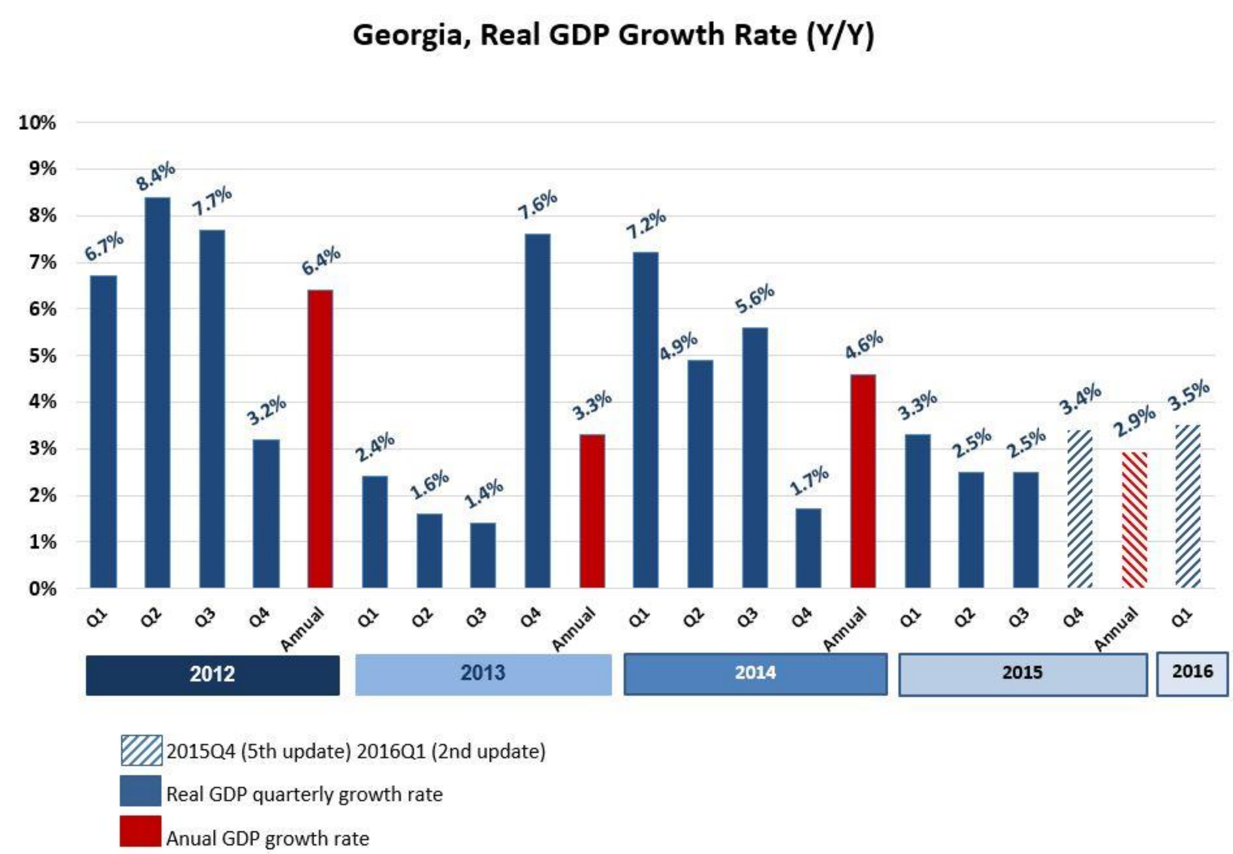
Leading GDP Indicator Forecast for Georgia

January 2015

Sharp drop in short-term consumer credit lowers growth forecast

ISET-PI has updated its forecast for Georgia's real GDP growth rates using the November 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 November data, the forecast for GDP growth in the fourth quarter of 2015 now stands at 3.4%. This is 0.1 percentage points lower than in the previous vintage of the forecast.
- Annual growth for 2015 is still expected to be 2.9%.
- According to the second vintage of the forecast for 2016, the growth rate in the first quarter is predicted to be 3.5%. Once again, this is 0.1 percentage points below our previous prediction.



Based on the data from November, the growth forecast for 2015-2016 remains largely stable. Before the release of the official estimates, the forecast for Q4 2015 declined by only 0.1 percentage points, from 3.5% to 3.4%. This bodes well for the overall annual growth in 2015, which is currently predicted to be around 2.9%. Similarly, the growth in Q1 2016 is predicted to be 3.5% year on year, only 0.1 percentage points below our previous forecast.

While the changes in the current GDP forecast do not appear to be significant, the few variables behind the drop deserve attention. Once again, the action in November was concentrated on the financial markets.

In previous reports we emphasized that the decrease in the volume of short-term deposits in the national currency and the increase in foreign currency deposits were pushing growth rates down. In November, the volume of **short-term consumer credit in the national currency took a significant hit, which depressed growth rates.**

Short-term consumer credit declined by 31% in month-on-month terms, and by 18% in annual terms. The decline is driven by consumer credit in the national currency. At the same time, **interest rates on short-term consumer loans in lari took a plunge** in November, declining by 7.4 percentage points, from 23.9% to 16.4%. Dollar consumer loans declined by 2.2 percentage points, from 9.7% to 7.5%. This suggests that the decline in consumer credit volume was driven by a low demand for borrowing.

Among other factors that put downward pressure on the growth forecast was the month-on-month appreciation of the Georgian lari against the euro and the Russian ruble, in both real and nominal terms.

The decline in the Brent Crude Oil price in November had a slight negative effect on the forecast. This is mostly due to the fact that the oil price is closely correlated with prices of other primary commodities that Georgia exports (namely, metals).

As for the positive influences, we saw signs of **stabilization in the growth of foreign currency deposits**, which have been continuously increasing in the past year. In November, we saw only a 1% month-on-month increase in total foreign currency deposits, and an 8% decline in short-term deposits in foreign currency.

Loan maturities have lengthened somewhat, putting upward pressure on the growth forecast. Also, the volume of currency in circulation declined in month-on-month terms, easing inflationary pressure in the economy.

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.