

IMF: Georgian Growth to Depend on Ties With Russia

By [The Moscow Times](#)

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TBILISI — The International Monetary Fund warned that political friction in Georgia could endanger the country's economic prospects, but the IMF believes that the country's economic health could benefit greatly from a restoration of trade ties with powerful neighbor Russia.

The IMF forecasts economic growth of 6 percent this year, a slowdown from last year's 7 percent. But the IMF's resident representative said in an interview that this will depend on whether the new prime minister, Bidzina Ivanishvili, stabilizes the political situation.

Ivanishvili's rise has intensified his rivalry with President Mikheil Saakashvili, the leader of the Rose Revolution of 2003, whose party lost power in the vote.

"There is a real possibility of increased trade with Russia and new sources of foreign investment," said Azim Sadikov, the IMF representative. "However, if the current uncertainty persists ... then growth in Georgia could be lower than we project currently."

Ivanishvili, who built a multifaceted business empire in Russia worth \$6.4 billion before entering politics in his native Georgia, is promising a more pro-business environment and more cooperation with Moscow.

Political analysts are concerned that friction between Ivanishvili and Saakashvili, whose term expires in October, as well as the arrests of several former officials, could deter investors.

Sadikov said growth appeared to have paused in the post-election period, but he said indicators for January and February would make the economic picture more clear.

"Activity levels in the next couple of months will tell us if the economy has entered a period of slowdown or if it was just a temporary pause," he said.

A Georgian delegation is expected to visit Moscow next month to discuss restoration of exports to Russia, mainly of Georgian wine and mineral water, which Moscow barred in 2006.

Russia routed Georgian forces in a five-day war in August 2008 over the breakaway regions of South Ossetia and Abkhazia, and it recognized them as independent states after the conflict, making them de facto protectorates of Moscow.

"Obviously, gaining access to a large market such as Russia's would give a boost to the Georgian economy," Sadikov said. "The impact on the economy of improved access to the Russian market will probably be felt gradually."

Key economic challenges for the new government will be ensuring sustained growth that creates jobs and reduces poverty.

"Another key priority for the government now should be to communicate to the markets its commitment to pursuing sound macroeconomic policies, further enhancing Georgia's business environment and strengthening its competitiveness," Sadikov said.

The IMF forecasts that inflation in Georgia could reach 3 to 3.5 percent by the end of 2013, a contrast with the average 0.9 percent deflation in 2012. The fund also predicts a fiscal deficit of 2.8 percent of GDP, down from an estimated 3 percent in 2012.

Sadikov questioned whether the government could achieve its goal of boosting foreign direct investment this year to \$2 billion, compared with \$685 million the first nine months of last year.

"If we are talking about FDI and not all forms of foreign capital, I would not say it's impossible," Sadikov said. "But that will be an ambitious projection."

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