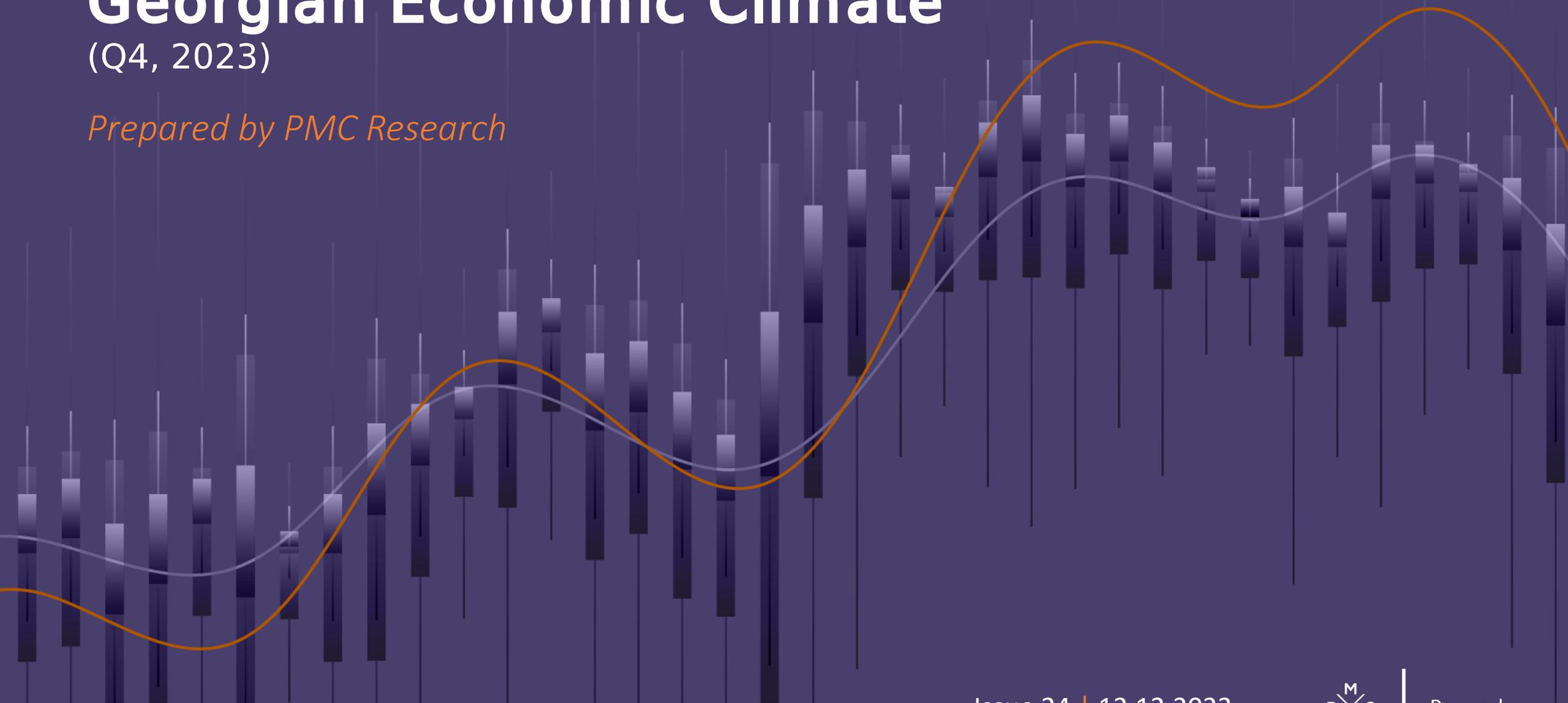


Georgian Economic Climate

(Q4, 2023)

Prepared by PMC Research



“**GEORGIAN ECONOMIC CLIMATE**” is a product of PMC Research Center (PMC RC).

In this bulletin, which is based on the ifo Institute’s methodology, we discuss Georgia’s economic climate, informed by the assessments of various Georgian economists.*

The survey for this particular issue was conducted in November 2023.

**The pool of economists who receive our quarterly survey consists of total 60 experts.*

The **main findings** of a survey of Georgian economists conducted in Q4 of 2023 are as follows:

- ❑ The surveyed Georgian economists assessed Georgia's **present economic situation** as **positive**.
- ❑ Their predictions for Georgia's **economic situation for the next six months** were also **positive**.
- ❑ On average, the surveyed Georgian economists predicted **real GDP growth for 2023** of **6.2%**.
- ❑ They **expected the inflation rate** (year-on-year) to **increase** over the next six months, with **the expected rate of inflation for 2023** being **3.9%**.
- ❑ 64% of the surveyed economists identified a **labor shortage** as the most significant threat to the Georgian economy.
- ❑ The majority (53%) of surveyed economists thought that the **recovery in income from tourism** contributed most to the upward revision of Georgia's economic growth forecast by the IMF.
- ❑ A **skills mismatch** was highlighted by 70% of respondents as the most notable threat to **poverty reduction** in Georgia.
- ❑ All of the surveyed economists either agreed or completely agreed with **the IMF's concerns regarding the independence of the NBG**.
- ❑ Overall, 76% of the surveyed economists believed that the recent developments surrounding the NBG posed a high or very high threat to the continuation of the **IMF's support program in Georgia**.
- ❑ Respondents exhibited considerable divergence in their opinions about the **NBG's actions in response to exchange rate fluctuations**. 41% of respondents disagreed with the NBG's decisions as they found the measures **excessive**, while 29% agreed but thought they were **insufficient** to address the situation adequately.
- ❑ More than half (53%) of respondents agreed or completely agreed with **the NBG's decision to maintain the monetary policy rate at 10%**. Notably, many respondents (24%) were uncertain about their assessment of the decision.
- ❑ Following the **reignition of the Israeli-Palestinian conflict** in October 2023, 64% of respondents expected that **decreased expenditure of Israeli tourists in Georgia** would have a high or very high impact on the Georgian economy.



Georgian Economic Climate, Q4 2023



- In a survey of Georgian economists conducted in Q4 of 2023, Georgia's **present economic situation** was assessed **positively**. Their assessment of the present economic situation has worsened compared to both - Q3 of 2023 as well as Q4 of 2022.
- In Q4 of 2023, the surveyed economists' predictions for Georgia's **economic situation for the next six months** are **positive**. Their expectations in this regard have improved compared to the negative predictions they made in Q3 of 2023 and have significantly improved compared to the negative expectations recorded in Q4 of 2022.



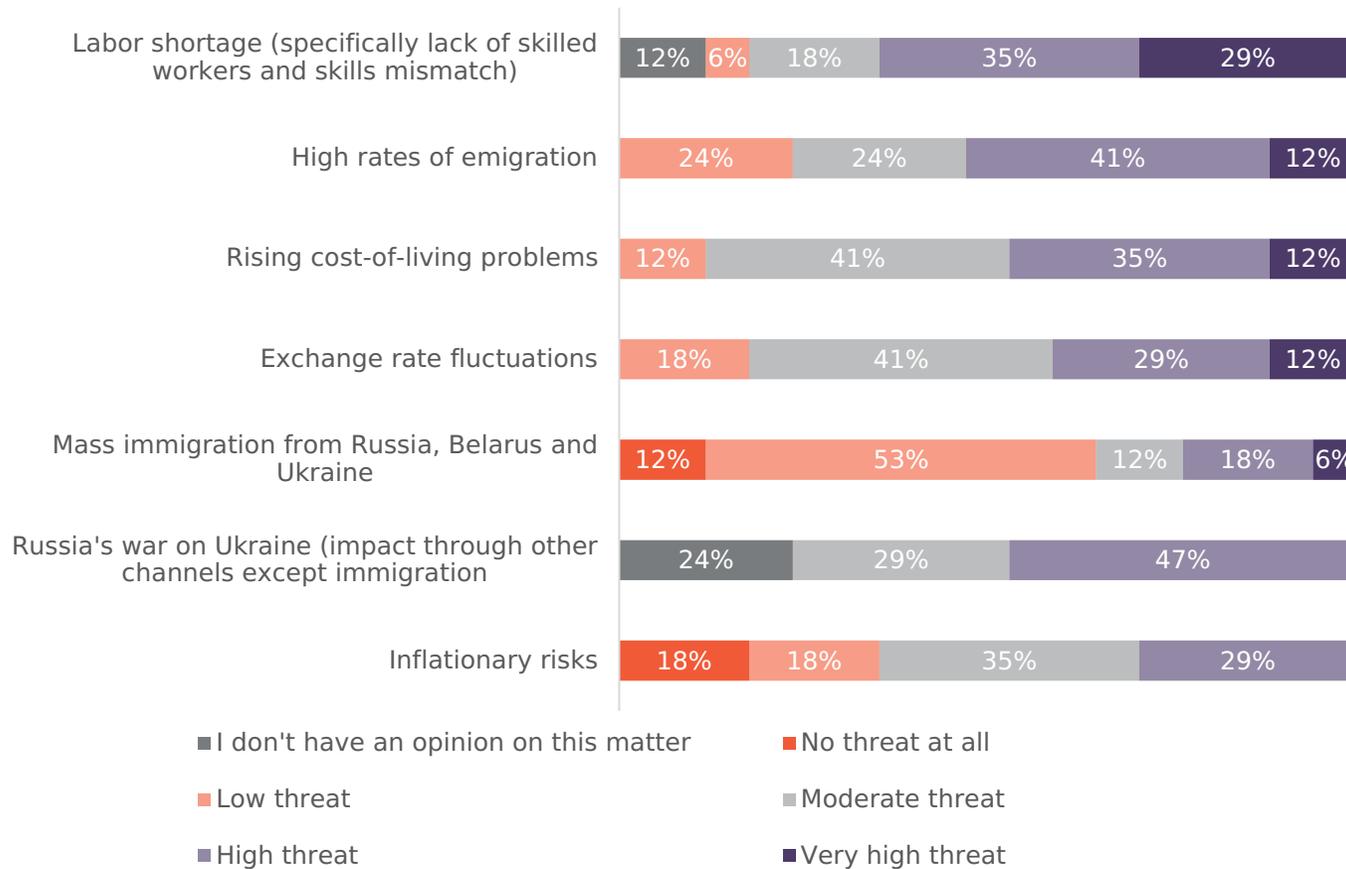
PREDICTIONS FOR GEORGIA'S GDP, INFLATION RATE, EXCHANGE RATE AND TRADE

In addition to assessing the current economic situation and gathering expectations for the next six months, the surveyed experts also made predictions with regard to Georgia's main economic indicators. According to the results of the survey:

- The **expected real GDP growth for 2023**, on average, is **6.2%**. Interestingly, the assessments remained unchanged since the previous survey made during the last quarter (Q3 of 2023).
- The **inflation rate** (year-on-year) is **expected to increase** for the next six months, with the **expected rate of inflation for 2023** being **3.9%**.
- By the end of the next 6 months, compared to the corresponding period of the previous year, the Georgian Lari is expected to be **appreciated** against the US Dollar and Euro and **depreciated** against Russian Rouble and the Turkish Lira.
- The **volume of exports** is **expected to remain about the same** in the coming six months, compared to the corresponding period of the previous year; and
- The **volume of imports** is **expected to increase** in the coming six months, compared to the corresponding period of the previous year.



Assess from 1 (no threat at all) to 5 (the highest threat) which threats do you consider of the highest importance to the Georgian economy over Q4 of 2023

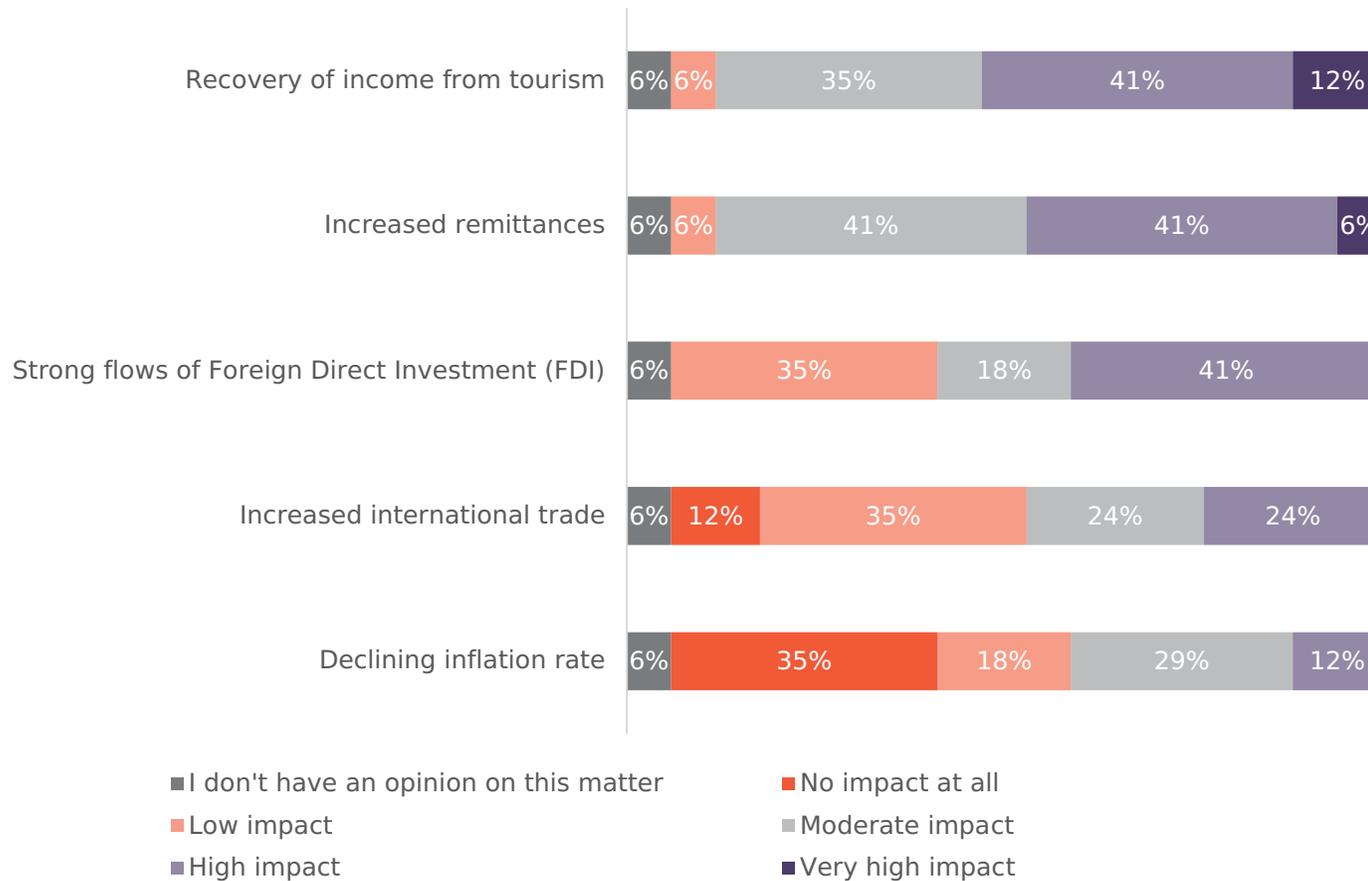


The surveyed economists were asked to identify which factors they considered to pose **the greatest threat to the Georgian economy**.

- ❑ A **labor shortage** was deemed to be a high or very threat to the Georgian economy by 64% of respondents.
- ❑ Overall, 53% of surveyed economists cited **emigration** as a high or very high threat.
- ❑ **The rising cost of living** was also noted as a high or very high threat to the Georgian economy by 47% of the surveyed economists.
- ❑ **Mass immigration from Russia, Belarus, and Ukraine** was considered to be a low threat or no threat at all by the majority (65%) of respondents.
- ❑ In total, 47% of the surveyed economists considered **Russia's war on Ukraine** to represent a high threat to the Georgian economy.
- ❑ **Exchange rate fluctuations** were deemed a moderate threat by 41% of respondents.



Assess from 1 (no impact at all) to 5 (very high impact) what factors you believe have contributed to the upward revision of Georgia's economic growth forecast by IMF?

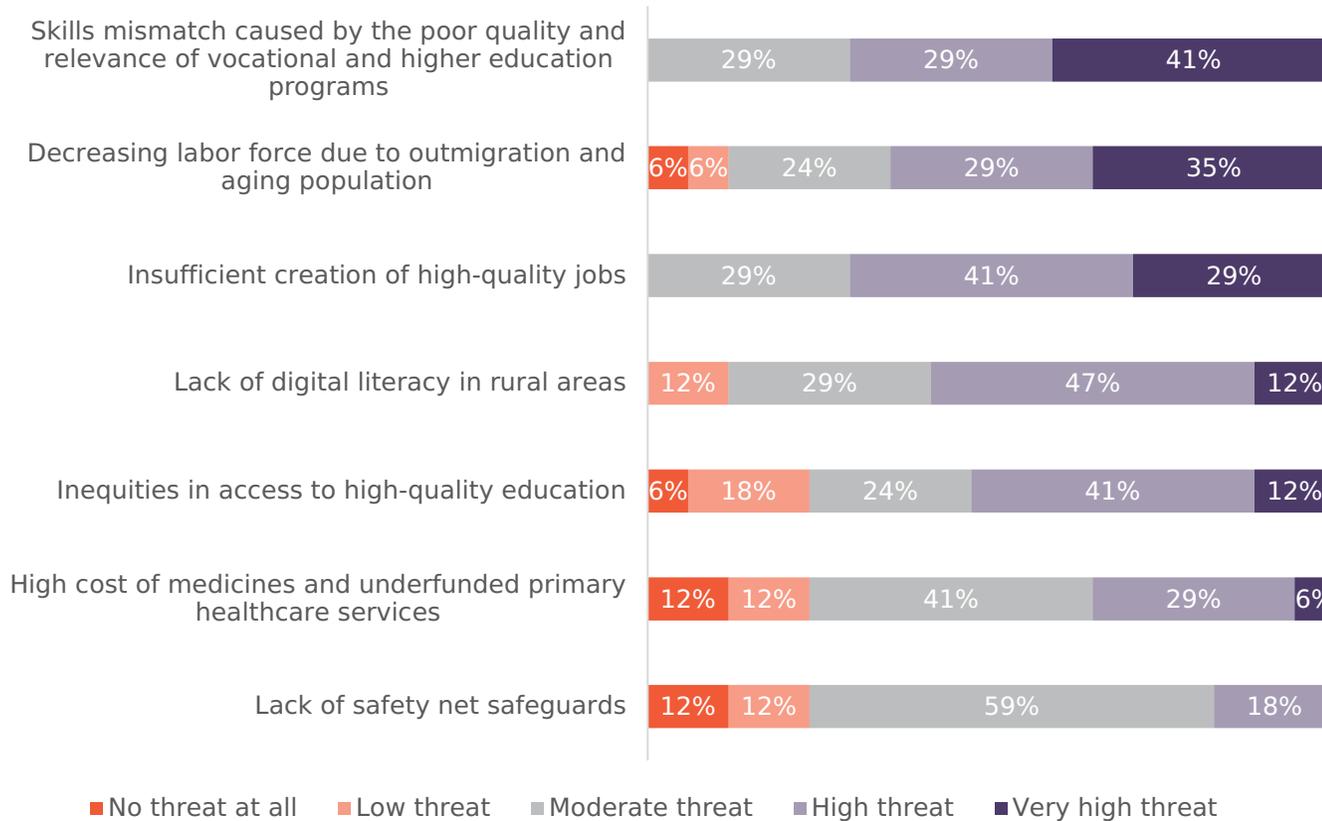


According to the October 2023 edition of the World's Economic Outlook issued by the International Monetary Fund (IMF), the Georgian economy is projected to grow by 6.2% in 2023, which is 2.2 pp higher than its previous forecast. With that in mind, the surveyed economists were asked to assess the possible contributing factors to the IMF's upward revision of its economic growth forecast for Georgia.

- ❑ More than half (53%) of the surveyed economists thought that the **recovery in income from tourism** had a high or very high impact on the improved economic growth forecast.
- ❑ Overall, 47% of respondents expressed the view that **increased remittances** had a high or very high impact on the upward revision of the forecast.
- ❑ **Strong FDI flows** was highlighted by 41% of the surveyed economists as having a high impact on the IMF's improved forecast.
- ❑ More than one-third (35%) of respondents thought that the **declining rate of inflation** had no impact on Georgia's economic growth forecast.



Assess from 1 (no threat at all) to 5 (very high threat) the different challenges highlighted by the World Bank in its recent publication of the Systemic Country Diagnostic for Georgia that hinder poverty reduction in the country



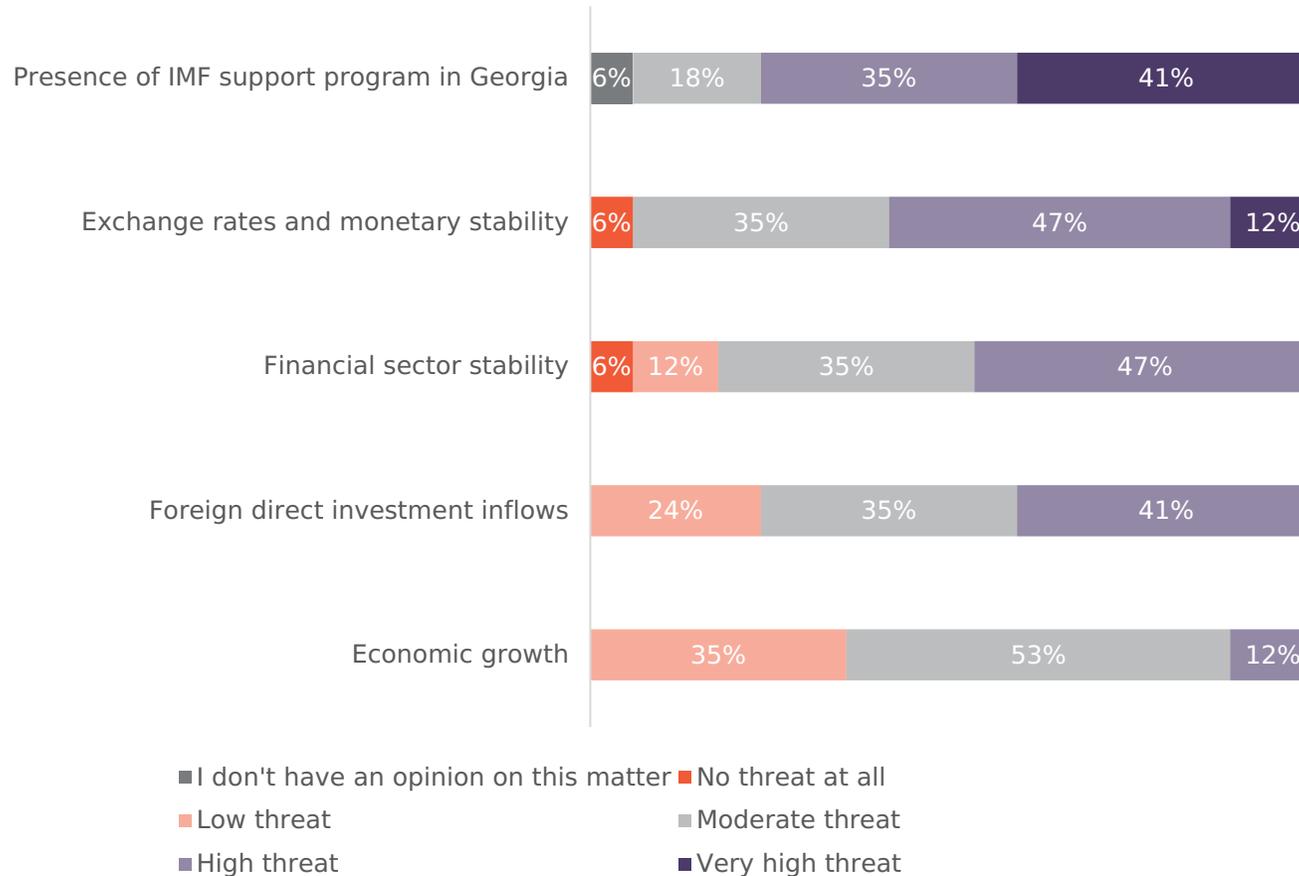
In its recently published Systemic Country Diagnostic Update on Georgia, the World Bank highlighted the challenges impeding poverty reduction in the country. The surveyed economists were asked to assess these challenges.

- 70% of the respondents named **skills mismatch** as a high or very high threat to poverty reduction in Georgia.
- Insufficient creation of high-quality jobs** was also considered a high or very high threat by 70% of the surveyed economists.
- In total, 64% of the respondents highlighted a **diminishing labor force** - due to emigration and an aging population - as a high or very high threat to poverty reduction in Georgia.
- The combined threat of **the high cost of medicines and underfunded primary healthcare** was considered high or very high by 35% of respondents.
- The majority (59%) of the surveyed economists thought that the **lack of safety net safeguards*** presented only a moderate threat to poverty reduction.

* Targeted social programs ensuring a basic standard of living for vulnerable population.



Assess from 1 (no threat at all) to 5 (the highest threat) which factors you believe will be the most negatively affected by the recent developments around the National Bank of Georgia.



* IMF on the NBG's decision regarding imposing international sanctions

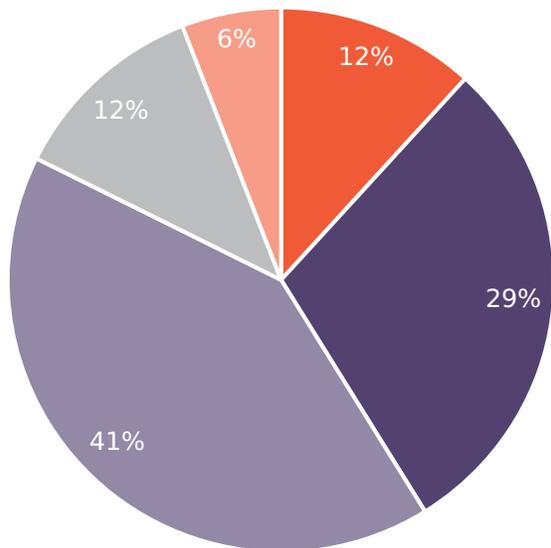
Following the recent high-profile developments surrounding the National Bank of Georgia (NBG), the IMF has expressed concerns about the NBG's independence and its enforcement of sanctions.* The surveyed economists were asked to respond to the IMF's concerns. Notably, **100% of respondents either agreed or completely agreed with these concerns.**

The surveyed economists were also asked to assess the possible threats posed by recent developments surrounding the NBG.

- Recent developments concerning the NBG pose a high or very high threat to the **continuation of the IMF's support program in Georgia**, according to 76% of the surveyed economists.
- In total, 59% of surveyed economists identified **exchange rates and monetary stability** as posing a high or very high risk.
- Financial stability** in the country was considered to be under high threat by 47% of the economists surveyed.
- Overall, 41% of respondents believed that recent developments regarding the NBG posed a high threat to **foreign direct investment (FDI) inflows.**



Express your opinion regarding the NBG's measures to stabilize exchange rate fluctuations



- I completely agree with the NBG's decision and I think that implemented measures are sufficient to address the situation
- I agree with the NBG's decision and I think that implemented measures are insufficient to address the situation adequately
- I disagree with the NBG's decision as I think that those measures are excessive
- I completely disagree with the NBG's decision as I think those measures are inefficient
- I don't have an opinion on this matter

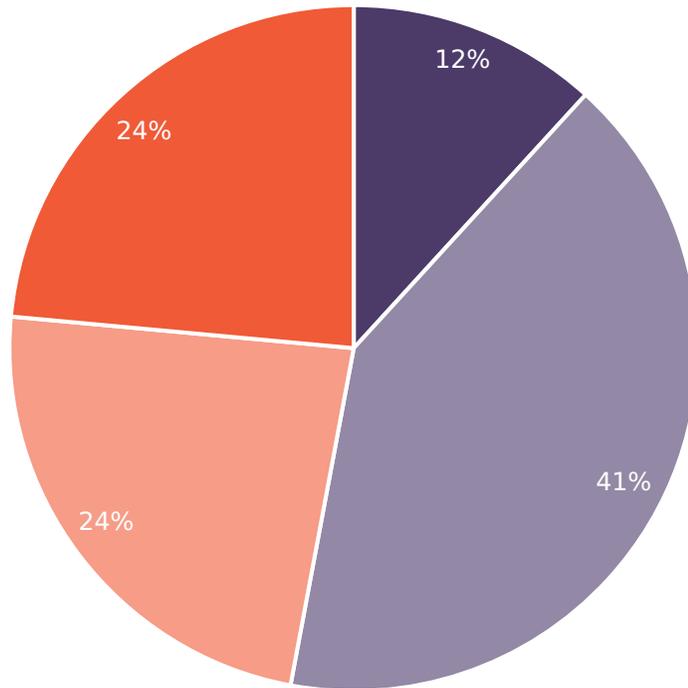
Developments with regard to the NBG, as described in the previous questions, led to fluctuations in the exchange rate, prompting the NBG to implement measures* to stabilize the situation. The surveyed economists were asked to express their opinion regarding the NBG's measures.

- Overall, 41% of the surveyed economists **disagreed** as they **thought the steps taken by the NBG were excessive**.
- In total, 29% of respondents **agreed** with the NBG's measures but they thought they were **insufficient to address the situation** adequately.
- Meanwhile, 12% of the respondents **completely disagreed** with the NBG's decision as they think that these **measures were inefficient**.
- Another 12% of respondents **completely agreed** with the NBG's decision and thought that its implemented measures were **sufficient to address the situation**.

* According to the dynamics of trade on the NBG's foreign exchange auctions, no USD was sold by the NBG from June 2nd to September 20th, 2023. However, from September 20th to October 17th, 2023, the NBG sold up to USD \$150 million.



Despite both headline and core inflation being below the 3% target, the National Bank of Georgia maintained the monetary policy rate at 10% (announced on October 25th, 2023). Express your opinion regarding the NBG's decision.



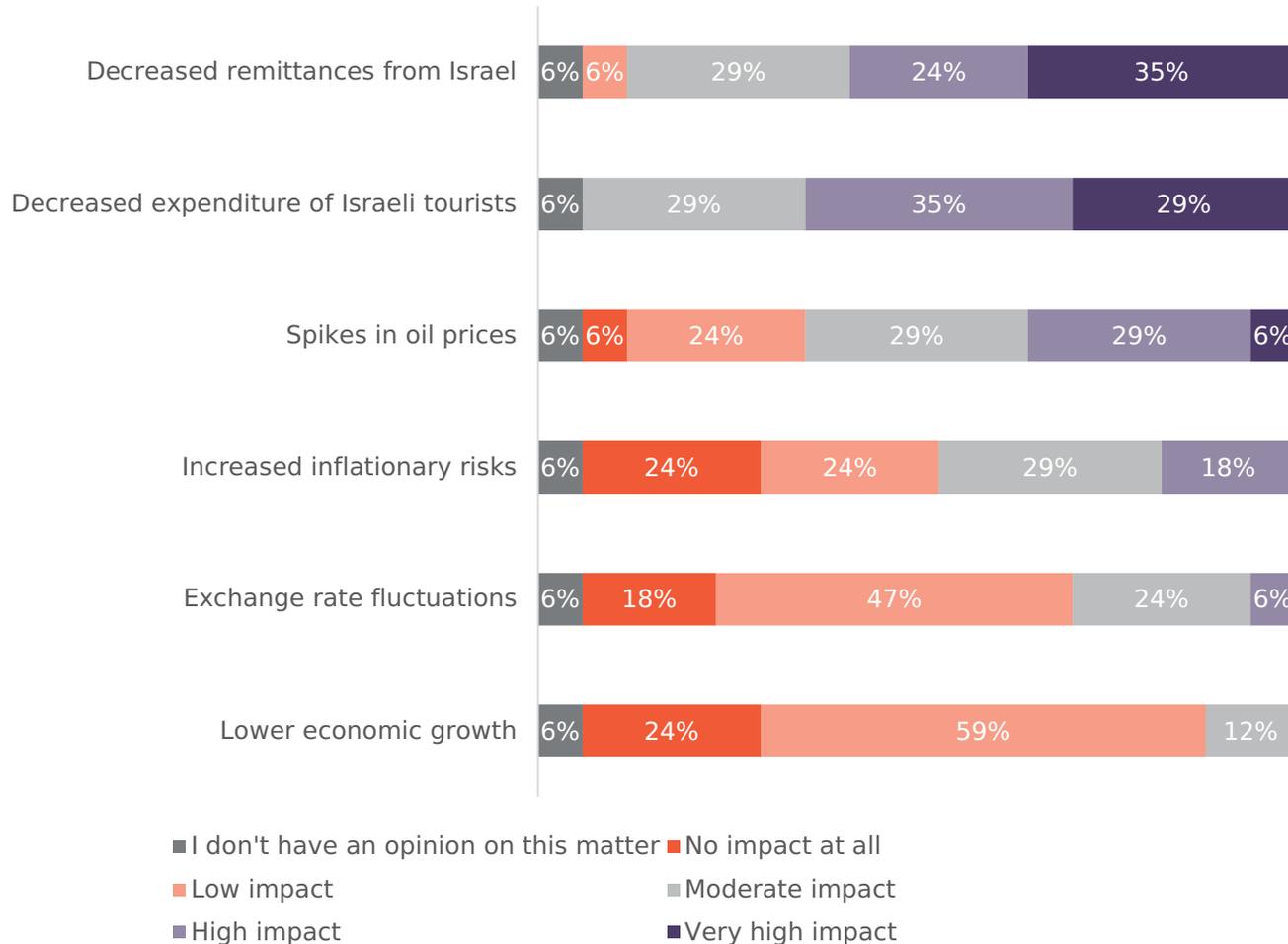
■ Completely agree ■ Agree ■ Uncertain ■ Disagree ■ Completely disagree

Despite both headline and core inflation being below the 3% target, the NBG decided to maintain the monetary policy rate at 10% (announced on 25 October, 2023). Relatedly, the surveyed economists were asked to express their opinion regarding the NBG's decision.

- ❑ Overall, 41% of the surveyed economists **agreed** with the NBG's decision.
- ❑ In total, 24% of respondents **disagreed** with the NBG's decision.
- ❑ Another 24% of the surveyed economists were **uncertain** about the decision.
- ❑ Only 12% of respondents **completely agreed** with the NBG's decision.



Assess from 1 (no impact at all) to 5 (very high impact) through which channels the conflict in the Middle East might affect the Georgian economy



In Q4 of 2023, the conflict between Israel and Palestine reignited, leading to greater economic uncertainty in surrounding region. Accordingly, the surveyed economists were asked to assess the different channels through which the conflict in the Middle East might affect Georgia's economy.

- Overall, 64% of the surveyed economists expected that **decreased expenditure of Israeli tourists in Georgia** would have a high or very high impact on the Georgian economy.
- Decreased remittances from Israel** was expected to have a high or very high impact on the Georgian economy according to 59% of respondents.
- In total, 35% of the respondents anticipated **spikes in oil prices** having a high or very high impact on Georgia's economy.
- The majority (59%) of the surveyed economists believed that the conflict would have a low impact on Georgia's **economic growth**.
- Exchange rate fluctuations** caused by the conflict were predicted by 47% of respondents to have a low impact on the Georgian economy.



BASIC ECONOMIC INDICATORS IN GEORGIA

| | 2019 | 2020 | 2021 | 2022 | 2023 Q1* | 2023 Q2* | 2023 Q3* |
|-------------------------|----------|----------|----------|---------|----------|----------|----------|
| Nominal GDP (mln USD) | 17 470.7 | 15 842.9 | 18 629.4 | 24785.6 | 6304.6* | 7686.4* | - |
| GDP per Capita (USD) | 4 696.2 | 4 255.7 | 5 023.2 | 6676.3 | 1,698.2* | 2 070.4* | - |
| GDP Real Growth (%) | 5.0% | -6.8% | 10.5% | 10.4% | 8.0%* | 7.8%* | - |
| Inflation | 4.9% | 5.2% | 9.6% | 11.9% | 7.6% | 1.6% | 0.6% |
| FDI (mln USD) | 1 352.2 | 589.0 | 1 241.8 | 2097.9 | 566.4* | 505.7* | - |
| Unemployment Rate (%) | 17.6% | 18.5% | 20.6% | 17.3% | 18.0% | 16.7% | 15.6% |
| External Debt (mln USD) | 5 741 | 7 535 | 8 205 | 8 435 | 8 473 | 8 510 | 8 452 |
| Poverty Rate (relative) | 19.5% | 21.3% | 17.5% | 15.6% | - | - | - |

* Preliminary data

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