



Research

Georgian Economic Climate (Q3, 2021)

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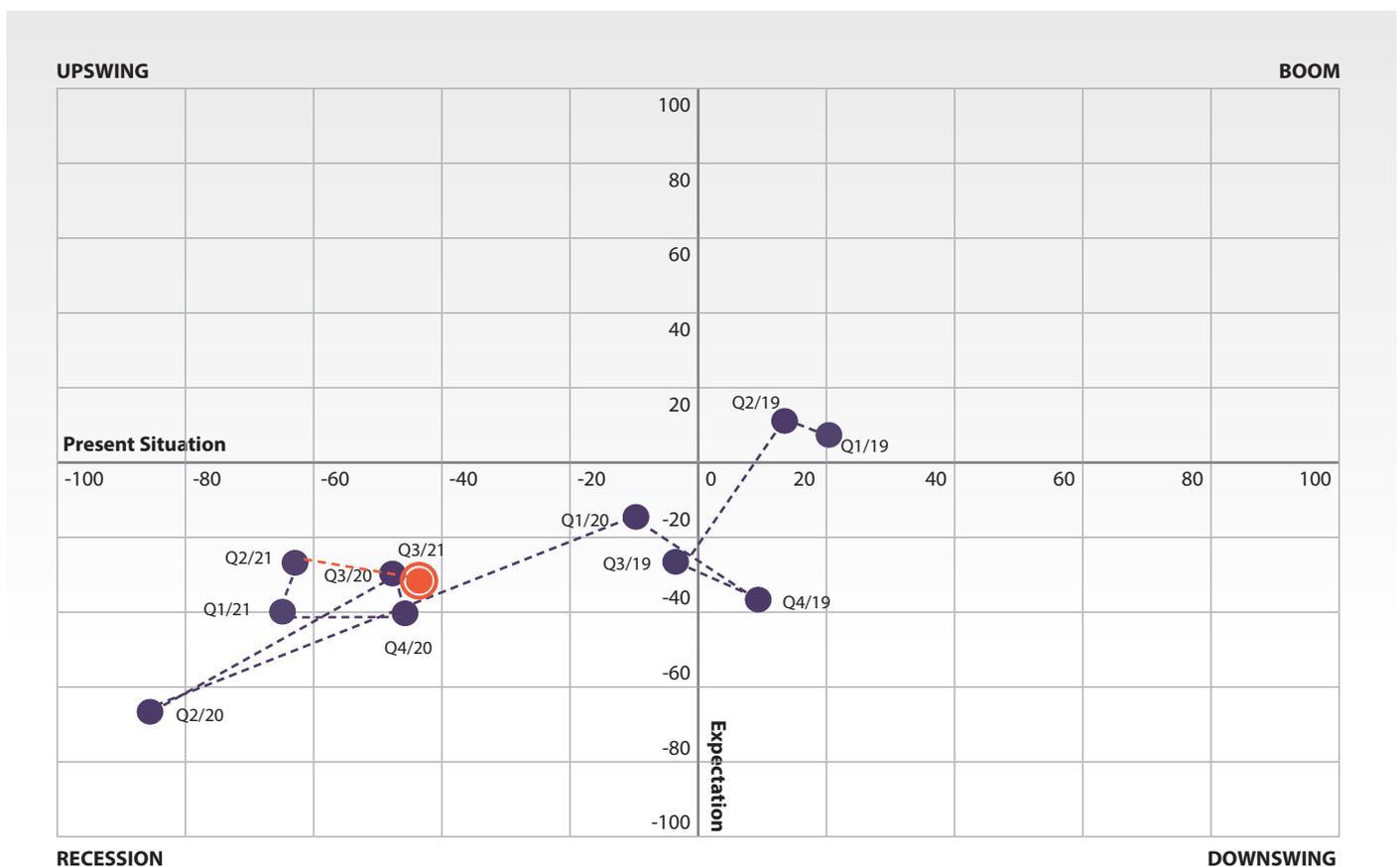
Georgian Economic Climate is a product of PMC Research Center. In this bulletin, we discuss Georgia's economic climate as assessed by Georgian economists. The bulletin is based on the ifo Institute's methodology, with 60 experts from Georgia having participated in the corresponding survey that was conducted in September 2021.

According to this survey of Georgian economists, the **economic climate** in the country in the third quarter of 2021 **has improved** compared to the second quarter of the same year.

Georgian economists' assessments of the current situation have generally improved, compared to the previous quarter and the corresponding quarter of 2020, but nevertheless remain negative.

The economists' predictions for Georgia's economic situation for the next six months were also negative. Indeed, their expectations for this period deteriorated slightly, compared to their predictions in the second quarter of 2021 and the forecasts they made in the third quarter of last year.

Georgian Economic Climate



Apart from assessing the current economic situation and gathering expectations for the next six months, the experts also made predictions with regard to Georgia's main economic indicators. According to the results of the survey conducted in the third quarter of 2021, the **expected real GDP growth for 2021 is 7.8%**. Meanwhile, forecasts for the other main economic indicators were as follows:



Inflation

- The inflation rate is **expected to remain the same** for the next six months, on a year-on-year basis;



Exchange rates

- The Georgian Lari is currently **overvalued** against the US Dollar, Euro, Russian Rouble, and Turkish Lira;



Trade volume

- The **export volume is expected to increase** in the coming six months, compared to the last six months;
- The **import volume is expected to increase** in the coming six months, compared to the last six months; and
- The export volume is expected to increase less sharply than the import volume, resulting in a **worsened trade balance** in the next six months, compared to the last six months.

SPECIAL QUESTIONS

In the survey conducted in the second quarter of 2021, Georgian economists assessed the impact of COVID-19 on the Georgian economy, the effects of the Government's regulations, and the country's prospects for economic recovery.

The economists were asked to choose which factor contributed the most to the sharp increase in real GDP in Q2 of 2021. Overall, 53.8% of experts named the base effect (due to the significant drop in 2020) as the most important factor, while 30.8% cited the lifting of restrictions from March 2021, and 15.4% placed an emphasis on the Government's stimulus packages.

Moreover, the surveyed economists, using a scale from 1 (completely disagree) to 5 (completely agree), assessed different possible government actions to promote vaccination against COVID-19. 61.5% of surveyed experts completely agreed with decision to enhance public trust through information campaigns. Interestingly, only 7.6% of surveyed economists agreed with mandatory vaccination for selected groups (healthcare workers, teachers, etc.).

When asked about the stringency of current regulations, a total of 46.2% of respondents claimed that the current regulations were not stringent enough, while 30.8% stated that these were adequate.

The surveyed economists also assessed the 10-year Economic Development Strategy, setting out various goals for the next ten years. According to the majority, or 53.8% of surveyed economists, the predicted average growth rate of 5-5.2% in 2025-2030 is realistic, but not ambitious enough.

The experts assessed the potential effectiveness of different government programs and initiatives on a scale from 1 (very low) to 5 (very high). It is worth noting here that 69.2% of the surveyed economists stated that the potential effectiveness of the program entitled "Facilitation of Home Purchases for families" was very low. Meanwhile, 23% of respondents assessed the potential effectiveness of investing in the transport and logistics sector as very high.

When asked about current monetary policy stance, 50% of the surveyed economists stated that they agreed with the National Bank of Georgia's decision on August 4 to increase the key refinancing rate to 10%.

It is noteworthy that 50% of respondents stated that they expected the number of tourists visiting Georgia to reach pre-pandemic levels by 2023.

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	2017	2018	2019	2020	2021 Q1
Nominal GDP (mIn USD)	16248.5	17596.6	17470.7	15888.1*	3400*
GDP per Capita (USD)	4358.5	4722.0	4696.2	4274.6*	912.5*
GDP Real Growth (%)	4.8%	4.8%	5.1%	-6.2%*	-4.5%*
Inflation	6.0%	2.6%	4.9%	5.2%	4.5%
FDI (mIn USD)	1978.3	1306.3	1310.8	616.9*	125.4*
Unemployment Rate (%)	21.6%	19.2%	17.6%	18.5%	21.9%
External Debt (mIn USD)	5177.4	5434	5741	7535	7721
Poverty Rate (relative)	21.0%	22.3%	20.5%	19.7%	21.3%

* Preliminary data