

## THE MAIN PROBLEM OF MODERN BANK SYSTEM IN DEVELOPING COUNTRIES

**NINO KAVTARADZE**

PhD in Business Administration, Professor of Georgian Technical University, Tbilisi, Georgia

**KEYWORDS:** CURRENCY, DEVELOPING COUNTRIES, FOREIGN TRADE, INVESTMENT, ECONOMY, CENTRAL BANK, CREDIT

### INTRODUCTION

The most serious problem for the developing countries, that till now remains unsolvable, is the fall of their currency course, that is the outcome of factors, such as: 1. the total fall of currency and economy of the most partner countries; 2. the difficulties of the economy of those countries where the most part of the Georgian emigrants work, such as the neighboring Turkey, Greece, Canada and Ukraine and etc; 3. inefficient and unqualified management of budget sources; 4. decrease of exporting products; 5. the lowering of level of investment, especially of direct foreign investment, that has the vital importance for country with developing economy.

In 2016 the deficit in Georgian internal trade excided 6 milliard USD and consisted 67 percent of the foreign trade's turn out, which is unprecedentedly low indicator and certainly such low indicator greatly affects the strength of national currency, currency transfers from citizens living and working abroad.

out number of reforms. The central bank stops the fall of its own currency exchange rate to dollar with buying its own national currency, which is calculated on the short term effect. The national bank releases its responsibility for the regulation of the currency, because in the condition of floating currency system the curse between USD and Georgian Lari is detected by demand and supply. The main problem for the national bank is the achievement of the price and financial stability. The targeting of the inflation on the level of 5 percent is also a very important task.

To the population, that receives income in Lari (national currency) and pays off credits to the bank in dollar the bank sector offers two forms of assistance: 1. restructuration of the debt (the prolonging period of the payment increases the amount of money which should be paid to cover the credit interest); 2. the transformation of the USD credit in the national currency- Lari, with accordance to the bank's offered conditions, which also proved to be unacceptable for the

Year	Total	Q I	Q II	Q III	Q IV
2005	449.8	89.4	105.9	75.6	178.9
2006	1 190.4	146.0	306.9	280.7	456.7
2007	2 014.8	421.4	401.5	489.1	702.9
2008	1 564.0	537.7	605.4	134.7	286.2
2009	658.4	114.0	177.2	173.2	194.0
2010	814.5	166.5	208.3	225.6	214.1
2011	1117.2	209.7	248.3	316.6	342.6
2012	911.6	261.2	217.7	199.0	233.7
2013	941.9	252.3	207.9	254.8	226.9
2014	1 758.4	309.5	196.2	726.0	526.7
2015	1 564.5	291.5	462.7	483.2	327.1
2016*	1645.4	388.9	457.7	468.5	330.3

**Table 1 . Foreign Direct Investments (Mil. USD \* Preliminary Data)**

One of the factors that also affected the national currency are some errors committed by the Georgian National Bank and inefficient government's monetary policy which caused the main problems connected with national currency. The actuality of this problem for the developing countries comes from its negative outcomes. Especially very glaring are the damages which may be observed in business sector, connected with the growth of currency risks, also it decreases the existing low living standard level and quality of population and increases the outcome of capital abroad.

The urgent necessity is the implementation of more strict budgetary and currency policy, it can be achieved only through the decrease in governmental expenses and carrying

population of Georgia, because the offered condition would only make their debt much more expensive and difficult to pay. In addition to that the imported goods increase in prices.

The alternative for the floating currency system is only the fixed system, though it should be found out how effective it may be in the developing countries. For fixing the curse should be taken into account the stability economic relation and the volume of the trade amount between countries. In Georgia, in this term the leading countries are: Turkey, Azerbaijan, Ukraine, China, Germany, Russia and so on. So, the low level of the trading relation the USA and EU countries, which have firm currency, makes impossible to fix Georgian Lari with their currency. And there is no sense to

fix Lari to Georgian main trading partner's currency, because they also have unstable national currency level. It should be emphasized, that in Georgia, as well as in the most other countries, the most part of the trading contracts are payable by the most stable currencies USD and Euro.

#### **CONCLUSION**

It's impossible to single out the only one problem that caused the main fluctuation in this field, the problem is total

and it should be admitted, that the main reason connected to national currency problem is not only in the strengthening the dollar, but numerous problems and shortcomings existing in monetary policy.

The developing countries can decrease the level of the damage of national economy, it is extremely important to stabilize the national currency to reach the stable level of the currency course, which will be the main guaranty for attracting the foreign investors.

---

#### **REFERENCES:**

1. National Statistics Office of Georgia. Official website, [http://www.geostat.ge/index.php?action=page&p\\_id=317&lang=eng](http://www.geostat.ge/index.php?action=page&p_id=317&lang=eng)
2. National bank of Georgia. Official website, <https://www.nbg.gov.ge/index.php?m=2&lng=eng>

## THE MAIN PROBLEM OF MODERN BANK SYSTEM OF DEVELOPING COUNTRIES

**NINO KAVTARADZE**

Ph.D in Business Administration, Professor of Georgian Technical University, Tbilisi, Georgia

**KEYWORDS:** CURRENCY, DEVELOPING COUNTRIES, FOREIGN TRADE, INVESTMENT, ECONOMY, CENTRAL BANK, CREDIT

### **SUMMARY**

One of the most unsolvable problems for developing countries still remains the drop of their national currency course, it is the result of many factors that take place in economy overall and also of the errors that are committed

by the central banks of these countries. All that triggers the impoverishment and decreases the level of earning of population. The central bank should choose floating or fixed currency system, as for developing countries it is extremely important to stabilize the national currency course.