After a strong showing in September, when output was down only 0.7 percent yoy, the Georgian economy shrank by 3.9 percent yoy in October, amidst a worsening COVID-19 outbreak. With this, the year-to-October contraction reached 5.1 percent yoy. On the production side, the downturn is broad-based, including in transport, construction, manufacturing, restaurants and hotels, cultural and entertainment activities, with financial intermediation the only sector experiencing growth. On the expenditure side, domestic demand moderated as COVID-19 cases accelerated sharply in October triggering the reintroduction of limited restrictions in major cities, while external demand remains erratic.

Economic activity will likely weaken further in November and December. Mobility was already on a downward trend in November in response to the very high infection rates and further declined with the introduction of more stringent restrictions on November 28, including closure of non-essential establishments, suspension of public transport in major cities and country wide mobility restriction at night. As a result, mobility in Tbilisi fell from an average of 75 percent of its pre-COVID levels in the week ending October 2 to 53 percent in the week ending November 30. At the same time, electricity consumption and daily tax collection appear to be holding up so far.

Foreign trade turnover fell sharply in October driven by a 24 percent yoy decline in imports. Exports also declined marginally by 2 percent yoy. Import compression led to a narrowing of the trade deficit, by 35 percent yoy in October, with the year-to-October trade deficit narrowing by 20 percent yoy. Tourism revenues remain depressed, with tourist arrivals in October only 7 percent of last year’s level. Meanwhile, remittances remained strong, growing by 18 percent yoy in October and by 7.5 percent ytd, though this could also reflect growing formalization of the transfers as physical movement remains restricted.

FDI inflows, at almost 2 percent of GDP in Q3, were weak in yoy terms but still contributed significantly to external financing. FDI inflows amounted to 4.5 percent of GDP in the first three quarters, which is 24 percent yoy less than the period in 2019. Nevertheless, inflows largely covered the external financing gap in the first half of 2020. Financial and energy sectors attracted most of the investments (54 percent of total) followed by manufacturing and mining (22 percent of total). UK and the Netherlands accounted for the most investments.

After some volatility, the lari stabilized in November and appreciated slightly in December. The lari depreciated by 5 percent in the first days of November reflecting the post-election political tensions, but stabilized subsequently and appreciated marginally in early December reflecting the slowing domestic demand, improved external balances and interventions from the National Bank of Georgia (NBG), which sold $193 million in November and early December. Reserves, supported by disbursements from development partners, remained comfortable, and at USD 3.8 billion as of end-November, provide 6 months of goods import cover. Furthermore, the European Central Bank and NBG launched a €100 million repo line to supply euro liquidity in case of necessity.

After declining for five consecutive months, inflation remained stable at 3.8 percent in November. Falling oil prices were offset by a marginal increase in food prices. Core inflation, excluding food, alcohol and tobacco products was at 4.8 percent. While inflation is now closer to the NBG’s target of 3 percent, the renewed volatility of the lari and the uncertainty associated with the pandemic and geopolitical risks could reverse these trends. In response, the NBG maintained its policy rate at 8 percent in December.

Credit growth slowed in November but remained healthy at 13 percent yoy (excluding exchange rate impact). Lari denominated loans grew by 18 percent yoy and FX lending increased by 9.5 percent yoy. Deposits grew by 20 percent yoy in November, up from 17 percent yoy in October. Banking sector profits remained positive, though lower compared to a year ago while profitability indicators remain impacted by the frontloading of potential losses in March 2020. The share of non-performing loans increased slightly, to 2.8 percent in November, though some sectors such as construction appear to be more affected.

The fiscal deficit widened sharply in October, as spending accelerated while the recovery of revenues remains gradual. Government spending accelerated by 41 percent yoy in October and by 21 percent in the year-to-October driven by social and capital spending. Revenues fell by 10 percent yoy in October and by 6 percent in the year-to-October. This brought the year-to-October deficit to 7.5 percent of annual GDP and public debt to 56 percent of GDP, compared to 41 percent of GDP as at end-2019. The 2020 fiscal deficit is now projected to reach 9.1 percent of GDP, up from earlier projections due to the additional support package announced in response to the latest restrictions. The fiscal deficit in 2021 will narrow to 7.5 percent of GDP, with fiscal consolidation limited by the need to provide continued economic support due to the prolonged COVID-19 outbreak. The government plans to return to a 3 percent deficit by 2023.
Figure 1. The pace of economic contraction increased in October
(year-on-year, in %)

Source: Geostat

Figure 2. Inflation remained stable in November
(year-on-year, in %)

Source: Geostat

Figure 3: Trade balance improved in October due to import compression
(year-on-year, in %)

Source: Geostat

Figure 4. Credit and deposit growth was robust in October
(year-on-year, in %)

Source: NBG

Figure 5: The lari stabilized after coming under pressure in early November
(GEL/US$)

Source: NBG

Figure 6: The fiscal deficit continued to widen
(GEL m)

Source: MOF

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