Economy of Georgia

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Geopolitical Framework of Georgia

Georgia is situated in one of the most important geopolitical region of the world, in the basic junction of the Great Silk Route, at the jointing of Europe, Asia, and Middle East (Figure 1). Historically, this region played an extremely significant role in development of civilization: through it passed a geographical and intellectual border between the West and the east, the Christian and the Islamic cultures.

![Figure 1: Georgia and its Neighbors](image)

Today, the region also is vital in, for instance, international energy projects and, also, for maintaining global security.

Territorial Administrative Structure of Georgia

Georgia is divided into 12 regions including the capital of the country – Tbilisi. Among them, Abkhazia and Adjara have a constitutional statute of Autonomous Republics (Figure 2).
Table 1 provides brief information on there regions.

**Table 1: Brief Characteristics of Georgia’s Regions**

<table>
<thead>
<tr>
<th>Region</th>
<th>Area, km²</th>
<th>Population 1000 men</th>
<th>Center</th>
<th>No of Districts</th>
<th>No of towns</th>
<th>No of settlements</th>
<th>No of villages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tbilisi</td>
<td>1420</td>
<td>1522</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abkhazia</td>
<td>8700</td>
<td>120</td>
<td>Sukhumi</td>
<td>8</td>
<td>9</td>
<td>5</td>
<td>512</td>
</tr>
<tr>
<td>Adjara</td>
<td>2880</td>
<td>270</td>
<td>Batumi</td>
<td>6</td>
<td>2</td>
<td>7</td>
<td>329</td>
</tr>
<tr>
<td>Guria</td>
<td>2000</td>
<td>125</td>
<td>Ozurgeti</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>186</td>
</tr>
<tr>
<td>Samegrelo &amp; Zemo Svaneti</td>
<td>7400</td>
<td>350</td>
<td>Zugdidi</td>
<td>8</td>
<td>9</td>
<td>1</td>
<td>490</td>
</tr>
<tr>
<td>Imereti</td>
<td>6600</td>
<td>650</td>
<td>Kutaisi</td>
<td>12</td>
<td>10</td>
<td>3</td>
<td>529</td>
</tr>
<tr>
<td>Racha-Lechku-Mi &amp; Kvemo Svaneti</td>
<td>4900</td>
<td>20</td>
<td>Ambrolauri</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>251</td>
</tr>
<tr>
<td>Shida Kartli</td>
<td>4800</td>
<td>200</td>
<td>Gori</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>366</td>
</tr>
<tr>
<td>Samtske-Javakheti</td>
<td>6400</td>
<td>180</td>
<td>Akhaltsikhe</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>254</td>
</tr>
<tr>
<td>Mtskheta-Mtianeti</td>
<td>6800</td>
<td>100</td>
<td>Mtskheta</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>582</td>
</tr>
<tr>
<td>Kvemo Kartli</td>
<td>6400</td>
<td>450</td>
<td>Rustavi</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>338</td>
</tr>
<tr>
<td>Kakheti</td>
<td>11400</td>
<td>379</td>
<td>Telavi</td>
<td>8</td>
<td>9</td>
<td></td>
<td>276</td>
</tr>
</tbody>
</table>
Demographic Features

There is an available statistics on demography since 1913\(^1\) (Figure 3). The sustainable growth of population till 1990 may be observed. In 1990-2009 population diminished by 1.11 million people (Figure 4).

![Population of Georgia in 1913-2009](image)

**Figure 3: Population of Georgia in 1913-2009**

![Population of Georgia in 1990-2008](image)

**Figure 4: Population of Georgia in 1990-2008**

It may be seen on Figure 5 that maximum emigration of population happened in 1993-1995. By 2007 outflow rather diminished but the Russia – Georgia war caused the second wave of people migration out of the country.

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Figure 5: Year-to-Year Change of Georgian Population in 1991-2008

Figure 6 compares ethnic composition of Georgian population according to 1979, 1989, and 2002 census data. Within this period percentage of Georgians has increased from 68.8 to 83.8% and that of Azeri – from 5.1 to 6.5%; percentage of all other ethnic groups diminished. This feature means that emigration mainly involved national minorities. However, the headcount of Georgians from 1989 to 2002 also decreased by 126.2 thousand people.

**Employment and Unemployment**

In 1990 unemployment in Georgia did not exceed 0.5% of economically active population. Collapse of the USSR, civil wars and the general structural crisis caused dramatic expansion of unemployment, which by 1992 embraced 45% of economically active population. Active macroeconomic actions resulted in sharp decrease of unemployment, which by 1995 fell down to 25%.

Figure 7 presents unemployment in Georgia in 1995-2002. It may be clearly seen that in 1995-2001 unemployment diminished from 25 to 11.1% of economically active population; in 2001-2004 it undulated from 11.5 to 12.6% whereas in 2004-2008 it has grown up to, in average, 13.7%. Thus, the Rose Revolution instead of the promised increase of employment by 1 million people led to just inverse result.

Figure 8 explores employment structure in Georgia in 1991-2008. Economic reform and introduction of Georgian Lari (GEL) sharply altered the structure of employment: just in 1995 number of self-employed people exceeded headcount of hired (contractually employed).

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Figure 6: Population Census Data, % of Total Population
In subsequent years self-employment was comparatively stable embracing about 1,200 thousand people whereas contractual employment started to decrease gradually and in recent years was as low as 600 thousand men.

Figure 9 displays share of employed population versus the total population headcount. The dramatic reduce of employment in 1991-1993 was followed by a boost in 1995-1999 related without any doubt to construction of Baku-Supsa (Western Route Energy Corridor – WREC) crude oil pipeline. The second employment increase occurred when Baku-Tbilisi-Ceyhan pipeline was being constructed. In recent years employment is very slowly but sustainable diminishing.
Figure 9: Percentage of Employment in 1991-2008

Figure 10 introduces the structure of employment according to economic sectors. It should be outlined that 53.4% are employed in agriculture (basically – self-employed), and this feature clearly outlines the poor state of the Georgian economy. For comparison, in the USA only about 7% of economically active population are farmers. At the same time, only 14.4% are employed in industry, construction, energetics, transport, and communications.

Figure 10: Structure of Employment by Economic Branches, Percent of Employed

Gross Domestic Product of Georgia

In 1979 the gross domestic product (GDP) of Georgia was equal to 15,852.7 million of rubles. Using the GDP deflator for the Soviet ruble, it could be computed that the 1979 Georgian GDP

corresponded to current US$ 25,568.87 million or, taking into account inflation rate of US Dollar\(^\text{10}\) – to 74,916.79 million of 2008 US dollars. In 2008 GDP of Georgia was US$ 12,793\(^\text{11}\) or 5.86 times less than in 1979.

Figure 11 demonstrates GDP of Georgia in 1990-2008. Within the Brezhnev’s stagnation period the gross domestic product diminished to US$ 7.74 billion and continued his declining course during the collapse of the USSR and the economic recession. Only starting from 1999 the GDP started to grow sustainably up.

![Figure 11: GDP of Georgia in 1990-2008](image)

Thus, at the first glance, everything is OK. Moreover, after the Rose Revolution certain analysts tried to prove that this revolution was a significant impact to the economic development of the country\(^\text{12}\). However, in reality the picture is not very promising.

Figure 12 displays GDP per capita in Georgia, Armenia and Azerbaijan, based on the cited World Bank country data. It may bee seen that this indicator was approximately the same in the three countries till 2004, and afterwards Georgia began to fall behind its neighbors. For explaining this fact let see Figure 13 where structure of GDP in the three countries is shown. It may be clearly seen that at the given stage the economic welfare of these countries in a great portion depends on development of industry: more industry is developed higher is GDP per capita.

Azerbaijan founded its economic development on oil industry. Armenia promoted mining of molybdenum, copper and gold. Georgia’s economy is quite eclectic: at the background of dramatic degradation of industry and agriculture (see below), the country is actively developing banking sector and other high technology services. And such actions are resulting in tragic stratification of population into the poor and the rich layers with gradual elimination of the medium income stratum\(^\text{13}\).

\(^{10}\) US Department of the Treasury. [http://www.ustreas.gov](http://www.ustreas.gov)


On the other hand, after the Rose Revolution dramatically increased military expenditures. Figure 14 reveals the fact that till 2004 military expenditures were the lowest in Georgia. The new administration, however, significantly increased these spending, and in 2008 each Georgian citizen paid 1.78 times more to the army than an Azeri, and 2.02 times more than an Armenian. Of course, this framework was well expressed in the State and the Consolidated Budgets of Georgia.

**State Budget of Georgia**

Table 2 describes the 2009 state budget of Georgia as released by the Ministry of Finance\(^\text{14}\). It should be noted that the budget has been executed by 100%\(^\text{15}\).

Figure 15 reveals execution of 2009 consolidated budget of Georgia. It may be seen that the main article of the budget is defense: state spending on defense exceeds, for instance, that on social welfare 2.35 times and that on health – 3.338 times. The second important article of the budget is police and security – 11.92% of the budget.

Figure 16 provides information on consolidated budget of Georgia in 2003-2009\(^\text{16}\). It may be seen that expenditures of the consolidated budget sustainably increased in 2003-2008 but diminished in 2009 by 10.2%.

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\(^{15}\) Consolidated budget was executed by 100%. News Agency, February 3, 2010, 4.11 pm. [http://www.ghan.ge/news-7477.html](http://www.ghan.ge/news-7477.html).

Figure 13: Structure of the GDP in Georgia, Armenia and Azerbaijan, %
Figure 14: Military Expenditures in Georgia, Armenia and Azerbaijan in 1990-2008

Table 2: 2009 State Budget of Georgia

<table>
<thead>
<tr>
<th>Article</th>
<th>Amount, 1000 GEL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
</tr>
<tr>
<td>TOTAL, including:</td>
<td>5510161.0</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>4760000.0</td>
</tr>
<tr>
<td>Grants</td>
<td>444971.0</td>
</tr>
<tr>
<td>Other</td>
<td>305190.0</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
</tr>
<tr>
<td>TOTAL, including:</td>
<td>5251975.5</td>
</tr>
<tr>
<td>Remuneration of employees</td>
<td>1055731.6</td>
</tr>
<tr>
<td>Use of goods &amp; services</td>
<td>817349.1</td>
</tr>
<tr>
<td>Interest</td>
<td>182796.9</td>
</tr>
<tr>
<td>Subsidies</td>
<td>430635.7</td>
</tr>
<tr>
<td>Grants</td>
<td>686137.3</td>
</tr>
<tr>
<td>Social benefits</td>
<td>1374776.4</td>
</tr>
<tr>
<td>Other</td>
<td>704548.5</td>
</tr>
<tr>
<td>Gross operating balance</td>
<td>258185.5</td>
</tr>
</tbody>
</table>
Relevant statistics on entrepreneurship exists since 1995 when due to the World Bank assistance modern statistical investigations have been launched in Georgia\(^1\). According to the available data\(^2\) in 1995 24.4 thousand companies were added to the State register; by 2008 this figure


exceeded 260 thousand (Figure 17). Correspondingly, the volume of production and services also has grown up, and in 2008 equaled 12.6 billion GEL (Figure 18).

Figure 17: Number of Companies in 1995-2008

Figure 18: Volume of Production and Services by Georgian Companies in 1996-2008

Figure 19 displays structure of Georgian entrepreneurship according of volume of production and services in 2008.
Figure 19: Georgian Entrepreneurship Structure in 2008, Percent of Production & Services

**Industry**

Figure 20 bears information on structure of industry in 2008\(^9\).

Figure 20: Structure of Industry in 2008 According to Production Volume

In general, state of industry is poor. Figure 21 shows year-to-year changes in industrial output in both current and inflation-adjusted prices. It may be seen that growth of output is mainly determined by inflation of wholesales prices and in 2008 diminished by 3.77%.

Moreover, in 1979 Georgia mined 2.67 million tones of manganese ores and 1.82 million tones of coal; produced 18.83 million tones of steel and 625 thousand tons of fertilizers... All these branches are dead now.

**Agriculture**

Situation with agriculture is even more tragic. In spite of the fact that 53.4% of employees follow agriculture business (see Figure 10) agriculture is gradually going down (Figure 22).

The most alarming circumstance is that the great majority of the agricultural product is manufactured by households. As a result, the crop of major cultures (excluding, perhaps, only sunflower) has dramatically declined (Figure 23).
Again, headcount of livestock also diminished: that of pigs – 10.93 times, of poultry – 2.32 times, of cattle – 1.48 times, and of sheep and goats – 3.36 times.

**Conclusions**

The economy of Georgia survives sever times, and decisive measures should be undertaken. Otherwise, default would be the ultimate result.