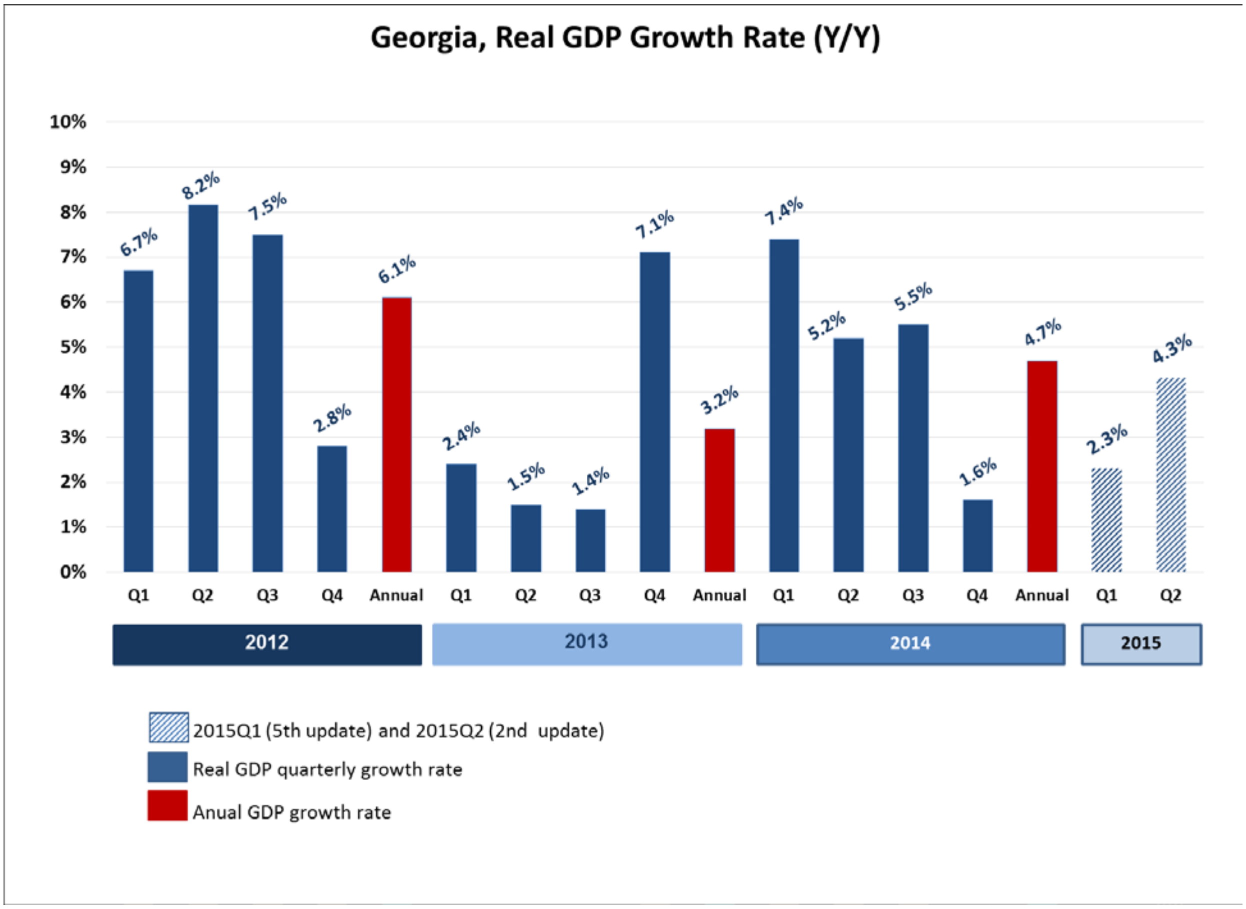
Leading GDP Indicator Forecast for Georgia

April, 2015

Little relief

ISET PI has updated the forecasts for Georgia's real GDP growth rates using the February 2015 releases of various economic indicators but now with updated forecast model.

- The growth forecast for the 1st quarter of 2014 has been revised upward from 0.5% to 2.3%.
- The growth forecast for the 2nd quarter of 2014 has also revised upward from 1.6% to 4.3%.
- Meanwhile, Geostat has updated GDP growth estimate for February 2015, it stands at 4.9%.
- From the beginning of last year, we started drawing conclusions about the annual growth rate for the ongoing year (see our January 2014 and February 2014 publications for a note on methodology). Based on this month's data, we expect annual growth in 2015 to be 3.2% in the worst-case or "no growth" scenario, and 4.3% in the best-case or "average long term growth" scenario.



As we see there is significant difference in growth rate forecasts made based on January and February data. In this case difference is mainly caused by forecasting code upgrading. The previous forecast was done based on the old forecasting model. If we employ same old model on February data, forecast will be 3.4% and 3.2% growth rates respectivelly for the first and second quarters of 2015, upward revision in this case would be even higher. However if we have used new model on January data instead of 0.5% and 1.6% growth rates of first two quarters of 2015, we would have 2.3% and 4.2% growth and in this case change in forecast is minimal but still positive.

Given recent developments and negative trands in January data, new forecast sounds too optimistic, however in reality 2.3% growth of the first quarter is lower than annual growth of first two months of 2015 (average growth in January and February is estimated to be 2.7%).

In contrast to January number of variables which changed significanlty is not large. We have notable change in Russian Ruble Exchange rate, which increased by nearly 22%, and oil price also increased by almost 22% however these changes have no significant impact on our forecast.

In energy sector changes are more positive than negative and they have mainly seasonal character, however it is important to note that in comparison to last year in February 2015 net import is by almost 27% less and this does not happened at the expense of consumption. (El-consumption increased by 1.4%)

As we see exchange rate is not stabilized yet but changes in variables related to exchange rate have no significant negative effect on our forecast.

We see increase in both imports and exports (7% and 6% respecitvelly), as a result trade deficit increased by 6%.

Using new model gives us opportunity to increase number of explanatory variables. First time we used data about VAT payers. VAT turnover in February decreased by 23% in monthly terms, however it increased by 12% in yearly terms.

The group of variables which has strong negative effect on our forecast is group of variables related to deposits in forreign currency and variables related to average deposit maturity. in comparison to January, in February different type of forreign currency deposits have increased by 5-6% each, however since data for forreign currency is measured in lari and lari depreciated in February more than by 5% we have almost no increase in FC deposits.

We use different price indexes for our forecast, this time since they have not changed much, their effect on forecasts in negligible. Consumer Price Index in February is just 0.1% higher than it was in January. Producer Price Index and Transportation Price Index have increased respectively by 1.3% and 3.6%, whereas Construction Price Index decreased by 0.7%. 3.2% decrease in Khachapuri index has mainly seasonal character.

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 (or “vintages”), which increase in precision as time goes on. Our first forecast (1st vintage) is available about five months before the end of the quarter in question. The last forecast (5th vintage) is published in the first month of the next quarter.