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Georgia: Recent Economic Developments and Selected Issues

This Recent Economic Developments and Selected Issues report on Georgia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Georgia or the Executive Board of the IMF.

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GEORGIA

Recent Economic Developments and Selected Issues

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Approved by the European II Department

June 12, 1998

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Georgia: Basic Data, 1993-1997

I. Social and Demographic Indicators

Area	69,700 sq. km
Population density (1995)	77.0 per sq. km
Population (estimated 1995)	5.37 million
percent urban	55.6 percent
Rate of population growth (1990)	0.1 percent
Life expectancy at birth (1990)	72.6 years
Infant mortality rate (per 10,000 people--1990)	159
Hospital beds (per 10,000 people--1990)	108
GDP per capita, 1997 1/	
in lari	1,266
in U.S. dollars	976

II. Economic Indicators

	1993 Act.	1994 Act.	1995 Act.	1996 Act.	1997 Prel Est.
			(Percent change)		
Real sector					
GDP volume	-25.4	-11.4	2.4	10.5	11.0
Consumer prices					
Period average	3,125	15,607	163	39	7
12 months to end of period	7,488	6,474	57	14	7
			(Percent of GDP)		
Government finances					
Revenue and grants	9.7	7.7	7.1	9.4	10.4
Of which: Revenue	2.3	4.2	5.1	8.1	10.0
Expenditure and net lending	35.9	24.3	12.3	13.9	14.5
Balance (accrual)	-26.2	-16.5	-5.3	-4.5	-4.1
Balance (cash)	-26.2	-7.4	-4.5	-4.4	-3.8
			(Percent change, end-period)		
Money and credit					
Net domestic assets of the NBG	572.0	2,091.7	156.5	158.5	53.2
Credit to enterprises and households 2/	2,048.0	3,448.3	39.9	-14.0	34.9
Broad money					
Including foreign currency deposits	4,319.0	2,229.5	135.2	41.9	45.5
Excluding foreign currency deposits	2,462.0	1,796.7	319.7	38.1	35.4
			(In millions of U.S. dollars)		
Balance of payments					
Merchandise exports	457	381	363	417	463
Merchandise imports	-905	-746	-700	-768	-947
Trade balance	-448	-365	-337	-351	-484
Current account before transfers	-485	-448	-406	-418	-535
Official reserves, end-period,					
(in millions of U.S. dollars)	1	41	157	157	173
(in months of imports)	...	0.7	2.7	2.5	2.2
Memorandum items:					
GDP, current prices (in millions of lari) 1/	16.4	1,373	3,694	5,724	6,798
Exchange rate, lari per U.S. dollar					
Period average	...	1.10	1.29	1.26	1.30
End period	0.1	1.28	1.23	1.27	1.30

Sources: Data provided by the national authorities; and staff estimates.

1/ The Georgian national accounts suffer from severe problems of coverage, measurement of deflators, and internal consistency.

2/ The sharp fall in 1996 reflects the carve out of a US$41.6 million loan from the Turkish Eximbank to the Georgian former Eximbank. Had this loan been included, credit to enterprises and households would have grown by about 21 percent in nominal terms.

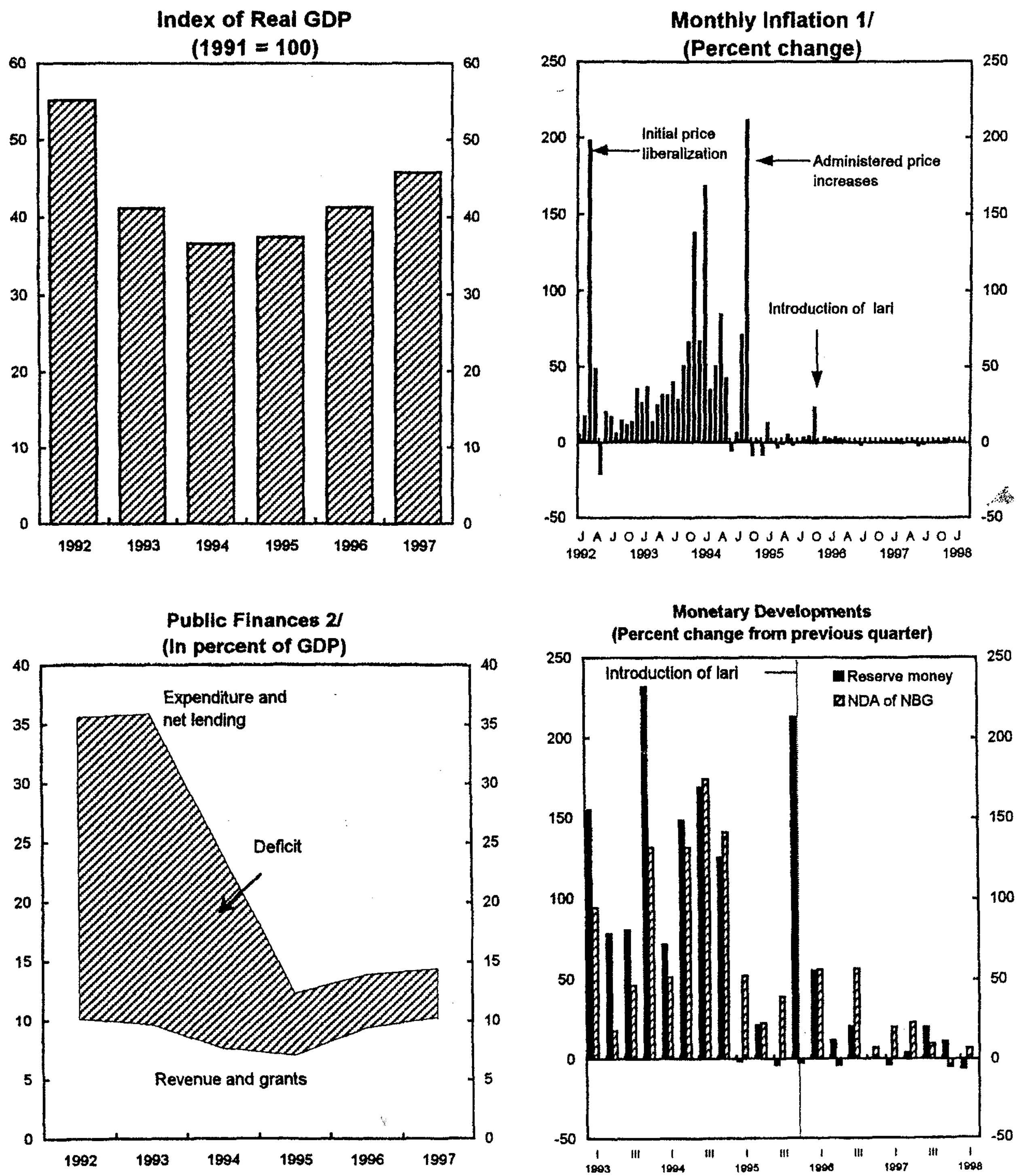
I. Introduction and Background

1. During 1997, the Georgian economy grew by 11 percent according to official estimates, while the average annual inflation rate continued its downwards path initiated in 1995 and reached single-digit levels of about 7 percent (Figures 1 and 2). The fiscal deficit (on a commitment basis) declined from 4.5 percent in 1996 to 4.1 percent in 1997, and the ratio of general government tax revenue to current expenditure (a proxy of public sector savings in the absence of adequate GFS classification of the fiscal accounts) increased significantly, as tax administration measures, together with the introduction of a new tax code, boosted tax revenue. Investment outlays of the general government, however, fell in real terms in 1997 as the government adjusted to a tighter budget constraint. The current account deficit widened from 9 percent of GDP in 1996 to 10 percent in 1997, mainly reflecting a rapid growth in imports associated with the construction and refurbishment of the "early oil" pipeline connecting Azerbaijan to the Black Sea. During 1997, significant gains were achieved in normalizing Georgia's relations with external creditors and making progress toward external viability.

2. Monetary policy remained prudent in 1997, although the benefits of disinflation and further bank restructuring did not translate into much lower interest rate levels than in 1996. Broad money grew rapidly during the year, albeit from very low levels by international standards. The expansion of central bank (net) credit to government was in line with the 1997 ESAF-supported economic program and the monetary authority managed to increase its gross reserve position to US$173 million by end-1997 (equivalent to 2.2 months of imports of goods). The nominal lari exchange rate remained stable at an annual average rate of lari 1.3 per U.S. dollar.

3. The implementation of the government's structural reform program moved forward in 1997. Privatization of medium- and large-scale enterprises accelerated in the second half of the year in the context of the World Bank's second Structural Adjustment Credit (SAC II). Energy sector reform also advanced as the authorities enacted the Electricity Law, which set new parameters for government's involvement in the sector and the establishment of a competitive market for electricity distribution and generation over the coming years. Payments collection of electricity bills and electricity tariffs increased in line with the authorities' efforts to improve the financial position of the main electricity companies. Agricultural land privatization made further progress with the distribution of about 60 percent of cultivated land to private farmers by end-1997. Public expenditure control improved with the treasury system expanding to cover almost all central government spending units and the Pension Fund. Progress with banking sector reform included, inter alia, the announcement of a scheduled increase in minimum capital requirements through 2000; the development of timely indicators to monitor banks' compliance with prudential regulations; and further on-site examinations of commercial banks. A main task ahead for establishing a more attractive business environment in Georgia embodies a better (i.e., less *ad hoc*) and more transparent implementation of the many laws enacted by parliament over the last three years.

Figure 1. Georgia: Macroeconomic Indicators

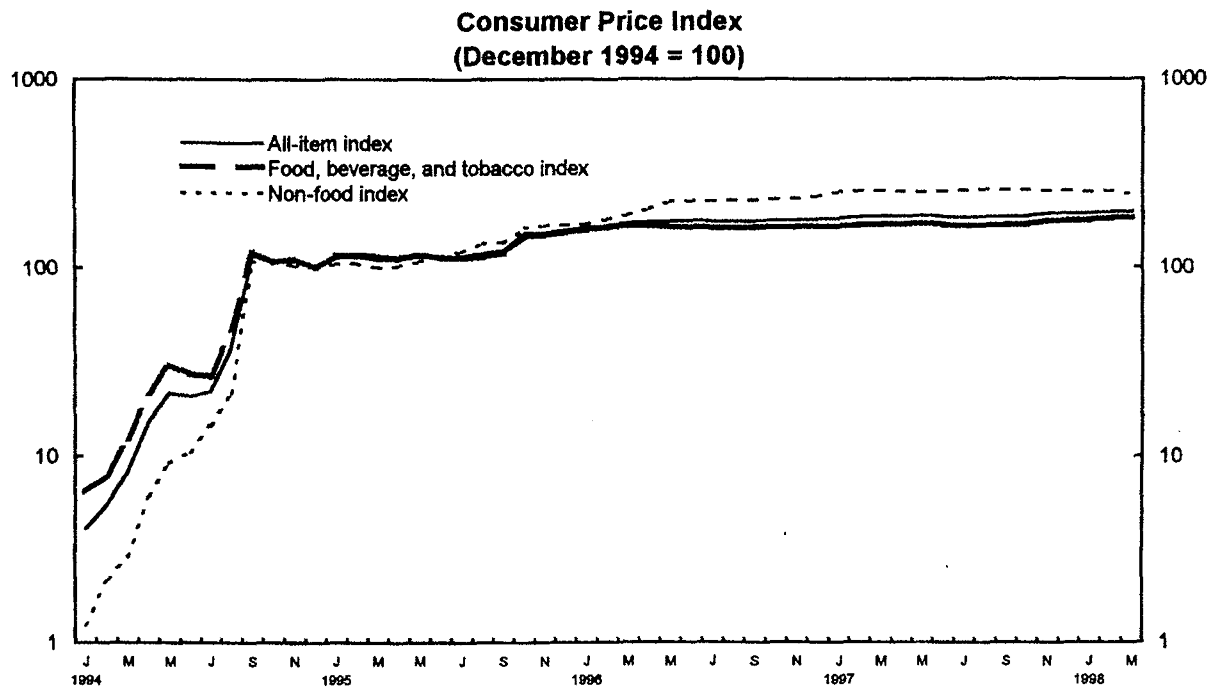


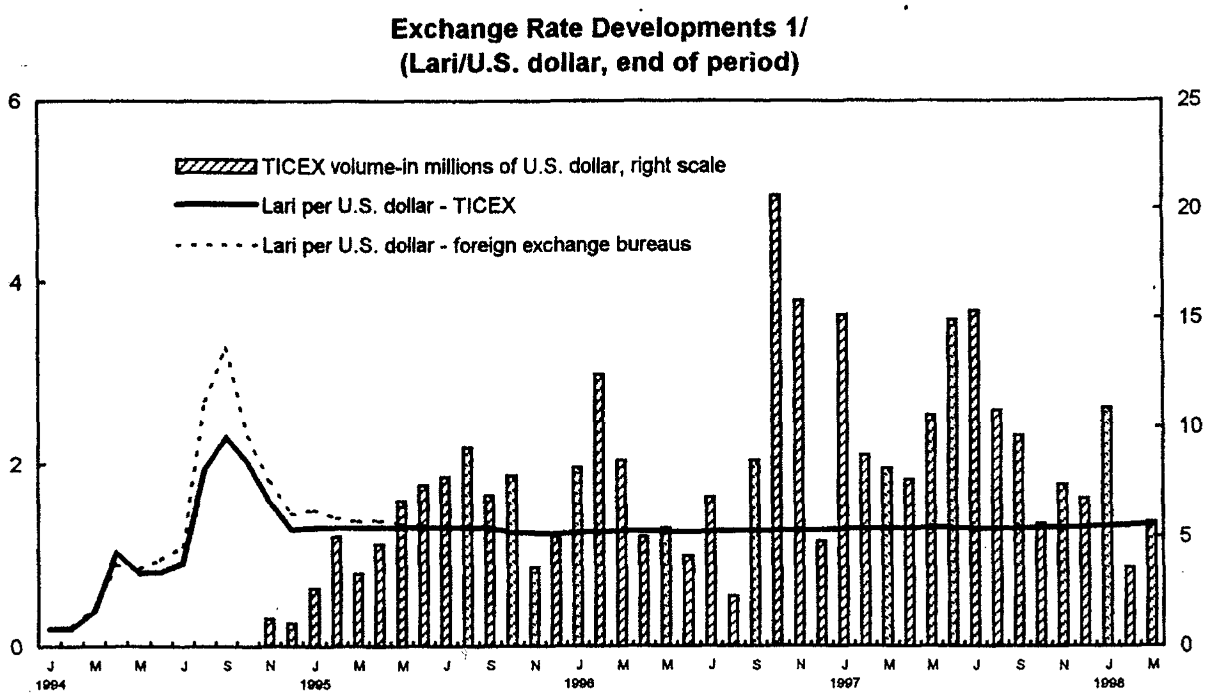
Sources: Georgian authorities; and Fund staff estimates.

1/ Before December 1993, based on the Retail Price Index; after December 1993, based on a 295-good Laspeyres index.

2/ Commitment basis.

Figure 2. Georgia: Inflation and Exchange Rate, 1994-98





Sources: Georgian authorities; and Fund staff estimates.

1/ Increase means depreciation.

II. Recent Economic Developments

A. Real Sector

Output and demand

4. **Real GDP**[1] continued to increase at a fast pace during 1997, albeit from a very low base. For a second year in a row, output growth—officially estimated—exceeded 10 percent (Appendix I, Table 9). A sustained increase in the services sector, together with a booming agricultural sector explained these developments. By contrast, industrial output remained depressed, as many large-scale enterprises have not yet been either privatized or restructured, and the rest of enterprises are either operating in the informal sector (whose coverage in the national accounts statistics remains incomplete) or are growing less rapidly than other sectors in the economy due in part to working capital constraints.

5. The **services sector** has increased very rapidly since independence and is now a leading sector in Georgia's economic recovery. During 1997, **trade and construction** activities appeared to have continued to grow at double digit rates, although precise official estimates still need to overcome measurement problems in assessing the volume of activity in these two sectors. The recovery of the **transport** sector has been modest, reflecting in part the impact of the poor conditions of the domestic transport infrastructure (Appendix I, Table 10). Also, the rail link to Russia remains closed as it is situated in Abkhazia. As the pipeline for the "early" oil from the Caspian Sea is being laid in Georgia, some oil is already being transported by train across Georgia to the Black Sea port of Poti. International investors have expressed interest in investing in the Poti port and Turkey is funding much of the work of a rail link between Georgia and Turkey. The EU has funded the rehabilitation of an important road bridge on the Azerbaijan border and it is also promoting the development of transport routes across the whole region.

6. During 1997, Georgia registered a **record grain harvest**. Despite earlier worries about excessive rainfall, this phenomenon appeared to have been confined to only a few localities. Much of the success with grain production can be attributed to a recovery in output yields (for wheat, sunflower, and maize), the growing entrepreneurship of the private farmers, and the availability of financial resources provided under the EU TACIS regional agricultural reform project. Despite the success of the 1997 harvest, efforts still need to be made in diversifying and increasing the production of crops other than grains and agroprocessing activities. In addition, the provision of seeds for winter planting still remains problematic with many farmers having to access supplies directly from Russia, and the provision of financial resources to the agricultural sector remains very limited.

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[1]Official GDP estimates suffer from serious methodological problems. In cooperation with the IMF, the authorities are close to starting a major overhaul regarding the compilation of national accounts statistics.

7. The volume of **industrial production** remains stagnant. Many of the larger industrial enterprises have not yet been restructured and/or have been operating below capacity. The dynamism of the small-scale enterprises is not necessarily captured by the official statistics as many of these firms still operate in the informal economy. Moreover, while a number of laws and regulations have been enacted in recent years to enhance the business climate in Georgia much remains to be done to forcefully establish the rule of law in the country (Section III).

8. A major obstacle to private business development in Georgia has been the poor state of the **energy sector**. Power cuts are common and the added cost of generating one's own electricity supply (through the use of power generators) remains a major cost burden to many enterprises. Although the Enguri hydroelectric power plant was partly rehabilitated by mid-1997, power supply did not improve much thereafter because of problems with the financial position of the electricity distribution companies, as well as water supply and the poor technical condition of most electric transmission plants. On the other hand, payments collection in the electricity sector remains very low for both households and industry. While households and industrial electricity tariffs were unified at tetri 4.5 per Kw/hour in August 1997, this increase still did not provide for an investment and a maintenance program for the sector, and the tariffs remained below cost recovery levels. With the help of the World Bank and others, the authorities are currently preparing the privatization of the energy sector, starting with Telasi, one of the main electricity distribution companies in Georgia.

Labor market developments

9. According to official estimates, **total employment** in Georgia increased slightly between end-1996 and end-1997 (Appendix I, Tables 11 and 12). These figures, however, need to be treated with caution because of the poor coverage of informal activities, the risk of double counting as a consequence of the frequency of multiple employment, and various methodological problems with the official data. The share of self-employment in total employment reached 68 percent at end-1997. In agriculture, commerce, and construction, self-employment reportedly accounts to over 85 percent, 70 percent, and 40 percent of total employment, respectively. The economy's **unemployment rate**, as reported in the national households survey, declined from about 11 percent in the last quarter of 1996 to about 6.5 percent in the second quarter of 1997. The unemployment rate was about 4 percent in rural areas and 18 percent in urban centers by end-June 1997 (Tbilisi's unemployment rate was about 23 percent).

10. **Real wages** in the formal economy continued to increase during 1997, with the largest gains recorded in trade and distribution, state administration and management, and credit and insurance (Appendix I, Tables 13 and 14). Official data indicate that the economy's average monthly nominal wage rose by 89 percent to lari 55, corresponding to a real wage increase of

over 75 percent.[2] However, at this level, average wages in U.S. dollars remained very low (US$40). The monthly minimum wage and pension have been lari 15 and lari 12, respectively, since August 1997 (Figure 3). No reliable information is available about wages in the informal economy.

Prices

11. **Annual consumer price inflation** continued to decline in the context of tight financial policies from 57 percent in 1995 (end-period basis) to 14 percent in 1996 and 7 percent in 1997 (Appendix I, Table 15). Relative price developments showed a continuation of the trend for services prices to rise faster than goods prices, in large part owing to sharp increases in utility tariffs (i.e., electricity, metro and train fares). The opening of the economy to international competition together with a tight monetary policy (Section II C) contributed significantly to the low inflation of traded goods.

B. Fiscal Sector

Background

12. Since 1994, the **financial position of the general government** has improved significantly as total revenue increased at an average real rate of nearly 40 percent per year and total expenditure was significantly trimmed (Figure 4 and Appendix I, Tables 16-18). The revenue/GDP ratio is now 10 percent, compared to 4 percent in 1994. Most of the revenue increase has been due to improvements in tax administration and the elimination of many broad tax exemptions. However, the marginal increase in tax revenue has been declining in the last two years, reflecting mainly diminishing gains from tax administration improvements and the lack of far-reaching revenue raising measures (Section IV). On the other hand, total government expenditure was reduced from 23.5 percent of GDP in 1994 to 11.6 percent in 1995, before rising again and reaching 14.4 percent of GDP in 1997. Most of the expenditure cuts were achieved through an elimination of bread and gas subsidies, and a reduction in the number of budgetary positions from 625,000 in 1994 to about 340,000 by end-1997. As a result of the revenue increase and the expenditure cuts, the budget deficit (on a commitment basis and including grants) fell from 16.5 percent in 1994 to 4.1 percent of GDP in 1997. Due to the deceleration of the revenue increase and lower external grants, the budget deficit reduction between 1996 and 1997 (from 4.5 percent of GDP to 4.1 percent of GDP) was relatively modest.

13. The composition of the budget **deficit financing** changed during the last four years. Foreign financing declined steadily from 6.0 percent of GDP in 1994 to 1.4 percent in 1997, while domestic financing (mostly central bank lending) increased from 1.4 percent of GDP in 1994 to an average of 2.4 percent of GDP in 1996-1997 (Figure 5). Treasury bills were

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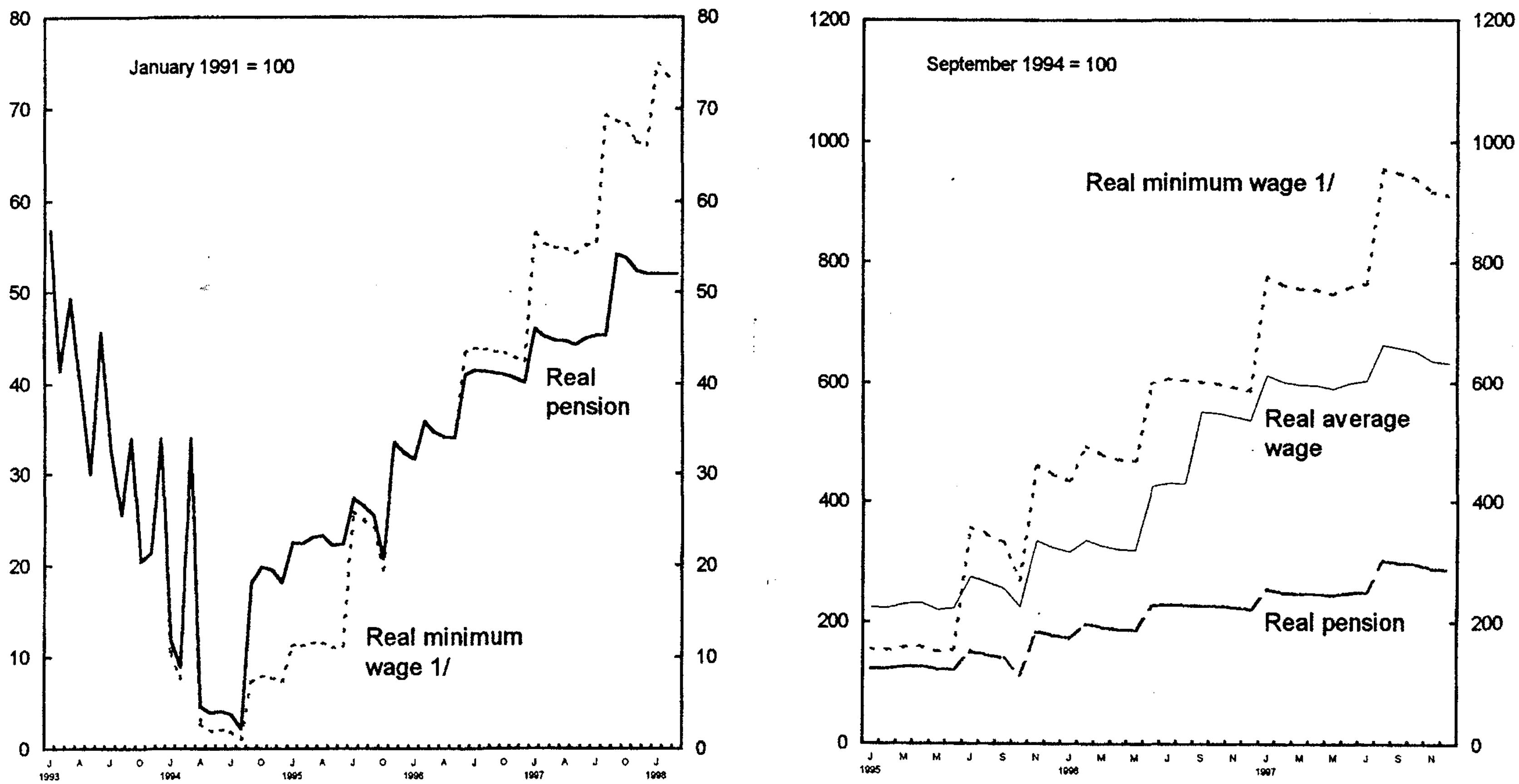
[2]For budgetary organizations, average monthly wages rose from lari 23 in 1996 to lari 36 in 1997, an increase of about 55 percent.

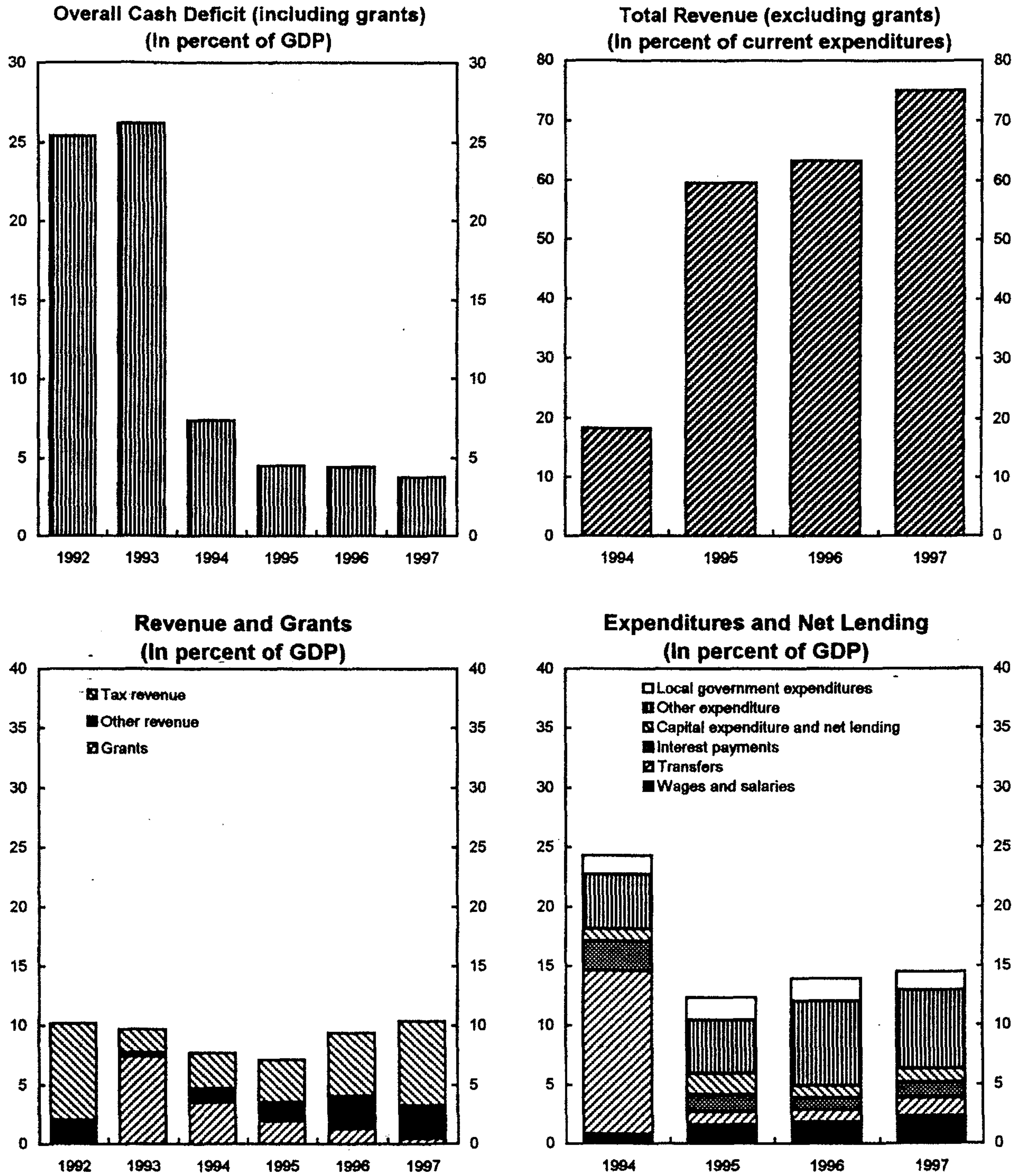
Figure 3. Georgia: Real Wages and Pension 1/



Sources: Georgian authorities; and Fund staff estimates.

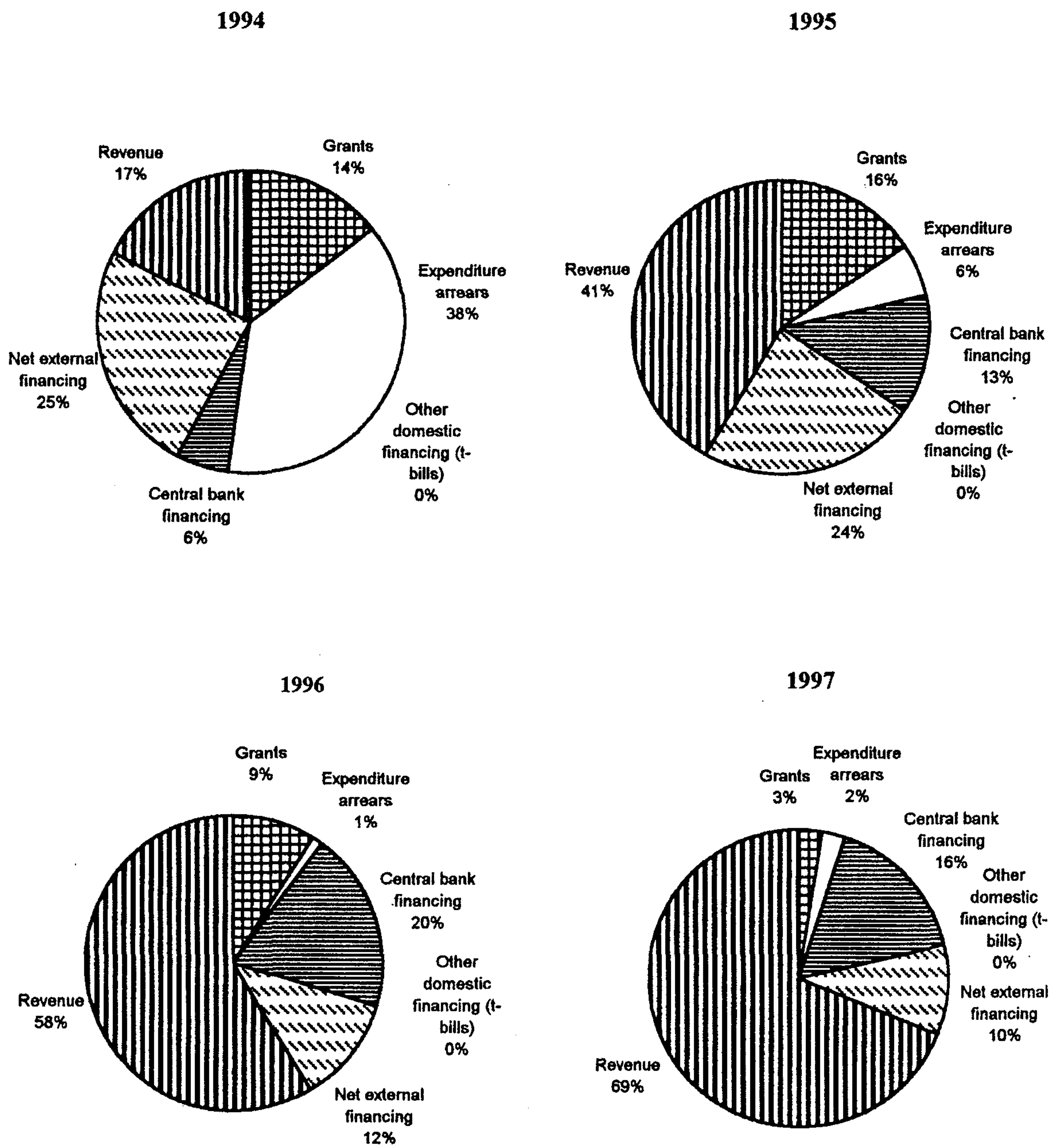
1/ Wages in budgetary organizations.

Figure 4. Georgia: Public Finances



Sources: Georgian authorities; and Fund staff estimates.

Figure 5. Georgia: Funding of Expenditures and Net Lending



Sources: Georgian authorities; and Fund staff estimates.

introduced in August 1997, but accounted only to some 4 percent of all domestic financing in 1997. High interest rates paid on these financial instruments (in the range of 30-40 percent) reduced the incentives for a more substantial issue of treasury bills (Section V).

Fiscal performance in 1997

14. The **general government cash deficit** totaled lari 256 million in 1997, or 3.8 percent of GDP in 1997. The cash deficit was slightly lower than the deficit on a commitment basis, due to an accumulation of **expenditure arrears**, which rose by 0.3 percentage points of GDP in 1997. Nearly two thirds of the cash deficit was financed with domestic sources. Disbursements from the World Bank under SAC II (US$40 million) and various project support loans, (US$12.8 million) were the main source of external financing of the general government deficit.[3]

Revenues and grants

15. **Total revenue** increased from 8.1 percent of GDP in 1996 to 10 percent of GDP in 1997. A main factor behind this improvement was a better tax and customs administration. The highest revenue increase was due to the collection of **customs duties** and was in part related to the removal of the customs duty exemption on imports of petroleum products and automobiles. **Personal income tax and VAT** revenue increased in line with the real increase of tax revenue (36.9 percent),[4] whereas the performance of excise duties, profit taxes, and payroll taxes grew less than envisaged.

16. **Excise duties and payroll taxes** collections grew by less than the real increase in tax revenue, largely reflecting reductions in tax rates introduced in January 1997.[5] For example, the excise duty on beer was reduced from 100 percent to 15 percent (Appendix I, Table 22); the duty on vodka and brandy was cut in half from 100 percent to 50 percent, whereas for passenger cars, the reduction was from 30 to 15 percent. The combined payroll tax rate was also reduced from 35 to 33 percent in January 1997.

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[3]The EU continued to provide financial assistance in the form of grants (paragraph 21).

[4]The real increase in tax revenue is defined as the sum of tax revenue and extrabudgetary revenue, deflated by the average annual growth of the consumer price index. The marginal rates of the personal income tax are provided in Appendix I, Table 19, the statutory revenue sharing arrangements in Appendix I, Table 20, and the number of registered and active taxpayers in Appendix I, Table 21.

[5]At the time of the 1997 program negotiations with the Fund, the authorities argued that a reduction in excise duties would be instrumental in increasing collections from these taxes.

17. Another factor explaining the low collection of excise duties was the sharp decline in **cigarette tax collections** during the last three months of 1997. Between March and August 1997, the authorities applied a specific tax per pack of imported cigarettes (high and low quality cigarettes), which was substantially lower than the equivalent ad valorem rates approved by parliament. The specific tax was set at lari 0.06 through August and then increased to lari 0.08/0.09 during that month, with cigarette tax collections increasing from an average of less than 1 million during the early months of the year to an average of lari 3 million during March/August 1997. In October, the specific tax on high and low quality cigarettes was increased to lari 0.25 per pack and lari 0.19, respectively. However, cigarette tax collections dropped to less than lari 1 million per month in the last quarter of 1997 due to widespread smuggling and a lack of enforcement of the new tax rates.

18. **Corporate profit taxes** remained roughly unchanged in nominal terms between 1996 and 1997, notwithstanding the rapid growth of economic activity. The unification of multiple corporate profit tax rates at 20 percent—which replaced a system wherein banks' profits were taxed at 35 percent, industrial enterprises' profits at 10 percent, and the rest of the enterprises at 20 percent—had an overall negative effect on collections, although the policy was consistent with the government's efforts toward simplification of the tax system.

19. **Nontax revenue** increased slightly below the average real increase in tax revenue. This reflected the government's inability to collect loans granted to energy sector enterprises. Privatization revenues remained relatively low, at about lari 13 million, or 0.2 percent of GDP.

20. **Tax arrears** increased by nearly 50 percent in 1997, reaching about lari 170 million, or 28 percent of total tax collection by year-end (Appendix I, Table 23). Arrears to the Pension Fund increased from lari 40 million by end-1996 to lari 63 million by end-1997. Arrears to the Tax Inspectorate of Georgia (TIG) also increased from about lari 79 million by end-1996 to more than lari 100 million by end-1997. Overdue late penalties amounted to about the same fraction of total tax arrears in 1996 and 1997 (40 percent).

21. **External grants** fell to lari 26 million in 1997, or 0.4 percent of GDP, compared with lari 71 million in 1996, or 1.2 percent of GDP. About half of these grants were provided by the EU (under the Food Security Program), whereas the rest was provided by the Dutch government and by the revenue from the sale of U.S. wheat.

Expenditure

22. On a commitment basis, government **expenditure** increased from 14.1 percent of GDP in 1996 to 14.4 percent in 1997 reflecting the sharp increases in pensions, social transfers, wages, and domestic interest payments, which grew by more than the increase in nominal GDP. Expenditure in goods and services grew by less than nominal GDP, while capital expenditure remained virtually constant as a share of GDP. Overall, the pace of

expenditure growth slowed down significantly with respect to 1996, a year in which government expenditure increased by 33.7 percent in real terms.

23. **Wages and salaries** increased by 15 percent in January and 10 percent in August. The average monthly wage in budgetary organizations rose from nearly lari 30 at end-1996 to lari 37.5 at end-1997. Minimum wages in the budgetary sector increased by more than the average (from lari 9 at end-December 1996 to lari 15 at end-December 1997), and currently represent 40 percent of the average wage, compared to 30 percent at the end of 1996. The number of budgetary positions decreased from about 360,000 at the end of 1996 to about 340,000 at the end of 1997. Most of the employment reductions were in the education sector. In particular, effective November 1, 1997, about 10,000 budgetary positions were eliminated in the pre-schooling education sector, which was privatized and is now mainly financed through parents' fees. Despite the reductions in the last three years, the level of government employment is still high, representing nearly 20 percent of total employment in the economy. This is more than twice the level of employment in other economies with similar levels of development. The overstaffing of the public sector becomes evident in areas like primary education, in which the student/teacher ratio, at about ten, is even lower than in the most advanced industrial countries.

24. **Social spending** (pensions, unemployment allowances, refugee benefits, family and student allowances, and basic health care) increased substantially in 1997, and now represents about 5 percent of GDP. Pensions and other social benefits increased by 15 percent in January and 20 percent in August, outpacing the growth of wages. Also, health expenditures grew by about 65 percent in real terms, and now represent 1 percent of GDP (versus 0.7 percent of GDP in 1996) (Appendix I, Table 24).

25. Expenditure in **goods and services** (excluding health expenditures) grew moderately in 1997, although by more than the average annual inflation. Defense expenditures increased by less than the growth of nominal GDP, while other expenditures (e.g., office supplies, business trips) also grew moderately during 1997.

26. Accrued **interest payments on domestic debt** more than tripled in nominal terms between 1996 and 1997. This reflected mainly the increase in government outstanding debt to the National Bank of Georgia (NBG).[6] Interest payments on treasury bills were only about lari 0.4 million in 1997. Accrued **interest payments on external debt** increased slightly from lari 46 million in 1996 to lari 54 million in 1997 (equivalent to 5.5 percent of total general government expenditure on a commitment basis) mainly as a result of new external loans.

27. **Capital expenditure** remained at a very low level, representing just 1.1 percent of GDP in 1997.

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[6]The stock of general government debt to the NBG through end-1997 bears an interest rate of 15 percent (except for a small fraction that bears an interest of 1 percent).

28. **Local government expenditures** (other than wages and salaries) decreased from 1.9 percent of GDP in 1996 to 1.5 percent in 1997. The privatization of pre-schooling education reduced local government expenditures in these expenditure categories.

Expenditure management and control

29. The stock of **domestic expenditure arrears** increased substantially in 1997, from lari 32 million at the beginning of the year to lari 70 million (or 1 percent of GDP) at the end of 1997. Of this total, about lari 20 million were interest payment arrears to the NBG, which were settled in March 1998 through an NBG net profit transfer to the government. Wage and pension arrears remained at about lari 12 million by end-1997. Pension arrears amounted to about one month of average pension outlays.

30. The development of a **treasury system** at the Ministry of Finance continued in 1997. An important step in this direction was the closure of all special accounts of central government spending units, except some accounts of the Pension Fund and the accounts of higher education institutions.

The 1998 budget

31. The 1998 state budget was approved by parliament in December 1997 (Box 1 and Appendix I, Table 25). The budget assumed an annual growth rate of real GDP of 10 percent and an annual average consumer price inflation of 8 percent. Key features of the budget included:

- An increase in the revenue/GDP ratio of general government in 1998 from 10 percent of GDP in 1997 to 11.5 percent in 1998 resulting from the adoption of a number of tax policy and tax administration measures on January 1, 1998. These measures included: (i) the introduction of a surcharge on the land tax and the introduction of a presumptive income tax on small businesses in urban areas;[7] (ii) increased collections of excise duties on cigarettes; and (iii) a number of tax administration measures covering, inter alia: further efforts to collect tax arrears, an expansion in the number of registered taxpayers, a broadening of the coverage of the Large Taxpayer Unit, progress with the computerization of tax offices, and the functional reorganization of the Tbilisi tax office.

- An average across-the-board increase in civil servants' wages and pensions of 15.5 percent in 1998 (10 percent increase in January 1, 1998 and an additional 10 percent increase in July) and a reduction in the number of budgetary positions. The

[7] In the event, the introduction of the surcharge on the land tax was postponed until January 1, 1999.

capital expenditure/GDP ratio was projected to remain unchanged with respect to 1997, at about 1.1 percent of GDP.

- A further reduction in the general government budget deficit. On a commitment basis, and excluding net lending,[8] the budget deficit was targeted at lari 153.8 million, or 1.9 percent of GDP in 1998 (compared to 4 percent of GDP in 1997). On a cash basis, the budget deficit was targeted at lari 177 million, or 2.2 percent of GDP. Of this amount, lari 23.2 million was earmarked toward the reduction of expenditure arrears.

Box 1. Fiscal Institutional Setting

The state budget of Georgia includes the budget of the central government and the budgets of extrabudgetary funds: the Social Security Fund (SSF), the Employment Fund (EF), the Road Fund, and the Privatization Fund. The Health Fund, was transformed into the State Health Insurance Company on April 18, 1997. The state budget also includes the transfers of the central government to the local authorities.

Starting 1997, and in line with greater political autonomy granted to the regions, the state budget excludes all local government budgets. Local government budgets include the budgets of municipalities and 65 local governments: the two autonomous republics of Abkhazia and Adjaria, 10 administrative regions, and 53 administrative districts. Revenues of the local authorities include transfers from the state budget and revenue from their own local taxes.

The two main tax collecting agencies in Georgia are the TIG, which collects most central and local governments domestic taxes, and the State Customs Department (SCD), which collects most taxes and customs duties on imports. Concretely, the SCD collects customs duties and VAT and excises on imports. Payroll taxes are collected by the SSF and EF. The Road Fund collects some small taxes (i.e., the road tax, the vehicle tax, the fuel and lubricants tax). The proceeds from these taxes are earmarked to the construction and maintenance of the road infrastructure. To increase the efficiency of tax collections, the responsibility for the collection of all taxes was to be transferred to the TIG and SCD in 1997. However, the centralization of tax revenue collections under these two agencies has been postponed for the time being due to possible organizational problems in merging the different tax agencies.

C. Monetary Sector

Background

32. The NBG has pursued a prudent monetary policy since the introduction of the lari in October 1995, which has been instrumental in bringing the inflation rate down to single digits per annum and in maintaining a stable exchange rate of the lari. Following the severe hyperinflation of 1993-94, the lari exchange rate has had an important signaling effects in Georgia and its stability has been a key element in the government's reform strategy and the remonetization of the economy. Accordingly, the main objective of the NBG monetary policy has been to stem a depreciation with foreign exchange sales, if necessary, provided such a policy was consistent with maintaining an adequate level of gross international reserves. The

[8]On-lending to the energy sector (from the World Bank and other sources) was projected at US$46 million, or lari 61 million.

exchange rate regime adopted by the NBG is a *de facto* peg of the lari, Georgia's sole legal tender, to the U.S. dollar.

Developments in 1997

33. The monetary developments during 1997 were characterized by a sharp increase in monetary aggregates, against the background of a stable exchange rate and declining inflation (Figure 6). **Broad money** (including foreign currency deposits) grew by over 45 percent in 1997 (against an estimated 19 percent increase in the nominal GDP) leading to a 17 percent decline in **velocity of circulation** of money (Appendix I, Table 26). **Reserve money** expanded by about 33 percent during 1997, owing in part to a rapid growth of NBG net credit to government in late December (Appendix I, Table 27).[9] The **money multiplier** rose by nearly 10 percent during the year, on account of declines on both the currency/deposit ratio and the reserve/deposit ratio, reflecting in part improved confidence in banking sector restructuring (Figure 7). With broad money at 5.5 percent of GDP, however, the level of financial intermediation remained very low.[10]

34. The NBG has continued with its strategy to develop **indirect monetary instruments**, although the central bank's intervention in the Tbilisi Interbank Currency Exchange (TICEX) remains the main instrument of monetary control. As in previous years, NBG intervention in the TICEX market aimed at sterilizing the liquidity impact of central bank lending to the government, while maintaining an adequate level of reserves. While direct NBG lending to the general government in 1997 remained virtually unchanged relative to the 1996 level, the NBG net sales in TICEX declined sharply to US$40 million during 1997 compared to about US$100 million in 1996, reflecting mainly a significant increase in the demand for real money balances but also a tightening of the NBG credit policy to banks. In 1997, the NBG claims on domestic banks declined by about lari 10 million compared to an increase of about lari 10 million in 1996.

35. Other instruments available to the NBG to influence liquidity conditions include the NBG interventions in the interbank credit auction and the use of banks' reserve requirements. Throughout 1997, the participation of the NBG in the **credit auction** varied significantly. During the first half of 1997 the NBG continued to provide considerable amounts of credit to

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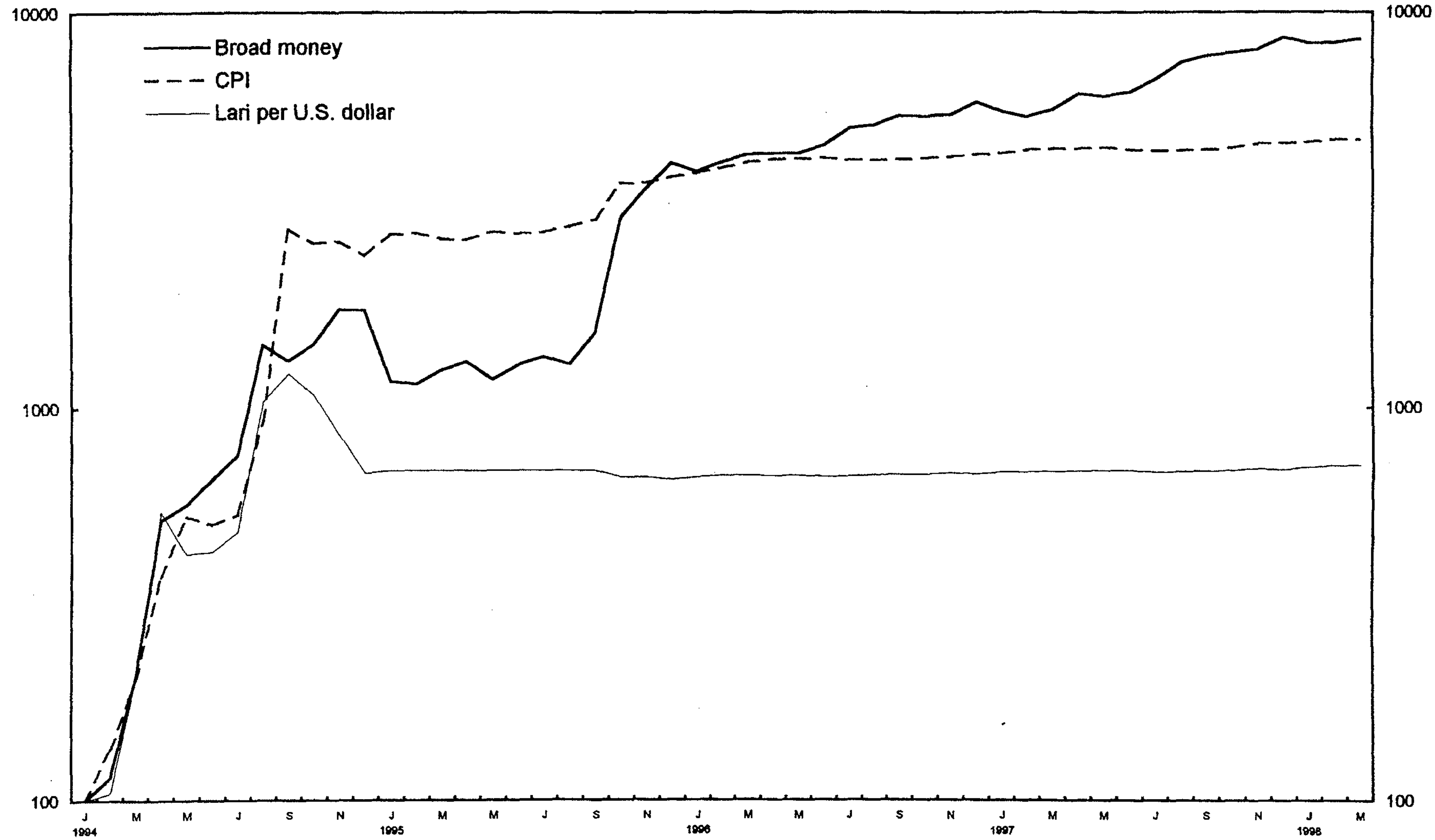
[9]The excess liquidity at end-1997 was sterilized through the sale of foreign exchange by the NBG in early 1998, with reserve money falling to lari 260 million at end-January 1998 compared to lari 277 million at end-December 1997.

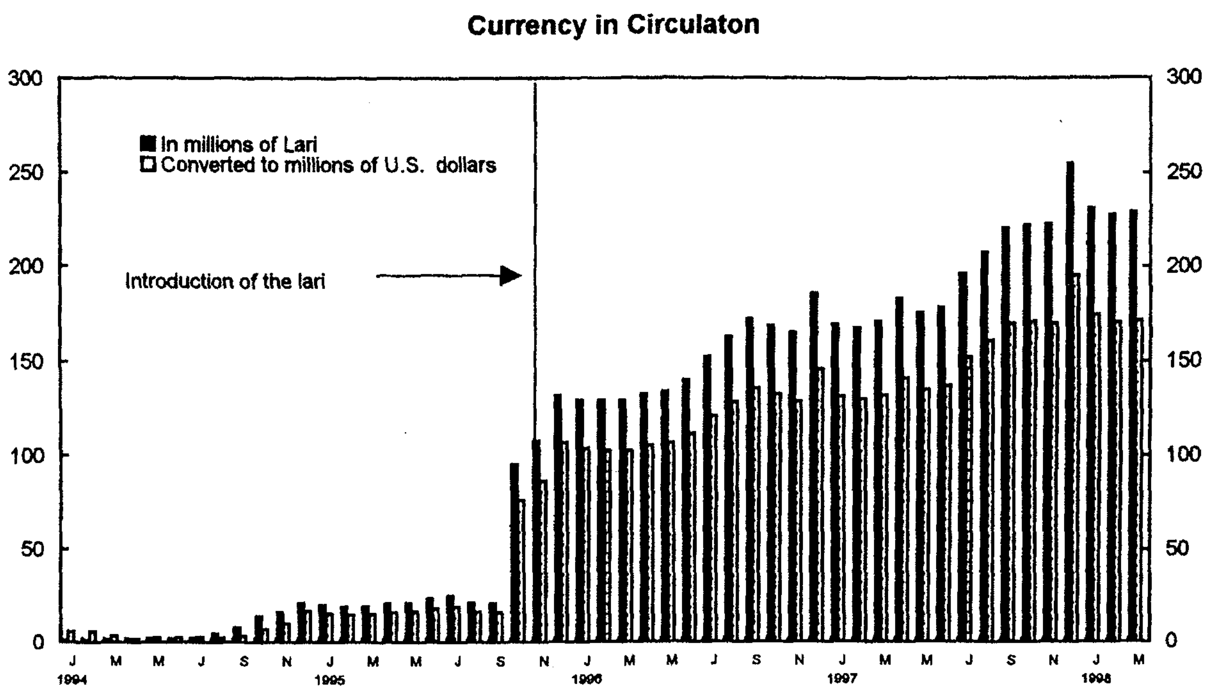
[10]In addition to the fact that Georgia was plagued by civil unrest and hyperinflation until early 1994, this unusually low ratio of broad money to GDP could also reflect a possible overestimation of nominal GDP. A recent technical assistance mission by the Fund's Statistics Department recommended substantial methodological improvements in the compilation of the national accounts statistics.

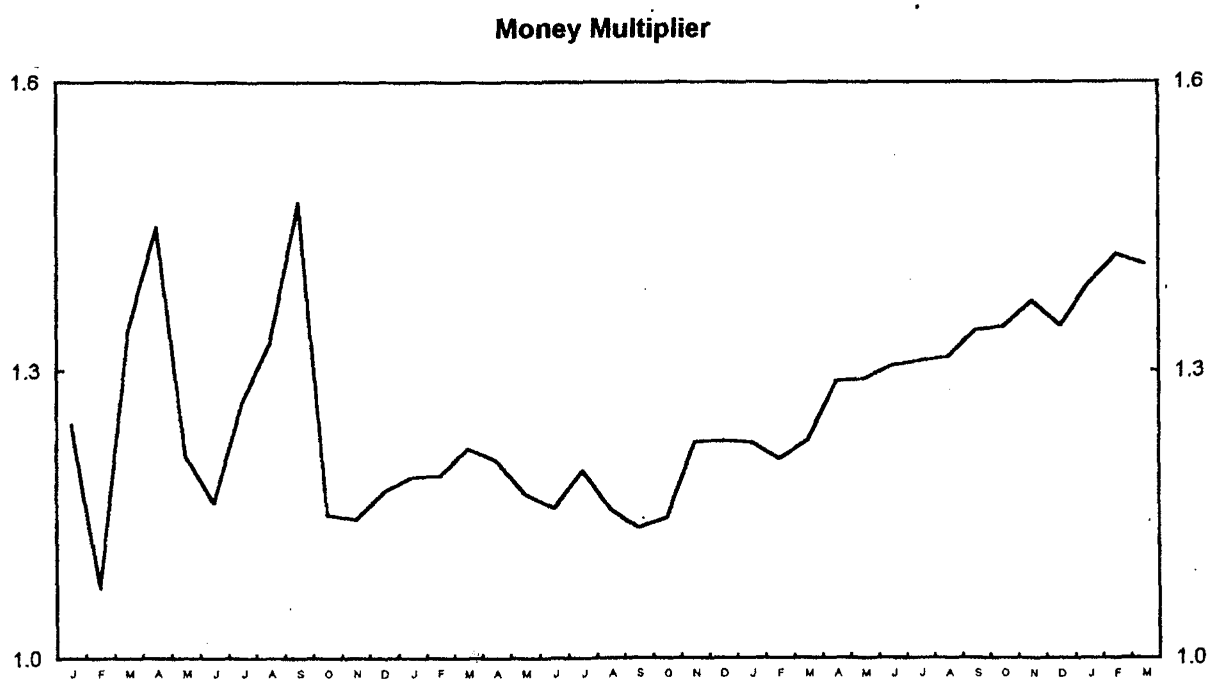
Figure 6. Prices, Exchange Rates, and Broad Money
(Index January 1994 = 100, log scale)



Sources: National Bank of Georgia; and Department of Social and Economic Information.

Figure 7. Georgia: Currency in Circulation and the Money Multiplier





Sources: National Bank of Georgia; and Fund staff estimates.

banks in an effort to lower banks' lending interest rates. As this strategy was inconsistent with the central bank's reserves target and contributed to increased pressures in the TICEX market, the NBG scaled down significantly its sales in the credit auction market during the second half of 1997, which led to a sharp increase in interest rate levels in that market (Section V). **Reserve requirements** remained unchanged with respect to 1996 at 12 percent of total deposit liabilities (including foreign exchange deposits).

36. Deposit mobilization and lending to the nongovernment sector by commercial banks continued to increase in 1997. Total **deposit liabilities** of the banking sector increased by nearly 70 percent during 1997, largely on account of a sharp increase in foreign currency deposits, which more than doubled during the year (Appendix I, Tables 28 and 29). Although the latter contributed to a significant increase in the dollarization ratio, it might also reflect reduced hoarding, together with increased public confidence in the authorities' economic program, in general, and in the banking sector, in particular. While commercial banks' credit to state-owned enterprises remained flat during 1997, **banks' lending to the private sector** expanded by about 35 percent in nominal terms and financed trade, construction, and the light industry sectors (Appendix I, Table 30). However, by end-1997, banks' outstanding loan portfolio was equivalent to only 2.5 percent of GDP. Reflecting the increase in dollarization, the share of outstanding foreign currency loans relative to total banking sector's loan portfolio increased further to nearly 45 percent by end-1997 compared to about 35 percent by end-1996.

37. Progress with **banking sector reform** continued during 1997, in tandem with a diminished role of former state banks (FSB) in the financial intermediation process (Box 2). The **number of commercial banks** declined from 65 at end-1996 to 53 at end-1997, mainly through closures of undercapitalized and insolvent banks,[11] while the capital base of the banking sector increased by over 65 percent during 1997 relative to its end-1996 level.[12] By end-1997, all commercial banks had had at least one on-site examination by NBG officials and CAMEL[13] ratings had been assigned. In general, banks' compliance with the existing prudential regulations continued to improve, although several small- and medium-size banks had, at times, difficulties in meeting reserve requirement and liquidity ratios in 1997. Given the

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[11]Given the small households deposit base of the vast majority of banks whose license was revoked and that were ultimately liquidated or are currently under liquidation, the social cost of bank closures has been minimal.

[12]However, banks' average capital remained relatively low at about lari 1.9 million (US$1.5 million) at end-1997. For the five largest domestic banks, average capital allocations stood at lari 9 million (US$7 million) by end-1997.

[13]CAMEL (Capital, Assets, Management, Earnings, and Liquidity) ratings of one to five have been used (in decreasing order of financial health). A "five" rating signals the need for liquidation.

scheduled increase in minimum capital standards through 2000, a further reduction in the number of commercial banks is likely to occur over the coming years. Preparations for the introduction of **International Accounting Standards** (IAS) by commercial banks continued, but progress in this area is lagging behind, thereby hampering a realistic valuation of the banking sector's financial position.[14] Georgia's banking sector prudential regulations are broadly in line with BIS norms (Appendix I, Table 31). Banks' short-term external liabilities remained limited at end-1997.

38. The total assets of the **FSBs** declined from about 40 percent of banking sector's total assets at end-1996 to below 30 percent at end-1997. These trends reflected mainly a faster deposit mobilization by newly-established private commercial banks competing the FSBs and, to a lower extent, FSBs' write offs of outstanding nonperforming loans. Foreign participation in Georgia's banking sector albeit on the rise remains limited. By end-1997, only two foreign banks (one Russian and another Turkish) were operating in Georgia, probably reflecting the small size of Georgia's financial market, although one third of banking sector total capital was reportedly foreign-owned.[15]

39. Following the decline in inflation and the progress made in banking sector restructuring, the overall level of **nominal interest rates** has fallen and the spread between banks' deposit and lending rates has narrowed considerably (Appendix I, Table 32). The three-month average deposit and lending rates declined to about 13 percent and 45 percent, respectively, at end-1997 compared to about 16 percent and 53 percent, respectively, at end-1996. Despite the interest rate fall during the last couple of years, interest rate spreads remained high, amounting to some 25-30 percentage points at end-1997. These spreads appeared to be related mainly to a severe credit rationing given the extremely low deposit base relative to GDP, combined with significant overheads (fixed costs) and slow progress in enterprise and judicial reform. The latter factor makes the preparation of adequate loan risk analysis very difficult, and the seizure of delinquent borrowers' assets an almost impossible task for banks.

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[14]According to the NBG, non-performing assets of the banking sector accounted to 6 percent of total outstanding loans at end-1997. Measurement problems (due to inadequate accounting practices) may limit the accuracy of these indicators, however.

[15]Most of the foreign participation in the domestic banking industry reflects injections (by foreign firms and individuals operating in Georgia) into existing Georgian banks before end-1996. A main factor explaining these capital injections was the tax holiday for foreign investments in the domestic banking system (in place through end-1996) and the expectation of lucrative insider lending to equity holders.

Box 2. A Chronology of Banking Sector Reform in Georgia

1994: **Prudential regulations.** Effective February, the NBG doubled banks' minimum capital requirements to coupon 400 million (US$2,000). It also introduced a moratorium on the licensing of new banks and stepped up the enforcement of prudential regulations, including the introduction of steep penalties (0.5 percent a day, compounded fine for shortfall on required reserves) and the repeal of bank licenses for extended noncompliance with prudential requirements.
Monetary policy. Automatic commercial banks' overdraft with the NBG was eliminated at end-1994.

1995: **Prudential regulations**. Prudential requirements were strengthened in January and May, including: (i) an increase of capital to asset ratio requirement from 5 percent to 8 percent; (ii) an increase of minimum capital requirements to US$100,000; (iii) a reduction in the limit on banks' lending to any single borrower from 50 percent to 10 percent; and (iv) the introduction of a limit on total lending to insiders equivalent to 100 percent of paid-in capital. A bank certification program started in November 1995. Before certification, banks were prohibited to distribute dividends or on-lend any foreign credits. By end-1995, the number of banks whose licenses were withdrawn amounted to 99, reducing the number of domestic banks in operation to about 130.
Restructuring and privatization of former state-owned banks (FSBs). In May 1995, three (out of five) FSBs were merged to create the United Georgian Bank (UGB). In less than a year, UGB laid off 3,300 of its staff (about 60 percent of total staff).
Legal framework. In June 1995 a new NBG law was adopted. The law provided for the independence of the central bank and established price and exchange rate stability as the primary objective of the NBG.
Monetary Instruments. Credit auctions were introduced in May 1995. Banks could use up to 75 percent of their reserve requirements as collateral for borrowing in this market.

1996: **Prudential regulations**. Effective January, reserve requirements were to be paid 100 percent in lari, including for foreign currency deposits. Reserve requirements were reduced from 20 percent to 18 percent in June 1996 and further to 15 percent in September.
Effective June, the limit on banks' households deposit mobilization increased from 100 percent to 200 percent of paid-in capital for certified banks.
Effective September, the NBG tightened further the regulations on bad-loans provisioning.
Commercial bank restructuring. In April, the NBG signed bilateral agreements with the FSBs, freezing their asset growth until they complied fully with existing prudential regulations. The privatization of FSBs was completed in the second half of 1996. In addition, the number of commercial banks operating in Georgia by end-1996 had declined to 65, of which 45 banks had been certified by the NBG.
Legal framework. The NBG law was amended in April to make it consistent with the Constitution. Also, a new commercial banking law was adopted, which, *inter alia*, strengthened NBG authority to liquidate undercapitalized and/or insolvent banks. A bankruptcy law was adopted by parliament in September.
Monetary instruments. Effective January: (i) the frequency of interbank auctions increased from weekly to bi-weekly sessions; (ii) credit auctions with a maturities of one-month and three-months were introduced to complement auctions with a maturity of seven-days; and (iii) the share of reserve requirements that could be used as collateral in credit auctions was increased from 75 percent of reserve requirements to 90 percent.

1997: **Prudential regulations**. Effective January: (i) reserve requirements were lowered from 15 percent to 12 percent; (ii) the limit on households deposit mobilization was raised to 900 percent of paid-in capital; (iii) the capital adequacy ratio was also raised from 8 percent to 10 percent of total assets; and (iv) the limit on insider lending was reduced from 100 percent to 50 percent of paid-in capital.
In December, the NBG announced a schedule for a step-by-step increase of banks' minimum capital requirements to lari 5 million by end-2000 (compared to lari 0.2 million at end-1997).
Bank restructuring. Two of the three FSBs, the UGB and BG, were certified in August and July, respectively. As a result of the bank certification program, the number of commercial banks operating in Georgia at end-1997 declined to about 53, of which 47 were certified by the NBG. As of end-1997 Georgia did not have a deposit insurance scheme in place.
Monetary instruments. In August, sales of treasury bills were introduced and the NBG issued regulations on the establishment of a lombard facility.

D. External Sector

Balance of payments

40. The **current account deficit** (excluding transfers) widened from 9 percent of GDP in 1996 to 10 percent in 1997 (Appendix I, Table 33).[16] While the data on trade flows are still subject to a wide margin of error,[17] they do suggest that exports and imports, in particular, grew markedly in 1997.

41. Total merchandise **exports** increased by an estimated 11 percent in nominal terms in 1997, following a growth rate of 15 percent in 1996. As a share of GDP, exports increased slightly from 11 percent to 12 percent. While reliable data on the breakdown of exports are not available, trade data recorded by customs indicate that export growth in 1997 was driven mainly by beverages, spirits, and vinegar, iron and steel, and related products. These items accounted for almost 40 percent of total recorded exports and grew in nominal terms by almost 90 percent in 1997.

42. Total merchandise **imports** increased by 23 percent in nominal terms in 1997, after an equivalent 10 percent growth in 1996. As a share of GDP, imports increased from 19 percent to 23 percent in 1997. The large increase was driven mainly by imports associated with the construction and refurbishment of the "early oil" pipeline connecting Azerbaijan to the Black Sea, which increased by almost five fold in volume terms. Natural gas imports in 1997 totaled about an estimated one billion cubic meters (i.e., a decline of seven percent from the previous year). Imports of wheat and flour (about 10 percent of total imports) fell sharply in 1997 by about 50 percent in nominal terms, reflecting the record grain harvest (Section II A).

43. During 1997, the deficit in overall **services** improved slightly to US$51 million, although the factor and nonfactor balances shifted dramatically between 1996 and 1997.[18] Transportation costs and costs associated with business travel accounted for most of the debt in nonfactor services. Of the US$99 million in factor income credits, almost all was due to compensation of short-term Georgian residents working abroad. The remainder (US$6 million) represented interest income earned on Georgia's holding of foreign exchange

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[16]In 1997 with the assistance from the Fund's BOP technical advisor, the collection of balance of payments statistics has improved, particularly regarding the adjustments for unrecorded trade arising from smuggling and in the coverage of the nonfactor services. However, despite these improvements, exports and imports are still likely underestimated.

[17]As a result of the significant changes in the coverage of the trade data for 1997, caution is needed in assessing the change from 1996 to 1997.

[18]As with the trade data, improvements in the collection of service data in 1997 make it difficult to compare the change in the services account between 1996 and 1997.

reserves. On the debit side, the Georgia's payment of US$32 million to the special account at the Netherlands Bank for interest on rescheduled debt accounted for almost three-quarters of Georgia's scheduled interest payments (US$44 million), with the remaining for interest payments to multilaterals and new bilateral lending.

44. According to the official trade data for 1997, Russia, Turkey and Azerbaijan were Georgia's three largest **trading partners** (Appendix I, Table 34). Russia was the largest market of Georgia's exports (30 percent), followed by Turkey (13 percent), and Azerbaijan (11 percent).[19] On the import side, Russian imports made up 13 percent of total recorded imports, followed by Azerbaijan and Turkey (both at 12 percent).

45. **Transfers** (including private transfers) totaled US$188 million in 1997. Of the total, US$84 million were official transfers, with the U.S., the EU, and various NGOs being the largest contributors. Private transfers consisted mainly of remittances from Georgians working abroad.

46. The **capital account** registered a major improvement over 1996, mainly on account of the surge in foreign direct investment related to the construction and refurbishment of the Georgian portion of the oil pipeline connecting Sanachal in Azerbaijan and Supsa in Georgia. Work on the pipeline began in February 1997 with construction picking up strongly in the second half of the year. Investment in the oil pipeline was estimated to be around US$65 million in 1997, which in addition to the investment in 1996, represented about 45 percent of the estimated total cost (US$180 million). The pipeline project is expected to be finished in late 1998. Although the data are preliminary, other non-pipeline related foreign investment in 1997 was estimated to be around US$140 million.

47. Due to the grace period provided under Georgia's rescheduling agreements with bilateral creditors, Georgia made only minor **amortization** payments in 1997, in particular to Germany and the EBRD. The remaining principal payments falling due to Turkey were rescheduled. In addition, the EU and Georgia signed in December 1997 a loan agreement to provide exceptional financial assistance to settle Georgia's outstanding obligations to the EU. **Disbursements** grew by 15 percent from 1996 to 1997, largely on account of increased lending from the EBRD and bilaterals. Disbursements from bilateral creditors (Germany, Japan, and the U.S.) grew from US$26 million to US$36 million in 1997. EBRD lending, mainly in the areas of energy, banking and finance, is estimated to have reached US$16 million. In 1997, several new IDA projects were approved including those for Agriculture Development, Oil Institutions Building, Power Rehabilitation, and a Social Investment Fund. In addition, the World Bank disbursed US$40 million in November 1997 as the first tranche under its SAC II program. Overall, the World Bank remained one of Georgia's largest creditors in 1997 with disbursements totaling about US$71 million in 1997.

[19]Due to the large incidence of smuggling, the actual export share for Azerbaijan, Russia, and Turkey are likely to be higher than the official figures.

48. Georgia received two disbursement under the second year ESAF arrangement in April and October 1997 totaling US$76 million. Exceptional financing amounted to US$41 million resulting from arrears and debt-rescheduling agreements with Russia, China, the EU, and Turkey. As a result, gross official reserves increased by US$15 million in 1997 after remaining virtually unchanged in 1996. However, in terms of import coverage, gross official reserves declined from 2.5 months of imports in 1996 to 2.2 months in 1997.

External debt

49. At the end of 1997, Georgia's total **stock of external debt** reached US$1,539 million, virtually all is publicly contracted or guaranteed (Appendix I, Table 35). While the total stock of external debt increased in 1997, as a share of GDP, external debt declined slightly to about 29 percent. Multilateral creditors, including the Fund, make up about 34 percent of the entire stock. Of the remaining debt to bilateral creditors, the largest single creditor was Turkmenistan, accounting for almost one-quarter of Georgia's entire stock of external debt. All of Georgia's external debt can be classified as medium-and long-term debt. Following rescheduling agreements reached with official creditors in 1996, Georgia's debt-service payments in 1997 reached US$54 million (an estimated 9 percent of exports of goods and nonfactor services). For the year, Georgia continued making its US$8 million quarterly payment into a special account at the Netherlands Bank to demonstrate its willingness to conclude rescheduling negotiations. Debt service to multilaterals amounted to US$10 million and the remaining was on account of payments for new (i.e., post 1994) bilateral lending (US$10.2 million) and private commercial borrowing (US$1.6 million) (Appendix I, Table 36).

50. Georgia signed **rescheduling agreements** on pre-1995 bilateral debt with a number of official creditors in 1997 and early 1998.[20] In February 1997, Azerbaijan agreed to restructure Georgia's debt with an interest rate of 4 percent, 7 years grace period, and 12 years maturity from end-1994. Also in February, Ukraine granted Georgia rescheduling terms of an interest rate of 4 percent, 5 years grace period and 10 years maturity. More recently in December 1997, China and Georgia agreed to rescheduling terms of an interest rate of 4 percent, 5 years grace, and 10 years maturity. In February 1998, Turkey agreed to reschedule its stock of debt valued at US$54 million with an interest rate of 4 percent, 7 years grace from end-1994 and 16 year maturity. As a result of the agreement with Turkey, Georgia has now concluded its round of debt rescheduling with bilateral creditors.[21]

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[20]Previous debt-rescheduling agreements on Georgia's pre-1995 bilateral debt are described in EBS/97/29 and SM/97/71.

[21]There are outstanding correspondent accounts balances with other BRO countries, however, accumulated during 1992-94 on which negotiations are still ongoing.

Exchange rate and exchange system developments

51. The **nominal exchange rate** vis-à-vis the U.S. dollar remained fairly stable throughout 1997. The end-of-period lari/U.S. dollar exchange rate depreciated by 1.8 percent in 1997, from lari/US$1.28 to 1.304 (Appendix I, Table 37). However, against other major currencies, the lari appreciated in nominal terms—by 85 percent against the Turkish lira, 11 percent against the Armenian dram, and 5 percent against the Russian ruble (Figure 8). Against the Azeri manat, the lari depreciated by about 10 percent. As a result, the nominal effective exchange rate, which measures the lari against a basket of trading partner currencies, appreciated by 15 percent term in 1997.[22]

52. In **real terms**, the Georgian lari appreciated by 3.0 percent against the U.S. dollar, 2.1 percent against the Russian ruble, and 1.7 percent against the Turkish lira. Against the Azeri manat, the lari depreciated by about 5 percent in real terms. Despite the continued decline in inflation, the lari is estimated to have appreciated in real effective terms by around 3 percent in 1997, following a real effective appreciation of 6 percent in 1996.

Trade policy

53. Georgia still maintains one of the most liberal and open trade systems among the BRO countries. With the introduction of a second tariff band of 5 percent in January 1997, Georgia currently maintains a two-tier tariff regime (5 and 12 percent). The import-weighted average tariff rate in 1997 is estimated to be 3.9 percent.[23] In addition, Georgia has applied for accession to the World Trade Organization (WTO) with the hopes of becoming a member in 1999.[24] A new customs law, developed in cooperation with the World Bank staff, became effective in March 1998 (Box 3).

Box 3. Changes to the Customs Law

On March 29, 1998, a new Law on Customs Duty came in effect. A major change in the new law was to eliminate the reference pricing system for customs valuation. For the purpose of taxation, the custom value of the good will now be determined according to its contract value. The new law maintains the existing custom duty rates of 5 and 12 percent, but introduces a number of new exemptions. They include: import of property of foreign diplomatic agencies, baby hygienic products, raw materials, half-finished products, and packing materials for export goods production within the volume of the exported finished product. The new law also stipulated that commodities produced and imported from CIS countries excluding light cars and oil products to exempt from custom duties until April 15, 1998. Oil products from CIS countries will be taxed at 12 percent.

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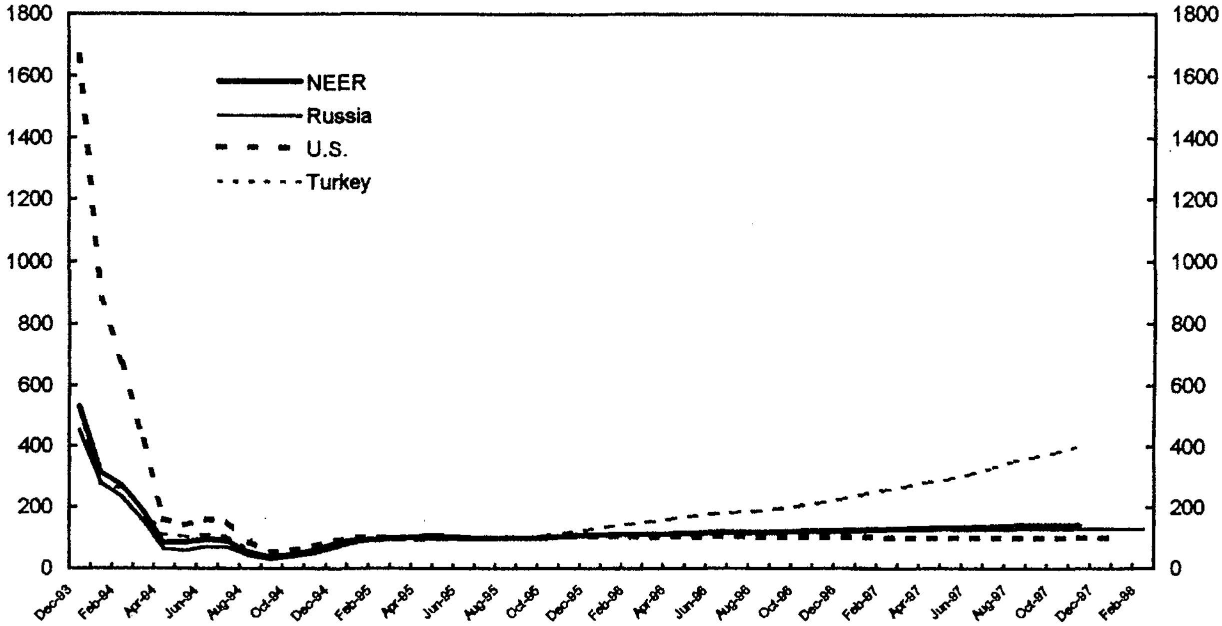
[22]These calculations were done using the official weights for Georgia's trading partners in 1997 (Appendix I, Table 34).

[23]Official estimate.

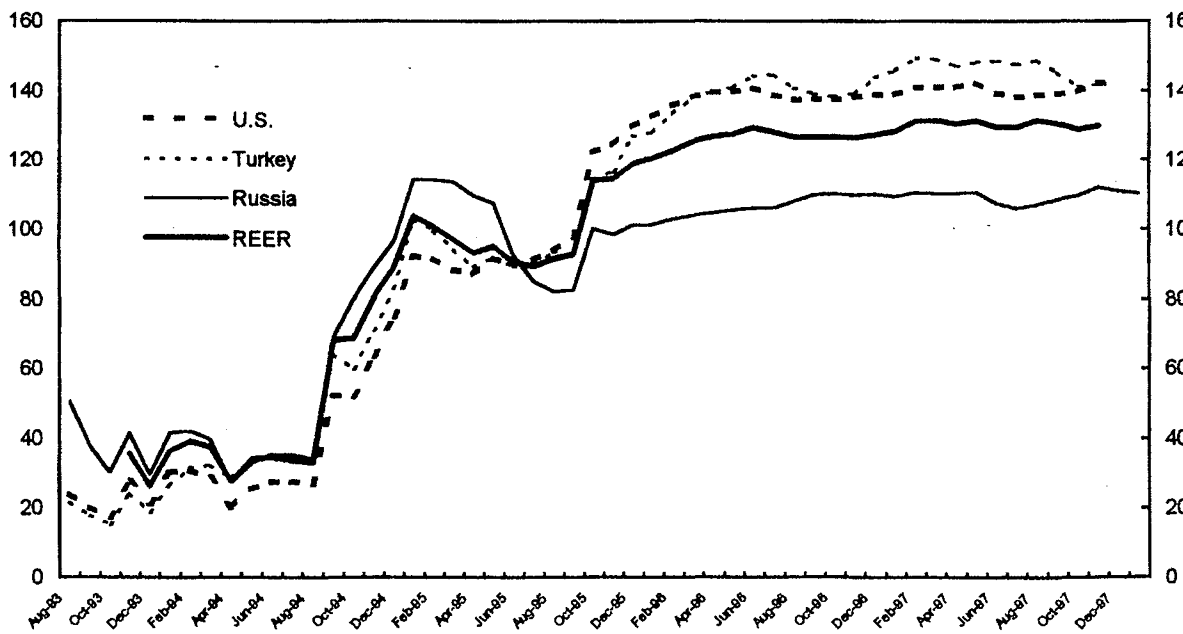
[24]Section VI for an update on the status of Georgia's application to the WTO.

Figure 8. Georgia: Bilateral Nominal and Real Effective Exchange Rates
(1995 = 100)

Nominal Bilateral and Effective Exchange Rates



Real Bilateral and Effective Exchange Rates



Sources: Fund staff estimates.

54. While Georgia remains free of restrictive licensing requirements and quantitative restrictions on imports, an export ban on scrap metal remained in place through end-1997.[25]

E. Structural Policies

55. Important progress was made on the structural front during 1997. The pace of privatization accelerated during the second half of the year, further progress was made in the agricultural land reform, and the authorities passed various laws—notably a new tax code, a civil code, and a law on bankruptcy—and advancing the development toward a market economy. Despite progress in energy sector, the sector continued to be plagued by severe financial difficulties.

56. **Privatization of small-scale enterprises** is now virtually complete. By end-1997, about 10,000 enterprises were privatized, up from 1,657 in October 1994, and 6,700 in February 1996. Transfers of ownership of **medium-size and large-scale enterprises** started in 1995 through various methods, mainly buy out options to employees and employers, and a mass privatization program offering at least 35 percent of shares through voucher auctions. Following a relatively quick start, the privatization of medium- and large-scale enterprises slowed down considerably after the expiration of voucher privatization in July 30, 1996. The main reason for that was the adoption of minimum prices for enterprises shares offered in auctions, which in some cases were over 20 times higher than the actual price paid during the voucher privatization. As a result, the number of privatized medium- and large-scale enterprises remained virtually unchanged at about 520 enterprises through end-June 1997. To speed up the privatization process, the authorities organized a zero-price auction in July 1997 and were able to privatize over 270 medium-scale enterprises during July 1997. In addition, to privatize the rest of enterprises the government developed a new privatization strategy, which distinguished between the groups of enterprises. The first group (group A) comprises the large enterprises, which are primarily engaged in heavy industry (e.g., chemicals, metallurgy, mining). These enterprises—which also include those in the energy sector—cannot operate without significant restructuring and new investment. Their size and technology require privatization to strategic investors on a case-by-case basis, investment tenders, or some other methods such as leasing. The second group (group B) includes the smaller—and more numerous—enterprises, which are likely to have a larger proportion of assets, which could be easily redeployed. Group B consist of 413 enterprises while group A comprises 103 enterprises. Through these different steps, it is expected that by mid-1998, over 900 out of the 1,043 medium-size and large-enterprises will have been privatized. If some of the proposed sales to strategic investors are successful, this number could increase even further.

57. **Agricultural land privatization**, which started in 1992, made further progress with distribution of about 60 percent of cultivated land to private farmers by end-1997. In 1996,

[25]A registration fee on the export of logs of lari 60 per cubic meter was introduced in March 1998.

three far-reaching laws (laws on private ownership, titling and registration, and leasing) were adopted providing the legal basis for the functioning of a land market in the agriculture sector. The next steps in the development of an efficient market for land will be the introduction of an adequate titling and registration system. The World Bank is providing assistance for the setting of cadastres in two districts.

Electricity sector restructuring

58. Energy sector reform in 1997 included the enactment of the Electricity Law, increases in electricity tariffs, and further work in developing a strategy for privatization of the power sector. The **Electricity Law** approved by the parliament and signed by the president in June 1997, separated the policy, regulatory, and ownership function of the government, disengaged the government from business operations, and established an independent electricity regulatory commission with authority to approve energy tariffs and issue, enforce, and revoke licenses for activities in the sector. The law did not prescribe a specific industry structure, but is based on a broad consensus that following restructuring and unbundling, the industry would have multiple participants, particularly at the stage of electricity generation and distribution.

59. **Payment collections** of electricity bills, although still low, increased steadily during 1996 and 1997, reaching the average level of about 62 percent at the retail level, compared with less than 20 percent in 1995. In August 1997, the government approved an increase of 36 percent in residential tariffs to reach the same tariff level charged to other retail consumers, including industry. Average wholesale prices for generation and sales from Sakenergo to distribution companies were also increased in September 1997. In spite of the above mentioned actions, however, substantial increases in electricity tariffs and improvements in collections and losses would be necessary to have financially viable power utilities. Retail tariffs do not cover full costs, technical losses are high, and collections are low; in consequence, revenues are not sufficient to cover operations and maintenance needs let alone make a contribution to rehabilitiation of the network. This generates a chain of nonpayments and poor service.[26]

60. During 1997, the Georgian government continued to work toward the development of a **privatization strategy of the power sector**. The strategy will update and revise the Presidential Decree No. 828 of December 19, 1996. Most power sector enterprises are being considered for privatization, although transmission and dispatch (Sakenergo), sector enterprises in Abkhazia, and leased enterprises are currently excluded from the process. Preliminary analysis suggests that the government should start with privatizing the distribution

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[26]Distribution companies cannot and do not pay on time for wholesale power purchase to Sakenergo (60 percent collections during first semester of 1997), Sakenergo cannot pay to generators and fuel suppliers, needed repairs and fuel supply for generation cannot be funded, and supply cannot meet demand (by some accounts, about 40 percent of demand is rationed).

companies, as these would likely produce the greatest immediate benefits for consumers, and face fewer risks and unresolved issues than generation. Moreover, an improvement in collections, which can only begin at the distribution level, would enhance the privatization prospects of the whole sector. Telasi (Tbilisi Distribution Company) is an obvious candidate for the first privatization as the largest and most prominent distribution company.

III. BUSINESS ENVIRONMENT AND FOREIGN DIRECT INVESTMENT IN GEORGIA

Introduction

61. The business environment in Georgia can be characterized as difficult, but improving. The economy has grown over 10 percent per year in 1996 and 1997, as a result of the economic stabilization that began in 1994. Nevertheless, significant weaknesses remain in the business environment which need to be addressed for sustained economic growth over the medium term. As in other transition economies, key determinants of the Georgian business environment are (and will be) the evolving role of the government and the rule of law in the economy: two variables that still need to be further strengthened in Georgia.

62. This section briefly summarizes Georgia's initial conditions for private sector development, some reported weaknesses with the implementation of legislation required for a market economy, and the recent trends with foreign direct investment.

Initial conditions

63. During the last three years, Georgia has established sound macroeconomic and structural reform policies which, combined with Georgia's relatively well educated labor force, are supportive of private business. On the **macroeconomic side**, the lari has remained stable against the U.S. dollar since its introduction in September 1995, and is not subject to exchange restrictions. Inflation has declined to 7 percent during 1997, down from a high of 50,000 percent in the 12 months to September 1994. Nearly all prices have been liberalized. Although government revenue has increased sharply to 10 percent of GDP, and the amounting external debt has largely been rescheduled, the levels of revenue and debt pose problems for the sustainability of macroeconomic stabilization in the medium term. The government is aware of these challenges and has been actively working with the international financial institutions to overcome this situation in the nearest future.

64. Georgia also possesses a liberal international trade policy. A low, uniform customs tariff of 12 percent is applied to almost all imports, with the exception of some goods which are taxed at 5 percent or are exempt. The state order system and hard currency surrender requirement were eliminated in 1995, and no export prohibitions remain in place except for scrap metal. A system of bonded customs warehouses has been developed, and a duty

drawback scheme is under development. Proposals for free economic zones have not moved forward due to concerns about the loss of tax revenue.

65. Political stability has also improved significantly. Under President Shevardnadze's leadership, the government has restored law and order, and held elections for the Presidency and parliament under a new Constitution. The first local government elections are planned for 1998. The violent conflicts in Abkhazia and South Ossetia have subsided for several years, but a final resolution has not yet been reached. Moreover, while the autonomous region of Adjara acknowledges the rule of national government, it exercises considerable independence in practice.

66. On the **structural side**, the Georgian authorities have been implementing a far-reaching program to set the basis of a market economy. **Privatization** of large-scale enterprises has just begun in Georgia, but small- and medium-scale privatization in Georgia is largely complete. The government recognizes the need to improve infrastructure and has announced its intention to privatize key assets. The first step in this direction will be the privatization in 1998 of the Tbilisi electricity distribution company, Telasi, through a foreign investment bank. **Agricultural land privatization** is almost complete, although an active land market has not yet emerged as a result of the lack of progress in land registration. The legal framework for private ownership of **urban and industrial land** does not yet exist, although the buildings on it can be purchased, and the land can be leased from municipalities. Municipal leases are not allocated in a transparent manner through an open tender, and are generally seen to be underpriced. A law to permit private ownership of urban and industrial land is expected in 1998.

67. As in many CIS countries, however, much of the progress in macroeconomic stabilization and structural reform still needs to be complemented with large investments in public utilities and further institution building needed for private sector development. For example, the quality of Georgia's **infrastructure**, after years of deterioration, poses a serious obstacle to economic development, despite some improvement in the past two years. **Electricity** is supplied only according to a limited schedule, and is subject to cutoffs and voltage fluctuation which can damage expensive equipment, particularly during the winter months when electricity is generated by burning imported natural gas and heating oil rather than from hydropower. Almost all enterprises must use generators at times, requiring them to buy oil products from another state-owned monopoly, now slated for privatization. The state-owned **telecommunications and postal service** monopolies provides inadequate service. Although a number of telephone exchanges in major cities have been upgraded with foreign equipment, line quality is poor, wrong numbers are common, and disconnection of paying customers is not unusual. These problems have promoted the development of three cellular telephone systems, which provide better service but at a significantly higher cost. The licenses for these systems were apparently not distributed in a transparent manner, and the regulatory framework remains unstable. **Transport infrastructure** has improved in the last three years. Trunk roads now receive some minimal maintenance, and a cross-country journey by a truck,

impossible before the restoration of law and order in the last few years, now entails a more reasonable level of delays and costs. The main rail route to Russia, through Abkhazia, remains cut, but the railway have been able to provide adequate service for pipeline rehabilitation, oil exports, and transit trade. Container traffic through Poti and Batumi ports is doubling each year and the Tbilisi airport has been rehabilitated with European Bank for Reconstruction and Development (EBRD) financing, and is now served by four international airlines.

68. **Financial sector development** is another major challenge for the Georgian authorities. The primary sources for financing investment are retained earnings, informal intermediation outside the banking system, and foreign direct investment. Commercial bank loans to the private sector amounted to only 2.5 percent of GDP at the end of 1997, with interest rates of 40-50 percent per annum compared with single-digit annual inflation rates. Furthermore, short-term trade loans account for most lending, although some longer-terms loans are available through foreign official credit lines. Lending practices are poorly developed; and the allocation of loans are not always based on purely economic criteria.

Regulatory framework and its implementation

69. Georgia has enacted the basic legal framework for a market economy (Box 4). The Civil Code and other business laws are in place and market competition is becoming the economy's rule, as the privatization of land and enterprises takes hold.

70. The Georgian legal framework, however, is not always well enforced. For instance, assessments by tax and/or customs officials are many times not made in a transparent manner. Also, many businesses have found that tax authorities are able to obtain information about their commercial bank accounts and freeze them or deduct funds without a court order, preventing normal business operations. The legal framework in this area is contradictory and changing over time. A court order is required before a commercial bank discloses information to tax authorities according to Article 17 of the Law on Commercial Banks. However, this law's provisions on secrecy are undermined by Article 233 of the Tax Code, which requires that commercial banks notify the Tax Inspectorate of new accounts, and execute payments only if the recipient's and sender's Tax Identification Numbers are attached.[27] Another source of authority is the NBG regulation on non-cash settlements, approved in September 1996, which orders commercial banks to execute tax inspector's requests to deduct funds from a taxpayer's account

71. Difficulties in implementing laws are not limited to the area of taxation. A bankruptcy law was enacted in 1996, but has not yet had a significant impact, in part as a result of slow

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[27]The Tax Inspectorate attributes its authority to freeze banks accounts to Article 245 of the Tax Code, which refers to seizure of property based upon a court order. In some cases it has cited Article 265(e), which refers to the right of the Tax Inspectorate to collect taxes not paid in a timely manner, but does not mention bank accounts or court orders.

decision-making by courts, and poorly defined trigger conditions for bankruptcy. The law was modified in 1997 so that bankruptcy can be triggered by any unpaid obligation, rather than the condition that liabilities are greater than assets. To date, the Tax Inspectorate has submitted 120 bankruptcy cases to the court. Of these, 14 have been considered, all of which were reorganizations rather than liquidations.

72. An anti-monopoly law was enacted in 1996, but the enforcement agency lacks sufficient power to ensure competition. In practice, many potentially competitive markets are monopolistic, for instance, the import of oil products is a state-owned monopoly (now being privatized), and privately-owned firms appear able to resist entry into some consumer product markets.

Box 4. Legal Framework for Private Sector Development

Tax Code (June 1997): The Tax Code applies stable, uniform rates of taxation with a limited number of exemptions. The rate of profit tax is 20 percent, the VAT is 20 percent, payroll taxes add up to 33 percent, and the personal income tax 20 percent. It also specifies the structure and powers of the Tax Inspectorate. The code implemented the invoice credit method of collecting VAT.
Law on Customs Tariffs (March 1998): The law establishes a stable, uniform customs tariff of 12 percent on imports, with a rate of 5 percent for certain raw materials, and with a limited number of exemptions. The new law brought the existing tariff structure in line with the Harmonized System.
Customs Code (November 1997): The code provides the legal basis for the customs administration. The code specifies the structure and powers of the State Customs Department, as well as procedures for clearing goods and for transit.
Law on Commercial Banks (February 1996): The law, along with the Law on the NBG, creates a two-tier banking structure, under which the NBG has authority to license and to supervise commercial banks. The law specifies the permissible activities of banks, ownership restrictions, accounting and auditing requirements, and procedures for temporary administration and liquidation.
Law on Privatization (May 1997): The law determines procedures for privatization, including voucher auctions, cash auctions, tenders, and lease-to-buy arrangements. Only a limited range of state assets are not subject to privatization, including electricity transmission and dispatch, harbors, railways, gas pipelines, motor-ways, security-related properties, and telecommunications; this list may be reduced during 1998.
Law on Entrepreneurs (October 1994): This law specifies the permissible organization forms for enterprises, including an individual enterprise, a joint liability company, a limited partnership, a limited liability company, and joint-stock company, and a cooperative. The law required the reregistration of enterprises through the court system. It specifies requirements for accounting and audit; it does not require independent share registries.
Civil Code (June 1997): The Civil Code provides a modern basis for civil law, including the resolution of commercial contractual disputes.
Law on Monopoly Activity and Competition (June 1996): The law created an antimonopoly service to investigate anti-competitive practices and to prescribe remedial measures.
Law on Bankruptcy (June 1997): The law determines the trigger conditions for bankruptcy and procedures for the liquidation of bankrupt firms. Because the trigger condition that liabilities exceed assets proved ineffective in practice, the law was modified in 1997 so that non-payment of debt triggers bankruptcy.
Law on Agricultural Land Ownership, Registration, and Leasing (1997): These three laws provide the legal basis for the private use of agricultural land. They provide the basis for distributing agricultural land to farmers, create transferable property rights for privately owned or leased land, and a land registration system.

73. Businesses report that enforcement of contracts is weak, and do not rely on the courts for the resolution of disputes. There are several causes. First, judges are often poorly trained and paid. Businessmen report losing significant sums of money or even their entire business as a result of court decisions that appeared based upon influence rather than legal considerations. Second, judgments are often not enforced properly. A judicial reform program is underway, with assistance from the World Bank, to test judges, raise their salaries, and improve the enforcement of decisions.

74. Patronage rather than superior management appears to be the key to success in many sectors, given the weak legal framework and broad discretion of officials. Firms with official connections are more able to avoid taxes, especially importers of cigarettes, alcohol, oil products, cars, and flour, and manufacturers of consumer products. Official connections can also help borrowers obtain access to credit and it is not unusual for government departments to operate businesses in areas which they regulate, including, for instance, competitive markets such as cellular communications and taxis.

Foreign direct investment

75. Despite a weak implementation of the current legal framework, criticism on the way fiscal and other legislation are actually applied should be viewed in context. First, a recent survey of the largest investors shows that actual **foreign direct investment** inflows into Georgia increased from approximately US$54 million in 1996 to at least US$189 million in 1997 (Text Table 1). This level of investment in 1997 was three times higher than projected, and at US$38 per capita or 3.8 percent of GDP is well above the average for other members of the CIS (in 1996). Two-thirds of the investment is not part of the pipeline rehabilitation project, but is in sectors including oil and gas extraction, banking, agro-processing, telecommunications, and light industry. The main source countries for investment are the United States, the United Kingdom, Turkey, and Russia. Second, **FDI should increase in 1998**, based upon the plans of existing investors, interest expressed by several large potential investors, and the increasing pace of large-scale privatization. Third, **reforms in tax and customs administration** in the last three years have tripled tax revenue as a percent of GDP, providing the basis for Georgia's economic stabilization. Enterprises which have been transferred to the Large Taxpayer Unit of the Tax Inspectorate generally report that this office is more business-like, although it is not without problems. The Tax Inspectorate has an appeals mechanism which has ruled in favor of the taxpayer in the majority of cases; the existence of this mechanism has not been well publicized.

76. The positive trends with FDI reflect the combination of profitable business opportunities and adequate overall legislation, which have—so far—overcome other obstacles in the economy. A new foreign investment law was enacted in November 1996 which allowed unlimited repatriation of capital and profits and placed no limitations on holding foreign currency bank accounts. Foreign investors are required to register, but this is straightforward and the penalties for not doing so are small. Foreign residents are not permitted to own

agricultural land, but they can lease it. As noted above, the legal framework for urban and industrial land privatization has not been established, but foreign residents can buy buildings and lease land in the same way as domestic residents.

77. Finally, many foreign investors seek the official support needed to succeed in Georgia's business environment in various ways: through a joint venture partner, by appealing to the Foreign Investment Council of the President, through their embassy, or by developing close relations with key officials. Investors report some success in getting problems solved through these sources, but small firms have had much less success, and large firms cannot turn to the government with every small problem. To improve the legislative base for investment, investors can work through the Investment Legislative Support Council of the Chairman of parliament. The World Bank and United Nations have financed the Georgia Investment Center, which provides information to foreign investors and promotes Georgia as a destination for investment.

Text Table 1. Foreign Investment
(In millions of US$)

	1996 Actual	1997 Actual
USA	8.2	48.2
United Kingdom	7.9	25.5
Turkey	3.1	25.0
Bermuda Islands	18.0	20.0
Russian Federation	3.7	16.9
Italy	1.0	8.1
Australia	5.4	7.8
South Korea	2.0	7.0
Azerbaijan	1.5	6.5
Norway	1.3	5.6
Israel	0.0	4.2
Germany	0.5	3.1
France	0.0	3.0
UAE	0.1	2.6
Japan	0.6	2.5
Greece	0.0	2.0
Saudi Arabia	0.3	1.1
Ukraine	0.0	0.3
Total	**53.3**	**189.3**

Source: Foreign Investment Survey.

IV. Revenue Mobilization: The Last Three Years

78. This section summarizes Georgia's tax policy and tax administration developments since December 1994 and compares general government revenue performance in Georgia with

revenue performance in other BRO countries, highlighting some of the tasks ahead for the Georgian tax authority. The section shows that the number of major tax policy and tax administration measures adopted during the last three years has been declining over time. While a front-loading of major policy measures at the beginning of the stabilization was crucial to swiftly reduce domestic and external imbalances, the problem has been that marginal increases in tax revenue collections has also been diminishing overtime, despite pressing needs to finance some basic public expenditure programs. These trends on fiscal policy and revenue collections raise important questions about the future direction of fiscal policy, including tax enforcement and governance issues, which would need to be addressed in the context of comprehensive economic programs for the coming years.

Tax policy and tax administration measures

79. To take inventory of all tax policy measures implemented in the last three years, this section classifies measures in four broad categories depending on their **potential**[28] revenue impact: (i) tax rate increases (TRI); (ii) tax rate reductions (RTR); (iii) broadening of the tax base (BTB); and (iv) narrowing the tax base (NTB). Whenever a measure has a positive revenue impact, it is graded with an important (+++), moderate (++) or small (+) positive mark. Similarly, whenever a measure has a negative effect on tax revenues it is graded with an important (---), moderate (--), or small (-) negative mark. To evaluate the (net) revenue impact of a set of policies over a period of time, we subtract the number of negative marks (-) from the number of positive marks (+) over the period.

80. Three main conclusions are derived from our inventory of fiscal measures (Text Table 2). First, the net revenue effect of tax policy measures has been positive, but declining over time. During the period December 1994/December 1995, the net effect of the measures adopted was very positive and equal to 15+. In 1996, the net positive effect was reduced to 5+, and in 1997 it was just 1+. Second, during the last three years, measures oriented to expand the tax base (BTB) were more numerous and more important than measures aimed at increasing tax rates (TRI). Indeed, during this period, there were eleven times when BTB measures were enacted with a total potential revenue impact of 22+, whereas TRI measures were only enacted four times and had a potential revenue impact of 12+. Third, while in 1995 the emphasis to increase tax rates and expand the tax base was somewhat balanced, this emphasis changed over time as BTB measures became the core of the fiscal package.

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[28]Notice that the **potential** revenue effect does not necessarily coincide with the **actual** revenue yield derived from the measures.

Text Table 2. Tax Policy Measures and their Revenue Impact

Date	Measure	Type	Potential Revenue Impact
December 1994	Increase in general VAT rate from 14 to 20 percent	TRI	+++
December 1994	Introduction of 10 percent VAT rate on bread and flour[29]	BTB	+++
December 1994	Increase in customs tariff from 2 to 12 percent	TRI	+++
December 1994	Increase in the excise tax rate on gasoline from 10 to 15 percent	TRI	++
December 1994	Elimination of the tax on exports to non-BRO countries	NTB	-
December 1994	Increase in VAT threshold	NTB	-
February 1995	Introduction of a presumptive tax on individuals and small enterprises	BTB	++
May 1995	VAT levied from non-BRO goods arriving via BRO countries	BTB	++
June 1995	Elimination of the excise tax exemption on BRO imports	BTB	++
June 1995	Increase in excise taxes on alcoholic beverages (except wine) and cars	TRI	++
June 1995	Reduction in the excise tax rate on wine	RTR	-
June 1995	Reduction in the number of excisable products	NTB	-
July 1995	Elimination of the general tax exemption (on payment of VAT, income and profit tax, and customs duty) of the religious patriarchate	BTB	+
August 1995	Elimination of the VAT on imports of capital goods	NTB	--
September 1995	Introduction of an entry tax in Georgia and a tax on the ownership of cars	BTB	+
Net December 1994-December 1995			***15+***

[29]Actually, the authorities have been implementing a zero VAT rate on domestic flour through 1997.

Date	Measure	Type	Potential Revenue Impact
March 1996	Removal of VAT exemptions on alcoholic beverages, certain foodstuffs, and other goods and services	BTB	+++
March 1996	Removal of many small income and profit tax exemptions	BTB	+++
March 1996	Removal of custom duty exemptions on personal imports	BTB	++
March 1996	Reduction of the tax on dividend from 20 to 10 percent	RTR	-
March 1996	Reduction in the custom duty rate on barter trade from 20 to 12 percent	RTR	-
May 1996	Tea exports to BRO countries taxed at zero VAT rate	RTR	-
Net 1996			*5+*
January 1997	Removal of VAT and Custom Duty exemptions for petroleum products and automobiles	BTB	++
January 1997	Introduction of a 5 percent custom duty on limited number of medical goods and raw materials	BTB .	+
January 1997	Reduction in most excise tax rates (except wine, certain hard alcohols high-quality cigarettes and petroleum products)	RTR	--
January 1997	Unification of profit tax at 20 percent	RTR	--
January 1997	Reduction in payroll taxes from 35 to 33 percent	RTR	-
October 1997	Introduction of a specific tax on high-quality cigarettes of lari 0.25 per pack; and tax on low-quality cigarettes of lari 0.19 per pack	TRI	+++
Net 1997			*1+*

81. An inventory of the tax administration measures implemented during the last three years shows that the number of administrative measures also declined over time. In 1995 there were 8 significant tax/customs administration measures, whereas this number fell to 4 in 1996 and 1997. These numbers alone, however, do not capture the far-reaching effect of some of these measures like the new tax code enacted in June 1997.

Text Table 3. Tax and Customs Administration Improvements

Period	Measure
December 1994/December 1995	Interest charged on underpaid tax increased from 0.3 to 0.5 percent monthly Introduction of penalties on nonfiling TIG was enabled to temporally close businesses after six months of willful underpayment of taxes Initial distribution of Taxpayer Identification Numbers by the TIG Reorganization of the TIG along functional lines Custom valuation code introduced Reorganization of two pilot Regional Tax Inspectorates (RTIs) Computerization of the TIG headquarters and two RTIs begins
1996	Establishment of the Large Taxpayers Unit (LTU) Survey to identify new taxpayers begins Improvement in the processing of imports (through measures such as blocking the entry of cargoes until full documentation, monitoring passage of transit vehicles, etc.) Computerization of the SCD headquarters
1997	Enactment of the Tax Code: 1. The TIG was enabled to assess income through presumptive and indirect methods 2. Credit/invoice method for VAT 3. Improved bonus system for the TIG Computerization of the VAT form Enactment of the Customs Code Computerization of Customs

Fiscal measures and revenue increases, 1994-97

82. Another inference from the data is that there appears to be a close relationship between the adoption of tax policy measures and the increase in the tax revenue to GDP ratio the following year (Text Table 4). Indeed, the largest revenue increase happened in 1996, a

year after the implementation of a number of "important" (i.e., graded at 15+) tax measures. In 1997, the increase in the tax ratio was more modest, probably reflecting a reduced number of tax policy measures implemented in 1996 (i.e., graded at 5+). This one-year lag between the introduction of tax policy measures and actual tax collections suggests that significant increases in tax collections require the implementation of bold revenue raising measures a year ahead. The adoption of revenue-raising tax policy measures seems fundamental for increasing tax collections even in a country like Georgia, where tax administration measures could make a major contribution to revenue collections.

Text Table 4. Fiscal Developments and Increase in the Tax Revenue/GDP ratio

Year	Potential Revenue Impact of Tax Policy Measures	Tax Administration Measures	Percentage increase in general government tax revenue/GDP ratio
1995	15+	8	24.3
1996	5+	4	56.5
1997	1+	4	24.7

Comparison with other BRO countries

83. Text Table 5 compares fiscal performance in Georgia with performance in other BRO countries. The comparison shows that Georgia's revenue/GDP ratio has almost tripled since 1993, but the tax level only represented about one-third of the unweighted average of BRO countries in 1997.[30] Although the low revenue/GDP ratio could be partially related to an overestimation of the GDP, it is clear that there is substantial room to increase tax revenue in Georgia. Options available include the elimination of existing VAT exemptions and broadening the tax bases of the income and payroll tax. As in many other BRO countries, further efforts are also required to eliminate tax arrears (which currently represents about 30 percent of total tax collection), fight corruption in the tax and customs administrations, and improve the judicial system.

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[30]International comparisons of Georgia's fiscal performance need to be treated with caution, however, as Georgia's official GDP estimates may be overestimated. Extensive IMF technical assistance in the area of national accounts statistics is currently being provided to Georgia's State Department of Statistics.

Text Table 5. BRO Countries: General Government Revenue Developments 1993-97
(Total revenue, in percent of GDP)

	1993	1994	1995	1996	Q1-Q2 1996	Q1-Q2 1997
Armenia	16.0	15.8	16.2	16.2	11.5	14.3
Azerbaijan	40.6	26.1	15.2	16.2	14.4	17.6
Belarus	54.7	48.3	42.7	41.9	44.2	46.5
Estonia	38.5	41.3	39.9	39.0	38.3	39.0
Georgia	**3.4**	**4.2**	**5.1**	**8.1**	**6.8**	**8.9**
Kazakahstan	29.9	25.6	26.1	23.6	26.8	23.4
Kyrgyz Republic	24.6	20.8	16.7	17.0	20.2	20.7
Latvia	35.8	36.5	35.5	36.4	36.3	39.7
Lithuania	31.5	32.7	32.8	30.0	29.6	33.9
Moldova	22.1	32.0	33.5	31.5	27.3	30.6
Russia	36.2	34.6	27.9	24.7	24.3	24.3
Tajikistan 1/	27.1	44.5	15.2	12.3	15.0	12.2
Turkmenistan 2/	19.2	10.4	12.5	15.1	8.7	17.1
Ukraine	42.8	44.3	38.5	37.2	35.2	37.2
Uzbekistan 3/	42.6	32.3	34.6	34.2	44.1	39.3
Unwieghted Average 4/	31.3	28.9	26.9	26.5	26.3	28.0
Unweighted Average 4/ 5/	30.2	26.8	24.5	24.2	23.9	25.4
Weighted Average 6/	36.3	34.6	28.7	25.9	25.7	25.9

Sources: Data provided by the authorities; and Fund staff estimates.

1/ Data for Tajikistan are not strictly comparable across years due to the falling value of non-cash rubles in 1994 and 1995 and the change of the national currency in mid-1995. State budget only.
2/Including grants.
3/ Excluding Tajikistan.
4/ Excluding Tajikistan.
5/ Excluding Baltic countries.
6/ Weights based on output in 1994.

Text Table 6. BRO Countries: General Government Revenue Developments by Type of Tax, 1997 Q1-Q2 (Tax revenue, in percent of GDP)

	Profit	Individual Income	Payroll	VAT and Other Indirect	Trade	Other
Armenia	1.9	0.9	2.8	5.1	1.7	1.9
Azerbaijan	2.8	2.0	2.4	5.2	1.5	3.7
Belarus	4.5	3.3	12.1	14.2	2.8	9.5
Estonia	2.3	2.3	12.4	13.1	0.0	3.1
Georgia	**0.7**	**1.0**	**1.6**	**3.1**	**0.6**	**2.0**
Kazakhstan	2.7	2.4	7.6	4.0	0.4	6.3
Kyrgyz Republic	1.9	1.6	...	8.4	0.8	5.2
Latvia	2.4	5.5	11.3	12.9	0.7	7.4
Lithuania 1/	1.9	5.1	11.7	12.3	0.8	2.1
Moldova	1.8	2.4	9.2	9.9	1.0	6.3
Russia	2.9	2.1	6.9	6.6	0.8	5.0
Tajikistan	1.2	1.3	...	7.3	1.5	1.7
Turkmenistan	2.7	0.6	1.7	5.3	0.0	6.8
Ukraine	4.9	3.7	11.4	9.6	0.7	5.4
Uzbekistan	10.6	4.8	...	17.3	0.8	6.6
Unwt. Average	3.0	2.6	7.6	9.0	0.9	4.9

Sources: Data provided by the authorities; and Fund staff estimates.

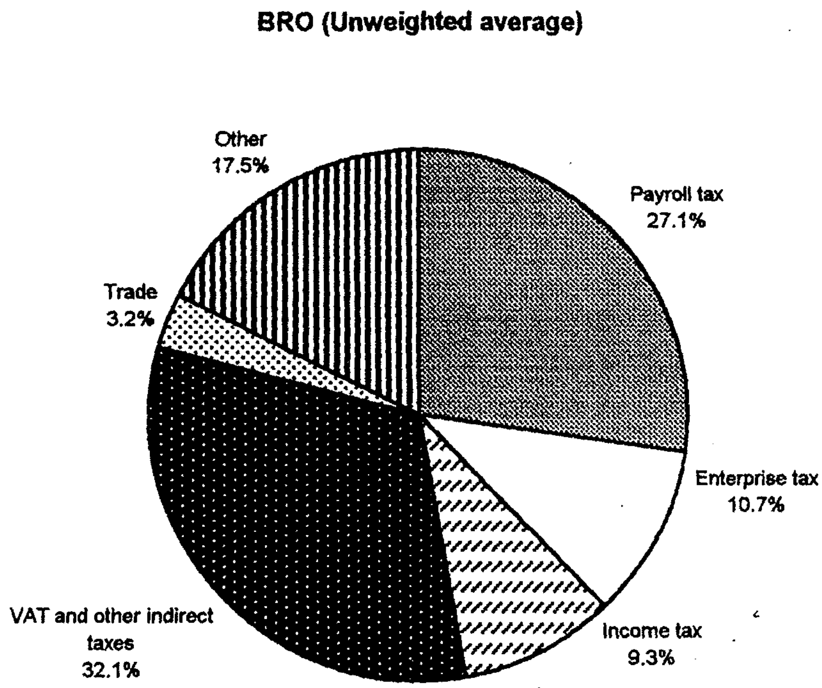
1/The Health Insurance Fund was added to payroll taxes as of January 1997.

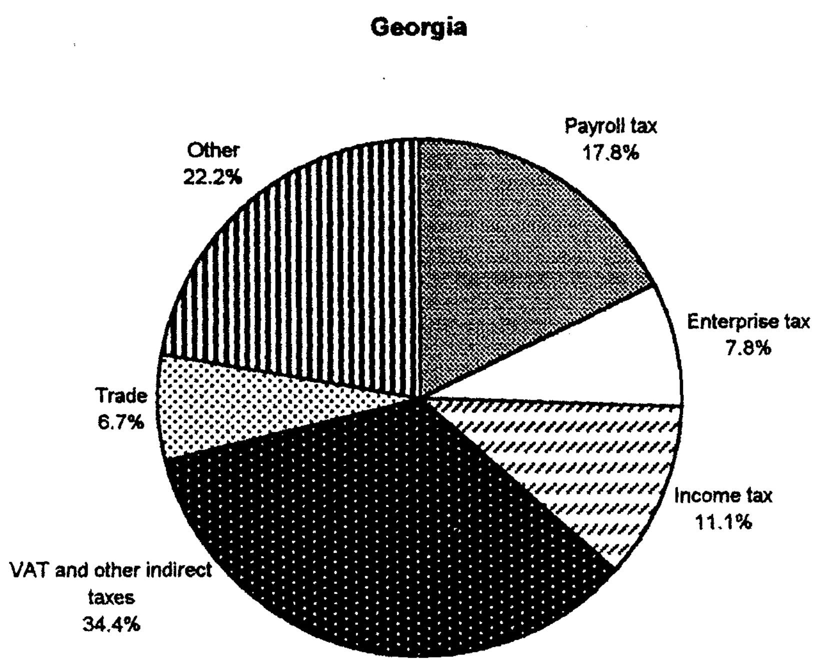
84. A comparison between revenue collections by type of tax in Georgia and in other BRO countries (Text Table 6 and Figure 9) highlights two main conclusions. First, for all tax categories, revenue/GDP ratios in Georgia are lower than elsewhere in the region. Second, the under performance of some taxes in Georgia is particularly striking. Indeed, the ratio of payroll taxes to GDP in Georgia was only one-fifth of the unweighted average ratio for BRO countries in 1997 (1.6 percent of GDP versus 7.6 percent of GDP). Since the combined payroll tax rate of 33 percent in Georgia is within the 31-45 percent range in other BRO countries, low payroll tax collections suggest that there is much room for improvement with this tax. Profit tax collections in Georgia are also very limited compared with those in other BRO countries. In this case, however, the rather low profit tax rate in Georgia (20 percent, versus 35-40 percent in many other BRO countries) might explain the limited collections from this tax.

V. Interest Rate Developments

85. This section discusses the interest rate developments in Georgia during 1997 and early 1998. A description of the nascent treasury bill market is followed by a discussion of interest rate trends in the money market and commercial banks' lending and deposit rates.

Figure 9. Georgia and BRO: Composition of Total Revenue, 1997 Q1-Q2





Sources: National authorities.

Treasury bill market

86. Primary treasury bill auctions were introduced in Georgia in August 1997. Initially the maturity of the treasury bills auctioned in the primary market was limited to 28-day bills only, but starting from November bills with 91-day maturity also became available. Participation in the primary auctions has been limited to licensed commercial banks. Other interested buyers including nonresidents can purchase treasury bills through licensed banks. The NBG does not participate in the primary market and a secondary market has not yet been developed. The outstanding stock of treasury bills was about lari 6 million (1.6 percent of M3) at end-1997, of which lari 2.8 million had a 28-day maturity and lari 3.2 million had a 91-day maturity (Figure 10). Nonresidents held nearly one third of treasury bills outstanding at end-1997. The rest of the treasury bills were held by very few banks.[31] The average frequency of primary auctions has been once a month for the 28-day bills and twice a month for the 91-day bills.

87. Despite the decline of annual inflation to single digits, the treasury bill yield prevailing in the primary market has been very high, averaging about 37 percent (on an annual basis) during the period August 1997-February 1998. The yield has also been very volatile. After hovering around 30 percent during August-October 1997,[32] the yield went up slightly in November and bounced to 45 percent in December for both 28-day and 91-day bills. The yield fell moderately in early 1998, to about 35 percent for 28-day bills and just under 40 percent for 91-day bills at end-March 1998. While the volatility in the treasury bill yield may in part be related to a rather thin primary market for these financial instruments and the authorities' lack of experience in this area, the yield level reflected mainly the stance of fiscal policy. In particular, while overall liquidity conditions were very tight in October/December 1997, offerings of treasury bills in the primary market increased significantly as the government tried to fulfill its ambitious expenditure plan.[33] As a result, the auction coverage (i.e., the ratio between total bids and total offerings of treasury bills) declined significantly in those two

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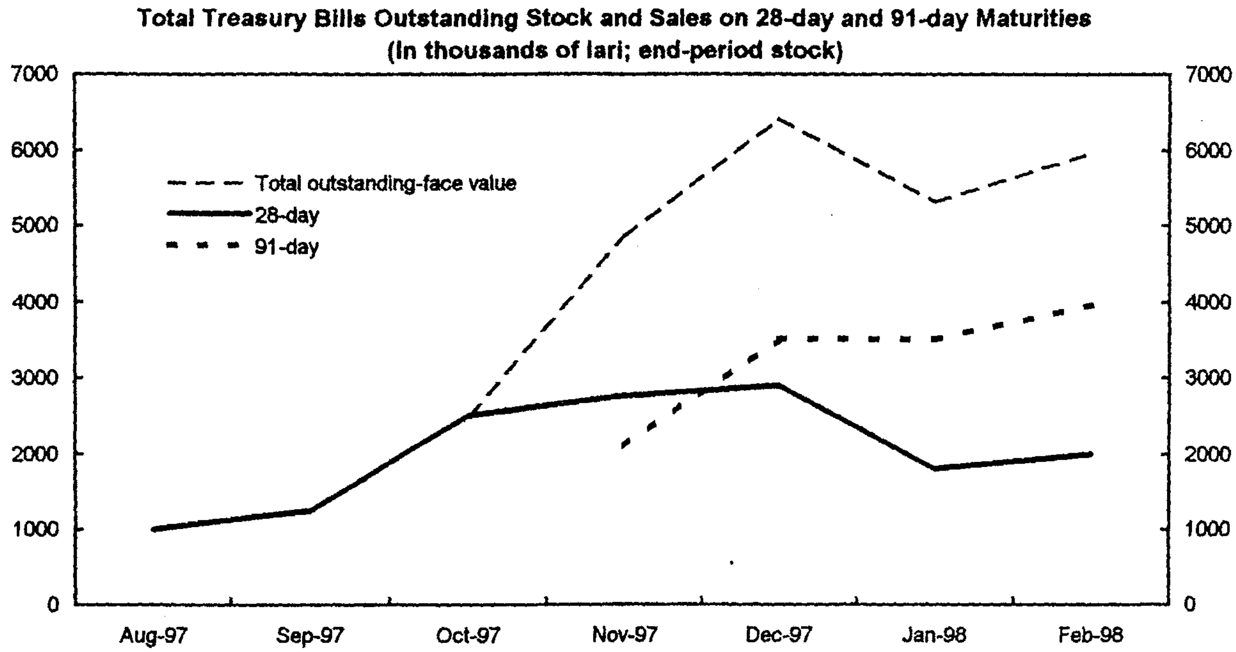
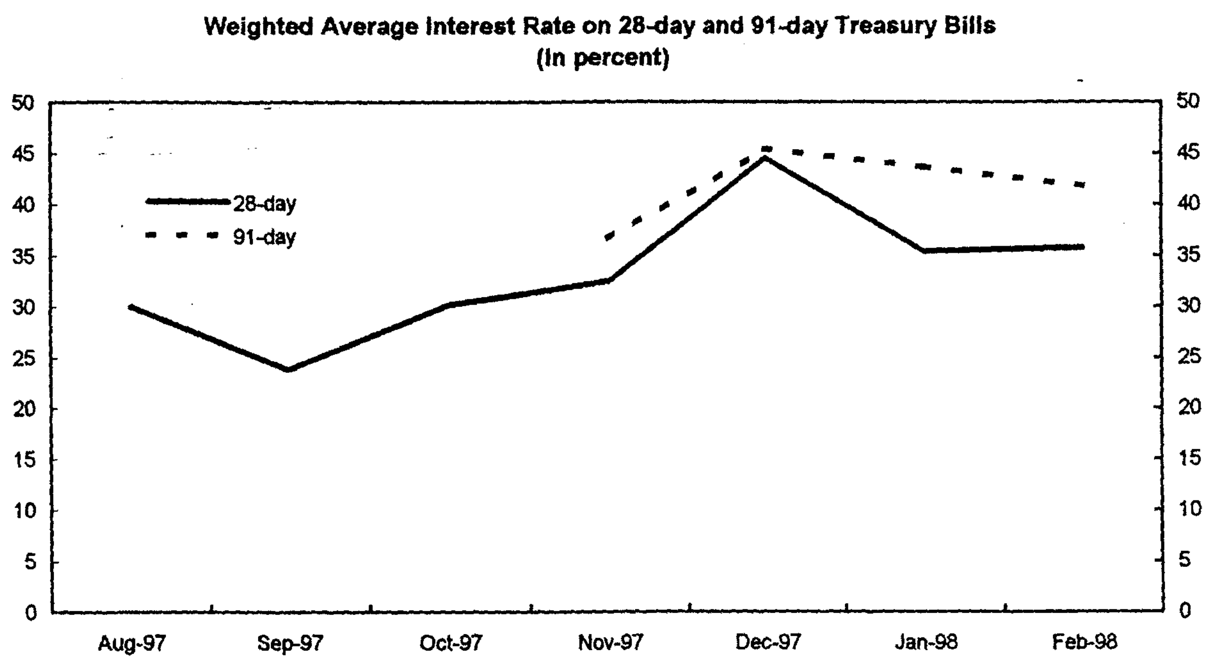
[31]Out of 47 licensed commercial banks, only about five have so far participated in the auctions on a regular basis.

[32]Following a 30 percent yield in the introductory 28-day bill auction in August, the yield declined to 23 percent in September but bounced up to 32 percent in October.

[33]The banking sector's deposit liabilities increased by over lari 50 million during the period January-August 1997, equivalent to about 70 percent increase relative to end-1996, but remained flat between September and December 1997. Despite a continued increase in households deposits, total bank deposits actually declined in nominal terms during December 1997, largely reflecting a significant increase in tax payments by the enterprise sector that normally takes place at year end.

Figure 10. Georgia: Oustanding Stock of Treasury Bills and Weighted Average Interest Rates 1/





Sources: National Bank of Georgia.

1/ Treasury bills with 28-day maturity were introduced in August 1997; treasury bills with 91-day maturity were introduced in November 1997.

months and the December 91-day bill auction was undersubscribed by nearly half, contributing to a sharp increase in the yield by year end.[34]

88. The level of the treasury bill yield is likely to come down in 1998 and fluctuations in the yield should become smoother, as the fiscal deficit declines and the scheduled treasury bill offerings in the primary market for 1998 take better into account the seasonality of the market's liquidity conditions. In addition, the NBG intends to introduce a floor-based secondary market in the second half of 1998 to encourage the secondary trading of treasury bills.

89. As a conclusion, given the relatively short time since the introduction of the primary treasury bill market in Georgia and the virtual absence of a secondary market, the treasury bill yield is not yet a good indicator of the market interest rate.

Money market developments

90. Developments in Georgia's money market were characterized by a sharp increase in the interest rate level during the second half of 1997, following a moderate decline in the first half of the year (Figures 11-13).[35] The NBG does not provide any automatic refinancing credit to commercial banks, and as noted earlier, it does not participate in the primary treasury bill market while a secondary market has yet to be developed. Its intervention in the credit auction market therefore, apart from reserve requirements, is the main channel for the NBG to influence the market interest rate in Georgia.[36]

91. In a departure from 1996, interest rate developments in the money market during 1997 were shaped by the NBG's objective to maintain the stability of the lari exchange rate, while targeting an appropriate level of international reserves. During the second half of 1996, in an effort to reduce the general level of interest rates in Georgia, and in so doing to make lending possible to sectors other than trade, the NBG stepped up considerably its sales in the interbank credit market. Concretely, the NBG sales in the credit auction market increased from an average of 0.25 lari million a month to lari 3.5 million per month in the second half of the year, with lari 10 million in December alone. During the period January-April 1997, the NBG sales in credit auction continued to be high averaging lari 4.4. million a month. While this policy led to a significant reduction in the money market interest rates, it contributed to

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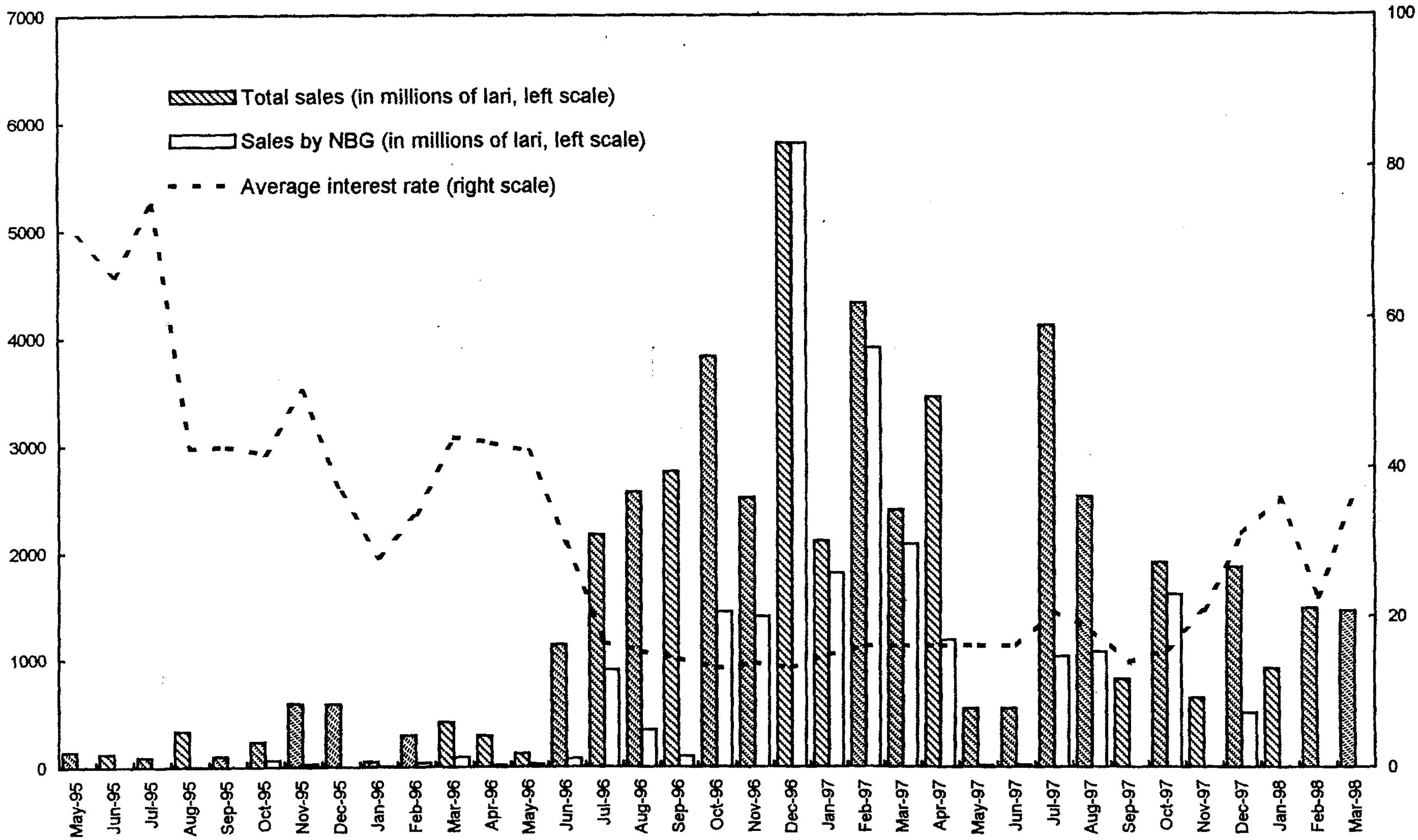
[34]The increase in Treasury bills' yields at end-1997 was not accompanied by pressures in the foreign exchange market, as monetary policy remained tight during this period.

[35]Following a moderate improvement of the market's liquidity conditions in early 1998, the money market interest rate declined somewhat during January and February.

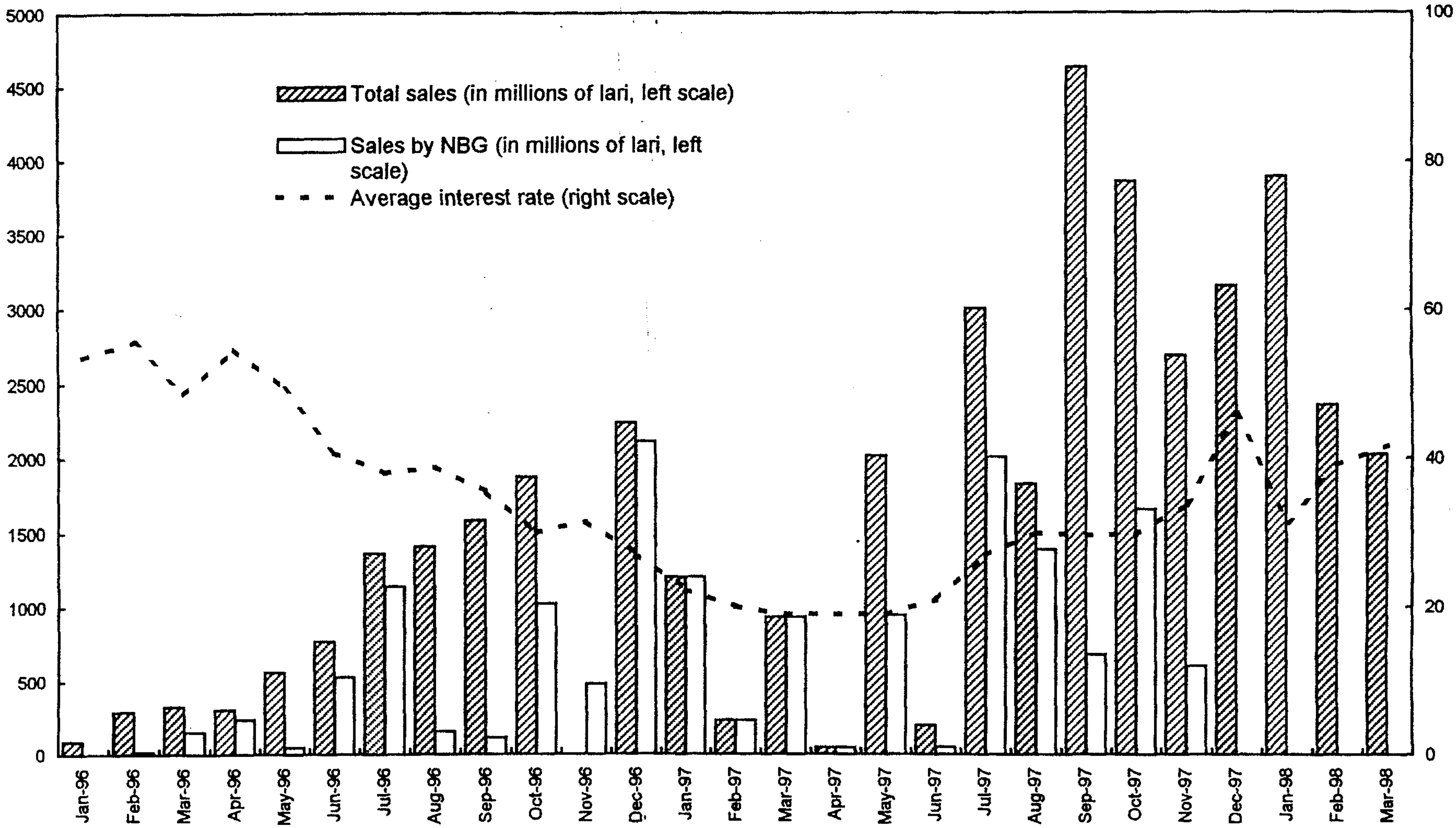
[36]An NBG refinancing facility (at below-market interest rates) was available to banks until end-1994, but has since been discontinued.

Figure 11. Georgia: Total Volume of Transactions, NBG Sales at the Interbank Credit Auctions and 7-day Maturity Average Interest Rate Per Annum



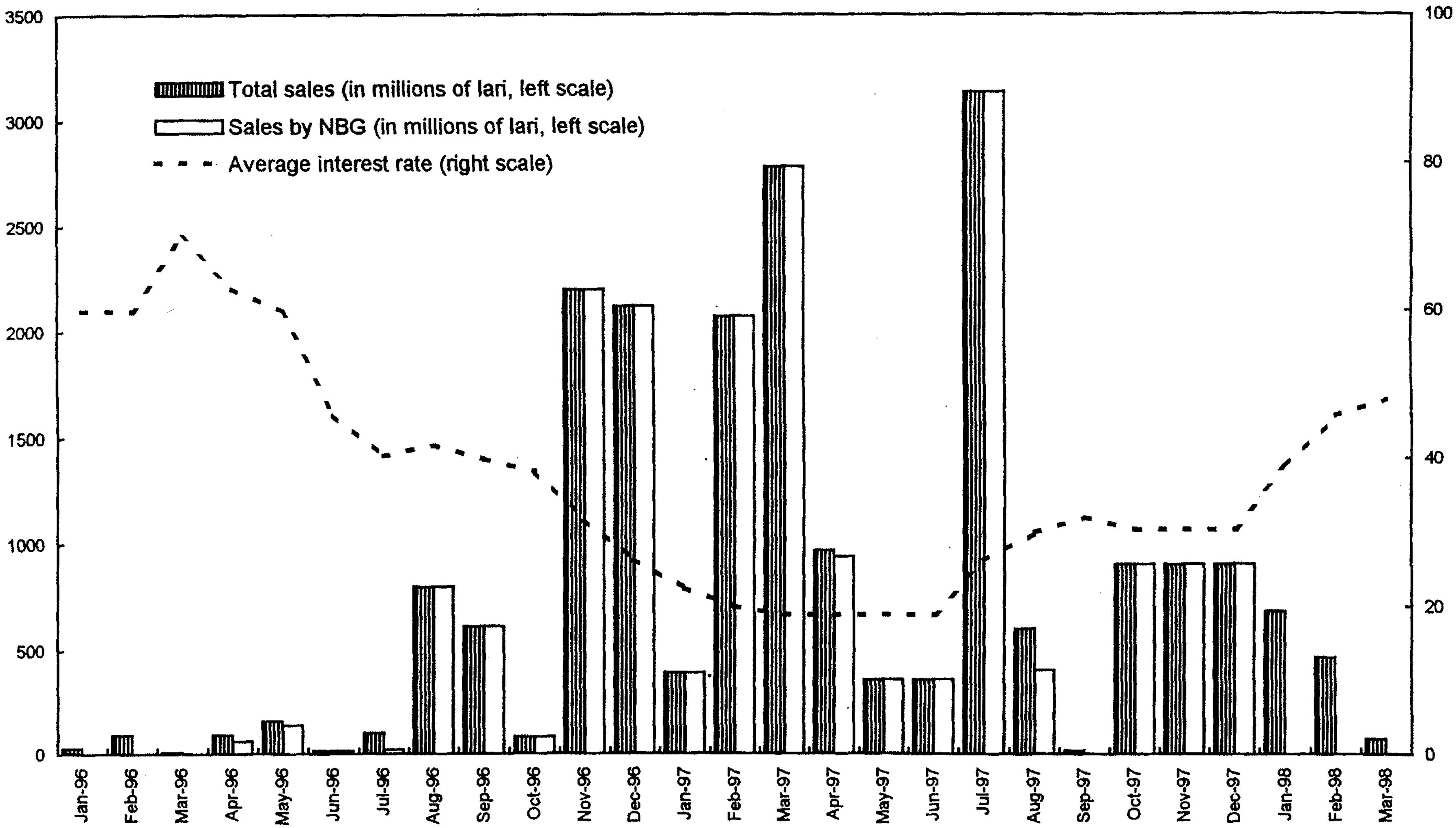
Sources: National Bank of Georgia; and Fund staff estimates.

Figure 12. Georgia: Total Volume of Transactions, NBG Sales at the Interbank Credit Auctions and 30-day Maturity Average Interest Rate Per Annum



Sources: National Bank of Georgia; and Fund staff estimates.

Figure 13. Georgia: Total Volume of Transactions, NBG Sales at the Interbank Credit Auctions and 90-day Maturity Average Interest Rate Per Annum



Sources: National Bank of Georgia; and Fund staff estimates.

increased pressures in the TICEX market and ultimately led to additional NBG sales of foreign exchange reserves in order to defend the lari exchange rate. During 1997, starting from May 1997, however, in order to maintain an adequate level of international reserves, the NBG scaled down significantly its sales in the credit auction market, which contributed to a sharp increase in the money market's interest rate level during the second half of the year. The interest rate on interbank credit auction market on very short maturities, increased from 13 percent and 20 percent (on an annual basis) at end-1996, respectively, for 7-day and 30-day credits, to 31 percent and 46 percent at end-1997, respectively. The interest rate on 90-day maturity credits also increased from 26 percent at end-1996 to 30 percent at end-October 1997, while no transactions took place at this maturity during November and December 1997.

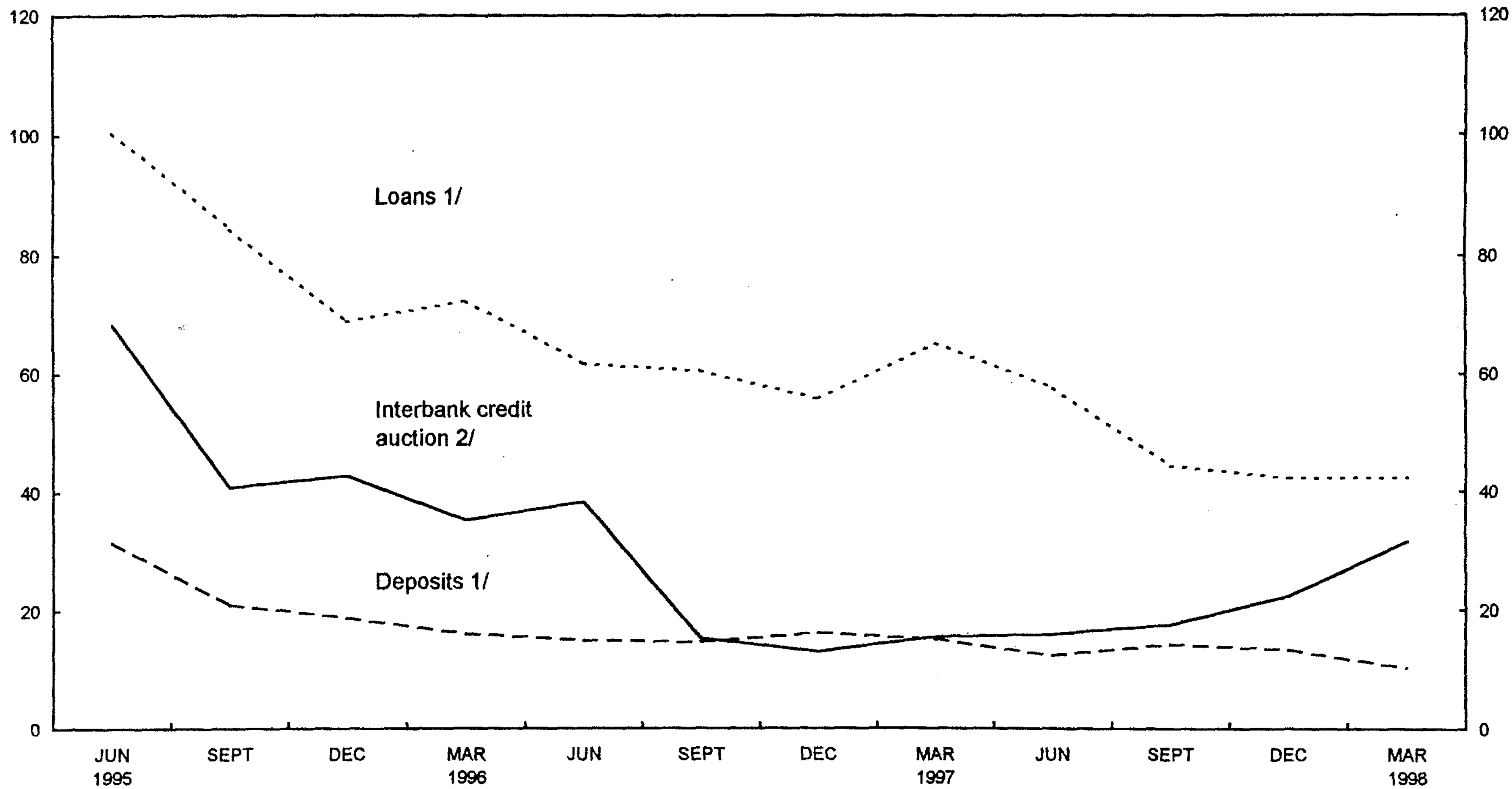
92. Following the reduced participation of the NBG in the interbank credit auction market, the outstanding stock of the NBG credit to commercial banks declined from about lari 14 million at end-1996 to lari 3.5 million at end-1997. While the commercial banks' participation in the credit auction market with 7-day and 30-day maturity increased significantly during 1997, the NBG remains virtually the sole supplier of credit in the money market with 90-day maturity.

Commercial banks interest rates

93. Nominal interest rates on banks' deposits continued to fall during 1997, following the decline of annual inflation to single digits. The average dollar and lari deposit rate declined from 16 percent at end-1996 to about 13 percent at end-1997 (Appendix I, Table 32 and Figure 14). Banks appear to have been competing vigorously in the market for deposits given the tightening of the NBG credit policy toward banks by mid-1997 as noted above. Newly established commercial banks are more aggressive in this regard and offer, on average, higher deposit rates on lari and dollar deposits than the FSBs. This has contributed to a further decline in the FSBs' share in total deposit liabilities relative to the rest of the banking sector, particularly as regards the households deposits. At end-1997, the FSBs' share in households deposits declined to about 30 percent compared to over 45 percent at end-1996. The prevailing interest rates offered by the ten largest banks on foreign currency deposits remain about 10 percentage points above the deposit rates in industrial countries. On average, the rate on foreign currency deposits is virtually identical with, and in some cases higher than, the interest rate on domestic currency deposits. The later could be one of the main factors behind the increased dollarization of commercial bank deposits observed during 1997.

94. Banks' lending rates also declined during 1997, but at a faster pace relative to the decline in deposit rates, leading to a moderate reduction in the spread between lending and deposit rates. While the three-month lending interest rate declined from 53 percent (on an annual basis) at end-1996 to about 45 percent at end-1997, the spread between lending and deposit rates declined from about 37 percent at end-1996 to about 32 percent at end-1997. Despite the continued trend decline during 1997, the interest rate spread prevailing in Georgia

Figure 14. Georgia: Interest Rates, 1995-98
(In percent per annum, quarterly average)



Sources: National Bank of Georgia; and Fund staff estimates.

1/ Three-month maturity.
2/ Seven-day maturity.

at end-1997, three and a half years after the halt of the hyperinflation,[37] appears to be very high compared to the spread prevailing in other BRO as well as a number of developing countries that have gone through banking sector crises (Text Tables 7 and 8).

95. A main reason behind the high spread level in Georgia appears to be the slower progress in enterprise and judicial reform, which make the preparation of adequate loan risk analysis very difficult and the seizure of delinquent borrower's assets an almost impossible task. Other factors behind the high interest rate spread appear to include: (i) the banks' efforts to increase their capital base, in view of the announced schedule by the NBG to increase the banks' minimum capital gradually to lari 5 million by year 2000 from about lari 0.2 million at end-1997; (ii) a severe credit rationing given an extremely low deposit base relative to the GDP, which enables banks to lend mainly to trade-related activities that have a quick turnover and high profit margins; (iii) underlying inefficiencies of Georgia's banking sector; and (iv) the small size of banks in Georgia. The spread is, on average, higher for the FSBs relative to the rest of the banking sector's, reflecting mainly a larger nonperforming portfolio of the former. While the spread for FSBs hovered around 40 percent during 1997, it declined to about 25 percent at end-1997 for the rest of the banking sector from about 35 percent at end-1996.

Text Table 7. Interest Rate Spread in Selected BRO Countries, 1995-97
(Period average; in percent per annum)

	1995	1996	1997
Armenia	71	35	29
Belarus	4	16	8
Estonia	9	6	5
Georgia	62	47	41
Kazakhstan	...	11	9
Kyrgyz Republic	...	20	23
Lithuania	16	14	12
Latvia	19	12	7
Moldova	...	14	11
Russian Federation	36	32	18
Tajikistan	...	19	15
Turkmenistan	...	...	20
Ukraine	33	31	24
Uzbekistan	...	...	18

Sources: Authorities of BRO countries; and staff estimates.

[37]Georgia's high inflation rates turned into hyperinflation in late 1993. The hyperinflation was halted in September 1994 through introduction of tight fiscal and monetary policies.

Text Table 8: Interest Rate Developments Surrounding the Banking Crises[1]

	Argentina	Chile	Finland	Ghana	Norway	Philippines	Uruguay	Venezuela
Real interest rate[2]								
$Mean_0$	-4.55	-6.41	0.28	2.10	2.95	4.49	9.57	-8.61
$Mean_1$	-0.87	1.02	3.64	7.33	5.56	13.80	21.24	--
Gross interest margins[3]								
$Mean_0$	16.15	18.40	2.86	3.40	8.61	7.87	28.53	5.44
$Mean_1$	7.49	12.20	4.71	8.10	4.47	3.93	15.49	--

Sources: Sundararajan and Baliño (1991), Drees and Pazarbaşioğlu (1995), and IMF , *International Financial Statistics*.

[1]$Mean_0$ and $mean_1$ are the sample means for the five-year period before and after each banking crisis, respectively.

[2]Calculated as the nominal short-term interest rate minus the inflation rate.

[3]Lending rate minus deposit rate.

VI. Georgia's Accession to the WTO

96. This section updates the status of Georgia's application to the WTO, outlines some outstanding issues, and reviews the economic implications of Georgia's membership.

Update on the accession process

97. On July 3, 1996, Georgia applied for accession to the WTO under Article XII of the Agreement Establishing the WTO. Upon receiving the official request, the General Council of the WTO established a Working Party to examine Georgia's application and make specific recommendations on its accession. In April 1997, Georgia submitted its Memorandum on the Foreign Trade Regime for distribution among the WTO members, and followed up in October 1997, with written responses to questions submitted by members. On March 3-4, 1998, the Working Party on Georgia's accession to the WTO met for the first time to review recent steps taken by Georgia to bring it closer to conformity with the WTO and to discuss Georgia's initial proposals on market access. In addition, Georgia has begun preliminary bilateral discussions with WTO members on its market access proposals. A second Working Party meeting is expected sometime in the fall of 1998.

98. Recently, Georgia has made legislative changes to bring Georgia more into conformity with the WTO. Laws covering the civil code, tax and customs codes, maritime and aviation codes, and privatization have been adopted. In accordance with WTO guidelines, Georgia is also considering laws on trademarks, government procurement, and copyright and patents. Also as of January 1, 1998, Georgia moved to the destination principle for its indirect taxation

of exports and imports with other CIS countries, despite lack of agreement with all CIS countries. On March 29, 1998, a new Customs Law came into effect which dismantled the reference price system for customs valuation and replaced it with one based upon the transaction value of the traded good. To facilitate Georgia's accession to the WTO, Georgia's parliament has made a commitment that starting September 1, 1998, all new legislation adopted in Georgia will be in full compliance with the "legal norms" of the EU. Georgia is also undertaking steps to convert from the 1992 system of the Harmonized Tariff System to the 9-digit level 1996 system.

Some outstanding issues

99. In terms of the required steps for WTO accession, Georgia has benefited greatly from its open trade regime including low and uniform tariff rates adopted shortly after its independence. Despite the favorable initial setting, some outstanding issue still remain. They include:

- Georgia, like other WTO members, would be expected to accept **binding limits on tariff rates**. Although Georgia's low tariff rates (5 and 12 percent) imply that the setting of binding rates is not likely to become a major issue, it would still be important for Georgia to accept low binding rates so as to prevent the current tariff rates against political pressures to increase them in the future.

- Any remaining **bans on exports** will pose a problem for WTO accession.

- Georgia's use of specific rates on imported alcoholic beverages could raise problems of **fair national treatment**. According to the WTO, the VAT and excise duty should be applied on the same basis for domestically produced commodities as well as for imports. For example, different treatment of domestically produced and imported beverages with similar alcohol content could result in a form of domestic protection and violate WTO rules on national treatment.

- A decision will have to be taken on Georgia's **status** as a WTO member. While a case could be made for Georgia being admitted under the status of developing country, in view of the previous selections, it is likely that Georgia will be classified as a transition economy. Status as a transition economy would still allow Georgia to delay the implementation of certain provisions such as subsidies and TRIMs.

Implications for WTO membership

100. There are several reasons to expect that membership would accelerate Georgia's transition to a more market-oriented economy. First and foremost, guaranteed most favorable nation status and access to the trade-dispute mechanism of the WTO would greatly improve Georgia's access to markets outside the region. Under the WTO, treatment of intellectual

property rights, financial disclosure, and TRIMs would also improve the environment for foreign investment in Georgia. WTO membership would also possibly strengthen Georgia's position in any discussion of joining the proposed CIS customs union, particularly if the external policy of the CIS union were found to be more restrictive than Georgia's trade regime as a member of the WTO.

VII. Exchange, Trade and Payments Systems

101. Georgia accepted the obligations of Article VIII, sections 2, 3, and 4 of the Fund's Articles of Agreement on December 20, 1996.

Exchange arrangements

102. The currency of Georgia is the lari. The lari became the sole legal tender on October 2, 1995, replacing the coupon, which had been introduced on April 5, 1993, and was declared the sole legal tender on August 3, 1993. For all commercial transactions, the exchange rates of the lari are negotiated freely between the banks and foreign exchange bureaus that are licensed by the NBG, and their customers. In addition, the NBG and the major commercial banks participate in the sessions at the TICEX on each working day. Auctions take place only for the U.S. dollar and the Russian ruble. At these sessions, all transactions take place at the single exchange rate for each currency which balances supply and demand.

103. Between January and August 1996, the official exchange rates for the U.S. dollar and the Russian ruble were determined as the exchange rates arising at the TICEX session of the previous Friday. Since August 12, 1996, the official rates are set daily. Official rates for other convertible currencies are determined on the basis of the cross rates for the U.S. dollar and the currencies concerned in the London market. For the currencies of other BRO states, official exchange rates are determined on the basis of the official cross rates for the Russian ruble as determined in the Moscow market. Official exchange rates are used only for government transactions and accounting purposes. Compulsory sales of foreign exchange by exporters to the NBG have been abolished since January 1996.

104. On December 31, 1997, the official exchange rates were lari 1.304 per U.S. dollar and lari 0.00022 per Russian ruble.

Administration of control

105. The NBG is responsible for administering exchange control regulations, which are formulated in collaboration with the Ministry of Finance. Decree No. 259, of March 5, 1992, on "The First Stage of Liberalization of Foreign Economic Activity" established the legal basis for the conduct of foreign economic activities in Georgia. The main provisions of this decree: (i) allow all enterprises to engage directly in foreign trade; (ii) allow all residents to acquire

and hold foreign currency and engage in foreign transactions with a licensed foreign exchange dealer; and (iii) authorize banks to open foreign exchange accounts for all residents.

106. The NBG has the authority to issue general foreign exchange dealing licenses to banks to permit them to engage in foreign exchange transactions with residents and nonresidents and to open correspondent accounts with banks outside of Georgia. The NBG also has the authority to issue internal licenses to banks which permit them to engage in the same range of foreign exchange transactions as general license holders, except that holders of internal licenses may not open correspondent accounts with banks abroad; all transfers of foreign exchange by holders of internal licenses must be carried out through correspondent accounts held either with the NBG or with a bank that holds a general license. The NBG also has the authority to issue licenses for the establishment of exchange bureaus to engage in exchange transactions of all kinds in banknotes.

Prescription of currency

107. Residents of Georgia may make and receive payments and transfers in any convertible currency.

Resident and nonresident accounts

108. Resident individuals and enterprises are permitted to open and operate foreign exchange accounts at banks in Georgia. The balances in these accounts may be used for all authorized transactions. The opening of foreign exchange accounts abroad by residents is subject to authorization by the Ministry of Finance and the NBG. Nonresidents may maintain foreign exchange and local currency accounts with banks in Georgia and may freely remit funds from these accounts offshore. The export of cash currency is permitted by non-residents up to a limit equal to the amount of currency originally imported; exports by non-residents of cash in excess of the amount imported by more than US$500 but less than US$10,000 are subject to a fee of 2 percent, beyond this amount the fee is 3 percent. The export of cash by residents is unrestricted up to an amount of US$500. Beyond this amount, exports of cash, excluding amounts for business travel expenses, are subject to a 2 percent fee, with amounts over US$10,000 subject to a 3 percent fee (Decree No. 1 of January 6, 1995 on Provisional Rules for the Export of Foreign Currency Notes by Citizens, as amended by Decree No. 158 of May 6, 1995).

Imports and import payments

109. Trade with countries other than the Baltic countries, Russia, and other countries of the former Soviet Union is regulated by the Ministry of Trade and Foreign Economic Relations, which regulates all foreign trade of Georgia (Decree No. 265 on Quotas and licensing of Merchandise Trade of March 31, 1993 and Decree No. 35 of January 23, 1995, on the State Regulations of the Export and Import of Goods and Services). There are no quantitative restrictions on imports, and licenses are generally not required. A customs duty of 12 percent

is levied on most non-CIS imports as well as imports of fuel from CIS countries; certain goods are subject to a customs duty of 5 percent as of January 1, 1997, including specific capital goods, medical goods, electricity, natural gas, and equipment previously taxed at 12 percent, and certain raw materials. Humanitarian aid, literature published by Georgian citizen abroad, diplomatic shipments, non-commercial imports for internal consumption by cultural groups or certain institutions and activities of the patriarchate, gifts valued at less than US$3,000 and personal belongings, goods in transit and for re-export, and various categories of foods and medicines are exempt. All imports are subject to a general customs processing fee of 0.2 percent. Foreign exchange to pay for imports may be purchased freely from authorized banks at market rates.

Exports and export proceeds

110. A limited range of goods are subject to export prohibitions or licensing requirements. Export prohibitions apply only to scrap metals. Licenses, are required for the export of woods in trunks and pine seeds; numismatic collections considered national treasures; certain biological (species of animals and plants), paleontological, archeological, and ethnographic goods; and raw materials for medicine production. All exports are subject to a general customs processing fee of 0.2 percent. Export contract registration requirements have been abolished as of December 1996.

Payments for and proceeds from invisibles

111. Residents may freely purchase foreign exchange to make payments for invisible transactions or use foreign exchange balances in their foreign exchange accounts with authorized banks without restriction. Proceeds from invisibles are subject to the same regulations and procedures as those applicable to the proceeds from exports. The importation of foreign currency bank notes is unrestricted, but amounts must be declared by non-residents.

Capital

112. Inward and outward capital operations are not restricted. Since July 15, 1996, the amount of cash lari that can be taken out of the country by a resident or nonresident without permission is limited to four units of each currency denomination.

Gold

113. A license is required to conduct both international and domestic trade in gold.

VIII. TAX SUMMARY (as of June 1, 1998)

Tax	Tax Base and Nature of Tax	Tax Rates	Exemptions and Deductions
1. **Value-added tax (VAT)**	Value added is the tax base. Manufacturers are taxed on basis of the tax credit mechanism, while retailers and wholesalers pay taxes over the gross price margin. VAT is calculated on a tax exclusive basis using as a base the purchase price of domestically produced goods, while the customs value plus excise tax of imported goods is taxed. External trade is taxed according to the destination principle. For most transactions, VAT becomes due at the moment of delivery of goods and services. A threshold applies of lari 3,000.	The general rate is 20 percent. A 7 percent rate applies on domestically- produced flour.	Exempted from VAT are: primary supply of agricultural products prior to its industrial processing, financial services; supply and/or import of national currency; import of gold by the NBG; supply and/or import of postage stamps; supply of state property under the privatization program; goods and services for diplomats; housing rents; sales of confiscated property and other valuables that the state has acquired through inheritance or purchase; wheat; baby food and baby hygienic products; text books and notebooks for school; insurance and reinsurance; membership dues for children's hobby groups; services to the old and disabled; funeral services; supply and/or import of medicines; medical services; medical equipment, x-ray films, insulin syringes, diagnostic testing systems, prosthetic applications, and technical facilities for the handicapped; re-exports of goods (via a reimbursement scheme); transit goods; re-imports of goods; supply and printing of theatre, circus, movies, symphonic concerts, sport shows and museum tickets; imports of fixed assets and spare parts; import of scientific, artistic and literary books and journals if the authors are citizens of Georgia; supply of notebooks; supply and/or import of diabetic food; import of goods for liquidation of natural disasters; import of pedigree animals and products; import of goods in an amount that is below the exempt limit for customs duty; goods produced by the Georgian Patriarchate's enterprises for religious purposes and construction an rehabilitation of its churches; domestic newspapers and magazines; imports of mazut, electricity and gas; supply of tourism services to foreign tourists. Agriculture is exempted from VAT until April 1, 1999.
2. **Excise tax**	Excise taxes are levied on the sales of excisable goods: spirits; vodka and liquor; champagne and cognac; grapes and fruit wines, port wines and their raw materials; beer; tobacco products; cars; tires; gasoline; carpets; caviar; and jewelry. Excises are calculated on the purchase price of domestically produced goods, excluding VAT and excise, and the import duty inclusive customs value of imported goods. Cigarettes and alcoholic beverages are subject to specific taxes.	See Appendix I, Table 22.	Exempted from excises are: alcoholic beverages produced by a physical person and used for his personal consumption; re-exports (subject to a reimbursement scheme); imports of two liters of alcoholic beverages and one carton of cigarettes; goods in transit; goods temporarily imported; and cars and tires related to humanitarian assistance. Exports are taxed at a zero rate.

3. Profit and income tax for enterprises	The tax base is profit defined as income less production expenses, including depreciation and wages, of enterprises, their independent branches, and non-commercial organizations engaging in commercial activities and residing in Georgia. Losses can be carried forward for five years. The allowed depreciation differs by type of asset and industry. Expedite depreciation is allowed for most types of assets.	The standard rate is 20 percent.	Exempted from the profit and income tax for enterprises are: enterprises that are subject to the presumptive tax; prosthetic and orthopedic enterprises; profits of companies producing technical means for the rehabilitation of invalids; profits of the Georgian patriarchy manufacturing religious articles; profit of budgetary and charitable organizations; grants and contributions received by an organization; profit of international organizations; and the profit of the National Bank of Georgia.
4. Personal income tax	The annual income of natural persons residing in Georgia is the tax base, as well as the income of a nonresident taxpayer with a permanent establishment in Georgia.	See Appendix I, Table 19. Marginal rates vary from 12 percent to 20 percent.	Exempted from personal income tax are: persons subject to the presumptive tax, invalids from childhood as well as invalids in blindness groups I and II; war veterans; women with many children; single mothers; persons who have received the title of "Kartvlis Deda" (Mother of Georgia); employment of a foreign diplomatic employee; social benefits; revenues from domestic state bonds; alimony; gains on the supply of intangible property by a physical person; revenues from the sales of agricultural goods produced privately; and monetary reimbursement of the cost of special uniforms for employees of budgetary organizations.
5. Presumptive tax	Enterprises (entrepeneur) with a turnover lower than lari 24,000. Substitutes income and profit tax for these enterprises (entrepreneurs).	Depend on the type of business and location. Oscillates between lari 300 per month (retail and wholesale trade in Tbilisi) and lari 10 per month (retail trade in booths, in cities with less than 30,000 people).	None.
6. Trade taxes	The tax base for customs duties is the customs value (fob) of imports, including barter trade, from non-CIS countries. In addition, a processing fee is levied the customs value (cif) of imports and exports, and on transshipments.	The uniform customs duty rate is 12 percent. The processing fee is 0.3 percent (increased from 0.2 percent as of July 1996). A reduced rate 5 percent rate applies on raw materials and certain medical products.	Exempted from customs duties are: personal imports up to a value of lari 300; goods in transit and re-exports; capital goods imports under foreign investment and by joint ventures; non-commercial imports for cultural institutions; imports of oil products; baby food; humanitarian aid; and diplomatic shipments.

7. Ecology tax	The ecology tax is levied on polluting activities: the use of gasoline, diesel fuel, mazut, kerosene, and liquid gas, as well as the dumping of solid waste, the dumping of waste in water or the atmosphere, and the sales of environmentally hazardous products (i.e. used materials sold for recycling).	The tax is a percentage (damage factor) of the minimum wage times the volume of the polluting substance, where the damage factor depends on the type of pollution and whether pollution limits are exceeded. In the case of sales of environmentally hazardous products, the tax depends on the sales price. Gasoline has a fixed tax of lari 0.02 per liter, whereas diesel fuel has a tax of lari 0.01 per liter. Mazut, kerosene and liquid gas are subject to a tax of lari 0.01 per kilogram.	None.
8. Enterprise property tax	The enterprise property tax is levied on the assessed value of fixed assets, means of production, installed equipment, intangible assets, and uncompleted capital investments of the enterprise. Excluded from taxation are: environmental and fire safety facilities; highways; property of organizations; property of invalids' associations and enterprises, property that has been mothballed according to regulations, and measuring and testing equipment of the territorial agencies of the DSMCG.	1 percent.	Exempted from the enterprise property tax are: budgetary enterprises and organizations, and property used for educational and cultural purposes.
9. Individual property tax	The individual property tax is levied on the value of immovable property other than land.	0.1 percent of the value of buildings and houses.	Invalids from childhood and groups I and II invalids.
10. Social security levy	Social security levies are imposed on money wages, and are used for the financing of activities of the SSF and the EF. These extrabudgetary funds collect the social security levies themselves.	State-owned and private enterprises pay a 27 percent levy to the SSF on the money wages they pay to their workers and 1 percent to the EF. Budgetary organizations pay 26 percent of their wage bill to the SSF. Workers pay 1 percent of their wages to the SSF.	Amounts paid to persons confined to correctional institutions; payments for temporary inability to work; payments paid by organizations out of amounts received from grants; official employment income of foreign diplomats; and employment income of nonresidents if they stay in Georgia for less than 90 days in the taxable year.
11. Tax on ownership of motor vehicles	Any vehicle included under codes 8702-8704 of the nomenclature of goods of foreign economic activity (light automobiles, buses, and trucks).	Tax rates per horsepower are lari 0.25 for light automobiles; between lari 1 and 2 for buses; and between lari 0.4 and lari 4 for trucks.	Motor vehicles which are technically inoperative; hand-operated motor vehicles or wheelchairs; and motor vehicles of war invalids.
12. Vehicle cross-border tax	This tax is levied on vehicles registered abroad entering Georgia and domestic vehicles transporting transit trade; the proceeds of this tax are paid into the Road Fund.	Cars are taxes at US$20; buses US$20-130 (depending on number of seats); and trucks US$130-300 (depending on tonnage).	None.

13. **Tax on transfer of immovable property**	Deeds, lease agreements, and documents certifying transfer of the right on the ownership of property. The object of taxation does not include a mortgage or a security agreement.	2 percent of the taxable amount.	Lease for a term of less than 3 years; a transfer to a spouse, parent, son or daughter; a gratuitous transfer to the government of charitable organization; a transfer on the basis of divorce; and a transfer in the case of reorganization.
14. **Inheritance and gift tax**	The receipt by a person in the process of inheritance or by gift from a physical person of any kind of property.	30 percent.	Receipt of property by first and second-order heirs through inheritance or by gift; the property worth of lari 50000 received through inheritance; and the property worth lari 1000 received through a gift.
15. **Tax on transfer of automobiles**	Transfer of light cars, buses, or trucks.	2 percent.	Registration or re-registration of an automobile by the importer or by a purchaser when the seller has paid VAT on the supply of the automobile; transfer to a spouse, parent or child; transfer upon divorce decision; gratuitous transfers to the government or to a charitable organization; and transfer in a reorganization.
16. **Land tax**	Tax levied on cultivated land, including pastures, and on land that could be cultivated.	For arable and agricultural land used for perennial crops, tax rates vary from lari 6 per hectare to lari 44 per hectare, depending on the use, quality, and location of the land. For meadows and pastures, the tax rate oscillates between lari 1 and lari 6 per hectare.	None.
17. **Tax on nonagricultural land**	A plot of land that does not belong to agricultural lands.	Differentiated according to location and zones, the annual base is determined as 0.24 lari per square meter.	Exempted from the tax on nonagricultural land are plots of state-owned land occupied by: budget organizations, sporting and health complexes, scientific institutes, religious institutions, public-use lands, invalids of the World War II, new settlements, electrical stations.
18. **Natural resources tax**	Tax on the volume of extracted mineral resources, timber, wild plants, water, and wild animal resources.	Tax rates vary from 1 percent to 10 percent of the price of mineral resources. For timber, the tax rate oscillates between 1 and 34 percent of the price. For water, the tax rate oscillates between 1 and 15 percent. For animals and plants, the tax rate oscillates between 1 and 55 percent of the market price of the resource.	Exempted from the natural resources tax are the natural resources connected with protection and restoration works, as well as the construction of underground stations, water supply, sewerage system, and underground constructions.
19. **Tax on entrepreneurial activity**	Local tax on entrepreneurs (physical and legal person).	The tax rate cannot exceed 1 percent of the revenues received from the supply of VAT exclusive goods.	None.

20. **Tax on gambling business**	Local tax on lottery tickets business, casinos, and other gambling business.	The tax rate cannot exceed 15 percent of the revenue of the gambling business.	None.
21. **Resort tax**	Local tax paid by persons for having rest at places of health resort.	The tax rate cannot exceed lari 10 per person per month.	None.
22. **Hotel tax**	Local tax paid by hotels, guest houses, motels, camping-site, and other similar entities.	The tax cannot exceed 2 percent of the revenues for the use of temporary dwelling place.	None.
23. **Advertisement tax**	Local tax paid by physical and legal persons who obtain advertisement services for entrepreneurial purposes.	The tax rate cannot exceed 10 percent of the value of the services provided for preparation and spreading of advertisements.	None.
24. **Tax on car parking**	Local tax paid by physical and legal persons who park their motor vehicles in streets and public places.	Car parking cannot be more than 30 tetri; for enterprises which provide services connected to car parking the tax cannot exceed 20 percent of the service cost, excluding VAT.	None.
25. **Tax on use of local national symbolics**	Local tax paid by physical and legal persons who use the symbolics approved by self-management bodies.	The tax rate cannot exceed 2 percent of the proceeds received from the supply of goods with local symbolics.	None.

Table 9. Georgia: GDP by Origin, 1992–97

	1992	1993	1994	1995	1996	1997
			(In millions of lari)			
Nominal GDP	0.185	16.4	1,373	3,694	5,724	6,798
			(Ratio as a percent of GDP) 1/			
Agriculture and livestock	54.5	67.7	28.7	38.0	31.0	28.2
Industry	12.6	6.3	21.3	14.5	10.3	9.6
Construction	6.7	0.6	5.5	4.0	4.6	4.8
Transport and Communications	3.9	3.4	8.8	4.3	6.3	9.9
Trade and catering	1.7	6.9	6.4	21.4	22.2	22.0
Other	20.6	15.1	29.3	17.8	25.6	25.5
			(Annual percentage change)			
Real GDP	-44.8	-25.4	-11.4	2.4	10.5	11.0

Sources: Data provided by the State Department of Statistics; and IMF staff estimates.

1/ The data for 1994-97 are not comparable with earlier years because they include official estimates for the informal sector. Such estimates are subject to large margins of error.

Table 10. Georgia: Transportation by State Enterprises, 1992-97
(Thousands of tons)

	1992	1993	1994	1995	1996	1997
Freight transport	47,099	23,045	14,617	14,984	14,123	17,820
Rail	14,633	7,966	3,173	4,656	4,784	6,480
Road	26,545	10,416	8,168	8,690	8,777	11,160
Sea	5,921	4,663	3,276	1,638	562	180

Source: State Department of Statistics.

Table 11. Georgia: Population and Employment, 1992-97
(In thousands)

	1992	1993	1994	1995	1996	1997
Total population 1/	5,412.4	5,397.7	5,383.0	5,374.3	5,377.2	...
Males	2,578.3	2,573.3	...	...	...	...
Females	2,834.1	2,824.4	...	...	...	...
Urban	3,014.9	2,998.4	2,978.2	2,369.2	2,969.0	...
Rural	2,397.6	2,393.3	2,404.8	2,405.1	2,408.2	...
Under 16 years of age	1,395.3	1,368.5	...	...	...	...
In active years 2/	3,014.1	3,000.9	...	...	...	...
Over active age	1,003.0	1,028.3	...	...	...	...
Population employed 3/	1,984.2	1,792.0	1,749.7	1,730.0	2,036.2	2,233.2
State sector	1,375.6	1,160.0	1,095.7	985.3	580.0	568.6
of which:						
Industry and construction	422.1	337.1	278.1	251.7	138.8	123.0
Agriculture	160.3	113.6	107.4	90.0	42.2	33.5
Transportation and communications	72.4	97.8	98.7	78.1	68.6	65.2
Trade and other materials sectors	64.1	85.0	56.8	41.1	39.2	31.8
Health, education, and science	438.2	413.3	315.4	211.1	215.5	227.1
Administration and finance	50.2	59.7	45.3	44.1	35.3	41.3
Other nonmaterial sector	98.3	53.6	78.2	76.4	40.4	46.7
Cooperatives 4/	197.1	143.7	94.0	110.7	55.4	47.0
Industry and construction	64.9	25.6	24.0	40.1	27.4	23.4
Agriculture	78.1	60.9	48.1	40.3	24.4	22.0
Other	54.1	57.2	21.9	30.3	3.6	1.6
Private sector	411.5	488.2	560.0	634.0	1,400.7	1,617.6
of which: self-employed	4.4	5.0	5.0	6.4	1,324.4	1,529.2
Retired (receiving pension)	1,079.6	1,139.6	1,140.8	1,140.7	1,104.7	1,022.0
of which : retirees employed	182.4	118.6	93.0	65.2	65.1	64.7

Source: State Department of Statistics.

1/ Total population may be significantly overestimated because data include persons registered in Georgia but living abroad.
2/ Since February 20, 1996, working age is 16-60 for women, and 16-65 years for men. Prior to that date, working age was 16-55 for women, and 16-60 years for men.
3/ Excludes employment in the informal sector. Official estimates indicate that, as of end-1997 employment on the informal sector was about 750,000 persons.
4/ Including collective farms and consumer cooperatives.

Table 12. Georgia: Unemployment, 1992-97
(Number of persons, end of period)

	1992	1993	1994	1995	1996	1997
Registered unemployed	136,402	225,886	75,714	65,450	53,372	142,795
Of which:						
Receiving benefits	22,218	12,289	796	1,081	7,980	5,358

Sources: Ministry of Labor and Social Affairs and State Department of Statistics.

Table 13. Georgia: Average Monthly Wages, 1992-97 1/ 2/
(In lari)

	1992	1993	1994	1995	1996	1997
Total economy	**0.002**	**0.028**	**6.2**	**13.8**	**29.0**	**54.9**
Industry	0.002	0.041	9.6	19.4	50.3	74.8
Workers	0.002	0.037	8.5	17.4	31.0	46.1
Agriculture	0.001	0.016	1.4	4.6	10.0	13.3
State farms, agricultural enterprises	0.001	0.017	1.1	3.2	7.4	12.1
Construction	0.002	0.046	12.6	38.8	73.7	94.3
Workers	0.002	0.045	17.3	45.0	87.1	103.1
Transportation	0.001	0.052	9.3	32.5	68.3	85.5
Railway transportation	0.002	0.061	10.5	37.0	53.5	74.5
Waterway transportation	0.003	0.094	9.9	44.0	42.9	96.4
Urban transportation	0.001	0.036	13.2	68.0	96.9	98.9
Communications	0.002	0.036	6.5	25.4	43.2	57.7
Trade and distribution	0.001	0.012	2.7	15.7	17.7	37.8
Computer services	0.002	0.028	3.6	19.7	20.6	26.4
Housing and communal services	0.001	0.028	8.8	18.8	34.0	59.1
Public health and social security	0.001	0.015	1.0	5.5	15.4	20.2
Public education	0.001	0.013	1.2	7.0	14.6	36.5
Culture	0.001	0.019	1.1	4.0	15.9	28.3
Art	0.001	0.021	1.8	5.9	25.6	54.8
Science and related services	0.001	0.023	1.7	9.5	24.3	32.1
Credit and state insurance institutions	0.005	0.064	5.1	28.9	53.4	97.1
State administration and management	0.005	0.025	2.9	10.4	38.6	71.7
Memorandum items:						
Average annual salary						
Total economy	0.018	0.335	73.8	163.2	348.0	658.8
Industry	0.022	0.494	115.7	232.8	603.6	897.6
Agriculture	0.010	0.188	16.3	55.2	120.0	159.6
Services 3/	0.023	0.354	...	...	...	...

Source: State Department of Statistics.

1/ Wages include all cash, compensation, and value of goods-in-kind.
2/ These data are subject to large margins of error.
3/ Average for all services.

Table 14. Georgia: Government Wages and Pensions, 1995-97 1/

	Minimum Monthly Wage		Average Monthly Wage		Monthly Pension	
	Nominal (In lari)	Real 2/ (Jan. 1991=100)	Nominal (In lari)	Real 2/ (Sep 1994=100)	Nominal (In lari)	Real 2/ (Jan. 1991=100)
1995						
January	1.5	11.3	7.8	224.4	3.0	22.5
February	1.5	11.2	7.8	222.6	3.0	22.4
March	1.5	11.5	7.8	229.5	3.0	23.1
April	1.5	11.6	7.8	231.8	3.0	23.3
May	1.5	11.1	7.8	220.6	3.0	22.2
June	1.5	11.2	7.8	223.3	3.0	22.4
July	3.5	25.9	9.7	275.2	3.7	27.4
August	3.5	25.1	9.7	266.4	3.7	26.5
September	3.5	24.1	9.7	255.9	3.7	25.5
October	3.5	19.5	10.5	224.5	3.7	20.7
November	6.0	33.5	15.7	335.4	6.0	33.5
December	6.0	32.4	15.7	324.3	6.0	32.4
1996						
January	6.0	31.6	15.7	316.4	6.0	31.6
February	7.0	35.8	17.2	336.6	7.0	35.8
March	7.0	34.7	17.2	326.4	7.0	34.7
April	7.0	34.1	17.2	321.0	7.0	34.1
May	7.0	34.0	17.2	319.4	7.0	34.0
June	9.0	43.4	23.1	426.2	8.5	41.0
July	9.0	44.0	23.1	431.4	8.5	41.5
August	9.0	43.9	23.1	430.4	8.5	41.4
September	9.0	43.6	29.7	550.9	8.5	41.2
October	9.0	43.4	29.7	548.7	8.5	41.0
November	9.0	43.0	29.7	543.5	8.5	40.6
December	9.0	42.5	29.7	537.1	8.5	40.2
1997						
January	12.0	56.4	34.1	613.6	9.8	46.1
February	12.0	55.3	34.1	601.7	9.8	45.2
March	12.0	54.8	34.1	596.4	9.8	44.8
April	12.0	54.8	34.1	595.8	9.8	44.7
May	12.0	54.2	34.1	590.0	9.8	44.3
June	12.0	55.1	34.1	599.6	9.8	45.0
July	12.0	55.5	34.1	603.8	9.8	45.3
August	15.0	69.4	37.5	663.8	11.8	54.6
September	15.0	68.8	37.5	658.3	11.8	54.1
October	15.0	68.3	37.5	653.4	11.8	53.7
November	15.0	66.5	37.5	636.7	11.8	52.3
December	15.0	66.1	37.5	633.1	11.8	52.0

Sources: Ministry of Labor and Social Affairs; and Fund staff estimates.

1/ Includes only wages of budgetary organizations.

2/ The pension and minimum nominal wage are deflated by the CPI.

Table 15. Georgia: Consumer Price Index in Tbilisi, 1994-97 1/ 2/

	Consumer Price Index (1995 = 100)	Percentage Changes		
		Over Previous Month	Over Previous Quarter	Over Same Month Last Year
1994				
January	3.3	168.4		15,973.0
February	4.4	35.1		15,750.1
March	6.7	50.2	444.6	20,819.9
April	12.3	84.4		30,835.2
May	17.5	42.7		33,393.6
June	16.6	-5.0	150.0	24,133.8
July	17.7	6.2		18,309.3
August	30.2	71.0		24,436.2
September	94.1	211.2	465.1	50,669.1
October	86.2	-8.4		27,864.2
November	87.5	1.5		11,846.0
December	80.4	-8.1	-14.6	6,473.9
Average 1994	38.1	...	...	15,606.5
1995				
January	90.8	13.0		2,667.9
February	91.5	0.8		1,965.2
March	88.8	-3.0	10.5	1,233.7
April	87.9	-1.0		616.0
May	92.4	5.1		427.4
June	91.3	-1.2	2.8	448.5
July	92.1	0.9		421.0
August	95.1	3.3		214.7
September	99.0	4.1	8.5	5.3
October	122.2	23.4		41.8
November	122.3	0.1		39.9
December	126.5	3.4	27.7	57.4
Average 1995	100.0	...	...	162.7
1996				
January	129.6	2.5		42.8
February	133.5	3.0		45.9
March	137.7	3.1	8.8	55.0
April	140.0	1.7		59.3
May	140.7	0.5		52.3
June	141.4	0.5	2.7	54.9
July	139.7	-1.2		51.7
August	140.1	0.2		47.2
September	140.9	0.6	-0.4	42.2
October	141.4	0.4		15.7
November	142.8	1.0		16.7
December	144.5	1.2	2.6	14.2
Average 1996	139.4	...	...	39.4
1997				
January	145.2	0.5		12.0
February	148.1	2.0		10.9
March	149.4	0.9	3.4	8.5
April	149.6	0.1		6.8
May	151.0	1.0		7.3
June	148.6	-1.6	-0.5	5.1
July	147.6	-0.7		5.6
August	147.6	0.0		5.4
September	148.8	0.8	0.2	5.7
October	150.0	0.8		6.0
November	153.9	2.6		7.8
December	154.8	0.6	4.0	7.1
Average 1997	149.5	...	...	7.3

Source: State Department of Statistics.

1/ According to 295-good Laspeyres index. The last revision of the CPI weights was made in December 1994.

2/ A national consumer price index (CPI) was introduced in January 1996. Developments in the national CPI during 1996 and 1997 have been virtually identical to the developments in the Tbilisi CPI.

Table 16. Georgia: Summary of General Government Operations, 1995-1997

	1995			1996			1997		
	Jan.-Jun.	Jul.-Dec.	Year	Jan.-Jun.	Jul.-Dec.	Year	Jan-Jun.	July-Dec.	Year
	(In millions of lari)								
Total Revenues and Grants	95.4	165.5	260.9	233.4	303.4	536.8	282.6	421.8	704.4
Total Revenue	71.2	118.8	189.9	192.5	273.2	465.7	276.6	402.2	678.8
Tax revenue (excluding extrabudgetary)	51.8	80.1	131.9	117.5	187.1	304.5	204.0	280.6	484.6
Taxes on income	7.1	13.7	20.9	16.8	27.7	44.5	32.2	44.7	76.9
Taxes on profits	13.5	15.1	28.6	16.0	21.9	37.9	18.8	20.0	38.8
VAT	20.7	37.7	58.5	51.2	82.7	133.8	84.6	120.9	205.5
Custom duties	2.3	2.3	4.5	7.9	12.0	19.9	20.6	40.6	61.2
Other taxes 1/	9.0	11.2	20.3	28.5	53.3	81.8	47.8	54.4	102.2
Nontax revenue	5.7	11.2	16.9	20.5	29.5	50.0	21.7	46.1	67.8
Extrabudgetary revenue 2/	13.7	27.5	41.2	54.5	56.7	111.2	50.9	75.5	126.4
Grants	24.2	46.7	71.0	40.9	30.2	71.1	6.0	19.6	25.6
Total expenditure and net lending	195.6	259.8	455.4	340.1	456.3	796.4	417.4	567.3	984.7
Total expenditure	177.8	250.3	428.1	340.1	465.2	805.3	417.4	560.8	978.2
Current expenditure	135.3	183.6	319.2	313.8	422.6	736.4	382.5	522.3	904.8
Wages and salaries	26.4	33.1	59.5	43.7	59.9	103.7	73.6	81.9	155.5
Other goods and services	23.3	32.8	56.1	48.1	72.1	120.1	45.3	73.2	118.5
Transfers	16.6	22.5	39.1	29.7	29.3	59.0	40.2	63.2	103.4
Interest payments	27.3	27.3	54.6	24.6	32.6	57.8	40.3	52.1	92.4
Domestic	0.1	0.9	1.0	2.8	8.9	11.7	17.3	20.7	38.0
External	27.2	26.4	53.6	22.0	23.9	45.9	23.1	31.3	54.4
Other current expenditures 3/	19.6	30.1	49.7	47.9	53.4	101.4	51.2	57.1	108.3
Unclassified expenditure	2.0	8.5	10.4	26.8	55.6	82.4	17.3	36.8	54.1
Extrabudgetary expenditures 4/	20.1	29.8	49.9	47.2	56.6	103.8	66.8	101.6	168.4
Local government expenditures	23.4	46.6	70.1	45.7	63.0	108.7	47.8	56.4	104.2
Capital expenditure	19.1	19.7	38.8	26.3	42.6	68.9	34.9	38.5	73.4
Net lending	17.8	9.5	27.3	...	-8.9	-8.9	0.0	6.5	6.5
Overall balance (commitments)	-100.2	-94.3	-194.5	-106.8	-152.9	-259.6	-134.8	-145.5	-280.3
Expenditure arrears (-, reduction)	32.5	-5.7	26.8	3.0	5.0	8.0	5.2	18.6	23.8
External interest	6.4	5.6	12.0	2.1	-7.2	-5.1	-11.2	-3.0	-14.2
Other	26.1	-11.3	14.8	0.9	12.2	13.0	16.4	21.6	38.0
Overall balance (cash)	-67.7	-100.0	-167.7	-103.8	-147.9	-251.6	-129.6	-126.9	-256.5
Total financing	67.7	100.0	167.7	103.8	147.9	251.6	129.6	126.9	256.5
Domestic	27.1	32.4	59.4	57.6	99.2	156.8	120.0	41.6	161.6
External	40.6	67.6	108.2	46.1	48.7	94.8	9.6	85.3	94.9
Disbursements	40.6	67.6	108.2	46.1	48.7	94.9	8.3	82.0	90.3
Amortization	0.0	-116.5	-116.5	-15.5	...	-15.5	-62.9	-5.6	-68.5
Changes in arrears (-, reduction)	0.0	116.5	116.5	15.5	...	15.5	56.2	-0.2	56.0
Macroeconomic support	0.0	0.0	0.0	...	...	0.0	7.9	9.2	17.1

Sources: Data provided by the Georgian authorities; and staff estimates.

Table 16. (concluded) Georgia: Summary of General Government Operations, 1995-1997

	1995			1996			1997		
	Jan.-Jun.	Jul.-Dec.	Year	Jan.-Jun.	Jul.-Dec.	Year	Jan.-Jun.	Jul.-Dec.	Year
Ratios to GDP				(In percent)					
Total Revenues and Grants	6.1	7.7	7.1	8.3	10.5	9.4	9.0	11.6	10.4
Total Revenue	4.6	5.6	5.1	6.8	9.4	8.1	8.8	11.0	10.0
Tax revenue (including extrabudgetary)	4.2	5.0	4.7	6.1	8.4	7.3	8.1	9.8	9.0
Tax revenue (excluding extrabudgetary)	3.3	3.7	3.6	4.2	6.5	5.3	6.5	7.7	7.1
Total expenditure	11.4	11.7	11.6	12.0	16.1	14.1	13.2	15.4	14.4
Total expenditure and net lending	12.6	12.1	12.3	12.0	15.8	13.9	13.2	15.6	14.5
Current expenditure	8.7	8.6	8.6	11.1	14.6	12.9	12.1	14.3	13.3
Total revenue minus current expenditure	-4.1	-3.0	-3.5	-4.3	-5.2	-4.7	-3.4	-3.3	-4.1
Balance (commitments)	-6.4	-4.4	-5.3	-3.8	-5.3	-4.5	-4.3	-4.0	-4.1
Balance (cash)	-4.4	-4.7	-4.5	-3.7	-5.1	-4.4	-4.1	-3.5	-3.8
Other ratios									
Total revenue/Current expenditure	52.6	64.7	59.5	61.3	64.6	63.2	72.3	77.0	75.0
Total revenue and grants/Total expenditure	53.7	66.1	60.9	68.6	65.2	66.7	67.7	75.2	72.0
Total Revenue/Total exp.and net lending	36.4	45.7	41.7	56.6	59.9	58.5	66.3	70.9	68.9
Balance(cash)/Total exp. and net lending	-34.6	-38.5	-36.8	-30.5	-32.4	-31.6	-31.0	-22.4	-26.0
Balance (accrual)/Total exp. and net lending	-51.2	-36.3	-42.7	-31.4	-33.5	-32.6	-32.3	-25.6	-28.5
Total revenue/Current expenditure	52.6	64.7	59.5	61.3	64.6	63.2	72.3	77.0	75.0

Sources: Data provided by the Georgian authorities; and staff estimates.

1/ Includes the land tax, enterprise property taxes, the presumptive tax, the ecological tax.
2/ Includes revenues of the Pension Fund, the Employment Fund, the Health Fund (until July, 1997), the Privatization Fund, and the Road Fund.
3/ Includes, among others, Health Fund outlays, counterpart of settlement in-kind to Turkmenistan for pre-1995 debt, expenditures on Georgia's embassies abroad, and business travel costs for government employees.
4/ Outlays on pensions and unemployment benefits; Health Fund outlays are classified under "other current expenditure"; Road Fund's expenditures are classified under capital outlays.

Table 17. Georgia: Summary of Government General Operations
(In percent of GDP)

	1995			1996			1997		
	Jan.-Jun.	Jul.-Dec.	Year	Jan.-Jun.	Jul.-Dec.	Year	Jan.-Jun.	Jul.-Dec.	Year
Total Revenues and Grants	**5.7**	**8.2**	**7.1**	**8.3**	**10.5**	**9.4**	**9.0**	**11.6**	**10.4**
Total Revenue	4.2	5.9	5.1	6.8	9.4	8.1	8.8	11.0	10.0
Tax revenue (excluding extrabudgetary)	3.1	4.0	3.6	4.2	6.5	5.3	6.5	7.7	7.1
Taxes on income	0.4	0.7	0.6	0.6	1.0	0.8	1.0	1.2	1.1
Taxes on profits	0.8	0.8	0.8	0.6	0.8	0.7	0.6	0.5	0.6
VAT	1.2	1.9	1.6	1.8	2.9	2.3	2.7	3.3	3.0
Custom duties	0.1	0.1	0.1	0.2	0.4	0.3	0.7	1.1	0.9
Other taxes	0.5	0.6	0.5	0.9	1.8	1.4	1.5	1.5	1.5
Nontax revenue	0.3	0.6	0.5	0.7	1.0	0.9	0.7	1.3	1.0
Extrabudgetary revenue	0.8	1.4	1.1	1.9	2.0	1.9	1.6	2.1	1.9
Grants	1.4	2.3	1.9	1.5	1.0	1.2	0.1	0.5	0.4
Total expenditure and net lending	**11.6**	**12.9**	**12.3**	**12.0**	**15.7**	**13.9**	**13.2**	**15.6**	**14.5**
Total expenditure	10.6	12.4	11.6	12.0	16.1	14.1	13.2	15.4	14.4
Current expenditure	8.1	9.1	8.6	11.1	14.6	12.9	12.1	14.3	13.3
Wages and salaries	1.6	1.6	1.6	1.5	2.1	1.8	2.3	2.2	2.3
Other goods and services	1.4	1.6	1.5	1.7	2.5	2.1	1.4	2.0	1.7
Subsidies and transfers	0.9	1.2	1.1	1.1	1.0	1.0	1.3	1.7	1.5
Interest payments	1.6	1.4	1.5	1.0	1.0	1.0	1.3	1.4	1.4
Other current expenditures	1.2	1.5	1.3	1.7	1.8	1.8	1.6	1.6	1.6
Unclassified expenditure	0.1	...	0.3	0.9	1.9	1.4	0.5	1.0	0.8
Extrabudgetary expenditures	1.2	1.5	1.4	1.7	2.0	1.8	2.1	2.8	2.5
Local government expenditures	1.4	2.3	1.9	1.6	2.2	1.9	1.5	1.5	1.5
Capital expenditure	1.1	1.0	1.1	0.9	1.5	1.2	1.1	1.1	1.1
Net lending	1.1	...	0.7	0.0	-0.3	-0.2	0.0	0.2	0.1
Overall balance (commitments)	**-6.0**	**-4.7**	**-5.3**	**-3.8**	**-5.3**	**-4.5**	**-4.3**	**-3.8**	**-4.1**
Expenditure arrears (-, reduction)	1.9	-0.3	0.7	0.1	0.2	0.1	0.2	0.5	0.4
External interest	0.4	...	0.3	0.1	-0.2	-0.1	-0.4	-0.1	-0.2
Other	1.6	-0.6	0.4	...	0.4	0.2	0.5	0.6	0.6
Overall balance (cash)	**-4.0**	**-5.0**	**-4.5**	**-3.7**	**-5.1**	**-4.4**	**-4.1**	**-3.3**	**-3.8**
Financing	**4.0**	**5.0**	**4.5**	**3.7**	**5.1**	**4.4**	**4.1**	**3.3**	**3.8**
Domestic Bank	1.6	1.6	1.6	2.0	3.4	2.7	3.8	1.1	2.4
External	2.4	3.4	2.9	1.7	1.7	1.7	0.3	2.3	1.4
Disbursements	2.4	3.4	2.9	1.7	1.7	1.7	0.3	2.2	1.3
Amortization	...	...	-3.2	...	...	-0.3	-2.0	-0.2	-1.0
Changes in arrears (-, reduction)	...	...	3.2	...	...	0.3	1.8	0.0	0.8
Possible macroeconomic support	...	...	0.0	...	...	0.0	0.3	0.3	0.3

Sources: Data provided by the Georgian authorities; and staff estimates.

Table 18. Georgia: Accounts of Extrabudgetary Funds, 1996-1997 1/
(In millions of lari)

	1996		1997	
	Jan.-June	July-Nov. 2/	Jan.-June	July-Dec.
Social Security Fund				
Revenue	46.1	27.5	66.0	141.5
Payroll taxes	26.3	15.8	39.8	98.0
Transfers from state budget	16.5	9.5	20.2	35.5
For pensions	13.9	9.5	16.1	19.1
For child allowances	2.6	...	...	...
Allowances households	...	...	4.1	10.8
Electricity for pensioners	...	...	...	5.6
Other	3.3	1.5	6.0	8.0
Expenditure	48.6	28.2	62.8	128.3
Pensions	44.0	23.2	55.3	111.0
Child allowances	2.8	2.2	0.3	0.3
Sickness allowances 3/	0.9	0.6	1.3	2.5
Allowances households	...	...	4.1	3.7
Other	0.9	2.3	1.8	10.8
Balance (-, deficit)	-2.5	-0.6	3.2	13.2
Employment Fund				
Revenue	1.2	0.6	1.2	2.0
Expenditure	0.6	0.6	1.4	1.6
Unemployment benefits	0.1	0.1	0.8	0.7
Job programs	...	...	0.2	0.3
Education and qualification	...	...	0.3	...
Administration	0.4	0.4	0.3	0.3
Balance (-, deficit)	0.6	0.0	-0.2	0.4

Source: Georgian authorities.

1/ The Privatization Fund is not included because detailed data on this fund's activities are not available.
2/ For the Social Security Fund, the data relate to July-September, not July-November. For the Road Fund, the data relate to July-December.
3/ Includes allowances for sickness, pregnancy and maternity.

Table 18 (concluded). Georgia: Accounts of Extrabudgetary Funds, 1996-1997 1/
(In millions of lari)

	1996		1997	
	Jan.-June	July-Nov. 2/	Jan.-June	July-Dec.
Road Fund				
Revenue	6.9	12.7	12.9	21.7
Road user fees	1.3	4.6	3.8	6.1
Oil tax	0.3	0.3	0.3	0.7
Car tax	1.5	4.5	1.6	3.7
Cross-border tax	3.8	3.4	3.5	5.6
Advertisement tax	...	...	0.1	0.1
Central budget allocations	...	...	3.5	5.4
Expenditure	8.0	11.6	16.5	20.9
Maintenance and repairs	7.7	11.5	11.1	16.5
Construction	0.3	0.1	0.4	4.4
Payment of arrears for 1996	...	5.0	0.0	...
Balance (-, deficit)	-1.1	1.1	-3.6	0.8
of which: financed by arrears accumulation	-0.7	...	...	...

Source: Georgian authorities.

1/ The Privatization Fund is not included because detailed data on this fund's activities are not available.
2/ For the Social Security Fund, the data relate to July-September, not July-November. For the Road Fund, the data relate to July-December.
3/ Includes allowances for sickness, pregnancy and maternity.

Table 19. Georgia: Marginal Rates of the Personal Income Tax

Annual income		
1994-96	1997-98	Marginal Rate
less than lari 10 1/	less than lari 200 1/	12 percent
lari 10-20	lari 201-350	15 percent
lari 20-30	lari 351-600	17 percent
lari 30 and above	lari 601 and above	20 percent

Source: Georgian authorities.

1/ A standard deduction of lari 3.5 per annum applied to all income taxpayers until June 1996, when it was raised to lari 108 per annum (lari 9 per month).

Table 20. Georgia: Statutory Revenue Sharing Arrangements

Tax	Up until Mar. 1, 1996		Mar.-Dec. 1996		1997 - 1998	
	Percentage Received by State Budget	Percentage Retained by Local Budget	Percentage Retained by State Budget	Percentage Retained by Local Budget	Percentage Retained by State Budget	Percentage Retained by Local Budget
VAT 1/ 2/	90	10	70	30	100	0
Excises	100	0	100	0	100	0
Profit tax 3/	0	100	50	50	40	60
Income tax 3/	0	100	50	50	40	60
Customs duties 2/	70	30	100	0	100	0
Natural resource tax	0	100	0	100	0	100
Ecology tax	0	100	0	100	0	100
Land tax	50	50	50	50	0	100
Property tax	0	100	0	100	0	100
State duties	0	100	0	100	0	100
Exchange bureau tax	0	100	0	100	0	100
Fixed tax on oil imports 4/	0	100	0	100	0	100

Source: Georgian authorities.

1/ Before 1996, 10 percent of VAT revenues was retained by most local governments, although some received a larger share. The average local government share in VAT revenues was around 25 percent in 1995 and early 1996. Effective March 1, 1996, the sharing rate for the city of Tbilisi is set at 35 percent, which was reduced to 15 percent effective January 1, 1998.

2/ For 1997, the region of Adjara retains 30 percent of VAT and 40 percent of Customs duties.

3/ The city of Tbilisi keeps 55 percent of income tax and profit tax collections as from March 1, 1996.

4/ This tax was integrated with excise, VAT and customs duties, as from December 27, 1996.

Table 21. Georgia: Number of Registered and Active Taxpayers, 1994-1998

	1995		1996		1997		1998
	January	July	January	July	January	July	January
Registered taxpayers 1/	74,408	74,438	77,029	69,250	64,873	73,931	91,272
Active taxpayers 2/	30,123	35,500	39,870	42,600	53,086	31,989	48,754
Memorandum items:				(In percent)			
Increase in registered taxpayers 3/	0.7	...	3.5	-10.1	-6.3	14	23.5
Increase in active taxpayers 3/	-1.4	17.9	12.3	6.8	24.6	-38.7	52.4
Active/registered taxpayers	40.5	47.7	51.8	61.5	81.8	43.3	53.4

Source: Georgian authorities.

1/ Only enterprises are registered as taxpayers; in the case of wage earners paying personal income tax, the withholding enterprise is registered as the taxpayer.

2/ Active taxpayers are registered taxpayers who actually pay taxes.

3/ The increase for January 1995 is relative to October 1994, as data for earlier periods are not available.

Table 22. Georgia: Excise Tax Rates

	Feb. 1994-June 1995 1/	June 1995-Dec. 1996	As from Jan. 1997
Spirits (except vodka/brandy)	90	100	100
Liquors	60	100	100
Ethyl alcohol	0	0	100
Vodka	60	100	50
Brandy	75	100	50
Champagne	75	100	20
Wine 2/	56	15	15
Beer	30	100	15
Tobacco products 3/ 4/	40	100	100
Passenger cars	10	30	15
Car tires	5	50	15
Gasoline 5/	10	15	15
Jewelry	20	50	35
Carpets	40	30	0
Tea	30	0	0
Caviar, chocolate	40	0	0
Chewing Gum	20	0	0
China 6/	30	0	0
Crystal glass	40	0	0
Leather products	35	0	0
Fur garments	25	0	0

Source: Georgian authorities.

1/ Prior to June 15, 1995, differential rates were applied to imports and domestically-produced goods. For imported goods, the shown rates were levied on a tax-exclusive basis; for domestically produced goods, the same rates were applied (except for beer at 10 percent), but on a tax-inclusive basis.
2/ As from December 27, 1996, wine not made from grapes is taxed at 50 percent, as are other fermented alcoholic beverages (e.g. cider).
3/ A lower rate (5 percent) applies to Class 3 and 4 cigarettes.
4/ A specific tax of 0.25 lari per pack for Class 1 and 2 cigarettes was introduced on October 1, 1997. For Class 3 and 4 cigarettes, the specific tax was 0.19 lari per pack.
5/ The excise tax on gasoline was increased to 60 percent on May 20, 1998.
6/ The excise tax on china was eliminated on January 30, 1995.

Table 23. Georgia: Tax Arrears, 1995-97 1/
(Beginning of period)

	1995		1996		1997	
	January	July	January	July	January	July
	(In millions of lari)					
Total tax arrears 2/	14.8	30.5	68.1	121.7	129.7	169.4
VAT	7.3	13.4	12.3	15.5	17.9	28.2
Profit tax	4.9	10.6	13.6	9.2	7.9	5.4
Personal income tax	0.0	0.1	0.2	0.8	...	...
Excise tax	0.4	2.3	2.4	4.6	6.8	5.8
Property tax	0.2	0.5	1.5	4.1	...	...
Land tax	...	...	10.9	7.8	8.0	10.6
Other taxes collected by STS	1.9	3.6	4.6	7.7	9.5	12.6
Taxes collected by Customs	...	...	...	1.6	1.7	3.2
Payroll taxes	...	...	22.8	39.2	49.2	62.4
Pension Fund	...	...	22.8	38.4	49.2	62.4
Employment Fund	...	...	...	0.8	...	...
	(In percent of GDP) 3/					
Total tax arrears 2/	1.1	1.1	1.8	2.1	2.3	2.5
VAT	0.5	0.5	0.3	0.5	0.5	0.6
Profit tax	0.4	0.4	0.4	0.3	0.3	0.3
Personal income tax	...	...	...	...	...	...
Excise tax	...	0.1	0.1	0.1	0.1	0.2
Property tax	...	...	...	0.1	...	...
Land tax	...	...	0.3	0.2	0.1	0.2
Other taxes collected by STS	0.1	0.1	0.1	0.2	0.3	0.3
Taxes collected by Customs	...	...	...	...	...	...
Payroll taxes	...	...	0.6	0.7	0.9	0.9
Pension Fund	...	...	0.6	0.7	0.9	0.9
Employment Fund	...	...	...	...	...	...

Sources: Georgian authorities; and staff estimates.

1/ The coverage of tax arrears is more complete for 1996, since arrears in contributions to the Pension Fund are included. Also, as from December 1, 1996 the data include arrears of taxes collected by the State Customs Department and payroll taxes collected by Employment Fund. Arrears to the Health Fund, the Road Fund, and some local governments taxes are excluded.

2/ The data include unpaid penalties for overdue tax payment obligations, hiding income.

3/ Presented as a percentage of GDP in the preceding four quarters.

Table 24. Georgia: Public Expenditure in Education and Health 1/

	1996	1997	1998 2/
	(In millions of lari)		
Education expenditure	68.5	120.0	135.0
Central government	21.2	55.2	48.0
Local governments	47.3	64.8	87.0
Health expenditure	40.3	70.8	95.0
Central government 3/	25.0	50.6	75.0
Local governments	15.3	20.2	20.0
	(In percent of GDP)		
Memorandum items:			
Education expenditure	1.2	1.8	1.7
Health expenditure	0.7	1.0	1.2

Source: Georgian authorities.

1/ Includes central government, local governments, and Social Security system.
2/ Projected (1998 budget).
3/ Includes Social Security expenditures.

Table 25. Georgia: 1998 State Budget

	In millions of lari	In percent of GDP
Total Revenues and Grants	726.2	9.0
Total Revenue	692.2	8.6
Tax revenue (excluding extrabudgetary)	476.9	5.9
Taxes on income	36.6	0.5
Taxes on profits	19.9	0.2
VAT	253.4	3.1
Domestic	162	2.0
Imports	91.4	1.1
Custom duties	59	0.7
Other taxes	108	1.3
Cigarettes	...	0.0
Other excises	108	1.3
Local taxes	0	0.0
Land tax	0	0.0
Property tax	0	0.0
Natural resources	0	0.0
Environment	0	0.0
Other	0	0.0
Nontax revenue	58	0.7
of which: NBG profits	7	0.1
Revenue from net lending	16	0.2
Fees/budgetary organizations	20	0.2
Other revenue	15	0.2
Extrabudgetary revenue	157.3	1.9
SSF and EF	117.3	1.5
Road Fund	25	0.3
Privatization	15	0.2
Grants	34	0.4
Total expenditure and net lending	938.8	11.6
Total expenditure	895.8	11.1
Current expenditure	839.9	10.4
Wages and salaries	104.3	1.3
Travel	6.3	0.1
Other goods and services	282.7	3.5
o/w Food for the military	...	0.0
Other	...	0.0
Subsidies and other current transfers	358.1	4.4
Interest payments	88.5	1.1
Domestic	45	0.6
External	49.8	0.6
Rescheduled debt	46.9	0.6
Nonrescheduled debt	2.9	0.0
o/w post1994	...	0.0
Other current expenditures	6.2	0.1
o/w Health	...	0.0
Other	...	0.0
Unclassified expenditure	...	0.0
Extrabudgetary expenditures	...	0.0
Local government expenditures	...	0.0
Capital expenditure	55.9	0.7
Net lending	43	0.5
Deficit (commitments)	-212.6	-2.6
Memorandum Items		
GDP (estimate, in millions of lari)	8,070	...
Revenue and expenditure of local governments	235	2.9
Number of employees 1/	157,566	...

Source: Georgian authorities.

1/ Excludes local government employees.

Table 26. Georgia: Monetary Survey 1/

	1994	1995	1996	1997			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
	Stocks (end of period; in millions of lari)						
Net foreign assets	**-23.3**	**17.7**	**-19.0**	**-73.4**	**-134.2**	**-116.5**	**-73.0**
Net domestic assets	**100.1**	**162.9**	**275.2**	**319.2**	**405.9**	**451.9**	**446.0**
Domestic credit	126.2	228.1	364.0	422.6	504.2	557.7	568.1
Net claims on general government	19.8	79.1	235.8	284.2	355.9	402.7	395.2
Credit to the rest of the economy	106.5	149.0	128.2	138.3	148.3	154.9	172.9
Other items, net	-26.2	-65.2	-88.8	-103.3	-98.3	-105.7	-122.1
Broad money (M3)	**76.8**	**180.6**	**256.3**	**245.8**	**271.6**	**335.4**	**373.0**
Broad money, excluding forex deposits (M2)	37.6	157.7	218.0	205.1	215.6	264.5	295.2
Currency held by the public	18.1	124.8	176.8	158.3	168.7	202.4	239.9
Currency in circulation (M0)	21.1	131.4	185.6	170.6	178.2	220.3	254.6
Less: Banks' vault cash	-3.0	-6.6	-8.8	-12.3	-9.5	-17.9	-14.7
Deposit liabilities (domestic currency)	19.5	32.9	41.2	46.8	46.9	62.1	55.3
Foreign currency deposits	39.2	22.9	38.3	40.7	56.1	70.9	77.8
Total deposit liabilities	58.7	55.8	79.5	87.5	103.0	133.0	133.2
	Flows (with respect to end of previous period; in millions of lari)						
Net foreign assets	...	**41.0**	**-36.7**	**-54.5**	**-60.8**	**17.7**	**43.6**
Net domestic assets	...	**62.8**	**112.3**	**44.0**	**86.7**	**46.0**	**-5.9**
Domestic credit	...	101.9	135.9	58.6	81.6	53.5	10.5
Net claims on general government	...	59.3	156.7	48.5	71.6	46.9	-7.6
Credit to the rest of the economy	...	42.6	-20.8	10.1	10.0	6.6	18.0
Other items, net	...	-39.1	-23.5	-14.6	5.0	-7.4	-16.4
Broad money (M3)	...	**103.8**	**75.7**	**-10.5**	**25.8**	**63.7**	**37.7**
Broad money, excluding forex deposits (M2)	...	120.1	60.3	-12.9	10.5	48.9	30.8
Foreign currency deposits	...	-16.3	15.4	2.4	15.3	14.8	6.9
	Change (as a percent of broad money at the end of the previous year)						
Net foreign assets	...	**53.3**	**-20.3**	**-21.3**	**-45.0**	**-38.1**	**-21.1**
	Percentage change (with respect to the end of the previous year)						
Net domestic assets	...	**62.8**	**69.0**	**16.0**	**47.5**	**64.2**	**62.1**
Broad money (M3)	...	**135.1**	**41.9**	**-4.1**	**6.0**	**30.9**	**45.6**
Broad money, excluding forex deposits (M2)	...	319.2	38.2	-5.9	-1.1	21.3	35.4
Memorandum items:							
M3 multiplier 2/	1.87	1.17	1.23	1.23	1.30	1.34	1.35
M3 velocity 3/	38	25	23	23	25	23	19

Source: National Bank of Georgia; and Fund staff estimates.

1/ Valued at end-period actual exchange rates.

2/ M3 divided by reserve money.

3/ Annualized quarterly GDP divided by end-quarter M3.

Table 27. Georgia: Accounts of the National Bank of Georgia 1/

	1994	1995	1996	1997			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
	Stocks (end of period; in millions of lari)						
Net international reserves	**3.3**	**57.1**	**-41.0**	**-99.2**	**-160.1**	**-153.7**	**-106.0**
Gold	1.5	1.5	1.5	0.9	0.9	0.8	0.7
Foreign exchange reserves	53.7	197.7	201.5	139.0	130.1	131.3	225.9
Use of Fund Resources	-51.9	-142.1	-244.0	-239.0	-290.4	-285.2	-332.0
Other foreign assets, net	-0.1	-0.1	-0.1	-0.1	-0.6	-0.6	-0.6
Net domestic assets	**37.7**	**96.7**	**250.0**	**299.5**	**368.3**	**403.6**	**383.0**
Net claims on general government	27.7	94.6	249.0	302.8	366.7	412.4	398.1
Claims on banks	3.9	4.2	13.7	10.6	5.3	4.4	3.5
Other items, net	6.1	-2.1	-12.7	-13.8	-3.8	-13.2	-18.5
Reserve money	**41.0**	**153.8**	**209.0**	**200.3**	**208.2**	**249.9**	**277.1**
Currency in circulation	21.1	131.4	185.6	170.6	178.2	220.3	254.6
Required reserves	7.9	11.9	13.7	12.7	14.3	15.2	15.7
Balances on banks' correspondent a/cs	12.0	10.5	9.7	17.0	15.7	14.4	6.9
	Flows (with respect to end of previous period; in millions of lari)						
Net international reserves	...	**53.7**	**-98.1**	**-58.2**	**-60.9**	**6.4**	**47.7**
Net domestic assets	...	**59.0**	**153.2**	**49.5**	**68.8**	**35.3**	**-20.5**
Net claims on general government	...	66.9	154.4	53.8	64.0	45.7	-14.3
Claims on banks	...	0.3	9.5	-3.2	-5.3	-0.9	-0.9
Other items, net	...	-8.2	-10.7	-1.1	10.1	-9.5	-5.3
Reserve money	...	**112.8**	**55.2**	**-8.7**	**7.9**	**41.7**	**27.2**
Currency in circulation	...	110.3	54.2	-15.0	7.6	42.1	34.2
Required reserves	...	4.0	1.8	-1.0	1.6	0.9	0.5
Balances on banks' correspondent a/cs	...	-1.5	-0.8	7.3	-1.3	-1.3	-7.5
	Change (as a percent of reserve money last year)						
Net international reserves	...	**131.0**	**-63.8**	**-27.9**	**-57.0**	**-53.9**	**-31.1**
	Percentage change (with respect to the end of the previous year)						
Net domestic assets	...	**156.5**	**158.4**	**19.8**	**47.3**	**61.4**	**53.2**
Reserve money	...	**274.9**	**35.9**	**-4.2**	**-0.4**	**19.6**	**32.6**
Currency in circulation	...	522.6	41.2	-8.1	-4.0	18.7	37.2

Sources: National Bank of Georgia; and Fund staff estimates.

1/ Valued at end-period actual exchange rates.

Table 28. Georgia: Summary Accounts of Commercial Banks 1/
(In millions of lari)

	1994	1995	1996	1997			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
Net foreign assets	**-26.6**	**-39.3**	**22.1**	**25.8**	**25.9**	**37.1**	**33.0**
NFA convertible	-26.7	-39.2	22.0	25.6	25.3	36.7	32.7
Gold	0.3	0.4	0.2	0.8	0.8	0.8	1.1
Foreign exchange	33.1	21.1	27.9	34.9	42.0	55.5	47.2
Foreign liabilities	-60.1	-60.8	-6.1	-10.1	-17.5	-19.7	-15.6
NFA nonconvertible	0.1	-0.1	0.1	0.2	0.6	0.5	0.3
Net domestic assets	**85.3**	**95.1**	**57.5**	**61.7**	**77.1**	**95.8**	**100.2**
Domestic credit	98.5	133.5	115.0	119.8	137.4	145.3	170.0
Net claims on general government	-7.9	-15.5	-13.2	-18.5	-10.9	-9.7	-2.9
Net claims on republican government	-3.1	-7.3	-6.7	-10.2	-5.6	-4.6	0.4
Claims on private sector	106.5	149.0	128.2	138.3	148.3	154.9	172.9
of which: foreign exchange loans	0.0	63.7	45.0	46.9	53.8	68.9	77.0
Other assets (net)	-13.2	-38.4	-57.5	-58.1	-60.4	-49.4	-69.9
Deposit liabilities	**58.7**	**55.8**	**79.5**	**87.5**	**103.0**	**133.0**	**133.2**
Domestic currency deposits	19.5	32.9	41.2	46.8	46.9	62.1	55.3
Foreign currency deposits	39.2	22.9	38.3	40.7	56.1	70.9	77.8
Memorandum items:							
Share of foreign exchange deposits	66.8	41.1	48.2	46.6	54.5	53.3	58.4
Exchange rate (in lari, end-period)	1.280	1.230	1.274	1.294	1.300	1.298	1.304

Source: National Bank of Georgia; and Fund staff estimates.

1/ Valued at end-period actual exchange rates.

Table 29. Georgia: Structure of Commercial Bank Deposits

	1994	1995	1996				1997			
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			(In millions of lari, end of period)							
Domestic currency deposits	19.5	32.9	30.5	45.7	44.4	41.2	46.8	46.9	62.1	55.3
Deposits of enterprises 1/	16.7	27.9	25.2	39.8	38.2	34.3	39.5	39.1	52.1	45.0
Deposits of households/individuals	2.8	5.0	5.3	5.9	6.2	7.0	7.3	7.8	10.0	10.3
Foreign currency deposits	39.2	22.9	39.0	30.3	34.7	38.3	40.7	56.1	70.9	77.8
Deposits of enterprises 1/	...	17.6	33.7	20.3	24.2	25.3	25.0	35.0	41.3	44.0
Deposits of households/individuals	...	5.3	5.3	10.0	10.5	13.0	15.7	21.1	29.6	33.8
Total deposits	58.8	55.8	69.5	76.0	79.1	79.5	87.5	103.0	133.0	133.2
Deposits of enterprises 1/	...	45.5	58.9	60.1	62.4	59.6	64.5	74.1	93.4	89.0
Deposits of households/individuals	...	10.3	10.6	15.9	16.7	20.0	23.0	28.9	39.6	44.1
			(Percent of total)							
Domestic currency deposits	33.2	59.0	43.9	60.1	56.1	51.8	53.5	45.5	46.7	41.5
Deposits of enterprises 1/	28.4	50.0	36.3	52.4	48.3	43.1	45.1	38.0	39.2	33.8
Deposits of households/individuals	4.8	9.0	7.6	7.8	7.8	8.7	8.3	7.6	7.5	7.7
Foreign currency deposits	66.7	41.0	56.1	39.9	43.9	48.2	46.5	54.5	53.3	58.5
Deposits of enterprises 1/	...	31.5	48.5	26.7	30.6	31.8	28.6	34.0	31.1	33.1
Deposits of households/individuals	...	9.5	7.6	13.2	13.3	16.4	17.9	20.5	22.3	25.4
Total deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposits of enterprises 1/	...	81.5	84.7	79.1	78.9	74.9	73.7	71.9	70.2	66.9
Deposits of households/individuals	...	18.5	15.3	20.9	21.1	25.1	26.3	28.1	29.8	33.1
Memorandum items:										
Foreign currency deposits (In US$ millions) 2/	30.6	18.6	30.9	24.2	27.3	30.1	31.5	43.2	54.6	59.7
Exchange rate (lari/US$;end-period)	1.280	1.230	1.262	1.254	1.270	1.274	1.294	1.300	1.298	1.304

Sources: National Bank of Georgia; and staff estimates.

1/ Including deposits of cooperatives, state companies, and so-called public organizations.
2/ Reported data in domestic currency, converted at end-period exchange rate.

Table 30. Georgia: Currency Composition of Commercial Bank Credit 1/

	1994	1995	1996				1997			
	Dec	Dec	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			(In millions of lari)							
Credit to the economy 2/	102.9	149.0	168.3	126.5	109.1	128.2	138.3	148.3	154.9	172.9
Domestic currency claims	37	62.7	78.6	88.2	71.6	83.2	91.4	94.5	86.0	95.9
Foreign currency claims	65.9	86.2	89.6	38.2	37.6	45.0	46.9	53.8	68.9	77.0
Onlending of Turkish credit 3/	53.1	54.6	57.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other foreign currency claims	12.7	31.7	31.6	38.2	37.6	45.0	46.9	53.8	68.9	77.0
			(In percent of total)							
Credit to the economy 2/	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic currency claims	35.9	42.1	46.7	69.7	65.6	64.9	66.1	63.7	55.5	55.5
Foreign currency claims	64.1	57.9	53.3	30.3	34.5	35.1	33.9	36.3	44.5	44.5
Onlending of Turkish credit 3/	51.6	36.6	34.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other foreign currency claims	12.4	21.3	18.8	30.3	34.5	35.1	33.9	36.3	44.5	44.5
Memorandum items:										
Exchange rate (lari/US$; end-period)	1.280	1.230	1.262	1.254	1.270	1.274	1.294	1.300	1.298	1.304

Sources: National Bank of Georgia; and staff estimates.

1/ Excluding claims of the Savings Bank before July 1995.
2/ Credit to the nongovernment sectors.
3/ The government of Turkey, through Eximbank (Turkey) extended a credit line in the amount of US$50 million to Georgia in 1993. The loan was administered by Eximbank (Georgia) and guaranteed by the Government; the Government determined who received the loans. In May 1996, the Government assumed responsibility for this credit and carved it out of the balance sheet of the United Georgian Bank.

Table 31. Georgia: Regulatory Framework for Commercial Banks

Type	Prudential Regulation	Recommended BIS Standards 1/
Compulsory Standards		
Capital Adequacy Ratios		
Tier One Capital 2/	8 percent (not risk-weighted) of total assets, and at least 75 percent of total capital 3/	4 percent (risk weighted) of total assets, and at least 50 percent of total capital
Total Capital 4/	10 percent (not risk-weighted) 3/	8 percent (risk weighted)
Liquidity Indicator	Maintain liquid assets above 30 percent of total liabilities	No liquidity indicator
Limits on Lending		
Lending to a single insider	5 percent of total capital	No specific limit
Total lending to insiders	50 percent of total capital 5/	20 percent of total funds
Lending to a single outsider	15 percent of total capital	25 percent of total capital
Total lending to the 10 largest debtors	50 percent of total loans	No specific limit
Limits on Total Deposit Liabilities	Ratio of 9:1 relative to total capital	No recommended limits
Loan Loss Provisioning Requirements	2 percent for performing loans 5-10 percent for watch loans 30-40 percent for sub-standard loans 50-70 percent for doubtful loans 100 percent for loss loans	No recommended standards, but Georgian requirements are more strict than most individual BIS member countries
Minimum Capital Licensing Requirements		
For New Banks	Lari 5 million	ECU 5 million 6/
For Licensed Banks	December 31, 1997 -- US$0.25 million June 30, 1998 -- US$0.5 million December 31, 1998 -- lari 1 million June 30, 1999 -- lari 2 million December 31, 1999 -- lari 3 million June 30, 2000 -- lari 4 million December 31, 2000 -- lari 5 million	ECU 5 million 6/
Recommended Guidelines		
Limit on Fixed Assets	Keep fixed assets less than 20 percent of primary capital plus total liabilities	No recommended limits
Limit on Long-term Assets	Keep long-term assets equal to 100 percent of long-term liabilities	No recommended limits
Limit on Current Assets	Keep current assets equal to 100 percent of current liabilities	No recommended limits
Other Requirements		
Limit on Ownership by Anyone Founder	25 percent	No recommended limits
Financial Statements and Ratio Calculations	Monthly	No recommended standards, but most BIS member countries require quarterly reporting
Annual Audits	To be performed by a recognized auditing firm and certified accountants	External audits encouraged, to complement internal auditing

Source: National Bank of Georgia; and Fund staff.

1/ BIS (Bank for International Settlements) recommended standards, which were adopted in September 1997, are the minimum requirements.
2/ "Tier One Capital" includes (i) share capital; (ii) capital reserves; (iii) retained profits; (iv) foreign exchange valuation changes on shares purchased in foreign currency; (v) less any revaluation of fixed assets; (vi) less any treasury stock.
3/ Regulations on the classification of assets by the underlying risk involved will be announced in June 1998 and will become effective by January 1, 1999.
4/ "Total Capital" includes Tier One Capital plus (i) appropriated reserves; (ii) revaluation of fixed assets according to a prespecified schedule; (iii) any loan loss provisioning for performing loans.
5/ Limit on total insider lending will be lowered to 15 percent of paid-in capital effective January 1, 1999.
6/ Represents the minimum capital standard adopted by EU member countries; no BIS recommended limits available on minimum capital.

Table 32. Georgia: Interest rates, 1995-97
(In percent per annum, non-compounded)

	Mar-95	Jun-95	Sep-95	Dec-95	Mar-96	Jun-96	Sep-96	Dec-96	Mar-97	Jun-97	Sep-97	Dec-97
Commercial banks (3 month) 1/												
Deposits	**37.2**	**27.4**	**17.6**	**17.9**	**17.3**	**14.8**	**14.8**	**16.1**	**13.5**	**13.2**	**15.4**	**12.6**
Domestic currency	49.3	33.7	20.1	15.0	17.1	13.4	11.8	14.3	11.7	10.3	12.2	10.6
Former state banks	52.3	33.3	20.7	19.0	19.7	9.3	7.7	13.0	10.7	7.0	9.7	9.0
Other	47.0	34.0	19.8	12.0	15.3	18.0	16.0	15.3	12.7	13.7	14.7	13.0
Foreign currency	25.2	21.0	15.1	20.8	17.4	16.1	17.7	17.9	15.4	16.1	18.7	14.5
Former state banks	32.7	26.7	25.0	26.0	16.7	13.7	23.0	22.0	18.3	16.7	20.7	10.0
Other	14.0	12.5	10.2	17.6	17.8	17.3	15.0	15.8	13.6	15.8	17.3	19.0
Loans	**111.2**	**94.1**	**79.2**	**69.8**	**75.5**	**60.6**	**62.3**	**53.2**	**62.6**	**55.6**	**43.9**	**45.0**
Domestic currency	115.0	92.0	77.9	66.1	72.7	60.6	58.9	51.3	64.4	58.4	43.4	48.5
Former state banks	154.7	104.3	79.7	68.7	75.0	66.7	62.7	49.0	65.7	65.7	46.3	55.5
Other	85.3	82.8	76.5	64.3	71.0	56.0	56.0	52.5	63.5	53.0	41.3	41.5
Foreign currency	107.4	96.2	80.6	73.4	78.2	60.6	65.8	55.0	60.8	52.8	44.4	41.5
Former state banks	116.3	107.3	91.0	90.0	87.0	69.0	67.3	61.5	64.3	54.0	47.0	44.0
Other	94.0	79.5	65.0	48.5	65.0	48.0	63.5	48.5	55.5	51.0	40.5	39.0
Interbank credit auction												
7 days	...	65.5	42.7	36.5	44.0	30.0	14.3	13.0	16.0	...	14.0	31.0
1 month	...	...	...	...	48.7	41.0	35.5	27.3	19.0	21.0	30.0	46.0
2 month	...	...	...	...	...	...	38.0	...	...	...	...	32.0
3 month	...	...	...	...	70.0	46.0	40.0	36.3	19.0	...	32.0	...
Memorandum items:												
12-month inflation	1233.7	448.5	5.3	57.4	55.0	54.9	42.2	14.2	8.5	5.1	5.7	7.1
Interest rate spread 2/												
In domestic currency	65.7	58.3	57.7	51.1	55.6	47.1	47.0	37.0	52.8	48.1	31.3	37.9
In foreign currency	82.2	75.2	65.5	52.7	60.8	44.5	48.1	37.1	45.4	36.7	25.7	27.0

Source: National Bank of Georgia.

1/ Because of missing values, the sample of banks included varies by instrument; therefore comparisons across instruments should be interpreted with caution. Banks are weighted equally through [...] 1997 and by value afterwards, as are foreign currency and domestic instruments.
2/ Defined as lending rate minus deposit rate.

Table 33. Georgia: Balance of Payments

	1993	1994	1995	1996 Est.	1997 Prel.
			(In millions of U.S. dollars)		
Current account (excluding transfers)	**-485.1**	**-447.9**	**-406.7**	**-418.1**	**-534.7**
Trade balance 1/	-448.3	-365.0	-337.4	-350.9	-483.9
Exports	457.0	380.7	362.6	417.0	462.8
Imports	-905.3	-745.7	-700.1	-767.9	-946.7
Non-factor services	-17.2	-47.5	17.0	-5.2	-85.2
Credits	72.7	102.0	121.8	93.9	159.7
Debits	-89.8	-149.5	-104.8	-99.1	-244.9
Factor services	-19.7	-35.4	-86.3	-62.1	34.4
Credits	0.4	0.3	1.0	4.9	99.4
Debits	-20.1	-35.7	-87.3	-67.0	-65.0
Transfers	**131.2**	**170.0**	**189.2**	**140.5**	**187.6**
Capital account	**305.6**	**-19.3**	**-86.6**	**66.4**	**252.3**
Medium- and long-term borrowing	381.7	-23.7	-171.3	19.0	68.5
Disbursements	385.5	94.1	102.8	109.1	125.5
Amortization	-3.8	-117.8	-274.1	-90.1	-57.0
Other capital	-91.2	4.4	84.7	47.4	183.9
Errors and omissions	--	--	**0.5**	**42.5**	**-7.3**
Overall balance	**-63.4**	**-297.3**	**-303.6**	**-168.7**	**-102.0**
Overall financing	**63.4**	**297.3**	**303.6**	**168.7**	**102.0**
Increase in net international reserves (-) 2/	-0.5	-0.9	-40.7	79.2	60.9
Exceptional financing 3/	64.0	298.2	344.3	89.5	41.1
Memorandum items:					
Gross usable reserves 4/	1.0	41.4	156.7	158.0	173.3
Debt service due 5/	--	--	35.2	49.5	53.8
Stock of debt	596.9	998.5	1225.4	1371.0	1539.3
			(As a percent of GDP)		
Current account, excl. transfers	-42.0	-35.9	-14.1	-9.1	-10.2
Gross usable reserves 6/	--	0.7	2.7	2.5	2.2
Debt service due after relief 7/	--	--	7.3	9.7	8.6
Stock of debt	51.7	80.1	42.5	30.0	29.4

Sources: State Department and Statistics; and Fund staff estimates.

1/ There have been significant changes in the coverage of trade data and, as a result, caution is needed in comparing annual totals.
2/ Includes a valuation adjustment.
3/ Arrears and debt relief.
4/ Excludes debt service paid into a special account at the Netherlands Bank.
5/ After rescheduling.
6/ In months of imports.
7/ As a percent of exports of goods and nonfactor services.

Table 34. Georgia: Geographic Distribution of Trade, by Country, 1997 1/

	Exports (Percent of total)
Total	100
Russia	29.8
Turkey	13.1
Azerbaijan	10.9
Armenia	8.2
Switzerland	6.0
Bulgaria	3.8
Ukraine	3.7
Angilia	3.0
Germany	2.5
Turkmenistan	2.5
Italy	2.2
United Kingdom	1.8
United States	1.8
Kazakhstan	1.6
Others	9.1

	Imports (Percent of total)
Total	100
Russia	13.4
Azerbaijan	12.4
Turkey	12.3
United States	7.5
Ukraine	6.0
Virgin Islands	5.7
Bulgaria	5.0
United Kingdom	4.5
Italy	4.4
Germany	4.3
Armenia	2.3
Netherland	2.2
France	1.9
Others	18.1

Source: State Department of Statistics.

1/ Refers to trade as recorded by the Customs Department in 1997. Data for earlier years are inconsistent with that of 1997.

Table 35. Georgia: External Debt Outstanding
(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Total debt outstanding	**543.6**	**998.5**	**1225.4**	**1371.0**	**1539.3**
Medium/long term	543.6	957.9	1,109.5	1,181.5	1,280.1
Public and publicly guaranteed	543.6	957.9	1,109.6	1,176.7	1,275.8
Official creditors	543.6	957.9	1,109.6	1,171.4	1,271.0
Multilateral	--	1.0	93.5	176.7	263.5
World Bank	--	1.0	86.1	163.0	233.7
Other	--	--	7.4	13.7	29.8
Bilateral	543.6	956.9	1,016.1	994.7	1,007.5
BRO 1/	364.8	655.8	684.4	635.5	639.4
Russia	142.6	156.3	167.1	175.4	179.3
Turkmenistan	181.2 2/	440.3	453.2 3/	394.3	394.3
Armenia	11.0	18.1	19.7	19.7	19.7
Azerbaijan	7.6	15.0	15.7	16.3	16.3
Kazakhstan	22.4	24.1	26.7	27.8	27.8
Other	2.0	2.0	2.0	2.0	2.0
Non-BRO	178.8	301.1	331.7	359.2	368.1
European Union	88.5	151.7	160.8	155.1	145.0
Turkey	10.3	42.0	45.4	47.9	48.8
Austria 4/	79.1	92.0	98.8	105.0	92.8
Other	0.9	15.4	26.7	51.2	81.5
Private creditors	--	--	--	5.3	4.8
Private non-guaranteed	--	--	--	4.8	4.3
Short term	--	--	--	--	--
IMF	--	40.5	116.0	189.5	259.3
ESAF	--	--	--	79.0	76.3
SBA	--	--	33.1	31.6	30.5
STF	--	40.5	82.9	79.0	152.5

Sources: Georgian authorities; and Fund staff estimates.

1/ Debts to BRO countries other than Turkmenistan initially arose out of the conversion of correspondent account balances and technical credits from 1992 and the first half of 1993 into interstate loans in 1993.

2/ All gas arrears at end 1993 were converted into a 2 year loan at libor plus one percent.

3/ Under a preliminary agreement reached in February 1995, all of Georgia's obligations to Turkmenistan, including new gas arrears from 1994 and penalties were converted into a new debt of US$453.2 million. After a reconciliation of accounts, concluded in May 1995, this figure was reduced to US$440 million. About US$46 million were written off in the context of a rescheduling agreem reached in March 1996.

4/ Refers to a credit from a commercial bank dating from 1989; included as official, since amounts due in 1993 and 1994 were rescheduled with an Austrian government guarantee.

Table 36. Georgia: External Debt Service Obligations
(In millions of U.S. dollars)

	1995			1996			1997		
	Int.	Prin.	Total	Int.	Prin.	Total	Int.	Prin.	Total
Total debt service due 1/	35.2	--	35.2	48.7	0.9	49.5	50.3	3.5	53.8
Medium/long term	35.2	--	35.2	48.7	0.9	49.5	50.3	3.5	53.8
Public and publicly guaranteed	35.2	--	35.2	48.4	0.9	49.3	50	3	53
Official creditors	35.2	--	35.2	48	0.9	48.9	49.7	2.5	52.2
Multilateral	2.9	--	2.9	6.6	--	6.6	8.2	1.8	10
Bilateral 2/	32.3	--	32.3	41.4	0.9	42.3	41.5	0.7	42.2
Private creditors	--	--	--	0.4	--	0.4	0.3	0.5	0.8
Private non-guaranteed	--	--	--	0.3	--	0.3	0.3	0.5	0.8
Short term	--	--	--	--	--	--	--	--	--
Memorandum items:									
Debt-service ratio 3/	7.3	--	7.3	9.5	0.2	9.7	8.1	0.5	8.6

Sources: Georgian authorities, and Fund staff estimates.

1/ After rescheduling. Includes yearly US$ 32 million payment to the special Dutch account for interest payments on rescheduled debt.
2/ Includes debt to the European Union.
3/ As a percent of exports of goods and non-factor services.

Table 37. Georgia: Exchange Rates, August 1993-December 1997 1/

	Lari per U.S. Dollar		Lari per thousands of ruble	
	Average During Period	End of Period	Average During Period	End of Period
1993 Q3[2]	0.000	0.014	0.01	0.01
Q4	0.045	0.102	0.04	0.08
1993	...	0.102	...	0.08
1994 Q1	0.216	0.384	0.13	0.17
Q2	0.839	0.814	0.43	0.41
Q3	1.564	2.300	0.69	0.89
Q4	1.791	1.280	0.55	0.32
1994	1.102	1.280	0.45	0.32
1995 Q1	1.294	1.300	0.28	0.25
Q2	1.300	1.300	0.25	0.24
Q3	1.300	1.300	0.25	0.25
Q4	1.258	1.230	0.25	0.25
1995	1.288	1.230	0.26	0.25
1996 Q1	1.252	1.262	0.24	0.25
Q2	1.259	1.255	0.22	0.22
Q3	1.265	1.270	0.23	0.23
Q4	1.275	1.274	0.22	0.22
1996	1.263	1.274	0.23	0.22
1997 Q1	1.298	1.294	0.22	0.22
Q2	1.299	1.300	0.22	0.23
Q3	1.295	1.298	0.22	0.22
Q4	1.308	1.304	0.22	0.22
1997	1.297	1.304	0.22	0.22

Source: National Bank of Georgia.

1/ Lari exchange rates are those prevailing on the Tbilisi Interbank Currency Exchange (TICEX).
2/ August and September 1993 only.