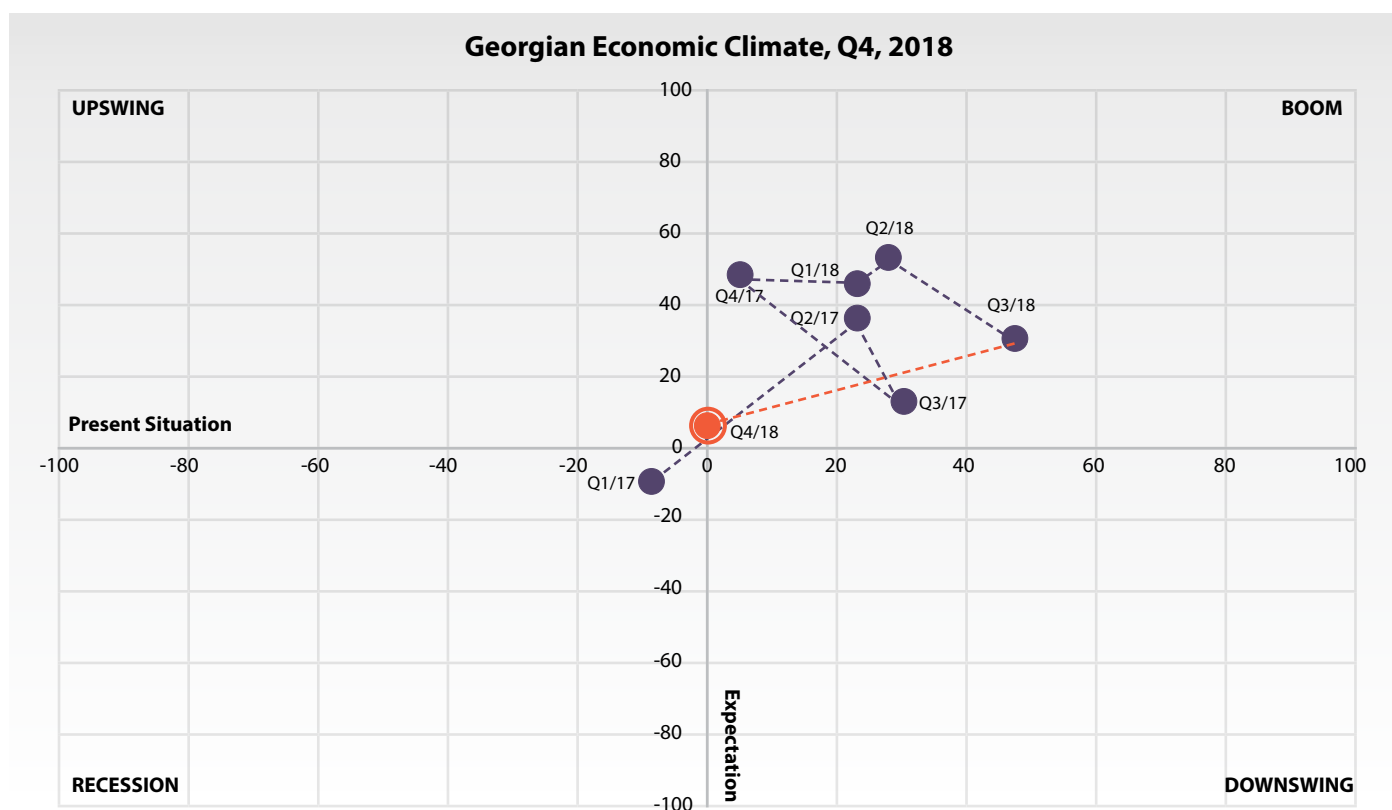


Georgian Economic Climate is a joint product of PMC Research Center and the ifo Institute for Economic Research. In this bulletin, we discuss Georgia's economic climate as assessed by Georgian economists. PMC Research Center is a regional partner of the ifo Institute, one of the leading economic research 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 October 2018, assessing the October 2018 - March 2019 period.

In the fourth quarter of 2018, Georgian economic climate barely remained satisfactory. In this period, Georgian economists assessed Georgia's present economic situation satisfactorily. However, assessment of present economic situation in this quarter deteriorated compared to the third quarter of 2018, and the fourth quarter of 2017.

In the fourth quarter of 2018, Georgian economists assessed Georgia's economic situation in the next six months as about the same. In this quarter, expectations in six months deteriorated compared to the third quarter of 2018, and the fourth quarter of 2017.



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

1. Lack of innovation;
2. Lack of skilled labour;
3. Lack of confidence in government's economic policy;
4. Capital shortage.

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

1. Debt management;
2. Trade barriers to exports;
3. Legal and administrative barriers for business;
4. Lack of credible central bank policy.

In addition, experts predict Georgia's main economic indicators. According to the results, in the third quarter of 2018, the **expected real GDP growth for 2018 is 4.3%**. Other main economic indicators are forecasted as follows:



Inflation

- Inflation rate is **expected to increase** in the next six months, on the year-on-year bases;
- In 2018 the inflation rate is expected to be **3.7%**;
- In 2023 the inflation rate is expected to be **4.7%**.



Exchange rates

- The Georgian Lari is currently **undervalued** against the US Dollar, Euro and British pound and **overvalued** against 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 import volume is expected to increase more than the export volume, resulting in an **deteriorated trade balance** in the next six months.

SPECIAL QUESTION

In this quarter, experts assessed European debt crisis started in 2010. During the crisis several EU countries, such as Greece, Ireland, Spain, Portugal and Cyprus signed a Memorandum of Understanding (MoU) with the European Commission, European Central Bank (ECB) and the International Monetary Fund (IMF) on a combination of financial aid and economic adjustment.

In experts' opinion, lender countries had three intentions:

- To avoid crisis within their country;
- To support borrower countries;
- To encourage institutional changes in borrower countries.

Experts' opinions divide while evaluating motivation behind the MoU. Some experts think that agreement was motivated from lender countries while others think that it was motivated from borrowers. 1/3 of experts think that both countries wanted the MoU equally. In experts' opinion both groups of countries benefited from the agreement.

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	I-II 2018
Nominal GDP (mIn USD)	16139.9	16507.8	13988.1	14377.9	15164.5	7807.4
GDP per capita (USD)	3599.6	3676.2	3766.6	3864.6	4078.5	2093.4
GDP real growth (%)	3.4%	4.6%	2.9%	2.8%	4.8%	5.4%
Inflation (year to year)	-0.5%	3.1%	4.0%	2.1%	6.0%	4.5%
FDI (mIn USD)	1020.6	1818.0	1652.5	1602.9	1861.9	676.2
Unemployment rate (%)	16.9%	14.6%	14.1%	14.0%	13.9%	12.1%
External debt (mIn USD)	4202	4199	4314	4515	5177	5186
Poverty rate (relative)	21.5%	21.4%	20.2%	21.0%	22.3%	