

FOR CERTAIN ISSUES OF MONETARY-FISCAL POLICY AND ECONOMIC GROWTH

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The basis for the success of the country is economic development, which can not be reached without the high rate of economic growth (especially in the transition countries). These problems were still discussed by the representatives of Protectionist and classical-liberal doctrines. [Papava, 2009; Bedianashvili, 2017(2), Silagadze, 2013, 2017; Silagadze, Gelashvili, 2009]. The macroeconomic growth assessment indicators are: GDP growth rate, GDP per capita population growth rate, etc. (Table 1).

As it turns out, during 2010-2017 years the highest economic growth was in 2011 (7.2%), the lowest - in 2016 (2.8%). High growth rates in 2012 have been largely determined by the following issues: the rise of external debt, the inflow of foreign investments, the tightening of administrative methods. Since 2011, economic growth is characterized by a decrease in Georgia, except for 2014 (4.6%), when an increase in direct foreign investment has led to the rate of economic growth. According to the data of 2015-2016 years, the low economic growth rate is mainly due to strengthening the dollar rate on the world market and devaluation of the national currency, which has negatively impacted Georgia's economic situation. It should be noted that significant positive changes have been observed in Georgian economy in 2017, in the first quarter the economic growth rate exceeded the same period of the last year by 5%. The strengthening of the dollar currency in 2014 also negatively impacted on Georgia's foreign trade, the strengthening of the dollar currency led to the depreciation of the national currency in Georgia and its trading partner countries, thus the price of imported products was increased

and foreign trade turnover was decreased. Since 2014, the import-export dynamics is characterized by a decrease in Georgia, the reverse situation is in the first quarter of 2017, where the export of new historical maximum is observed, in particular, a significant increase was occurred in export markets of Russia, Turkey, Azerbaijan, Ukraine, Spain and US, which is explained by the improvement of the economic situation and increased demand for imported products. [Gaganidze, 2015, 2018]. In the first quarter of 2017, export growth was also affected by a significant devaluation of Lari rate, which led to the reduction of Georgian products' price on the international market and therefore demand for it was increased.

The top ten export items include: copper ores, ferroalloys, light vehicles, wine, medicines, spirits, mineral waters, nitrogenous fertilizers, gold and nut. (Table 2).

As indicated in the above table, the export of light vehicles and nut has decreased, the reduction of cars is caused by the growth of the excise price and the reason for the reduction of hazel exports is natural conditions.

Taking into consideration the above mentioned data, it is possible to analyze the individual aspects of monetary policy, namely, the factor of long-term economic growth is the price stability that implies moderate inflation, these events, through the monetary policy, is provided by the National Bank of Georgia, which monitors the monetary and credit policy of the national currency to maintain the ability to buy, increase GDP and improve the investment environment. Georgia is an import-dependent country. The Georgian market is mainly full of foreign products, the

Table 1. Economic indicators of Georgia

| Indicators | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017* |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| GDP real growth,% | 6.2 | 7.2 | 6.4 | 3.4 | 4.6 | 2.9 | 2.8 | 5.0 |
| GDP per person (in current prices), USD | 2623.0 | 3230.7 | 3523.4 | 3599.4 | 3676.2 | 3766.6 | 2864.6 | 4078.5 |
| GDP in current prices, mln. USD | 11636.5 | 14438.5 | 15846.8 | 16139.9 | 16507.8 | 13988.1 | 14377.9 | 15164.5 |

Composed: http://geostat.ge/?action=page&p_id=118&lang=geo 12.05.2018.

Table 2. growth of export products in percentages 2016.

| <i>Export products</i> | <i>Growth,%</i> |
|------------------------|-----------------|
| Ferro-alloys | 201 |
| Copper ores | 17 |
| Medicines | 60 |
| Crude oil | 184 |
| Wine | 62 |
| Mineral waters | 17 |
| Alcoholic beverages | 34 |
| Fish fats | 449 |
| Heavy beasts | 155 |
| Nut | -47 |
| Light vehicles | -6 |

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imported product is purchased in US dollars. Consequently, the strengthening of the dollar rate leads to an increase in the price of imported products, accompanied by an increase in prices and inflation. In order to improve the situation in such conditions, it is very important that the National Bank make a proper monetary policy, which is not always happening. The monetary policy regime of the National Bank of Georgia is the target of inflation, which implies preliminary announcement of inflation target indicator. In the long term, the annual level of inflation in Georgia is 3%. This figure is 5% in 2016 and 4% for 2017, and by 2018 it will be reduced to 3%.

In order to reduce excess fluctuations in exchange rates, the National Bank of Georgia will use interventions on the currency market and use the following instruments of monetary policy: Refinancing loans, deposit certificates, transactions of government securities, currency interventions, permanent instruments, minimum reserve requirements and other instruments. According to the existing data, 4% of the inflation target could not be maintained in 2017, which is due to the acting one-shot factors, such as the increase in excise taxes and the increase in prices on oil and food commodities at international markets, it should be noted that inflation (in the first Quarter of 2017 year) made a positive contribution to the impairment of the Lari course towards the dollar, the impairment of the national currency has increased the imported product and increased inflation, this situation is further complicating with the monetary policy of the National Bank, which is mainly focused on refinancing of the banking system, namely a large number of loans are issued to commercial banks, which generate excess cash in the country and increases the inflation. In order to avoid the effect of this factor, in 2016, the refinancing rate was constantly reduced, in 2017, the National Bank has tightened refinancing policy and increased interest rate from 6.5% to 7%.

Fiscal policy is also an important subject of discussion.

[Bakhtadze, Kakulia, Chikviladze, 2007; Kopaleishvili, Chikviladze, 2011; Atanelishvili, Chikviladze, Silagadze, N., 2017; Chikviladze, 2014 (2), 2018] In particular, it implies government decisions on taxes and government expenditures. Currently, the Georgian government is pursuing a liberal fiscal policy. Only 6 types of taxes apply in the country: income tax (20%), profit tax (15%), value added tax (VAT, 18%), etc. The Estonian model of profit tax has been launched since January 1, 2017, which implies the exemption from profits taxes for entrepreneurs in case of reinvestment. Such a reform was implemented in Estonia in 2000, where income tax before reform was 6% of budget revenues and its rate was 21%. In this regard, there is a different practice in Georgia, where 15% profit tax is operating. Naturally, this model will be a heavy burden for Georgia's state budget, in terms of reducing tax revenue. It is worth taking into account that even unstable national currency, inflation, stiff tax legislation and limited access to financial resources prevent the development of business in the country and attract foreign investments. Only a reduced profit tax can't result in an increased inflow of inadequate investments and can't encourage entrepreneurs to reinvest profit. It is necessary to create relevant economic conditions in the country by solving the problems of business development.

Estonian model not to be incompatible with the conditions of our country and does not cause a budget deficit, it is necessary to take into consideration the experience of Georgia's closest past, when profit tax was reduced by 10%, but it did not bring substantial positive economic results.

There are a number of changes in the Georgian customs legislation, the import tariffs have been abolished and instead of 16 only about 3 tariff rates (12%, 5%, 0%) apply for approximately 85% of the products, import tariffs are applicable only on agricultural products and some types of industrial goods, there are no quantitative restrictions on

import and export (so-called quotas) since the entry into force of DCFTA since September 1, 2014, trade between EU countries and Georgia is carried out without tariffs.

An important part of the EU-Georgia Association Agreement signed in Brussels on 27 June 2014 is an agreement about the deep and comprehensive free trade area with the European Union, which means liberalizing trade with the EU as both goods and services. Free Trade Area Agreement implies bilateral revocation of barriers to tariffs, quality and standards, approximation of trade legislations. The tariff on import gives preference to local production in comparison with the same imported goods and also is an income source for the country (the World Trade Organization tries to bring down tariffs to 0). Apart from tariff barriers, there are also so called Technical barriers to trade: technical regulations, standards, certification procedures, which in condition of full harmony with EU legislation of Georgian legislation will be abolished. Agreement on the deep and all-embracing trade will be generous for the country: free trade will support the positive diplomatic relations. The population will be able to access the quality products; Convergence of national product standards with the standards existing in the EU encourages local entrepreneurs to increase their technical level and efficiency.

The Government of Georgia has developed a Social Development Strategy - Georgia 2020 aimed at ensuring economic growth in the country in which each citizen will benefit from achieved results and the population involvement in the process of economic development will be possible; The government aims to provide private sector freedom, which implies an economic order in which the private sector is free to make decisions, the supremacy of its property rights and prospects of economic development

are protected. According to this strategy, the state is limited to the full support of the private sector. In the country, the private sector is not competitive, human capital is not sufficiently developed and there is limited access to financial resources. The government is trying to solve this problem, but there is still a lot to do. A well-functioning financial sector is an important prerequisite for economic growth, which should provide an efficient distribution of financial resources and encourage economic growth. On this background, it is unclear whether the abovementioned «strategy» is acting or not in the country, because the government has developed another plan for development in the country.

As already mentioned, one of the hindering factors of economic growth in Georgia is limited access to financial resources. This problem can be overcome by two ways: Banking sector and securities market. Unfortunately, Georgia does not have the perfect infrastructure of the securities market - only one securities market is functioning there - «Georgian Stock Exchange», conditions for granting a license to brokerage companies and authorized capital are defined as that only commercial banks can satisfy them. Commerce banks also have the right of the primary dealer.

Thus, the banking sector is in the dominant position and prevents the development of the securities market. Georgian companies can't afford their expenses and requirements to be financed by issuing shares and bonds, they only use banking services (high interest rates) which makes the situation more difficult; It is necessary to implement expansive fiscal policy, which will be an important stimulus for the development of entrepreneurial activities and the creation of the desired business environment in the country; It is necessary to reduce public expenses, as well as to promote business by the state, which will provide a substantial increase in state revenues.

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SUMMARY

This study researches the problems of Georgia's monetary-fiscal policy and economic growth, in particular - the main indicators of economic growth assessment, certain aspects of monetary, credit, currency and investment policies; The process of tax reforms in Georgia, including changes in income tax administration, considering the Estonian model, in which entrepreneurs will be exempt from profit taxes if they reinvest part of undistributed

profits (dividends); It is analyzed in this study EU-Georgia Association Agreement signed in Brussels (27.06.2014) one of the most important parts of which is an agreement about the Deep and Comprehensive Free Trade Area, which envisages liberalization of trade with the EU; The focus is on the low level of competitiveness of private sector in Georgia, inadequate human capital and deficient financial resources, undeveloped infrastructure and measures to be taken in this direction.