

Sovereign Asset Liability Management Coordination

Case of Georgia

Financial Markets Department
National Bank of Georgia

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საქართველოს ეროვნული ბანკი
National Bank of Georgia

Considerations for Central Bank

Liabilities

- On-balance sheet (explicit)
- Off-balance sheet (implicit)
- Currency composition
- Maturity profile

Explicit

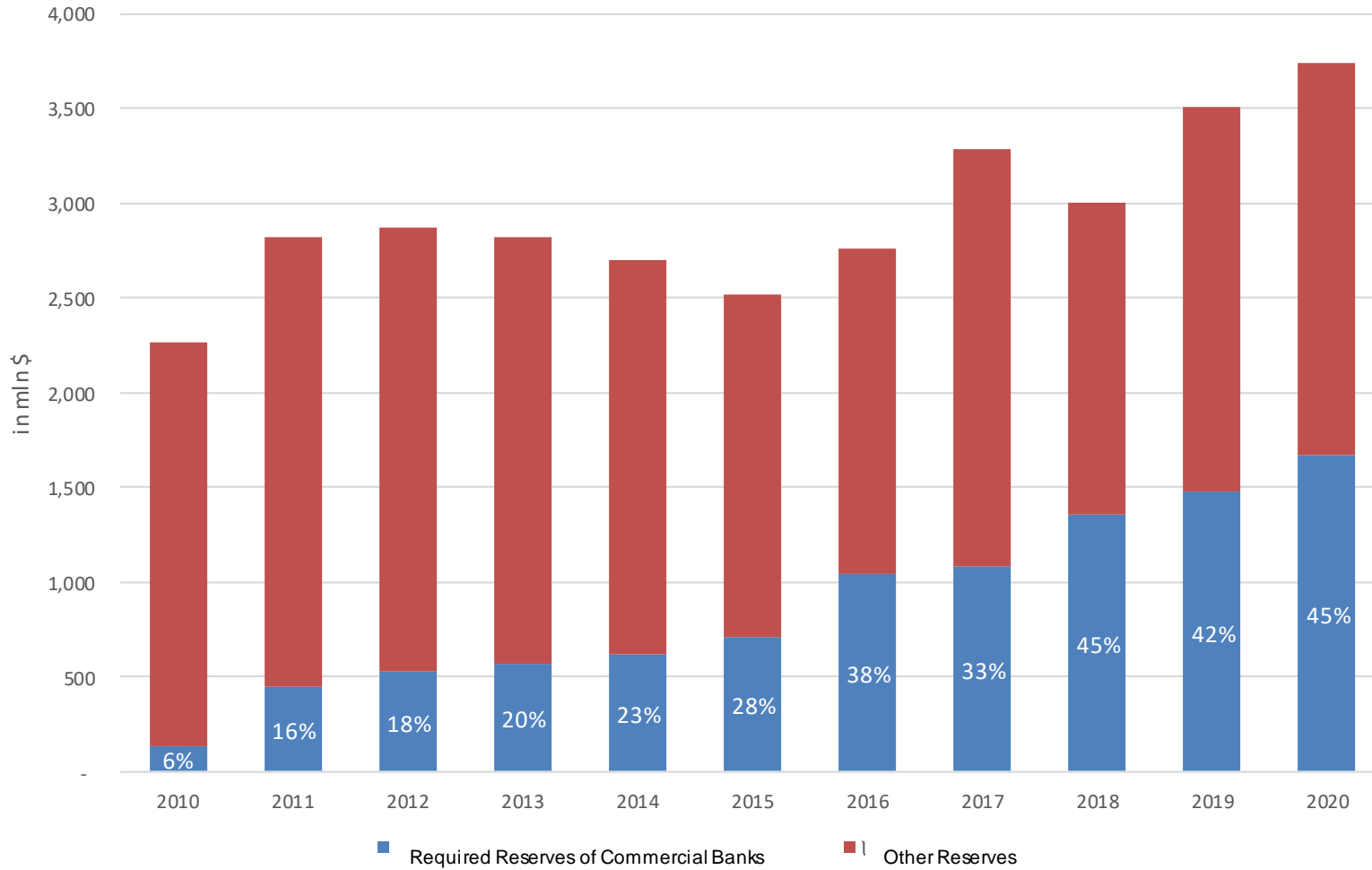
- When NBG net reserves were negative, we matched reserves to liabilities
- Now that FX borrowing is small, that component is less important
- The banking sector has grown and their reserve requirements now constitute 45% of the international reserves

Implicit

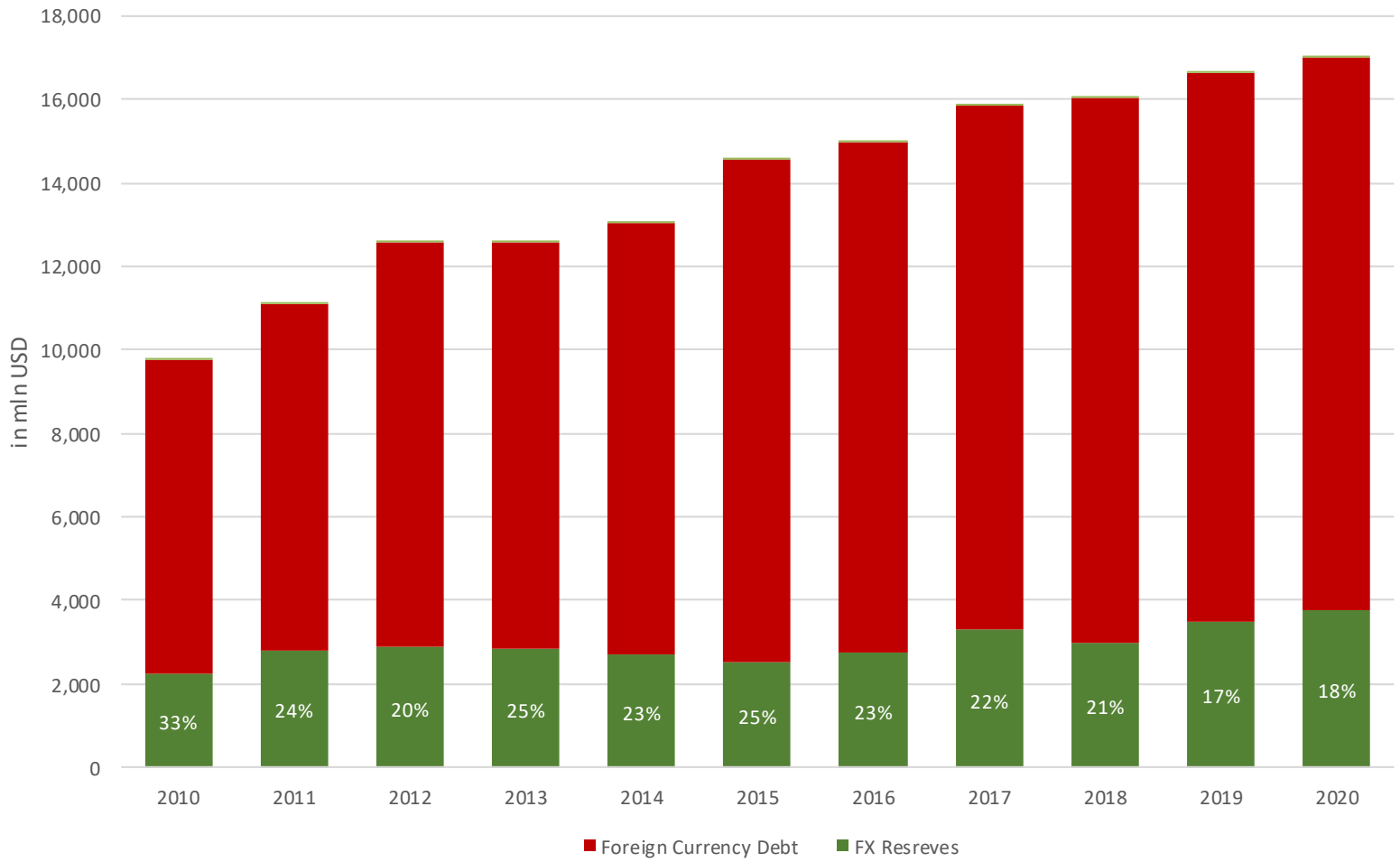
- Debt currency composition of Govt & Private sector
- FX debt cash flow currency composition
- FX debt maturity profile
- External trade currency denomination (settlement currency)
- FX intervention currency and frequency



Required Reserves of Commercial Banks to Total FX Reserves

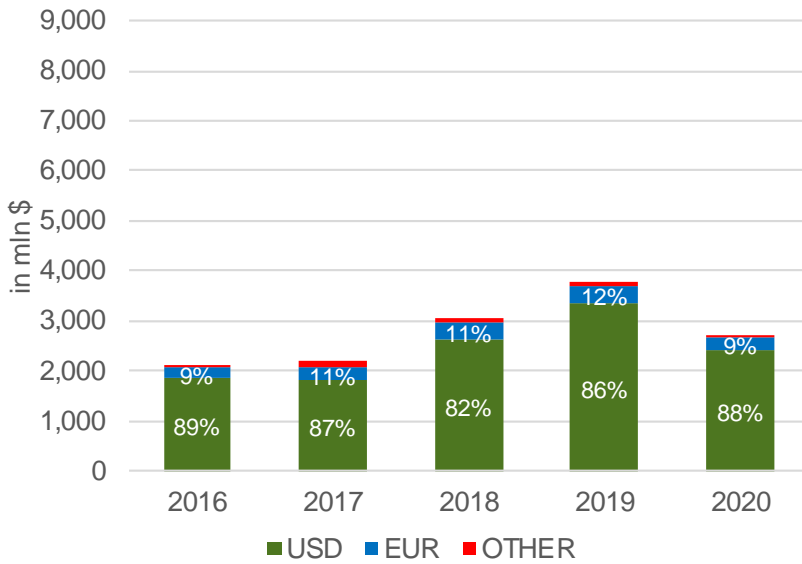


FX Reserves to total External Debt (in foreign currency)

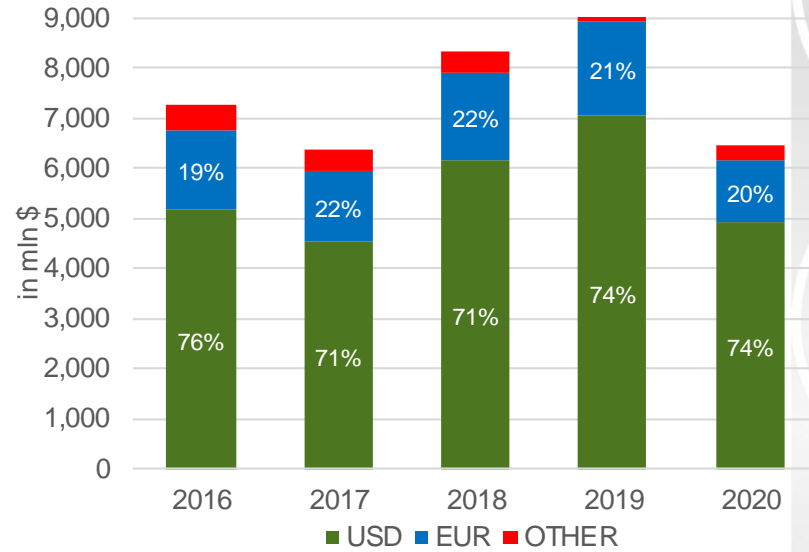


Balance of Trade Currency Composition

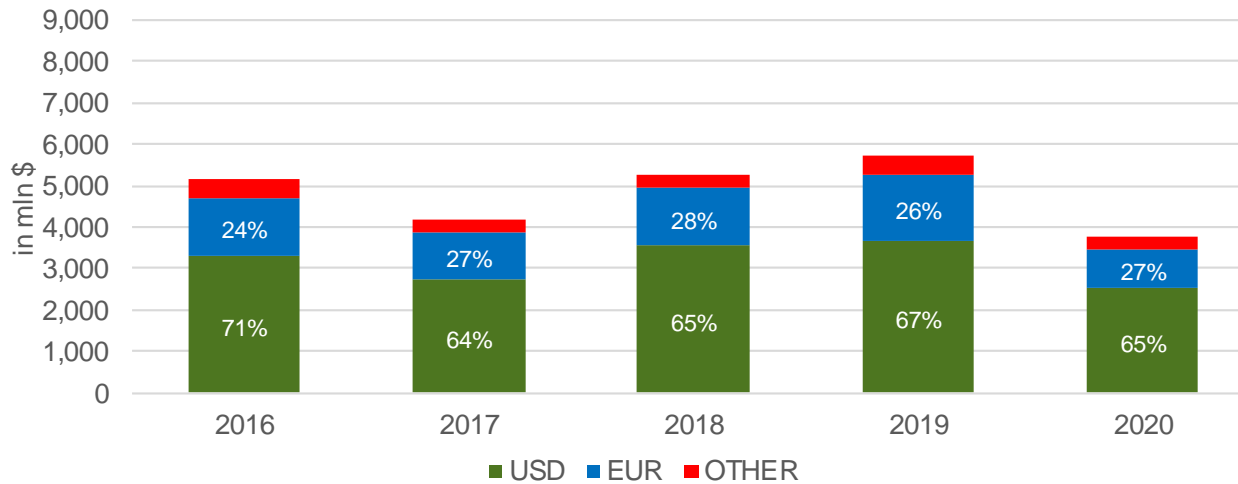
Export



Import



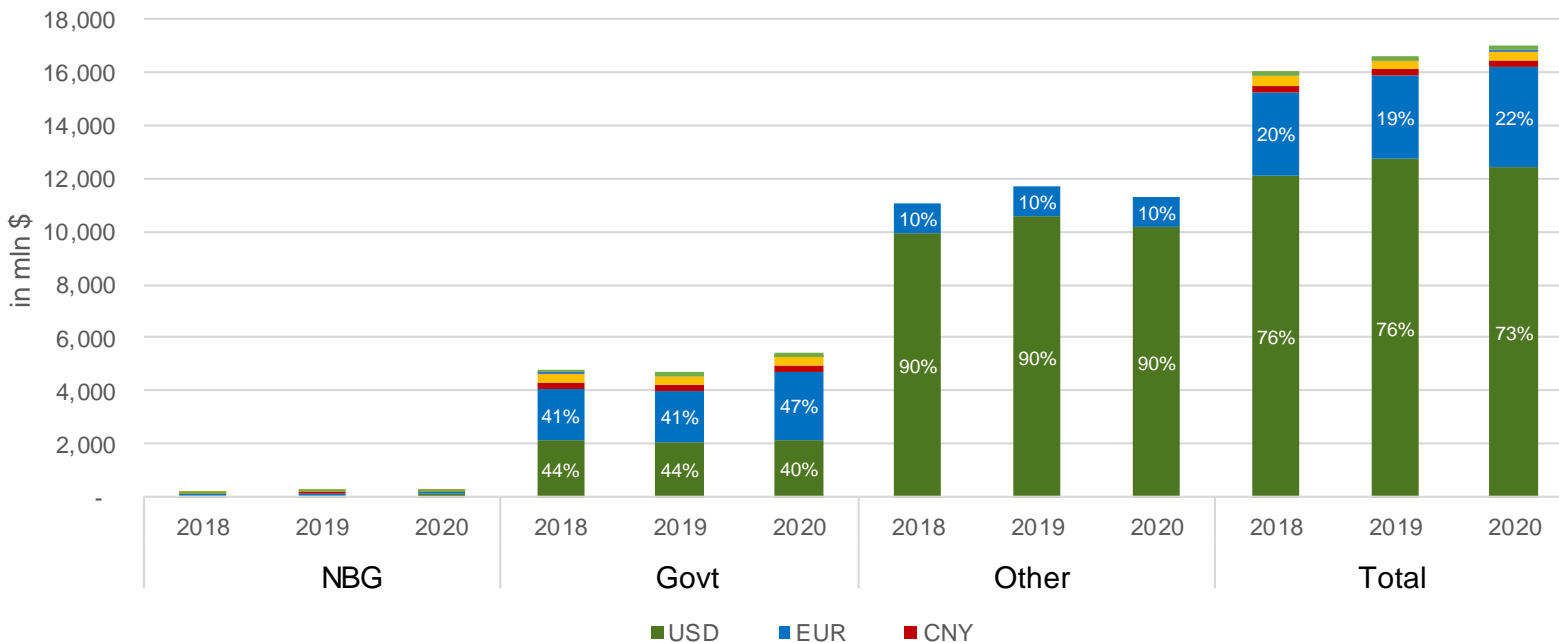
Balance of Trade



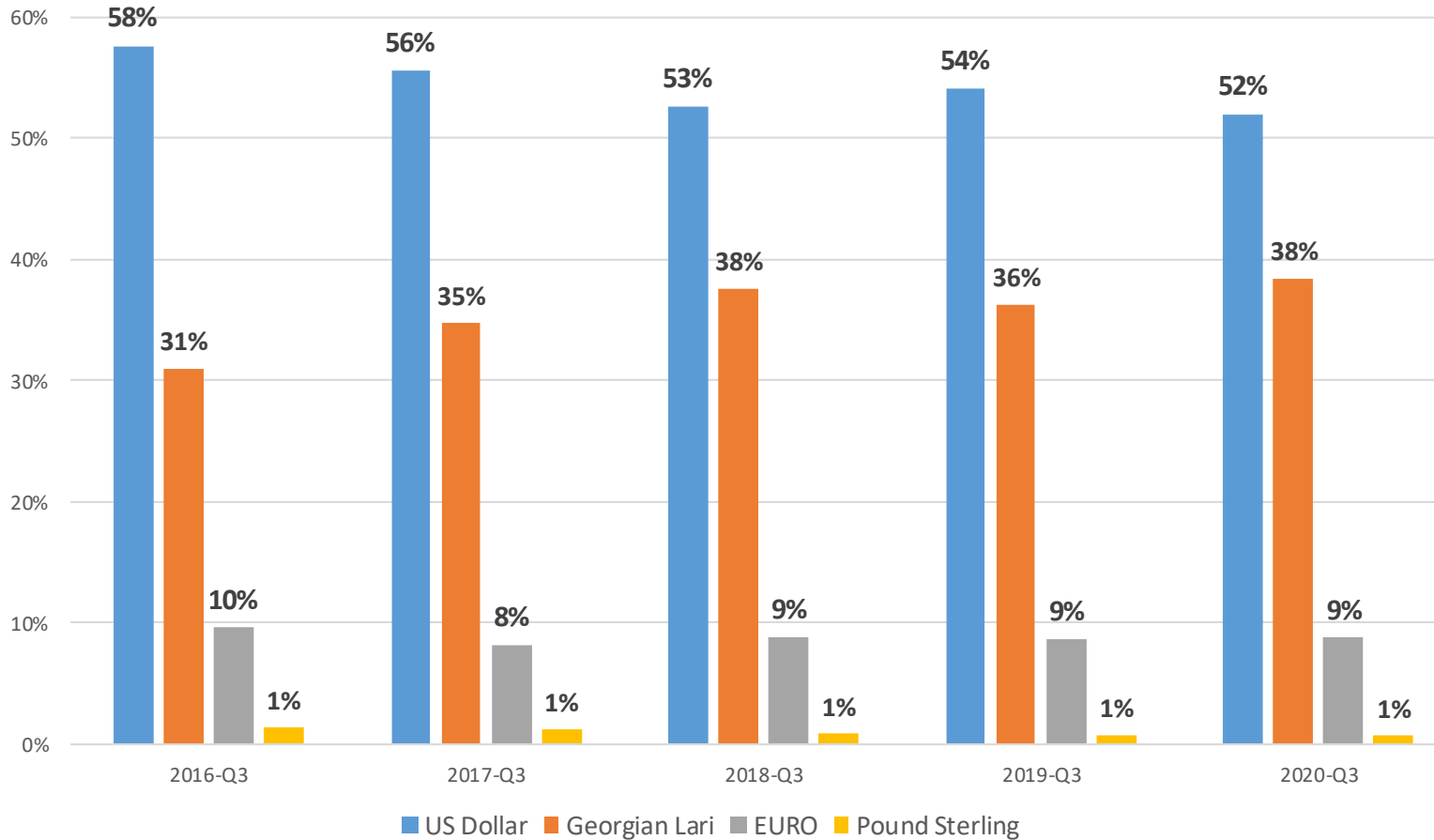
Total External Debt Currency Composition *(in mln USD)*

	2020 (\$ mln)			
	NBG	Govt	Other	Total
USD	104	2,167	10,166	12,436
EUR	77	2,562	1,130	3,768
CNY	27	199	-	226
JPY	21	365	-	386
KWD	-	9	-	9
GBP	20	147	-	167
	248	5,448	11,296	16,992

	2020 (%)			
	NBG	Govt	Other	Total
USD	42%	40%	90%	73%
EUR	31%	47%	10%	22%
CNY	11%	4%	0%	1%
JPY	8%	7%	0%	2%
KWD	0%	0%	0%	0%
GBP	8%	3%	0%	1%
	100%	100%	100%	100%



Currency Composition of Deposits at Georgian Banks



As of Sept, 2020, the share of the US dollar in the total volume of foreign currency denominated deposits equals 84% (Foreign Currency Deposits - \$6,2 billions)



Considerations for Central Bank

Assets

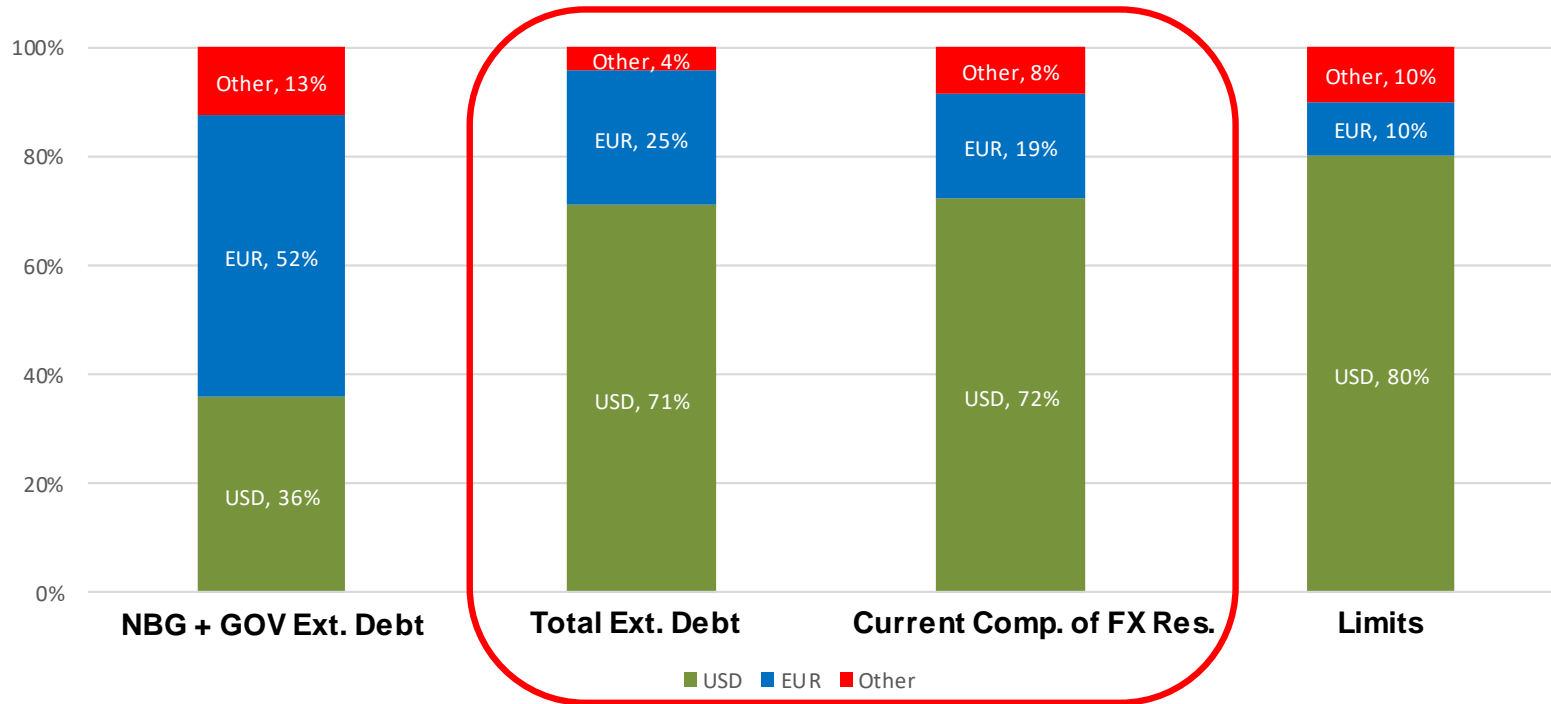
- Diversification opportunities
 - Capital preservation objective
- Investment opportunities
 - How developed and liquid the investment market is
 - Size of the portfolio, is it large enough for active management
 - Currency, case of negative interest rates
 - Credit risks, are there high quality instruments
- FX composition of Money Remittances
- FX interventions to accumulate reserves
- Projected Risk free yields of Reserve Currencies
- Quantitative modeling of forward looking returns for eligible Asset Classes
- Investment Objectives and Risk Appetite of NBG

SAA Outputs

- Neutral Currency Composition
- Target Sizes of Tranches in each currency
- Benchmarks for Portfolios



Neutral Currency Composition of FX Reserves



	NBG + GOV ext. Debt	Total Ext. Debt	Current Comp. of FX Res.	Limits
USD	36%	71%	72%	80%
EUR	52%	25%	19%	10%
Other	13%	4%	8%	10%

No change required for currency composition of FX Reserves and allowed deviation (+/- 10% for EUR and USD, +/- 5% for other currency)

Considerations for the MoF

⊗ Exchange Rate

- Volatility of borrowing currency vs domestic currency

⊗ Interest Rate

- Interest rates on the currency of borrowing
- Market or bilateral/concessional

⊗ Access to International Markets

- Borrowing can be linked to specific infrastructure financing and this may determine the currency, interest rate and maturity

⊗ Development Needs

- Borrowing can be linked to specific infrastructure financing and this may determine the currency, interest rate and maturity

⊗ Deficit Financing Needs

- Borrowing decisions shall reconcile with ongoing deficit and strategic debt management objectives

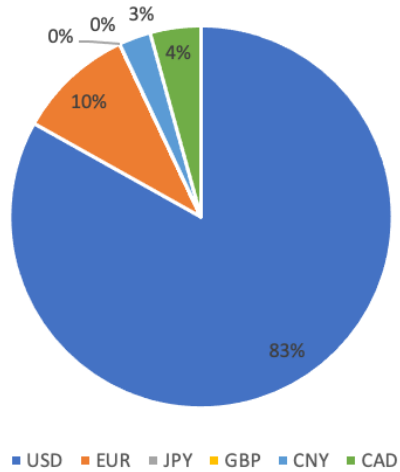
⊗ Overall Debt Levels

- Borrowing may take into consideration overall debt burden and FX vs Domestic borrowing composition

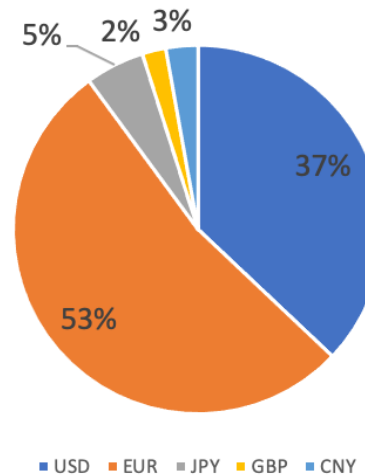


Assets and Liabilities in Practice

International Reserves

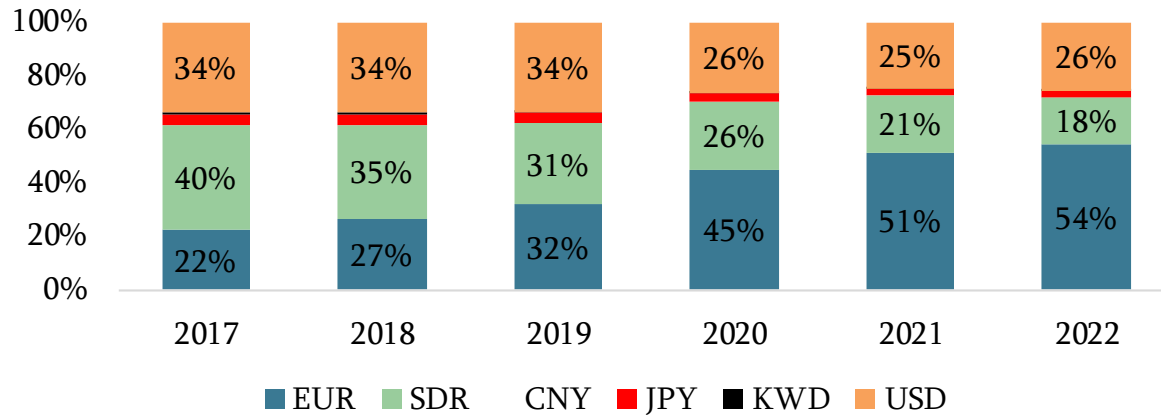


General Government External Debt

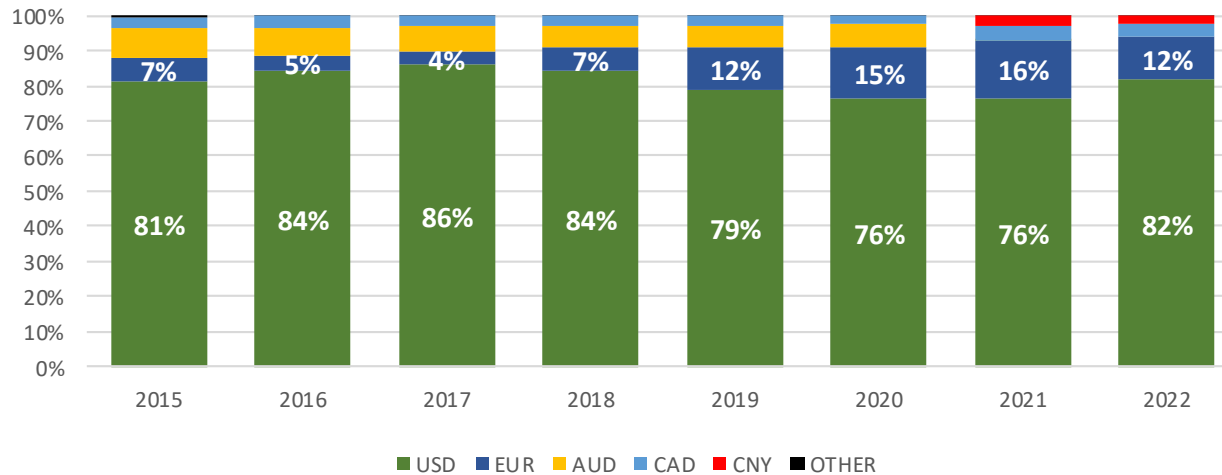


Assets and Liabilities in Practice

External Debt - Currency Composition



NBG Reserves Currency Composition



Conclusions

- ⊗ **Independence shall be respected**
 - Central bank shall remain independent
 - MoF debt management shall be independent as well
- ⊗ **But there is still scope for coordination**
 - Both shall and can take into account each others strategic objectives and priorities
 - The central bank has long been looking at debt composition in defining its SAA
 - The MoF can add reserves management consideration as one of the factors for their borrowing decisions
- ⊗ **Financial Stability Mandate**
 - The central bank goes beyond the public sector debt composition and looks at private sector liabilities too
- ⊗ **Local currency preference**
 - Ultimately, the country aims to gradually shift to local currency borrowing
 - This shall reduce FX risk for the MoF



Thank you!

