



Research

Georgian Economic Climate (Q2, 2022)

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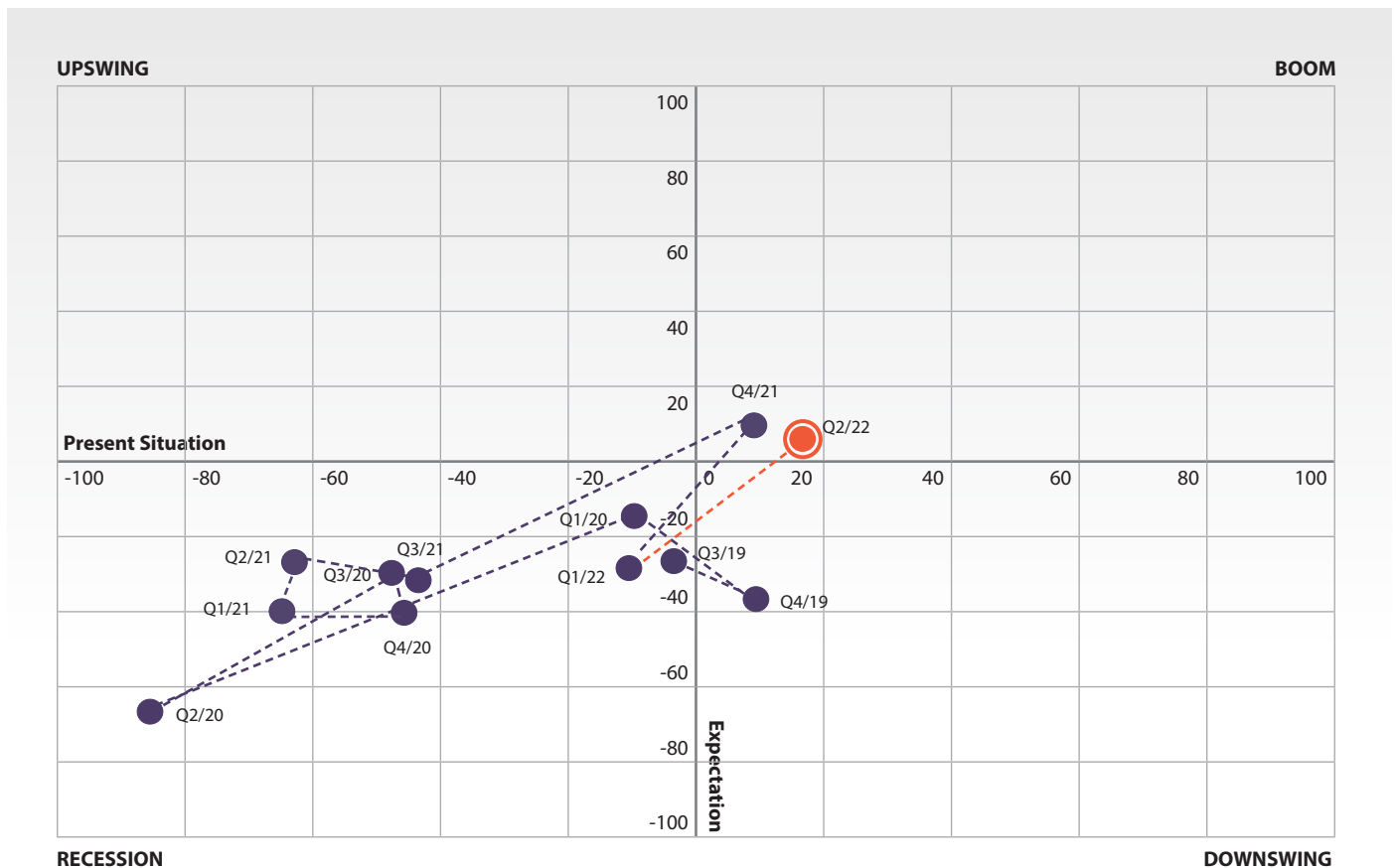
“Georgian Economic Climate” is a product of PMC Research Center (PMC RC). In this bulletin, which is based on the Ifo Institute’s methodology, we discuss Georgia’s economic climate according to assessments made by various Georgian economists. A total of 60 experts are participating in this initiative, and the survey for this particular issue was conducted in June 2022.

According to a survey of Georgian economists, the economic climate in the country in the second quarter of 2022 has improved compared to the first quarter of 2022, as well as compared to the second quarter of 2021.

With respect to the covered period, the surveyed Georgian economists positively assessed Georgia’s present economic situation. Meanwhile, in the first quarter of 2022 and in the second quarter of 2021, assessment of the economic situation for the respective quarters was negative. Thus, in the second quarter of 2022, their assessment of the present economic situation has significantly improved compared to both quarters.

The surveyed economists’ predictions for Georgia’s economic situation for the next six months were also positive. In fact, their expectations were much more optimistic compared to the predictions they made for the next six months in both the first quarter of 2022 and the second 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 6.1%**. Meanwhile, forecasts for the other main economic indicators are detailed below:



Inflation

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



Exchange rates

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



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 to the last six months.

SPECIAL QUESTIONS

PMCR stands firmly with Ukraine, supports its sovereignty and territorial integrity, and condemns Russia's ongoing military aggression. While the most devastating outcome of this war so far has of course been the humanitarian catastrophe being endured in Ukraine and the destroyed lives of millions of people, it is important to discuss the economic impacts of this war on Georgia as well. With that in mind, some of the questions in this section address the consequences of the war on the Georgian economy.

In the survey, Georgian economists were asked questions about various topics related to patterns in the Georgian economy, which were relevant at the time.

In total, around 94% of the surveyed economists agreed or completely agreed with the decision announced by the National Bank of Georgia (NBG) on 11 May 2022 to keep its tight monetary policy in place and to leave the policy rate unchanged at 11%.

The economists were also asked to assess the means through which they expected the heaviest damage to be inflicted on the Georgian economy courtesy of the war in the longer term, after some of the immediate effects of the war have already been observed. Overall, 94% of respondents thought that this conflict might significantly affect Georgia's food security. Exports were also underlined by many respondents (71%) as a channel through which significant damage could be done to the Georgian economy in light of the war. Meanwhile, the respondents were generally less concerned about the impact of the war on Georgia in terms of exchange rates and remittances.

When asked about areas in which Georgia is dependent on Russia, 65% of the surveyed economists highlighted tourism. As for other areas, 59% thought that Georgia's food imports were highly dependent on Russia, and, correspondingly, the same percentage considered that Georgian exports were highly dependent on Russia.

Furthermore, respondents were also asked to assess possible strategic opportunities that might be presented to Georgia amid the geopolitical shifts resulting from the Russia-Ukraine war. In total, 82% of the surveyed economists thought that the opportunity to accelerate integration with the EU could bring significant benefits to the Georgian economy. Otherwise, reducing Georgia's dependence on Russia was also highlighted as a potentially beneficial opportunity for Georgia's economy by a majority of respondents (71%).

According to the World Bank*, as the world faces the risk of entering a phase of stagflation, there are five key areas on which policymakers worldwide will need to focus to mitigate the associated risks. According to around half of the surveyed Georgian economists (47%), the areas most important for Georgian policymakers to focus on are countering spikes in oil and food prices, and accelerating the transition toward using more low-carbon energy sources.

* Source: World Bank's "Global Economic Prospects, June 2022"

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	2018	2019	2020	2021	2022 Q1
Nominal GDP (mln USD)	17 596.6	17 470.7	15 888.1	18 690.4*	4624.9*
GDP per Capita (USD)	4 722.0	4 696.2	4 274.6	5 015.4*	1 249.9*
GDP Real Growth (%)	4.8%	5.0%	-6.2%	10.4%*	14.9%*
Inflation	2.6%	4.9%	5.2%	11.8%	13.2%
FDI (mln USD)	1 317.1	1 335.8*	572.0	1 152.8*	568.2*
Unemployment Rate (%)	19.2%	17.6%	18.5%	20.6%	20.6%
External Debt (mln USD)	5 434	5 741	7 535	7 956	-
Poverty Rate (relative)	20.5%	20.1%	19.7%	18.9%	19.4%

* Preliminary data



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