

Ladies and gentlemen,

Every quarter, the National Bank of Georgia publishes a monetary policy report, which includes forecasts for inflation and other macroeconomic indicators that play a decisive role in the formation of monetary policy.

The aim of the National Bank of Georgia's is to maintain price stability, which is a precondition for robust and sustainable economic growth, low interest rates and decreasing unemployment.

In 2017, due to temporary factors, the inflation rate is above the target rate of 4%. In the beginning of the year, the inflation rate grew and reached 7.1%. Since then the inflation started to decline and in September it stood at 6.2%. The increase in inflation is mainly attributed to increases in oil and tobacco prices, which stemmed from the surge of oil prices on international markets and a rise of excise tax on fuel and tobacco products. In September, the price increase on those products had a 2.5 percentage point (pp) share to the total inflation. As the factors contributing to the growth of inflation are temporary, they are not expected to affect the inflation rate in 2018.

During 2017, the economic growth indicators revealed higher than expected growth. Thus, following the external sector developments, the National Bank of Georgia has revised its forecast of GDP growth for 2017 upwards from 4% to 4.5%. Yet, the aggregate demand is below the potential level and its contribution to inflation is still weak.

On 27<sup>th</sup> of October 2017, the Monetary Policy Committee has made a decision to maintain the policy rate at 7.0%. The Committee adopts a decision regarding the policy rate based on inflation forecast. According to the current forecast, due to aforementioned temporary factors the inflation rate will remain above its target during 2017. However, inflation will decline with the gradual exhaustion of temporary factors and will be maintained around the 3% target in 2018.

With the exhaustion of onetime factors affecting inflation, the monetary policy rate is also expected to gradually decline to the neutral level in the medium term. I would like to add that the monetary policy rate forecast is not a commitment on future decisions made by the National Bank of Georgia. Rather, it is the expected trajectory of the policy rate, which is based on currently available information and forecasts.

Moreover, I would like to clarify that the target level of inflation from 2018 is 3% in the medium term. Focusing on the medium term is key, as shocks appear constantly and the inflation rate may differ from its targeted rate. Sometimes it will be above its target, and sometimes it will stand below its target. However, with the monetary policy set by the National Bank, the inflation rate will move towards the target rate in the medium term.

In an inflation targeting regime, the price stability is achieved with the minimum social costs, while the long term economic growth is higher and more stable compared to the other alternative regimes.

I would like to highlight again that when we announce the inflation target rate of 3%, we do not imply that the inflation rate will be from 0 to 3%, but rather that the inflation will be maintained around 3% in the medium term.