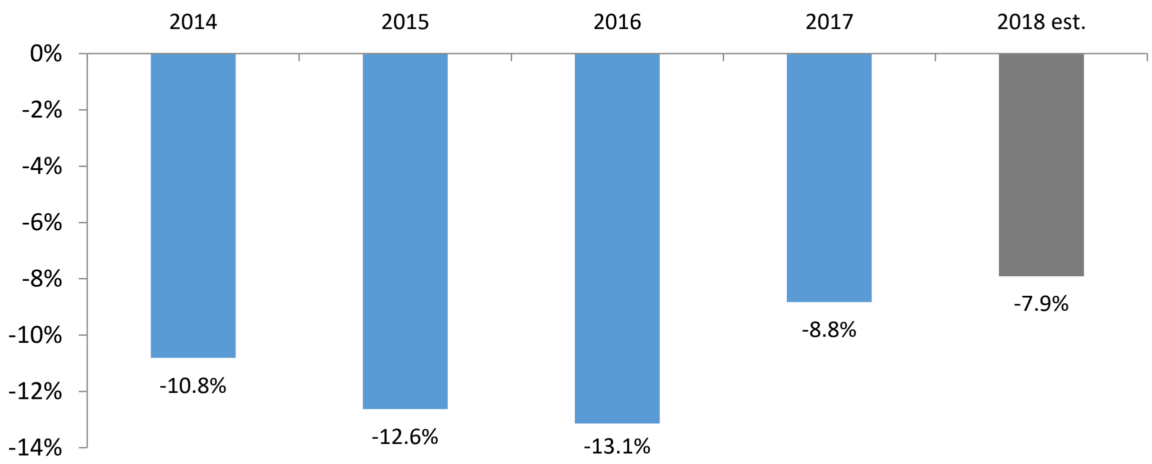
Ladies and gentlemen,

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.

According to preliminary information, economic growth was at 4.8% in 2018 and the main driver was net exports. Although there were some signs of slow down both in domestic and external demand, export of goods and services continued to grow at a fast pace both in nominal and real terms. Against this background, declining trend of current account deficit continued in 2018. As shown on Graph 1, according to current forecasts, ratio of current account deficit to Gross Domestic Product declined from 8.8% in 2017 to 7.9% in 2018.

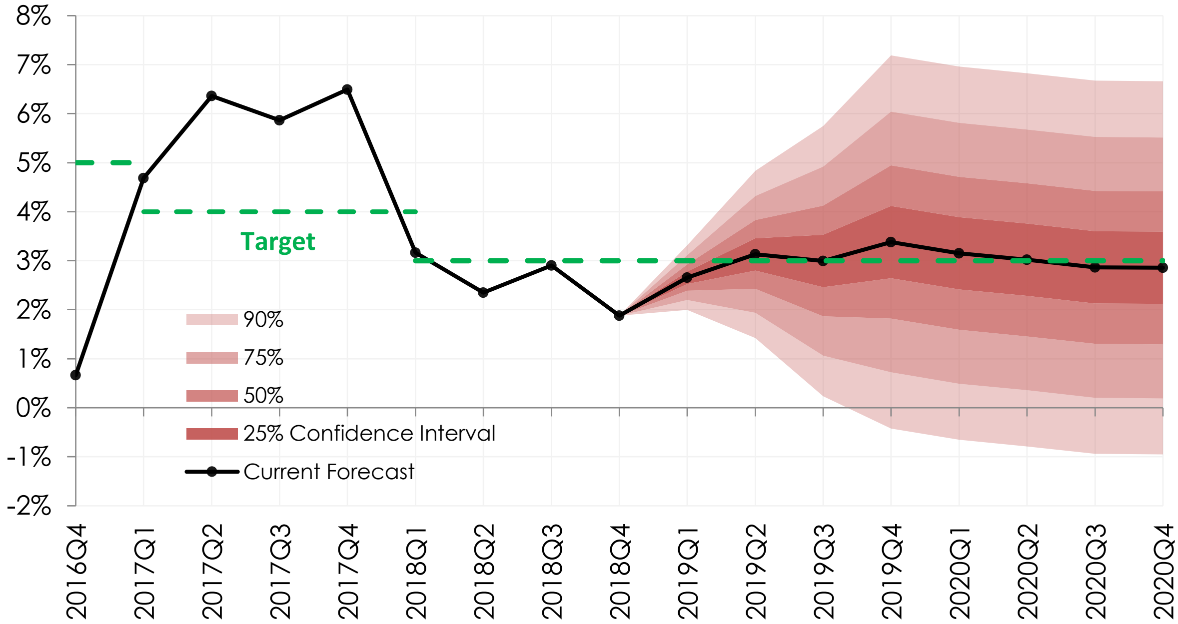
Graph 1 - Current Account Deficit to Gross Domestic Product, 2014-2018



Source: NBG

Throughout 2018, in line with the previous forecasts, inflation rate stayed around the target rate of 3% and on average equaled 2.6%. In December, the inflation rate was lowest at 1.5%. According to current forecasts (see Graph 2), 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 in 2019 as well as in the medium-term.

Graph 2 - Forecast of Headline Inflation



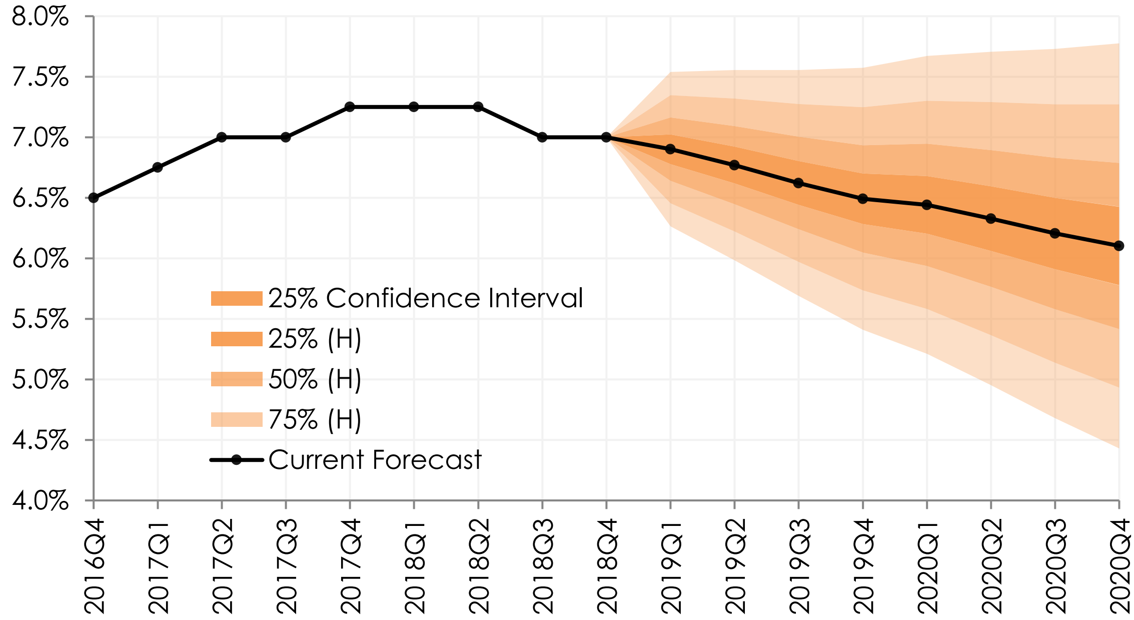
Source: National Bank of Georgia

In July 2018, the NBG started the gradual exit from the moderately tightened monetary policy. After the previous Committee meeting, along with the reduction of macroeconomic risks coming from the external sector, the upward risks to the inflation forecast have also abated. Considering that the inflationary pressure from the aggregate demand remains weak, the Monetary Policy Committee deemed appropriate to cut the policy rate by 25 basis points to 6.75% on January 30, 2019.

According to the forecast, the monetary policy rate is expected to be reduced further over the year. The speed of normalization will depend on how fast the output gap will close on one hand and how strongly the increased regional macroeconomic risks will be transmitted to Georgian economy – on the other (see Graph 3).

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.

Graph 3 - Forecast of Monetary Policy Rate

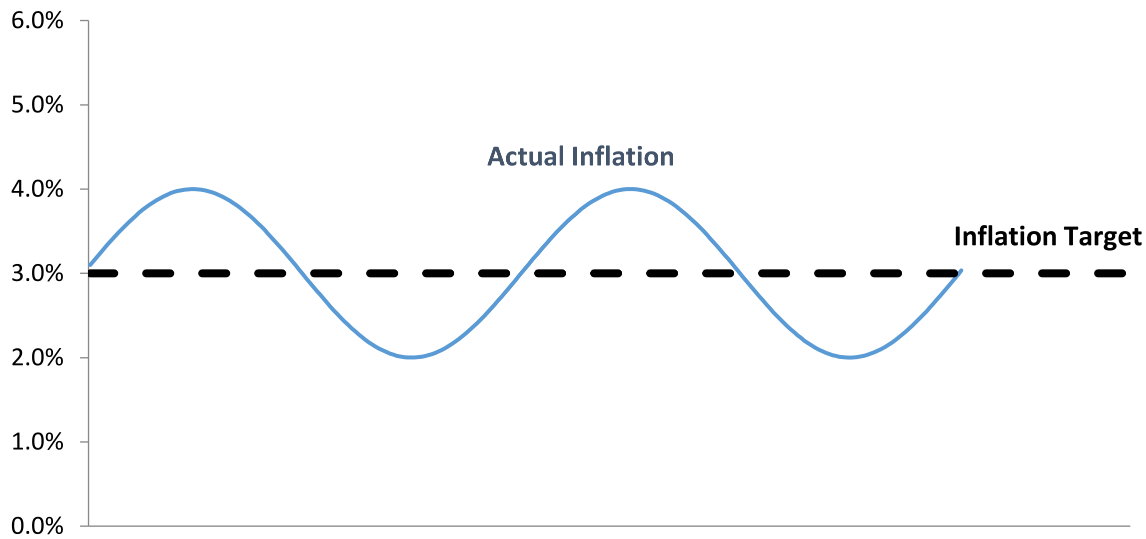


Source: National Bank of Georgia

I also would like to remind you that the inflation target in the medium term is 3% starting from 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 Graph 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.

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% - either above or below - in the medium term.

Graph 4 - Variation of inflation around its target



Source: National Bank of Georgia

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!