

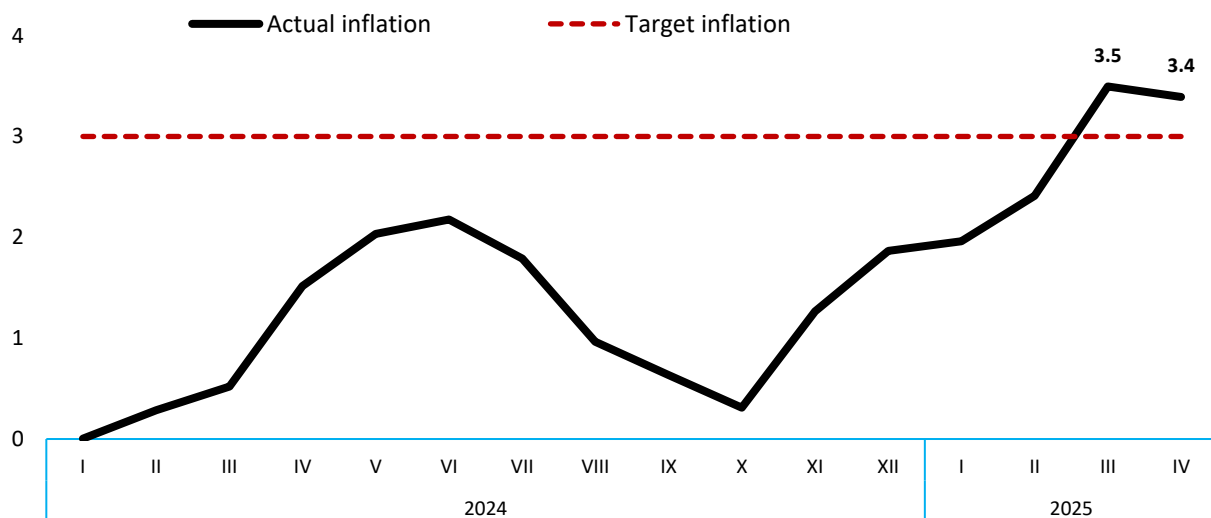
Rising Inflation and Counterproductive Monetary Policy

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The pace of consumer price growth in Georgia has picked up, reaching a point where annual inflation now exceeds the target level. As of April 2025, the annual growth of the Consumer Price Index (CPI) has reached a notable 3.4%.

This acceleration in inflation was anticipated, as the prevailing monetary policy stance has been pro-inflationary². Specifically, monetary policy easing has been actively pursued since 2023, contributing to an increase in the price level across the economy.

Graph 1: Annual change in the consumer price index (%)



Source: Geostat

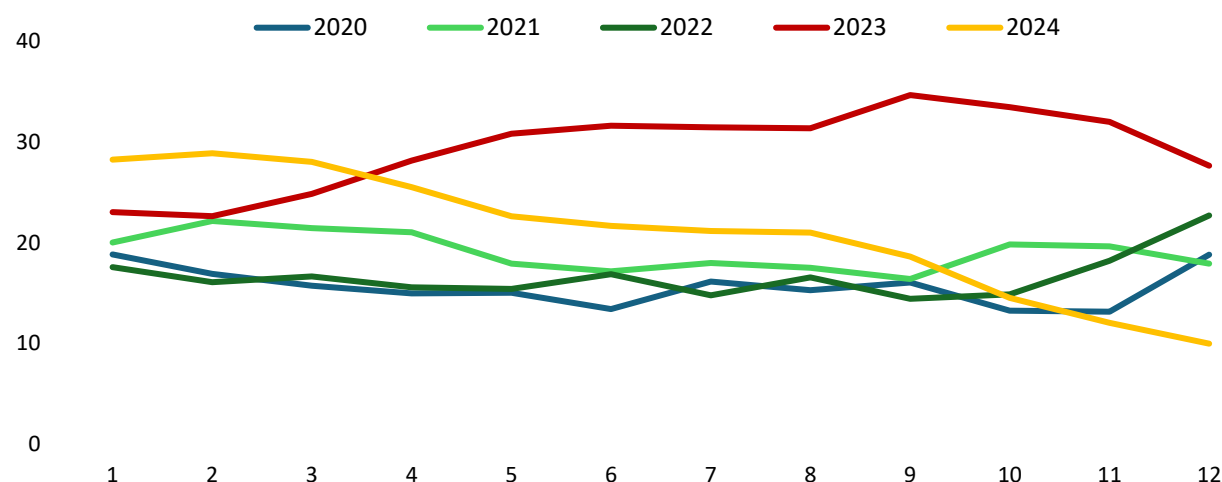
Since May 2023, the National Bank of Georgia (NBG) has been easing the monetary policy rate. At the beginning of this period, the policy rate stood at 11%, but it has since been reduced to 8%. However, the

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² Shamugia, E. (2024). Pro-inflationary growth of the Caucasus economy. In *Gnomon Wise*. Gnomon Wise. <https://gnomonwise.org/ge/publications/analytics/233>

NBG's monetary policy has not relied solely on the headline refinancing rate; it has also actively employed other instruments, including foreign exchange interventions and securities operations³.

Graph 2: Annual change in broad money supply (M2) by month, %



Source: NBG

The quick result of the monetary policy implemented since 2023 was an acceleration in the growth rate of the money supply. While the average growth rate of broad money stood at 16.7% in 2022, it rose to 29.3% in 2023. This upward trend continued during the first three quarters of 2024. In the short term, the expansionary policy supported economic growth; however, it contributed to an acceleration in the overall price level in the long term⁴. In developing economies such as Georgia, the effects of monetary policy easing typically materialize after a lag of 3 to 6 quarters⁵.

As a result of the aforementioned policy, inflation began to accelerate in the second half of 2024 and has exceeded the target level currently. Despite this trend, the NBG maintains the policy rate relatively low.

³ Shamugia, E. (2023). Pro-inflationary monetary policy for 2023. In *Gnomon Wise*.

<https://gnomonwise.org/ge/publications/review/167>; Shamugia, E. (2023). Unconventional FX interventions and inflation expectations. In *Gnomon Wise*. <https://gnomonwise.org/ge/publications/analytics/141>

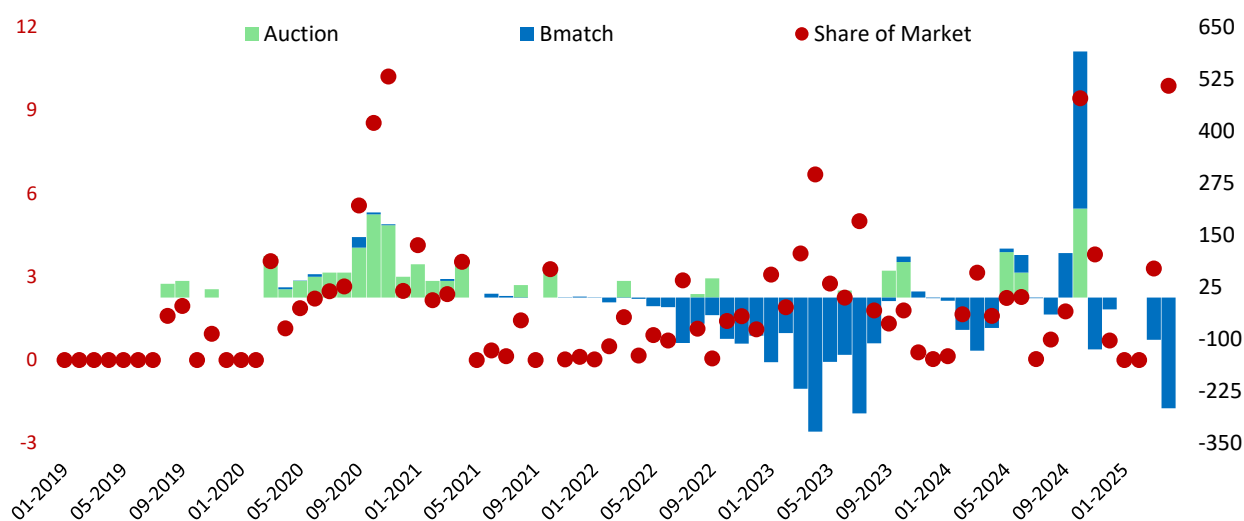
⁴ Bernanke, B. S., & Gertler, M. (1995). Inside the black box: the credit channel of monetary policy transmission. *The Journal of Economic Perspectives*, 9(4), 27–48. <https://doi.org/10.1257/jep.9.4.27>; Bernanke, B. S., & Mihov, I. (1998). Measuring monetary policy. *The Quarterly Journal of Economics*, 113(3), 869–902. <https://doi.org/10.1162/003355398555775>; Bullard, J. (1999). Testing Long-Run Monetary Neutrality Propositions: Lessons from the Recent Research. *Review*, 81(6). <https://doi.org/10.20955/r.81.57-78>; Nogueira, R. P. (2009). Is monetary policy really neutral in the long-run? Evidence for some emerging and developed economies. *Economics Bulletin*, 29(3), 2432–2437. <http://accessecon.com/pubs/eb/2009/volume29/eb-09-v29-i3-p88.pdf>

⁵ Havranek, T., & Rusnak, M. (2018). Transmission Lags of Monetary Policy: A Meta-Analysis. *International Journal of Central Banking*, 9(4), 39–76. http://meta-analysis.cz/lags/transmission_lags.pdf

During this period, the NBG has also sustained its foreign exchange interventions—specifically, the purchase of foreign currency in the market, which also exerts a monetary easing effect.

For instance, in 2023, approximately 3,361.7 million GEL was injected into the economy through Bmatch foreign exchange interventions conducted by the NBG, representing 17.6% of the broad money stock at the beginning of that year. In contrast, in 2024, the NBG withdrew roughly 1,182.9 million GEL from the economy via similar interventions, equivalent to 4.8% of the broad money supply.

Graph 3: NBG FX interventions, million dollars, % (“+” FX sale, “-” FX purchases)



Source: NBG

Currently, the NBG remains active in foreign exchange interventions. This intensified involvement began in March when 101.7 million USD were purchased on the market, and the impact was even more pronounced in April, with a significantly higher volume of 266.4 million USD. During this time, the central bank's role in the foreign exchange market expanded notably, with its share in FX trade rising to 9.9%. This level of intervention stands in contrast to the officially declared exchange rate regime and diverges from the NBG's practices in earlier years.

However, the key issue lies in the policy pursued amid accelerating inflation. Under conditions of elevated inflation, monetary policy should be tightened. Instead, the ongoing foreign exchange interventions have had an easing effect. In just March and April of this year, 1,016.4 million GEL was injected into the economy through foreign exchange interventions—equivalent to 3.8% of the broad money supply at the beginning of the year.

In the current period, amid accelerating inflation, the NBG is pursuing an unconventional and large-scale easing policy. This approach appears inconsistent with the established rules and practices of the declared exchange rate regime. Other things being equal, such a policy stance is likely to contribute to further accelerating the overall price level in the long term.