



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

On June 21, 2023, the Monetary Policy Committee of the National Bank of Georgia (NBG) decided to keep the monetary policy rate (the refinancing rate) unchanged. The monetary policy rate stands at 10.5 percent.

In Georgia, inflation is on a downward trend and in May annual headline inflation decreased to 1.5 percent (in April - 2.7), while the core retreated to 3.9 percent (in April - 4.7). Inflation decline is mostly driven by the gradual elimination of exogenous shocks leading to reduction in the prices of imported goods. Tightened monetary policy also helps inflation to trend downward and, hence, domestic inflation and inflationary expectations have declined as well. However, domestic inflation is decreasing at a slower rate and its level still remains high - 9.1 percent in May. Other things equal, in the coming months the annual inflation rate is expected to remain below the target, while stabilizing at around 3% in the medium term. After a prolonged period of high inflation, inflation being below the target in the short run will help to further normalize long-term inflation expectations, which in turn is a prerequisite for price stability.

Despite the positive dynamics, inflationary risks are still high. At this stage there are no apparent signs of the wage-price spiral. Still, while unit labor costs have slightly decreased compared to the previous quarter, their level remains high, as wage growth is faster than productivity growth. Thus, inflationary pressure from the labor market should still be taken into account. In addition, the current geopolitical tension remains a major source of uncertainty. Meanwhile, higher-than-expected economic activity may intensify demand-side inflationary pressures with average annual economic growth for the first four months of 2023 standing at 7.7 percent.

Considering the inflation dynamics and forecasts at the previous Monetary Policy Committee meeting, the NBG decided to start a gradual exit from its tight monetary policy stance, which implies policy rate reduction at a moderate pace. At the previous meeting, the policy rate was reduced by 50 basis points. Accordingly, taking into account the aforementioned risks, at this stage policy rate was kept unchanged.

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 2, 2023.