GEORGIA

Enhanced Structural Adjustment Facility

Policy Framework Paper, 1997-1999

Prepared by the Georgian authorities in
collaboration with the staffs of the
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I. INTRODUCTION

1. Since mid–1994 the Georgian government has been implementing a bold stabilization and structural reform program in order to halt hyperinflation, address the country's large domestic and external imbalances and put the economy back on a sustainable growth path. The stabilization program has been predicated on the pursuit of prudent financial policies; the liberalization of prices, trade and the exchange system; and on institutional and structural reforms. Financial support by the International Monetary Fund (IMF), the World Bank, the European Union (EU) and other bilateral donors and creditors, together with debt relief or a standstill granted by external creditors, have been instrumental for the successful implementation of the program.

2. To promote an appropriate environment for private activity, the Government intends to continue pursuing the medium–term strategy specified in the Policy Framework Paper for the period 1996–98. A revised program for the period 1997–1999 has been designed in collaboration with the staffs of the IMF and the World Bank in light of recent developments. The Government is seeking continuation of Fund support for this program under a second annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) and intends to request a second Structural Adjustment Credit (SAC) from the World Bank. In addition, the Government is requesting an extension of the present standstill on debt obligations through 1997 from those creditors with whom debt–rescheduling agreements covering obligations through end–1997 have not been reached so far.

II. RECENT DEVELOPMENTS

3. During 1995–96 Georgia began to reap the benefits of the reform program launched in 1994. The introduction of the lari to replace the coupon in September 1995 reversed the rampant currency substitution which had characterized the coupon era and, together with continued financial support from the international community, allowed the central bank to boost its gross international reserves considerably. Following four years of output collapse, growth resumed in 1995 and accelerated in 1996, while inflation continued to decline and the exchange rate remained stable against the U.S. dollar. Substantial progress was made in normalizing relations with external creditors, through the conclusion of debt–rescheduling agreements with Armenia, Austria, the Islamic Republic of Iran, Kazakstan, Russian Federation, Turkmenistan, and Uzbekistan. Negotiations with other bilateral creditors are ongoing.

4. Presidential and Parliamentary elections were held on November 5, 1995, based on a new Constitution. The reestablishment of political stability and law and order have been essential for the success of the economic reform program.

III. MEDIUM–TERM STRATEGY

1. Macroeconomic objectives and targets

5. The Government's strategy for 1997–99 aims at consolidating the gains achieved in macroeconomic stabilization since 1994, accelerating structural reforms, and placing the economy on a sustainable growth path, while strengthening the social safety net. The main macroeconomic targets of the 1997–99 program are: (i) an annual growth rate of 8–10 percent; (ii) a further reduction in 12–month inflation to 10–12 percent in 1997 and below 10 percent in 1998–99; and (iii) an increase in the gross international reserve position of the National Bank of Georgia (NBG) to 2.5 months of total imports (equivalent to US$170 million) in 1997 and about 3 months by 2000. These objectives are to be achieved through continued implementation of prudent financial policies as well as institutional and structural reforms aimed at improving economic efficiency and promoting domestic savings and investment. Strengthening public finances will continue to be accorded the highest priority, in particular through a significant improvement in revenue performance.

6. In order to pave the way for the successful implementation of our reform program, the following measures have already been implemented or will be put in place by mid–1997: (i) Parliamentary approval of the 1997 budget in line with the understandings reached with the IMF staff; (ii) enactment of a number of measures to rationalize the tax structure and to strengthen tax and customs administration; (iii) adoption of a revised timetable for restructuring of each of the former state banks on the basis of audited statements for these banks; (iv) enactment of a law on investment; (v) completion of the second reading of the VAT chapter of the draft Tax Code by Parliament; and adoption of the new Tax Code by June 1, 1997; (vi) centralization of all Government revenue and expenditure accounts (including pension, employment, health, road and privatization funds) under the Treasury; and (vii) obtaining agreements on extensions of the present standstill on debt service through end-1997 by those creditors with whom a restructuring agreement had not been reached by end–1996.

7. A fast recovery in economic activity is expected in the next three years. Growth in agriculture is expected to continue leading the recovery, as private activity intensifies and availability of basic inputs and financial services improves. The transfer of most of the service sectors to private ownership is expected to boost economic activity, and transshipment of goods to neighboring countries is likely to recover significantly as economic activity in the region picks up. Elimination of the existing bottlenecks to private sector activity will be essential to ensure sustainable economic growth. Necessary reforms in this regard include strengthening the banking system, restructuring the energy sector, expanding the scope of privatization, and improving Georgia's infrastructure. Investment is projected to recover from 5.1 percent of GDP in 1996 to about 11 percent in 1999. While private investments are expected to be concentrated in agriculture, trade, construction, transport, and industry, public investments will focus on the maintenance and development of infrastructure, especially in the areas of energy, agriculture, and transportation.

8. The Government recognizes the crucial role that tax revenue increases will play in achieving program targets. Although there has been some progress in placing public finances on a sounder footing, especially by broadening the tax base through the removal of exemptions, the fiscal situation remains fragile. In order to reduce government dissaving, the program aims at increasing general government revenues (excluding grants) from 10.7 percent in 1997 to 14.1 percent of GDP in 1999, by which time most essential current outlays would be financed by domestic resources. To boost revenues, emphasis will be placed on further improvements in tax and customs administration. The Government also intends to strictly limit any new tax exemptions and to refrain from granting any *ad hoc* tax privileges for specific firms or sectors, except in the context of a clearly–defined restructuring program.

9. Consistent with the projected revenue increases and low fiscal deficits, increases in expenditure will be carefully prioritized. In this context, the Government will continue to downsize the public sector, increase real wages for remaining civil servants, reorientate outlays toward essential social services and infrastructure investment, and improve budget planning and implementation. Accordingly, current government expenditure is projected to increase moderately to 13.9 percent of GDP by 1999, while capital expenditure would reach 1.9 percent of GDP. Considering that external grants are expected to decline to 0.4 percent of GDP by 1999, the overall deficit of the general government, on a commitment basis and including grants, would decline to about 1.3 percent of GDP. This fiscal program is consistent with macroeconomic objectives of the program for the next three years, keeping domestic financing within limits to leave room for private sector credit growth under the monetary program.

10. Monetary policy will continue to aim at reducing inflation to less than 10 percent by 1999 and strengthening the gross international reserve position of the NBG. Broad money is targeted to grow at about 35 percent in 1997, consistent with a growing confidence in the lari. The NBG will also step up its efforts to consolidate banking sector reform and to develop new monetary instruments with a view to enhancing monetary control. The development of a government securities market is a crucial step in this direction and, therefore, the NBG and the Ministry of Finance are collaborating closely to introduce Treasury bills in mid–1997. At the same time, the NBG will continue to refine current monetary instruments and gradually build a capacity to implement market–based monetary policy. In order to reduce the implicit tax on banks and encourage intermediation, the reserve requirement will be further reduced in 1997, provided that inflation declines in line with the program targets.

11. The NBG will continue to intervene in the exchange market to prevent a depreciation of the lari provided this is consistent with the net international reserves target under the program. This policy contributed to the stability of the lari against the U.S. dollar and boosted confidence in the reform program during 1995–96. At the same time, the NBG recognizes the advantages of retaining some flexibility in its exchange rate policy and will allow a market–driven appreciation in the event of unforeseen capital inflows. The exchange rate policy will be reviewed periodically in collaboration with the Fund staff.

12. Although the implementation of prudent financial policies and the growing output have contributed to narrow the current account deficit significantly since 1994, Georgia's external outlook remains difficult. External viability will continue to depend on sustained fiscal adjustment and availability of foreign assistance, as well as on a successful rescheduling of pre–1995 bilateral external debt.

2. Reforms for strengthening economic management

a. Reform of the public finances

13. With the pre–1995 revenue collapse and the need to eliminate hyperinflation, the Government has been forced to limit spending to the most pressing needs, given the scarce resources available. Although revenue performance is improving, the top priority in the medium term is to continue to boost tax collection, in order to allow real increases in essential expenditures and, at the same time, to put public finances on a sustainable medium–term path. The Government's expenditure reforms will therefore be designed to limit its role to areas where public intervention is essential and where delaying expenditure would be detrimental to the growth potential of the economy. In this context, and consistent with the transition to a market economy, the Government has already withdrawn from most commercial activities and intends to continue to promote private activity to the extent possible.

14. Substantial improvements in tax and customs administration will be required to achieve the medium–term revenue targets. Tax administration reform has been under way for two years. In the period ahead, the emphasis will be on enforcing tax legislation, and ensuring timely payment of tax obligations. To this end, the Government intends to establish targets for the reduction in tax arrears; take corrective actions, possibly including seizure of assets of the enterprises with the largest tax arrears; issue taxpayer identification numbers (TINs) for more taxpayers; expand the coverage of the Large Taxpayer Unit; develop audit programs; complete the computerization of tax declarations for the major taxes; and transfer the responsibility for collecting revenues for the pension, health, road, and employment funds to the State Tax Service or Customs. The new Tax Code further rationalizes the tax system, broadens the tax base, defines the rights and obligations of taxpayers clearly, and reduces various tax penalties which previously were excessive.

15. Customs administration will be improved and computerization will be expanded. The focus will be on improving collection of taxes at customs borders (VAT, excises, customs duties, the cross–border entry tax), through improved valuation assessments; modified clearance procedures (especially to limit abuse from transit trade); introduction of effective duty drawback procedures, suspensive customs regimes, and warehousing procedures, in order to promote exports with a high content of imported inputs; and full use of the TINs already being used by the State Tax Service. These changes will require additional infrastructure and equipment, as well as an appropriate legal basis. To this end, the Government has proposed a new Customs Code for Parliamentary approval by mid–1997.

Finally, in order to raise revenues and reduce incentives for corruption, tax and customs offices will be allowed to receive, as salary supplements, a limited proportion of taxes collected. The share of taxes retained will increase more than proportionately the closer actual tax collections will be to targeted collections.

16. Important tax policy changes have been introduced to enhance the buoyancy of tax revenues and equity of the tax system and encourage compliance with tax laws. These include a reduction of excise rates, unification of multiple profit tax rates and a strengthening of the legal framework for VAT. The Government has also introduced a new personal income tax rate structure starting January 1997, with a view to restoring progressivity; in addition, all income tax rates (including corporate) will be reviewed in 1998. During 1997 the Government intends to conclude bilateral agreements to move VAT taxation on trade with CIS countries to the destination principle. The Government believes that the tax policies adopted with the 1996 and 1997 budgets, together with tax administration measures, will improve revenue performance significantly in the next few years.

17. Consistent with the macroeconomic and fiscal objectives of the program, total expenditure and net lending will be increased from 14.2 percent of GDP in 1997 to 15.8 percent in 1999. For current expenditures, in line with the recommendations of the World Bank staff, the Government intends to reorientate outlays toward basic education, essential public health, and maintenance and rehabilitation of existing infrastructure. There is also scope for expenditure savings by further reducing government involvement in agriculture and industry. Social benefits are also being rationalized, with a view to targeting them more toward those most in need. Finally, for capital outlays, the Government intends to establish a rolling three–year public investment program, which will prioritize investments within the context of revamped project selection criteria. Capital outlays are expected to increase to 1.9 percent of GDP by 1999, reflecting in particular increased project lending financed by external creditors.

18. To improve expenditure management, the Government has created a Treasury and 13 regional treasury offices, which are becoming fully operational for all 1,340 budgetary organizations. By mid–1997, the Government will centralize all revenue and expenditure accounts of republican budgetary organizations including pension, employment, health, road and privatization funds under the Treasury single account at the NBG (TSA), with separate accounts of all spending units being closed. The Treasury alone will be responsible for transferring funds (via either its NBG account or agency bank accounts) to the bank accounts of suppliers of goods and services to the Government. The next steps involve establishing a double–entry system of treasury ledger accounts in accordance with the new Government Financial Statistics classification that has already been developed. The standardization of the budget and government accounts, together with their computerization during the program period, will allow timely analysis of expenditure accounts, the introduction of forward cash planning, and effective internal financial audits. With readily available expenditure data, improved cash planning, and control of expenditure authorizations, the Government aims at preventing any build–up in expenditure arrears, following the planned elimination of existing

arrears by end–1997. Progress will also be made in registering all State financial assets and liabilities, enabling the Government to implement an effective debt–management strategy.

19. The Government intends to define more clearly the expenditure assignments of regional governments, and review the revenue–sharing arrangements between central and regional governments, as well as the formula for transfers from the central government to regions. An overriding objective is to continue to require regional governments to balance their budgets. Consequently, they will not be accorded powers to issue domestic or external debt.

b. Banking sector reform

20. Improvements in the banking system are beginning to be seen. In addition, the number of licensed banks declined to 62 at the end of 1996. The bank certification program introduced in November 1995 is nearly complete and 47 banks had already been certified by December 1996. Only those banks which fully satisfy prudential regulations have been certified and allowed to operate normally. Several of the certified banks are growing rapidly. Each of the three former state–owned banks (FSBs) are cutting costs and improving their operations, albeit at varying speeds.

21. Notwithstanding the substantial progress made to date, the banking sector remains small and the level of intermediation remains low. The NBG intends to promote further consolidation of the banking sector by strictly enforcing prudential regulations and closing uncertified banks in an orderly manner, and by gradually increasing the minimum capital to the equivalent of lari 4 million. To foster intermediation, the limit on household deposits at certified banks was raised to nine times the amount of their capital as of January 1, 1997. Private ownership and management of commercial banks, without explicit or implicit government influence or support, will continue to be encouraged. With recent improvements in accounting and the recognition of unrealized losses, some banks may need additional infusions of capital, but these should come from private sources (as has already occurred in some cases). The NBG welcomes the entry of reputable foreign banks, to foster competition in the banking sector.

22. The NBG will continue to monitor closely the activities of the three former state–owned banks, which have not been certified. These banks have submitted their audited statements to the NBG and agreed on a timetable of monitorable actions for achieving full compliance with prudential regulations in 1997. Until they are certified, their lending will continue to be restricted. The NBG will enforce compliance with the agreed measures and revise the targets after the results of on–site inspections in these banks, in consultation with the World Bank and IMF staffs.

c. Statistics

23. The Government recognizes the urgent need for improving the quality and coverage of economic statistics. The priorities in this area are to improve the legal framework regarding

statistical activities, continue progress in price statistics, conduct household surveys on a quarterly basis, strengthen compilation of the system of national accounts and balance of payments statistics, and improve reporting of Government Financial Statistics. To expedite progress in compiling statistics and retain qualified personnel, the Government will increase resources available to the State Department of Social and Economic Information (SDSEI), during the program period. During the first half of 1997, the Government intends to submit for Parliamentary approval a new law on statistics, introduce a national Producer Price Index, improve cooperation of the SDSEI with the Debt Department of the Ministry of Finance, especially as regards external debt data, and also compile trade data in value and volume form. In addition, following publication of the first preliminary results of a national households budget survey in February 1997, the SDSEI will conduct quarterly households budget surveys and will publish their results on a timely basis. The SDSEI will request technical assistance from EUROSTAT, ILO, OECD, UNDP, and other agencies to study the underground economy, improve compilation of GDP statistics and other macroeconomic indicators.

3. Technical assistance requirements

24. To support the Government's reform strategy, extensive technical assistance will continue to be required from the international community. The technical assistance provided by the Fund will be focused on improving the operations of fiscal institutions, restructuring the financial sector, and improving the quality of price, monetary, and balance of payments statistics. In the fiscal area, particular attention will be given to strengthening tax and custom administration and the operations of the Treasury. The Fund will also assist the authorities in improving targeting of social safety nets and reorienting budgetary expenditures toward basic health and education. With regard to financial sector restructuring, the Fund will provide assistance on bank supervision (through a resident advisor) and for the introduction of Treasury bills in mid–1997. The World Bank will provide assistance in the areas of privatization, health, education, financial sector, social safety net, land reform, energy, legal reform, and trade. EU–TACIS will assist the NBG in developing a modern and efficient payments system. Assistance will also be provided by the OECD and the UNDP in the area of national income statistics.

4. Structural policies

25. The Government will continue to implement its ambitious privatization program. Following privatization during 1996 of over half of medium– and large–scale enterprises, as well as completion of small–scale privatization, the Government intends to offer for privatization during 1997 all of the remaining shares in "non–strategic" medium– and large–scale enterprises. The Government also intends to reduce by no less than 20 percent by mid–1997 the list of "strategic" enterprises to include only ports, railways, as well as a few other enterprises where a competitive environment can not be ensured for the time being. With the expiration of privatization vouchers in mid–1996, tenders and cash auctions open to domestic and foreign investors will be the primary methods of privatization.

26. The use of mass privatization schemes in Georgia so far has led to a diffused ownership structure of privatized medium– and large–scale enterprises. To encourage an improvement in corporate governance, the Government intends to foster the development of capital markets to facilitate the resale of shares by insiders and small owners lacking the necessary capital and management skills. To that end, the Government will prepare and submit to Parliament by end–1997 a draft Securities Law establishing rules for the disclosure, trading and listing of securities. In addition, the Government will encourage the creation of private share registries. Restructuring of the enterprise sector will also be pursued through the use of bankruptcy procedures as stipulated under the law. Steps will be taken to ensure that the judicial system can deal expeditiously with bankruptcy proceedings. In addition, for a limited number of large, loss–making enterprises remaining under state ownership, the Government will offer temporary rescheduling of their overdue budgetary obligations, subject to adoption by these enterprises of restructuring programs which aim at restoring financial viability. However, failure by these enterprises to restore financial balance within the time frame of the restructuring plan will be followed by liquidation of their assets in accordance with the requirements of the bankruptcy law.

27. The Government intends to accelerate the development of an appropriate legal framework for a market economy, with particular focus on strengthening the enforcement of existing laws and regulations. In addition to the new Tax Code, during 1997 the Government intends to adopt a Customs Code, a securities law, a new law for privatization of urban land, an accounting law for nonbank enterprises, a social insurance law, a law on private pensions, and a law on health insurance schemes.

28. A liberal trade and payments system will continue to be key in the Government's medium–term development strategy. In support of the recovery of the weak industrial sector, imports of capital goods under Chapters 84, 85, and 90, medical goods under Chapter 30 of the Harmonized System and a limited number of clearly defined raw materials and intermediate goods will be subject to a tariff of 5 percent. The tariff rate on all other goods will remain unchanged at 12 percent. In order to promote exports, provisions for a system of bonded warehouses and a duty drawback scheme have been included in the draft Customs Code. Georgia has also removed the few remaining payments restrictions, including those arising from the operation of correspondent accounts with countries of the former U.S.S.R., and accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement as of December 20, 1996. Finally Georgia has made a request for accession to the World Trade Organization.

5. Sectoral Policies

a. Agriculture

29. The Government believes that agriculture, the largest and currently one of the most vibrant sectors of the economy, will continue to be a key source of economic growth. With the adoption during 1996 of laws on private ownership of agricultural land, leasing to private

sector of land under state ownership, and land titling and registration, the legal basis for an efficient functioning of the land market is now in place. The Government's objective over the medium term is to complete the privatization program of agricultural land initiated in 1992, transfer to private hands through leasing arrangements the agriculture land remaining under state ownership, develop a modern land registration and land cadastre system, and promote the establishment of rural credit union cooperatives. To that end, the Government intends to complete by April 1997 the distribution and privatization of agricultural land earmarked for privatization in 1992 (about 60 percent of total arable land).

30. The lack of a clearly defined title to land is a main obstacle to the development of a market for land. To address the situation, the Government has established a State Department of Land Management. Given the substantial financing requirements to implement the land titling and registration project, the Government intends to mobilize the required financing mainly through external sources. On a pilot basis, the World Bank will finance the development of a land registration and land cadastre in two districts of Georgia, in the context of an agricultural development project.

31. The Government intends to promote the establishment of small credit unions (CUs), with a view to improving the provision of credit to individual farmers, currently constrained by high transaction costs of small–scale rural lending, lack of collateral, inexperience of commercial banks in assessing the risk of agricultural lending, as well as lack of medium–term deposits to match loans of an equivalent duration. The CUs would mobilize local savings, reduce the need for collateral, and also cut transactions costs. To date, ten small CUs have been established and over a period of five years, a maximum of 120 CUs are expected to be created, with support from the World Bank, IFAD, and the EU. The Government has established a Credit Union Development Center, which will encourage the development of rural CUs, approve on–lending to CUs, and ensure that CUs comply with the relevant prudential regulations. To support the financing of agriculture, the World Bank, the EBRD, and the EU will provide financial resources to certified commercial banks and CUs for on–lending to individual farmers with medium–term maturity.

b. Energy

32. Despite recent restructuring measures undertaken by the Government aimed at improving domestic energy supply and encouraging an efficient use of energy, the energy situation remains difficult. The Government recognizes that further progress in energy sector restructuring, especially through improvements in energy collection rates, is essential for keeping the momentum in economic recovery.

33. The Government's strategy is to disengage itself from commercial activities in the energy sector, achieve full collection of payments, adjust energy tariffs to cost–recovery levels, demonopolize the energy industry, pursue an active privatization program of electricity generation and distribution companies, and set up the regulatory framework for energy transmission and dispatch companies. Enactment of a new energy law in early 1997, inter

alia, will increase the independence of the Energy Regulatory Committee established in mid–1996. In addition, following the separation of energy companies into generation, transmission, and distribution companies in July 1996, the Government announced in December 1996 a privatization strategy for the generation and distribution companies. The Government intends to coordinate with World Bank staff on setting specific targets in this area. To improve the supply of energy, the investment priorities during the short to medium run will be focused on the rehabilitation of existing energy infrastructure and enhancement of regional energy links with the help of financial assistance from the international community.

c. Transport

34. To support the recent resurgence in economic activity, the Government considers the elimination of bottlenecks in the transport sector a vital element of its medium–term strategy. The Government's objective in the transport sector is to foster commercial operation of all modes of transportation in Georgia. To that end, the Government intends to remove all remaining tariff controls and also privatize most transport services, while public provision of infrastructure such as roads, railways, airports, and navigation aids for sea and air transport would take place on the basis of full cost recovery. To date, the Government has privatized road transport, opened urban transport to private operations and introduced competitive bidding for the award of public works contracts in the road sector. Given the current shortage of resources, public investments in the sector will focus on the rehabilitation of key infrastructure. To recover the cost of these investments and also to improve efficiency of infrastructure use, the Government will introduce a new system of direct and indirect user charges.

d. Environment

35. Georgia shares many of the environmental problems found throughout Central and Eastern Europe. The quality of drinking water has deteriorated, air pollution is increasing in urban areas and small communities along transit routes, and systems to properly manage and protect the diverse ecological habitats of Georgia, in particular forests, are lacking.

36. To address these issues, the Government has already launched a number of initiatives. These include a drinking water pilot project, epidemiological studies, a vehicle emission testing program, and a coastal zone management program. In addition, a proposal has been submitted to Parliament to establish national parks and other protected lands; a forest strategy is being developed to improve the management of these resources, and a National Environmental Action Plan identifying key actions and priorities will be completed by the fall of 1997.

37. The Government intends to increase the scope of these activities with the assistance of the donor community. In particular it intends to undertake investments to improve water supply and wastewater treatment facilities with the assistance of the World Bank.

IV. Social safety net and human resource development

1. Poverty Assessment

38. The collapse of real wages and social benefits, the increase in unemployment, and a sharp reduction in the supply of social services have led to an increase in the incidence of poverty. Although the growth of informal sector activities has cushioned the impact of the economic decline on the standards of living, it is clear that the transition to a market economy as well as civil conflicts have brought considerable hardship to particular segments of the population.

39. Since early 1995, the Government has made continuous attempts to reverse the recent trends and improve the standards of living of the population. The monthly minimum wage in the budgetary sector has quadrupled in real terms since January 1995 and the average real pension doubled over the same period. In spite of a significant real increase of social benefits over the last two years, benefit levels remain very low and the number of beneficiaries quite large (about one third of the population). At the end of 1996, wages in the budgetary sector averaged about US$23 per month and pensions at about US$8 per month.

40. The Government is aware that growth will only allow for a gradual increase in wages and that, in the short run, it is necessary to put in place well–targeted social programs. To this end, the Government has undertaken household surveys in Tbilisi and is currently undertaking a national household survey which will be completed by February 1997. These data will be analyzed and will be used as the main source of information for a detailed poverty assessment study. In the meantime the Government is using the information given by Tbilisi surveys to identify the population groups in which the incidence of poverty is likely to be the highest.

2. Social safety net

41. Several measures have already been implemented to improve the targeting of the social safety net. In 1994, among other measures, the eligibility for pensions was limited to non–working pensioners; starting in 1995, a flat–rate pension was adopted, and child allowances were granted only to the second child in each family. In 1996, the retirement age was raised from 60 to 65 for men, and from 55 to 60 for women. In the 1997 budget, the Government plans to further improve the targeting of benefits. The program of child allowances which benefited about 350,000 families has recently been replaced by a program targeted to the most vulnerable families identified through special surveys (pensioners living alone or supporting children; unemployed with children; and single mothers). This program provides support to approximately 120,000 families. In addition, the Government introduced a new assistance program for the disabled.

42. Aware that the limited resources available would prevent a rapid increase in the level of pensions provided by the existing government pension scheme, the Government intends to introduce voluntary private pension schemes to supplement the public scheme. A draft law on private pensions has been prepared—in collaboration with the World Bank staff—for

consideration by Parliament in April 1997. The draft law provide for individual savings pensions and for employment–related pensions, while protecting the rights of participants to receive their accumulated pension assets.

3. Education

43. Since a deterioration of the stock of human capital would have detrimental effects on the country's prospects for growth, the Government intends to continue to increase the share of budgetary outlays on education over the next few years. At the same time, the Government is aware that achieving previous levels of expenditure in education is impossible in the short–and medium–term and that substantial reforms of the education system are needed.

44. Starting in November 1995, the Government began to allocate more public resources to basic education, promote private schools at all levels of education and foster participation of families in the financing of education. It has also decided to decentralize the educational system, limit the role of the Central government to the establishment of norms on academic standards and basic curricula requirements, raise the standard of quality of teaching, and introduce a differentiated pay structure based on qualifications.

45. To improve the quality of educational services, the Government is setting up a certification process for all teachers which will lead to their reclassification in four categories and a decompression of the pay structure. Following a doubling of teachers' salaries and a reduction in the number of positions by 13,000 in 1996, the Government intends to continue reducing education personnel by about 10,000 per year over the next three years while raising salaries. Tuition was introduced in September 1996 in the 10th grade and for extra–curricula activities in all other grades. The Government intends to extend this policy in 1997 to the 11th grade.

4. Health

46. Faced with rapidly deteriorating quality and coverage of health services and constrained by a precarious budgetary situation in 1995, the Government embarked on an ambitious health care reform program with assistance from the World Bank. The program, which included a widespread privatization of health care facilities, aimed at limiting the state's financing role to a basic package of public health and essential clinical services and also at removing from the government payroll the majority of health care personnel. The medium–term goal is to maximize private sector participation while retaining the role for the public sector in several key areas where there is a strong rationale for public intervention, such as health promotion, immunization, establishment of the sector's regulatory framework, research, and education. In addition, the Government intends to gradually increase the share of budgetary outlays to the health sector. Under the program, nonwage budgetary expenditures of the health sector financed by the Republican Government are projected to

increase from ½ percent of GDP in 1996 to 1 percent to 1999. The public sector would also continue to ensure access to basic services to the most vulnerable groups.

47. Implementation of the reform program is now in its second year and the Government is committed to achieving further progress over the next few years. To that effect, the Government is in the process of strengthening its health promotion as well as maternal and child health care programs. A draft law on Drugs and Pharmaceuticals which would set the regulatory framework for the sale of drugs has been submitted to Parliament for discussion in early 1997. To maintain quality control on services provided by the sector, the Government began in 1996 the process of licensing medical schools and intends to initiate in 1997 a four–year certification program for all practicing physicians. It also intends to develop post–graduate training programs.

48. As of August 1995, all health facilities became managerially and financially autonomous. The first round of privatization (431 facilities, mostly pharmacies and dental clinics) has been completed. The second round of privatization (polyclinics and small rural hospitals) began in August 1996 and is expected to be completed in the first half of 1997. The Government will initiate the third phase (hospitals) in 1997 and plans to complete it by mid–1998, keeping only a limited number of hospitals in public hands.

49. Health financing reform is another key element of the Government's strategy. A number of programs such as public health research and education would remain directly managed and financed by the Ministry of Health. At the same time, the Government intends to gradually set up an effective health insurance system. To that effect, a new law on Health Insurance is expected to be approved by Parliament in the first quarter of 1997. The law provides for a mandatory plan of health insurance and also regulates the activities of private health insurance plans. In addition, the Government created a Health Fund and a medical insurance company which it intends to merge in 1997 into a single agency, which will be responsible for contracting out the provision of the basic package of medical services. This agency is to be funded through a 4 percent payroll tax (of which 1 percent is paid by employees) and a budgetary transfer to cover those who cannot contribute. To contain the expenditures of the Health Fund, which proved to be difficult in 1996, during 1997 the Government intends to modify, in cooperation with the World Bank staff, the open–ended and overly complex provider reimbursement mechanism and limit the contracting rights of providers.

V. EXTERNAL FINANCING REQUIREMENTS AND DEBT MANAGEMENT

1. Financing requirements

50. Georgia faces a very difficult external outlook over the medium term, in spite of the declining current account deficit in recent years and the bilateral debt–rescheduling agreements that have been signed to date. Assuming a steadfast implementation of prudent macroeconomic policies and structural reforms in support of a strong recovery of public

savings and a gradual recovery of private savings, the current account deficit (excluding transfers) is programmed to narrow from 7.9 percent of GDP in 1996 to 4.4 percent of GDP in 1999. Strong resumption in export volume growth is expected. Georgia's heavy reliance on imports of basic goods is expected to decline with the recovery of domestic output; thus, especially in the early years, total imports are projected to grow less rapidly than real GDP. The revised medium–term scenario takes into account the impact on the external outlook of the shorter–than–programmed grace period on the rescheduling of the Turkmen obligations and of the oil pipeline project. While foreign investment under the pipeline project could reach US$120 million during 1997–99, more than three quarters are likely to be used to finance imports; and the revenues from oil flowing through the pipeline will not be significant until after 1999 and are expected to increase to US$8 million by 2002.

51. For 1997 the current account (excluding transfers) is programmed to narrow to 6.7 percent of GDP, or US$362 million. Total amortization payments are projected to amount to US$55 million and the total stock of arrears to be settled US$160 million. Gross international reserves are programmed to rise by US$13 million or to the equivalent of 2.5 months of imports. As a result, total financing requirements will amount to US$591 million and meeting them will require further donor and creditor support.

52. Official grants from bilateral donors and the EU are projected to reach US$218 million. Budgetary grants will amount to US$29 million from the EU and the Netherlands—in addition there is exceptional macroeconomic assistance from the EU; the remainder includes various non–budgetary (including humanitarian) support, projected to be disbursed by various sources, including UN agencies. Bilateral support is expected from Germany and the United States. Multilateral support will come mainly from IDA (US$40 million for structural adjustment and US$40 million for project support) and also the EBRD (US$23 million mostly for the energy sector and a credit line for small–and medium–size enterprises).

53. The Government attaches great importance to the normalization of relations with external creditors. Debt–rescheduling agreements have already been signed with Armenia, Austria, the Islamic Republic of Iran, Kazakstan, Russian Federation, Turkmenistan, and Uzbekistan, accounting for more than 90 percent of bilateral pre–1995 debt. Georgia is also negotiating debt–service rescheduling agreements with Azerbaijan, Turkey, and China (these creditors had agreed to a standstill until end–1996) as well as repayment terms of debt to Ukraine. The Georgian government has requested stock reschedulings with 5 years grace, 10 years maturity, at 4 percent interest per annum. If creditors were to agree to stock rescheduling, the 1997 balance of payments financing gap would be closed. Alternatively, flow reschedulings would have to cover current maturities through end–1997. The Government has requested an extension of the current standstill on debt service through end-1997 from those creditors with whom no agreement had been reached. To show the Government’s determination to reach agreements, pending the conclusion of rescheduling agreements with these creditors quarterly payments of US$8 million will continue to be made into the special account at Netherlands Bank.

54. In spite of a further reduction in the current account deficit, excluding transfers, to under 5 percent by 1999, financing requirements will remain high during 1998 and 1999, at US$493 million and US$432 million, respectively, largely on account of lower projected grant disbursements and amortization payments on debt rescheduled by Turkmenistan with a grace period of 3 years. The Government is seeking support from the international community to meet these financing requirements; meeting them will be essential for financing much needed imports in support of the medium–term growth objectives. Turkmenistan has already indicated that it stands ready to extend the grace and repayment periods with satisfactory debt–service and economic performance during the 1996–1997 period.

2. External debt management

55. In view of the country's very limited debt–servicing capacity, the Government will strictly limit the amount of new debt which it contracts or guarantees on nonconcessional terms. To that effect the Ministry of Finance will continue to be responsible for approval of any new external borrowing contracted or guaranteed by the Government. The Government and the NBG will continue to ensure that the Debt Department of the Ministry of Finance obtains all relevant data on public and publicly–guaranteed external obligations from all branches of the Government and the NBG.

56. Financing gaps are likely to remain above US$100 million through 2002 and then decline sharply, to about US$10 million on average through 2006. Assuming the gaps are closed with support at 5 years grace, 10 years maturity, and 4 percent interest, debt service as a fraction of exports of goods and nonfactor services would reach a peak at 22 percent in 2002 and decline to less than 18 percent thereafter. In terms of total revenues excluding grants, external debt service to be paid by the budget would peak at 13 percent in 1999, indicating a very heavy burden and underscoring the urgency for rebuilding fiscal revenues from their present low base. Georgia faces a sustainable debt burden over the long term, provided new exceptional financing in line with the terms assumed under this scenario is forthcoming.

Table 1. Georgia: Policy Matrix 1997–99

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
1.**Fiscal policy and public sector reform**				
a. Revenue	Improve the revenue raising capacity as well as the equity and buoyancy of the tax system	Introduce a new Tax Code	1997	IMF**
		Harmonize profit tax rates at 20 percent	1997*	IMF
		Change to a destination basis through bilateral agreements the VAT and excise taxation for trade with CIS countries	1997	IMF
		Initially reduce certain nonpetroleum excise tax rates, then keep them under constant review	1997–99*	
		Refrain from introducing any new exemptions, apart from a limited number in the context of a new Tax Code	1997–99	
		Refrain from introducing any ad hoc tax privileges for ailing enterprises, unless in the context of a well–defined restructuring program	1997–99	
		Review revenue–sharing arrangements between central and local governments	1997–99	IMF (1997)
		Review personal tax rates, with a view to introducing progressivity	1997*	
		Review profit tax rate	1998–99	IMF
		Review taxation of petroleum products	1998–99	IMF

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
		After reductions in 1996 and 1997, examine scope for further lowering of payroll tax rates	1998	
	Improve tax administration	Review progress in reforming the State Tax Service (STS) and establishing new medium–term objectives with technical assistance from the IMF	1997	IMF (1997)**
		Reduce excessive penalties for late payments and understating incomes	1997*	
		Expand coverage of the Large Taxpayer Unit	1997*	
		Complete computerization of tax declaration forms of the major taxes	1997	IMF (1997)**
		Reform incentive system for tax inspectors	1997	
		To reduce tax arrears, encourage STS to increase audits and use its legal powers, such as seizing assets, especially for the largest delinquents	1997–99	IMF (1997–99)
		Conduct regular taxpayer surveys to identify nonfilers and register them	1997–99	
		Extend computerization to regional tax centers	1997–99	IMF (1997)**
	Improve customs administration	Develop effective valuation procedures, including use of reference price lists for imports	1997	IMF, World Bank (1997)
		Extend the TINs developed by STS to all State Customs Department (SCD) offices	1997	

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
		Computerize SCD, implementing the UN's ASYCUDA system	1997–98	IMF, UNCTAD, World Bank (1997–98)**
		Implement effective duty drawback scheme, suspensive regimes and warehousing procedures for firms exporting near all of their production	1997–98	World Bank (1997–98)**
		Develop effective procedures for collecting customs duties, VAT, excises, and the cross–border taxes at customs borders	1997–99	IMF, World Bank (1997–99)**
		Improve controls on transit goods and on personal imports	1997–99	
		Strengthen controls at all borders with neighboring countries	1997–99	
		Provide technical and management training for tax officials	1997–99	
b. Expenditure and budget control	Reorient expenditure priorities	Implement the recommendations of the World Bank's Public Expenditure Review	1997–99	
		Improve targeting of Social Safety Net and reorient budgetary expenditures toward basic health and education	1997–99	World Bank (1997–99)
		Reduce the number of government workers to an efficient minimum and increase the real wages of remaining employees	1997–99	
		Increase cost recovery and improve collection rates for publicly–provided goods and services	1997–99	

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
		Develop a three–year rolling public investment program, and give priority to the maintenance of the existing capital stock	1997–99	World Bank**
	Improve Expenditure control and management	Expand operation of the Treasury to cover all expenditure accounts of ministries, STS, customs, and special state extrabudgetary funds (including pension, employment, health, road and privatization funds) and enhance the range of Treasury activities	1997–99	IMF, World Bank (1997–99)**
		Improve the collection of fiscal data	1997–99	IMF, World Bank (1997–99)
		Improve procedures for budgetary preparation and implementation and monitoring, including forecasting monthly cash flows and devising plans to eliminate expenditure arrears	1997–99	IMF
		Review the expenditure assignments of local governments and transfer mechanisms from central government. Implement recommendations of IMF technical assistance mission	1997–99	IMF (1997)
2. **Monetary Policy**	Improve NBG operations	Establish a debt management coordination commission composed of officials from the Ministry of Finance and the NBG to monitor external and domestic debt including Treasury Bill developments; introduce treasury bill operations at NBG	1997	IMF, World Bank (1997)
	Improve banking environment	Reduce required reserve ratio if monetary conditions allow	1997	

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
		Implement new chart of accounts for commercial banks	1997	IMF, World Bank (1997)**
		Liberalize existing limits on household deposits of certified banks	1997*	
		Eliminate the restrictions on the number of bank accounts	1997	
	Bank restructuring	Complete on–site examinations of FSBs	1997	
		Revise agreements with the three former state banks in line with general conclusions of on–site examinations	1997	
		Complete liquidation process of banks which had licenses withdrawn	1997	
		Sell government shares in UGB	Jan. 1997	
		Change Agrobank management and accelerate restructuring of the bank	1997	
		Carry out regular on–site examinations of all certified banks	1997–99	IMF, World Bank (1997–99)**
		Increase bank's minimum capital requirement to Lari 4 million	2000	
3. **Trade and Exchange Regime**	Liberalize further the exchange and trade systems	Adopt the obligations of Article VIII sections 2, 3, and 4	Dec. 1996*	IMF
		Introduce new Customs Code	1997	IMF, World Bank (1997)
		Eliminate the only remaining export prohibition except where justified for reasons of environmental protection, health or arms control	1997	

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
		Introduce a 5 percent rate for customs duties on imports of selected raw materials and intermediate goods	1997*	
4. **External Debt**	Normalize relations with creditors	Negotiate rescheduling in line with program assumptions	1997	
5. **Social Safety Net**	Improve targeting and the effectiveness of social safety net	Undertake a review of the social safety net	1997	IMF/World Bank (1997)
		Shift responsibility for sickness benefits from the SSF to the employers for the first 5 working days up to 30 days a year	1997	
		Introduce a law on pension funds	1997	World Bank (1997)
		Eliminate ineffective programs of the EF, and fully integrate remaining programs, especially unemployment benefits into the budget	1997	
		Conduct quarterly national household surveys	1997–99	World Bank (1997)
		Increase minimum benefits in line with government wages	1997–99	
	Improve revenues	Transfer the responsibility for collecting payroll taxes that finance special state extrabudgetary funds to STS	1997	
6. **Health Sector**	Continue reform of health care system	Introduce a health insurance law	1997	World Bank (1997–99)
		Increase budgetary allocation and improve efficiency of public expenditures on health, and assure access for the poor	1997–99	World Bank (1997–99)

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
		Complete privatization of pharmacies and clinics	1998	World Bank (1997–98)
7. **Education Sector**	Reduce Government involvement in accordance with lowered available resources	Complete teacher's certification program and reform compensation structure of education personnel	1997	
		Reduce number of positions in education by 10,000 yearly	1997–99	
		Promote creation of private schools and introduce tuition fees for higher grades	1997–99	World Bank (1997–99)
8. **Energy Sector**	Restore financial balance to the energy sector	Convert to joint stock companies all electricity generation, transmission and distribution companies	1997	
		Start privatization of energy generation companies	1997	
		Introduce a new Energy Law	1997	
		Adjust energy tariffs to cost recovery level	1997	World Bank (1997)
		Improve collections	Ongoing	
9. **Agriculture Sector**	Develop private sector agriculture	Complete distribution of agricultural land earmark for privatization in 1992 (about 60 percent of arable land)	1997	World Bank, EU–TACIS (1997)
		Improve financial services to farmers and develop a modern land registration and land cadastre system	1997–99	World Bank, EBRD, EU–TACIS (1997–99)
10. **Transport Sector**	Restructure sector to serve market needs	Continue privatization of transport enterprises, implement cost recovery mechanisms, and rehabilitate infrastructure	1997–99	World Bank (1997–99)

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
11. **Government Restructuring**	Align structure of government with the needs of the emerging market economy	Review the financial relationship between the different government levels	1997	IMF (1997)
		Consolidate the SSF, EF, Health Fund, Privatization Fund, and Road Fund with the central government budget	1997–98	
12. **Environment**	Reinvigorate protection of Georgia's environment	Complete National Environmental Action Plan	1997	
13. **Statistics**	Improve quality and timeliness of economic statistics	Develop a National Producer Price Index, compile trade data in value and volume forms, ensure that Department of Statistics data on the capital account is consistent with data of the Ministry of Finance on debt, implement GFS classification, update business register	1997	IMF, OECD, World Bank, EU–TACIS**
14. **Legal framework**		Introduce a new law on private ownership of land in urban and industrial areas, as well as new laws on securities, accounting for nonbank enterprises, social insurance, private pensions, and on health insurance	1997	World Bank

* Measure has already been introduced.
** Extensive technical assistance has been provided in the past.

Table 2. Georgia: Selected Economic and Financial Indicators, 1994-99

	1994	1995	1996	1997	1998	1999
					Program	
	(Annual percentage change, unless otherwise indicated)					
Output, incomes, and prices						
Real GDP	-11.4	2.4	10.5	10.0	10.0	8.0
Real GDP per capita	-11.2	2.6	11.5	9.9	9.8	7.8
Consumer Price Index (year-end)	6,473.9	57.4	13.9	12.0	8.0	6.0
External sector (in U.S. dollars)						
Exports (f.o.b.) at current prices	381.0	347.0	400.0	442.0	497.0	551.0
Imports (f.o.b.) at current prices	746.0	686.0	742.0	817.0	906.0	911.0
Terms of trade (decline, -)						
Real effective exchange rate (depreciation, -)						
Money and credit						
Net domestic assets	2,723	107	72	63	37	9
Net domestic credit	3,255	86	60	49	32	8
Of which: Government	2,290	300	198	61	37	3
Non-Government sector	3,537	45	-15	26	21	22
Money and quasi-money (M3)	2,230	135	42	35	30	25
Central bank intervention rate (percent per annum)						
	(In percent of GDP, unless otherwise indicated)					
Public finances						
General government						
Revenue (excluding grants)	4.2	5.1	8.1	10.7	12.5	14.1
Tax revenue	3.6	4.7	7.3	9.8	11.5	13.0
Nontax revenue	0.6	0.5	0.9	0.9	1.0	1.1
Expenditure (commitment basis)	24.3	12.3	14.1	14.2	15.0	15.8
Of which: military expenditure	...	...	...	...	...	...
Current expenditure	23.2	10.5	12.9	13.1	13.6	13.9
Of which: wages and salaries	0.8	1.6	1.8	2.2	2.3	2.4
Capital expenditure and net lending	1.0	1.8	1.0	1.1	1.4	1.9
Overall deficit (-, commitment basis and excluding grants)	-16.5	-5.3	-5.8	-3.5	-2.5	-1.7
Primary balance (-, commiment basis and excluding grants)	-14.0	-3.8	-4.7	-2.4	-1.3	-0.4
Overall deficit (cash basis and including grants)	-7.4	-4.5	-4.4	-3.5	-1.9	-1.3
Financing of Overall deficit (cash basis and including grants)	7.4	4.5	4.4	3.5	1.9	1.3
of which: Domestic bank financing	1.4	1.6	2.7	2.0	1.7	0.2
External financing	6.0	2.9	1.7	1.5	-0.8	-1.0
Financing gap	0.0	0.0	0.0	0.0	1.0	2.1
Savings and investments						
Gross domestic savings	-15.6	-0.6	1.6	2.9	5.4	7.9
General government	-15.5	-3.5	-4.8	-2.4	-1.1	0.2
Non-government sector	-0.1	2.9	6.4	5.3	6.5	7.7
Investment	1.6	4.0	5.1	7.4	9.5	10.7
General government	1.0	1.8	1.0	1.1	1.4	1.9
Non-government sector	0.6	2.2	4.1	6.3	8.1	8.8
External current account balance 1/	-17.3	-4.6	-3.5	-4.5	-4.1	-2.8
External and public debt and debt service						
Public sector external debt, end of year	80.4	42.6	30.0	27.6	27.3	27.0
Of which: external arrears	32.9	17.6	3.8	--	--	--
Public sector external debt service (after rescheduling)	12.0	4.6	1.4	0.8	2.3	2.4
Of which: interest due	2.6	1.5	0.9	1.0	0.8	0.8
Public sector external debt service/exports of GS (percent)	31.0	28.0	12.0	7.0	21.0	22.0
Public sector domestic debt, end of year	--	--	--			
Of which: domestic arrears	--	--	--			
Gross official reserves						
(in millions of U.S. dollars)	41.0	157.0	157.0	170.0	200.0	216.0
(in months of imports of goods and services)	0.7	2.7	2.5	2.5	2.7	2.9
Memorandum items						
Exchange rate (local currency/U.S. dollar, period average)	1.10	1.28	1.25	...	...	...
Nominal GDP (In millions of U.S. dollars)	1,245.9	2,885.5	4,578.4	5,424.6	6,275.5	6,972.7

1/ Including official transfers, and excluding net factor income.

Table 3. Georgia: Income and Social Indicators

Item	Unit of Measure	Latest Single Year 1970-75	1980-85	1990-95	1996	Program Period 1997	1998	1999
Population	in thousands	4,908	5,287	5,411	5,360	5,367	5,376	5,387
Population growth rate (annual average)	in percent	0.85	0.85	-0.20	-0.94	0.13	0.17	0.20
Total fertility rate	in percent	69.1	72.6	55.1	...			
Index of real wages	index	...	...	94.6	159.7	124.3	163.7	143.5
Consumer price index (period-average)	percent change	...	...	162.7	38.0	12.0	8.0	6.2
Food price index (period-average)	percent change	...	...	139.9	132.5	9.0	6.5	5.5
Share of public expenditure								
Health	percent of GDP	...	...					
Education	percent of GDP	...	...					
Social security and welfare	percent of GDP	...	...					
Net primary school enrollment rate	percent of age group	99	92.2	79.6	...			
Immunization rate								
Measless	percent under 12 mos.	...	36.4	26.5	...			
DPT	percent under 12 mos.	...	39.8	36.7	...			
Life expectancy at birth (years)								
Total	years	72	71.6	72.6	...			
Male	years	68	67.5	68.7	...			
Female	years	75	75.2	76.1	...			
Infant mortality rate	per 1,000 live births	32.7	24	14.4	...			
Under 5 mortality rate	per 1,000 live births	39.3	30.1	17	...			
Male	per 1,000 live births	44	32.2	19	...			
Female	per 1,000 live births	34.2	27.9	14.7	...			
Adult (15-59) mortality rate	per 1,000 pop.	1.7	2.1	1.7	...			
Maternal mortality ratio	per 100,000 life births	...	22.7	35.4	...			

Table 4. Georgia: External financing requirements and sources

(In millions of U.S. dollars)

	Prel. 1995	Prog. 1996	Prel. Est. 1996	Projections 1997	1998	1999
External financing requirements	**678**	**973**	**800**	**591**	**493**	**432**
Current account (excluding official transfers)	408	343	350	362	378	311
Amortization	274	89	98	55	84	82
Change in arrears	-119	528	352	160	--	--
IMF repurchases and repayments	--	--	--	--	1	23
Change in reserves (+, increase)	115	13	0	13	30	16
Disbursements: existing commitments	**368**	**284**	**336**	**214**	**20**	**5**
Grants 1/	189	234	140	156	--	--
Loans	105	50	114	58	20	5
Bilateral creditors	15	20	25	18	0	0
Multilateral creditors	90	30	89	40	20	5
of which: EBRD	7	17	8	23	9	0
of which: World Bank	83	13	81	17	11	5
of which: Adjustment lending	75	1	63	0	0	0
of which: project	9	12	18	17	11	5
Private creditors	--	--	--	--	--	--
IMF	75	--	81	--	--	--
Other capital, net 2/	**84**	**29**	**27**	**64**	**103**	**91**
Disbursements: expected new commitments	**...**	**160**	**0**	**250**	**306**	**192**
Grants	...	--	0	62	74	57
Loans	...	77	0	108	151	134
Bilateral creditors	...	5	0	38	60	62
Multilateral creditors	...	72	0	70	91	73
of which: EBRD		3	0	6	20	25
of which: World Bank	...	69	0	63	71	48
of which: Adjustment lending	...	60	0	40	20	--
of which: project		9	0	23	51	48
Private creditors	...	--	--	--	--	--
IMF	...	83	--	81	81	--
Total identified financing	**453**	**452**	**363**	**529**	**429**	**287**
Financing gap	225	500	436	62	64	145
Debt and arrears rescheduling	225	500	390	62	--	--
Arrears write-off	--	--	46	--	--	--

Source: Fund staff estimates

1/ Includes exceptional macroeconomic assistance from the EU.

2/ Includes changes in commercial banks' net foreign assets, short term capital inflows and foreign direct investment.