
THE IMPACT OF VARIOUS CURRENCY REGIMES ON ECONOMIC
DEVELOPMENT FACETS: CASE OF GEORGIA

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Abstract. For any business decision, it is important to have grounded information about possible consequences of this decision. The goal of this paper is to show that performance of business companies depends on the currency regime. Therefore, decision makers have to weight decisions about currency regimes in any country, especially developing one. The author of presented paper raises a question what currency regime is better for Georgia. In his research, on one hand, he relies on opinions of local business companies, and, on the other hand, analyses experiences of different countries, which already have made one or another decision in this area. The formulated insights contribute to this scientific field and may have grounded economic policy implications, facilitating economic development of Georgia, or any other country, which is in similar path of economic development.

Keywords: dollarization; stability; value of money; durability of money; devaluation; sound money.

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JEL Classification: E000, E420, E310, F310, G380, M210

1. Introduction

In Georgia there is an ongoing debate about the steps, which should be taken to make the economical growth faster. Surely, nobody is arguing against the importance of economical development, but as a rule, the reasoning is superficial, aiming only at the impact on the people who do not have deep insight into the essence of economy. Having careful looks, we find many different problems and one of the most important one is the problem of money. What is money? Who should issue the money and what for? Disagreement in modern society on this issue starts from Keynes and Mises.

After each crisis supporters of the Federal Reserve System argued that the crisis would be even heavier if no active intervention and preliminary measures were taken. But Milton Friedman was of totally different opinion:

“These arguments are ultimately wrong. The fact is that the major depression and other periods of partial unemployment are the result of wrong management by the government itself and not the inward instability of the private economy. The agency established by the Government: Federal Reserve System to which was transferred responsibility for monetary policy. In 1930 and 1931, it managed to make as much as what would have been a slight cut in the economy, turning it into a tremendous catastrophe. “ (Friedman, 2002, p.39). Despite the fact that the arguments of supporters of the golden standard seem to be more serious about the background of the existing problems, there is no sign that the issue of this dispute will soon reach a consensus. Even Alan Greenspan

(who later became the chairman of the Federal Reserve System in 1987-2006, for the whole 19 years) noted: “It is against the supporters of the welfare state as the golden standard stands against ‘mysterious’ simple scheme of seize. Deficit spending is a simple scheme of ‘hidden’ deprivation of wealth. On the way to this insidious process, gold is as a defender of property rights. If each of us is going to understand this tricky plan, it will not be difficult to imagine the aggression of the state intervention towards the golden standard” (Greenspan, 2010, p.147). Hayek pointed out that the problem comes from old superstition about money and blamed Keynes for current problems: “The head of the current monetary problems is associated with Keynes and his disciples who have given scientific power to the centuries-old prejudice - long-term prosperity and full-scale employment” (Hayek, 2016, p.280). Hayek believes that the only way to a healthy monetary system is the competition: “When the government and other money-strapping institutions are in a healthy competition with each other for long-term contracts, long-term stability is expected” (Hayek, 2016, p.297). But it is hard to imagine how such a condition can be reached in the current world. We in reality have inflationary money like which has never existed before: “For centuries, in various societies the role of money was played by wheat, precious metals, sheep, sinks and others. However, gold and silver assumed the function of money best. The vast majority of countreys speaking different languages have unanimously recognized the use of the gold as money, compared to other goods, which made gold (and partially silver) as world’s money centuries ago. Society has never created a need for modern monetary policy, as the society was never bothered with inflation in the conditions of the market value of money, even though the banking system was free of pressure from any central bank. Inflation is the result of unnecessary mass of money and the bank itself is the source of additional money emissions” (Tsomaia, 2010, p. 218). And now we have the system about which Mises mentioned: “The gold standard for determining the changes in purchasing power is completely separated from the political arena. It relies on the recognized truth that one person cannot make all people rich by printing money. The hatred for the gold standard is determined by the prejudice that governments can create a wealth by small piles of paper” (Mises, 2010, p.149). Some authors have more radical views on this subject, indicating that this kind of monetary system is fraud against savers and last receivers: “Accepting money until it is gradually expanded into the entire system of economy, changing the prices and eventually increases the general level of prices, the rate of fraudulently reduced interest rate in receiving credit. So, they are reaching in the expense of savers or last receivers or at the expense of those who cannot get the money at all” (Hoppe, 2010, p.173).

Newest word of 21st century is cryptocurrency: “The twenty-first century can be characterized with a vast development of technologies and the increase use of the internet which significantly succeeded the development of monetary system introducing a new phenomenon - virtual currencies” (Dibrova, 2016). “However, there are signs that the efficiency of all cryptocurrencies, are improving, with all having significant drop in AMIM in the last 6 quarters” (Tran & Leirvik, 2019). But this kind of currency is new for the world yet and no nation uses as their official currency. Despite there is a lot of attention to this form of money (e.g. Salamat et al., 2020; Morozova et al., 2020), it is out of the examination of this article. Hence, the goal of this article is to prove the advantage of fixed currency regimes over floated currency regimes for Georgia and other developing countries in general.

Hypothesis

Under condition of having a currency regime when the national currency is firmly attached to a stable foreign currency, the efficiency and effectiveness of companies in the economical and financial crisis would exceed the efficiency and effectiveness of companies under the current currency regime in Georgia.

2. Review of different currency regimes

One of the most important issues is to properly interpret the essence of money, the role of which in economy is not clear even today: should it be a monetary policy tool or should not? Actually under monetary policy tool is meant manipulations with the value of money by authorities for solving other problems. On the National Bank’s website (Georgian National Bank) one can find the classification of currency regimes. Classification of exchange rate regimes according to the International Monetary Fund (IMF) (See diagram 1).

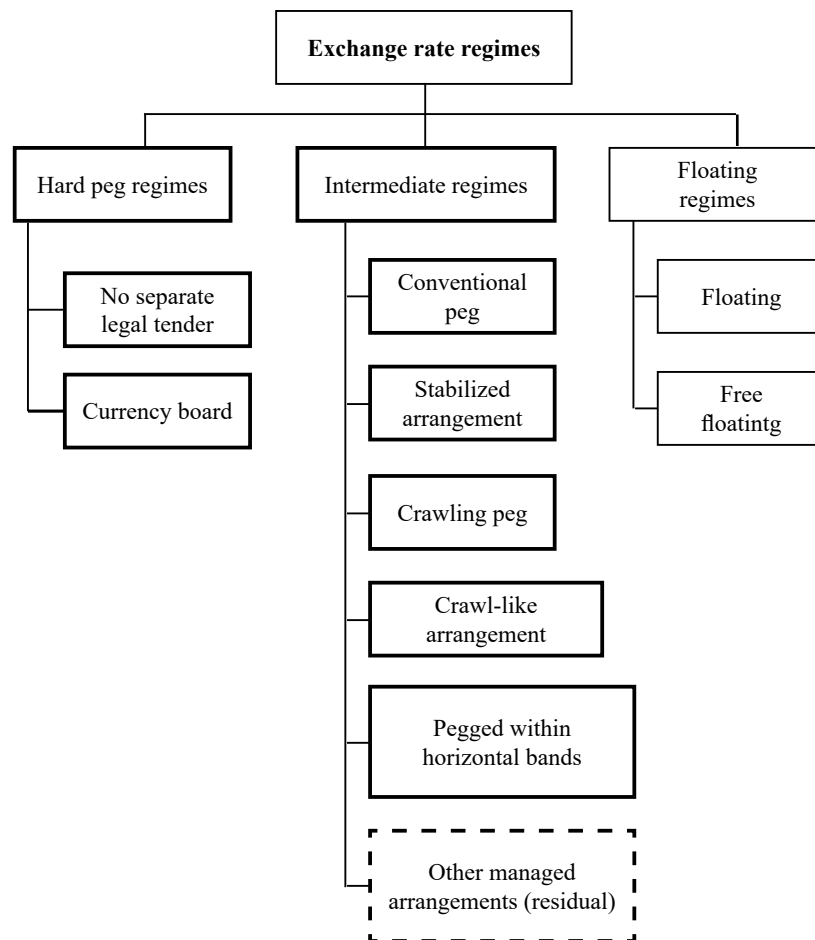


Diagram 1. Classification of exchange rate regimes

Source: Baiashvili, 2018)\

According to the classification of this scheme there are three main branches of exchange rate modes, where each of them contains several parts. It should be noted that despite of certain characteristics of each model, from the point of view of influencing economic subjects it is enough to consider these three main branches and we can conclude that: There are three types of exchange rate modes of national currencies: strictly fixed, intermediate and floating modes. In addition, a foreign currency may be in use in a country and there may be no national currency (in this case there is no need for a national bank or a currency board) or there may be a multilateral regime, i.e. when it is legal to use any currency. It should also be noted that in some cases different branch modes could be very close to each other. For example, national currency pegged to the US dollar at fixed exchange rate – this regime is marginal case of interim regime, when the regulations are so restrictive that the change of exchange rate is not actually happening, while freely floating regime is practically the same as the intermediate marginal regime when the course regulation becomes so free, that it is a practically free-floating regime. Nevertheless, the difference still remains because psychological expectation derives from the system by which the national currency is regulated, and not from the marginal case of this regulation which emerges if it is liberalized or toughened.

So, there are 5 different currency regimes: The country uses foreign currency (and does not have own currency), the national currency is tied with a fixed rate to a foreign currency, the national currency is attached to a certain foreign currency, national currency is related to other currencies by free market principle and the country's national currency is not the only currency for payment, but rather is in free competition with any other currency. Obviously, this currency regimes cannot be a strictly separated from each other. For example, the direct use of foreign currency and the fixed exchanged rate with foreign currency is almost the same, although there is still

some difference, and therefore it is advisable to allocate these regimes separately. Similarly, free saling regime and the legitimate use of all currencies, including free competition, is very close to each other, but between these regimes there is some significant difference even due to the presence of conversion costs.

All regimes assume comperasion with strong currencies which are not many in the modern world: “We define safe currencies as those for which the estimated portfolio weights are positive, in this case the JPY, EUR, CHF and USD, while non-safe currencies are those for which the estimated portfolio weights are negative for most of the sample period—the GBP, AUD, and CAD” (Cho, et al., 2019). Even GBP, AUD, and CAD are not quite safe.

3. Results of author’s research

The Applied Research Company ARC made research about problems of economic subjects for the current currency regimes in Georgia. Most of respondents of research were companies’ founders, partners, directors, presidents, and financial directors – all of them in high positions in their companies. Let us check some results from the research. There are two kinds of companies: companies using foreign currency and companies do not using foreign currency. Almost all of them noted that the currency rate fluctuations influence to their business (see figure 1).

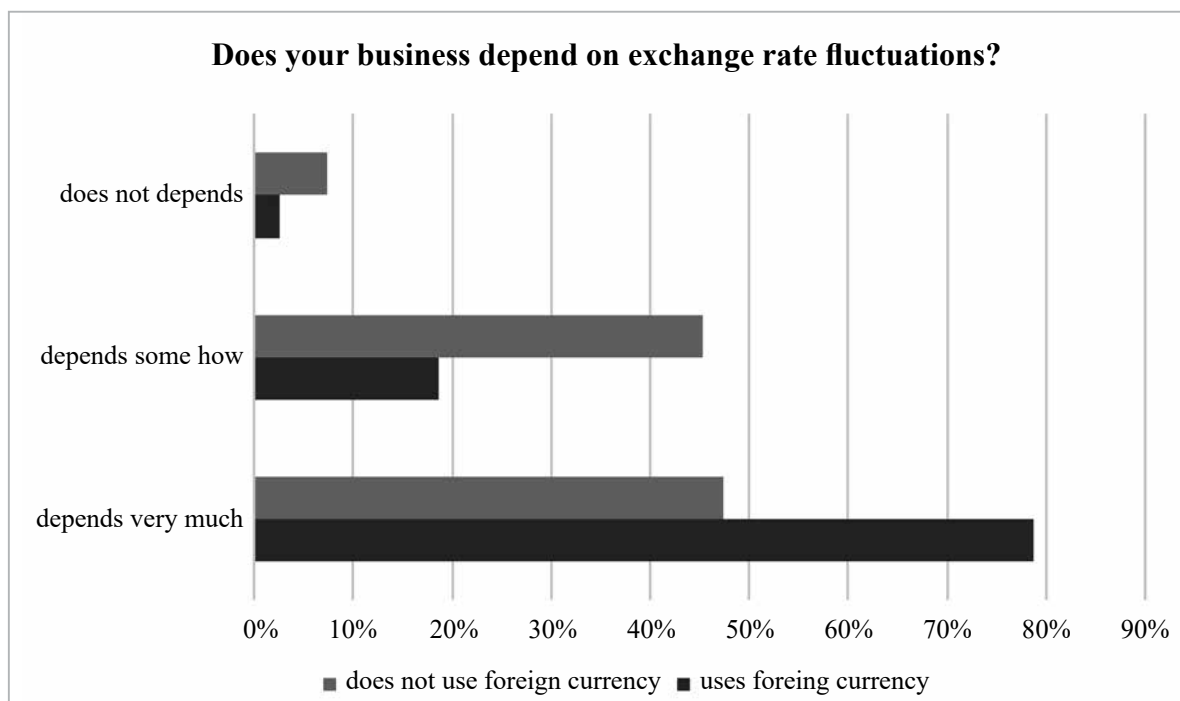


Figure 1. Business’ dependence on currency’s exchange rate.

Source: author

Here is visible that less than 8% of companies say that their business does not depend on the currency exchange rates. It should be emphasised that this 8% is for the companies which do not use foreign currencies. For the companies which use foreign currencies this parameter (companies which say that their business does not depend on exchange rates) is about 2.3%. This result shows that the relation between national and foreign currencies is very significant for small developing countries. And this outcome was predictable as the economy of such a country as Georgia depends very much on relations with other countries – too high level of import-export compared to the country’s GDP. And the impact of the changes in the exchange rate is mostly negative (very few answers are about positivity). That means that negative expectations about money puts pressure to business subjects and they count this circumstance into their risky points. Business subjects need to defend

themselves and they find some difficulties to do this, spending some resources on it. It is interesting to emphasize that the companies' answers in this research indicate that the changes in the exchange rate is biggest problem for their business (see figure 2).

Problems for business

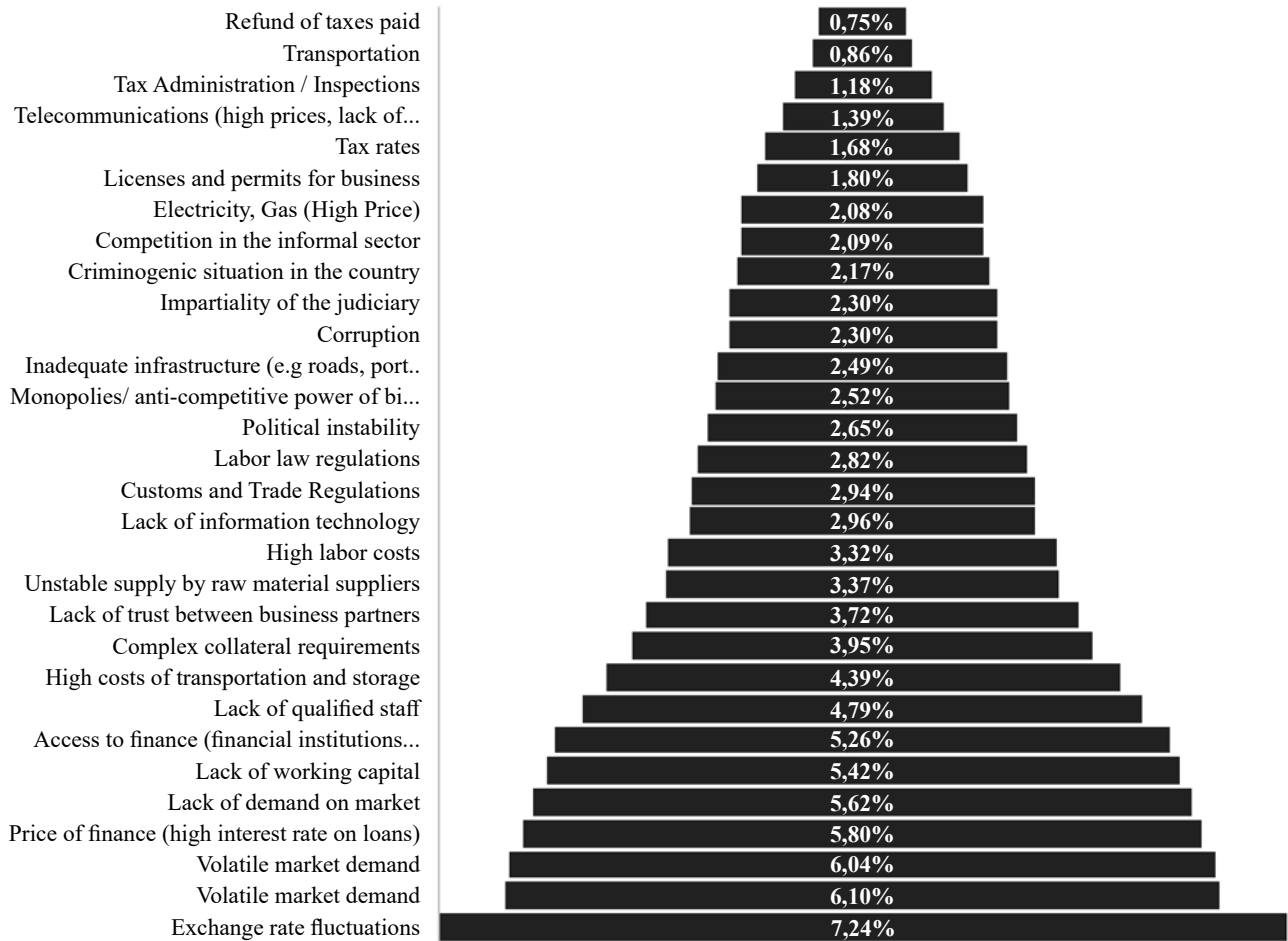


Figure 2. Rate of business problems

Source: author

Changing of exchange rate is on top of problems with 26.7%. Here it should be mentioned that this research was special one concentrating on the question of currency's regime and in the other type of researches there may be different picture but this problem will never be the last as long as there exists the problem of stability of money. At last, most business subjects think that for Georgia fixed exchange rate would be better – 24.2%, and in addition 12.2% of respondents were for full dollarization. If we take out the note of patriotism this two are the same, so one may say, 36.8% thinks that dollarization would be better. Also, 17.2% is for free regime. Totally, more than half of business subjects understand that the money problem needs to be solved somehow (see figure 3).

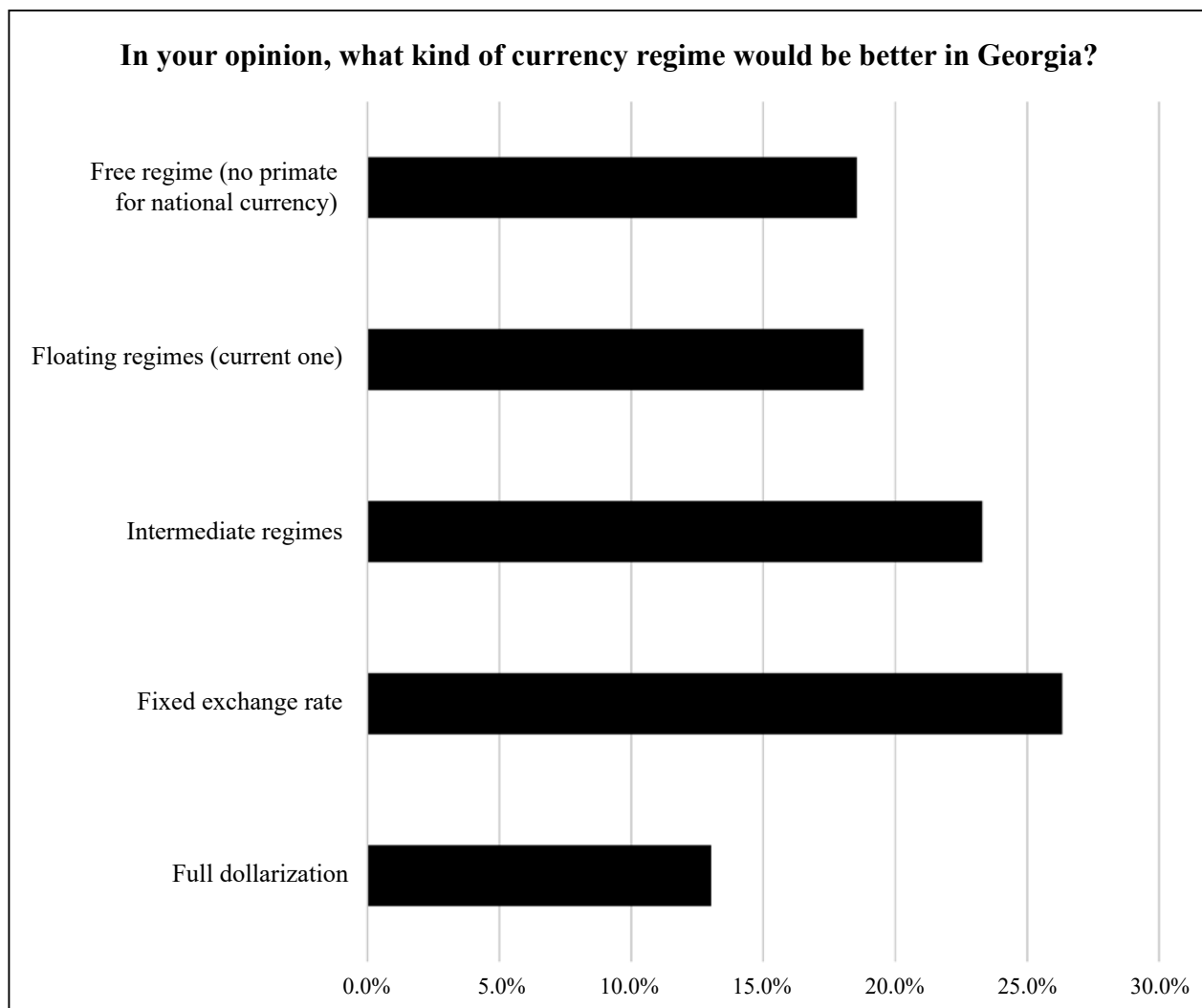


Figure 3. Which currency regime would be better for Georgia?

Source: author

“Our research shows that the currency regime is very sensitive question for every business and they have problems because of the risks of currency’s value. Most businessmen think that the current regime for national currency is not suitable for Georgia and it would be better to have another one (more than 80% think so). Most of them believe that currency’s fixed exchange rate would be better (as Steve Hanke advices), and the full dollarization is preferred only by 12.2% of respondents. But here should be mentioned that this outcome is a result of a mistake people often make: national currency is understood as an object of national identity. Excluding this factor, one could say that the percentage of respondents supporting the floating regime (17.4%) would be reduced and share of others would be increased.” (Chinchaladze, 2020).

Case of Montenegro

After Chapter 3 it is interesting to consider the case of Montenegro. This post Yugoslavian country has never tried to issue its own currency: “On November 2, 1999, President Djukanovic made a daring and decisive move that would set Montenegro on a course towards independence: Montenegro granted the mighty German mark legal tender status”. (Hanke, 2019, p.5). And soon, Montenegro adopted Euro. This means that in this country in the list of problems there is not and cannot be the problem of national currency. As, an example one could mention that they had some problems with joining to NATO: “In 2017, Montenegro joined NATO and became the thirteenth post-communist member state of the alliance that was founded to contain the spread of commu-

nism. Unlike other recent NATO enlargements (Croatia and Albania were the last two countries which joined NATO, in 2009) the process of NATO integration of Montenegro is highly controversial, from both the internal, Montenegrin perspective, and from the perspective of global power relations". (Beshic & Spasojevich, 2018) However, it is hard to find an article about currency problem in this small country. Similar adoption was made by some other countries with USD: Ecuador, Puerto Rico, Republic of Palau, Marshal Islands and some others. These countries may have (and really have) many different problems in their ways to prosperity but they have no such problem as national currency's devaluation.

Fixed currency regime countries

This system is (or was) used by many different countries, like Argentina, Bosnia, Estonia, Gibraltar, Hong Kong, Lithuania and so on. When the country has a currency board and the currency board is really independent from the officials of the government there is real possibility to think that to possess national currency is the same as to possess USD (or Euro or any other stable foreign currency). For example, in Argentina 1 Peso was co-equalled to 1USD, that meant that if you had 50 Peso, you could exchange it for 50 USD. Some may think it is a problem for the country because the government cannot do its own monetary policy (actually monetary policy means to manipulate with national currencies to solve some other problems), but that is a positive outcome of currency board - not negative. From the point of view of business subjects, in this situation, it looks like, as it was mentioned in the Chapter 4, there cannot exist problem with so called national currency devaluation. Only difference is in the expectation – the business subjects always understand that there can be changed something, government can find a way to influence on the currency board and change the parity 1 Peso = 1 USD to a more profitable for the government in the current circumstances (as it happened in Argentina). Regardless the fact that the fixed currency regime brought quite good results in many countries (like Estonia, Hong Kong, Lithuania and so on), many argue about the case of Argentina – because of crisis of 2001 the parity 1 Peso = 1 USD was changed and the currency went to floating regime. Let us consider this case shortly, not to tell the whole history. There was big inflation and the decision was made to create currency board in March of 1991: "The main elements that set Argentina somewhat apart from other emerging countries' efforts to pursue a liberalization process were: i) the Currency Board system – starting in March 1991 and only rejected at the end of 2001 – under which the exchange rate with the US dollar was fixed by Congress and the local currency – pesos – could be issued almost only against the exchange of foreign currencies, meaning that the Central Bank could not possibly finance government deficits nor could it provide support to commercial banks confronting a liquidity squeeze; ii) a full bi-monetary system, placing on an equal status pesos and foreign currency (mainly the US dollar), the public being absolutely free to choose the currency of denomination of their transactions; iii) a fractional reserve banking system even for foreign currency denominated deposits with fully liberalized interest rates and income tax exemptions for interest on deposits; ... " (O'Connell, 2005, 292).

This was done as the country had big problems because of inflation: "Between 1970 and 1991 Argentina suffered from chronically high inflation, punctuated by bouts of hyperinflation. In both 1989 and 1990 inflation in the consumer price index was measured in thousands of percent. In 1991 the newly elected President of Argentina, Carlos Menem, launched the currency-board-like Convertibility Plan to reduce inflation. The architect of this plan was Menem's Economics Minister, Domingo Cavallo. The Convertibility Plan tied the value of the new Argentine peso to that of the U.S. dollar and was spectacularly successful in reducing inflation. Between 1992 and 2001 CPI inflation averaged about 4 percent per year with prices actually falling slightly over the period 1999-2001". (Kehoe, 2003). There were many problems Argentina encountered on the way of stabilization and reducing inflation, for example international trade balance problem because of other countries' currencies devaluation: "The Brazilian devaluation in 1998 did not lead to problems for the Argentina current account — both exports and the trade surplus in fact grew, except for a mild downward blip in 1999. Direction of trade statistics show that an increase in exports to the United States more than compensated for the decline in exports to Brazil. Argentina exports are primarily agricultural products, especially beef and wheat, whose prices are determined on world markets. The sharp change in Argentina's terms of trade with Brazil undoubtedly hurt some specific industries, such as the automobile parts industry. It is conceivable that these negative impacts had significant macroeconomic spillovers." (Kehoe, 2003, p.14). Devaluation affected not only Brazil but also

Mexico, Chile and other countries with whom Argentina had active trade and that brought the country to some difficulties. It is clear, that the difficulties should be handled somehow but Argentina chose easy way, devalue its own currency. So, the country decided to have a problem in fiscal policy instead of solving the real one: "The proposed hypothesis is that the Argentina crisis was triggered by a lack of political consensus to control the fiscal deficit. The crucial events occurred in March 2001: On 16 March, President Fernando de la Rúa rejected the plan presented by the Economics Minister, Ricardo López Murphy, to reduce the fiscal deficit. After López Murphy's resignation, de la Rúa appointed Domingo Cavallo, the architect of the Convertibility Plan during the Menem administration, as Economics Minister. Cavallo presented a new economic plan in the lower house of Argentina's congress. On 28 March, however, the congress refused to allow Cavallo to cut government salary and pension costs, and the government sold debt to cover the deficit. In December 2001, the government defaulted on its debt and, in January 2002, it abandoned the Convertibility Plan". (Kehoe, 2003, p.15). Instead of solving problem the country depreciated its currency which means only postponing the real problem for future. Currently inflation is going on and the postponed problems stay to be coped with: "Argentina is grappling with a serious economic crisis. Its currency, the peso, has lost two-thirds of its value since 2018; inflation is hovering around 30%; and since 2015 the economy has contracted by about 4% and its external debt has increased by 60%". (Nelson, 2019). So, the case of Argentina does not say that the fixed currency regime leads the country into crisis, it says that fixed currency regime should be saved in any case by having very strong fiscal discipline and clear economy policy to strengthen country's position in the international trade and to have stable conditions in the domestic market. In any case, fixed currency regime in the country (in the small developing countries) means more stability for business subjects than the floating regimes. Stability comes from the credibility from the business subjects (locals and foreigners).

Other regimes of national currencies

Other regimes spread in the modern world are mostly comfortable for national governments. These regimes are the systems when the governments (via the national banks) are mostly free to do their politics against currency stability in the concrete situation. Their needs are changing permanently and every time they correct the regime depending to their needs. It does not matter if there is floating regime or intermediate, these cases always offer some more possibilities for governments to manipulate with currency value. And therefore, there is no guarantee that it will help against coming problems: "The Asian Crisis in 1997 was triggered off by the Thai baht devaluation. Since May 1997 the Thai's economy has been slowing down due to political instability, which in turn caused massive market speculations. In addition to that, the currency and stock market sharp fall has created a financial turmoil that affected Thai's economic fundamentals". (Noerlina, 2003, p.14). And: "In many Asian countries, production has declined, whilst inflation and unemployment have shot up. The rapid decline in currencies and stock market levels marked the beginning of the Asian financial crisis. While Thai, Korean, Malaysian and Philippine's currencies had fallen 40 to 50%, Indonesian Rupiah was experiencing a decline up to 500 to 600%. This affects the local currencies that had to be used to service foreign loans. A tremendous increase in FOREX (Foreign Exchange) loss was then created". (Noerlina, 2003, p.15). Declined up to 500 to 600%! Crisis in Mexico in 1994 is very similar to this Asian crisis, both of them have begun from devaluation: "The Mexican crisis began in December 1994 when the peso was devalued sharply. Similarly, the East Asian crisis began on 2 July 1997 when the Thai baht was floated". (Rana, 1999, p.3). The crisis is caused by structural weakness of the financial sector: "It is agreed that the root causes of the crisis of confidence in East Asia were the structural weaknesses in the financial sector, including lending on a nonmarket basis and policy mistakes in handling large surges of mainly short-term capital flows". (Rana, 1999, p.7). In the same article Rana writes about policies to stabilize currencies. What should be done to a system which needs additional effort to stabilize it, and, also causes crisis?! Emi Nakamura (with Jon Steinsson) makes a good comparison: "The argument for a flexible exchange rate is...very nearly identical with the argument for daylight savings time. Isn't it absurd to change the clock in summer when exactly, the same result could be achieved by having each, individual change his habits? All that is required is that everyone decide to come to his office an hour earlier, have lunch an hour earlier, etc. But obviously it is much simpler to change the clock...The situation is exactly, the same in the exchange market". (Nakamura Emi, 2018, p.10).

The situation is similar, only care should be taken of one thing: which is more correct way, to make change for the people who need this change, or to make a change (even very small) for all people who do not have any interest in this change. Should not be hard to understand which of them is more correct and more productive way to do. Regardless of this fact because of some political or other interests many officials choose to make decisions spreading over the whole population and do not care that most part of this population does not need to be affected by this decision. Now, the question of the Summer's time is disputed one more time and it looks like this practice will be halted soon: "European Commission President Jean-Claude Juncker has said the EU plans to get rid of the switch between summer and winter time. The decision came after a majority of surveyed EU citizens said it should be abolished. A man fixes a clock in Dresden, Germany (picture-alliance/dpa/S. Kahnert) Switching the clocks by an hour between summer and winter time may soon be a thing of the past in the European Union, European Commission Jean-Claude Juncker announced on Friday. He said that the decision was taken after a vast majority of EU citizens — primarily from Germany — who took part in a survey on the issue called for an end to biannual clock changes". (Staudenmaier, 2018). Certainly, there are many arguments for and against summer-winter time change but it is clear, that the mistake was when this rule was established and made big discomfort for the big range of population. No one minded the problems with logistics in transport, the 24 hours services, the people who do not work from 9:00 to 18:00, or the people who do not work at all? And who cared about the health of these people? The circumstance for the currency regimes is worse than the problem of summer-winter time. No one (no decision makers) cares about the economic subjects for whom the voluntary changing in the rate or even not changing, but the perspective of the change depending on political needs, which means that the politicians can change current value as they wish, makes the economic subjects to feel unstable and unsure in their statements. The research mentioned above shows that the absolute, majority of economic subjects make losses in any kind of inflationary environment. All companies try to minimize risk, so that "The firm's decision is modelled as a mean-variance optimisation problem of modern portfolio theory, in which risk averse investors seek to maximise the expected terminal wealth for a given level of risk captured by the variance of the expected cash flows". (Harasztsosi & Gabor, 2020). It should be mentioned that even big currency union requires more member countries to reach suitable stability of currency system: "Note that the level of economic integration needed for stability under the simple models of behavioral expectations and for determinacy under rational expectations increases with the number of countries in the currency union". (Bertasiute, et al., 2020).

There maybe big problems for outstanding countries. For, example Turkey: "Our results illustrate the investors' sentiment of how resilient banks would be to possible bank defaults with spillover effects. The stocks of the overall banking sample react negatively to the crisis in Turkey and results indicate that banks that recently increased their leverage or experienced a decrease in liquidity or profitability have also been subject to higher abnormal losses on the event day and a day after the event, where the losses in general were the most severe. Nevertheless, leverage, liquidity and performance ratios are by themselves not sufficient to assess the financial soundness of banks, since the risk is more related to the quality than the quantity of the assets they carry". (Arbaa & Varon, 2019). It is interesting to note that Steve Hanke recommends to Turkey go to gold standard: "Making the lira 'as good as gold'". (Hanke, 2020). At the end of this chapter the circumstances in post communist countries should be mentioned: "This type of constitutional constraints is even more essential in the countries of the post communism transition where the tradition of thorough monitoring of governmental activities and expenditures is still very weak. In these countries budgetary systems are usually based on favoritism, privileges and corruption. Therefore, they need even stronger restraints of governmental spending and taxing powers". (Jandieri & Chkhikvadze, 2017).

Georgian Lari's (GEL) value compared with 1995 GEL value. In Georgia national currency was issued in 1995 (let us mark, its value in this year of issue as GEL1995), so it is very interesting to look at it and see how it was doing in the years of its existence (see figure 4).

GEL1995/current value

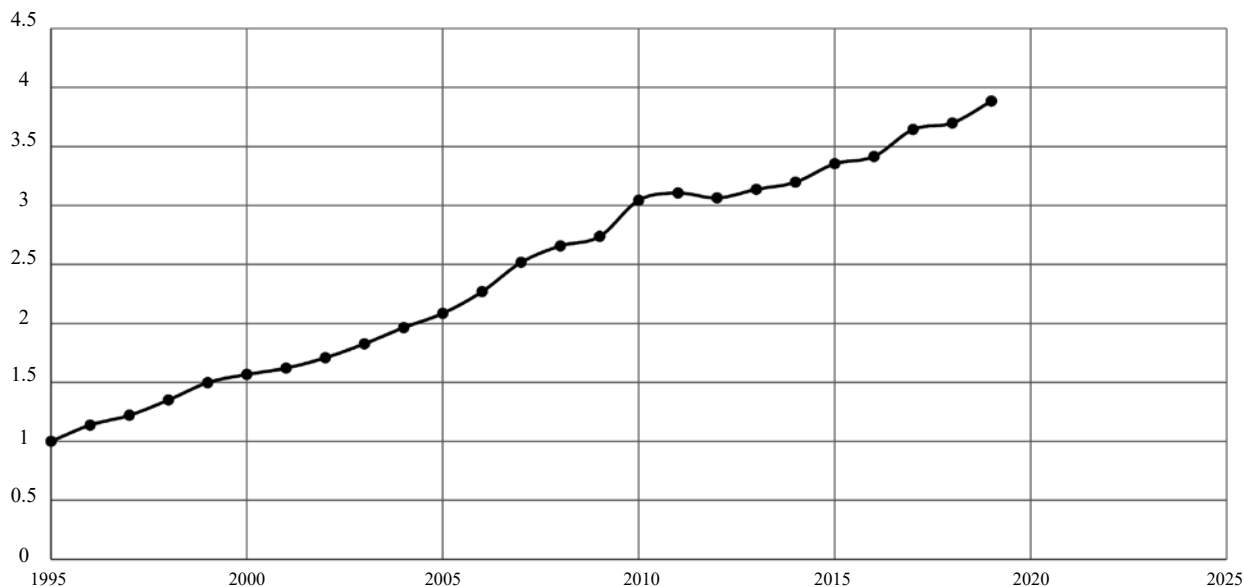


Figure 4 . Georgian 1995 Lari's value (GEL1995) / current value.

Source: (NBG, 2019).

Here it is given 24 years period and from chart it is visible that current 1 Lari is almost one fourth of the 1995's Lari. How can it be suitable for the economic subjects to operate in these circumstances and make balances in the currency which loses three fourth of its value in the 24 years period. (nothing is said here about the countries where the inflation rate is much bigger). And worse is expectation rate for which some results were given in the paragraph 3. Everyone expects that the inflation will continue, and it may be steeper. Comparing with USD we can see what Lari's devaluation looks like (see figure 5).

GEL / USD

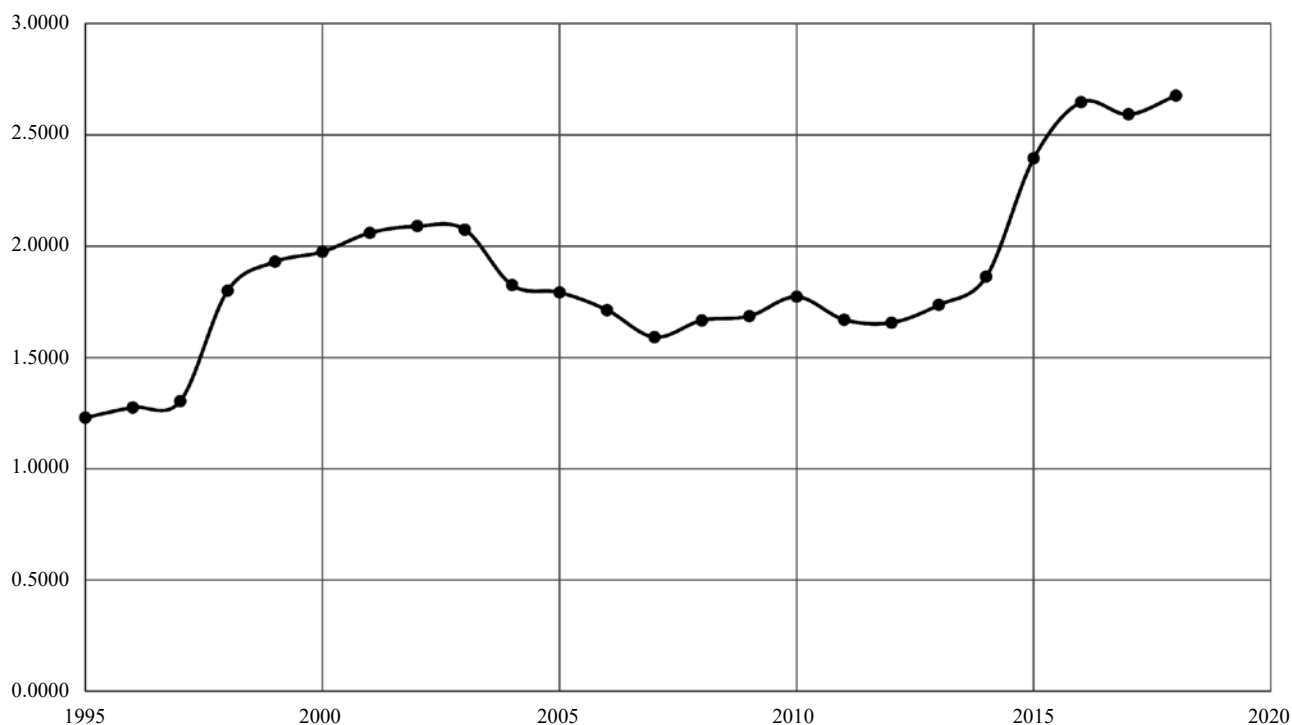


Figure 5. Georgian Lari's value / USD.

Source: (NBG, 2019).

It is clear that the figures 7.1 and 7.2 have some correlation. Inflating national currency in such countries as Georgia always leads to its devaluation compared to USD (or to any other strong currency). And here it should be mentioned that dollar itself inflated by 62% for the same period of time and if we multiply dollar's inflation to Lari's devaluation rate we nearly get Lari's inflation rate. This result was anticipated as Georgian economy is mostly dependent on imports.

Business efficiency

Each business has its own aims and plans to reach them, but the plans are usually based on given circumstances. Calculating their KPI, one of the most important points is financial stability and reliability in the country. Looking at the situation mentioned above business subjects have two choices: Plan their business for the short period only and continue planning after each period; this is not so productive and, also it is expensive way of planning business; Plan and operate their business in the foreign stable currencies (mainly USD or Euro), which usually is not allowed by national laws. For prosperity of national economics, it is very important to have long run plans in the economy and that means the business subjects should have possibility to make long run projects and plans for their business development. And the currency's credibility is one of the most important issues for the business subjects: "After having selected the relevant growth determinants using the BMA approach, we show that the higher the undervaluation, the higher the negative impact of inflation on growth". (Morvillier, 2020). Here can be mentioned also the methodology, it impacts on the results: "The different methods for adjusting for inflation can yield substantially different results. We make recommendations regarding the most appropriate method for various scenarios. Moving forward, it is vital that studies report the methodology they use to adjust for inflation more transparently". (Turner, et al., 2019).

Conclusion

In terms of the existence of a currency regime in which national currency is firmly connected to a stable foreign currency, the efficiency and effectiveness of companies in the economic and financial crisis exceeds the effectiveness of companies existing in the other currency regimes for countries with national currency (floating regimes or intermediate regimes). In other words, existing floating regime in Georgia makes less comfortable circumstances in the country for businesses than it would be in case of fixed currency regime with stable foreign currency. The factors for: Psychological expectation of the undesirable change of national currency's value catches economic subjects out from long run business planning; At the time of the crisis, the national currency is changing significantly, and it is impossible to determine the real value of existing real-life assets and/or services;

In case of international agreements, there is continual necessity of recalculation the costs of existing projects. For business companies whose big share of business involves relationships with foreign partners, it is best to have a financial accounting in any of the harder foreign currencies. Business companies that operate only on the local market are better if they keep track of their record in a fixed-year value of national currency and evaluate their business growth history and future prospects. Going one step further one could generalize that it would be better for the economy of small countries if the local governments change the current monetary policy attaching national currency to a solid foreign currency or even more - use the solid foreign currency instead of national currency. That would help the country to have more credible circumstances. It is a well-known fact that prices on goods and services are formed by supply and demand on this resource. Any limitations done with whatever good wishes do not lead to good results: the outcomes are shortages and quality problems and these results come from not having real prices. Only market can give a genuine price on any scarce resource. Money is scarce resource too (in any case, it should be) and we need to take this into account, money's price should be market's formation and not voluntary decision of some officials. Analogy is clear: If we need grow the tree, we have, to irrigate it, not to manipulate with ruler – tool of measure; If we need to begin work earlear, we have to get up earlier and not to manipulate with clock – tool of measure; If we need to grow economics, we have to care about real problems and not to manipulate with money - tool of measure. Inflation can exist in case of gold standard too, but it would not be because of voluntary decisions of some politicians but because of natural fluctuation from one side to another, and everyone would know it is natural not the inflation tax.

Acknowledgenets

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