Ladies and gentlemen,

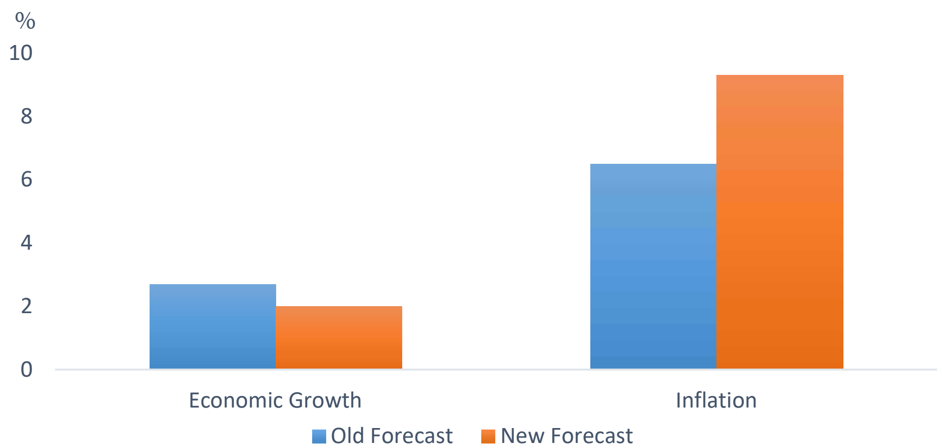
The National Bank of Georgia (NBG) publishes quarterly monetary policy reports, providing detailed forecasts of inflation and other macroeconomic indicators, which play a key role in the formation of monetary policy.

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

Throughout 2018, in line with the previous forecasts, inflation rate stayed around the target rate of 3%. Annual inflation in September 2018 was 2.7%.

Recently, macroeconomic risks stemming from the external sector intensified. In the main trading partner countries of Georgia, economic growth and the inflation forecasts have worsened (see Figure 1); these could be transmitted to the Georgian economy as well and reflect on increased inflation expectations and fluctuations on the FX market. Nevertheless, favorable trends in the external sector are persisting, although some slowdown was visible recently. The annual increase in goods exports was 21% in the third quarter of 2018, while tourist revenues grew by 12%. Positive dynamics of money transfers also continued (with annual growth of 12%).

Figure 1 - Consensus forecasts of main trading partners, 2018-2019[1]

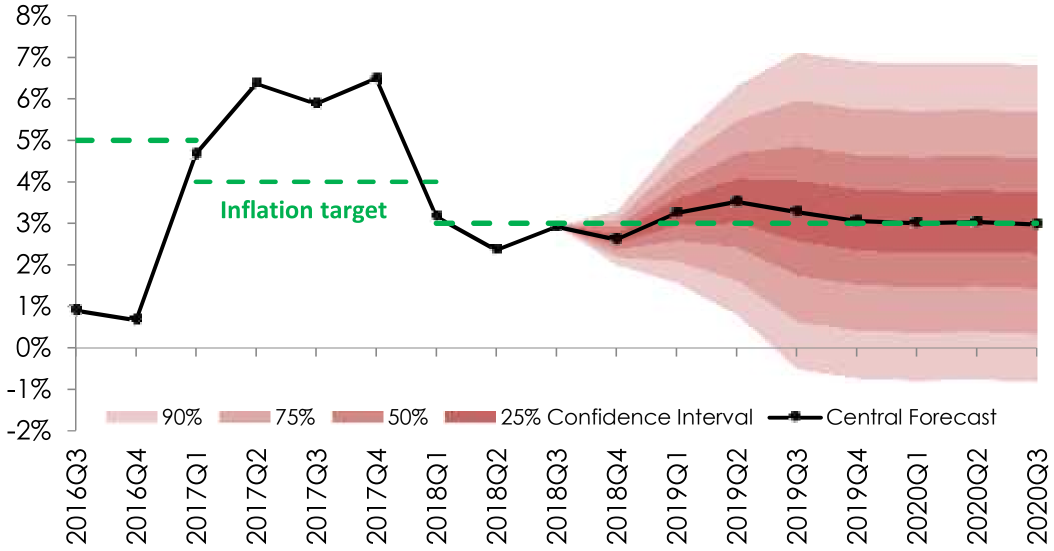


Source: Bloomberg

According to the inflation forecast, despite recently heighted external risks, significant deviation of inflation from its target is unlikely as aggregate demand is still weak balancing the upward risks on inflation. According to the current projections, other things being equal, inflation is expected to remain close to the target for the rest of the year as well as in the medium-term (see Figure 2).

[1] Weighted average of five major trading partners (EU, Turkey, Russia, Ukraine and USA).

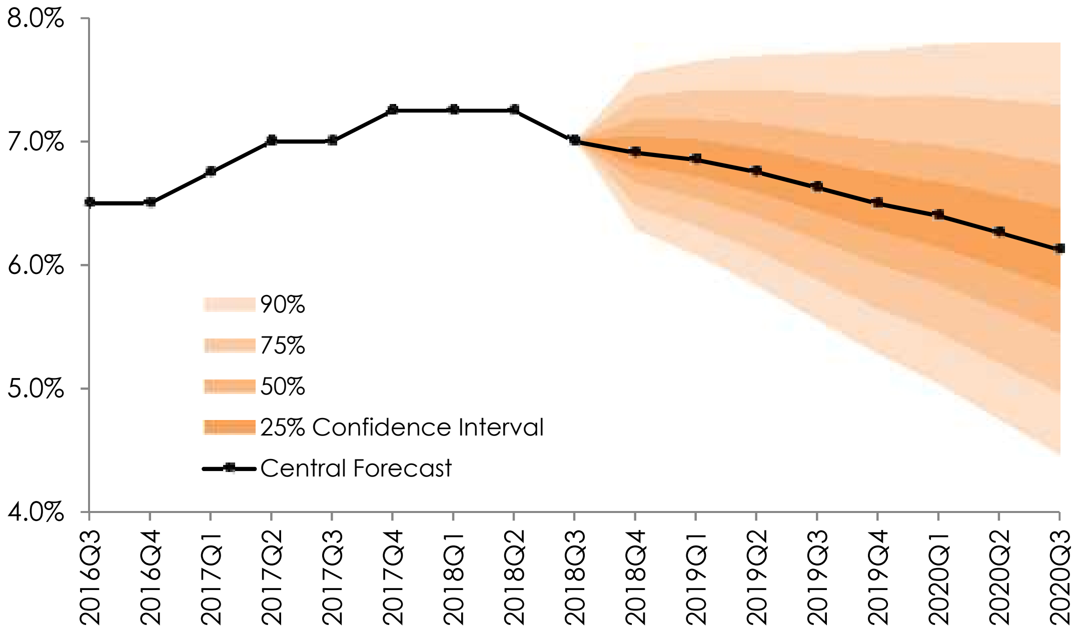
Figure 2 - Forecast of headline inflation



Source: National Bank of Georgia

As for the monetary policy rate, according to the NBG estimates there still is the necessity of gradual policy normalization – that is, gradual policy easing. However, the speed of normalization will depend on how fast the output gap will close on one hand and how strongly will the increased regional macroeconomic risks be transmitted to Georgian economy – on the other (see Figure 3).

Figure 3 - Forecast of monetary policy rate



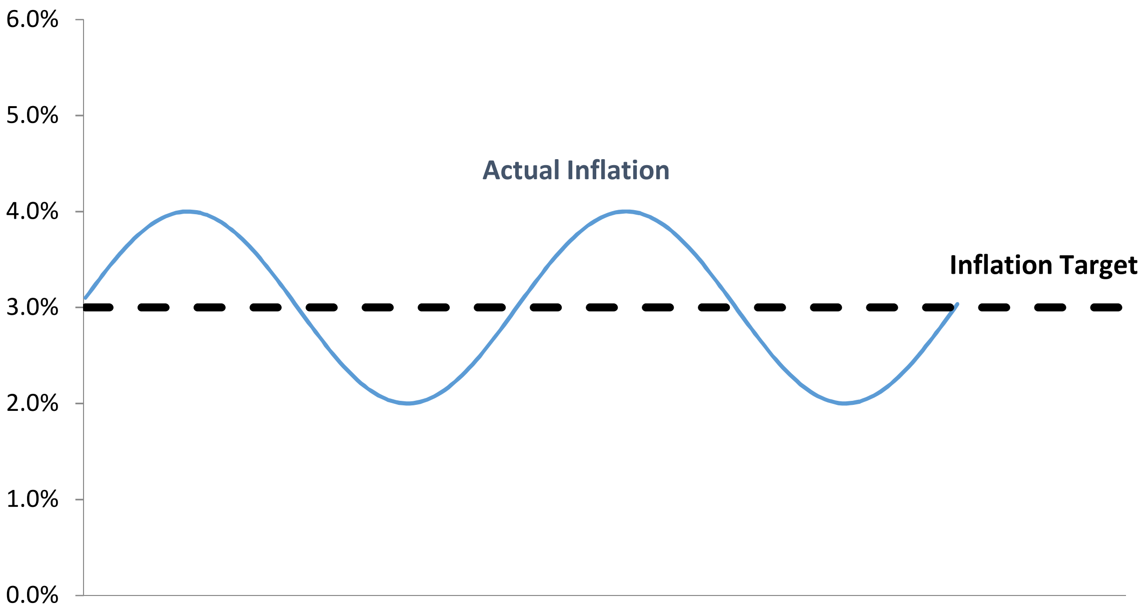
Source: National Bank of Georgia

Based on the aforementioned, the Monetary Policy Committee of the NBG decided on 24th of October 2018 to leave the policy rate unchanged at 7%.

As earlier, I want to 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.

I also would like to remind you that the inflation target in the medium term is 3% starting in 2018. Focusing on the medium term is the key, since exogenous shocks always affect the economy and, hence, move inflation away from the target: at any moment it may be higher or lower than the target level of 3%. However, as a result of the policy pursued by the NBG, inflation will always move towards the target over the medium term (see Figure 4). Under the inflation targeting the price stability is arguably achieved with the lowest social cost while the economic growth is the highest compared to existing alternative frameworks.

Figure 4 - Variation of inflation around its target



Source: National Bank of Georgia

Moreover, inflation target does not mean the upper bound of inflation. In particular, when we state that inflation target is set at 3%, we do not mean inflation from 0 to 3%; rather we mean 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 price stability.

Thank you for your attention!