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## IMF backs Georgia's anti-inflation policies

By Margarita Antidze

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Tighter fiscal policies will help the Georgian economy grow by around 9 percent this year and deliver single digit inflation, a senior International Monetary Fund official said on Friday. Georgia's economy, subsidised by Moscow under Soviet rule, almost collapsed after independence in 1991 and has never fully recovered. But economic reforms have attracted more foreign investment and led to the privatisation of state enterprises.

"We see better macroeconomic policy in place now than we saw last year. Fiscal policy has been tightened," David Owen, senior adviser at the IMF's Middle East and Central Asia Department, told Reuters in an interview during a visit to Tbilisi.

"The central bank is tightening monetary policy by raising interest rates and allowing more flexibility into the exchange rate if necessary," he said.

Georgian inflation hit 11.0 percent last year, overshooting a government target of 6.2 percent, due to capital inflows, high global energy and food prices and political instability. The government forecasts 2008 inflation at 8.0 percent.

Georgia's central bank has raised its key rate twice already this year, to 10.0 percent and then to 11.0 percent, to ease inflationary pressure. Owen said he welcomed the government's new initiative on financial and macroeconomic reforms now under discussion in parliament. "We strongly support the goals of more moderate monetary expansion, the move to inflation targeting and greater exchange rate flexibility," he said.

The package envisages strengthening financial sector supervision, combating money laundering and the introduction of future generation and stable development funds, as well as new provisions for the way in which the central bank functions.

"The intention of this law is to provide the central bank with greater independence in the use of its instruments in order to achieve lower inflation," Owen said.

Private capital inflows reached about \$2.2 billion last year and Owen estimated they would reach the same level this year.

### POLITICAL INSTABILITY

Investor confidence in the Georgian economy has been shaken by political instability last November and controversy surrounding January's presidential election.

"Political uncertainty can affect confidence, but our impression is that the period where investors may have hesitated was relatively short and it seems to be over now," Owen said.

Owen predicted gross domestic product (GDP) to grow 9.0 percent this year.

Georgia's GDP grew 12.0 percent last year. "I would not make too much of a difference between 12.0 and 9.0 percent. Policies are tighter now. Maybe 9.0 percent is more sustainable growth," Owen said.

The IMF, at odds with the former Georgian government, resumed lending to Georgia in 2004 after President Mikhail Saakashvili swept to power on the back of "Rose Revolution" protests.

The fund's three-year programme, worth \$144 million, was completed in 2007. It no longer disburses loans to Georgia, but offers advice on major economic policy and reform.

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