

- *Boosted by increased activity in the construction, financial intermediation, transport, and trade sectors, growth was estimated at 7.3 percent in March.*
- *In April, fuel prices dropped by approximately 30 percent yoy, bringing headline inflation down to 2.7 percent yoy.*
- *The population of Georgia increased by 1.3 percent in 2022, thanks to immigration.*
- *In March 2023, the goods trade balance widened due to a strong increase in imports, particularly of used cars.*
- *While deposit growth remained robust in March, credit growth slowed down.*
- *The fiscal accounts for March 2023 show a small deficit.*

The economy grew by 7.3 percent in March and by 7.2 percent in the Q1 2023 (yoy). In March, construction, finance and insurance, trade, transportation and storage, information and communication, and hospitality were the main drivers of this growth. In contrast, manufacturing, real estate activities, and professional, scientific and technical activities experienced a decline. There were approximately 7.1 thousand new business entities registered, a 9 percent increase month-on-month but a 21 percent decline year-on-year. It is worth noting that March 2022 marked the start of business activities resulting from the first wave of immigrants.

The population of Georgia increased by 1.3 percent in 2022, reaching a totally of 3.736 million, according to Geostat. This growth was driven by a net positive migration of 55 thousand individuals, while the natural increase contributed negatively with 7 thousand fewer births than deaths. In 2022, Georgia experienced a strong positive net migration for the first time in three decades (excluding 2020, the year of the pandemic).

In April, consumer prices dropped below the NBG target. Inflation declined by 0.7 percent (mom), bringing annual headline inflation to 2.7 percent (yoy), down from 5.3 percent in March. The main driver was a 30 percent yoy drop in fuel prices (driven by a similar decline in global oil prices), which accounted for a decrease of 1.7 percentage points in headline inflation. In addition, reduced drug prices contributed 0.7 ppt to the overall price decline. The introduction of external reference pricing for key pharmaceuticals and the facilitation of imports of drugs from Türkiye contributed to this decline. In contrast, food prices (+2 ppt yoy) and utilities (+1 ppt yoy) positively contributed to inflation in April. Meanwhile, the industrial producer price index (PPI) declined by 5.2 percent in March (yoy), hitting a record low since 2016, and confirming weaker supply-side price pressures. In response, the National Bank of Georgia (NBG) cut the monetary policy rate by 50 basis points, to 10.5 percent in May (the first reduction since March 2022).

The March goods trade balance reflects rapid growth in exports but also a strong upturn in imports. Exports rose

33 percent (yoy) in March, compared to 6 percent in February, while imports also rose 33 percent (yoy), up from a 5 percent decline in February. As a result, the trade deficit also widened by one-third. Export growth was driven by re-exports, with re-exports of used cars (mainly from the USA) increasing nearly eightfold (yoy), to USD 174 million; almost 90 percent of those exports went to the Kyrgyz Republic, Azerbaijan, Armenia, and Kazakhstan. Similarly, imports were driven by used cars in March. Meanwhile, exports of domestic products dropped by 18 percent in March (yoy), driven by a six-fold reduction in the exports of ferroalloys, dropping both in quantity (3-fold yoy) and in price per ton (halved yoy).

The external position continues to be supported by money transfers, primarily from Russia. Money transfers rose by 18 percent in March (mom) and by 127 percent yoy. The main source country was Russia, with a 50 percent share in total inflows, marking an eight-fold increase since March 2022. The tourism industry experienced an impressive recovery in Q1 2023, with the number of foreign visitor arrivals reaching 88 percent of 2019 levels (excluding arrivals from Azerbaijan)¹ and doubling compared to Q1 2022. Official reserves stood at USD 5.0 billion (equivalent to 4.3 months of imports). Positive developments in external trade and other external accounts led to the continued appreciation of the lari against the dollar in April 2023, with an 18.4 percent appreciation yoy and a 2.5 percent appreciation mom.

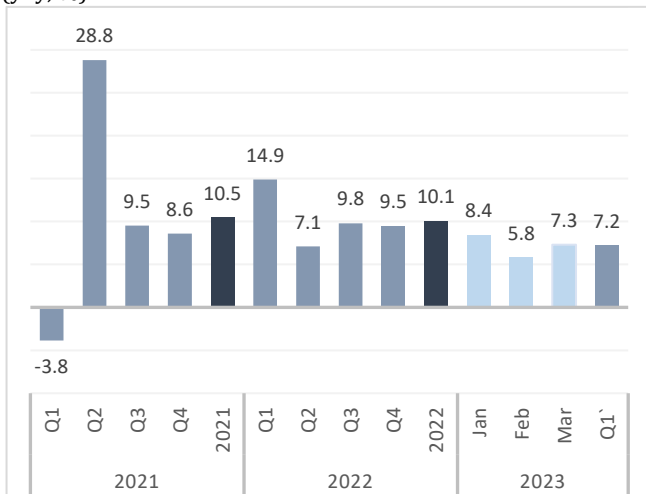
Annual bank deposit growth remained high. In April 2023, the total stock of deposits increased by 30 percent (yoy, excluding the effect of the exchange rate), a performance similar to that of Q1. This increase was driven by both local and foreign exchange deposits, which increased by 39 and 23 percent respectively (yoy). Nominal credit growth continued at a pace of 13 percent (yoy) in April. GEL loans increased by 16 percent (yoy) in nominal terms, while foreign exchange loans rose by 11 percent (yoy). The banking sector remained healthy, with a slight improvement in return on assets and return on equity, increasing to 3.4 percent and 24.9 percent respectively in March. Non-performing loans (NPLs) (90 days past due) stood at 1.7 percent by the end of March, 0.6 ppt lower than in March 2022.

The fiscal performance in March 2023 was almost balanced, with a deficit of less than 0.2 percent of projected GDP. General government tax revenues moderated overall, declining by 8 percent (yoy) in nominal terms. Total revenues also declined, by 4.3 percent (yoy). The decline was mostly due to other taxes, which are net of VAT refunds. Government current expenditure grew marginally by 2.6 percent (yoy), while compensation of employees increased by 24 percent yoy, mainly due to salary increases. Capital expenses increased by 8 percent (yoy). Public debt benefited from the contained deficit and the appreciation of the lari, falling to GEL 28.9 billion in March, equivalent to 35 percent of projected GDP.

¹ These numbers exclude arrivals from Azerbaijan as the land border has remained closed since the COVID-19 pandemic, resulting in a

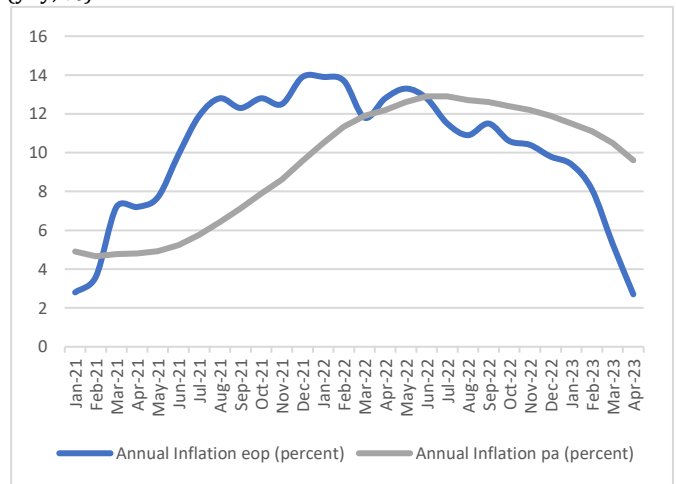
significant decline in the number of arrivals from Azerbaijan compared to pre-pandemic levels.

Figure 1. Economic growth picked up in March
(yoy, %)



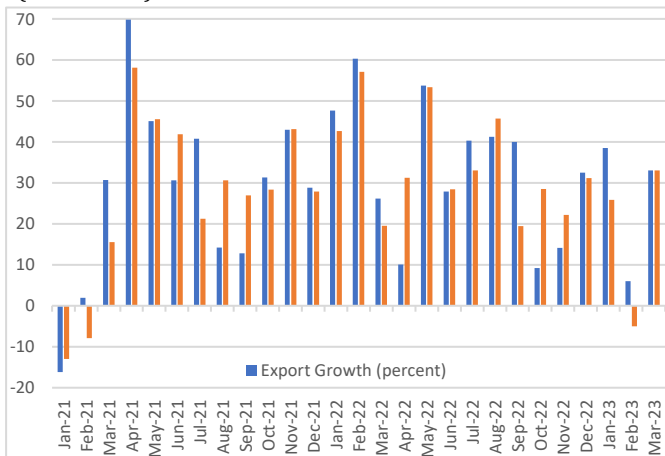
Source: Geostat

Figure 2. Inflation continued to decline in April
(yoy, %)



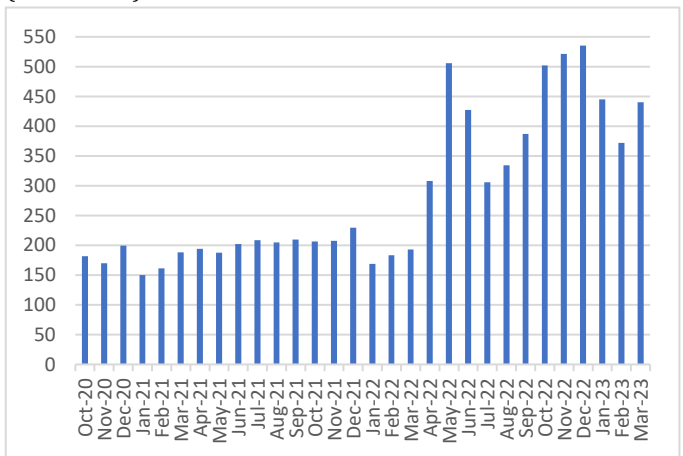
Source: Geostat

Figure 3: Trade flows saw a significant increase in March
(US\$ million)



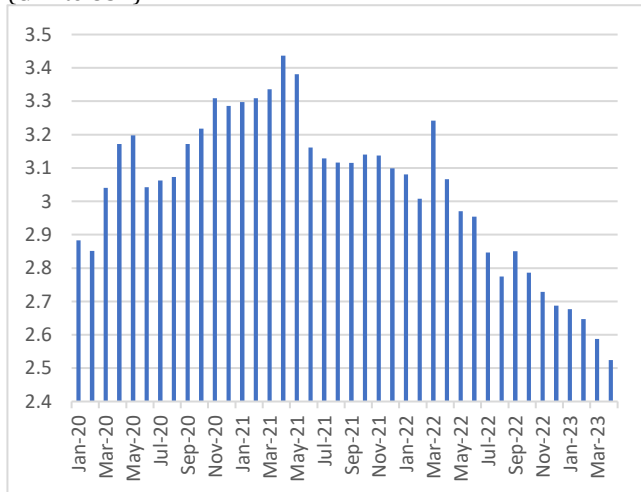
Source: Geostat

Figure 4. Money transfers from abroad picked up
(mom) (US\$ million)



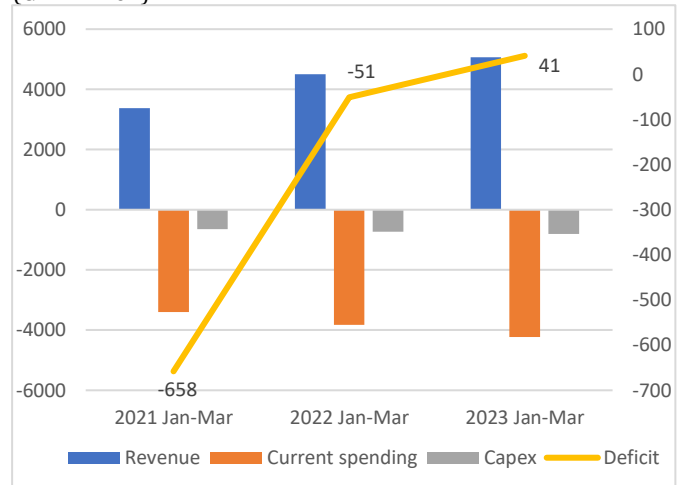
Source: NBG

Figure 5: The GEL continued to appreciate in April
(GEL to USD)



Source: NBG

Figure 6: The fiscal accounts were in surplus in the first quarter, despite a small deficit in March
(GEL million)



Source: Ministry of Finance