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Can Georgia Return to the Pre--crisis Rate of Growth?

Abstract

RESEARCH OBJECTIVE: The article aims to analyse Georgia's short-term economic prospects and to make well-founded conclusions on the Country's potential to return to the pre-crisis rate of growth in the near future.

THE RESEARCH PROBLEM AND METHODS: For evaluating Georgia's growth perspective, Country's essential macroeconomic indicators and statistical data are thoroughly analysed, along with profound study of global economic outlooks and quarterly reports from three prestigious international institutions (IMF, World Bank, EBRD).

THE PROCESS OF ARGUMENTATION: Apart from relevant professional and scholarly literature, current economic trends in Georgia are presented in the paper, revising such important issues like FDI and remittances inflow, foreign trade, currency depreciation, government spending and national debt, so those variables that affect the domestic economy at most. Georgia is small, open economy and because of its high dependency on the external sector, certain significant economic tendencies in main partner countries and in the world in general are also applied in the article.

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RESEARCH RESULTS: On the one hand, the decline of capital inflow into the Country, and socially-oriented government spending on the other, depreciated the national currency gradually and made Georgia's external liabilities very costly. Neither the depreciation of the currency, nor export subsidies helped the Country's exports to recover. This is partially conditioned also by economic troubles in main trade and investment partner countries of Georgia.

CONCLUSIONS, INNOVATIONS AND RECOMMENDATIONS: The article intends to enrich the understanding of how small, transition economies operate in uncertain financial environment and what perspectives they have in dealing with external shocks. Current regional and global context, along with obvious drawbacks in Georgia's fiscal policy make the possibility of regaining pre-crisis growth rates unrealistic in the near term. The country needs the diversification of export markets and its foreign investment sources, to cut government spending on social programs and bureaucracy, and to direct funds on infrastructural projects.

Keywords

Economic Growth, Global Economic Prospects, Georgia

CZY TEMPO ROZWOJU GOSPODARCZEGO GRUZJI MOŻE OSIĄGNĄĆ WARTOŚĆ SPRZED KRYZYSU?

Streszczenie

CEL NAUKOWY: Celem artykułu jest analiza krótkoterminowych perspektyw ekonomicznych Gruzji oraz próba udzielenia wiarygodnej odpowiedzi na pytanie, czy jest możliwe, by kraj ten w niedalekiej przyszłości osiągnął tempo wzrostu gospodarczego sprzed kryzysu.

PROBLEM I METODY BADAWCZE: Celem dokonania oceny perspektyw wzrostu gospodarczego w Gruzji poddane analizie zostają najważniejsze wskaźniki makroekonomiczne i dane statystyczne dotyczące badanego kraju, na tle informacji dotyczących światowej gospodarki i przewidywań pochodzących z kwartalnych raportów trzech najbardziej prestiżowych instytucji, jakimi są IMF, Bank Światowy i EBRD.

PROCES WYWODU: W artykule przeanalizowane zostają, obok danych obecnych w literaturze naukowej, te aktualne wskaźniki gospodarcze w Gruzji, które w najwyższym stopniu wpływają na rozwój gospodarczy kraju, czyli bezpośrednie inwestycje zagraniczne, handel zagraniczny, deprecjacja waluty, wydatki rządu i dług publiczny. Ponieważ Gruzja posiada relatywnie niewielki sektor gospodarczy, uzależniony dodatkowo od wpływów zewnętrznych, analizie poddane zostają również najważniejsze światowe trendy gospodarcze oraz sytuacja w krajach będących gospodarczymi partnerami Gruzji.

WYNIKI ANALIZY NAUKOWEJ: Z jednej strony obniżony napływ kapitału, z drugiej zaś wydatki rządu na politykę społeczną doprowadziły stopniowo do obniżenia wartości waluty i podniesienia kosztów obsługi długu zagranicznego. Ani deprecjacja waluty, ani subsydia eksportowe nie wpłynęły na wzrost eksportu. Częściowo spowodowane to było również kłopotami ekonomicznymi krajów będących głównymi partnerami gospodarczymi i handlowymi Gruzji.

WNIOSKI, INNOWACJE, REKOMENDACJE: Artykuł ma w zamyśle stanowić przyczynek do zrozumienia tego, jak niewielkie i przejściowe gospodarki funkcjonują w niepewnym środowisku finansowym i jak radzą sobie w obliczu zewnętrznych wstrząsów. Biorąc pod uwagę obecną sytuację na świecie i w regionie oraz oczywiste niepowodzenia gruzińskiej polityki fiskalnej, nie należy się spodziewać, by wzrost gospodarczy kraju powrócił do wcześniejszego poziomu w niedalekiej przyszłości. Niezbędna jest dywersyfikacja rynków zbytu i źródeł inwestycji zagranicznych, obcięcie wydatków rządowych na programy socjalne i biurokrację oraz przekazanie środków na projekty infrastrukturalne.

Słowa kluczowe:

wzrost gospodarczy, stan gospodarki światowej i perspektywy jej rozwoju, Gruzja

1. INTRODUCTION

Influence of global economic crisis on certain countries is varied and depends on how integrated the country is in the global economic processes and how dependent it is on the world economy. Open economy nowadays is undisputed policy (for most countries), but the more globalized the economy is, the more vulnerable it is to external shocks. According to Economic Globalization Index 2016, Georgia takes 16th position out of 207 countries. The main criteria of the economic globalization index are volume/movement of the foreign capital in the country and the country's involvement in international trade (Dreher, Gaston & Martens, 2008). As of December, 2015, Georgia has trading relations with 137 countries, and entrepreneurs from over 50 foreign states have economic interest in the country (National Statistics Office of Georgia [Geostat], 2016). For the small economy in transition, with scarce natural resource and small domestic market, liberal economic policy along with institutional and fiscal reforms aiming to attract more investments and to make the country regional economic hub, played an important role in Georgia's recent internationalization.

Georgia's fast economic growth which started in 2004, unsurprisingly ended in 2008 (see Figure 1). The cause of the sharp decline that year (from 12.6% to 2.4%) was not just global economic crisis, but also the short war with Russia resulting dramatic economic and noneconomic consequences for the country. Political crisis, new wave of internally displaced persons, deterioration of macroeconomic parameters and global economic recession put fast-growing state almost in a cleft stick within a year. However, with effective economic policy and international support Georgia regained rapid growth in 2010 (6.2%) which lasted till 2013. Since then, it has relatively moderate economic indicators (3.5% average). For the economy with the GDP of just 14 billion USD, such development pace will not be enough to catch up with EU living standards in the short term to which Georgia actively aspires for. Unlike to post 2008 downturn, recent slowdown was clearly matter of economic problems (both internal and external). Depreciation of the national currency, decline in exports and remittances, rising inflation, all these hampered the full recovery. Taking into account also the current situation in main trading partners, it will be less likely that Georgia can return to pre-crisis rate of growth (average 9.4% in 2004-2007 years) in the near 2-3 years, as minimum.

The aim of this paper is to analyze the country's economic prospects and to draw conclusions on its growth projections. It is organized as follows: the introduction of the subject is followed by the literature review revising relevant academic papers and economic publications on the topic. The next step is the description and analysis of materials used for conducting the research, whereas final sections summarize the results and draw conclusions regarding Georgia's growth prospects.

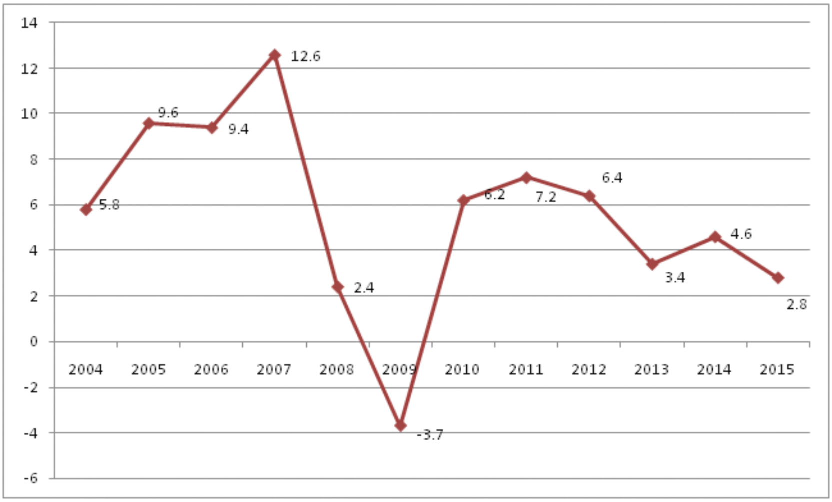

Figure 1. Real GDP Growth in Georgia in the years 2004-2015.
Source: Geostat.

2. LITERATURE REVIEW

Although some researchers argue that the crises have small effect on GDP growth trends on the long-run path (Kim & Murray, 2002; Bernanke, 2011), much of the literature illustrates the opposite. Papell and Prodan (2012) conducted the research to explain both effects of financial crises and wars on the growth recovery and concluded that in case of war, an average 1.5 years is needed to return to pre-crisis trends, and average of nine years of slumps precede the full recovery from financial crises/recession. The research was founded on the development levels of countries and the severity of crises. They found that emerging countries need much shorter time for economic recuperation (1.5 years average) than advanced ones, even if the crisis in emerging economies are more severe. Based on the study of 190 countries from 1960 to 2000, Cerra and Saxena (2008) state that financial crises have "large and persistent" negative impact on GDP, recovering from which may require 10 years. Focusing on developed (industrial) economies, Bosworth (2015) stresses that impact of crises on growth lasts 5-25 years. Reinhart and Rogoff (2009) also share common skepticism regarding the effects of crises on the national economy, affecting various economic components from housing prices to unemployment and government debt. Hall (2011) asserts that returning to normal employment levels may end slumps and speed up economic recovery, whereas Bosworth (2015) believes that strong promotion of exports can help small economies in deliverance from the recession. Job creation and growth by consumer spending is viewed as the key element in recovering strategy (that is switching from austerity to spending) according to Kaletsky (2013).

Leading international organizations are cautious in forecasting global economic growth trends, as there are no enough reforms according to International Monetary Fund chief Christine Lagarde. IMF (2016) predicts modest 3.1% and 3.4% growth in 2016 and 2017 respectively, where in CIS (Commonwealth of Independent States) these figures are even smaller, –0,6% in 2016 and 1.5% in 2017. Because of sanctions and declining oil prices, which seems inconvertible taking into consideration the return of Iranian oil and US shale oil on the global market, the main player in the (CIS) region – Russia will not manage to come out of recession (IMF, 2015). Depreciation of Russian Ruble is an additional problem. Many countries in the region depend on remittances from Russia and on trade relations with the country. Some political uncertainty and internal financial difficulties in some of these post-soviet states make recovering process even more challenging. IMF (2016) recommends adopting of structural and fiscal reforms to cope with the economic slowdown in the near term.

Escalations of financial market volatility and geopolitical tensions hinder the recovery according to the World Bank which forecasts 2.4% and 2.8% growth of the world economy in the current and following years respectively (World Bank, 2016). In Emerging market Europe and Central Asia the organization calculates growth of real GDP by 1.2% in 2016 and 2.5% in 2017. Main threats to overall growth are Russian economy and political tensions in Ukraine and Turkey. Adjustment to a low commodity prices and implementation of structural reforms is considered as potential prerequisite for the faster development.

Weakness of global trade, geopolitical tensions and low commodity prices once again are blamed for the insignificant growth trends in the regional economy (Eastern Europe and Caucasus, Russia and Central Asia), now by European Bank of Reconstruction and

Development, which estimates the average growth to be there –0.4% in 2016 and 1.6% in 2017. The rise of commodity prices and external factors (normalization of the monetary policy in the US and rebalancing of China's economy) should serve as an impulse for the gradual improvement of the situation in the region, according to the financial institution.

Georgia will have relatively high potential in terms of real GDP growth in the region according to IMF (2016), 2.5% and 4.5% in the following two years. The World Bank (2016) predicts 3.0% and 4.5% growth for Georgia in 2016 and 2017, whereas EBRD (2016) projections for the same period is 3.4% and 3.9% (see Table 1) counting on increased tourist inflows in the country and raised confidence in (local and foreign) investors.

Table 1
Growth projections (real GDP growth) in Georgia, Turkey and CIS in 2016-2017 years

	IMF		**The World Bank**		**EBRD**	
	2016	*2017*	*2016*	*2017*	*2016*	*2017*
Armenia	1.9%	2.8%	1.9%	2.5%	2.0%	2.0%
Azerbaijan	-3.0%	1.0%	-1.9%	0.7%	-3.0%	1.0%
Belarus	-2.7%	0.4%	-3.0%	-1.0%	-3.0%	1.0%
Georgia	**2.5%**	**4.5%**	**3.0%**	**4.5%**	**3.4%**	**3.9%**
Kazakhstan	0.1%	1.0%	0.1%	1.9%	1.1%	2.4%
Kyrgyzstan	3.5%	2.7%	3.4%	3.1%	1.0%	2.6%
Moldova	0.5%	2.5%	0.5%	4.5%	0%	2.0%
Russia	-1.2%	1.0%	-1.2%	1.4%	-1.2%	1.0%
Tajikistan	3.0%	3.5%	4.0%	4.8%	4.5%	4.1%
Turkey	3.8%	3.4%	3.5%	3.5%	3.2%	3.4%
Turkmenistan	4.3%	4.5%	5.0%	5.0%	6.1%	7.1%
Ukraine	1.5%	2.5%	1.0%	2.0%	2.0%	2.0%
Uzbekistan	5.5%	5.5%	7.3%	7.2%	6.5%	6.2%

Source: Own compilation based on IMF, The World Bank and EBRD.

3. RESEARCH METHODS

The study of competent international institutions' economic outlooks can help to predict development trends of the country, but it is important not to rely solely on the secondary data and analyze some key macroeconomic indicators of Georgia (see Table 2 and Table 3), by employing important statistical trends which will considerably impact on the near-term growth. The data are collected from National Statistics Office of Georgia (Geostat) and National Bank of Georgia (NBG), as well as from the official website of various global financial organizations. Small, open economy in transition is largely relies on the inflow of FDI, remittances from emigrants and turnover of international trade, therefore, related statistics along with Georgia's international debt and state budget trends are applied in the paper.

FDI Inflow. As one of the sources of economic growth for developing countries, and opportunities to catch up with developed states (Caves, 1996; Markusen & Venables, 1999; Javorcik, 2004), attraction of FDI is the main priority of Georgia's foreign economic policy. It can ensure the stability of the national currency, creation of new jobs and accumulation of the foreign capital in the country. It can be the key driver of the economy. There are always high expectations in Georgia concerning FDI inflow, as investor-oriented liberal business environment and economic reforms in the country are accompanied by low taxes and preferential trade regimes. After the gradual rise since 2005, FDI inflow to Georgia reached its peak in 2007 consisting almost 20% of country's GDP (see Figure 2). But conflict with Russia in 2008 and global economic recession faded investors' confidence. It took 7 years to attract approximate amount of foreign investment, but in 2015 there is still a downward trend. The largest investor in the last two years, as in the first quarter of 2016, is Azerbaijan (see Figure 3). Transport and communications sector received in total 200 million USD investment in the first quarter (53% of total foreign investments) and 594 million USD (44% of total foreign investments) in 2015 (Geostat, 2016). 376 million USD in the first quarter of 2016 is the highest figure since 2008. 92% of it comes from 10 main investors – Azerbaijan, Turkey, UK, South Korea, Netherlands, International Organizations, Virgin Islands, Luxembourg, USA, Cyprus (Geostat, 2016).

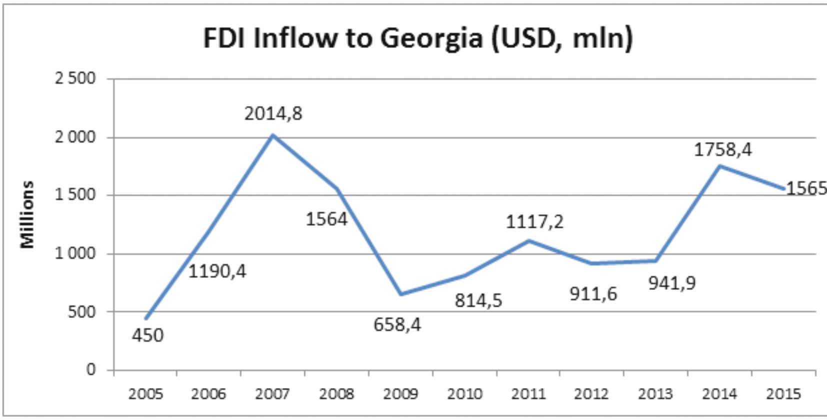

Figure 2. FDI Inflow into Georgia in the years 2005-2015 (in mln USD). Source: Geostat.

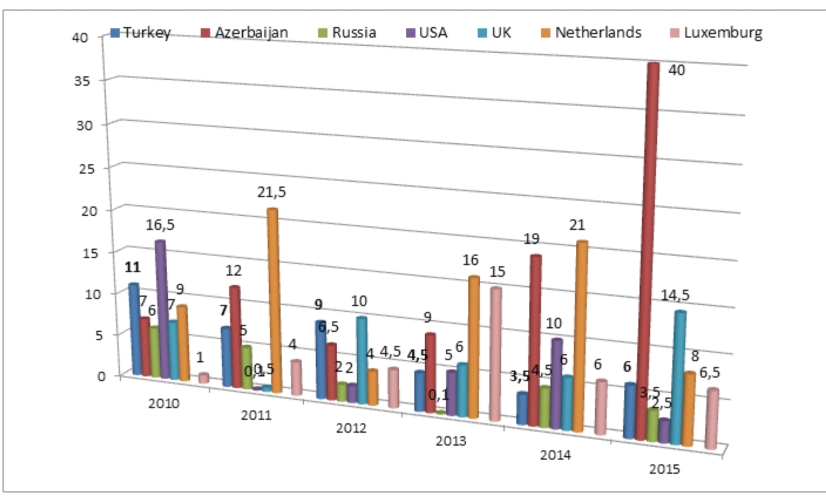

Figure 3. FDI Inflow into Georgia by Countries in 2015 (% of total investments). Source: Geostat.

Remittances. Many researchers find positive effects of remittances on the economic growth in developing countries (Pradhan, Upadhyay & Upadhyaya, 2008; Catrinescu, Piracha & Quillin, 2009; Feeny, Iamsiraroj & McGillivray, 2013). It can reduce macroeconomic volatility and promote growth by providing additional foreign exchange and by financing domestic business investments (Amuedo-Dorantes &

Pozo, 2006; Woodruff & Zenteno, 2007; IMF, 2009). Since 2007, remittances have never been lower than 8% of Georgia's GDP, and have had an upward trajectory until 2013 (see Figure 4), when they have started falling from most source countries (although from some of them they have slightly raised since 2013, mainly at the expense of increased emigration into those states) (NBG, 2016). In comparison to Russia's contribution in this respect, the role of other countries in remittances is minimal. More than 20% of all Georgian emigrants reside in Russian Federation, whereas, there are almost half million ethnic Georgians living there. Many of them maintain close relations with their family members, relatives and friends in Georgia. In the first two quarters of 2016, total remittances to the country amounted 530 million US dollars (NBG, 2016).

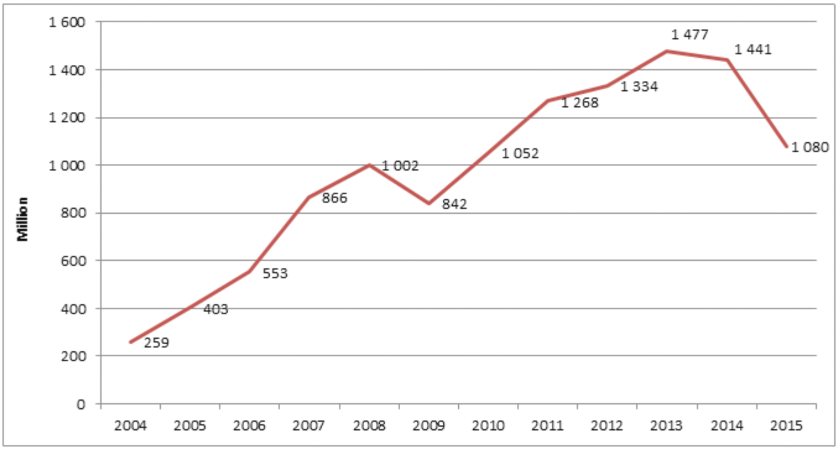

Figure 4. Remittances to Georgia in the years 2004-2015 (in US dollars).
Source: NBG.

Trade. Georgia is import-oriented country. As for March, 2016, it has active trade relations with 117 countries, and only with 35 it has trade surplus (Geostat, 2016). Georgia's imports are 3,5 larger than its exports which have been declining by 23-25% for the last two years (see Table 2). Exports mainly consist of raw materials and natural resources based products. They do not have vital importance for the trade partners. 2015 year brought poor results for the country in terms of trade, with the turnover shrank by 13% and the deficit reaching over

5.5 billion USD. Emergence of EU as one of the main export partners is very promising sign for Georgia, but Association Agreement which was signed with the union in 2014, leaves better expectations in that respect. Georgian exports to EU are still lower (24% of total exports) than to CIS (31% or total exports). Other main (large) export partners reduced importing of Georgian goods in 2015 (Geostat, 2016). Dramatic decrease of exports to Azerbaijan is especially noteworthy, as well as the record low figure of exports (during the last 6 years) in the first two quarters of 2016 (950 million USD) also causes additional concerns.

Table 2
Trade Statistics of Georgia in 2005-2015 years (in million US dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Exports	647	865	936	1 232	1 495	1 134	1 677	2 186	2 377	2 911	2 861	2 204
Imports	1 844	2 488	3 675	5 212	6 302	4 476	5 236	7 072	8 056	8 023	8 602	7 730
Turnover	2 491	3 354	4 611	6 444	7 797	5 609	6 913	9 259	10 413	10 433	11 463	9 935
Balance	-1 197	-1 622	-2 739	-3 980	-4 806	-3 342	-3 559	-4 886	-5 680	-5 112	-5 741	-5 525

Source: Geostat.

Debt. According to Panizza and Presbitero (2013), **s**tate debt has negative effect on economic growth in advanced and emerging countries, whereas, Reinhart and Rogoff (2010) argue that the adverse impact of state debt on the real GDP growth is significant only when debt/GDP ratio is over 90%**.** Since 2000s, the Country's external debt has been rising steadily, and in the recent years its portion in GDP has also increased reaching the peak in March 2016, for both gross and net external debt (NBG, 2016). As for March, 2016, Georgia's gross external debt amounts to 14.6 billion USD, 107% of country's (last four quarter) GDP, from where 6 billion USD (45% of GDP) is classified as state (government) debt. By law, maximum allowable amount of state gross external debt in Georgia is 60% of the GDP, whereas the allowable state budget deficit is 3% of the GDP.

State budget. Georgia's state budget has significantly surged throughout the last 10 years, without substantial deficit spending since 2009 (Geostat, 2016). 2.8 billion GEL (34%) of 2015 budget were directed to social programs, 2.32 billion GEL (28%) to bureaucracy (administration of government institutions), and 1.3 billion GEL (16%) to foreign transfers/grants (Ministry of Finance of Georgia, 2016). With the exception of the latter, similar trends (even slightly higher) are considered in 2016 planned budget, as well as in regard to the revenue part, where 92% of 2015 (93% in 2016, planned) total budget revenue are coming from taxes: 3,5 billion GEL (43% of total budget revenue) from value-added tax, 2 billion GEL (24%) from income tax, 1 billion GEL (12%) from corporate income tax and 0,9 billion GEL (11%) from excise tax.

Currency. Perhaps the most evident and sensitive problem in the Georgian economy is the depreciation of the national currency. In 2015 it has depreciated by 30% against US dollar within a year and continues the devaluation in 2016 (see Figure 5), including against other major currencies. Depreciation raises the cost of imports, especially for such import-oriented countries like Georgia, putting serious pressure both on the government and private sector. The high dollarization of the economy worsens the situation. Over 65% of all bank loans (as well as of all deposits) are issued in US dollars (NBG, 2016), cutting real revenues and rising debt service for businesses and individuals. Contrary to expectations, the record inflow of FDI in the first quarter and the rise in number of tourists in Georgia have not strengthened the currency so far in the current year.

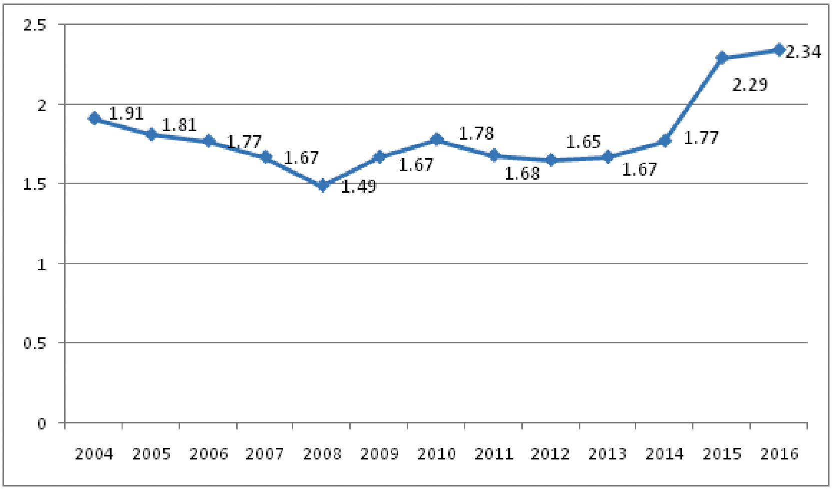

Figure 5. The cost of 1 US dollar in Georgia in 2004-2016 years (in GEL). Source: NBG.

4. DATA ANALYSIS

As it is seen from the data, due to some internal and external factors, Georgian economy undergoes obvious problems in the recent years and in the present one. It is noteworthy, that 2016 is general elections year in Georgia, and traditionally, it goes amidst political tensions and confrontation. Despite the calm atmosphere in comparison to previous pre-election years, there are still some general sense of uncertainty and negative anticipation characterized to post-soviet countries. Investors are awaiting to completion of the elections and its results, as it is essential to them to operate in the stable environment, knowing which political groups will run the state, will there be any drastic changes in the country's economic policy and will the business climate stay liberal (including to foreign investors) or change. All these hinder, postpone and even stop the investment activity in case if certain unpopular economic reforms (to businesses) will be announced by the winner party. The recent practice shows that FDI inflow to the country sharply declines in the quarter when the elections are held. The third quarter of 2012 (period of previous elections) was one the weakest in the last 6 years in terms of the FDI inflow. Thus, despite the positive trends in the beginning, investment activities in the remaining period will not be high. Upcoming elections are not the only obstacle for attracting FDI in Georgia. Severe economic and political problems in the leading investor (source) countries are additional concern for Georgia. 2015-2016 years are very difficult for the main investor in Georgia – oil-rich Azerbaijan, where the drop in oil prices and depreciation of the national currency by more than 100% since February 2015, caused additional economic troubles and short-term unrest. Other neighbor and active business partner of Georgia – Turkey is in the political crises after the unsuccessful coup and its economy is weakened after the recent dispute with Russia, resulting in imposition of economic sanctions with each other. Conflict with Russia is also damaging Ukrainian economy. After the riots and military confrontation in the eastern Ukraine, its economy felt into severe crisis. Since then investment activities of Ukrainian firms in Georgia reduced considerably. The high portion of FDIs from Azerbaijan, USA, UK and other large EU countries are directed to specific projects (Shah Deniz project, Building HPPs in the Ajara region, Building Nenskra HPP) and does not have a large impact on the sectoral level. Furthermore, 80% of all foreign investments in the first quarter of 2016 (69% in 2015) are distributed in three economic sectors: Transport and Communication, Financial sector and Energy (Construction sector instead of the Energy in 2015) (Geostat, 2016). Although Russian investors do have an interest in energy resources of Georgia, the share of Russian investments in total FDI inflows in recent years is quite low, unlike to northern country's role in remittances to Georgia. Together with Greece and Italy, they are source of 66% of all remittances to Georgia. Financial problems in these countries have significantly impacted on this figure. From both Russia and Greece the remittances have reduced almost by 50% since 2013. Recovery from the financial problems in these countries is not expected in the near term.

Despite unneighborly relations between Georgia and Russia, Georgia still depends on the Russian economy to some extent. Apart from remittances, it also plays important role in Georgia's trade balance, with 8% of total trade turnover (7.4% of total exports) in 2015. Problems in Russia caused by low oil prices and economic sanctions will continue declining Georgian exports to the country, especially considering the recent history of the trade relations between two countries. Embargos and permanent rejections of some Georgian products by Rospotrebnadzor (several cases of which have already happened this year) are integral part of the Georgia-Russian trade relations. Russian market remains very unstable for Georgian exporters and cannot be seen as potential destination for their goods at least in the near future. Economic problems in the main export partner – Azerbaijan led to reduction of exports there by more than 65% since 2013. The country imposed certain restrictions on imports (import of light vehicles based on Euro-4 standards) affecting especially the Georgian exporters (re-exporters of the vehicles). Political crisis, frequent acts of terrorism and recent economic slowdown accompanied by the currency depreciation in Turkey leave little optimism in regard to future economic relations with one of the main trading partners of Georgia (15% of Georgia's total trade turnover).

Additional constraint on the state budget will be the aforesaid elections which are usually followed by populist expenditures and complementary social spending by the government. In general, Georgia's socially oriented state budget is committed to distribute the revenue rather than investing it in more income-generating projects. This approach may hinder the development, not even mentioning the fast-paced economic growth. Some might argue that borrowing of Estonian Model of corporate income tax, that is an exemption from the tax in case of its reinvestment in the business, is an example of pre-election populism but the government officially announced and has the back from the parliamentary majority to enact the initiative from January, 2017. This is the further step forward in the liberalization of the business environment in the country, but can bring positive results only in the mid and long term perspectives. Even by government calculations the state budget will lose at least 500 million GEL in 2017 after the enactment of this rule, and how this will be compensated in the budget is unknown. As it is stressed above, corporate income tax contributed to the 2015 state budget by 12% or 1 billion GEL (436 million USD).

5. RESULTS OF DATA ANALYSIS

The last 3 years were quite difficult for the Georgian economy and there are reasonable expectations that upcoming 2-3 years will not be different in this respect. Inflow of foreign capital is declining, whereas the trade deficit and external debt are growing. Depreciation of the national currency still continues. Although a speed of the devaluation has decelerated in 2016, the value of Georgian Lari against US dollar plummeted to the record lowest point in its history. Government administration costs and social expenditures will be even higher in 2017, at the expense of reduction in financing other important projects. Leading international financial institutes forecast that Georgia will have the highest growth among European countries of the CIS region in 2016-2017 years, but fairly lower than Asian commonwealth republics. Georgian economy still largely depends on the regional leaders (Russia, Turkey, Azerbaijan). CIS market (31% of Georgia's total exports in 2016/IQ) stays traditionally unstable both from economic and political standpoint. Tension between two neighbors – Azerbaijan and Armenia is very high, remaining at the brink of the military conflict. On the other hand, the role of the EU in Georgia's trade, inflow of FDI and remittances is rising year by year. Economy of Euro Area expects minor progress in 2016-2017 years (IMF: 1.6%, 1.4%; World Bank: 1.6%, 1,6%). From external factors it is also worth noting that falling oil prices might help Georgia – the oil-importer country, to make significant savings and to control the stability of the national currency. In 2015, the country spent more than 1 billion USD on oil and oil products imports. This figure can be considerably reduced (by around 50%) that can save almost half billion US dollars which can be directed for strengthening the currency.

Georgia's state external debt is not alarmingly high, nor its correlation with the country's GDP, especially taking into consideration the international practice where many countries (including developed ones) have the debt/GDP correlation over 100%. The fact is that most of those countries have larger economies and hence, the potential to repay the debt without major material losses, unlike Georgia, for which the debt and its service fee are getting very costly after the depreciation of the currency. In the remaining 2016 only, the country will pay 1.6 billion USD to its creditors, whereas 2.5 billion USD will be transferred to them in 2017, adding more pressure on the national currency, devaluation of which is closely linked to the country's debt service, according to many local economic experts. Regional or global crises cause more negative impact on those economies where the volume of foreign exchange is larger than the national currency. The level of dollarization in Georgian economy is over 65%, hence, its dependence on external factors will be large until its gradual decrease to 25-30%.

6. CONCLUSIONS

Current situation in the economy and the regional and global context make less believable that in 2017 or even in 2018 there will be such economic swings in Georgia that can return pre-crisis growth levels. The state budget should focus more on the creation of proper instruments that will reduce future risks related to external shocks, rather than on the solution of social issues which should be realized at the expense of economic growth, as socially-oriented programs have singular and short-term effects, and have little impact on the prevention of the problems. Country's economic policy should orient on stimulating economic activities and employment growth, on financing infrastructural projects and implementing fiscal reforms. Subsidies to support agriculture products should be maximally reduced as they have not increased exports of Georgian wine and have not made agriculture sector competitive in general. Its contribution to 2015 GDP was 9.2%, fluctuating in this diapason throughout the last 8 years (Geostat, 2016). FDI attraction, diversification of both export receivers and export products, and utilization of Deep and Comprehensive Free Trade Agreement with EU (part of Association Agreement) should be main priorities for the country in the near-term. Georgia wants to be part of the EU and to have the full economic integration with the union, however, with existing growth rates it will be very arduous to overtake the development levels even of new EU member states. Georgia needs fast economic development and stable, long-term economic policy with low taxes, small bureaucracy and diversity of economic relations.

Present research provides an in-depth analysis of growth prospects of Georgia – an open economy on the verge of stagnation throughout the last three years. Despite the comprehensiveness of the research, it has its limitations. For the methodology part, it could employ advanced quantitative techniques for the data analysis, especially, taking into account the variety and abundance of independent variables. For the analytical viewpoint, it could benefit from the thorough evaluation of the government's regulative role in the economy as a whole. Application of various growth models in the study and assessment of Country's economic perspectives within their framework could give valuable inferences, this is, however, beyond the scope of this paper. For the future research it would be beneficial to consider above-mentioned issues and utilize econometric models for more precise growth rate projection. It would allow to conduct more predictive research providing concrete figures and hence, clearer instructions for managerial implications.

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