



## **THE NATIONAL BANK OF GEORGIA KEEPS ITS MONETARY POLICY RATE UNCHANGED AT 11.0 PERCENT**

On February 1, 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 11.0 percent.

Annual inflation in Georgia has already passed the peak and follows a downward trend, mainly driven by the gradual neutralization of the external factors. In particular, according to the Food and Agriculture Organization (FAO), the international food price index has been decreasing since March last year. At the same time, international shipping costs continue to decline and as of December 2022 have fell down almost to the pre-pandemic level. These trends, against the backdrop of a stronger exchange rate, are being transmitted to the local market and reduce imported inflation. Both prolonged period of tight monetary policy and fiscal consolidation support the reduction of headline inflation. According to the updated macroeconomic forecast, other things being equal, given tight monetary policy annual inflation will continue to decline and approach the target level in the second half of 2023.

Positive trends in international markets give grounds for cautious optimism; however, due to the current geopolitical situation, uncertainty is still high, and existing risks for inflation are mainly on the upside. At the same time, despite the slowdown, inflation is still above the target and amounted to 9.8 percent in December. As a result of consecutive shocks, inflation has deviated from its target level for a long period of time, reinforcing inflation expectations. On the other hand, against the backdrop of inflationary shocks, local wage growth has recently exceeded the growth rate of labor productivity, which makes the inflationary pressure from the labor market noteworthy.

Given the current high uncertainty and inflationary risks, the National Bank of Georgia is still concentrated on reducing inflation. In order to eliminate additional inflationary pressure and reduce the risk of rising inflationary expectations in the medium term, according to the current forecast, the National Bank of Georgia will pursue a tight monetary policy throughout the year. Given a tight policy stance, including the impact of macroprudential instruments implemented recently, credit growth continued to slow down, and this trend is expected to be maintained in the future. In addition, with zero interest paid on required reserves for funds attracted in the US dollar and euro, tightening of global financial conditions further amplifies the effect of tight policy stance on foreign currency loans in Georgia. Monetary policy easing is expected only once actual inflation approaches the target, which should prevent a deterioration of long-term expectations. If an upside pressure on inflation expectations becomes considerable again, it may be necessary to further tighten monetary policy or maintain the current tight stance for a longer period.

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 29, 2023.