

# Leading GDP Indicator for Georgia

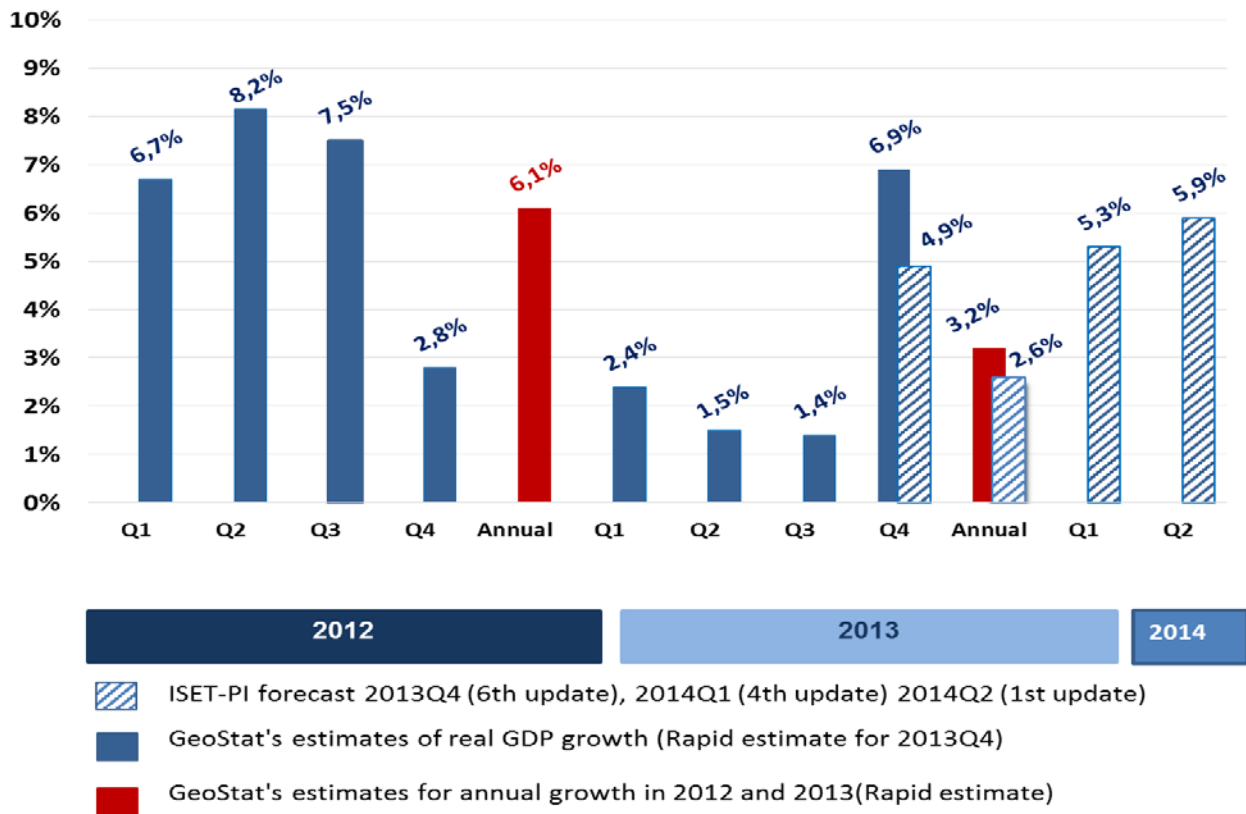
March, 2014

## Quarterly patterns maintained

ISET PI has updated the forecasts for Georgia's real GDP growth rates using the January 2013 releases of various economic indicators.

- The growth forecast for the 1st quarter of 2014 has been revised downward from 5.6% to 5.3%.
- The growth forecast for the 2<sup>nd</sup> quarter of 2014 has been targeted at 5.9%. Meanwhile, Geostat has updated GDP annual growth estimate of 2013 from 3.1% to 3.2%.
- From 2014 we started to draw some conclusions about annual growth rate for year 2014. The methodology that we use and the scenario description is explained in our [previous publication](#). Given these developments, we expect the annual growth rate in 2014 to be 3.9% at the very least and more likely somewhere around 5.0%.

**Chart 1. Georgia, Real GDP Growth Rate (Y/Y)**



Based on these growth forecasts, we can say that Georgian economy is maintaining its structural pattern. Growth rate of the 1<sup>st</sup> quarter in any year since 2009 has always been the lowest among the growth rates of the other quarters of that particular year. The only exception was the last quarter of 2014q4 and as we have already explained that fact in our previous publication about that quarter, a large drop in GDP was the result of parliamentary elections in the end of October 2012. As the structural pattern is maintained, we hope that this year would be much better than the previous one, in case of no shock in the country or outside.

Several factors in our predictors list contributed to that small drop of our forecast for 2014q1 from 5.6% to 5.3%. In comparison to December's data based on which our previous 3<sup>rd</sup> update growth forecast for 2014q1 was based performance of external sector has been slowed down in January. Particularly, year on year growth rate of export in December 2013 was 47% while it was only 14% in January 2014. Import rose by 21% in December 2013 compared to December 2012, while it grew only by 15% in January 2014. Another factor of which growth rate in January has decreased compared to December 2013 is Money Inflow. It was 14% in December (y-o-y) and

only 5% in January. Growth rate of electricity consumption has declined as well. It was only 2% in January 2014, while it was around 8% in December 2013.

Although it is not included in our predictor's list the downgrade of our 4<sup>th</sup> forecast of the first quarter of 2014 has also been reinforced by [consumer confidence index](#). As CCI researchers at ISET calculated it has been reduced by 4.2 points from December and amounted to -9.8.

Consumer Price Index has increased by 2.9% in comparison with the same month of the previous year. [Khachapuri Index](#) has also increased in January by nearly 5% and reached its maximum 3.60 GEL as Researchers at ISET comment.

Our forecasting model is based on the Leading Economic Indicator (LEI) methodology developed by the [New Economic School](#), Moscow, Russia<sup>2</sup> We constructed a dynamic model of the Georgian economy which assumes that all economic variables, including the GDP itself, are driven by a small number of factors, that can be extracted from the data well before the GDP growth estimates are published. For each quarter, ISET-PI produces five consecutive monthly forecasts ("vintages"), which increase in precision as time goes on. Our first forecast (1st vintage) is available about 5 months before the end of the quarter in question. The last forecast (5th vintage) is published in the first month of the next quarter.