



The National Bank of Georgia raises the monetary policy rate by 0.5 percentage points to 11.0 percent

On March 30, 2022, the Monetary Policy Committee (MPC) of the National Bank of Georgia decided to increase the refinancing rate by 0.5 pp. The monetary policy rate is 11.0 percent.

The recent developments, in particular Russia's invasion in Ukraine and the resulting full scale war, have posed new challenges to the world economy that was still in the phase of post-pandemic recovery. The intensified inflationary risks amid a new shock have on a world scale slowed the projected pace of decline of already high global inflation. Georgia had an annual inflation rate of 13.7 percent in February. Reduction of inflation is expected from March, mainly related to the elimination of base effect of subsidy of utility bills. However, without the new shock, this reduction would have been much larger. The sanctions imposed on Russia due to military actions and supply-side disruptions have significantly increased the prices of a number of product categories on the world markets. First of all, against the background of increasing oil prices, there is a sharp rise in fuel prices, which is expected to have a significant impact on inflation. This fact, combined with high inflation for a protracted period, may translate into higher inflation expectations. In addition, amidst rising risks of lower external inflows, volatility in foreign exchange markets has increased, leading to additional risks in terms of inflation expectations. According to the current forecast, other things being equal, inflation will start declining from March, although will remain above the target during the year.

The credit activity is expected to be moderately high during the year, despite tightened monetary policy and recent macroprudential measures. As for the aggregate demand, according to preliminary data in 2021 GDP grew by 10.4 percent. According to the previous forecasts, 5 percent growth was expected in 2022, however, from the current perspective, the growth rate would be in the range of 3-4 percent. Amid the expected slowdown in economic growth, inflationary pressure stemming from the aggregate demand will be weak and supply-side factors will remain dominant throughout the year. It should also be noted that in the light of current events, the scale of forecast uncertainty has somewhat increased.

Due to the increased risks of high inflation expectations, the gradual increase of the monetary policy rate over the past year led to the tight monetary policy. However, in the face of even more intensified inflation risks and inflation being above the target for a long time, the Monetary Policy Committee considered it appropriate to increase the policy rate by 0.5 percentage points. Monetary policy will keep a tightening bias until the risks of rising inflation expectations are sufficiently mitigated.

As for the foreign demand, after a significant recovery during 2021 and the beginning of 2022, certain risks emerged in this direction, which in the light of military actions are related to the expected reduction in foreign demand from Georgia's two important trading partners. According to the preliminary data, in January-February 2022, exports of goods have increased by 54.5 percent annually. In the same period, the revenues from international travel have increased approximately 9-fold year-on-year, although the decrease compared to the corresponding period of 2019 is still significant (34.3

percent). Goods imports have also increased against the background of activated domestic demand - in January-February 2022 by 47.2 percent annually.

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 May 11, 2022.