Paradigms of De-Dollarization, Challenges and Analysis of Expected Results in Georgia

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29 March 2019
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Abstract
In terms of the efficiency of monetary policy and economic stability, de-dollarization and its analysis, its impact on the economy are the topical issues. The purpose of this paper is to describe the dollarization and de-dollarization process, which reflects in the economic and economic processes. It also reflects the problems that impede the growth of de-dollarization and the events that make a positive effect on it.

The purpose of the work is to determine the place and role of de-dollarization and to identify ways to improve its regulation. This work refers to the study of foreign experience and its prospects in Georgia.

Abuselidze, G., Surmanidze, M. (2019). Paradigms of de-dollarization, challenges and analysis of expected results in Georgia. Economic analysis, 29(1), 63-67.

Keywords: monetary systems; central banks and their policies; monetary policy in development; dollarization; de-dollarization; Georgia

Either intra-country and international Economic, political, social or other processes affect Georgia.

In considering the modern economic situation of Georgia, we should pay special attention to the economic processes in 2016, which is another proof of the abovementioned opinion.

Against the background of global economic growth, the economic growth of 2016 was 2.7%. The potential level of economic growth of Georgia is significantly higher and is about 5% (Fig. 1).

![Figure 1. Economic growth rate](Source: author's calculations based on Ministry of Economy and Sustainable Development.)
Consequently, a significant substantial growth needs to be utilized. In recent years, Georgia’s economic growth is far below the potential level. In recent years, Georgia’s economic growth is far below the potential level. In 2016, the level of potential loses reached 2.2%. The negative gap of GDP is largely caused by weakening foreign demand and a reduction of disposable income due to increased loan service costs due to dollar strengthening. The main challenge of the Georgian economy is the threat of the country against the external hazards. In 2016, this indicator increased by 13.3% and dollarization of deposits exceeds 71% in 2016 year, rate effect excludes.

High dollarization (Fig 2) is one of the major impediments in the long-term growth of the economy of developing countries. In the case of high dollarization, the country’s foreign exchange risk is rising and decreases the stability of foreign shocks, which negatively affects the economy.

![Figure 2. Dollarization Ratio](source.png)

Source: *author’s calculations based on National Bank of Georgia*

In addition, the high rate of dollarization limits the possibility of making anti-cyclical monetary policy. The latter, in general, complicates the planning of activity by the economic agents. In order to stabilize the impairment rate, the IMF and the NBG work on the United Nations Action Plan, which mainly aims to increase the share of national currency in the country in relation to other currencies. The efficiency of monetary policy was improved during the larization (De-dollarization).

The step taken by the National Bank to increase the reserve norms on foreign currency inflows, the amendment to the regulation of minimum reserve requirements by commercial banks from June 16, 2016 (Article 2, paragraph 1.2), already gives preference to the lari that the loans are national in the currency of the currency. In addition, the 2017 year the National Bank was initiated by de-dollarization program, which includes January 1, 2015 to commercial banks by USD issued mortgage retail lending rely, in 2017, the 1st of July, came into force A law that according to the property of the realization Service or the paid in the publication will be made mandatory. The novelty is included in the advertising law (Law of Georgia on Advertising, Article 4, Paragraph 15) and accordingly, the advertising price of any real estate is recorded in national currency. However, this does not mean that the price in the contract is included in the national currency. The above-mentioned regulations implemented within the framework of the program aim to increase the stability of national currency and economic sustainability of the country. Let us briefly review each of them:

**Dedorization of loans** The program concerns the current loans of the US dollar, fully or partially provided by real estate of natural persons (including individual entrepreneurs), which originated from January 1, 2015. The dedalarization program involves loans, in which the bank is (or in the case of porting) secured the first creditor (mortgage). The loan was subsidized 40 thousand US dollars in the dedollarization of the official exchange rate minus 20 tetri. While the remaining part of the loan is either the borrower’s decision or is still a currency loan or its dedolarization without subsidy.

Dedolarization program lasted for two months and ended on March 17. According to the latest data of the National Bank of Georgia on March 17, a one-time dedalarization program is approximately 80 million USD (78 659 017 USD) 5 617 bank loan. The program was launched by the Government of Georgia with the support of the National Bank on January 17, and the program was converted to 25% of the Gross Subsidies.
Real estate advertising in national currency helps citizens compare prices as competitor prices and their own income. This encourages the buyer to increase the level of forecast and better plan to buy real estate. This decision increases the lari deposits, the customer is less depend on the course change and will be able to manage its own revenues in the long term.

As for the businessmen's position, the idea has already been challenged by a large number of developers, they believe that the law reduces the business's sustainability. In the case of purchasing a home in installment, they are threatened only in the price of national currency, if the national currency is impaired, the rate of change creates problems for the real estate business. If the national currency is depreciated, the real estate becomes cheap and on the contrary, the price fluctuations in this sector causes the reduction of sales and various problems.

The sale of real estate in the national currency is primarily aimed at the dedolarization policy. It will be very difficult for a private business to make a lease on the lari. Of course, this process will benefit the stability of the national currency rather than the real estate market. The national currency may become stronger and the government's decision to be national currency, but it can not only sell real estate in the national currency. This should be done with long-term economic policy. It is difficult for a private owner to sell property in the Georgian Lari. It will take the established course in the current period and pay the appropriate amount in the national currency. The dollar in this case will be a more solid currency. The aim is to be somewhat uninterrupted, for the lari dominates the real estate market, it must be a reliable currency, long-term currency fluctuations and economic shocks sustainable.

Depreciation of National Value for Georgia is a particularly acute problem in the fourth quarter of 2016. The rate of exchange rate of USD 7.5 per cent in the fourth quarter and the average was 2.5. The gel was also downgraded to the euro (3.8%). Because of the course effect, real debt is growing faster than revenues. In 2012 household debt was 99% of their disposable income, 181% in 2016, debt servicing or disposable income was up to 25%.

Due to the devaluation of the national currency, the country is significantly higher in external debt. For the next one year due to impairment of the foreign debt, 1 billion 400 million GEL is needed to pay the foreign debt (2017 for external debt service is $ 3 billion, which is 2.30 at the rate of GEL 7 billion and 8.4 billion GEL at 2.74 rate).
A large part of the population has taken loans in dollars when the income is received in the national currency, where the situation becomes much harder when the foreign currency is taken into a credit, the risk of the exchange rate risks to the exchange rate (Fig. 4).

In 2016, the share of loans issued by commercial banks increased by 63.7% to 64.2% and reached 65% by 2017. The need to reduce the level of dollarization of loans has gradually been created by the National Bank of indirect instrument, effective June 16, 2016. According to NBG’s decision, the minimum reserve requirements on domestic funds in the national currency decreased to 7% instead of 10, while in foreign currency increased by 15% to 20%. Moreover, the mandatory reserve rate on the attracted funds from 1 to 2 years in foreign currency increased from 5 to 10%. Commercial banks were forced to attract funds in the lari, but in foreign currency they were rising. This concerns the minimum reserve requirements for commercial banks, which can be modified by the National Bank to increase / decrease the volume of loans issued in a particular currency (Fig. 5).

According to Forbes, loans issued in GEL in the last year amounted to 521 million dollars, and foreign currency volume increased by 262 million dollars, which significantly contributed to increased reserve rates on foreign currency attracted deposits.
Conclusions

Finally, we can say that there is no prerequisite in Georgia to change the course or go to full dedolarization. Given the fact that Georgia is an open fiscal account and its business cycles differ from the world’s leading currencies, the independent monetary policy tailored to the local system is an important instrument for the development of macroeconomic policies. The Government has worked together with the National Bank and the regulation to reduce the dollarization gradually simplifies the planning of activity by the economic agents and enables them to carry out anti-cyclical monetary policy.

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