



NATIONAL BANK OF GEORGIA

3/5 Leonidze Street, 0105, Tbilisi, Georgia
Tel.: (995 32) 442 401; Fax: (995 32) 922 222
www.nbg.gov.ge

Tbilisi. 25 June

The Decision of the Monetary Policy Committee of the National Bank of Georgia on June 25, 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.

According to the Statistics Department of the Ministry of Economic Development, the annual inflation rate for the month of May decreased as expected and stood at 11.2 percent.

Although the current rate of inflation in Georgia is above the comfort zone, it is lower than the inflation rates in several neighboring countries. For reference, the annual rate of inflation for the month of May was 15.1 percent in Russia, 31.1 percent in Ukraine, 25.7 percent in Azerbaijan, 9.8 percent in Armenia, 10.7 percent in Turkey, 2.8 percent in the Eurozone, 17.9 percent in Latvia, 12.0 percent in Lithuania, 11.3 percent in Estonia, 13.6 percent in Bulgaria, 27.9 percent in Kirgizstan and 19.5 in Kazakhstan. The relatively low level of inflation in Georgia was the result of a tighter monetary policy stance and a more flexible exchange rate policy.

As evidenced by the domestic foreign exchange market, the high rates of foreign capital inflows still remain noteworthy. While the growth rate of the reserve money has decreased slightly along with the broad money aggregates, which aided in the reduction of the money multiplier compared to recent months, the growth rates of the abovementioned indicators still remain above preferred levels.

The high rate of lending to the private sector relative to growth in loanable funds resulted in a liquidity shortage in the banking system during the second half of May. The liquidity shortage was mitigated partially through the use of NBG's standing facilities. In response to the liquidity shortage, commercial banks sharply increased interest rates. The increase in interest rates has not yet influenced, or caused a decline in the growth of private sector lending. The upcoming monetary policy decisions will, among other things, depend on the dynamics of the abovementioned indicator.

Following the last monetary policy committee meeting, the existing risks to inflation have on balance, remained the unchanged. Assuming that significant increases in administrative prices will not be observed and commodity prices will be in line with the existing forecasts, the high interest rates will insure that an inflation rate close to 8 percent is achieved by the end of the year.

PRESS RELEASE



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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.

In order to increase the transparency and predictability of monetary policy, the MPC decided to provide commercial banks with a six-month CD issue calendar in advance, instead of the existing three-month calendar.

The 2008 schedule of the MPC meetings is posted on the website of the NBG. The next meeting will take place on July 23, 2008.

Contact:
Giorgi Kalandadze,
Head of Public Relations Department
Tel.: (995 32) 442 488
E-mail: nbgprpress@nbg.gov.ge