

Consumer Confidence Index: New year starts with pessimism: consumer confidence declines

Leading GDP Indicator: High hopes maintained: The annual growth rate in 2014 expected to be 3.6% at the very least

Khachapuri Index: Cost of making khachapuri continues to climb both in monthly terms (0.7%) and year-on-year (4.6%)

## feature photo

### Georgia Economic Outlook 2013

2013 was a challenging period for Georgia. Elections, political and policy instability contributed to the significant slowdown in economic growth. Apart from the internal factors, external factors also contributed to the slowdown. According to the International Monetary Fund (IMF) data, world economic growth has decreased from 3.2% to 2.9% and IMF forecasts that the world will catch higher growth rates in the following years.

Looking into what happened to the neighboring economies in 2013 (the reference group is typically the CIS countries, although Georgia is not officially a member of the Commonwealth, but shares many social and economic characteristics with the countries in this group) we find that growth of the CIS region decreased from 3.4% to 2.5% (see Chart 1), and, according to the IMF experts, low external demand and low investment were among the main reasons behind the slowdown.

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## FROM THE BLOG:



### The Washington Consensus and Georgia

Economics Nobel Prize winner Joseph Stiglitz, well-known for sharply criticizing the conventional wisdoms of development economics, once summed up his views in a rhetorical question: "We have felt the pain, when do we get the gain?" The established approach to developing a country is typically summarized in a set of the so-called Washington Consensus policy prescriptions. Despite its controversial status, WC was a blueprint for the economic policy agenda of Georgia. The jury is still out on whether or not this strategy has been and continues to be successful. Look for some interesting insights in a popular blog by Ia Vardishvili.

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### No Smart Farmers in Georgia

Why is there a shortage of human capital in the agricultural sector? Five words tell the whole story: low salaries and low prestige. The Georgian agricultural sector is caught in a kind of vicious cycle. While the idea of bolstering vocational training (VET) is appealing, there may be specific problems that need to be addressed before VET can make a difference for Georgian agriculture. Robizon Khubulashvili shares his personal experience about important problems in Georgia's agriculture and proposes solutions.

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### Beyond Fairness and Envy: The Economic Effects of Income Inequality

Why should we care about income inequality? According to Joseph Stiglitz and Jason Furman, "greater inequality leads to more political instability, and greater political instability leads to lower growth." So, even if one does not care about income inequality directly, there may be reason to care about its indirect effects. Nino Abashidze takes up the trade-off between equity and efficiency and reviews the recent state of income inequality in the Georgian society.

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### Towards a More Equitable Georgia

Contrary to a traditional tenet of economics, empirical research has shown that inequality may have adverse economic consequences in the form of increased political instability. Under the assumption that inequality is rather vice than virtue, the question is what can be done to reduce it. One way to approach the problem is identifying the sources of inequality and try to manipulate the highest impact ones. Nino Abashidze applies this method to the case Georgia and proposes the most effective ways to tackle inequality in the country.

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## ONGOING PROJECTS:

### Debate on Vocational Education and Training (VET) in Georgia

On January 31, 2014, ISET hosted the third event in a series dedicated to inclusive growth dialogues. The topic of the event was Vocational education and training (VET) in Georgia. A short introductory presentation on the challenges of VET in Georgia was followed by a video prepared by the ISET team, depicting a successful case of business-college collaboration. The discussion panelists addressed a range of key questions on how to collect and analyze relevant labor market data; how to involve the private sector in VET; how to keep VET colleges up-to-date and able to adapt to changing skills requirements; finally how to use rigorous evaluations to monitor quality and inform policy design and implementation.

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### Business Confidence Index

ISET Policy Institute started to implement the Business Confidence Index. The pilot survey was done in December 2013 and the response analysis is provided in the report. The results of the survey show that Georgian private companies are generally optimistic in their expectations about the first quarter of 2014. The next round of BCI survey, which has already been started, will show whether the positive sentiment continues to hold on and carries into the future.

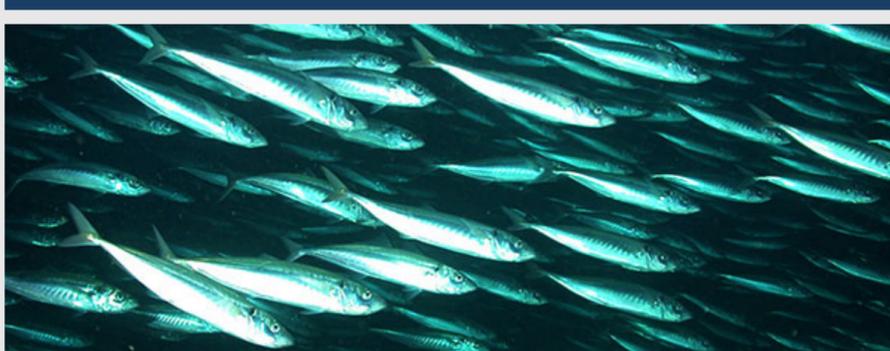
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### ISET-PI Research Fellows Trained in Regulatory Impact Assessment

On 3-7 February, 2014 a group of ISET-PI researchers were trained in carrying out Regulatory Impact Assessment (RIA). RIA is an analytical framework for assessing the potential impact (both costs and benefits) of governmental regulations. Governments around the world rely on RIA before introducing any new regulatory reforms to ensure that the benefits exceed the costs for the society as a whole. The Economic Prosperity Initiative (EPI) organized the training, which was delivered by international leaders in regulatory reform Scott Jacobs and Cesar Cordova, directors of Jacobs, Cordova & Associates. Representatives of other NGOs and ministries were trained alongside the ISET-PI researchers.

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## ISET PI HIGHLIGHTS:



### Fisheries Economics and the Mackerel Dispute

On January 30, 2014, ISET hosted Dr. Rognvaldur Hannesson from the Norwegian School of Economics. Dr. Hannesson gave a presentation on the somewhat unusual topic of Fisheries Economics.

Fish resources represent a form of natural capital and fishing is a potential source of wealth for many coastal, island and inland countries. Unlike other natural resources, fish do not inhabit just one place or, in this case, water reservoir, they flow from one to another depending on the season.

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