



## NATIONAL BANK OF GEORGIA

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### **The Decision of the Monetary Policy Committee of the National Bank of Georgia on August 20, 2008**

The Monetary Policy Committee (MPC) of the National Bank of Georgia (NBG) met today and decided to lower its main policy rate, the one-week Certificate of Deposit (CD) rate, by 100 basis points to 11 percent.

The Committee noted that some loosening of monetary policy is needed due to an increase in demand for liquid resources and the possible slowdown in economic activity that has resulted from the recent military operations within the nation. Herewith, the recent projections indicate a decreasing trend in the existing factors of inflation. However, as a result of the abovementioned events, uncertainty around the expected inflation dynamics has increased, since at this stage it is difficult to make projections about important political and economic trends.

It must be mentioned that the banking system has demonstrated resilience and robustness towards the recent crisis. Additionally, general increase in risks will cause a decline in the growth of lending, which will reduce inflationary pressures.

The worsening investment climate will likely lead to a certain slowdown in capital inflows for the remainder of the year. Also, growth rates in monetary aggregates will continue to slow down. As of August, prices of major commodities on the international markets continue to decline, including those of oil and wheat products. Core inflation has continued to decline as well.

Assuming that significant escalation of the conflict will not occur and that commodity prices will be in line with the existing forecasts, the current policy rate will insure that an inflation rate close to 8 percent is achieved by the end of the year.

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

The next meeting of the monetary policy committee will take place on September 17, 2008.

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