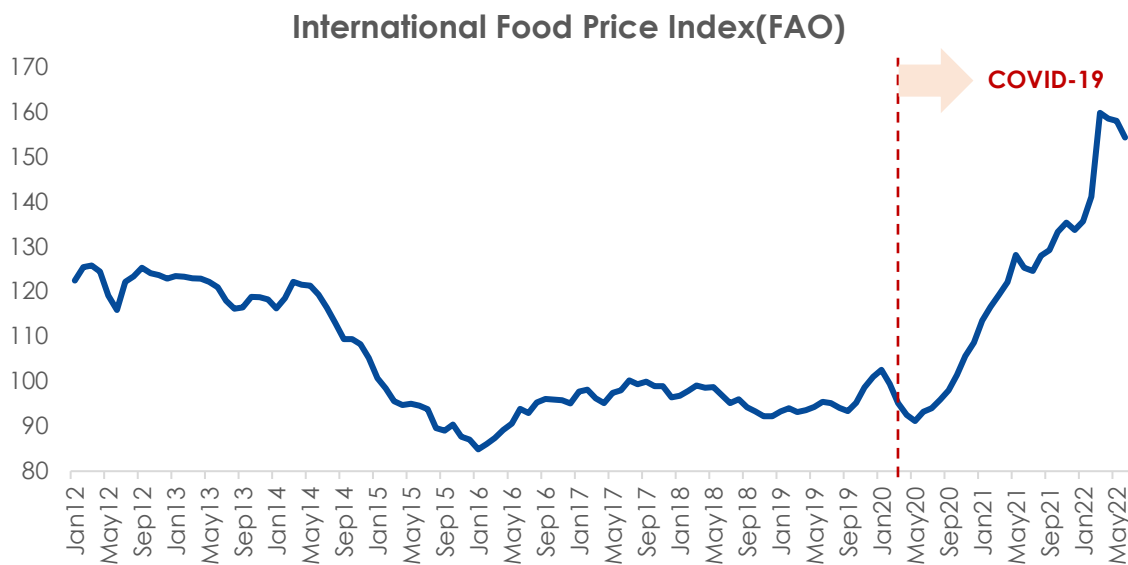




Good morning,

The National Bank of Georgia (NBG) publishes the latest monetary policy report. In this report, detailed analysis of the current macroeconomic environment and updated forecasts are presented. Moreover, an in-depth explanation of the recent monetary policy decision is given.

Inflation is still a global challenge. Russia's invasion in Ukraine and the ongoing war have posed new challenges, including elevated prices on international markets. Although prices on international commodity markets seem to have stabilized recently, on a global level and in Georgia they are still major drivers of inflation.



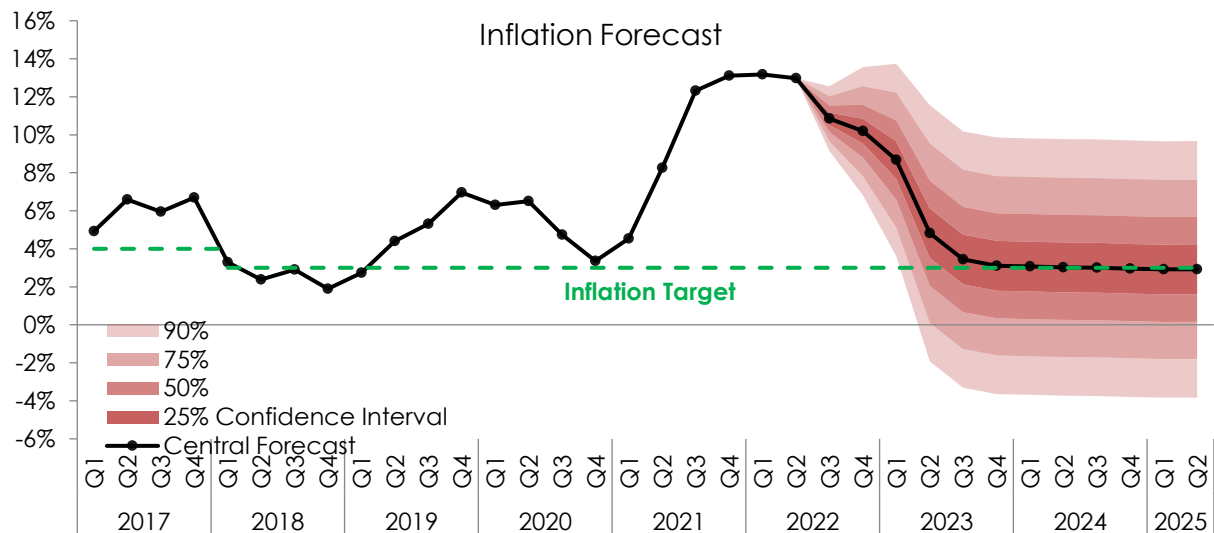
Source: FAO

Headline inflation stood at 11.5% in July. However, core inflation, which excludes food, energy and tobacco (items from the consumer basket with high volatility) reached 7.0%.

At the same time, the Georgian economy continues to grow at a rapid pace, mostly driven by a record level of remittances, tourism recovery and strong credit activity. According to the preliminary data, economic growth in the first half of 2022 equaled 10.5%. Against this background, the NBG revised up the economic growth forecast to 9% for 2022. According to the forecast, the main drivers of growth will be strong domestic demand and tourism recovery.

According to our estimates, the current level of current economic activity exceeds the potential level of output, which creates additional inflationary risks. In addition, against the backdrop of consecutive shocks, inflation has long deviated from the target level, which further amplifies inflationary risks. Due to those reasons, the monetary policy stance is tight.

On August 3, 2022, the Monetary Policy Committee of the National Bank of Georgia (NBG) decided to keep the monetary policy rate unchanged, at 11.0%. Despite tight monetary policy, credit activity is still high during this year, due to excessive growth of consumer loans, on the one hand, and foreign currency (FX) loans, on the other. Therefore, to slow down consumer lending, the Monetary Policy Committee considers appropriate to take additional macroprudential measures alongside with tight monetary policy. Tightened monetary policy will bring inflation back to its target level, 3%, in the medium term. Monetary policy rate will gradually decrease only after a significant decline in inflation. It should be stressed that the monetary policy rate forecast is not a commitment to future decisions made by the National Bank of Georgia. Rather, it is the expected trajectory of the policy rate, based on the current situation. Globally uncertainty is high and global economic developments can significantly change. Therefore, the NBG continuously analyzes the required policy path that can affect macroeconomic forecasts and the future policy decisions. As a result of tightened monetary policy and in case of stabilization of the global economy environment, inflation will start to decrease gradually and return to the target level of 3% in the second half of 2023.



The National Bank of Georgia constantly monitors the developments in the economy, updates forecasts based on their analysis, and presents an updated monetary policy report to the public.

Thank you for your attention!