

UDC 330

George Abuselidze (Georgia)  
Mzia Surmanidze (Georgia)

JEL classification: E42, E52, E58, O23

**George ABUSELIDZE**

Department of Finance, Banking and Insurance,  
Batumi Shota Rustaveli State University, Georgia  
E-mail: abuseri@mail.ru;  
george.abuselidze@bsu.edu.ge

**Mzia SURMANIDZE**

Department of Finance, Banking and Insurance,  
Batumi Shota Rustaveli State University, Georgia

© George Abuselidze,  
Mzia Surmanidze, 2019

Received: 04.02.2019  
Revised: 11.02.2019  
Accepted: 27.03.2019  
Online publication date: 29.03.2019



This is an Open Access article, distributed under the terms of the Creative Commons Attribution-NonCommercial 4.0 license, which permits unrestricted re-use, distribution, and reproduction in any medium, provided the original work is properly cited.

# PARADIGMS OF DE-DOLLARIZATION, CHALLENGES AND ANALYSIS OF EXPECTED RESULTS IN GEORGIA

## 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.

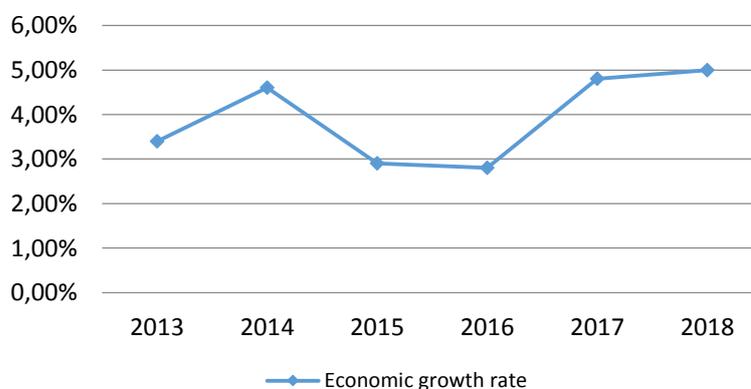
Abuselidze, G., Surmanidze, M. (2019). Paradigms of de-dollarization, challenges and analysis of expected results in Georgia. *Economic analysis*, 29(1), 63-67.

**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).



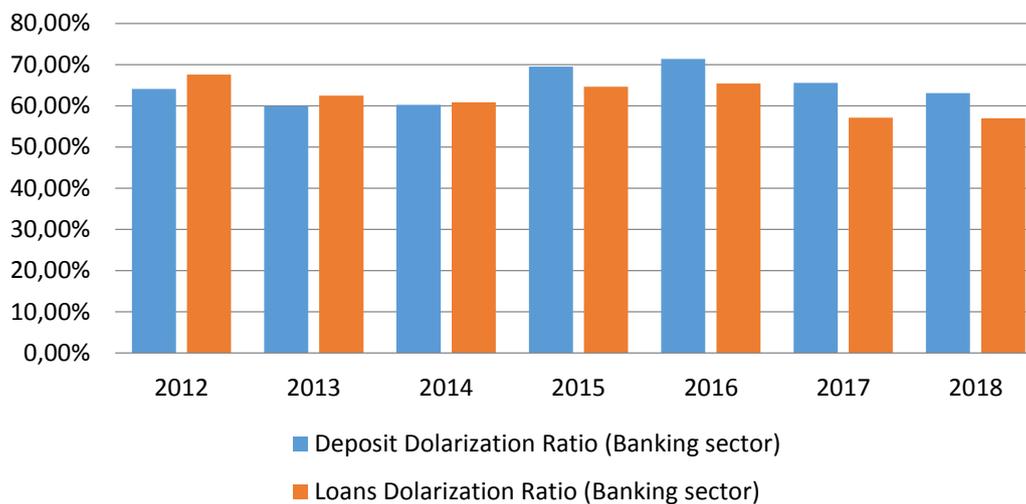
**Figure 1. Economic growth rate**

**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 losses 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:** 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:

**Dedollarization 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 1 January 2015. The dedollarization 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 dedollarization without subsidy.

Dedollarization 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 dedollarization 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.

The Decree No. 1 of January 11, 2017 of the Government of Georgia was about citizens of Georgia and it's necessary to separate discussion about the impact of currency fluctuation on financial stability of enterprises and organizations. The currency exchange rate directly effects to the business subject's activity because of necessity to elaborate special methods and to change the management strategy for get rid of economical or financial crises. Most of the companies are depend on imported goods and therefore outflow indicator of foreign currency is high, due to the lack of exporting companies, it is not possible to enrich the market with foreign currency. Reduction of transfers negatively affects economic activity. This is especially noticeable on the background of impaired negative balance sheet and depreciation of the national currency exchange rate (Abuselidze, 2019). Because business entities and their activities are an important part of the country's budget, private business development is important not only for entrepreneurs but also for the state.

The depreciation of the national currency is accompanied by an increase in prices for primary consumption, which reduces sales and revenues in both companies and in the country's budget, all this hinders the country's economic development (Abuselidze & Katamadze, 2017. pp.14-16).

Georgia in the current economic situation and the sustainable existence of modern political-economic situation unconditionally requires entrepreneurial and corporate financing activities diversified approach, which the bank-lending segment alternatives Establishment Will contribute (Abuselidze, 2018). De-dollarization of loans is important in terms of financial stability. Growth of credit portfolio lending will reduce credit risk rises as a result of exchange rate risk, increase the stability of both borrowers and financial sector, which in turn positively affects economic growth indicators. However, the substantial reduction of the Lari's current rate in the dollar in the Georgian population leads to a decrease in confidence in the Lari. The reason for this is that the permanent reduction of the current rate of Lari is due to a sharp decline in the future exchange rate of the Lari in the dollar. Habits formed over the years due to the foreign currency market prices are announced, which impedes the work of market rate fluctuations between periods. In this regard, a new regulation, according to which the announcement of price by legal entities is binding only in national currency.

There is no uniform opinion about the sale of property realization or the price of the service in the national currency, and it is quite a matter of topical consideration for businessmen as well as for customers. Consider the customer's position.

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 '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 dedollarization policy. It will be very difficult for a private business to make a lease on the lair. 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).

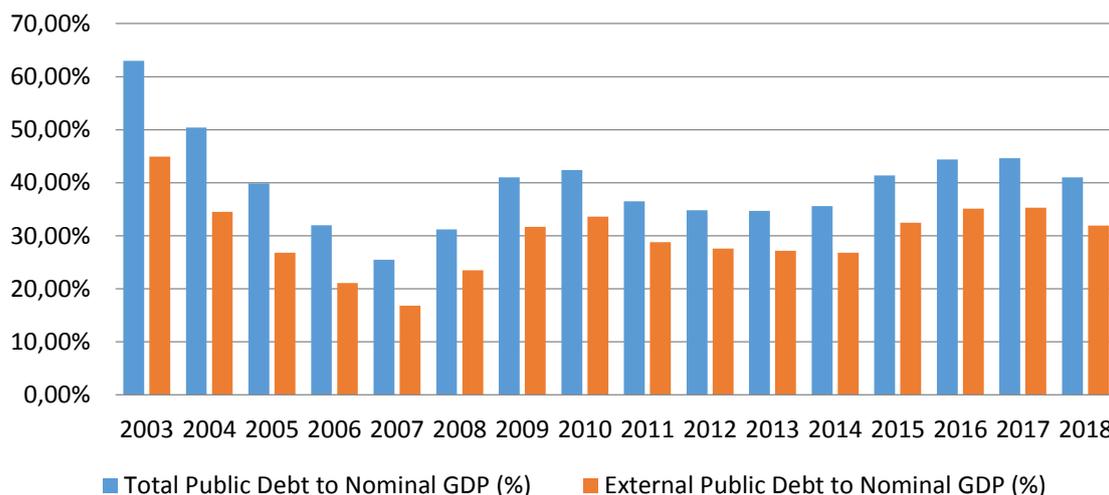


Figure 3. Public Debt Stock as % of Nominal GDP

Source: author’s calculations based on Ministry of Finance of Georgia

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).

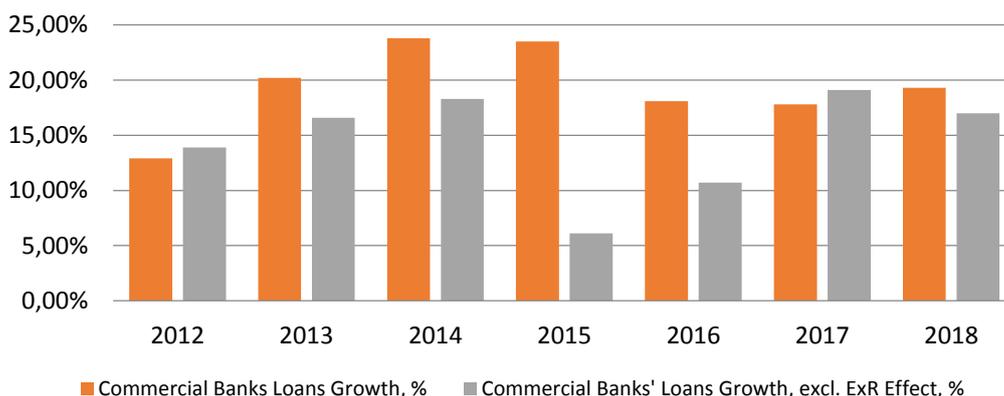


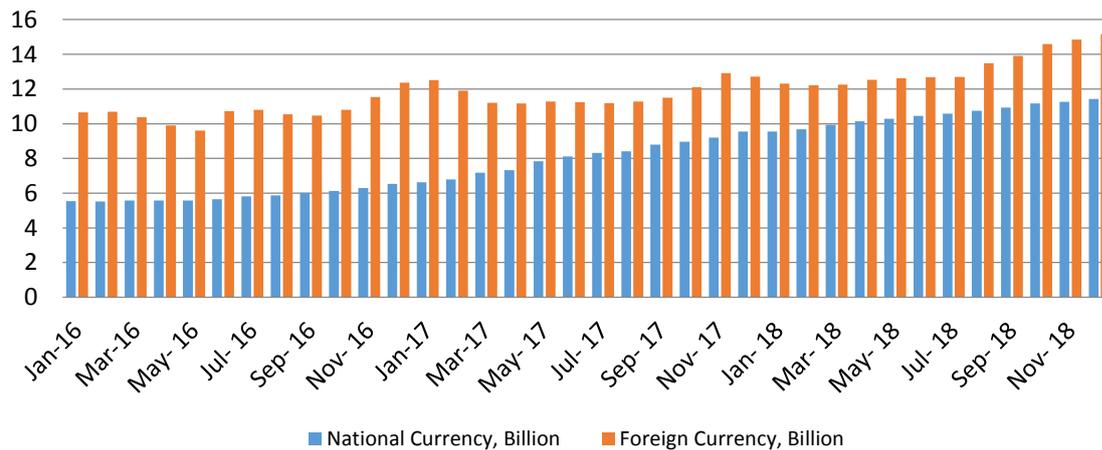
Figure 4. Interest Rates on Loans, by Years

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

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.



**Figure 5. Loans by Currency**

Source: author's calculations based on National Bank of Georgia

### Conclusions

Finally, we can say that there is no prerequisite in Georgia to change the course or go to full dedollarization. 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.

### REFERENCE

- Abuselidze, G. (2019). European Integration of Georgia and Financial Economic Condition: Achievements and Challenges. *European Journal of Sustainable Development*, 8(1). <http://dx.doi.org/10.14207/ejsd.2019.v8n1p53>.
- Abuselidze, G. (2018). Georgia's capital market: Functioning Problems and Development Directions in Association with EU. *Journal of Applied Economic Sciences*, Volume XIII, Winter, 7(61).
- Abuselidze, G., & Katamadze, G. (2017). Change in Exchange Rate: its Impact on Activity of Business Companies and Analysis of Some Prevention Measures. *Journal Economics*, vol. 6, pp.14-16. <http://dx.doi.org/10.2139/ssrn.3165951>.
- Nachavadze, B. (2015). Lari impairment results. *Journal Forbes*. Retrieved from: <http://forbes.ge/news/623/laris-gaufasurebis-Sedegebi>.
- Nachavadze, B. (2017). Last year an challenges of 2017 lear. *Journal Forbes*. Retrieved from: <http://forbes.ge/news/1833/gasuli-weli-da-2017-wlis-gamowvevebi>.
- Tsomaia, A. (2017). Larization Plan, *journal Forbes*. Retrieved from: <http://forbes.ge/news/1824/larizaciis-gegma>.
- Law of Georgia on Advertising*, Article 4, Paragraph 15, Tbilisi, 18 February 1998. N 1228-Il. Retrieved from: <https://matsne.gov.ge/ka/document/view/31840>.
- Rules for the protection of minimum reserve requirements by commercial banks*, Article 2, paragraph 1,2. Retrieved from: [https://www.nbg.gov.ge/uploads/legalacts/monetarypolicy/2016/mrr\\_regulation\\_20110211\\_21\\_09\\_16\\_geo\\_.pdf](https://www.nbg.gov.ge/uploads/legalacts/monetarypolicy/2016/mrr_regulation_20110211_21_09_16_geo_.pdf).
- National Bank of Georgia. (2016). *Statistics of Payment of External Debt*. Retrieved from: <https://www.nbg.gov.ge/index.php?m=340&newsid=2920>.
- National Bank of Georgia (2016). *Georgia's balance sheet*; Retrieved from: <https://www.nbg.gov.ge/index.php?m=339&n&newsid=2943>.
- National Bank of Georgia. (2018). *Larization Measures*. Retrieved from: <https://www.nbg.gov.ge/index.php?m=656>.
- Decree of the Government of Georgia N1, Conversion of the National Currency of Georgia on Bank Loans / Loans and Subsidizing State Program* approved by the Government of Georgia, Tbilisi, 11 January, 2017. Retrieved from: <https://www.nbg.gov.ge/uploads/legalacts/larization/dadgenileba.pdf>.
- National Bank of Georgia. (2018). *Loan larization Program*. Retrieved from: <https://www.nbg.gov.ge/index.php?m=653>.
- National Bank of Georgia. (2019). *Statistical Data*. Retrieved from: <https://www.nbg.gov.ge/index.php?m=306&lng=geo>.
- Ministry of Economy and Sustainable Development. (2017). *Economic Review of 2016*. Retrieved from: [http://www.economy.ge/uploads/publications/economy\\_8484723758fdf66e4c9332.50742461.pdf](http://www.economy.ge/uploads/publications/economy_8484723758fdf66e4c9332.50742461.pdf).