

# GEORGIA'S ECONOMIC GROWTH FORECASTS ON THE BACKGROUND OF THE GLOBAL FINANCIAL CRISIS

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## ABSTRACT

The impact of the global economic crisis is different Towards different countries. It depends on how each country is integrated into the world economic process, which includes the country's economic dependence on export-import, existence of transnational companies, and the economic situation in neighboring countries. Its geopolitical location is also important, if the government has worked out economic threat mechanisms and measures.

One of the strategic goals of the ongoing reforms in the country should be the root transformation of the economy. We must not forget that modernization of economy first means efficiency of governance management and enterprise management. It is very important to implement the complex management of the economy, which means the integration of macroeconomic and microeconomic management. Considering future demands and interests.

As for Georgia, it must have a clearly defined anti-crisis program as a prevention of expected crises and, therefore, to avoid its negative consequences. The main place in the anti-crisis program should be the development of national production and replacement of imported products with local goods. It is necessary to develop a monetary credit policy that will support minimal bank interest rates to stimulate business development and create new jobs.

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**Introduction.** The history of the world economy confirms that in every ten-and-twelve years economics of the country, especially industrial countries experiences fluctuations, which often leads to a financial crisis. The crisis leads to the liquidation of many large enterprises, the disruption of the financial system, the massive unemployment and the exacerbation of public relations [1].

During the financial crisis, the importance of anti-crisis measures developed by the states is great, which should be directed towards saving the financial system, encouraging of the economy, reduction of interest rates and real insurance of risks.

Modern World Financial Architecture includes institutions, markets and methods, through which the governments of the state, legal and natural persons carry out their economic and financial activities. It is a combination of economic relations, on which basis is determined, as the principles of arrangement of the World Financial System, as well as the tasks and functions of national and international financial institutions.

**Research Results.** According to the Georgia's Government's prediction, economy will grow by 5.5 percent in 2018. The economy of Georgia will increase by 6 % in 2019, 2020 and 2021. In 2018, the average annual income for One inhabitant should be increased to 4 287 dollars.

In 2018 the total domestic product of Georgia should make up about 40 billion GEL. The current account deficit will be at 10.1 % level towards the Gross Domestic Product [2].

The main directions of Georgia's long-term economic growth are:

- Healthy macroeconomic environment, which will be provided with reasonable fiscal, monetary and financial policies.
- Structural reforms that Which will improve governance, promote unemployment and poverty reduction.
- promoting reforms for the private sector freedom and strengthening.

One of the main priorities for the Government of Georgia is to establish a strong and competitive private sector at foreign and domestic levels. In this direction,, the Government of Georgia has two major long-term growth strategies: (Georgia 2020 and Sector Development Policy) The purpose of which is the depth transformation of the macroeconomic structure. Strategies' plans and goals are brought down below [2].

*2020 Georgia's Socio-Economic Development Strategy:*

- Promote inclusive economic growth
- Reduction of unemployment
- Improved work and living conditions
- Introduction of Social Security System
- Development of human capital

*Sector Development Policy:*

- Promotion of export growth through selective sectors, which are distinguished by high growth rates and potential to increase export: Tourism; Hydroelectricity; Agriculture; Transport.
- Structure and Trends of Economics Liberal Trade, Diversified Partners, Significant and growing connections of Free Trade Agreements:
  - Easy taxation and custom policy, convenient procedures.
  - Non-existence of quantitative restrictions and tariff barriers.
  - Trade liberalism and openness.
  - Free Trade Agreement signed with neighboring countries.
  - The ratification of the Deep and Comprehensive Free Trade Area (DCFTA) signed with the European Union was made by a number of EU member states.
  - Georgia returned to the Russian market.
  - Free Trade Agreement was signed with China.

In Georgia's economic growth prospects are a major contributor to the Association Agreement between the EU and Georgia, which is a historic achievement and a great advancement in Georgia's foreign relations. The Association Agreement between the EU and Georgia was signed on June 27, 2014, which enhances political, economic and cooperative relations between the EU and Georgia:

- The Association Agreement establishes a long-term foundation in the EU and Georgia's future relations, which are based on the priorities agreed between the periods of 2014-2016, including Deep and Comprehensive Trade Area (“DCFTA”).
- The Association Agreement creates a practical plan for EU and Georgia's political association and economic integration.
- The Association Agreement unites political elements, reforms to strengthen democratic institutions, cooperate in foreign and security policy, including all directions to a positive impact on the strengthening of Georgian economy, institutions and foreign perceptions.
- Agreement with the EU will help reduce the geopolitical risks, as cooperation is also a priority for strengthening security.
- Association Agreement with the European Union provides positive signals for markets and helps export development during 2014-2015 and afterwards.
- The improvement of Georgia-EU relations will help to improve economic growth and facilitate the integration of Georgian economy with the rest of the world markets.
- The signing of the agreement confirms Georgia's aspiration for sustainable development, democracy and transparency. Additionally, it gives an extra boost to Georgia, to perceive Georgia as an interesting investment country.

*Fiscal structure and state debt:*

Strategic investment projects that have a significant positive impact on the economy:

*Energy Infrastructure:*

- Rehabilitation / construction of transmission lines.
- Rehabilitation / Construction of Hydro Power Plants

*Road infrastructure:*

- Construction of East-West Highway
- Rehabilitation of regional, local and secondary roads.

*Municipal and Regional Infrastructure:*

- Regional Municipal and Urban Infrastructure Development Projects
- Water Supply, Wastewater and Drainage Projects
- Solid waste management projects.

*Agriculture:*

- Rehabilitation of irrigation and drainage systems.

*Simple, effective and fair tax system with low taxes:* VAT -18 %; Income -20 %; Profit - 15 %; Dividend and percentage income - 5 %.

- There is no wage tax and social insurance fees.
- There is no Capital Growth Tax.
- There is no riches tax, inheritance tax and postal fee.
- There is no tax on income received from a foreign source by a natural person.
- A new model of profit tax has been launched since January 1, 2017, Which envisages release of reinvestable tax before taxing as dividend.
- Very strong political commitment to maintain low and simple taxes and improvement of services.
- Significantly simplified tax system and customs administration, to create maximum comfort for businesses and investors directed.
- In order to avoid double taxation, Georgia has a contract with 54 countries.

#### Foreign Sector:

- The structural reform factor will strengthen Georgia's competitiveness and and increase the export volume, Namely agricultural products, tourism and hydropower.
- Access to the Russian market was revised in 2013.

#### Monetary and banking sector, freely floating exchange rate regime-Political Priority:

- By switching to inflation in the targeting regime caused Increase the flexibility of the exchange rate.
- The floating exchange rate has increased the economy's sustainability. The participation of the National Bank of Georgia is limited to the currency market.
- Connection between the GEL income curve - interest rate and other maturity. The downward short-term section creates expectations for reducing future interest rates.

#### Banks High capitalization indicators and low NPL:

- The banking system is characterized by resistance to general and specific shocks.
- High capitalization indicators of the Banks according to the BaselII - 25 % (17 % Local Standards) and the liquidity coefficient- 44 %; NPL is 4 %- (By the Explains of IMF) with the condition of June, 2017.
- Impairment of the exchange rate had little impact on the NPL.
- Taking Loans from international financial institutions (IFIs) is represents a large part of the non-dependent funding of the banking sector.
- The banking sector is privately owned since 1995; There is no restriction on foreign ownership.

#### International ratings of Georgia, sovereign credit rating:



Fig. 1.

#### Trends of Economic Freedoms Index of Economic Freedom, 2017 [2].



Fig. 2.

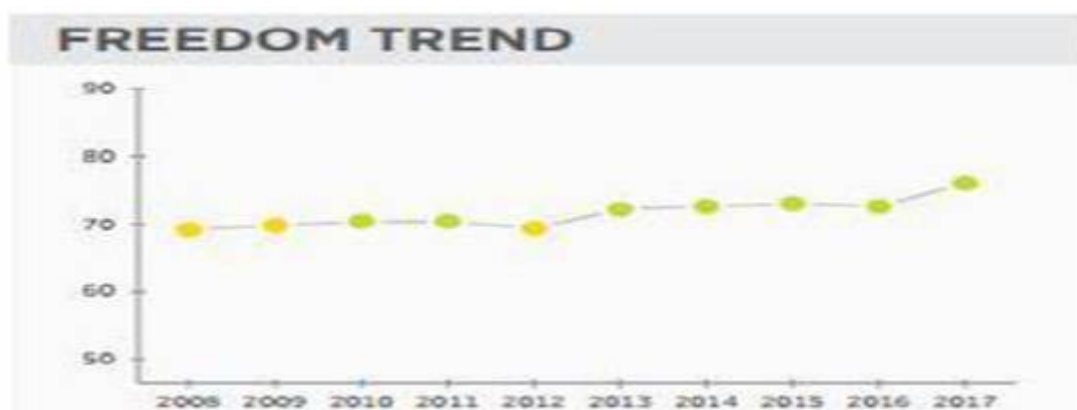


Fig. 3.

**General conclusions.** Export growth is mainly due to the sales of agricultural products, which, in turn, is connected to the positive economic dynamics in all major trading partner countries: In the EU countries, in Turkey, Azerbaijan and Russia, which has been accompanied by free trade agreements over the last years and a rapidly growing new export destination - China, this last is particularly important for the realization growth of agricultural products, which will be reflected in the growth of investments in agriculture in future. Significant increase is observed in terms of tourism. Funding of infrastructural projects has been increased from the state budget.

External economic and political factors have a special effect to the Georgia's economy. Overall, the country's macroeconomic environment is stable. Although inflation exceeds the target figure, the government is taking appropriate steps to stabilize the situation. The main problems in the country are employment of the population and imbalance of export indicators [3].

One of the strategic goals of the ongoing reforms in the country should be the root transformation of the economic management. We should not forget that the modernization of the economy is primarily meant for state management and enterprise-management efficiency. It is very important to ensure the complex management of the economy, which means integration of macroeconomic and microeconomic management, taking into consideration the future requirements and interests.

## REFERENCES

1. Joseph E. Stiglitz: Globalization and its discontents, 2012.
2. [www.mof.ge](http://www.mof.ge)
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