



Georgian Economic Climate (Q2, 2019)

prepared by PMC Research & ifo Institute

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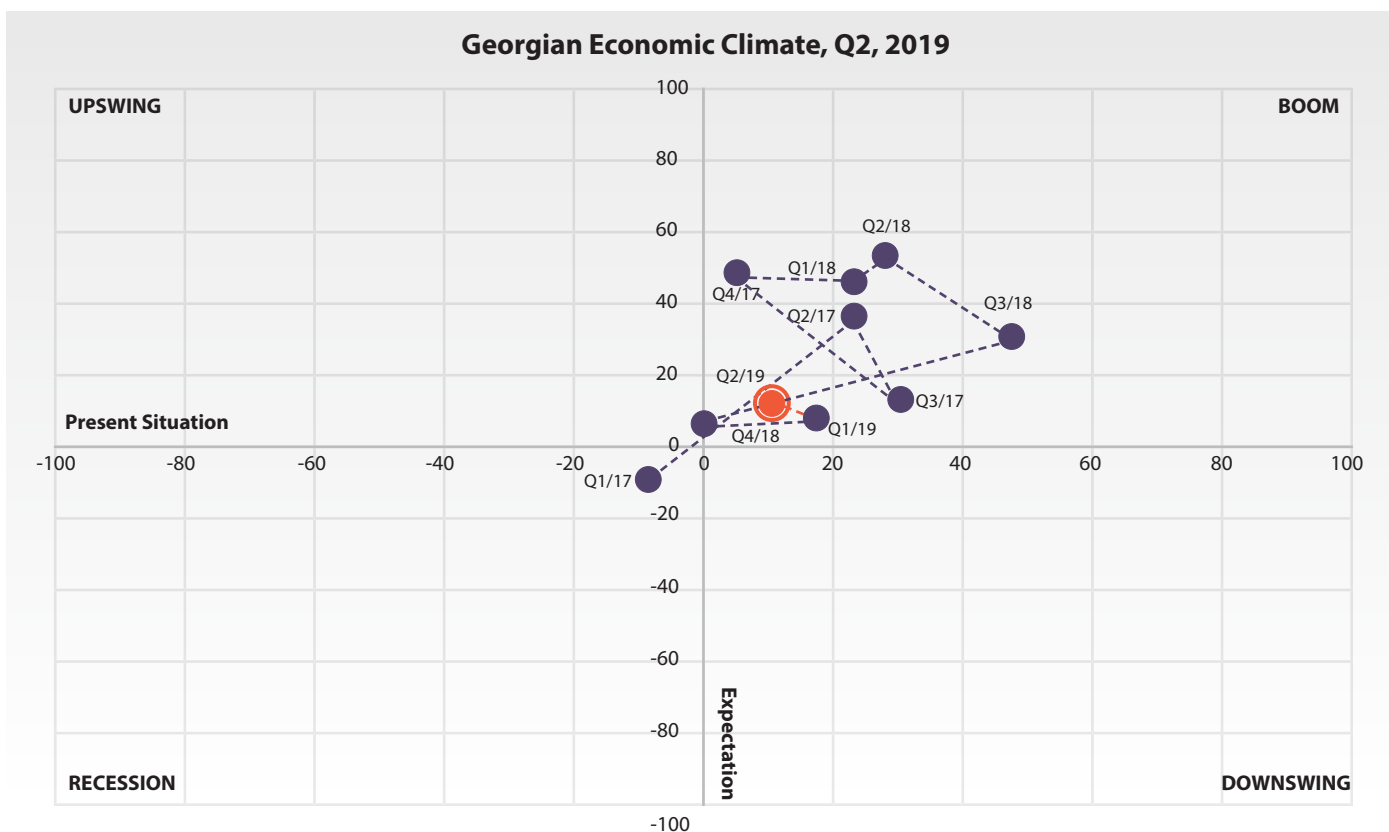
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Georgian Economic Climate is a joint product of PMC Research Center and the ifo Institute for Economic Research. In this bulletin, we discuss Georgia's economic climate as assessed by Georgian economists. PMC Research Center is a regional partner of the ifo Institute, one of the leading economic research institutes in Europe, specializing in applied economic research, policy advising and other services for governments, businesses, researchers and the public. The ifo Institute publishes the World Economic Survey (WES) on a quarterly basis, accurately presenting the current economic situation and forecasts for industrial, emerging and developing economies. 30 experts are participating in this initiative from Georgia. The survey was conducted in April 2019, assessing April- September 2019 period.

In the second quarter of 2019, Georgian economic climate has slightly improved.

In this period, Georgian economists assessed Georgia's present economic situation positively; However, the assessment of present economic situation in this quarter has deteriorated compared to the first quarter of 2019 and the second quarter of 2018.

In the second quarter of 2019, Georgia's economic situation in the next six months has also been assessed positively by Georgian economists. In this quarter, expectations in six months has slightly improved compared to the first quarter of 2019; Notwithstanding, the expectations in six months of Q2 2019 has deteriorated compared with the Q2 2018.



According to the semi-annual assessment of Georgian economic challenges, the Georgian economy currently faces the following four major problems:

1. Lack of skilled labour;
2. Lack of innovation;
3. Capital shortage;
4. Widening income inequality.

In addition, experts consider there to be least severe challenges faced in the following areas:

1. Trade barriers to exports;
2. Legal and administrative barriers for business;
3. Corruption;
4. Debt management.

In addition, experts predict Georgia's main economic indicators. According to the results, in the second quarter of 2019, the **expected real GDP growth for 2019 is 4.3%**. Other main economic indicators are forecasted as follows:



Inflation

- Inflation rate is **expected to decrease** in the next six months, on the year-on-year bases;
- In 2019 the inflation rate is expected to be **4.0%**;
- In 2024 the inflation rate is expected to be **4.9%**.



Exchange rates

- The Georgian Lari is currently **undervalued** against the US Dollar, **about the same** against the Euro and British pound and **overvalued** against the Yen.



Trade volume

- The export volume is **expected to increase** in the coming six months;
- The import volume is **expected to increase** in the coming six months;
- The export volume is expected to increase more than the import volume, resulting in an **improved trade balance** in the next six months.

SPECIAL QUESTION

The first half of 2018 has seen the start of bilateral trade disputes between the US and the EU and the US and China. China initially, but also the EU and others are confronted with high import tariffs on selected goods as part of the US administration's economic policy. In this quarter, experts assessed the impact of current trade disputes between US/China/EU on Georgian economy.

The majority of experts (60%) think that Georgia **will not be affected** by the current trade disputes between the US and the EU and the US and China. Moreover, they reckon that for Georgia there is no significant difference between Foreign Direct Investments (FDIs) from China and from the other countries.

Majority of Georgian experts (43%) **neither agree nor disagree** the idea that in order the world trade to operate well, supranational governance (for instance arbitration courts, harmonized product standards or environmental standards) is necessary, which in turn could limit the government's decision-making freedom.

Methodology

The ECI is based on quarterly expert assessments of the present economic situation as well as expectations for the next six months. The scale ranges from -100 points to +100 points. An index of -100 means that all experts assess the economic situation as deteriorating (negative), while an index of +100 indicates improvement (positive), and 0 means neutral/no change.

Basic Economic Indicators	2014	2015	2016	2017	2018
Nominal GDP (mln USD)	16507.8	13988.1	14377.9	15086.5	16207.1*
GDP per Capita (USD)	4438.3	3754.9	3857.3	4046.8	4345.5*
GDP Real Growth (%)	4.6%	2.9%	2.8%	4.8%	4.7%*
Inflation	3.1%	4.0%	2.1%	6.0%	2.6%
FDI (mln USD)	1,817.7	1,665.6	1,565.8	1,894.5	1,232.4*
Unemployment Rate (%)	14.6%	14.1%	14.0%	13.9%	12.7%
External Debt (mln USD)	4,199.8	4,314.9	4,515.7	5,177.4	5,434
Poverty Rate (relative)	21.4%	20.2%	21.0%	22.3%	-

* Preliminary data