Robust economic recovery continued in October.

COVID-19 infections and deaths remained high, while the pace of vaccination remained slow.

Inflation remains high at 12.5 percent yoy in November.

Trade deficit widened in October, as robust import growth outweighed export growth.

FDI inflows were weak in Q3, continuing the weak performance in earlier quarters.

The lari remained stable and appreciated slightly in the last week of November.

Credit and deposit growth decelerated marginally in November but remained robust.

The fiscal deficit narrowed in October, as strong revenue collection offset increased spending.

The Georgian economy maintained a solid pace of recovery in October, growing at 6.9 percent year-on-year (yoy). This was the same as September, and, cumulatively, in the year-to-October, growth is estimated at 10.5 percent yoy. Excepting a contraction in construction and mining, all other major sectors, including manufacturing, transport and warehousing services, leisure and entertainment, hotels and restaurants, and energy registered strong growth. The robust performance in October still represents a slowdown from Q2, 2021 (28.9 percent yoy growth) and Q3, 2021 (9.0 percent yoy growth), as growth in earlier quarters reflected a low base effect from 2020. Quarterly growth narrowed in Q3, with indications of a slower recovery for medium size enterprises. Hired employment in the surveyed business sector increased by 5 percent yoy, mostly due to the recovery in the hospitality sector and solid performance of the IT sector. However, total number of employees remained 2.5 percent below pre-COVID levels in 2019. This contrasts with the recovery in GDP, with real GDP in Q3, 2021 exceeding pre-COVID Q3, 2019 levels by 1.5 percent.

COVID-19 infections and deaths remain high, and the vaccination rate remains low. Daily reported cases have declined from its peak in early November but remain high at around 4,000 cases in early December. COVID-19 related fatalities remain worrying, with a reported 1.43 percent case fatality rate as of early December. The daily rate of vaccinations remained low with less than one-third of the total population fully vaccinated as of early December. Starting December 1, Georgia introduced a requirement of COVID-19 “green passes” linked to vaccination status for entering both open-air and indoor spaces, excluding public transport, with an aim of improving the vaccination rate.

Annual inflation rate remained high at 12.5 percent yoy in November, slightly below October. Inflation was driven by a surge in transport prices (up by 20 percent yoy) due to higher petrol, diesel fuel and vehicle prices. Food prices (up by 17 percent yoy), and utilities (up by 11.5 percent yoy) increased sharply. These three categories contributed the major share (9.5 percentage points) to headline inflation. Core inflation declined marginally to 6.1 percent yoy from 6.3 percent in October. The National Bank of Georgia (NBG) increased the policy rate by 0.5 ppt in early December, to 10.5 percent, citing prolonged high inflation, continued fiscal stimulus and possible entrenching of expectations.

The trade deficit widened in October. External trade turnover picked up by 26 percent yoy, with strong export growth (31.4 percent yoy) driven largely (55 percent of growth) by sharp increase in ferroalloys exports. Import growth remained robust at 24 percent yoy. Imports outpaced exports and the trade deficit widened by USD 493m in October. Cumulatively, in the year-to-October, exports grew by 24.9 percent yoy and imports by 22 percent yoy, and the trade balance widened by 20.4 percent yoy.

FDI flows remained weak in Q3, following similarly weak performance in previous quarters. FDI flows (at USD 299 million) increased by just 1.4 percent yoy in Q3, failing to recover from the 21 percent decline in 2020. Reinvestment accounted for close to 98 percent of the FDI flows. Sectoral distribution of flows was more diverse, with the main sectors being financial sector (29 percent), energy sector (23 percent), manufacturing (18 percent) and transport (9 percent). Cumulatively, until Q3, FDI flows were 3.3 percent yoy higher after declining by 26.5 percent yoy in 2020.

The lari remained relatively stable through November and even appreciated slightly in the last week. This was supported by continued strength in remittance inflows (26 percent yoy growth) and tourism proceeds (over 8-fold yoy increase) in October. Transfers from abroad were driven by inflows from Russia, Italy, USA, and Greece. Tourist arrivals increased sharply from a low base in October 2020. International reserves remained comfortable, and at USD 3.9 billion as of end-November, provided 5.0 months of goods import cover.

Credit and deposit growth decelerated marginally in November but remained robust. Credit growth moderated to 14.6 percent yoy in November from 15.3 percent yoy in October. Lari loans continued to drive credit portfolio growth, expanding by 24.6 percent yoy, while foreign currency lending increased by 6.2 percent yoy with higher lending to corporates. Similarly, deposit growth (excluding exchange rate effect) decelerated to 11.3 percent yoy as compared to 14.4 percent yoy growth in October. Banking sector profits remained positive, with Return on Assets (ROA) reaching 3.7 percent and Return on Equity (ROE) reaching 31.9 percent, as of end-October.

The general government deficit narrowed in October as revenues grew faster than public spending. Tax collections increased by 25 percent yoy in October, while government current expenses grew by 7.5 percent yoy and capital spending fell sharply. As a result, the fiscal deficit narrowed in October in yoy terms. Cumulatively, in the year to October, revenues increased by 20 percent yoy and expenditures declined by 2 percent yoy, leading to a 2.2 percent yoy decline in the deficit in nominal terms. As a share of GDP, the deficit was at 5.3 percent in the year-to-October, comparing favorably to the end year target of 7.5 percent of GDP. Public debt increased by GEL 440 million in October, with public debt to GDP at 52.7 percent of GDP, as against 51.9 percent in September.

For additional information: Mariam Dolidze, Sr. Economist, mdolidze@worldbank.org
Figure 1. Economic recovery continued in October (year-on-year, in %)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2.3</td>
<td>-13.2</td>
<td>-5.6</td>
<td>-6.8</td>
<td>-6.2</td>
<td>-4.5</td>
<td>9.0</td>
<td>6.9</td>
<td>10.5</td>
</tr>
</tbody>
</table>

Source: Geostat

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

[Graph showing inflation trends]

Source: Geostat

Figure 3: Trade deficit widened as import growth outweighed strong export performance (year-on-year, in %)

[Graph showing export and import growth]

Source: Geostat

Figure 4. FDI recovery remain slow in 2021 (year-on-year, in %)

[Graph showing FDI trends]

Source: Geostat

Figure 5: The lari was stable through mid-November before appreciating slightly (GEL/US$)

[Graph showing lari stability and appreciation]

Source: NBG

Figure 6: The fiscal deficit narrowed in October (GEL m)

[Graph showing fiscal deficit]

Source: MOF

For additional information: Mariam Dolidze, Sr. Economist, mdolidze@worldbank.org