TEN AXIOMS FOR SAVING GEORGIAN MONEY

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Summary

The Article is dedicated to the actual practical issues of Georgian monetary unit. Today it became necessary to identify and eliminate the objective and subjective reasons giving rise to the sharp depreciation of Georgian Lari, stopping extreme situation created in circulation of money in the country and avoidance of expected inflation, also developing reliable sources and methods for saving national currency. Outcomes of the research are represented in the Manuscript in the form of ten axioms for solving the problems, implementation of which will promote termination of depreciation of Georgian monetary unit Lari and its further appreciation.

I. INTRODUCTION

I have refrained myself from writing present manuscript for long period of time. I think I tried to avoid hasty conclusions. I had to review theoretical and classic issues of cash flow, inflation, monetary-credit policy as here in Georgia, so – in other developed and developing countries.

I have many questions:

- Was drop in the exchange rate of Georgian Lari inevitable and necessary?
- Are we afraid of recognition of extremely serious changes in the economy – when transformation of market oriented economy into the social oriented one takes place?
- Is it time for determining exchange rate of the National Currency at the open market?
- Has it finally been determined if drop in the exchange rate of Georgian Lari, which started at the end of 2013, is inflation or devaluation?
- Why don't we, the economists speak more openly and boldly and explain the role of using the factor of foreign debt in non-maintenance of the exchange rate of Georgian Lari?
- Why are we looking for he reasons of devaluation of Georgian Lari in subjective factors and if National Bank has made mistakes in maintenance-non-maintenance of "sharp" drop in the exchange rate, is it the mistake of others? And generally, can we mention the fault – in course of solving-not solving of the economical fate of the country?
- I'd prefer to ask one simple question instead of those named above – how can we rescue Georgian Lari, Economy, my people, my country?! What shall we do?!

The problem is topical. It is immediately necessary to learn the changes taking place in the economy of the Country, as well as identification and elimination of objective and subjective reasons of the drop in the exchange rate of Georgian Lari (and not shifting responsibilities to and sometimes ungrounded blaming of others).

My great teachers, the Academicians Vasil Chantladze and Paata Gugushvili, among others, used to give wise counsel: science is not in need of party status; only education, reasonableness, knowledge and experience shall be involved here.

Georgia has always had and fortunately has educated economists, professors: Merab Kakulia, Nodar Chitanava, Roman Gotsiridze, Nana Aslamazishvili, Irakli Kovzanadze, Elguja Meqvabishvili, Ioseb Archvadze, Iakob Meskhia, Lia Eliava, the Academicians Avtandil Silagadze, Vladimer Papava, and many others, and our young talented economists. All these, who are capable and responsible for leading, healing Georgian economy, termination and avoidance of created extreme situation; we shall get together, invert, outline, developed reliable means and methods of saving Georgian Lari.

In course of our research we were based exactly on the thinking of the above Georgian researchers and economists, data of international organizations, materials of periodicals, National Service of Statistics of Georgia, and materials of National Bank of Georgia, World Bank, International Monetary Fund, Investment Partnership Fund of Georgia and other organizations.

And to my mind, the main thing is that we are not looking for the means for solving the problems, where we see them. It's time to develop, name and protect axioms of economical development: **sustainable growth of economy, immediate development of industry,**

agriculture and processing industry, and development of small, middle and other businesses for the country and people;

we shall recognize that it is not National bank to devaluate Lari, but decades of non-development of material industry (as it is today called 'real sector of economy' L.Q.) (they will call me Marxist… by the way, economists of our generation were grown on Marx's Capital. I don't keep it from you!), and passive nature of production sector devaluate national Lari. Only trading, service fields, infrastructure, construction of houses, and wide network of hotels and catering units will not save the economy of the country; innovative way of economical development is necessary, as well as investment boom, for this creation of favorable, attractive investment environment for investors; processing and implementation of correct fiscal policy; creation of reliable, legal (!) legislative framework of invariable nature bounding and identical to everybody; to complete hostility, contentiousness; everybody shall do his work: politician shall take care of the policy, economy shall be managed by economists; ill person shall be cured by the physician; scientists shall learn and teach, write works, books; legislators shall write laws and legalize them(!); farmers shall harvest crops; manufacturer shall produce; the government shall protect interests of people and country… and etc. the list is too long. Thus, the purpose of my manuscript has been revealed:

· Cause-consequence analysis of depreciation of national currency, at the background of certifying inevitability of devaluation of Georgian Lari, for development of correct monetary and fiscal policy, regulation of exchange rate of Georgian Lari, economical growth in the country, increasing foreign investment flow for creation of attractive investment climate and activation of large investment projects, development of recommendations for increasing export potential and improvement of promotion mechanisms.

II. WHEN AND WHY DROP IN THE EXCHANGE RATE OF GEORGIAN LARI BEGAN?

From theoretical perspective – there is direct and reverse relation between monetary relations and reproduction process. Objective grounds for monetary relations are processes of such pubic reproduction, which give rise to international exchange of goods, money and labor.

Development of monetary relations significantly depends on development of national and global economy, as well as relations formed between political situation and different countries of the world.

Taking into account the fact that international relations, including monetary ones, are in close relation with such fields, as policy, economy, diplomacy, commerce, industrial production and trading, occupy important place as in national, so – global economy. Settlement, credit and financial operations implemented between different countries and their economical subjects give rise to transformation of national currency into the foreign currencies and vice-versa.

Under the conditions of globalization of industrial relations, dependence of reproduction process upon such foreign factors, as: international trade, export-import operations and production development, as well as foreign currency circulation and etc are getting stronger. Instable state of international currency relations and monetary crisis may influence may influence negatively upon reproduction process.

Let us consider it from top down. To my mind, Devaluation of Georgian Lari was started from the year 2013; second wave was in 2014, and the third one – in 2015, i.e. devaluation of Georgian Lari is being provided for the period of 2 years and is continued till today.

Before speaking about reasons for devaluation of Georgian Lari, I consider it to be necessary to note that long-term target rate of inflation of national bank makes 3 percents. Taking into account the fact that today Georgia is among developing countries, and economy of such type is characterized in higher rate of inflation and economic growth, targeted inflation according to the documents of monetary-credit line for the years 2015-2016 is determined in 5 percents, which will be decreased to 4 percents for the year 2017 [1].

After deflation processes fixed in 2012-2013, **trend of increasing rate of inflation** was fixed from 2014, though it is maintained lower than the target rate of the National Bank of Georgia. Reduced prices and fall of oil prices at the commodity market influenced importantly upon the dynamics of prices. This was accompanied with the weakening of foreign demand. In April 2015 index of total inflation made 2.5%, which was mostly conditioned with the fact that at the background of depreciation of exchange rate of Georgian Lari, the influence of the growth of intermediary costs related with the service of denominated loans with foreign currency upon inflation, was partially balanced with reduction of prices on fuel.

According to existed evaluation, in the first quarter economical growth higher than expected level was fixed. With preliminary information, in the first quarter real growth made 3.2 percent. Credit asset in the first quarter was being moderately increased, by important slowdown was fixed in April. Besides this, expected slowdown of import in April may indicate on reduction of demand. By means of development of foreign shocks negative trends were fixed in foreign sector. At the background of deteriorated economical situation in commercial partner states, from second quarter of 2014 trends of reducing foreign demands were identified and they gradually strengthened. The volume of export registered in the first quarter was reduced in 28 percents, and import – in 3 percents. Significant decrease was fixed in the index of money transfers: it was reduced in 23.5 percents per annum in March. Since the year 2014, rate of increasing tourist incomes decreased significantly. Though last change of exchange rate gave rise to the reflection on the import demand, which, in its turn, provide elimination of foreign imbalance and supporting local demand [1].

During this period, National bank extracted US Dollar from the economy and released Georgian Lari. Till November of 2013, National Bank of Georgia purchased up to 555 million US Dollars, i.e. before depreciation of Georgian Lari it extracted from the economy the sum of the same amount and released Lari of respective amount in exchange.

In December of 2014, when trading is enhanced from the point of import and when demand on US Dollar is increased, first strong wave of devaluation was started.

During this period, National Bank of Georgia returned US Dollars to the economy in small portions and it returned 220 million US Dollars in two months. Distinction is significant.

Justification – when National Bank of Georgia was receiving US Dollar from the economy, it gave explanations that it was doing that for avoidance of danger of excess stability of Georgian Lari and filling currency reserves.

At the same time, inflation was being quietly "ripening". Operating business-companies didn't increase prices at the beginning and were waiting for stability of exchange rate of Georgian Lari. After disappointment, prices first started increasing first "invisible" and later – "visibly".

Two years ago – in 2009-2010, in 18 months National Bank of Georgia provided economy with 450 Million US Dollars and reduced currency reserved to 1.9 billion US Dollars. Today currency reserve is 2.6 billion US Dollars. For sustainability of financial system it is necessary to have volume of reserves more than triple amount of import, totaling up 1.7 billion US Dollars.

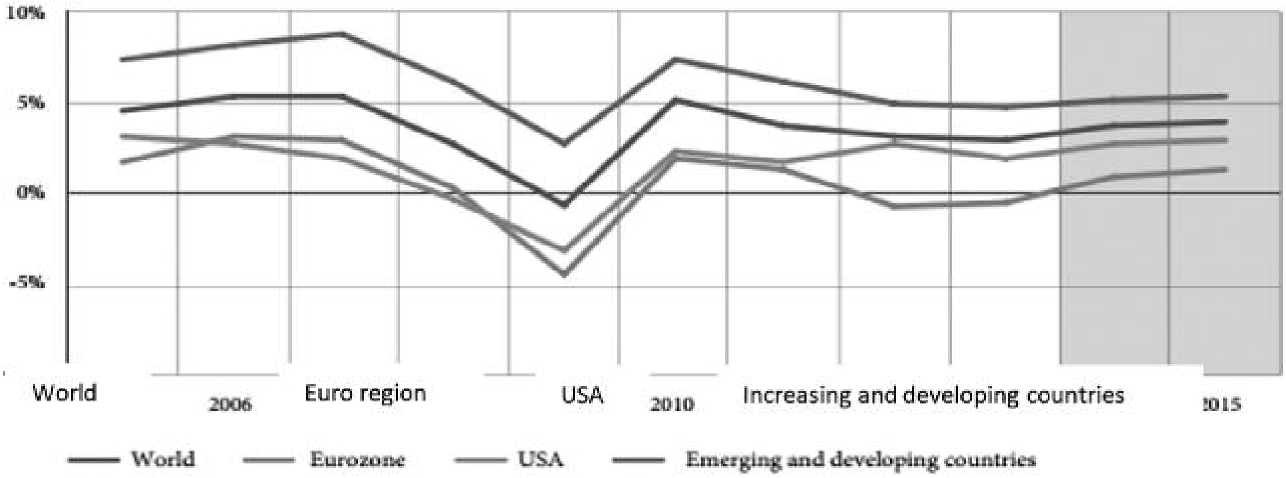
National Bank of Georgia has and had more than enough reserves, there would not be made a mistake if the National Bank of Georgia used the allowable number of reserves.

This argument doesn't greatly differ from the opinion of ex-president of the National Bank of Georgia: "according to the standard determined with the International Monetary Fund, currency reserves shall be of the same amount as triple volume of average import of one month. This is about 1.8 billion. At the same time volume of currency reserves is about 2.5 billion, i.e. it was easy to do something"[11].

Global economic activity was characterized in important fluctuations in 2014, trend of reduction prices on main trading commodity products (oil, food, metals) at the international markets, strengthened geopolitical crisis and hard heritage of global financial crisis influenced essentially upon economies of developed, increasing and developing countries. High level of unemployment is still maintained in many countries of the euro region, as well as negative attitude of investors and struc-

Diagram No.1.

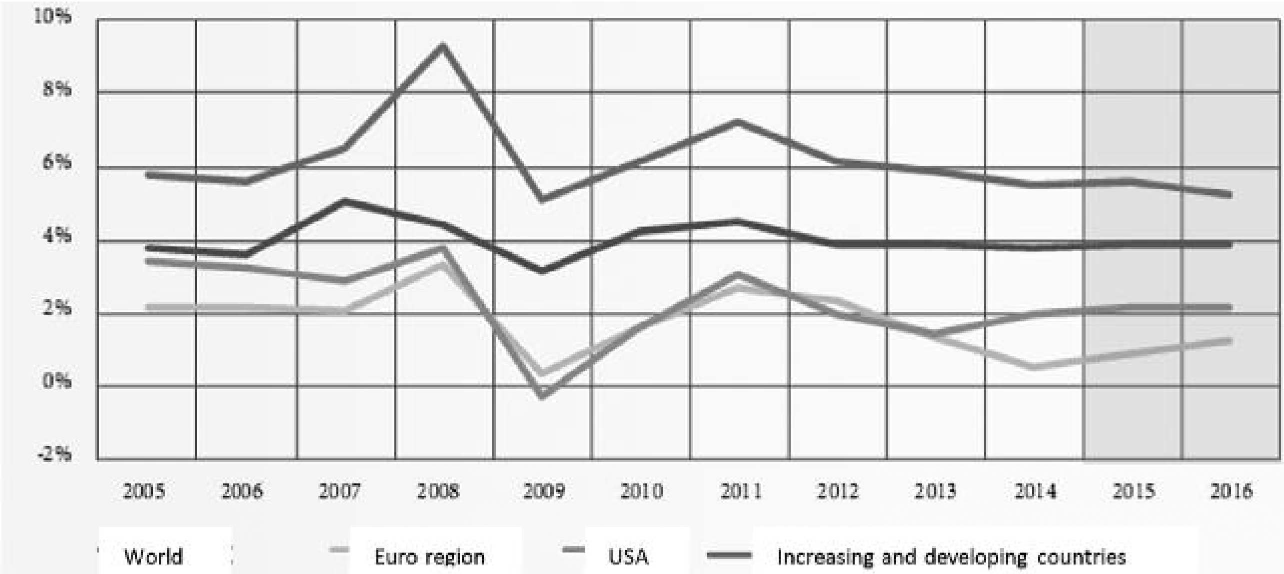
Real Growth of Gross Domestic Product in the World



*** Source: International Monetary Fund, WEO Update, Jan-2015*

Diagram 2.

Consumer Price Index in the world



Source: International Monetary Fund

tural problems, reflected in less than expected level of economic growth. Less than expected economical growth was detected in Japan, where at the background of weakened foreign demand and increased payments, monetary softening implemented by the Central Bank appeared to be insufficient for improvement of consuming and business moods. There was much better situation in the USA and United Kingdom, which was supported by softened monetary policy and increasing investments at the real estate market. Economical perspective of increasing and developing trade partners of Georgia was worsened in 2014 – subject to the geopolitical crisis in Russia and Ukraine and accompanying economical outcomes, according to the evaluation of International Monetary Fund (IMF), global economical growth of 2014 equaled to 3.3 percents, which, is scarcely not different from the rate of 2013** (see the Diagram No. 1). As for the prognosis, in the years 2015 and 2016, global economy was increased in 3.5 and 3.7 percents respectively.

Trend of reducing prices on the main trading commodity products (oil, food, metals) at the international markets and negative gap of issuance conditions weak inflation in many countries (See the Diagram no.2.). In the second part of 2014, prices on Brent Crude were radically decreased – from 150 US Dollars to 55 US Dollars for barrel. There are several reasons causing reduction. In the first place, the effect of supply higher than expected at the background of weakened global demand is noteworthy, which, in its turn, conditioned increase rate of shale oil production in the USA. This was accompanied by two additional factors: decision of OPEC member states, not to alienate market share (at the expense of sharp cutting of sale price and stabilization of US Dollars in relation with other currencies (which, of course, additionally reduce demand on the oil in the countries importing energy carriers).

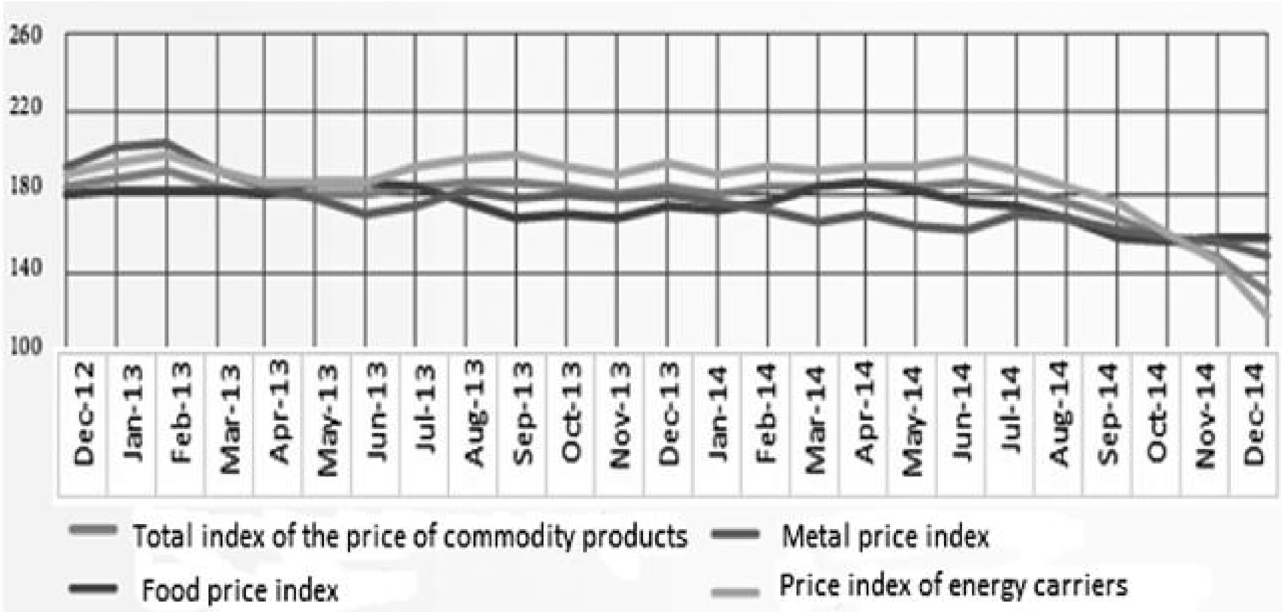
In 2014, important reduction in prices was detected under the conditions of excess supply, even on the main kinds of the most tradable foods (corn, sugar, dairy products, soy), conditioned by favorable climate situations and reduction of intermediary expenditures. Prices of metals were also characterized with the trend of reduction, subject to the reduced demand on the raw materials in the economy of China and other countries of increasing economies (see the Diagram 3.).

Gross Domestic Product of the USA was increased for more than expected 2.4 percents. Growth of economical activity was conditioned with softened monetary and fiscal policy, which was attended by the cured real estate market and real incomes increased by means of reducing oil prices. Level of unemployment was significantly reduced (in about 6 percents), creating grounds for leaving the phase of monetary softening, though, by means of reducing oil price and strengthening US Dollars, inflation of softening at the end of the year conditions slow and staged nature of tightening policy. According to the prognosis of International monetary Fund, economy of the USA in 2015-2016 was increased in 3.6 and 3.3 percents respectively [9].

In 2014, in many countries of the euro region high level of unemployment is maintained, as well as negative

Diagram 3.

Price Rates of Main Commodity Products, 2005 = 100



Source: International Monetary Fund

expectations of investors and structural problems. Gross domestic product of unified monetary zone was increased only in 0.8 percents, which was conditioned with real economical growth less than expected in France, Germany and Italy. Still, unstable political and economical situation was maintained in Greece, though, in other countries of Europe, namely in Spain and Ireland, there are clear signs of improvement. Inflation of the euro region, with the influence of weak demand and reduction of price on oil, was maintained on the lower level then the targeted even in 2014. According to the prognosis of the International Monetary Fund, GDP of the Euro Region in 2015 was increased in 1.2 percents, and in 2016 – in 1.4 percents [10].

Geopolitical conflict between Ukraine and Russia and accompanying economical outcomes, create negative perspective for the growth of issuance for these countries and other important trade partners of Georgia. Economic sanctions against Russia at the end of 2014 were added with reduction of global price on the oil, which appeared to be hard stress for the export-oriented economy of energy-carriers. Worsening trade conditions could not compensate with devaluation in 85 percents of Russian Ruble against US Dollars. In exchange to it, devaluation was reflected in high inflation and reduced real incomes, which had significantly negative influence upon export of foreign countries and cash transfers from Russia. Maintenance of negative trend is expected in close future – with the most optimistic assessment, GDP of Russia in 2015 will be reduced in about 3-5 percents [4].

As for the Ukraine, economy of the Country was reduced in about 8 percents in 2014; and local currency was devaluated in 98 percents against US Dollars. Based on entering of military conflict in new phase, conflict in the Ukraine is expected to be transferred into extensive recession and Gross Domestic Product in 2015 will be increased in 5 percents [7].

Perspective of Armenia, important trade partner of Georgia was increased as well, which was mainly conditioned with close economical relations with Russia and expressed in devaluation of local currency against US Dollars in 17 percents and essential reduction of cash transfers from Russia. According to the existed prognosis [7], in 2015 economy of Armenia will have zero-percent growth. Problems existed in the region is reflected on the economy of Azerbaijan, though, for the countries exporting energy carriers reduction of global prices on oil became much important, which worsened the perspective of economical growth of 2015. At the regional level, relatively better perspective was identified in Turkey, where in 2014 the economy was increased in 2.9. With the existed prognosis, growth of GDP of Turkey in 2015 will be 3.0 percent [7].

For handling inflation risks, central banks of the region pursued strict monetary policy in 2014 – in case of Russia and Ukraine, principle rate of policy at the end of the year made 17 and 14 percents, relatively. Radically different situation is maintained in the euro zone, where purpose of the Central bank still remained to be maximal alleviation of credit conditions for the purpose of promotion of demand and investments. In the United States of America similarly, they maintained alleviated monetary policy, notwithstanding declaration of the Federal Reserve System on leaving the soft monetary policy.

At the background of the foreign shocks described above, we shall also pay attention to the circumstances developed at the monetary market. Parallel to the positive economical trends and expectations taking place in the USA, since the end of 2013 Federal Reserve System started reduction of quantitative alleviation and finally in October of 2014 it made decision about its completion. At the background of the said circumstances, US Dollar starts appreciation. Consequently, from the beginning of 2014, world currencies were significantly devaluated against US Dollar. Though, influence of these processes was reflected later (at the end of the year) on the exchange rate of Georgian Lari, as during the first three quarters they fixed moderate inflow of foreign currencies into the country. It shall also be noted that appreciation of US Dollar was reflected in the first place on the currencies of such countries, where there is more developed financial market. This process was transferred to Georgia later, by means of devaluation of the currencies of partner countries by worsening currency account of tax balance (deepening trade deficit of goods, reduction of cash transfers and slowdown of increasing tourist incomes).

Expressed negative trends gave rise to backwardness of economy from potential level, retarding approaching of inflation index with the target index and extended the process of leaving alleviated monetary policy.

Thus, so-called "external factors" influencing upon exchange rate of Georgian Lari, as global phenomenon described above are of long-term and unavoidable nature. Due to this, Georgian Lari "behaved" adequately; it would be more surprising if the rate had not suffered changes. It was impossible to avoid devaluation of Georgian Lari.

In every trading partner states of Georgia sharp devaluation of national currencies took place against US Dollar.

Negative balance of export-import of Georgia made 5735.07 million US Dollars (export – 2861.19 million US Dollars, import – 8596.26 million US Dollars) in 2014. Top ten of the largest countries were as follows: Azerbaijan – 19 percents, Armenia – 10 percents, Russia – 10 percents, Turkey – 8 percents, USA – 7 percents, Bulgaria – 6 percents, Ukraine - 5 percents, China – 3 percents, Kazakhstan – 3 percents, Italy – 3 percents, and others 26 percents [1].

As you can see, Azerbaijan is the leader in exports of Georgia, going almost twice ahead Armenia and Russia (occupying 2nd and 3rd positions respectively). Top ten of importing countries is importantly different, where Turkey is the absolute leader during several years. Import to Georgia in 2014 was as follows: Turkey – 20 percents, China – 9 percents, Azerbaijan – 7 percents, Ukraine – 6 percents, Germany – 5 percents, Japan – 4 percents, Romania – 4 percents, USA – 3 percents, Italy – 3 percents, all others – 32 percents. We have distinguished 12 largest trading partner countries, economies of which influence upon exchange rate of Georgian Lari. In the Table 1 below we represent indexes of export-import of these countries in monetary and percentage sections.

What happens in the countries from the point of devaluation of national currencies is very interesting. If we take last 2 years for reporting period, it appears that Turkish Lira was devaluated in 44.8% since January 2012 till today, and during last 4 months – in about 20%. Though, Chinese Yuan has been formed in the world to be one of the strongest monetary units, but the trend of appreciation of US Dollar during last period has been reflected on it and it was devaluated in 4.6%. By means of monetary policy pursued in Azerbaijan, Manat was devaluated in 33% in February this year. To be more precise, the government was maintaining exchange rate of national currency artificially and when it made decision not to be involved, Manat "jumped" in 31% in one day. Today Azerbaijan is continuing control of the rate in order to avoid currency manipulations.

Let us consider separately fortune of Russian and Ukrainian national currencies.

- Indexes of Russia and Ukraine are catastrophic. These countries are equivalent trade partners to Georgia. Ruble in Russia was devaluated against US Dollars in 144.4% from the year 2012, and during last 4 months the fall made 85%. As for the Ukrainian Hryvnia, and it was devaluated in 4.2 after January of 2012 till today, and during last period at the background of current political circumstances – in 2.8 times.

The rating of the largest trading partner countries of Georgia from euro region included Italy and Germany.

As we can see, Euro was depreciated in 25% after May, 2014. Japanese Yen was devaluated in 62.5% against US Dollars during last 2 years, and in 15% during last period. We can find similar situation in fluctuations of national currencies of Romania and Bulgaria. This proves the fact of effect of economical situation over neighbor countries. Armenian Drums was distinguished in particular stability since 2012, but during last 4 months it could not avoid depreciation in 17%,

At this background Georgian Lari is as follows:

Table 1

Indexes of export-import of the trading partner countries of Georgia in monetary and percentage section; year 2014.

No.	Name	Import 2014		Export 2014		Balance 2014
		Million USD	%	Million USD	%	
1	Turkey	1727,42	20,10	239,31	8,36	-1488,11
2	China	732,96	8,53	90,39	3,16	-642,57
3	Azerbaijan	637,59	7,42	544,42	19,03	-93,17
4	Russia	577,71	6,72	274,96	9,61	-302,75
5	Ukraine	546,14	6,35	140,21	4,90	-405,92
6	Germany	465,85	5,42	69,14	2,42	-396,71
7	Japan	368,17	4,28	3,28	0,11	-364,89
8	Romania	311,40	3,62	4,03	0,14	-307,37
9	USA	287,39	3,34	207,58	7,26	-79,81
10	Italy	221,62	2,58	86,19	3,01	-135,43
11	Armenia	210,31	2,45	288,24	10,07	77,93
12	Bulgaria	209,77	2,44	164,09	5,74	-45,68
	Others	2299,92	26,75	749,32	26,19	-1550,60
	Total	8596,26	100,00	2861,19	100,00	-5735,07

Source: Data of the National Bank of Georgia

- Looking deeper into the content, we will see the similar notes with Russian Ruble, Ukrainian Hryvnia and Armenian Drum. In the numerical index, there is similarity with Turkey. Particularly, during 2 years Georgian Lari and Turkish Lira was devaluated within the bounds of 43-44%. The distinction is that the process is being provided gradually from 2013. As for Georgia devaluation of Georgian Lari was being prepared "quietly", and sharp dropping was started from the end of 2014. This is why this impacted population so painfully.

Due to the fact that Georgia is in close relation with economical circumstances of Turkey, Azerbaijan, Russia and Ukraine and, at the same time, EU Association Agreement will be soon validated fully, we shall assume that Georgian Lari depends and will depend on the conduct of national currencies of the above states and devaluation of national currencies in their neighbor countries will be continued, adequate conduct of Georgian Lari will be inevitable.

As for the consumer prices, according to the largest importer countries, we may analyze: to our mind, prices on Chinese goods will definitely be increased in about 15-20%; rise in prices on Ukrainian and Russian products shall not be more than 5% and on the contrary, if military actions will be continued, they may become even cheaper; prices for the goods imported from euro region and Turkey will increase in about 10-15%. As for the energy carriers, at current stage it is impossible to predict increasing of prices, though main concern of the Government of Georgia will be maintenance of price on energy carriers through negotiations with Azerbaijan until stabilization of the existed situation; otherwise crash of Georgian economy will be inevitable.

Herewith, **one of the main factors for devaluation of national currency is the outcome of political-economical processes of the neighbor states. Opposition with devaluation of Georgian Lari would be counter-productive, having temporary effect.**

III. GROWTH OF REAL SECTOR OF ECONOMY – PRINCIPLE MEANS FOR APPRECIATION OF GEORGIAN LARI

We consider accelerated development of real sector of economy (industry, agriculture, and fields of processing industry) to be extremely necessary.

For justification of our offer, I will come up with the argument: fall of monetary unit of even such hyper power as China, is explained by retardation of economical growth. Its economy suffers stagnation for several months.

Sharp weakening of total financial market of the country with the economy of second in size and national currency – Yuan was provoked by weak macroeconomic indexes coming from China , such as retardation of the rate of increasing Gross Domestic Product, increasing consumer prices, sharply reduced index of export-import and etc. Chinese analysts themselves explained collapse of the market with economical growth of the Country. After 2009, economical forwarding of the Country was sharply slowed down. Consequently, annual profit of the companies was decreased as well. At the same time, they didn't refuse influence of so-called external factors in China, particularly, influence upon fall in prices on raw materials worldwide, except inadequate indexes of oil production, and influence upon cheapening of oil was provided with together 8% fall in the prices of shares of China. According to the Analysts, stock exchange of China doesn't remember such outcome of one-day fall during 8 years.

Funny though it might sound, no quarreling between government and Central Bank of the Country took place in order to find out "who was guilty", but in the beginning of the year, Central Bank of China accepted decision on reducing interest rates twice in the beginning of the year. Peoples' Bank of China decreased interest rate to the record marking. In case of commercial banks, in course of using one-year credit, percentage rate was reduced in 25 percents and its index is fluctuating from 2.5% to 5.35%.

His decision was planned by the Central Bank of China for the purpose of promoting crediting, **which is forwarding step for simulation of economy**. Such steps were not new from the side of the Central Bank of China. In the beginning of 2015 main bank made decision on reducing obligatory reserves for the commercial banks for promoting crediting in the economy and banks (I write this for the National Bank. The author's remark). This means that in the future, the banks will release money for issuance of different credits. Moreover, it shall be noted that China has changed economical priorities of the country and made decision on reviewing expenditures during last period.

I can freely refer to the quote of the Academician Avtandil Silagadze, the essence of which I share and approve entirely: "application of the Government made in connection with the privatization of state property during last period, may be considered to be one of the mechanisms of monetary stability. On the other hand, for the purpose of assisting foreign investments we shall review legislation, in order to have stimulating mechanisms in maximal extent. The work shall be guided actively in direction to the development of tourism.

Production, industry, and agriculture shall be developed. For this, we shall use local resource in maximal extent, which we have of quite great amount. As for the new state foreign debt, this step, may be made, though this money shall be used purposefully, particularly **for the purpose of national production and it will be effective only in such case**. Previous government assumed huge debt during last 4-5 years – billions of US Dollars, but they didn't use it for development of economy. Every state takes assumes dept, but they try to use it for making profit.

Georgia holds great reserve for rising state foreign debt. Share of foreign debt is purposeful to be up to 60% of Gross Domestic Product. Today share of foreign debt with GDP is maximum 40%.

Except infrastructure, **loan shall be used for real production**. During years, we were taking billions of loans and never used it in real sector, where real wealth is made and there are great reserves of employment. Consequently, I do not support rising such loans and its expenditure only for infrastructural projects. Monetary Fund didn't tell us categorically to increase taxes and not to take loan. They offered several alternatives to the government. Budget optimization, of course, is possible, but I consider it unreasonable to increase taxes under existed situation.

On the contrary, the entrepreneurs and business shall not be restricted with increasing taxes, but we shall move to greater liberalization [15].

Professor Mikheil Tokmajishvili gives similar recommendation for the purpose of stopping devaluation and strengthening exchange rate of Georgian Lari. He writes: "we cannot blame any bank in devaluation of Georgian Lari. Though, merger of several banks, may influence upon exchange rate, but this will be only single step, which will not give rise to the extended outcome… The bank cannot form crisis of exchange rate. In course of considering this problem, we shall be focused on more objective factors, such as: current situation in economy, investments, export opportunities of the country, level of their usage and etc."

As for the National Bank, it may generally freeze exchange rate, but in such case, economy is entirely stopped. Due to this, we shall make choice between following: 1. Lari shall be devaluated smoothly and not sharply, but **development of economy shall be stimulated instead** and 2. we shall stop economy and observe if Georgian Lari is stabile and be happy.

Conclusion: devaluation of Georgian Lari is not among functions and interests of the National Bank: its main objective is providing economy with funds and maintain low index of inflation [16].

Thus, let us formulate the axiom of stopping devaluation of Georgian Lari and its further appreciation: gradual growth of systemic nature of real economy, reversible nature of the process of economical growth, warranty of stability of Georgian Lari, in the first place, is recovery of economy of the Country.

IV. MAKING INVESTMENT CLIMATE MORE ATTRACTIVE TO LOCAL AND FOREIGN INVESTORS

It will be impossible to speak about improvement of economical growth if no investment boom takes place in Georgia. Under modern conditions, activation of investment policy is main condition of moving of Georgian economy to the sustainable economical development.

Today main lines of state investment policy are: **strengthening support of prior directions of economical development, creation of legal and economical environment of institutions of promoting investments in the real sector of economy.**

I consider it necessary to specify that in the process of reforming Georgian economy they considered foreign direct investments and development of banking system to be driving force for the economy. It's too pleasant that both driving levers of economy are operating well today.

Foreign direct investments build up quite clear opinion about the amount of funds to be invested in gross fixed capital of the country, how attractive the country is for investment, in which field there are opportunities for making high profit. In this regard, the dynamics and structure of foreign investments is extremely important indicator of development of the country. Moreover, under the conditions of Georgia, when there are small amount of domestic resources for development, budget resources are limited and savings of economical subjects are too small for investments. Inflow of foreign investments is not only provision with financial resources; in the first place, this is the opportunity for sharing technological achievements, which is needed by the country. Besides this, direct investments have serious potential of employment. Subject to the long-term perspectives of development, in course of forming investment climate, necessity of creating unified conditions of foreign and national investment activities shall be considered.

This is the axiom of economy, as investment activity and economical development of the country are in proportional relations. Therewith, there is proportional relation between foreign direct investments and GDP growth (Table 2).

Table №2

GDP and Foreign Direct Investments

	2007	2008	2009	2010	2011	2012	2013	2014
GDP in current prices (million US Dollars)	10172	12801	10767	11663	14439	15830	16140	16529
Foreign Direct Investment (million US Dollars)	2015	1564	569	814	1117	912	942	1758
Share of Foreign Direct Investment in GDP (%)	20	12	6	7	8	6	6	11

Source: http://www.ndg.gov.ge/index.php?m=494

After crisis, attraction of foreign direct investments remains to be main challenge of Georgian Government. Reduction of foreign direct investments in many countries gave rise to serious macroeconomic problems. After crisis, competition in attraction of foreign direct investments became worse. While the country is unable to develop own economy without assistance, foreign investments are of essential importance for economical growth of the country.

How paradoxical it may sound, main problem of Georgia is same insufficient investments. Another and very important problem is high interest rates on the loans. There is few amount of business, which is able to pay so high interest rates. These factors, of course, prevent development of the economy of the country and this is the main responsibility of the government and banking system together. The banks shall have healthy competition and they shall not agree "secretly" about high interest rates.

Here National Bank shall have its say on. Under the conditions of market conditions, the government shall create unified rules of game for every industrial subject. **In relation with banking sector, the Government is liable to have strict rules of regulation, which shall be processed, determined and monitored by banking supervision service**. It shall also be noted that main objective of management of commercial banks is making maximal profit and for this purpose, it may take on particular risks. Due to this, the government determines particular regulations to protect depositors, shareholders, investors, as well as economical stability and safety.

Another condition shall be emphasized as well – one of the most important problems of Georgian economy and reforms remains to be not only attraction of foreign investments, but direction of the mechanism of implementing investment strategy to the implementation of domestic investments of the country and new investment projects, as well as their practical use.

JSC State Investment Fund "Partnership Fund" established in 2011 plays great role in implementation of large investments in Georgia today. It shall be noted that the Fund has been awarded rating BB- of international rating agency Fitch, which equals to the credit rating of Georgia. Partnership Fund was created on the basis of consolidation of large governmental enterprises existed in the field of transport, energy and infrastructure. Main purpose of the Fund is promotion of investments in Georgia through participation at the initial stage of development of investment projects (co-investment in capital, subordinated loan and etc).

And generally, solving tasks of investment development of the country, for inflow of investments and partially stability of exchange rate of Georgian Lari is impossible on the basis of only such market, which is distinguished in low level of formation in our economy. **Strengthening role of government, correction of economical policy, and seeking for optimal conformity of market regulations is required. Therewith, borders and principles of state participation in the investment process shall be determined, taking into account specificity of economical development of Georgia, which characterizes the period of transferring to the market.**

V. MONETARY AND FISCAL POLICY TOGETHER SHALL SERVE RECOVERY OF GEORGIAN LARI

We shall leave the trend of mutual-blaming established in Georgia:

I have read somewhere, **Georgian Lari is not market product, it is the product of central bank, consequently, it depends entirely upon the National Bank to stabilize or devaluate it**. Cases related with Georgian Lari have always been political decision. Moreover, in 2002, 2004 and 2007 every act related with Georgian Lari was always implemented in connection with the political requirements.

I do not categorically agree with the said thesis.

in the first place, the problem of devaluation of national currency is general problem, thus, everybody bears liability and responsible for the faith of Georgian Lari and relatively, upon the faith of people and country. It is the duty of everybody including government, national bank, legislative authorities to plan correctly structural and functional obligations; it is extremely important to have the system of state monitoring of entire banking system, National Bank, Supervisory Service ("deprived" or "seized"), even the parliament. The Parliament is main conditioning body of financial-budgetary policy in the country and it is its obligation to have particular supervision over these structures. The Parliament is responsible for the financial monitoring [11].

Another important thesis, or axiom, and I have already written about it, is a very popular opinion existed in Georgia, regarding the fact that the Government shall not be involved into the activities of the industrial subject. Though, they often mix up **intervention and prescribing necessary regulations**. This opinion is shared by T. Basilia. He writes: "at the same time, under the conditions of market economy, the government shall create unified rule of game for every industrial subject, to protect competition, security and etc. in relation with banking sector, the **government is liable to have strict rules of regulation**, processing, setting and monitoring of which is the competence of banking supervision. Independence of banking sector shall not be untouchable. Moreover, there is not untouchable sector at any democratic country – **everybody is equal against law. The government determined rules of game, which shall be protected by everybody, including banking sector**. For example, several months ago, US Government brought charges to the management of five largest banks for criminal offence – Citigroup, JPMorgan Chase, Barclays and Royal Bank of Scotland and fined them with 5.6 billion US Dollars for manipulation with the exchange rate of currency. In Georgia, devaluation of Georgian Lari took place several months ago and nobody learnt real reason for that. I emphasize that the government **shall not intervene** with the activities of banking sector. This is not the government's business – the government **shall look into** the banking sector. These are different concepts.

The government shall use the banking supervision service in this process and make its work more scoring. It is actual that there are problems at the banking sector of Georgia, and the Government is liable to learn it in timely manner and take respective steps, in order to avoid serious cataclysms" [3].

It shall also be noted that we will not be able to use fiscal policy pursued by the government. I emphasize again that budgetary expenditures influenced greatly upon devaluation of Georgian Lari.

Amount (mass) of Georgian Lari existed in the country significantly influenced upon exchange rate of Georgian Lari, as the exchange rate is being formed with correlation of the masses of US Dollars and Georgian Laris. If the rate of growth of the mass of Georgian Lari is much more than the rate of growth of inflow of US Dollars, exchange rate of Georgian Lari is devaluated. One of the sources of increasing mass of Lari is deficit expenses of sums from budget; i.e. when the government spends more funds, than it receives from the economy in the form of budgetary incomes in same period.

In December of 2014 incomes of state budget (including selling of non-financial assets) made 846 million Georgian Laris. This is the sum received by the government from the economy in December, as for the expenditures of state budget (including purchasing non-financial assets) made 1 110 million Georgian Laris. This is the volume of Lari "launched" by the Government into the economy in December.

As you can see, in December, 2014 there were expenses more in 264 (1 110-846) million Georgian Laris from the state budget, than incomes to the budget.

In December National Bank increased loan of refinancing in 200 million Georgian Laris. This is one-week loan, which is given by the National Bank to the commercial banks for provision of short-term liquidity.

As we have mentioned above, strengthening of the exchange rate of the national currency is supported with high rate of economical growth, as demand is being increased on the national currency. Herewith, it is important, that **economical growth shall be based on the growth of investments and not fiscal and monetary stimulation**, such as deficit expenditures from the budget and increasing mass of Georgian Lari existed in circulation. Rate of average economical growth in Georgia in November-December of 2015 well to 0.7%; and deficit spending of Lari from budget and increasing loans of refinancing became stimulation of economy.

Since January, 2015, existed factors of devaluation of exchange rate of Georgian Lari (**decreased flows of US Dollars, falling rate of economical growth, global appreciation of US Dollar**) was added with the volume of increased Lari, in which, main bit is made by the deficit spending of the state budget. The Government didn't fulfill condition announced in the statement of the President of the National Bank made in December 5, according to which, deficit spending of budget would not be implemented. Consequently, official rate of Georgian Lari for January 28, 2015 made 2.06 against US Dollars [13].

Today, we dream of this value: exchange rate of Georgian Lari as of September of 2015 made 2.44. This is extremely hard to the Country.

Thus, incorrect planning of budget, its asymmetric and asynchronic nature in the part of incomes and, especially, expenditures, give rise to periodical influx of cash mass into the economy, influencing upon inflation. Political risks and challenges faced by the government, and it is responsibility of the latest if not avoidance, than reduction of them. The field of responsibility of the government is industrial, business and industrial environment. Incorrect, irrational and extended bureaucratic expenditures, funding projects of doubtful public value, access regulation of business activities, nepotism – this is incomplete list of the factors, preventing business development, consequently, growth of export potential and interest of foreign investors in Georgian economy. All these damage greatly stability of Georgian Lari, appreciating risk-factors of decreasing its rate [2].

Neither monetary fund, nor – economical experts refuse that the source of the problem related with Georgian Lari is conditioned basically with the external shock, though, another case is, **how effectively we use the instruments existed for short-term and long-term period inside National Bank of the Country.**

Short-term instruments are monetary instrument, owned by the National Bank and used less effectively. For example, according to the expert L. Kalandadze, there are particular currency shocks, localization and prevention of which may be provided with monetary instruments (they have the function of removing panic and shock effects) [11].

L. Qistauri too supports the regulation of exchange rate of Georgian Lari with monetary instruments. He notes that reason for falling of the exchange rate is absence of US Dollars at the market. Consequently, they shall increase mass of US Dollar, or reduce Lari in circulation. There are no instruments for instant growth of Dollar mass. This is the problem of strategic work of the government. On the other hand, National Bank shall use promissory notes together with the instruments of reducing exchange rate of Lari named above (loans of refinancing, depository certificates and etc.) [14].

At the same time, we shall not diminish role and "merit" of the National Bank in devaluation of Georgian Lari. Generally, National Bank assumes direct institutional (and its management – personal) **responsibility** for inflation and not exchange rate of the Currency. At the same time, it is able not only to regulate amount of money mass in circulation, but influence essentially upon the price of credit resources, "implement" or strictly regulate opportunities of financial speculations, take measures in connection with formation of unhealthy resonance in public, by launching/removing additional monetary reserves into/from circulation. **Its acts may be justified only in the context of providing planned index of inflation – legislative casualties and the attempt of removing responsibility for monetary and financial stability faced by the countries for the National Bank.** National Bank is actually always facing dilemma: to increase monetary rate, reducing money mass in circulation in several times, or to "care" for raising (about 20 percents) the level of extremely low level of monetizing of Gross Domestic Product and for this purpose to issue additional money mass into the circulation. Though, reduction of money mass truly suppresses inflation, preventing its "imprudence", it includes industrial danger, as well as that of business activity and rates of economical growth, money, expensing credit resources, and finally monetary anemia of the economy (money starvation). Due to this, **if policy of the national Bank directs sectorial interest only to one aspect of macroeconomic stability – low inflation** (and not the strategy of economical growth – formally, this is the responsibility of the executive government…), **we receive "tamed" inflation and low rates of economy** [2].

It is extremely difficult to hear and accept the blames announced regarding National Bank of Georgia, but I considered it necessary to make several blames published by Georgian economists.

"Delays in national production, devaluation of incomes of producers and consumers, unbearable hardening of credit load, delays in economical growth, increasing deficits – this is incomplete list of the outcomes, following non-consideration of the recommendations of Monetary Fund and it will be followed in the future, if existed reality is not changed" [5].

According to the President of the Association of Young Financials and Businessmen, notwithstanding recommendations and demands of the Monetary Fund, National Bank of Georgia did not form the mode of counter-cyclical capital buffers for the banking system. Besides this, it has not activated loan-to-value adequacy principle and payment-to income parity principle for the borrowers. Consequently, hard situation is created in the banking sector. Particularly, according to the requirements of National Bank of Georgia, commercial banks, being managed with the existed mechanism of calculating risks, cannot evaluate national production adequately.

Besides this, according to Mr. Chichinadze, **subject to the regulations of the National Bank of Georgia and against requirements of the Monetary Funds, crediting of uncovered requirements takes place, for example, issuing loan in US Dollar to the consumers, who have incomes in Georgian Lari. Transferring currency risks to the consumers are provided respectively.**

This problem was clearly seen after currency fluctuations of last period, when many citizens faced significantly increased loan obligations. This outcome was made by non-consideration of recommendations of the Monetary Fund by the National Bank.

"Instead of the fact that National Bank was limited in issuing uncovered loans, i.e. issuing loans in foreign currency to the persons, having income in Georgian Lari, its policy transferred currency risks entirely to the borrowers, who are not often aware in financial issues. National Bank in fact sacrificed such citizens and made them appear under hard currency risk, which was originated in November of last year and the citizens are paying loans becoming expensive in 30-35%.

Though, according to the report of the Monetary Fund, monetary policy of the national Bank is evaluated positively, notices and critics touch upon prudent management. Therewith, according to the Monetary Fund, current adopted practice of monetary policy makes positive outcome only under the conditions of stable exchange rate, which doesn't touch upon today state of Georgian Lari. Consequently, current policy of excess supply of Georgian Lari is necessary to be reviewed, as this makes state of Lari harder", - writes Nodar Chichinadze [6].

Young financial consider National Bank of Georgia not to foresee other requirements of the Monetary Funds, particularly:

- Notwithstanding promise to the Monetary Fund, National Bank of Georgia has not created the Board of Financial Stability, which shall form prudent regulation.
- Since 2012, National Bank has not published report of financial stability, which should be published on annual basis according to the international standards as required by the Fund [6].

In conclusion we shall note that existed policy of the National Bank support increasing of consumer loans and, relatively, strengthening load of deficits, on the other side, existed system of risk management prevent increasing of activities in the industrial sector of banking institutions.

VI. SUMMERIZING OPINIONS IN THE FORM OF TEN AXIOMS

In the beginning of the Manuscript, I have said in the form of simply asked question: main thing to me is to answer the question: how can we save Lari, economy, country… what shall we do?

Before summarizing opinions of the economists given herein and my ideas, I will formulate modest suggestions and recommendations, answering my main question. I'd like to refer to the words of the professor I. Archvadze: "entre nous, the greatest part of population does not care how and what proportion executive government and national bank share responsibility for inflation, exchange rate of Lari and volume and dynamics of domestic and foreign debts. – **They want to leave in calm and stabile environment, to have guaranteed job and progressing wealth**. This is a simple task at one glance, though still unachieved by the most part of the population of the country, as at the beginning of independence of Georgia, in the beginning of 1990s [2].

I agree with the first sentence of the professor. I will try to fade pessimistic background of the second suggestion of the Author with my modest conclusions and suggestions; I will allow myself to try to give answers to the simply asked, but the most difficult questions, formulating reasons for revaluation of the monetary unit and introduce you to my axioms of healing and strengthening monetary unit of the country.

Georgian economy and Georgian monetary unit are to act under complex global and regional environment. Under the international globalization relation of reproduction process with such foreign factors as international trade, expert-import operations and real sector development is being strengthened, as well as foreign capital turnover, political stability and etc.

Unstable state of international relations and currency crisis may influence negatively upon economies of the country.

This is what has taken place in Georgia. Concussion and, moreover, canceling genesis of stability of Georgian monetary unit was influenced by almost every factor of fluctuation and drop in the exchange rate of the currency. Subject to this, economical policy and especially, necessity of transformation of monetary-credit currency policy becomes important [12].

It is of special importance to have economical growth, as well as wide scales of development of real sector. Only 0.03 percents of global economy and 0.06 percents of the global population come on Georgia. In other words, Gross Domestic Product manufactured in Georgia is twice less per capita then averagely in the world. With the rate of economical growth of Georgia formed during recent years (2012-2015 – 4.6%), our country will not reach the level of Bulgaria with GDP produced per capital.

Thus, Axiom 1. The problem of accelerating economical growth is of existent load and it is depended not only with the role and weight of Georgian state globally, but also its stability against domestic and external challenges, the level and dynamics of wealth of citizens and stability and, generally, existence of Georgian monetary unit.

Panic formed at the international markets and Georgian Lari. Circumstances taking place in the years 2014-2015, at the global and regional levels, made Georgian economy face challenges, as small and open economy of Georgia is quite vulnerable against foreign shocks. These phenomenons created background of the strong foreign shock, reflected negatively upon economy of the country from the point of reduction of inflow of foreign incomes.

Here, I'd like to emphasize situations created at the international markets, which was finally followed with the destruction of the exchange indexes at the leading international stock exchanges, reflecting on the monetary market of Georgia. The resonance, taking place at the monetary market of Georgia, is mostly conditioned with the panic created at the monetary market. Demand on US Dollar has been significantly increased in Georgia, giving rise to the drop in Georgian Lari. To our mind, this is extremely negative trend. Though such resonance is short-term and this process will be completed in short period in Georgia, the resonance means the peak and we shall expect signs of stability in the close period.

I will give details about phenomenon taking place at the global financial market.

- During recent years, very interesting trends are reflected in the global economy. This is related with the extraordinary growth of Chinese economy, spoke by the international monetary fund in 2014, when it was the first to fix that production of the National Economy in China in one year made 17.6 trillion US Dollars and almost overcome US index. Though part of experts calm themselves with the fact that this growth was provided with one nominal, according to the GDP, and USA is the leader subject to the nominal GDP. This, of course, was new trend of development of global economy and gave particular reflection in the development of regional economies.

We shall assume that during last period, when growth of global economy was conditioned by unbelievable growth rate of Chinese economy, this would be naturally followed by particular changes, including unforeseeable and also crisis separate regions. This is the context we must consider the reality and datum formed during recent period, which, in the first place, is related with appreciation of US Dollar in relation with all other principle converted currencies and, on the other hand, in global drop in prices on oil, which is the result of geopolitical changes, coming into particular dissonance with the trends of development of global economy. At the same time, China is identified to be one of the partners of the western system and at the same time its competitor. Result to this is the changes, taking place at the international arena and echo of which is heard in the regions again. With this point of view, example of the so-called Black Monday at the stock exchange of China is the clearest example, when significant drop in indexes took place. **Naturally, this influences upon our country as well,** though lightly, as degree of integration of our economy **in the global economy is so low that it cannot have any serious or essential influence upon trends taking place economy of Georgia.**

Axiom 2. Notwithstanding above, it is necessary to understand sustainability of Georgian economy in connection with any expected economical threats faced by the country;

Cheapening oil. In course of speaking about reasons for devaluation of Georgian Lari, we shall foresee global and regional environment Georgian economy is being operating in. Out of the external shocks influencing it we shall emphasize sharp reduction of oil price. As importer of oil, Georgia finds direct benefit from low price of oil, as money wasted in business is reduced, though this benefit is covered with the influence of hard recession and strong devaluation of Russian currency upon the region. Sharp drop in oil prices turned into the heavy load to the oil-producing countries in the region, such as Azerbaijan and Kazakhstan. This gave rise to the reduction of money entered with export in about 20-25%.

Oil prices continue cheapening at the global market. During last one month (July of 2015), oil price was reduced in 23.3%. One of the main reasons for such reduction in prices is complete removal of economical sanctions to Iran. According to the Minister of Oil of Iran Mr. Bijan Namdar Zanganes, Iran intends increasing in oil production, even if this takes place at the expense of dropping price. US position coincides to that of Iran. According to the US Institute of Oil, United States of America under such conditions doesn't think of reducing production, moreover, production has been increased in two million barrels during last weeks.

Notwithstanding the fact that there is more trend of reduction at the global market, the processes taking place globally is not reflected at the market of Georgian fuel. If during last one month price has been dropped in 23.3% in the world, none of the companies has reduced prices in Georgia, except Gulf, which reduced prices in 5 Tetris only on diesel. As appealing with the exchange rate of the National Currency, in such case oil companies will not get use of it, as national currency will be stabilized (but at the high marking of devaluation). According to the latest data, reduction in prices at the global market is more than 23%; as for Georgian market, these prices are not being changed there".

Axiom 3. For overcoming cardinal changes, financial and currency cataclysms, and social-economical risks provided with globalization worldwide with extremely low loss, it is necessary to process long-term state programs, where there will be creation of increasing economy. Every expected financial risk of financial outcomes (i.e. cheapening oil, appreciation of US Dollar and etc.), macro-economic environment of the country, banking sector and circumstances taking place in it, their strategy and management, global standards of development and, of course, generally future perspectives will be analyzed.

Appreciation of US Dollar positions. In the first part of 2014 and 2015, parallel to the positive economical trends and expectations in the USA, US Dollar started appreciation. This was accompanied with announcement of decisions of US Federal Reserve System about leaving the policy of quantitative easing and strengthening monetary policy, which appreciated positions of US Dollar.

Consequently, most part of monetary units of the world faced important devaluation. Strengthening US Dollar is important to Georgia from the point that in three main trading partner countries of Georgia (Turkey, Russia, Ukraine) significant devaluation of local currencies against US dollar took place; therewith, their economical trends were pressured. It is not new that Georgian economy greatly depends on the degree of stability of economy of neighboring countries. 52% of imported goods to Georgia come on 52% of CIS states. Under such conditions we bring economical instability, inflation and devaluated currency from the trading countries.

Thus, main place in the risks of prognosis for Gross Domestic Products is occupied by the foreign sector. Particularly, at the background of the geopolitical tension, if economical crisis becomes deeper than expected, at trade partner countries of the region or/and if the said shock is transferred to Georgia for more than expected, economical growth will be reduced compared to the prognosis. On the other hand, if agreement of free trading with Europe and large investment projects is reflected on the economical growth in more extent than expected, or business sentiment is improved more than expected, GDP growth will be higher than prognosis.

Axiom 4. If more money is getting out of the country than it enters, this gives rise to economical fluctuations. Georgia shall gradually get out of dollarization system, but many people think it to be better if mass of US Dollar is reduced in the country. Today, we have ugly financial forms from financial point of view: for example, settlement, tax collection, and issuance of salary is provided in Georgian Lari, but when it comes to savings, we prefer US Dollars. Due to the fact that our life is related with US Dollar, its sharp reduction influences negatively upon exchange rate of Georgian Lari. According to the experts, getting out of dollarization may be provided only with particular financial balance and moreover with development of local production.

Low level of localization of economy. Since 2010 National Bank has been being actively working in direction to the growth of effectiveness of monetary policy, main preventing factor is low level of localization of economy of Georgia. Under the condition of high dollarization the mechanism of transferring interest rate is weakened, as important part of supplying money to economy is provided in foreign currency, on which interest rates are determined by central banks of other countries in compliance with economical cycles existed at their countries and it goes beyond the field of control of the National Bank. Under the conditions of low localization, changing exchange rate is more transferred to the inflation, preventing flexibility of exchange rate. Besides this, in course of low Larization risk of exchange rate is important for economical agents unsafe from fluctuation of the rate, especially to the borrowers of banks, whose incomes are denominated in national currency, and loan is taken in foreign currency. In such case credit risk of portfolio of commercial banks is increased, which is conditioned with the misbalance of the creditors' currencies, i.e. currency induced credit risk. Consequently, change in exchange rate of Georgian Lari against US Dollar may influence seriously upon credit portfolio of commercial banks.

Axiom 5. One of the objectives of the National Bank is increasing Larization. Though, it's noteworthy that Larization continuous process, as changing behavior of economic agent requires existence of developed financial market and sustainable economical stability during years.

Export of the country. Deficit of current account. Economical and political developments gave reflection in export processes of Georgia. Incomes made from the export implemented in direction to the main export markets, in fact, were reduced to the historical minimum. Current account deficit in the first part of 2015 was increased to 14.9% and the worsening was mostly conditioned with 27.7% reduction in export of goods. Sharp pace of export reduction started in the fourth quarter of 2014. Together with the export, money transfers (27.3%) and incomes made from tourism were reduced as well (2.9%). In it turn, annual growth of import, which was positive in the fourth quarter of last year, became negative in the first quarter of current year and made 3.3%. It is also noteworthy that the rate of import reduction is being increased during last periods, which speaks of activation of the process of import correction of the reduced monetary incomes and supports macroeconomic stability. I considered it to be purposeful to refer to the review of the Prime Minister of the Country: "nothing special is taking place in Georgia; on the contrary, we have overcome this stage. More than 300 million US Dollars have left the country; misbalance between export-import is eliminated as well and we have no fundamental problems at current stage" [8].

Axiom 6. We consider assistance of export to be urgent objective, as well as development of local production. Strengthening growth of Lari production or devaluation with reduction of production is real image reflecting state of Georgian economy. I consider it to be positive decision to have replacing products at the local market. This will influence positively upon exchange rate of Georgian Lari, as we will not need additional US Dollar for purchasing imported products. Moreover, it is not difficult to use weak national currency for using local production.

The factor of foreign debt is extremely noteworthy, for evaluation of national monetary unit and in this particular case – Georgian Lari. It is not a secret, that starting from 2008 during following 4 years National Currency greatly depended on the foreign debt and not real state of economy. If we add to this growth of the volume of foreign debt of the country, it appears that stability of National Currency through 2012 partially depended on the foreign debt and not real state of economy. Since 2013, Georgia stopped taking of new debts. This was a kind of shock, as we were accustomed when we had less US Dollars, we used to take loan and everything was regulated; we held Lari firmly in hands. Today this factor is removed and exchange rate of Georgian Lari has "run away". I'd better say that exchange rate of Georgian Lari was released from artificial brakes.

Though, taking foreign debt is provided in slow pace. State budget takes foreign debt and grants of more volume than it pays foreign debt and respectfully, due to devaluation of exchange rate, by means of converting much more funds are entering than leaving the budget.

Axiom 7. It is necessary, imminent and possible to raise dominated foreign debt in foreign currency from the international financial organizations, governments of foreign countries and institutions of commercial projection by Georgia. Main thing is to determine number of foreign capital, which may be mastered by the country, the amount of debt to be served by the government of provided country, if respective criteria of the parameters of foreign debt are protected and the main foreign dept should be used purposefully and effectively.

Investments make one of the main terms of moving to the sustainable development of Georgian economy. It is not only necessary to attract foreign investments, the most important thing is to direct the mechanism of implementing investment strategy towards internal investment of the country and new investment projects, as well as their practical use.

They will blame me to be maximalist for these words, but I will write it anyway: at the background of financial crisis existed in Georgia, I consider investments to be if not the only, but one of the main drivers for economical growth, economical strength, or even economical survival and solving financial or social problems of the country. The facts that there is small amount of domestic resource base for economical development, limited budgetary resources and small savings of economical subjects for investments in Georgia make me say these words.

Generally, playing important role in solving objectives of investment development of the country, for inflow of investments into the country and respectively strengthening rate of Georgian Lari is impossible with self-regulation of such market, which is distinguished in low level of formation in our economy. We consider it necessary to strengthen role of government, correction of economical policy, and searching for optimal conformity of governmental and basic regulations. Therewith, limits and principles of participation of government in the investment process shall be determined, based on the specificity of economical development of Georgia characterizing the period of transferring to the market.

For helping Georgian Lari the Government adopted and implements the plan of realization in accelerated mode of privatization objects. Therewith, investment of record volume entered the country last year compared to the last seven years. Even under these conditions Georgian Lari continued devaluation. Both forwarded steps are the attempts of solving problem in the short-term perspective. It is impossible to let such a huge flow of investments from privatization and foreign investors, which may stop fall of Georgian Lari.

Axiom 8. Activation of investment policy of the government under modern conditions is main term for transferring Georgia to sustainable economical development. It will be impossible to speak about improvement of the index of economical growth without important investment boom in Georgia. Sharp amplitude of fluctuation of Georgian Lari will be balanced only when each Tetri from privatization and millions of investments entering Georgia is used in almost stopped real sector, used for material production and development of agriculture; as a result, people will be employed, they will have incomes, local products will manufactured, we will not leave with import, we will sell ours and inflow of cash funds will be started from export.

Increasing role of banking sector in formation of economy and image of the country. When there is global trend of increasing rate of Georgian Lari and when currencies of every main trade partner of Georgia is being falling against US Dollar, Georgian Lari would not be left in initial condition. I say this to create opinion about monetary policy of the national Bank.

By the way, I do not agree with such sharp separation, but they distinguish two principle regulators of Georgian economy: monetary-credit policy – is the prerogative of national bank; as for the monetary provision, it is borne by the governmental structures.

Monetary policy of National Bank influences upon distribution of credits in the economy (though I can say nothing negative about issuing credit); main objective of the National Bank is provision of stability of prices. At the same time, National Bank shall provide stability and transparency of financial system and assist sustainable economical growth in the country in the way preventing performance of its principle objective. Another thing is that in course of determining monetary policy, National Bank is based on the targeting of inflation. Successful functioning of targeting mode of inflation (activated in 2009 in Georgia) includes particular terms and conditions.

Special importance in the process of formulating decisions of monetary policy is granted to the forward looking inflation, as changing instruments of monetary policy by the National Bank is transferred to the economy with particular time sequence and it influences upon future inflation. Long-term targeted index of inflation of the national Bank makes 3 percents. Thus, striving of the National Bank towards established norm of inflation shall be considered to be justified.

The factor preventing growth of effectiveness of monetary policy of National Bank is low level of Larization in Georgia. Though during the year 2014 growth of Larization index of deposits and loans was stipulated, due to uncertain nature of the exchange rate of Georgian Lari this growth was modest. In case of the deposits, Larization index was improved in 1.7 percents and made 39.8 percents; in case of loans it was increased in 3.3 percents up to 39.2 percents (excluding effect of changing exchange rate).

The mode of floating exchange rate is working in Georgia, which is considered to be the most optimal regime of exchange rate for the open economies of such small size, as Georgia's. For such economies, **floating exchange rate fulfills function absorbing shocks**. In such case, changing exchange rate weakens negative influence of the said shock upon real economy – economical growth and inflation.

Herewith, existence of exchange rate conditioned with the mode of targeting is determined with the strategy of monetary policy of the National Bank of Georgia. Under the conditions of floating exchange rate, determining exchange rate takes place according to the demand-distribution existed at the monetary market, which, in its turn, is influenced by the fundamental economical factors and temporary phenomenon. Under the said mode, currency market is characterized with short-term fluctuations. **Such fluctuations are bigger in the counties of similar small and open economies of high dollarization**, related with small volume of currency market and unstable flows of capital. Monetary policy of the National Bank foresees intervention through currency auctions at the currency market only under particular conditions: if temporary inflow of excess capital takes place, giving rise to sharp short-term fluctuation of the exchange rate for filling international reserves and balancing state foreign operations,

Today, for some reasons, everybody, who knows much, or who knows little or knows nothing about these issues, consider every mechanism of monetary policy (targeting, floating exchange rate, enclosing negative index of inflation with the purposeful one, loans of refinancing, depository certificates of national bank, treasury obligations of government or loan bonds) in the negative context of the activities of the National Bank. Moreover, anti-deflation policy of the National Bank to be the policy supporting of fall of exchange rate of Georgian Lari.

Axiom 9. Fluctuation of exchange rate of Georgian Lari shall be, in the first place, purposeful, with market mechanisms, and on the other hand – it shall be implemented for avoidance of important losses. In the first place, it is necessary to neutralize inflation expectations, negative expectations. Here, coordinated work of the government and national bank is necessary.

Once again about budget. It is extremely important to maintain the trend of equal spending. It is extremely important to maintain equal spending trend of budget. Budget was being spent unequally for almost decades in Georgia; this happened in the second quarter of 2014. Worsening deficit of current account pressured Georgian Lari and it played important role on devaluation of Georgian Lari.

We shall allocate positive side as well: in 2015 budget of the country is already being equally wasted. The Ministry of Finance is trying to accumulate balance. At this stage, the Ministry of Finance has accumulated more than 800 million Georgian Laris, which is serious factor supporting exchange rate. Probably, this index will be increased up to 1 billion, which will also influence positively upon exchange rate of Georgian Lari.

Axiom 10. Extremely important influence of budgetary expenditures upon devaluation of Georgian Lari. Disciplined management of budgetary expenditures and their equal distribution till the end of the year, also to cut current expenditures in maximal extent and to have basic orientation towards real economy and creation of infrastructure in the country.Brief Conclusion

VII. BRIEF CONCLUSION

National Bank and executive government shall work synchronically. Two main issues shall be decided in formalized, accelerated way: together with strengthening monetary policy, National Bank shall provide measured currency interventions; executive government shall attract and develop first tranches of grants and credits foreseen in the budget of 2015 in maximally timely manner. Implementation of monetary and fiscal policies shall be implemented in **unison**, in order to make successive steps as by the Ministry of Finance, so National Bank and thus to assist avoidance of stability and inflation within short term period;

- Main thing is diagnosis, to be made by the government. It shall have accurate uptake of the task and in such case decisions may be respective. Ministry of Economy, National Bank, Ministry of Finance and respective agencies shall work together to the direction guarantying irreversible process; everything shall be made to recover currency inflow, **to have high economical growth, expressed in the growth of real incomes.**

➢ Improvement, development of mechanism of export promotion shall be implemented within shortest terms;

➢ Activities shall be pursued at the target markets – this, in the first place is monitoring of portfolio existed in direction of infrastructure and, on the other hand, planning scheduled projects, in order to implement additional projects, and promote economy.

➢ Every hasty adopted restriction shall be cancelled;

➢ We shall **wait** to see how the budget is fulfilled and how newly formed negative factors in currency inflow are eliminated:

- Drop in export;
- Reducing incomes from tourism;
- Reduction in railway and other transportations;
- Reduction in transfers;
- Increasing outflow of money abroad.

➢ Cycle of reforms shall be processed ad concluded, stimulating and creating mechanisms and preconditions for attraction of long-term investments, Georgian Lari will not simply stand such incompetence.

➢ Changes shall be started from the Tax Code and they shall be completed with the mechanisms, which are approved in the developed countries.

➢ Inflation control shall be provided at the expense of economical growth, when it maintains artificial prices – deficit and price of production is not changed. Shall not an entrepreneur have motivation for working?

➢ Government intended stabilization of situation from the sums accepted from monetary fund, there is logic – entering currency in cash would partially improve balance of demand-delivery at the currency markets and later would prevent or alleviate devaluation. Though, this is single event and such process would not have been stopped. Simply today problems would "shifted" until full spending of borrowed or gifted money,

➢ It is necessary to increase income in maximal extent, which is direct responsibility of the government, will not increase export potential of the country (how can we do it? L.Q.), but work may be provided to the mechanism of **promoting** export.

➢ Inflation expectation may be worse than the inflation itself, because inflation expectation is excess load and pressure on Georgian Lari. In such case, notwithstanding the fact if the bank client needs currency or not, he keeps purchasing it for some reason and this gives rise to the negative results.

➢ For the purpose of maintaining purposeful index of inflation during middle-term period, National Bank of Georgia shall activate instruments of monetary policy in 2015-2017: refinancing loans, depository certificates, operations with governmental securities, currency interventions, standing instruments, minimal reserve requirements and etc.

➢ Currency conduct of large trade-partner states of Georgia shall be learnt and parallels shall be made in relation with Georgian Lari, of course, for the purpose of pursuing correct monetary policy.

➢ We shall set essential task to increase export, we can even make use of weakness of the National currency in some case and replace import with **local production**. Otherwise, we shall continue living in virtual realizty, take new debts and etc.

➢ To do everything for recovering currency inflow, have high economical growth, which, of course, is expressed in growth of incomes.

Unfortunately, there is no other receipt for Georgia.

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რეზიუმე

შრომა ორიგინალური ხასიათის კვლევააა, რომელიც ეძღვნება ქართული ფულადი ერთეულის აქტუალურ თეორიულ და პრაქტიკულ საკითხებს. დღეს საქართველოში, ისე როგორც არასოდეს, აუცილებელი გახდა ქვეყნის ეკონომიკაში მიმდინარე ძირეული ცვლილებების შესწავლა, ქართული ლარის კურსის მკვეთრი ვარდნის გამომწვევი ობიექტური და სუბიექტური მიზეზების გამოვლენა და მათი აღმოფხვრა, ქვეყანაში ფულის მიმოქცევაში შექმნილი ექსტრემალური სიტუაციის შეჩერება და მოსალოდნელი ინფლაციის თავიდან აცილება, ეროვნული ვალუტის გადარჩენის უტყუარი საშუალებებისა და გზების შემუშავება.