



## A perfect storm of global challenges in 2022 tests the resilience of the Georgian economy

By Yaroslava Babych, Archil Chapichadze, Nino Sarishvili

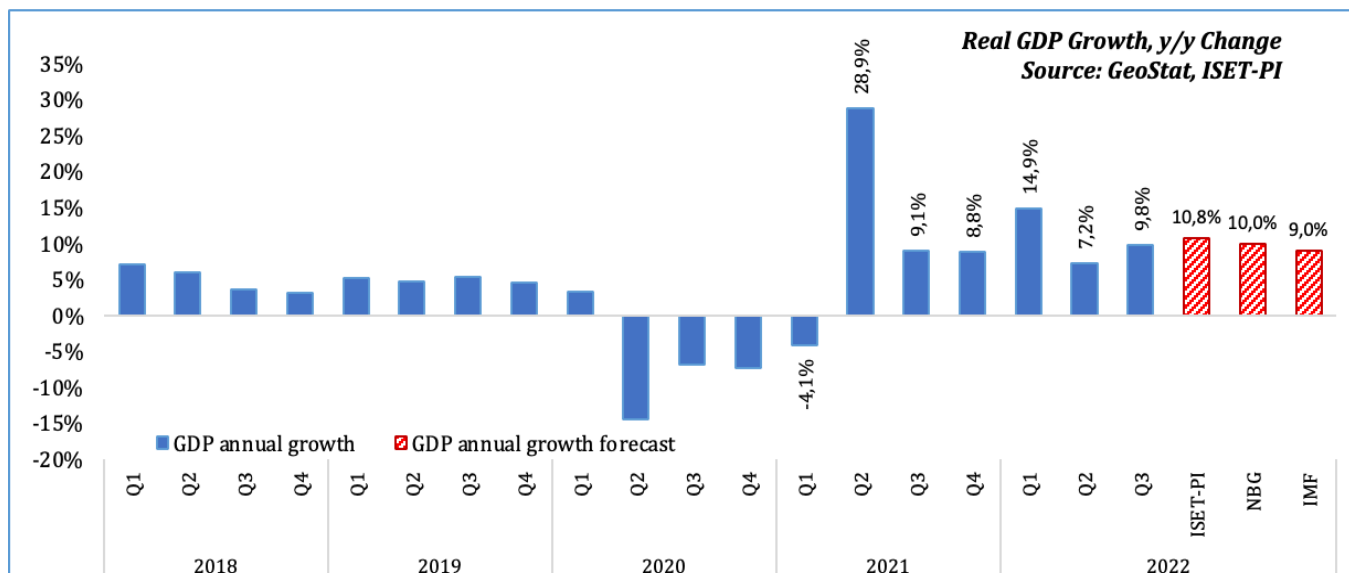
### Summary

The third quarter of 2022 was marked by a “perfect storm” of global challenges. Due to the ongoing geopolitical, economic, and ecological turbulence, with inflation reaching its highest point in decades, the world economy remains volatile. The Russian invasion of Ukraine, coupled with a precarious US [economic](#) recovery (marked by broadening inflationary pressures, tight financial conditions, and a projected GDP slowdown for 2022), [economic threats](#) arising in the euro area (energy security, rising cost of living, and diminished growth), and surges of Covid-19 in China have all led to low estimates for global economic growth from the IMF. The IMF World Economic Outlook projects a slowdown to 3.2% in 2022 and 2.7% in 2023, compared to the 6% growth observed last year ([IMF, October 2022](#)). This is the lowest growth rate observed since 2001 (excluding the 2008 global financial crisis and during the critical phase of the Covid-19 pandemic).

Despite these global challenges, Georgia, the South Caucasus, and Central Asian countries have, for now, been spared from the fallout. Georgia’s neighbors are expected to show moderate to strong growth for 2022: Armenia (+7% y/y), Azerbaijan (+3.7% y/y), and Türkiye (+5% y/y). The Russian economy, on the other hand, is expected to fall by 3.4% y/y – an upward adjustment from previous forecasts. The projected growth in emerging markets and developing economies (EMDEs) shifted upwards as well; where EMDEs are expected to grow by 3.7% y/y, compared to the 6.6% growth of 2021 ([IMF, October 2022](#)).

The prospect for growth in Georgia remains strong this year. [According to GeoStat’s latest GDP growth estimates](#), due to higher aggregate demand, the Georgian economy grew by 9.8% y/y in the third quarter of 2022. The increased inflow of citizens from regional countries and the corresponding increase in money transfers remain the major drivers behind this economic growth. NBG’s real GDP growth expectations have correspondingly been adjusted upward again, now measuring at 10% y/y compared to the previous estimate of 9% y/y ([NBG, October 2022](#)).

**ISET-PI’s own GDP forecast placed the 2022 annual real GDP growth at 10.8% y/y** (Figure 1 below) ([November 2022](#)), downgraded from the previous month’s estimate of 13.8% ([ISET-PI, October 2022](#)). The pace of inflation also declined, standing at 10.4% y/y in November 2022 ([GeoStat, November 2022](#)).



## Inflation

In Q3 2022, average quarterly CPI inflation stood at 11.3%, 8.3 pp higher than the targeted 3% ([National Bank of Georgia, 2022](#)). [Geostat](#) data (2022) reveals that the main drivers of inflation were higher prices of transport, with a 16.8% y/y increase (contributing 2.2 pp to annual inflation); food and non-alcoholic beverages – a 16.6 % y/y increase (5.3 pp contribution to annual inflation); and housing, water, electricity, gas, and other fuels – a 12.6% y/y increase (1.1 pp contribution).

Russia’s invasion of Ukraine brought a significant shock to global commodity markets. The beginning of the war disrupted the production and trade of commodities significantly, in which Ukraine (grains and oilseeds), Belarus (fertilizers), and Russia (energy and grains) were the main exporters. According to the World Bank’s [Commodity Markets Outlook](#) (October, 2022), food prices have already retreated from their second-quarter peaks in 2022, however escalation of the war could quickly reverse the expected easing of food commodity prices in 2023 and 2024.

Along with impacts stemming from the post-pandemic period and the Russia-Ukraine War, the first wave of migrants in Georgia put upward pressure on commodity prices inside the country. The significant inflow of Russian and Ukrainian migrants in Georgia boosted economic activity and created additional demand-side inflationary pressure. [Under the latest forecasts from the National Bank of Georgia](#) (NBG), these pressures have partly been balanced by appreciation in the lari exchange rate, which tended to lower the price of imported goods. Additionally, food prices on world markets have been declining recently ([Commodity Markets Outlook, 2022](#)), which offers hope that the ongoing tight monetary policy and an exhaustion of supply-side shocks will gradually reduce inflation to the target level from the second half of 2023. Given the risks, the National Bank of Georgia is still maintaining its tight monetary policy at present ([Monetary Policy Report, 2022](#)).

## External Sector: Trade, Tourism, Remittances, FDI

**Despite the economic slowdown in partner economies, the third quarter of 2022 was characterized by increased external demand.**

In Q3 2022, Georgia’s external merchandise trade expanded by 34.4% y/y, driven by increased export and



import ([GeoStat, 2022](#)). The negative trade balance has risen and reached 2,037 million USD. Once again, the base effect is not the sole reason behind expanding external trade, as both export and import are higher than during the same period of 2019.

The registered export of goods increased by 40.5% y/y ([GeoStat, 2022](#)), which can mainly be attributed to rising export goods prices ([NBG, October 2022](#)). The major drivers behind increased exportation were exports to Armenia (+9.09 pp y/y) (due to greater trade of motor cars and mineral waters), Russia (+4.95 pp y/y), Bulgaria (+4.22 pp y/y), Azerbaijan (+4.18 pp y/y), the USA (+3.95 pp y/y), Kazakhstan (+3.77 pp y/y), and, surprisingly, Ukraine (+3.06 pp y/y). Despite the armed conflict, exports to Ukraine actually rose by 43% annually in the third quarter. One must note that Q3 was however an exception, as trade with Ukraine declined by 37% annually in the first half of 2022 as well as by 63% in October and November 2022.

The higher price of consumer goods was the major contributor to increased export in Q3 ([NBG, October 2022](#)), followed by the increased export of investment goods. The rise in the export of consumer goods was driven by a greater re-export of motor cars (mainly to Ukraine, Armenia, and Russia). Altogether, the export of motor cars rose by 142% – contributing 17.2 pp y/y to the overall rise in export. Copper ores and concentrates were the second largest contributors towards higher exports (+3.6 pp y/y) (due to exports to Bulgaria), followed by electricity (+2.67 pp y/y).

Imports rose by 32% y/y ([GeoStat, 2022](#)), driven by accelerating economic activities and higher internal demand. The rising of global prices in USD terms also played an important role in the growth of import value ([NBG, October 2022](#)). Similar to Q2 2022, imports from Russia were major contributors to the overall growth of all imports (+10.5 pp y/y), which again outweighed the combined contribution of the EU (+6.9 pp y/y). As in Q2 2022, imports from Ukraine fell by 42% due to the ongoing war. From regional countries, Türkiye and Armenia contributed 6.38 pp and 2.12 pp to import growth, respectively (these countries were the largest contributors after Russia), while imports from Azerbaijan fell (-0.6 pp y/y). The increase in imports was also fueled by the USA (+2.8 pp y/y), Romania (+2.71 pp y/y), and China (+2.59 pp y/y).

Consumer and intermediate goods were the primary contributors to the overall growth of imports. Among which, petroleum and petroleum oils (+7.24 pp y/y) and motor cars (+7.12 pp y/y) were the two largest contributors to overall trade. From intermediate goods, an increase in the import of wheat and meslin flour (+0.67 pp y/y), and precious metal ores and concentrates (+0.65 pp y/y) were the main drivers in importation.

Due to the ongoing war in Ukraine, Georgia saw an increase in the number of international visitors. In the third quarter of 2022, the total number of visitor trips reached 1.9 million (a 162% increase over the same period in 2021), which is larger than the total number of international visitors throughout 2021 (around 1.72 million) ([GNTA, 2022](#)). More than 45% of these visitors came from Russia (+443% y/y) and Armenia (+438% y/y). Given the increased number of international trips, income from foreign travel has risen correspondingly, reaching 1.37 billion USD ([NBG, 2022](#)).

Additionally, instant money transfers increased to 1.03 billion USD ([NBG, 2022](#)). Although this number is lower than the transfers observed in Q2 2022, it is still 65% higher than in Q3 2021. As in Q2, Russia was the main contributor to the rise in money transfers, the latter having risen by 231% y/y and contributing 43.2 pp to the overall growth. The next largest contributors were Kyrgyzstan (+5.47 pp y/y), Armenia (+4.89 pp y/y), and Belarus (+3.8 pp y/y). As expected, transfers from Ukraine have fallen by more than 99% y/y and played a negative role in the growth of instant money transfers (-3.66 pp y/y), while transfers from



Azerbaijan (-36% y/y) and Greece (-6%) equally diminished.

Foreign direct investment to Georgia amounted to 745.3 million USD in Q3 2022, which is almost 100% higher than the preliminary data from Q3 2021 ([Geostat, 2022](#)). The majority of FDI was directed towards the real estate (35.6%), financial and insurance activities (21.3%), arts, entertainment, and recreation (19.2%), and the manufacturing (5.1%) sectors. The greatest source countries for FDI into Georgia were Spain, with 22.3% of the total FDI, the UK (16.4%), and Ireland (16.1%).

### Public Finances

The total revenue of the general budget amounted to 4.46 billion GEL, a rise of 15.4% y/y ([Ministry of Finance, 2022](#)). This growth was predominantly driven by increased revenue from tax on income, profit, and capital gains (+34.4% y/y), goods and services (+21.0% y/y), and other revenues (+25.5% y/y). Current governmental expenditures increased by 7.2% y/y in Q3 2022 (amounting to 3.98 billion GEL). This growth was mainly driven by higher spending on “other expenses” (+33.1% y/y) and employee compensation (+13% y/y). Moreover, net acquisition of non-financial assets increased by 38.8% y/y, to 1.25 billion GEL, in Q3. The third quarter was characterized by a budget deficit of 768.4 million GEL, instigated by increased spending. The deficit is 3.1% greater than during the same period of 2021.

Central Government debt liabilities (which includes both domestic and foreign debt) decreased by 4% y/y and amounted to 26.9 billion GEL ([Geostat, 2022](#)). This was most likely due to the appreciation of the GEL against the USD and euro. Furthermore, the share of foreign debt in total debt decreased from 77.9% to 75.2%.