

## MACRO TRENDS IN APRIL 2014

After few months of strong GDP growth (November 2013-March 2014) a sharp decline in growth rate to only 2.7% (y-o-y) comes as an unwelcome surprise. According to the national statistic's office, the VAT payers' turnover is down and electricity demand has declined compared to April of last year.

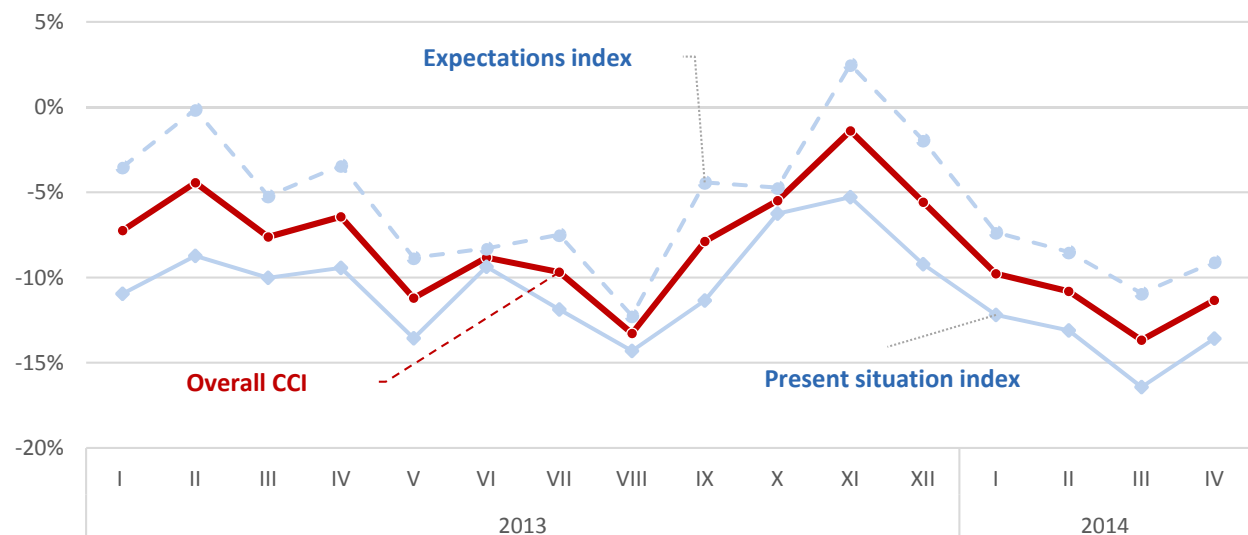
Is this the reason for concern? Perhaps not just yet.

The GDP growth figures may be somewhat misleading, since they compare the level of GDP in this month to the level of GDP in the same month a year ago. Thus, if we observed an unusually high growth in one month last year, this year we might see significant decline. The slowdown in Georgia's GDP growth this April seems to fit the pattern described above: High GDP growth in April of last year, but otherwise no dramatic changes in the economy.

Consider that April 2013 was a particularly good month for the country's GDP. The pick-up in growth was mainly due to high seasonal activity in agriculture, in particular the Ministry of Agriculture's (MoA) plowing and voucher program (see [ISET Economist Blog by Juan Echanove](#)). According to the MoA data, by May 2013, area of cultivated land in Georgia increased by 100% compared to the same period in 2012, and was at the highest level since 2005 the one-time programs provided a temporary boost to the economy, after which the country's GDP reverted to the trend. Provided the normal trend continued afterwards, one would expect to see a drop in the year-on-year growth in April 2014. In fact, this is what we are observing in the data right now.

Other economic indicators are confirming the "no drama" hypothesis:

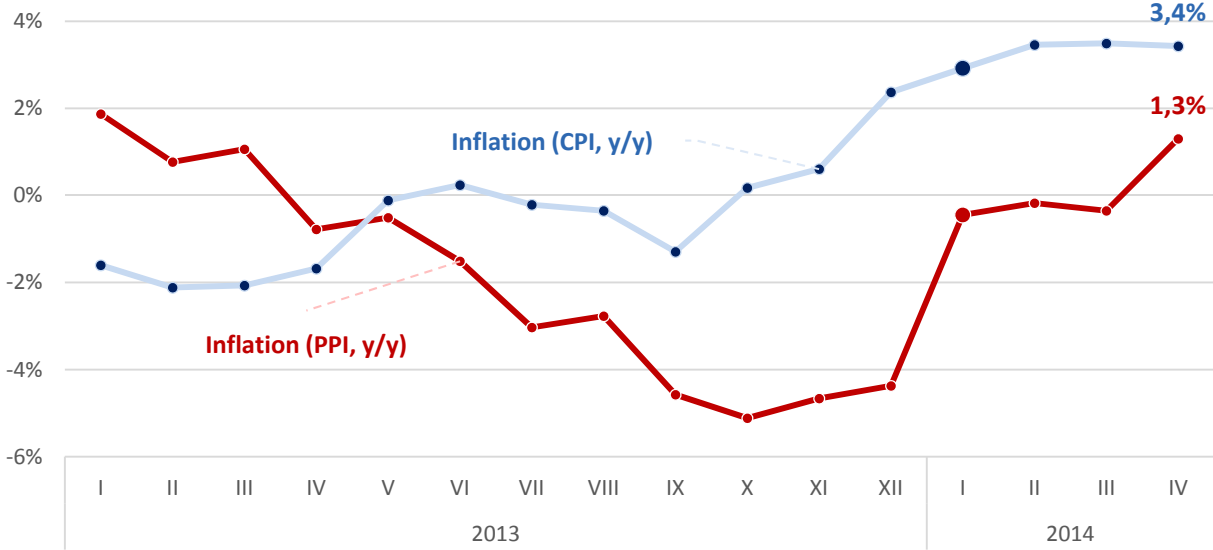
The CCI started picking up slightly after four consecutive months of decline. In April both the Expectations Index and the Present Situation Index were higher than in March 2014, up by 1.8 and 2.8 points respectively (see chart 1).



**Chart 1. Consumer Confidence Index**  
source: ISET-PI estimations

Y-o-y inflation (measured by the change in CPI) is stable at 3.4% in April (see chart 2). This slowly increasing trend of consumer prices indicates low but improving level of aggregate demand.

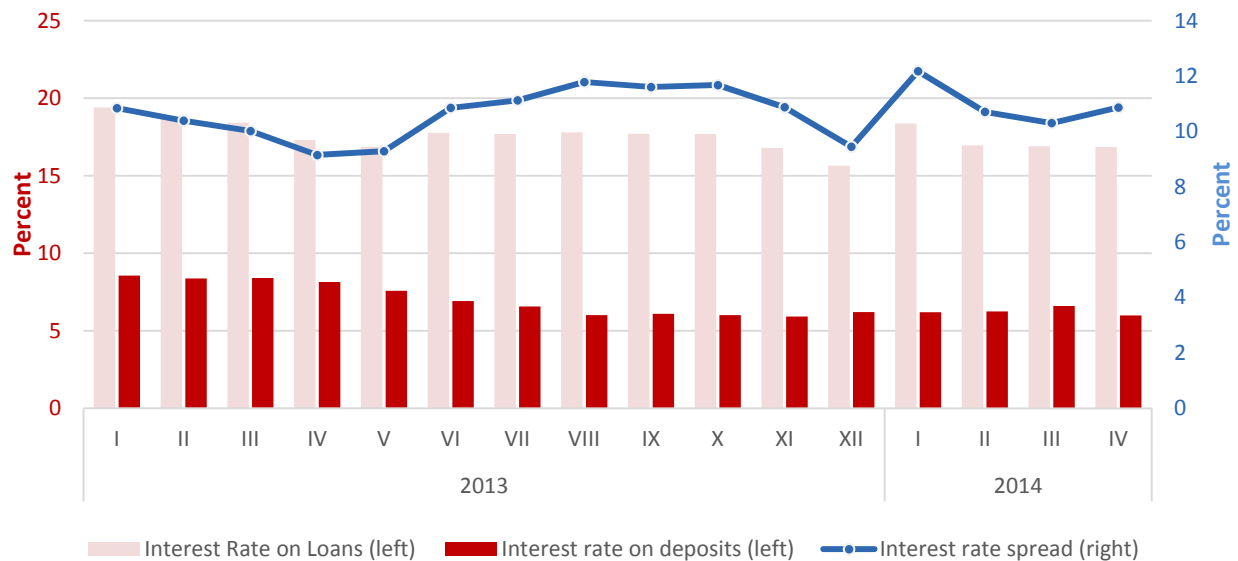
Besides, after 11 months of consecutive decline Producer Price Index (PPI) changed direction and PPI inflation reached 1.3 percent in April 2014. Increase in y-o-y PPI was mainly influenced by Manufacturing sector (in particular in the subsection of food, beverage and tobacco products manufacturing) in which prices increased by 1.9 percent and contributed 1.6 percentage points to the overall increase of the index. Given that food and beverage manufacturing relies mainly on the local inputs for production, we can conjecture that the price for inputs may have increased because of higher local demand. (see chart 2).



**Chart 2. Inflation**  
 Source: Geostat

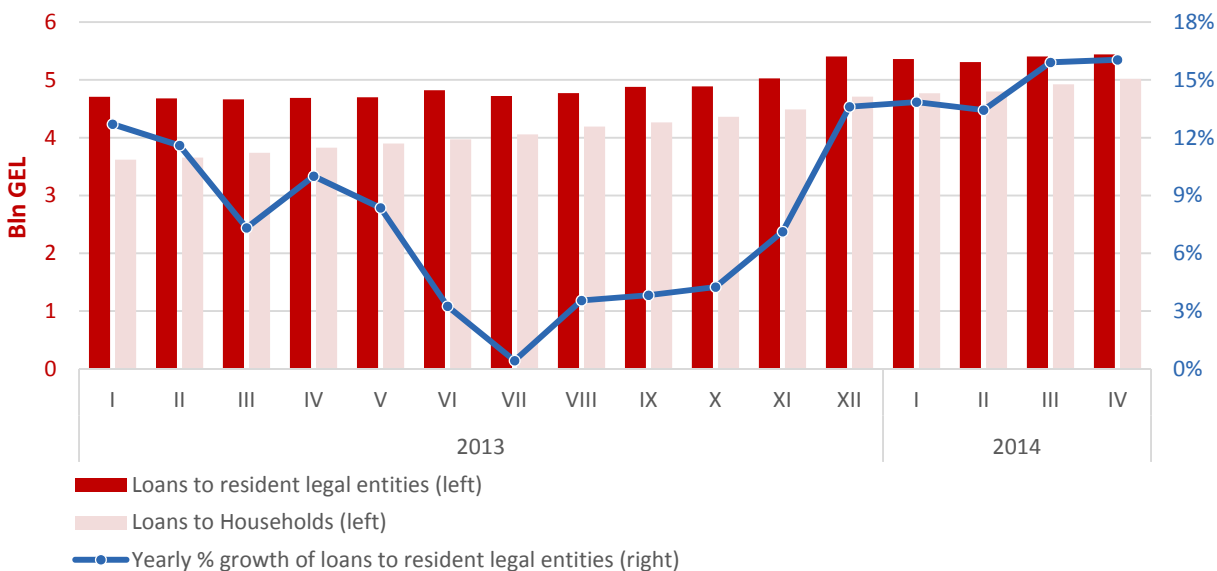
Other indicators of economic activity seem to be stable as well – in particular the interest rates and exchange rates, bank lending and credit to private sector, external trade.

For instance, in the reporting month (April 2014) the weighted average of market lending interest rates changed insignificantly compared to the previous month, reaching 17.0%. The weighted average of market deposit interest rates decreased by 0.4 percentage points to become 6.0%. Interest rate spread increased and reached 11.06% (see chart 3).



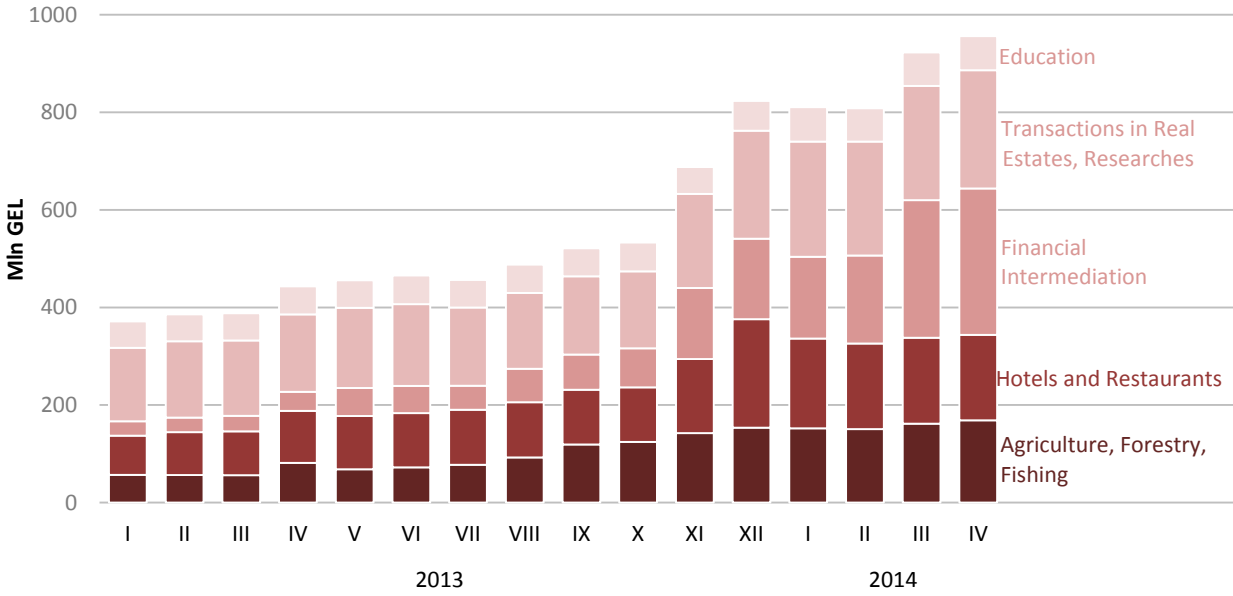
**Chart 3. Interest Rate Spread**  
 Source: National Bank of Georgia

Bank lending to the national economy (to the households and to the domestic legal entities) increased by 22.8% (y-o-y) and reached 10.5 billion Gel in April, 2014. The bank credit to the legal entities increased by 16% compared to April 2013 and became 5.4 billion Gel (see chart 4).



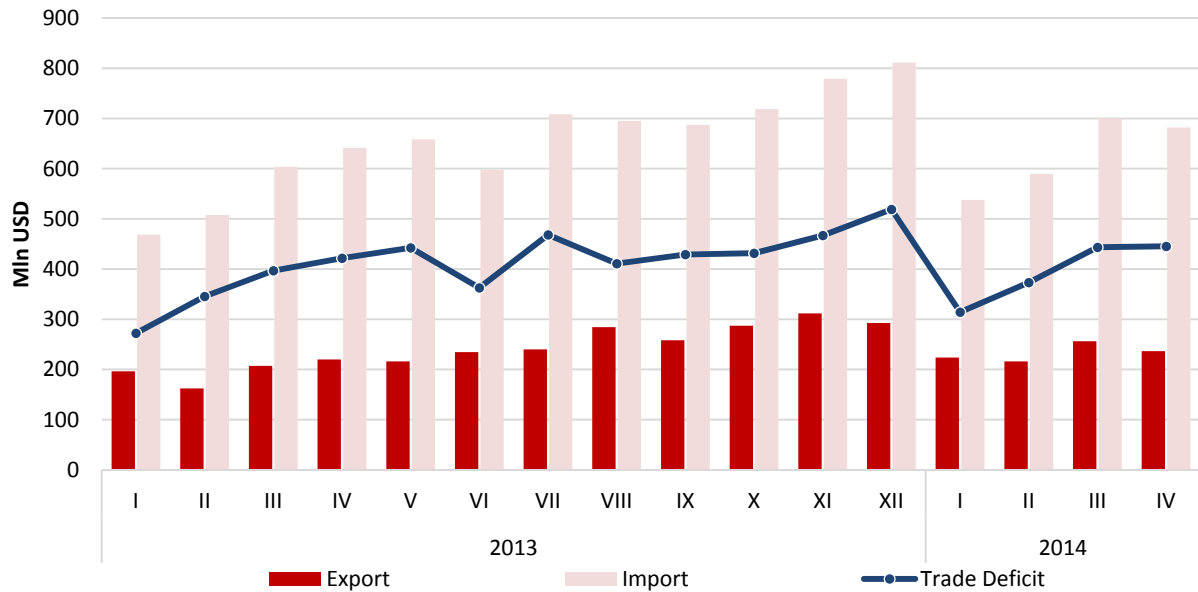
**Chart 4. Loans**  
 Source: National Bank of Georgia

Sectoral analysis shows that in y-o-y terms loans significantly increased in almost all sectors: financial Intermediation (665.2%), Agriculture (107.1%), Hotels and Restaurants (64.5%), Transaction in Real Estates (52.5%), education (22.0%) (see chart 5).



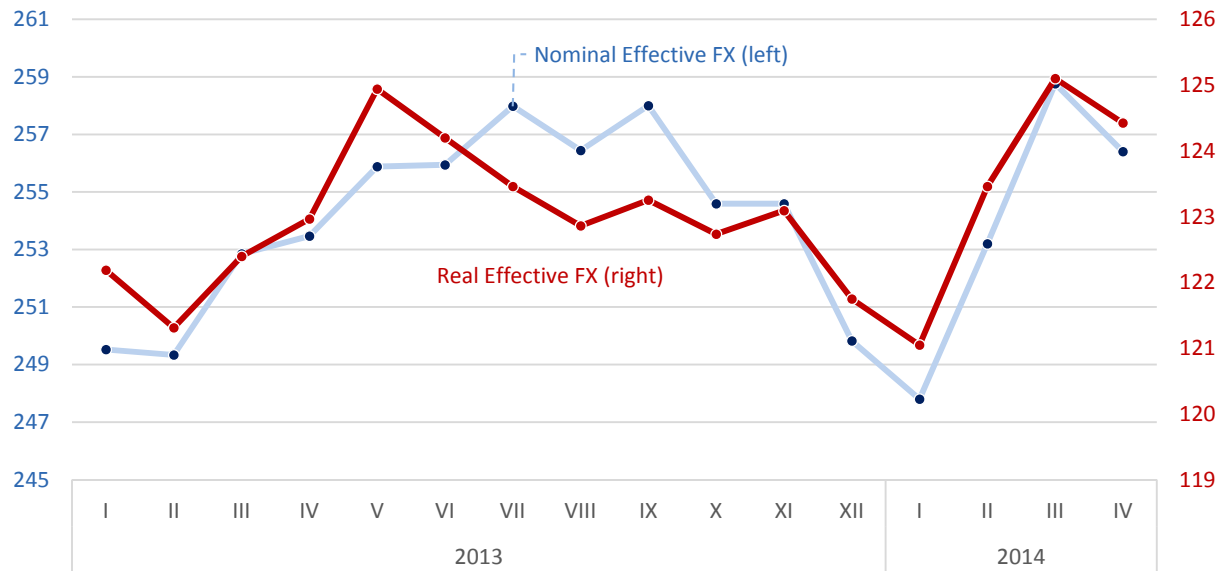
**chart 5. Loans by Sectors**  
 Source: National Bank of Georgia

The overall trade deficit did not change compared to the previous month (March 2014) and stayed at 445.4 mln USD. In April annual growth for export was 7.6% and for import 6.3% (see chart 6).



**Chart 6. External Trade**  
 Source: Geostat

After Georgian Lari appreciation since the beginning 2014, both the nominal and the real effective exchange rates have depreciated slightly as compared to April 2013. This implies that Georgian goods became a bit cheaper relative to foreign alternatives (see chart 7).



**Chart 7. Effective FX**

Source: National Bank of Georgia

### Summary

Sometimes we have to dig back in the past to find explanations for more recent phenomena, such as the low growth rate estimates for April 2014. Incidentally, the same logic would apply to the high growth rates in the first quarter of 2014 – they were at least in part driven by the lackluster growth performance in the first quarter of last year.