- *The economy grew by a strong 5.2 percent in 2019, despite growth in December slowing to 3.8 percent.*
- *The trade deficit widened in December as imports recovered but improved by 8 percent for the year as a whole.*
- *After stabilizing in December 2019, inflation declined in January 2020.*
- *The lari remained stable in December 2019 and January 2020 as external balances remained strong.*
- *Credit growth in December 2019 and January 2020 remained robust, driven by lari-denominated lending, as dollar-denominated consumer loans continued to contract.*
- *Strong revenue performance allowed the government to exceeded planned expenditures while meeting the deficit target in 2019.*

GDP growth moderated to 3.8 percent year-on-year (yoy) in December 2019. Slower public investments, partly due to an exceptionally high comparison base a year earlier, and contraction in gambling turnover drove the growth moderation. Despite this, growth for the year, at 5.2 percent, was stronger than expected. Recovery in the construction and manufacturing sectors, as well as accelerations in trade, IT and gambling activities in the second half of the year supported the strong growth. Positive trends in private and public consumption and in net exports as well as recovery in public and private investments in the second half of the year contributed from the demand side. Going forward, a more challenging external environment is projected to slow growth to 4.3 percent in 2020.

Net exports contributed strongly to the growth. In December, exports of goods grew by 19 percent and imports caught-up as well (at 13 percent yoy). Annually, in 2019, export expanded by 12 percent and imports remained almost flat. As a result, the trade deficit widened in December (yoy) while it narrowed by 8 percent for the year as a whole.

Other components of the current account also performed well. Net remittances from abroad increased by 14 percent in December yoy, bringing the growth for the year up to 11 percent. Russia's share in remittances declined to 25 percent, with Italy, USA, Israel and Germany accounting for most of the increase. Tourism receipts recovered following the contraction in the third quarter and were 5.3 percent higher in December than a year ago. At the same time, the number of foreign tourists increased by 15 percent.

Inflation stopped increasing in late 2019, in line with tightening of the monetary policy. Headline inflation was 6.4 percent (yoy) in January 2020, declining from 7 percent in late 2019. Food prices contributed 3.6 percentage points to the January inflation, while alcohol and tobacco added another 0.8 percent. Overall prices increased by 0.7 percent in January month-on-month (m-o-m), fully on account of food inflation. After hiking the policy rate by a cumulative 250 basis points (to 9.0 percent) between September and December, monetary policy remained unchanged in January.

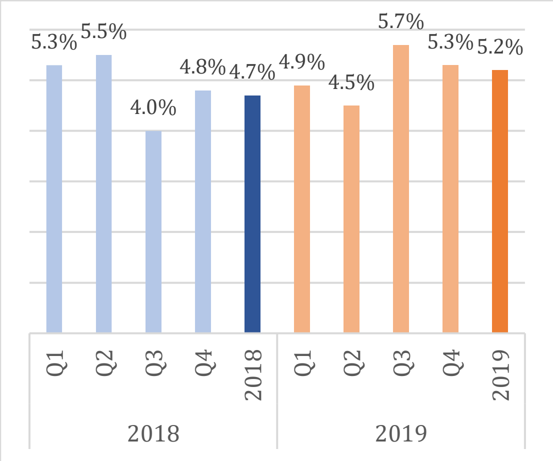
The lari has been stable recently. Depreciation pressures on the lari have diminished since December 2019. Between end-November and end-January 2020, the lari gained around 2.6 percent against the US$. The exchange rate strengthened in early February to 2.86GEL/US$. The real effective exchange rate depreciated by 13.6 percent as of end August but has recovered since then to 5.3 percent depreciation yoy by end-December. International reserves increased to US$3.5 billion towards the end of 2019, in part due to disbursement of budget support loans from IFIs and stayed stable in early 2020.

Credit growth accelerated towards the end of 2019. Credit expanded by 15 percent yoy in December 2019, driven by lari denominated loans (up by 24 percent yoy), while growth of foreign currency denominated loans slowed to 8.5 percent (from 15.6 percent in December 2018). Borrowing by businesses drove the acceleration of credit especially after June 2019. Denomination of consumer loans shifted from foreign (down by 4 percent yoy) to local currency (up by 27 percent yoy). Deposits grew by 9.1 percent yoy in December 2019, mostly driven by lari deposits. Financial soundness indicators remain solid, with profitability improving. Return on Equity and on Assets stood at 17.8 percent (1.6 pp lower than previous year) and 2.2 percent (0.3 pp lower than previous year), respectively, in December 2019. The share of non-performing loans (NPL) to gross loans declined and remains low at 1.9 percent.

The fiscal outturns in 2019 exceeded plans. Strong revenue performance, prioritization of new municipal investment projects and new initiatives in the education system triggered the budget law amendments in November 2019. While the state budget's annual execution was largely in-line with the amended appropriations, the general government spending was higher than projected by 1.3 percent of GDP mostly due to higher public investment at the municipal level. Part of the tax revenues was kept in a special treasury sub-account to facilitate VAT refunds in 2020. With these funds excluded from revenues, the 2019 budget deficit reached 3 percent of estimated GDP[1]. The medium-term fiscal framework envisages a deficit level of 2.5 percent in 2020.

[1] Revenues minus expenses and net financial and non-financial assets.

Figure 1. Growth was robust in 2019
(year-on-year, in %)

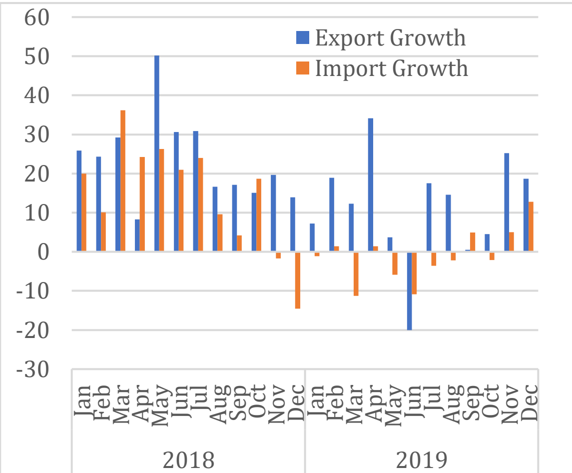


Source: Geostat

Figure 2. Inflation declined in January
(year-on-year, in %)

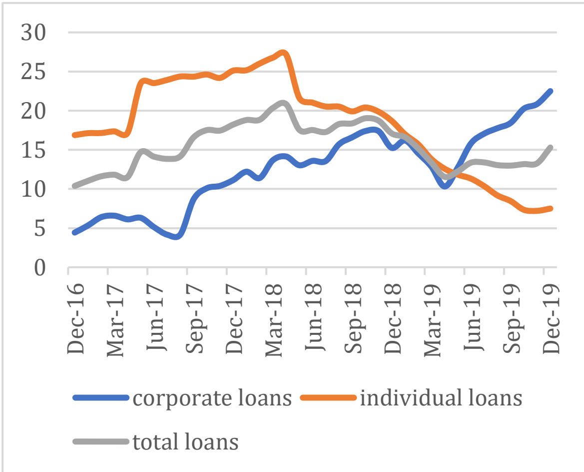
Source: Geostat

Figure 3: Exports remained strong while imports also recovered
(year-on-year, in %)



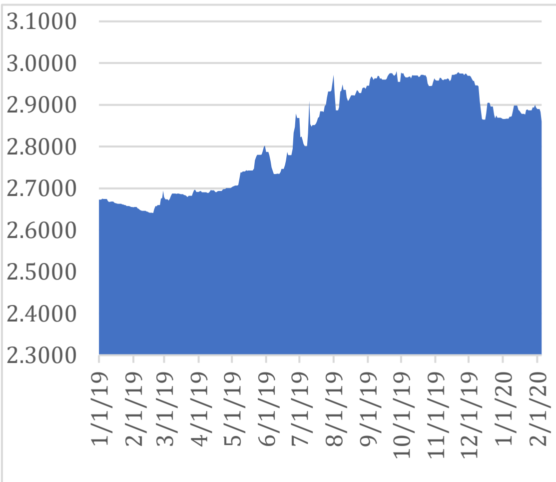
Source: Geostat

Figure 4. Credit growth remains robust driven by corporate lending
(year-on-year, in %)



Source: NBG

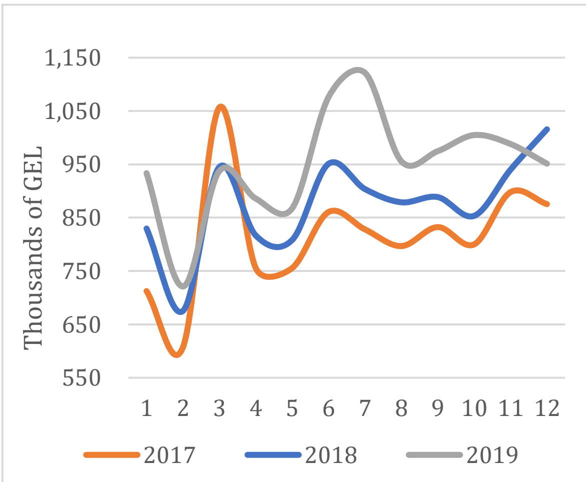
Figure 5: The lari stabilized since November and appreciated in January
(GEL/US$)



Source: NBG

Figure 6: Tax revenues strongly overperformed

(GEL million)



Source: MOF