• Growth slowed in April to 2.6 percent year on year (yoy), but from a high base in April 2021. The growth forecast for 2022 was upgraded from 2.5 percent in March to 5.5 percent.
• The newly released poverty statistics for 2021 show a decline in the poverty rate and unemployment indicators.
• Inflation continued to increase in May, driven by a sharp increase in housing rent and food prices, while prices for petroleum stagnated.
• The trade deficit widened in April as export growth moderated and import growth remained strong.
• The trade deficit was offset by robust remittance and tourism related inflows. The lari remained stable in May and early June 2022, following earlier appreciation.
• Credit and deposit growth remained robust in May.
• The fiscal deficit slightly widened in April while revenue collection remained robust in May.

The economy grew by 2.6 percent yoy in April on top of a high base in April 2021, when the economy grew by 44 percent yoy. Cumulatively, in the year through April, the economy grew by 10.8 percent yoy, prompting the World Bank to upgrade the 2022 growth outlook, from 2.5 percent forecast in March to 5.5 percent. Growth in April was driven by the transport, hotel and restaurants, energy, financial and mining sectors, while construction, manufacturing and trade sectors contracted on a yoy basis. On the expenditure side, household consumption was supported by robust credit growth and an increase in the inflow of remittances and receipts from foreign visitors, including temporary migrants from Russia, Belarus and Ukraine. Businesses registration remained high, driven by temporary migrants, growing by 42 percent yoy, but the pace slowed down as compared to March. At the same time, growth was weighed down by a widening goods trade deficit.

Newly released poverty statistics for 2021 show a decline in the absolute poverty rate to 17.5 percent from 21.5 percent in 2020. This also represents a 2-percentage point (pp) improvement against poverty levels in 2019. Poverty dropped by over 6 pp in rural areas and by 2 pp in urban Georgia. This indicates that the government’s social policies in 2020 helped mitigate the impact of the crisis on the rural population. Inequality, measured by the Gini coefficient, declined to 0.36 in 2021 from 0.38 in 2020.

The welfare improvements in 2021 are not fully reflected in employment outcomes. The unemployment rate was high in 2021 but improved in Q1 2022, declining to 19.4 percent from 21.9 percent in Q1 2021. This was lower than the 2019 level as well. The rate of labor force participation has been weak, dropping from 52 percent of the labor force in Q1 2019 to 48 percent and 50 percent, respectively, in Q1 2021 and Q1 2022. The employment rate was also low at 40 percent in Q1, 2022 as compared to 42.2 percent in Q1 2019.

Headline inflation remained elevated in May. Prices increased by 1.1 percent month on month (mom) and by 13.3 percent yoy. Annual inflation continues to be driven by higher food and fuel prices. Monthly inflation in May was driven by higher rental prices, which increased by over 20 percent and contributed more than half of the total monthly inflation. Core inflation stood at 5.9 percent as of end-May.

Import growth was robust while export growth moderated in May, contributing to a widening of the trade deficit. The trade deficit widened by 41 percent yoy in April and by 34 percent yoy in the first four months of 2022. Trade turnover growth picked-up in April to 20 percent yoy following a slowdown in March. Exports and imports rose by 10 percent and 25 percent yoy respectively, compared to 26 percent and 16 percent yoy in March. Tourism recovery continued in April, with a 3-fold yoy increase in foreign arrivals, also reflecting a low base. Despite the recovery, arrivals remain well below pre-COVID levels. The inflow of remittances grew by 23 percent yoy in April, driven by a nearly five-fold increase in inflows from Russia.

The lari remained stable in May and early June. The lari depreciated sharply in the immediate aftermath of the war in Ukraine but has since recovered. As of June 10, the lari has returned to its pre-war level. In yoy terms, the lari is now 5.4 percent stronger as compared to June, 2021. The nominal effective exchange rate (NEER) has appreciated even more strongly (29.1 percent yoy). Gross official reserves remained comfortable at 3.9 billion, providing 4.1 months of goods import cover.

Credit and deposit growth remained robust in May. Credit growth in the banking sector was at 14.9 percent yoy (excluding the impact of exchange rate differences). Lari loans expanded by 21.5 percent yoy, driven by higher consumer loans, while business loans grew at 17 percent yoy. Deposits expanded by 12.7 percent yoy in May, with dollar denominated deposits catching up with lari deposits and expanding by around 12.4 percent yoy. Banking sector profitability indicators remained healthy in April.

The budget deficit widened marginally in April to about 0.5 percent of annual GDP, considerably lower than in 2021. Expenditure picked up by 9 percent yoy while tax collection increased by over 35 percent yoy. Tax collections continued performing strongly in May 2022, growing by 35 percent yoy.

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