



The National Bank of Georgia keeps its Monetary Policy Rate unchanged at 11.0 percent

On June 22, 2022, the Monetary Policy Committee of the National Bank of Georgia (NBG) decided to keep monetary policy rate (refinancing rate) unchanged. The monetary policy rate stands at 11.0 percent.

Elevated inflation and inflationary risks still remain a recent global challenge. The sanctions imposed against Russia due to its aggression against Ukraine, as well as supply-side disruptions, and a sharp decline of goods exports from Ukraine due to the ongoing war, have significantly raised international prices on food, energy and other commodities. Based on the UN Food and Agricultural Organization data, in the recent months international food prices are at an all-time high. Elevated prices on international markets severely affected most countries stoking inflation both in developed and developing economies. Georgia, as a small open economy, is no exception and price increases on international markets are quickly transmitted to our consumer price index. In addition, increased number of long-term visitors from Russia, Belarus, and Ukraine have abruptly and swiftly raised rent prices on the local market. This has had a significant impact on both headline (0.6 percentage points) and core inflations (1.1 percentage points).

Expected path of inflation significantly depends on global geopolitical outlook which is still surrounded by high uncertainty. Based on current information, there are cautious expectations that commodity prices on international markets would not increase further and corresponding inflationary pressure will diminish gradually over the course of the year. Given strong external demand and foreign inflows (remittances, tourism revenues, revenues from goods exports), the exchange rate has strengthened contributing to recent retreats in imported inflation. According to the current forecast, other things equal, it is expected that inflation will remain above the target throughout the year; however, it will have a declining path as external factors are phased-out and given that monetary policy remains tight.

In response to rising inflationary risks, gradual increases in the policy rate over the past year has led to the tight monetary policy stance. Monetary policy will keep the tightened bias until the risks of rising inflation expectations are sufficiently mitigated. Should inflation expectations rise further and/or demand-side pressures on prices exacerbate, further tightening of monetary policy may become necessary.

Despite monetary policy tightening, credit activity remains strong, partly due to consumer loans, on one hand, and foreign currency (FX) loans, on the other. In this regard, recent macroprudential measures should gradually affect credit growth. In addition, interest rates hikes by the US Federal

Reserve and other leading central banks will have an additional tightening effect on credit conditions in Georgia. Nevertheless, if credit growth remains this high, the NBG will use additional instruments including FX reserve requirement and/or other macroprudential policy measures.

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 August 3, 2022. However, the Committee does not rule out an extraordinary meeting either.