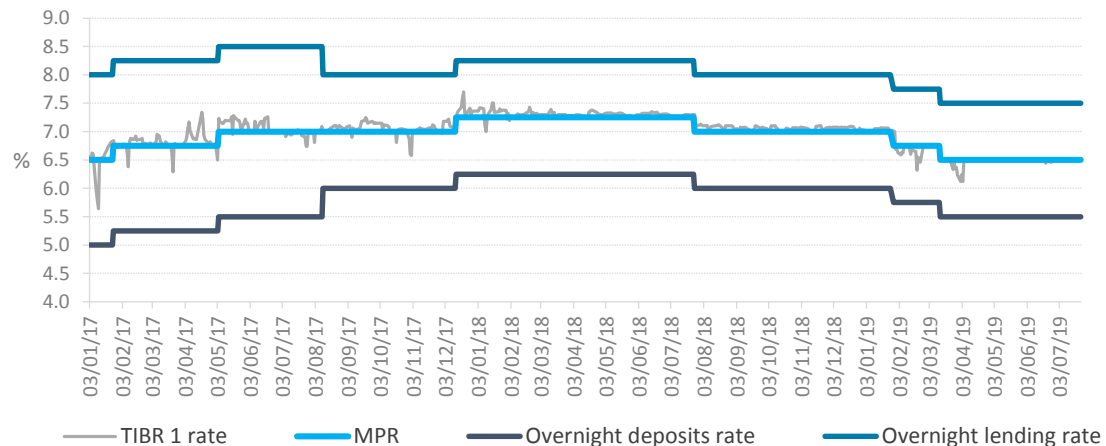


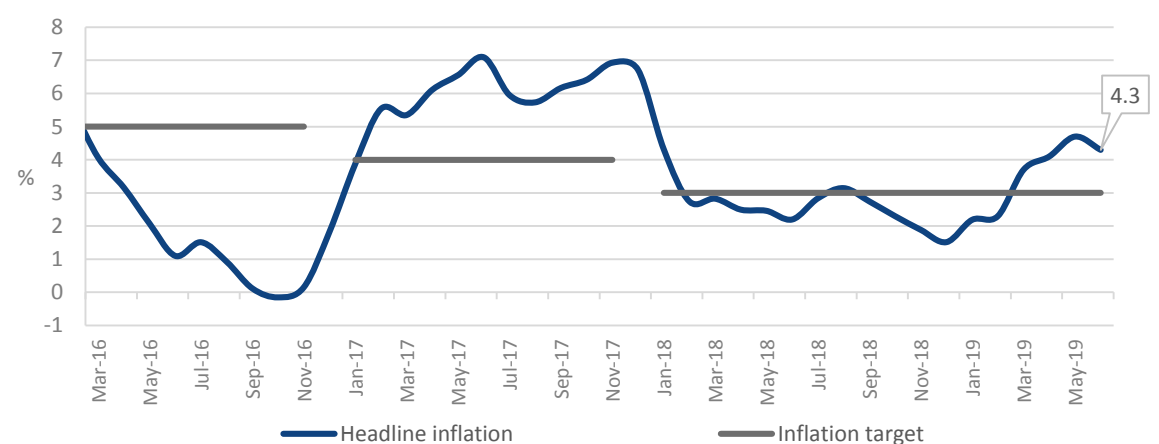
- ❑ On its 24th of July meeting, the Monetary Policy Committee (MPC) of the National Bank of Georgia decided to keep the policy rate unchanged at 6.5%.
- ❑ According to the NBG projections, inflation is expected to stay above its target level over 2019 before starting to decline from March 2020 and staying close to its target level over the medium term.
- ❑ Out of 4.3% inflation in June, 1.3 pp was a contribution of higher excise tax on tobacco. Also, if further adjusted for food and energy prices, inflation stood at 1.4% enabling the central bank to argue that the above target inflation is temporary. At the same time, the GEL depreciation puts additional pressure on inflation. However, according to the NBG, aggregate demand remains below its potential level countering the impact of the exchange rate. Also, the GEL is assessed as likely being undervalued, even taking into account the flight ban, and possible reversal of the exchange rate will work towards the reduction of inflation.
- ❑ Above stated arguments led the NBG to leave the policy rate unchanged, however, if the upward pressure from the exchange rate on inflation continues the central bank will consider the monetary policy tightening.
- ❑ As for the updated projections, the NBG expects continued improvement in the CA balance even taking into account the negative impact of the Russian flight ban; the GDP growth outlook for 2019 was revised downwards only moderately from 5% to 4.5%.
- ❑ Next MPC meeting is scheduled for the 4th of September 2019.

Refinancing rate and short-term interbank market rates



Source: National Bank of Georgia

Inflation target and headline inflation



Source: National Bank of Georgia, Geostat

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