INTERNATIONAL MONETARY FUND

Caucasus, Central Asia, and Mongolia
Regional Capacity Development Center

DEVELOPMENT PARTNERS: ASIAN DEVELOPMENT BANK | CHINA | KOREA | POLAND | SWITZERLAND

MEMBER COUNTRIES: ARMENIA | AZERBAIJAN | GEORGIA | KAZAKHSTAN | THE KYRGYZ REPUBLIC | MONGOLIA | TAJIKISTAN | TURKMENISTAN | UZBEKISTAN

CCAMTAC- Regional Research/Analytical Economic Policy Seminars

"Sterilized interventions may be not so sterilized"

Tuesday, October 5, 2021

Introduction and Moderator:

Norbert Funke, Director, CCAMTAC

Selim Cakir, Resident Representative in Georgia, IMF

Presenter:

Shalva Mkhatrishvili, Head of Macroeconomics and Statistics Department, National Bank of Georgia

Discussant:

Altynai Aidarova, Resident Advisor on Monetary and FX Operations, CCAMTAC

Following a brief introduction, Selim Cakir, the moderator of the seminar, started off by highlighting the importance of the topic. According to early economic thinking, sterilized foreign exchange (FX) interventions are expected to have very limited implications on the banking sector or the real economy. The paper provides a good overview of the mechanisms that reveal how sterilized FX interventions can affect interest rates and the real economy and explores a new channel through a liquidity risk premium.

The research by Shalva Mkhatrishvili, Giorgi Tsutskiridze and Lasha Arevadze suggests that when the collateral base for central bank operations is not huge, sterilized interventions may still affect interest rates, loan extension and, hence, the real economy (beyond the effects of exchange rate changes). The mechanism is proved to be simple and works through the liquidity risk premium. The importance of this channel was demonstrated through three different approaches: accounting, theoretical and empirical. In addition, the framework provides other interesting insights about the relationship between liquidity risk and reserve requirements. During the presentation Shalva Mkhatrishvili explained the importance of the collateral constraint concept in the model using the balance sheet and mathematical identities that were leveraged in the research. He revealed implications of sterilized FX interventions on loan rates, security yields and the relationship between reserve requirements, collateral base, exchange rate demand for cash and loan rates.

In commenting on the paper, Altynai Aidarova stated that the model has clear policy implications: an additional transmission channel of monetary policy for central banks, which is much stronger in the case of a liquidity deficit in the system. She also pointed out that liquidity shocks, that are driven by bank-runs, are quite rare. In that sense it would be challenging to model and estimate them. Therefore, the paper offers a nice proxy for liquidity risk for that model, namely free collateral. Ms. Aidarova inquired how the model works under liquidity surplus and liquidity deficit and whether there might be an asymmetry in response depending on whether the central bank buys or sells the foreign currency. She recommended to consider the ownership of commercial banks as a control variable, because it can significantly affect lending rates.

A discussion was followed with questions on (i) effects of competition in the banking sector in the model; (ii) the deposit and loan rates spread; (iii) the impact of including riskier securities in the collateral base; and (iv) the impact of the liquidity risk premium channel in Georgia.

Aliya Kistaubayeva,
Economic Analyst, CCAMTAC