



The National Bank of Georgia keeps its monetary policy rate unchanged at 10.5 percent

On February 2, 2022, the Monetary Policy Committee of the National Bank of Georgia decided to keep the refinancing rate unchanged. The monetary policy rate is 10.5 percent.

The extraordinary situation caused by the pandemic has led to many uncertainties in the world economy, have emerged in stages and challenged policymakers. Particularly concerning among them is a high inflation environment, which is especially relevant for Georgia - in December, the annual inflation rate rose to 13.9 percent. The base effect of the 2020 subsidy on utility bills was the main driver for this increase since the month before. As mentioned in the previous press releases of the Committee, this effect will temporarily persist in January-February this year as well. Overall though, since the first half of 2021, high inflation has been driven by globally rising prices for food, oil and shipping. Consequently, high inflation is largely due to imported goods, that reflect increased US dollar prices in international markets. However, It should be noted, that the recent strengthening of the nominal effective GEL exchange rate has somewhat eased the pressure from international markets. In addition, both core and monthly inflation in recent months have shown early signs of stabilization. According to the current forecast, other things being equal, inflation will start to decline gradually from spring of this year and will approach the target by the end of the year. Tighter monetary policy, along with the fading out of one-off factors and fiscal consolidation, will contribute to this reduction in inflation.

As for aggregate demand, according to the preliminary data, real GDP growth was 10.6 percent in 2021. The economic activity in 2021 is a result of pent-up demand since the period of pandemic-related restrictions, continued high credit activity and fiscal stimulus. According to the baseline scenario, economic growth is projected at 5 percent in 2022.

Against the backdrop of rising risks of inflation expectations, the gradual increase in the monetary policy rate over the past year led to tight monetary policy stance. It is still important that, in the face of strong supply shocks, persistently high inflation does not raise long-term inflation expectations. At the same time, risks are apparent in terms of both geopolitical tensions as well as faster-than-expected tightening of global financial conditions. Taking into account these factors, the Committee maintained tight monetary policy. Monetary policy will keep a tightening bias until the risks of rising inflation expectations are sufficiently mitigated.

In the wake of the global economic recovery, foreign demand continues to grow. According to the preliminary data, exports in December 2021 increased by about 29 percent annually, while the increase compared to the corresponding period of 2019 is 6 percent. Revenues from international travelers increased annually approximately 9-fold in December, although it is still well below 2019 December level (by 42 percent). Imports have also increased against the backdrop of higher domestic demand: in December 2021, year-on-year growth was 26 percent, while the increase compared to the corresponding period of 2019 is about 7 percent.

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 March 30, 2022.