

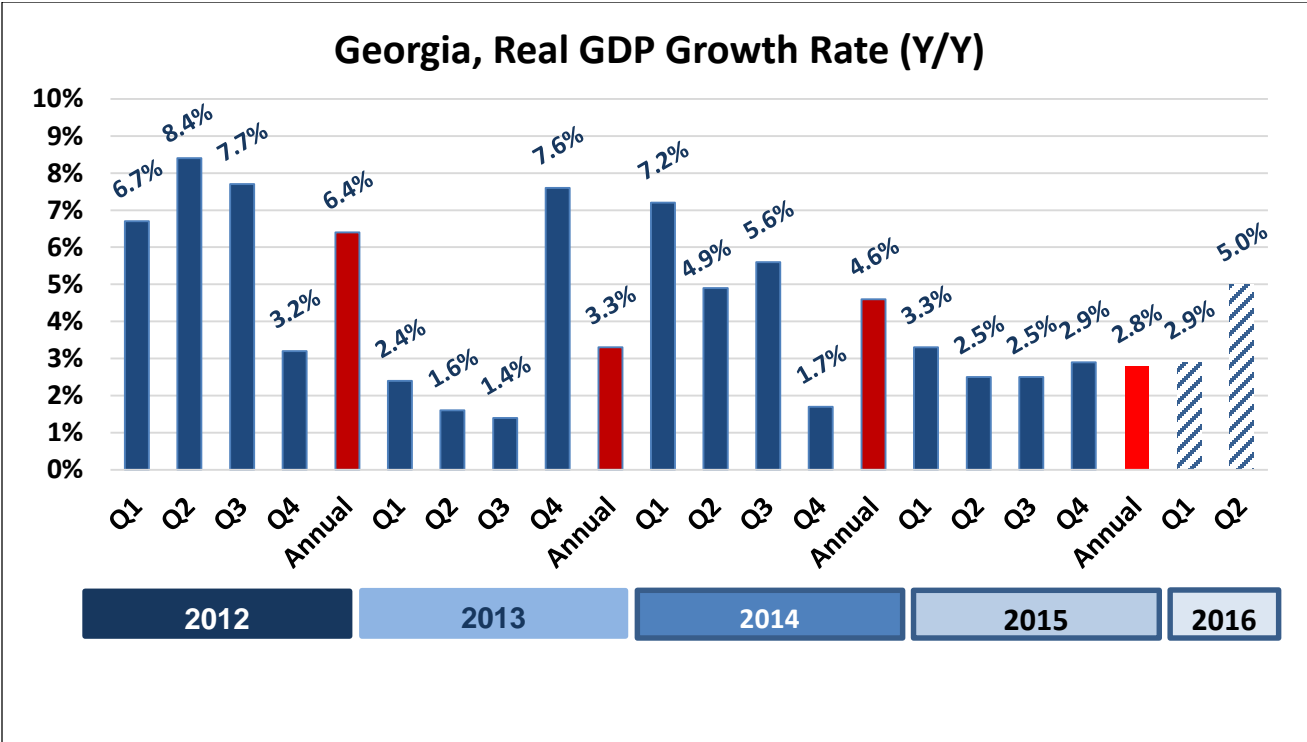
Leading GDP Indicator Forecast for Georgia

February, 2016

Georgia’s real GDP growth is likely to hover around 3.3% in 2016.

ISET-PI has updated its forecast for Georgia’s real GDP growth rate for the first two quarters of 2016. Here are the highlights of this month’s releases:

- According to Geostat estimates, Georgia’s annual real GDP growth in 2015 was 2.8%. ISET-PI’s annual GDP growth forecast of 2.9% annual growth (since September 2015) thus turned out to be quite accurate, just 0.1 percentage point above the official estimate.
- According to Geostat’s newly-released rapid estimates, GDP growth in January 2016 was 0.8% year on year.
- ISET-PI’s forecast for the first quarter of 2016 now stands at 2.9% – down from 3.5% in January. The second quarter growth forecast now stands at 5.0%.
- We started forecasting the annual growth rate at the start of 2014 (see our [January 2014](#) and [February 2014](#) publications for a note on methodology). Based on this month’s data, we expect annual growth in 2016 to be 2.0% in the worst-case or “no growth” scenario, and 4.5% in the best-case or “average long-term growth” scenario. Our “middle-of-the-road” scenario (based on the average growth in the last four quarters) predicts a 3.3% real GDP increase in 2016. This is very close to the [World Bank’s](#) annual forecast of 3.0% growth for Georgia.



Between November and December 2015 there were a few notable changes that could have affected the forecast. The most prominent of these concerned **interest rates on foreign and national currency deposits**. While the returns on 1-3 month **lari deposits** had been climbing throughout the year, interest rates jumped abruptly in December from 7.9% to 9.8% (a 25% increase). Interest rates on **foreign currency deposits**, on the other hand, continued the **declining trend in December**. Rates fell sharply from 2.84% to 2.05% on 1-3 month deposits. There were no notable changes on the currency markets, aside from the strengthening of the lari against the Russian ruble in real terms. **The ruble lost 6% of its purchasing power against the lari** in December. Such changes are likely to further increase imports from Russia, which became one of the top import destinations for Georgia in 2015.

Official reserve assets of the National Bank of Georgia were up by 2% in December, although this still represented a **7% reserves loss** in yearly terms. Both **outflows and inflows of money to Georgia increased** by 20% month on month in December.

The **volume of consumer credit in the economy started recovering very slightly** from the abrupt 12% drop in November. Lending rates on short-term credit in the national currency declined substantially in November (from 23.9% to 16.4%), and the level was maintained at 16.6% in December.

Long-term lending rates in both national and foreign currencies **maintained a downward trend**, with national currency long-term lending rates falling more abruptly (from 17% to 15.8%) by the end of the year.

Inflation rate remained steady in December, with the cost of living (CPI) falling by 1% month on month, but rising by 5% in annual terms. The [Khachapuri Index](#) also rose by 3% in both monthly and yearly terms in December.

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.