WORLD BANK GROUP
Macroeconomics, Trade & Investment

- *Georgia registered positive growth in March, for the first time since the beginning of the pandemic, reflecting easing restrictions and a low base effect.*
- *The recovery has continued since; however, a third wave of the pandemic and reintroduction of some restrictions slowed economic activity in May.*
- *Inflation remained high at 7.2 percent yoy in April prompting a 100bps hike in the monetary policy rate.*
- *Lari depreciated further against the USD in April but recovered a bit in early May.*
- *Trade deficit widened in March as both exports and imports grew strongly.*
- *Credit and deposit growth was strong in April, though the quality of the loan portfolio may have weakened.*
- *Fiscal deficit widened in March as the recovery in tax collection slowed driving quarterly deficit to 1.2 percent of GDP.*

The economy grew by 4 percent yoy in March, as compared to a 5.1 percent yoy contraction in February. This partly reflects a low base effect as the COVID-19 impact on the economy began to be felt in March 2020, and the easing of COVID-19 related restrictions starting from late February 2021. Construction, cultural activities, and mining continued to contract in March, while the financial sector, trade, manufacturing, real estate, energy, warehousing and transport sectors grew. High-frequency data point to further recovery in April as restrictions (except curfew) were gradually removed. Mobility in Tbilisi went up from an average of 67 percent of pre-COVID levels in March to an average of 74 percent of pre-COVID in April. Government's revenues also grew strongly in April, while electricity consumption and flight availability also went up.

With the easing of restrictions, the number of infections increased again. Georgia registered more than 1,500 infections per day in late April and over 2,000 in early May, compared to around 600 a month earlier. In response, the Easter holidays were extended to slow the spread which could slow the recovery. Meanwhile, COVID-19 vaccination accelerated slightly with 71,570 vaccinations performed and 12,375 persons fully vaccinated as of May 12.

Inflation remained high at 7.2 percent yoy in April. This reflected increased global food and oil prices, pass-through from depreciation of the lari and higher utility tariffs. Food prices increased by 3.0 percent yoy and contributed 0.9 percentage points (pp) to the overall inflation rate. Transport prices increased the most, by 12.4 percent yoy, and contributed over 1.5 pp to overall inflation. Core inflation, excluding food, alcohol, transport and administrative prices, also increased considerably to 6.9 percent yoy in April. In response, the National Bank of Georgia (NBG) increased the policy rate by 100 bps to 9.5 percent in April, its highest rate in more than a decade.

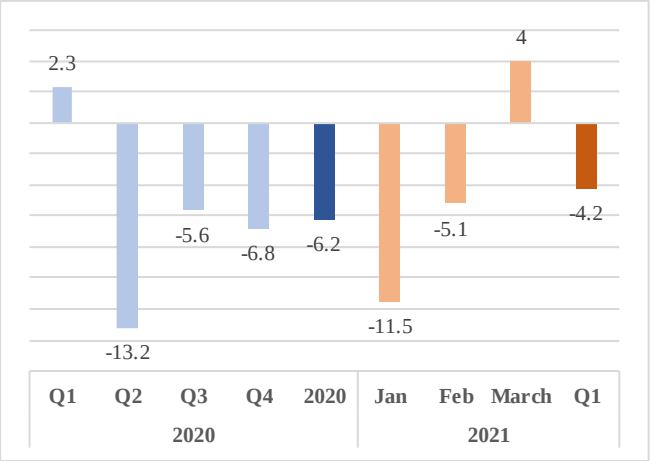
The lari depreciated further by 1.2 percent in April month on month (mom) against the USD, though it was able to recover some of its losses in early May as well. The NBG sold USD82.9 million in April to smooth the exchange rate adjustment. Reserves, supported by the disbursements of grants to the budget, increased to USD4.1 billion as of end-April providing 5.6 months of goods and services import cover.

The goods trade deficit widened by 10 percent yoy in March as both exports and imports grew strongly. Exports of goods grew by 30 percent yoy, returning to March 2019 levels, while imports also increased by 17 percent yoy, still slightly below pre-COVID19 levels. Exports of domestic products (excluding re-exports) grew by 24 percent yoy in March driven by ferroalloys and nuts. Export of copper ores, which constitutes around quarter of total exports, declined slightly yoy. Reflecting recovering economic activity, imports grew strongly in March driven by intermediate and investment goods (23 percent yoy), natural gas and electricity (124 and 76 percent each yoy). The latter was due to temporary closure for rehabilitation of a large hydropower plant. On the services side, the number of international visitors in April more than doubled compared to a year earlier but remains at only around 15 percent of 2019 levels. Remittances from abroad increased by 50 percent yoy in March, which likely reflects increased formalization of transfers as physical travel still remains constrained.

Credit and deposit growth was strong in April. Credit growth accelerated to 12 percent yoy (excl. FX effect) in April from 8.9 percent yoy in March. The stock of lari loans expanded by 23 percent yoy, while FX lending recovered to 4.6 percent yoy growth in April (from 1.7 percent in March). Deposits grew by 22 percent yoy in April with lari deposits growing faster than FX deposits and lowering the deposit dollarization to 62 percent. Banking sector profits remained solid with most of the banks showing positive returns. The share of non-performing loans (NPLs) that are more than 90 days overdue was low at 2.5 percent as of end March. However, NPLs that are 60 days overdue were above 8.5 percent, double the levels compared to March 2020.

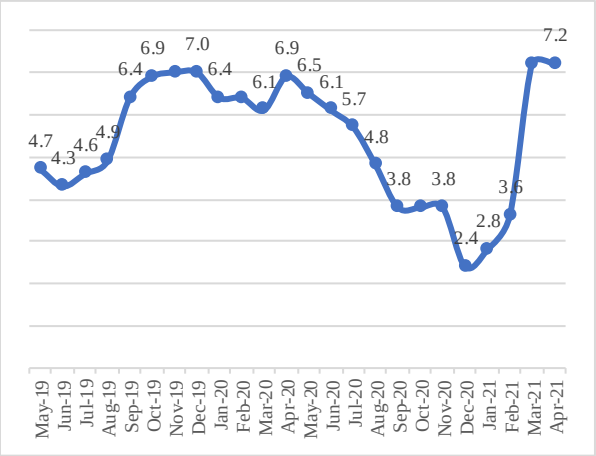
Government spending continued to exceed revenues in March bringing the fiscal deficit to about 1.2 percent of GDP in the first quarter of 2021. Spending declined by 1.8 percent yoy in March, for the first time since the start of the pandemic, reflecting in part a base effect. Current spending increased by 6 percent yoy while investments declined sharply by 28 percent yoy. Tax revenues performed well in March, 2021 but were still 2.6 percent lower in yoy terms. This drove quarterly tax collections to almost the same nominal level as a year ago while total revenues were 4.5 percent higher, driven by high inflows of grants in January. Public debt increased to GEL32.2 billion as at end-March, which is around 60 percent of estimated annual GDP. The Ministry of Finance of Georgia made a placement of $500 million Eurobonds on the London Stock Exchange in April with five years maturity and a coupon rate of 2.75 percent. The proceeds were used to retire the 2011 Eurobond carrying a coupon rate of 6.875 percent.

Figure 1. Growth turned positive in March
(year-on-year, in %)



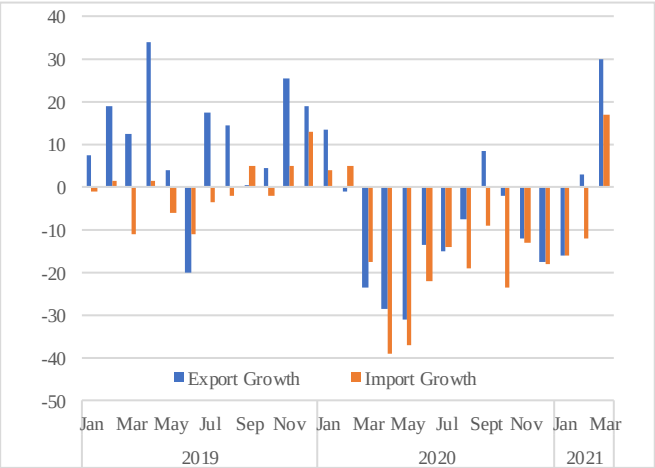
Source: Geostat

Figure 2. Inflation remained high in April
(year-on-year, in %)



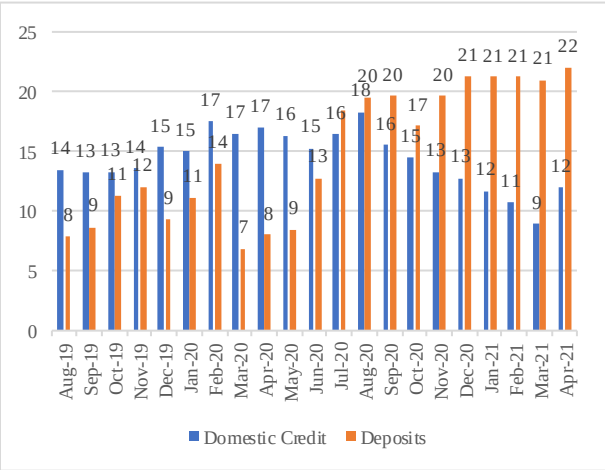
Source: Geostat

Figure 3: Foreign trade picked up with faster recovery in exports than imports
(year-on-year, in %)



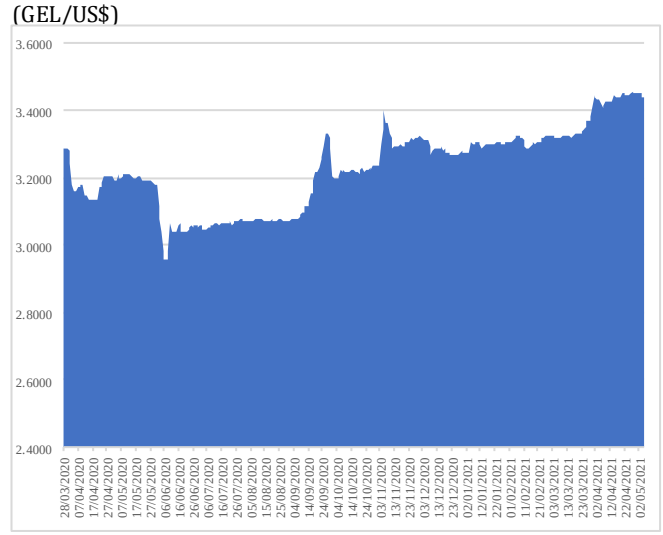
Source: Geostat

Figure 4. Credit growth improved in April and deposit growth remained strong
(year-on-year, in %)



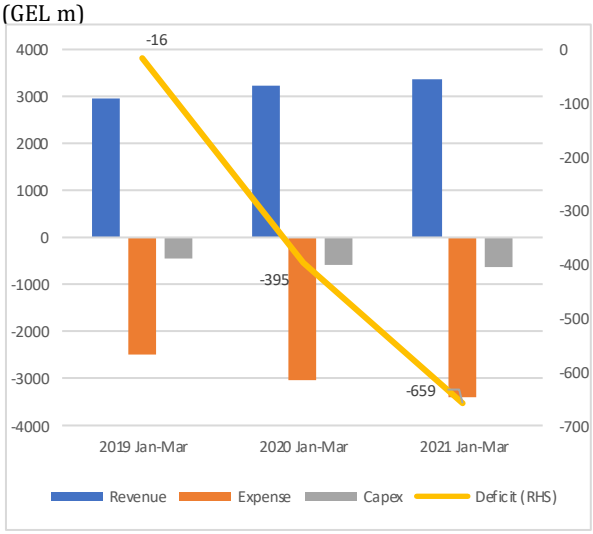
Source: NBG

Figure 5: The lari depreciated in March and April against the USD
(GEL/US$)



Source: NBG

Figure 6: Fiscal deficit widened in Q1, 2021
(GEL m)



Source: MOF