



საქართველოს ეროვნული ბანკი
National Bank of Georgia

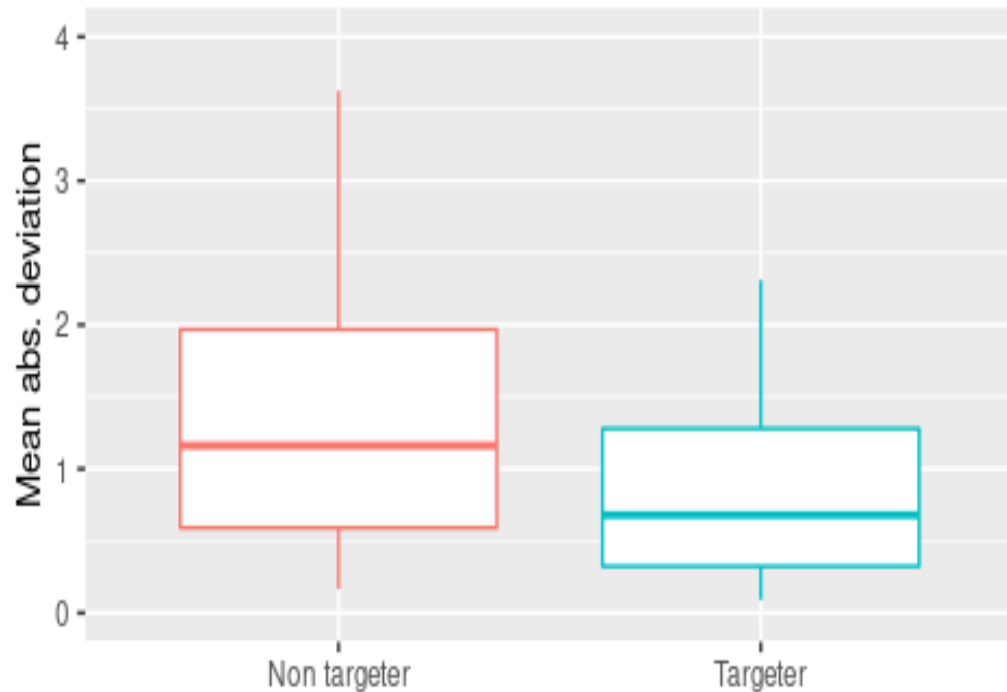
Integrated Policy Framework for Inflation Targeting: *Case of Georgia*

Shalva Mkhatriashvili
National Bank of Georgia

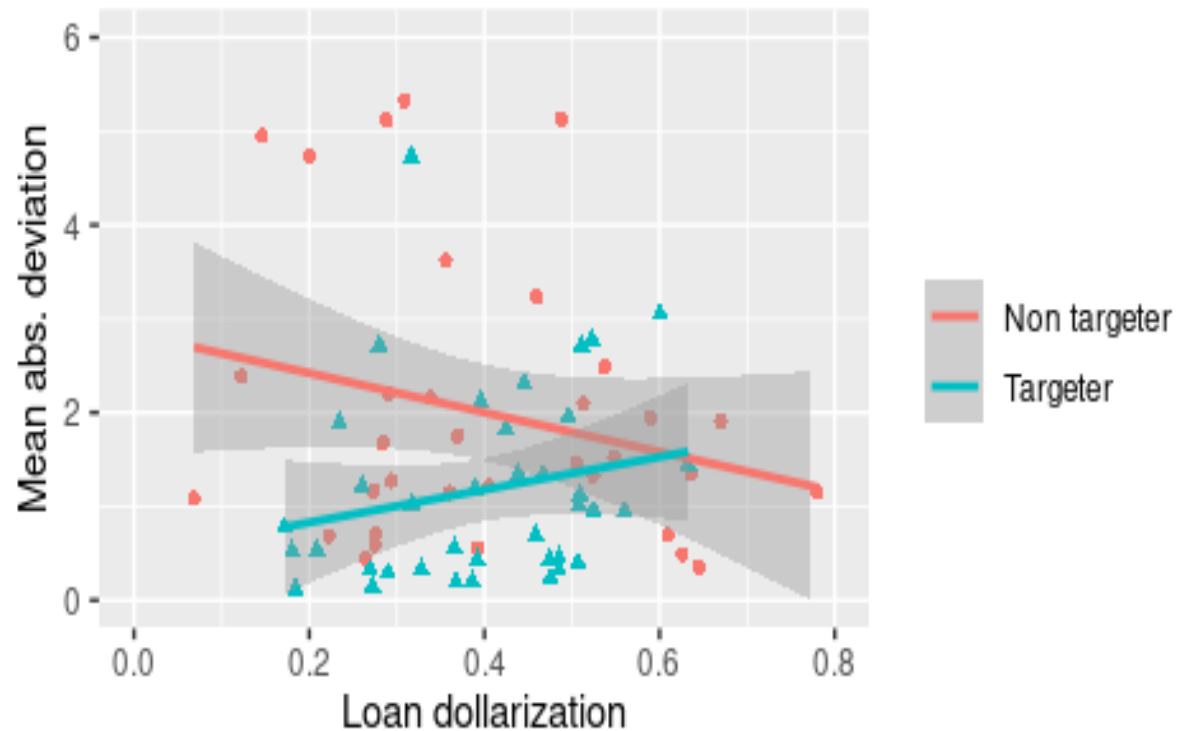
National Bank of Ukraine Workshop:
Inflation Targeting in a World of Large and Persistent Shocks
November 25, 2022

Inflation performance in EM and developing countries after the pandemic

Targeters have shown better performance in keeping price stability ...

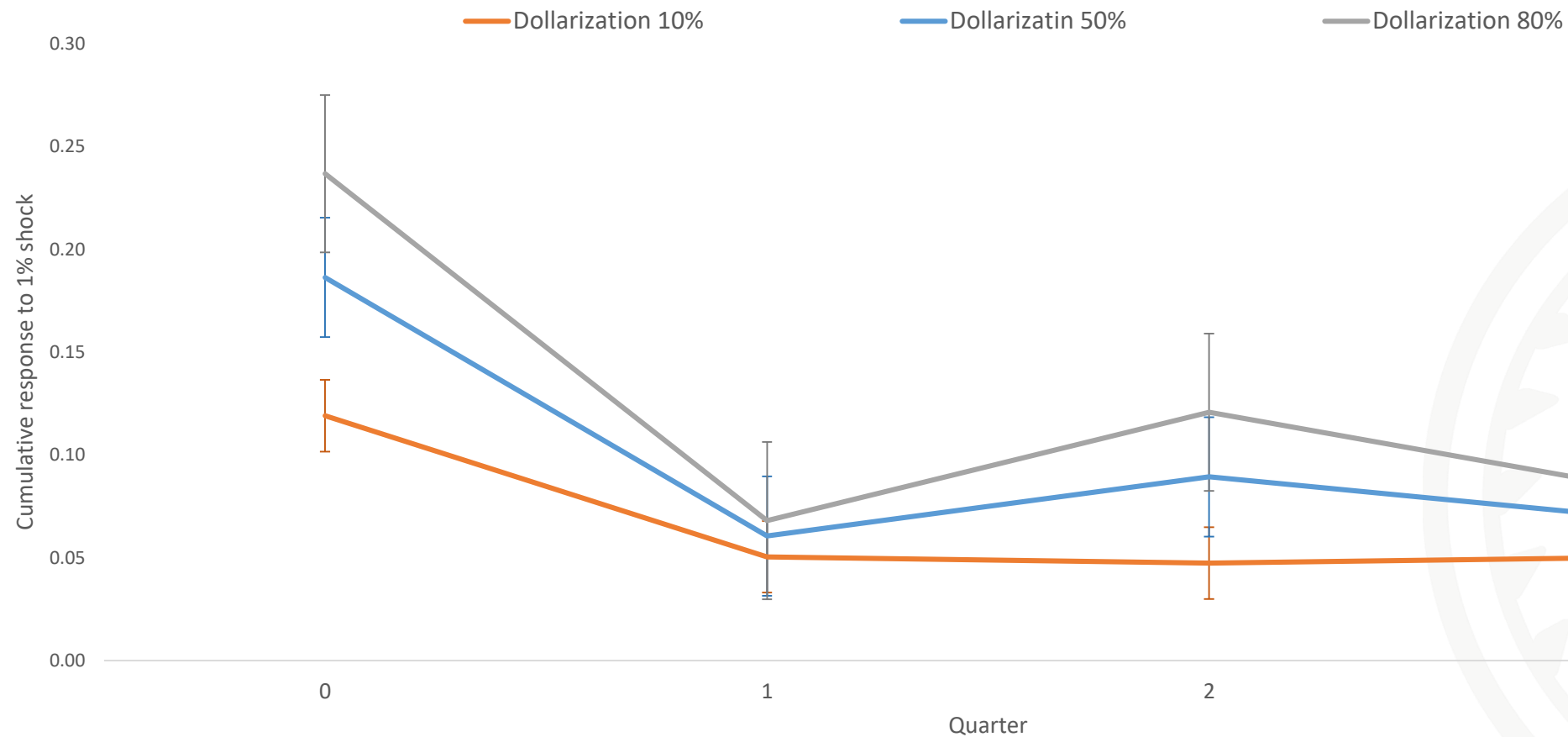


... However, targeters with higher dollarization have faced greater difficulties



Source: IMF

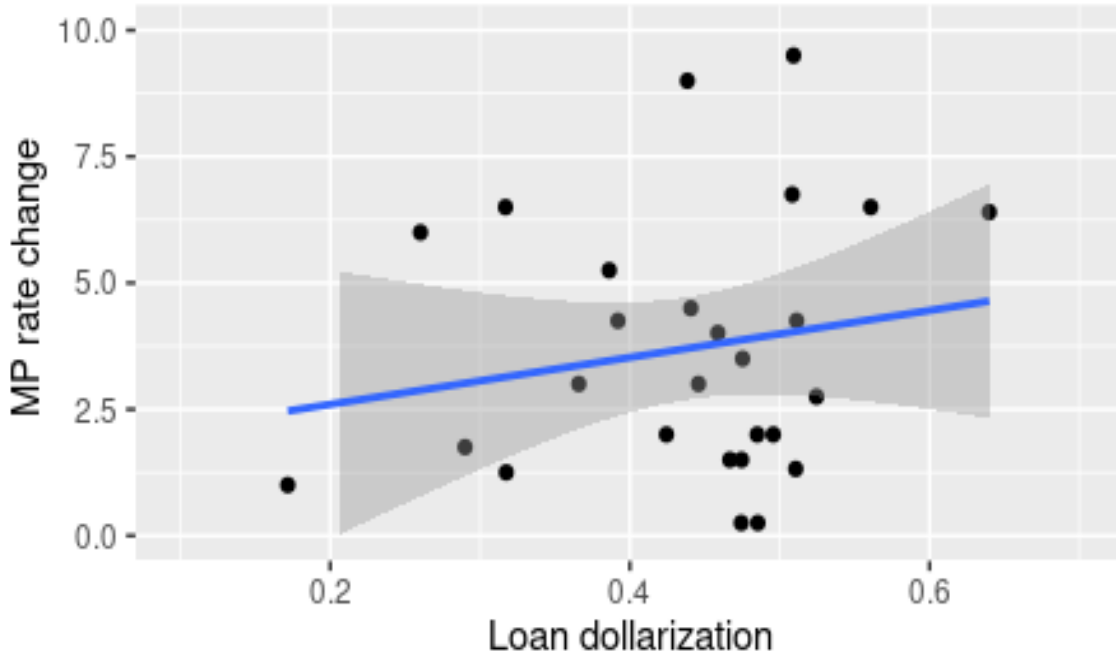
Dominant currency ERPT under different degrees of dollarization



Source: Dominant Currency Paradigm: Financial Dollarization View by Tamta Sopromadze, Giorgi Barbakadze and Shalva Mkhatrihvili

Monetary policy response in EM and developing countries after the pandemic

Policy response seems to be stronger in more dollarized economies (after the pandemic)



Source: IMF

But, at the same time, challenges started to emerge. Along with tightening:

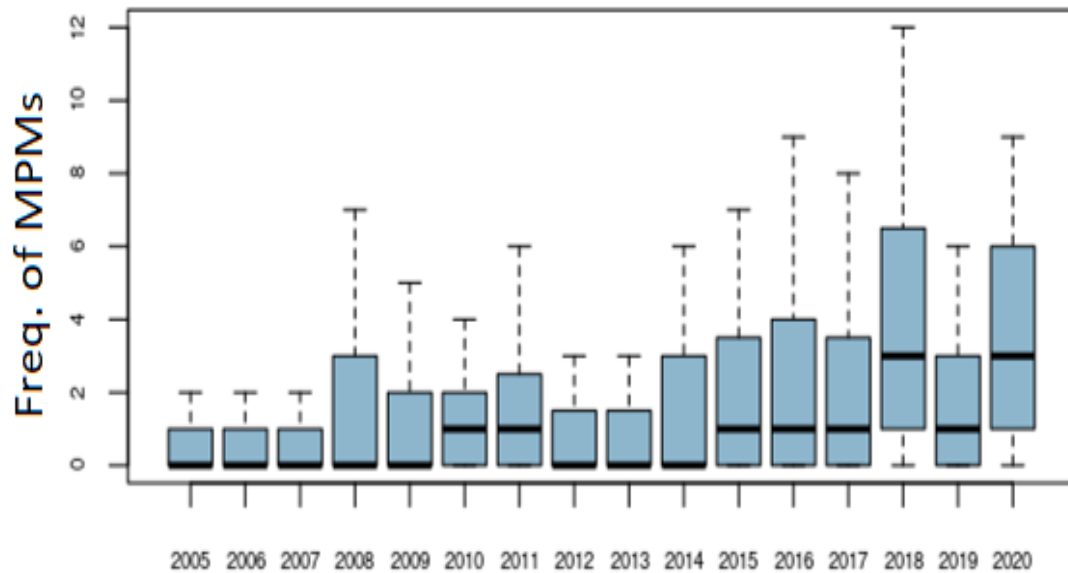
- monetary policy space contracted as FX lending became more tempting
- efficiency of monetary policy transmission mechanism diluted due to dollarization



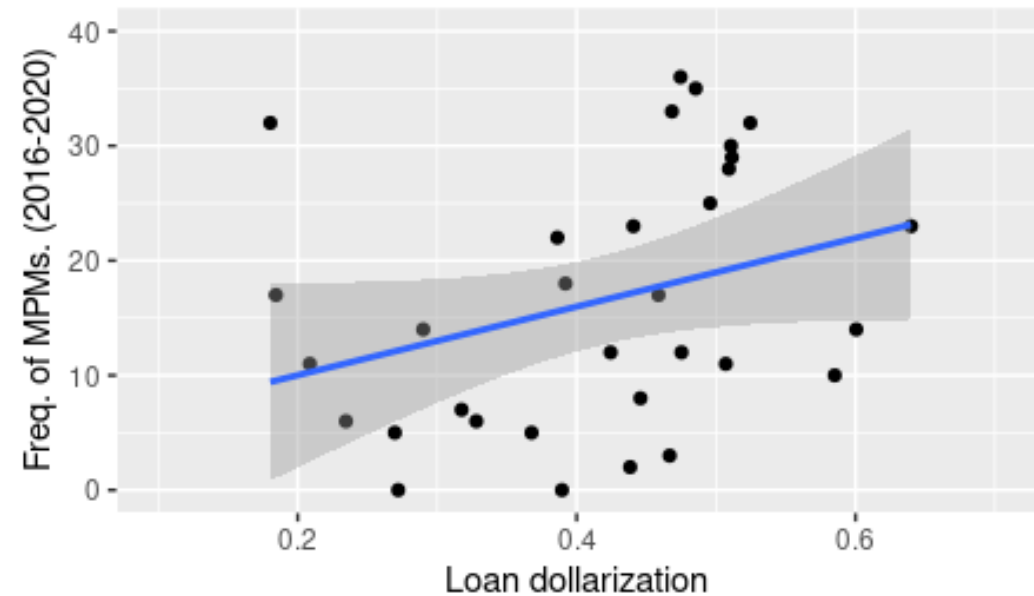
Need for additional (macroprudential) measures

Macroprudential measures in EM and developing countries *(up to 2020)*

Macropru measures were becoming more prevalent among EM and developing countries, especially in 2016-2020



Dollarized economies seemed to be relying on these measures more



Source: IMF

Challenges to monetary policy efficiency

High Dollarization

Reduces monetary policy scope / impact on aggregate demand

Consumer Loans

Policy rate transmission is weak / may create financial difficulties if policy rate is increased excessively

Short-Term FX Inflows

Exchange rate overvaluation risks future depreciation and inflation volatility

Macroprudential measures and their advantages over policy rates

Policy measures:

- Maturity of FX mortgage loans reduced to 10 years
- Remuneration on FX reserves fixed at 0

↳ *Affects FX part of the credit portfolio over which monetary policy has no influence*

Policy measure:

- Maturity of consumer loans reduced to 3 years

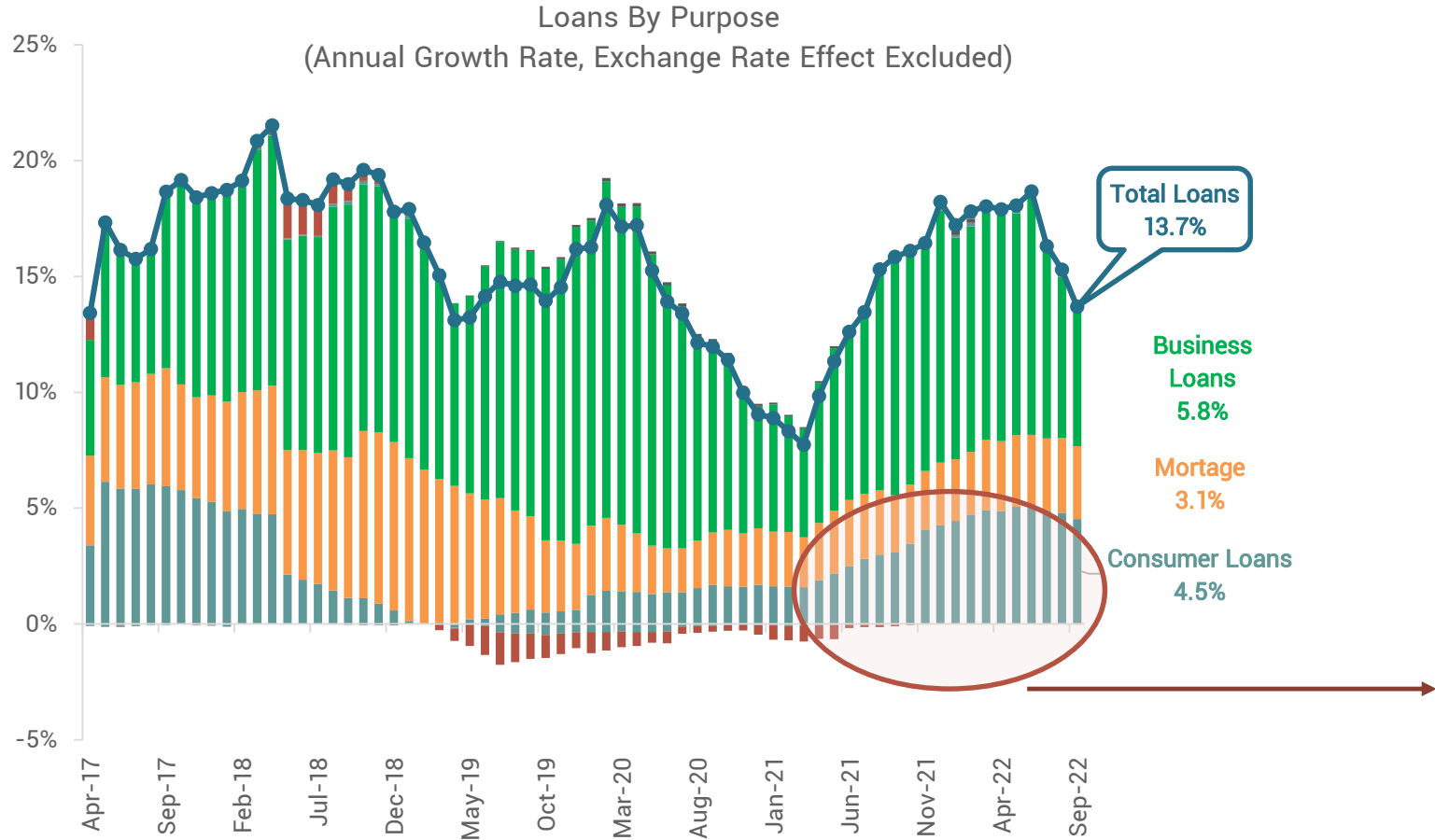
↳ *Affects high-interest loans which are inelastic to policy rate changes but have a big impact on aggregate demand*

Policy measure:

- FX interventions

↳ *Prevents exchange rate overvaluation, which would be unreasonable to do with monetary policy rate cuts given high inflation and strong demand*

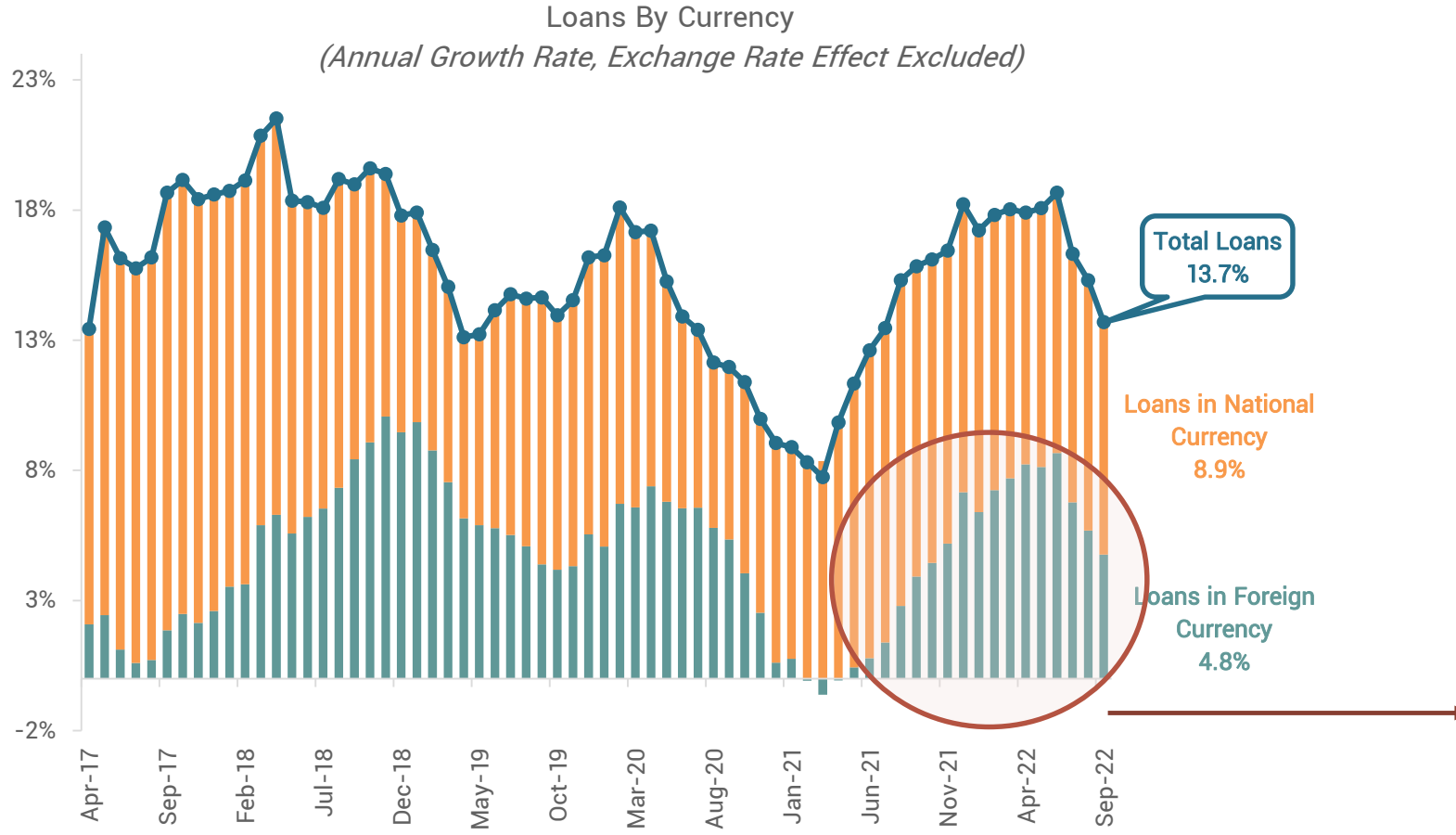
Credit Activity by loan types



Source: NBG

- Consumer loans have a significant share in credit portfolio growth
- It's expected to moderate and contribute to disinflation in the coming months

Credit Activity by currencies



Source: NBG

- We tightened monetary policy stance, but FX loans started to increase
- As a result of our additional policy measures and high Fed / ECB rates, FX credit growth is now slowing down in recent months

De-dollarization in Georgia

From 2010 (some parts earlier)

- Inflation targeting / more flexible exchange rate (MVP de-dollarization)
- Higher risk weights for FX
- Higher reserve requirements for FX

From 2017 (10-point larization plan with three pillars):

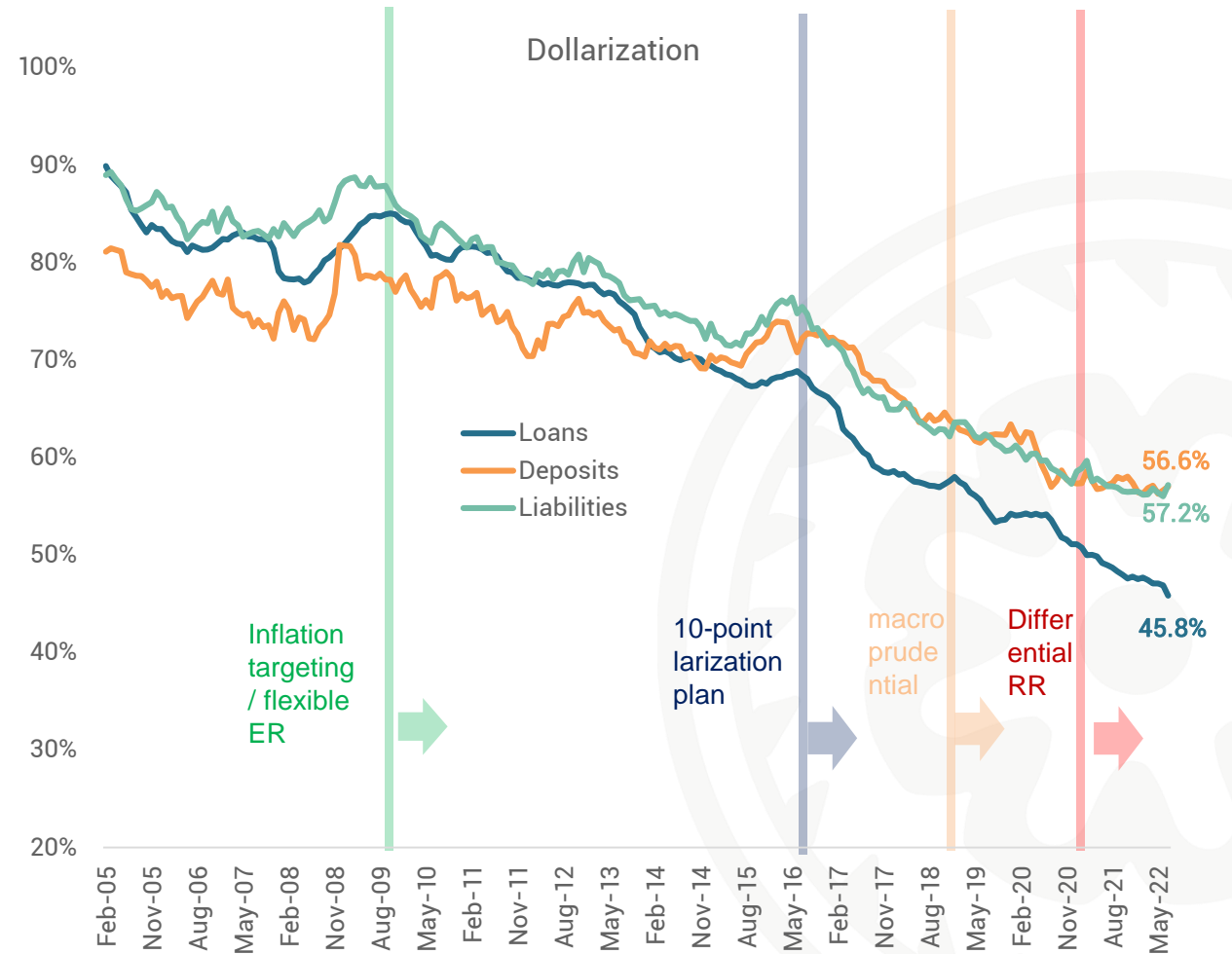
- Long-term lari loans (lowering liquidity risk)
- Adequate sharing of FX risks
- Pricing in lari

From 2019 (macroprudential):

- Lower PTI for FX
- Lower LTV for FX

From 2021 (deposit de-dollarization):

- Differential FX reserve requirements (RR) based on individual bank-level deposit dollarization



Source: NBG

Thank you!