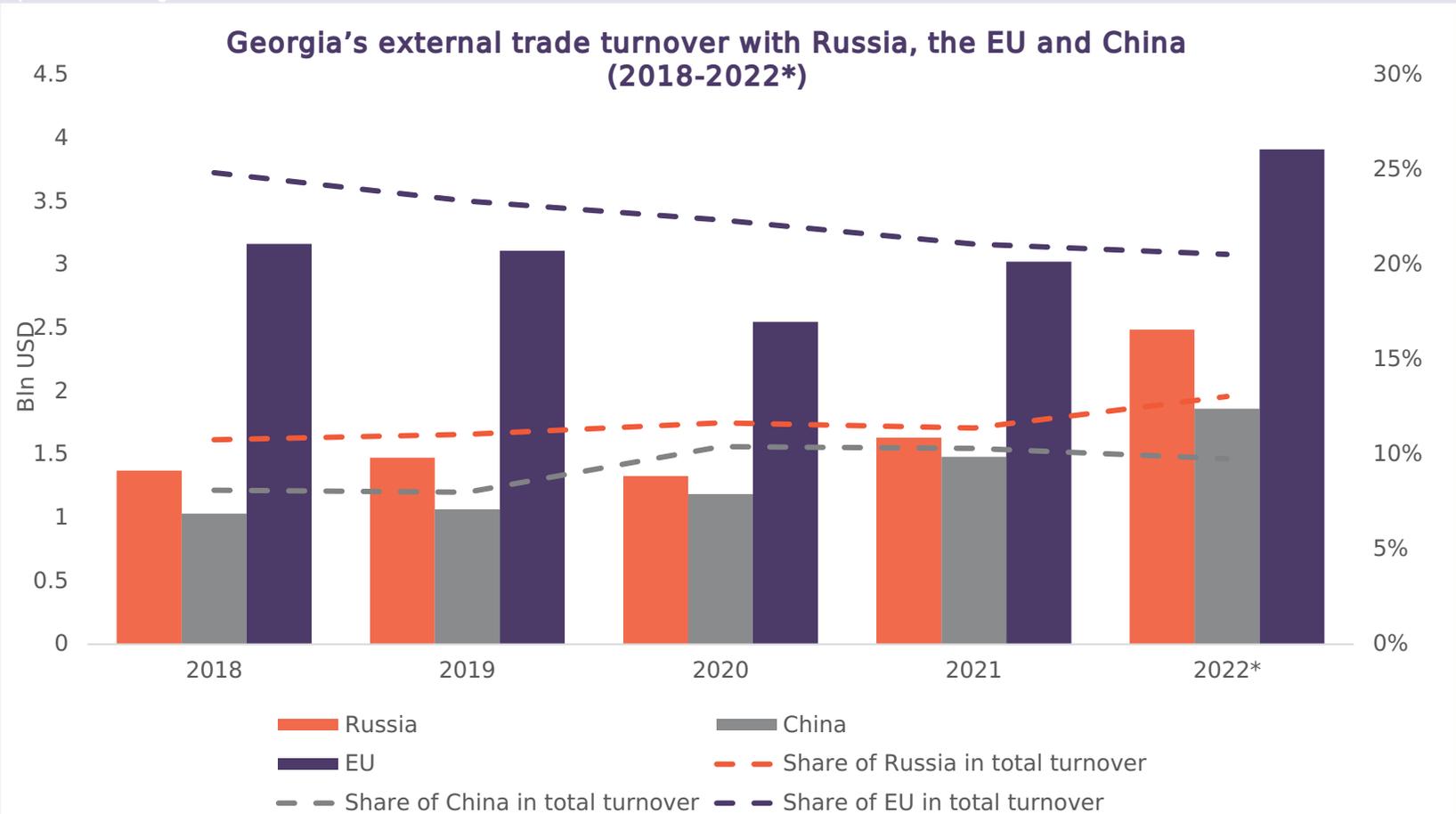
Georgia's imports and exports and growth rates YoY (2018-2022*)



- In 2022, **external trade turnover** in Georgia amounted to US\$19 bln, which is **32.8% higher** than in 2021.
- Georgian **exports** amounted to US\$5.6 bln in 2022, which is **33.2% more** than in 2021. Meanwhile, Georgian **imports** reached US\$13.5 bln in 2022, which is **31.8% higher** than in 2021.
- In 2022, the Georgian **trade deficit** increased by **US\$2 bln** (34.1%).



EXTERNAL SECTOR: TRADE

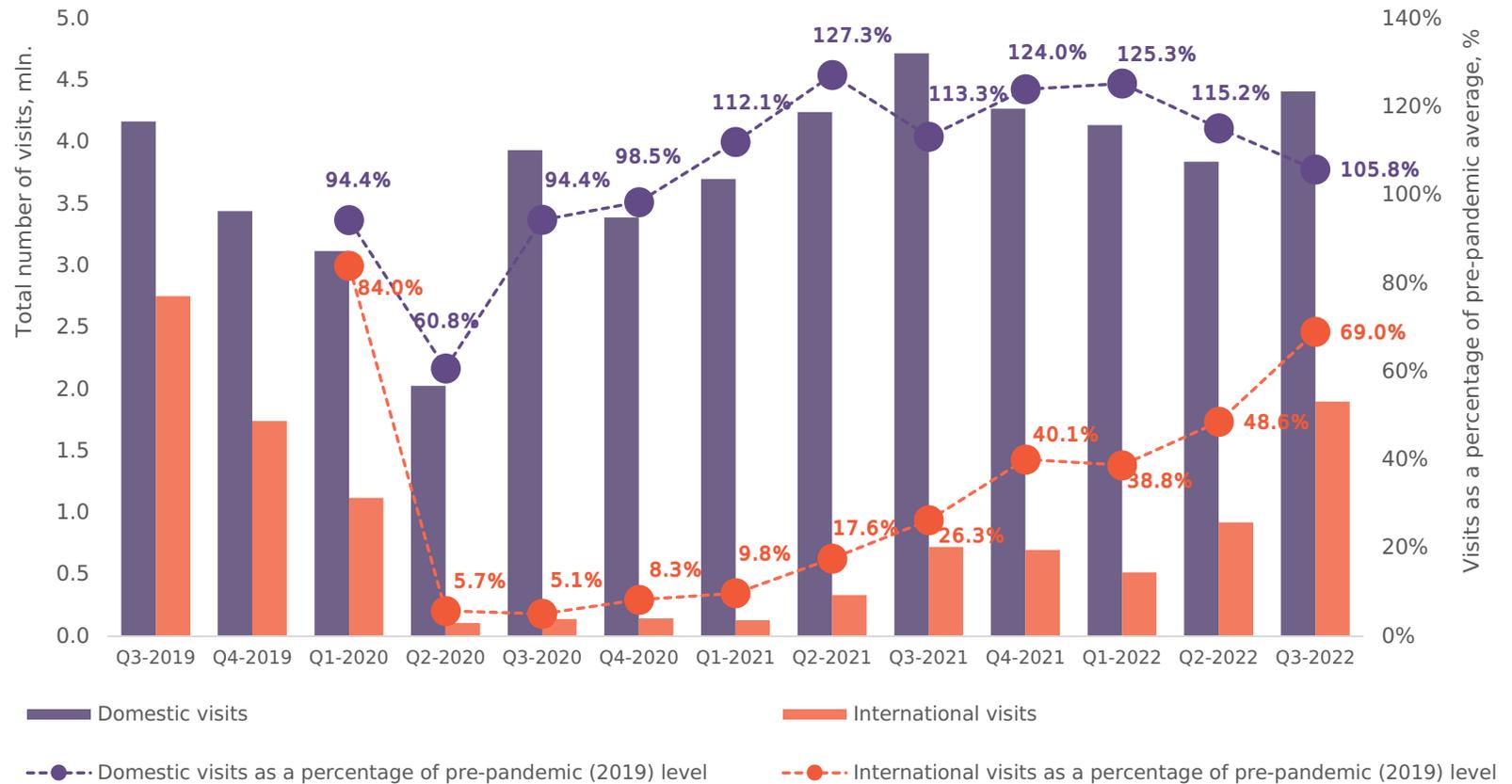


- In 2022, compared to 2021, Georgia's **trade turnover** increased with Russia (52.3%), the EU (29.3%), and China (25.8%).
- Georgia's main **bilateral export partners** over the same period were China (13.2%), Azerbaijan (12.0%), and Russia (11.7%). Meanwhile, its main **bilateral import partners** were Turkey (17.6%), Russia (13.6%), and China (8.4%).
- While the trade volume with the EU has been increasing from 2020 to 2022, its **share in Georgia's total trade turnover** has been decreasing. Meanwhile, Russia's share has been increasing steadily.



KEY FACTORS FOR GROWTH: TOURISM

Total number of visits by domestic and international visitors and those visits as a percentage of corresponding figure in 2019



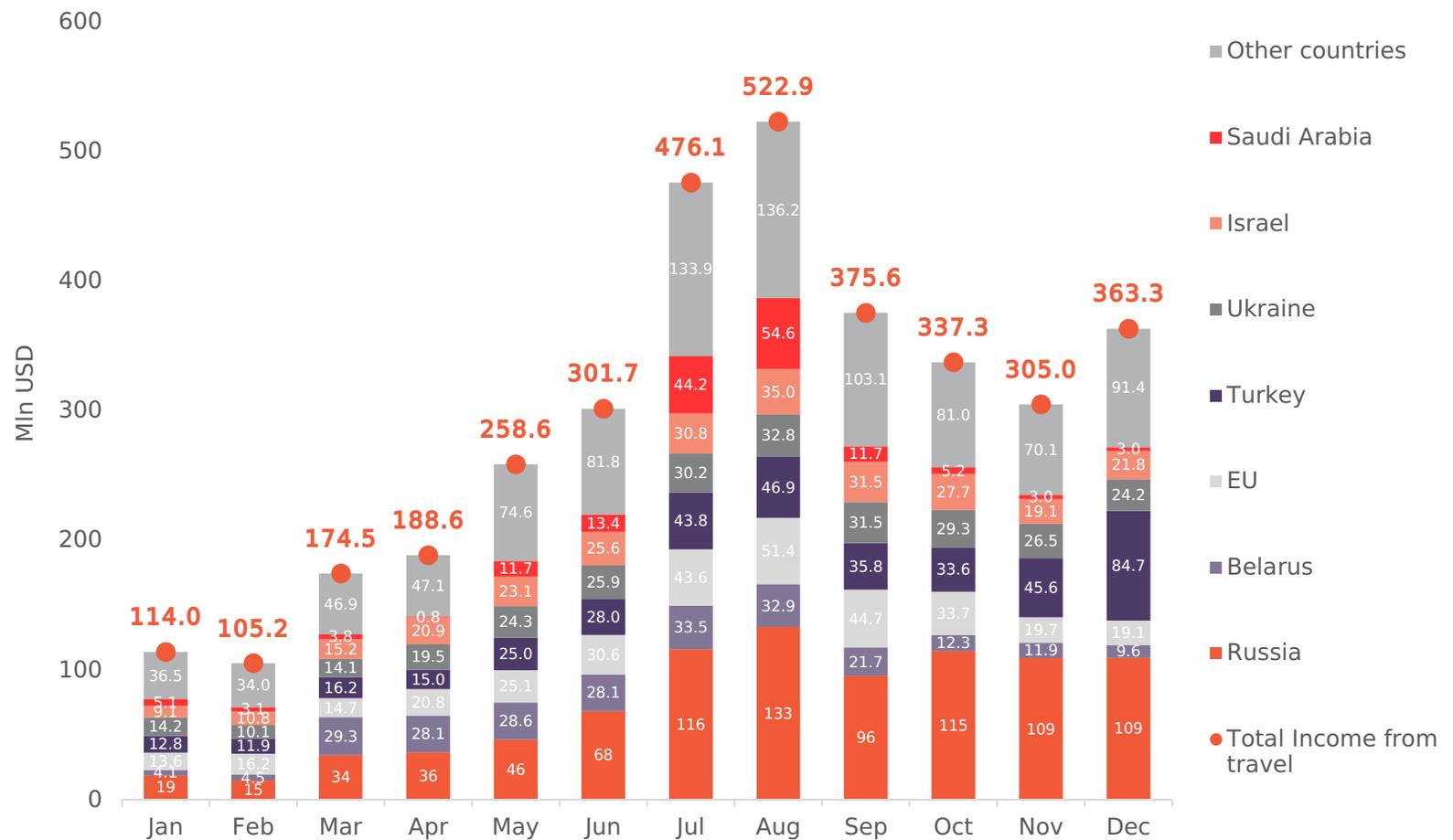
- In the first three quarters of 2022, the recovery in the number of **international visits** to Georgia was significant. Although the number of international visits did not fully recover to the pre-pandemic level, income from international visitors has already surpassed the pre-pandemic level.
- In contrast, **domestic visits** exceeded pre-pandemic levels significantly over the same period.

Source: National Statistics Office of Georgia, Georgian National Tourism Administration



KEY FACTORS FOR GROWTH: TOURISM

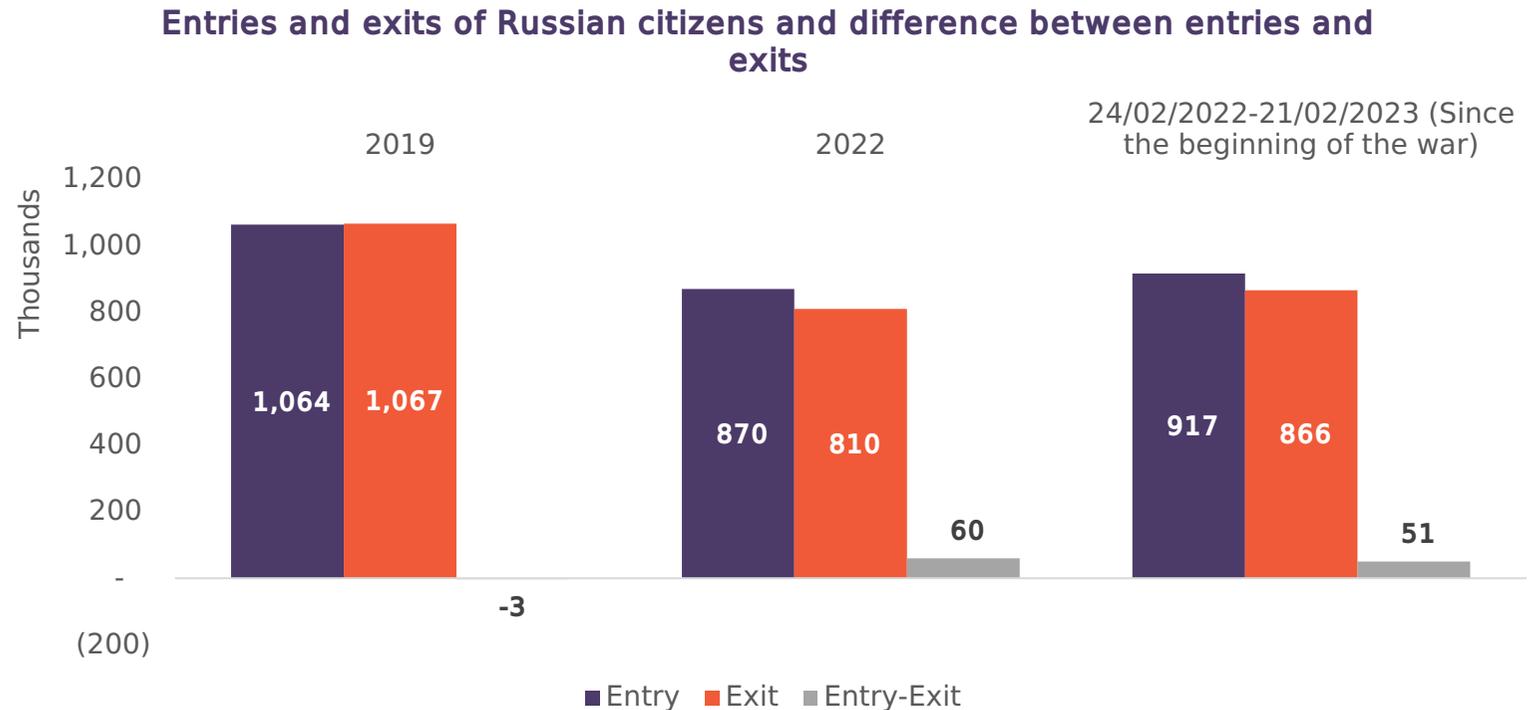
Total income from international travel by countries (2022)



- In 2022, the total income from international travel increased by 182.5% compared to 2021 and by 7.6% compared to 2019.
- Throughout the covered period, the average shares of income from visitors from Russia amounted to 23.7%, while it was 11.2% for visitors from Turkey and 10.8% for visitors from the EU.



KEY FACTORS FOR GROWTH: MIGRATION

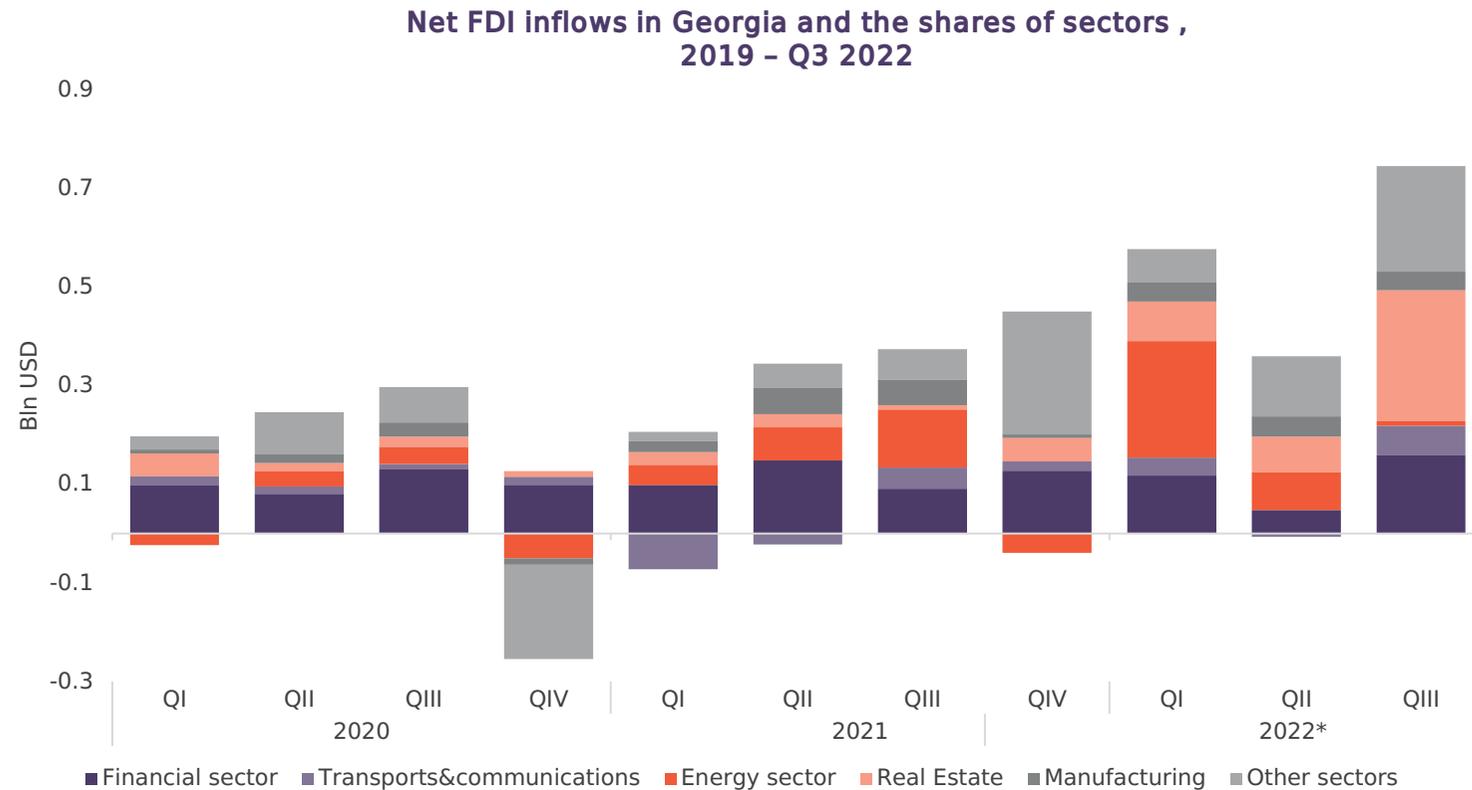


- Since the outbreak of the war in Ukraine, the border crossing statistics have shown **significant differences in the number of entries and exits** to and from Georgia by Russians, Ukrainians, and Belarusians*.
- From February 2022 to February 2023 the difference between the entries and exits of citizens of **Russia** was equal to **51 thousand unique persons**. Despite the fact that in 2019 the entries and exits of Russian citizens were higher than in 2022, the difference between those two was significantly more prominent in 2022 as in 2022 the difference was equal to 60 thousand, while the corresponding number from 2019 was -3 thousand.

* Notably, from January to September of 2022, the difference between entries and exits for Ukrainians and Belarusians was equal to 11 and 6 thousand, respectively, while for Russia this number was equal to 59 thousand. PMC RC has been unable to update the statistics for Ukraine and Belarus after September 2022 since the officially requested public information on entries and exits has not been provided for 2022. Moreover, since the beginning of 2023, the statistics of international travel will not be published on the monthly basis due to the new rule of the ministry of internal affairs on transitioning to quarterly publication of border crossing statistics.



EXTERNAL SECTOR: FOREIGN DIRECT INVESTMENTS

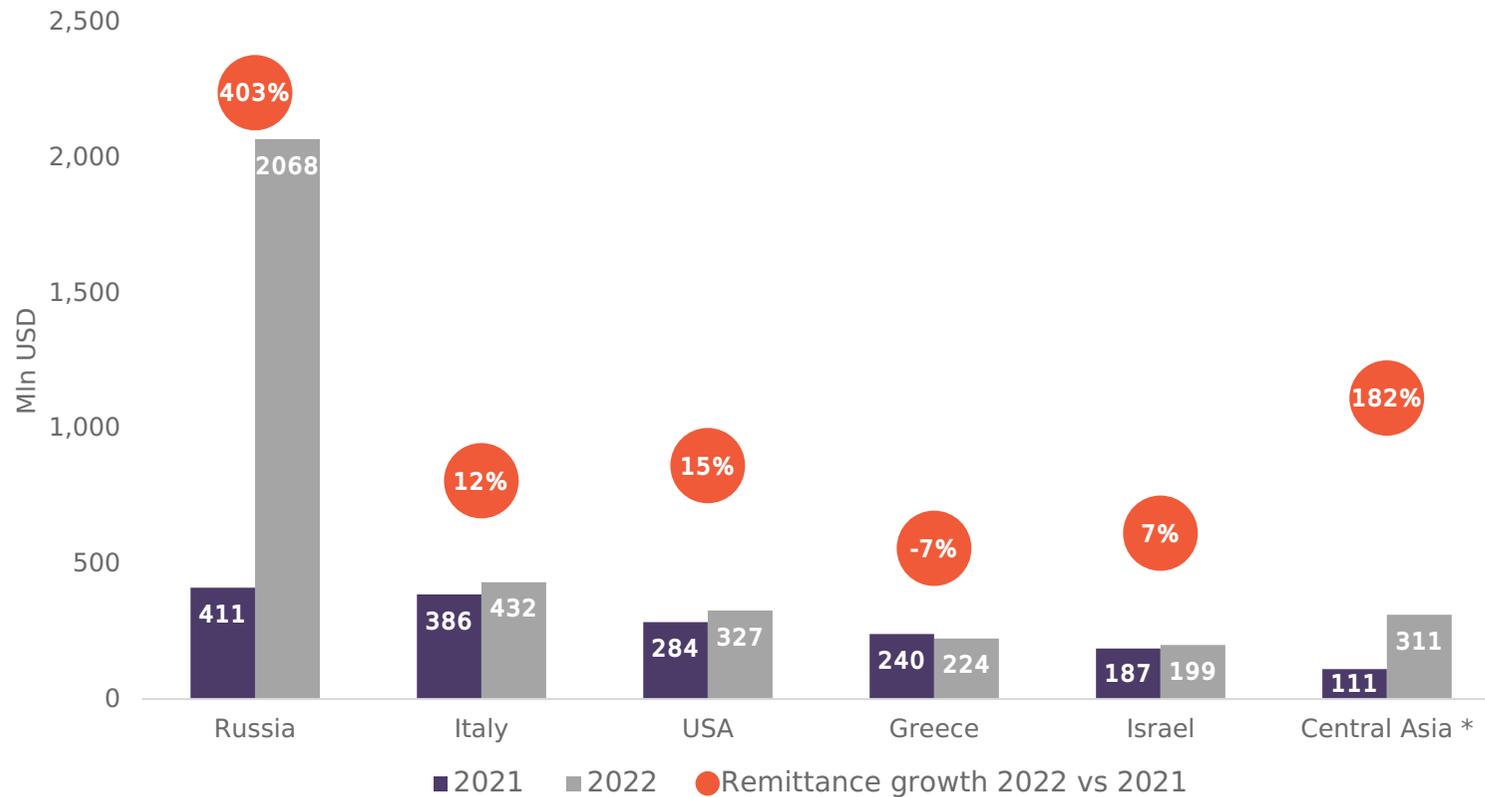


- In Q3 of 2022, **FDI inflows** into Georgia reached US\$745 million, which is **historically the highest quarterly** investment ever recorded in Georgia, overtaking the record set in Q1 of 2022. More precisely, FDI inflows in Q3 of 2022 were 99% higher compared to Q3 of 2021, and 151% higher compared to Q3 of 2020.
- The **real estate** industry received the most investment, totalling US\$265 million, followed by the **finance sector**, which received US\$159 million.
- **Reinvestments** accounted for US\$446 million (or 60%) of the US\$745 million received in the third quarter of 2022. For the same period, **equity investments** totalled US\$226 million, with **debt obligations** totalling US\$72.4 million.



KEY FACTORS FOR GROWTH: REMITTANCES

A comparison of remittances in Georgia by countries



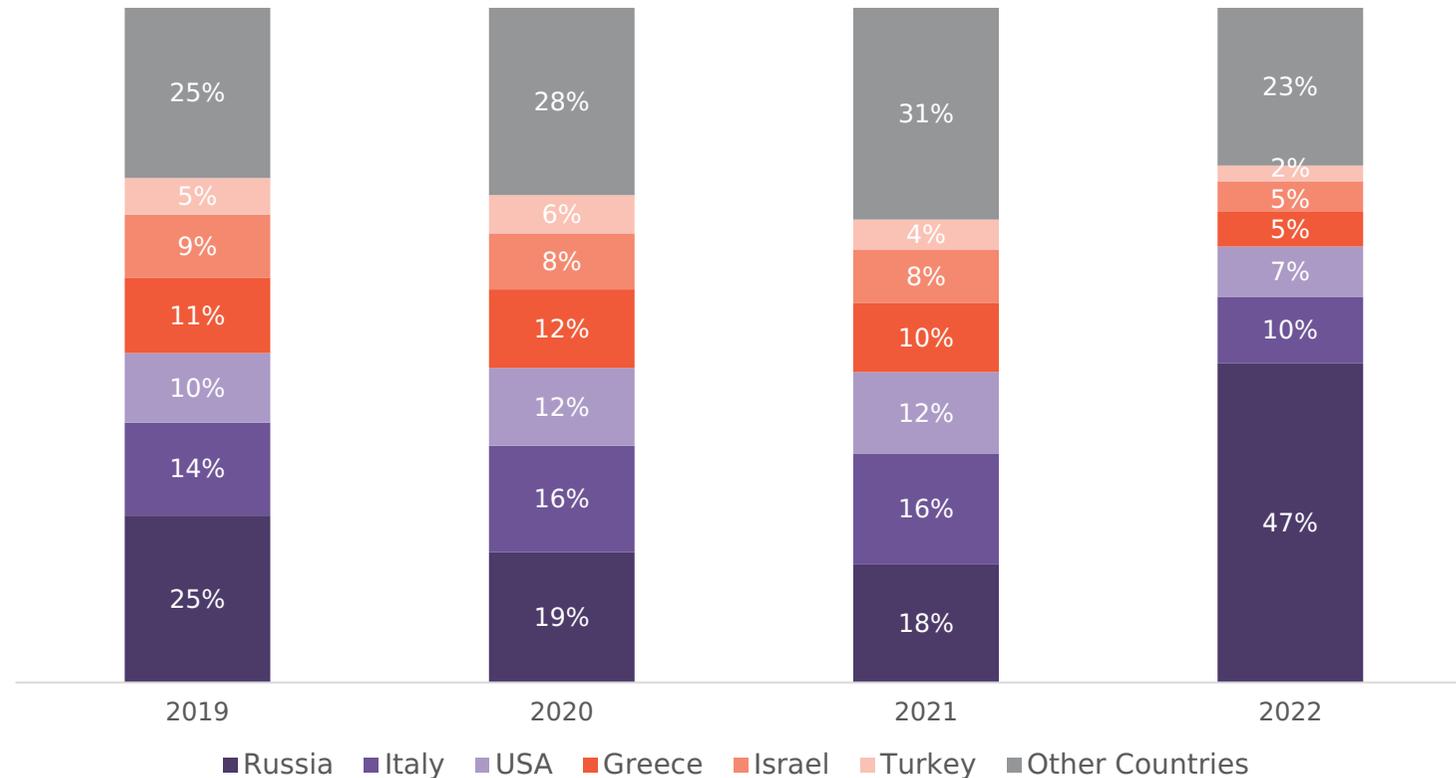
- The **overall remittances** in 2022 compared to previous years, **increased drastically**. In particular, this increased by **86%** compared to 2021, by 132% compared to 2020, and by 152% compared to 2019.
- **Remittances from Russia** increased by **403%** compared to 2021, which was mainly attributed to the ongoing war in Ukraine and the vast influx of Russian migrants into Georgia.
- While remittances from Russia have skyrocketed in 2022, part of its growth is attributed to the **arbitrage**, precisely discussed in [Macro Overview Issue 2 \(External sector: remittances\)](#).

*The central Asian countries in this graph include Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.



KEY FACTORS FOR GROWTH: REMITTANCES

Share of countries in total remittances



- A **declining trend** in remittances from Russia was noted from 2019 to 2021. However, this was reversed in 2022, as remittances from Russia contributed almost half of all remittances (47%).
- Since the start of the war, the share of remittances from **Russia** has risen markedly. In February, this figure stood at 12%, and in May hit a peak for the year at 62%. Even though total volume of remittances increased from other countries as well, their share declined due to remittances from Russia dramatically rising.



GLOBAL ECONOMIC TRENDS: GROWTH SLOWING DOWN

- In the first half of 2022, global economic activity experienced a wide-ranging and sharper-than-expected **slowdown**, with high inflation.
 - The **gloomy economic picture** for 2022 was driven by the Russo-Ukraine war, the cost-of-living crisis, tightening financial conditions in most regions, and the lingering impacts of the COVID-19 pandemic.
 - However, economic growth was **somewhat resilient** in the second half of the year, with relatively strong labor markets, robust household consumption and business investment, and better-than-expected adaptation to the energy crisis in Europe.
 - The reduced cost of transportation, poor global financial conditions, and, hence, lower inflation provided some modest **relief to developing countries** in the latter half of 2022, with the US dollar weakening in December after its peak in November.
-
- According to the IMF's January update of the World Economic Outlook, the growth forecast for 2023 will be 2.9% (0.5 pp lower than the growth in 2022), indicating **a further slowdown**. It is also worth noting that the IMF increased the growth forecast for 2023 by 0.2 pp compared to its October update.
 - The following factors are contributing to rising **uncertainty for 2023**:
 - **Inflation** could remain high amid growing wage pressures, requiring tighter monetary policies and a sharper activity slowdown.
 - Destabilization of energy and/or food markets amid escalation of the **Russo-Ukraine war**.
 - Potential stalling of China's recovery amid greater-than-expected economic disruptions from the **COVID-19 pandemic**.
 - The factors contributing to the **positive expectations**:
 - **Private demand** is expected to be sustained due to strong household balance sheets, tight labor markets, and solid wage growth, albeit potentially complicating attempts to counter inflation.
 - **Overcoming supply-chain disruptions, China re-opening and labor markets cooling** due to falling vacancies.



ECONOMIC GROWTH IN GEORGIA: EXPECTATIONS FOR 2023

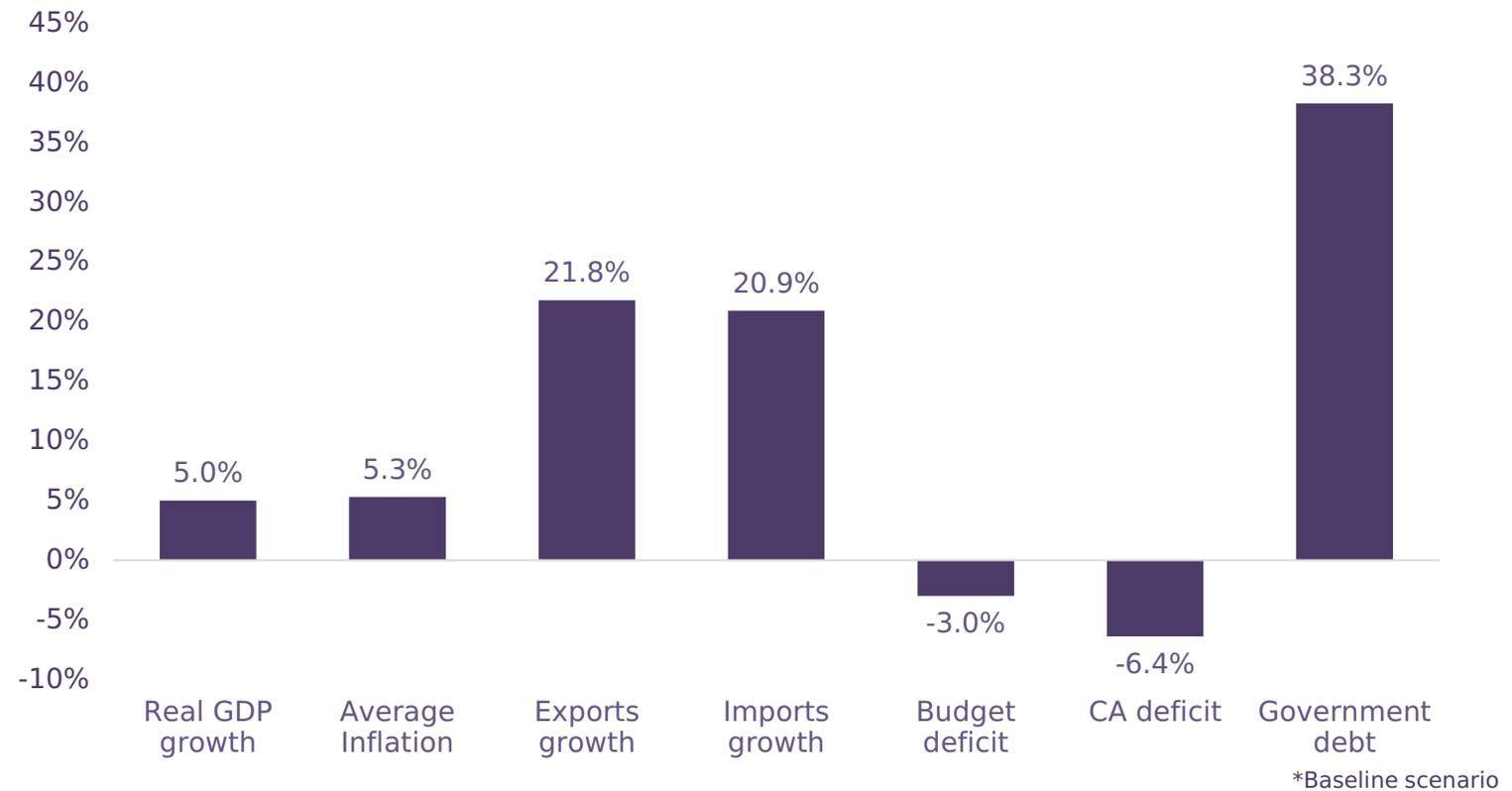
Real GDP growth forecasts in Georgia for 2023		
Organization	Past predictions, (Q1-Q2 of 2022)	Latest Predictions, (Q3-Q4 of 2022)
ADB	5.0%	6.0%
EBRD	-	5.0%
IMF	-	4.0%
GoG	5.0%	5.0%
World Bank	5.5%	4.0%
NBG	5.0%	4.0%
TBC Capital	-	5.0%
Galt & Taggart	5.0%	4.8%

- Forecasts for Georgia's **real GDP growth** rate for 2023 range from **4%** to **6%** in the baseline scenario. Moreover, this varies from 1% going by the NBG's alternative scenario to 6.3% going by the GoG's optimistic scenario.
- Organizations anticipate **weaker real GDP growth in 2023** compared to 2022, as the world enters a challenging year and with the positive impacts of increased remittances and higher demand from immigrants in Georgia likely to diminish in 2023.



STATE BUDGET 2023: ESTIMATES OF KEY MACROECONOMIC INDICATORS

Key macroeconomic indicators from 2023 state budget
(Dec-22 forecast)



- In December 2022, the Ministry of Finance (MoF) updated forecasts for **key macroeconomic indicators** for 2023.
- While Georgia's economic activity in 2022 outperformed the estimates set in June 2022, the MoF's forecasts for 2023 predict a **slowing down** of economic growth in 2023.

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