



## NATIONAL BANK OF GEORGIA

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Tbilisi, 20 February

### **The Decision of the Monetary Policy Committee (MPC) of the National Bank of Georgia on February 20, 2008**

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

Real GDP growth remains robust, and high capital inflows which showed signs of slight moderation during the last three months picked up again in February and will likely remain strong throughout the rest of the year. Although labor productivity increased year-to-year by 21 percent in the third quarter, according to the latest labor market data, nominal wages continued to grow on average by 39 percent thus creating additional inflationary pressure.

Annual inflation continued to decrease in January reaching 10.7 percent and period average inflation of 9.3 percent. As in many other countries the inflation rate was largely driven by strong growth in food and energy prices and subsequent political tensions in Georgia intensifying further inflationary expectations. As of January, the annual inflation rate remains high in the neighboring countries (which are the major trading partners of Georgia) (Russia 12.6 percent, Ukraine 19.4 percent, Azerbaijan 16.3 percent, Armenia 6.6 percent and Turkey 8.2 percent). Moreover, the growth in monetary aggregates and lending fuelled by increased government spending and foreign capital and financial inflows have further exacerbated inflation dynamics.

Despite the fact that growth in the monetary base is moderate compared to previous years, due to a rapid expansion of the money multiplier monetary aggregates continue to grow rigorously.

Although annual inflation dropped from 11 percent to 10.7 percent in January, there are still upside risks to price stability. Current monetary overhang, increased and more social nature of public spending and strong public inflationary expectations are worsening inflation outlook in the near-term. Moreover, with the oil prices yesterday overshooting US\$100 per barrel threshold and soft commodity prices (especially wheat) still increasing rapidly inflationary pressures are likely to grow. . Therefore, a tighter monetary policy stance is required to mitigate the abovementioned risks.

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

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ordingly.

To further increase the transparency of monetary policy decision-making process, beginning in March the NBG will publish short-term Tbilisi InterBank Rates (TIBR) on a daily basis.

The 2008 schedule of the MPC meetings has been posted on the website of the NBG. The next meeting will take place on March 19, 2008.

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