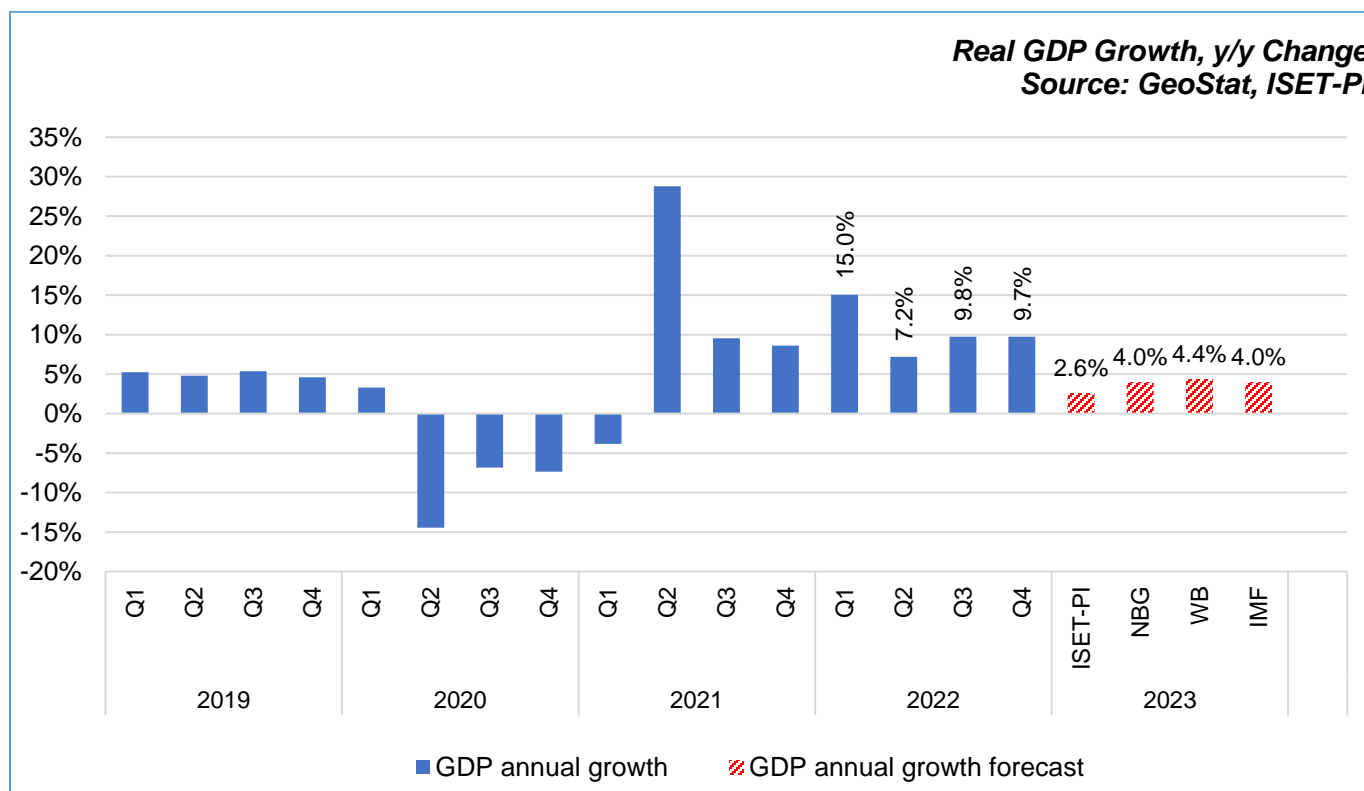




By Yaroslava Babych, Archil Chapichadze, Nino Sarishvili

Georgian economy 2022 – the year in review



SUMMARY

In 2022 Georgia stayed on the path of recovery, exceeding experts' expectations on economic performance. According to [GeoStat's preliminary estimates](#), the real GDP continues to show double-digit growth rates, measuring at 10.1% y/y in 2022 – which is remarkably close to the NBG's real GDP growth expectation of 10% from [October 2022](#). [ISET-PI's real GDP growth forecast](#) from October data came close to the reported actual (11% y/y) albeit slightly overestimating the final yearly results. A series of real shocks (Russia's war on Ukraine, international sanctions against Russia, large scale migration from Russia to Georgia and the accompanying inflows of funds) were the main economic drivers in 2022. A surge in exports, FDI and capital investment activity resulted in the second consecutive year with larger than 10% real GDP growth rate.

The GDP expansion process was accompanied by rising inflation. While inflation moderately decreased in the fourth quarter of 2022, reaching 9.8% y/y in December, the yearly inflation remained at double-digit levels, measuring at 11.9%. Although imported inflation has been declining, accompanied by the strengthening currency, the high domestic demand still plays a major role in the rising inflation. According to the National Bank of Georgia's forecasts ([February 2023](#)), the average inflation in 2023 will be 5.4%. Moreover, starting from the third quarter, it will be getting closer to the target of 3%.

Compared to the increasing unemployment in 2021, the unemployment rate in 2022 fell to 17.3% – the lowest in the period of the last 15 years ([Geostat](#)). Average annual labor force participation has also increased by 1 pp, reaching 51.9%, putting the measure at the level observed back in 2019, before



pandemic (50.8%). After the contraction observed in 2021, the number of hired employees increased by 5% y/y (although the base effect is important, the number of hired employees remains only around 1% lower compared to 2019). The same trend can be observed for the number of self-employed people, which rose by 6.4% y/y, while also growing by 3.6% compared to 2019. In the same time, the labor force has shrunk compared to 2019, reflecting the trend in the overall working age population (persons 15+) decline.

Based on GeoStat's preliminary data, in the fourth quarter of 2022, average monthly nominal earnings reached 1773,7 GEL – a 11.2% growth compared to Q3 2022 and a 21.2% growth compared to Q4 2021. Overall, average monthly earnings rose to 1591.8 GEL in 2022. Compared to 2021's average monthly earnings of 1304.5 Gel, it is a 22% increase.

The Russo-Ukrainian war and the corresponding inflow of foreign citizens has led to a spike in international trade in goods and services (mostly driven by re-exports to the CIS trade partners). The number of international visitors rose by 173% y/y ([GNATA](#), 2022). Although the number is still lower compared to 2019, that still accounts for 60% of visits in 2019 (for comparison, the number of visits in 2021 accounted for only 22% of 2019). At the same time, income from foreign travel has recovered and exceeded the 2019 benchmark (NBG data shows an 8% growth in income from foreign travel in 2022 compared to 2019).

Both export and import activities have increased as well. The negative trade balance rose by 37% y/y, reaching almost 8 billion USD. Current account deficit, on the other hand, declined to 6% of yearly GDP. Overall, 2022 has been a very fruitful year for Georgian economy: partly because Georgia became of destination of convenience for Russian migrants, partly because of the re-routing of international trade due to sanctions on Russia, and partly because it came to be seen as a relatively calm spot in a turbulent region despite the worsening medium-term global economic outlook and rising economic risks due to the war.

GEORGIA AND INTERNATIONAL PARTNERS: ECONOMIC SPILLOVER EFFECTS

2022 was a very challenging year for the global economy. In the aftermath of COVID-19 pandemic, the Russian invasion of Ukraine served as a second blow for the world economy. The war dislocated the energy and food markets and resulted in additional supply chain disruptions, however the damage to the global economy seems to be receding ([IMF, 2023](#)). Increased inbound tourism, a war-related migrant and financial inflows along with a rise in transit trade through Georgia positively affected fiscal revenues ([IMF, 2023](#)). Table 1 features the links between Georgia's top economic partners with respect to trade, FDI, remittances, and the number of international arrivals in 2022. Darker blue colours reflect stronger connections, thus stronger spillover effects from other countries, while lighter blue colours indicate weaker linkages.

China has remained the main export destination country, taking up 13.2% of total exports, followed by Russia (11.7%) and Armenia (10.5%). The CIS countries collectively took up 48.2% of the Georgian export while its 15.4% was directed to the EU block.

Due to the high migrant inflow from Russia, this country became the main source of remittances for Georgia, taking up 47.3% of the annual instant money transfers. For international arrivals, Russia got the leadership by 23.1% of the total arrivals, which was followed by Turkey (19.7%) and Armenia (15.8%). The UK continued taking up the largest share of foreign direct investments with 21.4%, followed by Spain – 18.3%. The Russia-Ukraine war paradoxically strengthened the linkages between the Georgian and Russian economies – Russia stays the leader as the main source of instant money transfers and international arrivals to Georgia, while the share of Russia's imports in total imports to Georgia rise from 10.1% (2021) to 13.5% in 2022. Georgia has maintained strong trade ties to the Armenian and Azerbaijani economies



- exports to these two countries amount to 22.5% of total exports.

Partners	Linkages with Partners in 2022, % of Total			Remittances	Int. Arrivals	Real GDP Growth, %		
	Export	Import	FDI			2021	2022	2023
CIS	48,2	27,4	4,4	57,6	52,6			
Russia	11,7	13,5	3,5	47,3	23,1	5,6	-2,1	0,7
Ukraine	4,1	2,1	0,4	0,3	3,6	3,4	-30,3	-3
Armenia	10,5	4,5	0,6	1,2	15,8	5,7	12,6	5,5
Azerbaijan	12	4,7	-0,3	1,3	3,3	5,6	4,6	3
Belarus	1	0,6	0,2	1	2,8	2,3	-4,7	0,7
Kazakhstan	4,3	0,3	-0,3	3,4	2,6	4,1	3,2	4,3
EU	15,4	22,6	43	24,4	5,8			
Italy	1,1	2,1	0,1	9,9	0,2	7	3,7	0,7
Spain	0,9	1,2	18,3	1,3	0,2	5,5	5,5	1,5
Germany	1,2	5	1,7	3,8	1	2,6	1,8	-0,1
France	0,7	1,6	0,2	1	0,4	6,8	2,6	0,7
Greece	0,1	0,5	0,1	5,1	0,3	8,4	5,9	2,6
Lithuania	0,7	0,3	0,1	0,1	0,3	6	1,9	-0,3
Bulgaria	7,6	1,5	0,3	0,03	0,2	7,6	3,4	1,4
Romania	0,4	2,1	0,1	0,01	0,1	5,9	4,8	2,4
Other Countries	36,4	50	52,5	18	41,6			
Turkey	7,8	17,5	5,3	2,3	19,7	11,4	5,6	2,7
USA	4,7	7,5	8,2	7,5	0,8	5,9	2,1	1,6
Iran	0,5	1,7	0,2	0	2,2	4,7	2,5	2
China	13,2	8,3	5,4	0,02	0,2	8,4	3	5,2
Korea	0,2	0,7	0,1	0	0,1	4,1	2,6	1,5
UK	0,3	0,8	21,4	0,9	0,5	7,6	4	-0,3
Switzerland	1,7	0,9	1,2	0,1	0,1	4,2	2,1	0,8
Israel	0,4	0,1	1,2	4,6	4,5	8,6	6,4	2,9

The three columns on the right-hand side of Table 1 represent the growth rates for 2021, 2022 and 2023 projections ([IMF, 2023](#)). As we see from the graph, the Russia-Ukraine war and the following events negatively affected the global economy. According to the IMF, most of Georgia’s neighboring countries and main economic partners showed a slowdown of economic growth in 2022. The real GDP of Ukraine declined by 30.3%, while Russia and Belarus contracted respectively by 2.1% and 4.7%. The United States and the Euro Area showed a slowdown of real GDP growth in 2022, while according to 2023 projections their growth rates are predicted to further decrease in the current year ([IMF, 2023](#)). On the other hand, Armenia showed an increased GDP growth rate in 2022 (12.6%), which was mostly driven by the increased migration of Russian citizens into the country, raising the economic activity ([IMF, 2023](#)).

According to the recent IMF forecast ([World Economic Outlook, 2023](#)) the global growth rate will decrease from 3.4 percent in 2022 to 2.8 percent in 2023, and reach 3.0 percent in 2024. The projections suggest that the advanced economies will see a significant growth slowdown in 2023, reducing to 1.3 percent GDP growth rate in 2023. These projections will likely pose a significant challenge for Georgia’s economic growth in the future.

In the end, according to NBG’s monetary report from February ([2023](#)), Georgian economy is expected to expand by 4% y/y in 2023. This figure is 0.4% point lower compared to the World Bank’s estimates made in April ([2023](#)), but equals to the IMF projections from February (+4% y/y). The latest data from ISET-PI’s GDP forecast predicted the 2023 annual real GDP growth to be 2.2% in the worst-case scenario and 3.2% in the best-case scenario. Our middle-of-the-road scenario predicted a 2.6% increase in real GDP. These figures should be treated as baseline estimates, since the forecast relies only on historical data and does not take into account the current Russia-Ukraine war scenario.

INFLATION

According to [GeoStat](#) the annual inflation rate reached 9.8% in December 2022, 6.8 pp higher than the 3%



target level.

After the exhaustion of the pandemic-related factors, as a result of tight monetary policy in Georgia, the inflation rate should have gradually decreased. However, the escalation of the Russia-Ukraine war and the disruption of the supply channels put upward pressure on the inflation rate ([National Bank of Georgia, 2022](#)). Thus, the average annual CPI inflation rate amounted to 11.9% y/y in 2022.

To start with, the Russian-Ukraine war significantly increased international commodity and oil prices. Due to sanctions on the Russian economy, the supply of oil was expected to decrease, which surged the oil prices at the beginning of 2022. However, Brent crude oil prices started gradually declining from May 2022 ([Trading Economics, 2023](#)). This, on its own, fueled the transport and energy prices worldwide, including Georgia, where annual transport prices increased by 15.8% y/y, contributing 2.1 pp to the average annual CPI inflation in 2022. Meantime, the increase in the prices of housing, water, electricity, gas and other fuels (+18.3% y/y) contributed 1.7 pp to the annual CPI inflation in Georgia.

The increased number of long-term visitors from Russia and Belarus also put an upward inflationary pressure on the Georgian economy. Actual rentals for housing recorded 37.4 per cent y/y increase in December ([Geostat, 2022](#)). Increased inbound tourism surged the prices in the HORECA sector (+14.4% y/y) and contributed 0.8 pp to the annual CPI inflation ([Geostat, 2022](#)). Migration also increased spending, elevating the pressure on food and beverages prices (+17.9% y/y) contributing 5.8 pp to the annual CPI inflation.

The increased inflow of migrants positively impacted the GEL exchange rate, partly offsetting the inflationary pressure on the economy ([National Bank of Georgia, 2023](#)).

Overall, according to the recent monetary policy report ([2023](#)) by the National Bank of Georgia the inflation rate will keep gradually declining in 2023 and converge to the target in the second half of 2023. This will be mainly as a result of the exhaustion of supply-side shocks and a tight monetary policy stance.

EXTERNAL SECTOR: TRADE, TOURISM, REMITTANCES, FDI

Russia's invasion of Ukraine in February resulted in the increased number of international visitors, external trade and FDI. The number of international visitors rose by 173% y/y ([GNTA, 2022](#)). The main drivers behind such increase were Russia (+50.7 pp), Turkey (+34.8 pp) and Armenia (+33.6 pp). Although the number is still lower compared to 2019, it still accounts for 60% of visits in 2019 (compared to 2021 accounting for only 22% of 2019 visits). The revenues from international travelers have been on the rise as well, increasing by 182% and reaching 3.5 billion USD ([NBS](#)). More importantly, the revenues this year have caught up and exceeded the revenues from 2019, for the first time since the pandemic. Both exports and imports increased by more than 30% in 2022 ([Geostat](#)). The trade balance deficit rose by 37% y/y, reaching almost 8 billion USD.

Imports of consumer goods were the main contributors to the increasing imports (+32% y/y) in the fourth quarter (NBS, [February 2023](#)). Imports of consumer goods mainly rose because of the increased purchases of motor cars (+130% y/y), petroleum and petroleum oils (+27% y/y) and telephone sets (+90% y/y). The imports of intermediate goods rose due to increased import of petroleum gases (+1% y/y), and precious metal ores and concentrates (+0.7% y/y) as well as semi-finished products of iron or non-alloy steel (+0.5% y/y). The larger purchases of Other aircraft; spacecraft and spacecraft launch vehicles (+0.4% y/y), electrical transformers, static converters and inductors (+0.4% y/y) contributed toward higher import of investment goods ([Geostat](#)).



In Q4 among partner countries, imports from Russia (+95% y/y), USA (+83% y/y), Türkiye (+19% y/y), Armenia (+98% y/y), Germany (+60% y/y) and Japan (+160% y/y) were main contributors towards increased imports. After an improvement in 2021, the geographical diversification of Georgian imports worsened as the share of top ten trading partners in the total imports of Georgia amounted to 69.9% in 2022, compared to 67% in 2021 ([Geostat](#)).

In the fourth quarter of 2022, exports rose by 18.6% y/y. The export growth was mainly caused by the increased demand for consumer and investment goods. The export of intermediate goods, on the other hand, declined. Motor cars (+164% y/y) were the largest contributor to increased purchase of consumer goods, due to their re-export to Armenia, Kazakhstan and Kyrgyzstan. On the other hand, the declining export of ferro-alloys to Russia and US and export of ferrous waste and scrap to Türkiye were driving the exports down (NBG, [February 2023](#)). For investment goods, the exports were mainly driven by increasing export of motor vehicles for the transport of ten or more persons and export of motor vehicles for the transport of goods.

Exports to a majority of the destination markets increased in the Q4 2022 ([Geostat](#)). Exports to the USA dropped by 72%, while exports to China rose by 18%. The exports to Russia fell by 3%, but it still remained the third largest export market. The top destination country for Georgian exports in Q4 was Armenia. The geographical diversity of Georgian exports remained almost unchanged. The share of the top ten export destination countries in total exports stands at 77.46% in 2022 compared to 77.56% in 2021.

Instant money transfers to and from Georgia also increased due to the Russo-Ukrainian war. The volume of money transfers into Georgia almost doubled, growing by 142% and reaching 1.56 million USD. The growth was mainly driven from increased inflow of money from the Russian Federation (+745% y/y), Kyrgyzstan (+153% y/y), the United States (+25% y/y) and Germany (+43% y/y) ([NBG](#)).

Foreign direct investment more than doubled in 2022, reaching 2 billion USD. However, in the Q4 2022, the FDI was 21% down y/y ([Geostat](#)). Furthermore, the Current Account deficit declined to 6% of yearly GDP, making 2022 the second consecutive year of improving current account balance.

PUBLIC FINANCES

According to [the Ministry of Finance](#), general government revenues amounted to 19,4 billion GEL in 2022, showing a 28% y/y increase compared with the previous year. This growth was mainly driven by increases in taxes on Incomes, profits, capital gains (45,4% y/y), goods and services (19,8% y/y), property (18.2% y/y), trade and transactions (46% y/y) and other taxes (144,8% y/y). It should be noted that the grants decreased by 24.2% y/y compared with 2021. On the other hand, the general government expenditures increased by 9.1% y/y and amounted to 16,8 billion GEL in 2022. The increase was mainly driven by an increase in subsidies (25%) and compensation of employees (11,6% y/y) and the use of goods and services (8% y/y).

Overall, the budget deficit in 2022 amounted to -1.76 billion GEL (2.5% of GDP) – showing a 53,2% y/y decrease compared to 2021. According to [GeoStat](#) central Government debt liabilities (including domestic and foreign debt) decreased by 4.2% y/y and amounted to 28,5 billion GEL in Q4, 2022 (39.7% of GDP). Furthermore, compared with Q4 2021 the share of foreign debt in total debt decreased by 5.4 pp and stood at 75,1%, slightly reducing the country's exposure to exchange rate risk.