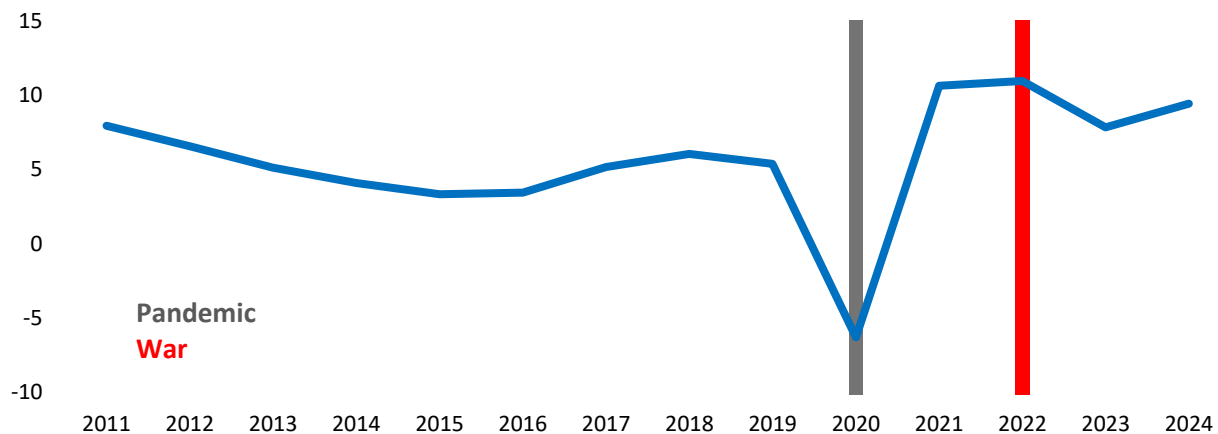


## Reasons Behind Georgia's Economic Growth in 2024

Egnate Shamugia<sup>1</sup>

The events and developments following the election period suggested the emergence of a potential political crisis. In this context, a segment of society anticipated at least a deceleration in the country's economic momentum. However, the reality diverged significantly from these expectations. By the end of last year, there were no apparent signs of an economic downturn. On the contrary, there was evidence of a notable acceleration in economic growth. Strong year-long growth indicators underscore this positive situation. While the gross domestic product (GDP) expanded by 7.8% in 2023, the economic growth rate increased further in 2024, reaching 9.4%.

**Graph 1:** Change in real GDP, %



Source: Geostat

The high rate of economic expansion has been a prominent feature of recent years. In the aftermath of the pandemic, the swift recovery of economic activity was soon followed by the broader geopolitical ramifications of the Russia-Ukraine war. One notable consequence was a wave of migration from Russia and increased financial inflows in remittances. These remittances played a significant role in stimulating domestic consumption<sup>2</sup> - one of the key drivers of economic growth. However, in 2024, this dynamic

<sup>1</sup> Research Institute Gnomon Wise, e-mail: [e.shamugia@ug.edu.ge](mailto:e.shamugia@ug.edu.ge)

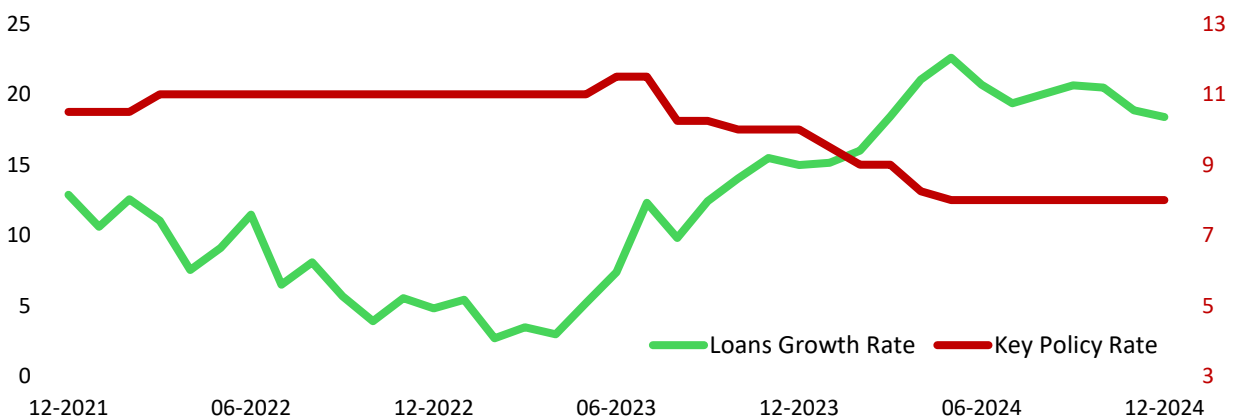
<sup>2</sup> Cazachevici, A., Havranek, T., & Horvath, R. (2020). Remittances and economic growth: A meta-analysis. *World Development*, 134, 105021.

began to shift. Remittances from Russia declined sharply, nearly reverting to pre-war levels, weakening one of the external sources that had supported domestic demand.

A second channel through which the war influenced economic growth was trade flows. In particular, following the imposition of several restrictions on direct trade with Russia, countries such as Georgia and a few Central Asian countries emerged as intermediaries, providing Western companies access to the Russian market. This shift was most visible in the surge of re-exports from Georgia to member states of the Eurasian Economic Union, particularly Kyrgyzstan and Kazakhstan. While these trade flows continued into the past year, they did so at reduced volumes.

Although the impact of the Russia-Ukraine war—previously a key driver of economic growth—diminished noticeably in 2024, the growth rate remained elevated. This sustained momentum was mainly attributable to monetary policy. The expansionary stance adopted in 2023 continued to stimulate the economy in 2024, primarily through increased lending activity<sup>3</sup>. While such policy easing tends to boost output in the short term, it also lays the groundwork for future inflationary pressures<sup>4</sup>. In 2024, the average annual growth in lending reached 19.3%, more than doubling the 8.9% recorded in 2023.

**Graph 2:** Dynamics of lending to the economy and monetary policy rate, %



Source: NBG

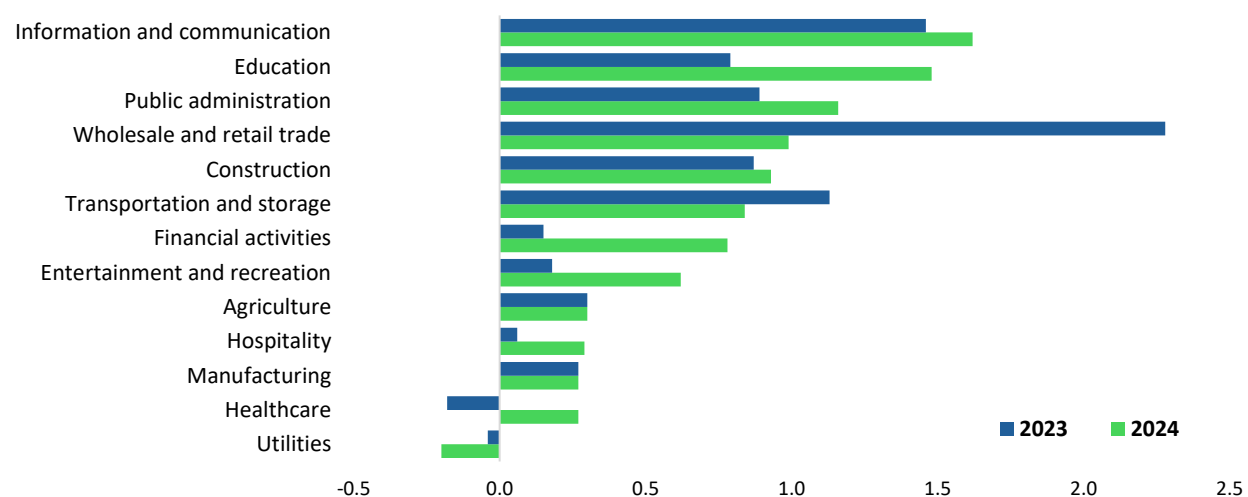
<sup>3</sup> Shamugia, E. (2024). High Economic Growth. In *Gnomon Wise*.

<https://gnomonwise.org/ge/publications/analytics/206> ; Shamugia, E. (2024) Pro-Inflationary Growth in the Caucasus Economy. In *Gnomon Wise*. <https://gnomonwise.org/ge/publications/analytics/233>

<sup>4</sup> Bernanke, B. S., & Gertler, M. (1995). Inside the black box: the credit channel of monetary policy transmission. *The Journal of Economic Perspectives/the Journal of Economic Perspectives*, 9(4), 27–48; <sup>4</sup> Bernanke, B. S., & Mihov, I. (1998). Measuring monetary policy. *the Quarterly Journal of Economics*, 113(3), 869–902.; Bullard, J. (1999). Testing Long-Run Monetary Neutrality Propositions: Lessons from the Recent Research. *Review*, 81(6).; Nogueira, R. P. (2009). Is monetary policy really neutral in the long-run? Evidence for some emerging and developed economies. *Economics Bulletin*, 29(3), 2432–2437

The impact of monetary policy across different sectors of the economy was uneven, leading to varied growth dynamics. In 2024, the sectoral contributions to overall economic growth diverged more markedly compared to 2023. This shift was particularly evident in the financial sector, whose performance is primarily driven by the activities of commercial banks. While the financial industry expanded by just 2.9% in 2023, it experienced a sharp acceleration in 2024, growing by 14.9%. As a result, its contribution to GDP growth increased significantly. In 2024, the financial sector accounted for 0.8 percentage points of the overall 9.4% economic expansion, up from just 0.2 percentage points the previous year.

**Graph 3:** Contribution to GDP growth, P.P.



Source: Geostat; Author's Calculation

The largest contribution to the 9.4% GDP growth in 2024—amounting to 1.6 percentage points—came from the information and communication sector, slightly up from 1.5 percentage points in 2023. This sector has demonstrated strong and sustained growth since the post-pandemic period, with momentum accelerating further during 2022–2023. Migration from Russia is one of the most notable drivers of this expansion. Following the onset of the war, a significant portion of incoming migrants were highly qualified professionals in information technology. Their integration into the labor market substantially boosted the sector's productive capacity, making it a prominent example of migration's positive impact on economic development<sup>5</sup>.

<sup>5</sup> Silagadze, G. (2023). The life of Russian immigrants in Georgia. In CRRC. [https://crrc.ge/wp-content/uploads/2024/02/ned-russians-report-v3\\_geo.pdf](https://crrc.ge/wp-content/uploads/2024/02/ned-russians-report-v3_geo.pdf)

The second-largest contributor to economic growth in 2024 was the education sector, where the role of public funding remains substantial and growing. The industry expanded by 29.1% in 2024 - up from 18% in 2023 - and accounted for 1.5 percentage points of the year's 9.4% GDP growth. This strong performance is primarily the result of sustained increases in government spending, with budgetary allocations rising by roughly one-quarter annually over the past two years. The third most significant contributor was the public administration sector, which includes both civil services and defense-related activities. This sector recorded 17.9% growth in 2024, contributing 1.2 percentage points to overall GDP expansion. Importantly, the accelerated expansion of bureaucratic services over the past two years has led to an increasing and influential share of public administration in the broader economic structure.

These developments point out that, despite the near-complete dissipation of the Russia-Ukraine war's economic impact and the political uncertainties following the election period, macroeconomic policy was the primary driver of robust growth in 2024. In particular, the central bank's continued implementation of expansionary monetary policy and a notable increase in government spending across some sectors sustained the economy's momentum. However, growth generated through such policy interventions tends to be short-lived and structurally vulnerable. In the absence of comprehensive structural reforms and the development of new, productivity-based growth drivers, the current pace of economic expansion is unlikely to be maintained over the medium to long term.