

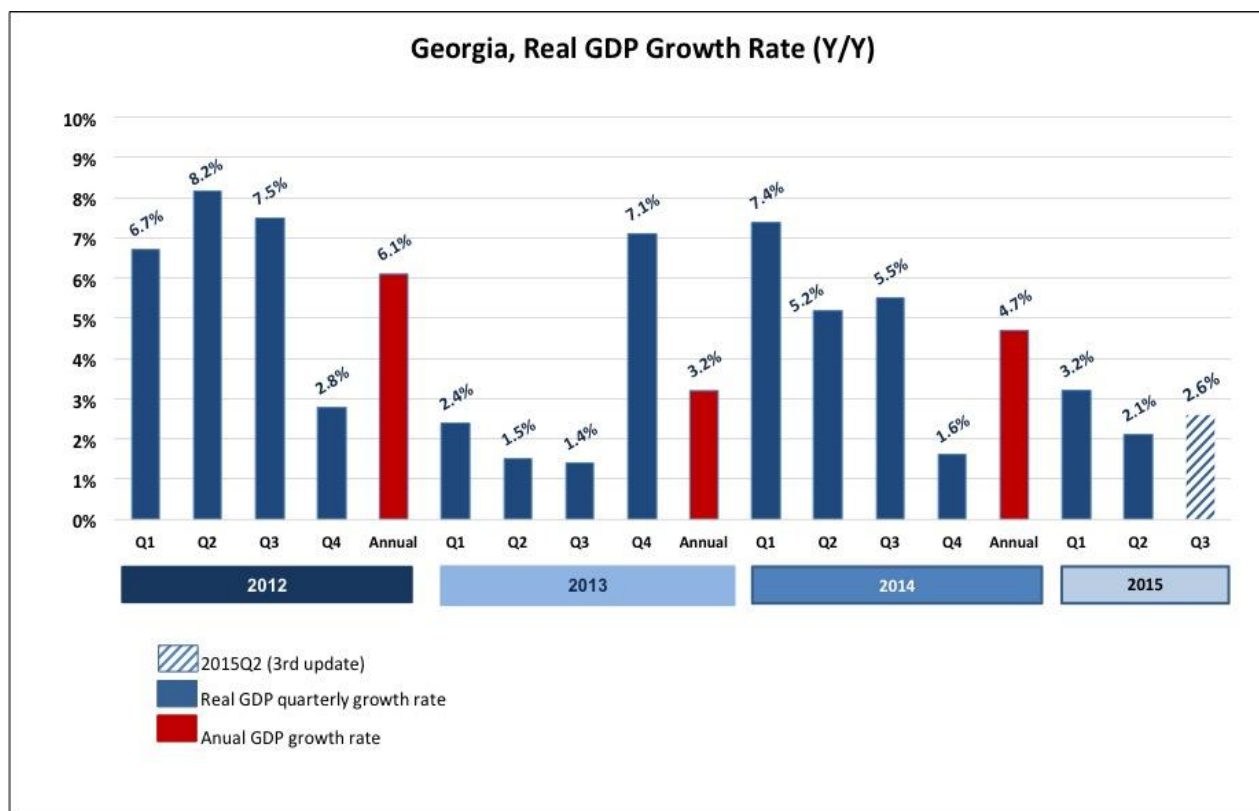
Leading GDP Indicator Forecast for Georgia

August, 2015

Low single digit growth will persist in the 3rd quarter of 2015

ISET-PI has updated the forecast for Georgia's real GDP growth rates using the June 2015 releases of various economic indicators.

- The growth forecast for the third quarter of 2015 was revised significantly downward to low single digits, and is now targeted at 2.6%
- Given the newly revised Q3 forecast, the annual growth in 2015 is expected to be 2.6% in the worst-case, or “no growth” scenario, and 3% in the best-case, or “average long-term growth” scenario (see our [January 2014](#) and [February 2014](#) publications for a note on methodology).



The significant downward revision of Q3 forecast comes as no surprise after the underwhelming growth results for Q2 were officially released by Geostat.

Notably, the “jump” in the Q3 forecast from 5.4% in the second vintage down to 2.6% in the third vintage does not reflect any significant changes in the forecast variables. In fact, the data shows very

few changes that are economically meaningful. The revision was most likely driven by the reduction of “noise” in the forecast following the arrival of the second quarter GDP data.

Nevertheless we can speak about a few noteworthy trends.

The Georgian lari has been depreciating in real as well as nominal terms against the partner currencies throughout 2015. The real effective exchange rate trend is particularly important for Georgian export growth. In June, however, we saw movement towards real effective appreciation of the lari – mostly due to the depreciation of the Russian ruble.

Exports continued a steady upward climb, but their growth has been rather slow – after the loss of the Azerbaijani used car market and significant reduction in demand from other regional partners, Georgia’s exports have yet to recover even to the average level of 2014.

The VAT turnover was posting a modest annual growth in June, while money inflows were rising in monthly terms. However, the overall amount of money inflows was lower than in the same period last year.

The inflation started picking up and reached 4.5% annually in June. Given the NBG mandate of inflation targeting we should expect the monetary authorities to closely monitor prices as they edge towards the target.

Consumer Confidence was on the rebound June, mainly driven by seasonal effects (start of the tourism season) and greater exchange rate stability, which moderated the inflationary expectations among the consumers.

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.