

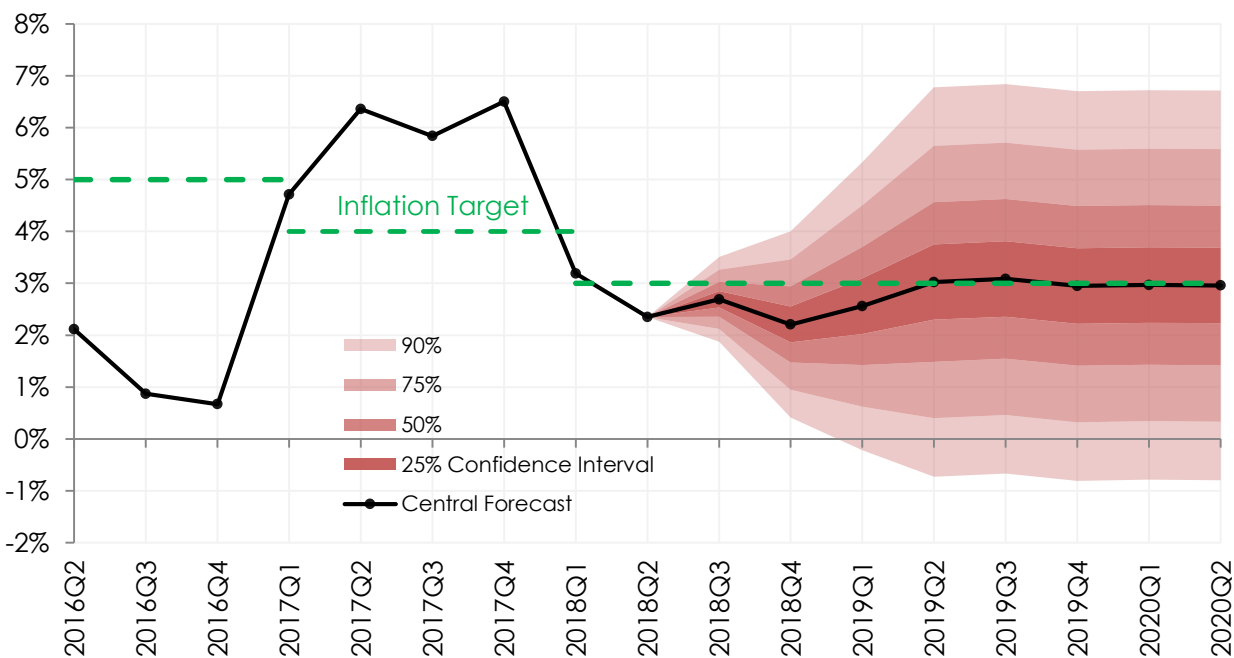
Ladies and gentlemen,

The National Bank of Georgia publishes quarterly monetary policy reports, providing detailed forecasts of inflation and other macroeconomic indicators, which play a key role in the formation of monetary policy.

As you all know, the main objective of the National Bank is to maintain the price stability, which, in turn, is a necessary precondition for long-term economic growth and employment.

In the beginning of 2018, in line with the forecasts, inflation declined and in the first half of the year stayed around the target of 3%. In June, inflation stood at 2.2%, which is close to the target level. On the *Chart N1*, you can see the inflation forecast, according to which, other things equal, inflation is expected to vary around the target over the year.

Chart N1 - Inflation forecast

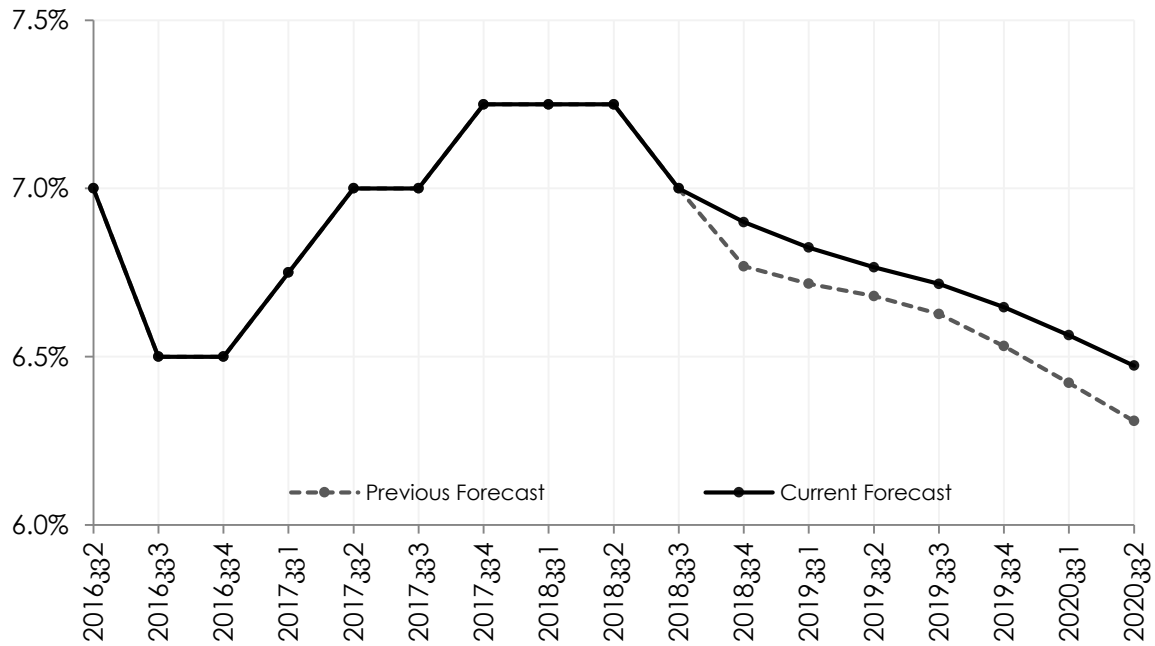


Source: National Bank of Georgia

In the first half of the year, following the significant improvements in economic activity, the output gap was closing at a faster pace than previous forecast indicated. Hence, the downward pressure on inflation stemming from aggregate demand declined. However, higher than expected appreciation of the nominal effective exchange rate reduced inflationary pressure. Moreover, the upward risks to inflation forecast have also weakened. Therefore, on 25th of July, the Monetary Policy Committee deemed appropriate to start the gradual exit from moderately tight monetary policy and reduced the policy rate by 0.25 percentage points to 7.0%.

However, following the recent improvement in aggregate demand, the monetary policy easing will continue at a slower pace than previously expected as it is shown in the *Chart N2*. I must add that the monetary policy rate forecast is not a commitment to future decisions made by the National Bank of Georgia. Rather, it is the expected trajectory of the policy rate, assuming that all exogenous factors incorporated into the forecast materialize as expected.

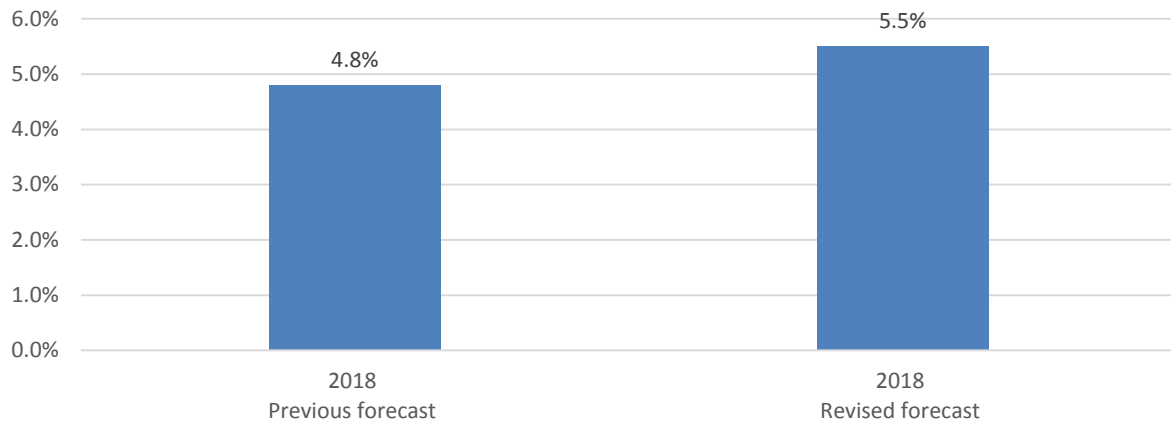
Chart N2 - Forecast of the monetary policy rate



Source: National Bank of Georgia

Let's look at the GDP growth figure (*Chart N3*). Considering the positive trends in the first half of 2018, the NBG revised upward the economic growth forecast and increased it from 4.8% to 5.5%. According to preliminary estimates, in the first half of the year, the economic growth stood at 5.7% (in the first five months of the year growth equalled 6.1%) which is higher than expected. The growth was mainly driven by stronger than expected external demand. Moreover, the increase in lending and remittances has also supported the improvement in domestic demand.

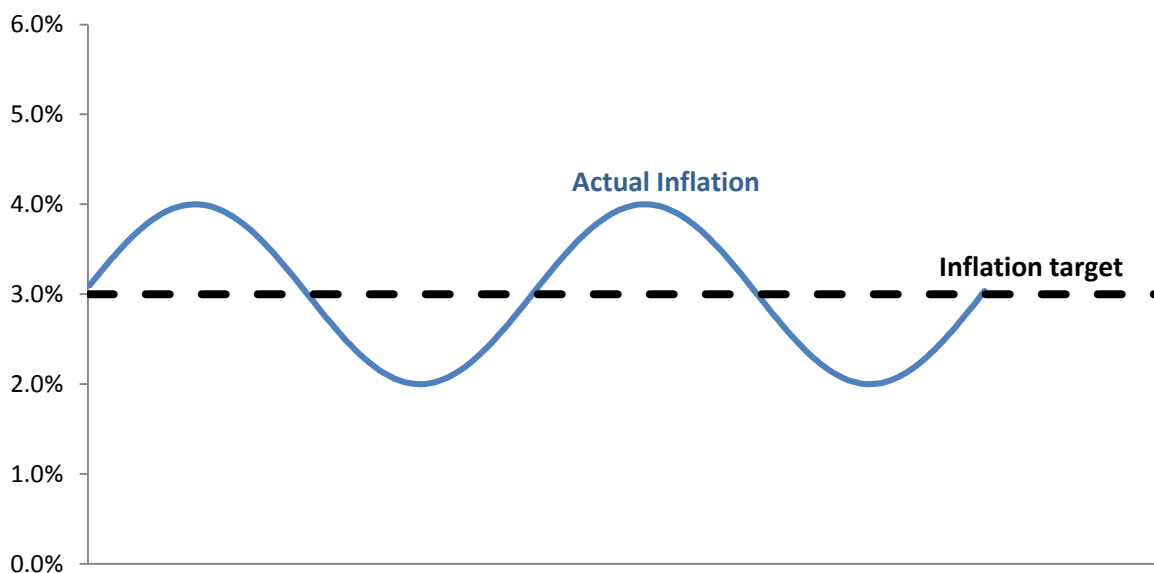
Chart N3 - GDP growth forecast for 2018



Source: National Bank of Georgia

I want to remind you that the inflation target in the medium term is 3% from 2018. Focusing on the medium term is the key, since shocks always affect the economy hence inflation will be different from its target level: it may be higher or lower than the target level of 3%, however as a result of the policy pursued by the National Bank, inflation will always move towards the target over the medium term (as it is shown on the *Chart N4*). Under inflation targeting price stability is achieved with the lowest social cost while the economic growth compared to other existing alternative frameworks is the highest.

Chart N4 - Actual inflation hovers around target rate



Source: National Bank of Georgia

Moreover, inflation target does not mean the upper bound of inflation. In particular, to specify, when we state that inflation target is set at 3%, we do not mean inflation from 0 to 3% but rather an inflation level close to 3% in the medium term.

The NBG will continue to monitor the developments in the economy and financial markets and will use all means and instruments at its disposal to ensure the price stability.

Thank you for your attention!