The economy contracted by 0.7 percent yoy in September, a strong improvement from previous months, supported by a pick-up in exports and government spending.

Economic activity may begin to ease from October driven by a surge in COVID-19 cases followed by a decline in mobility and tightening restrictions.

The lari remained relatively stable in October but weakened recently as political tensions increased.

Inflation, on a downward trend since April, remained stable at 3.8 percent in October.

Credit growth has moderated but remained robust, while deposit growth has been very strong.

The fiscal deficit increased sharply in September, with the year to date deficit reaching nearly 6 percent of GDP.

USD 3.8 billion as of end-October provide 6 months of goods import cover.

Inflation, on a downward trend since April, was stable in October. Low oil prices and a stable lari brought inflation down to 3.8 percent in September and October, from an average of 6.1 percent from January to August. Food, alcohol and tobacco products contributed 2.3 percentage points (pp) to inflation in October, while prices for transport and health services declined and contributed -0.8 pp. 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 October.

Credit portfolio grew robustly in October. Credit growth was healthy at 14.5 percent yoy with lari denominated loans growing by almost 20 percent yoy supported by increased mortgage loans reflecting the new government program supporting developers in the construction sector. Foreign currency lending increased by 11 percent yow with higher lending to corporates. The share of non-performing loans remains low, at 2.4 percent in October, though some sectors such as construction appear to be more affected. Deposits grew by 17 percent yoy in October down from 19.6 percent yoy in September. Banking sector profits remained positive, though smaller compared to a year ago while profitability indicators remain impacted by the frontloading of potential losses in March 2020.

The fiscal deficit increased sharply in September, as spending accelerated while the recovery of revenues remains gradual. Government spending accelerated by 52 percent yoy in September as compared to 21 percent yoy in August, driven by increases in social and capital spending. At the same time, revenues fell by 10 percent yoy in September with a 7.8 percent yoy decline in tax collections, resulting in a deficit of 1.6 percent of annual GDP in September. This brought the year-to-September deficit to 5.9 percent of annual GDP. Public debt, as of end-September, reached 55 percent of GDP compared to 41 percent of GDP as at end-2019. The first draft of the 2021 Budget envisages a deficit of 5.1 percent of GDP as recovering revenues help offset increased pensions in line with the new pension indexation rule (0.7pp of GDP), increased teacher salaries (0.2pp of GDP) and utility subsidies for 2 months (0.1pp of GDP). The final draft will reflect COVID-19 expenses.

On October 31, citizens of Georgia voted to elect a 150-member parliament. According to preliminary results, the ruling Georgian Dream party secured a strong lead with the United National Movement coming second. The next round of elections for majoritarian candidates will be held on November 21. With the opposition contesting the results, political tensions and uncertainty remain elevated.

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Figure 1. The pace of economic contraction eased in September
(year-on-year, in %)

Figure 2. Inflation declined in October driven by moderating oil prices and a stable lari
(year-on-year, in %)

Source: Geostat’s

Source: Geostat

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

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

Source: Geostat

Source: NBG

Figure 5: The lari stabilized in October but came under pressure in early November
(GEL/US$)

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

Source: NBG

Source: MOF

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