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Georgia's Central Bank Scapegoat for Country's Problems — Official

By The Moscow Times

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Georgia's Central Bank Governor Georgy Kadagidze

TBILISI — Georgia's Central Bank has become a scapegoat for economic problems that have been exacerbated by the plunge in Russia's ruble and conflict in Ukraine, Governor Georgy Kadagidze told Reuters.

He said Georgia needs at least $1.5 billion in foreign investment (FDI) this year to preserve financial stability, control inflation and bolster the lari currency.

Georgia attracted just $175.3 million in FDI in the first quarter of this year, down from $265.3 million in the same period last year. FDI totaled $1.273 billion in 2014.

Kadagidze, the only high-ranking official left from the administration of Georgia's former president Mikheil Saakashvili, has been criticized by government officials and the ruling coalition for his monetary policy.

"Expectations among market players and business confidence are quite low and we need to work really hard trying to address these challenges and to recover currency inflows," the central bank chief said in an interview.

He said conflict between the government and the Central Bank in the former Soviet state was giving investors the "wrong signals."

"Unfortunately, we are still witnessing the process of trying to find a scapegoat, trying to find somebody to blame, trying to elaborate these conspiracy theories," Kadagidze said.

Exports, remittances and foreign investment are falling and the current account gap is widening.

"We need $1.5 billion (in FDI) or more to be on the safe side," Kadagidze said. "That should be the primary objective of the policymakers in the government."

He said the major challenge was inflationary expectations and the central bank planned to raise base interest rates step-by-step. "We expect that the refinancing rate will be raised to 6.5 percent by the end of this year," he said.

The Central Bank raised the rate to 5.5 percent from 5 percent on July 1. It holds its next monetary policy meeting on Wednesday.

"We are not considering decreasing the rates and we are not in favor of big jumps," Kadagidze said.

Inflation was running at 4.9 percent year-on-year in July, up from 4.5 percent in June. "We think that by the end of this year we will reach the (government's) target of 6 percent," Kadagidze said.

He called the government's new 2015 economic growth forecast of 2 percent "realistic."

"Our projection is that currency reserves will be close to three months' coverage of imports by the end of this year. In the current environment we do not plan to intervene on the market" to support the lari currency, Kadagidze said.

Georgia's central bank has sold $200 million so far this year to support the lari. The official exchange rate set on Friday for Monday was 2.3058 lari per dollar, compared with 1.7542 at the start of November.

Economic growth has slowed to 2.6 percent in the first half of this year from 6 percent in the same period last year.

The Georgian government in June halved its growth forecast for this year to 2.0 percent from 5 percent, and decided to reduce budget spending by 140 million lari ($62 million), pointing to serious problems in the economy.

Wrong Signals

The Georgian parliament in July passed a bill that would strip the Central Bank of its supervisory functions over banks.

Critics including international financial institutions, business associations, opposition parties and civil society groups, say the move could erode central bank independence.

The law, which would transfer banking supervision to a separate agency, was vetoed by the president but a parliamentary majority plans to overturn it in September.
"It's a very wrong decision. It hurts the central bank's independence, it hurts investors' confidence," Kadagidze said.

"Instead of working hard to ensure investors that we are doing our best to address challenges ... we are creating very wrong signals," he added.