

NATIONAL BANK OF GEORGIA RESEARCH PROGRAM FOR 2007–08

Introduction

In order to foster in-house and external research relevant to its mission, the National Bank of Georgia (NBG) is announcing a formal research program for the years 2007 and 2008. The primary goal of economic research at the NBG is to provide strong analytical and empirical input for macroeconomic policymaking in general and for monetary policymaking in particular. The NBG is committed to advancing the frontiers of economic research in Georgia through significantly improving the quality of research and raising it to international levels. The NBG understands that high-quality research is crucial to ensuring that the authorities are well prepared to deal with the challenges associated with conducting macroeconomic policies. For the abovementioned purposes, the NBG will attempt to utilize those scarce research resources that are currently available in the country.

The primary objectives of research conducted under the auspices of the NBG will be to support and implement projects both internally at the NBG and outside the NBG to produce research output with direct relevance to Georgia's economic and monetary policies. Moreover, the cultivation of applied economic research will help deepen our understandings of areas of economic policy that stand at the center of the NBG's activities, for example, monetary policy, financial sector surveillance and financial stability. In implementing the NBG's research program for 2007–08, we will closely cooperate with the International School of Economics at Tbilisi State University (ISET).

The present research program is intended both as internal guidance for the NBG's Macroeconomic Research Division, and for professional economists working outside the NBG, who would like to present their research to the NBG and to the broader public.

Research program objectives

The objectives of the 2007-2008 research program are:

- To launch the working paper series of the NBG;
- to revitalize and qualitatively upgrade economic research in Georgia;
- to help establish the critical mass of economic researchers within and outside Georgia who will be regularly involved in high-quality research;
- to help the NBG obtain important analytical and empirical input for its current and future policymaking

The successful implementation of this research program will allow us to create an effective system of organizing research activities, balancing demand (the NBG needs) with supply (researchers' interests), ensuring quality outputs (Working Papers), and promoting the elaboration and discussion of research findings. Planned visits and lectures by distinguished foreign speakers will provide welcome opportunity to discuss research results.

Call for papers

The research unit at the NBG is facing serious challenges in the nearest future. Its role in formulating monetary policy is to be expanded and to that end significant work is being done to that end on the general macroeconomic model of Georgia. The introduction of inflation targeting in the foreseeable (though not immediate) future increases the need to develop a highly reliable inflation forecasting model. The fast-growing financial sector raises issues of financial stability. The expansionary fiscal policy that has been pursued in Georgia for the last three years emphasizes the necessity of a flexible monetary policy, and the respective research becomes more and more important.

To that end the NBG announces the call for papers/projects in the following priority areas:

- A. Monetary and Exchange Rate Policy
- B. Macroeconomic Modeling and Forecasting
- C. Financial Stability
- D. Fiscal Policy
- E. Real Sector of the Georgian Economy
- F. External Sector

The authors of successful research papers will have the opportunity to publish their articles in the most prestigious Georgian economic publication. The international panel of reviewers consisting of the NBG management, faculty members of ISET and Economic Education Research Consortium (EERC) in Kiev, International Monetary Fund (IMF) staff members, Williams college faculty and the Bank of Netherlands staff will be members of the Research Review Committee (RRC) – the body responsible for the final selection. The NBG will assist successful authors in publishing their research in international journals¹ and presenting their works at international conferences and workshops thus extending the reach of their papers.

Research program priorities

The priority research topics for the 2007-08 will be as follows:

1. Monetary and exchange rate policy

Independent monetary policy – improving the decision-making process

The monetary policy decision-making process is being improved gradually over time. The research should contribute by discussing issues such as optimal monetary policy rules, forecasts and policy evaluation, the implications of asymmetric shocks for monetary policy, and methods for dealing with uncertainty. Furthermore, the information content of variables which are not typically included in the forecasting framework, such as monetary aggregates, and their potential inclusion in the decision-making process should be researched.

The transmission of monetary policy to inflation and output

The research should focus on quantitatively assessing the strength and speed of the transmission mechanisms.

Inflation dynamics

¹ The successful researchers will be asked to indicate that their works have been first published in the NBG working paper series if their papers get published in international journals

An understanding of price setting and inflation measurement issues can improve the forecasting models and the design of some components of the monetary policy strategy, such as the inflation target.

Equilibrium Exchange Rate

A significant emphasis should be put on the issue of equilibrium exchange rate, since the problem of over/undervaluation of the domestic currency is especially important in case of developing countries, such as Georgia.

Inflation Targeting

In light of a possible medium-term transition to an inflation-targeting monetary policy regime, it would be important to research the feasibility of such transition, as well as to study possible problems and obstacles that could hinder the successful implementation of this regime in Georgia.

2. *Macroeconomic Modeling and Forecasting*

Inputs to NBG forecasting and modeling work, with special emphasis on inflation, money demand, and GDP forecasting models.

3. *Financial Stability*

Analyzing segments of the financial sector

The analysis of capital markets, insurance companies, and their links to banking sector is becoming more important, as these segments of the financial sector grow.

Impact of international bank entrance on financial stability

In the light of rapid inflow of foreign capital into Georgia's banking sector and the possible entry of large international banks, their impact on the financial stability of the country is worth analyzing.

Assessing financial system risks

The research should focus on the link between macro-variable developments and financial system risks and on the analysis of the interrelations between the various types of risk, the spreading of risk among financial institutions and economic sectors, and the efficiency of regulation of those risks.

4. *Fiscal policy*

The impact of fiscal policy on the economy

There is a need to improve our understanding of the influence of fiscal policy on the Georgian economy and its potential to counteract economic shocks. The relevant experience of countries similar to Georgia should be analyzed in this respect.

5. *Real Sector of the Georgian Economy*

Economic growth and supply-side performance

Domestic economic growth and supply-side performance should be covered in detail, including sectoral breakdowns, total factor productivity developments and wage/productivity relations. Also, structural changes (industry versus services), market structures and regulation on various markets (e.g. retail chains, manufacturing) and measurement issues (quality bias in the CPI; GDP measurement) should be researched.

Input-output models of the real sector, as well as industry-level microeconomic studies are welcome.

6. External Sector

BoP analysis and forecasting

Research on survey and model-based forecasting of balance of payments (BoP) is of high interest for the NBG, especially now that BoP accounts maintenance has become the responsibility of the National Bank.

External competitiveness

The study of the external competitiveness of Georgia is extremely important. No significant research has been done hitherto on the sectors in which Georgia has comparative advantage.

Export-import price indices

Export and import prices are important price indices. However, no collection of the respective data or elaboration of such indices has been carried out. Therefore, any work in this direction, which will provide the NBG with the reliable export and import price indices will be most welcome.

Remittances

Remittances constitute an important part of foreign currency inflows in Georgia. Therefore, the investigation of the driving forces for the remittances and analysis of their economic importance could be very useful.

FDI efficiency and macroeconomic implications

Since the last couple of years have proved to be a boom in foreign direct investment (FDI) in Georgia, the macroeconomic implications of the efficiency of these investment is very interesting and worth studying.

Publication of the research results

In 2007–08, the NBG anticipates publishing a total of 7-8 working papers, of which half are expected to be produced by the NBG staff. However, if a larger number of high-quality papers is submitted, the NBG reserves the right to adjust the target. Those researchers who need guidance and/or any other assistance (including stipend, data and software access, training and mentorship) in developing their papers are encouraged to submit research proposals to the NBG according to **research proposal guidelines**.

The submitted papers will be considered in two stages. The first stage will involve evaluation by the panel of NBG reviewers, consisting of the Vice-President of the NBG, the Head of the Macroeconomics and Statistics Department, and the Head of Macroeconomic Research Division. The papers that pass the first stage will be sent on to an international panel of reviewers (the remaining members of Research Review Committee). The decision of the latter panel will be final.

The research program for 2007-2008 will be organized in the following steps:

- (1) the NBG publishes its research program approved by the Research Review Committee for 2007 and 2008 in early 2007 and launches the call for papers;
- (2) researchers submit their papers in accordance with the published research program. Authors are encouraged to submit their papers as soon as possible;

- (3) the submitted papers go through the first stage of the review process and within a month after the submission the applicants are informed of the decision: a) rejected; b) returned to the author for revisions; c) approved for the next stage.
- (4) selected papers go to the second stage of review and applicants are informed of the decision within three months after the submission of the paper: a) Rejected; b) Approved with suggested changes; c) Approved as is;
- (5) the successful authors present their papers at the NBG;
- (6) successful papers are published in the NBG working paper series.

The papers should preferably be submitted in English in the following formats, according to the **manuscript submission guidelines**: DOC (Microsoft Word format), RTF (rich-text format) or PDF. The papers should be accompanied by:

- a) Dataset used in research;
- b) Program code/work file, if applicable;
- c) Indication of the software package used to produce the output;
- d) Main output of the model/research in text format.

Participation in the call for papers is open to all researchers within and outside Georgia.

The application package should be submitted electronically, and all inquiries made to:

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The members of Research Review Committee are:

David Amaglobeli	<i>Vice-president, NBG</i>
Archil Mestvirishvili	<i>Chair, Department for macroeconomics and statistics, NBG</i>
George Bakradze	<i>Head, Research Division, NBG</i>
Allard Bruinshoofd	<i>De Nederlandsche Bank - Economics and Research Division</i>
Richard Beilock	<i>Professor and chair, ISET</i>
Tamar Khitarishvili	<i>Assistant Professor, ISET</i>
Kijong Kim	<i>Assistant Professor, ISET</i>
Karine Torosyan	<i>Assistant Professor, ISET</i>
Valentin Zelenyuk	<i>Assistant Professor, EERC-Kiev</i>
Robert Christiansen	<i>Resident representative, IMF</i>
Nick Giginishvili	<i>Economist, IMF</i>
Andreas Billmeier	<i>Economist, IMF</i>
Eter Kvintradze	<i>Economist, IMF</i>
Peter Montiel	<i>Professor, Williams College</i>