



Georgian Economic Climate (Q4, 2019)

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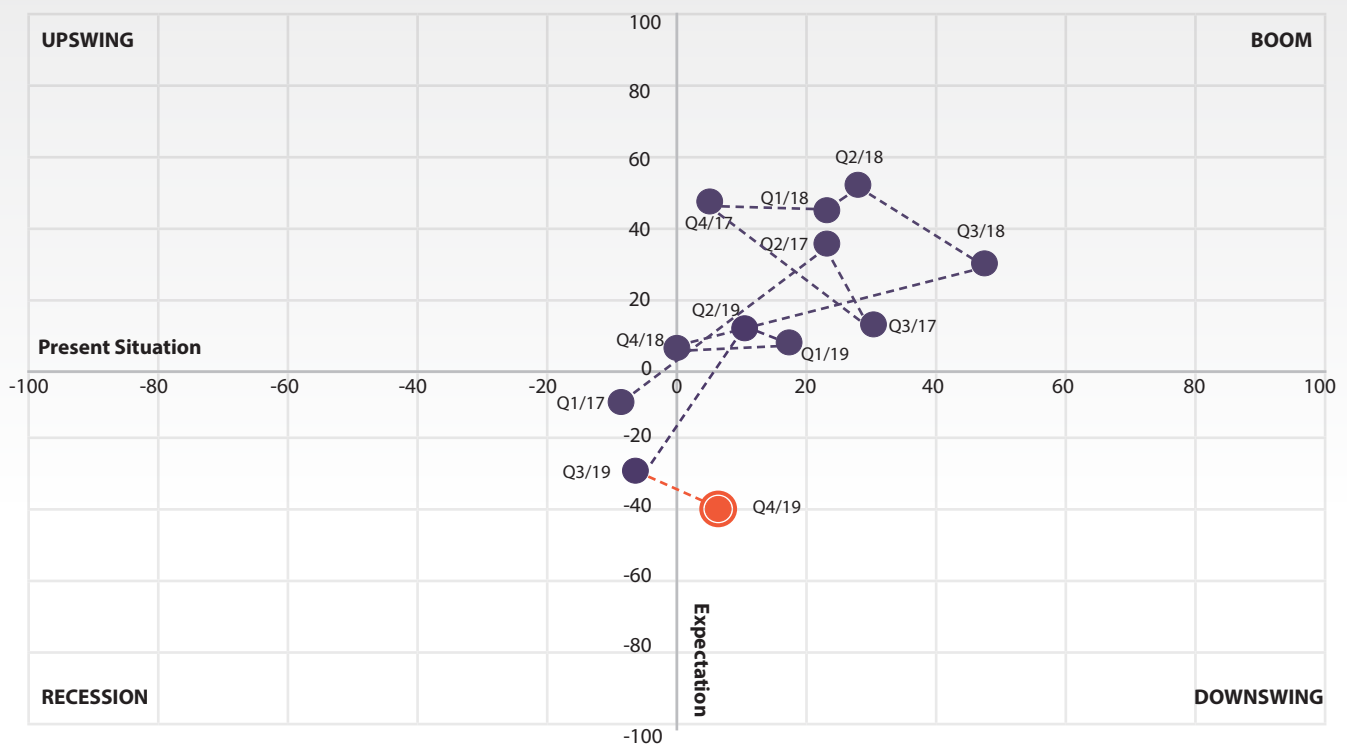
Georgian Economic Climate is a joint product of PMC Research Center and the ifo Institute for Economic Research. In this bulletin, we discuss Georgia's economic climate as assessed by Georgian economists. PMC Research Center is a regional partner of the ifo Institute, one of the leading economic research 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 October 2019, assessing October 2019 - March 2020 period.

In the fourth quarter of 2019, Georgian economic climate has slightly worsened.

In this period, Georgian economists assessed Georgia's present economic situation positively; Moreover, the assessment of present economic situation in this quarter has improved compared to the third quarter of 2019 and the fourth quarter of 2018.

In the fourth quarter of 2019, Georgia's economic situation in the next six months has been assessed negatively by Georgian economists. In this quarter, expectations in six months has deteriorated rapidly compared with both, Q3 of 2019 and Q4 of 2018.

Georgian Economic Climate, Q4, 2019



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. 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. 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 fourth quarter of 2019, the **expected real GDP growth for Q4 of 2019 is 4.7%**. 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;



Exchange rates

- The Georgian Lari is currently **undervalued** against the US Dollar and the Euro, **about the same** against the 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 remain about the same** 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 the fourth quarter of 2019, Georgian experts assessed the impact of shadow economy on Georgia's Gross Domestic Product (GDP) and economic growth. The shadow economy is defined as legal business activities that are performed outside the purview of public authorities.

According to Georgian experts, the shadow economy is estimated to be 17,6% in relation to total Gross Domestic Product (GDP) in Georgia. The majority of experts (36%) think that the share of the shadow economy in Georgia in relation to total GDP in the last ten years stayed the same. Moreover, they (44%) reckon that the shadow economy has no effect on hindering or boosting economic growth in Georgia.

The Georgian experts think that the shadow economy is rare in financial and insurance, info and communications and manufacturing sectors. In contrast, the shadow economy is common in the household sector. The Georgian experts (70%) believe that people work in the shadow economy to avoid paying taxes and social security contributions. Majority of the experts think that the most effective measures against the shadow economy are improving the rule of law and decreased bureaucracy to register a business or as self-employed.

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 (mIn USD)	16507.8	13988.1	14377.9	15086.5	17 596.6
GDP per Capita (USD)	4438.3	3754.9	3857.3	4046.8	4722.0
GDP Real Growth (%)	4.6%	2.9%	2.8%	4.8%	4.8%
Inflation	3.1%	4.0%	2.1%	6.0%	6.4%
FDI (mIn USD)	1,817.7	1,665.6	1,565.8	1,894.5	1 265.2
Unemployment Rate (%)	14.6%	14.1%	14.0%	13.9%	12.7%
External Debt (mIn 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%	20.5%

* Preliminary data