- *The economy grew robustly in September at 6.9 percent year on year (yoy), albeit at a slower pace than in previous months.*
- *COVID-19 infections surged with reported daily infections in Georgia among the highest in the world on a per capita basis.*
- *Inflation remained elevated at 12.8 percent yoy in October.*
- *Trade deficit widened in September, as import growth remained robust and export growth slowed.*
- *Lari remained stable in October and early November supported by recovering tourism and resilient transfers.*
- *Credit and deposit growth picked up pace in October, driven by Lari-denominated flows.*
- *The fiscal deficit narrowed in September, as strong revenue collection offset increased spending.*

The economy maintained a solid pace of recovery in September, growing at 6.9 percent yoy. This was slower than in August, and, cumulatively, in the year-to-September, growth was estimated at 11.3 percent yoy. Excepting construction, all sectors registered strong growth, particularly transport, manufacturing, energy and financial sector. Transport recovery was driven by an increased number of flights as well as cargo transportation, reflecting improved trade flows. Manufacturing benefited from pick-up in metallurgy and chemical production and energy output. The financial sector continued to benefit from high interest earnings. Tourism continued to recover, with the numbers of visitors increasing more than four-fold compared to September 2020. Domestic demand growth is likely to be healthy, as indicated by higher turnover for VAT taxpayers (24 percent yoy nominal increase). The authorities recently upgraded their growth projections to 10 percent for 2021 following the better-than-expected performance in September.

COVID-19 infections remain high and have picked up recently, while the pace of vaccination has moderated. New daily reported cases have increased to more than 6,000 in early November from 2,000 in early October, reaching the peak levels from earlier waves. Limited mobility restrictions may have contributed to this negative outcome. The daily rate of vaccinations has moderated considerably falling from the peak of 25,000 thousand per day in mid-August to 2,000 thousand per day in early November, hindered by vaccine hesitancy. As a result, only 25 percent of the total population and 33 percent of adult population was fully vaccinated as of November 9, 2021. Authorities have enacted measures to encourage vaccination: starting December 1, Georgia will require COVID-19 "green passes" linked to vaccination status for entering both open-air and indoor spaces, excluding public transport, and, from November 8 and until January 1, any retiree who opts to get vaccinated will receive a one-off payment of GEL 200 (USD 63) after their first jab.

Inflation continued to rise in October driven by higher oil and food prices. Inflation picked up from 12.3 percent yoy in September to 12.8 percent yoy in October. Food prices increased by 18 percent yoy, and oil price by 40 percent, contributing 5.7 and 2.4 percentage points respectively to headline inflation. Core inflation remained stable at 6.3 percent yoy in October, with transport, clothing and footwear, and health prices picking up due to supply disruptions, feedback from higher oil prices and increased demand for healthcare services. Following an increase in August, the National Bank of Georgia (NBG) kept the policy rate steady at 10 percent in September and October, citing the transitory nature of the inflation pressures, planned fiscal consolidation, and anchored expectations.

The trade deficit widened in September. Import growth remained robust at 24 percent yoy, compared to 26 percent yoy in August, supported by the economic recovery. At the same time, the pace of export growth moderated and, as a result, the trade deficit widened by USD552 million during September 2021. Cumulatively, in the year-to-September, exports grew by 24 percent yoy and imports by 22 percent yoy, and the trade balance widened by 20 percent yoy. Export growth was driven by ferroalloys, used cars, wine and mineral waters, apparel and nuts, while copper ores declined in yoy terms but remained the leading export.

The lari remained relatively stable in October and early November. This was supported by a strong current account. Transfers and tourism revenues are likely to have increased in October after strong performance in September: transfers from abroad increased by 9 percent yoy driven by inflows from Italy, Germany and Russia, and tourism proceeds increased almost 10-fold in yoy terms, albeit from a low base in September 2020. International reserves remained comfortable, and at USD 4.0 billion as of end-October, provided 5.1 months of goods import cover.

Credit growth was robust in October, driven by Lari-denominated flows. Credit growth picked up to 15.4 percent yoy in October from 15.0 percent yoy in September. Lari loans grew strongly at 26 percent yoy, while foreign currency lending increased by 7 percent yoy with higher lending to corporates. Deposit growth (excluding exchange rate effect) picked up to 14 percent yoy from 13 percent yoy in September, with Lari-denominated deposits growing up 16.2 percent yoy in October compared to 11.5 percent yoy in September. Banking sector profits remained positive, with Return on Assets (ROA) reaching 3.8 percent and Return on Equity (ROE) at record high levels (33.5 percent).

The general government is on track to achieve the budgeted fiscal deficit target of 7.5 percent of GDP. Government revenues increased sharply in September (32 percent yoy) driven by tax revenues. At the same time government current and capital spending fell in September, reflecting 12 percent yoy decline in social assistance and a 4 percent yoy decline in public investment. As a result, the fiscal deficit narrowed in September. Cumulatively, in the year to September, revenues increased by 19.8 percent yoy and expenditures by 14.4 percent yoy, leading to a 3.1 percent yoy decline in the deficit in nominal terms. As a share of GDP, the deficit was at 4.8 percent in the year-to-September, comparing favorably to the end year target of 7.5 percent of GDP.

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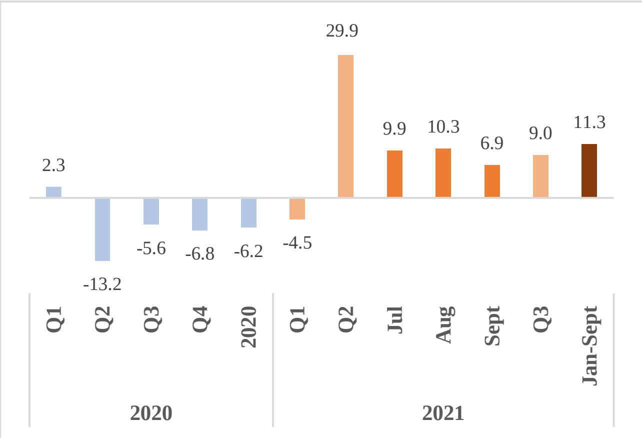
Figure 1. Economic recovery continued at a solid pace in September

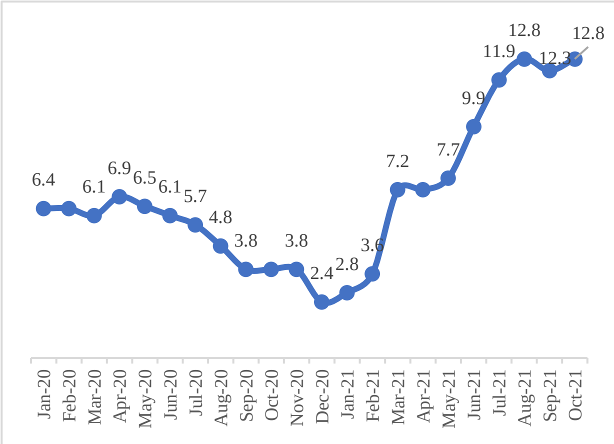
(year-on-year, in %)



Source: Geostat's

Figure 2. Inflation remained high in October

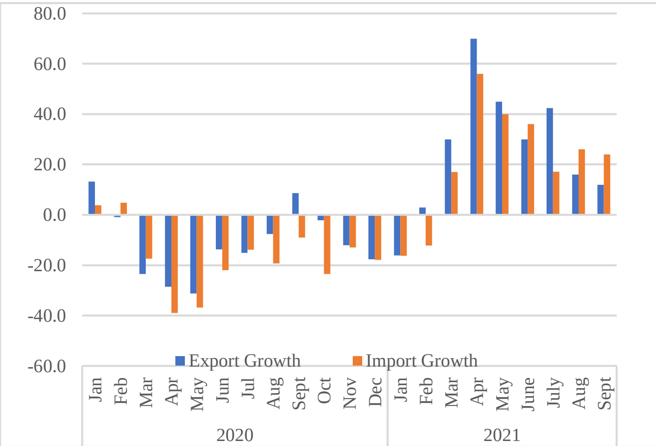
(year-on-year, in %)



Source: Geostat

Figure 3: Trade deficit widened as import growth remained strong in September

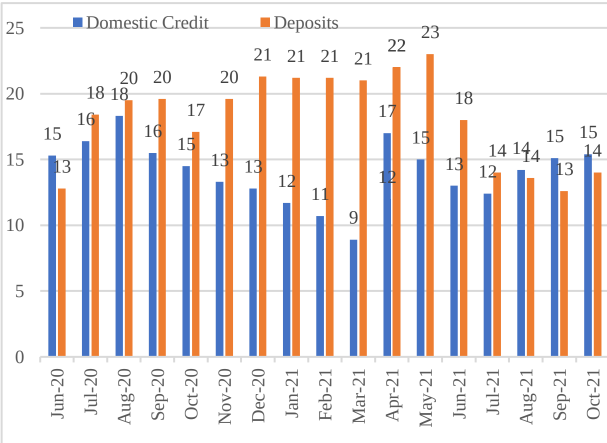
(year-on-year, in %)



Source: Geostat

Figure 4. Credit and deposit growth was robust in October

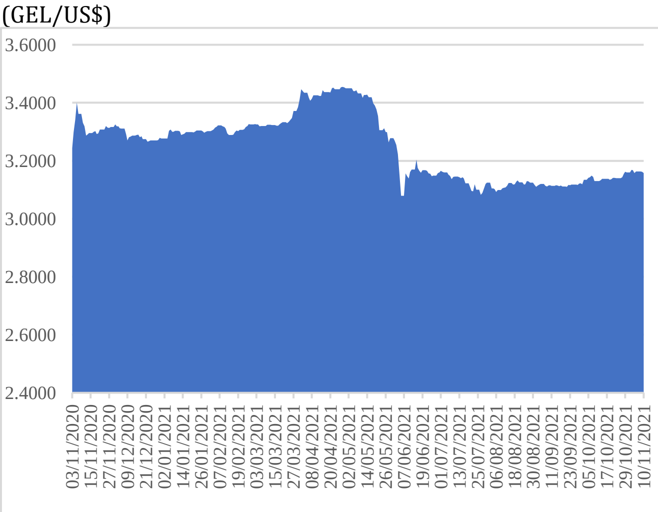
(year-on-year, in %)



Source: NBG

Figure 5: The lari was stable through mid-November

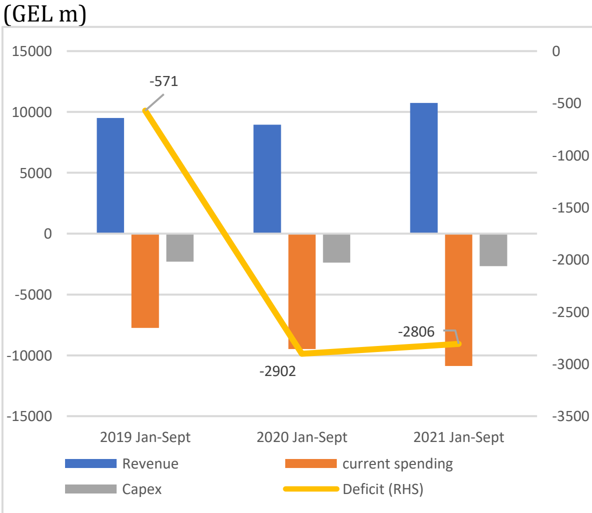
(GEL/US$)



Source: NBG

Figure 6: The fiscal deficit narrowed in September

(GEL m)



Source: MOF