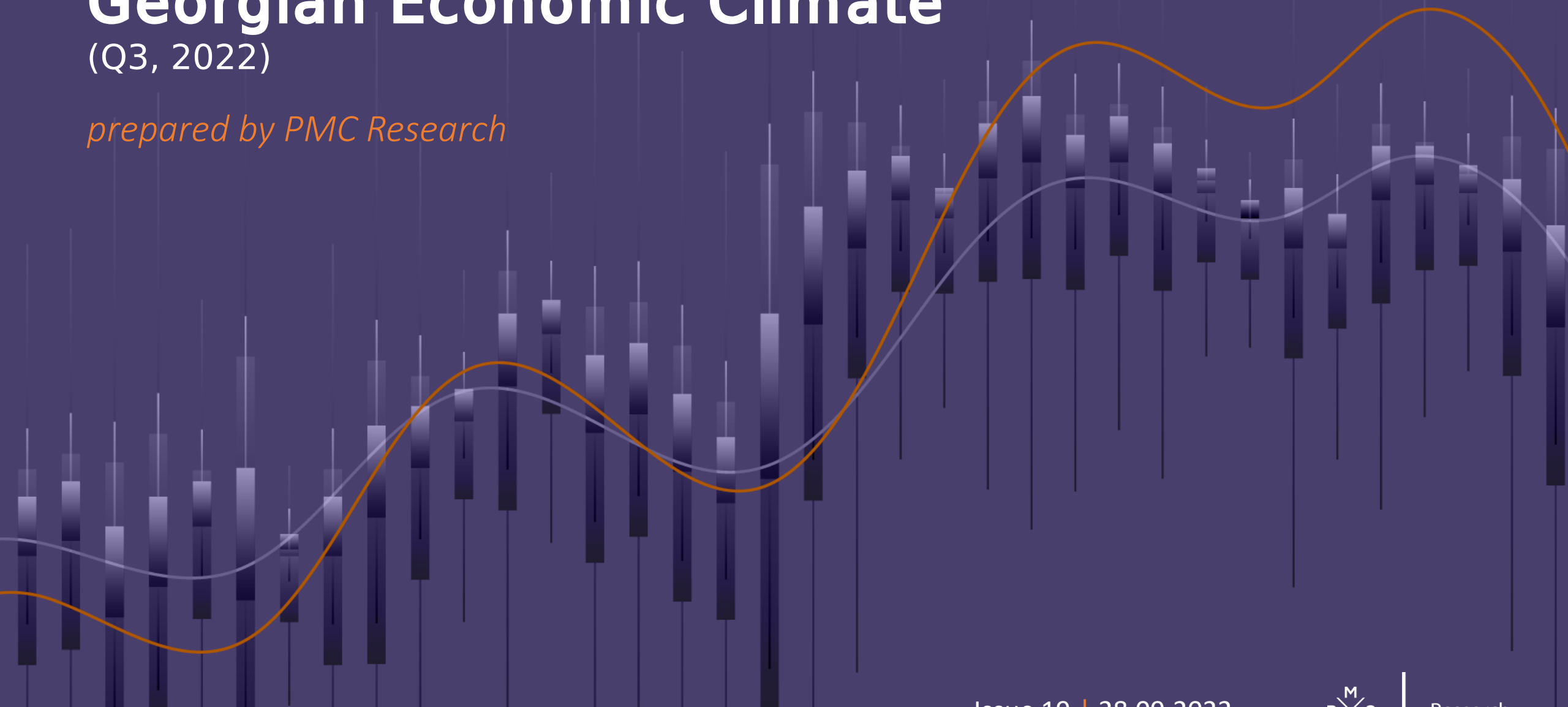


# Georgian Economic Climate

(Q3, 2022)

*prepared by PMC Research*





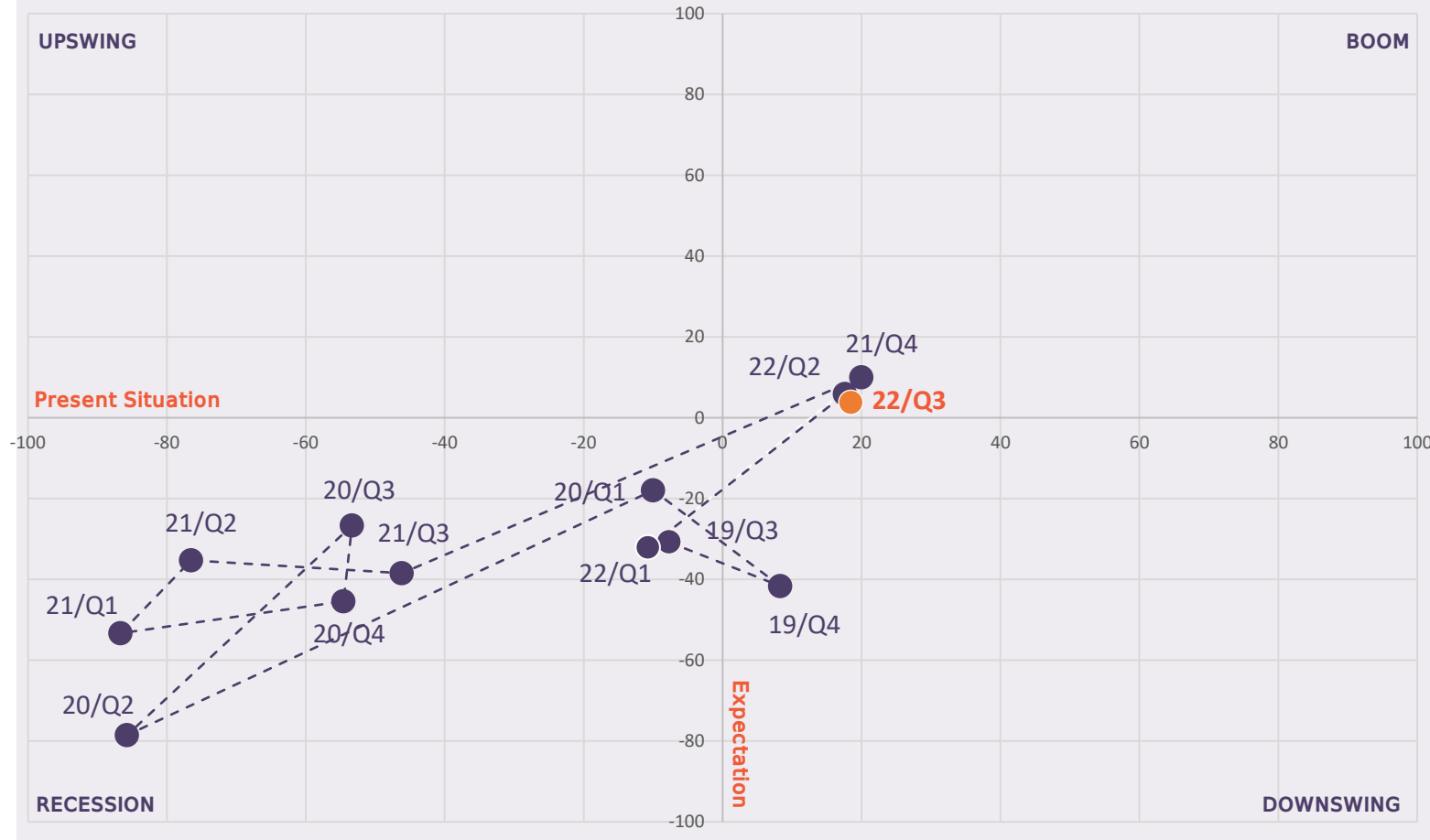
“**GEORGIAN ECONOMIC CLIMATE**” is a product of PMC Research Center (PMC RC).

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 September 2022.



## Georgian Economic Climate, Q3 2022



- According to a survey of Georgian economists, the **economic climate** in the country in the third quarter of 2022 has **improved** compared to both: the second quarter of 2022 and the third quarter of 2021.
- In the third quarter of 2022, the surveyed Georgian economists **positively** assessed Georgia's **present economic situation**. Their assessment of the present economic situation has significantly improved compared to both - the second quarter of 2022, as well as third quarter of 2021 when the assessment of the economic situation of the respective quarter was negative.
- The surveyed economists' predictions for Georgia's **economic situation for the next six months** were also **positive**. Though, their expectations have slightly worsened compared to the predictions made for the next six months in the second quarter of 2022, but have significantly improved compared to the third quarter of 2021, when the economists had negative expectations for the next six months of the respective quarter.



# PREDICTIONS FOR GEORGIA'S GDP, INFLATION, TRADE AND ASSESSMENTS OF 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:

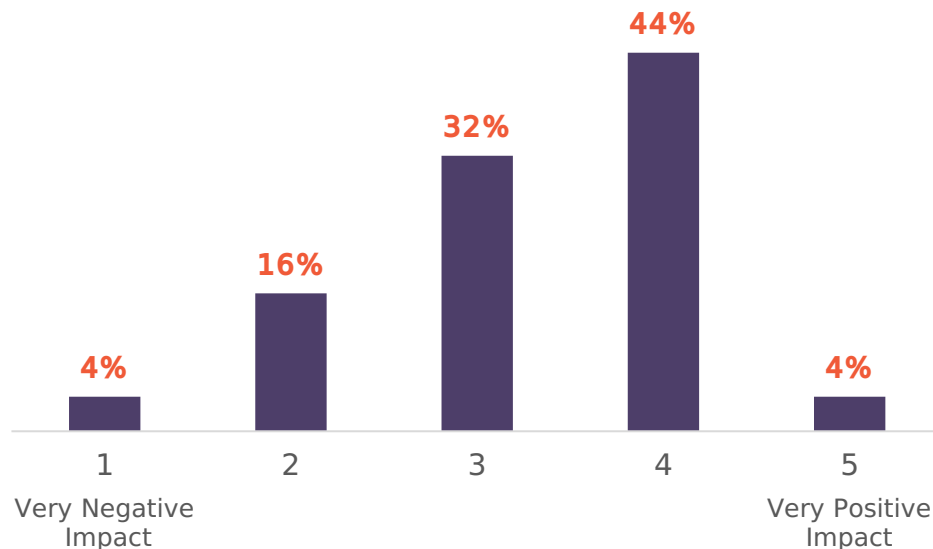
- ❑ The expected **real GDP growth for 2022**, on average, is **8.2%**;
- ❑ The **inflation rate** (year-on-year) is expected to **decrease** for the next six months;
- ❑ The **export volume** is expected to **increase** in the coming six months, compared with the past six months;
- ❑ The **import volume** 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.

At present, the Georgian Lari was assessed to be:

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



- The economists were also asked to assess through which channels they expect the Georgian economy to be affected by the **increased inflow of Ukrainian, Russian, and Belarus migrants**.
- The majority of surveyed economists (80%) expect that increased consumption will significantly boost the Georgian economy. **Increased rental prices**, as well as **excessive real estate purchases by immigrants resulting in soaring real estate prices**, are also expected to significantly impact the economy by the majority (75% and 71%, accordingly). At the same time, 65% of respondents said that they also expect the economy might be substantially affected by an **increased inflow of foreign currency**, as many Ukrainian and Russian migrants work remotely and receive income in foreign currencies.
- In contrast, 42% think that the **establishment of new businesses by immigrants** might have some impact (neither very positive, nor very negative) on the economy, and 38% believe the same with respect to the **inflow of skilled workers**.

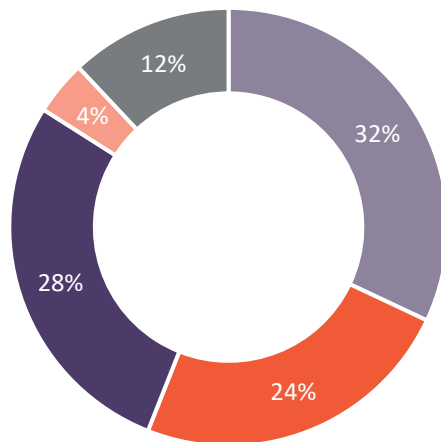


Economists were asked to assess, on a scale from 1 (very negative) to 5 (very positive), in the medium-term, the **overall impact of the increased inflows of immigrants from Russia, Ukraine, and Belarus on the Georgian economy**.

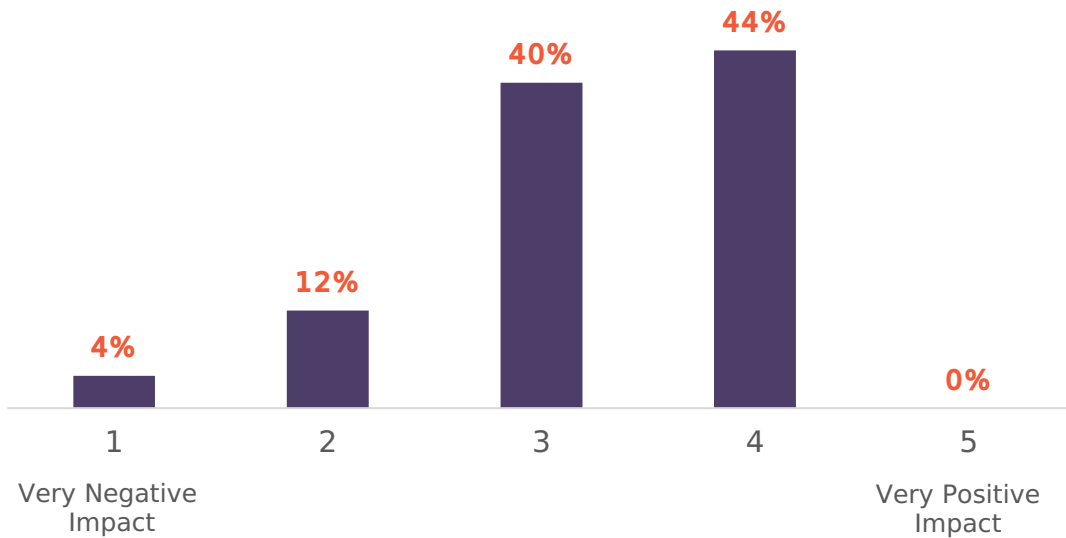
**Almost half of the respondents (48%) positively or very positively assessed** the overall impact of the increased inflows of immigrants from Russia, Ukraine, and Belarus on the Georgian economy, while 20% had negative or very negative assessments, leaving 32% of economists with a neutral position.



- ❑ The economists were asked to assess the **possible reasons behind the spike in remittance inflows** to Georgia from Russia. The remittance inflows to Georgia from Russia in first 8 months of 2022 increased by 266% compared to the same period of 2021. The remittance inflows from Russia amounted 0.96 billion, which is 40% of total remittance inflows to Georgia during this period. This spike could be attributed to the **arbitrage stemming from the sanctions imposed on Russia**, where the official and black-market USD/RUB exchange rates differed markedly. Pertinently, Russians started sending money to Georgia, converting it into USD, bringing it back to Russia, and selling it on the black market while making a profit.
- ❑ **The majority of surveyed economists (56%) believe that this might be a factor behind increased inflows of remittances** from Russia to Georgia and expect that this arbitrage will negatively impact the Georgian economy.
- ❑ Moreover, **32% think that the National Bank of Georgia should intervene** to prevent this arbitrage, while the other 24% think that NBG should not try to stop the arbitrage as they expect the situation will eventually regulate itself.
- ❑ On the other hand, **28% of economists do not believe** that this spike in remittances can be in any way attributed to arbitrage.



- I think that the National Bank of Georgia should intervene to prevent this arbitrage as it might disrupt the Georgian economy
- Even though this arbitrage might cause some disruptions in the Georgian economy, I think the National Bank of Georgia should not intervene to prevent it as the process will self-regulate itself
- I do not believe that the spike in remittance inflows from Russia can be attributed to arbitrage
- I think this arbitrage will not cause any disruptions in the economy; hence, no NBG interventions are necessary
- I do not have an opinion regarding this matter



Economists were also asked to assess, on a scale from 1 (very negative) to 5 (very positive), **overall impact of the Russia-Ukraine war on Georgia's port activity.**

**44% of economists have positive expectations**, and only 16% assess the situation negatively. Interestingly, 40% of surveyed economists take a neutral position on this matter.

- ❑ Furthermore, respondents were also asked to assess the **factors that may have caused the notable growth of the Georgian economy** during recent months, 9.7% in July 2022, according to an estimate of the National Statistics Office of Georgia.
- ❑ The most cited factors were **a significant increase in remittances** and **the rebound in tourism**, as a majority of the surveyed economists, 88% and 80% accordingly, think of those factors as important reasons behind the high growth.
- ❑ 75% of respondents also consider **increased consumption fuelled by immigrants from Russia, Belarus, and Ukraine** to be an important driver of such high economic growth.
- ❑ In contrast, none of the surveyed economists think that the **growth of foreign direct investments**, as well as **growth in the energy sector**, may have had a very significant impact on the growth of the Georgian economy.



# BASIC ECONOMIC INDICATORS IN GEORGIA

	2019	2020	2021	2022 Q1	2022 Q2
Nominal GDP (mIn 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%*	7.1%*
Inflation	4.9%	5.2%	11.8%	13.2%	13.0%
FDI (mIn 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%
External Debt (mIn USD)	5 741	7 535	8 205	8 082	7 784
Poverty Rate (relative)	20.1%	19.7%	18.9%	-	-

\* Preliminary data



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