



Research

Georgian Economic Climate

26550 USD 2.735
28560 EUR 2.979
33250 GBP 3.476
00266 RUB 0.03

Q2 2024

Issue 26

GEORGIAN ECONOMIC CLIMATE, Q2 2024



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, informed by the assessments of various Georgian economists.*

The survey for this particular issue was conducted in June 2024.

**Quarterly surveys are sent to a pool of approximately 60 economists. Response rates might fluctuate across quarters.*

Summary



Research

The *main findings* of a survey of Georgian economists conducted in Q2 2024 are as follows:

- Assessment of Georgia's *present economic situation* was *slightly negative*, while predictions for Georgia's *economic situation by the end of the next six months* were also *negative*. Overall, their assessments were significantly less optimistic compared to the previous reporting period.
- On average, *predicted real GDP growth* for 2024 was *5.5%*.
- The inflation rate (year-on-year) is expected to increase by the end of the next six months, with the *expected rate of inflation for 2024* being *5.0%*.
- Both *export and import volumes* are forecasted to *decline*, by the end of the next six months compared to 2023.
- Additionally, according to the surveyed economists:
 - *Political instability* and *exchange rate fluctuations* had the greatest impact on the Georgian economy in Q2 2024.
 - The reintroduction of *the bill on "transparency of foreign influence"* was assessed very negatively in terms of its effects on Georgia's economy. Moreover, they expected the bill to have a negative impact on the *EU accession process*, *FDI inflows*, and *currency depreciation*.
 - Their assessments of the so-called *"Offshore Law"* were largely divided, with some economists expecting it to have no impact at all, and others sharing their belief that the law will negatively affect Georgia's economy. Those who assessed the law negatively, expected the severe impact to be on the *reputation of Georgia's financial system*.
 - Among the *legislative changes made to the Pensions Agency* in the Georgian Parliament, *the increased government role* in appointing board members was assessed most negatively, while *increasing the limit to invest in other assets* was deemed to be mostly positive.
 - More respondents disapproved than approved of the *National Bank of Georgia's (NBG) decision* to purchase 7 tons of gold.
 - Most respondents said they support the building of *Anaklia Deep Sea Port* but would prefer this to be completed by a company with a better international reputation than current sole bidder - a Chinese-Singaporean consortium.

GEORGIAN ECONOMIC CLIMATE

- In a survey of Georgian economists conducted in Q2 2024, the overall assessment of Georgia's **present economic situation** was **slightly negative**. Their assessment declined compared to the previous quarter and the corresponding quarter of 2023.
- In Q2 2024, the surveyed economists' predictions for Georgia's **economic situation for the end of the next six months** were **significantly negative**. Their expectations were the most pessimistic since Q1 2021.

Georgian Economic Climate, Q2 2024

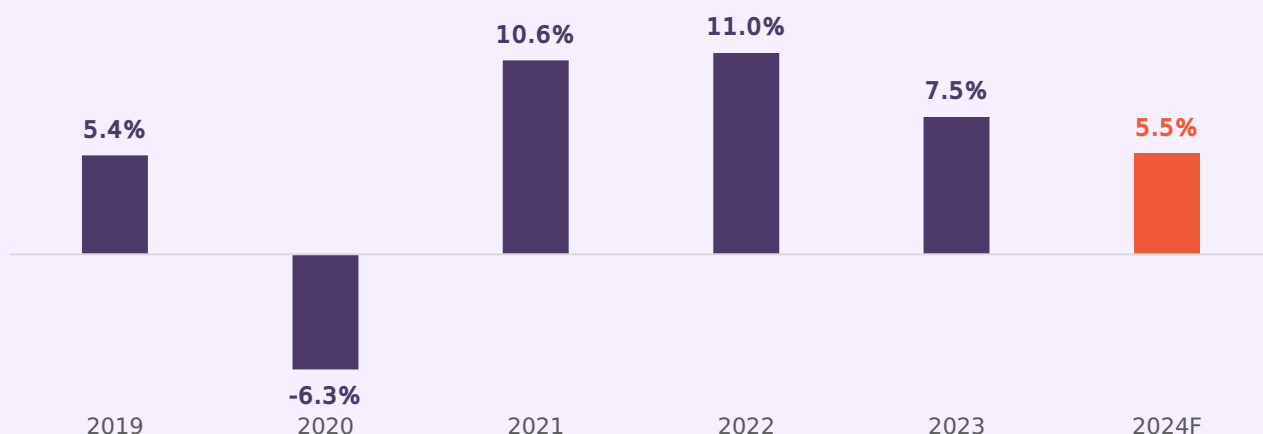


MACROECONOMIC PREDICTIONS

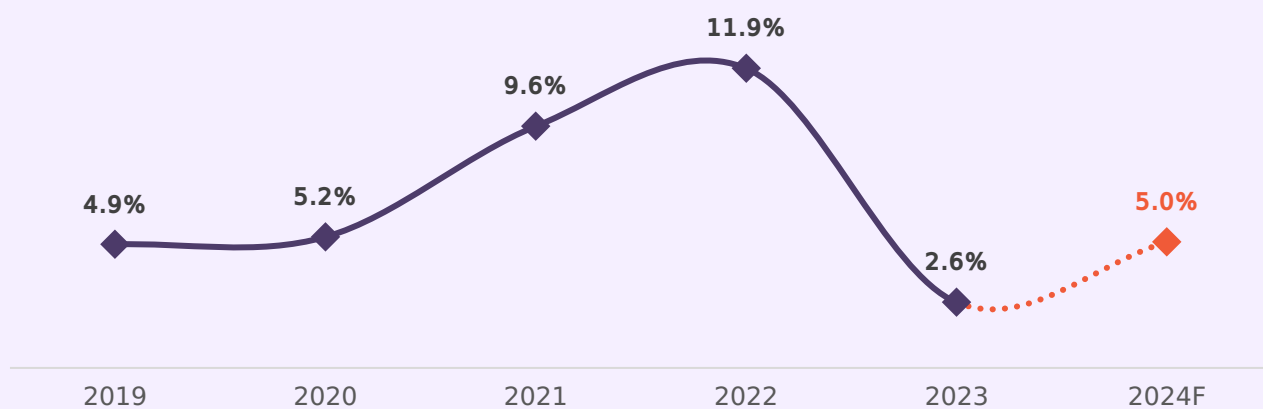
In addition to assessing the current economic situation and outlining their expectations for the end of the next six

months, the surveyed experts also made predictions with regard to Georgia's main economic indicators.

Graph 1: Real GDP Growth in Georgia and its forecast for 2024 made by the surveyed economists in Q2 of 2024



Graph 2: Average YoY Inflation in Georgia and the forecast for 2024 made by the surveyed economists in Q2 of 2024



- On average, the **expected real GDP growth** for 2024 was **5.5%**.
- The inflation rate (year-on-year) is expected to increase by the end of the next six months, compared to the corresponding month of the previous year. The **expected rate of inflation** for 2024 was **5.0%**.
- By the end of the next six months, compared to the corresponding period of the previous year, the

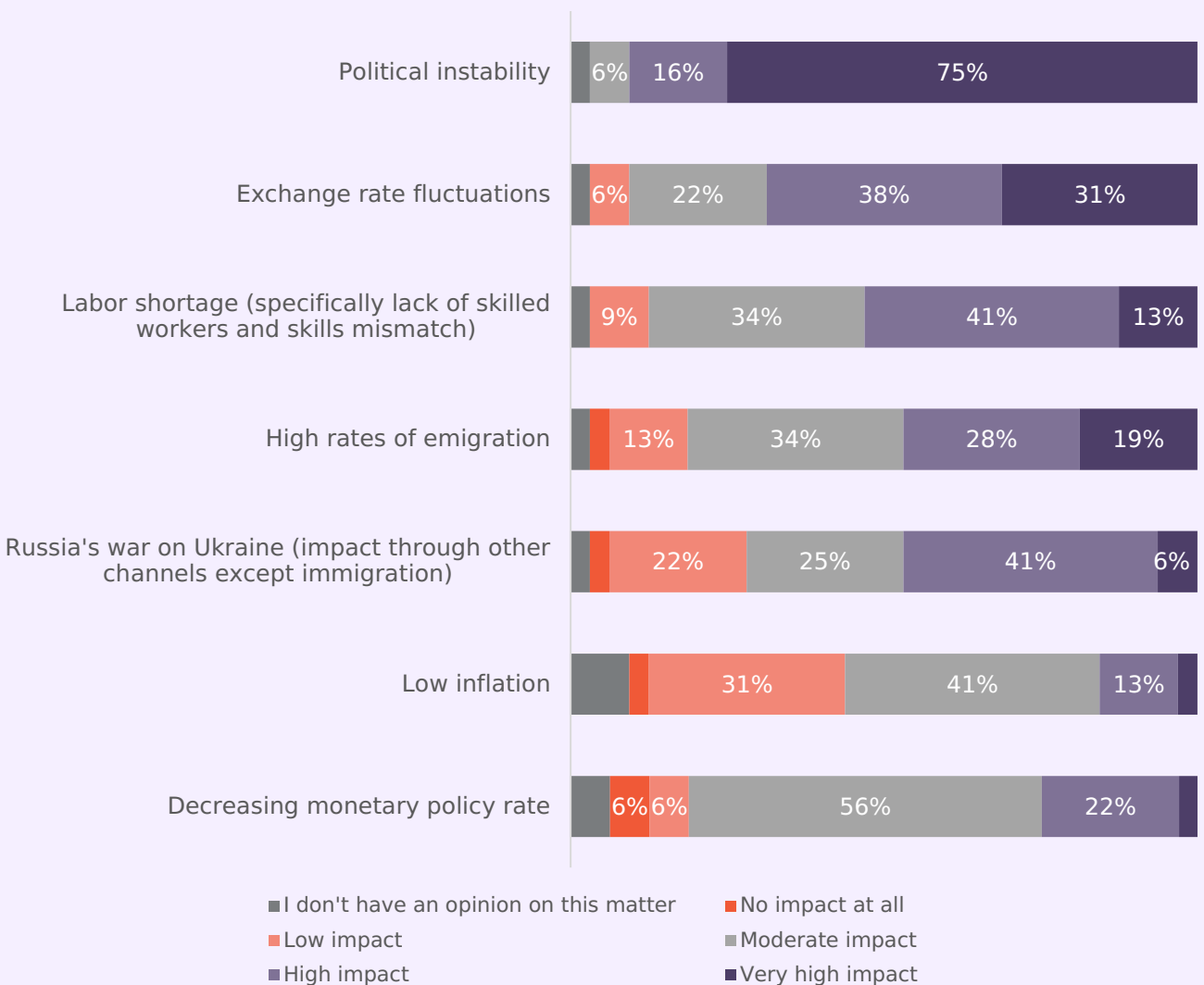
Georgian Lari is expected to **depreciate** against the US Dollar and Euro, and to **appreciate** against the Russian Rouble and the Turkish Lira.

- The volume of both **exports and imports will decrease** by the end of the next six months compared to the corresponding period of 2023.

SPECIAL QUESTIONS

- When asked to identify the factors having the greatest impact on the Georgian economy in Q2 2024, the surveyed economists pinpointed **political instability** and **exchange rate fluctuations**. Other factors deemed by respondents to have a considerable impact in this period included a **labor shortage, high rates of emigration** and **Russia's ongoing war on Ukraine**.
- The surveyed economists tended to perceive **negative** factors as more impactful (e.g. political instability and exchange rates fluctuations) than **positive** ones (e.g. decreasing monetary policy rate and low inflation rate).

Graph 3: Assess from 1 (no impact at all) to 5 (very high impact) which factors do you consider have had the highest impact on the Georgian economy over Q2 of 2024.



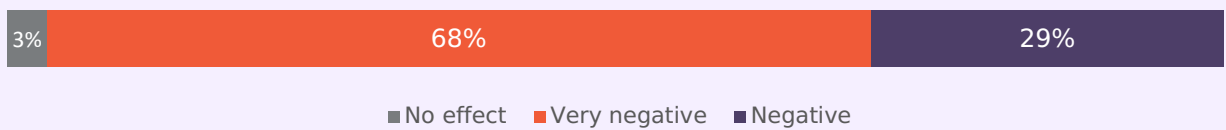
SPECIAL QUESTIONS

- In april 2024, The reintroduction of the bill on **"transparency of foreign influence"** hinted at a possible geopolitical shift of the government of Georgia. The hearings on the draft law sparked mass protests and drew concerned reactions from the EU and the US.
- Nearly all of the surveyed econo-

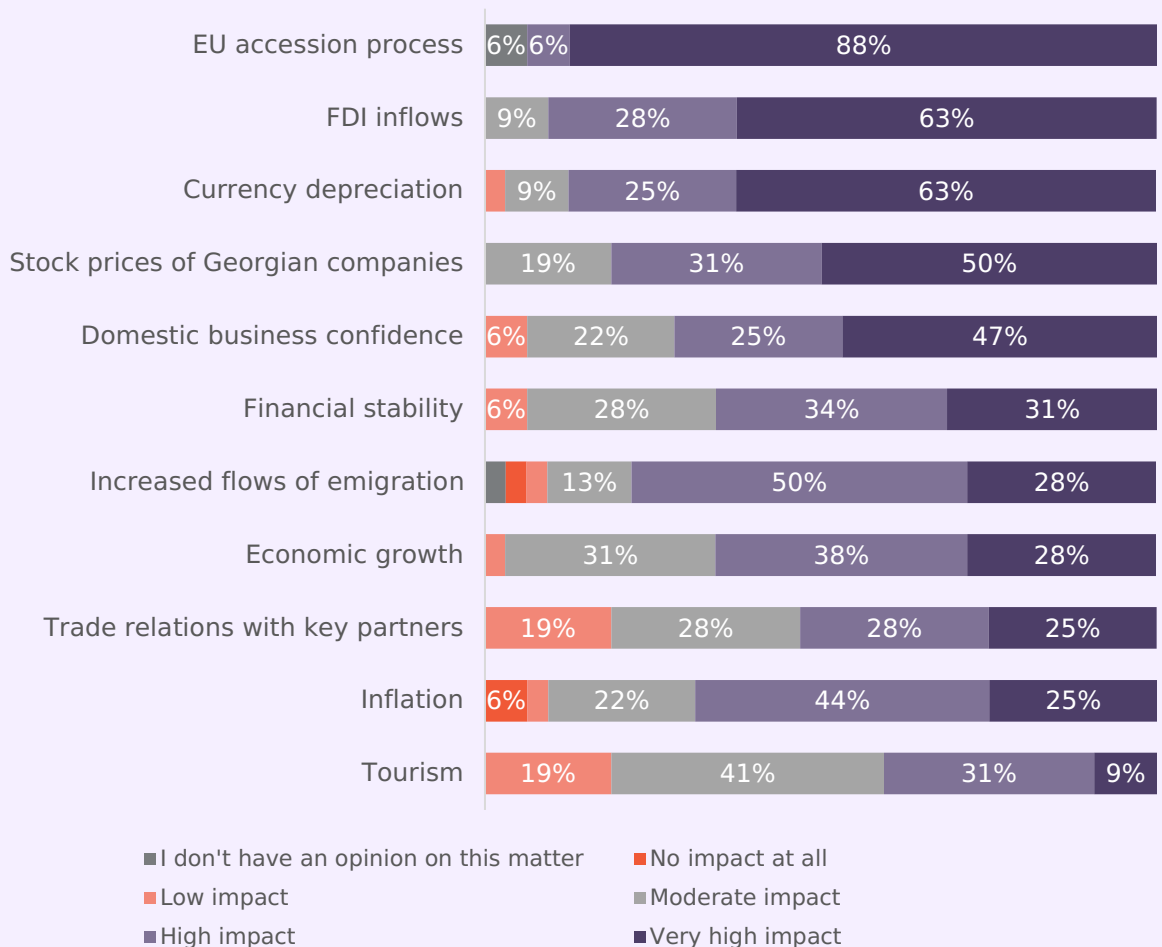
mists (97%) thought that effects of the bill on Georgia's economy would be **negative** or **very negatively**.

- In general, the surveyed economists believed that the bill would have the most negative impact on the **EU accession process, FDI inflows, and currency depreciation**.

Graph 4: What do you believe the effects of the bill on "transparency of foreign influence" will be on Georgia's economy?



Graph 5: If you believe the bill on "transparency of foreign influence" will negatively affect the Georgian economy, please rate the impact on the following aspects from 1 (no impact) to 5 (very high impact).



SPECIAL QUESTIONS

- In Q2 2024, the Georgian Parliament passed the controversial **"Offshore Law"** offering tax benefits to individuals and companies moving assets from offshore to Georgia.
- The surveyed economists' assessments of the "Offshore Law" were largely divided, with some economists expecting it to have **no**

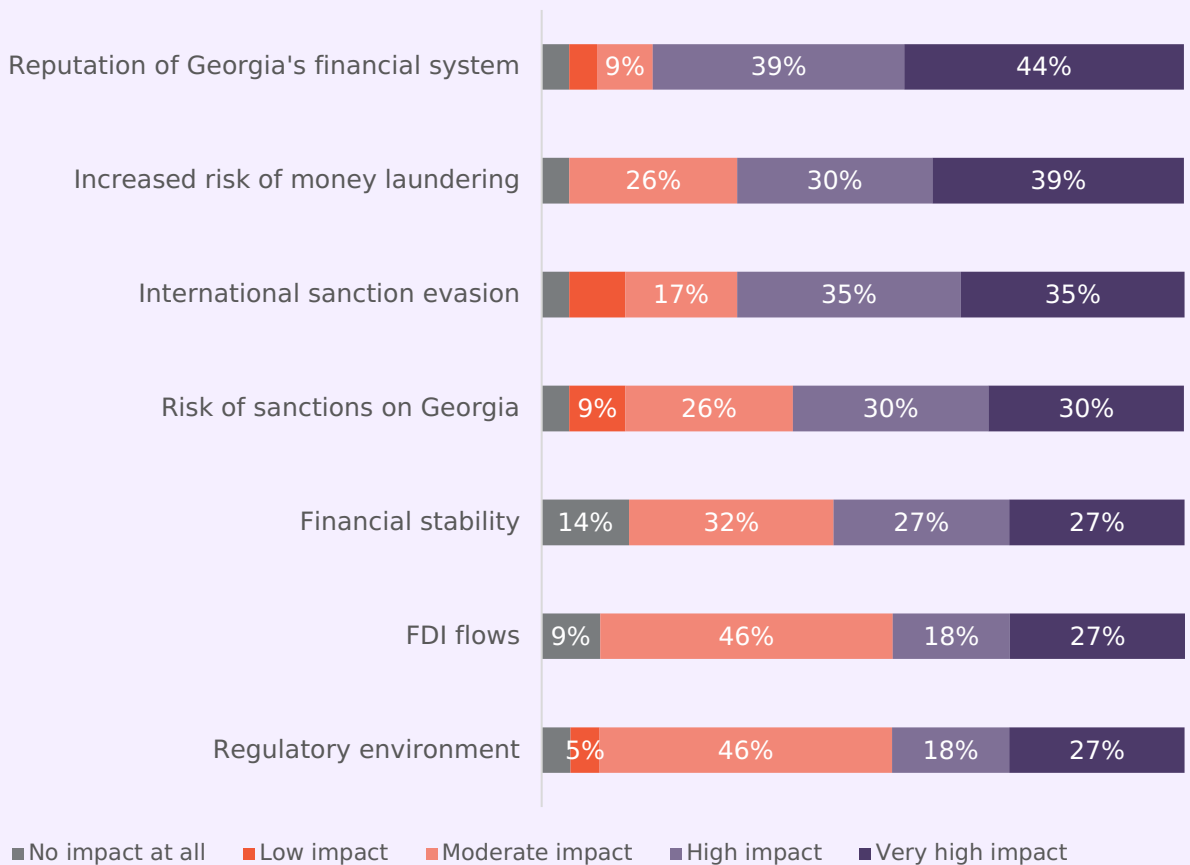
impact at all (38%), while others believe the law will have a **negative or very negative** effect (55%) on Georgia's economy.

- Those who assessed this law **negatively**, they expected its greatest impact on the **reputation of Georgia's financial system**.

Graph 6: What do you believe the effects of the "offshore law" will be on Georgia's economy?



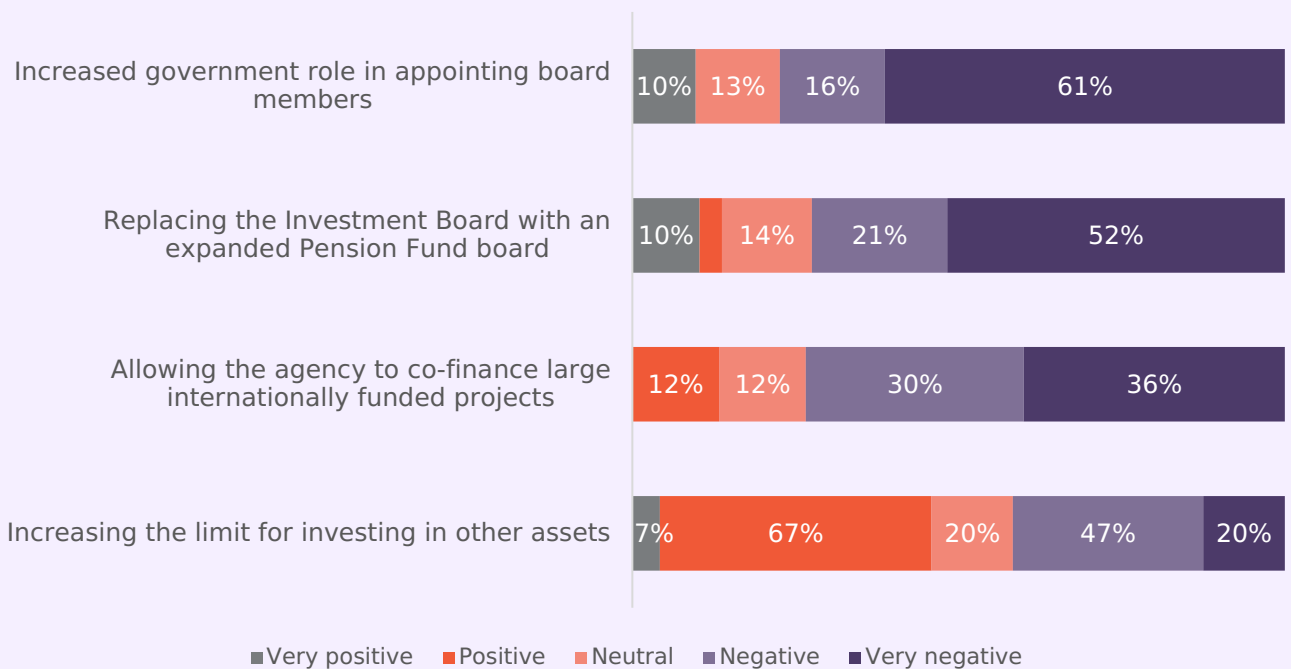
Graph 7: If you believe the "offshore law" will negatively affect the Georgian economy, please rate the impact on the following aspects from 1 (no impact) to 5 (very high impact).



SPECIAL QUESTIONS

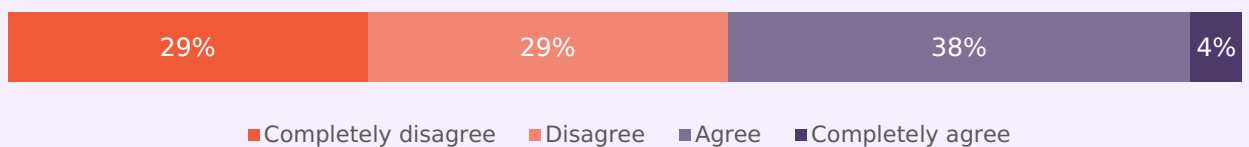
- In May 2024, the Ministry of Economy and Sustainable Development initiated legislative changes to the **Pension Agency** in the Georgian Parliament. Accordingly, the surveyed economists were asked to assess these changes.
- The increased government role in appointing board members** was the change most commonly given a **negative** assessment (77%), while **increasing the limit for investing in other assets** was viewed **most positively** (74%).

Graph 8: Assess from 1 (very negative) to 5 (very positive) the following changes in the Pension Agency's functioning.



- The National Bank of Georgia recently purchased **7 tons of gold**, valued at 500 million USD, to add to its international reserves. On this development, the surveyed economists had divided opinions, with **58% disapproving** and **42% approving** (Graph 9).

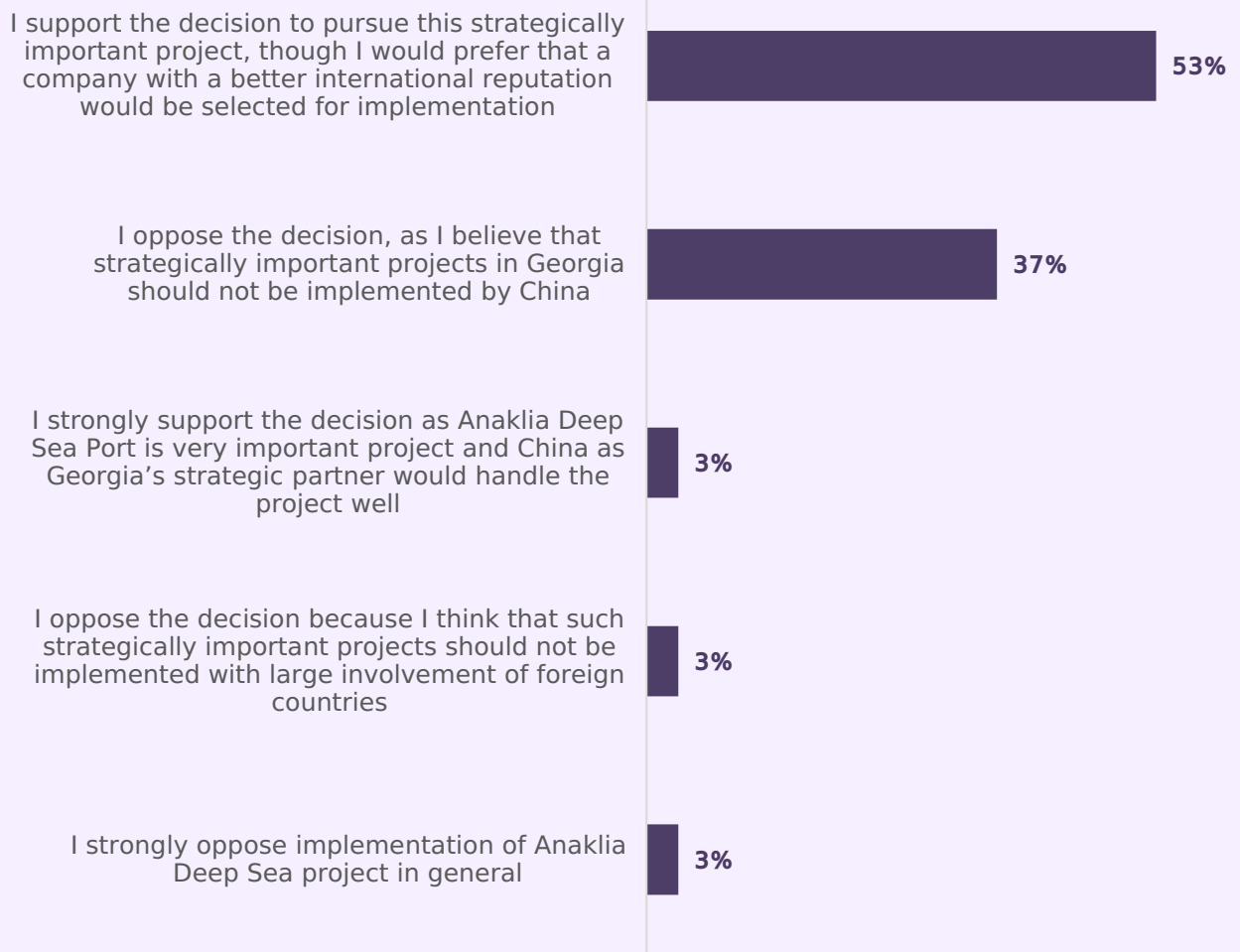
Graph 9: What is your opinion on NBG's action?



SPECIAL QUESTIONS

- In May 2024, the Ministry of Economy and Sustainable Development announced that a Chinese-Singaporean consortium "China Communication Construction Company (CCCC)" was the sole bidder and thus the winner of the international tender to build **Anaklia Deep Sea Port** together with the Government of Georgia.* This decision has sparked both domestic and international criticism, citing concerns about the China Communication Construction Company (CCCC) being sanctioned by the US** and the implications of increased Chinese influence in the Black Sea region.
- Most surveyed economists (53%) **supported** the decision to build the port but said they would prefer this to be handled by a company with a **better international reputation**.
- More than one-third of the surveyed economists (37%) stated they **oppose** the decision and believe that strategically important projects in Georgia should not be implemented by Chinese actors.

Graph 10: What is your opinion on Chinese-Singaporean consortium "China Communication Construction Company (CCCC)" building the Anaklia Deep Sea Port?



* After the selection of the investor, a joint company will be established, where the Georgian state company will have a 51% share, and the private partner - 49%.

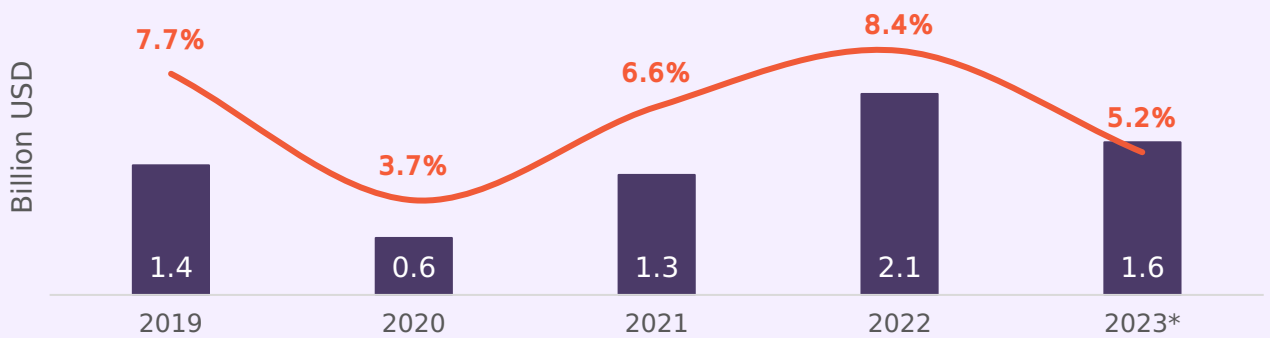
** CCCC was sanctioned by the U.S. Department of Commerce for building artificial islands in the South China Sea for military purposes.

OTHER ECONOMIC INDICATORS IN GEORGIA

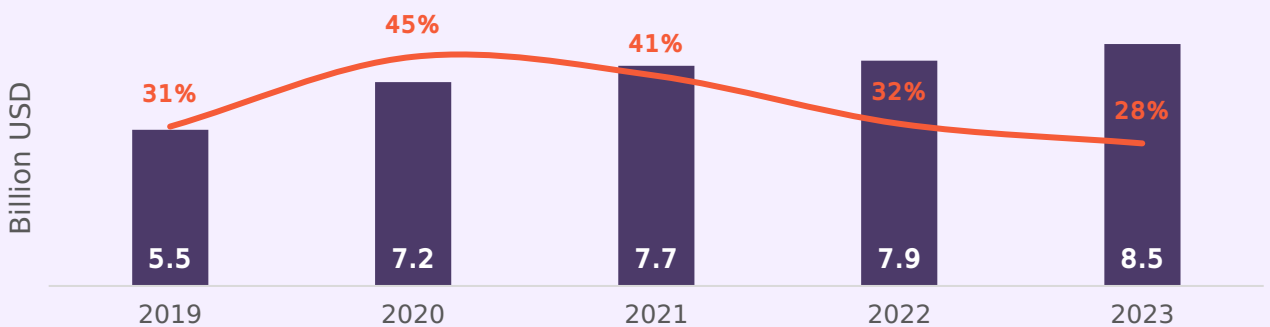
Graph 8: GDP per Capita in Current Prices



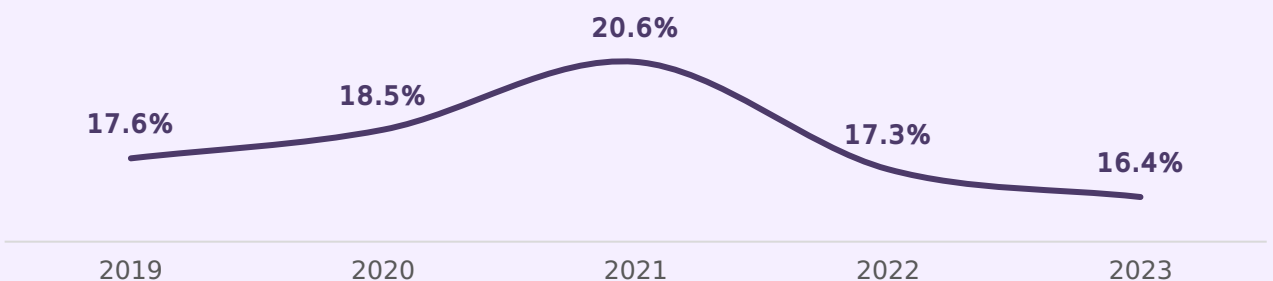
Graph 9: Foreign Direct Investment and Foreign Direct Investment as a % of GDP



Graph 10: Government External Debt and Government External Debt as a % of GDP



Graph 11: Unemployment Rate



DISCLAIMER

The PUBLICATIONS presented on the website are prepared by PMC Research Center only for informational and/or marketing purposes. Nothing in the PUBLICATIONS constitute, or is meant to constitute, advice of any kind, and the reader is responsible for their interpretation of all content and acknowledges that any reliance thereupon shall be entirely at their risk. PMC Research Center cannot be held liable for any claims arising as a result of the reader's use of the materials.

The PUBLICATION is presented "as is" without any representations or warranties, expressed or implied.

Without prejudice to the general message of the first paragraph above, PMC Research Center does not guarantee that:

- the PUBLICATION will be constantly available; or
- the information contained in the PUBLICATION is complete, true, accurate, or non-misleading.

PMC Research Center reserves the right to modify the contents of PUBLICATIONS from time to time as it deems appropriate.

PMC Research Center absolves itself of any liability of violations of other parties' rights, or any damage incurred as a consequence of using and applying any of the contents of PMC Research Center's PUBLICATIONS. PMC Research Center will not be liable to the reader (whether under contract law, tort law, or otherwise) in relation to the contents of, use of, or other form of connection with, the PUBLICATION.

The reader accepts that, as a limited liability entity, PMC Research Center has an interest in limiting the personal liability of its officers and employees. The reader agrees that they will not bring any claim personally against PMC Research Center's officers or employees with respect to any losses suffered by the reader in connection with the PUBLICATION.

The reader agrees that the limitations of guarantees and liabilities set out in the PUBLICATION disclaimer protect PMC Research Center's researchers, officers, employees, agents, subsidiaries, successors, assignees, and sub-contractors as well as PMC Research Center itself.

If any provision of this disclaimer is, or is found to be, unenforceable under applicable law, that will not affect the enforceability of the other provisions of the PUBLICATION disclaimer.

Address: 61 Aghmashenebeli Avenue, 3rd floor,
Tbilisi 0102, Georgia.
Tel: (+995 32) 2921171, 2921181
Email: research@pmcginternational.com
Website: pmcresearch.org

Giorgi Khishtovani
Research Director
g.khishtovani@pmcginternational.com

Anastasia Chkhenkeli
Researcher
a.chkhenkeli@pmcginternational.com

Gugula Tsukhishvili
Junior Researcher
g.tsukhishvili@pmcginternational.com

Giorgi Shogiradze
Junior Researcher
g.shogiradze@pmcginternational.com