

The Characteristics of Transformation of Institutional Changes and Georgia

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Abstract : The analysis of transformation of institutional changes outlines two important characteristics. These are: the speed of the changes and their sequence. Successful transformation must be carried out in three different stages; On the first stage, macroeconomic stabilization must be achieved with the help of fiscal and monetary tools. Two-tier banking system should be established and the active functions of central bank should be replaced by the passive ones (reserve requirements and refinancing rate), together with the involvement growth of private sector. Fiscal policy by itself here means the creation of tax system which must replace previously existing direct state revenues; the share of subsidies in the state expenses must be reduced also. The second stage begins after reaching the macroeconomic stabilization at a time of change of formal institutes which must stimulate the private business. Corporate legislation creates a competitive environment at the market and the privatization of state companies takes place. Bankruptcy and contract law is created. The third stage is the most extended one, which means the formation of all state structures that is necessary for the further proper functioning of a market economy. These three stages about the cycle period of political and social transformation and the hierarchy of changes can also be grouped by the different methodology: on the first and the most short-term stage the transfer of power takes place. On the second stage institutions corresponding to new goal are created. The last phase of transformation is extended in time and it includes the infrastructural, socio-cultural and socio-structural changes. The main goal of this research is to explore and identify the features of such kind of models.

Keywords : competitive environment, fiscal policy, macroeconomic stabilization, tax system

Conference Title : ICEFE 2016 : International Conference on Economics and Financial Engineering

Conference Location : Berlin, Germany

Conference Dates : May 19-20, 2016