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The Term Spread Impact on Economic Activity for Transition Economies: Case of Georgia

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Abstract : The role of financial sector in supporting economic growth and development is well acknowledged. The term spread (the difference between the yields on long-term and short-term Treasury securities) has been found useful for predicting economic variables as output growth, inflation, industrial production, consumption. The temp spread is one of the leading economic indicators according to NBER methodology. Leading economic indicators are widely used in forecasting of economic activity. Many empirical studies find that the term spread predicts future economic activity. The article shortly explains how the term spread might predict future economic activity. This paper analyses the dynamics of the spread between short and long-term interest rates in countries with transition economies. The research paper analyses term spread dynamics in Georgia and compare it with post-communist countries and transition economies spread dynamics. In Georgia, the banking sector plays an important and dominant role in the financial sector, especially with respect to the mobilization of savings and provision of credit and may impact on economic activity. For this purpose, we study the impact of the term spread on economic growth in Georgia.

Keywords : forecasting, leading economic indicators, term spread, transition economies
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