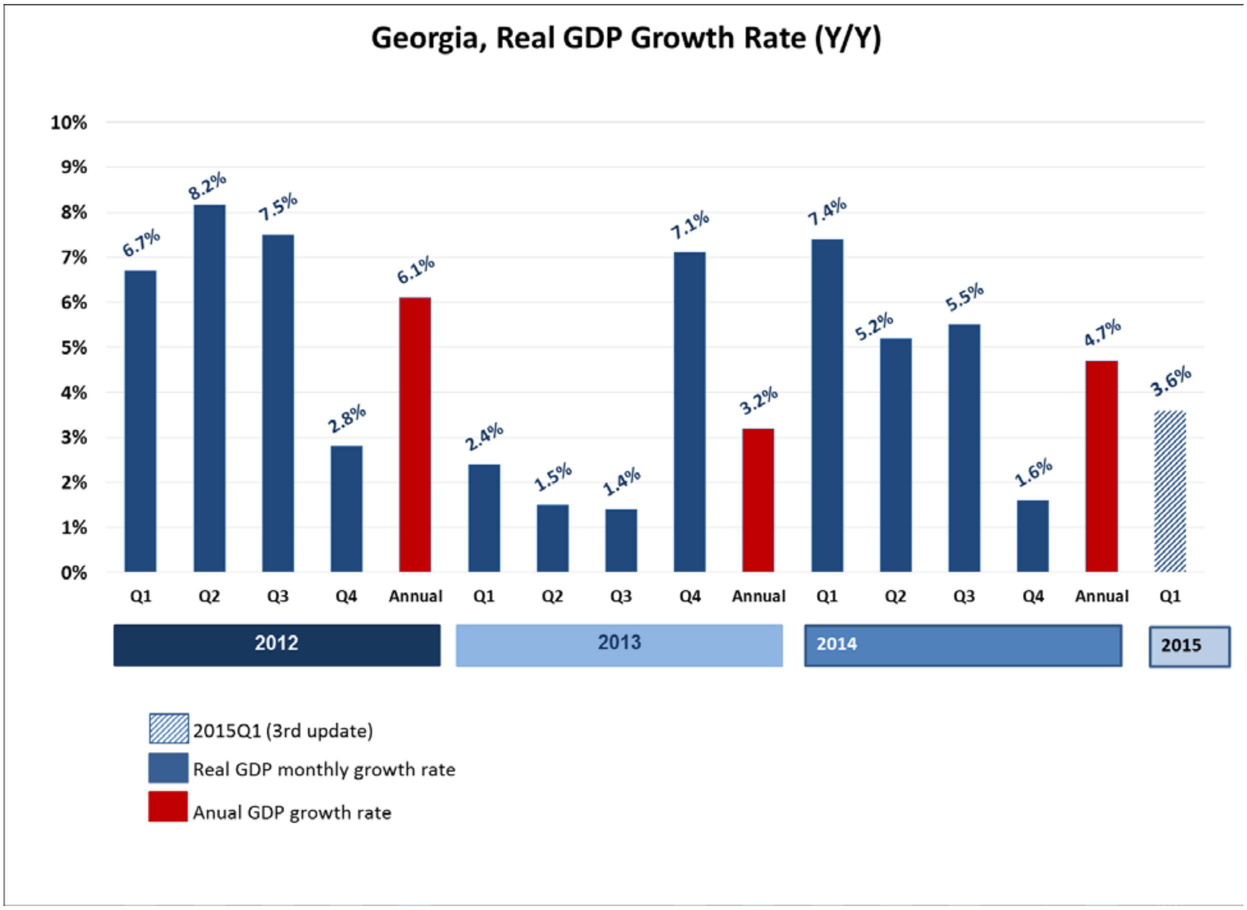
Leading GDP Indicator Forecast for Georgia

February, 2015

No surprises related to yearly growth

With the release of the December data, the year of 2014 is now “officially” over. ISET-PI has updated its forecast for Georgia’s real GDP growth rate for the first quarter of 2015; meanwhile, official rapid estimates of both fourth quarter and annual growth rates for 2014 became available from Geostat. Here are the highlights of this month’s releases:

- Geostat’s official rapid growth estimate for the last quarter of 2014 is 1.6%, while annual growth stands at 4.7%
- ISET-PI’s forecast for the first quarter of 2015 stands at 3.6%, which is just 0.1 points below the previous month’s forecast.
- 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 5.4% in the best-case or “average long term growth” scenario.



After the December 2014 data was released, the forecast for the first quarter of 2015 was revised slightly downward. As was mentioned in the previous publication, the indicators from the last two months of 2014 exhibited a mixture of positive and negative trends. However, this month's forecast update indicates that the negative trends are gaining the upper hand.

In cotrast to the negative growth in November, growth in December was positive but rather low. The last quarter's GDP growth was 1.6% – a rather dissapointing outcome, especially in light of the high 5.9% average growth rate in the first three quarters of 2014. The disappointing growth performace in Q4 2014 can be partially explained by strong external headwinds, including the poor economic performance and weak prospects of countries in Georgia's immediate neighborhood. Against the backdrop of the Russia-Ukraine conflict and serious downward pressure on export demand from important trading partners, an annual growth rate of 4.7% may seem like a good outcome overall.

Although few variables changed significantly between November to December, there were still notable movements in some of the indicators. Imports, for example, increased in both monthly (19%) and yearly (6%) terms. Exports increased in monthly terms (15%), but decreased annually by as much as 20%. The overall trade deficit in December thus increased by a hefty 21% in annual terms.

The decline of car re-exports kept downward pressure on export growth in December. However, this was not the only reason behind the export decline – the drop in export demand from Russia, Ukraine and other CIS countries also contributed significantly. Overall exports of products other than cars declined by 7% in December in annual terms. Unfortunately, the factors underlying these external demand shocks are likely to persist for some time, and a weakening trade balance should thus be expected for Georgia in the coming months.

Encouraging news this month comes from the energy sector. Net imports of electricity decreased and energy generation increased in both monthly and yearly terms, by 12% and 2% respectivelly. It is worth noting that in comparison to last year the share of energy generated by hydropowerplants increased from 60% to 70%.

There was some good news coming from the financial sector as well. Demand on deposits increased by 5% month-on-month and by almost 26% in year-on-year terms. Consumer credit growth (for both short and long term loans) was quite strong, averaging 27% in annual terms. This growth positively affected the first quarter forecast. The other favorable factor for Q1 2015 growth was the oil price, which declined by 22% in monthly terms and nearly twice as much in yearly terms.

Inflation remained low in December as well, with the cost of living (CPI) rising by only 2% in annual terms, and the Khachapuri Index rising by 3%. However, the same analysis showed that lari fluctuations against some major currencies and trading partner currencies exerted downward pressure on the forecast.

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.