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National Bank of Georgia

Macroeconomic Implications of the Belt and Road Initiative

National Bank of Georgia

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Macroeconomic Implications of the BRI

Belt and Road Initiative (BRI):

- Facilitates investment in infrastructure in Asia;
- Boosts goods, services, and capital mobility along the corridor.

At the same time it will have macroeconomic policy implications

↳ The benefit from the initiative can only be reaped and maximized by conducting sound macroeconomic policies.

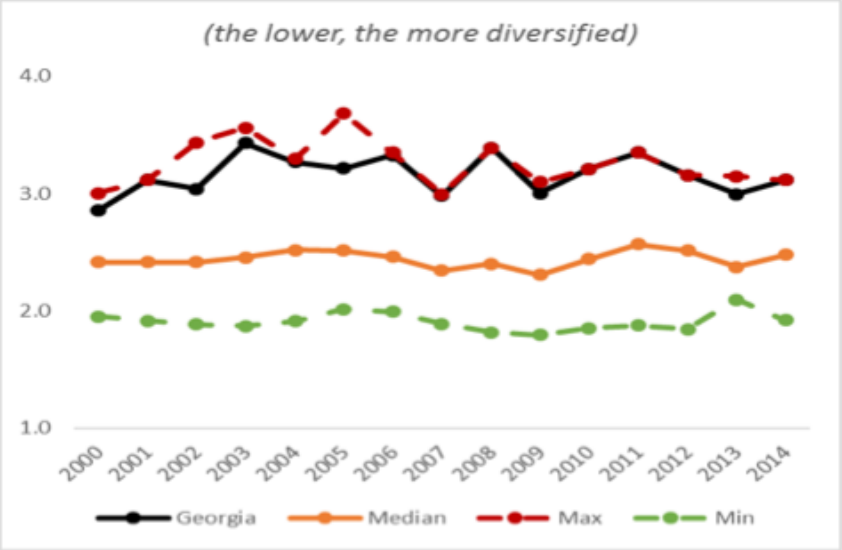
Opportunity for Small Open Economies in the Region

Case of Georgia

Georgia attracts capital to develop logistics and transportation infrastructure:

- Construction of Anaklia Deep Sea Port
- Construction of Baku-Tbilisi-Kars railway line;
- Railway modernization;
- Construction of East-West highway;
- Development of modern logistics centers in Tbilisi and Kutaisi.

BRI gives the country opportunity to diversify its export base; *currently, Georgia has one of the highest export product concentration among the peers.*



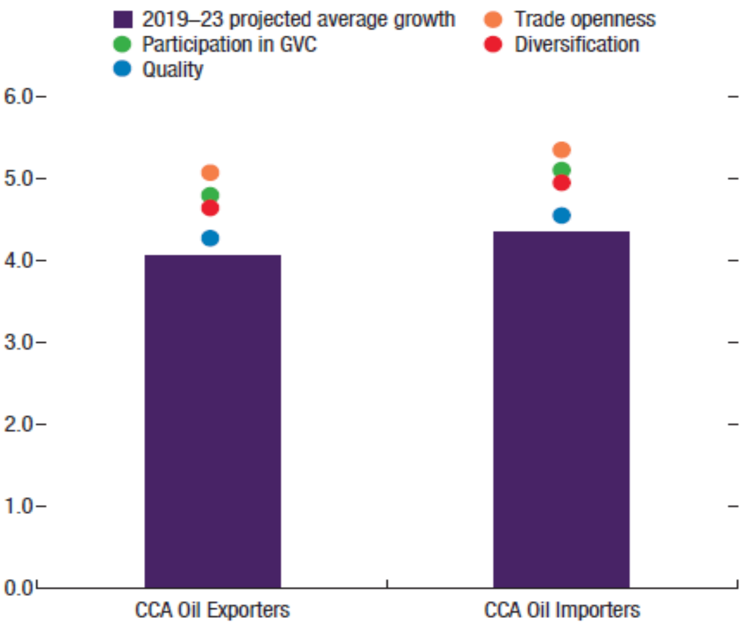
IMF staff calculation: Theil's Index; merchandise export diversification for Georgia and its peers

Georgia has potential to be destination of China's "going global" strategy for developing its private sector as we have free trade agreement with China and DCFTA with the EU.

Trade integration - growth driver in the CCA region

CCA countries can improve growth prospect through increasing trade openness

Figure 3. Estimated Contributions of Trade Measures to Growth
(Percent)



Source: IMF staff calculations.
Note: The growth increase is conditional on an increase in the given trade measure equal to the best historical period-over-period improvement observed in region in the last 20 years: 7.7 percentage points (pp) for trade openness; 4 pp for global value chains; 2.4 pp for diversification; 1.5 pp for quality.

The figure shows that more integration of CCA region in the global economy can contribute to higher economic growth.

*CCA countries need to invest in both **"hard"** and **"soft"** infrastructure*

Fiscal framework

Debt sustainability

- Large infrastructural projects temporarily drive external debt upward.

Investment efficiency

- Public investment efficiency – critical to exploit the opportunities.

Fiscal discipline

- Infrastructural projects put pressure on the budget deficit – need for exit strategy.

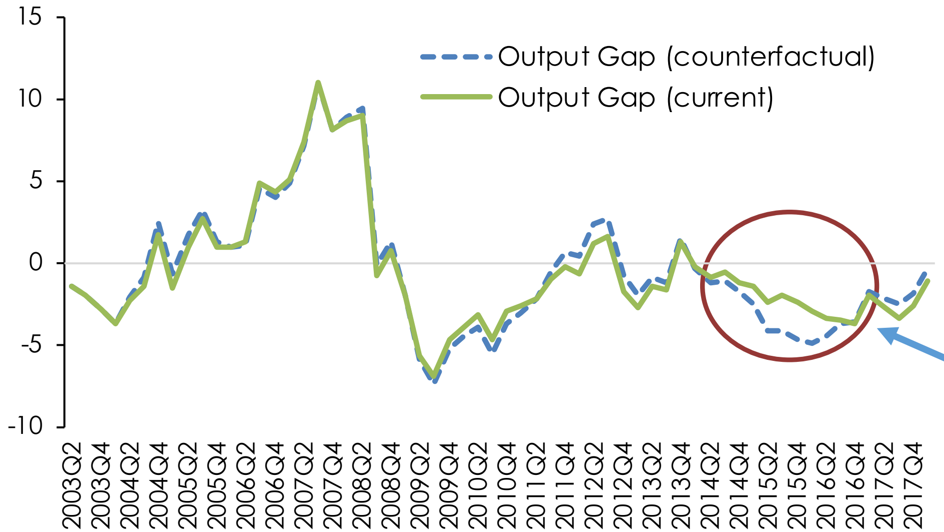
Monetary policy framework

Flexible exchange rate regime and free movement of capital

The BRI brings large financial flows in the CCA region:

*Having the **flexible exchange rate regime,** countries can achieve **"soft lending"** – avoidance of overvalued real exchange rate and high volatility in economic growth*

A case of Georgia



Source: National Bank of Georgia staff estimates

What would have happened in 2015 had the NBG taken smoothening **exchange rate** as an objective?

Real GDP would have been significantly lower…

Monetary policy framework

Inflation targeting

- Contributing to investment climate through stable macroeconomic environment.

Regulatory and supervisory framework

- Maintaining financial and banking sector in healthy condition;
- Addressing negative consequences of high dollarization, including through appropriate macroprudential measures, while keeping flexible exchange rate regime.

Thank You!