



The National Bank of Georgia keeps its monetary policy rate unchanged at 11.0 percent

On May 11, 2022, the Monetary Policy Committee of the National Bank of Georgia decided to keep the refinancing rate unchanged. The monetary policy rate is 11.0 percent.

Elevated inflation and inflationary risks remain a recent global challenge. While inflationary processes were envisaged to stabilize in 2022, the Russian war against Ukraine created new risks. In particular, the sanctions imposed on Russia due to its military actions, and supply-side disruptions have significantly increased prices of a number of product categories on international markets. Therefore, inflation increased significantly both in developed and developing economies. Global surge in prices was transmitted to Georgian market as well and, despite the slowdown compared to the beginning of the year, inflation in Georgia remains high (12.8 percent). Had the aforementioned shock not materialized, sharp deceleration in inflation would have been expected. It should be noted that against the backdrop of the military activities, external sector outlook is highly uncertain. At the same time, recent appreciation of lari supported the decrease in imported inflation. Moreover, while nominal wage growth rates have recently increased, total productivity is improving as well, meaning that at this stage there are no significant pressures on prices stemming from the labor market. According to the current forecast, other things equal inflation will remain high over the course of the year, however it will have a declining path as last year's one-off effects are phased-out and given that monetary policy remains tight.

Despite monetary policy tightening though, credit activity remains strong, partly due to consumer loans on one hand and foreign currency loans on the other. In response the NBG will keep the remuneration of reserve requirements on funds borrowed in the US dollar at 0 percent, even as the Fed Funds Rate increases. If necessary, in order to reduce the growth in foreign currency (FX) loans, the NBG may also introduce additional measures, including an increase in the upper bound of FX reserve requirements (currently at 25 percent). At the same time, recent macroprudential measures are expected to support the slowdown of current high growth in consumer lending.

As for the aggregate demand, according to a revised forecast, the economy is expected to grow by about 4.5 percent in 2022. However, it should be noted that given current events, forecast uncertainty is particularly high. In response to rising inflationary risks, the gradual increase in the monetary policy rate over the past year has led to tight monetary policy stance. Monetary policy will keep a tightening bias until the risks of rising inflation expectations are sufficiently mitigated.

Foreign demand continued significant recovery in the first quarter of 2022. However risks in this direction remain high due to the war in Ukraine. According to the preliminary data, in January-March 2022, exports of goods have increased by 43 percent annually. In the same period, the revenues from international travel have increased approximately 7.4-fold year-on-year, although the decrease compared to the corresponding period of 2019 is still significant (32 percent). Goods imports have also increased against the background of activated domestic demand - by 36 percent annually in January-March 2022.

The NBG continuously monitors the developments in the economy and financial markets and will use all available tools to ensure price stability.

The next meeting of the Monetary Policy Committee will be held on June 22, 2022.