Section 3. Regional economy

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GEORGIA AND THE FUNCTIONING MARKET ECONOMY: EVOLUATION IN THE PRISM OF "COPENHAGEN CRITERIA"

Abstract. In the presented paper, we aim to determine Georgia's compliance with the economic sub-criterion of the "Copenhagen criteria", such as a functioning market economy, comparative analysis of the relevant economic indicators of Georgia and the candidate countries for EU membership (as of 2020) and determination of the main directions for ensuring these criteria.

Keywords: Economy of Georgia, Accession criteria, Copenhagen criteria, Economic criteria.

"Copenhagen criteria". To become a member of the European Union, a country must meet political, economic and institutional criteria ("Copenhagen criteria"). The aforementioned criterias were established by the European Council in Copenhagen (Denmark) in June 1993 ("Copenhagen criteria"), and were subsequently clarified by the European Council in Madrid in 1995. This is:

- Political criteria: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- Economic criteria: a functioning market economy and the capacity to cope with competition and market forces;
- Stability of institutions and guarantee of democracy: administrative and institutional capacity to effectively implement the acquis and ability to take on the obligations of membership [1].

The compliance with the functioning market economy criterion is thus evaluated against the following five sub-criteria: high quality of economic governance; macroeconomic stability (including adequate price stability and sustainable public finances and external accounts); proper functioning of the goods and services market (including business environment, state influence on product markets, and privatisation and restructuring); proper functioning of the financial market (including financial stability and access to finance); proper functioning of the labour market [2, 2].

Georgia and the "Copenhagen Criteria". Management of the economy. During the analysis period Georgia's state debt was characterized by an increasing trend, The COVID-19 pandemic that started in 2019 made the problem even worse and if the share of government debt in GDP was 40.4% by 2019, by 2020 it has already crossed the critical threshold and amounted to 60.2% of nominal GDP. There is a similar dynamic in relation to the nominal GDP of the government's external debt, which was 32% in 2019, by 2020–47.6% [8]. The mentioned rate in Georgia is similar to that of the candidate countries for EU membership – North Macedonia and Serbia, and somewhat better than Montenegro (11%).

Macroeconomic stability. After relatively high growth in the first decade of the century, the GDP growth rate has somewhat slowed down, and in the background of the global pandemic of COVID-19, it experienced a significant decline. In particular, by 2020, real GDP has decreased by 6.8% compared to 2019. By 2020, compared to the previous year, exports decreased by 12%, imports decreased by 15%, and foreign turnover decreased by 14%. The rate of investments also decreased. In particular, in 2019, direct foreign investments amounted to 1.3 billion USD, and in 2020–0.6 billion. The share of direct foreign investments in GDP was 1.2%. The share of total capital formation in GDP experienced a slight decrease from 26.3% to 23.9% [7]. The rate of current account deficit was also characterized by growth, whose share in GDP reached 12.6% by 2020 from 5.7% in 2019. As for consumer prices, in the last three years there is a trend of its growth, the said trend, which started with the pandemic, was further deepened due to the Russia-Ukraine war, and by 2021, inflation has reached 9.2%. In addition, its increase on a number of products is significant and noticeable. The level of unemployment is also high, reaching 18.5% in 2020 and 20.6% in 2021. During the analysis period, the tax system worked properly, there was a slight decrease in the share of tax revenues in the GDP, and the mentioned figure is 22.3%.

If we compare the indicators of Georgia with the indicators of the candidate countries for EU membership (Albania, Montenegro, North Macedonia, Serbia, Turkey), we'll notice that by 2020 the GDP reduction was approximately at the level of these countries (in Montenegro it was 15.2%). In terms of the share of foreign debt in GDP, Georgia had a somewhat better index than Montenegro (105%), Albania (76.1%), Serbia (57.3%), North Macedonia (51.2%). In terms of current account deficit share in GDP, Montenegro had a negative situation (26%), Turkey (12%) in consumer price index [2, 17; 30; 44; 60]. Among the indicators presented in this group, Georgia has an unambiguously low level of real GDP per capita in relation to the candidate countries for EU membership. In particular, this indicator in the candidate countries, in relation to the EU-27 average indicator, is on average about 45%, and in Georgia – 12.5%.

Proper functioning of the goods and services market (including the business environment, state influence on product markets, privatization and restructuring). ***business environment.*** It should be noted that Georgia is one of the leaders in the world in terms of ease of business registration. Online business registration and tax payment systems greatly simplify this process and minimize the possibility of corruption. Further simplification of business registration and licensing procedures is currently underway in the country. During the last decade, an average of 50.000 new business entities are registered in the country per year. Inconsistency of declared and real conditions, suspension of large projects and exit of investments from these projects, low pace of privatization, informal impact on business.

Privatization and reconstruction. Despite the fact that privatization was carried out in several stages and sometimes had an aggressive form, after 2009 the rate of privatization somewhat decreased, the share of state ownership is still high in the country. In 2015–2019, the income received from privatization amounted to 1.3 billion GEL. 36.1% of which is income from privatization of buildings, 32.8% of land, 30.4% of other natural resources. The operation of state-owned enterprises is mostly inefficient, the share of employees in the public sector is high. The share of state property in the ownership of agricultural and non-agricultural lands is also high (60%).

Proper functioning of the financial market (including financial stability and access to finance). It is worth mentioning that the financial system of Georgia showed a fairly high level of stability, mostly successfully responded and overcame the shock caused by the COVID-19 pandemic and continued crediting the economy without interruption. At the same time, traditionally present financial stability risks, originating from the foreign sector, remain at a high level. A significant challenge for sustainability is the increasing debt burden for companies and households in the context of reduced economic activity amid the COVID-19 pandemic. During the crisis, the regulations adopted by the National Bank and the government somewhat reduced access to finance, although the total volume of loans increased (both for individuals and business entities). The analysis of the stress tests presented in the financial stability reports of the National Bank provides a reason for optimism.

Proper functioning of the labor market. The trend of reducing the workforce in recent years continues, while the number of employees is also decreasing. Although the unemployment rate decreased from 21.9% to 18.5% by 2020 compared to 2015, it increased again the following years and reached 20.6%. During 2015–2020, the number of economically active population decreased by more than 150.000 [7]. Despite the fact that the main problems of the population are low incomes and unemployment, the labor market is functioning quite well. In addition, the existence of low-qualified personnel, the discrepancy between the relevant document and the acquired knowledge among persons with professional education and higher education is still problematic.

Thus, the reforms carried out in Georgia, the dynamics of economic processes, the progress achieved, the sustainability and stability of the economy in the conditions of the COVID-19 pandemic, as well as the comparative analysis of the main economic indicators of Georgia and the candidate countries for membership of the European Union, give us the basis to conclude that Georgia is compatible with membership in terms of economic criteria with the candidate countries (this opinion is supported by the granting of candidate status to Ukraine and Moldova in 2022). At the same time, the current growth rate is insufficient and it is necessary to strengthen the positive dynamics in all areas of the economy. GDP per capita, high share of public debt in GDP, informal influence on business, inflation, investment level, current investment environment, access to finance, foreign trade indicators, pace of privatization and restructuring, high unemployment, labor market are still problematic. Preparation of competitive personnel corresponding to the requirements. In addition, in each of the mentioned directions, there is an established strategy, the implementation of which is real and will create a solid basis for joining the European Union.

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