While moderating in 2023 as tepid global demand reined in manufacturing and mining, growth remained strong with gains in construction and services. Inflation fell sharply as global prices eased and the Georgian lari appreciated. Weak external demand is projected to moderate growth further in 2024 before stronger tourism revives it in 2025. Inflation should accelerate slightly, reflecting somewhat higher commodity prices and some relaxation of monetary policy. Taking greater account of population aging is needed for more inclusive growth.

**Economic Performance**

**Growth moderated from 10.4% in 2022 to an estimated 7.0% in 2023 with slower expansion in industry but remained strong and broadly based.**

On the supply side, growth in industry dropped from 15.2% in 2022 to 3.4%, reflecting slower expansion in manufacturing and mining, although growth in construction continued to soar from 15.0% to 16.2% from higher investment (Figure 2.3.1). Expansion in agriculture increased slightly from 0.5% in 2022 to 0.8% with higher fruit production. Growth in services slowed from 9.7% in 2022 to 8.8%, as expansion moderated to 9.9% in wholesale and retail trade and 7.7% in accommodation and food services, despite continued growth in tourism and rapid gains in information and communication at 18.0% and education at 16.9%.

**Growth on the demand side reflected higher investment and slower gains in consumption.**

Growth in private investment accelerated from 11.6% in 2022 to 12.7% in 2023 as investments in residential and retail construction and other sectors increased. Expansion in private consumption slowed from 5.1% in 2022 to 4.5% in 2023, reflecting the departure of some Russian migrants who had arrived immediately following the Russian invasion of Ukraine. Public consumption also expanded by 4.5%. Growth in net exports declined from 23.0% in 2022 to 5.7% as a stronger Georgian lari supported import growth.

**Inflation plunged from 11.9% in 2022 to 2.5% in 2023 as global prices moderated and the lari appreciated.** The sharp decline below the central bank’s target of 3.0% reflected drops in inflation from 17.9% to 3.9% for food, from 8.9% to 4.0% for other goods, and from 6.8% to 0.5% for services (Figure 2.3.2). Core inflation—including volatile food, energy, and transport prices—fell from 6.3% in 2022 to 3.9%. The lari appreciated, both in nominal terms by 23.6% and in real effective terms by 11.8%, on sizeable

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foreign inflows, tempering inflation (Figure 2.3.3). As core service and commodity prices flattened, the National Bank of Georgia, the central bank, cut the policy rate by a cumulative 150 basis points to 9.5% in 2023.

**Improved revenue performance trimmed the fiscal deficit from 2.6% in 2022 to 2.4% in 2023.**

This occurred despite higher outlays for civil servant salaries and sustained capital spending. High import tax collections helped increase total revenue by 14.2% in 2023, from 26.8% of GDP in 2022 to 27.7% (Figure 2.3.4). Total expenditure grew by 12.9%, rising from 29.4% of GDP in 2022 to 30.1%, reflecting a 10% increase in the public sector wage bill and continued rapid growth in capital expenditure, which reached 7.0% of GDP. Prudent fiscal policy and currency appreciation reduced public debt from 39.6% of GDP at the end of 2022 to 38.3% a year later (Figure 2.3.5).

**The central bank pursued price stability as falling inflation justified a cut in the policy rate.** Expansion in broad money supply accelerated from 11.6% in 2022 to 14.5%, with faster credit growth (Figure 2.3.6). Deposit dollarization declined from 53.0% in 2022 to 47.0%, while credit dollarization remained little changed at 44.1% (Figure 2.3.7). The average interest rate on all deposits decreased slightly to 7.6%, and lending rates averaged 12.9%, little changed from 2022. Banks reported high capitalization rates and ample liquidity, for significant loss-absorption capacity, and strong profitability with returns on assets at 4.2% and on equity at 26.5%—both figures above those reported in 2022. The share of nonperforming loans in total loans remained low at 1.5%.
The current account deficit narrowed from 4.5% of GDP in 2022 to 4.1% in 2023 on strong foreign inflows and service surpluses (Figure 2.3.8). Strong domestic demand and an appreciating lari helped boost merchandise imports by 13.5%, while merchandise exports expanded by 12.8% as higher exports to the subregion offset much lower exports of ferroalloys, ores, and concentrates to the People’s Republic of China. In addition, the reexport of vehicles doubled, reaching 34.9% of all exports and raising vehicle exports and imports alike. Strong revenue from tourism and information technology helped boost service exports by 33.3%, with tourism revenue rising by 17.3% to a record $4.1 billion in 2023 and information-related services nearly doubling. The annual inflow of money transfers decreased by 5.0% to $4.1 billion from an all-time high in 2022. Gross international reserves rose from $4.9 billion at the end of 2022 to more than $5.0 billion a year later, or cover for 5.4 months of imports. Foreign direct investment decreased by 24.0% to $1.6 billion in 2023.

Economic Prospects

Growth is projected to moderate further to 5.0% in 2024 with slowing external demand and decreased expansion of services. It will then recover to 5.5% in 2025 on continued gains in tourism and investment (Figure 2.3.9 and Table 2.3.1). On the supply side, growth in services is projected to slow to 5.5% in 2024 because of geopolitical tensions in the region before rising to 6.3% in 2025 on further growth in tourism. Expansion in industry is projected to accelerate to 4.2% in 2024 and 4.9% in 2025, reflecting higher output of ferroalloys. Growth in agriculture is projected to slow to 0.5% in 2024 because of continued weakness in supply chains, before rising to 1.1% with higher government support for agricultural credit and insurance and expanded investment in new technologies. The European Union’s December 2023 decision to make Georgia a candidate for membership should help galvanize reforms supported by EU-funded investments.

On the demand side, growth in private consumption and investment is projected to slow while remaining the main source of expansion. Private consumption
Growth will slow to more typical levels during 2024–2025.

Inflation will accelerate during 2024–2025 but remain relatively low.

Fiscal policy is expected to show little change over the next 2 years. The fiscal deficit is projected to satisfy the government’s fiscal rule by remaining below 3% of GDP in each year, reflecting further improvements in revenue administration, rationalization of tax expenditures, and sound management of public debt. Increased tax collections are projected to raise total revenue to 28.0% of GDP in 2024 and 28.5% in 2025. Total expenditure is forecast to rise slightly, to 30.5% of GDP in 2024 and 31.0% in 2025, as capital spending is maintained and infrastructure outlays remain at about 7.0% of GDP.

The current account deficit is projected to widen in 2024 and 2025. Moderating external demand will trim export growth and widen the merchandise trade deficit despite slower growth in imports. Growth in merchandise exports is projected slowing to 5.7% in 2024, as further growth deceleration in the People’s Republic of China and the euro area likely curbs external demand, and then grow by 10.4% in 2025 as advanced economies relax macroeconomic policies to foster growth. Imports are also expected to expand at a slower rate, by 6.1% in 2024, with slower domestic growth and as vehicle reexports moderate, before rising by 11.1% in 2025 with higher growth. Services should rise, albeit more slowly by 3.6% in 2024 and 6.6% in 2025, with continued but more moderate growth in tourism, transit trade, and transportation services. Money transfers are forecast to stabilize at around $3 billion over the next 2 years as external inflows associated with Russian migrants fade and reverse, which could put downward pressure on the lari. Gross reserves are projected to decline to $4.5 billion in 2024 because of the wider current account deficit before rebounding to $5.0 billion in 2025 on higher foreign inflows (Figure 2.3.11). With

### Table 2.3.1 Selected Economic Indicators, %

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>10.4</td>
<td>7.0</td>
<td>5.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Inflation</td>
<td>11.9</td>
<td>2.5</td>
<td>3.5</td>
<td>4.0</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.

Source: Asian Development Bank estimates.

Inflation is projected to accelerate slightly to 3.5% in 2024 with an expected relaxation of monetary policy. It will accelerate further to 4.0% in 2025 as commodity prices rise moderately (Figure 2.3.10). Broad money growth is projected to decline slightly to 14.0% in 2024 and then rise to 15.0% in 2025 as credit growth accelerates. The 2023 appreciation of the lari should lower inflationary expectations and offset upward pressure on prices from domestic demand spurred by tight labor market conditions that support wage growth.
Addressing population aging could thus reduce a looming health care and training programs for elderly workers because of higher outlays for pensions and social welfare and undermine the sustainability of public finances. Georgia’s old-age dependency ratio from the current two to eight percent in five years. This would more than double aged six zero years and older expected to rise from two percent in Asia and the Pacific project show the share of Georgians for social workers and others who address the social needs of the elderly.

Policy Challenge—Mainstreaming Aging in Development Planning

Georgia’s population is aging because of below-replacement fertility, improving life expectancy, and outmigration of working-age people. Data from the United Nations Economic and Social Commission for Asia and the Pacific project show the share of Georgians aged 60 years and older expected to rise from 20.7% in 2020 to 28.1% in 2050. This would more than double Georgia’s old-age dependency ratio from the current 25.9% and undermine the sustainability of public finances because of higher outlays for pensions and social welfare, health care, and training programs for elderly workers. Addressing population aging could thus reduce a looming burden on public finances.

The government has already taken some steps to address the welfare costs associated with aging. It has introduced a new, multi-pillar pension system and implemented various social programs to assist the poor and vulnerable, including subsistence farmers. The government has supported agriculture and pursued policies to diversify the economy. Further, it has supported flexible retirement policies enabling senior citizens to continue working beyond normal retirement age and promoted active aging programs that encourage seniors to remain active and engaged in their communities, thereby promoting their physical and mental health and well-being. However, more is needed to address the challenges associated with population aging.

The government needs to promote social inclusion of the elderly. While strengthening social protection programs, the government can facilitate creating new employment opportunities in the formal sector of the economy for those elderly interested and able to work. It can also enhance worker productivity through skill development and greater use of technology. Despite persistent labor shortages, a large gap remains between the labor force participation rates of men and women. Thus, introducing policies to encourage women to enter the labor force is critical. Exploring public–private partnerships in health care should also be prioritized. Ensuring the financial inclusion of the elderly, including their access to diversified financial instruments and capital markets, may also help. Rapid urbanization should not neglect accessible public infrastructure and services to accommodate the needs of the elderly. Finally, the authorities may consider expanding training for social workers and others who address the social needs of the elderly.