

GEORGIAN ECONOMY FACING GLOBAL THREATS

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In an interview with Business News, Professor Lado Papava, Senior Fellow at the Georgian Foundation for Strategic and International Studies commented on Georgian government strategy in terms of global challenges.

What served as a ground for the US economic problems and what is, in your opinion, the most possible scenario of development of things?

The world is facing a real threat of financial crisis and the roots of this crisis go straight to the United States. American analysts, thoroughly studying the process point to several reasons. One of the main reasons is mortgage market developments. American citizens, encouraged by the country's economic prosperity and success, massively started using mortgage credits. This led to a speedy leap of prices in real estate market. Later, when the pace of economic growth slowed down it resulted in growing unemployment and lots of customers were soon facing serious problems: they were no longer capable of covering their credits. As a chain reaction, very soon banks became involved in the crisis: real estate left by debtors as a bail was in their possession now, but money recovered from the sale was not enough to cover allowed credits.

Another basic reason leading American economy to this condition is militarization process caused by military campaigns conducted in Iraq and Afghanistan. Naturally, financial crisis could not have stayed within the borders of American economy, and dollar depreciation led numbers of European companies to lose serious income as a result. But I would like to completely rule out the possibility of dollar collapse, so widely speculated in Russian scenario. It is simply impossible for several reasons: first and foremost, many big or small states, as well as powerful corporations all over the world have their assets in dollar currency. Due to this fact dollar crisis would mean a disaster not only for America, but for the other states of the world and corporations as well. Accordingly, the later would never allow dollar collapse and turn it down as suggested by Russian scenario.

When did the ambition of turning into a financial centre came onto the surface in Russia and what serves as a ground for it?

Russian scenario of American financial crisis and US dollar collapse originated at the dawn of 21st century. It is worked out practically as a document, is planned in detail and it was made public long ago. According to the scenario only two countries in the whole world, Russia and China, will survive global financial cataclysms. Such hopeful prognosis are of course based on Russia's natural riches, and namely on its energetic potential.

As for Medvedev's announcement on turning Moscow into a global financial centre, there is nothing unexpected if remembered that at the beginning of this year Georgian government tabled a draft law to the Parliament, which implies turning the country into a world financial centre. With Georgia having such far going ambitions, it's not surprising that Russia with its huge energy resources may have the same ambitions.

According to the "technical side" of the very scenario, all corporations and states will completely repudiate US dollars due to the crisis, immediately resulting in hyperinflation. But as I already noticed, it is a completely unrealistic view, because, if all the countries follow this scenario, they will not simply have enough time to exchange their US dollar assets into other currencies and will go bankrupt. This is a common knowledge, even in Russia.

Prognoses about the future of the Dollar are very encouraging: exchange rate will start swelling from 2011, when oil prices fall down to \$75 per Barrel. And it must be noted that Aleksey Kudrin, Russian Federation Finance Minister agrees with this prognosis.

A serious struggle for leadership is under way throughout the world, with Eurozone being the most stable of all. And despite the fact that Russia looks not so encouraging with its halted and non-convertible Ruble, it uses every chance to profit from America's economic problems and satisfy its ambitions.

Georgian government frequently makes accents on global economic problems. Can it be a certain pretext in case it fails to find an efficient solution to stop inflation processes?

I cannot be sure. But the fact is inflation processes are under way throughout the world, and inflation will continue in Georgia as well. The bad thing will be, if the government with its actions contributes to the further aggravation of this process. Several months ago Prime Minister Vladimir Gurgenzidze made an announcement, saying higher inflation rates are

expected in Georgia in the autumn as a result of world economic crisis. This was only one part of the truth, the part dealing with global problems, but he never mentioned the second part, the one dealing with the government's mistakes. In my opinion, given current situation, national bank of Georgia is functioning practically without mistakes, but Georgian government cannot keep pace with it, taking expenses that cause greater inflation. In another words, Georgian economic situation is not so stable. To support the economy, government must stop funding unforeseen social programmes, bearing in mind that every additional Lari on the market causes price rise. Government should fund only the liabilities envisaged in the state budget. I understand the idea sounds unpopular, but we have no other option.

By Maia Butbatia