WORLD BANK GROUP
Macroeconomics, Trade & Investment

- *Growth was robust in July, reaching 9.7 percent (yoy).*
- *Foreign Direct Investment (FDI) inflows remained strong in Q2 and reached 3.8 percent of annual GDP during the first half of 2022.*
- *Annual inflation slowed in August to 10.9 percent (yoy).*
- *The trade deficit widened by 40 percent (yoy) in August, driven by strong imports of goods and offset ting a similarly impressive performance of exports.*
- *Money transfers remained strong in August, growing at 62 percent yoy overall during the first eight months of the year.*
- *The fiscal deficit reached 1 percent of GDP during January-July 2022*

Growth accelerated in July. Real GDP growth expanded by 9.7 percent (yoy) in July and by 10.3 percent overall during the first 7 months of 2022. Growth in July was driven by transport, construction, IT services, mining, and trade, while manufacturing contracted. On the expenditure side, robust credit growth coupled with an inflow of money transfers and tourism receipts fueled consumption. Georgia also benefited from strong FDI inflows, which increased by 9 percent (yoy) in Q2 and doubled in the first half of the year as compared to H1 2021. In addition, real estate and the financial and manufacturing sectors benefited the most from FDI inflows. According to enterprise survey data, employment in the business sector increased by 5.4 percent (yoy) in Q2 2022 while the wage bill grew by 23.4 percent in nominal terms (yoy).

Annual headline inflation eased in August. Prices increased by 0.1 percent in August (mom). Annual inflation declined from 11.5 percent (yoy) in July to 10.9 percent (yoy) in August. Annual inflation in August was driven by higher prices of food (15.8 percent, yoy), transport (15.6 percent, yoy), and housing and utilities (12.4 percent, yoy), with these three categories accounting for 75 percent of total annual inflation. Core inflation (excluding food, energy, and administered prices) reached 7 percent (yoy) in August as compared to 7.1 percent in July and 5.8 percent (yoy) in June. It is noteworthy that the price of transport, which includes fuel prices, declined by 3.1 percent (mom) with respect to July. The National Bank of Georgia (NBG) kept monetary policy rate tight at 11 percent in September, following a 50 basis points increase in March.

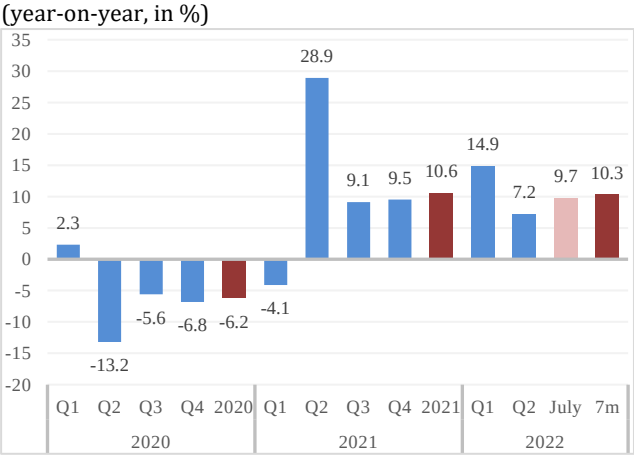
External trade increased considerably in August, with both imports and exports contributing. The value of merchandise imports in nominal USD grew by 39.7 percent (yoy), driven by strong domestic demand and higher commodity prices. Meanwhile, exports grew by 40.2 percent. As the import bill is more than double that for total exports, the trade deficit continued to widen, reaching almost USD 4.8 billion by end-August (a 36 percent increase, yoy). Merchandise exports growth during the first 8 months of the year were driven by increased demand and higher prices for key commodities (copper ore, ferroalloys, nitrogen fertilizers). Major countries of destination were China, Azerbaijan, Russia, and Turkey, together accounting for 46 percent of total exports in the first 8 months of 2022. Imports increased by 36.5 percent during January-August compared to the same period of the previous year, reflecting higher imports of oil and oil-related products, used cars, and natural gas.

Money transfers and tourism proceeds supported private consumption and helped strengthen the lari. Money transfers declined by 28 percent (mom) in July vis-à-vis June and picked up by 9 percent mom in August remaining strong overall during the first 8 months of the year (62 percent, yoy). This reflected a 3-fold yoy increase in money transfer inflows from Russia in August (yoy) and 5-fold increase during the April to August period. International visitor trips surged by 179 percent in August (yoy), though this is still almost one third below pre-COVID-19 levels. The lari remained strong, appreciating by 6 percent against the USD as of late September as compared to Pre-war rate in February. During August and September, the National Bank of Georgia (NBG) purchased USD 121 million through interventions. Official reserves remain comfortable at USD 4.2 billion, providing over 4 months of goods import cover.

Deposit growth accelerated sharply in August. The stock of total deposits increased by 22.8 percent (yoy) excluding exchange rate effects. This was driven by both local and foreign exchange deposits against a backdrop of increased uncertainty and rising interest rates globally. Nominal credit growth remained high while easing slightly to 18.4 percent in August. Lari loans expanded by 20 percent (yoy) in nominal terms, while foreign exchange loans grew by only 3.3 percent (yoy). Banking sector profitability indicators remained healthy. Return on assets (ROA) and return on equity (ROE) were stable in August, at 3.1 and 23.8 percent, respectively. Non-performing loans (NPLs) remained low at 2.0 percent (measured as 90+ days overdue).

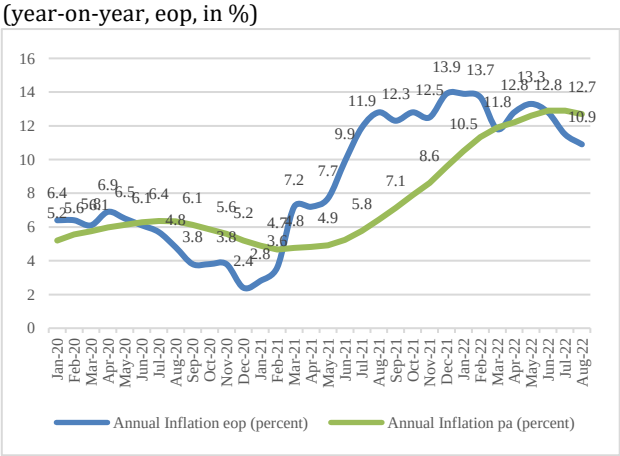
The fiscal balance remained in check. Tax collection by the central government increased by 20.6 percent (yoy) in nominal terms in August and by 29 percent (yoy) during the first 8 months of 2022 compared to the same period of the previous year. Meanwhile, public expenditures grew at 8.6 percent (yoy) in July, a decline in real terms. Social spending experienced the sharpest cuts as its value declined by 1.1 percent in nominal terms, a more than 13 percent real term fall. This was in part due to the unwinding of measures adopted during the pandemic. Other current and capital spending also declined in real terms during July. As a result, the fiscal deficit amounted to 1 percent of GDP in the first 7 months of 2022 compared to 3.8 percent in the same period of 2021. Public debt also benefited from the contained deficit and the appreciation of the lari, falling below 40 percent of projected GDP as of end-July.

Figure 1. Growth remained robust in July
(year-on-year, in %)



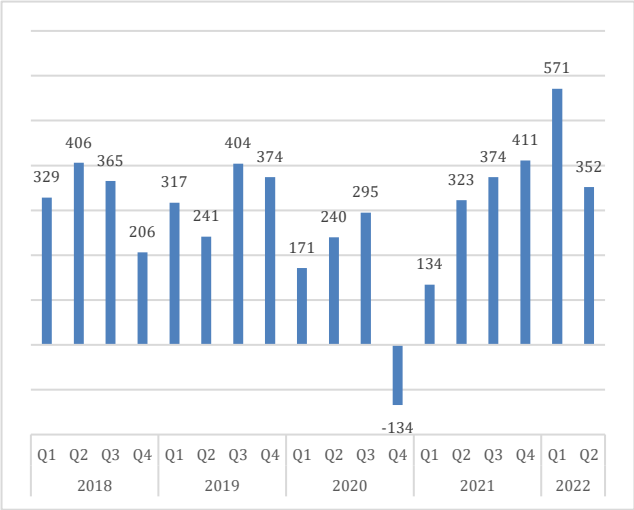
Source: Geostat

Figure 2. Inflation eased in August
(year-on-year, eop, in %)



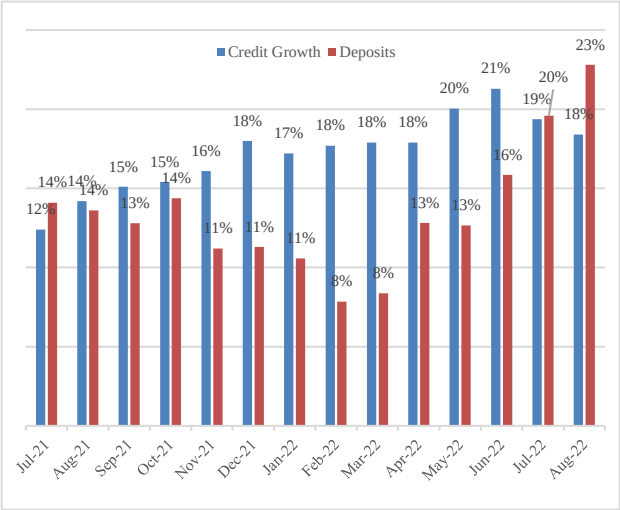
Source: Geostat

Figure 3. FDI remained robust in Q2 (yoy)
(yoy, in %)



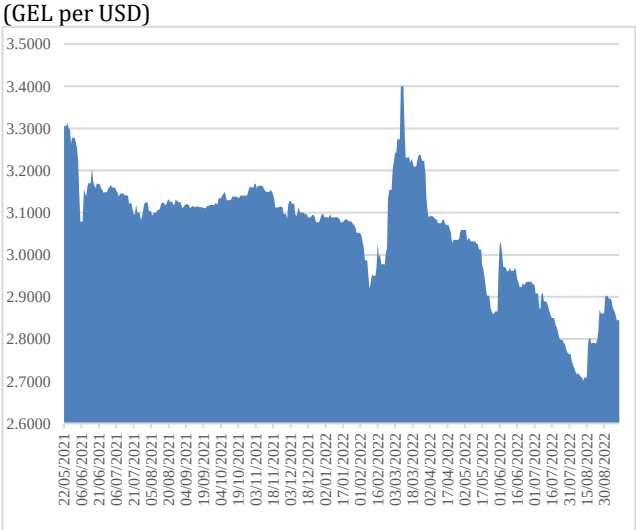
Source: Geostat

Figure 4. Deposits further accelerated in August
(yoy, in %)



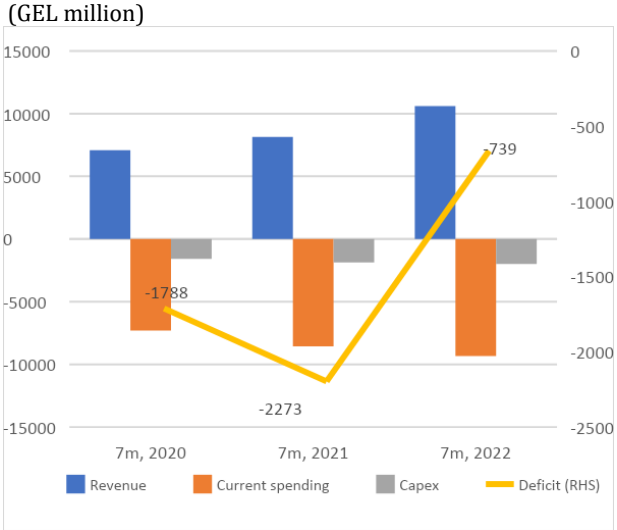
Source: NBG

Figure 5. The lari remained strong against the USD in August and September
(GEL per USD)



Source: NBG

Figure 6. The fiscal deficit narrowed considerably in the first seven months of 2022
(GEL million)



Source: MoF