The economy grew by 9.6 percent yoy in December and by 10.6 percent in 2021, with broad-based growth across almost all sectors.

Inflation remained elevated at 13.9 percent yoy in January, driven by food, fuel prices, and utility tariffs.

External goods trade deficit widened in December.

The lari appreciated sharply in January and early February.

Credit growth remained robust as did deposit growth.

Strong revenue collection and consistent execution of expenditure helped to keep the fiscal deficit under control through the end of 2021.

Economic growth remained robust in December, at 9.6 percent yoy, leading to an impressive 10.6 percent yoy growth in 2021. Growth slowed when compared to November (12 percent yoy) and was broad-based, with strong growth in manufacturing, transport, tourism, trade and energy sectors. The construction sector was an exception, contracting in December, but leading indicators such as newly issued construction licenses (up by 6 percent yoy in December) and respective construction square meter area (up by 43 percent yoy in December) suggest a strong recovery in the sector going forward. Domestic demand continued to be robust, supported by government spending, robust credit growth and remittance inflows. Cumulatively, in the year-to-December, the economy is estimated to grown at 10.6 percent yoy and, as a result, economic output is projected to have recovered above pre-COVID-19 levels by late-2021. However, the recovery has been uneven, with output in certain sectors such as hospitality still below pre-COVID levels.

COVID-19 infections increased sharply in January and early February driven by the Omicron variant. Daily number of new cases have hit record levels, exceeding an average of 20,000 in the first week of February. However, fatality rate has declined to 1.16 percent as of early February as compared to 1.4 percent in late December. The overall low rate of vaccination (33 percent of the population fully vaccinated as of February 7th) remains a key concern.

Inflation remained high in January at 13.9 percent yoy. This reflected a broad-based increase in prices across almost all goods and services. The key contributors to high inflation were rising fuel and energy costs for transport (2.1 percentage points (ppt) contribution), utilities (3.7 ppt contribution), and cost of food (5.3 ppt contribution). The NBG Monetary Policy Committee (MPC) kept the policy rate unchanged at 10.5 percent in February 2022. The MPC noted that high inflation is driven by the transient factors such as utility tariff increases and increase in global food prices, but also that the risks are substantial, arising from higher inflation expectations, regional geopolitical tensions, worsening of global financial conditions and possible supply shocks.

Trade turnover increased and the trade deficit widened in December. External turnover picked up by 27 percent yoy with strong export (29 percent yoy) and import (26 percent yoy) growth. Imports outpaced exports, and as a result, the trade deficit widened by USD 122 million yoy in December. Export growth was broad-based, led by ferroalloys (297 percent yoy growth), Nitrogen fertilizers (98 percent yoy growth) and copper (25 percent yoy growth), while import growth was driven by fuel (78 percent yoy growth) reflecting higher unit cost. Inflows from remittances and proceeds from tourism remained strong in December. Remittances increased by 15 percent yoy in December and by 25 percent yoy in 2021. The number of visitors from abroad tripled yoy in December, while estimated proceeds from inbound tourism grew 9-fold. In the year-to-December, exports grew by 27 percent yoy and imports by 25 percent yoy and the trade balance widened by 26 percent yoy. Turkey, Russia and China were the largest trading partners for Georgia in 2021. Georgia registered trade deficits with all three countries in 2021 but managed to narrow the deficit due to higher exports.

The Lari appreciated against the USD in January and early February. The nominal Lari exchange rate appreciated by 3.3 percent mom as of February 7, 2022, with higher remittance inflows and tourism proceeds offsetting the rising trade deficit. Reserves, supported by external disbursements, remained stable in January and at USD 4.1 billion as of end-January, provided 4.4 months of goods and services import cover.

Banking sector profitability indicators remained healthy. Return on assets (ROA) of the banking sector was stable at 3.7 percent in December, while return on equity declined slightly when compared to end-November. Non-performing loans remained low at 2.2 percent in December and declined marginally when compared to November. Credit growth in the banking system remained robust in January 2022 at 15 percent yoy (excluding FX effect). Stronger growth of lari loans (at 24 percent yoy) helped to reduce credit dollarization to 50 percent, as at end-January, when compared to 55 percent a year ago. Deposits grew by 11 percent yoy in January with deposits in lari increasing by 13 percent. As a result, deposit dollarization also improved fell, reaching 59 percent, as of end-January 2022.

The fiscal deficit was high in December with a sharp spike in spending. General government revenues increased by 30 percent yoy in December, driven by a 45 percent yoy increase in tax collections. Spending also increased sharply, with current spending increasing by 18 percent yoy and public investments increased by 10 percent yoy. The budget registered a deficit of 1.7 percent of GDP in December, bringing the year-to-December deficit to 7 percent of GDP. This is less than the 7.6 percent of GDP that was initially planned, and represents a consolidation when compared to 2020, when the budget registered a deficit of 9.8 percent of GDP. The public debt to GDP ratio declined to 52 percent of GDP, as of end-2021, which is considerably lower than 62 percent of GDP debt registered in 2020.
Figure 1. The economy recovered strongly in 2021. (year-on-year, in %)

Figure 2. Inflation remained elevated in January 2022. (year-on-year, in %)

Figure 3: The trade gap widened in December. (year-on-year, in %)

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

Figure 5: The lari appreciated in January. (GEL/US$)

Figure 6: Fiscal deficit narrowed against 2020. (GEL m)

Source: Geostat
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Source: NBG
Source: NBG
Source: MOF