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Influence of Oil Prices on the Central Caucasus State of Georgia

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Abstract : Global oil prices are seeing new bottoms every day. The prices have already collapsed beneath the psychological verge of 30 USD. This tendency would be fully acceptable for the Georgian consumers, but there is one detail: two our neighboring countries (one friendly and one hostile) largely depend on resources of these hydrocarbons. Namely, the ratio of Azerbaijan in Georgia's total FDI inflows in 2014 marked 20%. The ratio reached 40% in the January to September 2015. Azerbaijan is Georgia's leading exports market. Namely, in 2014 Georgia's exports to Azerbaijan constituted 544 million USD, i.e. 19% in Georgia's total experts. In the January to November period of 2015, the ratio exceeded 11%. Moreover, Azerbaijan is Georgia's strategic partner country as part of many regional projects that are designated for long-term perspectives. For example, the Baku-Tbilisi-Karsi railroad, the Black Sea terminal, preferential gas tariffs for Georgia and so on. The Russian economic contribution to the Georgian economy is also considerable, despite the losses the Russian hostile policy has inflicted to our country. Namely, Georgian emigrants are mainly employed in the Russian Federation and this category of Georgian citizens transfers considerable funds to Georgia every year. These transfers account for about 1 billion USD and consequently, these funds previously equalized to total FDI inflows. Moreover, despite the difficulties in the Russian market, Russia still remains a leader in terms of money transfers to Georgia. According to the last reports, money transfers from Russia to Georgia slipped by 276 million USD in 2015 compared to 2014 (-39%). At the same time, the total money transfers to Georgia in 2015 marked 1.08 billion USD, down 25% from 1.44 billion USD in 2014. This signifies the contraction in money transfers is by ¾ dependent on the Russian factor (in this case, contraction in oil prices and the Russian Ruble devaluation directly make negative impact on money transfers to Georgia). As to other countries, it is interesting that money transfers have also slipped from Italy (to 109 million USD from 121 million USD). Nevertheless, the country's ratio in total money transfers to Georgia has increased to 10% from 8%. Money transfers to Georgia have increased by 22% (+18 million USD) from the USA. Money transfers have halved from Greece to 117 million USD from 205 million USD. As to Turkey, money transfers to Georgia from Turkey have increased by 1% to 69 million USD. Moreover, the problems with the national currencies of Russia and Azerbaijan, along with the above-mentioned developments, outline unfavorable perspectives for the Georgian economy. The depreciation of the national currencies of Azerbaijan and Russia is expected to bring unfavorable results for the Georgian economy. Even more so, the statement released by the Russian Finance Ministry on expected default is in direct relation to the welfare of the whole region and these tendencies will make direct and indirect negative impacts on Georgia's economic indicators. Amid the economic slowdown in Armenia, Turkey and Ukraine, Georgia should try to enhance economic ties with comparatively stronger and flexible economies such as EU and USA. In other case, the Georgian economy will enter serious turbulent zone. We should make maximum benefit from the EU association agreement. It should be noted that the Russian economy slowdown that causes both regretful and happy moods in Georgia, will make negative impact on the Georgian economy. The same forecasts are made in relation to Azerbaijan. However, Georgia has many partner countries. Enhancement and development of the economic relations with these countries may maximally alleviate negative impacts from the declining economies. First of all, the EU association agreement should be mentioned as a main source for Georgia's economic stabilization. It is the Georgian government's responsibility to successfully fulfill the EU association agreement requirements. In any case the imports must be replaced by domestic products and the exports should be stimulated through government support programs. The Authorities should ensure drawing more foreign investments and money resources, accumulating more tourism revenues and reducing external debts, budget expenditures should be balanced and the National Bank should carry out strict monetary policy. Moreover, the Government should develop a long-term state economic policy and carry out this policy at various Ministries. It is also of crucial importance to carry out constitutive policy and promote perspective directions on the domestic level.

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