

СЕКЦІЯ 1. ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ

*Abuselidze G.,
Doctor of Economics, Professor
Shota Rustaveli State University, Batumi, Georgia*

*Jegnaradze Z.,
3th year student,
Shota Rustaveli State University, Batumi, Georgia
Scientific advisor: Abuselidze, G., Doctor of Economics, Professor*

PROBLEMS OF NATIONAL ECONOMY MANAGEMENT AND ECONOMIC PROSPERITY IN THE POST-SOVIET PERIOD

Introduction. It's been a couple decades since Georgia started to form a market economy. On the way of development the country is facing difficult challenges, including social welfare, improved living standards, distribution of economic resources and so on.

According to the most reliable sources, Georgia's economic development in the region is one of the leading today.

Many reliable sources show how far Georgia placed. According to the World Bank's Doing Business, in Georgia it is easier to do business than in Britain or America. The country is ranked 6th among 190 countries [5]. In the Guide published by USAID, Georgia is in the top ten among more than one hundred countries [6]. Relying to the data released by the Fraser Institute, Georgia ranks 5th among the 162 countries with the Index of Economic Freedom [8].

This is a small list of achievements in the recent years. However, not so long ago the situation was absolutely different.

Main text. If we look back in the past, we see that in the 90s, Georgia run into the hardest economic situation. The system was impregnated by the crime and corruption. State structures have failed in the conditions of inflation, unemployment, civil war, energy crisis and so on [1; 2]. Annual revenue per capita has decreased 61% in 1994. (It should be noticed that even Germany had not suffered so much after II world war, as it happened to Georgia after the crash of Soviet Union).

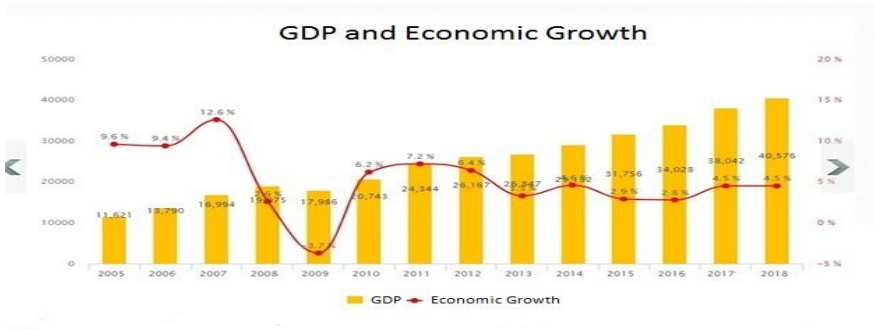
So how could the country fall into the spotlight in just 10 years?

The answer lies in the management of the economy and the national economic policy of the state. The last relies on the measures undertaken by the Government on the advice of the National Bank and other agencies.

In 2003 Georgia started systemic transformations to improve the institutional and regulatory environment. The most acute problem of the post-Soviet space – eruption of corruption, was eradicated so that the soil was prepared for further steps.

Reduction of Budget deficit was one of the main challenges of economic management. To this end, significant tax reforms have been undertaken in the tax and regulatory bodies. Therefore, control over spending institutions was tightened. The eradication of bureaucratic barriers and reduction of tax cargo has stimulated the influx of foreign investments [7].

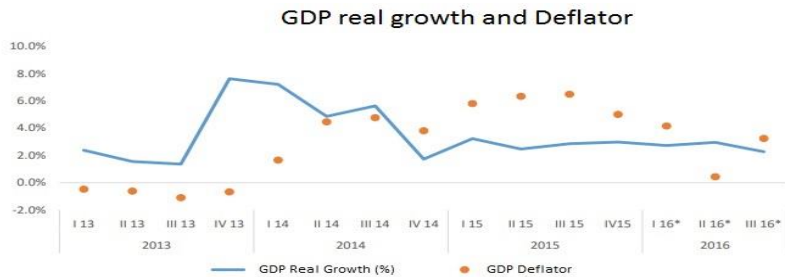
As a result of liberal economic environment, trade policy and privatization, the number of direct foreign investments increased from 2003 to 2018 to \$ 1894 million, and as a whole stood at \$ 17 810 million [10]. According to Krkoska [9], who studied the economies of 25 transition countries in 1989-2000, notes that the growth of direct foreign investments in the study stimulates the accumulation of capital, and during the economic downturn contributed to their economic growth.



Source: National Statistic Office of Georgia

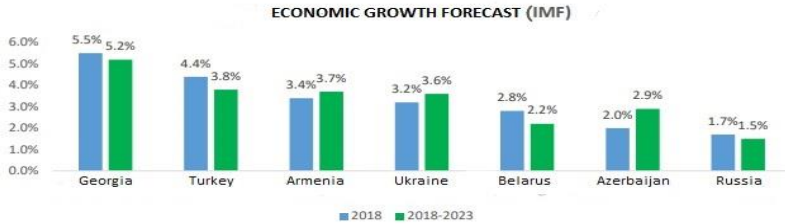
Indeed, the influx of investments after the economic downturn caused by the war and crisis in 2008 contributed to economical increase and the GDP growth in Georgia.

However, investments are only one of the factors affecting the economy. For instance, regional economic shocks and the global economic slowdown had negatively affected Georgia and the economic growth had fall from 6,2% to 2.5% in 2015.



Source: National Statistic Office of Georgia

Georgia is a country with an open economy and hence, it is necessary to be alert of ongoing processes on the international area that might reflect on our economy.



Source: National Statistic Office of Georgia

From the Soviet period up to today, the main tasks in the economy management are the price stability, low inflation and sustainable economic growth that is controlled by the Fiscal and monetary policy as well as the currency policy. Nowadays, many countries face a choice between fixed and floating exchange rates. Due to the fact that Georgia is in the volatile currency corridor and has multilateral trade relations in different currencies, the risk of exogenous influence is higher. Consequently, we have regulated floating exchange rate regime. This allows to effectively carry out an expansive monetary policy in a conditions of a recessive economy.

The crisis of 2008-2009 clearly demonstrated that the economies of flexible exchange rate economies have suffered less recession and in these countries, including in Georgia, the recovery process is going much faster [4]. Definitely, in the case of fixed rate the national bank's coverage area would be much more limited, since it is almost impossible to influence money supply and exchange rate simultaneously.

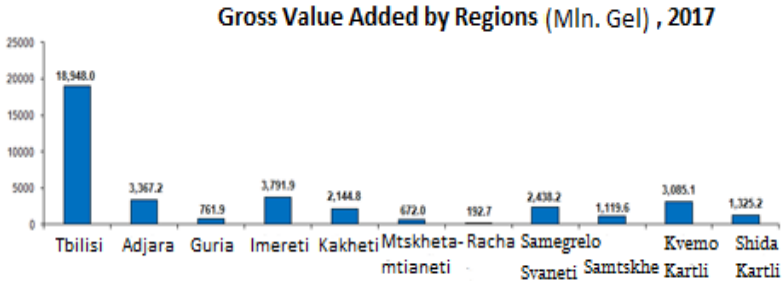
So, government in terms of exchange rate "management" faces the dilemma of reaching macro-economic equilibrium, because the demand is low and tax balance deficit [3, p.11].

Exactly this danger arised in Great Britain in 1925 while attempt to recreate gold standard. The same problem appared in America in 1961-1965. In both cases was significantly high unemployment rate, that arised necessity to expand aggregate demand (with monetary and fiscal policy leverages). But this meant foreign trade and balance of payment deterioration. The dilema remained unsolved: the Great Britain gave up maintaning gold standard and suffered from depression, while United states survived unemployment in 1960th because of inflation (LLindert, 2009).

Therefore, the most justified way for economic equilibrium regulation is the search for new instrument, tool. The most logical tool would be aggregate supply regulation. Meanwhile should be applied macroeconomic policy, which will

increase employment and income rates due to productivity and local production volume growth [3, p.11].

As for the annual GDP growth as an indicator of socio-economic well-being, it displays really significant. Even if we look through GDP by territorial basis, we will see that the lion's share (50%) comes to the capital, and the remaining to other regions. It's a serious challenge but in fact, every region in Georgia has the potential of having sophisticated services and being socially and economically well-developed.



Source: National Statistic Office of Georgia

Conclusion. Management of economy plays a vital role in a socio-economic progress and it is connected with various issues and problems that cannot be eliminated without complex approaches. Since Georgia is an importing country, most of the wealth that comes into or is created in the state, still flows overseas and the country remains the only ones that remain. Even through the state gives tax benefits and annually finances the programs, which facilitates to production, the current reality shows that measures are not sufficient.

Therefore, it requires rationally combined monetary and fiscal policy to get the highest efficiency in both production and nonproduction spheres. Only well-balanced policy can solve the problems of economy management and make social-welfare more developed.

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