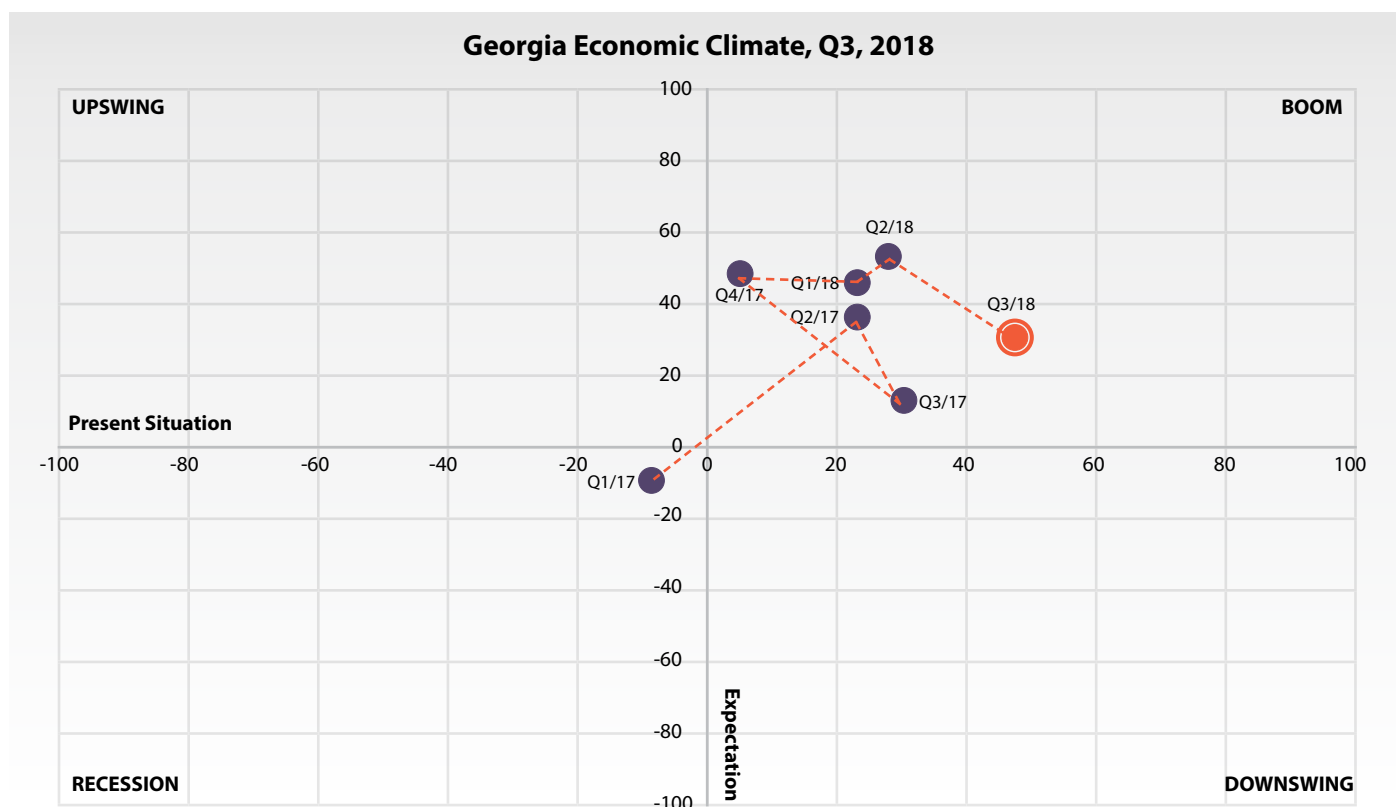


Georgian Economic Climate is a joint product of PMC Research Center and the ifo Institute for Economic Research. In this bulletin, we discuss Georgia's economic climate as assessed by Georgian economists. PMC Research Center is a regional partner of the ifo Institute, one of the leading economic research 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 July 2018, assessing the July - December 2018 period.

In the third quarter of 2018, Georgian economists **positively** assessed Georgia's Economic Climate Indicator (ECI). The Georgian economy is categorized under **"Boom"** with a positive assessment of its present situation and expectation for the next six months.

In the third quarter of 2018, economists' appraisals of the Georgian economy deteriorated, compared to the second quarter of 2018, however, it improved compared to the third quarter of 2017.



Notably, experts' assessment of present Georgian economic situation is better than their expectation for the next six months. In particular, expert's appraisal of present economic situation in the third quarter of 2018 improved by 70% compared to the second quarter of 2018 and improved by 32% compared to the third quarter of 2017.

Assessment of present economic situation for the third quarter of 2018 is the highest since the launch of the WES in Georgia in the first quarter of 2017.

On the other hand, expert's expectation for overall economic performance in coming July-December period deteriorated by 43% compared to the second quarter of 2018. However, assessment is improved (1.2 times) compared to the July-December period of 2017.

Since July 2017, this is the first time when experts are more positive while assessing present economic situation compared to the assessment of expectation for the next six months.

In addition, experts predict Georgia's main economic indicators. According to the results, in the third quarter of 2018, the **expected real GDP growth for 2018 is 4.7%**. Other main economic indicators are forecasted as follows:



Inflation

- Inflation rate is **expected to decrease** in the next six months, on the year-on-year bases;
- In 2018 the inflation rate is expected to be **3.7%**;
- In 2023 the inflation rate is expected to be **4.6%**.



Exchange rates

- The Georgian Lari is currently **undervalued** against the US Dollar, Euro and British pound and approximately fairly valued against Yen;
- The Georgian Lari is expected to **depreciate** against the US Dollar in the next six months.



Trade volume

- The export volume is **expected to increase** in the coming six months;
- The import volume is **expected to increase** 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 this quarter, experts assessed the need for reform in the Georgian financial sector after the financial crisis 2007-2008. Vast majority of Georgian experts think that the reform was needed for financial sector after the crisis. According to the survey, reforms were implemented in:

- Strengthening the oversight of capital, liquidity and risk management;
- Changing the role and uses of credit ratings;
- Strengthening the capacity of central bank to provide liquidity.

Based on the survey results, in experts' opinion, Georgian economy is somewhat resilient to a next financial crisis.

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	2013	2014	2015	2016	2017
Nominal GDP (mIn USD)	16139.9	16507.8	13988.1	14377.9	15164.5
GDP per capita (USD)	3599.6	3676.2	3766.6	3864.6	4078.5
GDP real growth (%)	3.4%	4.6%	2.9%	2.8%	5.0%
Inflation	-0.5%	3.1%	4.0%	2.1%	6.0%
FDI (mIn USD)	1020.6	1818.0	1652.5	1602.9	1861.9
Unemployment rate (%)	16.9%	14.6%	14.1%	14.0%	13.9%
External debt (mIn USD)	4202	4199	4314	4515	5177
Poverty rate (relative)	21.5%	21.4%	20.2%	21.0%	22.3%