WORLD BANK GROUP
Macroeconomics, Trade & Investment

- *After a slowdown in April, growth picked up in May, reaching 11.6 percent (yoy).*
- *Average annual inflation reached 12.9 percent yoy in June as prices increased by 0.2 percent mom.*
- *The trade deficit widened in June. Strong domestic demand and higher commodity prices drove imports overshadowing the rapid export growth.*
- *The lari remained strong in June and early July, supported by remittances and tourism proceeds.*
- *Fiscal operations were balanced in May driven by the strong tax revenue collection, while non-tax revenues from the National Bank of Georgia (NBG) dividends tripled compared to 2021. Tax collections in June were similarly outstanding.*

The economy continued to rebound strongly in May. The economy grew by 11.6 percent yoy in May despite of high base of May 2021, when it expanded by 28 percent yoy. Estimates are based on 25 percent nominal growth in the turnover of VAT taxpayers. Growth was broad-based, and driven by transport, energy, hotel and restaurants, manufacturing, and construction. Growth in the energy sector reflected a 20 percent increase in the production and consumption of electricity in May, while exports of electricity doubled. 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. Positive growth in the construction sector suggests strong recovery in the domestic investments. In addition, Georgia attracted record high foreign direct investment (FDI) inflows of USD 568 million (around 2.8 percent of GDP) in Q1 2022, mostly driven by increases in equity capital and reinvestments of existing firms. Spain (34.5 percent of total), UK (15.3 percent), and Turkey (11.8 percent) were the largest investors in Q1 2022. The energy and financial sectors attracted 60 percent of gross FDI inflows, more than a 4-fold increase as compared to Q1 2021.

Average headline inflation remained elevated but relatively stable in June. Prices increased by 0.2 percent (mom) in June and by 12.9 percent annually. Annual inflation continues to be driven by higher food and fuel prices as well as utility tariffs, jointly responsible for 82 percent of inflation. Monthly inflation in June was driven by higher prices for hotels and restaurants and food and drinks. Core inflation stood at 5.8 percent as of end-June. The National Bank of Georgia (NBG) kept monetary policy rate unchanged at 11 percent in June, following a 50 basis point increase in March.

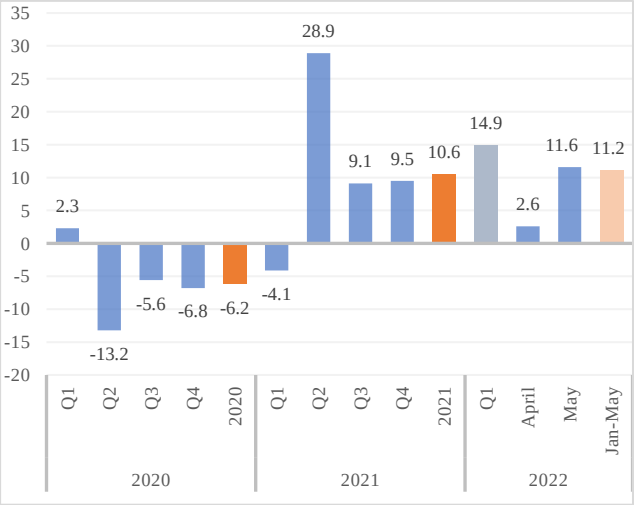
External trade volume increased in June, with both import and export flows contributing. The merchandise imports value in nominal USD grew by 21 percent (yoy) driven by strong domestic demand and higher commodity prices. Meanwhile, exports grew by 28 percent. As the import bill is more than double that of the total exports, the trade deficit widened by 17 percent yoy in June. During January-June, merchandise exports increased by 35.6 percent have been driven by copper ore (+36.4 percent yoy), ferroalloys (+61.9 percent yoy), nitrogen fertilizers (+229 percent yoy), and electricity (+303 percent yoy). Major countries of destination were China, Azerbaijan, Russia and Turkey, accounting for 47 percent of total exports in the first half of 2022. Imports increased by 35.3 percent during January-July, compared to the same period of the previous year, reflecting the higher imports of oil and its products, used cars, and natural gas. The price effect was strong, especially in the case of oil as the imported volume increased by 4 percent, while the value in USD terms increased by 76 percent yoy during January-June.

Remittances and tourism surged, supporting the lari. The Georgian economy greatly benefited from an extraordinary inflow of money transfers from Russia in the second quarter, which amounted to USD 678 million, as compared to USD 104 million during the same period of 2021, according to statistics by the NBG. Tourism recovery continued, with a 3-fold yoy increase in foreign arrivals in May and over a 2-fold increase in June (against a low base during the same months of 2021 due to the COVID-19 pandemic). Tourism proceeds grew at the similar rate. Despite this rate of recovery, arrivals remain well below pre-COVID levels. As a result of the foreign exchange inflows, the lari was stable in June and early July and gross official reserves remained comfortable at USD 3.9 billion, providing 4 months of goods import cover.

Credit and deposit growth accelerated in June. Nominal credit growth in the banking sector was at 15.6 percent yoy (excluding the impact of USD exchange rate differences). Lari loans expanded by 20.9 percent yoy in nominal terms, driven by higher consumer loans, while foreign exchange loans grew at 10.4 percent yoy. Deposits growth, (15.8 percent yoy), was faster than in May, with USD-denominated deposits increasing. While slightly worse than during the pre-war period, banking sector profitability indicators remained healthy in June. Return on assets (ROA) was positive at 2.7 percent in May, while return on equity (ROE) strengthened to 20.3 percent. Non-performing loans (NPLs) remained low at 2 percent (measured as 90+ days overdue).

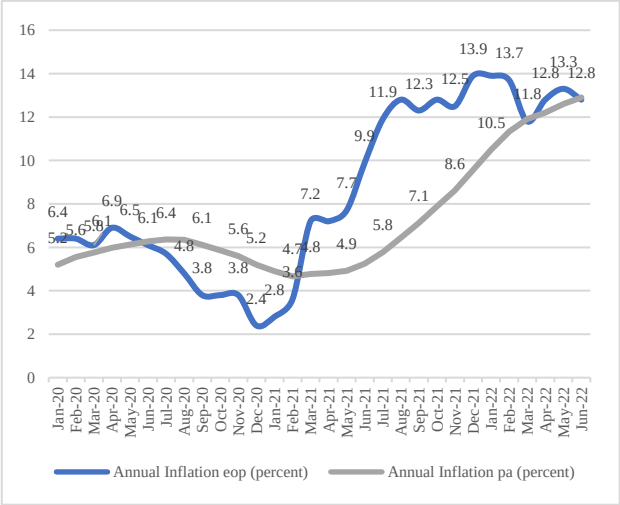
The fiscal balance was in surplus in May. Tax collections by the general government increased by 35 percent in nominal terms in May, and by 35.5 percent during the first five months of 2022 (compared to the same period of the previous year). Tax collections continued to perform strongly in June, growing at 27 percent yoy. Non-tax revenues surged in May, driven by dividends paid by the NBG, which tripled compared to the previous year. Meanwhile, public expenditures grew by up to 20 percent yoy as of May. Wages (10.4 percent growth) and social assistance (4.8 percent growth) grew below the average rate (and declined in real terms). Interest payments declined due to exchange rate appreciation. As a result, the fiscal deficit during January-May was about 0.5 percent of GDP, in line with the fiscal consolidation path for the year. Public debt also benefited from the contained deficit and the appreciation of the lari, declining to 49 percent of projected GDP as of end-May (and comfortably below the 60 percent of GDP threshold set by the fiscal rules).

Figure 1. The economic recovery was robust in May
(year-on-year, in %)



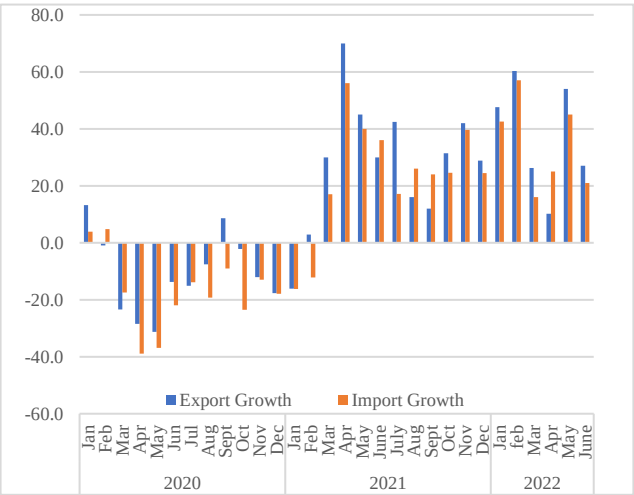
Source: Geostat

Figure 2. Inflation eased slightly in June
(year-on-year, eop, in %)



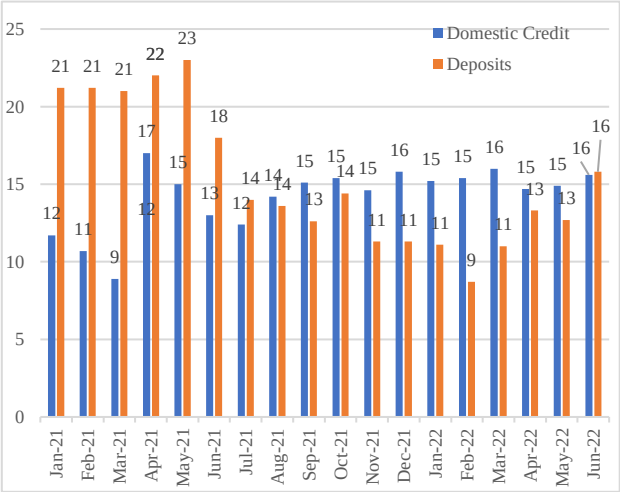
Source: Geostat

Figure 3. External trade turnover accelerated in May, prior to easing in June
(year-on-year, in %)



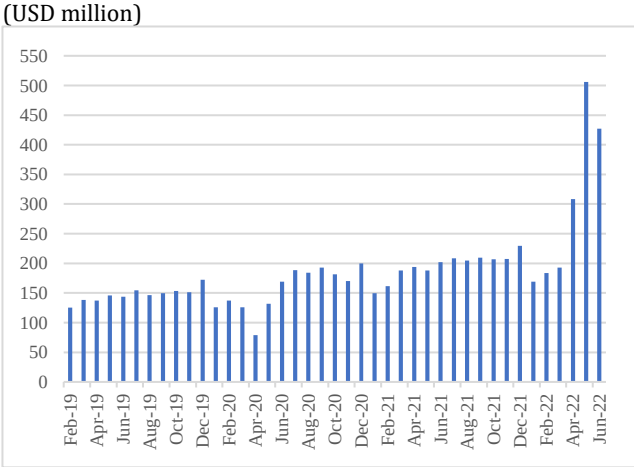
Source: Geostat

Figure 4. Credit and deposit growth remained stable in June
(year-on-year, in %)



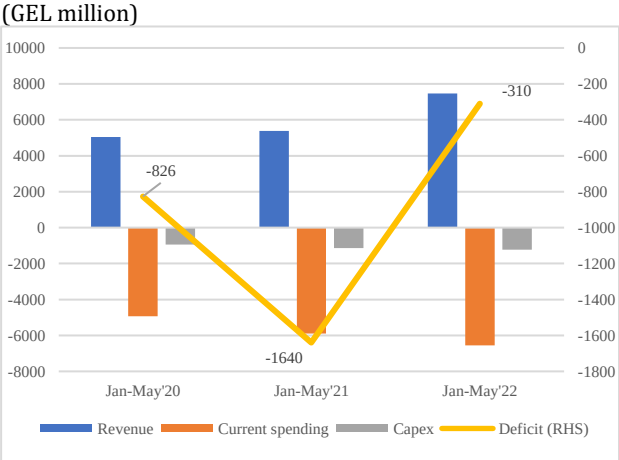
Source: NBG

Figure 5. Remmittances increased sharply in Q2, 2022
(USD million)



Source: NBG

Figure 6. The fiscal deficit has considerably narrowed in 2022
(GEL million)



Source: MOF