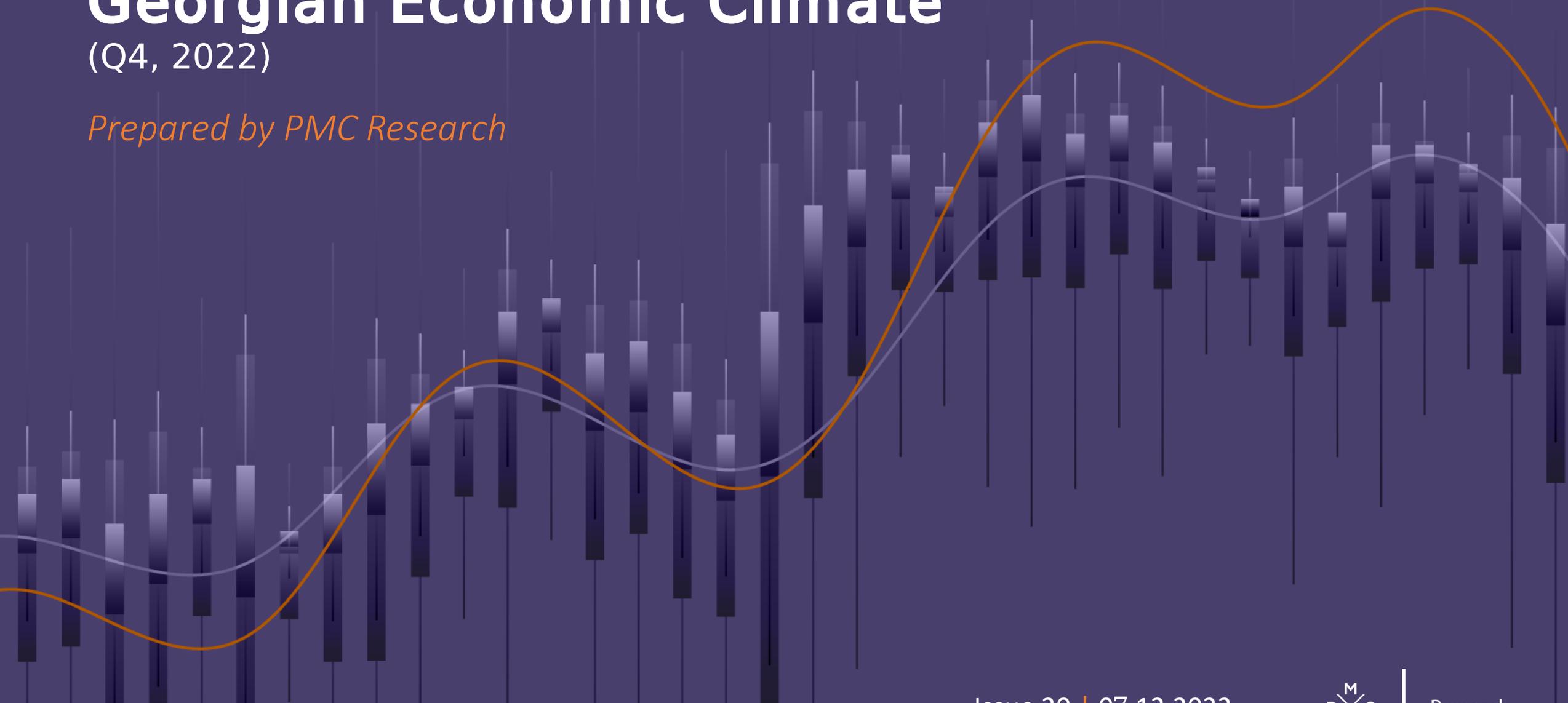


Georgian Economic Climate

(Q4, 2022)

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 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 November 2022.

The **main findings** of the survey of Georgian economists conducted in the fourth quarter of 2022 are:

- ❑ Georgian economists have a **positive** assessment of Georgia's **present economic situation**.
- ❑ Though their predictions for Georgia's **economic situation for the next six months** are **negative**.
- ❑ The Georgian economists' **prediction for real GDP growth** for 2022, on average, is 9.5%.
- ❑ The **inflation rate** (year-on-year) is **expected to decrease** for the next six months.
- ❑ Almost 90% of surveyed economists think that **high inflation** currently represents the highest threat to the Georgian economy.
- ❑ 94% of surveyed economists think that among other policy approaches **tighter fiscal policy** is likely to be the most effective in tackling inflation in Georgia. Similarly, 89% believe in the effectiveness of imposing a **tighter monetary policy**.
- ❑ The majority of Georgian economists (44%) think that the **Estonian model for profit tax** should be applied to the financial sector in Georgia from 2023.
- ❑ Regarding the parameters defined in the Government of Georgia's **state budget project for 2023**:
 - 78% think that **the government debt to GDP ratio at 38.8** is rational.
 - 70% think that **the budget deficit at 2.9% is reasonable**.
 - Less than half (47%) agree that **tax revenues of the budget at 18.5 billion GEL** are too high and should be lower.



Georgian Economic Climate, Q4 2022



- ❑ In a survey of Georgian economists conducted in the fourth quarter of 2022, Georgia's **present economic situation** was assessed **positively**. Economists' assessment of the present economic situation has improved compared to their previous assessments for both the third quarter of 2022 and the fourth quarter of 2021.
- ❑ However, the surveyed economists' predictions for Georgia's **economic situation for the next six months** were **negative**. Their expectations have worsened compared to the positive predictions for the next six months they made in the third quarter of 2022, as well as in the fourth quarter of 2021.



PREDICTIONS FOR GEORGIA'S GDP AND INFLATION AND ASSESSMENTS OF THE EXCHANGE RATE

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**, on average, is **9.5%**.
- ❑ The **inflation rate** (year-on-year) is **expected to decrease** for the next six months.

At present, the surveyed economists assessed the Georgian as:

- ❑ **Undervalued** against the US Dollar and Euro; and
- ❑ **Overvalued** against the Russian Rouble and the Turkish Lira.

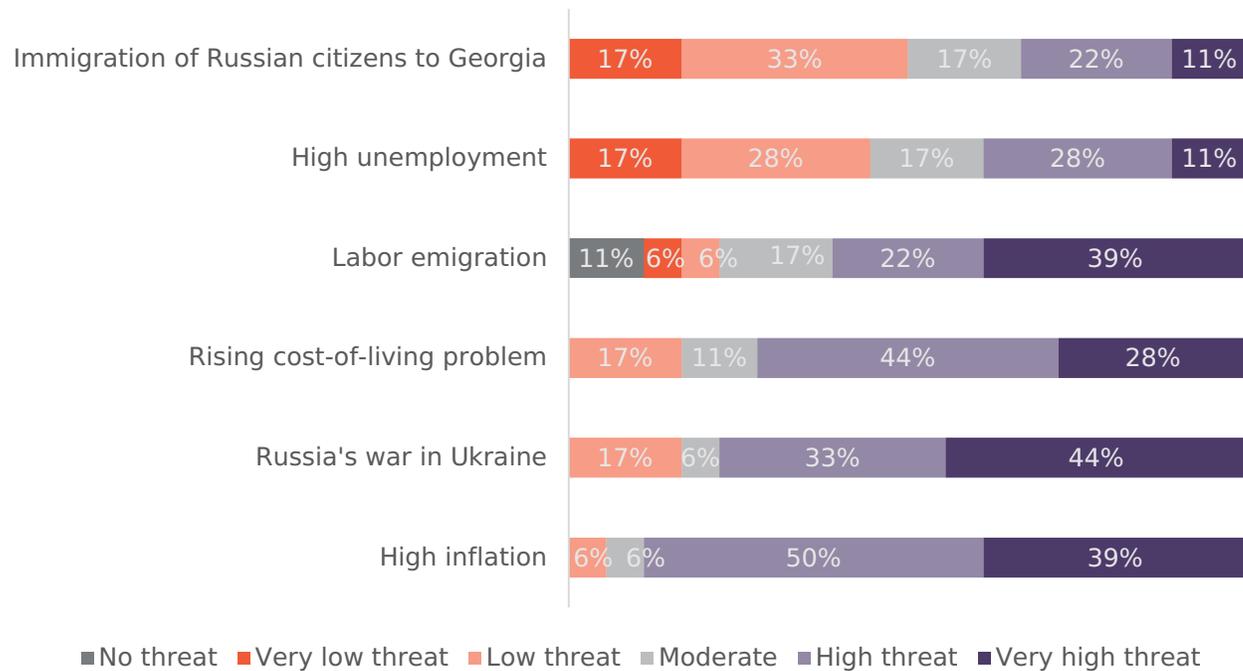


In addition to assessing the current economic situation and gathering expectations for the next six months, the surveyed experts also made predictions with regard to Georgia's main economic indicators. According to the results of the survey:

- ❑ The **export volume** is **expected to increase** in the coming six months, compared to the last six months;
- ❑ The **import volume** is **expected to increase** in the coming six months, compared to the last six months; and
- ❑ The export volume is expected to increase less sharply than the import volume, meaning that the **trade balance is expected to worsen** in the next six months compared to the last six months.



Assess from 0 (no threat) to 5 (the highest threat) which threats do you consider to be currently of the highest importance to the Georgian economy

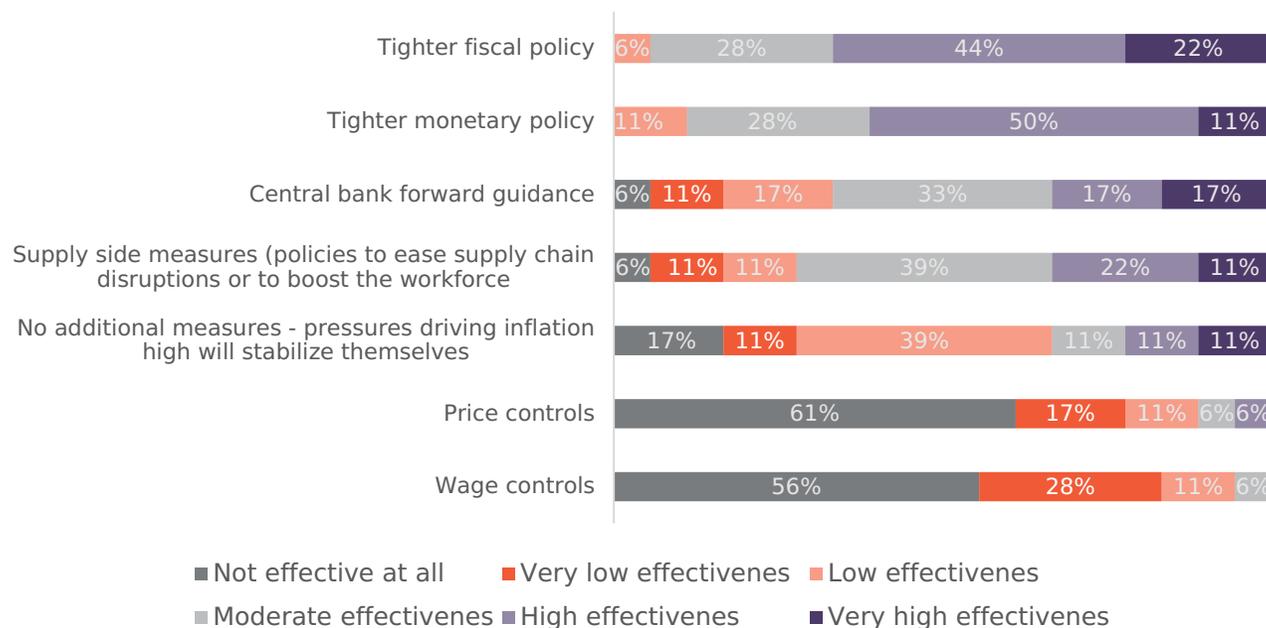


The economists were asked to assess the current **threats that currently are of the highest importance to the Georgian economy.**

- Almost 90% think that **high inflation** currently represents a high or very high threat to the Georgian economy. The majority (77%) deemed the threat posed by **Russia's war in Ukraine** to be high or very high, while 72% think the same of the **cost-of-living problem**.
- Meanwhile, the **immigration of Russian citizens to Georgia** is thought by 50% of respondents to currently present a low or very low threat to the Georgian economy.
- More than half of the economists (61%) consider **labor emigration** a high or very high threat, while on the contrary, 11% think that labor emigration is not a threat to the economy at all.



On a scale from 0 (not effective at all) to 5 (the most effective) assess which policy approach is likely to be the most effective in tackling inflation in Georgia?



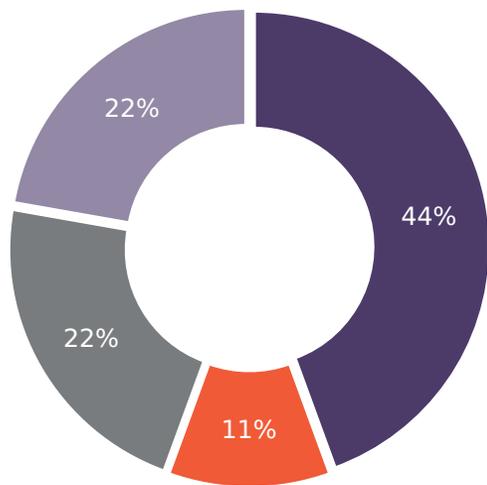
While the inflation target of the National Bank of Georgia is set at 3%, the annual inflation rate* reached 10.6% in October 2022. The economists were asked to assess which policy approach is likely to be the most effective in tackling inflation in Georgia.

- 94% of surveyed economists think that tighter fiscal policy is likely to have very high, high, or moderate effectiveness in tackling inflation in Georgia. Similarly, 89% believe in the effectiveness of imposing a tighter monetary policy.
- Meanwhile, wage controls and price controls are seen by economists as not effective or having very low effectiveness against inflation. Only 6% think that price controls would have high effectiveness and none of the respondents consider wage controls to have high effectiveness.
- Almost 70% do not agree that no additional measures are needed and that the pressures driving inflation will stabilize themselves.

*Annual inflation – calculated as a percentage change in the Consumer Price Index (CPI) of the month compared to the corresponding month of the previous year.



Do you agree that the Estonian model of profit tax should also apply to the financial sector from 2023?



- I agree that the Estonian model for profit tax should be applied to the Georgian financial sector from 2023
- I do not agree that the Estonian model for profit tax should be applied to the Georgian financial sector from 2023, but I do agree that this should be applied at some point in the coming years
- I do not agree that the Estonian model for profit tax should be applied to the Georgian financial sector at any time
- I do not have a certain opinion on this matter

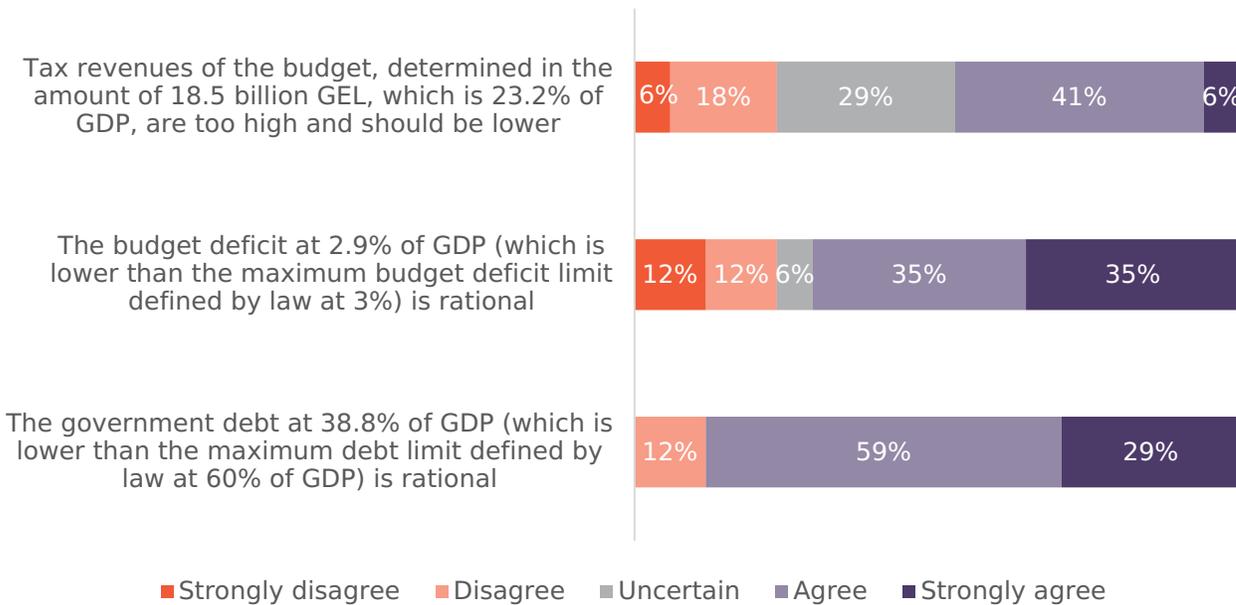
According to the **Estonian model for profit tax**, which has been implemented in Georgia since 2018, businesses are exempt from tax on profits that are reinvested in the company. The model was **supposed to be applied to the financial sector in Georgia as of 2023**, but according to the recent decision by the Georgian government*, this will not be the case. Accordingly, the surveyed economists were asked to express their opinions on this matter.

- The majority (44%) agree that the Estonian model for profit tax should be applied to the financial sector in Georgia from 2023.
- On the contrary, 22% do not agree that the model should ever be applied to the financial sector, while 11% think that although it should not be applied in 2023, it should eventually be applied at some point in the coming years.

* Source: <https://www.interpressnews.ge/ka/article/736938-irakli-garibashvili-bankebi-da-sapinanso-sektori-agar-gadadis-mogebis-gadasaxadis-ec-estonur-modelze-da-mattvis-shevinarchunebt-mogebis-gadasaxadis-arsebul-sistemas-gaumartlebelia-bankebs-amxela-mogeba-akvt>



On a scale from 1 (strongly disagree) to 5 (strongly agree) assess the following statements about the Government of Georgia's state budget project for 2023*?



* The Government of Georgia's project for state budget 2023 is available at the following link:
<https://www.mof.ge/5477>

The economists also assessed the main indicators determined by the Government of Georgia's state budget project for 2023.

- ❑ The majority of respondents (78%) agree or strongly agree that the government debt to GDP ratio at 38.8% (which is lower than the maximum debt limit defined by law at 60% of GDP) is rational.
- ❑ Most of the surveyed respondents (70%) also think that having the budget deficit at 2.9% (which is lower than the maximum budget deficit limit defined by law at 3%) is rational, yet a considerable share does not agree (12% disagrees and 12% strongly disagrees) that having the budget deficit at 2.9% is rational.
- ❑ As for tax revenues of the budget, almost half (47%) of the respondents agree that the 18.5 billion GEL, which is 23.2% of GDP, determined by the state budget project for 2023 is too high and should be lower. Interestingly, almost 30% are uncertain about whether this amount of tax revenues is rational.



BASIC ECONOMIC INDICATORS IN GEORGIA

| | 2019 | 2020 | 2021 | 2022 Q1 | 2022 Q2 | 2022 Q3 |
|-------------------------|----------|----------|-----------|----------|----------|---------|
| Nominal GDP (mln USD) | 17 470.7 | 15 842.9 | 18 700.1* | 4 610.4* | 5 999.7* | - |
| GDP per Capita (USD) | 4 696.2 | 4 255.7 | 5 015.3* | 1 249.9* | 1 626.5* | - |
| GDP Real Growth (%) | 5.0% | -6.8% | 10.4%* | 14.9%* | 7.2%* | 9.7%* |
| Inflation | 4.9% | 5.2% | 11.8% | 13.2% | 13.0% | 11.3% |
| FDI (mln USD) | 1 352.2 | 589.0 | 1 241.8 | 571.1* | 351.8* | - |
| Unemployment Rate (%) | 17.6% | 18.5% | 20.6% | 19.4% | 18.1% | 15.6% |
| External Debt (mln USD) | 5 741 | 7 535 | 8 205 | 8 082 | 7 784 | 7 182 |
| Poverty Rate (relative) | 20.1% | 19.7% | 18.9% | - | - | - |

* Preliminary data

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