Economic recovery picked up steam in April, as COVID-19 related restrictions were gradually removed.
Inflation increased further in May to 7.7 percent, the highest rate in over ten years.
FDI declined by 40 percent yoy in Q1, 2021.
Lari appreciated in May supported by economic recovery and gradually increasing tourist arrivals.
Trade deficit widened in April as both exports and imports grew strongly.
Credit growth accelerated in April and May and soundness indicators remained robust.
Unemployment increased by 3.7 ppt in Q1, 2021 despite the gradual economic recovery.

Georgian economy grew at an unprecedented rate of 44.8 percent yoy in April, as per rapid monthly estimates of economic growth. A significant driver of this increase is the low base of activity in April 2020, due to the first COVID19 related lockdown. Such a strong growth rate puts April 2021 GDP level at around 20 percent above April 2019. Other economic indicators such as trade, tax collections, credit growth, tourism proceeds suggest robust, though a more moderate, pace of recovery than the rapid monthly estimates. The recovery in April was supported by robust growth in industrial production such as metallurgy, construction materials led by cement production, as well as in construction activities, financial intermediation and insurance.

The recovery appears to be continuing, even though easing of restrictions contributed to slightly higher infections in May. Mobility in Tbilisi was up around 46 percent yoy in May 2021, while the number of departing flights from Tbilisi increased from 15 in April to 18 in May and further to 20 in early June. While test positivity rates are low, Georgia registered on average 1,100 infections per day in May, compared to around 900 a month earlier. The number of cases has eased gradually in early June. Meanwhile, COVID-19 vaccinations gathered pace with 190,000 jabs administered in total as of June 9, including 3.6 percent of the population receiving one shot and additional 1.6 percent fully immunized.

The economic recovery in early 2021 has not yet been reflected in the employment situation. The number of employed persons declined by 10.5 percent yoy in Q1, while the unemployment rate increased by 3.7 percentage points (ppt) to 21.9 percent in Q1 2021. A decline in welfare outcomes is also reflected in the increase in the poverty rate in 2020 by 1.8pp to 21.3 percent. The recent pick-up in economic activity could help reverse these trends.

Foreign Direct Investment (FDI) inflows dropped to around 0.7 percent of GDP in Q1 2021, as compared to 1.2 percent of GDP in Q1, 2020 and 1.8 percent of GDP in Q1, 2019. This reflects a 40 percent yoy decline in FDI inflows. The financial sector attracted the largest share of FDI. Reinvestment accounted for 57 percent share of FDI inflows and equity accounted for 22 percent. UK was the main country of origin, accounting for 70 percent of FDI inflows in the first quarter.

Inflation spiked to 7.7 percent yoy in May, the highest rate in over ten years. Increase in global food and oil prices and pass-through from earlier depreciation of the lari were the key drivers of the inflation spike. Higher prices for transport (up by 17 percent), utilities (up by 6.6 percent), food prices (up by 3.3 percent) and healthcare (up by 13 percent) contributed 5.3 ppt to the overall inflation rate. Core inflation, excluding food, alcohol, transport and administrative prices, decreased marginally to 6.5 percent in May from 6.9 percent in April.

The lari appreciated by 6 percent month on month (mom) in May and further in early June. This reflected increased tourism proceeds, healthy remittances and the stabilization of the political environment. The nominal effective exchange rate appreciated even more strongly by over 11 percent mom in early June. Reserves remained robust and at USD4.1 billion as of end-May covered 5.5 months of goods and services imports.

The goods trade deficit widened by 20 percent yoy in April as exports and imports grew strongly, while other current inflows improved. Supported by the strong economic recovery in April, imports grew by 57 percent yoy, with a sharp rise across all categories, such as industrial, capital and consumer goods. The imports increase offset a strong export performance (73 percent yoy growth). Exports of domestic products (excluding re-exports) grew by 60 percent yoy driven by strong growth in copper ores, ferro-alloys and nuts. On the services side, tourism revenues recovered strongly from a low base in April 2020 (500 percent yoy increase) but still only reached 18 percent of pre-COVID19 levels in April 2019. Remittances from abroad increased by 145 percent yoy in April; cumulatively, transfers from abroad in the first four months of 2021 were up by 48 percent yoy, and up by 34 percent compared to the same period in 2019. This could be partially explained by increased formalization of transfers in the absence of physical travel.

Credit growth picked up and deposit growth was stable. Credit growth (excl. FX effect) picked up from 8.9 percent yoy in March to 17 percent in April and remained robust at 15 percent in May. Lari loans grew by 24 percent yoy helping to lower dollarization to 54 percent in May. Deposits growth was relatively stable at 23 percent yoy in April and May. With the exception of two banks, the rest of the banking sector remained profitable, outperforming 2019 levels in the first four months of 2021. The share of non-performing loans (more than 90 days overdue) remained low at 2.4 percent.

The fiscal deficit widened by 1 ppt in April as government spending counter-acted strong revenue performance. Expenditures increased by 44 percent yoy, with increases in current spending (50 percent yoy) and public investments (21 percent yoy). Total revenues increased by 9 percent yoy, with a pick-up in tax collections of 20 percent yoy reflecting increased economic activity. By end-April, the fiscal deficit reached around 2.2 percent of projected annual GDP and public debt increased to 62 percent of GDP.

For additional information: Mariam Dolidze, Sr. Economist, mdolidze@worldbank.org
Figure 1. The economy grew at an unprecedented rate in April (year-on-year, in %)

![Graph showing economic growth rate]

Source: Geostat

Figure 2. Inflation increased again in May (year-on-year, in %)

![Graph showing inflation rates]

Source: Geostat

Figure 3: The trade balance deteriorated with import growth outweighing export growth (year-on-year, in %)

![Graph showing export and import growth]

Source: Geostat

Figure 4. Credit growth improved since March, while deposit growth remained stable (year-on-year, in %)

![Graph showing credit and deposit growth]

Source: NBG

Figure 5: The lari appreciated in May and early June against the USD (GEL/USD)

![Graph showing lari appreciation]

Source: NBG

Figure 6: Fiscal deficit widened further in April (GEL m)

![Graph showing fiscal deficit]

Source: MOF

For additional information: Mariam Dolidze, Sr. Economist, mdolidze@worldbank.org