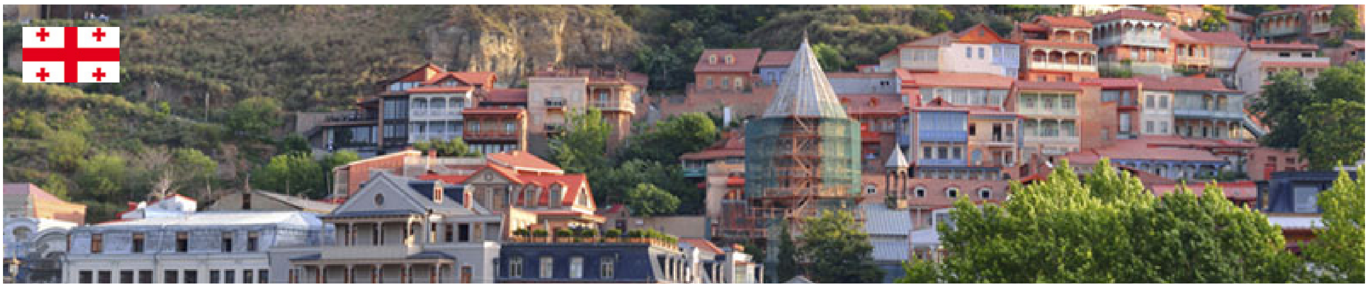

Georgia

Highlights

- **The economy continues to grow rapidly.** Strong domestic demand, a buoyant tourism sector and a geographically diversified export structure are supporting robust gross domestic product (GDP) growth amid low inflation, a sound fiscal position and a stable exchange rate.
- **The "de-oligarchisation" process has been kick-started.** The authorities accepted suggestions by the Venice Commission and European Commission and revised their action plan accordingly.
- **Progress on European Union (EU) membership has stalled.** The European Council granted Georgia candidate status for EU membership, but parliament's adoption of the Law on Transparency of Foreign Influence has halted the accession process.

Key priorities for 2025

- **The government should take the necessary steps to open the EU accession process.** The authorities should take the relevant steps set out in the European Commission recommendations from November 2023 and address concerns over the Law on Transparency of Foreign Influence.
- **Concerted efforts to "de-oligarchise" should be expedited.** The authorities need to make more effort to implement the action plan for removing the influence of oligarchs, in compliance with the recommendations of the Venice Commission.
- **Further reform of state-owned enterprises (SOEs) is needed.** Implementation of the best international corporate governance standards in SOEs would set appropriate standards for the business sector, leading to an improved business environment and higher economic growth potential.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-6.3	10.6	11.0	7.5	6.5
Inflation (average)	5.2	9.6	11.9	2.5	2.6
Government balance/GDP	-9.2	-6.0	-2.6	-2.3	-2.5
Current account balance/GDP	-12.4	-10.3	-4.5	-4.3	-5.8
Net FDI/GDP [neg. sign = inflows]	-3.5	-4.9	-7.1	-4.3	-5.0
External debt/GDP	131.2	116.9	95.1	80.2	na
Gross reserves/GDP	23.1	20.0	17.6	14.9	na
Credit to private sector/GDP	79.0	72.9	63.1	66.6	na

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Macroeconomic developments and policy response

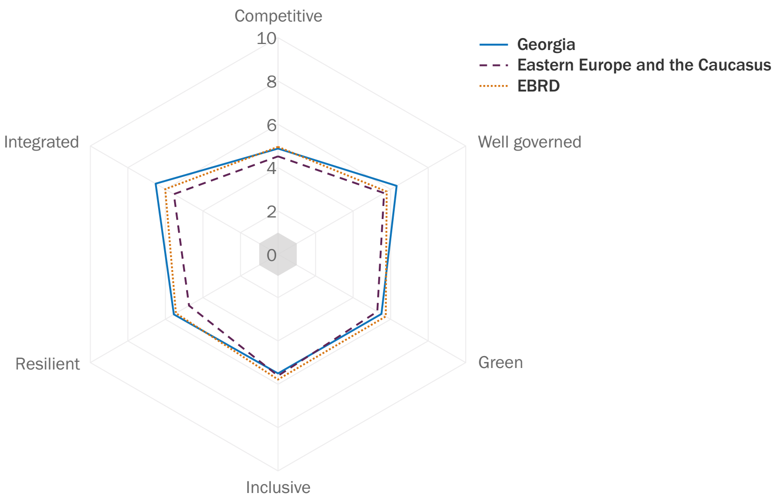
Economic growth has remained robust. Real GDP growth stood at 9.1 per cent year on year in the first half of 2024, supported mainly by the financial, information and communications technology (ICT), construction and transport sectors. However, growth in all of these sectors slowed as war-related financial inflows moderated amid a decline in migration from Russia. Consequently, the contribution of net exports of services to growth dropped, leaving domestic consumption the principal growth driver. During the same period, net money transfers to Georgia declined 33 per cent year on year because of the decrease in money transfers from Russia. Tourism revenues remained robust, but growth moderated as the number of tourists from Russia fell by 21 per cent on the year. However, the total number of tourists rose marginally in the first half of 2024 due to an increase in arrivals from EU countries and Türkiye. Exports of goods decreased by 6.8 per cent year on year in the first half of 2024, while imports increased by 3.6 per cent. The exchange rate of the Georgian lari to the US dollar remained broadly stable and occasional market pressures induced by political tensions were successfully managed by the National Bank of Georgia (NBG) with timely foreign-exchange interventions. However, foreign reserves fell by 11 per cent from their peak in August 2023 to US$ 4.8 billion (€4.4 billion) in August 2024, covering 4.1 months of imports.

Inflation has stabilised below the NBG's target level. In October 2024, annual inflation stood at 0.3 per cent, mainly due to the downward trajectory of food and energy prices, and is below the central bank's target rate of 3 per cent. The NBG has cut the policy rate by 150 basis points in 2024, bringing it to 8 per cent in May, and has kept it unchanged since then. With a falling policy rate and easing credit conditions, both households and corporate lending have risen, by 18 per cent and 23 per cent year on year, respectively, as at August 2024. Mortgage lending and corporate loans have picked up sharply, highlighting the need for the NBG's cautious approach to further rate cuts.

The fiscal position remains sound due to strong revenues and a moderate debt level. In the first half of 2024, government revenues rose by 18 per cent year on year, supported by robust growth in profit and income taxes, while government expenditure increased 16 per cent. The two largest spending items, social spending (39 per cent of the total) and public-sector wages (15 per cent), increased most, by 16 and 18 per cent, respectively, due to an increase in pensions and public-sector salaries. The budget, however, showed a surplus of 0.6 per cent of GDP, in line with the pattern of the last two years, when it was broadly balanced in the first half of the year and then rose to 2.5 per cent at the end of the year. The authorities announced their plan to maintain the fiscal deficit at 2.5 per cent of GDP in 2024 as well. The level of public debt stood at 39 per cent of GDP in 2023 and is likely to remain at a similar level in 2024.

Rapid growth is likely to continue in the short term. Although the favourable external factors related to Russian migration have dissipated, domestic consumption remains elevated and private-sector credit growth has soared. Therefore, we forecast real GDP growth of 6.5 per cent in 2024, moderating to 4.6 per cent in 2025. The main risks arise from domestic political polarisation and geopolitical developments in the broader region.

Assessment of transition qualities (1-10)



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Structural reform developments

Progress on EU accession has stalled. Georgia was granted candidate status for EU membership in December 2023. The European Council, recognising the reform progress in the economy, public administration and public procurement, asked for fulfilment of the remaining conditions specified in the European Commission's report. It expected the Georgian authorities to implement necessary measures for the proper functioning of democratic institutions and reforms related to justice and the rule of law in order to advance to the next step towards EU accession. In June 2024, the European Council expressed concern about the adoption by parliament in May 2024 of the Law on Transparency of Foreign Influence, which has led to a de facto halt to the accession process. This bill requires that media and non-profit organisations receiving more than 20 per cent of their funding from abroad officially register as organisations pursuing the interests of a foreign power. Those organisations that do not comply with the law are subject to fines of up to GEL 25,000 (€8,250). The bill authorises the Ministry of Justice to monitor the activities of civil rights organisations, media and non-governmental organisations (NGOs), including think tanks, and to share sensitive information. The Venice Commission announced that the law would suppress the freedom of assembly and expression and the right to engage in public affairs, urging the Georgian authorities to revoke the adopted bill.

The action plan on "de-oligarchisation" has undergone revision after its submission to the Venice Commission. The authorities endorsed the suggested revision by the Venice Commission and, in October 2023, updated the action plan, integrating recommendations made by the European Commission to accelerate the process. Later, they added more precise timelines for key milestones in the action plan. As a result, in early 2024, the Anti-Corruption Bureau announced a list of 300 highly ranked government officials whose asset declarations will be reviewed, with the support of an independent commission consisting of representatives of NGOs and academia.

Innovative financial tools are being implemented to improve the quality of infrastructure. In July 2024, Georgia Global Utilities (GGU), the country's largest privately owned water supply and wastewater utility company, issued a US$ 300 million (€270 million) green bond to modernise Georgia's outdated water supply infrastructure and expand the water supply network to areas surrounding the capital, Tbilisi. GGU is planning to use the proceeds of its green bond issuance to finance capital expenditure programmes, including a reduction in water losses and improved energy efficiency. International financial institutions, including the International Finance Corporation, Asian Development Bank and European Bank for Reconstruction and Development, invested a total of US$ 120 million (€109 million) in the bond.

The authorities are strengthening legislation to protect intellectual property rights. The new intellectual property protection programme, co-financed by the European Commission and the European Union Intellectual Property Office to the tune of €4 million, was launched in March 2024 to support the development of a consistent legal framework to enforce intellectual property rights. The programme aligns with EU accession requirements to build a more favourable business environment, thus attracting foreign investment and encouraging innovation. •