The Impact of Macroprudential Policy Instruments on Financial Stability in Georgia

Mariam Shereshashvili

The master thesis is submitted to the Business School of Ilia State University in accordance with the requirements of granting a Master Degree in Business Administration

Master of Business Administration

Dr. Aleksandre Ergeshidze: Associate professor

Ilia State University

Tbilisi, 2022

Declaration and Waiver

As the author of this paper, I declare that this thesis presented for the degree of Master of Business Administration is an original report of my research and has been written by me. Due references have been provided on all supporting literature and resources. I confirm that this thesis has been composed entirely by myself, that the work contained herein is my own except where explicitly stated otherwise in the text, and that this work has not been submitted for any other degree or professional qualification.

Some of the work described in this thesis was previously written and submitted as a simulated paper in the course “Research method” at Ilia State University Business School in autumn 2021.

Mariam Shereshashvili,

Signature

30.01.2022

Abstract

The purpose of the paper is to investigate if macroprudential policy instruments are effective to influence the credit growth rate and ensure the financial stability of the banking sector. Macroprudential policy instruments became important after the global financial stability crisis between 2007-2009. Breaking paradigm for policymakers was failing to manage global financial stability crisis with fiscal and monetary policy toolkit. The author of the current paper implemented regression analysis to validate the model. As a consequence, the model is not able to reject the null hypothesis. Almost every variable shows the significance of macroprudential policy instrument approaching. Finally, the primary research result straightens the idea that macroprudential instrument policy, more precisely capital requirement has a significant influence on the credit growth rate, and policymakers should continue employing above mentioned instrument to affect credit growth. The model is useful for commercial banks to plan future credit issuing.

Keywords: systematic risk, macroprudential policy, macroprudential instruments, financial stability

Acknowledgement

Mariam expresses the gratitude to my supervisor professor Aleksandre Ergeshidze for continuing assistance, support and professional guidance for the whole period of this research.

I would also like to extend our gratitude to the Ilia State University for creating a desired learning environment.

I would also like to show an utmost appreciation to all who supported me during the research.