Georgian Economic Climate (Q2, 2018)

prepared by PMC Research & ifo Institute

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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 2018, assessing the April-September 2018 period.

In the second quarter of 2018, Georgia's Economic Climate Indicator (ECI) is assessed as positive (41.3). The Georgian economy is categorized under "Boom" with a positive assessment of its economic situation both currently (27.8) and in the future (55.6). Its indicator for the second quarter of 2018 is the highest since the launch of the WES in Georgia in the first quarter of 2017.

In the second quarter of 2018, economists' appraisals of the Georgian economy improved, compared to the previous quarter (33.1, Q1 2018) and the corresponding period of last year (30.4, Q2 2017).

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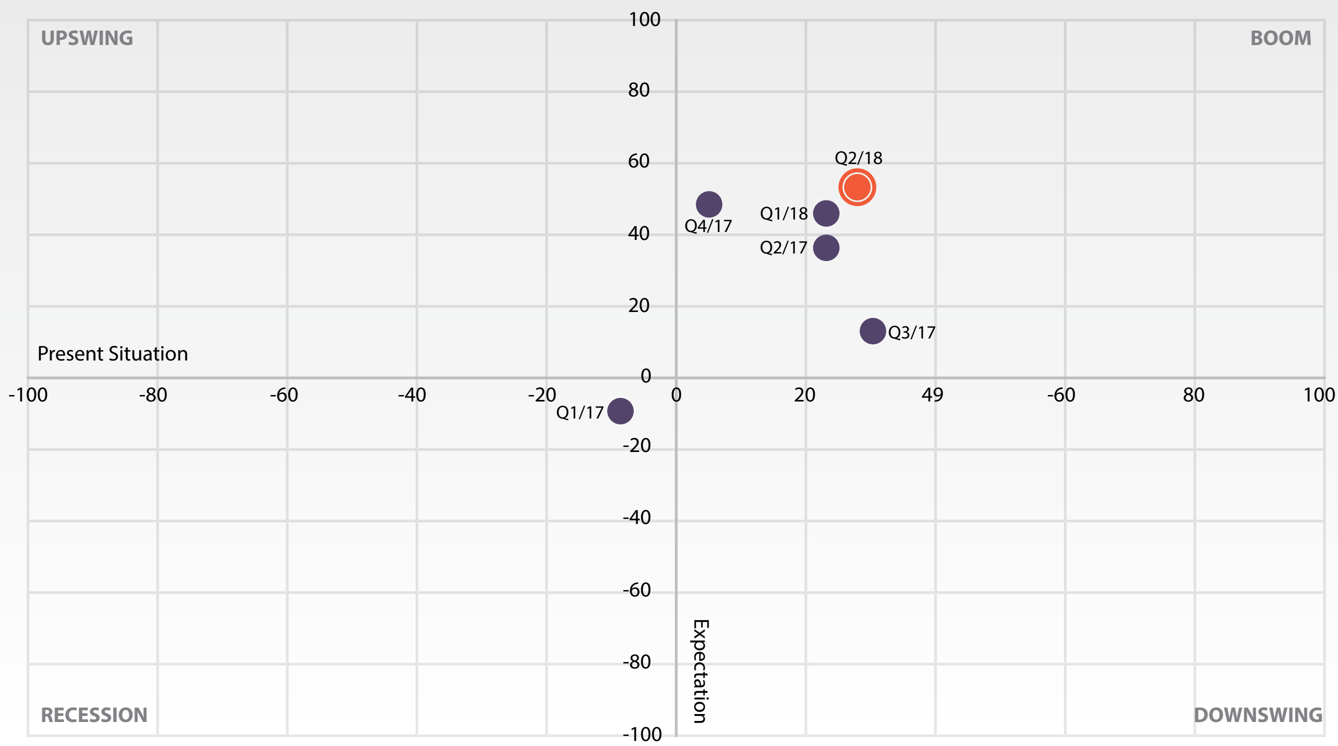

According to the semi-annual assessment of Georgian economic challenges, the Georgian economy currently faces the following three major problems:

1. Lack of skilled labor
2. Lack of innovation
3. Inadequate infrastructure

Notably, in the fourth quarter of 2017, Georgian experts considered a lack of innovation to be the most severe problem for the Georgian economy.

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

1. Legal and administrative barriers for business
2. Trade barriers for exports
3. Debt management

Notably, in the second quarter of 2017, Georgian experts considered there to be no challenges regarding trade barriers for exports.

In addition, experts predict Georgia's main economic indicators. According to the results, in the second quarter of 2018, the expected real GDP growth for 2018 is 4.7%. Other main economic indicators are forecasted as follows:

Inflation

- Prices are **expected to decrease** in the next six months;
- In 2018 the inflation rate is expected to be 4.2%;
- In 2023 the inflation rate is expected to be 4.9%.

Exchange rates

- The Georgian Lari is currently **undervalued** against the US Dollar, Euro and Yen and approximately fairly valued against the British Pound;
- The Georgian Lari is expected to **depreciate** against the US Dollar in the next six months.

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

In this quarter, experts assessed US tax reform and trade policy and its effect on the Georgian economy.

The new tax reform codified in the *Tax Cuts and Jobs Act* of 2017 laid out changes including a reduction in corporate tax, individual income taxes, and income tax improvements for small businesses.

In terms of *trade policy,* the United States will impose tariffs on imported goods, such as steel and aluminum. In 2017, Georgian exports to the US amounted to US$121.7 mln of which ferro-alloys was the main exported commodity.

According to the survey's results, the majority of Georgian experts think that these changes to US tax reform and trade policy will not affect Georgia. Indeed, experts expect that the Georgian government will not do anything in response to these changes in the US tax and trade policy.

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	2013	2014	2015	2016	2017*
Nominal GDP (mln USD)	16139.9	16507.8	13988.1	14377.9	15164.5
GDP per capita (USD)	3599.6	3676.2	3766.6	3864.6	4078.5
GDP real growth (%)	3.4%	4.6%	2.9%	2.8%	5.0%
Inflation	-0.5%	3.1%	4.0%	2.1%	6.0%
FDI (mln USD)	1020.6	1818.0	1652.5	1602.9	1861.9
Unemployment rate (%)	16.9%	14.6%	14.1%	14.0%	13.9%
External debt (mln USD)	4202	4199	4314	4515	5177
Poverty rate (relative)	21.4%	21.4%	20.1%	20.6%	