Growth remained robust during the second quarter. The economy grew by 7.2 percent (yoy) in June and by 7.2 percent overall during Q2 2022. Growth remains broad-based, driven by transport, energy, hotels and restaurants, manufacturing, and construction. On the expenditure side, household consumption in Q2 was supported by robust credit growth and an increase in the inflow of remittances and receipts from foreign visitors. Construction permits increased by 15.6 percent during the first half of 2022 (yoy), suggesting recovery in domestic investment. According to high-frequency surveys, employment continued to recover, with 47 percent of respondents employed in May 2022 as compared to a low of 32 percent in December 2020 and 51 percent prior to the pandemic.

A new COVID-19 wave has been building up in recent weeks. Georgia reported 500 daily confirmed COVID-19 cases per million people during the week to August 11 compared to 200 daily confirmed cases per million in the second week of July. The test positivity rate also more than doubled in the same period, from 8.1 percent to 16.8 percent. The rate of vaccination remains low, with less than half of the adult population having received at least one dose of the vaccine as of end-July. Overall, given the lower pressure on healthcare services and the lack of associated restrictions, this wave, unlike previous ones, is not expected to have a significant impact on economic activity.

Headline inflation remained elevated but relatively stable in July. Prices increased by 0.2 percent (mom) and by 11.5 percent in July (yoy). Monthly inflation in July was driven by higher prices for hotels and restaurants, transport, and household equipment and maintenance. On the other hand, the price of clothing, food, and non-alcoholic beverages declined with respect to June. Annual average inflation stabilized at 12.9 percent (yoy) in July and continues to be driven by higher food and fuel prices as well as utility tariffs, being jointly responsible for over three-quarters of inflation. According to high-frequency surveys from May 2022, about three-quarters of the respondents from low-income households reported to have reduced food consumption in response to rising prices. The National Bank of Georgia (NBG) kept the monetary policy rate unchanged at 11 percent in July following a 50 basis points increase in March.

External trade volumes increased in July, with both import and export flows contributing. The value of merchandise imports in nominal USD grew by 26.3 percent (yoy), driven by strong domestic demand and higher commodity prices. Meanwhile, exports grew by 39.8 percent. As the import bill is more than double that of total exports, the trade deficit continued to widen, reaching almost USD 4 billion by end-July (a 33 percent increase, yoy). Merchandise exports growth during the first months of the year was driven by increased demand for—and higher prices of key commodities (copper ore, ferroalloys, nitrogen fertilizers). Major destinations were China, Azerbaijan, Russia, and Turkey, accounting for 47 percent of total exports in the first half of 2022. Imports increased by 35.3 percent during January-July compared to the same period in the previous year, reflecting higher imports of oil and oil products, used cars, and natural gas.

Remittances and tourism surged, supporting a strengthening lari (GEL). The Georgian economy continued to benefit from extraordinary inflows of money transfers, up 46.8 percent (yoy) in July. This reflected a sharp increase in flows from Russia, amounting to USD 678 million in Q2 as compared to USD 104 million during the same period in 2021. According to the Georgian National Tourism Administration, international visitor trips surged by 158.9 percent in July 2022 (yoy), though still a third below pre-COVID-19 levels. The lari strengthened in July against the USD, EUR, and RUB. During the first ten days of August, the NBG purchased USD 70 million in foreign exchange auctions. Official reserves remain comfortable at USD 4.1 billion, providing 4 months of goods import cover.

Deposit growth continued to accelerate in July. Nominal credit growth eased slightly in July to 19.3 percent. Lari loans expanded by 21.1 percent (yoy) in nominal terms, driven by higher consumer loans, while foreign exchange loans grew by 2.6 percent (yoy). Deposit growth (19.6 percent, yoy) accelerated for the second consecutive month, driven by USD-denominated deposits and against the backdrop of increased uncertainty and rising interest rates globally. Banking sector profitability indicators remain healthy. Return on assets (ROA) and return on equity (ROE), at 3.1 and 24.9 percent, respectively, remained stable in Q2 when compared to first quarter figures. Non-performing loans (NPL) measured as 90+ days overdue remained low at 1.9 percent.

The fiscal balance remains in check. Tax collections by the central government increased by 26.9 percent (yoy) in nominal terms in July and by 33.6 percent (yoy) during the first half of 2022 compared to the same period in the previous year. Meanwhile, public expenditures slowed in June and grew by 9.3 percent (yoy) during the first half of 2022. Wages (10.8 percent growth) and social assistance (3.6 percent growth) grew by less than the average rate during the first six months of the year and declined in real terms. Interest payments declined due to exchange rate appreciation. As a result, the fiscal deficit during January-June was about 0.6 percent of GDP, in line with the fiscal consolidation path for the year. Public debt also benefited from the contained deficit and the appreciation of the lari, experiencing a 5 percent reduction in Q2 (yoy).

For additional information: Mariam Dolidze, Sr. Economist, mdolidze@worldbank.org
Figure 1. Growth remained robust in June (yoy, in %)

Source: Geostat

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

Source: Geostat

Figure 3. Export growth accelerated in July while imports growth remained strong (yoy, in %)

Source: Geostat

Figure 4. Deposits growth continued to accelerate in July (yoy, in %)

Source: NBG

Figure 5. The lari strengthened in July against the USD and other major currencies (GEL per USD)

Source: NBG

Figure 6. The fiscal deficit considerably narrowed during the first half of 2022 (GEL million)

Source: MOF