



Research

Georgian Economic Climate (Q1, 2022)

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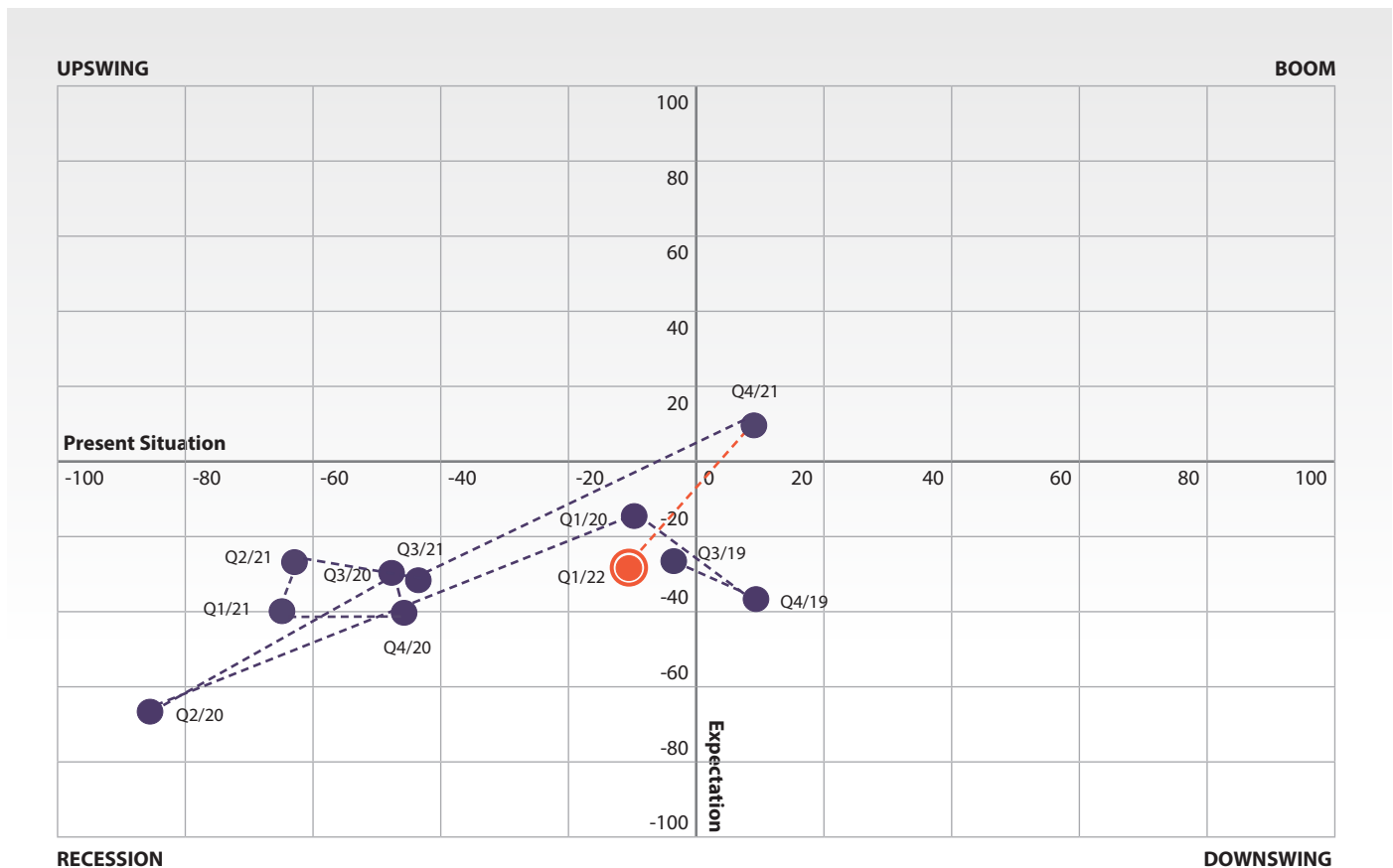
Georgian Economic Climate is a product of PMC Research Center. In this bulletin, which is based on Ifo Institute's methodology, we discuss Georgia's economic climate according to assessments made by Georgian economists. A total of 60 experts are participating in this initiative, and the survey for this particular issue was conducted in February 2022 [86% of responses were recorded before the military invasion of Ukraine by Russia on 24 February 2022].

According to a survey of Georgian economists, the **economic climate** in the country in the first quarter of 2022 **has worsened** compared to the fourth quarter of 2021 but has improved compared to the first quarter of 2021.

In the covered period, the surveyed Georgian economists issued a negative assessment of Georgia's present economic situation. For the first quarter of 2022 the present economic situation was deemed to have worsened compared to the fourth quarter of 2021, albeit to have significantly improved compared to the first quarter of 2021.

The surveyed economists' predictions for Georgia's economic situation for the next six months were even more negative. In fact, their expectations for this period were lower compared to their predictions made in the fourth quarter of 2021, but higher compared to the ones made in the first quarter of 2021.

Georgian Economic Climate



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 2022 is 4.9%**. Meanwhile, forecasts for the other main economic indicators were as follows:



Inflation

- The inflation rate (year-on-year) is expected to **decrease** for the next six months;



Exchange rates

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



Trade volume

- The export volume is **expected to increase** in the coming six months, compared with the past six months;
- The import volume is **expected to increase** in the coming six months, compared with the past 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 with the last six months.

SPECIAL QUESTIONS

In the survey, Georgian economists were also asked about various topics related to patterns in the Georgian economic climate at the time of answering.

In total, 71.4% of the surveyed economists agreed with the decision of the National Bank of Georgia (NBG) (announced on 2 February 2022) to keep its tight monetary policy in place and to leave the policy rate unchanged at 10.5%.

As for the NBG's macroeconomic forecast scenarios for 2022, 60.7% of respondents think that the baseline scenario is the most realistic, which entails annual inflation dropping to 7% and the monetary policy rate decreasing by two percentage points to 8.5%. Overall, 25% of respondents lean towards the pessimistic scenario, according to which the inflation rate will decrease to 8%, while the NBG will reduce the monetary policy rate by 0.5 percentage points to 10%. Interestingly, none of the surveyed economists foresee the optimistic scenario playing out, which assumes that the inflation rate in 2022 will decrease to 5.5% and that the monetary policy rate will dip to 8%. Meanwhile, 20.7% of the surveyed experts do not consider any of the three presented macroeconomic forecast scenarios to be realistic.

When asked to assess the relevance of different factors that might have contributed to Georgia's historically high inflation rate in January 2022, the global rise in energy and petrol prices were considered highly relevant by 82% of the surveyed economists. Otherwise, trade barriers were also named as playing an important role in Georgia's relatively high inflation during the reviewed period by 68% of respondents. Elsewhere, shipping costs were assessed as highly relevant by 61% of experts, while end of pandemic support was cited by 54% of them.

The surveyed economists were also asked to assess the relevance of factors explaining the considerable appreciation of the Georgian Lari against the US Dollar recorded from the 18 January 2022 to the 9 February 2022. The tightening of monetary policy by the NBG was considered a highly relevant factor by 61% of respondents. Meanwhile, historically high remittances were considered important in this regard by 39% of surveyed economists, while positive dynamics of tourism recovery were cited by 36%.

The surveyed experts also assessed through which channels they expected the Georgian economy to be hit hardest on account of the war between Ukraine and Russia. In response, 68% of the surveyed economists expected that significant damage would be detected in the tourism sector, while 64% foresaw the depreciation of the Georgian Lari being another major effect of the conflict. More than half of respondents also predicted damage arising from decreased remittances and exports.

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	2019	2020	2021 Q1	2021 Q2	2021 Q3
Nominal GDP (mln USD)	17 470.7	15 888.1*	3 402.3*	4 663.4*	5 126.6*
GDP per Capita (USD)	4 696.2	4 274.6*	912.5*	1 282.7*	1 375.0*
GDP Real Growth (%)	5.0%	-6.2%*	-4.5%*	28.9%*	9.1%*
Inflation	4.9%	5.2%	4.5%	8.3%	12.3%
FDI (mln USD)	1 335.8	572.0	132.2*	297.7*	299.0*
Unemployment Rate (%)	17.6%	18.5%	21.9%	22.1%	18.5%
External Debt (mln USD)	5 741	7 535	7 721	8 017	7 729
Poverty Rate (relative)	20.1%	19.7%	-	-	-

* Preliminary data



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