The National Bank of Georgia decided to keep the monetary policy rate unchanged at 8.0%

On May 7, 2025, the Monetary Policy Committee of the National Bank of Georgia (NBG) decided to keep the monetary policy rate (refinancing rate) unchanged. The monetary policy rate stands at 8.0%.

Inflation remains close to the target level of 3%. As of April, annual inflation stood at 3.4%, while core inflation, which excludes the prices of food, energy products, and cigarettes - items characterized by significant price volatility - was 2.3%. This year, inflation dynamics are, on the one hand, driven by the increasing international food prices, which, for now, are partially mitigated by the relatively stable exchange rate of the lari against U.S. dollar driven by the global depreciation of the U.S. dollar. On the other hand, alongside international factors, the increase in food inflation has been partly attributed to the one-off rise in bread prices in the local market starting from March 2025. It is important to note that domestic economic fundamentals continue to support price stability. Specifically, improved production capacity partially offsets the price pressures stemming from strong aggregate demand. At the same time, long-term inflation expectations remain stable, as indicated by both the domestic (excluding the bread price effect) and service inflation measures, which remain close to the target level of 3%.

Against the backdrop of global economic uncertainty, risks affecting inflation in both upward and downward directions have emerged. On the one hand, recent global developments highlight signs of economic fragmentation, which amplify stagflationary risks. This, in turn, creates risks for increased imported inflation in Georgia. On the other hand, as previously noted, the global weakening of the U.S. dollar index (DXY) has led to an improvement in the lari’s position relative to the U.S. dollar. This reduces the debt burden of dollar-denominated loans and, consequently, alleviates inflationary pressures through this channel. Meanwhile, in the context of declining global demand and expectations of increased oil supply, international oil prices are falling. This, along with the lari’s stable position against the U.S. dollar, has a disinflationary effect.

Economic activity in Georgia remains robust in tandem with maintained price stability. Specifically, in the first quarter of 2025, real GDP growth averaged 9.3%. This is largely driven by structural changes in the economy, as reflected in the sustained strong contribution of productive sectors to GDP growth. At the same time, strong domestic demand also plays a key role in supporting high economic growth. This leaves demand-side price pressure as a noteworthy factor to consider.

Considering increased global uncertainty, domestic tendencies and expectations in financial markets, the NBG's **central scenario** projects that inflation will temporarily exceed the target in 2025, stabilizing around 3% in the medium term. Due to the relatively slow pace of normalization of fundamental economic factors in the economy and strong current economic growth, real GDP growth in the central scenario for 2025 has been revised upwards from 5% to 6.7%, compared to the previous scenario. In the long term, it is expected to stabilize within its potential level of 5%.

Given the increasing uncertainty, the Monetary Policy Committee has, on one hand, considered a **high-inflation risk scenario**, where the realization of fundamental factors would require a higher path for the policy rate compared to the central scenario. The high-inflation scenario is primarily based on the recent increase in uncertainty in international markets, which is fueled by tariff policy and the acceleration of economic fragmentation. The materialization of these risks, in turn, would disrupt supply chains and create a globally high-inflationary environment, which would subsequently have an impact on Georgia.

On the other hand, the Monetary Policy Committee considered the **low-inflation risk scenario**, where the realization of fundamental factors would require a lower trajectory for the monetary policy rate compared to the central scenario. The increased global uncertainty and tariff policies may accelerate the diversification of trade worldwide, resulting in the reallocation of supply chains and regionalization. In this process, Georgia's role as the "Middle Corridor" country will be further strengthened. Moreover, under this scenario, the U.S. dollar will remain globally weakened, and against the backdrop of these tendencies, the appreciated exchange rate of the lari will exert downward pressure on overall inflation through the import inflation channel.

Following discussions on all of the above, the Monetary Policy Committee has considered it optimal to maintain a cautious approach toward the further normalization of the policy rate and decided to keep the monetary policy rate unchanged at 8%. Upcoming decisions on the policy rate will depend on the analysis of risks and resulting updated macroeconomic forecast scenarios.

The NBG will use all available instruments to maintain price stability. This means keeping the overall price level increase close to the 3% target over the medium term.

The next meeting of the Monetary Policy Committee will be held on June 18, 2025.