- *Economic growth picked up strongly in February to 9.5 percent (yoy), driven by manufacturing and construction.*
- *Consumer prices stood still (mom) in March, with food prices rising slightly.*
- *Trade flows experienced a slight increase (yoy) in February, with imports increasing at a faster rate than exports.*
- *Inflows of transfers from abroad continued to decline in February (yoy).*
- *The banking sector remained healthy in February.*
- *The fiscal deficit widened in February (yoy) as strong revenue collection was offset by higher spending.*

The economy expanded by 9.5 percent (yoy) in February and by 7.7 percent since the beginning of the year. Growth in February was driven by the continued strong performance in the construction, manufacturing, financial, and IT sectors. Meanwhile, a contraction was registered in energy and mining. The total turnover of value-added taxpayers rose by 11.8 percent (yoy) in February in nominal terms, while the number of new business openings fell by 5.8 percent (yoy), to 6.2 thousand entities.

The Consumer Price Index (CPI)stood still in March (mom) as prices for most products remained unchanged. A slight increase in transportation costs was offset by a decline of health prices (mom). Annual inflation increased by 0.5 percent (yoy). The increase in transport prices reached 8.0 percent annually (contributing 1.0 percentage points to inflation), while food prices declined by 3.4 percent, thereby alleviating the pressure. Within the food category, the decrease primarily resulted from lower prices for oil, fats, and vegetables as well as bread and dairy products. Core inflation stood at 2.4 percent (yoy). Against this backdrop, the Monetary Committee of the Central Bank cut its policy rate by 0.75 ppt in March to 8.25 percent. The GEL depreciated by 1 percent (mom, eop) against the USD in March and by 1.6 percent against the EUR.

Foreign Direct Investment (FDI) inflows dropped by 24 percent in 2023 (yoy), averaging 4.5 percent of GDP. The inflows were fueled by reinvested capital and equity, constituting 154 percent of total FDI. Meanwhile, other liabilities (trade credits and loans) contributed negatively. In 2023, the financial and manufacturing sectors attracted 58 percent of the $1.6 billion FDI, while the real estate sector witnessed a significant drop, plummeting from $367m to $60m compared to the previous year. In terms of country composition, the UK, the Netherlands, Türkiye, and the USA accounted for 67 percent of total FDI in 2023.

The current account deficit widened slightly in 2023 in nominal terms. In relative terms, the current account deficit narrowed to 4.3 percent of GDP from 4.5 percent in the previous year. Large improvements in the services trade balance (29 percent increase) and transfers (9 percent increase) offset the widening deficit of goods trade and primary income. On the financing side, FDI inflows and external borrowings fully covered the current account gap, while net outflows of portfolio investments led to a slight decline (of $47m) in international reserves in 2023.

The goods trade deficit widened in February, with imports rising at a faster rate than exports, while money transfers continued to decline. Exports of goods grew by 2 percent (yoy) following a 26 percent decline in January, and imports increased by 4.4 percent (yoy). Overall, the goods trade deficit deteriorated by 6 percent (yoy) in February. Growth in exports was driven by the re-export of cars and domestic produce, which increased by 14 and 10 percent (yoy) in February, respectively. At the same time, exports of copper ore were negligible, contrasting sharply with a 17 percent share of total exports in February 2023. Key countries of origin for imports in February were Türkiye, Russia, China, the USA, and Germany, contributing 55 percent to total imports. Gross money transfers registered a 27 percent decline (yoy) in February. This was driven by a 67 percent yoy drop in transfers from the Russian Federation. Transfers from Italy, the USA, Israel, and Germany jointly increased by 23 percent and partially offset the decline from Russia.

The banking system remained healthy. Credit portfolio growth picked up slightly, reaching 17 percent (yoy) in February, with foreign currency-denominated loans rising by 14 percent (yoy). Deposit growth reached 13 percent in February (adjusted for foreign exchange effects), driven by domestic currency deposit growth (27 percent yoy). As a result, deposit dollarization fell by 5.6 percentage points over the year, to 49.2 percent as of end-February 2024.

The fiscal deficit widened slightly in February as compared to the same period in 2023. The deficit amounted to 0.2 percent of GDP in February. General government tax collection increased by 17 percent (yoy) in nominal terms, driven mostly by a strong VAT performance (up by 29 percent yoy) supported by domestic demand. Meanwhile, current spending increased by 18 percent (yoy), and capital spending expanded by 30 percent (yoy) in February. The growth in current spending was driven by goods and services and subsidies as well as other spending. At end-February 2024, public debt stood at 36.5 percent of GDP, down from end-February 2023 (equivalent to 37.8 percent of GDP).

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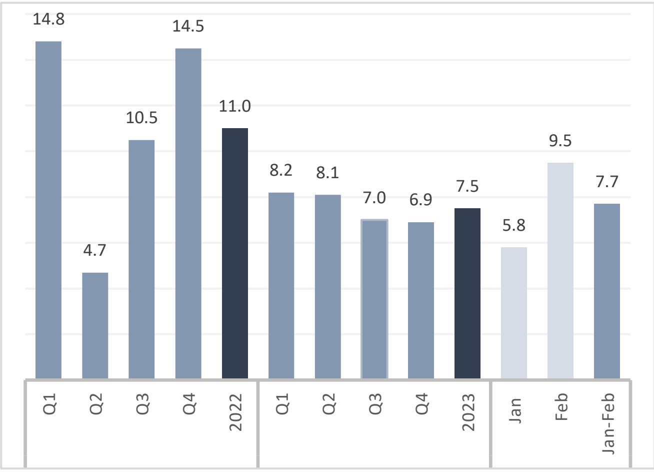
Figure 1. Growth accelerated in February 2024

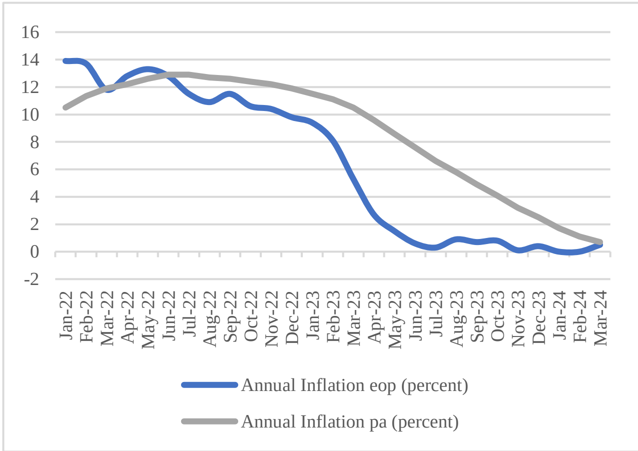
(yoy, %)



Source: Geostat

Figure 2. The CPI was stable in March

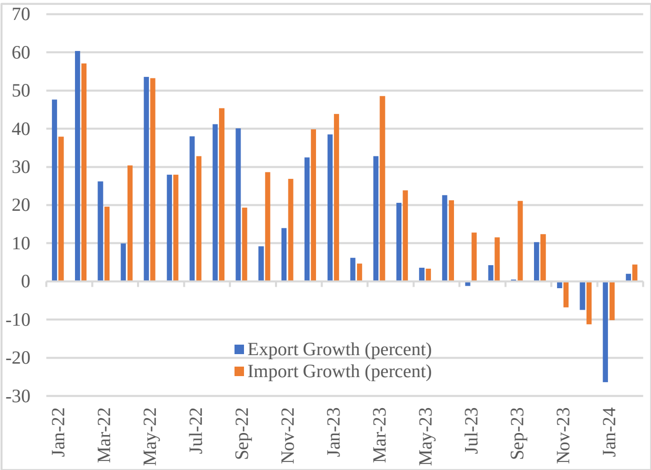
(yoy, %)



Source: Geostat

Figure 3: The trade deficit widened in February

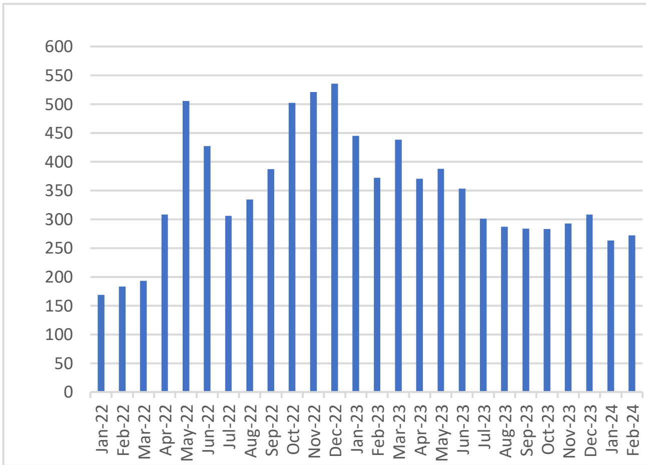
(yoy, %)



Source: Geostat

Figure 4: Remittances declined in February (yoy)

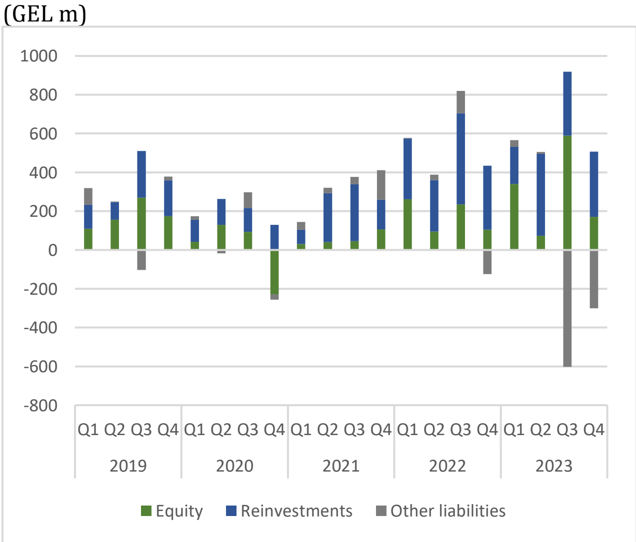
(USD million)



Source: NBG

Figure 5: FDI declined in 2023 compared to 2022

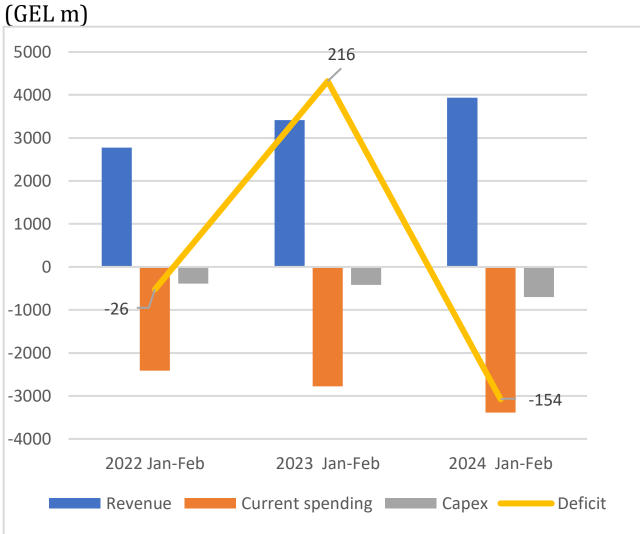
(GEL m)



Source: Geostat

Figure 6: The fiscal deficit widened in the first two months of 2024

(GEL m)



Source: Ministry of Finance