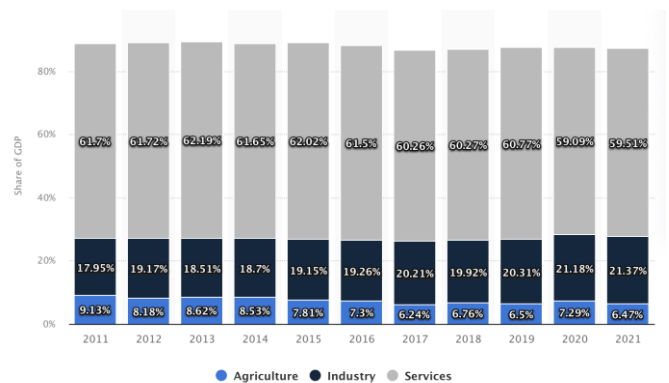


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Introduction

During the pandemic era, Georgia's economic development has largely declined due to its heavy dependence on tertiary sectors, including tourism and trade. This has led the country to various issues such as job and income losses, fiscal deficits, and reduction of Foreign Direct Investment (FDI). As a result of the pandemic, according to recent data from Our World in Data, the share of the population below the international poverty line has increased by 1.2 percent, and the number of employed people has decreased by 76,000 from 2019 to 2021.



Distribution of GDP across Georgian economic sectors

Georgia's economy plays an important role in international markets and trade systems. Located at the intersection of Asia and Europe, the nation significantly contributes to imports and exports between central Asia and Europe, serving as the hub of trade routes. In addition, Georgia is involved in the new Black Sea Electricity Cable project, which connects electrical systems throughout the European nations and the Caucasus. This not only promotes greener energy throughout the region but also brings enormous economic benefits to Georgia as the project may help the nation become a hub to integrate the European Union's electrical market. Therefore, in order to maintain sustainable economy and trade systems throughout the continent, domestic economic crises must be solved urgently.

Background

Since its independence from the Soviet Union in 1991, Georgia has been making significant progress in economic development, recording an average Gross Domestic Product (GDP) annual growth rate of 5.36 percent from 2004 to 2023. However, the outburst of Covid-19 impacted Georgia's economy in diverse ways. GDP growth dropped by 94.4 percent from the first half of 2019 to the first half of 2020



mainly because Georgia's major economic sector of tourism has been severely restricted by the lockdowns and quarantines. Incomes of interconnected enterprises within the country are reduced due to restrictions on movements and the closure of borders between countries. The employment rate decreased by approximately 3 percent within one year until the first half of 2020 in almost all economic sectors.



Holy Trinity Cathedral of Tbilisi, tourism attraction in Georgia

In succession to the global pandemic, Russia's invasion of Ukraine further affected the nation's economy as the war impacted the global supply chain. Georgia has been highly dependent on Russia in terms of energy imports, but oil and food prices have increased during the war, fostering the highly increasing inflation rate of the nation. The government has maintained a neutral stance on the war and kept trading with both Russia and Ukraine. Still, international sanctions had impacts as some Georgian population strongly support Ukraine, and the nation has a close relationship with the countries that are against the decision made by Russia. Consequently, even though the war has not significantly disturbed Georgian economic growth, it greatly contributed to the high inflation rate in Georgia that lasts until the present day.

Even though Georgia has experienced an economic crisis due to the Covid-19 pandemic and the Russia-Ukraine War, the nation, indeed, demonstrated a rapid recovery back to the original economic development rate of the pre-pandemic period. The nation has once again experienced a reduction in tourism, remittances, and trade with Russia, and oil and food prices suddenly elevated at the beginning of the conflict. Despite the fact that the war has slowed down economic development, Georgia has presented a strong growth of around 10 percent in 2022. This implies that Georgia's economy is becoming more resilient and independent of external revenues.

Nevertheless, some of the existing occupations, particularly agricultural industries, in Georgia still lack productivity and contribute to the country's total GDP with a relatively minor proportion. Poor learning and insufficient skills also prevent citizens from private economic sector growth. If the nation's economy does not become vulnerable to external factors and dependent upon domestic economic revenues, potential tensions in the future resulting from international crises could be avoided.

Problems Raised

High dollarization and inflation



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High dollarization is rooted in weak economic fundamentals, such as volatile inflation and a weak monetary policy framework, which further weakens the efficiency of policy and limits monetary policy transmission. A vicious cycle of an unstable economy is created due to high dollarization and high inflation. Countries in the Caucasus and Central Asia, including Georgia, Kyrgyz Republic, Azerbaijan, Armenia, Kazakhstan, and Uzbekistan, have had an overall high level of dollarization for the past few decades. Recently, the rate of dollarization has slowly declined throughout the region, but Georgia still possesses the highest dollarization rate of over 60 percent.

Inflation, being one of the considerable factors for high dollarization in Georgia, has reached a rate of 11.9 percent in 2022, a 7 percent increase in the inflation rate compared to the pre-pandemic era. Greater demand for food and fuel trade due to the pandemic and the increasing inflow of migrants and money into the country because of the Russia-Ukraine war has fostered a sudden acceleration of inflation. The rise in the inflation rate has resulted in the erosion of purchasing power and impacted low-income households, contributing to the increase in the poverty rate. As economic growth is expected to ease from 10.1 percent in 2022 to 4.4 percent in 2023, the inflation rate is also expected to fall gradually, but uncertainty still remains high.

Low productivity and quality jobs

Considering that employment percentages in services and agriculture of total employment are both about 40 to 45 percent in the past few years, agricultural sectors display extremely low productivity since it takes up less than 10 percent of total GDP, while service sectors distribute about 60 percent of GDP. Productivity in agriculture appears low, as well, when compared to the industry sector accounting for nearly 20 percent of GDP with only about 15 percent of total employment. Moreover, poor educational outcomes and lack of skills hinder the private economic sector to grow. Due to such poor labor conditions and the growing cost of living, increasingly many people decide to emigrate from Georgia, which creates a vicious cycle of lack of labor forces and low-quality jobs. The promotion of effective productivity is essential to become less vulnerable to possible external shocks in the future, and improved quality of jobs is necessary to prevent further labor losses.

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.8	10.5	10.1	4.4	5.0	5.0
Private Consumption	8.8	8.7	-1.8	2.0	2.5	3.0
Government Consumption	7.1	7.7	0.7	9.8	4.9	4.8
Gross Fixed Capital Investment	-16.5	-12.6	44.6	9.6	4.5	9.0
Exports, Goods and Services	-37.6	24.3	25.6	2.5	11.0	10.0
Imports, Goods and Services	-16.6	11.2	10.0	3.0	5.9	7.8
Real GDP growth, at constant factor prices	-6.6	10.4	10.1	4.4	5.0	5.0
Agriculture	8.1	0.1	2.0	4.0	4.0	2.0
Industry	-6.8	5.9	8.0	4.0	5.0	5.0
Services	-8.1	13.0	11.6	4.5	5.1	5.3
Inflation (Consumer Price Index)	5.2	9.6	11.9	6.6	3.5	3.0
Current Account Balance (% of GDP)	-12.5	-10.4	-3.0	-4.6	-5.1	-5.0
Net Foreign Direct Investment Inflow (% of GDP)	3.6	4.9	7.5	4.0	4.7	5.5
Fiscal Balance (% of GDP)	-9.8	-7.1	-3.5	-2.9	-2.3	-2.1
Revenues (% of GDP)	25.2	25.2	27.0	25.8	25.9	25.8
Debt (% of GDP)	60.1	49.6	41.3	38.7	38.0	37.3
Primary Balance (% of GDP)	-8.2	-5.7	-2.4	-1.6	-1.2	-1.1
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	5.8	5.5	4.4	4.0	3.5	3.2
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	21.4	19.1	15.9	14.9	13.6	12.6
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	58.3	55.4	52.2	49.7	47.0	44.4
GHG emissions growth (mtCO₂e)	-3.4	2.1	4.1	3.9	1.4	0.8
Energy related GHG emissions (% of total)	53.8	55.0	57.5	59.5	60.5	61.3

Table of Georgia's actual, estimated, and predicted data related to the economic situation



Emigration of young generations from Georgia

According to the National Statistics Office of Georgia, Georgia's net migration number reached -198,569 between 2012 and 2021. Nearly 200 thousand people have moved out of the nation over a decade at the time of continuous economic and political frustrations in Georgia. The fact that Georgian citizens can have visa-free travel to European Union (EU) countries has triggered the rate of emigration from the country. Since Georgia is experiencing an economic crisis where not many high-quality jobs are available within the country, and the price of goods is inflating, increasingly many young generations in Georgia emigrate or wish to emigrate from the country. This contributes to the previous problem of low productivity and quality jobs in the nation since educated and skilled citizens are more likely to move abroad to get a more stable job and life in terms of finance.



A village in Georgia's highest mountain regions

International Actions

Fostering Regional and Local Development (FRLD) in Georgia

The United Nations Development Programme (UNDP), in cooperation with the Swiss and Austrian governments providing funding, promotes economic development in Georgia. The Fostering Regional Local Development project in Georgia initiated the first phase of developing regional infrastructure between 2012 and 2017 and began its second phase of supporting local developments and encouraging civic engagements from 2018 to 2022.

During the given period, the UNDP and two governments have achieved numerous accomplishments. In 2015 and 2016, Over 30 local projects were implemented to encourage tourism development, public services, education, and other areas. Funding of 240 million USD was spent to improve social welfare and allow access for the 300,000 people living in Georgia's highest mountain regions in 2019. About 50 local initiatives were introduced by civil society organizations and businesses with the assistance of USD 711,500, benefitting over 400 enterprises and 8150 people. Besides the ones stated above, the FRLD project has been greatly involved in improving the economic situation in Georgia.

Free Trade Agreement (FTA)



Free Trade agreements with the European Union and Commonwealth of Independent States (CIS) countries allowed Georgia to increase the country's income by fostering exports to and imports from the global market. In addition, the agreements helped reduce the restrictions while trading internationally and accessing the market systems more easily. Georgia was able to join the Deep and Comprehensive Free Trade Area by signing the Association Agreement with the EU in 2014, which opened opportunities for economic development with the EU through political and economic integration. Georgia has largely benefitted from this agreement as the EU contributed to over 30 percent of Georgia's total trade and increased the attractiveness of Georgia for foreign investments. The CIS Free Trade Agreement also provides free movement of goods with CIS countries with reduced restrictions and little export and import customs duties. This once again stimulated the economic growth in Georgia by allowing more trade with other countries.

Foreign Direct Investment (FDI) in Georgia

According to United Nations Conference on Trade and Development, Georgia's Foreign Direct Investment inflows are estimated to reach USD 19.3 billion in total, an increase of USD 1.15 billion compared to the previous year. Although FDI was severely affected by the pandemic, it has gained progression at a rapid rate again. The natural resource in Georgia is the main sector for FDI, as 30 percent of inflows are associated with extractive industries. Until now, EU and CIS countries have been largely involved in FDI, but the nation is slowly opening to Asian investment as well. The greater foreign investment market led to stronger economic growth and greater financial inflows, attributing to the development of the Georgian economy.



Export of Georgian wine to Russia

Key Players

Russia

Russia remains a major economic revenue to Georgia even after the invasion of Ukraine; indeed, Georgia's dependence on Russia has increased significantly in 2022. Over the period from the beginning of the war until after ten months, trade with Russia increased by 54.4 percent. The same trend continued in 2023 as trade with Russia increased by 51.4 percent in the first four months. Individually looking at exports of products, Russia receives 67 percent of wine exports, 57 percent of mineral waters, and 53 percent of ferroalloys, all of which contribute more than half to Russia. Fossil fuel imports from Russia to



Georgia increased sharply as well. In addition, people have not only traveled to but also started to migrate to Georgia due to the conflict, numbering over 56 thousand people moving to Georgia. In terms of actual numerical finance, 4 billion 372 million dollars have transferred to Georgia in 2022, two billion dollars more than in 2021.



Agriculture in Georgia

This situation can be seen as an opportunity for Georgia, but higher risks are presented in a relationship of high dependence. The sharp increase in revenue contributes to the high inflation of the country, which indicates an unstable economic status. Moreover, if the nation is overly reliant upon another, higher risks and losses can result in the situation of the sudden absence of the supplier for whatever reasons.

United Nations Development Programme (UNDP)

The UNDP is the United Nations' lead agency on international development to eliminate poverty and inequality around the world. The organization has been working to improve Georgia's economic situation even before the Covid-19 pandemic broke out through a project called "Fostering Regional and Local Development in Georgia" since 2012. With significant progressions made for several years, the UNDP has observed positive local economic development in Georgia, such as higher engagement of citizens, more public and private economic enterprises, and advanced equipment in services.

International Monetary Fund (IMF)

International Monetary Fund concentrated on strengthening macroeconomic stability, maintaining policies to decrease inflation, and rebuilding structural reforms to foster more job opportunities in Georgia. The organization provided immediate funds of approximately 40 million USD and promised total funds of 289 million USD, which assisted in narrowing the fiscal deficits and decelerating the inflation rate in Georgia. With the support of the IMF, Georgia was able to achieve robust economic growth and quick recovery from numerous crises by recovering tourism revenues, gaining financial inflows, and accepting migrations derived from the Russia-Ukraine War.

Possible Solutions

Improved educational outcome



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Most students in Georgia complete compulsory primary education, but many drop out of school during secondary education. As a result, learning outcome remains relatively low and poor compared to other European nations. The government should ensure quality education of the population to improve the overall quality of available jobs and prevent population departure from the country due to low productivity and quality occupations. Educational improvements can be fulfilled by enhancing teacher



Education in Georgia

training through increasing salaries and providing opportunities to learn from more developed countries or developing school curriculum so that students can effectively obtain more necessary knowledge. Furthermore, since many teenagers drop out of school due to financial issues, the government can seek ways to support the households of the young generations fully, such as ensuring the basic necessities of house, clothes, and food.

Sufficient financial support

As shown by the consequences of the FRLD, funding promotes local economic development and improvement in the standards of living. Cooperation with governmental and non-governmental organizations is beneficial to initiate projects to reduce unemployment and poverty rates and encourage private enterprises throughout the nation. Sufficient finance allows the country to develop economically with more advanced technology and people to work in quality jobs. Georgia has a great economic opportunity and potential to grow, so it is worth it for other countries to provide financial assistance to Georgia. This can be done by receiving financial aid from More Economically Developed Countries by proposing a new program or a project.

Tighter monetary and fiscal policies

The government needs to strictly regulate policies to ease the inflation rate, reduce the unemployment rate and stabilize the fluctuating economy. Monetary policies are able to moderate inflations by reducing the supply of money and raising interest rates. Fiscal policies determine the use of governmental spending and taxation. By controlling at the governmental level, robust, sustainable economic development could be established, and poverty rates could be reduced. These types of policies were implemented in Georgia years ago, but a tighter policy framework is needed to accelerate the rate of stabilization of the economy.



Glossary

Economic Sectors

Economic sectors indicate how a country's economy is distributed based on the types of economic activities, which are classified into three major ones: primary, secondary, and tertiary sectors. In relation to the issue, the tertiary sector, or service sector, is the major distribution in Georgia's economy since tourism and trade are the two predominant distributions of revenues, reaching approximately 60% of the total GDP.

Fiscal deficit

A fiscal deficit occurs when the government has more expenditures (spending) than revenues (income) in a given year. This may lead the government to borrow more finances.

Gross Domestic Product (GDP)

GDP is the total market value of goods and services produced in a specific period by a country. It shows the size of the economy of a country and how a country performs economically.

Dollarization

Dollarization, or currency substitution, is the process of recognizing the US dollar as a medium of exchange in place of the domestic currency.

Inflation

Inflation is the rate of increase in prices of goods and services over a given period of time. While moderate inflation can mean stable economic growth, high inflation indicates an overheated, unstable economy where the purchasing power falls but prices rise.

Net migration

Net migration indicates the total number of movements of people moving in and out of the country. It is calculated by subtracting the number of emigrants from the number of immigrants.



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