



საქართველოს ეროვნული ბანკი
National Bank of Georgia

MONETARY POLICY REPORT

FEBRUARY 2026

PREFACE

The primary objective of the National Bank of Georgia (NBG) is to ensure price stability, which, in turn, supports the country's long-term economic growth. In pursuit of this objective, the NBG operates within an inflation-targeting framework, which was formally adopted in 2009. Within this framework, the NBG conducts its monetary policy in a way that inflation approaches its target level of 3% in the medium term.

The primary tool of the NBG under its inflation-targeting framework is the monetary policy rate. When making decisions about the rate, the primary focus is on the inflation forecast, as the full economic impact of the decision takes time (4-6 quarters) to materialize. Therefore, macroeconomic forecasts are the key component in shaping monetary policy, and their effective communication is crucial for anchoring inflation expectations. Additionally, the communication of these forecasts plays an important role in the decision-making process of businesses and households.

In recent years, amid global developments, uncertainty has increased. Given the heightened unpredictability of future economic conditions and its broad scale, it is essential for central banks to make an optimal decision when conducting monetary policy to minimize economic losses in the event of any risk materializing. In a dynamic economic environment, a monetary policy approach focused on managing risks is critical for achieving optimal outcomes. This is evidenced by the experience of central banks in the post-pandemic period. Central banks, including the NBG, that made decisions based on the approach of minimizing the impact of risks, have managed the globally prevailing inflationary pressures with relatively greater success. Accordingly, policymakers are increasingly emphasizing the importance of a scenario-based approach, within which monetary policymakers make decisions based on the development of various relevant scenarios. This systematic assessment of scenarios and their impact enables policymakers to effectively navigate the inflation-output tradeoff.

The NBG adopted a new scenario-based approach to monetary policy communication, enhancing the transparency of its risk management and decision-making processes. This step marks another stage in the development of the NBG's monetary policy framework through which it improves the transparency and comprehensibility of the monetary policy reaction function, thereby strengthening the effectiveness of the policy transmission channels.

Under the scenario-based approach, the National Bank of Georgia publishes **three relevant scenarios**, given the existing uncertainty:

- **The Central Scenario**, which incorporates a broad set of current information, including assumptions on exogenous factors and economic transmission mechanisms. It reflects a monetary policy path that is calibrated by the policymaker through a careful assessment and balancing of heterogeneous risks.
- **The Higher-Inflation Risk Scenario**, which, compared to the central scenario, incorporates risks that are more inflationary over the monetary policy horizon.
- **The Lower-Inflation Risk Scenario**, which, compared to the central scenario, incorporates more disinflationary risks over the monetary policy horizon.

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MONETARY POLICY DECISION

The National Bank of Georgia decided to keep the monetary policy rate unchanged at 8.0 percent.

On February 11, 2026, the Monetary Policy Committee of the National Bank of Georgia (NBG) decided to keep the monetary policy rate (refinancing rate) unchanged. The monetary policy rate stands at 8 percent.

As of January 2026, the overall price level in Georgia increased by 4.8 percent year-on-year. Higher-than-targeted inflation continues to be largely driven by food price inflation. In particular, rising prices on international markets for certain commodity groups on international markets, which have a substantial weight in Georgia's consumer basket, are being transmitted to the domestic market. On the other hand, alongside external factors, one-off price adjustments for certain domestic products and volatility in agricultural product prices are also putting upward pressure on inflation. At the same time, core inflation, excluding food, energy, and tobacco from the headline, remains close to the target (2.1 percent in January), indicating the stability of long-term inflation expectations. Service sector inflation, characterized by relatively sticky price adjustments, increased slightly in January, reaching 3 percent. Accordingly, measures of sticky price indices indicate that inflationary pressures remain less broad-based. However the moderate month-of-month increase in sticky price inflation heightens the risks of upward shift in inflation expectations. Against this backdrop, according to the NBG's updated central scenario, the inflation forecast for 2026 has been revised slightly upward. Under the central scenario, the current inflation dynamics are still assessed as temporary and are not expected to generate 'second-round' effects, implying that price pressures are not spilling over to other goods and services. Accordingly, other things being equal, as the effects of temporary factors subside, inflation is expected to gradually converge toward the target rate from the second quarter of 2026, averaging 3.7 percent over the year.

Economic activity is gradually converging toward its long-term growth rate, easing the demand-side pressures on prices. In particular, according to the NBG's updated central scenario, economic growth is projected at 5 percent in 2026. The normalization of the economic growth will be further supported by maintaining credit activity close to its equilibrium level.

Given the high uncertainty, upside risks to inflation are more pronounced, while downside risks continue to remain. Accordingly, the Monetary Policy Committee (MPC) considered both high-inflation and low-inflation risk scenarios, along with the central scenario, and the risks operating in different directions were taken into account in the decision-making process.

Under the realization of the high-inflation risk scenario, fundamental economic processes would require a higher trajectory for the monetary policy rate compared with the central scenario. Specifically, in January, the moderate increase in sticky price indicators compared with previous months heightens the risks of an increase in long-term inflation expectations. At the same time, sustaining a high level of economic activity, amid normalizing growth in high-productive sectors, is expected to put additional pressure on inflation. Under this scenario, an escalation of the global geopolitical situation could lead to higher-than-expected price increases on international commodity markets, which would also be transmitted to the domestic market.

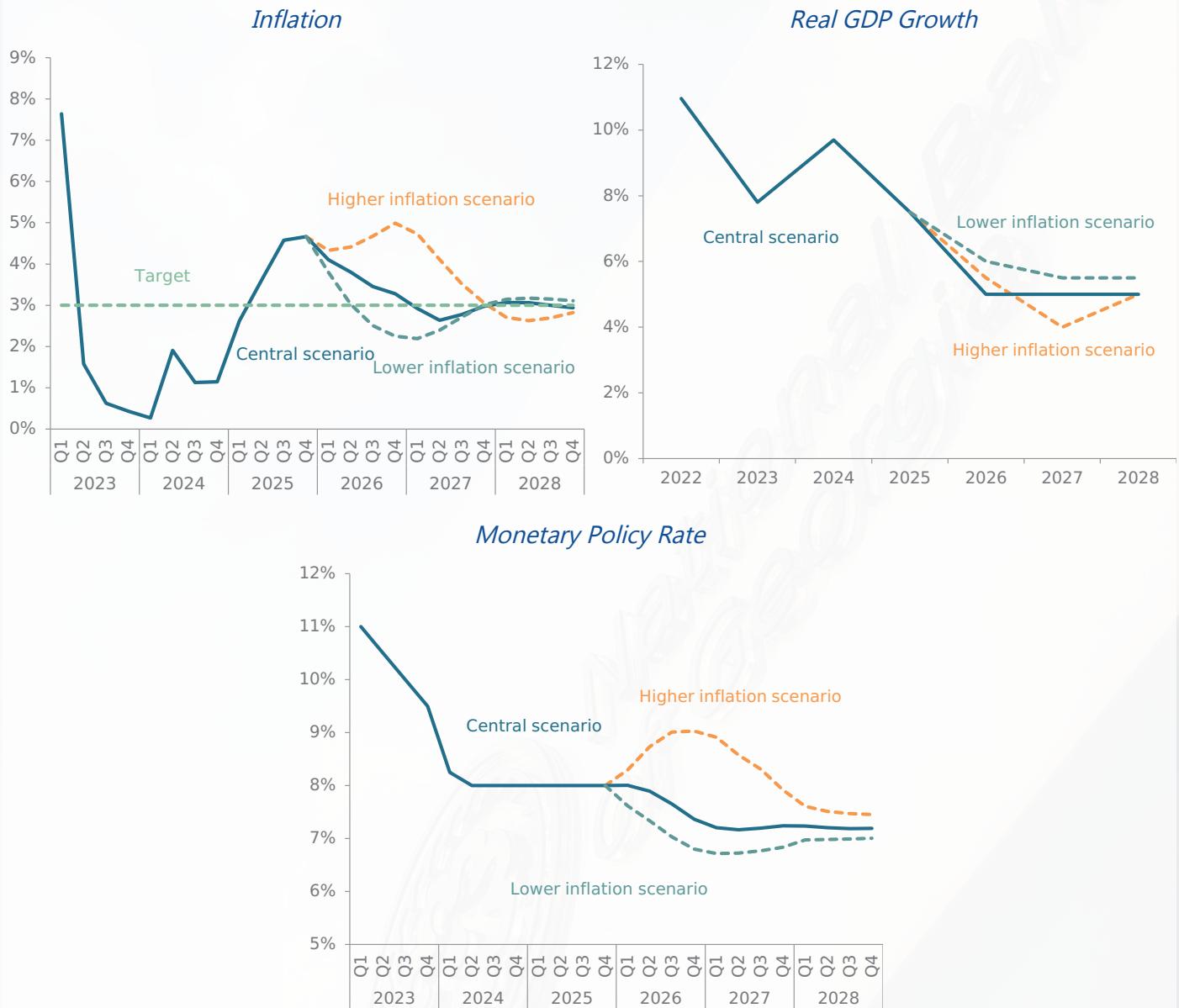
On the other hand, under the low-inflation risk scenario considered by the MPC, the realization of the risks would allow a faster reduction in the policy rate compared with the central scenario. Specifically, sustaining high growth rates in high-productive sectors could accelerate the potential growth. In this case, a strengthening of the supply side would have a disinflationary effect, allowing inflation to converge toward the target more rapidly than under the central scenario. Meanwhile, at this stage, developments in the domestic labor market are exerting downward pressure on prices, supporting the likelihood of a low-inflation scenario. Among external factors, a prolonged period of a weak position of the U.S. dollar, together with declining oil prices in international markets, would put downward pressure on headline inflation.

As a result of macroeconomic analysis and the assessment of the aforementioned scenarios, the MPC has considered it optimal to maintain a moderately tight monetary policy stance and kept the policy rate unchanged at 8 percent. Upcoming decisions on the monetary policy rate will depend on updated data and the realization of risks. According to the central scenario, the NBG will continue the normalization of monetary

policy only after the current one-off factors have been fully dissipated and inflation converges the target level. However, should inflation persist above the target for an extended period due to various one-off factors, the MPC stands ready to maintain the current tight stance for longer than expected and, if necessary, to tighten it further.

The NBG will use all available instruments to maintain price stability. This means keeping the overall price level increase close to the 3 percent target over the medium term.

NBG's Macroeconomic Forecast Scenarios



1. OVERVIEW OF THE GLOBAL MACROECONOMIC ENVIRONMENT

Despite a decline in economic uncertainty indices in recent periods, their level remains elevated. This situation is largely driven by the persistence of geopolitical risks, uncertainty surrounding the direction of U.S. economic policy, and the heightened fiscal risks in advanced economies.

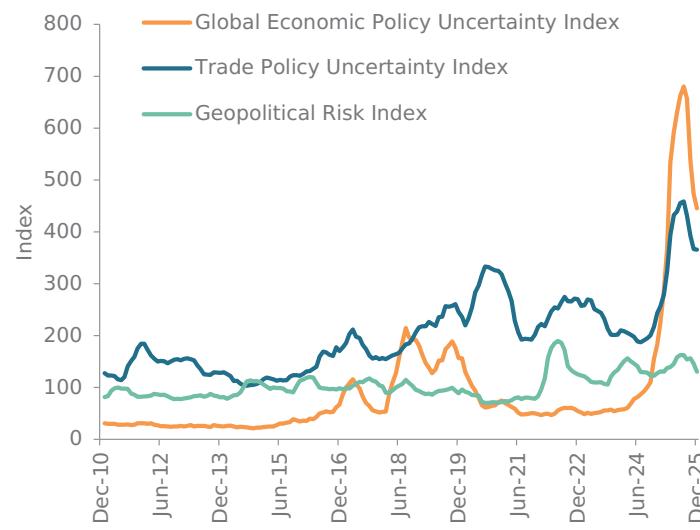


Figure 1.1. 6-Month Moving Average of Global Economic Policy, Trade Policy and Geopolitical Uncertainty Indices

Source: FRED, TPU, policyuncertainty.com.

* Uncertainty index measures the monthly share of newspaper articles discussing policy uncertainty-related terms (relative to the total number of articles), normalized so that a 1% share corresponds to an index value of 100.

In 2025, despite elevated economic risks, the global economy demonstrated relative resilience to shocks. According to preliminary estimates by the International Monetary Fund (IMF), global economic growth in 2025 turned out to be stronger than expected and amounted to 3.3%. U.S. tariff policy and geopolitical tensions exerted a negative impact on global economic activity and intensified inflationary risks. However, the adverse effects of trade policy were partially offset by increased investment related to technology, largely associated with artificial intelligence (AI). In addition, the relative easing of financial conditions and fiscal stimulus continue to support economic activity. Since April 2025, the relative easing of financial conditions has been driven both by reductions in policy rates in advanced economies and by rising corporate valuations (rising equity prices and narrowing corporate bond spreads) (see [the IMF Global Financial Stability Report](#)).

According to the IMF's updated forecasts, global inflation is expected to decline from 4.1% to 3.8% in 2026, while economic growth is projected to remain at 3.3%. Notably, in advanced economies, inflation in services and other sticky prices continues to exceed target, posing a key policy challenge.

Against this backdrop, risks of high inflation, low economic activity, and financial instability remain elevated globally. In particular, the rapid growth of investments related to AI may amplify risks to economic and financial stability. If asset prices in equity markets significantly exceed their fundamental values, a subsequent correction and sharp decline in asset prices could deteriorate household balance sheets and, consequently, lead to a contraction in aggregate demand. In addition, a sharp increase in AI-related investments may be reflected in an increase in the real neutral interest rate. However, a more optimistic scenario may also materialize, under which growing investment in AI, through higher productivity, contributes to minimizing welfare losses.

At the country level, by the end of 2025 risks of a weakening labor market emerged in the U.S.. However, inflation has remained above the 2% target for an extended period, while real con-

According to current assessments, the pass-through of U.S. tariff policies to prices is expected to peak in 2026, exerting upward pressure on inflation expectations. At this stage, considering the existing risks, the Fed's rate trajectory has been revised upward compared with October.

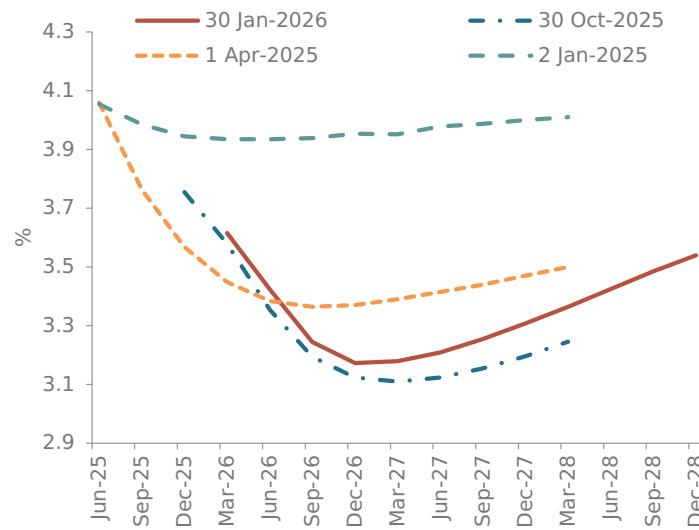


Figure 1.2. Market Expectations of Fed Funds Rate Path

Source: Atlanta Fed.

The U.S. dollar index (DXY) continues to hold a weak position. The persistence of elevated 10-year Treasury yields reflects ongoing fiscal risks and higher-than-targeted inflation expectations.

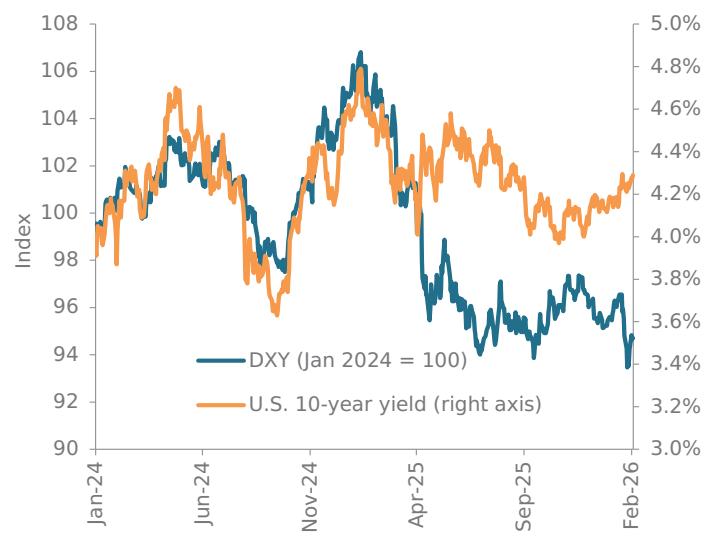


Figure 1.3. Dollar Index (DXY) and the Yield of 10-year U.S. Treasuries

Source: Bloomberg, FRED.

Consumption continues to show growth. Notably, a key driver of consumption growth is the surge in household financial wealth, supported by rising stock prices. In turn, the segment of households that does not hold financial assets benefits less from this increase. This points to a so-called "K-shaped" pattern of economic growth¹ in the U.S., implying that it is less inclusive. This macroeconomic dynamic has placed the Federal Reserve (Fed) in a dilemma. At its first meeting of 2026, the Fed maintained a cautious monetary policy stance and left the policy rate unchanged. A significant risk remains the gradual pass-through into prices of higher production costs resulting from tariff policy, as well as persistently high inflation in the services sector, both of which prompt the Fed to maintain a cautious stance going forward (see Figure 1.2). It should be noted that, amid increased fiscal burdens and prevailing inflationary risks, yields on 10-year treasury securities remain elevated (see Figure 1.3). The position of the U.S. dollar index still remains relatively weak.

In the euro area, headline inflation returned to the 2% target in December 2025. However, despite easing, inflation in the services sector remains relatively high at 3.4%, largely driven by wage growth. In turn, wage growth stems from tight labor market conditions, as the unemployment rate declined to a historically low level of 6.2% in January. Regarding economic activity, the euro area recorded 0.3% growth in the third quarter, associated with relatively higher consumption and investment. Concurrently, economic activity in Germany improved, partly reflecting fiscal stimulus. In addition, exports increased despite global trade tensions and tariff disputes. According to the IMF's current forecast, the euro area economy is expected to gradually return to its long-term trend (see Figure 1.4). At this stage, although real economic activity remains below its potential level, amid inflationary pressures from relatively sticky prices, the scope for continuing monetary policy normalization is more limited.

According to preliminary IMF estimates, the Chinese economy grew by 5.0% in 2025, largely driven by stronger-than-expected export growth and fiscal stimulus. Following the escalation of tariff policy, the rapid reconfiguration of supply chains and the development of new export markets enabled China to achieve historically high net export revenues. However, it should be noted that the economy faces significant structural challenges. Imbalances between consumption and production pose risks to the industrial sector and,

¹ See supplementary analysis <https://www.usbank.com/content/dam/usbank/en/documents/pdfs/corporate-and-commercial-banking/k-economy.pdf>

Compared with the previous forecast, growth expectations in Georgia's trading partner countries have improved slightly. This is mainly due to higher-than-expected fiscal stimulus, eased financial conditions, and the relatively limited impact of tariff policies.

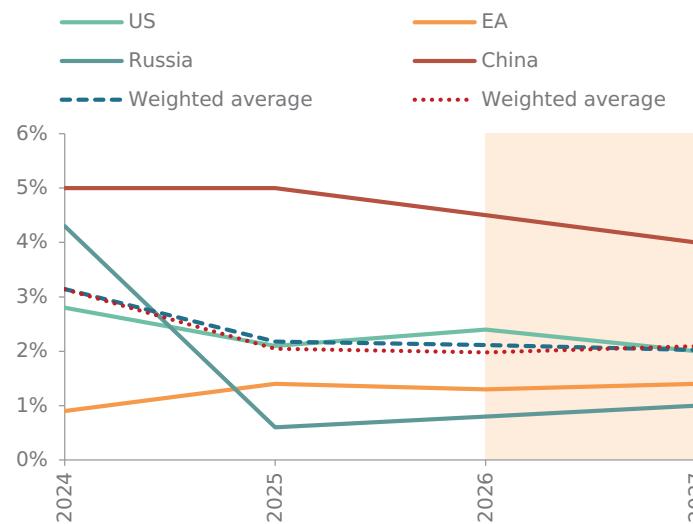


Figure 1.4. Real GDP Growth of Economic Partner Countries*

Source: International Monetary Fund (IMF), NBG.

*The weights for the **weighted average growth** are determined by the country's share in Georgia's foreign trade turnover.

consequently, to long-term economic growth. In terms of inflation, the tendency reversed by the end of 2025, with a 0.8% inflation rate recorded in December, following a deflationary period and partially driven by base effects.

In Russia, amid a significant slowdown in aggregate demand and easing inflationary pressures, the monetary policy rate has been gradually reduced; however, the central bank still continues to maintain a restrictive stance. At the same time, the high interest rate has a restrictive effect on economic growth. Historically low unemployment and labor shortages create a need to attract workers from neighboring countries. Geopolitical risks and sanctions worsen Russia's medium-term economic growth prospects (see Figure 1.4).

The economic outlook and inflation expectations of Georgia's trading partners affect the country's external demand and imported inflation. Compared with the previous forecast, growth expectations in Georgia's trading partner countries have improved slightly. This is primarily due to higher-than-expected fiscal stimulus, eased financial conditions, and the relatively limited impact of tariff policies. Furthermore, amid particularly tense geopolitical conditions, the dynamics of international commodity prices have a significant impact on imported inflation.

Mixed signals continue to prevail in international commodity markets. In recent months, the international food price index has shown a year-on-year decline, decreasing by 0.6% in January 2026 (see Figure 1.5). However, price dynamics differ across individual products that carry relatively high weights in Georgia's consumer basket. In particular, supply-side pressures, including disruptions caused by geopolitical factors, have exerted upward pressure on sunflower oil prices. Meat prices have also increased significantly in recent months, reflecting structural challenges. On the other hand, partly due to favorable climatic conditions and high base effects, prices for sugar, cocoa, cereals, and dairy products have declined. All else being equal, price dynamics for these products on international markets should be gradually transmitted to the Georgian market in the upcoming months.

Oil prices on global markets continue to exhibit high volatility, driven by the interplay of supply and demand factors (see Figure 1.6). Despite a declining prices until December 2025, risks of renewed escalation of conflict in the Middle East remain a source of uncertainty for the oil market. At the same time, still-sufficient oil inventories and gradual production increases by OPEC+

Mixed signals are emerging in international food markets amid climate and structural challenges. While prices for some categories of products are declining year-over-year, certain products remain inflationary.

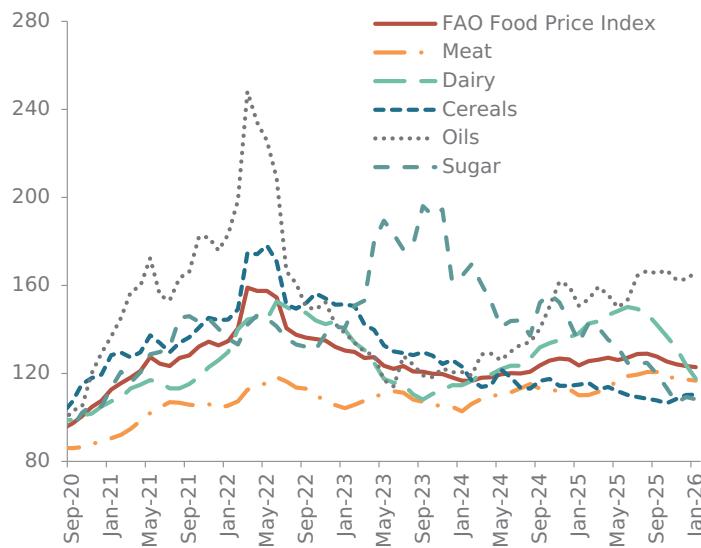


Figure 1.5. Prices of International Commodity Products, Index, Dec-2019=100

Source: FAO, NBG calculations.

Against the backdrop of ample inventories, rising supply, and geopolitical tensions, international oil prices are characterized by downward tendencies due to ongoing weak demand. Nonetheless, the risk of escalating conflict in the Middle East continues to underpin price volatility.



Figure 1.6. Brent Oil Price, Index, Dec-2019=100

Source: Bloomberg, NBG calculations.

countries create expectations of declining prices². This is further compounded by global demand remaining relatively weak, including in the context of China's economic growth outlook, which reflects additional downward pressure on prices from the demand side. At the current stage, fuel prices in Georgia are disinflationary; however, all else being equal, their future impact will largely depend on global supply and demand developments in oil markets as well as on the dynamics of transmission to the domestic market.

² see https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf

2. OVERVIEW OF THE CURRENT MACROECONOMIC ENVIRONMENT IN GEORGIA AND FORECAST SCENARIOS

2.1. OVERVIEW OF THE CURRENT MACROECONOMIC ENVIRONMENT IN GEORGIA

Amid ongoing structural changes in the economy, economic growth is primarily driven by less import-intensive sectors.

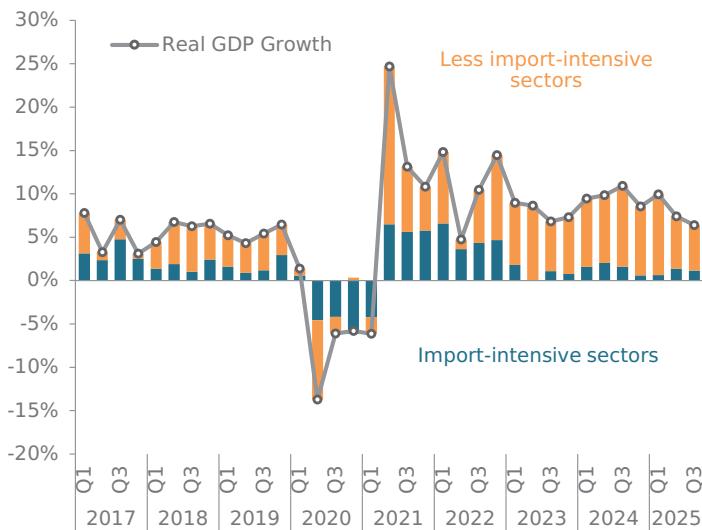


Figure 2.1.1. Sectoral Composition of Real GDP Growth by Degree of Import Dependence (Contribution to Growth)

Source: NBG, Geostat.

High-productive sectors remain the main drivers of economic growth, while the gradual normalization of growth across certain sectors helps the economy align more closely with its long-term potential.

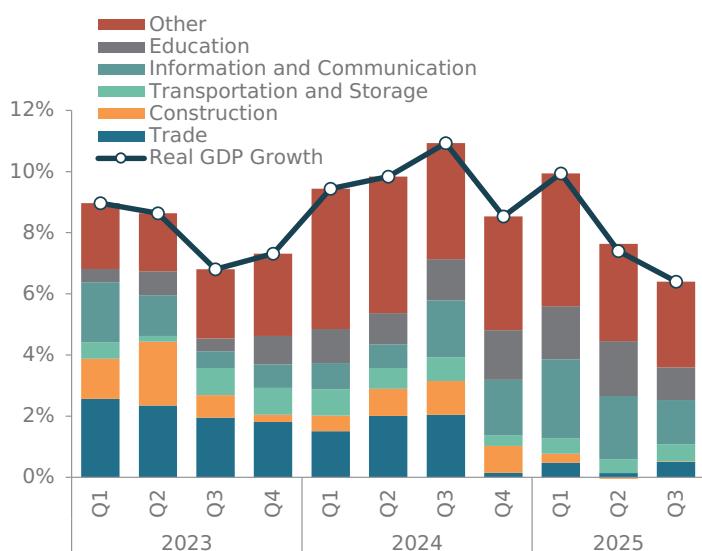


Figure 2.1.2. Sectoral Decomposition of Real GDP growth (Contribution to the Growth)

Source: NBG, Geostat.

During 2025, economic activity remained at a high level; however, compared to previous years, it converged more to its long-term trend level (5%). Amid structural changes, the main driver of economic growth continues to be sectors oriented toward services, which are relatively less import-intensive (see Figure 2.1.1). At the same time, in some of these sectors a gradual normalization of growth rates has been observed, including in construction and transportation. Meanwhile, the role of the information and communication technology (ICT) and education sectors in economic growth remains high (see Figure 2.1.2). In turn, the leading contribution of high-productive sectors indicates a less inflationary growth of real GDP.

In addition to structural changes, aggregate demand supported economic growth, driven by both strong domestic and external demand (see Figure 2.1.3). However, in terms of domestic demand, there are signs of gradual normalization. In particular, the growth of real wages has slowed compared with previous years (see Figure 2.1.4), which is expected to gradually moderate consumer spending. At the same time, credit growth has gradually approached its equilibrium level (13–15%), with the annual growth of the credit portfolio reaching 14% (see Figure 2.1.5), which also supports the gradual normalization of aggregate demand.

Compared with early 2025, financial conditions in the national currency have eased, though they remain relatively tight (see Figure 2.1.6), dampening the recent growth of lari-denominated loans. However, amid stable position of the lari exchange rate and globally eased financial conditions (see Chapter 1) growth rate of foreign-currency business loans has slightly accelerated in the domestic market. These tendencies, combined with high capital accumulation in previous years, contributed to a slowdown in investment growth in 2025.

Under ongoing structural changes favoring service-oriented, high-productivity sectors, the current account balance improved significantly. In particular, during the first three quarters of 2025, the current account deficit amounted to 2.1% of GDP (see Figure 2.1.7), while in the third quarter a surplus of 3.3% of GDP was recorded, represent-

Domestic demand shows signs of normalization, though it remains at a high level. Against the backdrop of less import-intensive growth, external demand continues to have a positive impact on aggregate demand.

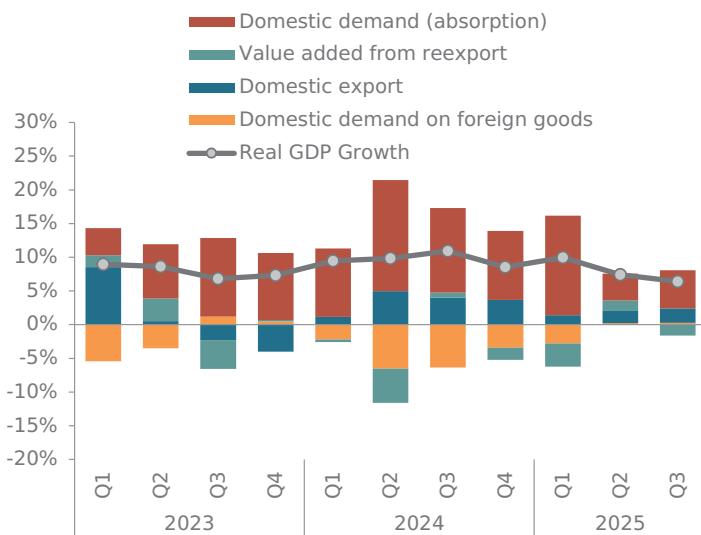


Figure 2.1.3. Decomposition of Real GDP Growth by Expenditures (Contribution to the Growth)

Source: NBG, Geostat.

* The value added from re-export refers to the revenue generated from re-exports, excluding the imports intended for re-export.

Domestic demand on foreign goods includes imports, excluding products intended for re-export.

The moderation in real wage growth supports the normalization of domestic demand.

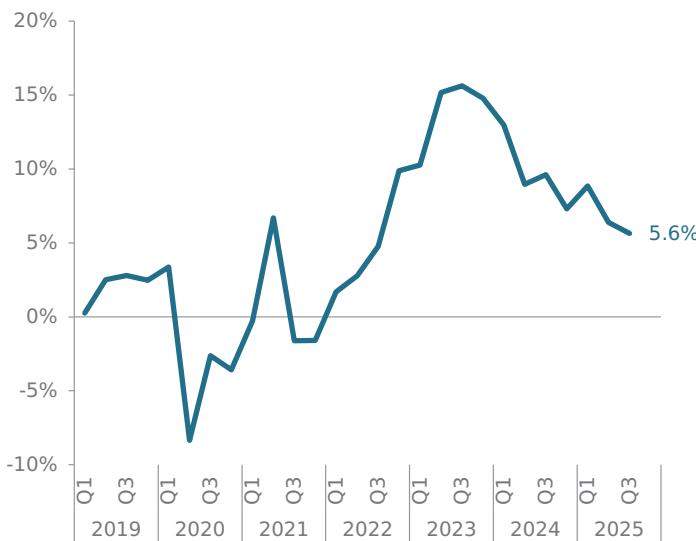


Figure 2.1.4. Year-over-year Growth Rate of Real Wages*

Source: NBG, Geostat.

* Real wage is calculated by adjusting nominal wage for the price level.

ing one of the highest levels observed historically. On the one hand, the shift of economic activity toward less import-intensive sectors slowed the growth of imported goods (see Figure 2.1.8). Declining global oil prices also contributed to weaker import growth. On the other hand, along with a significant improvement in the goods balance, strong growth in services exports positively affected the current account. In particular, in 2025, revenues from tourism increased by 6.0% year-on-year. Revenues from exports of computer and information services (ICT) also remained high, accounting for 2.9% of GDP in the first three quarters of 2025. Beyond services, remittance inflows also exhibited robust growth dynamics. In 2025, remittances increased by 8.5% on an annual basis, supporting both the current account balance and aggregate demand. Considering these dynamics, the current account deficit in 2025 improved relative to its estimated long-term equilibrium level of 5% of GDP.

The improved current account balance, along with a relatively weak U.S. dollar globally, has supported the maintenance of a stable exchange rate, all else being equal. This, in turn, reduced the risks of additional inflationary pressures stemming from servicing dollar-denominated loans. Alongside exchange rate stability, increased confidence in the national currency was reflected in a declining deposit dollarization, which reached 47.7% at the end of the year (see Figure 2.1.9). The increase in lari deposits is also an indicator of the stability of both household and business sector sentiments. Furthermore, the sovereign risk premium remaining low relative to its equilibrium level can be viewed as an additional indicator of macroeconomic stability (see Figure 2.1.10).

Against the backdrop of a stable nominal effective exchange rate (NEER), the real effective exchange rate (REER), according to the NBG, converged to its long-term equilibrium level. The annual depreciation of the REER is mainly driven by inflation differentials between Georgia and its trading partner countries (see Figure 2.1.11). Specifically, inflation is, on average, higher in trading partner economies, with Turkey's high inflation contributing significantly. The depreciation of the REER supports the competitiveness of domestically produced tradable goods in international markets; however, it also exerts upward pressure on imported inflation.

The labor market is relatively less inflationary. Productivity growth has slowed slightly but remains comparatively high and close to the rate of wage growth. As a result, the increase in labor costs per unit of output is below the target 3% inflation. Hence, inflationary pressures stemming

The growth rate of credit activity remains close to its equilibrium.

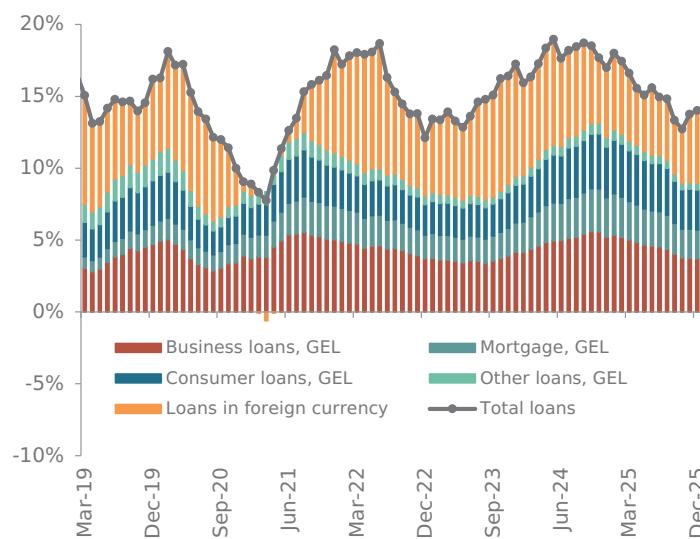


Figure 2.1.5. The Growth Rate of Total Credit Flows by Purpose in Domestic and Foreign Currencies

Source: NBG.

from the labor market remain low (see Figure 2.1.12).

Overall, given the tendencies mentioned above, domestic economic fundamentals continue to support price stability. Measures of relatively sticky prices, such as core inflation, remain below the target, while services inflation has increased slightly, reaching 3% (see Figure 2.1.13), indicating the stability of long-term inflation expectations and a relatively less broad-based inflationary process.

Since March 2025, the deviation of headline inflation from the target, together with the low base effect from the previous period, has been largely driven by exogenous factors. Food price inflation has played a dominant role, exhibiting dynamics characterized by mixed signals. On the one hand, as noted in the overview of the global macroeconomic environment (see Chapter 1), prices for certain commodity groups on international markets, including sunflower oil and some types of meat, have been rising, and these increases have been transmitted to the domestic market. The increase in the prices of these products is largely due to structural factors, specifically constrained global supply under relatively stable demand conditions. On the other hand, for certain products such as sugar and cereals, international market prices are declining. This dynamic has already partially affected domestic prices and, all else being equal, is expected to contribute to a decline in food inflation in the coming period.

Alongside external factors, domestic one-time price adjustments for certain products, increases in excise taxes on cigarettes and volatility in agricultural prices have put upward pressure on inflation. Conversely, prices for imported goods have been deflationary, largely reflecting the pass-through of declining oil prices on international markets. At the same time, amid a relatively stable position of lari exchange rate, inflation for durable consumption goods, which are predominantly imported, has remained low (see Figure 2.1.14).

Overall, given the gradual materialization of various exogenous factors and the risks of prolonged high inflation relative to the target, maintaining a moderately tight monetary policy stance is considered optimal.

Financial conditions eased somewhat in the second half of 2025, yet remained relatively tight.

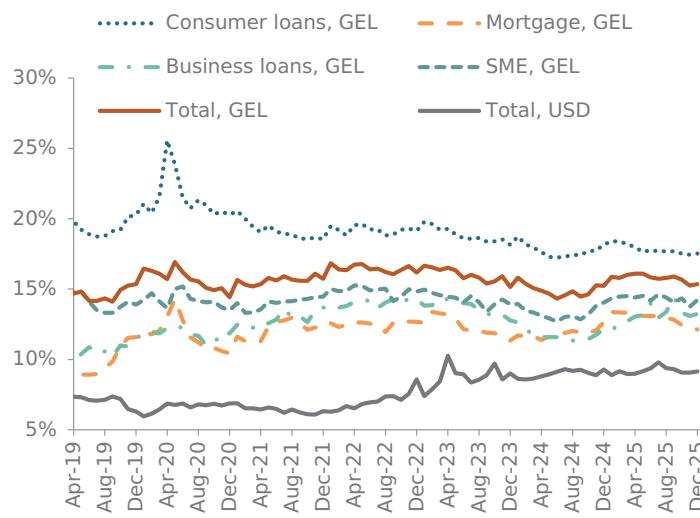


Figure 2.1.6. Interest Rates on Loan Flows in National and Foreign Currencies (Breakdown of Lari-denominated Loans by Purpose)

Source: NBG.

The dynamics of the external sector have improved the current account, and the deficit has narrowed compared with its long-term equilibrium level (5% of GDP).

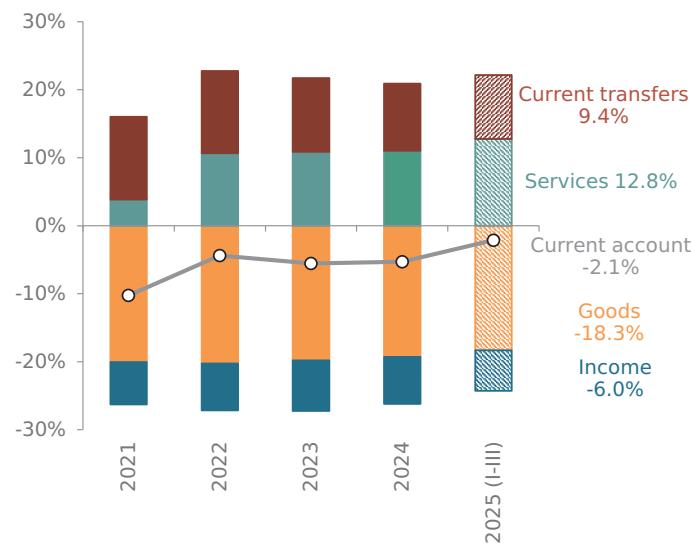


Figure 2.1.7. Current Account Balance Decomposition (% of GDP, according to BPM5)

Source: NBG.

In 2025, domestically consumed imports remained at a low level, driven by investment, intermediate, and consumer components.

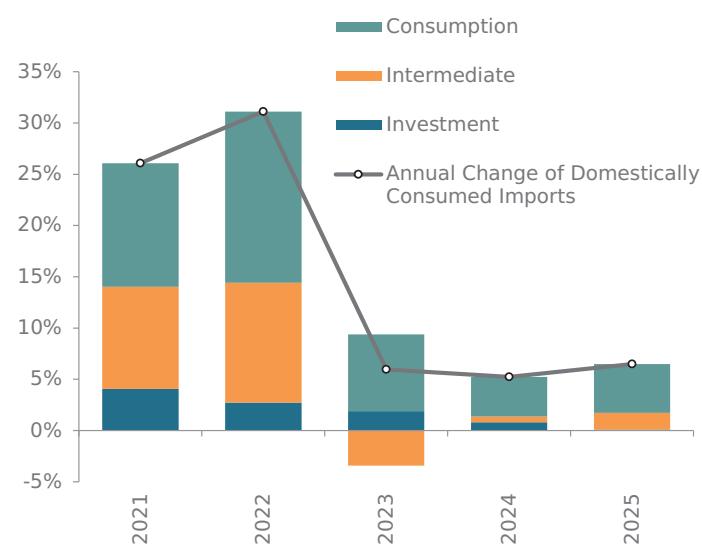


Figure 2.1.8. Breakdown of Domestically Consumed Imports by BEC Category*

Source: NBG, Geostat.

* Domestic imports includes imports excluding those of machinery, gasoline, paintings, copper, and goods of unspecified type.

By the end of 2025, against the backdrop of a stable lari exchange rate, deposit dollarization declined for both households and the business sector. In turn, the reduction in dollarization further supported the stable position of lari.

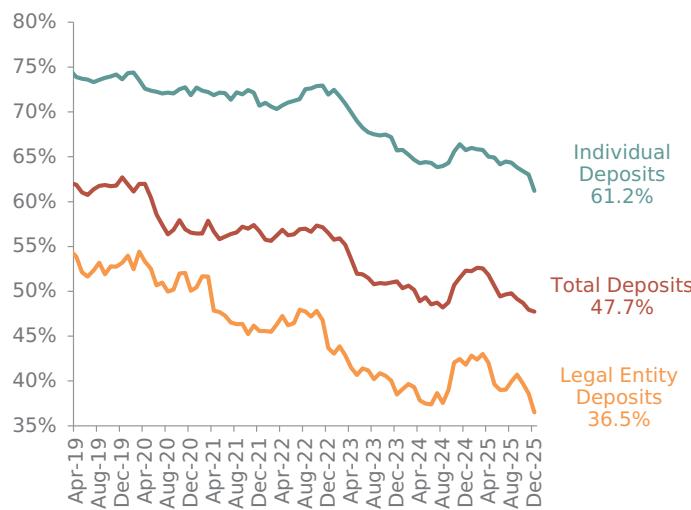


Figure 2.1.9. Deposit Dollarization (Excluding Exchange Rate Effects)

Source: NBG.

At this stage, Georgia's sovereign risk premium remains close to its equilibrium level, indicating positive investor sentiment toward the economy.

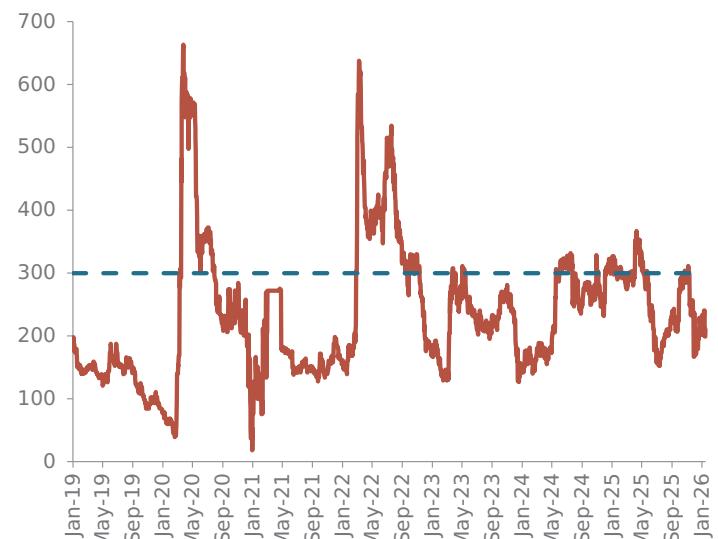


Figure 2.1.10. Spread Between 5-Year USD-Denominated Government Bond Yields of Georgia and the United States

Source: Bloomberg, NBG.

The real effective exchange rate is converging toward its equilibrium level through the inflation differential channel between Georgia and its trading partners.

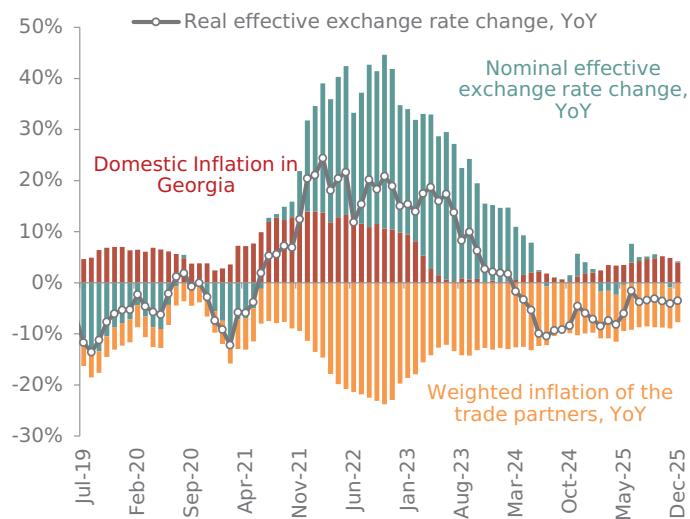


Figure 2.1.11. Decomposition of the Year-over-year Change in the Real Effective Exchange Rate of the Georgian lari*

Source: NBG, Geostat.

* The Real effective exchange rate and its components are presented in logarithmic terms, and, accordingly, their year-over-year changes are a first-order approximation of percentage changes.

Headline inflation remains above the target, mainly due to base effects and exogenous factors, although relatively long-term inflation expectations remain stable.

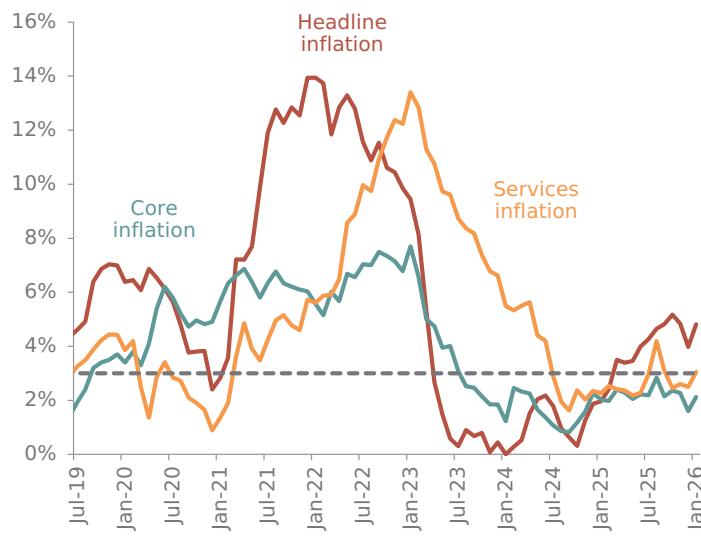


Figure 2.1.13. Headline, Core and Service Year-over-year Inflation Measures

Source: Geostat.

On an annual basis, amid persistently high productivity and the gradual normalization of wages, labor costs per unit of output remain relatively non-inflationary.

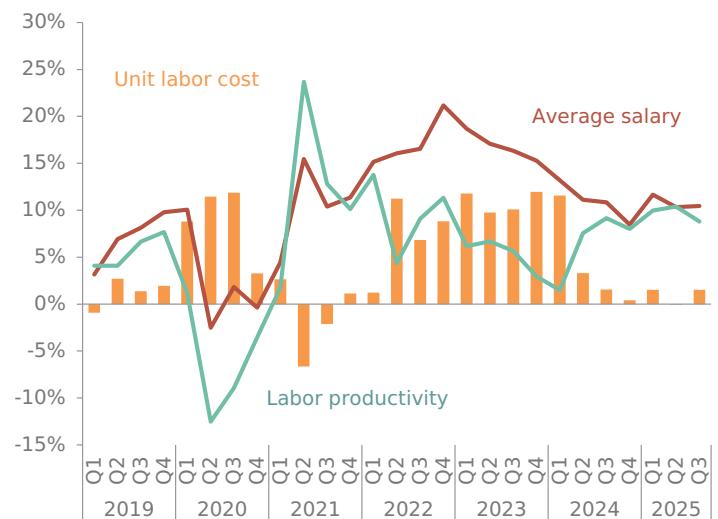


Figure 2.1.12. Average Wage, Labor Productivity, and Unit Labor Cost, Year-over-year Growth Rate

Source: Geostat, NBG.

The main reason headline inflation has deviated from the target is food, whose price dynamics are largely driven by both international market conditions and domestic factors.

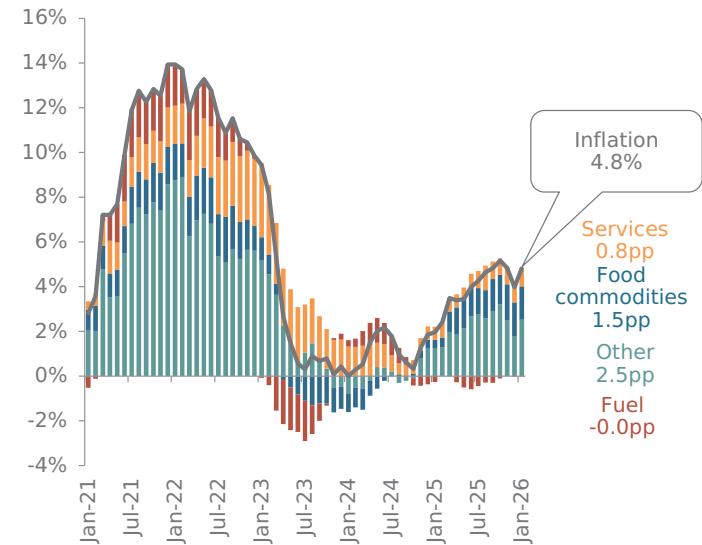


Figure 2.1.14. Inflation by Components

Source: Geostat, NBG.

2.2. CENTRAL SCENARIO

Amid global and domestic uncertainties, macroeconomic forecasts continue to be characterized by a high degree of uncertainty. Hence, in conducting monetary policy, the National Bank of Georgia relies on a scenario-based approach. **The central scenario** incorporates a broad range of current information discussed in previous chapters, as well as assumptions regarding both exogenous factors and the economy's transmission mechanisms. Ultimately, it reflects a monetary policy path that, consistent with the policymaker's preferences³ (considering the balance of existing risks), ensures the minimization of economic losses and readiness under any scenario.

Over the past year, supply-side shocks independent of monetary policy remained the main source of inflation. Particularly, inflation exceeding the 3 percent target was driven by rising food prices in domestic and mixed products, partly reflecting base effects from last year and the impact of exogenous factors (see Subchapter 2.1. Overview of the Current Macroeconomic Environment in Georgia). However, the increase in food prices did not translate into elevated inflation expectations and second-round effects. For example, services inflation, which best reflects changes in long-term inflation expectations, remained persistently low throughout the period. This suggests that inflation was not broad-based, and price increases were largely driven by specific, one-off factors.

According to the NBG's central scenario, these one-off effects (including bread and agricultural product prices) will gradually fade starting from the second quarter of 2026, supporting convergence of inflation toward the target level (see Figures 2.2.1-2.2.2). However, the future dynamics of energy prices warrant close attention, as they depend on both domestic and global factors. According to the Energy Information Administration, excess supply and rising inventories in global oil markets are expected to put downward pressure on oil prices in 2026. However, the NBG's central scenario envisions a comparatively moderate price dynamics, reflecting the risks of upward price pressures amid potential escalation of geopolitical tensions and conflicts in the Middle East (see Chapter 1, Overview of the Global Macroeconomic Environment). Moreover, global economic fragmentation, as well as fiscal, economic, and financial stability risks, is expected to affect the economy mainly indirectly through

Given the gradual dissipation of food price inflation effects, amid the base effects from the previous year and a conservative assessment of energy prices, inflation is projected to average 3.7% in 2026 and 2.8% in 2027.

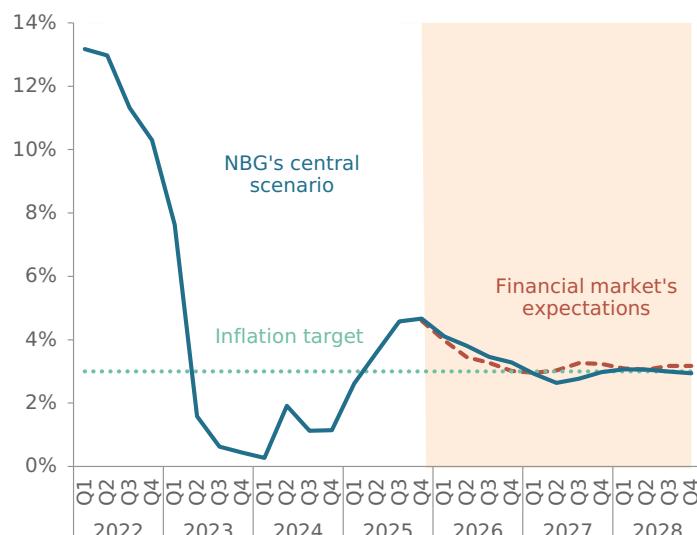


Figure 2.2.1. Central scenario of annual inflation and inflation expectations of financial market participants

Source: NBG, Financial Market Participants.

³ The National Bank of Georgia's priorities to anchor inflation expectations around the inflation target, which may include, among other measures, delayed policy normalization.

The gradual return of inflation to its target level will be largely driven by base effects of certain products within the food category, further supported by the convergence of aggregate demand toward its equilibrium level.

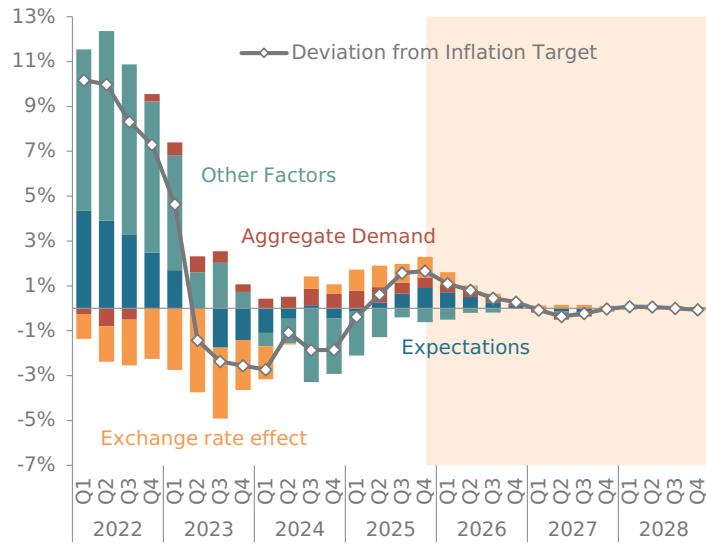


Figure 2.2.2. Decomposition of annual inflation deviations from target under the central scenario

Source: NBG, Geostat.

The dynamics of economic growth are in line with expectations. Growth continues to be driven primarily by service-oriented sectors that are relatively less import-intensive. Under the central scenario, economic growth is expected to return to its long-term growth rate of 5% starting from 2026.

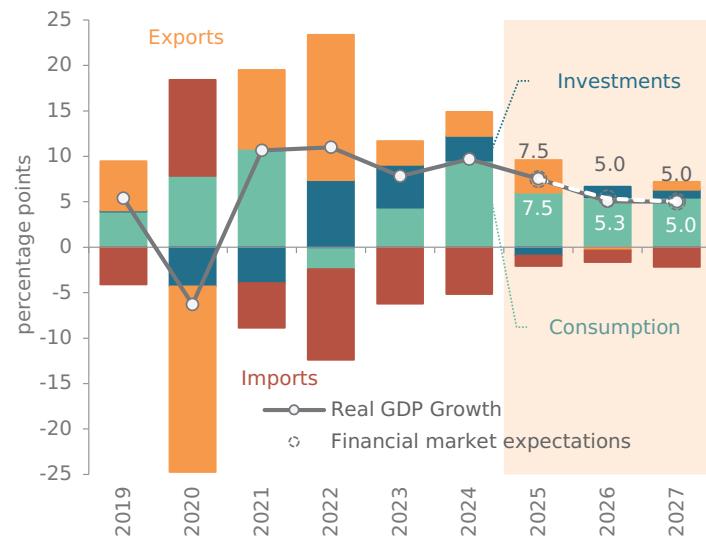


Figure 2.2.3. Central Scenario for Real GDP Growth and Financial Market Participants' Expectations of Economic Activity

Source: NBG, Financial Market Participants, Geostat.

the investment, trade, and expectations channels. Eventually, external factors are expected to have a moderate but inflationary effect on future domestic price dynamics.

Convergence toward the inflation target will also be supported by a weakening of inflationary pressures stemming from **aggregate demand**: economic activity is expected to normalize in line with potential output growth, which will gradually ease inflationary pressures arising from excess capacity utilization. Ultimately, amid current inflation inertia and exogenous factors, **inflation is expected to remain temporarily above the 3 percent target**. Given the gradual dissipation of the impact stemming from food prices, base effects from the previous year, and a conservative assessment of energy prices, headline inflation is projected to **average 3.7% in 2026 and 2.8% in 2027** (see Figure 2.2.1).

Compared to the **previous central scenario**, the inflation forecast for 2026 has increased by 0.2 percentage points (pp). Both low- and high-inflation risks have partially materialized. Relative to the previous forecast, the peak level of inflation turned out to be lower, which, amid improved inflation inertia, supports a return of inflation toward the target level. However, in contrast, prices of commodities and energy resources in the current period have turned out to be higher than expected. Consequently, over the forecast horizon, the inflationary impact stemming from this category is stronger, which has led to an upward revision of the inflation forecast relative to the previous projection.

Inflation expectations of financial market participants are largely in line with the NBG's central scenario. Particularly, according to financial market forecasts, average inflation in 2026 has increased by 0.1 pp to 3.4% compared with the previous survey, while the forecast for 2027 remains unchanged at an average of 3.1% (see Figure 2.2.1).

Regarding **economic activity**, preliminary data indicate that average real GDP growth amounted to 7.5% in 2025. Growth continues to be driven primarily by service-oriented sectors that are relatively less import-intensive. In 2026, consumption is expected to remain the main driver of economic growth, stabilizing around its long-term level, alongside the maintenance of credit activity near its current rate. Moreover, partly reflecting base effects, the strengthening of investment and, more broadly, goods imports, coupled with the easing of currently strong external demand, will lead to a gradual normalization of net exports. Accordingly, **under the central scenario, economic growth is projected to return to its**

Taking into account inflationary risks that are independent of monetary policy, the central scenario assumes a slight delay in normalization, resuming only after these risks have sufficiently dissipated.

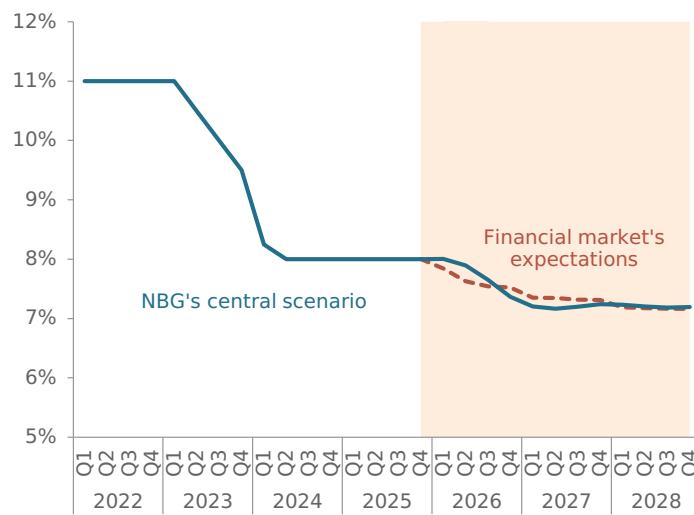


Figure 2.2.4. Central scenario of the monetary policy rate and expectations of financial market participants

Source: NBG, Financial Market Participants.

long-term rate of 5% starting from 2026 (see Figure 2.2.3).

It is worth noting that **expectations regarding economic growth in financial markets**, similar to inflation, are aligned with the NBG's central scenario. In particular, according to the average forecast of market participants, economic growth is expected to stabilize around its potential level. As a result, economic growth is projected at 5.3% in 2026 and 5% in 2027.

As noted above, under the central scenario, inflationary pressures stemming from exogenous shocks are expected to have only a one-off, transitory impact and gradually subside. Central banks typically do not respond in such circumstances, except when these shocks lead to an increase in medium- and long-term inflation expectations. Despite current assessments not indicating a rise in inflation expectations, the NBG will cautiously proceed with monetary policy normalization, following a risk-minimization approach, to fully neutralize second-round risks. In particular, given the domestic and global inflationary risks that are independent of monetary policy, **policy normalization will be delayed in the short term, resuming only after these risks have sufficiently dissipated**. This implies a higher policy rate path compared to financial market expectations (see Figure 2.2.4).

2.3. HIGH-INFLATION SCENARIO

Amid high uncertainty, the **High-Inflation Scenario** is as relevant as the central scenario and considers the realization of the identified risks that would result in a higher inflation than in the central scenario. In particular, the scenario assumes a more pronounced materialization of both domestic and global inflationary risks identified in the current data, relative to the central scenario. Additionally, it takes into account elevated inflationary pressures stemming from commodity markets (see Table 2.3.1). Accordingly, should these risks materialize, the NBG will pursue a tighter monetary policy compared to the central scenario to prevent a deterioration of long-term inflation expectations.

The global economy continues to be characterized by high uncertainty. The risk of escalation of the conflict in the Middle East has increased. The materialization of this risk could negatively affect global economic sentiment and increase risk perception. In such periods, all else being equal, investors tend to direct capital toward safe-haven

The high-inflation scenario is based on an escalation of geopolitical tensions, inflationary pressures stemming from commodity markets, second-round effects of rising energy prices and strong domestic demand.

High-Inflation Risks			
Indicators of risk realization	Impact on inflation		
Deterioration of short-term inflation expectations.			
High domestic food inflation resulting from rising international commodity prices.			
Worsening of the current account balance amid strong imports.			
Increase in regional and country risk premiums in the short term.			
Impact size			
Neutral	Low	Medium	High
	Upward Pressure on Inflation		
	Same Level of Inflation		
	Downward Pressure on Inflation		

Table 2.3.1. Taxonomy of Risks in High-inflation Scenario

Source: NBG.

countries, resulting in strengthened capital outflows from emerging and developing economies to advanced economies. Meanwhile, an escalation of the conflict would pose a threat to global oil supply and exert upward pressure on oil prices. Ultimately, the materialization of renewed escalation of geopolitical risks would create inflationary pressures stemming from external factors. In light of elevated inflation expectations, this would influence the formation of wages and final prices. Notably, in the central scenario, declining international oil prices and, partly due to base effects, food prices exert downward pressure on inflation. In contrast, the rising pressures incorporated into the high-inflation scenario significantly increase inflation risks.

In the short term, the high-inflation scenario also assumes the persistence of strong demand (consumption), which, together with the inertia of economic activity, **will result in a higher real GDP growth of 5.5% in 2026 compared with the central scenario**. The latter will also generate additional inflationary pressures, amid normalization in the growth of high-productivity sectors (accordingly, potential growth). Notably, while the improvement in the current account deficit in 2025 was driven by slower import growth alongside a higher services balance, the increased consumption envisaged in the high-inflation scenario will lead to a stronger demand for imports. Moreover, upward pressure on oil prices will increase the value of imported petroleum products, worsening the current account deficit and generating depreciation pressure on the exchange rate. Ultimately, the combined effect of the above-mentioned demand- and supply-side factors will increase **inflation relative to the central scenario by 0.9 pp in 2026 and by 1.0 pp in 2027, raising average inflation to 4.6% and 3.9%, respectively** (see Figure 2.3.2). Inflation remaining above target for a prolonged period will affect long-term inflation expectations, toward which the National Bank of Georgia has low tolerance and will respond by tightening monetary policy. As a result of the effects of tighter monetary policy, economic activity will slow down **in 2027, with real GDP growth amounting to 4.0%** (see Figure 2.3.1).

It should also be noted that the probability of an increase in neutral interest rates in advanced economies has risen, which under the realization of the risks envisaged in the NBG's high-inflation scenario, will exert upward pressure on long-term interest rates in Georgia as a small open economy. Accordingly, the aforementioned high-inflation scenario also incorporates **a revision of the domestic neutral rate to 7.5%, and the mon-**

Against the backdrop of strong domestic demand, real GDP growth is expected to average 5.5% in 2026, while in 2027, it will fall to 4% amid tightened monetary policy in response to inflationary pressures.

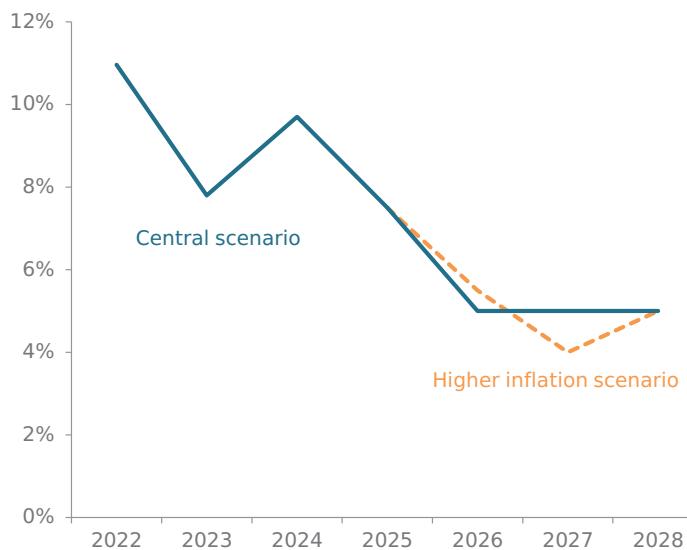


Figure 2.3.1. Real GDP Growth Under Central and High-Inflation Scenarios

Source: NBG, Geostat.

Unstable conditions in commodity markets, second-round effects stemming from rising energy prices, and depreciation pressures on the exchange rate, will significantly increase inflationary pressures over the monetary policy horizon and delay the return of inflation to its target.

Monetary policy rate will be higher than the central scenario **by 1 pp in 2026 and by 1.2 pp in 2027**. Thereafter, normalization of the policy rate toward the 7.5% level will proceed at a gradual pace, only once inflationary risks fade and the inflation environment has stabilized (see Figure 2.3.3).

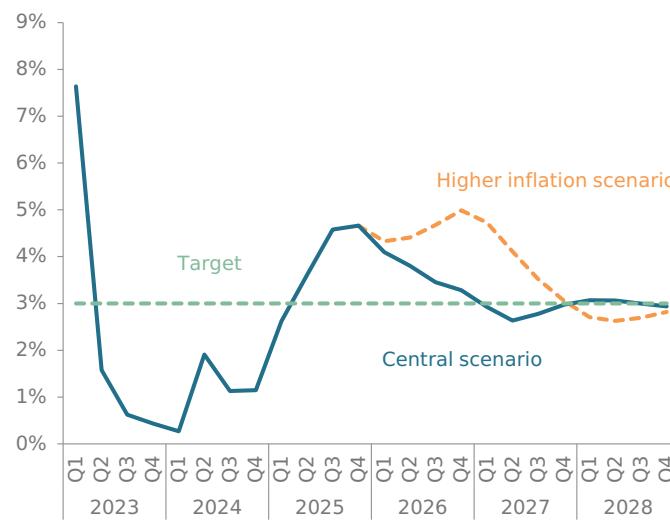


Figure 2.3.2. Year-over-year Headline Inflation Under Central and High-Inflation Scenarios

Source: NBG, Geostat.

The National Bank of Georgia has low tolerance against the rise in inflation expectations. Consequently, the high inflationary environment in this scenario, compared to the central scenario, will lead to a tightening of monetary policy. Subsequent normalization will begin at a gradual pace, contingent on the stabilization of the inflationary environment, towards 7.5% level.

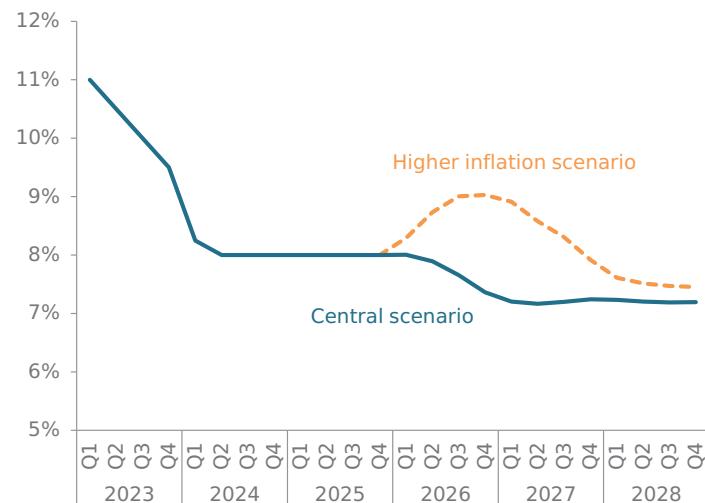


Figure 2.3.3. Monetary Policy Rate Under Central and High-Inflation Scenarios

Source: NBG.

The low-inflation scenario, relative to the central, envisions lower oil and food prices on international commodity markets. In addition, the scenario considers the maintenance of high productivity growth, and prolonged disinflationary effect stemming from the labor market.

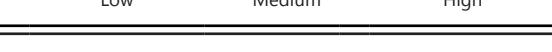
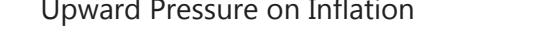
Low-Inflation Risks	
Indicators of risk realization	Impact on inflation
Low prices of petroleum products in the domestic market	
The sustained high growth of economic potential	
Disinflationary effect stemming from low unit labor costs	
Amid strong external inflows, the maintenance of an improved current account balance	
Impact size	
Neutral	
Low	
Medium	
High	
 Upward Pressure on Inflation	
 Same Level of Inflation	
 Downward Pressure on Inflation	

Table 2.4.1. Taxonomy of Risks in Low-inflation Scenario

Source: NBG.

2.4. LOW-INFLATION SCENARIO

The Low-Inflation Scenario is as relevant as the high-inflation and central scenarios. It envisions the materialization of relevant risks that are less inflationary compared to the central scenario (see Table 2.4.1). Particularly, this scenario assumes a rapid decline in oil prices in international commodity markets and their full pass-through to the domestic energy market. Moreover, productivity is expected to remain at a relatively high level, which, in turn, will prolong disinflationary tendency stemming from the labor market. Furthermore, the scenario considers the maintenance of geopolitical risks at a low level and weak U.S. dollar positions globally.

In recent years, Georgia's sustained strong economic growth has been primarily driven by structural changes and accelerated the economy's potential growth. The low-inflation scenario assumes that supply-supporting sectors, including information and communication as well as transportation, will continue to serve as the primary drivers of economic growth. Accordingly, compared to the central scenario, a gradual normalization of productivity is anticipated, while the economy's potential growth is expected to remain at a relatively high level over the long term.

High productivity will, in turn, offset the pressure stemming from strong demand and, amid disinflationary effects from the supply side (primarily declining petroleum product prices), will lead to a rapid normalization of the policy rate. Meanwhile, amid improved business and consumer sentiment, financial conditions will further ease, which, in turn, strengthens the economic growth outlook. Eventually, under this scenario, **economic growth is projected to average 6% in 2026. Improved macroeconomic fundamentals lead to a revision of long-term potential growth to 5.5 percent, and economic growth in 2027 will stabilize around this level** (see Figure 2.4.1).

As noted above, the high economic growth in recent years was driven by high-productivity sectors, which tend to be less import-intensive. Under the low-inflation scenario, aforementioned structural change is expected to be maintained. Particularly, on the one hand, growth in services exports is expected to continue (especially in the ICT sector), and on the other hand, the economy's import intensity will remain unchanged. This is expected to have a positive impact on the current account balance. Furthermore, maintaining the risk premium at a low level will support improvements in business and consumer sentiment, which, amid strong external inflows, will put additional appreciation pressure on the exchange rate. This will be further reinforced by the prolonged weakness of the U.S. dollar and an ac-

Under the low-inflation scenario, rising external inflows, strong potential growth, and easing inflationary pressures, followed by rapid normalization of monetary policy, real GDP growth in 2026 and 2027 will average 6% and 5.5%, respectively.



Figure 2.4.1. Real GDP Growth Under Central, High-Inflation, and Low-Inflation Scenarios

Source: NBG, Geostat.

Amid the lower-than-expected international commodity prices, prolonged maintenance of high productivity and disinflationary dynamics stemming from the labor market, inflation will average 2.9% and 2.6%, in 2026 and 2027, respectively.

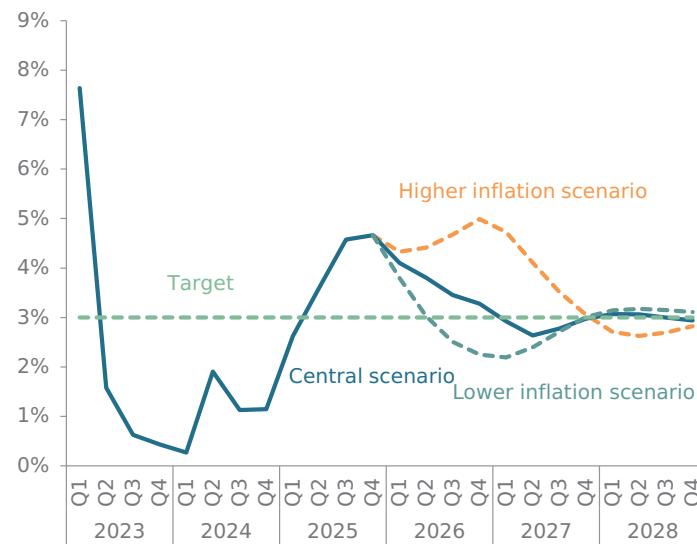


Figure 2.4.2. Year-over-year Headline Inflation Under Central, High-Inflation, and Low-Inflation Scenarios

Source: NBG, Geostat.

celerated pace of de-dollarization. All the aforementioned, ultimately, will significantly reduce headline inflation through the imported inflation channel.

Assumptions in the international commodity markets continue to be key in the low-inflation scenario. In particular, according to the latest forecast by the U.S. Energy Information Administration (EIA), amid an increase in global oil supply and inventory accumulation, oil prices are expected to decline sharply, reaching 56 U.S. dollar per barrel over the medium term. The low-inflation scenario assumes a rapid and full pass-through of the lower oil prices to domestic petroleum markets, which, in turn, will exert downward pressure on inflation and its expectations.

Meanwhile, as a result of high productivity and reduced inflation expectations, unit labor costs will remain at a low level, and the disinflationary tendency stemming from the labor market will persist, further reducing domestic inflation. Thus, under the realization of the abovementioned scenario, **headline inflation will be lower compared to the central scenario, averaging 2.9% in 2026. Meanwhile, by the end of 2027, inflation will stabilize around the target, averaging 2.6%** (see Figure 2.4.2).

Amid fading inflationary risks and the maintenance of strong fundamental factors, monetary policy normalization will proceed at a faster pace relative to the central scenario. Particularly, a sharp decline in international oil prices and full pass-through to the domestic energy market, will generate significant disinflationary effects, and alongside an appreciation of the exchange rate, will reduce inflation expectations. Consequently, **the monetary policy rate will ease at the earlier stage and average 7.2% in 2026** (see Figure 2.4.3).

Under the low-inflation scenario, amid disinflationary dynamics from the supply side, monetary policy will normalize toward its 7 percent neutral level more swiftly compared to the central scenario.

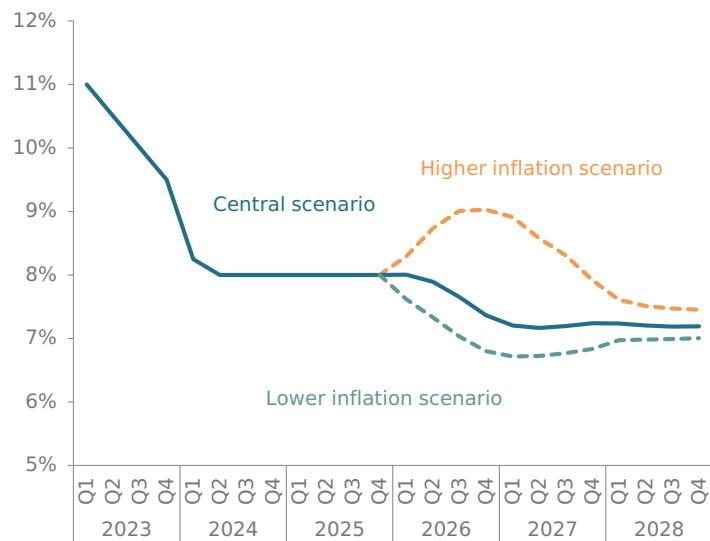


Figure 2.4.3. Monetary Policy Rate Under Central, High-Inflation, and Low-Inflation Scenarios

Source: NBG.

3. SPECIAL TOPICS

BOX 1. FULFILLMENT OF THE INFLATION TARGET AND AN ASSESSMENT OF THE 2025 CENTRAL SCENARIOS

Changes in monetary policy are transmitted to the economy gradually, and their effects fully materialize, on average, in 4-6 quarters. Therefore, in the conduct of monetary policy, special consideration is given to the forecast presented in the **central scenario** and the distribution of **risks** surrounding it. Therefore, to assess and enhance the effectiveness of monetary policy, the retrospective analysis of scenarios is an important component of the National Bank of Georgia's forecasting and policy analysis system.

In small open economies, where a sizable share of the consumer basket consists of commodities and imported goods, assumptions about exogenous factors (i.e., factors outside the scope of monetary policy) play a critical role, as they shape inflation and, consequently, the trajectory of monetary policy. Amid elevated global uncertainty, accounting for exogenous factors has become more challenging, increasing the **conditionality** of forecasts and significantly reducing the robustness of monetary policy. In response, policymakers increasingly rely on scenario analysis and risk minimization when setting monetary policy. Accordingly, central banks at the monetary policy frontier, such as the U.S. Federal Reserve and the European Central Bank, among others, have integrated uncertainty and the balance of risks into their decision-making frameworks and now conduct policy on a "meeting-by-meeting" approach. In this context, the National Bank of Georgia stands out, as it is one of the frontier banks in advancing the monetary policy framework and, by adopting a scenario-based approach since early 2025, has been considered a best-practice institution. Within a scenario-based approach, policymakers consider alternative, equally relevant trajectories of exogenous factors, form their views, and make policy decisions accordingly. This refers not to the most likely policy rate path, but rather to a **policy rate trajectory that is adjusted for the balance of risks** (corresponding to the central scenario). Accordingly, retrospective analysis not only involves comparing forecasts with actual values, but also assesses how accurately the key risks were identified and how consistently they were incorporated into the policy-making process.

Based on the practice of high transparency, an analysis comparing the inflation forecast to realized data is published in the Monetary Policy Report at the beginning of each year. In this case, we will review the fulfillment of the inflation target in 2025 and assess the central scenarios presented throughout the year.

According to the central scenario presented in last year's February report, the inflation forecast turned out to be higher than the realized data (see Figure 3.1.1). The balance of risks in the scenario was tilted toward a high-inflation environment. Meanwhile, inflation dynamics were driven by heterogeneous factors. Particularly, uncertainty in the first quarter of the year was reducing external inflows, which was moderately widening the current account deficit and, together with elevated dollarization in the previous period, was exerting upward pressure on inflation through the exchange rate channel. Conversely, heightened uncertainty was increasing the propensity to save and, alongside a slowdown in real income growth, was exerting downward pressure on inflation by weakening aggregate demand. In light of these opposing effects, and

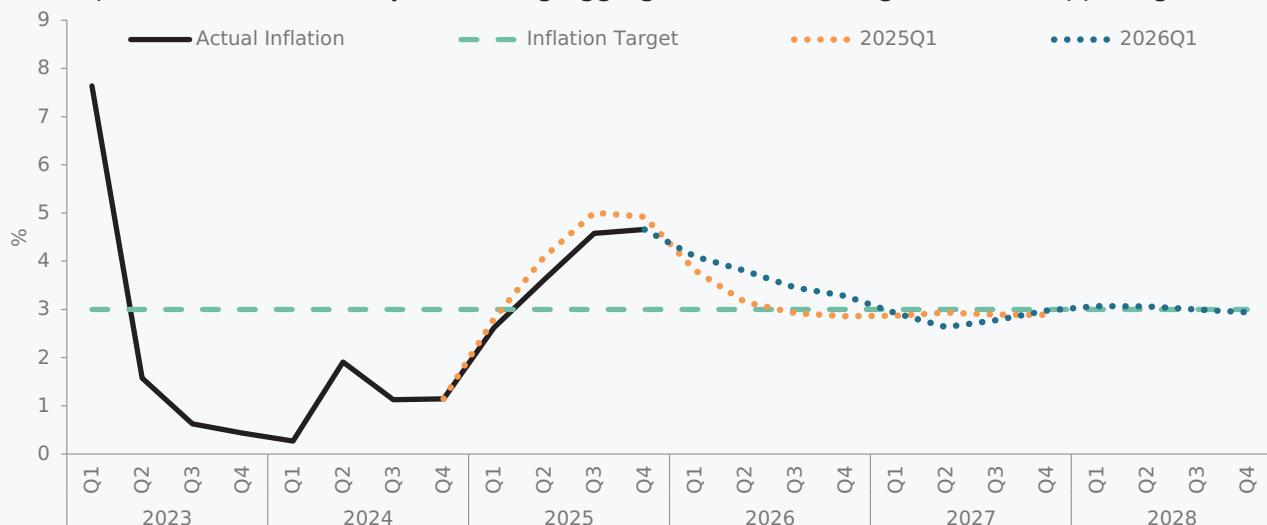


Figure 3.1.1. Comparison of the central scenario forecast from the February 2025 report with actual inflation and the latest forecast

Source: NBG, Geostat.

partly taking into account the base effect from the previous year, **inflation was temporarily exceeding the target, averaging 4.2% in 2025**.

In 2025, realized inflation turned out to be 0.3 pp lower than the forecasted one. The risks identified in both the low- and high-inflation scenarios were partially realized.

In line with **the low-inflation scenario**, domestic uncertainty subsided faster than expected, which led to improvements in both investment and consumer sentiment. At the same time, the slower-than-expected normalization of highly productive sectors significantly eased the inflationary pressure stemming from strong economic growth and helped preserve a less import-intensive growth structure. This, alongside an improvement in the trade balance of goods and services, contributed to a significant reduction in the current account deficit. Meanwhile, in line with a risk-minimization approach, the longer-than-expected maintenance of a tight monetary policy helped reduce inflation expectations, as a result, despite exogenous shocks, inflation in the services sector remained, on average, below the target. Meanwhile, amid global weakening of the US dollar, the appreciation of the lari against the dollar, under still high dollarization, reduced the debt service burden and further improved inflation expectations (see Figure 3.1.2).

At the same time, the risks of **the high-inflation scenario** were also partially realized. Despite the slow normalization of productivity, deviation from the inflation forecast was largely explained by stronger-than-expected aggregate demand. Moreover, inflationary pressures also originated from the external sector. Uncertainty surrounding tariff policies in advanced economies increased sharply, and global economic fragmentation turned out to be stronger than anticipated. As a result, a supply shock of sorts emerged in the global economy. Rising inflation among trading partners also led to an increase in imported inflation. Meanwhile, mixed signals were emerging from commodity markets. Amid domestic and global exogenous factors, food inflation proved stronger-than-expected. Prices of food raw materials in certain categories increased on international markets, which was also transmitted to the domestic market. This was accompanied by a one-off price adjustment for certain types of products in the domestic market, as well as volatility in agricultural product prices. Ultimately, amid mentioned effects, food inflation outweighed the disinflationary impact of oil prices (see Figure 3.1.2).

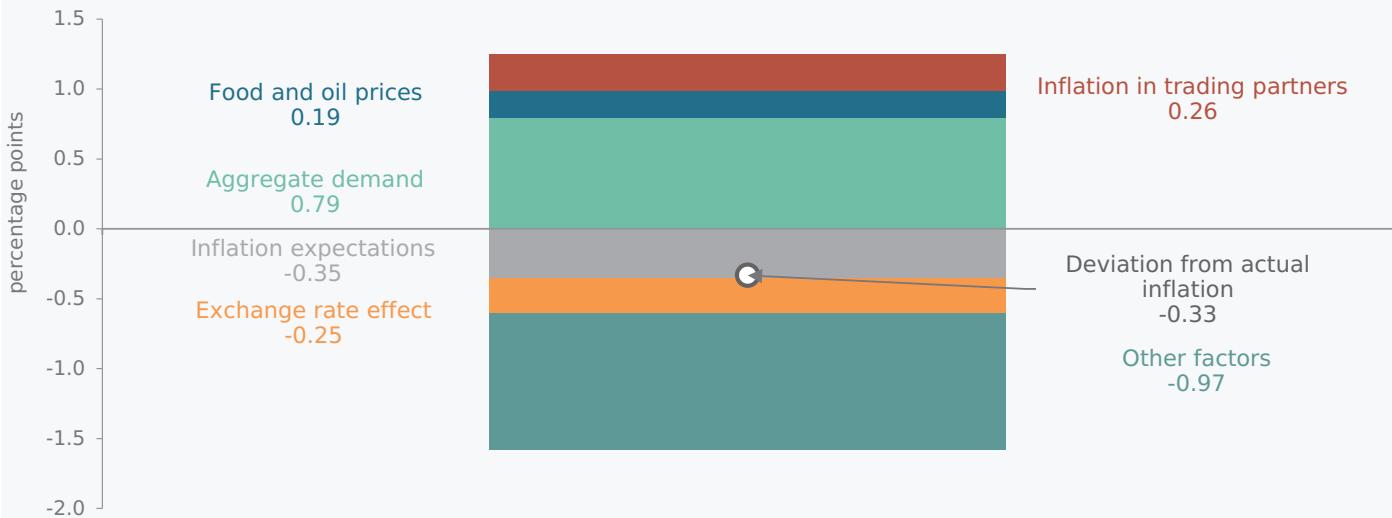


Figure 3.1.2. Decomposition of the Difference between Actual Inflation and the February 2025 Forecast.

Source: NBG, Geostat.

During the first half of the year, alongside the gradual easing of turbulence, fundamental factors demonstrated notable resilience. Strong growth was maintained in high-productive, less import-intensive sectors. Moreover, in light of positive dynamics in the services balance, the global weakening of the U.S. dollar, and improved economic sentiment, the lari's exchange rate strengthened significantly. As a result, according to the central scenario presented in the second quarter, the forecast for average inflation in 2025 was revised downward to 3.8 percent. Over the remainder of the year, the forecast fluctuated within the 3.8–4.0 percent range, which turned out to be significantly aligned with the actual outcome of 3.9% (see Figure 3.1.3). Amid an improved economic outlook, during the first half of the year, **market participants'** average expectations for economic growth in 2025 increased from 4.5% to 6.4%, while inflation forecast rose from 3.2% to 3.5%. Consequently, their forecasts gradually converged toward the NBG's central scenario.

The global turbulence and domestic sticky prices, rendered the high-inflation scenario risks particularly relevant. For this reason, despite reduced inflation over the policy horizon, the National Bank of Georgia

employed a conservative, risk-minimization approach and maintained a moderate and cautious pace in exiting the **tightened monetary policy stance**, which was reflected in keeping the policy rate unchanged at 8 percent through the end of the year.

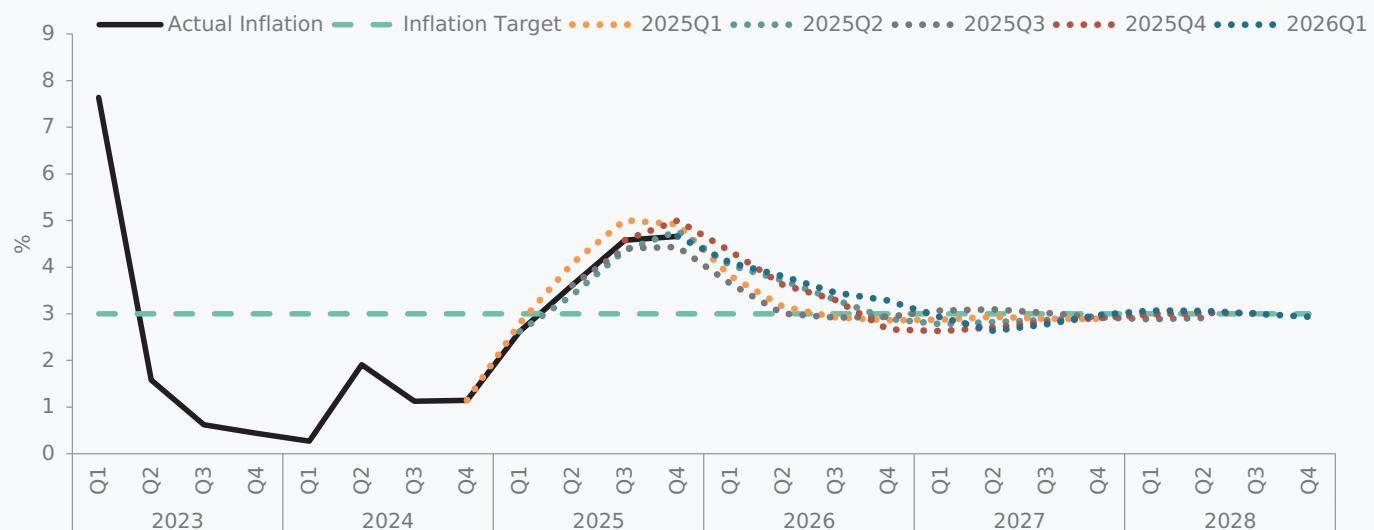


Figure 3.1.3. Comparison of the inflation forecast presented in the central scenario (Q1 2025 – Q1 2026).

Source: NBG, Geostat.

4. SUMMARY OF THE MACROECONOMIC FORECASTS OF THE NBG AND FINANCIAL MARKET PARTICIPANTS

SUMMARY OF THE MACROECONOMIC FORECASTS OF THE NATIONAL BANK OF GEORGIA*

	Fact	Central Scenario			High-Inflation Scenario			Low-Inflation Scenario			
		2025	2026	2027	2028	2026	2027	2028	2026	2027	2028
Inflation (%)		3.9	3.7	2.8	3.0	4.6	3.9	2.7	2.9	2.6	3.1
Real GDP Growth (%)		7.5**	5.0	5.0	5.0	5.5	4.0	5.0	6.0	5.5	5.5
Monetary Policy Rate (%)		8.0	7.7	7.2	7.2	8.8	8.4	7.5	7.2	6.8	7.0

Table 4.1. Summary of the Macroeconomic Scenarios of the National Bank of Georgia

Source: NBG, financial market participants, Geostat.

* The table displays the average annual changes of the variables

** Preliminary estimates

FORECASTS OF FINANCIAL MARKET PARTICIPANTS

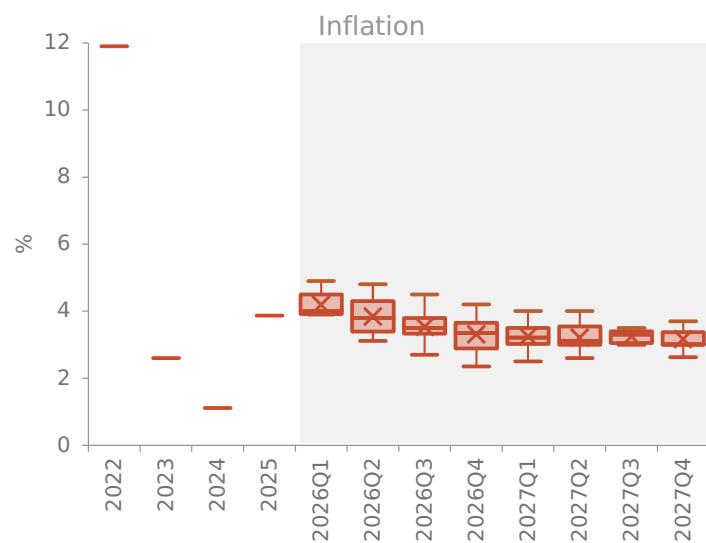


Figure 4.1. Actual average inflation and the distribution of market participants' forecasts

Source: NBG, financial market participants, Geostat.

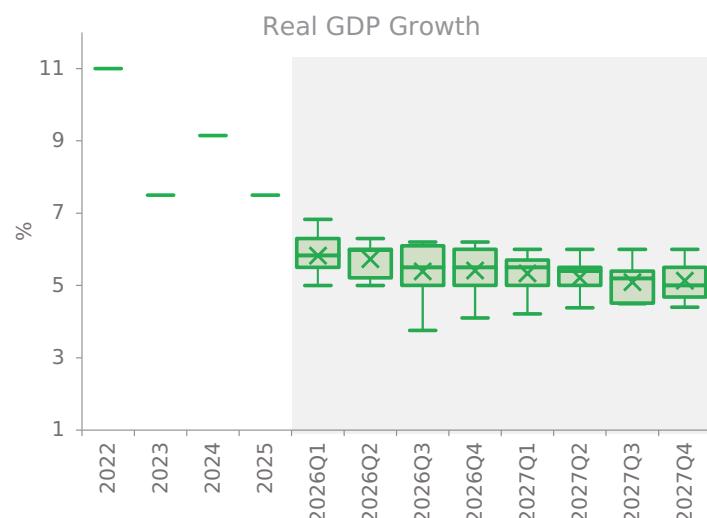


Figure 4.2. Actual real GDP growth and the distribution of market participants' forecasts

Source: NBG, financial market participants, Geostat.

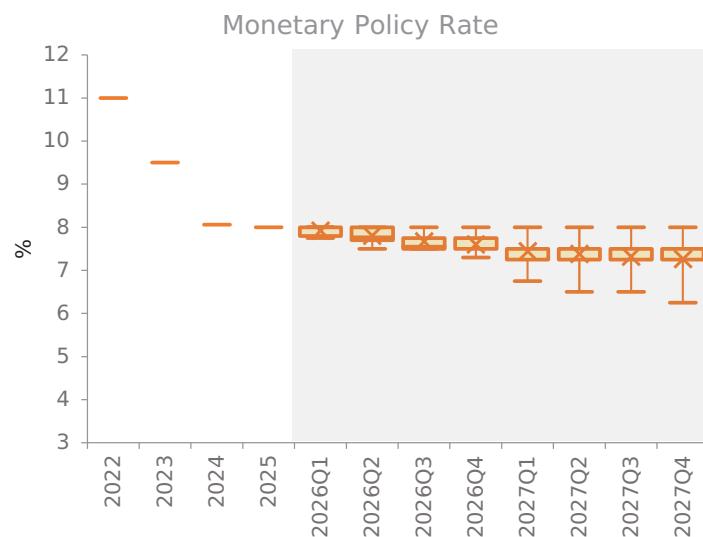


Figure 4.3. Actual monetary policy rate and the distribution of market participants' forecasts

Source: NBG, financial market participants.

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