



THE NATIONAL BANK OF GEORGIA HAS DECREASED ITS MONETARY POLICY RATE BY 0.25 PERCENTAGE POINTS, TO 10 PERCENT

On September 13, 2023, the Monetary Policy Committee of the National Bank of Georgia (NBG) decided to decrease the monetary policy rate (the refinancing rate) by 0.25 percent. The monetary policy rate stands at 10 percent.

Inflation, as expected, is below the target rate (3 percent) and in August annual inflation was 0.9 percent, while core inflation stood at 2.5 percent. The role of external factors in the formation of inflation has eased significantly. In particular, since the previous year, prices of raw food commodities on international markets have decreased, and international shipping costs have approached almost its pre-pandemic levels. These, alongside with the appreciation of GEL, have reduced imported goods prices in Georgia. Tight monetary policy and low inflation expectations are also contributing significantly to the decline in inflation. As a result, domestic inflation has also been declining, albeit at a relatively slower speed and in August it equaled 6.1 percent. It is expected to decrease even further during the year. At the same time, there are early signs of neutralization of demand-side inflationary pressures. In particular, the growth rate of economic activity approached the long-term potential economic growth. According to the current forecast, other things being equal, inflation will remain below the 3 percent target level in the coming months of 2023, and will remain close to it in the medium term. It should be noted that inflation remaining below the target level in the short-term contributes to long-run inflationary expectations normalization.

Despite these positive trends, inflation risks remain high. The current tense geopolitical situation increases the uncertainty on the commodities markets. In terms of inflationary pressures, along with external risks, domestic economic trends are still noteworthy. Despite the stabilization of aggregate demand, it is worth noting that the credit activity in foreign currency has accelerated. The continuation of this trend may create additional pressures on inflation outlook down the road.

Considering these risks, the NBG continues a gradual exit from its tight monetary policy with cautious pace. Accordingly, the Monetary Policy Committee reduced the monetary policy rate by 0.25 percentage points at the current meeting. Taking into account inflation trends and forecasts, other things being equal, the NBG will continue to normalize the policy rate only at a moderate pace.

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 October 25, 2023.