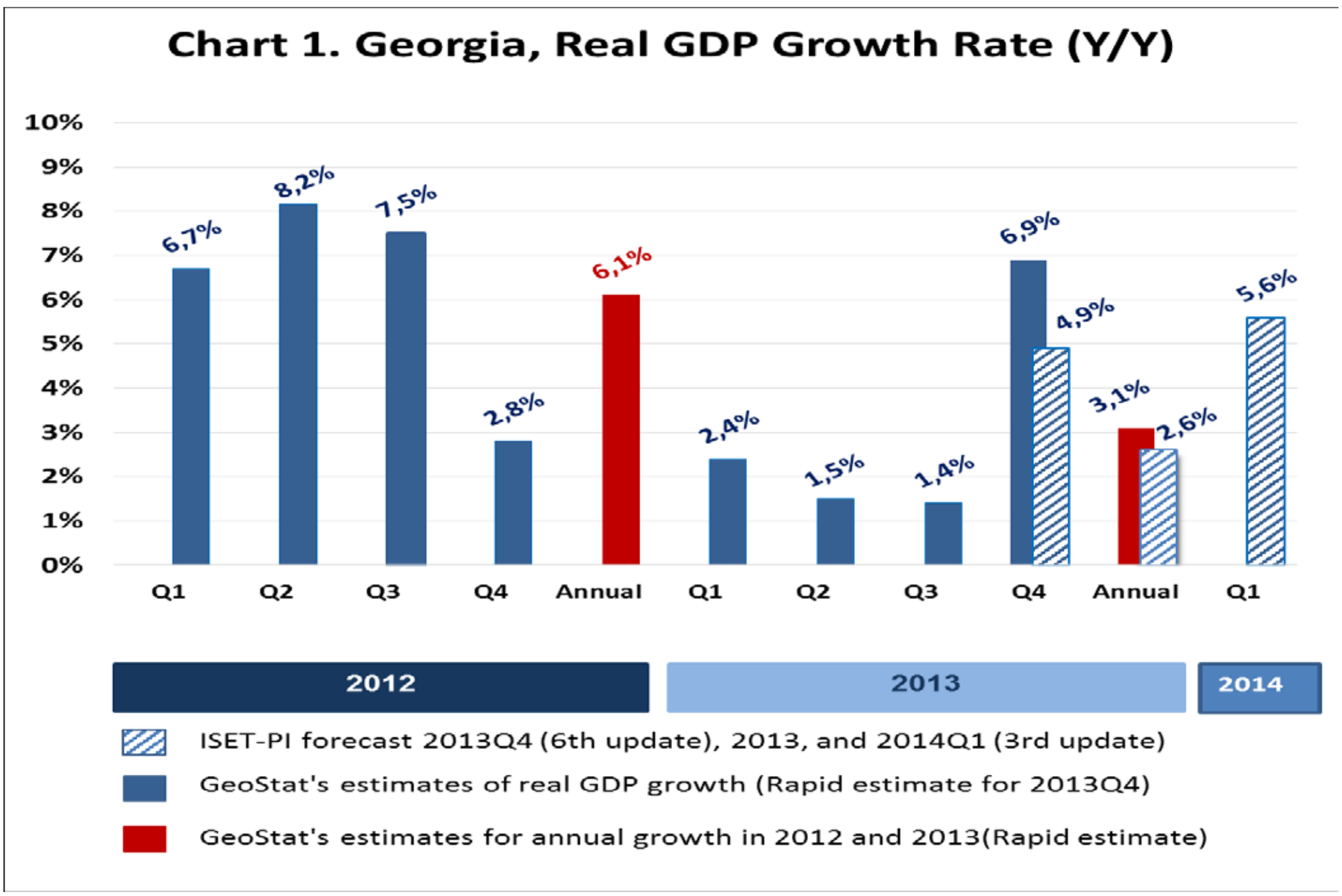
Leading GDP Indicator for Georgia

February, 2014

ISET-PI has updated its now-casting model for Georgia's real GDP growth using the December 2013 releases of various economic indicators.

- The growth forecast for the 4th quarter of 2013 is unchanged at 4.9%, suggesting annual growth of 2.6%, while Geostat's flash estimates are 6.9% for 2013Q4 and 3.1% for the whole year.
- The growth forecast for the 1st quarter of 2014 is broadly unchanged (revised downward slightly from 5.7% to 5.6%). Thus, we expect the annual growth rate in 2014 to be at least 3.4% and more likely around 5.6%.



RECENT DEVELOPMENTS

Looking at the forecasted 2014Q1 growth rate we hope that this year would be much more promising than 2013. The growth rate in 2013Q1 was only 2.4%, sinking even deeper in the following two quarters. In contrast to this, the growth forecast for 2014Q1 is at 5.6%, slightly exceeding the *historical average* of 5.3% recorded for the first quarters in 1998-2013.

The promise of reviving economic growth is upheld by the intensified activities of VAT payers. For example, VAT payers' turnover increased in December by 17.2% compared to a year ago; electricity consumption growth accelerated to 8% from 5% in November; and the growth rate of money inflows to Georgia also increased from 13% in November to 14% in December.

Slight downward revision for the 3rd update of 2014Q1 forecast can be explained by some deterioration of some other indicators: growth rates of export and import have declined in December 2013 compared to November 2013 (from 61% to 47% and from 22% to 21% correspondingly).

It is worth noting, that although overall the numbers are not too pessimistic, Georgian consumers do not have high expectations as illustrated by ISET-PI's Consumer Confidence Index. In December it declined by 4.2 points compared to November, and now stands at -5.6. This weakening is mostly conditioned by the media, which may have exaggerated the negative effects of the recent GEL depreciation, as CCI researchers comment.

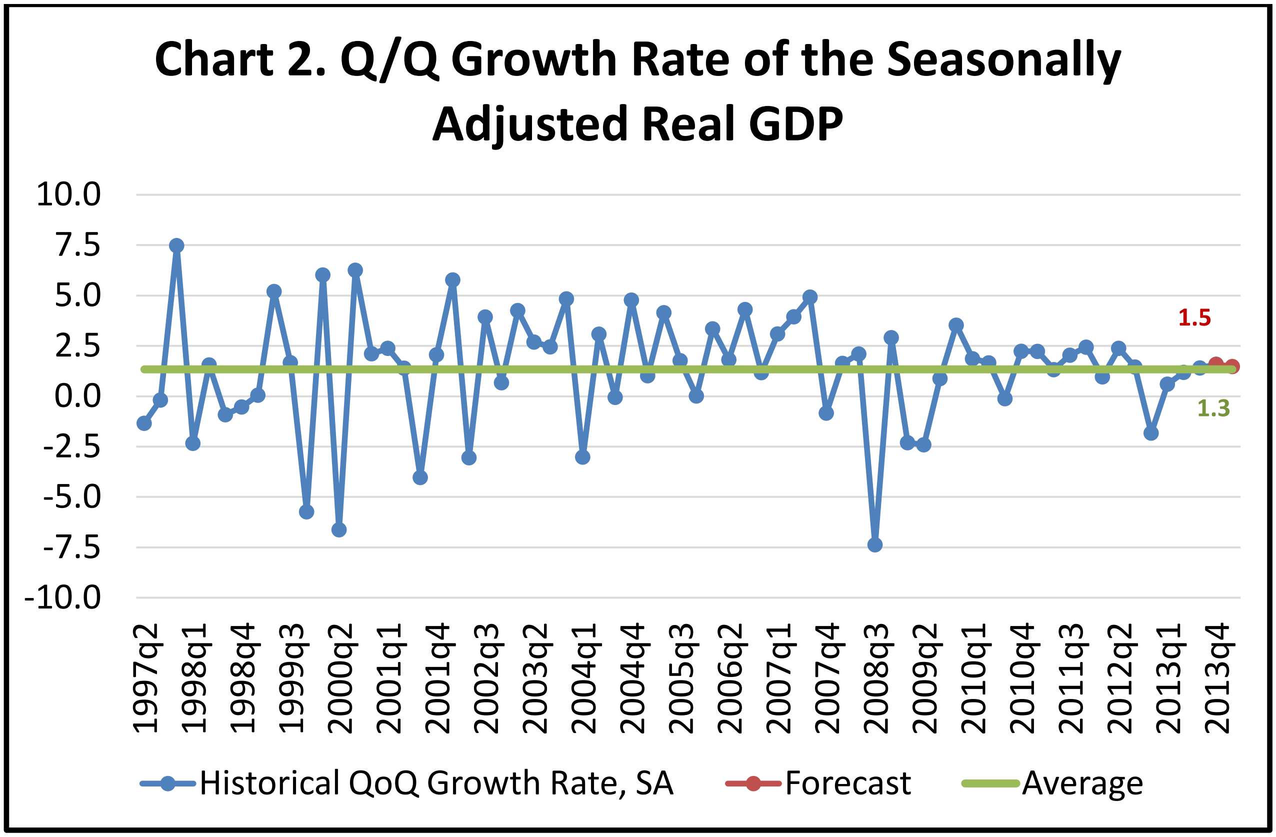
ISET-PI vs Geostat

On January 30, Geostat published its own Rapid Estimates of Economic Growth, which stand at 6.9% for 2013Q4 and 3.1% for 2013 as a whole. As you can see these figures are somewhat different from ours. Based on Geostat's numbers for the first 3 quarters of 2013 and our estimate for the 4th quarter, the annual growth rate for 2013 is slightly lower, at 2.6%. This difference reflects different empirical models used by Geostat and ISET-PI. Both institutions use proxies for the GDP growth, but the underlying choices of indicators used are somewhat different.

The rapid estimate is published by Geostat one month after the end of each quarter, while ISET-PI publishes its first forecast 3 weeks before the quarter begins. As for the actual growth rate, the number gets published about 3 months after the quarter, e.g. for 2013Q4, the number will be announced by Geostat on March 20, 2014.

WHERE DO WE GO FROM HERE?

In the previous publication, we started to build up several possible scenarios for the rest of the year, which allows us to draw some conclusions about the growth rate in 2014. These are based on seasonally adjusted GDP[1] (calculated using the X-12 filter), a series with volatility due to seasonal factors (less activity in winter, more activity in summer and autumn) "evened out." Here is an update of this exercise:



Scenario 1 – No Subsequent Growth: The result of this scenario serves as an indicator of the "floor" for the annual growth rate in 2014, a level below which the GDP growth rate is unlikely to fall as the underlying assumption is that during the rest of 2014, the seasonally adjusted GDP remains at the same level as it is forecast to be in 2014Q1. According to our calculation, this floor is 3.4%.

Scenario 2 – Historical Average: For the second scenario we use the average quarter-on-quarter growth rate of the seasonally adjusted GDP observed since 1997, namely 1.3%. If the seasonally adjusted GDP were to grow at that rate in every remaining quarter of 2014, the yearly growth rate would be 5.6%.

[1] Seasonally adjusted GDP series is available upon request free of charge from ISET-PI. Please send your inquiry to the following email: g.tsutskiridze@iset.ge. Please indicate your name and professional or institutional affiliation (when applicable).

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.