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Vladimer Papava, Expert: "Inflationary Pressure from Budgetary Spending will be Felt Mainly in the Second Half of the Year"

Tbilisi (GBC) - The Parliament of Georgia has already adopted one set of government amendments to the 2007 State Budget under which the intended revenue was increased by 430 mln. GEL. However, the government has already started working on further amendments, which will soon be presented to parliament for discussion. It has also started working on new proposal, which involves putting an additional 100 m. GEL into circulation.

Economic expert Vladimer Papava says that it is important to know what the sources of these increased budgetary revenues are and what negative effects the spending of this money might have on the country.

"Before analyzing the increased budget, we should know the condition of the existing state budget, where the government has already identified priorities. The official deficit in the existing budget is 374 mln GEL. However, the new draft budget does not propose any alteration of this."

According to Papava, under Georgian legislation funds received from privatization are included in budgetary revenues, but in economic theory and international practice funds received from privatization are not treated as budgetary revenues, but as a means of filling the budget deficit.

According to 1H, the first half of 2007 report from the Ministry of Finance, the Georgian government received more revenues (up 34 m. GEL) than it spent, creating a budget surplus in the first half of 2007. Papava however says inflationary pressure caused by budget spending will be felt mainly in the second half of the year, since a deficit of 374 m GEL in the budget will be accrued during spending from July onwards.

Papava does not agree with the annual inflation figure quoted by the Department of Statistics, and says that in fact the inflation in the country surpasses 7.7%. He says that this year prices in almost all service sectors and products have increased. Therefore, it is evident that by curbing inflation artificially the government is lying to itself.

"According to the original projected budget, revenue should increase by 430 m GEL, 200m GEL of this coming from privatization. In the amended budget, the government has not increased the deficit, since the officially identified deficit remains 374 m GEL. Actually it is 574 m GEL, while following the amendments it will be 774 m GEL.

"When a high inflation rate is expected in a country, revenues are set aside to stabilize it. It would be good to keep the additional 200 m GEL derived from privatization in the fund. This

would help ease inflationary pressure. Moreover, it would be a guarantee of curbing inflation and maintaining macroeconomic stability. However, the government of Georgia has not considered my recommendation to set up a stabilization fund", says the economic expert.

Papava told GBC that the mission of the International Monetary Fund (IMF) in Georgia has also pointed out the inflationary risk in the present budget. "Robert Christiansen positively evaluates the statement that annual inflation in the country is 7.7%, however, he is concerned that inflation will grow to 12% if the proposed amendments are made to the budget.

Papava said the IMF based its report on figures published by the Department of Statistics. Therefore, if the Department of Statistics published inaccurate statistics for the year the IMF report would be inaccurate as well.