ANTICIPATED TRENDS OF GEORGIA'S INTEGRATION WITH THE EUROPEAN UNION

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Absrtact. Purpose of the Article. It is known that countries wishing to affiliate with EU must meet certain criteria. We set demonstration of the expectations for Georgia to get close to these criteria as goal of our paper meaning that we aim fixing real indicators based on calculated forecasts.

Methodology/methods. The study used methods of statistical survey, grouping and analysis: mean-value, time series and prediction. Leveling and prediction were done by simple methods based on average absolute increase and mean annual growth rate. Linear function was used as analytical method; autoregression and creeping mean ARIMA-type model were used as complex methods by adding a trend component identified with computer software Eviews-6.

Scientific aim. Scientific aim of the paper was to thoroughly analyze criteria needed for EU-association, such as GDP per capita, unemployment and inflation rates, percentage value of country's total foreign debt to GDP, indicators of state budgetary deficit, calculate predictive values of each indicator and identify expected trends of approaching EU countries.

Results. Of the major indicators for EU-association, Georgia is likely to meet three: the share of foreign debt will not exceed 60% of GDP, inflation rate will be maintained as single-digit and joint budgetary deficit will not exceed 3% of GDP. As for other two requirements, GDP per capita of 10-12 thousand USD and maximum 10% rate of unemployment, Georgia is unlikely to meet them.

Conclusions. Thus, of the requirements for Georgia to integrate with EU, the country will likely to reach three: rate of inflation will be maintained as single digit, joint budget deficit will not exceed 3% of GDP and foreign debt of the country will not exceed 60% of GDP. As for other criteria, their major indicators in Georgia still fall back EU countries.

Keywords: Statistics, Methods, integration, Coefficient, forecast, indicators.
Jel Classification: C1.

Introduction. Today, the globalization has become a crucial issue in the everyday political, economic and social and cultural life. From the strategic point of view, it is very important for Georgia to enhance the world trade - economic, financial and other kinds of relations, especially when it is in the foreign interests of the country to share the advanced European values and experiences and join the European Union. In order to form the right economic policy of the country, it is necessary to conduct a theoretical and practical research of integration of Georgia with the world economy, to study the foreign economic contacts quantitatively, to reveal the major developmental trends, to calculate their predictive indices, to estimate the results correctly and to develop appropriate political-economic proposals and preventive measures. (Abesadze 2015)   Therefore, the statistical assessment of the expectations of integration with the EU and necessary achievable indicators is very important.

The theoretical base of the study is the works by Georgian and foreign scientists and economists around this topic. The following authors are worth mentioning: V. Papava, A. Silagadze, G. Ghaghanidze, M. Khmaladze, N. Paresashvili, L. Dzebisauri, R.Putkaradze, T.Kandashvili, T.Atanelishvili, N.Gelitashvili and others. Their works describe the economic aspects and expectations of Euro-integration, challenges and problems of Georgia, etc.

Methodology/methods. We conducted the study by using the methods of statistical survey, grouping and analysis: mean-value, time series and prediction methods. Leveling and prediction was done by simple methods: average absolute increase and mean annual growth rate. As for analytical methods, a linear function was used, and out of complex methods, autoregression and creeping mean ARIMA-type model were used by adding a trend component, which was identified by means of

computer software Eviews-6. In our case, the most accurate was a linear function method with the indicators calculated with it being most reliable.

Scientific aim. The scientific aim of the work was to do a thorough analysis of the criteria for a country to affiliate with the EU, such as**:** GDP per capita, unemployment and inflation rates, percentage value of the total foreign debt of a country in relation to GDP and state budgetary deficit indicators, calculation of predictive values of each indicator and identification of the expected trends in approaching the EU countries.

Results. Georgia, following Ukraine and Moldova, the former Soviet republics, took the real path of the EU-integration. Despite the fact that the main problem of Georgia is an enormously growing negative trade balance (Nino Abesadze, 2014), the trade relations of Georgia with the EU countries have become quite intense recently. However, the EU requires from its potential members to meet certain criteria known as Convergent Criteria. Under Maastricht Treaty, the countries wishing to affiliate with the European Union must meet the following conditions:

1. The GDP per capita must be 10-12 thousand USD.
2. The rate of unemployment must not exceed 10%.
3. The rate of inflation must be fixed as a single digit.
4. The foreign debt of the country must not exceed 60% of its GDP.
5. The state budget deficit must not exceed 3% of GDP.

Let us see if Georgia can meet these requirements and let us analyze the evaluation of Georgia's expectations in respect of the above-listed indicators.

It is commonly known that the principal macroeconomic indicator showing the outcomes of the economic activity of a country is its gross domestic product, with its size per capita as one of the major classification marks of the country's rating. This mark determines the life in the country to a great extent and level of development of a country in general. The dynamics of GDP per capita of Georgia is shown in the graph below (Fig. 1).
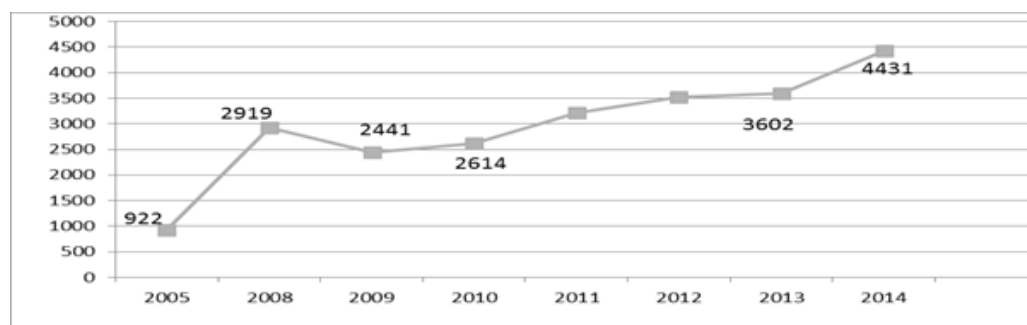

Fig. 1. Dynamics of GDP per capita in Georgia (US Dollars)
Source: National Statistics Office of Georgia

It should be noted that the indicator of 2014 was calculated based on the preliminary data of the general population census of 2014. A 20% increase of GDP per capita in Georgia as compared to 2014 was the result of the reduced number of population of the country (it amounted to 3680,8 US Dollars).

It is true that a regular increase of GDP per capita is evident in Georgia, but Georgia is unlikely to approach this principal indicator under Maastricht Treaty and meet the first Convergent Criterion. As per the forecast of "Georgia 2020", the expected value of GDP per capita is 8000 USD, while the Maastricht Treaty sets this value at 10-12 thousand USD for the EU-integration purposes. As per the experts' opinion, Georgia can achieve this level without any increase in its foreign debt after 10 or 12 years. (Silagadze2014), To illustrate the case, we have identified the expected trends of GDP growth per capita and calculated the prognostic values with a linear function. After calculating the values of the parameters and inserting them in the equation, we gained the following linear equation: $y=2865,9+264,4t$, and used it to calculate the prognostic levels of the series and presented the results as a table (See Table 1).

We calculated the prognostic values by considering the preliminary data of population census of 2014. After calculating the parameters based on the empirical data with linear equation:

y=2959,8+313, we calculated the prognostic values of GDP per capita in Georgia (See Table 2).

Table 1. Forecast of GDP per capita in Georgia in 2015-2020 (US Dollars)

Year ⟍ Index	2015	2016	2017	2018	2019	2020
GDP per capita, USD	4982	4453	5246.5	5511	5775.5	6040

Source: Author's own compilation based on the materials of National Statistics Office of Georgia

Table 2. Forecast of GDP per capita in Georgia(US Dollars)

Year ⟍ Index	2015	2016	2017	2018	2019	2020
GDP per capita, USD	4528.8	4842,6	5156,4	5470,2	5784.0	6097.8

Source: Author's own compilation based on the materials of National Statistics Office of Georgia

It is true that the latter indicator is higher, but the indicators in different years clearly show the country's failure to meet one of the requirements of Maastricht Treaty.

Another requirement for the EU-association is to maintain the rate of unemployment rate at no more than 10%. Unemployment remains one of the most painful and unresolved problems for Georgia. The rate of unemployment in the country is still high amounting to 12,4% as per the latest data. As per the official statistics, the highest unemployment rate in recent years in Georgia was fixed in 2009 (16,9%). However, it started to decrease later and was 15,0% in 2012, 14,6% in 2013 and continued to fall. At present, a major proportion (approximately two-third) of the country's population is self-employed. It is a fact that the total number of unemployed and self-employed makes 70% of the labor-bodied population of the country.
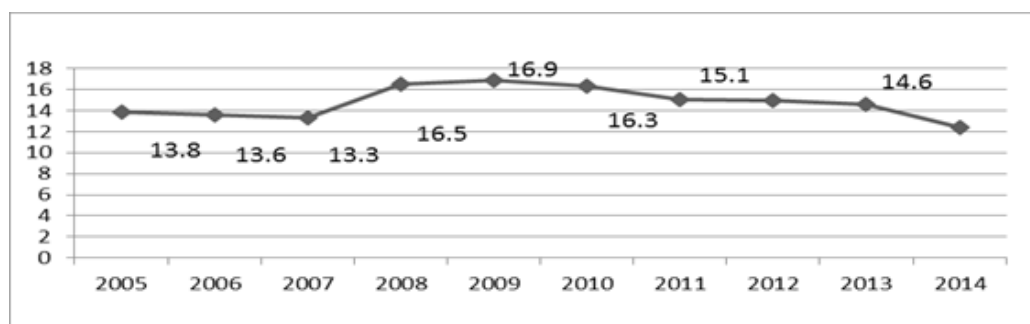

Fig. 2. Unemployment rate (%)
Source: National Statistics Office of Georgia

As per "Georgia 2020", the rate of unemployment in 2020 will be approximately 12%. This means that unfortunately, Georgia will fail to meet this requirement for EU-integration, as well.(Silagadze A.2014) One of the major reasons for this is the failure of the economic reforms in the past years to yield desirable outcomes. The goals stated in the present strategic and program documents associated with the significant reduction of poverty and unemployment, remain partly unachieved. In order to overcome the problems and achieve the inclusive economic growth, it is necessary to improve the investment and business environment, support innovations and technologies, support export growth, development of infrastructure and maximum use of the country's transit potential, development of the labor force oriented on the requirements of the labor market, development of the social security system and quality and easily available health system, mobilization of resources and development of financial mediation. In order to analyze the dynamic picture of the expected trends of unemployment given in details, we calculated its prognostic values with a linear function, and gained the following equation: y=14,8-0.15t. The results are given in a table (See Table 3).

Table 3. Forecast of unemployment in Georgia in 2015-2020

Year Indicator	2015	2016	2017	2018	2019	2020
Unemployment rate, %	13.9	13.75	13.6	13.45	13.3	13.15

Source: Author's own compilation based on the materials of National Statistics Office of Georgia

Despite the low value of unemployment rate in 2014, the prognostic values are not a bit optimistic, as the country is unlikely to approach a 10% limit by 2020.

The inflation dynamics is no less important. The strategy aims to achieve a 3% prognostic value of inflation by 2020. Reduction in inflation was the result of cheaper oil and foodstuff on the world market. As per the target prognosis, the inflation level will be maintained below 5% during 2015.

Figure 3. Consumer price indices (the relevant month of the previous year = 100)
Source: National Statistics Office of Georgia

Thus, the requirement about the inflation rate to be fixed as a single digit is realizable.

One of the principal terms for a country to affiliate with the EU is to maintain the specific percentage of the foreign debt in relation to GDP.
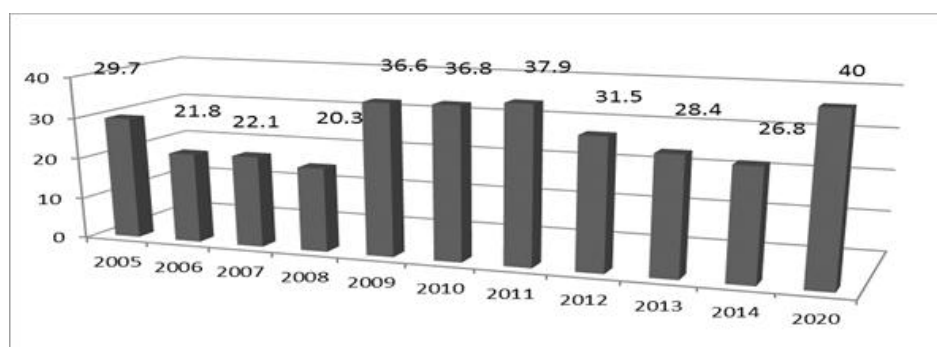

Figure 4. Share of foreign debt in gross domestic product of Georgia in 2005-2020, %
Source: National Statistics Office of Georgia

As per the data of the National Bank of Georgia, the share of the gross state debt in GDP is 35,5%, while the share of foreign debt is 26,8%.[1]

As per "Georgia 2020", the share of foreign debt in GDP of Georgia will be close to 40% by 2020 (Atanelishvili T.2014) This means that with this criterion, the country is likely to meet the requirement of Maastricht Treaty for the EU-integration.

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[1] https://www.nbg.gov.ge/index.php?m=304

The last requirement for the EU-integration is that the state budget must not exceed 3% of GDP of the country. As for Georgia, this indicator is at the limit, as it is 3,2% as per GFSM. So, this criterion can also be met.

Discussion. Professors Avtandil Silagadze and Tamar Atanelishvili offer their views about the criteria of Georgia's integration with the EU. They talk only about three parameters to be used by Georgia to meet the requirements for the EU-integration. However, as per our forecasts, we must anticipate a regular growth of the trade relations of Georgia with the EU what in terms of intense and thorough trade system, will become a factor supporting the strengthening and economic development of the country. Therefore, the indices of unemployment and GDP can be brought to positive levels what will improve the degree of Georgia's economic integration with the European Union.

Conclusions. The study showed that out of the requirements for the EU-integration, Georgia is likely to meet three of them: the inflation rate will be maintained as a single digit, the total budget deficit will not exceed 3% of GDP and the foreign debt of the country will not exceed 60% of GDP. As for other criteria, their major indices of the country fall back those of the EU countries.

We must hope that under the influence of both, internal and external factors, the accelerated rates of economic growth and expansion will be achieved creating a precondition for improving the intensity of the economic integration with the EU and getting close to the prognostic values of "Georgia 2020".

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