საქართველოს ეროვნული ბანკი
National Bank of Georgia

JULY 2026 | MONETARY POLICY REPORT BRIEF

Macroeconomic Scenarios and Monetary Policy Outlook

- **At its meeting on 29 July 2026, the Monetary Policy Committee of the National Bank of Georgia (NBG) kept the policy rate unchanged at 8.25 percent. The tight monetary policy stance is expected to remain in place for longer and will be tightened further if warranted.**
- **Under the central scenario, geopolitical tensions in the Middle East will gradually ease during the third quarter. Brent crude oil prices will average around USD 85 per barrel in the quarter and decline to around USD 80 by year-end, while risks will remain two-sided but tilted to the upside.**
- **Real GDP will grow by 6.5 percent in 2026, supported by highly productive service sectors and robust external demand. Growth will remain largely supply-driven, limiting demand-side inflationary pressures.**
- **Headline inflation will average 5.2 percent in 2026 before declining to 2.7 percent in 2027. Higher energy prices and their indirect effects will keep inflation above target in the short term, but pressures are not expected to become broad-based. With expectations remaining anchored, inflation should return to the 3 percent target as the shock fades.**

CENTRAL SCENARIO

Developments in international commodity markets remain an important driver of inflation both globally and in Georgia. Following a temporary ceasefire in June, geopolitical tensions in the Middle East intensified again in July. Renewed hostilities have prolonged the existing supply shock and exerted upward pressure on prices. Although oil prices remain below the levels recorded during the previous escalation, diminished buffers and less favorable initial conditions have made the global oil market more vulnerable to further disruptions. Against this backdrop, **the National Bank of Georgia's current central scenario assumes that geopolitical tensions will gradually ease during the third quarter, with the price of Brent crude oil averaging around USD 85 per barrel during the quarter and declining to around USD 80 per barrel by year-end.** Given the high degree of uncertainty, risks to the oil price outlook remain two-sided, as reflected in the high- and low-inflation scenarios set out below.

Highly productive, service-oriented sectors will remain the main drivers of growth in 2026, supporting potential growth and thereby limiting the inflationary impact of robust economic activity. Under the central scenario, growth in the ICT sector, supported by technological shifts, will gradually normalize, while its contribution to potential growth will remain significant. Geopolitical tensions in the Middle East are weighing on economic activity primarily through tourism, although greater source-market diversification is largely cushioning the decline in visitor inflows. Together with robust export revenues from goods and services, external demand will therefore remain an important source of growth. **Accordingly, the central scenario maintains the real GDP growth forecast at 6.5 percent for 2026, with growth returning to its long-run rate of 5 percent in 2027.**

Under the central scenario, inflation will remain above target in 2026, primarily reflecting the direct impact of higher fuel and electricity prices and their indirect pass-through via transportation and intermediate input costs. Geopolitical tensions and climate-related disruptions in some regions will exert upward pressure on international food prices. Nevertheless, domestic food inflation will continue to moderate, supported by high base effects and domestic market conditions. Despite the persistent supply shock, inflationary pressures will not be broad-based. Economic growth will remain largely supply-driven, while subdued unit labor costs will limit demand-side pressures. At the same time, the strong exchange rate position - supported by a low sovereign risk premium and a strong external position - will contain imported inflation and, given still-high dollarization, reduce balance-sheet costs. Together with the NBG's tight monetary policy stance, these factors will keep inflation expectations anchored and prevent the temporary shock from generating second-round effects. Accordingly, **headline inflation is projected to average 5.2 percent in 2026, decline to 2.7 percent in 2027, and subsequently stabilize around the 3 percent target.**

Although the current deviation of inflation from target reflects an exogenous supply shock, the NBG conducts tight monetary policy to manage inflation expectations and prevents the shock from evolving into broad-based and persistent inflationary pressures. Accordingly, the NBG's Monetary Policy Committee decided to keep the policy rate unchanged at 8.25 percent. The tight monetary policy stance is expected to remain in place for longer and will be tightened further if warranted. Overall, this will limit the propagation of inflationary pressures and prevent them from being reflected in medium- and long-term inflation expectations, thereby supporting the return of inflation to the 3 percent target as the shock fades.

Against a backdrop of heightened global uncertainty and asymmetric risks, and with the shock's duration and intensity largely determined by non-economic factors, **the policy rate path in the central scenario is adjusted in line with the prevailing balance of risks**. Designed to minimize macroeconomic losses while preserving the flexibility to respond should an alternative scenario materialize, **the path does not constitute a commitment by the NBG and will therefore be reassessed on a meeting-by-meeting basis in light of incoming data.**

THE HIGH-INFLATION RISK SCENARIO

The high-inflation scenario assumes a prolonged escalation of the conflict in the Middle East, resulting in significant damage to the region's oil infrastructure. Amid depleted strategic oil reserves and heightened risks of disruptions to alternative transportation routes, global oil supply will decline further. **Consequently, international oil prices would increase further and remain elevated for an extended period.** Moreover, elevated petroleum product prices would increase production and transportation costs, which, coupled with supply chain disruptions, would exert upward pressure on international food prices.

Furthermore, a prolonged escalation of geopolitical tensions would increase regional and country risk premia, and amid weaker economic activity in the region would worsen domestic investment sentiment, trigger capital outflows toward safe-haven assets and reduce tourism revenues. Hence, **under the high-inflation scenario, economic activity would decelerate in 2026 and 2027, with real GDP growth projected at 5.7 percent and 4.0 percent, respectively. In 2028, growth will to return to its long-run potential rate of 5 percent.**

In addition, **higher costs of energy product imports, accompanied by lower tourism revenues, would lead to a deterioration in the current account balance** and exert depreciation pressures on the exchange rate. Subsequently, depreciation pressure on the exchange rate and elevated international commodity prices would transmit to the domestic market, increasing imported inflation through higher food and petroleum product prices, significantly amplifying direct and indirect cost pressures, as well as the risk of second-round effects. The latter, in turn, would pose a threat to the stability of short-term inflation expectations. Accordingly, in the high-inflation scenario, **inflation will be higher by 0.5 pp and 2.1 pp in 2026 and 2027, compared to the central scenario, respectively averaging 5.6 percent and 4.8 percent**, before, stabilizing around its target.

The NBG exhibits a low tolerance against rising inflation expectations and the materialization of second-round effects. **Therefore, the aforementioned developments would require additional tightening of monetary policy and a prolonged maintenance of a tighter policy stance**. Moreover, elevated global uncertainty, together with persistently weaker fundamentals, **would imply a revision of the domestic neutral rate to 7.5 percent.** Hence, the policy rate's normalization is only expected to continue gradually, contingent on the stabilization of the inflationary environment.

THE LOW-INFLATION RISK SCENARIO

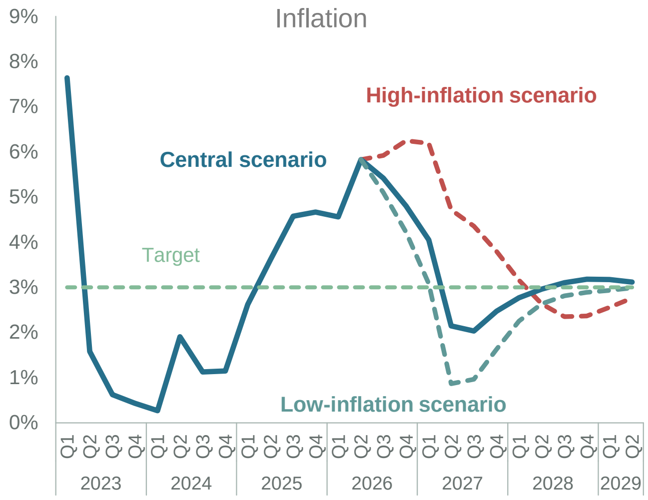
The Low-Inflation Scenario assumes a rapid de-escalation of the ongoing geopolitical tensions in the Middle East and a full pass-through of lower oil prices in international commodity markets to the domestic market. Meanwhile, a rapid normalization of uncertainty, all else equal, would support the maintenance of the country's risk premium at a low level over the medium term and, amid strong external inflows, would exert additional appreciation pressure on the exchange rate.

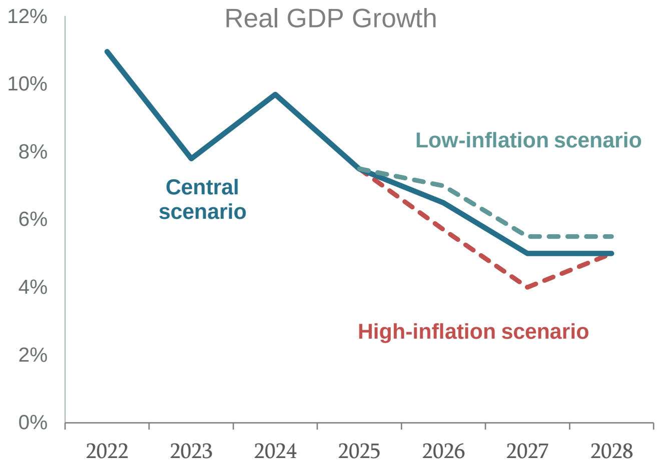
The low-inflation scenario assumes that the accelerated process of global trade rerouting will continue. As a result, the realignment and regionalization of supply chains will further strengthen Georgia's role as a Middle Corridor country, additionally boosting the international transportation sector. Accordingly, high-productivity sectors including, transportation and storage, will remain the primary drivers of economic activity and its potential growth. While the scenario envisages a gradual moderation in growth in high-productivity sectors, the improved investment sentiment will support the maintenance of productivity at a relatively high level. This will also be supported by the information and communication sector, partly reflecting the active process of integrating artificial intelligence. **Against the backdrop of strong productivity growth and rising external inflows, real GDP growth will remain at a higher level compared to the central scenario, averaging 7 percent and 5.5 percent in 2026 and 2027, respectively.**

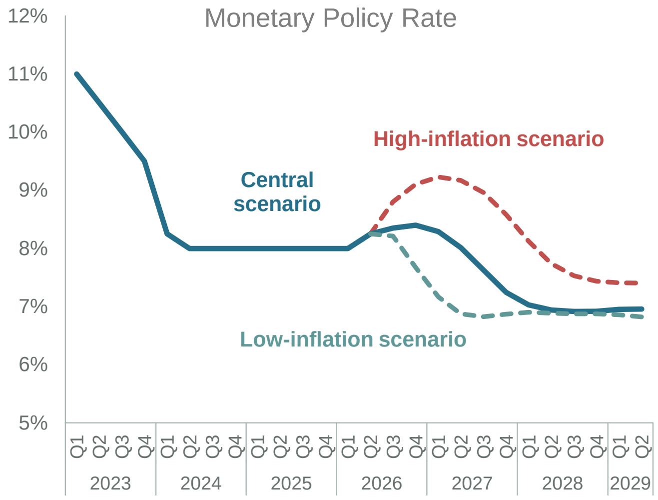
The economic growth driven by improvements in potential output will mitigate the inflationary pressures stemming from strong aggregate demand. Furthermore, the full pass-through of lower international oil prices to domestic petroleum prices, as well as, strong productivity growth, will generate significant disinflationary effects, and alongside an exchange rate appreciation, will reduce inflation expectations. **Under the realization of the low-inflation scenario, headline inflation in 2026 and 2027 will average 4.9 percent and 1.6 percent, respectively.**

Eventually, amid fading inflationary risks and the persistence of strong fundamental factors, monetary policy normalization will proceed at a faster pace relative to the central scenario. **Accordingly, the monetary policy rate in 2026 is projected to be on average 0.25 pp lower compared to the central scenario and to stabilize around its long-term neutral level of 7 percent in 2027.**

MACROECONOMIC SCENARIOS AT A GLANCE







	Fact	Central Scenario			High-Inflation Scenario			Low-Inflation Scenario		
percent	2025	2026	2027	2028	2026	2027	2028	2026	2027	2028
Headline Inflation	3.9	5.2	2.7	3.0	5.6	4.8	2.6	4.9	1.6	2.6
Real GDP Growth	7.5	6.5	5.0	5.0	5.7	4.0	5.0	7.0	5.5	5.5
Monetary Policy Rate	8.0	8.2	7.8	7.0	8.5	9.0	7.7	8.0	6.9	6.9

Summary of the Macroeconomic Scenarios of the National Bank of Georgia