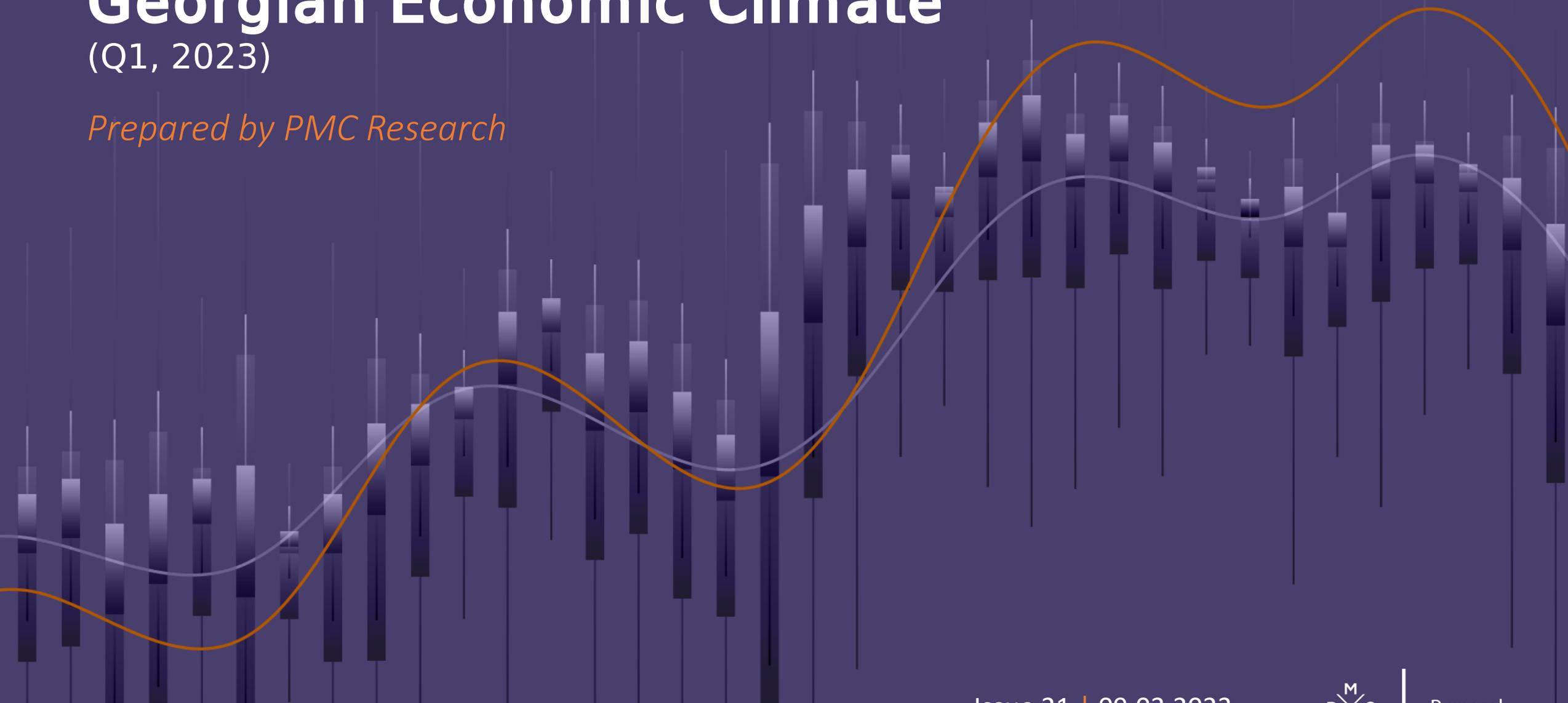


Georgian Economic Climate

(Q1, 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 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 February 2023.

The **main findings** of the survey of Georgian economists conducted in Q1 of 2023 are:

- ❑ The surveyed Georgian economists **positively** assess Georgia's **present economic situation**.
- ❑ Their predictions for Georgia's **economic situation for the next six months** are **negative**.
- ❑ The surveyed Georgian economists' **prediction for real GDP growth** for 2023, on average, is 5.5%.
- ❑ They **expect the inflation rate** (year-on-year) to **decrease** over the next six months.
- ❑ The surveyed Georgian economists **expect the rate of inflation for 2023**, on average, to be **6.6%**.
- ❑ Almost 83% of the surveyed economists think that **Russia's war in Ukraine** currently represents a **high or very high threat** to the Georgian economy. Meanwhile, a **skills mismatch** was assessed as a **very high threat** by nearly half of the surveyed economists (44%).
- ❑ Only 17% of the surveyed economists assess the government of Georgia's recent decision to proceed with the Anaklia Deep Sea Port with state participation (according to the current plan, the state will hold 51% of the port, with the rest going to foreign partners selected via a tendering process) to be **positive**. 28% of respondents evaluate the decision as **negative** or very **negative**.
- ❑ One-third of respondents (33%) think that the "**GOG Vision 2030 - Development Strategy of Georgia**" **partially responds** to the challenges and problems faced by Georgia but none of the respondents think that the strategy **fully addresses** them.
- ❑ Regarding the EU Commission's analytical report on Georgia's alignment with the EU acquis, the majority of surveyed economists (75%) think that introducing improvements with respect to the **environment and climate change** mitigation in line with the EU acquis will be challenging or very challenging.



Georgian Economic Climate, Q1 2023



- In a survey of Georgian economists conducted in Q1 of 2023, Georgia's **present economic situation** was assessed **positively**. Their assessment of the present economic situation has slightly worsened compared to Q4 of 2022 but significantly improved compared to Q1 of 2022.
- The surveyed economists' predictions for Georgia's **economic situation for the next six months** were **negative**. However, their expectations have slightly improved compared to the negative predictions they made in Q4 of 2022 and have grown considerably compared to Q1 of 2022.



PREDICTIONS FOR GEORGIA'S GDP AND INFLATION RATE, 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 2023**, on average, is **5.5%**; and
- ❑ The **inflation rate** (year-on-year) is **expected to decrease** for the next six months, with the **expected rate of inflation for 2023** being, on average, **6.6%**.

At present, the surveyed economists assessed the Georgian Lari as:

- ❑ **Overvalued** against the US Dollar and Russian Rouble; and
- ❑ **At an appropriate level** in relation to the Euro and the Turkish Lira.

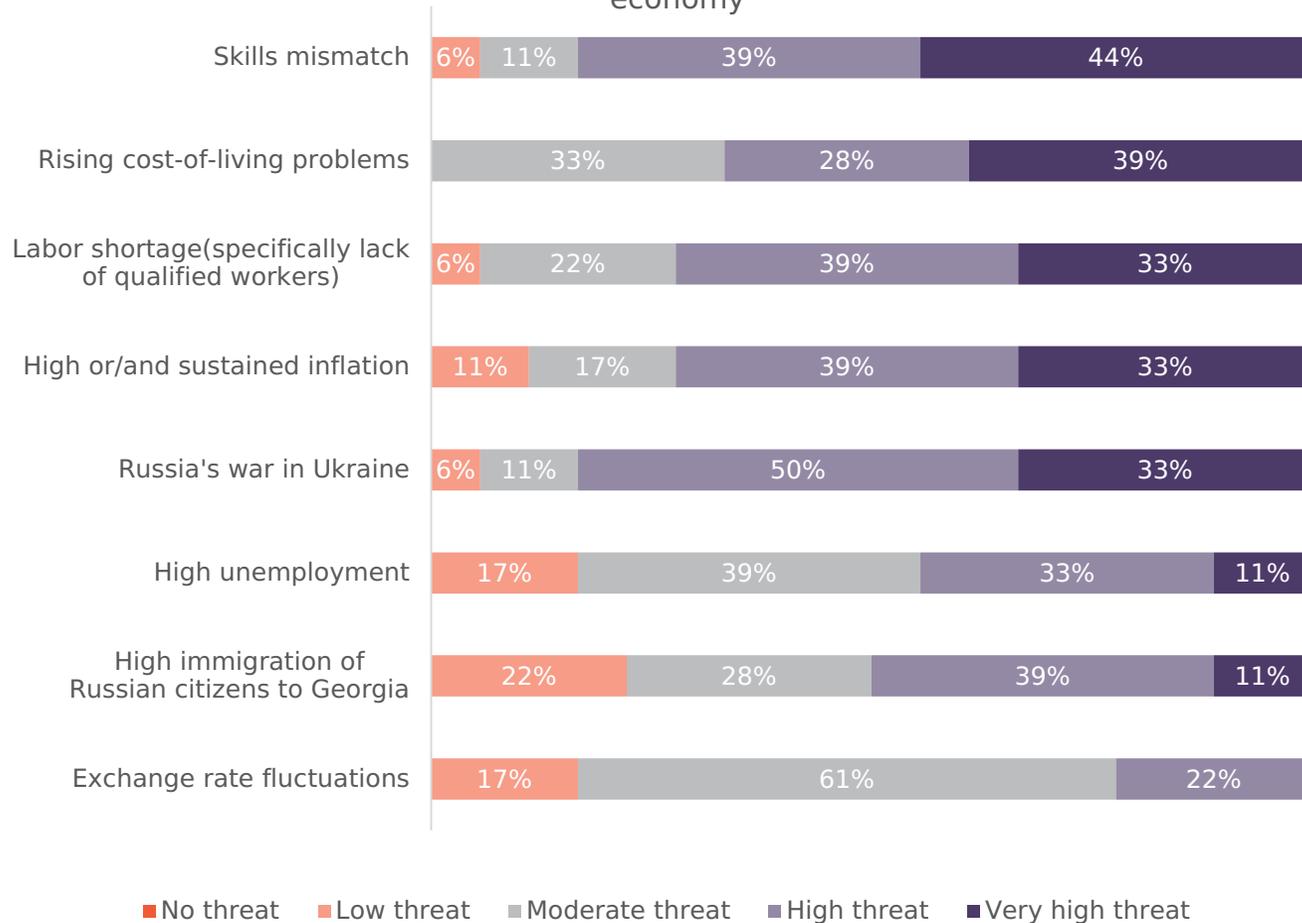


As well as assessing the current economic situation and gathering expectations for the next six months, the surveyed experts also made predictions with regard to Georgia's main economic indicators. According to the surveyed economists:

- ❑ 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 by the same amount as the import volume, meaning that the **trade balance** is expected to be **steady** over the next six months.



Assess from 1 (no threat) to 5 (Very high threat) which threats do you consider to be currently of the highest importance to the Georgian economy

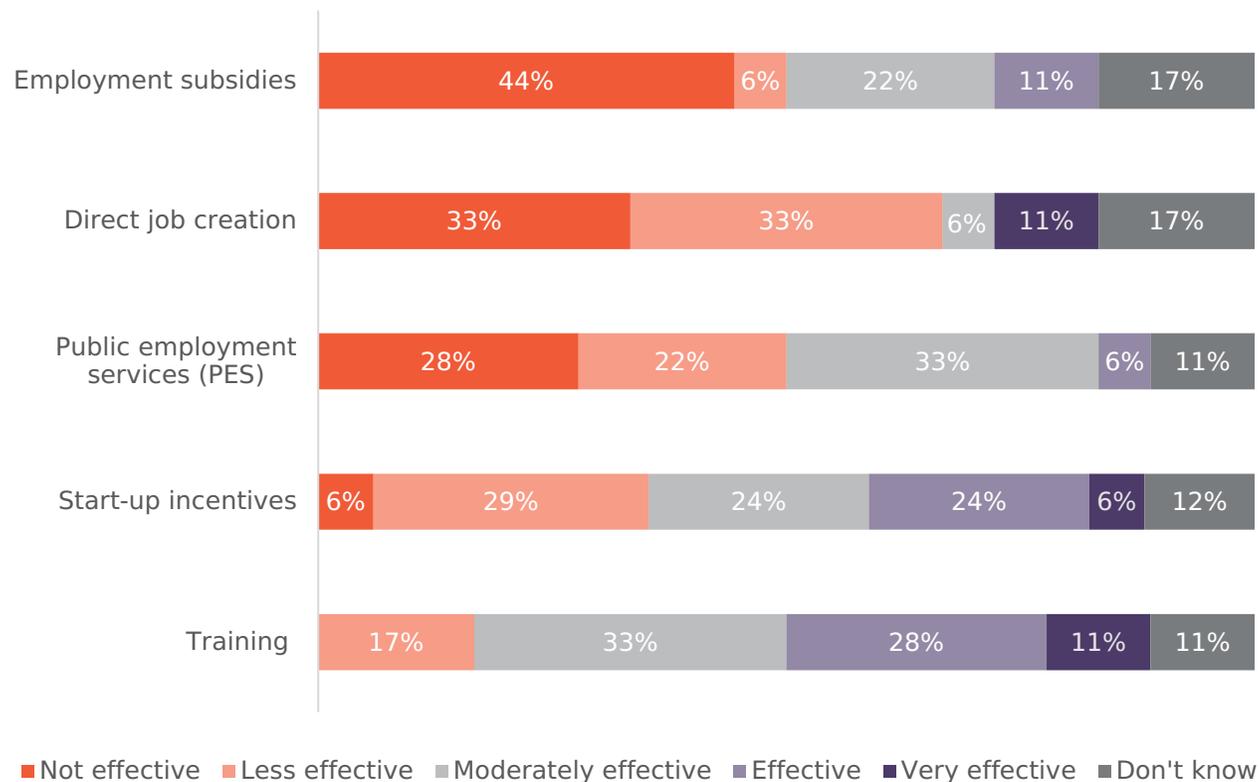


The surveyed economists were asked to identify the **threats currently of the highest importance to the Georgian economy.**

- ❑ A **skills mismatch** was assessed as a very high threat to the Georgian economy by 44% of respondents. Meanwhile, 83% of the surveyed economists think that a **skills mismatch** currently represents either high or very high threat.
- ❑ In addition, almost 83% of surveyed economists consider **Russia's war in Ukraine** as a high or very high threat to the Georgian economy.
- ❑ Most of the surveyed economists (61%) consider **exchange rate fluctuations** to pose a moderate threat.
- ❑ Meanwhile, opinions varied on the **mass migration of Russian citizens to Georgia**, with 50% believing it to be a high or very high threat to the Georgian economy, and 50% believing it to be a low to moderate one.



Assess the likely level of effectiveness of the following measures in tackling labor market problems in Georgia



The Organization for Economic Co-operation and Development (OECD) classifies active labor market policies (ALMPs) into five categories*. The surveyed economists were asked to assess which **policy approach would be likely to be the most effective in labor market issues in Georgia.**

- ❑ Overall, 72% of the surveyed economists think that **training** is likely to have a very effective, effective, or moderately effective in tackling labor market issues. Similarly, 54% believe in the effectiveness of **start-up incentives.**
- ❑ Meanwhile, **direct job creation** and **employment subsidies** are seen by most of the surveyed economists as either not effective or less effective in addressing labor market problems. In particular, only 11% think that direct job creation would be a highly effective.
- ❑ The views were more diverse regarding **public employment services (PES)**, with 50% believing it to be ineffective or being less effective, and 39% believing it to be moderately effective or effective.

Employment subsidies – providing financial incentives (in the form of direct transfers or tax credits) to firms to either preserve existing jobs or create new ones.

Direct job creation – creating additional jobs, usually of benefit to the community or socially useful, which are temporary, of a non-market character, and aim to provide income support to the long-term unemployed or persons otherwise difficult to place.

Public employment services (PES) - easing the job-matching process by delivering job-search assistance, counselling, and intermediation support to unemployed individuals.

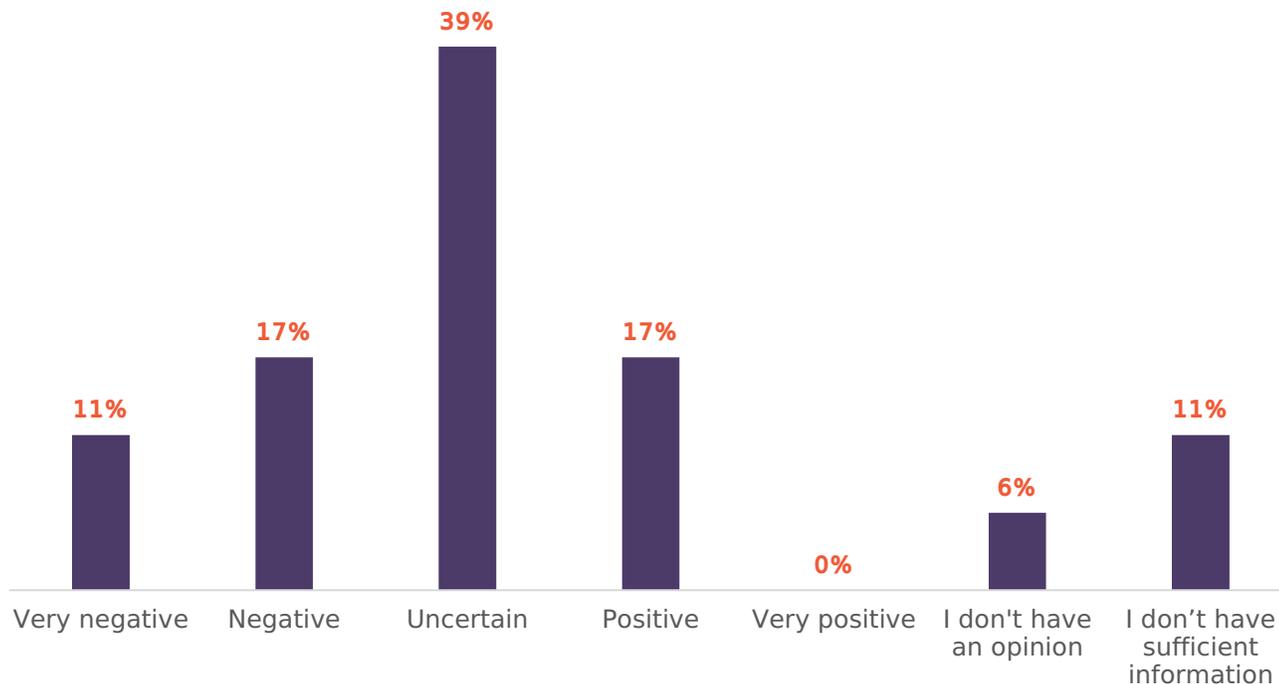
Start-up incentives - encouraging self-employment or prompting individuals to start their own businesses through the provision of loans, grants, and/or consulting services.

Training - promoting the employability of unemployed individuals through skills acquisition.

Source: <https://www.ilo.org/legacy/english/intserv/working-papers/wp078/index.html#ID0EOIAC>



How do you assess the Government of Georgia's (GoG) decision about the project of strategic importance for the country - the deep-water port of Anaklia?



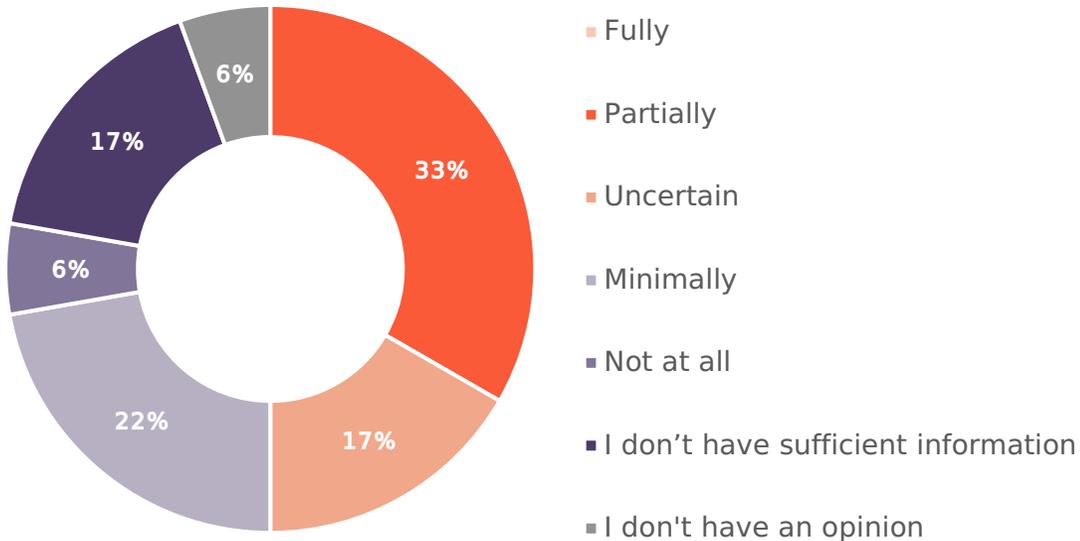
The Government of Georgia (GoG) declared at the end of 2022 that **Anaklia Deep Sea Port**, a project of vital national importance, is to proceed with state participation.* Specifically, according to the current plan, 51% of the port is to be owned by the state, and the rest will be owned by international partners selected through a tendering process. The surveyed economists were asked to assess this decision.

- Nearly two-fifths (39%) are **uncertain** about the decision.
- Meanwhile, 17% of the surveyed economists assess the decision to be **positive**, and another 17% deem it to be **negative**. In addition, none of the surveyed economists assess the decision as **very positive**, while 11% assess it as **very negative**.

* Source: <https://www.gov.ge/news/350081?page=&year=>



In your opinion, to what extent do strategic plans and targets set in "GOG Vision 2030 - Development Strategy of Georgia" respond to the challenges and problems faced by the country?



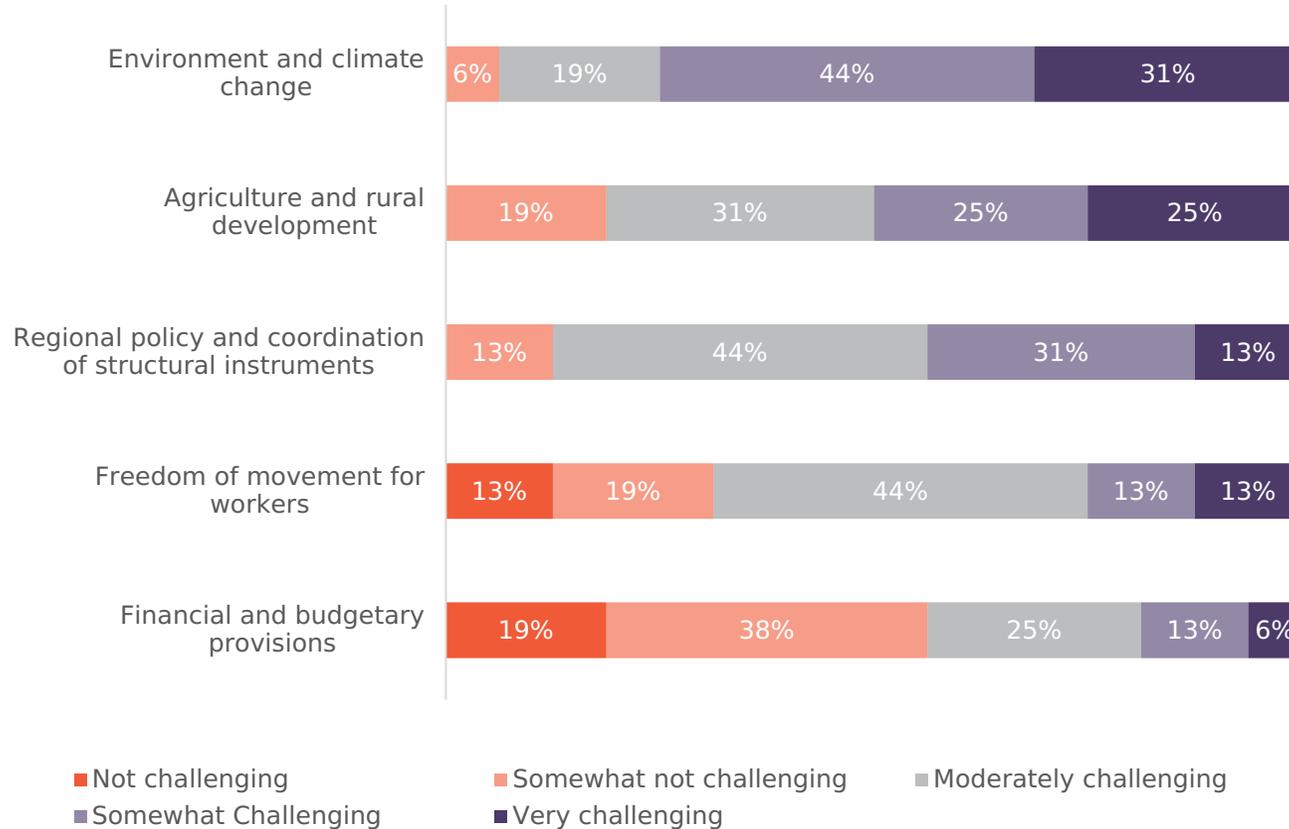
The surveyed economists also evaluated how well the strategic objectives and targets outlined in the "GOG Vision 2030 - Development Strategy of Georgia" address the country's challenges and problems.

- ❑ One-third of respondents (33%) think that these **partially respond** to the challenges and problems faced by Georgia.
- ❑ Meanwhile, 22% of the surveyed economists think it **minimally addresses** the country's challenges and problems.
- ❑ None of the respondents think that the strategy **fully addresses** the country's challenges and problems, while 6% think it **does not respond to the problems at all**.

* <https://www.gov.ge/wp-content/uploads/2022/11/khedva-2030-saqarthvelos-ganvitharebis-strategia-1.pdf>



Assess from 1 (not challenging) to 5 (very challenging) how challenging will it be to introduce improvements in those areas to align with the EU acquis?



The European Commission has issued its findings on **Georgia's alignment with the EU acquis**.^{*} This analytical study supplements the Commission's Opinions on Georgia's application for EU membership, which were published on 2 February 2023. Georgia was assessed as being at early stage of preparedness in six areas. The surveyed economists were asked to estimate **how difficult it would be to implement reforms in those areas in order to bring the country in line with the EU acquis**.

- ❑ The majority of surveyed economists (75%) think that introducing improvements with respect to the **environment and climate change mitigation** to align with the EU acquis will be somewhat to very challenging.
- ❑ Meanwhile, **financial and budgetary provisions** are considered to be not challenging or somewhat not challenging by 57% of respondents.
- ❑ Overall, 32% of respondents consider the improvement of **freedom of movement for workers** to be not challenging or somewhat not challenging, while 26% think it would be somewhat challenging or very challenging.

^{*} EU Commission Analytical report on Georgia's alignment with the EU acquis: https://neighbourhood-enlargement.ec.europa.eu/commission-analytical-report-georgias-alignment-eu-acquis_en



BASIC ECONOMIC INDICATORS IN GEORGIA

	2019	2020	2021	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Nominal GDP (mIn USD)	17 470.7	15 842.9	18 629.4	4 597.5*	5 870.4*	6 829.9*	-
GDP per Capita (USD)	4 696.2	4 255.7	5 023.2	1 246.4*	1 591.5*	1 851.6*	-
GDP Real Growth (%)	5.0%	-6.8%	10.5%	15%*	7.2%*	9.8%*	-
Inflation	4.9%	5.2%	11.8%	13.2%	13.0%	11.3%	10.3%
FDI (mIn USD)	1 352.2	589.0	1 241.8	576.9*	353.4*	745.3*	-
Unemployment Rate (%)	17.6%	18.5%	20.6%	19.4%	18.1%	15.6%	16.1%
External Debt (mIn USD)	5 741	7 535	8 205	8 082	7 784	7 182	7 982
Poverty Rate (relative)	20.1%	19.7%	18.9%	-	-	-	-

* Preliminary data

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