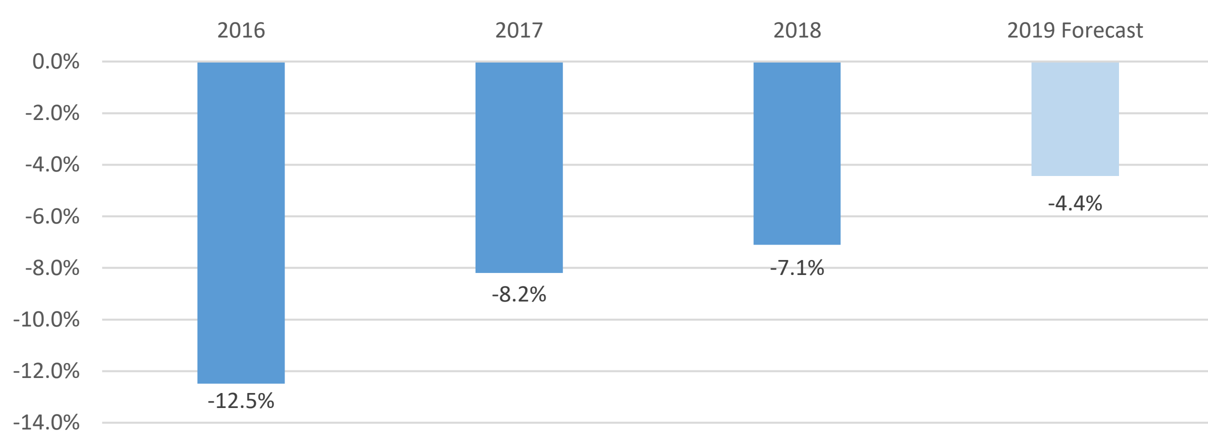
Ladies and gentlemen,

The National Bank of Georgia (NBG) publishes quarterly Monetary Policy Report, 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 employment. There is a 3% inflation rate over the medium term.

In 2019, according to the preliminary data, economic growth equaled 5.2 percent, which is a quite good indicator. The exports and, especially tourism, supported by competitive exchange rate, played a significant role in growth. High growth of credits also assisted the economic growth. The ban on air travel from Russia had a negative impact on the tourism sector, but this loss was offset by an increase in visitors from other countries. The dynamics of foreign trade and remittances are still positive. As it is shown on the graph, these factors are reflected on the improvement of the current account deficit (See Diagram 1).

**Diagram 1 – Current Account Deficit to Gross Domestic Product**

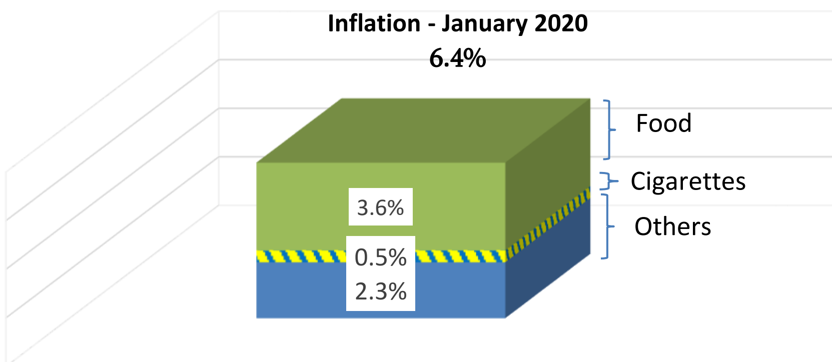



*Source: NBG*

In the third quarter of the 2019, similar to the same period last year, the current account was positive. According to our forecast, in 2019 the ratio of current account deficit to gross domestic product will be less than 5%, which is a historical minimum. It is important to maintain this trend in the future and stabilize current account deficit at a sustainable level. One of the determinants of the macroeconomic environment is the current account and its improvement has a positive impact on the sentiment of both foreign and domestic investors.

As you already know, from March, 2019 inflation rate exceeded the target level and stood at 7.0% at the end of the year. The increase in inflation at the beginning of the year was mainly driven by the increase in the excess tax on cigarette. Moreover, in the second half of the year, the nominal effective exchange rate depreciation had a significant impact on inflation. As it was expected, inflation started to decline and stood at 6.4% in January. Inflation rate was mostly influenced by food and non-alcoholic beverages, contributing 3.6 percentage points to the overall inflation (see Diagram 2).

**Diagram 2 - Inflation**

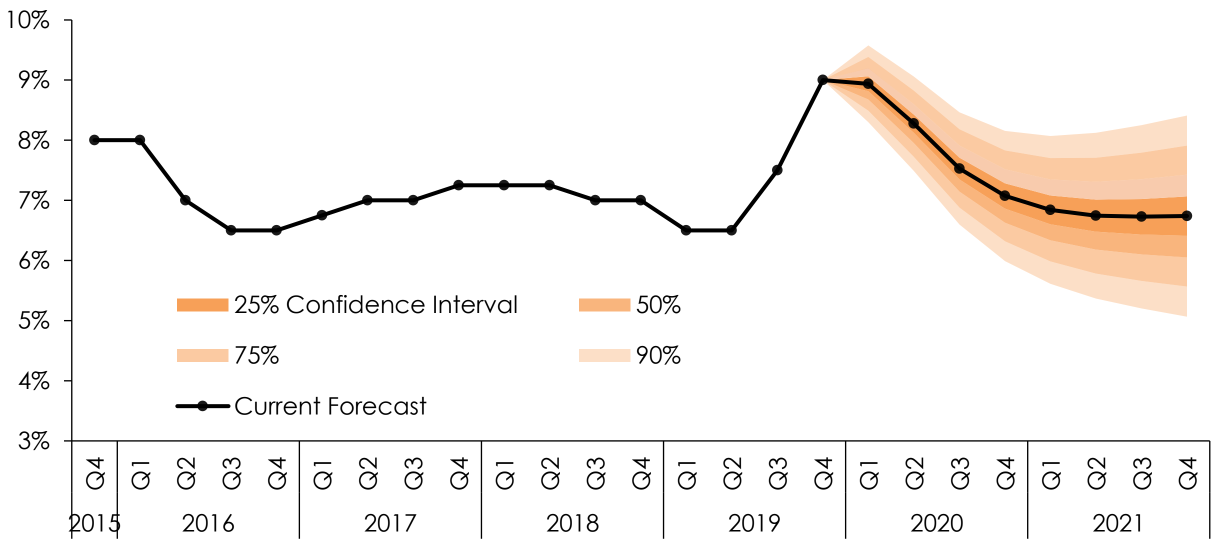



*Source: Geostat*

In the second half of the year, to curb inflationary pressure from the nominal effective exchange rate depreciation, the Monetary Policy Committee raised policy rate from 6.5% to 9.0%. Moroever, our message was that the future decisions of the committee would depend upon the speed of neutralization of exchange rate pressure stemming from the exchange rate. The tightening of the monetary policy stance has supported the slowdown of pressure on inflation.

Hence, on January 29 meeting, the Monetary Policy Committee decided to keep the refinancing rate unchanged at 9.0 percent. In December, the nominal effective exchange rate strengthened slightly, which reduced the pressure on inflation. However, the nominal effective exchange rate remains undervalued. In recent periods, economic growth accelerated and lending is robust. If these dynamics create additional inflationary pressure, the tight monetary policy stance may be maintained for more extended period. I also would like to repeat, 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 (see Diagram 3).

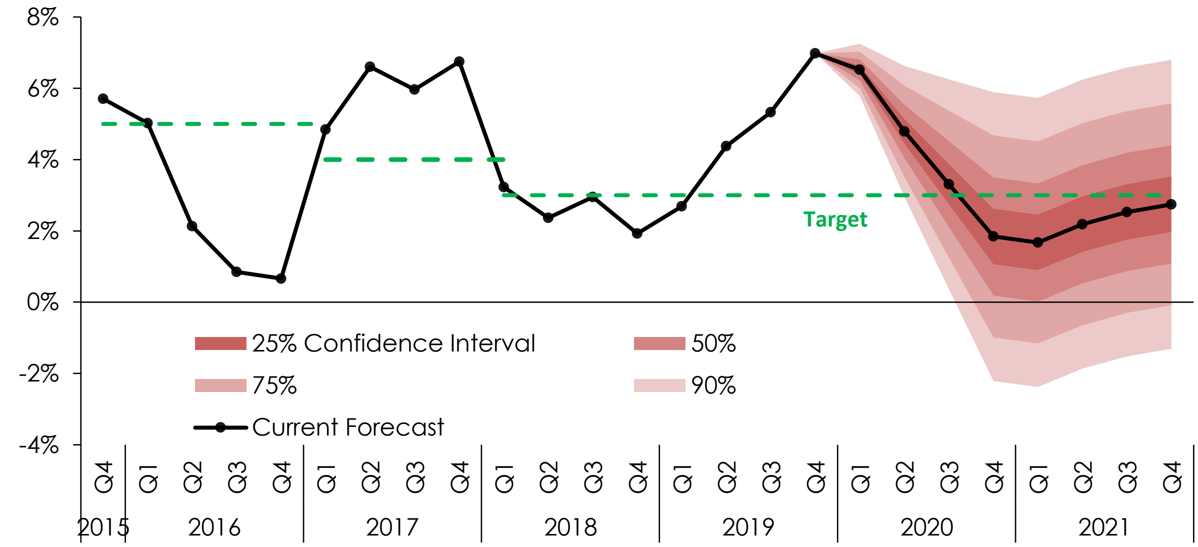
**Diagram 3 - Monetary Policy Rate Trajectory**




*Source: NBG*

As for inflation, (see diagram 4), the tightening of monetary policy stance will support the gradual reduction in inflation. According to the forecast, other things equal, the inflation will continue to decline and gradually reach its target level. In the medium term, inflation will remain close to the target level.

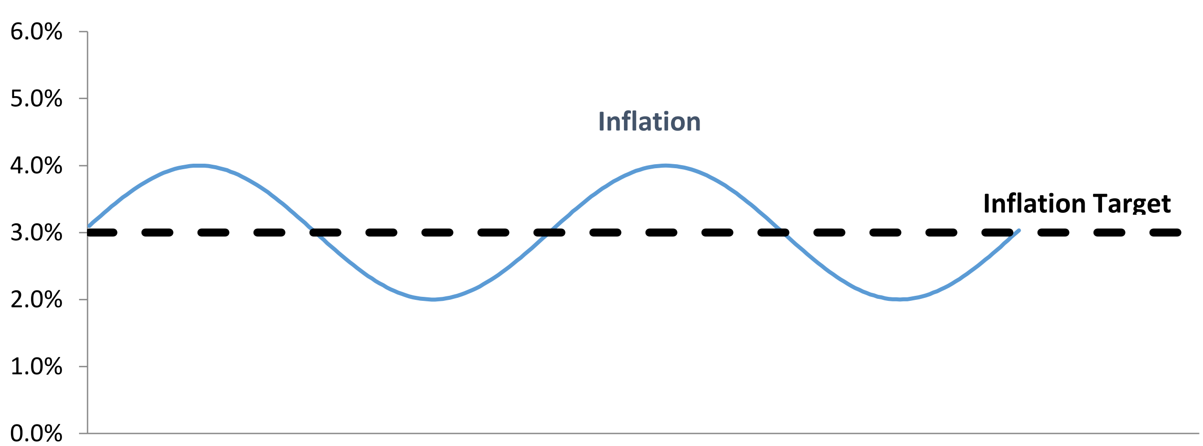
**Diagram 4 – Forecast of the Inflation**




*Source: NBG*

I also would like to remind you that, from 2018, the inflation target in the medium term is 3%. Focusing on the medium term is the key factor, as exogenous shocks (independent from monetary policy) are always looming and, hence, can cause actual inflation to deviate from the target level: as it is shown on the graph (see diagram 5). Inflation 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. Moreover, inflation target does not imply the upper and lower bound for inflation. In particular, when we state that inflation target is 3%, we do not imply inflation from 0 to 3%; rather than we mean an inflation close to 3% - either above or below - in the medium term. Under the inflation target framework, the price stability is achieved with the lowest social cost, while the economic growth is the highest, compared to the other alternative frameworks.

**Diagram 5 - Movement of Inflation around its Target**



The NBG continues to monitor the developments in the economy and financial markets and it presents to the public the overview of economic conditions and updated macroeconomic forecasts in the Monetary Policy Report. Thank you for your attention!