

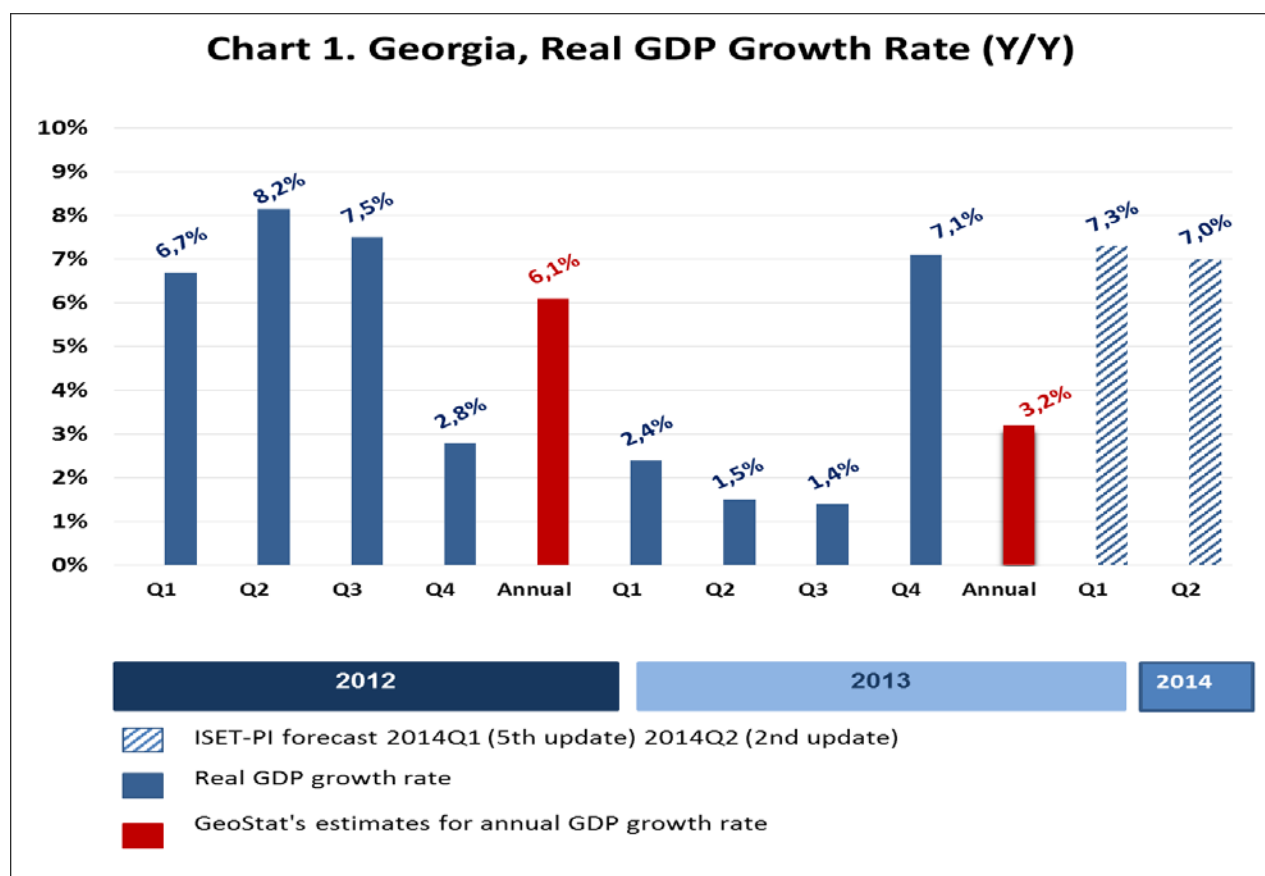
Leading GDP Indicator for Georgia

April, 2014

Georgian Economy turns back to high growth rates

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

- The growth forecast for the 1st quarter of 2014 has been revised upward from 5.3% to 7.3%.
- The growth forecast for the 2nd quarter of 2014 has been targeted at 7.0%. Meanwhile, Geostat has released official quarterly growth GDP rate for the last quarter of 2013 and it is quite impressive 7.1%.
- 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 4.5% at the very least and more likely somewhere around 5.7%.



As noticed from the figure above Georgian economy turned back to high growth rates that it hold before the parliamentary election of 2012. This empirical fact proves the theory about the effect of political uncertainty on countries' economic growth. For nearly four consecutive quarters growth rate of Georgian GDP insisted on strictly downward trend and in the third quarter of 2013 it dropped down as low as 1.4%. It was only the last quarter of 2013 when the country experienced high quarterly growth rate, 7.1% in particular. However, this much of growth rate could easily be an arbitrary and does not reflect pure success of the economy, because of lower base GDP in the last quarter of 2013. The same can be argued about the growth rates of the first and the second quarters of 2014.

Several factors in our predictors list contributed to that rise from 5.3% to 7.3% for 2014q1 and from 5.9% to 7.0% for 2014q2. In comparison to January data based on which our previous 4th update growth forecast for 2014q1 and 1st forecast for 2014q2 was based performance of external sector has been facilitated in February. Particularly, year on year growth rate of export in January 2014 was 14% while it was 33% in February 2014. Import rose by 16% in February 2014 compared to February 2013, while it grew only by 15% in January 2014. Growth rate of electricity consumption has increased as well. It was only 2% in January 2014, while it is around 8% in February 2014.

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](#) ridiculously continues to drop for the last three consecutive months. Moreover, both current situation as well as expectation index decreases. This suggest the hypothesis that those high growth rates have not yet been reflected in people's everyday living due to high inequality persistent in Georgia.

Consumer Price Index has increased by 3.5% in comparison with the same month of the previous year. However, [Khachapuri Index](#) decreased in February from its maximum of 3.60 GEL to 3.46 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 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.

