



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

On January 29, 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 percent.

Since the beginning of 2023, inflation in Georgia has remained below the target level of 3%. In December 2024, the overall price level increased by 1.9% year-on-year. Maintaining inflation close to the target was largely determined by domestic economic factors. Specifically, the stability of long-term inflation expectations is an outcome of the NBG's consistent monetary policy. The prices of domestically produced goods and services, which are relatively sticky and best reflect long-term inflation expectations, are increasing at a slow pace-with an year-over-year change of 2.2% in December. Meanwhile, economic activity in 2024 remained robust, with an average growth of 9.4% from January to November. Growth was significantly driven by an increase in the economy's potential output, which helped ease inflationary pressures stemming from robust aggregate demand. Among external factors, lower fuel prices have contributed to reducing inflation compared to the previous year. However, the increase in international food commodity prices has been partly passed on to the domestic market, leading to a slight rise in inflation compared to the previous month.

Despite these tendencies, domestic and geopolitical turbulence has increased uncertainty, affecting sentiments. If the prevailing uncertainty dissipates in the short term and the situation in international markets remains stable, inflation is expected to remain close to the target in the first half of 2025. Subsequently, partly due to base effects, inflation may temporarily overshoot the target and stabilize around 3% in the medium term. Meanwhile, economic growth will return to its long-term trend of 5%. A similar potential development is reflected in the NBG's central scenario and is largely in line with the current expectations of financial markets.

In order to effectively manage the potential risks stemming from high uncertainty, the NBG evaluates various scenarios. On one hand, the Monetary Policy Committee has considered a high-inflation risk scenario, where the realization of fundamental factors would require a higher path for the policy rate than in the central scenario. This scenario entails the prolonged uncertainty, further intensifying the geopolitical situation. The realization of these risks would amplify inflationary pressures coming from external factors and dampen economic growth relative to its long-term trend.

On the other hand, the Monetary Policy Committee has considered a 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. This risk scenario entails the de-escalation of the geopolitical tensions, which would reduce inflationary pressures arising from external factors. Whilst, economic growth, bolstered by a lower sovereign risk premium, would accelerate relative to its long-term trend.

As a result of the analysis of the current state of the economy and forecast scenarios, the Monetary Policy Committee has considered it optimal to adopt a cautious approach toward further normalizing the policy rate, keeping it unchanged at 8%. As the risks subside, the policy rate will gradually normalize toward a neutral level of 7%. If macroeconomic data at the upcoming meeting indicate a more inflationary or disinflationary realization of risks, the Committee will adjust its stance accordingly.

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 March 12, 2025.