



Research

# Georgian Economic Climate

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Q1 of 2024

Issue 25

# GEORGIAN ECONOMIC CLIMATE, Q1 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 March 2024.

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

# Summary



Research

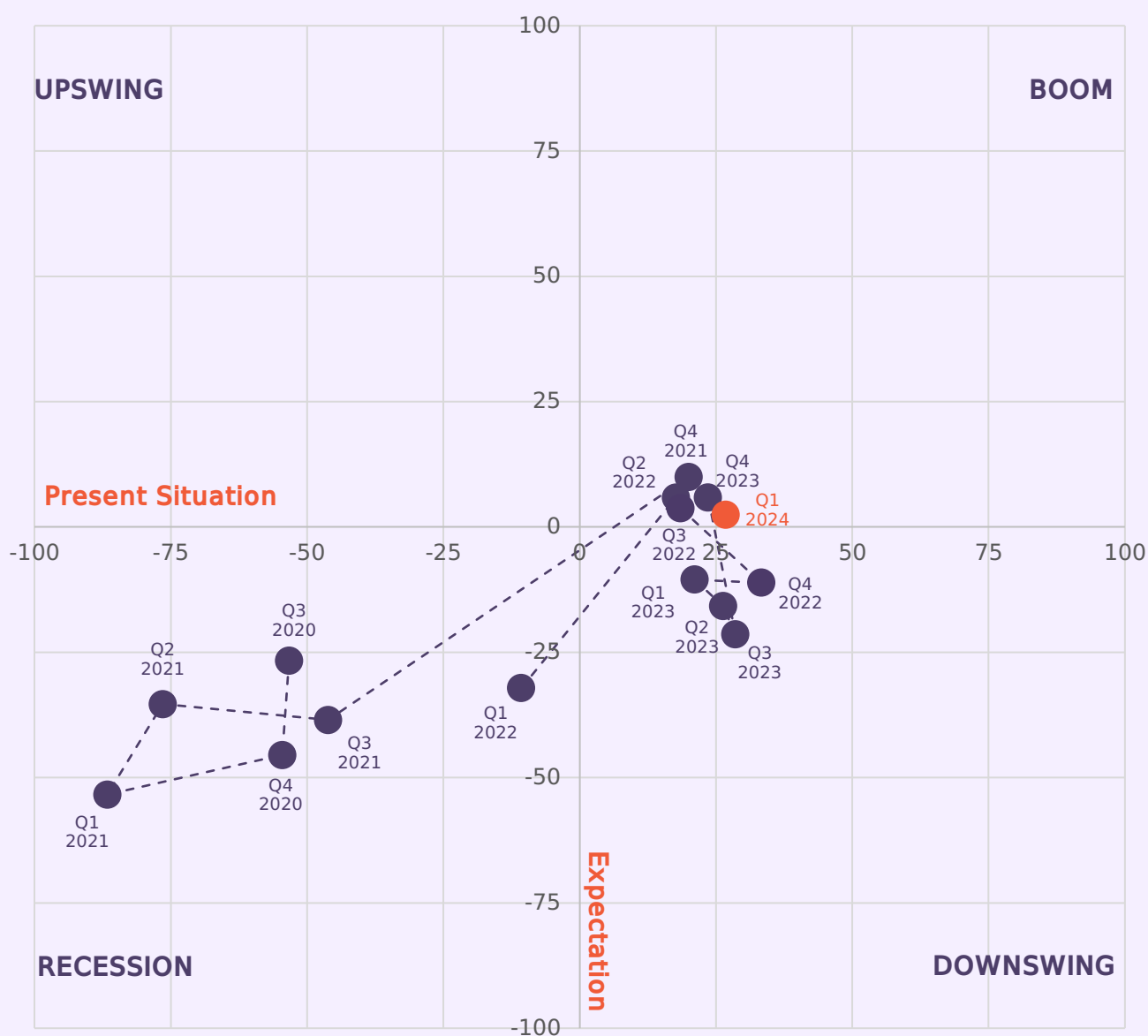
The *main findings* of a survey of Georgian economists conducted in Q1 of 2024 are as follows:

- Georgia's *present economic situation* was assessed *positively*. Predictions for Georgia's *economic situation for the next six months* were also *slightly positive*. Overall assessments have not changed significantly compared to the previous period.
- On average, the *predicted real GDP growth* for 2024 is *5.3%*.
- The inflation rate (year-on-year) is expected to increase over the course of the next six months, with the *expected rate of inflation for 2024* being *3.4%*.
- *Export volumes* are forecasted to *decline*, and *import volumes* are expected to *increase* over the next six months compared to 2023.
- Additionally, according to the surveyed economists:
  - *EU candidacy* and *labor shortage* has the greatest impact on the Georgian economy. Additionally, *employment and the labor market* is the most challenging area when it comes to Georgia's alignment with the EU standards.
  - *Geopolitical tensions* are the major risk that could potentially lead the National Bank of Georgia (NBG) to consider maintaining a stricter monetary policy.
  - The development of the Middle Corridor could significantly boost Georgia's economic growth through *facilitating development of supporting industries* and *diversification of export markets*.
  - *Enabling durable medium-term growth* is the most relevant policy priority for Georgia among the general policies suggested by the IMF to countries.

# GEORGIAN ECONOMIC CLIMATE

- In a survey of Georgian economists conducted in Q1 of 2024, Georgia's **present economic situation** was assessed **positively**. Their assessment of the present economic situation has only slightly improved compared to both – Q4 of 2023 as well as Q1 of 2023.
- In Q1 of 2024, the surveyed economists' predictions for Georgia's **economic situation for the next six months** are **slightly positive**. Their expectations in this regard have slightly worsened compared to the predictions they made in Q4 of 2023 and have significantly improved compared to the negative expectations recorded in Q1 of 2023.

## Georgian Economic Climate, Q1 2024

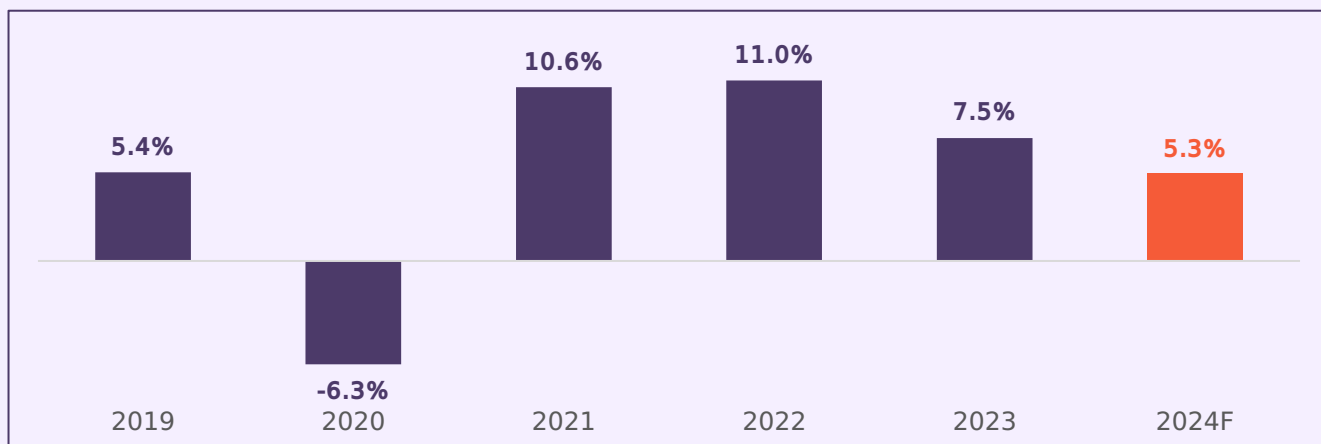


# MACROECONOMIC PREDICTIONS

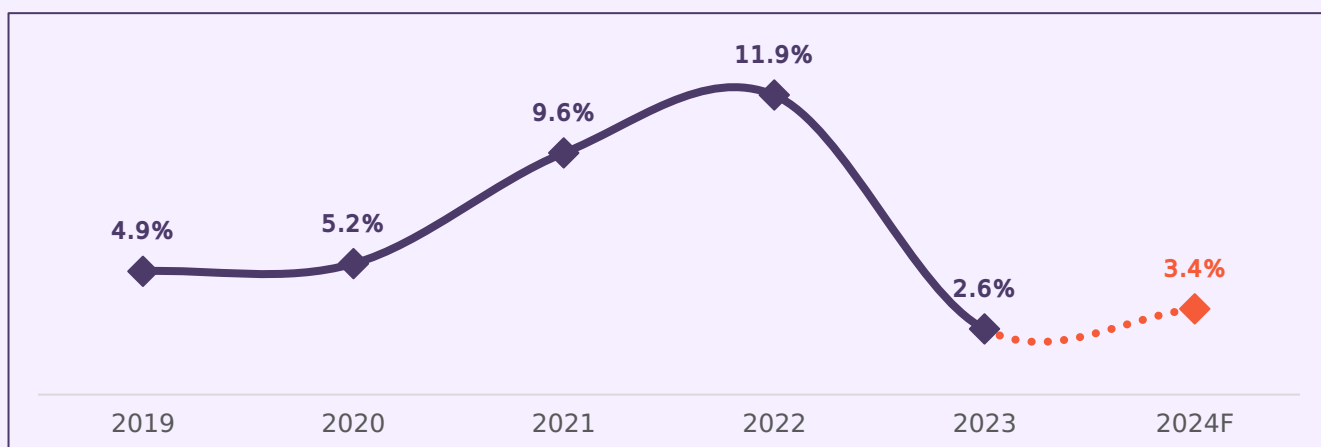
In addition to assessing the current economic situation and gathering expectations for the next six months, the

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

**Graph 1:** Real GDP Growth in Georgia and its forecast for 2024 made by the surveyed economists in Q1 of 2024



**Graph 2:** Average YoY Inflation in Georgia and the forecast for 2024 made by the surveyed economists in Q1 of 2024



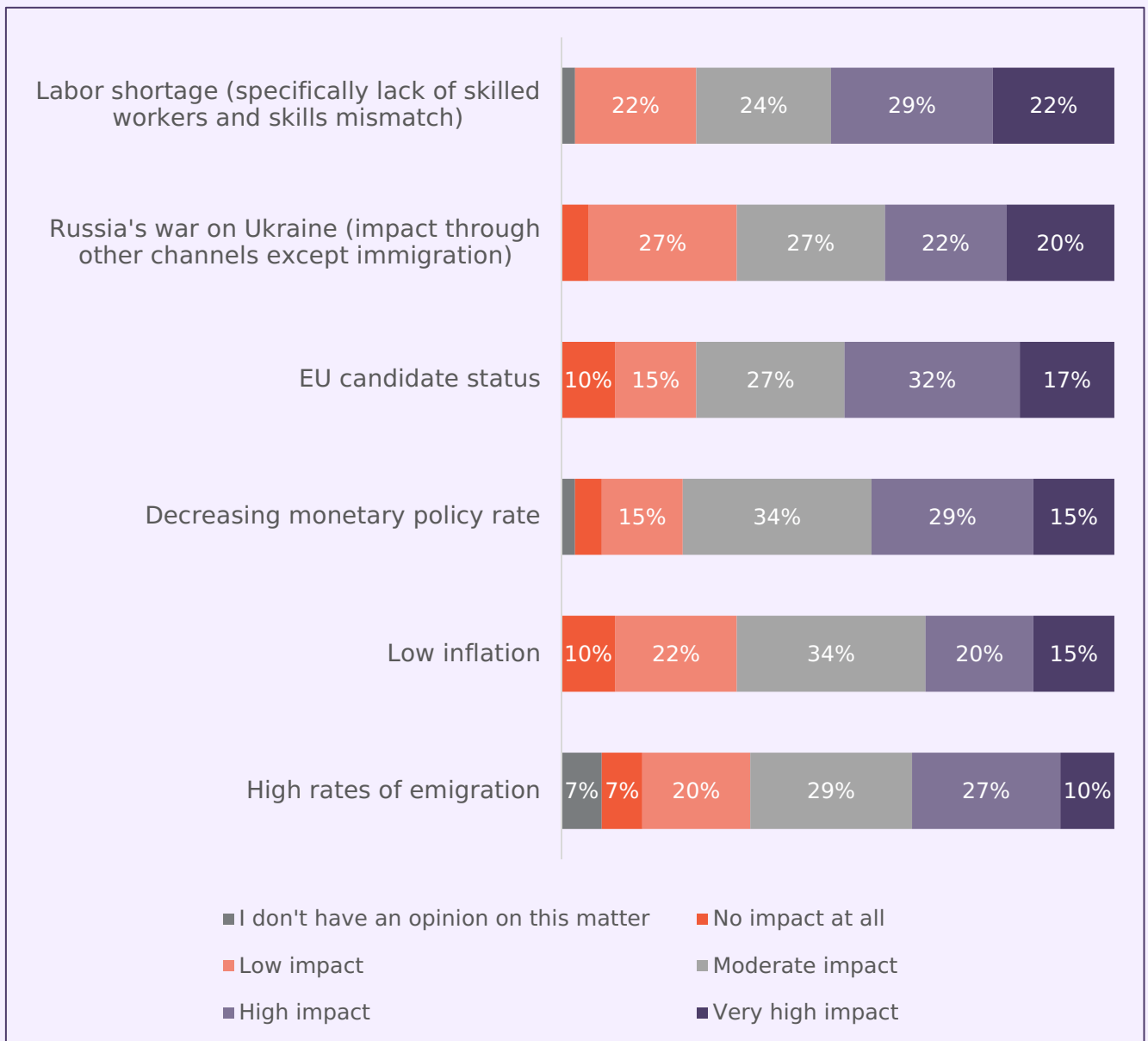
- The **expected real GDP growth** for 2024, on average, is **5.3%**.
- The inflation rate (year-on-year) is expected to increase for the next six months, with the **expected rate of inflation** for 2024 being **3.4%**.
- By the end of the next 6 months, compared to the corresponding period of the previous year, the Georgian Lari is expected to be **appreciated** against the US Dollar and Euro and **depreciated** against Russian Rouble and the Turkish Lira.
- The volume of **exports is expected to decrease** in the coming six months, compared to 2023.
- The volume of **imports is expected to increase** in the coming six months, compared to 2023.



# SPECIAL QUESTIONS

- When asked to identify the factors having the greatest impact on the Georgian economy in Q1 of 2024, the surveyed economists pinpointed a **labor shortage** and **Georgia's EU candidate status**. Other factors deemed by respondents to have a considerable impact in this period included a **reduction in the monetary policy rate** and **Russia's ongoing war on Ukraine**.
- The surveyed economists tended to assess negative factors as more impactful (e.g. labor shortage and Russia's war on Ukraine) 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 Q1 of 2024.

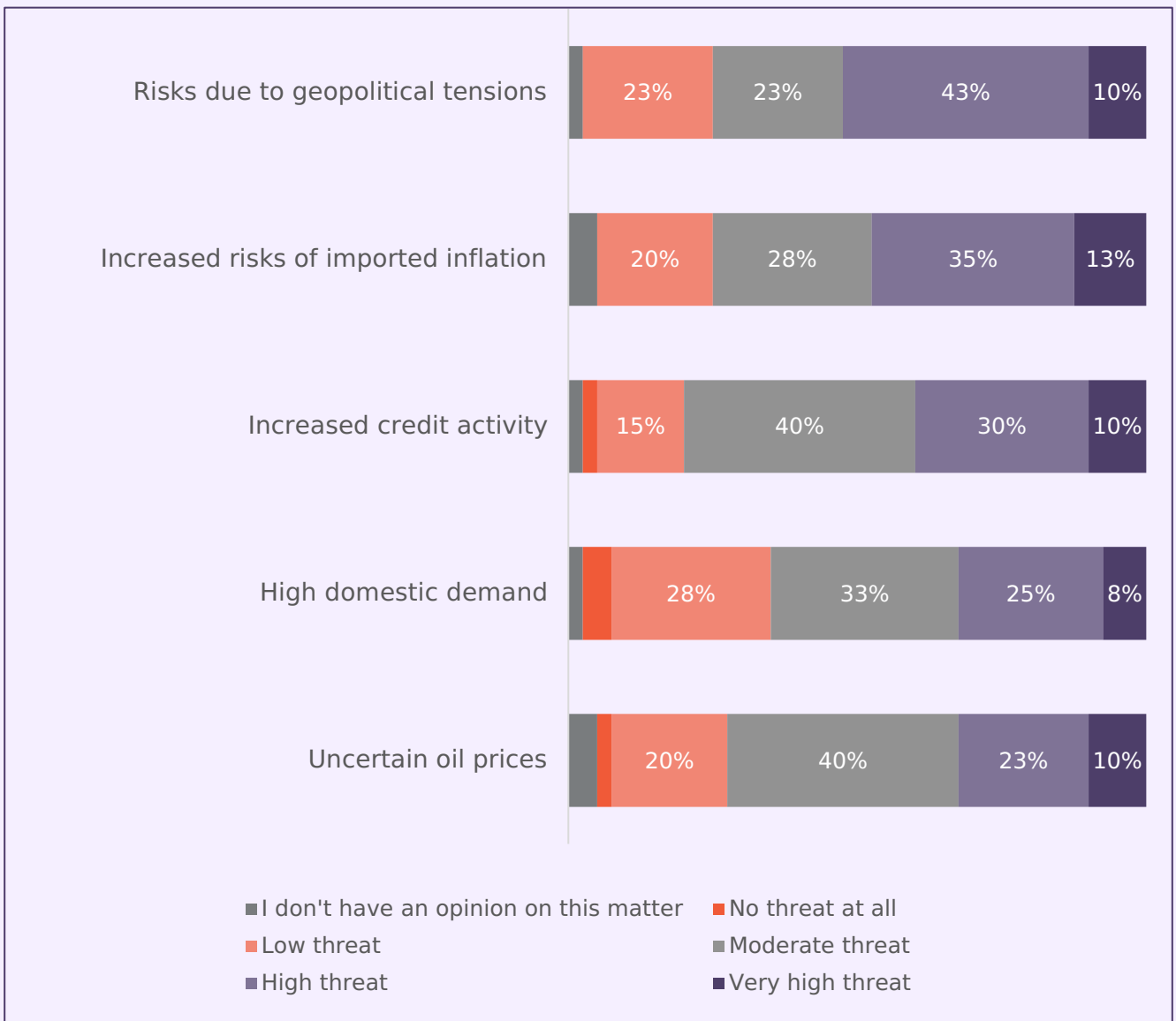


# SPECIAL QUESTIONS

- As of January 2024, the NBG has been decreasing the monetary policy rate\* while also highlighting some factors that might alter the rate's current downward trajectory.
- Of the factors underlined by the NBG, the surveyed economists considered **geopolitical tensions** to be

the main risk possibly altering the downward trajectory of the monetary policy rate. Furthermore, most of the surveyed economists perceived risks of imported inflation as a high or very high with respect to the loosening of monetary policy.

**Graph 4:** Assess from 1 (no threat at all) to 5 (very high threat) which of these factors might prompt the NBG to maintain strict monetary policy.

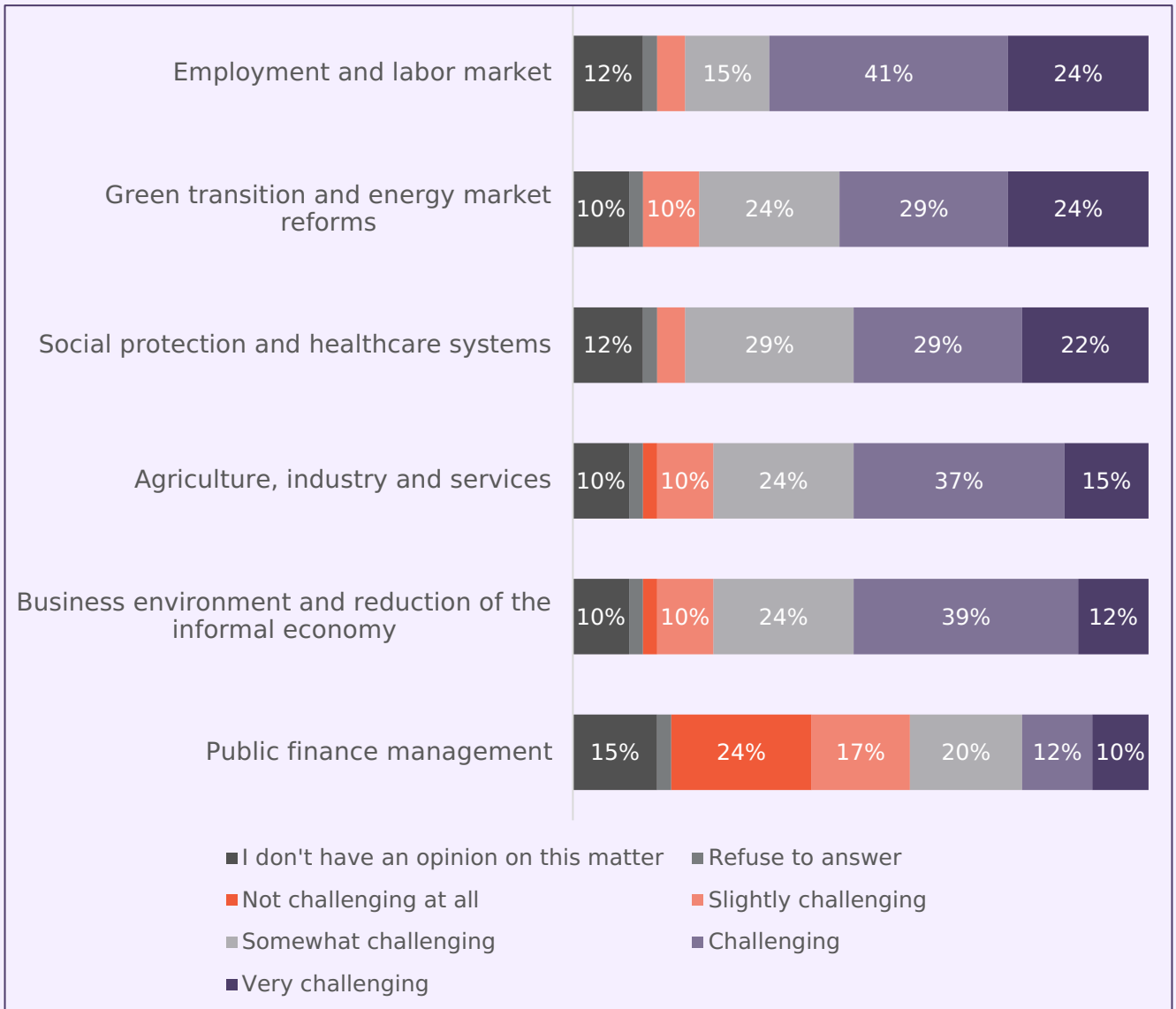


\*In 2024 so far, the NBG has already decreased the monetary policy rate twice, in January (to 9.0%) and again in March (to 8.25%). The second reduction came after this survey had been distributed to respondents.

# SPECIAL QUESTIONS

- Georgia, since becoming an EU candidate country, has submitted its first Economic Reforms Program (ERP) to the European Central Bank (ECB). With that development in mind, the surveyed economists were asked to assess different areas of the ERP and how challenging each would be for Georgia in its efforts to align with EU standards.
- According to the survey results, **employment and the labor market** was chosen as the most challenging area regarding Georgia's convergence with EU standards. Other areas considered challenging in this regard included **energy reforms and social protection and healthcare**.
- The opinions of the surveyed economists were most varied on the issue of how challenging it will be for Georgia to align its **public finance management** with EU standards.

**Graph 5:** Assess the following areas of EPR from 1 (not challenging) to 5 (very challenging) based on how challenging it is for Georgia to align with EU standards.

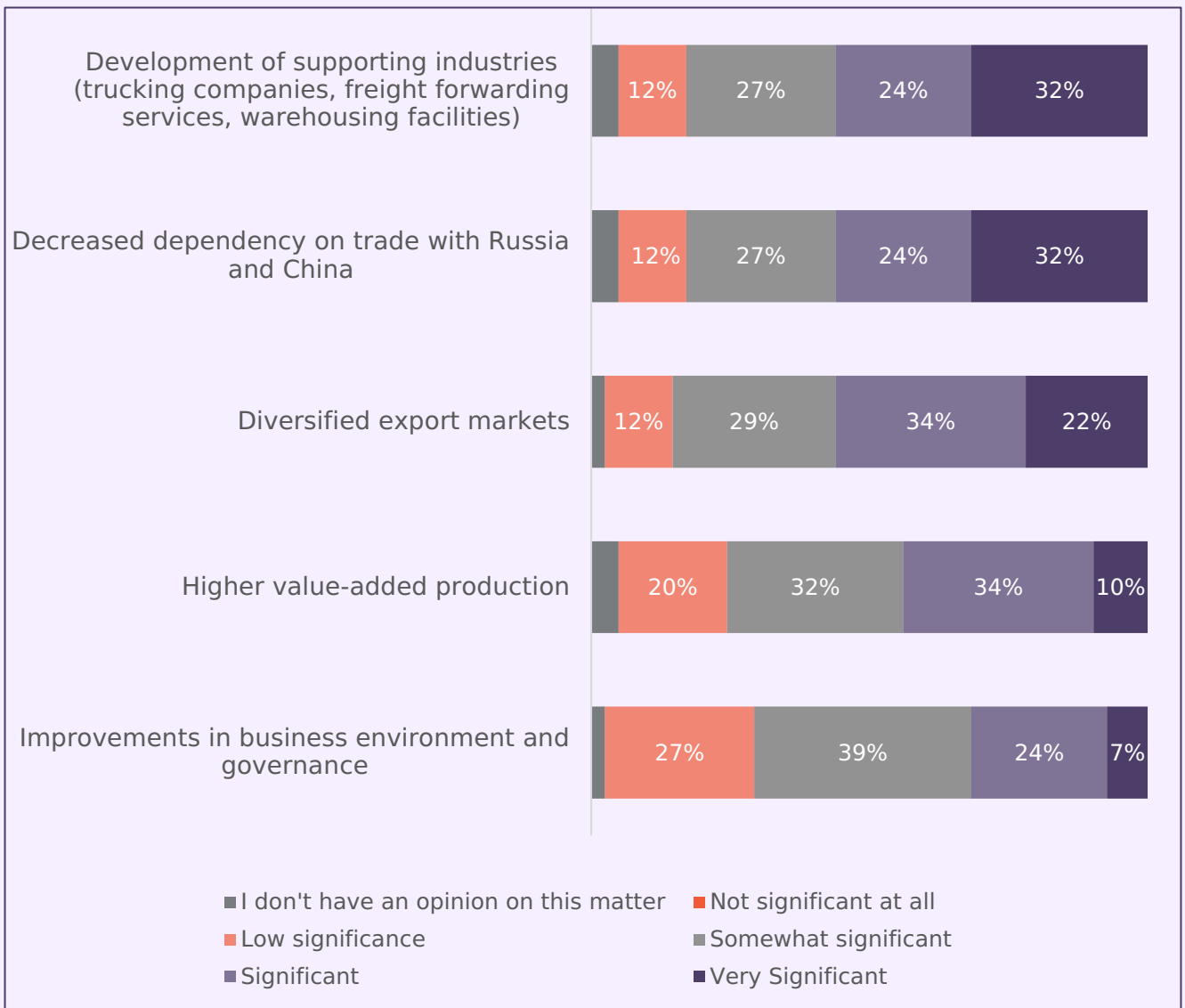




# SPECIAL QUESTIONS

- The World Bank’s “Unlocking the Potential of the Middle Corridor” study listed Georgia, Kazakhstan, and Azerbaijan as the three key countries of the Middle Corridor. Relatedly, the surveyed economists were asked to assess the potential impact of the Middle Corridor's development on Georgia's economic growth.
- Most of the surveyed economists believed that the most significant effects of the development of the Middle Corridor on the Georgian economy would come through the **growth of supporting industries, decreased dependency on trade with Russia and China, and diversified export markets.**

**Graph 6:** Assess the significance of potential positive impacts on Georgia's economic growth resulting from the Middle Corridor's development on a scale of 1 (not significant at all) to 5 (very significant).



# SPECIAL QUESTIONS

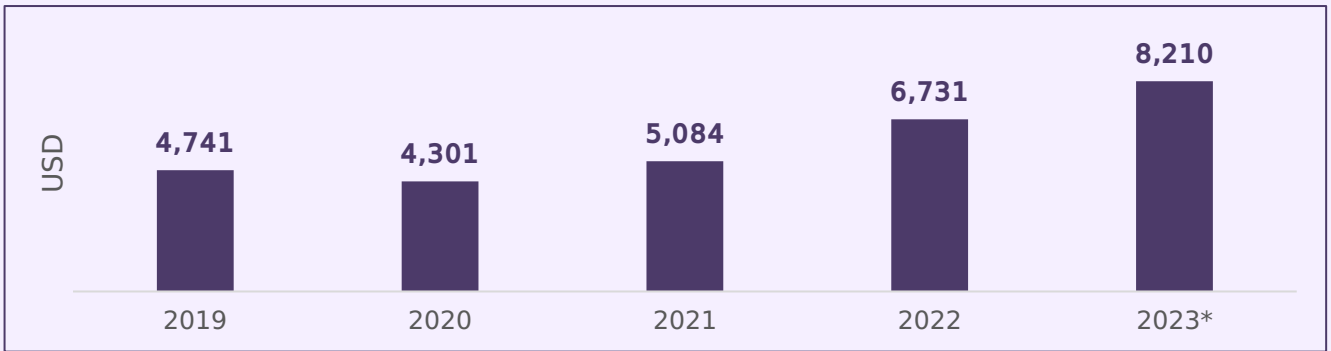
- The IMF in its latest release of the World Economic Outlook suggested several general policy priorities for countries in 2024.
- According to the surveyed economists, **enabling durable medium-term growth** is the most relevant of these policy priorities for Georgia.
- In addition, the surveyed economists also noted that **rebuilding buffers to prepare for the future** and **strengthening multilateral cooperation to mitigate the effects of fragmentation** are other policy priorities highlighted by the IMF that are relevant to Georgia.

**Graph 7:** Assess from 1 (not relevant) to 5 (very relevant) which policy priorities suggested by IMF are the most relevant for Georgia today.

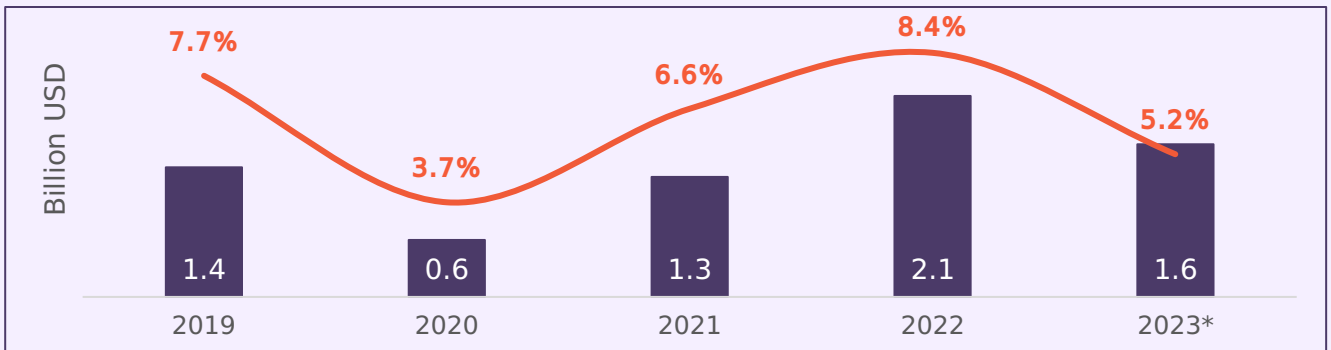


# OTHER ECONOMIC INDICATORS IN GEORGIA

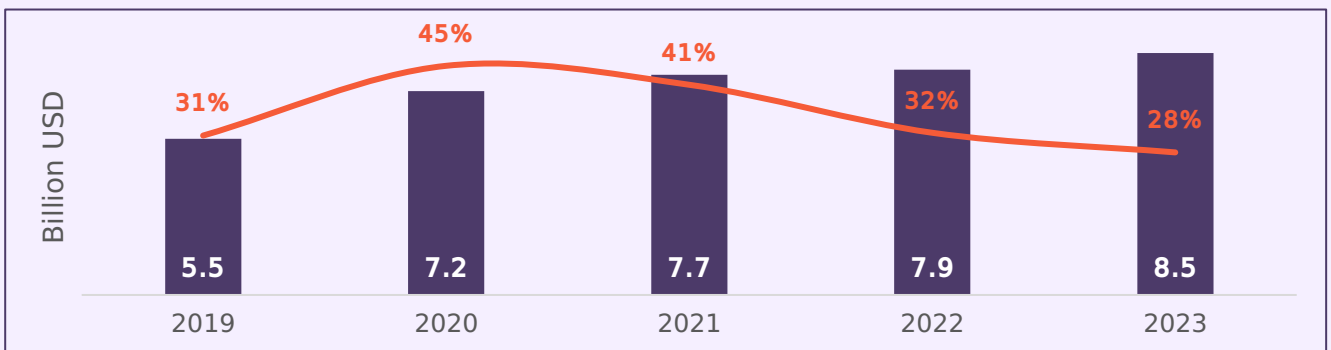
**Graph 8: GDP per Capita in Current Prices**



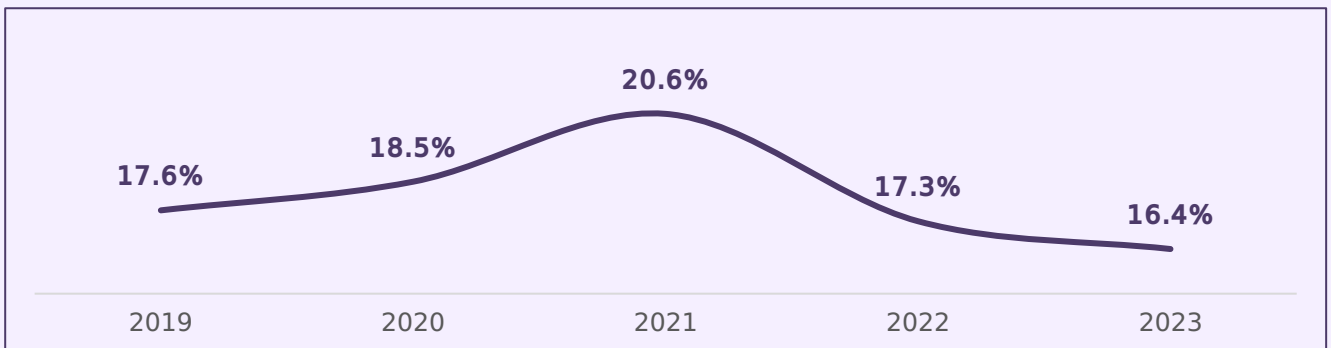
**Graph 9: Foreign Direct Investment and Foreign Direct Investment as a % of GDP**



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



**Graph 11: Unemployment Rate**



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