Georgia Says Worst Over for Economy

Massive foreign aid helps, but some doubt government's economic claims.

The Georgian government has declared that the financial crisis has passed, and that 2010 will see the economy returning to growth – though experts say its policies are harming rather than helping the country.

They can all agree that last year was a tough one for Georgia, and that the war with Russia in 2008 was a cruel blow to the nation. The government expects official figures to show the economy contracted by four per cent in 2009 but it is forecasting a revival with growth of two per cent this year.

The combination of the war, the wave of refugees it caused, the global crisis, political tension, a halt in investment and problems with producing goods for export, all severely harmed the economy and the government was forced to slash its budget. However now, say officials, the worst is over.

"Georgia has begun to come out of the economic crisis. The crisis came to an end in the country at the start of the fourth quarter of last year, which confirms the positive economic indicators," said Prime Minister Nikoloz Gilauri, in words echoed by other ministers.

"Against a backdrop of great difficulties, the Georgian economy stood firm and preserved macroeconomic stability. This is the most important thing, especially in the long term. This means we managed to preserve the foundations on which the economy must develop," said Economy Minister Zurab Pololikashvili.

But some of the country's leading economic experts did not agree with the government's rosy forecasts. They say that officials, desperate to preserve their opinion poll ratings, followed populist policies, which could lead to serious long-term problems.

Vladimir Papava, himself a former economy minister, said the crisis could well continue all year.

"It is noteworthy that the government has not once recognised that the economic crisis in Georgia has its roots here as well. They always talk about the influence of the global financial crisis on the Georgian economy. But that raises the question: if the global crisis is not over, then how can it have finished in Tbilisi and in Georgia? You can see the authorities' lack of professionalism and truthfulness from these statements," he said.

His scepticism was echoed by Paata Sheshelidze, president of the New Economic School – Georgia.

"The authorities are focusing on the stimulus for the economy and the creation of jobs, but in the current conditions this is not correct. Such programmes involve expenditure of money and not earning it, which would a show that we had a real end to the crisis," Sheshelidze said.

"In such a situation I cannot be optimistic. Everything is still in front and the main decisions to take us out of the crisis have not been taken."

The experts agree that the prospect of May's local elections, which are likely to tempt the government into spending more than it can afford so as to win voters' favour, is among the more serious problems facing the country.

"In 2010 there will be much populist spending, because this year will see local elections and the ruling National Movement will definitely try to win in every major city, particularly Tbilisi. At the last presidential elections, the National Movement recognised it had lost in Tbilisi, therefore it is important for them to secure that victory and they will spend anything to secure that," Papava said.

"This fully fits in with the course followed by the authorities in recent years. This is economic illiteracy and populism, and it is not worth expecting radical positive changes."

Sheshelidze agreed that the May elections would define the economic outlook as well as the political scene this year.

"There are two factors. The first is the elections, the results of which are unpredictable, and the second is the authorities' insistence that they will maintain their liberal course and improve the business climate. These two factors could contradict each other. The election result could hold up the implementation of the economic plans because of a change in the leadership of local government, or if unhappiness about the election results increases tension in the country," he said.

They both agreed that if 2010 did turn out to be a reasonable year for Georgians, this will largely be due to the international aid pledged to the country after the war. Gilauri concedes that the 4.5 billion US dollars promised to Georgia in 2008 had been very helpful.

“Most of the projects are already under way. Projects for 3.7 billion of the 4.5 billion dollars have been signed or approved. This will give the country additional comfort. We have three years to restore foreign receipts to the level they were at between 2005 and 2007,” he said.

He said the International Monetary Fund had promised 1.1 billion dollars, 400 million dollars of which were going to the budget and the rest to restore the level of the country’s financial reserves.

Giorgi Khukhashvili, an economist from the Centre for Social Projects, thought the aid had merely served to stave off the worst of the crisis.

“In 2009, the crisis was not solved. It was postponed thanks to the international aid. But no systemic changes were made and economic resources remain limited. In this year, the volume of international aid will be smaller and the situation with the economy could intensify,” he said.

The war, political instability marked by mass protests in Tbilisi last year, and also the global crisis, have all harmed the level of investment in the country. The government’s expectations of two billion dollars of investment in 2009 were not fulfilled, and only slightly more than half of that materialised.

The president made a series of international trips last year in attempts to drum up business, including to Kuwait and Qatar at the end of 2009. Arab countries have proved ready to invest in Georgia before, including in property, agriculture and food processing.

“In Georgia, like in the rest of the world, Arab investment is working successfully,” Pololikashvili said.

He said his ministry was drawing up a series of suggested projects for potential investors. However, economic experts did not welcome the prospect of fresh investment from Arab countries.

“Maybe we are attractive to the Arab world, but we have to ask if we want to be attractive to the Arab world. Where do we want to integrate? Into some Arabic caliphate or into the European Union,” asked Papava.

He said the government’s publicity campaign had failed to attract a single European or American investor, but many investors had appeared from Russia, Kazakstan, Azerbaijan, and the Arab countries.

“This is not the kind of investment we need to get the economy on its feet. We need investors who work in the real sector and bring new technology into the country. If someone comes to Georgia, to speculate in land and real estate, this does not help the development of the economy.”

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