

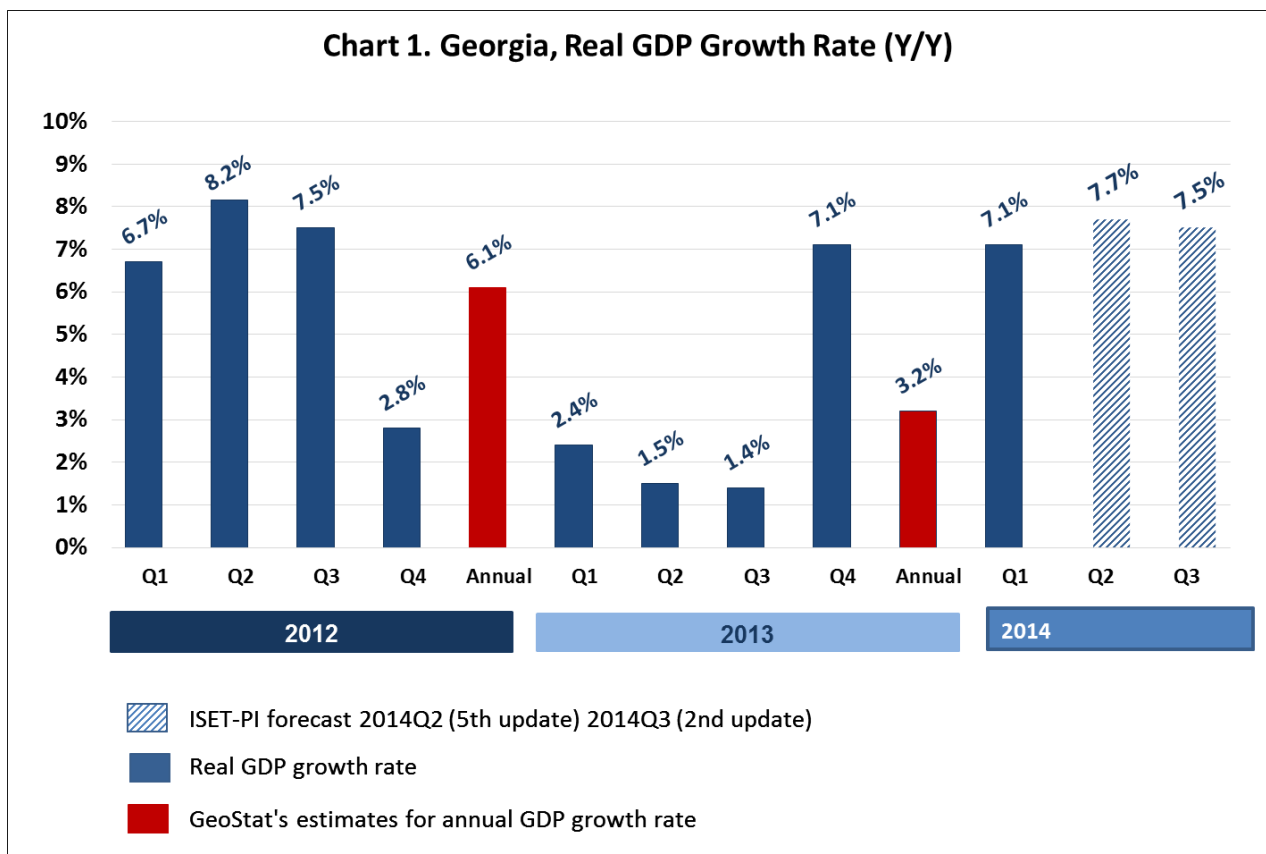
Leading GDP Indicator for Georgia

July, 2014

High Growth Rates Are Maintained.

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

- The growth forecast for the 2nd quarter of 2014 has been revised upward from 7.5% to 7.7%.
- The growth forecast for the 3rd quarter of 2014 has been revised upward from 7.1% to 7.5%.
- Meanwhile, Geostat has released official quarterly growth GDP rate for the first quarter of 2014 and it is quite impressive 7.1% but. (This data is still preliminary and will be revised)
- 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 [February](#) and [January](#) publications. Given these developments, we expect the annual growth rate in 2014 to be 6.5% at the very least and more likely somewhere around 6.9%.



We wrote in last month report that downward revision from 7.7% to 7.5% of the forecast of second Quarter was not alarming, however it was bearing some fears that growth rates will decline gradually. These fears were supported also by the GeoStat's preliminary evaluation of growth of April 2014, which was 2.7%, alarmingly low. Fortunately that slowdown which was forecasted based on April data seems to be a temporary one and not a beginning of a growth decline. High growth rates are result of significant improvement in values of many indicator compared to last year, however if we compare values of indicators of May based on which we made our forecast to the April data, there is no significant changes in any sector except Energy sector.

Not many factors in our predictor list contributed to slight upward revision of our forecast. In comparison to April, based on which we made our forecast in May electricity generation has increased by 38%. This seems not to be only a seasonal increase, but also it is 11% higher than electricity generation in May last year. Obviously together with Electricity Generation Net Export of electricity also has increased from -34mln KWH to 162mln KWH, it is also higher than same number from last year.

From the beginning of 2014 Money aggregates are gradually increasing and interest rates in total are gradually decreasing, only April it increased and in May It decreased again. These processes are positively affecting the growth.

The changes in the external sector affected negatively the growth, because exports increased in only by 2.5% when imports increased by 19.3%.

Consumer Price Index has increased by 2.4% in comparison with the same month of the previous year. Also, despite of low level of [Khachapuri Index](#) which is 2.85 GEL, it has increased by 3.60% in comparison to May last year.

Even though changes from previous Month in May were mainly nonnegative consumer confidence index has decreased, though more probably it is due to lagged effect, which can be confirmed by increase of this index in June.

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.