Robust economic recovery continued, with the economy growing at 10.6 percent year on year (yoy) in March.

The economic outlook may be impacted by deteriorating global and regional economic conditions, though the economy has shown resilience so far.

Inflation picked up in April by 1.8 percent month on month (mom) driven by a further increase in food and fuel prices.

The trade deficit widened in March, but robust remittances and tourism related inflows supported an appreciation of the lari.

Credit and deposit growth remained robust in April indicating a continued recovery.

Fiscal deficit shrunk in April as tax revenues performed strongly driven by personal and corporate income taxes. Meanwhile, Government deposits declined sharply.

The Georgian economy grew by 10.6 percent yoy in March continuing the strong recovery in early 2022. Growth was broad-based with the strongest performance recorded in transport, energy, hotels and restaurants, construction and financial intermediation sectors. On the expenditure side, growth was supported by household consumption, aided by robust credit growth and an increase in the inflow of remittances and receipts from foreign visitors, both tourists but also temporary migrants from Russia, Belarus and Ukraine. Some of whom have also opened businesses in Georgia contributing to the 72 percent yoy increase in business registration in March. At the same time, growth was weighted down by a widening goods trade deficit. On a quarterly basis, GDP increased by 14.4 percent yoy. The COVID-19 pandemic has subsided considerably since March with a sharp decline in cases, even as vaccination rates remain low, with only 44 percent of the adult population fully vaccinated as of May 9. Newly released population statistics highlight the devastating population level impacts of the pandemic with mortality rate per 1,000 persons increasing to 16.2 percent in 2021 as compared to 12.5 percent in 2019.

Looking ahead, deteriorating global and regional economic conditions are expected to weigh on the outlook. The war in Ukraine continues to impact the global and regional economy through elevated commodity prices, anticipated slowing of activity in advanced countries, and a sharp contraction in Russia. Georgia’s economy has been resilient to these shocks in Q1-2022 but the impact is expected to weigh on the outlook going forward. Still, given the performance so far in the year, the current World Bank’s projection for growth in 2022 of 2.5 percent could be conservative.

The goods trade deficit widened by 7.8 percent yoy in March and by 30.5 percent in the first quarter of 2022. Trade turnover growth slowed in March to 18.8 percent yoy from 55.8 percent yoy in February. Exports and imports rose by 26 percent yoy and 16 percent yoy respectively in March, compared to 60 percent yoy and 54 percent yoy in February. Tourism recovery continued in April, with a 3-fold yoy increase of the foreign arrivals, reflecting a low base. Despite the recovery, arrivals remain well below pre-COVID levels at 37.7 percent of April 2019.

The inflow of external remittances increased in March by 2.6 percent yoy, which represents a considerable slow down as compared to January and February (growth of 13 percent yoy).

Headline inflation remained elevated in April. Prices increased by 1.8 percent mom and annual inflation remained high at 12.8 percent, as of end-April 2022. Households have been experiencing pressures with higher food and fuel prices. Price index for food and beverage category rose by 21 percent yoy contributing 6.8 percentage points (pp) to overall inflation. Vegetable prices were 46.2 percent yoy higher in April, while bread and similar products’ prices rose by 28.6 percent yoy, and cooking oil and fats prices were up by 20.1 percent yoy. Prices for transportation increase by 22.4 percent yoy and contributed 2.7 pp to overall inflation. In light of this, at its May 11, 2022 meeting, the NBG decided to keep the monetary policy rate at a relatively high 11 percent.

The lari appreciated against the US dollar through mid-April and has seen stabilized at its level prior to the war in Ukraine. The lari depreciated sharply in the immediate aftermath of the war in Ukraine but has since recovered (11 percent of its value as of May 10). In yoy terms, the Lari is now 11.7 percent stronger as compared to May 2021. In addition, the nominal effective exchange rate (NEER) has appreciated even more strongly in April (27.5 percent yoy). At the same time, gross official reserves declined by USD 0.2 billion in April to USD 3.8 billion, which still provides a reasonable cover of around 4.2 months of goods imports.

Credit and deposit growth remained robust in April. Credit growth in the banking sector remained high in April at 14.7 percent yoy (excluding the impact of exchange rate differences). Lari loans expanded by 22 percent yoy, driven by higher consumer loans, while business loans grew at 17 percent yoy. Deposits expanded by 13.3 percent yoy in April, with dollar denominated deposits catching up with lari deposits and expanding by around 13 percent yoy. Banking sector profitability indicators moderated in March but remained healthy. Return on assets (ROA) of the banking sector and Return on Equity (ROE) in March amounted to 2.7 and 20.8 percent, respectively, compared with 3.0 percent and 23.1 percent in February. NPLs remained low at 2.1 percent.

Fiscal performance remains healthy. The budget deficit remained close to zero in Q1-2022 with robust tax collection offsetting sharp increase in current spending. Tax collection continued to perform well in April 2022, up by 27.2 percent yoy, mainly driven by strong personal and corporate tax collection, up 50 percent yoy and 62 percent yoy respectively. Despite balanced budget, Government deposits declined in April, reportedly due to debt repayments. As of end March public debt stood at 51.0 percent of GDP, well below statutory limits.
Figure 1. The economic recovery was robust in Q1-2022 (year-on-year, in %)

Source: Geostat

Figure 2. Annual Inflation picked up in April (year-on-year, eop, in %)

Source: Geostat

Figure 3: External trade turnover decelerated in March (year-on-year, in %)

Source: Geostat

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

Source: NBG

Figure 5: The lari has appreciated since late March

Source: NBG

Figure 6: The budget was nearly balanced in Q1-2022 (GEL m)

Source: MOF