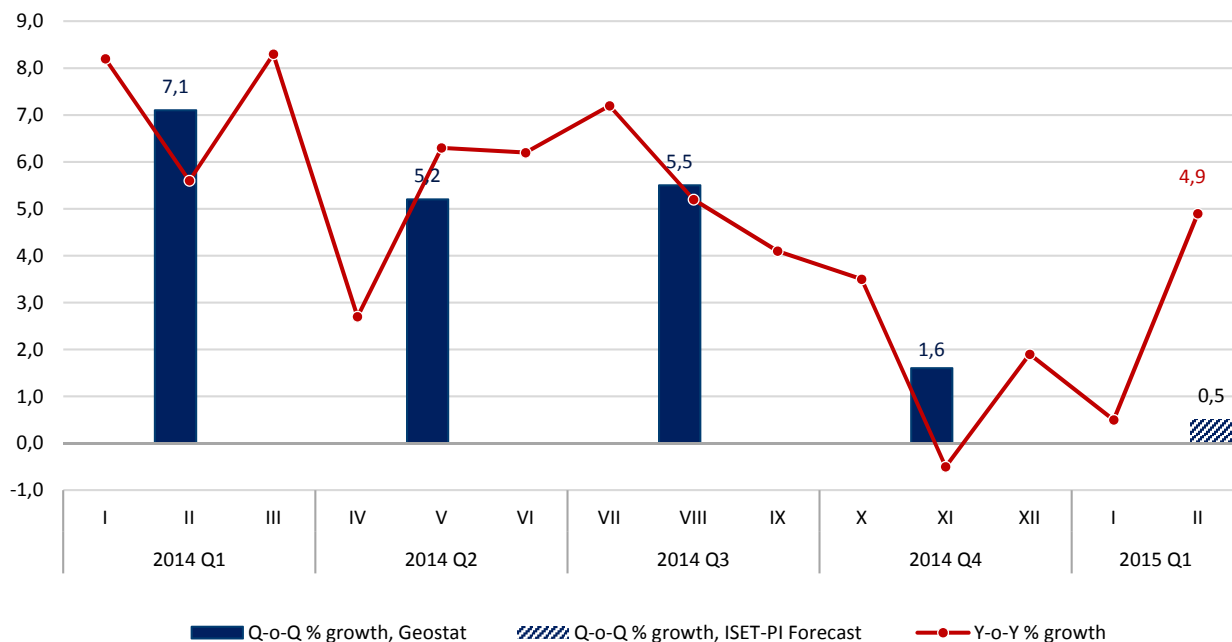


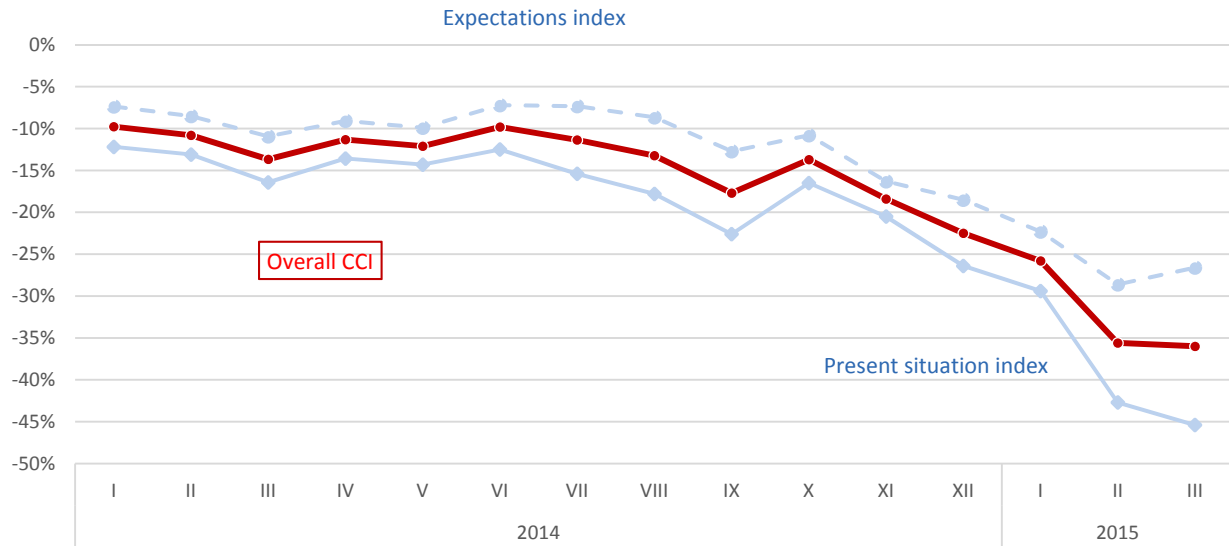
### Higher than expected growth in February raises hopes for recovery

According to Geostat’s rapid estimates, real GDP increased by 4.9% in February. This comes as welcome news after several consecutive months of low and, at times (November 2014), negative growth. ISET’s GDP forecast predicts 0.5% GDP growth in the first quarter of 2015. However, this is likely an underestimation of the true outcome, as the economy has already partially adjusted to the external shocks that were the main drivers of the slowdown. During the reporting month, VAT payers’ turnover, which is the basis for rapid GDP estimates, increased by 13% in annual terms.



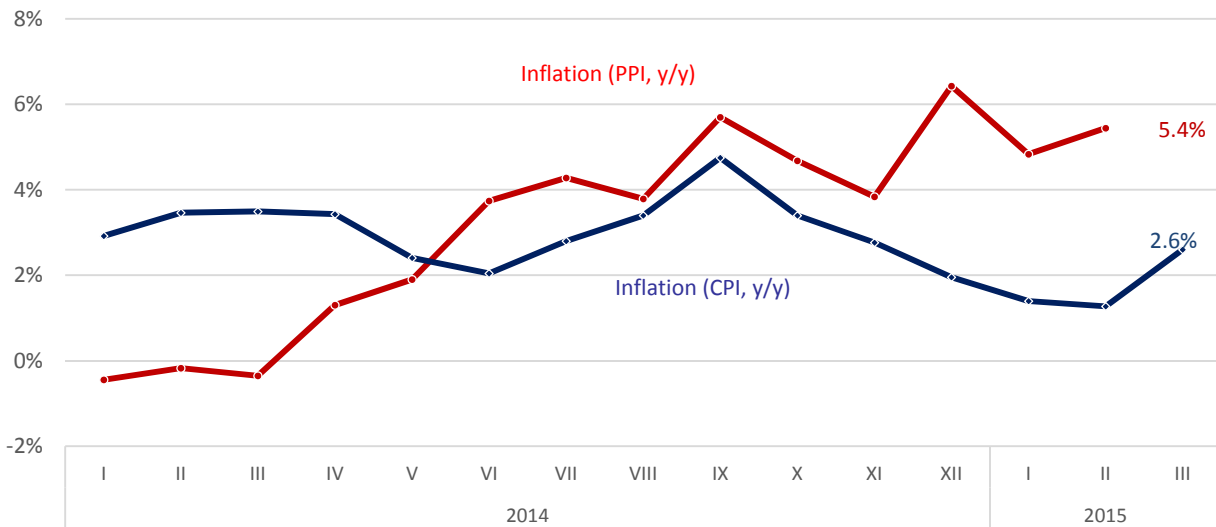
**Chart 1.** Y-o-Y (red line) and Q-o-Q (blue bars) % growth rate of real GDP. Growth rate for Q1 2015 represents ISET-PI forecast (\*dashed blue bar).  
 Source: GeoStat, ISET-PI

The growth of the economy has not yet been reflected in consumers’ perceptions. In February, the Consumer Confidence Index (CCI) decreased significantly, mainly because of lari depreciation and high inflation expectations. The CCI continued its downward trend in March, but the decline was minor compared to the magnitude of the fall reported in February. Moreover, consumers’ expectations improved for the first time in four months.



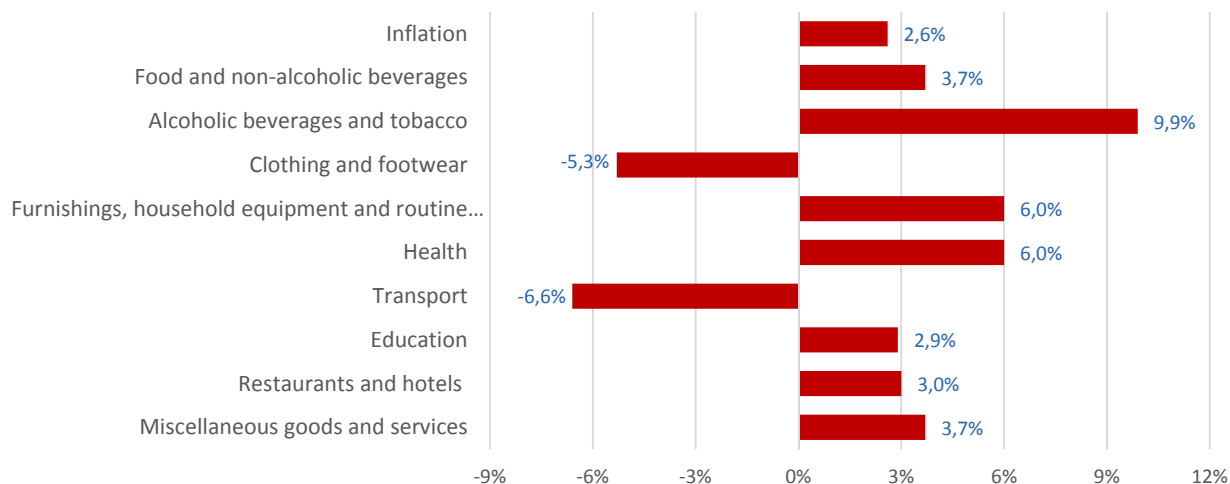
**Chart 2. Consumer Confidence Index**  
Source: ISET-PI

In March, the downward trend of CPI inflation reversed and consumer prices increased on average by 2.6% compared to March 2014. Despite this increase, inflation still remains below the official target rate. Producers' prices continued to climb, increasing by 5.4% in February (see Chart 3).



**Chart 3. Inflation**  
Source: Geostat

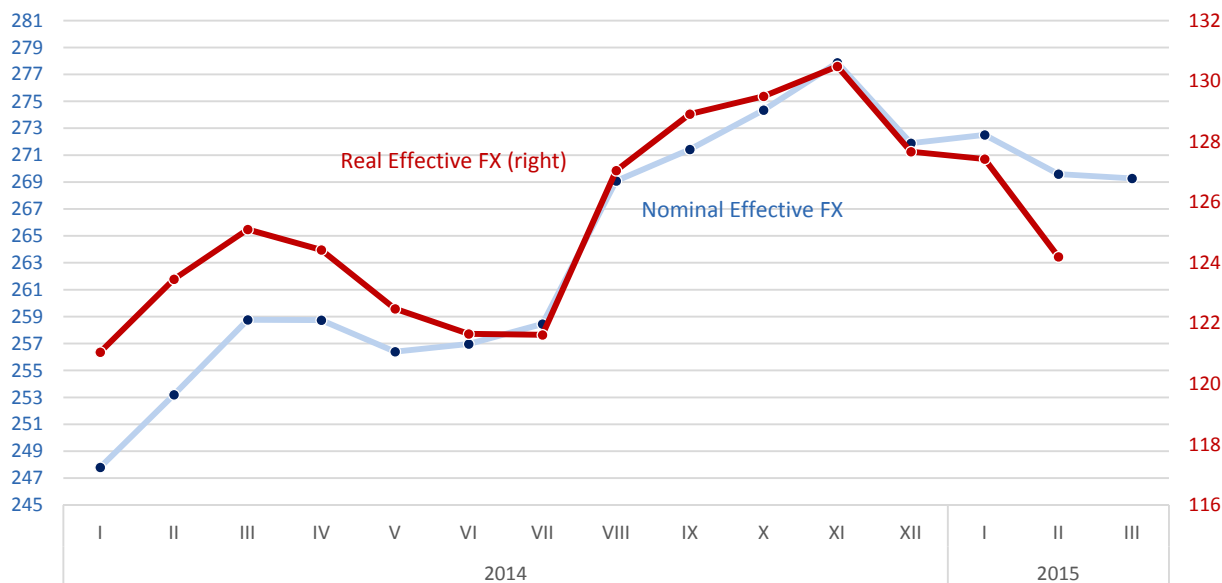
A breakdown of CPI inflation shows that prices of food and non-alcoholic beverages increased by 3.7%. Meanwhile, prices of alcoholic beverages and tobacco increased by almost 10%. This was mainly driven by two factors: lari depreciation and the rise of excise tax. Prices increased by 6% for furnishings and household equipment as well as healthcare. Prices for the transport, clothing and footwear categories continued to show a decline of 6.6% and 5.3% respectively in annual terms. As was pointed out in earlier publications, this is due to the continued global slump in energy (oil) prices and the price dynamics on textile imports from neighboring Turkey.



**Chart 4. Inflation, March 2015**

Source: Geostat

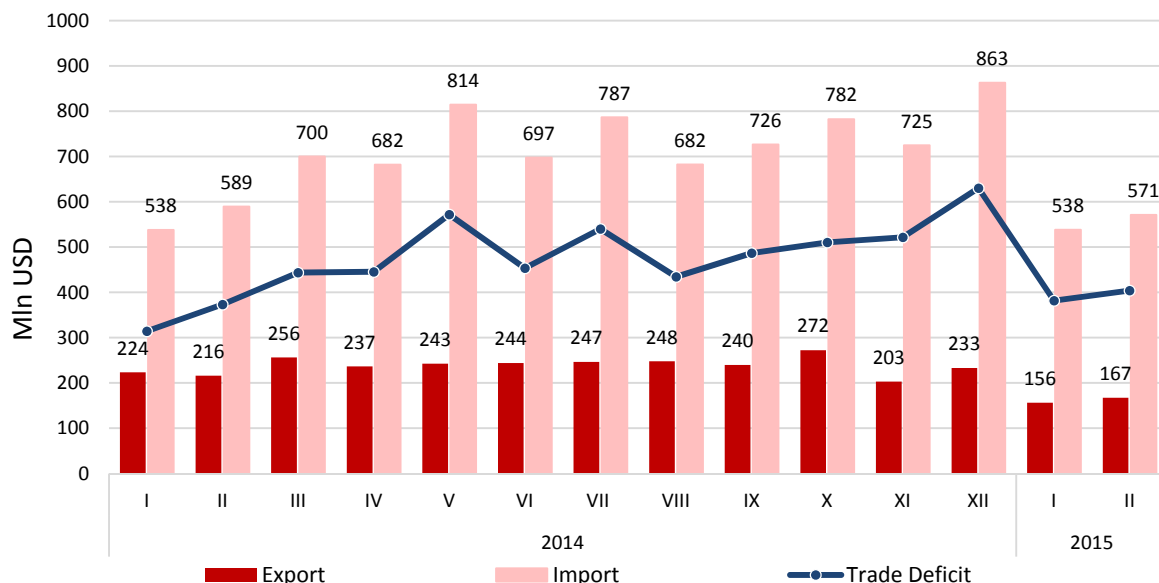
The depreciation of the lari continued in March, with the exchange rate against the US dollar reaching an average of 2.19 lari, and 2.38 lari against the euro. The depreciation of the national currency was reflected in both the nominal and real effective exchange rates. Between January and February 2015, the lari depreciated against the basket of trading partner currencies by 1% in nominal terms and by 3% in real terms. These developments somewhat helped to improve the competitiveness of Georgian exports in trading partner countries.



**Chart 5. Real and nominal effective FX**

Source: National Bank of Georgia

In February, exports of goods amounted to \$167 million. This figure was 7% higher than January's level, and 23% lower than the export volume of February 2014. At the same time, imports amounted to \$571 million, which represented an increase of 6% compared to January, but a drop of 3% compared to the same month of 2014.

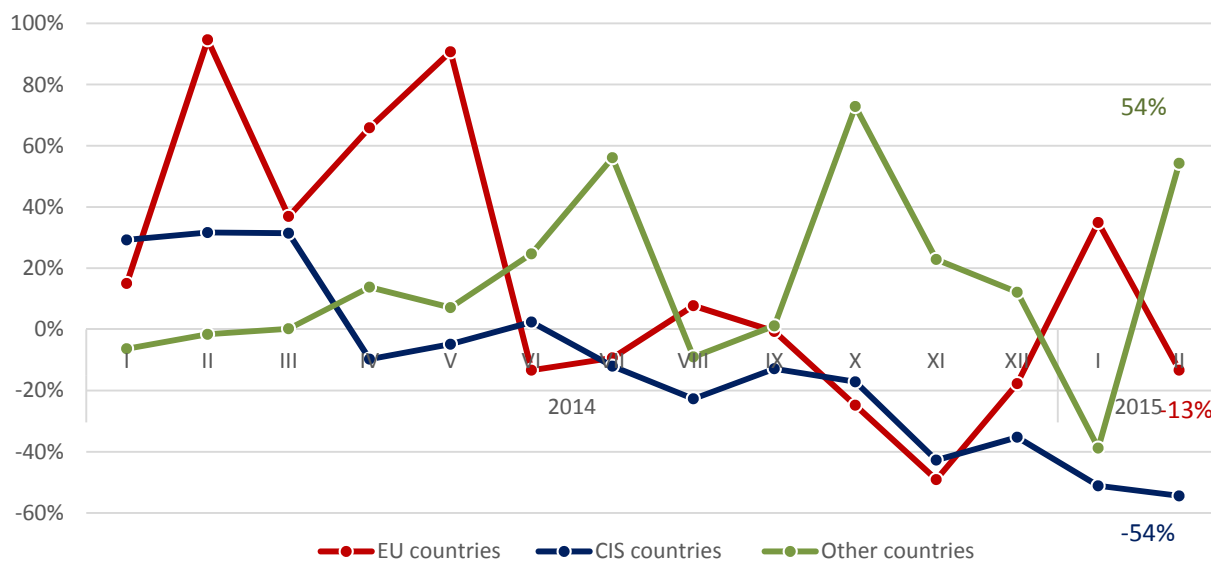


**Chart 6. Foreign Trade**

Source: Geostat

An analysis of annual export dynamics by destination reveals decreased exports of goods to CIS and EU countries, a fall of 54% and 13% respectively. The drop to CIS countries was driven by the decrease of exports to Azerbaijan (-53%), Armenia (-50%), Russia (-66%) and Ukraine (-80%). Collectively, these countries accounted for as much as a 19 percentage point drop for Georgian exports.

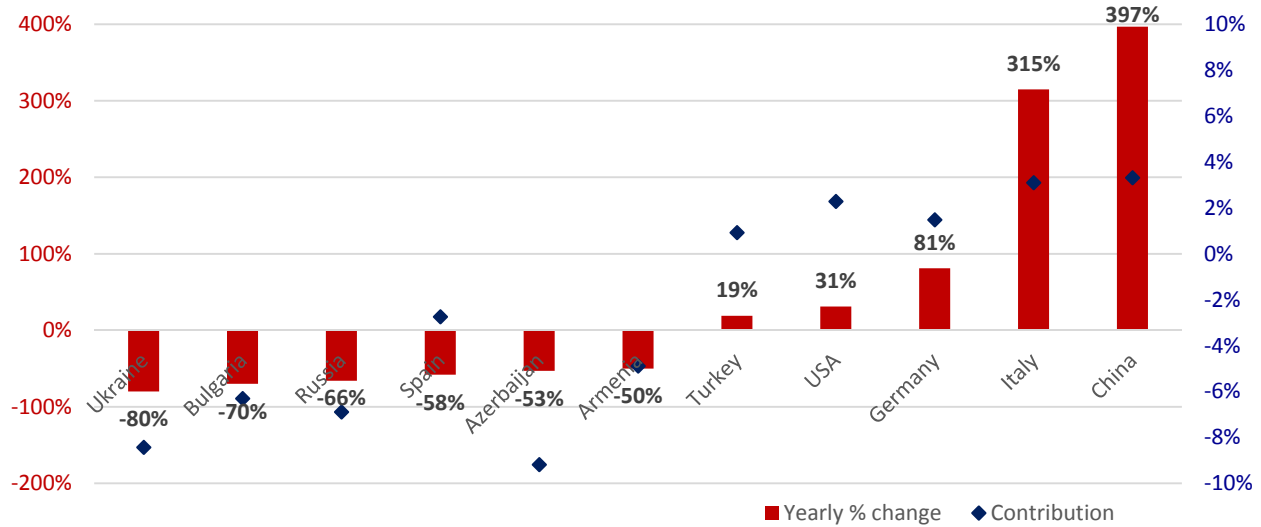
Among EU countries, exports decreased most significantly to Bulgaria (-70%) and Spain (-58%). As a result, total exports decreased by 9 percentage points. At the same time, exports increased to Germany (81%) and Italy (315%). However, given the low weight of these countries in Georgia's overall export volume, this change resulted in just a 4 percentage point increase of total exports.



**Chart 7. Export by destination country groups**

Source: Geostat

In February, one of the top non-EU, non-CIS destination countries for exports was the United States. The volume of goods Georgia exported to the US amounted to \$20 million, which made up for as much as 12% of the total exports. Another destination driving the increase in exports increase was Turkey. Georgia exported \$12 million worth of goods to Turkey, which comprised 8% of the total national export volume.



**Chart 8.** Export growth by countries, February 2015

Source: Geostat

In January-February, Georgia's top export products were cars (12.6% of total exports), nuts (12.6%), ferro-alloys (10.6%) and copper ores (9.2%).

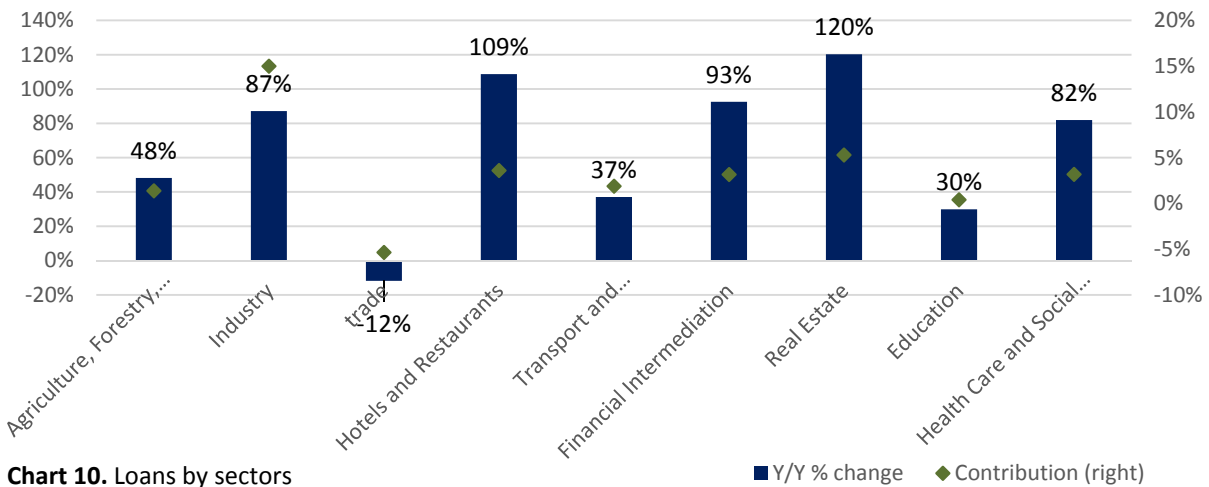
In February, loans to the economy increased by 36% and amounted to \$13.5 billion. Of these, 51% of were dispersed to legal entities and the remaining 49% went to households. As Chart 9 shows, loans to legal entities increased by 30% and those to households went up by 37%. Loans in the domestic currency increased by 27%, and those in foreign currency grew by 42%. However, as foreign currency loans are mostly denominated in dollars, and since the lari depreciated by 24% against the dollar during the reporting period, the increase of foreign currency loans is partially driven by currency depreciation. Nevertheless, in the wake of significant depreciation, this increase points to the stabilization of borrower expectations about currency movements.



**Chart 9. Loans to legal entities and households**

Source: National Bank of Georgia

The increase in loans to households was primarily driven by the rise in the volume of mortgages (a 48% increase). Foreign currency mortgages to households increased by 62% overall. After we correct for the effect of lari depreciation, residential mortgages in foreign currency increased by about 38%. At the same time, lari denominated mortgages to both households and legal entities increased by 20-23%.



**Chart 10. Loans by sectors**

Source: National Bank of Georgia

When we look at the breakdown of loans by economic sector, lending to agriculture showed an increase of 48%; although the growth rate of lending is now lower than before. A high growth rate of loans was reported in the industrial (87%), hotels and restaurants (109%), financial intermediation (93%), real estate (120%), and health care and social services (82%) sectors. Loans to the trade sector decreased once again by 12%.

Notably, the real estate sector became the second largest contributor to the overall lending growth dynamics (after the industrial sector); contributing as much as 5.3% to the overall lending in the economy in March.