Economic growth eased in October, as manufacturing and real estate activity slowed. The economy expanded by 8 percent (yoy) in real terms in October after growing by 8.8 percent (yoy) in September. Consequently, the economy grew by 10 percent in the first 10 months of 2022. On the supply side, the growth was broad-based across key sectors, except for manufacturing and real estate operations. Construction, transport, financial intermediation, mining, and most tourism-related sectors continued to demonstrate resilience in a challenging external environment. On the demand side, growth was driven by robust consumption (supported by credit growth, the rebound in tourism, and migration-related money inflows).

Foreign direct investment (FDI) inflows in Q3 2022 doubled (yoy). This was the quarter with the largest inflows since Q3 2014. The most attractive sector was real estate (36 percent of total FDI), along with financial activities (21 percent) and recreation (19 percent). The reinvestment of earnings contributed 60 percent of the total FDI, while investments in equity accounted for the remaining 40 percent.

According to recent Enterprise Survey findings, business turnover increased by 17.5 percent (yoy) in Q3 2022. Large firms were responsible for 61.7 percent of turnover, as compared to 60.5 percent in Q3 2021, indicating that the share of medium and small-size enterprises declined slightly. Regarding employment, 42.2 percent of workers are employed in large firms, 22.5 percent in medium ones and 35.3 percent in small businesses. This reflects the slight relocation of workers from small to large enterprises over the past year. The average remuneration of employees (amounting to GEL 1955) was the highest in medium-size enterprises. Similar to the previous year, trade (38.5 percent) and entertainment (28.6 percent) accounted for the major share of turnover.

Inflation continued to ease, while remaining high. Headline annual inflation declined slightly, to 10.4 percent (yoy) in November 2022, compared to 10.6 percent in October. Around 70 percent of inflation was driven by food and utility prices, while the impact from fuel prices eased gradually along with the global trend. Core inflation (excluding food and energy) also declined slightly, to 7.0 percent in November compared to 7.3 percent in October. High core inflation reflected growing domestic demand, especially for housing, household equipment and maintenance, recreation, restaurants, and accommodation services. Meanwhile, the industrial producer price index (PPI) inflation rate dropped by 3.6 percentage points to 5.6 percent (yoy), suggesting a considerable weakening of supply-side price pressures. The National Bank of Georgia (NBG) maintained the 11 percent monetary policy rate in October, following a 50-basis-point increase in March.

The goods trade balance deteriorated in November as imports grew faster than exports. Exports grew by 14 percent (yoy) in November, compared to 9.2 percent in October. However, imports performed even more strongly, growing by 20 percent (yoy), and thus contributed to the widening of the trade deficit by 26 percent (yoy). The slowdown in exports was largely driven by lower exports of ferroalloys (-81 percent), whose share in total exports declined to 1.4 percent, down from 8.5 percent in November 2021. Meanwhile, imports growth was driven by used cars (+29 percent, yoy), petroleum (+18 percent, yoy), and copper ores (+12 percent, yoy). Georgia’s key export markets in the first 11 months of 2022 were its traditional trade partners: China, Azerbaijan, and Russia, followed by Armenia and Turkey. The external balance of services benefited from a surge in money transfers (+151 percent, yoy) and tourism proceeds (+175 percent, yoy) in November. Positive developments in external accounts allowed the exchange rate to remain broadly stable, with a 2 percent appreciation (mom) against the dollar in November (13 percent appreciation yoy).

Deposits grew strongly in November. The stock of total deposits increased by 28.6 percent (yoy, excluding the exchange rate effect), up from 25.8 percent in October. This increase was driven by both local (+30 percent yoy) and foreign exchange (+27.5 percent yoy) deposits. Nominal credit growth eased slightly in November, to 13.7 percent (yoy). Lari loans expanded by 17.6 percent (yoy) in nominal terms, slightly down from October, while foreign exchange loans accelerated to 6.1 percent (yoy) in November from 2.3 percent (yoy) as of end-October. The banking sector remained healthy. Return on assets and return on equity improved slightly to 3.3 and 25.6 percent respectively in October. Nonperforming loans (90 days past due) remained stable at 2.0 percent.

The budget was almost balanced in October, with a small GEL 4 million gap. General government tax collection increased by 37 percent (yoy) in nominal terms in October, outperforming economic growth. Total revenues increased by 28 percent (yoy) in the first 10 months of 2022. Government current expenses grew by 9.8 percent (yoy) in October and by 8.7 percent in the first 10 months of the year. Social spending continued to decline, cut by 2.3 percent (yoy) in October. This was in part due to the unwinding of measures adopted during the COVID-19 pandemic. Interest payments declined by 2 percent (yoy) in October due to the appreciation of the lari since the previous year, reducing the repayment cost of foreign currency–denominated debt. Other current spending increased by 23 percent, and capital expenditure rose by 14 percent (yoy) in October. Overall, the fiscal deficit narrowed to 1.7 percent of GDP in the first ten months of 2022, compared to 5.2 percent in the same period of 2021. Public debt also benefited from the contained deficit and the appreciation of the lari, falling to GEL 28.2 billion, or 39 percent of projected GDP, as of end-October.

Economic growth eased to 8 percent in October (yoy), while remaining strong.
• Business turnover increased in the third quarter of 2022 (yoy), driven by the performance of large firms.
• Inflation eased slightly in November, to 10.4 percent (yoy).
• The trade deficit widened in November as imports grew faster than exports.
• Fiscal operations were balanced in October, and the deficit remained unchanged at 1.7 percent of GDP in the first ten months of 2022.
For additional information: Mariam Dolidze, Sr. Economist, mdolidze@worldbank.org