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GOVERNMENT ACCUSED OF "SOCIAL POPULISM"

Eurobonds Issue Provokes Debate

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A delegation led by PM Lado Gurgenidze will meet officials of two investment banks, JP Morgan and UBS, in London on February 25-27 to negotiate details of a eurobond issue and their floating on international stock exchanges. This plan is part of the government's programme *United Georgia without Poverty.*

Apart from JP Morgan and UBS, Citigroup, Deutsche Bank, Credit Suisse and Merrill Lynch also expressed an interest in organising the Eurobond issue. But the Georgian government has decided that the first two named will issue Georgia's first-ever Eurobonds, which will be worth USD 500 million and have a maturity of between five and ten years. The money generated through the bond issue will finance the construction of a natural gas storage facility and high voltage power lines to facilitate larger electricity exports to Turkey, the PM said when unveiling his plans on January 31.

The government had earlier voiced internationally its intention to develop Georgia's hydropower capacities. "Georgia is self-sufficient in electric power but uses only 18% of its capacity," Gurgenidze said in a January 17 interview with The Wall Street Journal. The PM said he expects between USD 1 billion and USD 1.5 billion to be invested in the sector in the next five years.

Back home many oppose Gurgenidze's plans. Vladimer Papava, an Independent MP and a Senior Fellow at a reputable think tank the Georgian Foundation for Strategic and International Studies (GFSIS), voiced criticism at the February 12 parliamentary session. He believes that, as signals of recession are already emerging in Europe, opening up our market would lead to a U.S.-type mortgage crisis appear in Georgia. His argument is that since Georgia has refused to keep taking low interest credits from the International Monetary Fund there is no point in accepting a high interest rate debt from foreign banks.

"Issuing eurobonds amounts to jumping into this financial crisis. It would be much better if the country's economy remained financially closed," Papava said. Parliamentary Chairperson Nino Burjanadze then responded by saying that the matter was still under consideration. She said additional consultations with the government would be arranged and if the pros outweigh the potential cons a decision would be made "in favour of issuing eurobonds." But now that decision has been made Papava has stepped up his criticism. Last week local TV companies competed to give the best coverage of his comments and interview him on the issue.

Papava slams the eurobonds project along with most of the rest of the government's financial plans, calling it "social populism." "The eurobond issue is nothing else than a way of increasing Georgia's foreign debt," Papava said in a February 21 interview with Tbilisi-based TV Caucasus. Georgia's foreign debt was USD 1,790,049,000 on December 31, 2007, the Finance Ministry of Georgia reported in January.

Paata Sheshelidze, President of Tbilisi-based non-profit organization New Economic School-Georgia (NISEG) shares the criticism. "By issuing eurobonds Georgia is apparently taking on foreign debt for future generations to pay off in order to tackle current troubles," he says. This, he adds, is the same as interfering in private sector affairs since the latter, rather than the government, is responsible for doing the works the government says it will finance by taking on the new debt. "This is one more attempt to transform Georgia into a corporate country where the government is the key economic player," Sheshelidze told GBW.

Advocates of Georgian eurobonds, however, say the plan will yield many gains. "This will help attract commercial funds from foreign capital markets, where currently only subsidies are available. Moreover, the issuance of state bonds increases the country's visibility", Georgian-born Levan Surguladze, representing UBS, commented for GBC news agency last week.

Apart from the question of where the funds are going to come from, many question the long-term feasibility of the plan too. In a recent interview with GBW Murman Margvelashvili, Director of World Experience for Georgia, welcomed the Gurgenidze-initiated plan, but only to a degree. "The proposed new investment will boost economic growth. Georgia does have the natural resources to launch new hydroelectric power stations by the rivers." But in his opinion, the problem is that "there is just no market at the moment to sell the power in."

Earlier this year Gurgenidze told The Wall Street Journal: "At the moment, we produce just enough power to supply ourselves, but in four to five years, we aim to have power exports of around USD 1 billion a year," noting that neighbouring Turkey is starved of energy. Margvelashvili however does not rate Georgia's chances of becoming an energy supplier for Turkey. "Construction of new hydropower stations and transmission lines is estimated to take around 5-6 years…After five or six years, we do not know if Turkey will still be starved of energy." Turkey, the primary export market for Georgian electricity, does however have one of the highest wholesale electricity tariffs in Europe and rapidly growing demand.

Skepticism has also been raised regarding the gas storage facility. Liana Jervalidze, an energy expert with Transparency International Georgia, told GBW she sees no need at all to construct it. She says that if Georgia has a gas facility the prices will surge. "Last year Georgia consumed 700 million cubic metres of gas which in terms of consumption is too low a figure. If one wants to construct a storage facility it has to be of at least 300 million cubic metres in volume. The smaller the facility, the higher the consumer price." Jervalidze maintains that keeping gas in storage costs 60 USD per 100 cubic metres. "So consider the existing price of imported gas with 60 USD maintenance costs on top. Do we want costlier gas?" she says.

The international practice, Jervalidze explains, is that the price of gas slips in summer when consumption is low, therefore countries buy gas in summer and sell it in winter. "But while Georgia pays the same amount in both seasons (In 2007, Georgia paid USD120 per 1,000 cubic meters for gas supplied from Azerbaijan and 235 USD per 1,000 for Russian gas) there is no need to construct a storage facility."

Jervalidze also opposes the plan because as the gas sector is in private hands in Georgia, if companies feel they need a gas storage facility, they should construct it themselves. She noted that she had met with officials from Itera and Energy Invest who say they have not discussed this issue at any level. "If they have decided there is no need [for a gas storage facility], how come the government decides it is necessary?" she asks.

It is intended that Georgian eurobonds will see daylight in April. The Finance Ministry has already prepared appropriate amendments to the 2008 budget for parliamentary consideration.

Tamar Khurtsia has also contributed to this article

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