



Georgia

Highlights

- **Growth remained robust, at 7.6 per cent year on year in the first half of 2023.** The extraordinary growth factors that have prevailed over the past year are gradually receding, and inflation has fallen below the central bank's target.
- **The European Commission (EC) has acknowledged progress on fulfilling the 12 requirements for European Union (EU) accession status.** In November 2023 the EC recommended to the European Council that Georgia be granted the status of candidate country once the 12 priorities are fully addressed.
- **There is increased focus on improving connectivity in the changing geopolitical environment.** Georgia is working with Azerbaijan, Hungary and Romania to connect the Caucasus to Europe through an electric cable under the Black Sea and to take action to increase the attractiveness of the Middle Corridor trade route between Asia and Europe.

Key priorities for 2024

- **The authorities should focus on implementing reforms that address the remaining priorities highlighted by the EC.** Progress on establishing independent anti-corruption institutions, an impartial judicial system and other priorities are crucial not only to progress on EU candidacy, but also to making another leap forward in improving the business environment.
- **Reform of state-owned enterprises (SOEs) should be speeded up.** It is necessary to have a clear governance framework in place for all SOEs and to adhere to best international corporate governance standards. SOEs should operate on commercial principles and be subject to the same regulatory requirements as private enterprises.
- **Reforms in the energy sector need to advance.** The authorities should avoid further delay in the development of competitive and organised domestic electricity and gas markets.

Main macroeconomic indicators (per cent)

| | 2019 | 2020 | 2021 | 2022 | 2023 proj. |
|-----------------------------------|-------|-------|-------|------|------------|
| GDP growth | 5.0 | -6.8 | 10.5 | 10.1 | 6.0 |
| Inflation (average) | 4.9 | 5.2 | 9.6 | 11.9 | 2.4 |
| Government balance/GDP | -2.7 | -9.3 | -6.3 | -2.5 | -3.0 |
| Current account balance/GDP | -5.9 | -12.5 | -10.4 | -4.6 | -6.1 |
| Net FDI/GDP [neg. sign = inflows] | -6.1 | -3.6 | -5.0 | -7.2 | -4.6 |
| External debt/GDP | 107.9 | 131.7 | 118.4 | 95.5 | n.a. |
| Gross reserves/GDP | 20.1 | 24.7 | 22.9 | 19.9 | n.a. |
| Credit to private sector/GDP | 61.7 | 74.6 | 69.2 | 60.0 | n.a. |

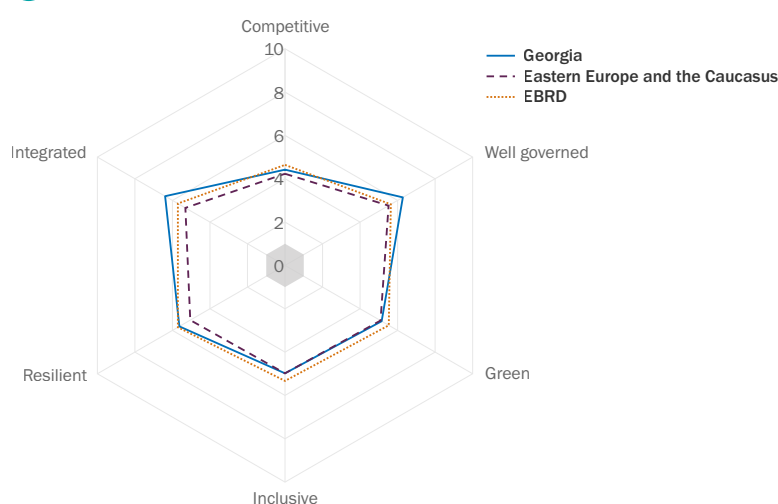
Macroeconomic developments and policy response

Economic growth has started to moderate from very high levels. After two years of double-digit growth, gross domestic product (GDP) grew by 7.6 per cent year on year in the first half of 2023, largely driven by the construction, trade, tourism and financial sectors. Transportation and energy supply, however, registered declines over the same period. Exports and imports of goods increased 19.4 and 24.3 per cent year on year, respectively, moderating after the extraordinary growth achieved last year. Income generated by foreign travellers continued to soar, up 57.9 per cent on the year in the first half of 2023, exceeding levels in the pre-pandemic period. The growth in tourism has included many visitors from the EU, Israel and neighbouring countries, suggesting the full recovery of this important industry. Growth in net money inflows continued, at 34.7 per cent year on year in the first half of 2023, helping to cover a significant part of the trade deficit and bring down the current-account gap. These trends lifted foreign reserves to US\$ 5.4 billion (around €4.9 billion) in July 2023, covering 4.2 months of imports, and enabled the Georgian lari to remain broadly stable after strong appreciation in 2022.

Inflation has fallen below target. After two years of being well over the central bank's target of 3 per cent, annual inflation slowed to 0.7 per cent in September 2023 on the back of tight monetary policy, lower commodity prices and a stronger domestic currency. Fiscal policy also contributed, with a budget surplus in the first half of the year as a result of buoyant revenues. The National Bank of Georgia responded to the disinflation with a 50 basis-point cut in its policy rate in May 2023 and further 25 basis-point cuts in August and September to 10 per cent. The central bank remains cautious amid strong domestic demand and the persistently high level of cash inflows from migrants.

Robust growth is likely to continue in the short term. GDP growth is forecast to moderate to 6 per cent in 2023 and 4.5 per cent in 2024. Geopolitical uncertainty in the region remains the main downward risk to the forecast. The possibility of obtaining EU candidate status, in contrast, could give new impetus to growth-conducive reforms and promote economic stability.

Assessment of transition qualities (1-10)



Structural reform developments

Efforts have been made to implement the requirements for gaining EU candidate status. In the past year, the authorities achieved progress on the 12 priorities set out by the EC in 2022 as conditions for granting Georgia candidate status for EU membership. As a result, in November 2023 the EC recommended that the European Council grant Georgia the status of candidate country once these 12 priorities are fully addressed.

Parliament has rejected the draft law on de-oligarchisation, acknowledging the need for a systemic approach. Parliament halted the legislative process to regulate de-oligarchisation with a specific law, accepting the opinion requested from the Venice Commission, the Council of Europe's body of constitutional experts. Instead, Georgia's EU Integration Commission, led by the prime minister, adopted an action plan for eliminating the excessive influence of vested interests in economic, political and public life, which follows the Venice Commission's proposal for a holistic set of measures. The action plan includes amendments to the legislation in all areas identified by the Venice Commission. Although this is a move in the right direction, the action plan has not yet been implemented.

Measures promoting the fight against corruption progressed, but fell short of fully meeting the EC's recommendations. The Anti-Corruption Bureau of Georgia was established as a legal entity following a vote in parliament in November 2022. The entity has a mandate to promote the fight against corruption and develop relevant proposals for the prevention, detection and suppression of conflicts of interest in public institutions. However, the law does not grant the Anti-Corruption Bureau investigative powers. In an additional setback, the government recently decided to withdraw from the monitoring of the Organization for Economic Co-operation and Development Anti-Corruption Network for Eastern Europe and Central Asia (OECD/ACN), raising concerns about the country's commitment to anti-corruption reforms.

Energy links with neighbouring countries are being developed. In December 2022 the authorities signed a memorandum of understanding for new energy interconnections with European countries through an electric cable under the Black Sea, which will improve connectivity and energy security. The agreement on a feasibility study for a 500 kV Black Sea electric cable project connecting with Georgia and Azerbaijan with Romania and Hungary is an important step forward in transforming Georgia into an electricity hub and integrating the country into the EU's internal electricity market. A parallel digital data cable connecting Georgia with European countries is part of the same project.

Georgia has delayed the opening of its electricity market. In June 2023 the Georgian government decided to postpone the opening of the electricity market, originally scheduled for 1 July, by one year. The last-minute postponement raised uncertainty among market participants and investors. Establishing a fully functioning and liquid domestic electricity market remains a key prerequisite to Georgia's continuing integration with the European energy sector.

Some progress has been made in the field of environment and climate change regulation. The central bank has published a Sustainable Finance Taxonomy that establishes a system for classifying economic activities in accordance with their social, green and sustainable status. This forms the basis for banks' loan classification, and reporting and measuring their impact against climate and social goals. The government has also approved a new plan for ambient air quality management of central Georgia (which includes two of the country's regions) for 2023-25 that aims to reduce air pollution, assess the impact of air pollution on human health and raise public awareness of its importance. Georgian State Electrosystem has started to issue certificates of origin for electricity produced from renewable energy sources, allowing consumers to choose the origin of their energy.

Digital upskilling has advanced. In July 2023 Georgia's Innovation and Technology Agency, supported by the EU, launched an information technology (IT) ecosystem, which aims to provide training to more than 1,300 Georgian citizens in high-demand digital professions, with a special emphasis on women's participation in the IT industry.

The authorities are taking concrete steps to improve connectivity. In August 2023 the government approved the National Transport and Logistics Strategy 2023-30 and associated Action Plan for 2023-24. The main goal of the strategy is to establish the country as a transportation and logistics hub by implementing EU directives in this area, digitalising the transport and logistics sectors, and attracting investments in road infrastructure and high-speed railway connections with neighbouring countries.