



## NATIONAL BANK OF GEORGIA

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Tbilisi. 16 April

### **The Decision of the Monetary Policy Committee (MPC) of the National Bank of Georgia on April 16, 2008**

The Monetary Policy Committee (MPC) of the National Bank of Georgia (NBG) met today and decided to raise its main policy rate by 100 basis points, to 12 percent.

The annual inflation rate reached 12.3 percent, while the average annual rate of inflation was 9.5 percent as of March. The main contributing factor to the increase in the CPI was a general rise in prices of energy products and other commodities in the global markets which resulted in elevated prices within the trade partners of Georgia and other economies of the region. As of March, the annual rate of inflation was 13.3 percent in Russia, 26.2 percent in Ukraine, 17.1 percent in Azerbaijan, 9.6 percent in Armenia, 9.2 percent in Turkey, 3.5 percent in the Eurozone, 16.8 percent in Latvia, 11.3 percent in Lithuania, 10.9 percent in Estonia, 14.2 percent in Bulgaria and 18.7 percent in Kazakhstan. Along with other factors, more flexible exchange rate policy contributed to the relatively lower inflation in Georgia compared to the abovementioned economies.

Economic activity and the level of capital inflows remain high and will likely remain at an elevated level for the remainder of the year. Moreover, broad money continues to grow rapidly due to the accelerated growth of the money multiplier and lending to the economy.

Financial instability has increased in global markets, causing the central banks of the United States, United Kingdom and other developed nations to soften their monetary policy in order to alleviate adverse effects to economic growth. This will likely put upward pressure on the prices of main commodity products in the near future. However, due to the fact that the Georgian financial sector is less integrated into the global financial system, the current financial turmoil on the international markets has not materially affected financial stability within Georgia.

Although, on the one hand, the economic slowdown in developed nations should lead to price decreases for energy and commodity goods – a downside risk to inflation, however on the other hand, according to expert estimates, economic growth in developing countries will remain robust, largely compensating for the expected slowdown in developed economies - an upside risk to inflation.

# PRESS RELEASE



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The Monetary Policy Committee also discussed the reserve requirements for commercial banks and decided to prepare the corresponding amendments to the rules for the calculation and maintenance of minimum reserve requirements. According to the proposed amendments, foreign liabilities will be incorporated into the reserve base for minimum reserve requirements from the beginning of 2009.

The existing inflation risk has increased somewhat since the last Monetary Policy Committee meeting. Taking into consideration that significant increases in administrative prices will not be observed and commodity prices will be in line with the current forecasts, the increased interest rates will insure that an inflation rate of 8 percent will be achieved by the end of the year.

The NBG will closely monitor the developments in the economy and financial markets with the objective of achieving the forecast inflation rate and will in due course act accordingly.

The schedule of the MPC meetings is posted on the website of the NBG. The next meeting will take place on May 14, 2008.

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