



## NATIONAL BANK OF GEORGIA

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Tbilisi. 23 July

### **The Decision of the Monetary Policy Committee of the National Bank of Georgia on July 23, 2008**

The Monetary Policy Committee (MPC) of the National Bank of Georgia (NBG) met today and decided to leave its main policy rate, the one-week Certificate of Deposit (CD) rate, unchanged at 12 percent.

The Committee noted that despite the high level of inflation, core inflation has been decreasing. In addition, developments in the real economic and financial sectors are in line with the forecasts that were made during the Committee's last meeting. The Committee believes that further tightening of monetary policy is not necessary at this time, as the current Policy Rate should ensure that the rate of inflation will stay within the forecasted limits in the medium term.

The banking sector has been experiencing a slight increase in interest rates. The committee notes that interest rates on loans have risen by approximately one percentage point since the beginning of the year. Additionally, the growth rate of lending has stabilized. The moderated rate of lending in domestic currency is especially noteworthy as it tends to reduce inflation risks considerably. Broad money aggregates growth rates have declined together with the money multiplier, as a result of the correction of the imbalance previously caused by the short-term liquidity deficit in the banking sector. Since the second half of June, this increased liquidity has strengthened the stability of the banking sector.

The inflationary pressures in the main trading partner countries of Georgia points to the increasing necessity of a flexible exchange rate in order to reduce the risks associated with imported inflation. Despite the uneasiness and instability in global financial markets, capital inflows in Georgia still remain high. Although, interest rates on deposits have risen and this is evidenced in the domestic credit markets.

Prices of the main commodity groups – oil, wheat and precious metals, have been decreasing in July.

Since the last Monetary Policy Committee Meeting, the existing risks to inflation have on balance remained unchanged. Assuming that significant increases in administrative prices will not be observed and commodity prices will be in line with existing forecasts, the current policy rate should ensure that an inflation rate close to 8 percent is 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.

# PRESS RELEASE



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The Monetary Policy Committee also decided to sell a portion of the Government Obligations owned by the National Bank of Georgia in September of this year.

The 2008 schedule of the MPC meetings is posted on the website of the NBG. The next meeting will take place on August 20, 2008.

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