



THE NATIONAL BANK OF GEORGIA HAS REDUCED ITS MONETARY POLICY RATE BY 0.5 PERCENTAGE POINTS, TO 9.5 PERCENT

On December 20, 2023, the Monetary Policy Committee of the National Bank of Georgia (NBG) decided to reduce the monetary policy rate (refinancing rate) by 0.5 percentage points. Monetary Policy Rate stands at 9.5 percent.

Inflation in Georgia has continued to decline, registering a more pronounced decrease than anticipated. In November, it stood at 0.1 percent. Core inflation also followed a downward trajectory, reaching 1.8 percent in the same month. This tendency is driven by both domestic and external factors. The tight monetary policy implemented by the NBG has effectively anchored inflation expectations that continue to decline. Meanwhile, inflation of domestically produced goods has gradually approached the 3 percent target, registering at 3.8 percent in November. Additionally, the stability in international commodity prices still contributes to maintaining low inflation for imported goods. Other things equal, the current forecast for 2024 indicates inflation temporarily overshooting its target, primarily driven by base effects, before it gradually aligns with the targeted rate in the medium term.

Despite these positive trends, there are notable inflationary risks. In particular, economic growth dynamics pose the risk of demand-side inflationary pressures. Preliminary data suggests robust domestic demand, with the average annual economic growth from January to October recorded at 6.9 percent. Along this high economic growth, the increased potential output in the post-pandemic era partially mitigates demand-side inflationary pressures. Nevertheless, with the economy having fully rebounded to the pre-pandemic trend, the risk of demand-side inflation remains noteworthy. The NBG is vigilantly monitoring the economic dynamics and stands prepared to implement necessary measures should signs of sustained inflationary pressures emerge. A recent acceleration in credit growth rate, predominantly driven by business loans, is also being closely observed.

In light of these inflationary risk assessments, the monetary policy rate, despite the current reduction, continues to be maintained at a relatively elevated level. The NBG will continue only a gradual normalization of monetary policy, in alignment with the evolving inflation forecasts.

The NBG continuously monitors economic and financial market developments, and will use all available tools to ensure price stability.

The next meeting of the Monetary Policy Committee will be held on January 31, 2024.