

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.

As part of the WES, the Economic Climate Index (ECI) is also calculated based on quarterly expert<sup>1</sup> assessments of the current economic situation as well as expectations for the next six months. The ECI's scale ranges from -100 points to +100 points. A score of -100 means that all experts have assessed the economic situation as deteriorating/negative, while a score of +100 means there is a consensus that the situation is improving/positive, and a score of 0 means neutral/no change.

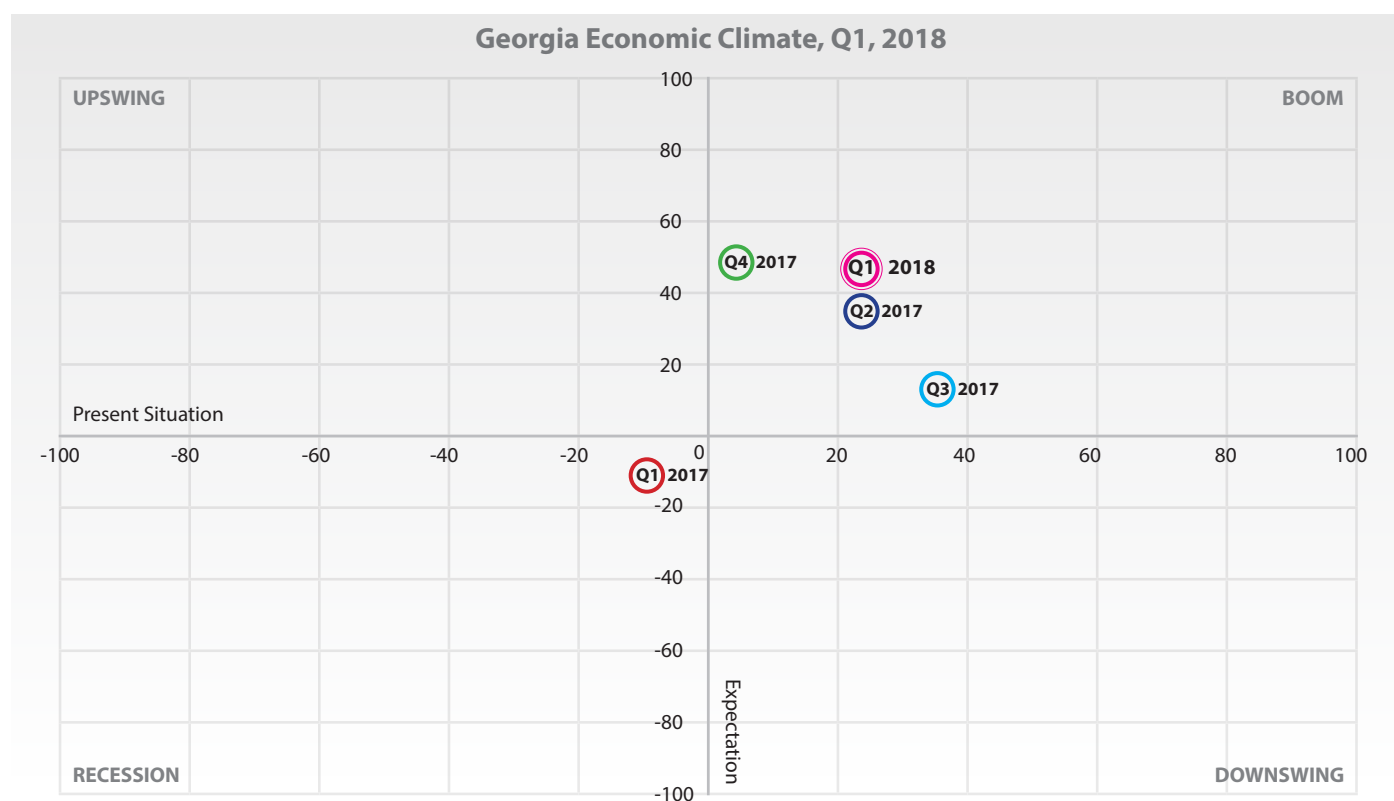
**Based on the survey results, four options are considered, to describe the economic climate in Georgia:**

Options	Present Situation	Expectations
Recession	-	-
Downswing	+	-
Upswing	-	+
Boom	+	+

In the first quarter of 2018, Georgia's ECI is assessed as positive (33.1). The Georgian economy is categorized under "Boom" with a positive assessment of current (22.2) and future (44.4) economic situations.

In the first quarter of 2018, economists' appraisals of the Georgian economy improved, compared to the previous quarter (25.5, Q4 2017). Meanwhile, compared with its result at for the corresponding period of last year (-9.1, Q1 2017), the improvement is even more pronounced.

Interestingly, six months ago Georgian economists underestimated the scale of the economic improvement that would occur in the first quarter of 2018, however, the actual assessment of the economic situation of the first quarter of 2018 resulted into the higher economic climate index.



<sup>1</sup> 30 experts are participating in this initiative from Georgia. The survey was conducted in January 2018, assessing January-June 2018 period.

In addition, experts made predictions regarding the main economic indicators. According to the results from the first quarter of 2018, the main economic indicators have been forecasted as follows:



### Inflation

- Prices are **expected to increase** in the next six months.
- For 2018, the inflation rate is expected to be 4.7%.
- In 2023, the inflation rate is expected to be 5.2%.



### Exchange rates

- Currently, Georgian Lari is assessed as **undervalued** against the US Dollar, Euro, UK Pound, and Yen.
- The Georgian Lari is expected to **appreciate** against the US Dollar in the next six months.



### Trade volume

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



### Interest rates

- Short-term interest rates are expected to rise slightly in the next six months.
- Long-term interest rates are expected to decline in the next six months.

## SPECIAL QUESTION

Every quarter there is a special question addressing key contemporary topics. In this quarter, experts assessed the development and perceptions of Digital Currencies<sup>2</sup> and Blockchain Technologies<sup>3</sup> in Georgia.

- The majority of Georgian experts (82%) do not think that digital currencies are a viable alternative to the Georgian Lari today.
- Half of the surveyed experts believe that, currently, digital currencies somewhat fulfill a monetary role in the country as a type of investment only, however it is not considered to be an alternative when it comes to making payments and measuring value.
- At present, the vast majority of experts believe that digital currencies are used for online payments, gambling and speculative investments rather than for safe investments, financial privacy or low-cost money transfers.
- High price volatility and a lack of regulations are considered the two main disadvantages of digital currencies.
- At present, 18% of experts believe that Blockchain technologies are somehow important in Georgia, however 62% of experts believe that in 5-10 years Blockchain technologies will become more important in the country.
- Experts believe that the role of Blockchain technologies will increase in online payments, property licensing and the banking sector in the future.

<sup>2</sup> Digital Currency is a payment method which exists only in electronic form and is not tangible. Digital currency can be transferred between entities or users with the help of technology like computers, smartphones and the internet (Source: [www.techopedia.com](http://www.techopedia.com))

<sup>3</sup> Blockchain Technology means a mathematically secured, chronological, and decentralized consensus ledger or database, whether maintained via Internet interaction, peer-to-peer network, or otherwise. (Source: <https://legislature.vermont.gov/bill/status/2016/H.868>)

Basic Economic Indicators	2015	I 2016	II 2016	III 2016	IV 2016	2016	I 2017*	II 2017*	III 2017*
Nominal GDP (mln USD)	13988.1	3046.7	3734.2	3828.9	3788.2	14377.9	3201.1	3802.1	4106.9
GDP Per Capita (USD)	3766.6	818.9	1003.7	1029.2	1018.2	3864.6	860.9	1022.6	1104.5
GDP real growth (%)	2.9%	2.9%	3.1%	2.6%	2.8%	2.8%	5.3%	4.9%	4.4%
Consumer Price Index (annual average)	4.0%					2.1%			
Foreign Direct Investment (USD)	1576	394	408.6	505.5	275.8	1583.8	404.5	347.5	594.5
Unemployment Rate (%)	12%					11.8%			
External Public Debt (mln USD)	4315	4396	4404	4461	4515	4515	4581	4855	5006
Poverty Rate (relative)	20.1%					20.6%			