

Leading GDP Indicator for Georgia

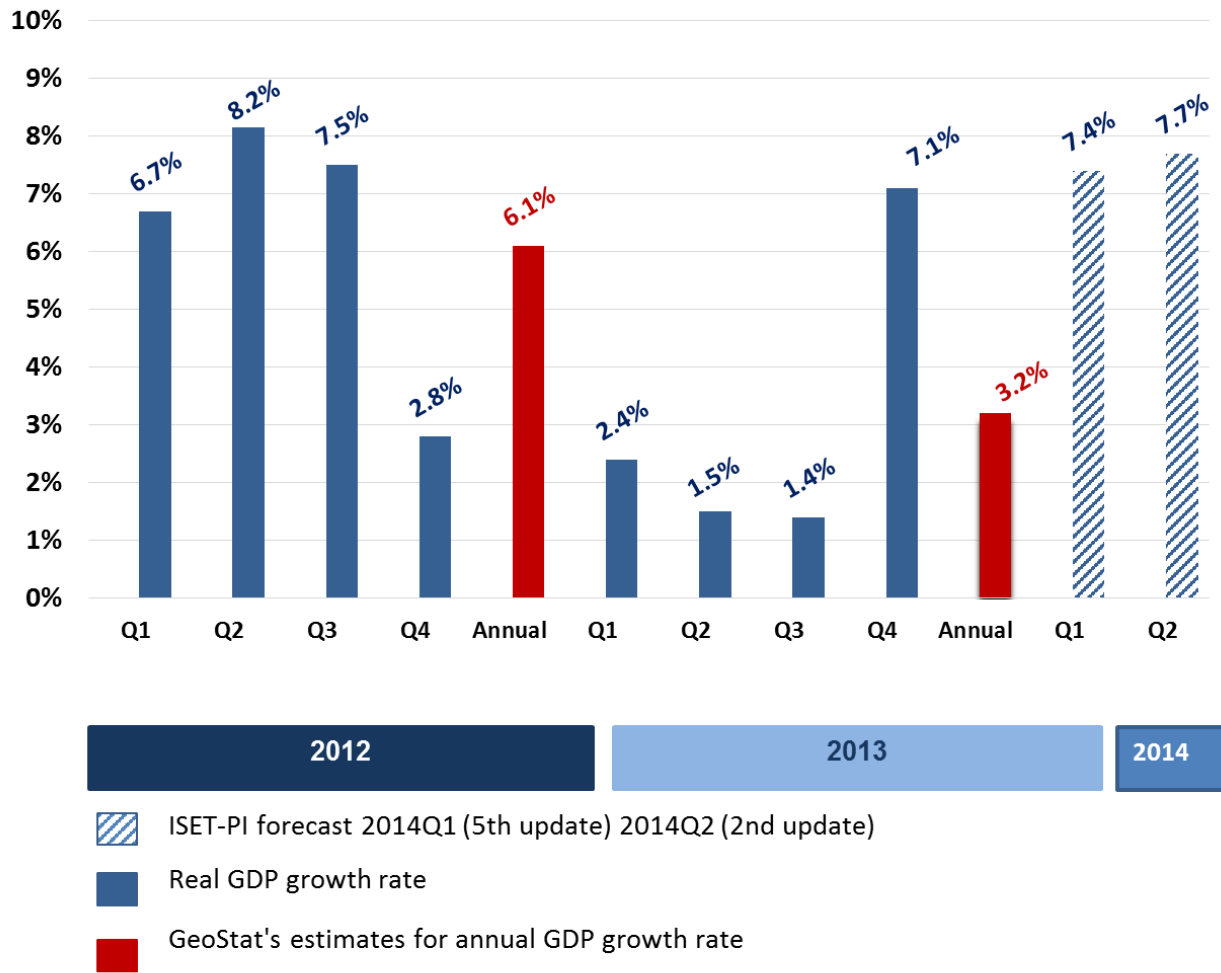
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High growth rates are maintained.

ISET PI has updated the forecasts for Georgia's real GDP growth rates using the March 2014 releases of various economic indicators.

- The growth forecast for the 1st quarter of 2014 has been revised slightly upward from 7.3% to 7.4%.
- The growth forecast for the 2nd quarter of 2014 has been targeted at 7.7%.
- 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 5.6% at the very least and more likely somewhere around 6.8%.

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



Based on forecast results we can say that Georgian economy after gradually returning back to high growth rates, up to now maintains these high rates and seems to repeat traditional pattern of lowest first quarter. The political uncertainty caused by government change, stamped our economy with drastical drop in growth rates, however last quarter of last year became the quarter of comeback. This also can be explained by political changes, namely presidential elections, by which the era of so-called co-habitation ended. Less uncertainty, opening of Russian market, the first harvest after full year of reforms in Agriculture has positively affected Georgia's gross Domestic Product. Predictably growth rates would be even higher if there were no war in Ukraine.

Several factors in our predictors list contributed to that rise from 7.3% to 7.4% for 2014q1 and from 7.0% to 7.7% for 2014q2. In comparison to February data based on which our previous 5th update growth forecast for 2014q1 and 2nd forecast for 2014q2 was done, performance of energy sector has been improved in March. Particularly, electricity generation increased nearly by 9%,

which is composed by 30% increase in Hydropower and 22% decrease in energy from Termopowerplants. Besides electricity import and electricity loses decreased respectively by 63% and 60%. Other important factor worth to mention increase in net money inflow increase by 12%. The main reason why GDP has grown more is increase of net import (or decrease in net export). Both import and export increased by 19% in comparison to previous month, thus net import increased as well by 19%.

Despite high GDP growth rate in the last quarter of 2013 and the projected high growth rates of the first two quarters of 2014, [consumer confidence index](#) still continues to drop for the last four consecutive months. Moreover, both current situation as well as expectation index decreases, However one has to notice that speed of decline decreased. Such difference in directions of GDP growth and people's confidence rates might be caused by inequality, or so called non-inclusive growth. Other important issue can be the character of increase in GDP, which this time was caused mainly by energy sector, growth of which does not really have direct link to people's confidence.

Our forecasting model is based on the Leading Economic Indicator (LEI) methodology developed by the [New Economic School](#), Moscow, Russia ² 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.