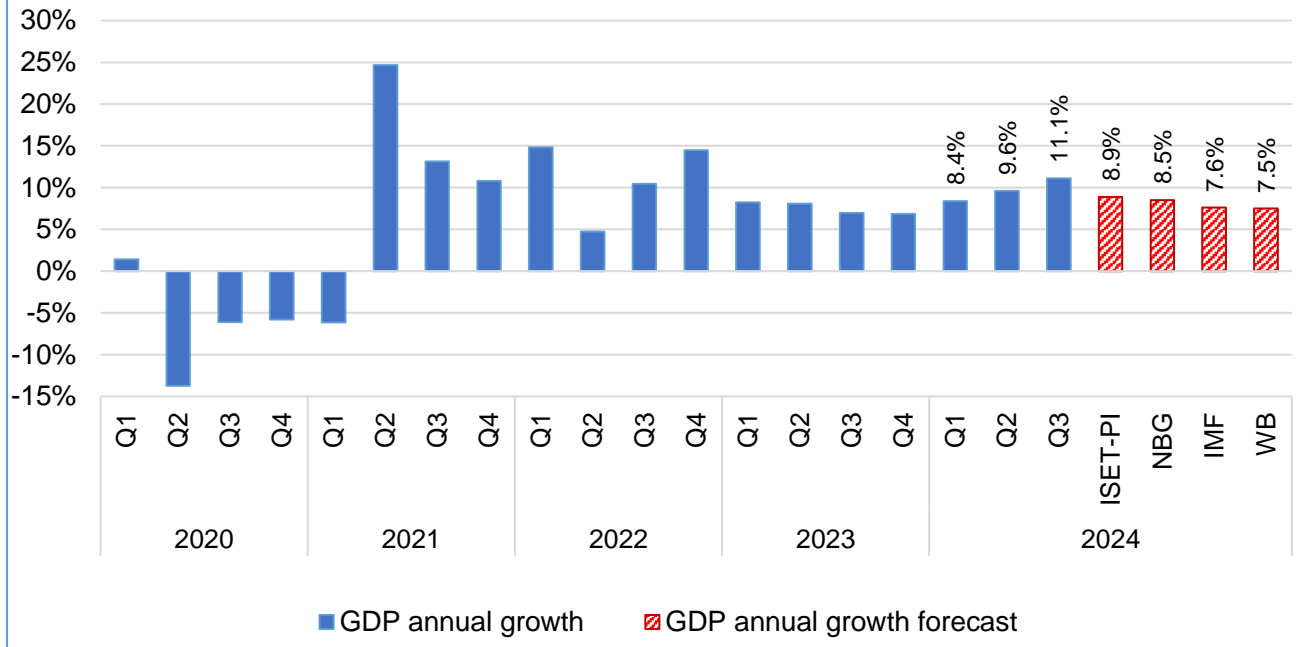




ECONOMIC PROGRESS UNDER PRESSURE: GEORGIA’S Q3 2024 GROWTH AND CHALLENGES

Figure 1 - Real GDP Annual Growth Rate.

Source: GeoStat, ISET-PI



SUMMARY

According to [GeoStat’s preliminary estimates](#) in the second quarter of 2024, Georgia’s nominal GDP reached GEL 24,855.7 million, with a year-over-year real GDP growth of 11.0% and a GDP deflator change of 4.3%. The growth was driven by significant increases in value-added across various sectors: Education activities rose by 35.6%, Information and communication rose by 32.8%, Construction by 30.9%, Financial and insurance activities by 22.9%, Public administration and defense, including social security by 14.7% and Wholesale and retail trade, including repair of motor vehicles and motorcycles by 11%. Conversely, there was a decline in value-added in electricity, gas, steam, and air conditioning supply by 13.6% and in Real estate activities by 4.9%. Trade accounted for the largest GDP share at 15.4%, followed by Manufacturing at 9.7, Real estate activities at 9.3%, Construction at 8.7%, Agriculture, forestry and fishing at 7.4%, Information and communication at 6.2%, Public administration at 6.2% and Transportation and Storage activities at 5.9%. The projected real GDP growth for 2024 from [NBG](#) is 8.5%, which is slightly below the IMF and WB projection of 7.6% and 7.5% y/y growth, respectively (Figure 1).

In 2023, Georgia’s economic growth was primarily fueled by strong domestic demand. Conversely, foreign demand waned, contributing negatively to growth in the fourth quarter due to the diminishing migration effect. The previous year’s surge in migration had significantly boosted traveler revenue, with service exports soaring by 87.9%. However, the growth rate of income from travelers fell in 2023 because of the base effect and a reduction in migrant numbers. Despite this, structural changes in the economy, particularly a rise in information and computer service exports from 0.4% to 2.6% of GDP, helped offset the decline and propelled the economy’s overall potential.

In the third quarter of 2024, the Georgian Lari (GEL) depreciated compared to the previous year. Over



the same period the nominal effective exchange rate depreciated insignificantly. It should be noted that GEL appreciated against USD by 1.1%, Lira by 4%. The REER depreciated by 2.0% on a quarterly basis and by 9.6% year on year and the GEL real exchange rate depreciated against all main trading partners. These changes, which began with the Russia-Ukraine conflict in 2022, are reflected in the increased service exports from Georgia, particularly in the IT and transportation sectors. The country's strategic position as a transit hub has also led to a surge in cargo and logistics services, indicating that GEL's exchange rate may stabilize without significant depreciation.

Georgia's stringent monetary policy has effectively curbed inflation expectations, bringing domestic inflation below the target level. The decrease in service prices has been a significant factor in this reduction, alongside the diminishing effect of previously increased apartment rental costs due to a surge in foreign visitors. These factors have collectively contributed to a more stable inflation rate, aligning with the country's monetary goals [\(NBS, July 2024\)](#).

Compared to the increasing unemployment in Q3 of 2023 (15.6%), the unemployment rate in Q3 of 2024 fell to 13.3% [\(Geostat\)](#). Average annual labor force participation has also increased by 1.1pp, reaching 54.7%. Based on [Geostat's](#) preliminary estimate, in the first quarter of 2024, average monthly nominal earnings reached 2056.7 GEL.

In conclusion, Georgia's economy in the third quarter of 2024 has shown robust growth with a notable increase in nominal GDP and real GDP growth. This positive trend is reflected across various sectors, particularly in information and communication, real estate, education, and public administration. Despite a decline in foreign demand, domestic demand remains strong, with consumption remaining the primary driver of growth.

INFLATION

Since the start of the year, inflation in Georgia has remained below its anticipated target and previous projections [\(GeoStat\)](#). This trend has led to a decline in inflation expectations, alongside an improved current account deficit. The latest forecast suggests that inflation will average around **1.9%** for 2024, which is higher than earlier estimates. Despite this, the strong economic performance is expected to continue, with real GDP growth projected at **6.8%** for the year. Consequently, while the initial stages of monetary policy normalization have been somewhat hastened due to lower inflation expectations, it is anticipated that any further normalization will proceed cautiously. This cautious approach is influenced by the potential risks arising from increased demand and ongoing uncertainties in both local and global geopolitical landscapes, which could lead to inflation rates exceeding the current forecast [\(NBS, July 2024\)](#).

To analyze inflation dynamics and market expectations, in addition to observing the overall inflation rate, the non-tradable sticky price index (NTSPI) developed by the Federal Reserve Bank of Atlanta provides valuable insights. The NTSPI, which measures inflation in consumer prices for goods and services with inflexible prices, averaged 1.84% in the third quarter of 2024, 1.38pp less than the previous quarter. This indicated that improved long-term inflation expectations and that market expects inflation to be below the target level. [\(NBS\)](#)

In the third quarter of 2024 GEL's real effective exchange rate depreciated against all trading partner countries. This might be attributed to not just the short-term cyclical factors but also significant structural shifts in the current account, particularly since the onset of the Russia-Ukraine conflict in 2022. These shifts are evident in the growth of Georgia's service exports, especially in the information, computer,



and transport sectors, bolstered by an influx of skilled migrants and the country's enhanced role as a key transit hub in the Middle Corridor. This strategic position has led to a notable rise in cargo turnover and logistics services exports through Georgia, suggesting that the normalization of the GEL's exchange rate might not necessitate substantial nominal depreciation.

Specific currency movements in the third quarter of 2024 included a 1.1% appreciation of the GEL against the US dollar and a 0.6% against the euro. The GEL appreciated by 4.0% against the Turkish lira but depreciated by 1.3% against the Russian ruble. Overall, the nominal effective exchange rate of GEL depreciated insignificantly. However, the real effective exchange rate saw a 3.0% quarterly and 9.6% annual depreciation. ([NBS, October 2024](#)).

In the third quarter of 2024, Georgia's monetary policy led to a downward trend in national currency interest rates. **Deposit interest rates** in the national currency fell by **9.9%**, while foreign currency deposit rates rose to **2.4%**. **Lending rates** also decreased, with mortgage and corporate loans in the national currency seeing a reduction, influenced by the cut in the monetary policy rate. The average interest rate for corporate loans dropped by **1.94 percentage points** from the previous year to **11.8%**.

Despite a rise in interest rates for foreign currency loans in 2023 due to global financial tightening, rates began to decline in 2024. The gap between local and foreign rates has lessened. Post-policy easing in May, rates for consumer, business, and mortgage loans all saw a decrease. Business loan demand grew in Q3 2024, and lending conditions for such loans in the national currency softened. However, the conditions have slightly tightened for business loans in foreign currency. The banking sector anticipates further mild relaxations in lending conditions for the upcoming quarter for both local and foreign currency loans.

Georgia's tight monetary policy has led to a decline in inflation expectations since last year, with domestic inflation stabilizing near the 3% target. As of September, inflation was at 0.6%, mainly due to long-term factors and expectations. Service prices, contributing 1.6 percentage points to the change, have been decreasing since early 2023, helping to lower overall inflation. Furthermore, the enhancement in internet quality, initiated in July and sustained through August without an accompanying price hike (contributing a total of -1.7 percentage points), significantly contributed to the decline in service inflation.

Imported goods prices, which had been falling since early 2023, thus reducing imported inflation, rose by 1.2% in September, which is 1.8pp less than the Q2 figure. This decrease is largely attributed to the gradual dissipation of the base effect stemming from higher fuel prices. Shipping costs, which spiked due to tensions in the Red Sea region at the end of the previous year, decreased steadily until the end of April but surged again in early May. While the immediate risk of these transportation costs affecting product prices has diminished, the recent uptick in shipping prices is still a concern that could influence future inflation ([NBS, October 2024](#)).

EXTERNAL SECTOR: TRADE, TOURISM, REMITTANCES, FDI

At the start of 2024, Georgia experienced a decline in external demand, resulting in a significant drop in foreign currency inflows and domestic exports. However, later increases in foreign currency inflows helped improve the current account balance. In the second quarter, demand for motor vehicles and their re-exports slowed, leading to a decrease in export revenues. On the other hand, import expenses declined, and structural economic changes positively impacted the current account balance, particularly through increased service exports in the transport sector, driven by Georgia's promotion as



a Middle Corridor country. Despite a decrease in exports of information and computer services, these sectors remained significant contributors to export revenues. Besides, rising revenues from international travel have supported an improvement of the current account deficit. As a result, the current account deficit improved to a historic low of 4.3% of GDP in 2023 and for 2024 is expected to be around 4.5-5.0%., which is considered to be a sustainable level.

In Q3 2024, external demand for motor vehicles, which was declining in Q2, has recovered, led to an overall increase in Georgia’s goods exports. Moreover, demand for ferro-alloys has risen again. In contrast, alongside a slowdown of construction activities in China, re-exports of copper ores and concentrates from Georgia were substantially low. Overall, in the third quarter, exports of goods grew in both nominal and real terms, rising by 25.6% and 17.5% respectively. The increase in exports of goods was primarily driven by higher exports of consumer goods, including motor vehicles, alcoholic beverages, and mineral waters. Furthermore, the growth in exports of intermediate goods was positively influenced by the increased sales of ferro-alloys, semi-manufactured gold, and precious metals.

In the third quarter of 2024, Georgia saw a **2.5%** increase in international visitors compared to the previous year, yet this was still **17.8%** below the numbers seen before the pandemic. The rise in visitors from Russia, Belarus, and Ukraine, which began with the onset of the Russia-Ukraine conflict in 2022, has since been on a decline. Also, number of visitors from Poland and Turkey has decreased by 30.8% and 12.5%, respectively. This slowdown of migration was balanced by the increasing visitor numbers from China (65.2%), Israel (36.0%). Despite the higher visitor count, revenue from international travel grew by **8%** annually, reaching **USD 1,600 million**. ([GNTA, 2024](#))

During Q3 2024, Georgia received USD 872million in instant money transfers, marking a 0.85% decrease from the previous year ([NBS](#)). This decline is attributed to a base effect and a reduction in transfers from Russia. The initial surge in transfers, linked to a one-time migration influx, has subsided. Nonetheless, despite the downturn in Russian transfers, remittances from other nations, notably the US, Israel, and the EU, have seen a significant uptick, buoyed by stronger economic performance in these regions.

Despite the initial downturn, demand for imported goods picked up in the third quarter of 2024. While imports increased by 3.6% in nominal terms, they dropped by 3.3% in real terms. Additionally, the sharp decline in purchases of motor vehicles intended for re-export limited the overall growth of goods imports. ([NBS, October 2024](#))

In 2024, despite a decrease in imports, Georgia’s trade deficit widened as goods exports fell even more sharply. However, the country experienced a substantial increase in service exports, fueled by strong international trade revenues and structural changes in the service sector, particularly in transportation and IT services. Although wage growth was moderate, employee compensation remained high, contributing to a significant reduction in the current account deficit, which reached a record low of 5.0% of GDP, showing improvement in annual terms.

In the first quarter of 2024, long-term loan liabilities were the primary means of financing Georgia’s current account deficit. Inward foreign direct investment (FDI) contributed less to the financing of the deficit. The FDI inflow increased by 10% from the previous year, totaling USD 0.57 billion, which represented approximately 2.6% of the country’s GDP. This increase was mainly due to a increase in debt instruments and equity. The current account balance saw an improvement in 2023, largely attributed to a significant increase in savings, even though investment growth was only moderate.



[\(GeoStat\)](#).

PUBLIC FINANCES

According to the Ministry of Finance, current governmental expenditures amounted to 4,910.9 million GEL in the third quarter of 2024, showing a 15.5% y/y increase compared with the same period of previous year. This growth was mainly driven by higher spending on social benefits (+8.3% y/y) and wages (15.21%), also remarkable was percent growth (+29.58% y/y) and grants' growth (32.9% y/y).

At the same time, total revenues to the general budget amounted to 5,310.5 million GEL, a 14.4% y/y increase. The latter was driven by the increased volume of Value Added Tax collection (29.3% y/y), taxes from the goods and services (12.7%). However, revenues from international trade has declines by 42.6% y/y.. Overall, the budget surplus in Q3 of 2024 amounted -661.8 million GEL (-2.7% of GDP) ([Ministry of Finance of Georgia, 2024](#)).

Central Government debt liabilities (which includes both domestic and foreign debt) increased by 11.7% y/y and amounted to 33,173.5 million GEL in Q3, 2024. Furthermore, the share of foreign debt in total debt stood at 71.15%, slightly maintaining the country's exposure to exchange rate risk.