MECHANISM OF MODELING FINANCIAL FLOWS IN THE ECONOMY OF GEORGIA. GENERAL ASPECTS

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Abstract

Model calculations are carried out and allow us to conclude: • Modeling the current economic situation (taking into consideration external factors) showed that GDP - the annual increases of 2.3% - is guaranteed to be achieved without

Government interference;

• The model of the acceleration of the pace of economic growth without economic promotion will not be considered. Acceleration of the pace of the transition to the new investment policy, optional discrete invest in promising directions. There was no increase in the volume of public ownership. As a result of investments in shares of State may manage its own package, as well as sell it and compensate own expense;

• The new investment policy must comply with the state and other sources in the future by investing guarantor, "Battery" role, first and foremost, in terms of reducing the investment risks. Of private capital, which is significantly smaller than in developed countries, large and long-term projects of participation in not constitute investment priorities. Foreign capital, as a rule, participates in investment projects only with the local equity, and often (if not always) is necessary in case of the state guarantor. The state is the best guarantee for equity participation;

• Georgia's economic growth is dependent on the current conditions, first of all, external factors - the external debt and import structure of prices generated by their fiscal effect on the course of U.S. dollars. Population employment and income levels are substantially related to these factors. Hence, the investment process in the country will significantly contribute to employment growth, population growth and economy of budget revenues and more became independent from the influence of external factors.

Keywords: Economic development, investment, indicator, financial

Introduction

Working out an economic development strategy is the main task of governing bodies. For the National Bank, as the country's main monetary-credit and foreign exchange policy developer, the macroeconomic analysis and forecasting of relevant processes is particularly important. Moreover, during its twelve-year development period, the national liberal economic growth rates are, to say the least, unsatisfactory. Obviously, the desired pace of development cannot be achieved without the basic situation analysis and comprehensive review of changes in its main dynamic characteristics. For this purpose, it is recommended to use the appropriate economic-mathematical models that relatively objectively define the criteria of achieving certain optimum financial highlights.

Despite being confident in our experience and professional intuition, when discussing the dynamics of economic indicators, unconsciously we still rely on a certain model which describes the system of interrelationship and interdependence between economic parameters; however, the model is largely presented in non-formalized, non-obvious manner. Such non-formalized models, which mainly are based on the expert's experience, contain a small number of indicators. Therefore, the results obtained cannot

be verified because "non-obvious" model does not permit this either experimentally or analytically. Unfortunately, these models are often used not only in theoretical discussions but in such decisions that are of vital importance for the country's economy. In particular:

- Drawing up annual budget of Georgia (determination of quantitative financial options according to the rigid structure of income and expenditure and annual growth rate "recommended" by the Monetary Fund);
- Price "liberalization" and introduction of the first Georgian currency (concurrently with the Russian rubles), when instead of the expected 3-5 times increase, the consumer prices increased by 30 times and more. As a result, the country's financial system faced the crisis of non-payments, barter dominated and we reached high rates of inflation;
- Introduction VAT without preparation, unjustified expectation of the increase in fiscal revenues;
- Increase or decrease energy tariffs based on the political or social and economic preferences, etc.

Using the two-three-parameter primitive models for making such global findings and decisions (e.g. on the impact of price policy on macroeconomic parameters) is totally unacceptable. In this case, it would be justified to use even the model of inter-branch balance class, where the total cost dynamics would be estimated, taking into account the different levels of price increases in the products and services of the main sectors of the economy.

Macro models used in the economic growth theory and practice, as a rule, are based on the aggregate natural value information. At the same time, it is known that the use of aggregates of any standard is connected in the economic calculations with inaccurate, approximate description of real

processes. For example, in 1960-1980, in the kind of research, the main emphasis was made on the so-called calculation of nomenclature plans. Various schemes of information aggregation and disaggregation were developed to be used at different levels of management. However, either contextually dissimilar information was available or appropriate weight coefficients were used at the macro level, the role of which in the aggregation process was played by the prices themselves or the pseudo parameters (e.g. double assessments of linear programming problem) derived from there. It should be noted that the less was the impact of changes in the aggregate value on its structure, the higher was the reliability of such calculations.

At present, the value indicators have become the key indicators that are necessary for the analysis and forecasting of economic development. It has become necessary to enter the economic processes as the cash flow dynamics in the similar information structure according to the reproduction cycle stages. It is clear that the functional properties of certain funds are changed in that cash flow process. For example, the primary revenue of population consists of salaries in the field of production of goods and services. Part of the funds flows to buy the goods and services used. These funds appear on the enterprise accounts, from which taxes are paid, working capital is created, loans are repaid, capital constructions are financed, and dividends are paid on investments attracted. The second part of cash income is spent directly on tax charges and necessary expenses as well as on deposits - in the form of purchased securities, deposits and saved cash currency. These deposits constitute the secondary income of population (dividends, interests on deposits, difference between the exchange rates at the time of sale) and appropriate financial resources (investments, bank liabilities in GEL and foreign currency). Such formalization of the system of cash flow

cycles at all stages of funds conversion, taking into account the internal and external conditions in which these processes are going on, in fact, represents the development of a cash flow model at macro level.

Model Description

The development of an efficient investment process is a necessary and crucial factor for achieving sustainable economic growth in Georgia. We think it is not worth discussing definitely such “clear” and risky lever to stipulate the economic growth as the GEL "devaluation potential", which implies a devaluation of the national currency to encourage exports. In this case, the development of the national economy becomes largely dependent on the world affairs and the ability to attract primarily foreign investments for funding capital investments. This is especially problematic based on today’s low degree of worldwide trust in investments in Georgia.

In terms of integration into the world economy, the foreign field and important resources available on the financial markets, despite the global economic crisis, provide large opportunities for funding economic growth. And their flows are the evidence of increasing confidence in the domestic economy, which positively impacts the overall investment climate.

At the same time, financial resources are very dependent on variability of the world affairs and political factors, in case of deterioration of which they may be removed from the country in the shortest possible time. This will inevitably create a crisis in the local financial and foreign exchange markets and threaten the stability of the entire economy. Certainly, this will impede economic growth for a long time. Therefore, it can be concluded that: the high degree of free international flows of capital, especially short-term investments, may pose a threat to the countries with inconsistent macroeconomic policies and at the same time, to the weakly capitalized and inadequately regulated financial systems.

The conclusion is quite reasonable with respect to Georgia, where the monetization level (M3 correlation with GDP) ratio is around 11-12% and takes one of the poor places in the world. And at the national market, where, in fact, all affairs are determined by the flow and drain of foreign funds, the stability of economic and financial sectors can be maintained through invalidation of destabilization effect of the so-called “hot” money and using the system mechanisms of resource formation.

Considering all the above mentioned, we regard the system of models that describes the process of expanded reproduction as just the cycle of financial flows and conversion, i.e. in fact, as the macroeconomic model of cash flows.

All those models are applied on the basis of the unified information base and interconnected through the existing resources, budgetary restrictions and governing and regulatory options. In this particular case, the macro model of cash flows is made and used to determine the dynamics of the basic parameters of economic development.

Cash flow and system optimization problem solution as a result of information obtained includes the following indicators:

• Annual volumes of production of goods and services in the power structure and required by imports;

• Increase the level of prices for goods and services;

• The amount of cash income sources of their formation and growth of the nominal value, revenue allocation, which is caused by an increase in prices;

• The monetary cost of production value and structure;

• The production and emission volumes of inflation;

• Use of financial resources and the formation in the balance;

• Obtain and use the balance of the currency. Commercial Bank of attraction and use of foreign currency balances;

• Revenue receipt and expenditure of the consolidated balance sheet of the budget calculations;

• Margin of formation of the sources and amounts of financial sector;

• Net financial profit sector;

• The size and structure of investments in the production of goods and services, attracted by investment sources;

• Derived (secondary) indicators (GDP, growth rates and etc.).

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