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Statement at the Conclusion of the Visit by IMF Director Masood Ahmed to Georgia

The economic program supported by the International Monetary Fund (IMF) is helping Georgia weather the effects of the global economic crisis, underpin confidence, and mobilize donor support, Masood Ahmed, Director of the Middle East and Central Asia Department at the International Monetary Fund (IMF), said today at the conclusion of his first visit to Tbilisi..

In meeting with the authorities, parliament, and civil society, Mr. Ahmed cautioned that, because of the impact of the global crisis, economic conditions would remain difficult in 2009 and economic recovery was not likely to take hold until 2010. He also discussed with the authorities the importance of implementing consistent policies and protecting the most vulnerable groups during this period of transition.

Mr. Ahmed's visit coincided with that of an IMF mission currently conducting the second quarterly review of the economic program, which is also discussing more broadly the outlook and policy challenges for 2009 and the medium term, as part of the IMF annual consultation cycle with all its member countries

Georgia—like many Central and Eastern European countries—is negatively affected by the crisis, in particular by the drying up of capital inflows from abroad, including foreign direct investments that were attracted by Georgia's impressive economic reforms in the past. Mr. Ahmed's discussions with the authorities touched on the economic impact of the 2008 conflict with Russia and prospects for 2009.

The IMF mission and the authorities have agreed on the need to limit the economic contraction within the constraints of available external financing, and reduce the risks of a more severe crisis. To this end, discussions focused on the coordination of exchange rate and monetary policy with the donor-financed fiscal stimulus package to protect international reserves and maintain an adequate international liquidity buffer against unforeseen events. Mr. Ahmed also stressed that the new global environment places urgency on strengthening further the financial sector

Mr. Ahmed also presented the most recent views of the IMF on the world economic outlook. He stressed that the global financial crisis is now widely recognized as the most serious crisis since the Great Depression. He added that strong and comprehensive policy actions are reducing the risk of a prolonged downturn, but that there is still considerable uncertainty in all markets.

Mr. Ahmed explained that emerging markets entered the crisis with stronger fundamentals than advanced economies, notably improved policy frameworks and strengthened balance sheets. However, after being largely unaffected through the summer, emerging market and developing economies have been increasingly swept up by the spreading crisis—particularly those countries with large external financing needs.

The IMF now projects global growth in 2009 to fall to just 0.5 percent, its lowest rate since World War II. Advanced economies will experience significant contractions in economic activity (-2 percent GDP growth). Growth in emerging and developing economies is also projected to slow sharply from 6¼ percent in 2008 to 3¼ percent in 2009, dragged down by falling export demand, lower commodity prices, scarcer capital inflows, and therefore much tighter external financing constraints. The emergence of large output gaps (relative to potential output) will put strong downward pressure on inflation globally.

Many governments that have fiscal space have announced stimulus packages to boost their economies and deal with credit strains. This should support a gradual recovery in late 2009, with world growth expected to pick up to 3 percent in 2010.

However, despite wide-ranging policy actions, financial strains remain acute. A sustained economic recovery will not be possible until the financial sector's functionality is restored and credit markets are unclogged. Greater international coordination will be key in boosting the effectiveness of policies and restoring confidence. In all, the uncertainty surrounding the outlook is unusually high, and downside risks dominate. This uncertainty reflects fundamental questions as to whether our models still hold at this time of profound upheaval in the world economy, Mr. Ahmed said.