

Leading GDP Indicator Forecast for Georgia

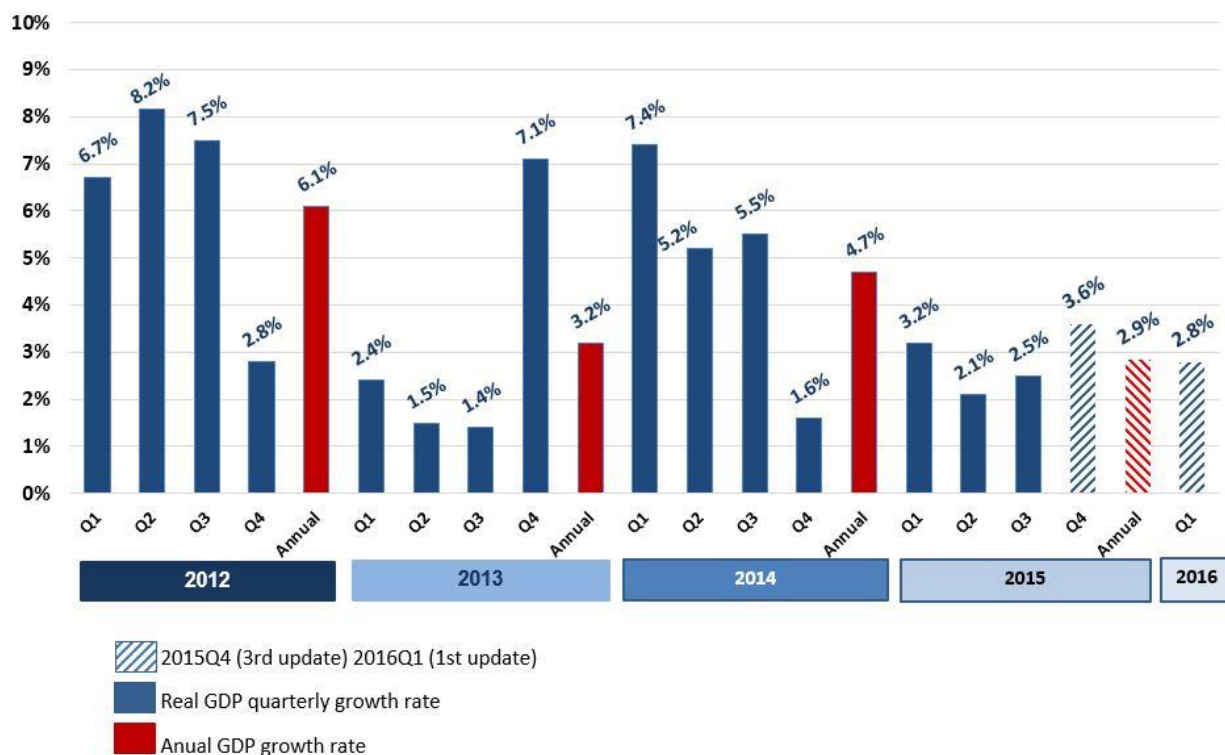
December 2015

Decrease in the trade deficit – a small, but positive impact on the growth forecast

ISET-PI has updated its forecast of Georgia’s real GDP growth rates using the October 2015 releases of various economic indicators.

- We have recently updated the GDP series (the dependent variable in our model), using the revised GDP growth rates available from Geostat.
- Based on the new data, the forecast for GDP growth in the fourth quarter now stands at 3.5%.
- The annual growth rate for 2015 is still expected to be 2.9%.
- According to an early forecast for 2016, the growth rate in the first quarter of next year is predicted to be 3.6%.

Georgia, Real GDP Growth Rate (Y/Y)



Aside from a few variables that have changed significantly since September, October's data yielded little additional information and insight. Once again, most of the action was on the financial markets, where in October the **volume of short-term time deposits** (of less than 3 months maturity) in the national currency decreased by 22%, with a respective decrease of 9% in foreign currency deposits.

These monthly changes were mostly driven by seasonal factors, but overall we can observe a year on year decline in national currency deposits and a corresponding increase in foreign currency deposits across various maturities.

In October, interest rates on short-term lari deposits increased, albeit very slightly (we observed a 0.1 percentage points increase from September). Short-term foreign currency deposit rates, on the other hand, increased more rapidly – moving by 0.3 percentage points (from 2.8% to 3.1%).

In yearly terms, the difference between interest rates on national and foreign currency deposits continued to rise.

The increase in foreign currency deposits continued to exert downward pressure on our forecast, while the changes in interest rates did not matter very much for the forecast model.

Compared to September, **money inflows posted a slight increase of 2.0%**. However, the annual year-on-year value of USD denominated inflows **decreased by 27%**. These changes had a slight negative impact on the forecast.

The overall real effective exchange rate (REER) did not change since September, but the Georgian lari did depreciate in monthly terms against the Turkish lira and the Russian ruble, while appreciating by a mere 1% against both the USD and the euro. Taken together, the REER related variables had a small positive impact on our forecasted growth rates.

The trade deficit of Georgia improved in both monthly and yearly terms, which also exerted small upward (positive) pressure on the GDP growth forecast.

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