



Monetary policy Developments – focus on *Communication*

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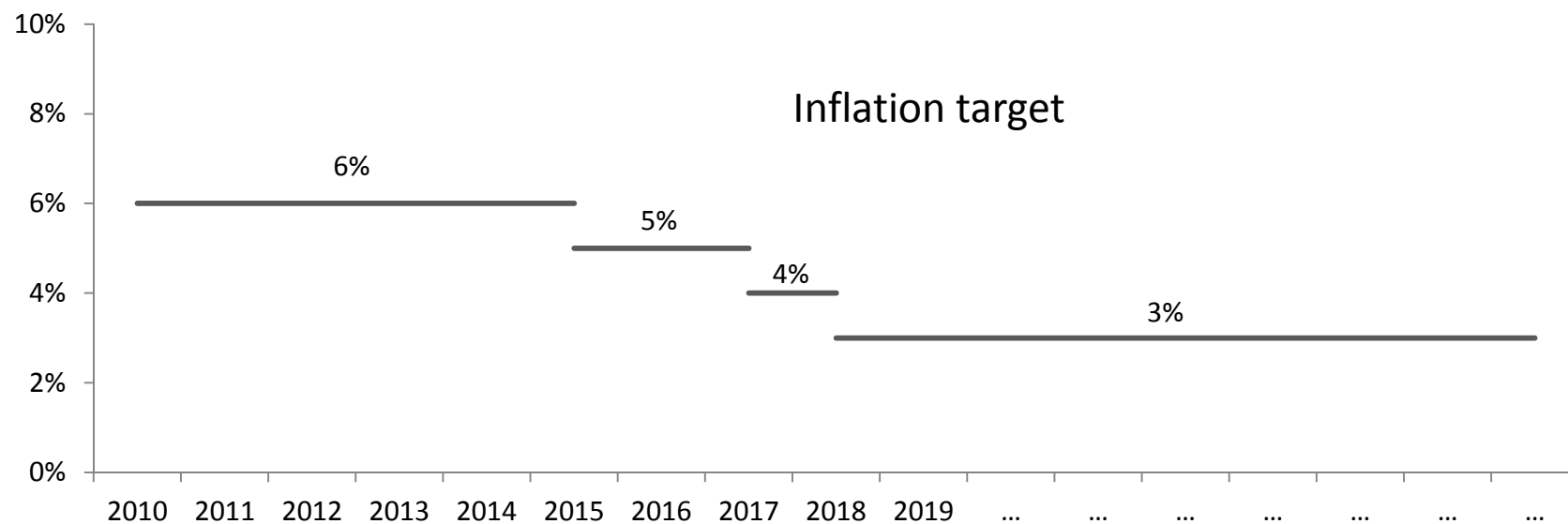
Governor

National Bank of Georgia



Objectives of the National Bank of Georgia

- The main objective of the National Bank of Georgia is to maintain **price stability**.
- Low and stable inflation will support long run economic growth



- Development of Monetary Policy of NBG
 - Developing operational framework
 - Improving forecasting capacity
 - **Fostering communication**

Developing Operational Framework (2008-2010)

Money Market

Quantity-based ⇒ Price-based

- Refinancing loans in unlimited quantity for a given monetary policy rate
- Standing facilities to create a corridor for short-term interest rates
- Reserve requirements

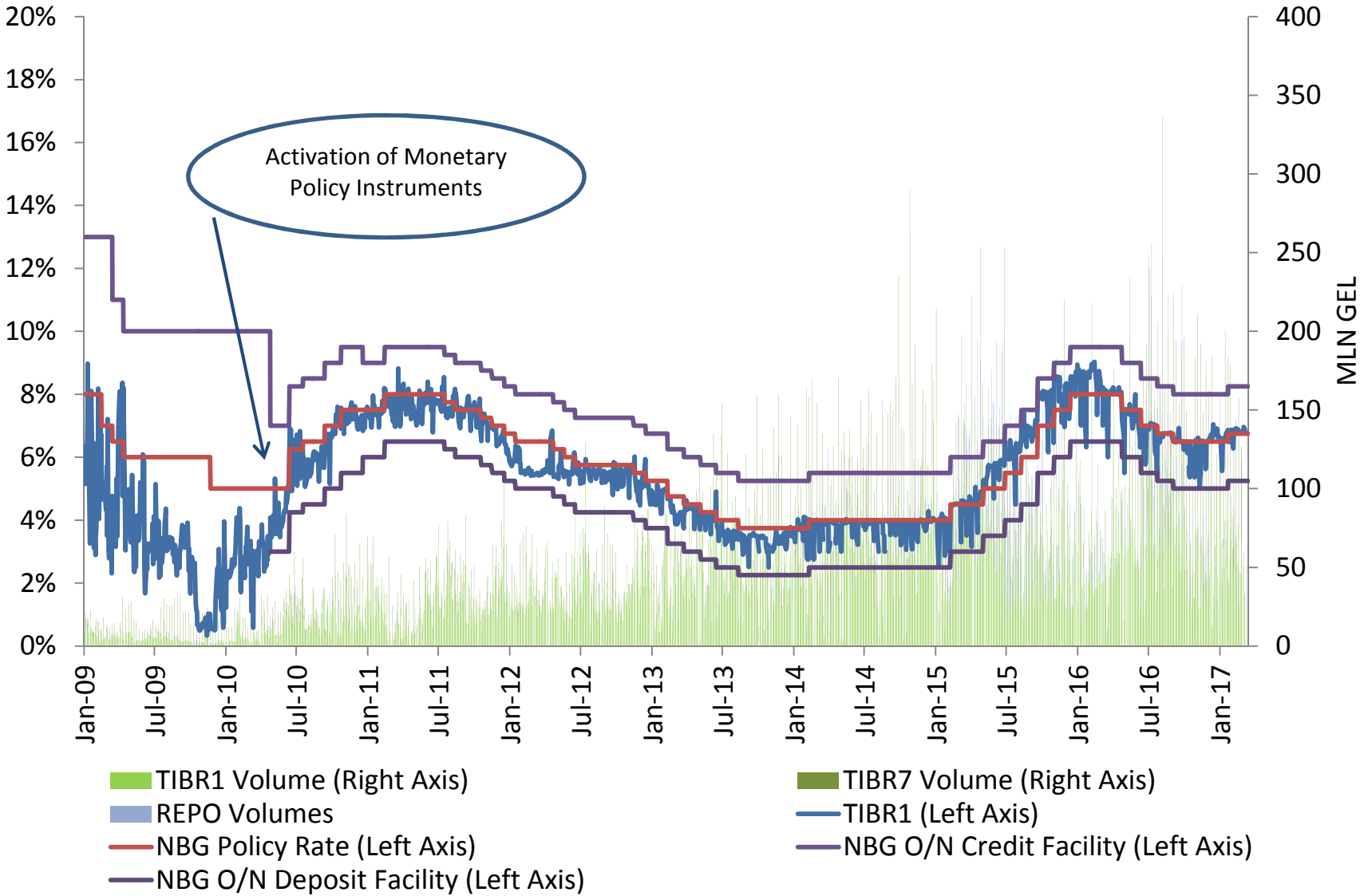
FX Market

Price-based ⇒ Quantity-based

- FX auctions with quantity-based interventions
- level of exchange rate determined by the market



Money Market Rates Hover Around the Policy Rate...



Source: NBG

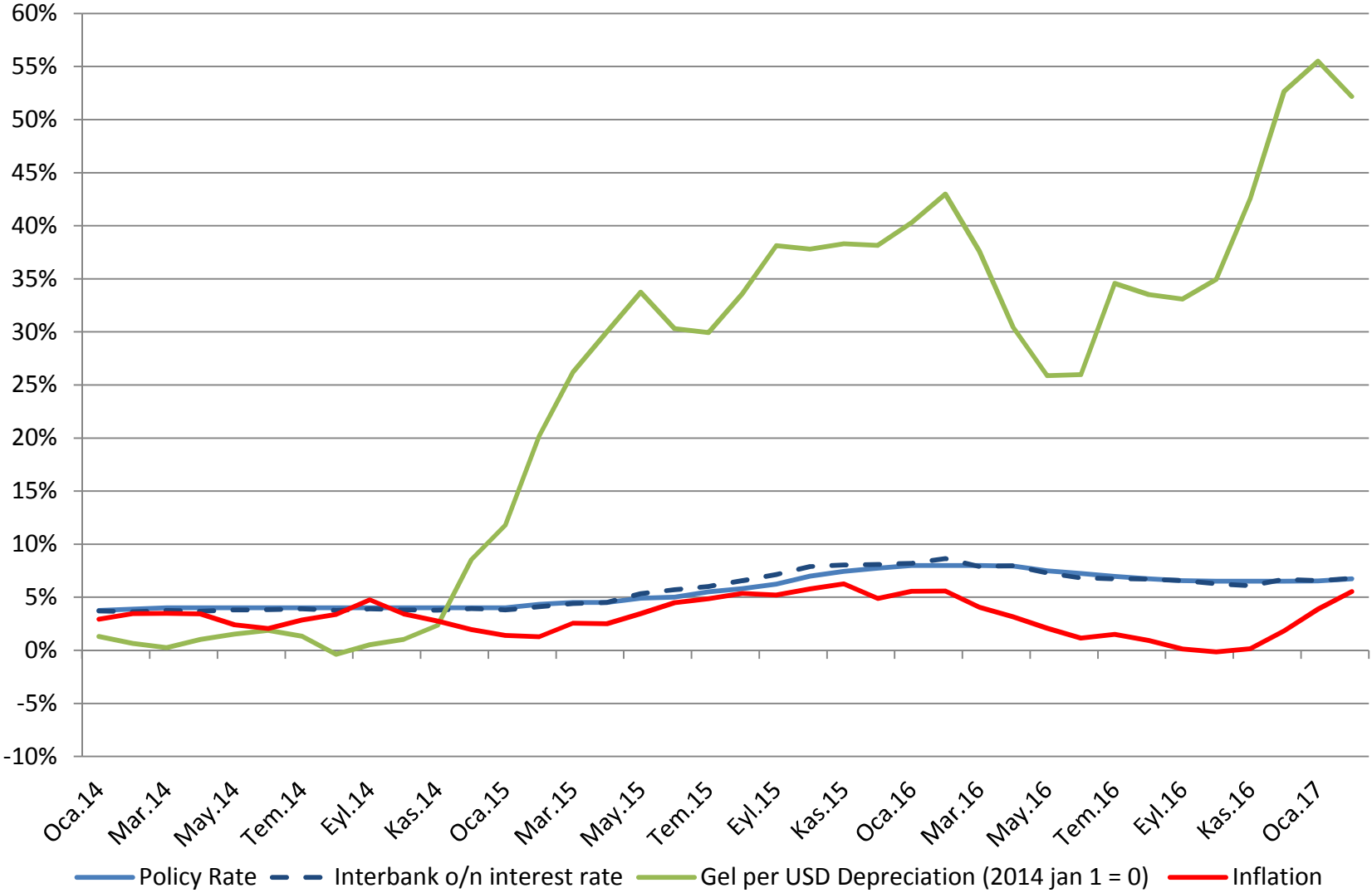


Exchange Rate Regime

- FX market reform was implemented in 2009 - introduction of FX auctions
 - foreign exchange policy of the NBG implies minimum intervention on the foreign exchange market
- Given open capital account, independent monetary policy requires floating exchange rate regime
 - Serves as a buffer and mitigates the impact of negative shocks on the economy
 - Limits speculative pressures on exchange rate and international reserves
- Sound banking sector with conservative supervision is essential for overcoming fear of floating in a financially dollarized economy
- Using macroprudential policy to eliminate shock-amplifying role of financial sector, especially under dollarization.



Flexible exchange rate



Source: NBG



Importance of Forecasting Capacity Building

- Technical assistance missions from IMF
 - human capacity development
 - training of the staff
- NBG relies on economic analysis and macroeconomic modeling in conducting monetary policy
- Yet, a good macroeconomic model does not necessarily help a better policy choice, unless part of a broader analytical decision-making framework exists
- Forecast is not a model output, but a product of staff
 - importance of capacity building
 - story should be behind every forecast



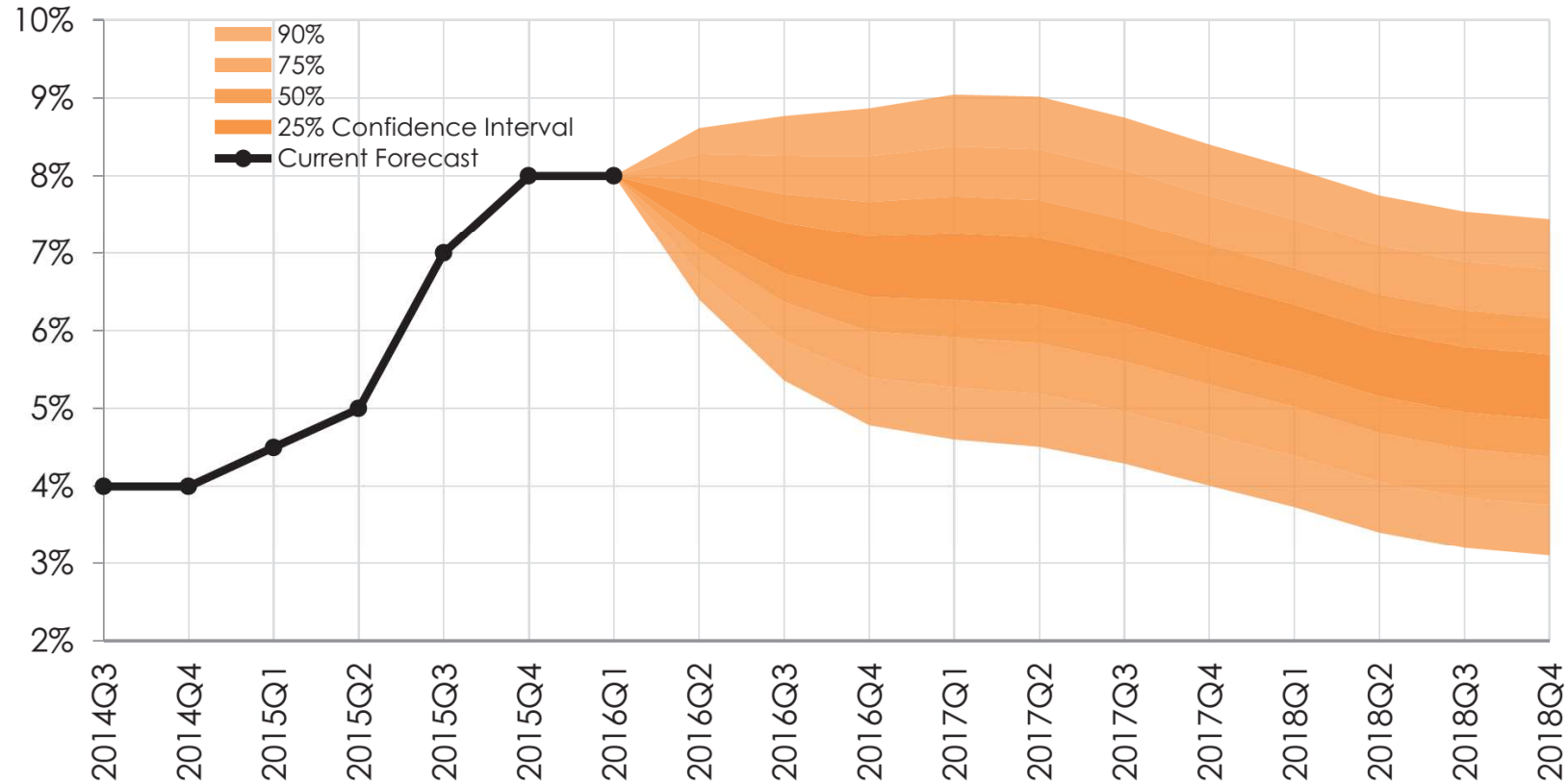
Fostering Communication

- Forward-looking Monetary Policy Report since 2013
 - publication of inflation and GDP forecasts alternative forecast scenario
- Forward guidance since 2015
 - verbal guidance on future policy rate
 - publication of future policy rate path since **May 2016**
- Press-conferences after MPC decisions (4 times this year; 8 times from next year)
 - MPC meetings in regions



Forecast of future policy rate path started in May 2016

Figure 2.10 Forecast of the Monetary Policy Rate



Source: National Bank of Georgia

Thank you!

