Central Bank Watch
How long can the NBG wait?

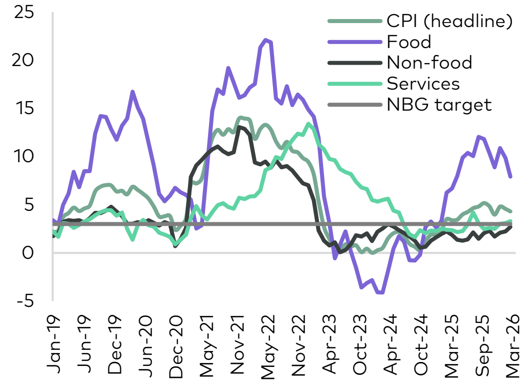
Georgia | Economy
May 1, 2026

We expect the NBG to keep the monetary policy rate at 8.0% at its monetary policy meeting on Wednesday, 6 May 2026. We also expect the rate to stay at this level through end-2026, before declining gradually to 7.50% by end-2027, assuming the recent price shock fades.

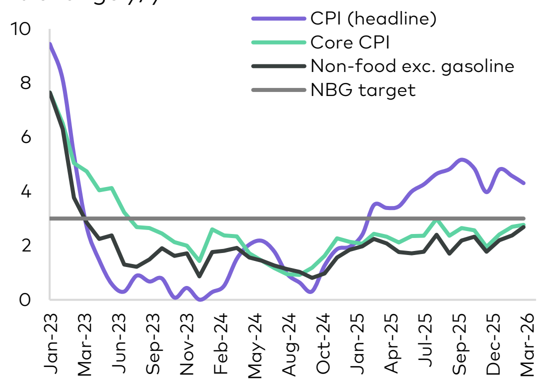
Inflation shock postpones easing
The upward revision of our 2026 average inflation forecast from initial 3.0% to 4.8% is the key change in our outlook. It is driven by supply-side factors. The Iran escalation has pushed global energy prices higher, reflected in fuel prices in Georgia, while the April electricity tariff hike added a one-off increase to regulated prices. Together, these factors are sufficient to keep headline inflation above the 3.0% target through 2026.

The inflation mix remains heavily driven by food. After a period of stability, food inflation re-accelerated, reaching double-digit levels through late 2025 and early 2026, before slowing to 7.9% y/y in Mar-26. Despite this moderation, it remains the largest contributor to headline inflation. Underlying inflation remains contained, but some pressure is emerging. Core and non-food inflation are still below the 3.0% target, while services inflation has only recently moved above it, reaching 3.3% y/y in Mar-26 after staying below target in 2025. Inflation is therefore not yet broad-based, but the pickup in services and energy-related risks limit the scope for near-term monetary easing.

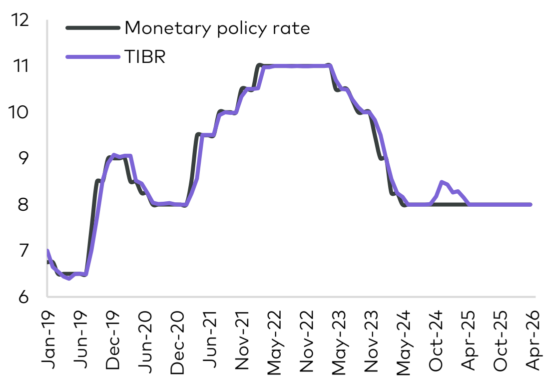
The policy cycle: from easing to extended pause
To understand where the NBG stands today, it helps to look at how quickly the easing narrative has ended. Between May 2023 and May 2024, the NBG cut rates by 300bp, from 11.0% to 8.0%, as inflation moved toward target and the GEL stabilized. The market expected further cuts in late 2024 and 2025. Instead, the NBG paused - and has held at 8.0% for a full two years.

Figure 1: CPI and its components
% change y/y


Source: Geostat, NBG, Galt & Taggart

Figure 2: Alternative inflation indicators
% change y/y


Source: Geostat, NBG, Galt & Taggart

Figure 3: NBG's key rate and TIBR, %


Source: NBG

Three arguments for no cut in 2026

Our no-cut call rests on three arguments:

- **Inflation above target.** With our revised average inflation forecast at 4.8% for 2026, headline inflation will stay well above the 3.0% target. Energy price shocks may be temporary in theory, but their second-round effects on wages, rents, and services prices tend to persist. With services inflation already up and the electricity tariff hike adding to pass-through, the NBG cannot assume the shock will fade on its own.
- **Growth above potential delays rate cuts.** Georgia's economy continues to grow above its potential, leaving little room for monetary easing in 2026. We estimate post-pandemic potential growth at 5.5–6.0%, up from 4.5–5.0% previously. Even against this higher benchmark, actual growth has remained strong, averaging 9.3% over the past 5 years. Growth slowed to 7.5% in 2025, but rebounded in 1Q26, with GDP rising 9.1% y/y, well above expectations. As a result, we raised our 2026 growth forecast to 7.0% from 6.0%. With the economy set to run above potential and inflation still above the 3.0% target, the case for rate cuts remains weak.
- **Hawkish NBG communication.** Recent NBG statements have been clear: if inflation risks materialize on the upside, the appropriate response is a higher rate path. This forward guidance effectively pre-commits the NBG to holding unless the data improve meaningfully.

Neutral rate suggests limited easing space

The neutral rate is the level of the policy rate that keeps the economy balanced when inflation is at the 3.0% target - neither stimulating growth nor slowing it. In Georgia's case, this neutral rate is structurally higher because the economy is small and open. Interest rates need to stay broadly aligned with global levels, compensate investors for country risk, and help protect the GEL from depreciation, which quickly feeds into inflation. When these factors are combined and expressed in nominal terms, they point to a neutral rate of around 6.85%, with a reasonable range of 6.75-7.25% by our estimate. This is broadly consistent with the NBG's own estimate of about 7.0%.

Table 1: Estimation of a Neutral Policy Rate for Georgia[1]

Component	Estimate
Foreign real neutral rate (weighted avg. US & Eurozone)	0.65%
Georgia's risk premium (Eurobond + convertibility)	2.5%
GEL's REER depreciation buffer	0.7%
Real 'neutral' rate	**3.85%**
+ Inflation target	3.0%
Nominal 'neutral' rate (central estimate)	**6.85%**
Recommended range	6.75%-7.25%

Source: Galt & Taggart estimate

The current 8.0% policy rate is roughly 115bp above neutral. This gap keeps real interest rates positive, supports the GEL and gives the NBG flexibility to respond if conditions worsen. The implication is clear - even under favorable conditions, the easing cycle is likely to remain limited. We expect only 50bp of cuts by end-2027, assuming inflation stabilizes, bringing the policy rate to 7.5%. In an adverse scenario, a small rate hike could instead be required.

Introducing the NBG mood index

In this report, we introduce our proprietary NBG mood index[2], developed to track shifts in the central bank's policy stance. The index combines 5 dimensions - communication tone, policy rate decisions, inflation pressure, FX/external conditions, and demand/credit trends - into a single 0-100 score. This provides a concise indication of whether the NBG is operating in a dovish, neutral, or hawkish mode.

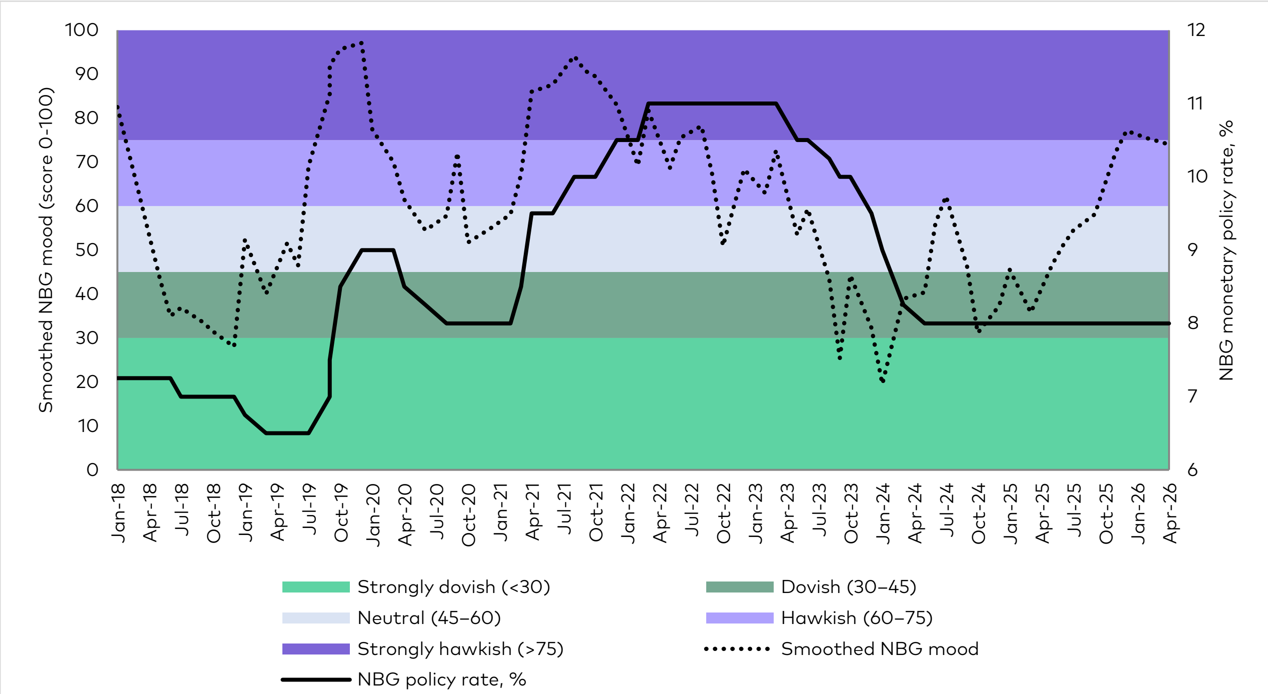
Current readings place the NBG in a cautious stance. Historical patterns since 2018 show a clear bias: the central bank has spent about 46.5 months in a restrictive phase, compared to roughly 26 months in both easing and neutral environments. This suggests a preference for maintaining tighter policy for longer rather than easing prematurely.

[1] Neutral-rate estimate is a medium-term analytical anchor. It combines a foreign real neutral rate, Georgia's risk/convertibility premium, a GEL depreciation buffer and the 3% inflation target; it is not a short-term trading rule. Framework: modified open-economy uncovered interest parity (UIP), expressed in real terms, with a separate credit-risk component. The standard real-UIP relationship $r^*(GEO) = r^*(foreign) + E[\Delta REER] + \text{risk premium}$ is augmented with (i) a credit-risk component proxied by the Eurobond spread over UST, and (ii) a GEL-specific convertibility premium reflecting that lari investors take additional liquidity and transferability risk on top of pure FX risk.

[2] NBG mood is a qualitative policy-stance proxy, which is estimated by Galt & Taggart. The index is intended to show broad policy-cycle direction, not an official NBG indicator. Detailed scoring criteria and underlying time series are available on request.

The implication is that rate cuts are likely to come later than previously expected. The easing outlook that appeared plausible a few months ago has weakened following recent growth in global energy prices.

Figure 4: Cycles in the NBG's policy stance vs. NBG mood



Source: NBG, Galt & Taggart

Macro data and baseline forecasts

Georgia	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026F
GDP and Prices												
Nominal GDP, GEL bn	34.5	36.6	41.3	45.4	49.7	49.8	60.7	72.9	80.9	93.0	104.6	116.4
Nominal GDP, US$ bn	15.2	15.4	16.5	17.9	17.6	16.0	18.9	25.0	30.8	34.2	38.1	43.3
Nominal GDP per capita, US$	4,085	4,143	4,420	4,804	4,741	4,301	5,084	6,731	8,284	8,699	9,678	10,985
Real GDP, % change y/y	3.4%	3.4%	5.2%	6.1%	5.4%	-6.3%	10.6%	11.0%	7.8%	9.7%	7.5%	7.0%
CPI Inflation, ave	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	2.5%	1.1%	3.9%	4.8%
CPI Inflation, eop	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.8%	0.4%	1.9%	4.0%	4.5%
GEL per US$, ave	2.27	2.37	2.51	2.53	2.82	3.11	3.22	2.92	2.63	2.72	2.74	2.69
GEL per US$, eop	2.39	2.65	2.59	2.68	2.87	3.28	3.10	2.70	2.69	2.81	2.70	2.70
GEL per EUR, ave	2.52	2.62	2.83	2.99	3.15	3.55	3.82	3.08	2.84	2.94	3.10	3.15
GEL per EUR, eop	2.62	2.79	3.10	3.07	3.21	4.02	3.50	2.88	2.98	2.93	3.17	3.18
GEL per GBP, ave	3.47	3.21	3.23	3.38	3.60	3.99	4.43	3.62	3.27	3.48	3.61	3.66
GEL per GBP, eop	3.55	3.26	3.50	3.40	3.76	4.45	4.17	3.26	3.42	3.53	3.64	3.72
Population, mn	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.9	3.9	3.9
Government Finances												
Budget revenues, % of GDP	27.0%	27.5%	27.0%	26.5%	26.4%	25.3%	25.6%	27.2%	27.9%	28.3%	27.8%	26.4%
Budget expenses, % of GDP	28.1%	28.9%	27.8%	27.2%	29.1%	34.5%	31.9%	29.6%	30.2%	30.5%	29.0%	28.9%
Fiscal deficit, % of GDP	-2.4%	-2.7%	-2.7%	-2.2%	-2.1%	-9.2%	-6.0%	-3.0%	-2.4%	-2.3%	-1.4%	-2.2%
Ggovernment debt, % of GDP	36.0%	39.5%	38.9%	38.2%	40.0%	59.6%	49.1%	39.2%	38.9%	35.7%	34.2%	33.5%
External Sector												
Current account balance, US$ bn	-1.8	-1.9	-1.3	-1.2	-1.1	-2.0	-1.9	-1.1	-1.7	-1.8	-1.0	-1.4
Current account balance, % of GDP	-11.6%	-12.2%	-8.0%	-6.7%	-6.0%	-12.4%	-10.3%	-4.4%	-5.5%	-5.3%	-2.6%	-3.2%
Exports of goods and services, US$ bn	6.2	6.2	7.6	8.9	9.6	6.0	8.1	13.2	15.1	16.2	18.0	19.2
Imports of goods and services, US$ bn	8.7	8.5	9.4	10.8	11.2	9.0	11.2	15.6	17.8	19.0	20.3	21.8
Net current transfers, US$ bn	1.1	1.1	1.3	1.4	1.4	1.8	2.3	3.1	3.3	3.4	3.6	3.6
Net FDI, US$ bn	1.4	1.2	1.7	1.0	1.1	0.6	0.9	1.9	1.6	1.1	1.4	1.5
Net FDI, % of GDP	9.3%	8.1%	10.4%	5.6%	6.2%	3.6%	5.0%	7.6%	5.3%	3.3%	3.6%	3.4%
Gross international reserves, US$ bn	2.5	2.8	3.0	3.3	3.5	3.9	4.3	4.9	5.0	4.4	6.2	7.0
Financial sector												
Bank loan portfolio, US$ bn	6.7	7.1	8.6	9.9	11.1	11.7	13.9	16.6	19.6	22.2	26.3	29.5
Bank loan portfolio, % of GDP	46.4%	51.7%	53.9%	58.6%	64.2%	76.8%	71.0%	61.5%	65.2%	67.0%	67.8%	68.2%
Monetary policy rate, %	8.0%	6.5%	7.3%	7.0%	9.0%	8.0%	10.5%	11.0%	9.50%	8.00%	8.00%	8.00%

Source: NBG, MOF, Geostat, Galt & Taggart

Note 1: Fiscal balance according to IMF Program Definition

Note 2: The 2024 population census may lead to revisions of historical population data by Geostat. GDP per capita in this table reflects updated population estimates only for 2024-2025, while prior years remain based on unrevised data.

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