

IMPORTANCE OF FISCAL AND MONETARY POLICY OF THE COUNTRY'S ECONOMIC DEVELOPMENT

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Abstract. After the collapse of the Soviet Union and gaining independence, Georgia, as a transition economy country, faced many problems in the process of transition to a market economy, which required quick solutions and radical reforms. At such a time, it was necessary from the side of the state, on the one hand, to promote business activities and on the other hand, to implement economically necessary state regulation using such tools as fiscal and monetary policy.

In the modern world, the economic development of the country significantly depends on the fiscal and monetary policy, because in the conditions of the market economy, despite many other factors, its influence on the interest rate and aggregate demand is great. This is confirmed by Keynes' theory of liquidity preference, according to which the interest rate can balance the supply of money and the demand for money. At the same time, fiscal policy is a lever in the hands of the government that can influence the aggregate demand for goods and services in the short term.

The country went through a difficult, but more or less successful process of reforms, which adjusted the country's budgetary - tax and monetary credit systems. The mutual influence of these two regulation systems on each other is so great that their incorrect use may be harmful and hinder the economic development of the country.

The corona pandemic raging in the world in 2020-2021 showed us even more the role and importance of fiscal and monetary policy in the process of overcoming the economic crisis. Therefore, the purpose of the article is to analyze how important the mutual coordination of fiscal and monetary policies is for the positive management of macroeconomic processes, ensuring price stability and the economic development of the country.

Keywords: *Independent Georgia, monetary policy, fiscal policy, payment system, state budget, macroeconomics.*

Establishing an economic system based on a market economy in the first years of independence was very difficult for our country. Civil strife, hostilities in Abkhazia and South Ossetia, energy and transport blockades, an extremely tense criminal environment, loss of old traditional ties and suppliers, high labor migration, which contributed to unprecedented economic recession, hyperinflation and catastrophic unemployment. The current situation required the implementation of quick decisions and radical reforms in the country, as well as the abolition or minimization of various types of regulatory systems.

In this regard, the reforms implemented in the tax and budget system are worth noting. On January 1, 2004, the Law “On the Budgetary System of Georgia” entered into force, according to which significant changes were made in the country's budgetary regulation. According to the new tax code, thirteen general state taxes were reduced to five, and one of the six local taxes remained. Tax liberalization also took place on January 1, 2017, with the country moving to the “Estonian model” of the tax system, which means that reinvested profits by companies are exempt from taxation, allowing the private sector to use their profits for new investments and creating additional jobs.

The economic and financial crisis that developed in the world in the 21st century, as well as the coronavirus pandemic (COVID-19), revealed the increased importance of fiscal and monetary policy, as the country overcomes the economic crisis, creates jobs and produces, the improvement of macroeconomic indicators depends on fiscal and monetary incentives.

In the long term, through fiscal policy, the government can influence economic growth, and in the short term, by changing government purchases and tax rates, the combined demand for goods and services can influence supply.

If the fiscal policy carried out by the government is aimed at reducing the aggregate demand, which in itself reduces the production of goods and employment, the central bank can balance it by conducting an expansionary monetary policy, that is, by increasing the money supply, which will leave the aggregate demand for goods and consumption unchanged, and promote economic growth. Therefore, mutual coordination of fiscal and monetary policy is important for positive management of macroeconomic processes.

In the conditions of world economic globalization, price stability, low inflation, effective use of existing production resources and capital depends on the development and implementation of such fiscal and monetary-credit policy, which takes into account both the

socio-economic situation inside the country, as well as the situation outside the country, in the world economy, and Adherent processes.

On July 1, 2011, the Parliament of Georgia adopted the Organic Law “On Economic Freedom”, which came into effect on December 31, 2013. With the Constitution of Georgia and this law, the citizens of Georgia establish the guarantees of economic rights and freedoms of present and future generations. Amendments were made to the said law in December 2018 and entered into force on January 1, 2019. In order to ensure fiscal discipline and efficient management of public finances, three fiscal rules apply in Georgia:

1. The ratio of the state's unified budget deficit to GDP, defined by the Budget Code of Georgia - no more than 3%;
2. Government debt to GDP ratio - no more than 60%;
3. From the date of entry into force of the said organic law, introducing a new type of general state tax, except for excise, or increasing the upper limit of the existing rate according to the type of general state tax, except for excise, is possible only through a referendum.

In the modern world, it is more and more difficult to carry out such monetary and fiscal policy, which will prevent the country from short-term economic fluctuations, because it is impossible to accurately predict the state of the economy, therefore, in many cases, the reaction is done to the already occurring economic changes.

Fiscal or financial-budgetary policy, which is used to stabilize the economy - these are changes made by the government in public spending and taxes to ensure full employment and non-inflationary national product production. If the increase in aggregate demand exceeds the increase in production potential, inflation occurs. Otherwise, we are dealing with incomplete employment. Therefore, one of the important tasks of the government's financial policy is to stabilize the economy, which means minimizing cycles.

Studies and observations show that most changes in fiscal policy that have positive economic effects in the short run have negative effects on production and output in the long run. However, an increase in government spending and a reduction in the tax rate, which in the short term increases demand, output, and tax revenues, will be acceptable if this change also positively affects the long-term development of the economy and neutralizes the negative effects of the increase in public debt, as well as contributes to savings and increasing the capital stock. In short, the fiscal policy should take into account the developed situation in the economy, the business cycle.

There are two main types of fiscal policy: discrete and non-discrete fiscal policy. Discrete fiscal policy refers to the deliberate manipulation of public spending and taxes by the

government in order to change the real volume of production, control inflation and accelerate economic growth. Non-discrete fiscal policy - refers to varying government expenditures and revenues without government intervention and automatically influencing business cycles.

As for the monetary policy, as is known here, the main goal of the National Bank's activity is price stability in the country. In addition, the National Bank should ensure the stability and transparency of the financial system, and should promote the growth of the country's economy. Price stability is a necessary condition for efficient allocation of resources and long-term investments.

Dealing with inflation is one of the most difficult tasks of economic policy, because it is difficult on the one hand to take care of low rates of inflation in order to maintain stability, and on the other hand to give incentives to production, which is caused by high prices.

Since 2009, the monetary policy mode of the National Bank has been inflation targeting, during which the National Bank influences inflation by managing interest rates. In particular, changes in short-term interest rates are transmitted to longer-term interest rates and then to interest rates on loans. Changes in interest rates on loans affect aggregate demand in the country, which ultimately affects the price level.

The monetary policy rate (refinancing rate) is the main instrument of the monetary and credit policy of the National Bank and it represents a kind of benchmark for market rates. The decision to change the interest rate was made by the Monetary Policy Committee of the National Bank of Georgia as a result of observing the current and expected economic processes and financial markets.

It must be said that macroeconomic instability is characteristic of countries with developing economies, including Georgia. One of the reasons for this can be attributed to the fact that about 70% of economic assets are still owned by the state, which are not used and included in the economy. The European Bank for Reconstruction and Development (EBRD) study is also noteworthy, according to which, to this day, the low rate of competition remains an important challenge for countries with transition and developing economies, which remains one of the hindering factors for the economic development of our country.

Conclusion

1. According to international experience and individual studies, successful examples of fiscal policy tightening (when the level of public debt is reduced) are mainly manifested in cases where the tightening is focused on the reduction of current public expenditures and not on the reduction of public investments or the increase of taxes.

2. Fiscal policy is one of the important economic levers available to the government, which determines the macroeconomic situation of the country, and is a means of influencing economic crises. Therefore, its role in the process of achieving both short-term and long-term macroeconomic balance is important.
3. With the use of fiscal policy instruments, it is possible not only to determine the level of production and employment of goods, but also to form the incomes of individuals. Therefore, it is important not only in terms of economic development, but also in the process of redistribution of income and resources.
4. Despite the existence of the Organic Law “On Economic Freedom”, it would be good to establish various tax benefits for investors, which would encourage foreign companies to invest in Georgia. A clear example of this is Singapore.
5. The National Bank should be as free as possible from state influences and in its decisions. should be coordinated with fiscal policy.
6. Fiscal and monetary policy should be compatible with EU practice. The existing policy in the direction of public finance management of EU countries serves three main goals:
 - effective budgetary policy, deficit control and prevention of unsustainable fiscal policy;
 - reducing the cyclicity of fiscal policy;
 - Increasing the efficiency of spending of state finances.

And finally, the influential British economist, John Maynard Keynes said - “fiscal policy does not have to serve a legitimate and balanced budget, but it can be used to manage economic cycles and facilitate the process”.

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ფისკალური და მონეტარული პოლიტიკის მნიშვნელობა ქვეყნის

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კონფერენციის სამეცნიერო კომიტეტისა და ეკონომიკისა და ბიზნესის
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აბსტრაქტი. საბჭოთა კავშირის დაშლის და დამოუკიდებლობის მოპოვების შემდეგ, საქართველო, როგორც გარდამავალი ეკონომიკის ქვეყანა, საბაზრო ეკონომიკაზე გადასვლის პროცესში აღმოჩნდა მრავალი პრობლემების წინაშე, რაც მოითხოვდა სწრაფი გადაწყვეტილებების და რადიკალური რეფორმების გატარებას. ასეთ დროს სახელმწიფოს მხრიდან საჭირო იყო, ერთის მხრივ ბიზნეს საქმიანობისათვის ხელშეწყობა და მეორეს მხრივ ეკონომიკურად საჭირო სახელმწიფო რეგულირების განხორციელება ისეთი ინსტრუმენტების გამოყენებით, როგორცაა ფისკალური და მონეტარული პოლიტიკა.

თანამედროვე მსოფლიოში ქვეყნის ეკონომიკური განვითარება მნიშვნელოვნად დამოკიდებულია ფისკალურ და მონეტარულ პოლიტიკაზე, რადგანაც საბაზრო ეკონომიკის პირობებში, მიუხედავად სხვა უამრავი ფაქტორისა, დიდია მისი გავლენა სარგებლის განაკვეთსა და ერთობლივ მოთხოვნაზე. ამას ადასტურებს ქეინსის ლიკვიდურობის უპირატესობის თეორია, რომლის მიხედვითაც სარგებლის განაკვეთს შეუძლია გააწონასწოროს ფულის მიწოდება და ფულზე მოთხოვნა. ამასთანავე ფისკალური პოლიტიკა ის ბერკეტია მთავრობის

ხელში, რომლითაც მოკლევადიან პერიოდში შეუძლია ზემოქმედება მოახდინოს საქონლისა და მომსახურების ერთობლივ მოთხოვნაზე.

ქვეყანამ რთულად, მაგრამ მეტნაკლებად წარმატებით გაიარა რეფორმების პროცესი, რომლითაც მოწესრიგდა ქვეყნის საბიუჯეტო - საგადასახადო და ფულად საკრედიტო სისტემა. ამ ორი რეგულირების სისტემის ერთმანეთზე ურთიერთ ზეგავლენა იმდენად დიდია, რომ მათი არასწორად გამოყენება შესაძლოა დამაზიანებელი აღმოჩნდეს და შემაფერხებელი ქვეყნის ეკონომიკური განვითარებისათვის.

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