• On the back of mobility restrictions, the economy contracted by 7.9 percent year on year (yoy) in December and by 6.1 percent yoy in 2020 as a whole. The recovery in January remained muted as most restrictions remained in place.
• Inflation increased to 2.8 percent yoy in January driven by food prices.
• The lari stabilized in January at around 14 percent below its level against the USD a year earlier.
• Foreign trade contracted and the deficit narrowed.
• Credit growth continued to moderate, but remains robust, while deposit growth strengthened.
• The fiscal deficit widened in December, driven by higher spending, although revenue collection remained robust.

The economic downturn intensified in December as stringent restrictions remained in place since late November. A 7.9 percent yoy decline in December resulted in an estimated contraction of 6.1 percent for the year as a worsening COVID-19 outbreak prompted a return of mobility and other restrictions in late November. The decline in activity hit almost all sectors, particularly the transport, tourism and construction sectors. On the expenditure side, domestic demand moderated as COVID-19 cases accelerated and external demand remained weak.

The recovery remained muted in January as restrictions remained in force. Mobility at the end of January was around 50 percent of pre-COVID levels, and preliminary data point to a decline in electricity consumption and a decline in newly issued mortgages. With some restrictions lifted as of February, economic activity is expected to pick up.

Foreign trade turnover declined by 18 percent yoy in December and by 15 percent yoy in 2020. Exports and imports of goods both contracted by 18 percent yoy in December, with the trade deficit narrowing by about USD 105 million. Transfers from abroad remained resilient, increasing by 16 percent yoy in December with preliminary data suggesting continued resilience in January, as inflows from western Europe recovered. Tourism revenues remained depressed as tourist arrivals remained restricted. For the full year, the trade deficit narrowed by 18 percent yoy, despite a 15 percent yoy contraction in turnover, driven by stronger import compression. Import dropped sharply across all major trading partners, except for Armenia. Remittances remained strong in 2020, with gross proceeds increasing by 9 percent yoy as inflows from Italy, Ukraine, US and Azerbaijan improved considerably. This could also reflect increased formalization of transfers as physical travel remained restricted.

The lari stabilized in January month-on-month (mom) even as annual depreciation reached 14 percent. The National Bank of Georgia (NBG) sold $80 million in January to prevent exchange rate fluctuations. Reserves, supported by disbursements from development partners, increased in January and at USD 4.1 billion as of end-January remained comfortable (providing over 5 months of goods and services import cover).

Inflation increased to 2.8 percent yoy in January after dropping sharply to 2.4 percent yoy in December reflecting government subsidy of the costs of utilities. Food prices went up in January by almost 2 percent month on month (mom) and, as of end-January, food inflation reached 6.8 percent yoy (up from 5.5 percent yoy in October). Food inflation contributed more than 2.1 percentage points (pp) to the overall inflation of 2.8 percent. Transport prices increased in January as global oil prices recovered gradually and almost reached their levels from a year earlier. Core inflation, excluding food, alcohol, transport and administrative prices remained high at 4.9 percent yoy in January. The headline inflation continues to include an almost 2 percentage point downward adjustment introduced in December on account of the state subsidy of the utility costs for households. The NBG kept the policy rate unchanged in January driven by concerns of future inflationary pressures, particularly arising from risks of lari depreciation feeding into higher prices.

Credit growth continued to moderate, but at 12 percent yoy (excluding FX effect) in January, remained robust. Growth of lari loans accelerated to 21 percent yoy and FX lending increased by 7 percent yoy. The stronger growth in lari loans helped maintain credit dollarization at pre-COVID 19 levels, at around 42 percent. Deposits grew by 21 percent yoy in January, on par with December, with deposits in lari increasing by 38 percent yoy. 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.

The fiscal deficit widened in December. Government spending accelerated by 21 percent yoy in December, driving up annual spending by 19 percent yoy. The increase was driven by social and capital spending, consistent with the COVID-19 response package announced by the authorities. Revenue collection remained robust in December, matching last year’s collection in the same month. As a result, the annual nominal revenue collection fell by only 3.8 percent yoy in 2020. This brought the annual deficit to 9.9 percent of estimated GDP and public debt to 61 percent of estimated GDP, compared to 41 percent of GDP as at end-2019. The medium-term fiscal strategy envisages a return to statutory limits (3 percent and 60 percent of GDP for deficit and debt, respectively) by 2023. COVID19-related support from IFIs and some domestic debt issuance fully covered fiscal financing needs and also allowed for a sizeable increase in deposits.
Figure 1. The pace of economic contraction intensified in Q4 (year-on-year, in %)

Source: Geostat

Figure 2. Inflation edged up in January driven by food prices (year-on-year, in %)

Source: Geostat

Figure 3. The trade balance improved due to import compression (year-on-year, in %)

Source: Geostat

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

Source: NBG

Figure 5. The lari remained stable (GEL/US$)

Source: NBG

Figure 6. Fiscal deficit widened sharply in 2020 (GEL m)

Source: MOF

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