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Georgia—Recent Economic Developments

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INTERNATIONAL MONETARY FUND

GEORGIA

Recent Economic Developments

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September 5, 1996

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Georgia: Basic Data, 1992-1996

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, 1995	688
in lari	534
in U.S. dollars	

II. Economic Indicators

	1992	1993	1994	1995	1996 Proj.
(Percent change)					
Real sector					
GDP volume	-44.8	-25.4	-11.4	2.4	10.5
Consumer prices 1/ Period average 12 months to end of period	887.4 1,176.9	3,125.4 7,487.9	15,606.5 6,473.9	162.7 57.4	40.0 18.0
(Percent of GDP)					
Government finances					
Revenue and grants, of which	10.2	9.7	7.7	7.1	9.9
Revenue	10.2	2.3	4.2	5.1	8.6
Expenditure and net lending	35.7	35.9	24.3	12.3	13.6
Balance (accrual)	-25.4	-26.2	-16.5	-5.3	-3.7
Balance (cash)	-25.4	-26.2	-7.4	-4.5	-4.4
(Percent change, end-period)					
Money and credit					
Net domestic assets of the NBG	2,873	572	2,091.7	175.3	135.1
Credit to enterprises and households 2/ Broad money	724	2,048	3,448.3	43.3	-4.2
Including foreign currency deposits	464	4,319	2,229.5	134.3	34.5
Excluding foreign currency deposits	455	2,462	1,796.7	319.2	36.8
(In millions of U.S. dollars)					
Balance of payments					
Merchandise exports	267	457	381	347	393
Merchandise imports	-645	-905	-746	-686	-734
Trade balance	-378	-448	-365	-339	-341
Current account before transfers	-319	-485	-448	-407	-384
Official reserves, end-period, (in millions of U.S. dollars)	0.7	1.0	41	157	150
(in months of imports)	-	-	0.7	2.7	2.5
Memorandum items:					
GDP, current prices (in millions of lari) 3/	0.2	16.4	1,373.2	3,694.0	5,724.0
Exchange rate, lari per U.S. dollar 4/					
Period average	...	...	1.10	1.29	...
End period	...	0.1	1.28	1.23	1.26

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

1/ Before 1993, according to the Retail Price Index; after December 1993 according to a 295-good Laspeyres index using a methodology introduced by a STA mission.

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 been projected to grow by about 30 percent in nominal terms.

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

4/ According to the Tbilisi Interbank Currency Exchange.

I. INTRODUCTION

1. In the beginning of 1994, Georgia was at the brink of collapse, ravaged by civil war and the severe shocks caused by the breakup of the Soviet Union. Output had collapsed, hyperinflation had eroded the public finances and the incomes of the population, and international reserves had been depleted. In order to address these problems and put Georgia back on a sustainable growth path, in mid-1994 the authorities undertook to implement a bold reform program, with the support of the Fund and the World Bank, complemented by bilateral assistance, notably in the form of food aid. The stabilization program was predicated on the pursuit of tight financial policies and the liberalization of prices, trade and the exchange system. At the same time, the early implementation of structural reforms would help create the appropriate environment for the development of private sector activity.

2. During 1995 Georgia began to reap the benefits of the ambitious stabilization and structural reform program launched in the previous year. Following four years of output collapse, real GDP increased, in the context of a stable exchange rate and declining inflation. The introduction of the lari in September 1995 triggered reverse currency substitution and allowed the central bank to boost its international reserves considerably. Developments in the first half of 1996 were also encouraging, as output growth accelerated, inflation continued to decline, the exchange rate remained stable, and the international reserve position strengthened further, suggesting that the reforms have started to take hold. The major challenges ahead will be to strengthen the public finances and to consolidate and deepen ongoing structural reforms.

3. Progress in curbing inflation has been particularly impressive. The average monthly inflation fell from the hyperinflationary level of 62 percent in the first nine months of 1994 to about 4 percent in 1995, and further to 1.8 percent in the first half of 1996. This achievement reflects a sharp fiscal adjustment, accompanied by the pursuit of a tight monetary policy aimed at stabilizing the exchange rate.

4. Major strides were made toward fiscal adjustment during 1995-96, based largely upon a tight expenditure program, as well as a gradual improvement of revenue from the extremely low levels prevailing before the implementation of the reform program. The overall fiscal deficit (on accrual basis and excluding grants) was reduced from 20 percent of GDP in 1994 to 7.3 percent in 1995 and 5.3 percent in the first half of 1996. Despite encouraging developments during the first half of 1996, the fiscal situation remains fragile, as revenues remain very low and expenditures have been compressed to an unsustainable level.

5. Tight financial policies, termination of government-guaranteed gas imports, and the elimination of soft loans to state enterprises reduced demand pressures, and, as a result, the current account deficit narrowed markedly, to about 14 percent of GDP in 1995. Imports and exports are estimated to have fallen sharply in 1995, the former on account of reduced levels of wheat and energy imports. However, there are indications that the export decline may have bottomed out. In view of the low level of wages, competitiveness has not yet been jeopardized, despite the marked appreciation of the real exchange rate against the U.S. dollar.

6. Structural reforms have proceeded at a reasonable pace, but need to be accelerated in certain areas to avoid compromising growth and stabilization prospects. Price liberalization is nearly complete, after the recent liberalization of the bread price; the trade and payments system is essentially free of restrictions; the privatization program has proceeded rapidly; and substantial progress has been achieved in establishing a market-oriented legal framework. However, the relatively slow progress in restructuring enterprises and the energy sector and in creating an efficient land market has created bottlenecks for growth. Banking sector reform is advanced, on the strength of improved banking supervision, revamped banking legislation and improvements in the payments system and in bank accounting. As a result, confidence in the banking system is building and bank deposits have started to grow, albeit by small amounts. However, much remains to be done to encourage financial intermediation, develop financial markets and establish a sound banking system.

7. Substantial progress has been made in normalizing relations with external creditors, through the conclusion of debt-rescheduling agreements with several states of the former U.S.S.R. Negotiations with other creditors are actively being pursued.

8. Support from the Fund and the World Bank, debt relief or standstill granted by external creditors, as well as assistance from the European Union (EU) and bilateral donors, have enabled the authorities to implement their reform program successfully. Despite the progress to date, the rehabilitation of the Georgian economy requires the steadfast implementation of strong stabilization policies and ambitious structural reforms, as well as continued external assistance in the next few years.

II. THE REAL ECONOMY AND STRUCTURAL REFORM

9. *Economic activity started to recover in 1995 and growth appears to have accelerated in the first half of 1996, led by agriculture, trade, construction and transport. Price liberalization is nearly complete and significant progress has been achieved in privatizing the economy and establishing a market-oriented legal framework. However, progress has been slower in restructuring industry and the energy sector and in creating an efficient market for land. Further progress in these sectors and acceleration of the privatization process will be critical for sustained economic growth.*

A. The output recovery and prospects for growth

10. Following four years of decline, output increased by 2.4 percent in 1995 (Chart 1 and Appendix I, Tables 1 and 2). Preliminary official data indicate that real GDP growth accelerated to over 10 percent during the first half of 1996.¹ The recovery has been led by

¹Georgia's official national income statistics are seriously flawed, in terms of coverage, quality
(continued...)

CHART 1

GEORGIA

Macroeconomic Indicators, 1991-1996

Sources: Georgian authorities; and IMF staff estimates.

1/ Before 1993, according to the Retail Price Index; after December 1993, according to a 295-good Laspeyres index using a methodology introduced by a STA mission.

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agriculture, trade, construction and transport, following the marked progress in stabilization and structural reforms.² Growth in agriculture, the largest sector of the economy, appears to have come mainly from an expansion in the area under cultivation, responding favorably to price and trade liberalization and the increase of agricultural land under private ownership. However, adverse weather conditions and the lack of basic inputs have constrained the recovery in agricultural productivity.

11. Georgia's growth prospects appear promising. Progress in political and economic stabilization and in establishing an appropriate framework for a market economy has created an environment conducive to private investment. Domestic private investment has been concentrated in the fast-growing sectors, including agriculture, trade, residential housing, transport, and construction. Moreover, Georgia is gradually becoming an attractive place for foreign investment, although little foreign investment is likely to materialize in 1996 (Box 1). Prospects for investment and economic growth are expected to improve with increased confidence in sustainability of recent reform measures.

Box 1. Georgia: Oil Pipeline

Work has begun on a US\$275 million crude oil pipeline connecting Baku in Azerbaijan to Georgia's Black Sea port of Supsa. Financing for the project is expected to be provided by a consortium of international oil companies. About half of total investment will be used to rehabilitate an existing Georgian pipeline and to construct a terminal near Supsa; the other half is intended to extend the Azeri pipeline system and to link it with the Georgian system. The projected capacity of the pipeline is about 6 million metric tons (mt) per year, which could be expanded to 8-9 million mt/year. Once the project is fully under way, the associated foreign investment in Georgia is expected to boost economic activity. The pipeline could also provide an important flow of foreign exchange to Georgia, perhaps initially as much as US\$8.0 million per year.

12. Growth in agriculture is expected to continue leading the recovery, as private ownership of land broadens and as other structural measures improve the efficiency of the land market (see section II.D below) and boost agricultural productivity. In addition, transshipment of goods to neighboring countries is expected to recover significantly as economic activity in the region picks up. Recovery of tourism industry is also expected, with the restoration of law and order. Sustained growth, however, will require removal of the bottlenecks that are currently hampering resurgence of private activity, through continued

¹(...continued)
and timeliness of data.

²Throughout the report, coupon figures for the period before the introduction of the lari have been converted to lari, at the conversion rate of one million coupons to one lari.

strengthening of the banking system, restructuring of the energy sector, the acceleration of the privatization process, the extension of private ownership of land to urban and industrial areas, and better enforcement of existing laws and regulations. It will also require improvements in the country's infrastructure.

B. Sectoral developments

Agriculture

13. In the Soviet era, Georgia was a major supplier of vegetables, fruits, tea, wine, and brandy to the rest of the Soviet Union, contributing to more than 10 percent of all interrepublican trade in processed food products in the late 1980s. As a result of the political and economic upheaval that followed independence in 1991, agricultural output experienced a sharp decline, and in 1993 and 1994 was only about one third of the 1987 level. Most of the traditional export markets have been lost, and efficiency in agriculture has suffered heavily from the lack of inputs. Furthermore, the deterioration in agricultural infrastructure, together with a dramatic decline in the agroprocessing industry, constrained agriculture largely to subsistence production and segmented domestic agriculture markets.

14. The structure of agricultural output has undergone important changes in recent years. Price and trade liberalization, as well as privatization of agricultural land, have promoted private activity; in 1995 private agricultural production accounted for nearly 80 percent of the total output (Appendix I, Tables 3-4). Following an 18 percent increase in 1995, agricultural production is expected to grow by 5-8 percent in 1996, despite a mild drought and lack of inputs. In 1996, the share of land sowed for cereals and sunflower in total land under cultivation increased significantly compared to 1995 (text Table 1). However, production of tea and grapes, both among the most important traditional crops for Georgia, declined markedly compared to pre-independence levels (text Table 2).

Text Table 1. Georgia: Area Under Cultivation, 1992-1996
(In thousands of hectares)

	1992	1993	1994	1995	1996
Grain	112.8	84.9	69.3	80.0	111.9
Maize	94.8	110.0	150.0	180.0	225.0
Sunflower	12.4	12.0	18.0	45.0	54.0
Potato	22.3	18.0	12.0	25.0	32.0
Vegetables	24.9	22.0	17.0	35.0	36.0

Source: Ministry of Agriculture

15. Despite notable recovery in the past two years, long-term prospects for agricultural growth are hampered by shortages of credit lines, inputs, as well as storage, transportation and marketing facilities, although some progress is being made in providing credit lines to this sector (see paragraph 70, section IV). Privatization of land and agricultural enterprises also needs to be accelerated. The authorities, in collaboration with the World Bank and the EU, are preparing a number of programs to address these bottlenecks.

Text Table 2. Georgia: Selected Agricultural Output, 1990-95
(In thousands of tons)

	1990	1993	1994	1995
Cereals	666	440	479	590
Sunflower	8	8	8	25
Sugar beets	31	15	8	11
Tobacco	9	4	3	1
Vegetables	443	270	413	507
Potatoes	294	190	297	315
Tea	516	136	61	37
Grapes	691	157	251	342
Fruits	591	184	373	406
Citrus	283	69	85	101

Source: Ministry of Agriculture.

Energy

16. Georgia has inherited an energy-intensive industrial sector which remains heavily dependent upon energy imports, although hydroelectric power is produced domestically in the spring and summer. Historically, crude oil and oil products were mainly imported from Russia and natural gas from Turkmenistan. The increase of energy import prices to world market levels in 1993, accompanied by Georgia's inability to collect payments from domestic consumers of energy, and acute shortages of foreign exchange to pay for energy imports, have led to a sharp accumulation of external arrears to these countries, dramatic cuts in domestic consumption and imports of energy, and interruptions in energy supply (Chart 2 and Appendix I, Table 30).

17. To rationalize energy consumption, in 1994 and 1995 energy prices to enterprises were increased sharply to bring them closer to international levels. As gas collection rates fell to negligible levels, the Government cut off the gas supply to all Tbilisi households in January 1995, and to households in other cities in April 1995. Gas supply to enterprises has also been cut, although some continue to receive gas despite a poor payment record. Since June 1995,

energy has been imported without government guarantees, and since February 1996 the Government has refrained from providing explicit budgetary assistance or subsidized credit to energy enterprises. As a result, significant progress has been made in improving the collection of electricity payments. Compared to very low levels in 1995, the collection rate increased to about 45 percent during the first half of 1996 (over 52 percent in June 1996). Further improvement in collection rates is essential to restore financial viability to the energy sector.

18. In cooperation with the World Bank, the European Bank of Reconstruction and Development (EBRD), Germany and the United States, the Government has begun to carry out important reforms to restructure the energy sector, aimed at achieving cost recovery, increasing energy efficiency, improving policy making, and supporting the privatization of energy companies. Effective July 1996, the electricity enterprises were reorganized into independent subsectors (Power Generation Company, Transmission and Dispatching Company, and a number of regional distribution companies), and an independent agency was established, inter alia, to regulate energy tariffs with a view to bringing them to cost recovery levels. While all power generation and distribution companies may be open for privatization, electricity transmission and gas transiting companies may not be privatized in the near future. A privatization plan for electricity generation companies will be announced by November 1996. To coordinate this reform process, in June 1996 the Government established a new Ministry of Energy, which will concentrate on designing and coordinating reform policies as well as promoting foreign investment in energy sector, while refraining from direct intervention in energy production and distribution.

19. Because of lack of maintenance, only about one fourth of the installed capacity in electricity generation is currently operational. While ongoing reforms are essential to improve the efficiency of energy use, the long-term growth prospects for the energy sector will largely depend on new investments in the sector. Various donors are expected to disburse US\$80 million during 1996-97 for renovation of the current energy network. These investments, together with improved collections and adoption of tariffs at cost recovery levels, are expected to encourage foreign participation in the sector.

Industry

20. Industry has experienced a larger output decline than other sectors following the collapse of the Soviet Union. The disruption of traditional trade links with the states of the former U.S.S.R., together with increasing energy costs and the elimination of direct budgetary subsidies and soft loans from the banking system, have forced many industrial enterprises to reduce their production significantly or to cease operations (Appendix I, Table 5). Consequently, the share of industry in GDP declined from about 27 percent in 1991 to about 17 percent in 1995. Following significant progress in privatization, the decline in industrial production appears to have bottomed out in 1995. Preliminary data indicate that industrial production started to recover slightly during the first half of 1996, compared to the same period of 1995. Agroprocessing industries are leading the recovery, while other traditional industries, including chemical, metallurgical, and machine-building industries are ailing.

CHART 2
GEORGIA
Annual Imports of Natural Gas, 1990-1995
(Billions of Cubic Meters)

Sources: Georgian authorities; and IMF staff estimates.

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21. Nevertheless, restructuring in the industrial sector is still at an early stage. Direct budgetary subsidies and soft loans from banks have been curtailed, but other sources of soft financing still exist to a limited degree, in the form of payment arrears for taxes and energy. Further progress in privatization and energy collections is expected to deepen the restructuring of industry, especially with respect to some of the traditional ailing industries.

Transportation

22. Prior to independence, Georgia's transport system was closely integrated with that of other states of the Former U.S.S.R., and the country provided important regional transportation links, with rail and sea transport as the main modes of transportation. Traffic flows have declined significantly since 1991, due in part to the regional conflicts that interrupted transport routes and severely damaged the road and railway infrastructure, but also reflecting the sharp decline in economic activities in the region (Appendix I, Table 6). However, the decline in transport volumes has been mitigated by the humanitarian food-aid provided to Georgia and neighboring countries by the EU and the United States since 1991.

23. Despite significant reduction in the inflows of humanitarian assistance recently, the transport sector is on the way to recovery, reflecting improved political stability, resumption of economic growth in the region, and significant structural change taking place in this sector; although progress in the latter area has been mixed. The Government has liberalized all commercial transportation tariffs, and the administrative rates for public transportation have been raised significantly. While the road freight and public transport enterprises have largely been privatized, further progress is required to privatize and/or restructure ports and railway enterprises.

24. Because the available budgetary resources and committed direct foreign investments are insufficient to meet the rehabilitation needs of the transport infrastructure, the Government has focused on strengthening the institutional and regulatory framework for the sector, and on financing the rehabilitation and maintenance of key infrastructure. A number of projects are already under way. The airport terminal building has just been refurbished with a US\$13 million credit from the EBRD. In addition, the World Bank has approved a Transport Rehabilitation Project of about US\$12 million, which together with a Road Fund established by the Government in 1995, aim at addressing the existing bottlenecks affecting this sector. To coordinate policies and formulate restructuring programs for the transportation sector, a new Ministry of Transportation was established in July 1996.

Construction

25. Following a period of inactivity since independence, construction activity is resuming. The focus thus far has been in residential housing. Road and other infrastructural maintenance, and the construction of the oil pipeline could also give significant boost to construction activities in the near future.

C. Prices, wages, and employment

26. Significant progress has been made in stabilizing the economy during 1995-96. The inflation rate, as measured by the Tbilisi Consumer Price Index (CPI), declined from 6,474 percent during 1994 (about 42 percent per month) to 57 percent in 1995 (about 3.8 percent per month).³ After a one-time burst of inflation in October 1995, following the introduction of the lari, monthly inflation fell to less than two percent, despite a marked increase in monetary aggregates. The rate declined further during the first half of 1996, averaging about 1.8 percent per month during the period (Charts 1 and 3 and Appendix I, Table 7). Several factors have contributed to bringing inflation down, including: (i) a sharp fiscal adjustment and increased confidence in government policies; (ii) the prudent monetary and exchange rate policies adopted by the National Bank of Georgia (NBG) since late-1994, resulting in a stable exchange rate against the U.S. dollar; (iii) a gradual decline of imported inflation from Russia and other main trading partners during 1995 and the first half of 1996; and (v) supply-side effects, responding to structural changes and political stability.

27. At present wages in budgetary organizations are only a fraction of the pre-independence level. As of end-June 1996, the average wage of government employees was about lari 20.5 per month (equivalent to US\$16.5), about one third of the mid-1991 level and far below the level of wages in most other states of the former U.S.S.R. In addition, compared to the September 1994 level, wages in budgetary organizations have been compressed significantly (Chart 4).⁴ As a result, with the growing private sector activity, an increasing number of qualified government staff are leaving for better paid private jobs, while many others complement their wages with second jobs in the private sector. The low level of basic government wages has also given rise to an opaque bonus and allowance system, largely financed from resources controlled by budgetary organizations themselves. To address this situation, the Government has initiated an important reform in its wage system, aimed at significantly decompressing the current wage structure (see paragraph 50, section III.C below).

28. There are no reliable data on private sector wages. Official estimates indicate that private sector wages were on average about lari 50 per month (US\$40) as of June 1996, although this data probably significantly underestimate wages in the trade, construction and service sectors (Appendix I, Tables 8 and 9).

³With Fund technical assistance, the Government has started compilation of a national consumer price index since January 1996. For the first seven months of 1996, movements in the national CPI are similar to those in the Tbilisi CPI.

⁴Data on average wages in budgetary organizations are available only from September 1994.

CHART 3

GEORGIA

Inflation and Exchange Rates, 1994-1996

Exchange Rate Developments 1/
(End of Period)

Sources: Georgian authorities; and IMF staff estimates.

1/ Increase means depreciation.

CHART 4
GEORGIA
Real Wages and Pension 1/

Source: Georgian authorities; and IMF staff estimates.

1/ Wages in budgetary organizations.

29. Official data indicate that employment declined by 30 percent during 1991-95 (Appendix I, Table 10), while output during this period declined by more than 50 percent. Employment data is likely to be overestimated, however, as they include data of enterprises operating only a fraction of the time. As of end-1995, there were only 65,450 registered unemployed in Georgia, a decline of about 70 percent compared to 1993 (Appendix I, Table 11); this number declined further to about 47,000 by end-June 1996. Official estimates, however, indicate that the number of unemployed is significantly higher, at about 300,000 persons or 10 percent of the labor force. The decline in registered unemployment since 1993 appears to be the result of very low unemployment benefits.⁵

D. Structural reforms

Price liberalization

30. With the liberalization of the bread price on June 15, 1996 (Box 2), price liberalization in Georgia is nearly complete. The majority of prices were liberalized in 1992, and the only prices which remain subject to state control in mid-1996 are gas, electricity, municipal services, pharmaceutical products, and trolley bus and subway tickets. The prices for these items were increased sharply in 1994 and 1995, so as to bring them closer to cost-recovery levels.

Privatization

31. Georgia's privatization program has proceeded rapidly. Small-scale enterprise privatization has already been completed, nearly all of the housing stock has been privatized, and significant progress has been made in privatizing medium- and large-scale enterprises. In addition, the Government has recently issued a decree reducing from 259 to 51 the number of enterprises in which state will temporarily retain 51 percent of shares.⁶ Privatization of health care facilities has already started and is expected to be completed by mid-1998 (Box 3).

⁵For information on unemployment benefits, see Appendix III and Appendix I, Table 19.

⁶The majority of these 51 enterprises, of which 34 are large scale, are in heavy industry, including chemicals, steel, cement, and machine-building. Railway companies, electricity transmission companies, and port facilities are also included in this group.

Box 2. Georgia: Bread Sector Reform

Georgia has historically been heavily dependent on wheat and flour imports for bread consumption. Because of severe balance of payments constraints, humanitarian food-aid from the United States and the EU has provided for most wheat and flour imports since Georgia regained independence in 1991, and played a significant role in the success of the stabilization program. Faced with the phasing out of food-aid, and to ensure continuity of bread supply without recourse to the budget, the Government has undertaken significant structural reforms aimed at encouraging domestic production of wheat and creating a competitive bread market.

Contributions to Stabilization: Prior to September 1994, the bulk of the external humanitarian assistance (Box 8) was passed on to the population, at an extremely low price, resulting in a net loss to the budget. As an element of the stabilization package and with the concurrence of the donors, monetization of food-aid played a key role in reducing fiscal deficits and boosting the demand for domestic currency. The price of bread was increased several times prior to liberalization; by 285 times in September 1994, by 40 percent in December 1994, by 7 percent in July 1995, and by 40 percent in February 1996. Effective June 15, 1996, the Government liberalized the bread price and eliminated bread rationing cards. Following liberalization, the bread price increased by 12-20 percent on average.

Privatization of the Bread Corporation: Until 1995, all production and distribution of bread baked from humanitarian grants was controlled by the Bread Corporation, a state-owned monopoly. In early 1995, the Government started the privatization of bread shops and small bakeries of the Bread Corporation. The restructuring of the Bread Corporation was accelerated during 1996, and, following the Government's decision to sell all future food-aid through auctions, its monopoly was finally dismantled. As of July 1, 1996, over 140 small bakeries had been privatized and the remaining 20 bakeries, the largest ones, were under lease-to-buy arrangements with independent management. Two mills had already been privatized; of the remaining 12 mills, which now operate independently, two are under private management contracts, another two mills will soon be put under similar contracts, and the remaining 8 mills are under lease-to-buy arrangements.

These reforms appear to have begun to create the necessary conditions for increased private sector participation in the bread sector. Wheat and flour are now imported only on commercial terms. Furthermore, there are firm indications of increased private sector activity in the bread market. The number of small private mills and bakeries is increasing at a rapid rate. Privately baked bread is now estimated to account for about 30-40 percent of bread production compared to less than 10 percent in mid-1995.

32. Ownership of about 7,500 small-scale enterprises has been transferred to private hands. In addition, about 450 medium- and large-scale enterprises had been privatized as of mid-July, 1996, through a variety of methods.⁷ A 5 percent share of these enterprises was distributed to their managers and employees. In addition, managers and employees were given the option of buying another 51 percent of shares by October 1995. Privatization was also effected through voucher auctions. The vouchers distributed to the population in 1995 expired

⁷More than 50 percent of the shares of these enterprises were held by the private sector.

Box 3. Georgia: Health Sector Reform

Georgia entered independence with a centralized and universal health system which was inefficient. Under the old system, the provision, management, and financing of health services were centrally coordinated through the Ministry of Health, which employed nearly all of the country's health sector personnel. Soon after independence, however, public provision of health services deteriorated markedly and by 1993 the system had essentially collapsed. In 1994, public expenditures on health fell to 0.2 percent of GDP and 0.6 percent of public sector expenditures. As government wages fell to very low levels, payment of informal fees for medical services became pervasive, thereby severely limiting the access of the poor to basic health service.

Faced with rapidly deteriorating quality and coverage of health services and constrained by a precarious budgetary situation, the Government embarked in August 1995 on one of the most radical health care reform programs of all former states of the U.S.S.R. The program aimed at using scarce public sector resources to finance a package of essential health services. The restructuring of the health sector is supported by a World Bank health sector project loan in the amount equivalent of SDR 9.7 million.

The reform program included an ambitious plan to privatize most health care facilities by mid-1998, including dental clinics, polyclinics, pharmacies, and several hospitals. Although regional hospitals will remain under state ownership, they were given significant financial and management autonomy. In addition, the Government established a State Health Fund (SHF) and 12 regional agencies, which were designed to act as financial intermediaries and to reimburse both public and private health care providers for a basic package of preventive and basic curative health care services. Under the reform program, services not included in the basic package would be paid for by user charges. The poor and veterans, however, would be eligible for an expanded set of services, to be provided through a voucher system that would allow the beneficiaries to choose the provider of the service. The financing of the SHF and regional agencies would come from central government and municipal contributions, revenues from privatization and licensing fees of health care facilities, a payroll tax, and a tax on hazardous products. In addition, the government's long term strategy is to develop compulsory insurance through the SHF and allow voluntary insurance schemes regulated by the State, for services not covered by the SHF.

While the health sector faces many difficulties, significant progress has been made in introducing the announced reform program, and the Government maintains that the decline in the quality of health care services has already been halted. The privatization of dental clinics and pharmacies has already begun and is proceeding according to schedule. In 1995, about 120,000 health sector employees were removed from the Government payroll.

on July 1, 1996, and since that date all auctions have been settled against cash payments.⁸

Agricultural reform

33. Important reforms have been undertaken in the agricultural sector. All taxes on agricultural exports were eliminated in late 1994 and the prices of agricultural products have been liberalized. In November 1995, the Government eliminated remaining export prohibitions

⁸ Of 4.2 million vouchers issued, over 90 percent were used in the privatization process; vouchers were used as payments for shares in most of the 1,100 medium-and large-scale enterprises.

and abolished licensing requirements for the exports of a number of agricultural products (see Box 7, below). *Ex-ante* registration requirements on wine, liquor, and mineral water--the only remaining trade regulations on agricultural products--were expected to be abolished by September 1, 1996. The Government has already opened one international merchandise exchange and five local wholesale exchanges across Georgia for agricultural products.

34. Significant progress has also been achieved in land reform. About 640,000 ha of land were distributed to the rural population in 1992, representing about 21 percent of agricultural land and about 47 percent of cultivated land. As the initial law did not clearly define the ownership rights for the distributed land, it inhibited the creation of an effective land market and prevented the use of land as collateral for bank loans. To address these problems, Parliament has recently passed two laws. The first law, adopted in March 1996, granted Georgian citizens the right to buy, sell, lease and inherit land under private ownership. The second law, adopted in June 1996, legalized leases of land under state ownership to the private sector. In addition, to promote the development of an efficient agricultural land market, the Government has started to distribute temporary land titles to private owners of agricultural land. The distribution process of the temporary titles is expected to be completed by end-1996, and Parliament is expected to adopt by end-September 1996 a law on titling and registration which will help create a cadastre for agricultural land. Parliament is also expected to adopt by end-September 1996 a law on the use of agricultural land as collateral. Distribution of another 240,000 ha is expected to be completed by April 1997, thus bringing the share of cultivated land under private ownership to over 60 percent of total arable land.

III. FISCAL DEVELOPMENTS

35. *The collapse of the economy and of the government's authority had reduced tax revenues to about 2 percent of GDP by the third quarter of 1994. In late 1994 the authorities began implementing an ambitious program to strengthen public finances. In 1994 and 1995, dramatic adjustment was effected through a reduction of expenditures in real terms, initially by the virtual elimination of generalized subsidies for bread and gas. In 1996, however, the bulk of the adjustment has been due to improved revenue performance, owing to ongoing tax and customs administration reforms and the increased revenues from the sale of wheat grants. Despite some encouraging developments, tax revenues remain at a very low level, insufficient to finance a sustainable level of expenditures. In addition, the Government's capacity to control expenditures and budget planning requires improvements.*

A. Overview

36. At the start of 1995, the Government had already made major strides in fiscal adjustment (Charts 1 and 5). The fiscal deficit, excluding grants and on an accrual basis, was reduced from almost 50 percent of GDP in the first half of 1994 to 12 percent in the second

CHART 5

GEORGIA Public Finances

Sources: Georgian authorities; and IMF staff estimates.

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half, mainly through a reduction of subsidies. Despite this sharp adjustment, the fiscal outlook for 1995 called for a further strengthening of public finances, especially since donors and creditors were expected to scale back their assistance, requiring a further rationalization of the expenditure program, as well as a restructuring of tax administration. For 1996, since further expenditure compression was increasingly unrealistic, the authorities focused on the rationalization of tax policy accompanied by further strengthening of tax and customs administration. Implementation of a tight expenditure program was unavoidable (text Table 3).

**Text Table 3. Georgia: Summary of General Government Operations
(In percent of GDP)**

	1994	1995		Annual	1996
		Jan-June	July-Dec.		Jan.-June
Total revenue	4.2	4.2	5.9	5.1	6.8
Grants	3.5	1.5	2.3	1.9	1.5
Expenditure and net lending	24.3	11.6	12.9	12.3	12.0
Deficit (on an accrual basis)					
Including grants	16.5	6.0	4.7	5.3	3.8
Excluding grants	20.0	7.5	7.0	7.3	5.3

Source: Georgian authorities and staff estimates.

37. To achieve these goals, the Government adopted a wide-ranging package of revenue and expenditure reforms. Among the most drastic measures taken were the removal of about 120,000 health workers (22 percent of the government labor force) from the government payroll in August 1995, the elimination of a large number of tax exemptions, and the immediate increase of the statutory retirement age by five years on February 20, 1996. Other measures included reforms of the tax administration, and progress in establishing a Treasury at the Ministry of Finance (MOF).

38. As a result of these measures, the Government reduced its reliance on external sources for the financing of current expenditures. The overall deficit, excluding grants and on an accrual basis, declined from 20.0 percent of GDP in 1994 to 7.3 percent in 1995, and 5.3 percent in the first half of 1996 (2.2 percentage points below the level reached in the same period of 1995). The ratio of total revenues to current expenditure increased from 22.0 percent in the second half of 1994 to 61.3 percent in the first half of 1996, and revenues and grants increased from 5.7 percent of GDP in the first half of 1995 to 8.3 percent in the first six months of 1996.

39. To finance its deficit, the Government relied on international assistance, central bank credit, and expenditure arrears (Chart 6). Net external credit fell from 2.4 percent of GDP in

1995 in the first half of 1995 to 1.6 percent of GDP in the first half of 1996 and net credit from the banking system to government increased from 1.6 percent in the first half of 1995 to 2.0 percent during the same period in 1996 (Appendix I, Tables 12 and 13). Accumulation of expenditure arrears fell from 1.9 percent of GDP in the first half of 1995 to almost nothing in the first half of 1996, as efforts to improve expenditure control started to bear fruit.

B. Revenues and grants

Revenues

40. Despite increases in some tax rates and the initiation of reforms at the State Tax Service (STS), at the beginning of 1995 government revenues still fell far short of covering a sustainable level of recurrent expenditures. Therefore, a central focus of fiscal policy during 1995-1996 has been on improving revenue performance. These efforts have resulted in an increase of revenues from 4.2 percent of GDP in the first half of 1995 to 6.8 percent of GDP in the first half of 1996, partly on account of increased tax revenues. Tax collections increased from 3.1 percent of GDP in the first half of 1995 to 4.2 percent in the same period of 1996, initially, reflecting the reversal of the Tanzi effect, but mainly the implementation of a large number of tax measures (Box 4). Receipts of the extrabudgetary funds⁹ and nontax revenues, mainly fees and fines, increased significantly from 1.2 percent of GDP in the first half of 1995 to 2.7 percent in the first half of 1996.

41. While tax collections in Georgia are very low in comparison with other countries in the region, tax rates are generally in line with the rates in these countries.^{10 11} In 1994-1995, the main factors responsible for weak tax revenues were: widespread statutory and ad hoc tax exemptions; an inefficient tax administration that was unable to collect taxes from the growing number of small private enterprises, particularly, in the informal sector; and an inefficient

⁹Consisting of a 30 percent payroll tax for the Social Security Fund (SSF), and a 1 percent payroll tax for the Employment Fund (EF); the Road Tax, Underground Communications and Advertisement Tax, Fuel and Lubrications Tax, Vehicle Tax, and Vehicle Cross-Border Tax for the Road Fund; a 4 percent payroll tax, the Tax on Hazardous Products, and the proceeds from the privatization of health care institutions for SHF; and proceeds from the sales of other government-owned productive assets for the Privatization Fund. For more information on the tax system and the extrabudgetary funds, see Appendices II and IV.

¹⁰In 1995, tax revenues including payroll taxes were 4.2 percent of GDP in Georgia; in the other states of the former U.S.S.R. tax revenues varied from 9.0 percent of GDP in Turkmenistan to 37.4 percent in Estonia, while the unweighted average was 22.3 percent of GDP.

¹¹An overview of the Georgian tax system is provided in Appendix II. Excise and income tax rates are shown in Appendix I, Tables 14 and 15.

CHART 6
GEORGIA
Funding of Expenditures and Net Lending

Source: Georgian authorities; and IMF staff estimates.

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customs administration that lacked the capacity to control Georgia's borders. A number of measures have been adopted to address these problems, of which the elimination of most exemptions in the context of the 1996 budget was especially important. In addition, tax administration reforms are beginning to produce results, as the STS is transformed into a modern and efficient tax administration. Although reforms of the State Customs Department (SCD) have begun recently, they have produced rapid results as some of the most obvious management problems are being addressed.

42. Tax administration suffers from widespread tax evasion, inability of the STS to enforce its authority on a large number of tax payers, the lack of appropriate tax assessment,

Box 4. Georgia: Tax reforms

Since the second half of 1996, important changes have been introduced to strengthen tax performance and enhance the efficiency of the tax system. Reforms have focused on removal of tax exemptions, rationalization of tax rates, and strengthening of tax administration, of which the most important changes are listed below.

The tax base has been expanded through the removal of exemptions and the imposition of new taxes. In March 1996, most tax exemptions were eliminated. New excises were imposed on excisable goods imported from CIS countries in June 1995, following the imposition of VAT and customs duty on imports from non-CIS countries imported via CIS countries in May 1995. However, an exemption of imported capital goods from the VAT was introduced in August 1995, while activities related to the pipeline that is to transport oil from Azerbaijan to the Black Sea were exempted in April 1996.

In December 1994 the VAT rate was increased from 14 percent to 20 percent, the excise tax on gasoline from 10 percent to 15 percent, and the basic import tariff from 2 to 12 percent. At the same time, export taxes were eliminated and a threshold was introduced for VAT. Furthermore, the fixed tax on imported gasoline has been levied in cash rather than in kind. In February 1995, a presumptive tax was introduced to replace the income tax, profit tax, and in some cases the VAT, for small-scale enterprises. In June 1995, excise tax rates were increased, while the number of excisable goods was reduced. In March 1996, the rate of the dividend tax for enterprises was lowered from 20 percent to 10 percent, while the customs duty tariff was unified by reducing the 20 percent rate for barter trade to 12 percent. Exports of tea to CIS countries were zero-rated for VAT in May 1996.

A program for strengthening the tax administration started in December 1994, with the introduction of a number of legal measures to enhance the STS's authority to assess and collect taxes. These included closure of businesses after prolonged willful nonpayment of taxes, introduction of penalties on nonfiling, and an increase in interest rates charged on tax arrears. These initial reforms were followed by a wide-ranging program of tax administration measures that were implemented during 1995 and 1996 with Fund technical assistance. The distribution of Taxpayer Identification Numbers to existing taxpayers and the reorganization of STS along functional lines were concluded in early 1996. The Large Taxpayer Inspectorate, which is to perform tax administration activities for the approximately 250 largest taxpayers, was established on January 1, 1996, and covered 151 large taxpayers as of July 1, 1996. Computerization of STS Headquarters and two pilot Regional Tax Inspectorates (RTIs) started in late-1995. After initial problems, a comprehensive survey to identify new taxpayers was started in June 1996. In the second half of 1996 and in early 1997, the Government intends to: introduce legislation to further strengthen the STS's capacity to assess and collect taxes; submit a new rationalized tax code to Parliament; extend the credit/invoice method for VAT through the retail stage and introduce a system for computerized processing of VAT returns; and improve the bonus system for tax inspectors.

collection, and audit procedures, as well as shortages of skilled staff and other institutional bottlenecks. In particular, new privately-owned enterprises largely escape taxation, as the STS continues to concentrate on the state-owned enterprises. With Fund technical assistance, the authorities have made notable progress in ameliorating these difficulties. In particular, progress has been made in the introduction of Taxpayer Identification Numbers (TINs), the reorganization of the STS along functional lines, and the establishment of a Large Taxpayer Inspectorate. As a result, the number of active registered taxpayers went up by about 40 percent between January 1995 and July 1996 (Appendix I, Table 16). Despite these efforts, tax arrears increased by 315 percent from January 1995 through July 1996 (Appendix I, Table 17). However, a large part of this increase occurred automatically as interest of 0.3 percent per day was accrued on outstanding arrears; this factor accounted for some 70 percent of the increase in tax arrears in the period January 1995-July 1996.

43. The customs administration has also been ineffective in mobilizing revenues,¹² because it does not have an adequate number of border posts, experienced officials, and appropriate guidelines and regulations for tax assessment, collection, and audit. With technical assistance from the Fund, World Bank, and UNCTAD, and a new management, SCD activities have been strengthened in 1996. A terminal system for clearing imports is being set up, and customs procedures have been tightened. These developments, together with the elimination of a large number of tax exemptions, have led to a 12.5 percent increase in the collections of custom duties in real terms in the first half of 1996.

44. The low level of tax revenues is also related to the complexities of the tax and customs codes which do not provide the taxpayers or the STS and the SCD with easy and transparent explanation of the existing laws. In addition, STS responsibilities for tax assessment, collection, and audit are often undermined by regional authorities.¹³ Further progress in this area is expected with improved political stability, strengthening of the administrative capacity of the republican government, and improved budgetary oversight by Parliament.

45. To further strengthen the tax and customs administration, the authorities plan to pursue the implementation of an ongoing comprehensive survey to identify new taxpayers; develop a computerized tax assessment and audit system; further improve tax assessment and collection methods; adopt a tax code drafted with Fund technical assistance; increase the authority of the STS and the SCD to fulfill their tasks; and rationalize the performance-related bonus structure for tax and customs officials.

¹²In the second quarter of 1996, custom duties amounted to 0.3 percent of GDP; based on import estimates (excluding from CIS countries and humanitarian aid), these receipts should have amounted to 0.9 percent of GDP during this period.

¹³Because the tax revenue sharing ratios between the Republican and local governments are not uniform, the latter have an incentive to emphasize collection of taxes for which they keep the largest share. Revenue sharing ratios are shown in Appendix I, Table 18.

46. The collections of extrabudgetary funds increased from 0.8 percent of GDP in 1995 to 1.9 percent in the first half of 1996. This increase was the result of the establishment of the State Health Fund and the Road Fund in mid-1995 and early 1996, larger collections by the Privatization Fund as privatization accelerated, and higher contributions to the Pension Fund and the Employment Fund (EF). To further improve revenue performance, the Government intends to transfer the responsibility for collections of extrabudgetary revenues to the STS and the SCD in the context of the 1997 budget.

External grants

47. Total grants amounted to 1.5 percent of GDP in the first half of 1996, as in the first half of 1995. The counterpart funds mobilized by domestic sales of external wheat aid accounted for nearly all of the grants provided to the budget in 1995 and the first six months of 1996.¹⁴ In addition, France donated lari 2.6 million in July 1995 to finance the printing of lari notes, while the Netherlands provided lari 3.1 million in balance of payments support in December 1995.¹⁵

C. Expenditures and net lending

48. In 1995 and the first half of 1996, the level of total expenditures and net lending remained relatively unchanged at about 12 percent of GDP, down from 24 percent in 1994. Within this total, expenditure on goods and non-wage services as well as expenditures by extrabudgetary funds increased relative to GDP during 1995-1996, while interest expenditures and net lending declined. To increase efficiency and productivity, the Government implemented major reforms during this period. In 1995, the health sector was overhauled and in early 1996 the social safety net was targeted by increasing the retirement age by five years and limiting the activities of the EF. However, due to resource constraints, expenditures have been compressed to an unsustainable level, and the Government has not been able to allocate adequate resource for social expenditures and for investment in, or maintenance of, the infrastructure. The authorities have begun a fundamental reassessment of the Government's expenditure responsibilities and priorities so as to enable a better use of their scarce resources. Moreover, as discussed further below, weak expenditure control has led to substantial deviations between the budget and the implementation of expenditures, as well as to the continued accumulation of expenditure arrears.

¹⁴During 1995 and in the first half of 1996, the Georgian government received a total of 650 thousand tons of wheat and wheat flour as aid from the United States and the EU. These grants, valued at US\$165 million at international prices, generated lari 100 million in revenues for the state budget. Below-market administrative prices for bread accounted for most of the difference between the value of the wheat grants and actual government revenues.

¹⁵Other external assistance (i.e., the German concessional loan for the energy sector) and the counterpart expenditures are not included in the budget.

The structure of expenditures: economic classification

49. Current expenditures accounted for 92 percent of total expenditures and net lending in the first half of 1996 compared with 81 percent in the same period in 1995. The fall in the relative share of capital expenditure and net lending in the 1996 budget reflects a shifting of expenditures toward spending that has a higher priority in the short run, in the face of continued tight resource constraints. At the same time expenditures for a new customs post at the Turkish border and improvements of the Tbilisi airport tapered off. Net lending for the rehabilitation of the electricity generation capacity was curtailed as facilities built with the assistance of Germany to secure the supply of electricity came on stream. The Government initiated new capital spending for the rehabilitation of the road transportation infrastructure with the establishment of the Road Fund in October 1995 as part of a World Bank sectoral loan.

50. Expenditures on wages and salaries remained at about 13 percent of total expenditures and net lending in 1995 and the first half of 1996. Wage increases in July and November 1995, and February and June 1996 boosted the average monthly basic wage in budgetary institutions from lari 7.8 to lari 20.6,¹⁶ although they also further compressed the wage grid (Chart 4). To allow for these wage increases, the number of civil servants was reduced by some 195,000 workers or (32 percent) during January-August 1995, including the removal of about 120,000 health sector workers from the government payroll in August 1995. Further reductions in the government labor force will occur with the education sector reforms planned for September 1996.

51. Spending on social transfers including pensions and unemployment allowances rose from 17.8 percent of total expenditure and net lending in the first half of 1995 to 22.4 percent in the first half of 1996. Benefits were increased in line with wages (Appendix I, Table 19). Although a number of measures were taken to target the social safety net to the truly needy (Box 5), the total number of beneficiaries was reduced by only 1.2 percent.

52. Government increased spending on goods, non-wage services and other current expenditures from 21.9 percent of total expenditures and net lending in 1995 to 28.2 percent in the first half of 1996. This partly reflects the increased spending for basic health services from August 1995 onwards, but it was also due to increases in outlays for military and law enforcement, including for food, housing, and uniforms. The expansion of the number of army conscripts from 15,000 to 25,000 in accordance with military agreements with the Russian Federation in the third quarter of 1995 was mainly responsible for the increase in military expenditures, while internal security concerns prompted increases in outlays for law enforcement.

¹⁶ In addition to this basic wage, a number of senior civil servants and military personnel get bonuses; these accounted for 35 percent of the total wage bill in July 1996.

Box 5. Georgia: Social protection

Reforms of the Social Safety Net (SSN) and the health and education sectors are aimed at improving services and benefits for the poor, while increasing the sustainability of the social protection mechanisms by targeting the assistance to vulnerable groups. Changes in the health sector are described in Box 3.

The Georgian SSN provides low benefits to a large number of people (Appendix III describes the SSN in detail). As of June 1, 1996, 1.8 million beneficiaries (33 percent of the population) received an average monthly allowance of lari 8.3 (US\$6.7), which barely covered the cost of bread consumption for two persons. The replacement ratio of the pension system, defined as the standard pension benefit as a percent of the average wage in budgetary organizations, is 41 percent, which is low considering that wages in non-budgetary organizations are generally significantly higher than government wages. The largest groups of beneficiaries are pensioners (1.1 million), followed by families with children (0.3 million) and refugees (0.3 million).

Efforts have been made to improve the targeting of the SSN. As of January 1995, the eligibility for pensions was limited to nonworking pensioners, and on February 20, 1996, the retirement age was increased in one step from 55 to 60 for women and from 60 to 65 for men. Initially, the latter measure had the effect of increasing the number of registered pensioners by 50,000, as elderly who were eligible under the old system, but had not yet applied for a pension, used the grandfathering opportunity to register before their eligibility ran out under the new rules. However, in the long run this measure is expected to reduce the number of pensioners by about 40 percent. In July 1995, child allowances were targeted by limiting eligibility to families with two or more children. Finally, the SSN was targeted by eliminating the ineffective job creation schemes of the EF; in 1995 the EF spent lari 1.6 million or 70 percent of its total expenditures on these job schemes.

At the same time that the targeting of the SSN was improved, social benefits were increased, generally in line with government wages (a detailed description of the development of social benefits is provided by Appendix I, table 19). Since January 1, 1995, benefits were increased on average by about 165 percent, or about 50 percent in real terms.

53. Local government expenditures increased from 12.0 percent of total expenditures and net lending in the first half of 1995 to 13.4 percent in the first half of 1996 as local governments kept more than their statutory share in tax revenues.¹⁷ Interest payments fell from 14.0 percent of total expenditures and net lending in 1995 to 7.2 percent in the first half of 1996, as external interest payments remained fixed at US\$8 million per quarter. The marked increase in unclassified expenditures from 1.0 percent in the first half of 1995 to 7.9 percent in the first half of 1996 was due to the purchase of 40,000 tons of wheat to build up a strategic reserve in anticipation of the bread price liberalization on June 15, 1996, and improved coverage of expenditures financed by resources controlled by budgetary organizations since January 1, 1996.

54. The Government relies heavily on foreign assistance to finance its capital investment and net lending; about 28 percent of capital spending in 1995 and the first half of 1996 was financed directly by external sources. A Public Investment Program (PIP) has been prepared in

¹⁷Data on local government finances are deficient, and exclude certain type of nontax revenues that are not reported to the MOF and the expenditures financed with these revenues.

cooperation with the World Bank. The objectives of the PIP-supported projects are to alleviate the bottlenecks for private activity in Georgia primarily through the rehabilitation of existing energy infrastructure and the transport network, including railways; support for the land reform; and improvement in the provision of education and health services. The bulk of financing for the projects included in the PIP comes from international financial institutions and other multilateral and bilateral donors.

The structure of expenditures: functional classification

55. A functional classification of expenditures shows that the Government has put increased emphasis on social expenditures; the share of spending on health, education, culture, science, and social protection in total expenditures and net lending (excluding local governments) increased from 6.8 percent in 1994 to 30.8 percent in 1995 (see Appendix I, Tables 20, 21 and 22). Still, at 7.5 percent of total expenditures and net lending, (including local governments) in 1995, government spending on education fell significantly short of the relative share of these expenditures in many low-income countries. As discussed above, the Government increased spending on defense and law enforcement, but reduced the share of spending on the national economy, administration, and interest.

56. Although this shift in expenditure priorities represents an important step in the right direction, further improvements in the composition and efficiency of expenditures are necessary. To this end, the Government will need to identify its spending priorities, and determine how they can best be achieved. In addition, expenditure control will have to be strengthened, so that the priorities laid down in the budget are maintained during the implementation of the expenditure program.

Expenditure budgeting and control

57. After several years in which the budget process was severely disrupted and budgets did not become available until after the budget period had passed, 1995 was the first year in which a meaningful budget was approved by Parliament well before the end of the year (see also Appendix IV). The 1996 budget was approved in February 1996, and in June 1996 Parliament passed a new Law on the State Budget, setting out the framework for the designing and implementation of state budgets. So far, the budgetary process has not been utilized to provide a framework for spending priorities, instead, the direction of expenditures has been determined largely by political pressures during the budget implementation process. However, some improvement has been made, as the MOF has strengthened its analytical capacity with the establishment of a Macroeconomic Department and as the budget preparation process has been lengthened from 5 months to 8 months.

58. Expenditure control, though improved, is still lacking, leading to a distortion of the priorities laid down in the budget, as well as less-than-budgeted reduction of expenditure

arrears, following a period of sizable accumulation of arrears.¹⁸ The reduction of expenditure arrears since mid-1995 was achieved by improving expenditure control, mainly through the introduction of a reporting system for spending commitments and arrears. The expansion of the treasury system, supported by assistance of the Fund and the U.S. Treasury Department, would further improve expenditure control. Under this system, spending ministries lose the authority to assume expenditure commitments without the prior approval of the Treasury. When fully implemented, the Treasury would carry out all budget execution functions of the MOF. Its principal tools are the treasury ledger account and the single treasury account with the NBG. The Treasury consists of a Central Treasury, with coordinating and managing functions, and the Regional Treasury Offices (RTOs), which perform the treasury tasks for the budgetary organizations under their jurisdiction. As of August 1996, five RTOs out of a planned total of twelve, have been set up throughout Georgia, which are to cover all budgetary organizations by the end of 1996; currently, about 12 percent of expenditures is conducted through the treasury system. In anticipation of the installation of computer equipment purchased with the assistance of the World Bank, procedures at the treasury offices are still performed manually.

59. The control of the MOF over cash expenditures is also lacking. Although transfers from the Ministry to budgetary organizations are closely monitored, the Ministry has limited control over how and when these transfers are being spent. This has led to sizable accumulation of bank deposits by budgetary organizations, from lari 3 million at end-1994 to lari 20 million at end-June 1996 (2 percent of total expenditures and net lending in 1995 and the first half of 1996). In addition, the MOF has virtually no control in the spending financed by revenue sources flowing directly to budgetary organizations. Control over local government expenditures is also weak. Information about the size and the structure of local government expenditures is scarce and deficient, although efforts are being undertaken to improve the reporting by local governments.

60. Further improvements in the capacity of the MOF to monitor expenditures is urgently needed. The completion of the treasury project will be essential to reach this goal. Additional efforts will have to be undertaken to monitor expenditure commitments and arrears, reduce the bank deposits of budgetary organizations, increase the accountability of extrabudgetary funds, and improve the monitoring of local government expenditures.

¹⁸In the first half of 1995, the Government accumulated domestic expenditure arrears of 1.6 percent of GDP, against a reduction of arrears in the amount of 0.6 percent in the second half of 1995 and virtually unchanged arrears in the first half of 1996.

IV. MONETARY AND EXCHANGE RATE DEVELOPMENTS AND BANKING SECTOR REFORM

61. *Recent monetary developments have been shaped by the introduction of the lari in September 1995, which was followed by a sharp substitution into domestic currency. Since then, inflation has remained low and the exchange rate has remained stable against the U.S. dollar. Improved banking supervision and a bank certification program have reduced the number of banks sharply while encouraging modest growth among certified banks. Despite notable progress, the banking sector remains weak.*

A. Monetary developments

Overview

62. As a result of the contractionary financial policies adopted beginning in the second half of 1994, the exchange rate for the coupon against the U.S. dollar stabilized after a sharp appreciation, hyperinflation was halted and inflation fell to double digits during 1995. Nevertheless, demand for coupons remained low; broad money (including foreign exchange deposits) fell by 9 percent during January-September 1995. Reserve money growth was limited to about 28 percent during the same period, implying a 4 percent decline in real terms (text Table 4).

63. The successful introduction of the lari in late September 1995 resulted in a marked reversal in the process of currency substitution that had characterized the coupon era, leading to a sharp increase in monetary aggregates in the last quarter of the year (text Table 4, and Appendix I, Tables 23 and 24). Between September 1995 and June 1996, currency in circulation grew by a factor of seven, as the population converted nearly US\$100 million of rubles, U.S. dollars and other foreign currencies into lari. Domestic currency deposits grew about 30 percent during this period.

64. In the first half of 1996, broad money (including foreign exchange deposits) increased by 14 percent (Chart 7). A number of developments indicate that confidence in lari might be increasing. In particular, the share of foreign exchange deposits in broad money has declined modestly. The money multiplier has also increased modestly, reflecting a gradual decline in the ratio of currency to deposits during that period (Chart 8).

CHART 7
 GEORGIA
 Prices, Exchange Rates, and Broad Money
 Index Jan 1994=100, Log Scale

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

CHART 8

GEORGIA

Currency in Circulation and the Money Multiplier

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

Text Table 4. Georgia: Monetary Indicators

	1995				1996	
	March	June	Sep.	Dec.	March	June
(Percentage change from end of previous year)						
Monetary Aggregates						
Reserve money	-2.2	24.9	28.3	275.2	1.2	12.6
Broad money	-26.3	-24.0	-8.6	146.3	5.0	14.4
Broad money (excl. foreign currency deposits)	-10.0	-1.2	27.3	362.3	-4.5	11.8
Consumer Prices	10.5	13.6	23.2	57.4	8.8	11.7
Memorandum item:						
Lari per U.S. dollar	1.28	1.30	1.30	1.23	1.26	1.26

Source: National Bank of Georgia; Department of Social and Economic Information

Monetary and exchange rate policies

65. The main instrument of monetary policy continues to be the NBG's *intervention in the foreign exchange market*, on the Tbilisi Interbank Currency Exchange (TICEX). So far, the NBG has sold foreign exchange in the TICEX to sterilize the inflationary impact of net credit of the banking system to the Government, while maintaining an adequate level of reserves. Although such sterilization has been less than complete so far in 1996, the exchange rate has remained stable in the range of lari 1.23 to 1.27 per U.S. dollar (Appendix I, Table 25). Trading activity in the TICEX has been expanding, from a turnover of US\$1.6 million in 1993, to US\$6.5 million in 1994, and US\$70.3 million in 1995. Nevertheless, the total turnover in 1995 was equivalent to less than one sixth of estimated non-aid imports, indicating that the TICEX still plays a limited role in external transactions. The NBG has been one of the main participants in the market, selling U.S. dollars accumulated as a result of the disbursements of balance of payments support and the introduction of the lari. Despite these sales, NBG gross reserves rose from US\$41 million at end-1994, to US\$157 million at end-1995, the equivalent of 2.7 months of imports of goods.

66. The *reserve requirement* has not been an effective instrument of monetary policy, given the small size of the banking system.¹⁹ Recognizing the high cost reserve requirement imposes on banks, the NBG reduced the required ratio from 20 percent to 18 percent in

¹⁹A uniform reserve requirement has applied to commercial banks since 1994. From January 1996, banks were required to hold the reserve requirement on foreign exchange deposits in lari.

January 1996, and to 15 percent in September 1996. Only certified banks benefitted from this reduction, as the balance sheet growth of other banks is constrained under the bank certification program (see Section B below).

67. Activity in the *interbank credit auction*, which the NBG introduced in May 1995, has picked up considerably in recent months. Monthly volumes increased from only lari 274,000 during 1995 to about lari 2 million in June and July 1996. The NBG's participation in the auction has been intended primarily to improve the effectiveness of the auction, rather than achieving monetary policy objectives. During the first seven months of 1996, the NBG injected about lari 3.0 million of credit and withdrew lari 1.4 million through the auction, primarily at 7-day and 30-day maturities. To promote activity in the credit auction, in January 1996 the NBG expanded the range of maturities from 7-day credits only to 30-, 60-, and 90-day credits, and increased the frequency of auctions from twice-monthly to twice-weekly.

68. The NBG is aware of the need to expand the range of available monetary instruments in order to effectively influence liquidity conditions. Preparations for the introduction of NBG or Treasury bills are at an advanced stage. In addition, with increased activity in the interbank credit auction, NBG participation is becoming a more effective monetary instrument.

Credit, deposit, and interest rate developments

Credit

69. The NBG provides little credit to the private sector; it stopped providing refinance credits in mid-1994. Commercial bank's credit policies are extremely narrowly focussed; almost without exception, banks provide only short-term trade-related credits to the private sector at relatively high rates of interest. During 1995, credit to the nongovernment sector grew by 45 percent, a fall of 1 percent in real terms. Activity in the credit market picked up somewhat during the first half of 1996, with credit growing at 15 percent (2 percent in real terms). ²⁰ The share of domestic currency credits has remained stable at about two-thirds of total credit (Appendix I, Table 26). The Government does not borrow from commercial banks.

70. Commercial banks began on-lending credit from several external sources in mid-1996. Only a few certified banks are eligible for these on-lending operations. About lari 15 million of counterpart funds from the sale of wheat donated by the EU are being on-lent to the agricultural sector, primarily during the second half of 1996. In addition, a proposed World Bank credit of US\$8.7 million would be lent to agricultural and other enterprises. The EBRD is also considering extending two credit lines to support small-and medium-scale enterprises.

²⁰These numbers were adjusted to take into account the Government's assumption of obligations arising from the on-lending of a credit from the Eximbank of Turkey, which occurred during 1993-1994.

Deposits

71. During the period January 1995-January 1996, deposits in the banking system grew by 60 percent (12 percent in real terms); the shares of foreign and domestic currency deposits were roughly equal during this period (Appendix I, Table 27).²¹ Thus, the sharp growth in domestic currency outside the banking system following the introduction of the lari was not matched by a similar growth in domestic currency deposits.

72. During the first half of 1996, the pace of deposit growth picked up (to 36 percent in nominal terms) and the share of domestic currency deposits increased modestly, reaching 60 percent of total deposits at end-June. Most of the additional deposits were mobilized by certified banks, reflecting greater confidence in these banks vis-à-vis the former state banks (FSBs) with a history of problem loans, and their willingness to pay market rates of interest.

73. Commercial banks' ability to intermediate household savings to enterprises is still very limited: enterprises accounted for most of the recent deposit growth, as economic recovery appears to have improved their financial position. By contrast, household deposits did not experience the same rates of growth, and accounted for only one fifth of total deposits at end-June 1996.²²

Interest rates

74. Interest rates have fallen gradually as stabilization has taken hold, and in mid-1996 were about half of their level in early 1995 (Chart 9). However, the spread between lending and deposit rates remains very large, reflecting high credit risk, the relatively high level of reserve requirement, the burden of non-performing loans in banks' portfolio and banks' efforts to recapitalize (Appendix I, Table 28). Banks' lending rates turned positive in real terms in early 1995, and declined from over 100 percent per year in March 1995 to roughly 60 percent in mid-1996. Deposit rates have also fallen, and on average are negative in real terms, although a few banks offer deposit rates that are positive in real terms. Lending and deposit rates vary considerably across banks. The average interest rate in the interbank credit auction dropped from 70 percent in May 1995 to 30 percent in June 1996.

²¹Foreign currency deposits were unusually high during the fourth quarter of 1994. For this reason, comparisons are made to January 1995 rather than December 1994.

²²In June 1996, households accounted for lari 11.3 million of foreign currency deposits, and enterprises for the remaining lari 20 million.

B. Banking sector reform

Overview

75. As in other transition economies in the early stages of reform, the banking sector in Georgia does not contribute significantly to financial intermediation. Despite notable improvement in the environment for bank business, banks provide little credit, in view of the high credit risk and the lack of sound investment opportunities. The ratio of credit to nongovernment sector to GDP stood at 2.2 percent only in mid-1996. At the same time, banks' deposit base is very low (around 1.3 percent of GDP in mid-1996), reflecting low confidence in the fledgling banking system, use of the banking system to track taxpayers, and an inadequate payments system. The banking sector is dominated by the three FSBs which together hold 42 percent of total assets. There are no foreign banks in Georgia and foreign participation is limited to a few banks.

76. Since the beginning of 1995, major steps have been taken to increase financial discipline and achieve an orderly consolidation of the banking sector, including an increase in the minimum capital requirement from the lari equivalent of US\$384 to US\$100,000 and the strengthening of prudential regulations.²³ Partly as a result, the number of licensed banks declined from 229 at the end of 1994 to 100 at the end of 1995, and to 75 by July 1996. Given the fragile situation of many banks and the ongoing restructuring of the enterprise sector, additional bank closures and bank mergers are expected in the near future, in particular after the planned increase in the minimum capital requirement to US\$500,000 by June 1998.

77. The capital position of the banking sector strengthened considerably in 1996 as a result of the increased capital requirement (text Table 5).²⁴ However, banks' net worth is likely to be significantly overstated due to inadequate provisioning for losses, notably in the FSBs. Although some progress has been achieved in restructuring the operations of FSBs, as of mid-1996 about 80 percent of overdue loans in their portfolio was deemed to be lost.

²³The minimum capital requirement was raised in May 1995. Banks were required to meet the increased requirement in gradual steps and to comply fully by end-June 1996.

²⁴ All banks are in compliance with the minimum capital requirement. Only five banks have authorized capital above US\$2.5 million; 14 banks have capital above US\$0.5 million and about 20 banks have capital in excess of US\$250,000.

CHART 9
GEORGIA
Interest Rates, 1995-1996
 (At an Annual Rate)

- 30a -

Source: National Bank of Georgia.

1/ Three-month maturity.

2/ Seven-day maturity.

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Text Table 5. Georgia: Commercial Banks' Authorized Capital
(in millions of lari)

	December 1995	June 1996
FSBs	8.0	13.2
Other banks	27.2	34.5
Total	35.2	47.7

78. Bank reform gained momentum in late 1995, when a program for the restructuring and strengthening of the sector was initiated, with a view to increasing financial intermediation and promoting private sector activity. The centerpiece of the restructuring strategy is the bank certification program introduced in November 1995, aimed at restricting the growth of banks which fail to comply with prudential regulations. As of mid-1996, the certification process had been completed for 37 banks, 23 of which are considered as "leading banks" and may form the core of a revamped banking sector in the future. Twelve banks failed to be certified and the rest still needs to be examined by the certification commission. Noncertified banks are allowed to operate but are subject to various restrictions (e.g. no dividend payments). The success of the certification program is partly related to the onlending of external lines of credit, since only certified banks are eligible to onlend these funds to domestic borrowers.

79. Outside the certification program, special agreements were reached with the three FSBs, limiting the expansion of their balance sheets and specifying schedules for achieving full compliance with prudential regulations with a view to improving their capital and liquidity positions. The terms of the agreements will be revised after the external audits of these banks are completed in the third quarter of 1996.

80. These reforms have been accompanied by supporting changes in bank legislation, a strengthening of banking supervision, and improvements in the payments system and in bank accounting.

Legal reforms

81. A new central bank law was enacted in June 1995 and then amended in April 1996, to be consistent with the new Georgian Constitution while ensuring a reasonable degree of independence to the central bank. Under the amended law, the NBG must submit an annual report for the Parliament's approval. In addition, a new commercial banking law was passed by Parliament in April 1996, which strengthens the NBG's ability to liquidate banks. The new law also requires a court order before banks can disclose information on their clients' accounts to the tax authorities.

Banking supervision

82. Significant progress has been achieved in developing a supervisory function at the NBG, including a gradual tightening of prudential regulations (Box 6), the introduction of rules for provisioning and higher minimum capital standards.²⁵ In addition, the NBG has started to perform on-site examinations and has improved off-site monitoring. As a result of enhanced supervision and a tightening of prudential guidelines, since the beginning of 1995 the licenses of 154 banks have been withdrawn, while others have been required to take measures to improve their balance sheets in the context of the certification process. Some of the banks which had their licenses revoked merged with other banks. As of mid-1996, 15 banks had been liquidated according to the stipulations of the new banking law, while the liquidation process was ongoing for another 25 banks. Starting in 1997, all banks will be required to submit audited reports to the NBG.

Payments system and accounting reform

83. The NBG and commercial banks now use an electronic-mail based payments system which was implemented in October 1994. This system has increased the speed with which the NBG clears payments to less than 1 day within the Tbilisi region and to less than 2 days within Georgia. However, the volume of payments handled has not increased significantly in the past year, reflecting a lack of confidence in the system, and lack of confidentiality in transactions, particularly from the tax authorities. Work is under way to further improve the technical basis for the payments system in 1996 with funding from USAID.²⁶

84. The NBG is continuing to make progress in adopting international accounting standards. A new chart of accounts for the NBG has been finalized and a pilot project will be launched in the fall of 1996, with Fund technical assistance. The introduction of new accounting standards for all banks is expected to be completed by April 1997.

²⁵ Loan-loss provisions were introduced in February 1995 but became effective only in the second quarter of 1996, after the new budget law was approved and the NBG was given the authority to exempt provisions from taxes. The regulations on provisioning have been tightened and will become effective from September 1, 1996.

²⁶ Four commercial banks are now connected to the Swift system of electronic payments. The NBG and other commercial banks are expected to be connected to this system in 1996.

Box 6. Georgia: New Prudential Regulations

As part of the efforts to enhance banking regulation and supervision, the NBG revised the set of prudential regulations adopted in January and May 1995 and tightened regulations on provisioning. The new regulations will become effective in September 1996, but the corresponding sanctions will apply only from January 1, 1997. The revised prudential standards include new rules for the valuation of fixed assets and tighter limits on key prudential ratios. Limits on foreign exchange exposure have not yet been introduced. The main changes are described below.

- ◆ **definition of capital**--Tier I capital now includes only paid-in capital and retained earnings; Tier II capital includes reserves and fixed assets revaluations and may not exceed 25 percent of Tier I capital. Prudential ratios are computed on the basis of total capital (Tier I and II). Fixed asset revaluations can represent only 50 percent of capital in 1995, 25 percent in the first half of 1996, 5 percent in the second half 1997 and cannot represent any Tier II capital after January 1, 1998.
- ◆ **capital adequacy ratio**--the minimum ratio of Tier I capital to total assets should be 8 percent and the minimum ratio of total capital to assets should be 10 percent. These ratios are not risk-weighted and are now computed on the basis of total assets, instead of total obligations.
- ◆ **Loans to insiders**--the limit on loans to one insider remains as before, at 5 percent of capital, while the limit on all insiders was lowered to 50 percent (from 100 percent). At the same time, the definition of insiders has been broadened to include all connected parties, in addition to shareholders, employees and family members.
- ◆ **Credit concentration**--the limit on credit extended to any one outsider was raised to 15 percent of capital, but it is equivalent to the previous limit (10 percent) because of the change in capital definition.
- ◆ **Limit on household deposits**--the limit was raised to 200 percent of capital (from 100 percent) for certified banks only. This restriction is not currently binding and will be eliminated shortly.

A few new prudential ratios were also introduced, to encourage banks to diversify their liability structure and their loan portfolio, and to reduce risk concentration:

- ◆ The share of a bank's largest creditor in total obligations cannot exceed 20 percent.
- ◆ The share of the 10 largest borrowers in the loan portfolio cannot exceed 50 percent.
- ◆ The ratio of liquid assets to total obligations should be at least 30 percent. Liquid assets are now defined as balances in correspondent accounts, cash in vault, obligatory reserves and gold, and exclude short-term loans.

V. EXTERNAL SECTOR DEVELOPMENTS

85. With tightened macroeconomic policies, the continued impact of the structural changes under way, and the decline in humanitarian assistance, the current account deficit is estimated to have narrowed significantly in 1995. Continued support by the Fund and the World Bank together with the agreed standstill on debt service to bilateral creditors and the EU and the introduction of the lari enabled Georgia to rebuild its gross official foreign exchange reserves from about 0.7 months of merchandise imports at end-1994 to 2.7 months of imports by end-1995. Bilateral debt rescheduling agreements were reached with several creditors, including the largest (Turkmenistan) in the first half of

1996. During the year, Georgia made further progress in liberalizing its trade and exchange system.

A. Balance of payments

86. With fiscal and monetary policies tightened substantially beginning in the second half of 1994, excess demand pressures in the Georgian economy abated, causing inflation to decline significantly and the current account deficit (excluding official transfers), to narrow to an estimated 14 percent of GDP in 1995, from about 36 percent in 1994 (text Table 6).

Text Table 6. Georgia: External Sector Indicators

(In millions of U.S. dollars)

	1994	1995		1995
		Jan.-June	July-Dec.	
Current account deficit (excluding grants)	-447.9	-224.7	-182.7	-407.4
Of which:				
gas imports	-233.1	-61.2	-11.6	-72.8
Official transfers	170.0	99.5	89.7	189.2
Capital account	-19.3	-40.5	-45.0	-85.5
Overall balance	-297.2	-165.6	-138.0	-303.7
Memorandum items:				
Gross reserves	41.4	24.0	156.7	156.7
Stock of debt	1001.8	1,062.7	1,230.1	1,230.1

Sources: State Committee for Statistics and staff estimates.

87. The declining *current account deficit* occurred against the background of a further drop in imports (Appendix I, Table 29), reflecting, inter alia; (i) the decline in humanitarian food imports, in particular, of wheat imports;²⁷ and (ii) lower energy imports because of resource constraints. Gas imports dropped by about 70 percent in 1995, following the shut off of supplies to delinquent customers and the cessation of government imports of gas from Turkmenistan (Appendix I, Table 30). By end-1995, gas imports are estimated to have accounted for little more than 11 percent of total imports, compared to a share of 31 percent in 1994. Merchandise exports continued to decline as well, by an estimated 17 percent in

²⁷Wheat imports declined from an average of about 800,000 tons during 1992-94, to around 550,000 to 600,000 tons in 1995.

volume terms during 1995, although preliminary data for 1996 suggests that the decline may have bottomed out at end-1995.

88. These developments suggest that the vast structural changes resulting from the break-up of the old interstate trading system continue to reverberate. Among the reasons for the drop in trade through 1995 are: (i) payment problems, with economic agents either unwilling or unable to use the banking system to pay for goods and services from other countries; (ii) the continued impact of the massive terms of trade shift against importers of energy such as Georgia; (iii) the legacy of the obligatory trade, encompassing export restraints such as prohibition and licensing requirements that remained partly in force through much of 1995 in Georgia; and (iv) the abolition of the state-order system in June 1995, together with the Government's withdrawal of guarantees for gas imports.

89. Little is known about the development of *nonfactor services*. Transportation costs are estimated to have accounted for the bulk of the estimated 1995 debit of US\$105 million. Tourism used to be an important source of revenue--with 500,000 visitors recorded in 1990--but has not made a major contribution to the economy since Georgia regained independence, despite the country's promising potential. Other nonfactor services are estimated to have contributed a credit of US\$122 million to Georgia's balance of payments. In regard to *factor services*, interest payments on official debt accounted for the most of the US\$86 million deficit in 1995.

90. Direction of trade data, while still subject to particularly large margins of error, suggest that the reorientation of Georgia's trade away from the states of the former U.S.S.R. is continuing, albeit at a reduced pace. The share of exports to these countries declined further, while that of imports remained broadly unchanged due to the drop in humanitarian assistance, notably wheat imports in 1995. Turkey is the most important among Georgia's trade partners outside the states of the former U.S.S.R. Georgia's key export items remain agricultural goods (including tea, citrus, and wine) and metallurgical products (including ferrous alloys, steel, and steel pipes). Among imports, energy, food, and basic goods such as clothing figure most prominently. Box 7 summarizes recent steps to liberalize the trade system.

Box 7. Georgia: Trade Liberalization

- The stabilization and reform program launched in September 1994 embraced wide-ranging liberalization of the external trade regime. Under the program, the Government abolished the main instruments by which trade was directed under the old economic system and opened up the economy to free trade. In December 1994, an 8 percent export tax on goods exported to non-CIS countries was abolished. At the same time, a unified import tariff structure was introduced with a basic rate of 12 percent on imports, and a rate of 20 percent applied to barter imports. Certain imports remain exempt, including humanitarian aid, gasoline, and various categories of food and medicines, as well as all CIS imports. There are no quantitative restrictions on imports and import licenses are not required.
- In January 1995, the regulations governing trade licensing and prohibitions were streamlined. In June 1995, the state order system was abolished in tandem with the government's withdrawal from energy procurement. In November 1995, the Government eliminated the remaining export prohibitions and requirements for licensing exports, except for reasons of environmental protection, health, arms control and, on a temporary basis, scrap metal. Specifically, export licensing requirements were removed for precious metals, precious and semi-precious stones, ferrous metals, alcoholic beverages, lumber, and leather. Export prohibitions were abolished on petroleum products, dairy products, meat products, cereals, grains, pasta, flour, sugar, and combined feed. As exceptional measures during a transition process, exporters of a few goods specified in consultation with the World Bank may be required to register export contracts ex-ante with the Government but only for purposes of tax enforcement and monitoring capital movements; there are now plans to phase this out. In January 1996, the import tariff rates on barter imports were lowered to 12 percent. As part of ongoing reforms in import policy, import contract registration requirements previously in effect for several products have been removed in May 1996.
- In June 1996, Georgia was granted observer status at the World Trade Organization (WTO) and a working party is being formed to consider its accession.

91. A substantial fraction of the current account deficit in 1995 was financed with official transfers, which are estimated to have reached US\$189 million or about 6.5 percent of GDP. Georgia's key donors in this period were the EU and the United States. Aid-in-kind accounted for the bulk of these transfers, with the significant fall in the volume of wheat imports being partly offset by rising wheat prices. Humanitarian assistance continued to be provided through various channels (Box 8).

92. The *capital account* continues to be dominated by official transactions. Amortization payments due in 1995 reached a record of US\$274 million or about 9.5 percent of GDP, as a result of maturing short-term trade credits, loans from other states of the former U.S.S.R., as well as the conversion of amounts owed on correspondent account balances into new loans accumulated during 1991-94. The bulk of these credits had been used to import food and gas. In 1994 Georgia stopped meeting debt service obligations; in 1995 all but one creditor agreed

to discuss a rescheduling of debt-service obligations or the stock of Georgia's debt.²⁸ Disbursements under an IDA Rehabilitation Credit approved by the World Bank in March 1995 began in the second quarter of 1995 and were completed by end-March 1996, amounting to a total of US\$78 million. A Structural Adjustment Credit of about US\$60 million was approved by the World Bank Board in March 1996 and the first of two tranches was disbursed in June 1996 (US\$30 million). In addition, in 1995 the EBRD commenced disbursing (US\$7 million over the year) and Germany provided soft loans for the rehabilitation of the electricity sector (US\$14 million over the year).

Box 8: Rebuilding Georgia: The Role of Humanitarian Assistance

As a result of internal civil strife, about 270,000 people were displaced from Abkhazia and an estimated 35,000 displaced inside Abkhazia between August 1992 and December 1993. Output had collapsed and the purchasing power of much of the population had been severely eroded by hyperinflation. The basic food supply situation, particularly for cereals, had reached critical levels, prompting the Government to urge the international community to provide grants and credits in order to maintain the then prevailing minimum supplies through the state rationing system.

A UN Consolidated Inter-Agency Appeal was launched in April 1994, covering the period April 1994 to March 1995. The UN estimated requirements for that period at about US\$35 million, of which about 50 percent were mobilized as of February 1995, mostly for emergency food assistance (US\$8.4 million) and assistance for refugees and displaced persons (US\$6.8 million). The March 1995 appeal for the Caucasus sought US\$37 million, one third of which for food aid and one quarter for refugee assistance. However, reflecting the progress made in resettling the displaced, the proposed program incorporated a number of projects belonging to the traditional sphere of development assistance and appealed for US\$5 million in support for income generation, rehabilitation, and energy projects. By end-December about US\$21 million had been mobilized, about 56 percent of requirements, with the needs for food and refugee assistance satisfied at rates beyond 80 percent.

Food aid has played a crucial role in stabilizing Georgia's macroeconomic situation, as it has provided an important source of budgetary revenue. The World Food Program (WFP) tracks not only its own deliveries of food but also those by other donors, who rely on WFP logistical support. In reporting figures, the WFP distinguishes between "program aid" and "targeted aid", the former including food for budgetary support and concessional sales, the latter food directly distributed to beneficiaries often by NGOs. "Program aid" aid to Georgia reached 715,300 metric tons in 1994 and 536,800 metric tons in 1995 while "targeted aid" amounted to 37,200 metric tons and 49,900 metric tons in the same period. Most of the food aid is in the form of wheat or flour. While no exact data is available for the value of this in-kind food support, it is estimated to have amounted to almost US\$170 million in 1994 and about US\$130 million in 1995. Key donors of food aid were the United States and the EU.

As noted in Box 2, a key measure under the stabilization program adopted by the authorities since 1994 has been the increase in the bread price, which has enabled the Government to mobilize significant amounts of budgetary revenue from the sale of wheat provided as humanitarian assistance, estimated at 25 percent of total fiscal revenue and grants in 1995.

²⁸Following the conclusion of agreements with selected creditors (see section V.B below) payments have been made to these creditors.

93. Mainly on account of the large amortization due in 1995, the overall balance of payments deficit continued to widen, reaching US\$304 million. In rebuilding its reserves from about US\$41 million at end-1994 to US\$157 million by end-1995 Georgia benefitted from continued support by the Fund and a standstill on debt service agreed with bilateral creditors as well as the EU.²⁹ Fund disbursements in 1995 took place in the context of the Systemic Transformation Facility (US\$42 million) and a Stand-by Arrangement (US\$33 million). Following Board approval of Georgia's request for arrangements under the ESAF in support of a medium-term adjustment program, in February 1996 the Fund disbursed another US\$41 million.

B. External debt

94. Having signed to zero-option with Russia, Georgia entered independence with modest external obligations. However, with output collapsing during 1991-1994, the export base shrinking, the need for imports (particularly of wheat) rising, and prices of imported energy skyrocketing as a result of the dissolution of the old interstate trading arrangements, external debt obligations of almost US\$1.0 billion were accumulated by end-1994 (Appendix I, Table 31). Most of this debt was not formally contracted prior to the shipment of goods, and continued to accumulate even after Georgia ceased servicing it. Georgia's end-1994 obligations to the countries of the former U.S.S.R. amounted to about US\$664 million, two thirds of which (including penalties) were owed to Turkmenistan for gas shipments³⁰, and other large amounts to Russia and Kazakstan. Holding almost half of the remaining external debt, the EU is the largest creditor outside the group of countries of the former U.S.S.R., followed by Austria and Turkey.

95. Due to the short maturity of the outstanding stock of debt, total debt service in 1994 amounted to US\$150 million, or 31 percent of estimated exports of goods and nonfactor services (Appendix I, Table 32). Since official reserves had been virtually exhausted during that year, Georgia accumulated large payment arrears, amounting to about US\$409 million by end-1994. With debt service due in 1995 reaching US\$325 million, or 69 percent of exports of goods and nonfactor services (or eight times the level of end-1994 official foreign exchange reserves), the Georgian authorities approached their bilateral official creditors with a request for debt relief. Georgia's end-1994 total stock of bilateral debt amounted to US\$814 million.³¹

²⁹ Arrears continued to accumulate during 1995 on account of gas deliveries from Turkmenistan that were to be repaid in kind (about US\$22 million).

³⁰ The price of gas imported from Turkmenistan rose five-fold in 1993.

³¹ This excludes US\$147 million outstanding to the EU and includes an estimated US\$15 million in gas arrears to Russia. The Georgian authorities are not aware of the latter claim and
(continued...)

In view of Georgia's very difficult medium-term balance of payments outlook and reduced debt-servicing capacity, the Government requested that its bilateral stock of debt be rescheduled over 10 years, with a grace period of five years, at an interest rate of no more than 4 percent per annum. Under such conditions, annual debt service payments would amount to about US\$32 million over the next five years, which would be in line with Georgia's very limited debt servicing capacity over the short term. Pending the conclusion of rescheduling agreements, the Georgian authorities have been depositing US\$8 million per quarter into a special account at the Netherlands Bank since the beginning 1995.

96. Since end-1994, rescheduling agreements have been reached with a number of bilateral creditors. In June 1996, Armenia agreed to reschedule the entire stock of debt, (US\$19.6 million as of January 1, 1996), with 5 years grace (from January 1996), 10 years maturity, at 4 percent interest. Similar rescheduling terms were agreed in May with Uzbekistan (for a stock of US\$1 million) and in July with Kazakhstan (for a stock of US\$27.8 million). Georgia's largest creditor, Turkmenistan, had already agreed on March 20, 1996, to a rescheduling of the entire stock of debt outstanding as of end-1994 (evaluated at US\$394 million following the cancellation of penalties equivalent to about 10 percent of the stock of debt). The rescheduling terms are: 3 years grace (from March 1995), 8 years maturity, and 4 percent interest. Interest on the restructured amount was payable as of January 1, 1995 in quarterly installments, with the first payment on March 29, 1996, covering interest for 1995 and the first quarter of 1996 (US\$15.7 million and US\$3.9 million, respectively). The Turkmen authorities have indicated that--if Georgia maintains a good track record--they would be prepared to consider an extension of the grace period in the event that Georgia's capacity to repay does not recover adequately. A draft rescheduling agreement has also been initialed with the Islamic Republic of Iran, providing for an rescheduling of the total stock of debt amounting to US\$12.6 million as of end-June 1996, with 4 years grace (from July 1996), 10 years maturity, and 4 percent interest.

C. Developments in the exchange system

97. Since end-1994 the NBG's policy exchange rate has been not to resist an appreciation but to stem a depreciation with moderate foreign exchange sales if necessary. Following the replacement of the coupon by the lari in September 1995 (at the rate of coupon 1 million to one lari), the exchange rate has fluctuated around lari 1.23-1.27 U.S. dollar. The official exchange rate is determined in the TICEX.³²

98. Bilateral real exchange rates against the U.S. dollar and the ruble suggest that the lari has appreciated by well over 50 percent in real terms against the U.S. dollar in 1995 but

³¹(...continued)
have not recognized it yet.

³²For details on Georgia's exchange, trade and payments system, see Appendix V.

remained broadly unchanged against the ruble, and thus significantly below its 1992 level (Chart 10). A different approach to measuring real exchange rate developments based on the evolution of the price of nontradables relative to tradables suggests a much more moderate appreciation during 1995, of about 20 percent.³³ The more rapid increase in the price of nontradables relative to tradables could be a reflection, *inter alia*, of rising output, productivity, and wages in the tradables sector. However, lack of data prevents more robust conclusions. At this stage there are no indications that exports have been adversely affected by exchange rate developments; rather, their continued albeit decelerating decline in 1995 seems to be a reflection of the structural changes under way. This would also seem consistent with the observed decline in imports.

99. With the elimination of the surrender requirements, the introduction of daily auctions at the TICEX in January 1996, and the determination since August 12, 1996, of official exchange rates on a daily basis and in line with the TICEX auction rates, the potential for a multiple currency practice has been eliminated. The spread between the auction rate and the street rate is now less than 1 percent, indicating that the exchange market is functioning relatively smoothly. With the exception of restrictions that could arise from the operation of a system of correspondent accounts with central banks of most states of the former U.S.S.R., the Georgian foreign exchange system is free of restrictions on both current and capital account transactions and is indeed one of the most liberal in the states of the former U.S.S.R.

³³This index, however, has to be interpreted with caution, as the weight of goods with controlled prices in the basket amounts to about 13 percent. For these goods the prices reported may not be those at which the marginal goods or services are traded. Nevertheless, the result appears robust even to the exclusion of goods with controlled prices during 1995 (e.g., bread).

CHART 10

GEORGIA

Bilateral Real Exchange Rates, 1991-1996 1/

- 40a -

Sources: Georgian authorities; and IMF staff estimates.

1/ Bilateral exchange rates, deflated by relative movements in consumer price indices.

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Table 1. Georgia: GDP and NMP by Origin, 1992-95

	1992	1993	1994	1995
(In millions of lari)				
Nominal GDP	0.185	16.4	1,373.2	3,694.0
Nominal NMP ^{1/}	0.140	11.4	961.2	2,585.8
(Ratio as a percent of GDP) ^{2/}				
Agriculture and livestock	54.5	67.7	28.7	45.2
Industry ^{3/}	12.6	6.3	21.3	17.2
Construction	6.7	0.6	5.5	3.5
Transport and Communications	3.9	3.4	8.8	5.1
Trade and catering	1.7	6.9	6.4	14.6
Other	20.6	15.1	29.3	14.4
(Ratio as a percent of NMP) ^{2/}				
Agriculture and livestock	60.4	73.5	39.9	52.2
Industry ^{3/}	23.5	10.0	29.6	19.9
Construction	7.5	0.9	7.6	4.0
Transport and communications	3.5	4.0	12.3	5.9
Trade and catering	2.2	11.0	8.9	16.9
Other material branches	2.9	0.6	1.7	1.1
(Annual percentage change)				
Real GDP	-44.8	-25.4	-11.4	2.4
Real NMP	-43.6	-25.4	-11.4	2.4

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

^{1/} Official estimates of NMP have been adjusted for the exclusion of some regions, based upon their share in 1990.

^{2/} Data for 1994 and 1995 are not comparable with earlier years because they include official estimates for informal sector. Such estimates are subject to large margins of error.

^{3/} Includes the turnover tax.

Table 2. Georgia: Gross Fixed Investment, 1992-95

	1992	1993	1994	1995
(In percent of 1991 level; valued at 1984 prices)				
National economy	32.1	12.0	12.0	12.1
of which:				
Industry	25.9	4.8	4.2	15.1
Agriculture <u>1/</u>	14.9	2.1	--	--
Construction	36.4	--	--	9.1
Transport/communications	50.0	9.5	59.5	26.2
Trade, sales and catering	8.3	--	--	--
Housing	28.7	20.3	14.7	9.8
(In percent of national economy)				
National economy	100.0	100.0	100.0	100.0
of which:				
Industry	18.9	9.5	8.2	29.1
Agriculture <u>1/</u>	3.1	0.7	--	--
Construction	1.8	0.5	--	1.2
Transport/Communications	9.2	5.2	29.4	12.8
Trade, sales and catering	0.4	0.1	--	--
Housing	36.0	68.7	49.4	32.6

Sources: Data provided by the Georgian authorities.

1/ Including forestry.

Table 3. Georgia: Production and State Purchases of Selected Agricultural Products, 1992-95

	1992	1993	1994	1995
(Total harvest/output; in thousand tons, unless otherwise indicated)				
Grain crops	503.4	440.0	479.0	590.0
Sugar beets (factory)	24.0	14.6	8.2	11.0
Sunflower	7.3	7.7	7.7	25.0
Potatoes	210.8	190.0	296.9	315.0
Vegetables	308.3	270.0	413.2	507.0
Fruits and berries	336.8	184.0	372.6	406.0
Grapes	328.4	157.0	250.6	342.0
Citruses	138.1	69.0	85.4	100.8
Crude tea (high-grade)	212.3	135.5	60.7	36.8
Meat	113.4	82.6	137.0	160.0
Eggs (in millions)	297.3	138.0	256.0	357.0
Milk	469.6	393.9	415.0	430.0
(State purchases, percentage of total harvest/output)				
Grain crops	15.9	2.7	0.6	--
Sugar beets (factory)	100.0	69.9	78.0	86.4
Sunflower	4.1	7.7	--	--
Potatoes	12.3	1.9	--	--
Vegetables	16.3	6.4	0.3	--
Fruits and berries	12.0	1.6	0.1	0.4
Grapes	42.5	42.5	4.2	12.1
Citruses	31.7	25.7	95.5	89.3
Crude tea (high-grade)	100.0	100.0	100.0	100.0
Meat	13.4	4.6	1.3	--
Eggs	35.0	17.6	3.7	--
Milk	9.3	4.0	1.2	--
(In percent of 1991 level; valued at 1983 prices)				
Grain crops	91.9	76.8	83.5	102.9
Sugar beets (factory)	133.3	11.1	11.1	11.1
Sunflower	105.9	111.7	111.7	358.8
Potatoes	82.9	74.7	116.6	123.7
Vegetables	86.5	75.7	115.9	142.2
Fruit and berries	84.1	46.0	93.0	101.4
Grape	63.4	30.2	48.4	66.0
Citruses	68.4	34.2	42.3	49.9
Crude tea (high-grade)	48.6	31.0	13.1	7.9
Meat	47.8	34.6	57.4	67.0
Eggs	43.8	20.3	37.7	52.4
Milk	83.5	70.1	73.8	76.5

Source: Data provided by the Georgian authorities.

Table 4. Georgia: Livestock Production, 1992-95
(In thousands)

	1992	1993	1994	1995
Cattle	1,002.6	928.6	944.1	950.1
State and collective farms	198.7	119.0	78.9	60.4
Other	803.9	809.6	865.2	889.7
Sheep and goats	1,190.6	958.1	793.3	750.0
State and collective farms	550.3	354.1	222.5	167.9
Other	640.3	604.0	570.8	582.1
Pigs	476.2	365.1	366.9	350.0
State and collective farms	90.3	46.7	29.9	23.3
Other	385.9	318.4	337.0	326.7
Horses	16.8	19.5	21.4	19.7
State and collective farms	2.7	2.0	1.6	1.1
Other	14.1	17.5	19.8	18.6
Poultry	11,210.9	11,857.5	...	10,500
State and collective farms	1,379.4	1,352.3	...	200
Other	9,831.5	10,505.2	...	10,300

Source: Data provided by the Georgian authorities.

Table 5. Georgia: Production of Selected Industrial Commodities, 1992-95

(In thousands of tons, unless otherwise indicated)

	1992	1993	1994 1/	1995 1/ Est.
Fuel and energy				
Electric power (billions of kwh)	11.5	9.7	7.0	7.1
Coal	181.0	82.2	33.0	42.7
Oil	125.0	88.2	67.0	42.7
Natural Gas (millions of m3)	37.9	21.8	6.0	3.3
Gasoline	71.9	18.6	8.6	3.3
Diesel fuel	110.8	34.5	17.9	8.4
Lubricating oil	-	-	-	-
Mazut	189.1	72.8	24.8	11.7
Motor oil	5.0	2.0	1.4	...
Metallurgy				
Cast-iron	242.3	4.3	-	-
Steel	532.0	219.0	120.4	88
Finished roll steel	383.5	142.8	...	...
Rolled ferrous metal	429.6	185.6	93.7	69.5
Steel pipes				
In millions of meters	12.4	5.5	2.2	1.7
In thousands of tons	208.0	110.2	39.3	37.3
Manganese ore	292.5	36.8	29.3	41.9
Electro-ferro manganese	10.0	6.9	2.4	-0.1
Metallurgical manganese (in tons)	290.0	164.0	0.1	0.1
Machine-building				
A/C motors (thousands of kw)	6.6	9.0	...	...
Machine tools (units)	1,001.0	348.0	109.0	57.0
Electric welding equipment (thousands of units)	5.7	3.9	1.1	...
Magnetic stations (thousands of units)	31.1	17.2	...	...
Flooding electric engines (thousands of units)	2.8	1.2	1.0	0.7
Lifting motors (thousands of units)	6.7	5.2	...	...
Chemical/timber products				
Mineral fertilizers 2/	76.6	58.6	34.0	42.7
Chemical fibers and threads	4.5	8.0	0.9	0.2
Synthetic ammoniac	117.3	91.0	52.8	65.6
Synthetic resin and plastic	7.6	10.2	2.1	0.6
Synthetic detergents and soap	2.5	2.2	0.1	...
Sawdust (thousands of m3)	34.9	...	...	...
Paper	2.2	0.0	0.1	...
Construction				
Asbestos tiles/slates (in millions)	9.9	4.1	0.6	0.1
Prefabricated ferro-concrete structures (thousands of m3)	208.3	83.7	8.3	6.7
Ceramic tiles (thousands of m3)	-	-	...	...
Building bricks (millions of units)	328.0	20.2	9.2	6.4
General merchandise and household appliances				
China and porcelain ware (millions of units)	0.8	0.1	...	...
Color TV (thousands of units)	8.0	0.9	0.1	0.2
Notebooks (millions of units)	11.8	-	...	...

Table 5 (concluded). Georgia: Production of Selected Industrial Commodities, 1992-95

(In thousands of tons, unless otherwise indicated)

	1992	1993	1994 1/	1995 1/ Est.
Light industry				
Silk thread (in tons)	110.0	4.7	...	...
Cotton yarn	5.0	2.6	1.3	1.0
Wool yarn	2.4	1.5	0.5	0.3
Nonwoven fabrics (millions of meters)	3.3	1.2	0.5	0.1
Hosiery (millions of pairs)	9.5	6.2	1.0	0.4
Knitwear (millions of units)	7.8	3.2	0.9	0.5
Footwear (millions of pairs)	2.6	1.0	0.2	0.1
Fabrics, total (millions of m2)	29.9	15.4	3.8	2.0
Cotton	12.9	7.6	1.8	0.7
Wool	3.6	1.9	0.7	0.5
Silk	10.1	4.7	0.8	0.8
Other	3.1	1.2	0.5	0.2
Carpets (millions of m2)	0.1	0.1	0.1	4.7
Basic foodstuff and food-processing				
Granulated sugar	2.0	0.8	—	0.21
Meat	6.5	3.4	0.3	0.1
Sausage	4.3	0.5	0.2	...
Fish	1.9	1.2	...	...
Butter	0.2	0.1	...	...
Dairy products (in terms of milk)	24.8	18.0	17.2	4.1
Fat cheese	2.8	0.9	0.4	0.3
Vegetable oil	1.4	0.5	...	...
Margarine	2.3	2.3	0.1	0.1
Canned food	93.0	43.5	12.1	9.4
Confectionary	1.9	1.9	0.4	0.3
Tea, primary processed	31.4	23.8	15.5	12.5
Natural tea	32.9	15.2	5.3	2.6
Macaroni products	18.6	8.2	4.6	2.4
Non-alcoholic beverages (millions of decaliters)	2.7	0.6	0.4	0.6
Mineral water (millions of 1/2 liters)	61.6	26.6	15.8	15.9
Cigarettes (thousand millions)	5.0	5.4	3.3	1.9
Soap	1.2	1.4	...	...
Vodka and liqueurs (thousands of decaliters)	647.0	700.0	456.3	48.1
Grape wine (thousands of decaliters)	17,970.0	10,860.0	4,363.0	4,123.0
Champagne (thousands of decaliters)	9,736.0	5,912.0	1,989.0	461.0
Cognac (thousands of decaliters)	1,358.0	1,061.0	234.2	112.2
Beer (thousands of decaliters)	2,352.0	1,175.0	672.9	671.3

Sources: Data provided by the Georgian authorities.

1/ Data for Abkhazia and South Ossetia are not included.

Table 6. Georgia: Transportation by State Enterprises, 1992-95

	1992	1993	1994	1995
	(Thousands of tons)			
Freight transport	40,161	20,400	14,295	13,611
Rail	7,695	5,321	2,851	3,283
Road	26,545	10,416	8,168	8,690
Sea	5,921	4,663	3,276	1,638

Source: Department of Social and Economic Information (DSEI).

Table 7. Georgia: Retail/Consumer Price Index in Tbilisi, 1993-1996 1/
(Index: December 1990=100)

		Percentage Changes		
	Consumer Price Index	Over Previous Month	Over Previous Quarter	Over Same Month Last Year
1993				
January	4,418.0	26.7		1,434.9
February	6,052.6	37.0		1,689.6
March	6,887.9	13.8	97.5	583.9
April	8,589.2	24.7		473.9
May	11,320.5	31.8		852.6
June	14,863.9	31.3	115.8	942.3
July	20,779.7	39.8		1,147.6
August	26,660.4	28.3		1,410.0
September	40,097.2	50.4	169.8	1,881.8
October	66,681.6	66.3		2,853.1
November	158,435.5	137.6		6,065.8
December	264,587.3	67.0	559.9	7,487.9
Average 1993	52,447.8	...	...	3,125.4
1994				
January	710,099.3	168.4		15,973.0
February	959,344.2	35.1		15,750.1
March	1,440,935.0	50.2	444.6	20,819.9
April	2,657,084.0	84.4		30,835.2
May	3,791,658.9	42.7		33,393.6
June	3,602,076.0	-5.0	150.0	24,133.8
July	3,825,404.7	6.2		18,309.3
August	6,541,442.0	71.0		24,436.2
September	20,356,967.6	211.2	465.1	50,669.1
October	18,646,982.4	-8.4		27,864.2
November	18,926,687.1	1.5		11,846.0
December	17,393,625.4	-8.1	-14.6	6,473.9
Average 1994	8,237,692.2	...	...	15,606.5
1995				
January	19,654,796.7	13.0		2,667.9
February	19,812,035.1	0.8		1,965.2
March	19,217,674.1	-3.0	10.5	1,233.7
April	19,025,497.3	-1.0		616.0
May	19,995,797.7	5.1		427.4
June	19,755,848.1	-1.2	2.8	448.5
July	19,929,699.6	0.9		421.0
August	20,587,379.7	3.3		214.7
September	21,431,462.2	4.1	8.5	5.3
October	26,446,424.4	23.4		41.8
November	26,472,870.8	0.1		39.9
December	27,372,948.4	3.4	27.7	57.4
Average 1995	21,641,869.5	...	...	162.7
1996				
January	28,057,272.1	2.5		42.8
February	28,898,990.3	3.0		45.9
March	29,794,859.0	3.1	8.8	55.0
April	30,301,371.6	1.7		59.3
May	30,452,878.5	0.5		52.3
June	30,574,690.0	0.4	2.6	54.8
July	30,207,793.7	-1.2		51.6

Sources: Data provided by the Georgian authorities.

1/ Until December 1993, according to the Retail Price Index; after December 1993 according to a 295-good Laspeyres index using a methodology introduced by a STA mission.

Table 8. Georgia: Pension and Minimum Government Monthly Wage, 1994-96¹

	<u>Minimum Monthly Wage</u>		<u>Monthly Pension</u>	
	Nominal (in lari)	Real ² (Jan. 1991=100))	Nominal (in lari)	Real ² (Jan. 1991=100)
1994				
Jan.	0.05	10.4	0.06	12.0
Feb.	0.05	7.7	0.06	8.9
Mar.	0.05	5.1	0.07	7.1
Apr.	0.05	2.8	0.08	4.6
May	0.05	1.9	0.10	3.9
June	0.05	2.1	0.10	4.1
July	0.05	1.9	0.10	3.8
Aug.	0.05	1.1	0.10	2.2
Sept.	1.00	7.3	2.50	18.1
Oct.	1.00	7.9	2.50	19.8
Nov.	1.00	7.8	2.50	19.5
Dec.	1.00	8.5	2.50	21.2
1995				
Jan.	1.50	11.3	3.00	22.5
Feb.	1.50	11.2	3.00	22.4
Mar.	1.50	11.5	3.00	23.1
Apr.	1.50	11.6	3.00	23.3
May	1.50	11.1	3.00	22.2
June	1.50	11.2	3.00	22.4
July	3.50	25.9	3.70	27.4
Aug.	3.50	25.1	3.70	26.5
Sept.	3.50	24.1	3.70	25.5
Oct.	3.50	19.5	3.70	20.7
Nov.	6.00	33.5	6.00	33.5
Dec.	6.00	32.4	6.00	32.4
1996				
Jan.	6.00	31.6	6.00	31.6
Feb.	7.00	35.8	7.00	35.8
Mar.	7.00	34.7	7.00	34.7
Apr.	7.00	34.1	7.00	34.1
May	7.00	34.0	7.00	34.0
June	9.00	43.5	8.50	41.1
July	9.00	44.0	8.50	41.6

Sources: Ministry of Labor and Social Affairs.

¹Includes only wages of budgetary organizations.

²The pension and minimum nominal wage are deflated by the CPI (Laspeyres).

Table 9. Georgia: Average Monthly Wages, 1992-95^{1 2}

(In lari)

	1992	1993	1994	1995 Est.
Total economy	0.002	0.028	6.2	15.7
Industry	0.002	0.041	9.6	21.3
Workers	0.002	0.037	8.5	20.2
Agriculture	0.001	0.016	1.4	4.2
State farms, agricultural enterprises	0.001	0.017	1.1	3.8
Construction	0.002	0.046	12.6	40.3
Workers	0.002	0.045	17.3	50.3
Transportation	0.001	0.052	9.3	32.9
Railway transportation	0.002	0.061	10.5	37.2
Waterway transportation	0.003	0.094	9.9	43.9
Urban transportation	0.001	0.036	13.2	37.7
Communications	0.002	0.036	6.5	25.9
Trade and distribution	0.001	0.012	2.7	23.1
Computer services	0.002	0.028	3.6	11.1
Housing and communal services	0.001	0.028	8.8	20.4
Public health and social security	0.001	0.015	1.0	5.8
Public education	0.001	0.013	1.2	8.4
Culture	0.001	0.019	1.1	3.9
Art	0.001	0.021	1.8	5.8
Science and related services	0.001	0.023	1.7	9.5
Credit and state insurance institutions	0.005	0.064	5.1	29.3
State administration and management	0.005	0.025	2.9	8.5
Memorandum items:				
Average annual salary				
Total economy	0.018	0.335	73.8	188.4
Industry	0.022	0.494	115.7	255.6
Agriculture	0.010	0.188	16.3	50.4
Services ³	0.023	0.354	...	...

Sources: Data provided by the Georgian authorities.

¹Wages include all cash, compensation, and value of goods-in-kind.

²These data are subject to large margins of error.

³Average for all services.

Table 10. Georgia: Population and Employment, 1992-95
(In thousands)

	1992	1993	1994	1995 Est.
Total population <u>1/</u>	5,412.4	5,395.7	5,377.9	5,368.7
Males	2,578.3	2,570.0	2,559.9	2,555.5
Females	2,834.1	2,825.7	2,818.0	2,813.2
Urban	3,014.9	2,999.8	2,990.1	2,985.0
Rural	2,397.6	2,395.9	2,387.8	2,383.7
Under 16 years of age	1,395.3	...	...	...
In active years <u>2/</u>	3,014.1	...	...	...
Over active age	1,003.0	...	...	...
Population employed <u>3/</u>	1,984.2	1,792.0	1,749.7	1,730.0
State sector	1,375.6	1,160.0	1,095.7	985.3
of which:				
Industry and construction	422.1	337.1	278.1	251.7
Agriculture	160.3	113.6	107.4	90.0
Transportation and communications	72.4	97.8	98.7	78.1
Trade and other materials sectors	64.1	85.0	56.8	41.1
Health, education, and science	438.2	413.3	315.4	211.1
Administration and finance	50.2	59.7	45.3	44.1
Other nonmaterial sector	98.3	53.6	78.2	6.4
Cooperatives <u>4/</u>	197.1	143.7	94.0	110.7
Industry and construction	64.9	25.6	24.0	40.1
Agriculture	78.1	60.9	48.1	40.3
Other	54.1	57.2	21.9	30.3
Private sector	411.5	488.2	560.0	634.0
of which: self-employed	4.4	5.0	5.0	6.4
Retired (receiving pension)	1,079.6	1,139.6	1,140.8	1,140.7
of which: retirees employed	245.1	127.1	93.0	65.2

Source: Data provided by the Georgian authorities.

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-June 1996 employment on the informal sector was about 750,000 persons.

4/ Including collective farms and consumer cooperatives.

Table 11. Georgia: Unemployment, 1992-95

(Number of persons)

	1992	1993	1994	1995	1996 June
Registered unemployed	136,402	225,886	75,714	65,450	47,000
Of which:					
Receiving benefits	22,218	12,289	796	5,156	...

Sources: Ministry of Labor and Social Affairs and DSEI.

Table 11. Georgia: Unemployment, 1992-95

(Number of persons)

	1992	1993	1994	1995	1996 June
Registered unemployed	136,402	225,886	75,714	65,450	47,000
Of which:					
Receiving benefits	22,218	12,289	796	5,156	...

Sources: Ministry of Labor and Social Affairs and DSEL.

Table 12. Georgia: Summary of General Government Operations: Economic Classification, 1994-1996

(in millions of lari)

	1994			1995			1996
	Jan.-June	July-Dec.	Annual	Jan.-June	July-Dec.	Annual	Jan.-June
Total revenue and grants	17.2	88.8	106.0	95.4	165.5	260.9	233.4
Total revenue	5.6	52.6	58.1	71.2	118.8	189.9	192.5
Tax revenue	4.7	36.4	41.1	51.8	80.1	131.9	117.4
Taxes on income	0.3	3.1	3.4	7.1	13.7	20.9	16.8
Taxes on profits	1.7	9.9	11.6	13.5	15.1	28.6	16.0
VAT	1.4	15.2	16.6	20.7	37.7	58.5	51.1
Customs duties 1/	0.3	2.0	2.3	3.2	2.3	5.4	7.9
Other taxes 2/	1.0	6.2	7.2	7.2	11.2	18.5	25.6
Nontax revenue 3/	0.9	6.7	7.6	5.7	11.2	16.9	20.5
Capital revenue	-	-	-	-	-	-	-
Extrabudgetary revenue 4/	-	9.4	9.4	13.7	27.5	41.2	54.6
Grants	11.7	36.2	47.9	24.2	46.7	71.0	40.9
Total expenditure and net lending	104.6	228.3	333.0	195.6	259.8	455.4	340.1
Total expenditure	104.6	218.1	322.7	177.8	250.3	428.1	340.1
Current expenditure	104.6	214.2	318.8	158.7	230.6	389.3	313.8
Wages and salaries	1.5	9.5	11.0	26.4	33.1	59.5	43.7
Other goods and services 5/	12.0	13.0	25.0	23.3	32.8	56.1	48.1
Subsidies and transfers	78.0	112.1	190.1	16.6	22.5	39.1	29.7
Social assistance	-	15.9	15.9	14.7	18.5	33.2	28.9
Other 6/	78.0	96.2	174.2	2.0	3.4	5.4	0.8
Interest payments 7/	4.2	29.6	33.8	27.3	27.3	54.6	24.6
Domestic	-	-	-	0.1	0.9	1.0	2.8
External	4.2	29.6	33.8	6.4	5.6	12.0	2.6
Interest on rescheduled debt	-	-	-	20.8	20.8	41.6	19.3
Other current expenditure 8/	6.7	15.0	21.7	19.6	30.1	49.7	47.9
Unclassified expenditure	-	8.4	8.4	2.0	8.5	10.4	26.8
Extrabudgetary expenditures 9/	0.5	5.7	6.2	20.1	29.8	49.9	47.2
Local government expenditures	1.8	20.8	22.6	23.4	46.6	70.1	45.7
Capital expenditure and net lending	-	14.2	14.2	36.9	29.2	66.1	26.3
Capital expenditure	-	4.0	4.0	19.1	19.7	38.8	26.3
Net lending	-	10.2	10.2	17.8	9.5	27.3	-
Overall balance (accrual)	-87.3	-139.6	-226.9	-100.2	-94.3	-194.5	-106.8
Expenditure arrears (-, reduction)	42.7	83.0	125.7	32.5	-5.7	26.8	3.0
External interest	4.1	28.5	32.6	6.4	5.6	12.0	2.1
Other 10/	38.5	54.5	93.0	26.1	-11.3	14.8	0.9
Overall balance (cash)	-44.7	-56.5	-101.2	-67.7	-100.0	-167.7	-103.8
Total financing	44.7	56.5	101.2	67.7	100.0	167.7	103.8
Domestic Bank	1.2	17.8	19.0	27.1	32.3	59.4	57.6
External	43.5	38.8	82.2	40.6	67.6	108.2	46.1
Disbursements	42.5	23.4	66.8	40.6	67.6	108.2	46.1
Amortization	-17.7	-142.7	-160.5	-	-116.5	-116.5	-15.5
Changes in arrears (-, reduction)	17.7	142.7	160.5	-	116.5	116.5	15.5

Table 12. (Concluded) Georgia: Summary of General Government Operations: Economic Classification, 1994-1996

(in millions of lari)

	1994			1995			1996
	Jan.-June	July-Dec.	Annual	Jan.-June	July-Dec.	Annual	Jan.-June
(In percent)							
Memorandum items:							
Revenue and grants/expenditure	16.5	40.7	32.9	53.7	66.1	60.9	68.6
Revenue/expenditure and net lending	5.3	23.0	17.5	36.4	45.7	41.7	56.6
Cash balance/expenditure and net lending	-42.7	-24.8	-30.4	-34.6	-38.9	-37.1	-30.5
Accrual balance/expenditure and net lending	-83.5	-61.1	-68.1	-51.2	-36.3	-42.7	-31.4
Revenue/current expenditure	5.4	22.0	18.2	44.8	51.5	48.8	61.3

Sources: Georgian authorities; and staff estimates.

1/ For 1994, this includes VAT, excises, and customs duties collected on imports, and export taxes up to September 1994. For 1995 and 1996, this is comprised of duties on imports.

2/ Includes excises, the presumptive tax, the property tax, the fixed tax on petroleum, the land tax, the presumptive tax, the state tax and the ecology tax.

3/ Includes the government's share of NBG profits, from the third quarter of 1995 onwards, as well as license fees, fines and other fees.

4/ Comprised of revenues of Social Security Fund, the Employment Funds, the Health Fund, the Privatization Fund and the Road Fund.

5/ Includes office supplies and food and lodging for the military and law enforcement agencies.

6/ For 1994, this includes the expenditure counterpart of wheat grants, subsidies for metro and publishing, accrued gas payments up to September 1994 (thereafter the government payments to the Gas Corporation covering non-payment by consumers are included as net lending), and operating costs of the Electricity Corporation up to September 1994. For 1995, this includes subsidies for metro and newspapers printing and enterprise subsidies out of the Privatization Fund, and for 1996 subsidies for newspaper printing.

7/ Includes interest payments on domestic, external and rescheduled debt. For 1995 and 1996 it is assumed that external creditors will agree to limit debt-service payments to US\$8 million per quarter.

8/ Includes payment for lari and coupon printing and tetri minting, business travel official presentation, foreign embassy costs, and health expenditures through the Health Fund.

9/ Includes pensions and unemployment benefit outlays.

10/ Includes domestic expenditure arrears as identified by the government committee on expenditure arrears and irreconcilable differences in data obtained from different sources. The figure for the increase of arrears in 1994 is considerably larger than the accumulation of identified arrears; this is to be resolved by the committee on expenditure arrears.

Table 13. Georgia: Summary of General Government Operations: Economic Classification, 1994-1996 1/
(in percent of GDP)

	1994			1995			1996
	Jan.-June	July-Dec.	Annual	Jan.-June	July-Dec.	Annual	Jan.-June
Total revenue and grants	8.6	7.6	7.7	5.7	8.2	7.1	8.3
Total revenue	2.8	4.5	4.2	4.2	5.9	5.1	6.8
Tax revenue	2.3	3.1	3.0	3.1	4.0	3.6	4.2
Taxes on income	0.2	0.3	0.3	0.4	0.7	0.6	0.6
Taxes on profits	0.8	0.8	0.8	0.8	0.8	0.8	0.6
VAT	0.7	1.3	1.2	1.2	1.9	1.6	1.8
Customs duties 1/	0.1	0.2	0.2	0.2	0.1	0.2	0.3
Other taxes 2/	0.5	0.5	0.5	0.4	0.6	0.5	0.9
Nontax revenue 3/	0.4	0.6	0.6	0.3	0.6	0.5	0.7
Capital revenue	-	-	-	-	-	-	-
Extrabudgetary revenue 4/	-	0.8	0.7	0.8	1.3	1.0	1.9
Grants	5.8	3.1	3.5	1.5	2.3	1.9	1.5
Total expenditure and net lending	52.3	19.5	24.3	11.6	12.9	12.3	12.0
Total expenditure	52.3	18.6	23.5	10.6	12.4	11.6	12.0
Current expenditure	52.3	18.3	23.2	9.4	11.5	10.5	11.1
Wages and salaries	0.8	0.8	0.8	1.6	1.6	1.6	1.6
Other goods and services 5/	6.0	1.1	1.8	1.4	1.6	1.5	1.7
Subsidies and transfers	39.0	9.6	13.8	1.0	1.1	1.1	1.0
Social assistance	-	1.4	1.2	0.9	0.9	0.9	1.0
Other 6/	39.0	8.2	12.7	0.1	0.2	0.2	-
Interest payments 7/	2.1	2.5	2.5	1.6	1.4	1.5	0.9
Domestic	-	-	-	-	-	-	0.1
External	2.1	2.5	2.5	0.4	0.3	0.3	0.1
Interest on rescheduled debt	-	-	-	1.2	1.0	1.1	0.7
Other current expenditure 8/	3.3	1.3	1.6	1.2	1.5	1.3	1.7
Unclassified expenditure	-	0.7	0.6	0.1	0.4	0.3	1.0
Extrabudgetary expenditures 9/	0.2	0.5	0.5	1.2	1.5	1.4	1.7
Local government expenditures	0.9	1.8	1.6	1.4	2.3	1.9	1.6
Capital expenditure and net lending	-	1.2	1.0	2.2	1.5	1.8	0.9
Capital expenditure	-	0.3	0.3	1.1	1.0	1.1	0.9
Net lending	-	0.9	0.7	1.1	0.5	0.7	-
Overall balance (accrual)	-43.7	-11.9	-16.5	-6.0	-4.7	-5.3	-3.8
Expenditure arrears (-, reduction)	21.4	7.1	9.2	1.9	-0.3	0.7	0.1
External interest	2.1	2.4	2.4	0.4	0.3	0.3	0.1
Other 10/	19.3	4.6	6.8	1.6	-0.6	0.4	-
Overall balance (cash)	-22.4	-4.8	-7.4	-4.0	-5.0	-4.5	-3.7
Total financing	22.4	4.8	7.4	4.0	5.0	4.5	3.7
Domestic Bank	0.6	1.5	1.4	1.6	1.6	1.6	2.0
External	21.8	3.3	6.0	2.4	3.4	2.9	1.6
Disbursements	21.8	2.0	4.9	2.4	3.4	2.9	1.6
Amortization	-8.9	-12.2	-11.7	-	-5.8	-3.2	-0.5
Changes in arrears (-, reduction)	8.9	12.2	11.7	-	5.8	3.2	0.5

Sources: Georgian authorities; and staff estimates.

1/ For footnotes see Appendix I, Table 12.

Table 14. Georgia: Excise Tax Rates

Product	<u>February 1, 1994-June 14, 1995</u>		<u>As of June 15, 1995</u>
	Tax Inclusive Rate On Domestic Products	Tax Exclusive Rate On Imported Products	Tax Exclusive Rate On Domestic and Imported Products
Spirits	90	90	100
Liquor/Vodka	60	60	100
Champagne and cognac	75	75	100
Wine <u>1/</u>	56	56	15
Beer	10	30	100
Tobacco products	40	40	100
Cars	--	10	30
Tires	5	5	50
Gasoline <u>2/</u>	10	10	15
Carpets	40	40	30
Jewelry	20	20	50
Tea <u>3/</u>	30	30	--
Caviar	40	40	--
Chocolate	40	40	--
Chewing Gum	10	20	--
China <u>4/</u>	30	30	--
Crystal glass	40	40	--
Leather products	35	35	--
Fur garments	25	25	--

Source: Georgian authorities.

1/ As of May 10, 1995, the excise tax on domestically produced wine was reduced to 15 percent.

2/ As of December 1, 1994, the excise tax on domestically produced and imported gasoline was increased to 15 percent.

3/ As of May 7, 1995, the excise tax on domestically produced tea was eliminated.

4/ As of January 30, 1995, the excise tax on china was eliminated.

Table 14. Georgia: Excise Tax Rates

Product	<u>February 1, 1994-June 14, 1995</u>		<u>As of June 15, 1995</u>
	Tax Inclusive Rate On Domestic Products	Tax Exclusive Rate On Imported Products	Tax Exclusive Rate On Domestic and Imported Products
Spirits	90	90	100
Liquor/Vodka	60	60	100
Champagne and cognac	75	75	100
Wine <u>1/</u>	56	56	15
Beer	10	30	100
Tobacco products	40	40	100
Cars	--	10	30
Tires	5	5	50
Gasoline <u>2/</u>	10	10	15
Carpets	40	40	30
Jewelry	20	20	50
Tea <u>3/</u>	30	30	--
Caviar	40	40	--
Chocolate	40	40	--
Chewing Gum	10	20	--
China <u>4/</u>	30	30	--
Crystal glass	40	40	--
Leather products	35	35	--
Fur garments	25	25	--

Source: Georgian authorities.

1/ As of May 10, 1995, the excise tax on domestically produced wine was reduced to 15 percent.

2/ As of December 1, 1994, the excise tax on domestically produced and imported gasoline was increased to 15 percent.

3/ As of May 7, 1995, the excise tax on domestically produced tea was eliminated.

4/ As of January 30, 1995, the excise tax on china was eliminated.

Table 15. Georgia: Marginal Rates of the Personal Income Tax
(From January 1994)

Annual income	Marginal Rate
less than lari 10 <u>1/</u>	12 percent
lari 10 - lari 20	15 percent
lari 20 - lari 30	17 percent
lari 30 and above	20 percent

Source: Georgian authorities.

1/ A standard deduction of lari 3.5 applies to all income tax payers.

Table 16. Georgia: Number of Registered and Active Taxpayers, 1994-1995

	July 1994	January 1995	July 1995	January 1996	July 1996
Registered taxpayers ^{1/}	73,884	74,408	74,438	77,029	69,250
Active taxpayers ^{2/}	30,544	30,123	35,500	39,870	42,600
Memorandum items:	(In percent)				
Increase in registered taxpayers ^{3/}	6.3	0.7	-	3.5	-10.1
Increase in active taxpayers ^{3/}	1.9	-1.4	17.9	12.3	6.8
Active/registered taxpayers	41.3	40.5	47.7	51.8	61.5

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 17. Georgia: Tax Arrears, 1995-96

(beginning of period)

	1995		1996	
	January	July	January	July
Stock:	(In thousands of lari)			
Total tax arrears	14,777	30,497	45,344	61,430
VAT	7,325	13,427	12,260	18,759
Profit tax	4,892	10,591	13,610	18,211
Personal income tax	38	109	153	1,644
Excise tax	444	2,278	2,389	3,911
Property tax	177	538	1,471	3,085
Land tax	--	--	10,854	7,438
Other taxes	1,900	3,554	4,607	8,382
	(In percent of GDP) 1/			
Total tax arrears	1.1	1.1	1.2	1.3
VAT	0.5	0.5	0.3	0.4
Profit tax	0.4	0.4	0.4	0.4
Personal income tax	--	--	--	--
Excise tax	--	0.1	0.1	0.1
Property tax	--	--	--	0.1
Land tax	--	--	0.3	0.1
Other taxes	0.1	0.1	0.1	0.2
Flow:	(In thousands of lari)			
Total tax arrears 2/	9,233	15,720	14,847	16,086
VAT	...	6,102	-1,167	6,499
Profit tax	...	5,699	3,019	4,601
Personal income tax	...	71	44	1,491
Excise tax	...	1,834	111	1,522
Property tax	...	361	933	1,614
Land tax	...	--	10,854	-3,416
Other taxes	...	1,654	1,053	3,775
	(In percent of GDP) 3/			
Total tax arrears 2/	0.8	0.9	0.7	0.6
VAT	...	0.4	-0.1	0.2
Profit tax	...	0.3	0.1	0.2
Personal income tax	...	--	--	0.1
Excise tax	...	0.1	--	0.1
Property tax	...	--	--	0.1
Land tax	...	--	0.5	-0.1
Other taxes	...	0.1	0.1	0.1

Sources: Georgian authorities; and staff estimates.

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

2/ Tax arrears in January 1995 are compared with tax arrears at October 1, 1994, as data for earlier periods are not available.

3/ As a percent of semi-annual GDP.

Table 18. Georgia: Statutory Revenue Sharing Arrangements

Tax	Up until March 1, 1996		As of March 1, 1996	
	Percentage Received by Republican Budget	Percentage Retained by Local Budget	Percentage Retained by Republican Budget	Percentage Retained by Local Budget
VAT 1/	90	10	70	30
Excises	100	--	100	--
Profit tax 2/	--	100	50	50
Income tax 2/	--	100	50	50
Securities tax	--	100	--	100
Customs duties	70	30	100	--
Natural resource tax	--	100	--	100
Ecology tax	--	100	--	100
Land tax	50	50	50	50
Property tax	--	100	--	100
State duties	--	100	--	100
Exchange bureau tax	--	100	--	100
Fixed tax on oil imports	--	100	--	100

Source: Georgian authorities.

1/ Before 1996, 10 percent of VAT revenues was retained by most local governments; some local governments got a larger share however. The average local share in VAT revenues was around 25 percent in 1995 and early 1996. As of March 1, 1996, the sharing rate for the city of Tbilisi is set at 35 percent.

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

Table 19 (concluded). Georgia: The Social Safety Net, 1994-1996.

Entitlements 1/			
Program	November 1995 - January 1996	February 1996 - May 1996	As of June 1996
Pensions (SSF) 2/	lari 6 a month plus lari 3 a month for war veterans	lari 7 a month plus lari 3 a month for war veterans	lari 3.7 a month plus lari 3 a month for war veterans
Unemployment benefits (EF)	lari 3.5 a month the first two months, lari 2.6 a month for the next two months, and lari 1.8 a month for the final two months	lari 4.5 a month for the first two months, lari 3.6 a month for the next two months, and lari 2.8 a month for the final two months	lari 6 a month for the first two months, lari 5.1 a month for the next two months, and lari 4.3 for the last two months
Child allowances (republican government)	only as of the second child lari 2 a month in the city and lari 1 a month in rural areas	only as of the second child lari 4 a month in the city and lari 2 a month in rural areas	only as of the second child lari 5 a month in the city and lari 3 in rural areas
Benefits for single mothers (local government)	lari 2 a month per household	lari 3 a month per household	lari 6 per household
Refugee benefits (republican government)	lari 6 a month in cash benefits, plus an additional monthly benefit of 20 percent for pensioners, a transportation allowance of lari 2.1 a month for refugees living in Tbilisi, and in-kind benefits (mainly housing)	lari 7 a month in cash benefits, plus an additional monthly benefit of 20 percent for pensioners, a transportation allowance of lari 2.1 a month for refugees living in Tbilisi, and in-kind benefits (mainly housing)	lari 8.5 a month in cash benefits, plus an additional monthly benefit of 20 percent for pensioners, a transportation allowance of lari 2.1 a month for refugees living in Tbilisi, and in-kind benefits (mainly housing) at a cost of lari 8 per month per refugee
Memorandum item: Lowest government wage 3/	lari 6 a month	lari 7.5 a month	lari 9 a month

Source: Georgian authorities.

1/ Student stipends are distributed by organizations of higher education among their students; for 1996, the average level of stipends is estimated at lari 4.3 per month.

2/ War veterans who are pension eligible receive a higher pension of lari 6 million during July-September 1995.

3/ Until July 1995, the minimum wage was equal to the lowest wage scale for employees of budgetary organizations. The minimum wage for budgetary employees mainly served as a reference point for the SSN and the government wage grid. The government wage grid and the SSN were de-linked from the minimum wage in July 1995.

Table 19. Georgia: The Social Safety Net, 1994-1996.

Entitlements 1/			
Program	September 1994 - December 1994	January 1994 - June 1995	July 1995 - October 1995
Pensions (SSF) 2/	1 x minimum wage (lari 1 a month)	2 x minimum wage (lari 3 a month)	lari 3.7 a month
Unemployment benefits (EF)	2 x minimum wage (lari 2 a month) for the first two months, 1.5 x minimum wage (lari 1.5 a month) for the next two months, and 1 x minimum wage (lari 1 a month) for the final two months	2 x minimum wage (lari 3 a month) for the first two months, 1.5 x minimum wage (lari 2.25 a month) for the next two months, and 1 x minimum wage (lari 1.5 a month) for the final two months	lari 3.5 a month for the first two months, lari 2.6 a month for the next two months, and lari 1.8 for the last two months
Social assistance to pensioners and government employees (republican government)	minimum income (lari 2.5 a month) minus pension or salary; for pensioners the social assistance was lari 1.5 a month.	minimum income (lari 3 a month) minus salary; the social assistance for pensioners was eliminated with the increase of the pension benefit from the SSF	social assistance to government workers was eliminated with the increase of the lowest base salary for government employees to lari 3.5 as of July 1995
Child allowances (republican government)	0.45 x minimum wage (lari 0.45 a month) per child in the city and 0.3 x minimum wage (lari 0.3 a month) per child in rural areas	0.45 x minimum wage (lari 0.7 a month) per child in the city and 0.3 x minimum wage (lari 0.45 a month) per child in rural areas	only as of the second child lari 1.6 a month in the city and lari 1 in rural areas
Benefits for single mothers (local government)	0.8 x minimum wage (lari 0.8 a month) per child	0.8 x minimum wage (lari 1.2 a month) per child	lari 1.5 per household
Refugee benefits (republican government)	lari 2.5 a month in cash benefits, plus an additional monthly benefit of 20 percent for pensioners, and in-kind benefits (mainly housing)	2 x minimum wage (lari 3 a month) in cash benefits, plus an additional monthly benefit of 20 percent for pensioners, and in-kind benefits (mainly housing)	lari 3.5 a month in cash benefits, plus an additional monthly benefit of 20 percent for pensioners, a transportation allowance of lari 2.1 a month for refugees living in Tbilisi, and in-kind benefits (mainly housing)
Memorandum items: Minimum wage 3/ Minimum income 3/	lari 1 a month lari 2.5 a month	lari 1.5 a month lari 3 a month	lari 3.7 a month lari 3.7 a month

Table 20. Georgia: Summary of General Government Operations:
Functional Classification, 1992-1995

	1992	1993	1994	1995
	(In thousands of lari)			
Revenue and grants ^{1/}	18.9	1,591.9	106,000.0	260,872.0
Tax revenue	15.2	326.0	41,100.0	131,859.0
Nontax revenue ^{2/}	3.7	58.2	7,600.0	16,863.0
Extrabudgetary revenue ^{2/}	...	...	9,400.0	41,200.0
Grants	...	1,207.7	47,900.0	70,950.0
Total expenditure and net lending	66.0	5,892.7	330,000.0	455,376.0
Expenditures included in official presentation ^{3/}	42.7	1,207.6	60,363.6	410,572.0
National economy	20.8	426.0	16,359.7	54,696.0
Social and cultural sphere	12.3	241.1	16,125.0	182,636.0
Education ^{4/}	8.4	111.1	2,497.0	34,178.0
Culture ^{4/}	...	...	...	14,595.0
Health care ^{4/}	3.0	77.8	2,097.0	32,180.0
Social security	...	41.2	10,692.0	1,443.0
Sport ^{4/}	...	...	...	1,398.0
Science	0.9	10.9	839.0	5,736.0
Administration and law enforcement	6.6	310.4	15,539.9	102,759.0
Administration	1.3	19.6	...	22,918.0
Law enforcement	1.7	68.4	...	40,314.0
Defense	3.5	222.4	9,175	39,563.0
Debt service	...	...	...	48,515.0
Other reported expenditure	3.0	230.1	12,339.0	23,739.0
Expenditure excluded from official presentation ^{3/}	23.3	4,685.1	272,636.4	44,624.0
Subsidies excl. from reported budget ^{5/}	...	4,222.7	140,000.0	4,376.0
Of which: energy imports	...	1,610.3	100,400.0	...
Interest payments	...	13.4	33,800.0	6,087.0
Extrabudgetary expenditure ^{6/}	19.7	-6.2	6,200.0	...
Net lending ^{7/}	0.6	433.5	10,200.0	27,280.0
Local government expenditure	...	...	22,600.0	...
Other unreported expenditure	3.0	21.7	59,836.4	6,881.0
Overall accrual balance (-, deficit)	-47.1	-4,300.7	-226,900.0	-194,504.0
Financing	47.1	4,300.7	226,900.0	194,504.0
Domestic	47.1	854.2	91,500.0	74,285.0
Bank ^{8/}	47.1	854.2	18,900.0	60,639.0
Non-bank ^{8/}	...	...	72,600.0	13,646.0
External	...	3,446.5	135,400.0	120,219.0
Net credit	...	...	82,200.0	-8,256.0
Arrears	...	...	53,200.0	128,475.0
Memorandum items:				
Overall balance (official presentation) ^{3/}	-23.8	823.5	-22,503.6	-148,926.0
	(In percent of GDP, unless otherwise indicated)			
Revenue and grants	10.2	9.7	7.7	7.1
Revenue	10.2	2.3	4.2	5.1
Tax revenue	8.2	2.0	3.0	3.6
Total expenditure and net lending	35.6	35.9	24.0	12.3
Overall accrual balance				
Excluding grants	-25.4	-33.6	-20.0	-7.2
Including grants	-25.4	-26.2	-16.5	-5.3
Revenue and grants/expenditure and net lending (percent)	28.6	27.0	32.1	57.3
Revenue/expenditure and net lending (percent)	28.6	6.5	17.6	41.7

Source: Georgian authorities; and staff estimates.

1/ For 1992 and 1993, revenues of local governments are not included.

2/ For 1992-1994, revenues from privatization of state property are included in nontax revenue. For 1995, they are comprised in extrabudgetary revenue.

3/ See Table 21. The figures presented here include extrabudgetary expenditures. In contrast to what is shown for the period 1992-1994, for 1995 the breakdown of expenditures included in the official presentation comprises local government and extrabudgetary expenditures.

4/ For 1992-1994, spending on education and culture is grouped under education expenditures, and spending on health care and sport under expenditures for health care.

5/ For 1993-1994, this includes the difference between costs and prices paid by consumers of gas, electricity and bread, and expenditure counterpart of grants. For 1995, it comprises subsidies from the Privatization Fund.

6/ For 1992, this includes coupons 19.2 billion for Savings Bank inflation indexation.

7/ Includes credit to the hydroelectricity company and loans to other utilities financed from borrowing from CIS countries.

8/ For 1994 and 1995, estimated accumulation of domestic payments arrears.

Table 21. Georgia: Revenue and Expenditure: Official Presentation, 1995 ^{1/}

(In millions of lari)

	Central Government	Local Government
Revenue and grants	139.6	95.2
Revenue	70.4	83.5
Tax revenue	58.0	74.0
Value added tax	46.2	12.3
Excise taxes	2.8	--
Profit tax	--	28.6
Personal income tax	--	20.9
Customs duty	4.4	1.0
Land tax	1.4	2.2
Property tax	--	2.9
Taxes on natural resources	--	1.9
Ecological tax	--	0.1
Exchange bureau tax	0.4	0.1
Fixed tax on oil imports	3.9	
	0.6	
State duties	--	2.8
Other taxes	--	0.6
Nontax revenue	12.4	9.5
Grants and transfers	69.2	11.7
Foreign grants	68.6	--
Transfers from Republican government	--	11.7
Transfers from local government	0.5	--
Expenditure	261.3	91.3
National economy	19.8	33.5
Social and cultural	73.4	42.2
Education and culture	18.5	30.2
Healthcare and sports	13.8	11.4
Social needs	35.4	0.6
Science	5.7	--
Administration and law enforcement	95.3	7.5
State administration	16.9	6.0
Law enforcement	39.1	1.3
Defense	39.4	0.2
Other expenditures	72.9	8.2
Interest	48.5	--
Transfers to Republican government	--	0.5
Transfers to local governments	10.5	--
Other	13.8	7.6
Balance (-, deficit)	-121.7	3.9

Source: Georgian authorities.

^{1/} Excludes unreported revenues and expenditures shown in Table 20.

Table 22. Georgia: Accounts of Extrabudgetary Funds¹
1995-1996

(In millions of lari)

	1995		1996
	Jan.-June	July-Dec.	Jan.-June
Social Security Fund			
Revenue	21.2	43.8	57.1
Payroll taxes	16.2	28.8	36.0
Transfers from republican budget	4.2	12.2	19.2
For pensions	...	...	17.5
For child allowances	...	...	1.7
Other	0.8	2.8	1.9
Expenditure	22.7	43.8	57.1
Pensions	19.8	36.6	50.3
Child allowances	1.6	4.3	4.5
Sickness allowances ²	0.6	1.1	1.2
Other	0.7	1.8	1.1
Balance (-, deficit)	-1.5	--	--
Employment Fund			
Revenue	0.8	1.4	1.2
Expenditure	0.9	1.4	0.6
Unemployment benefits	--	--	0.1
Job programs	0.6	1.0	--
Administration	0.3	0.4	0.4
Balance (-, deficit)	-0.1	--	0.6

Table 22 (concluded). Georgia: Accounts of Extrabudgetary Funds
Fund, 1995-1996

(In millions of lari)

	1995		1996
	Jan.-June	July-Dec.	Jan.-June
State Health Fund ³			
Revenue	--	8.4	11.0
Payroll tax	--	1.7	2.7
Privatization	--	--	0.4
Transfers from Republican budget	--	6.7	7.7
Other	--	--	0.2
Expenditure	--	8.5	10.9
Child health care	--	3.7	4.6
Psychiatric care	--	2.6	2.6
Care for vulnerable groups	--	0.4	0.4
Management reform	--	0.9	1.3
Other	--	0.9	2.0
Balance (-, deficit)	--	-0.1	0.1
Road Fund⁴			
Revenue	--	--	6.9
Road user fees	--	--	1.3
Oil tax	--	--	0.3
Car tax	--	--	1.5
Cross-border tax	--	--	3.8
Expenditure	--	--	8.0
Maintenance and repairs	--	--	7.7
Construction	--	--	0.3
Balance (-, deficit)	--	--	-1.1
o/w financed by arrears accumulation	--	--	-0.7

Source: Georgian authorities.

¹The Privatization Fund is not included because detailed data on this fund's activities are not available.

² Includes allowances for sickness, pregnancy and maternity.

³The State Health Fund was officially established on January 1, 1996, but started operations in August 1995.

⁴The Road Fund started in October, 1995.

Table 23. Georgia: Accounts of the National Bank of Georgia 1/

	Dec-94	Mar-95	Jun-95	Sep-95	Dec-95	Mar-96	Jun-96
Stocks (end of period; in million of lari)							
Net international reserves	3.3	-17.3	-22.4	-53.7	50.1	5.2	17.3
Gold	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Foreign exchange reserves	53.7	37.6	32.8	64.4	192.7	198.3	206.7
Use of IMF resources	-51.9	-56.3	-56.6	-119.5	-142.1	-194.5	-190.8
Other official foreign claims (net)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net domestic assets	37.7	59.2	73.5	106.3	103.7	150.4	155.9
Net claims on general government	27.7	49.3	66.1	102.4	94.6	148.7	167.4
Claims on banks	3.9	4.3	2.6	2.4	4.2	3.6	2.2
Other assets, net	6.1	5.5	4.8	1.5	4.9	-1.9	-13.7
Reserve money	41.0	41.9	51.2	52.6	153.8	155.6	173.1
Currency in circulation (M0)	21.1	19.3	23.5	20.7	131.4	129.0	139.7
Required reserves	7.9	9.4	9.6	10.7	11.9	11.6	12.5
Balances on correspondent accounts	12.0	13.2	18.0	21.2	10.5	15.1	21.0
Flows (with respect to end of previous period; in million of lari)							
Net international reserves		-20.6	-5.1	-31.3	103.8	-44.9	12.0
Net domestic assets	...	21.5	14.3	32.8	-2.6	46.7	5.5
Net claims on general government	...	21.6	16.8	36.3	-7.8	54.0	18.8
Claims on banks	...	0.4	-1.7	-0.2	1.8	-0.6	-1.4
Other assets, net	...	-0.6	-0.7	-3.3	3.4	-6.8	-11.8
Reserve money	...	0.9	9.3	1.4	101.2	1.8	17.5
Currency in circulation	...	-1.8	4.2	-2.8	110.7	-2.4	10.7
Required reserves	...	1.5	0.2	1.1	1.2	-0.3	0.9
Change as a percent of reserve money at the end of the previous year							
Net international reserves	...	-150.2	-112.4	-176.3	153.2	-129.2	-92.2
Percentage change (with respect to the end of the previous year)							
Net domestic assets	...	57.0	95.0	182.0	175.1	45.0	50.3
Reserve money	...	2.2	24.9	28.3	275.2	1.2	12.6
Currency in circulation	...	-8.5	11.4	-1.9	522.6	-1.8	6.4
Memorandum Item:							
Index of real M0 (Dec. 1994=100)	100.0	82.8	98.1	79.6	395.6	356.8	376.7

Sources: National Bank of Georgia; and staff estimates

1/ Valued at current exchange rates.

Table 24. Georgia: Monetary Survey

	Dec-94	Mar-95	Jun-95	Sep-95	Dec-95	Mar-96	Jun-96
Stocks (end of period, in millions of lari)							
Net foreign assets	-19.2	-63.8	-71.7	-106.2	-11.0	-42.5	15.1
Net domestic assets	92.4	117.8	127.4	173.2	191.5	232.1	191.4
Domestic credit	122.7	147.6	163.8	208.9	228.1	294.2	263.1
Net claims on General Government	19.8	35.4	46.8	76.3	79.1	125.9	136.6
Credit to the rest of the economy	102.9	112.2	117.0	132.6	149.0	168.3	126.5
Other items, net	-30.2	-29.8	-36.4	-35.7	-36.6	-62.1	-71.7
Broad money (M3)	73.3	54.0	55.7	67.0	180.6	189.6	206.5
Broad money, excluding forex deposits (M2)	34.1	30.7	33.7	43.4	157.6	150.6	176.2
Foreign currency deposits	39.2	23.3	22.0	23.6	22.9	39.0	30.3
Flows (with respect to previous end of period, in millions of lari)							
Net foreign assets	...	-44.6	-7.9	-34.5	95.2	-31.6	57.6
Net domestic assets	...	25.4	9.6	45.8	18.3	40.6	-40.7
Domestic credit	...	24.9	16.2	45.1	19.2	66.1	-31.1
Net claims on General Government	...	15.6	11.4	29.5	2.8	46.8	10.7
Credit to the rest of the economy	...	9.3	4.8	15.6	16.4	19.3	-41.8
Other items, net	...	0.4	-6.6	0.7	-0.9	-25.5	-9.7
Broad money (M3)	...	-19.3	1.7	11.3	113.6	9.0	16.9
Broad money, excluding forex deposits (M2)	...	-3.4	3.0	9.7	114.2	-7.1	25.7
Foreign currency deposits	...	-15.9	-1.3	1.6	-0.7	16.1	-8.8
Change as a percent of broad money at the end of the previous year							
Net foreign assets	...	-160.8	-110.8	-147.1	29.9	-117.5	-68.1
Percentage change (with respect to the end of the previous year)							
Net domestic assets	...	27.5	37.9	87.4	107.3	21.2	-0.1
Broad money (M3)	...	-26.3	-24.0	-8.6	146.3	5.0	14.4
Broad money, excluding forex deposits	...	-10.0	-1.2	27.3	362.3	-4.5	11.8

Sources: National Bank of Georgia; and staff estimates.

1/ Annualized real GDP divided an index of domestic currency broad money.

Table 25. Georgia--Exchange Rates, June 1993-June 1996¹

		<u>Lari per U.S. Dollar</u>		<u>Lari per thousands of ruble</u>	
		<u>Average</u>	<u>End of</u>	<u>Average</u>	<u>End of</u>
		<u>During Period</u>	<u>Period</u>	<u>During Period</u>	<u>Period</u>
1993	Q3 ²	0.00	0.0136	0.01	0.011
	Q4	0.045	0.1023	0.04	0.084
	1993	...	0.102	...	0.084
1994	Q1	0.216	0.384	0.127	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

¹Lari exchange rates are those prevailing on the Tbilisi Interbank Currency Exchange (TICEX).

²August and September 1993 only.

Table 26. Georgia: Currency Composition of Commercial Bank Credit ^{1/}

	1994	1995				1996	
	December	March	June	September	December	March	June
(In millions of lari)							
Credit to the economy ^{2/}	102.9	112.2	117.0	132.6	149.0	168.2	126.5
Domestic currency claims	37.0	36.9	40.0	...	62.7	78.6	88.2
Foreign currency claims	65.9	75.2	77.1	...	86.2	89.6	38.2
Onlending of Turkish credit ^{3/}	53.1	59.3	59.3	...	54.6	57.9	-
Other foreign currency claims	12.7	16.0	17.8	...	31.7	31.6	38.2
(In percent of total)							
Credit to the economy ^{2/}	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic currency claims	35.9	32.9	34.0	...	42.1	46.7	69.7
Foreign currency claims	64.1	67.1	66.0	...	57.9	53.3	30.3
Onlending of Turkish credit ^{3/}	51.6	52.9	50.7	...	36.6	34.4	-
Other foreign currency claims	12.4	14.2	15.2	...	21.3	18.8	30.3
Memorandum items:							
Foreign currency claims (in millions of U.S. dollars) ^{4/}	41.5	45.6	45.7	...	44.4	45.9	[-]
Exchange rate (lari/US\$; end-period)	1.280	1.300	1.300	1.300	1.230	1.262	1.254

Sources: Georgian authorities; 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, which was formed by the merger of Eximbank (Georgia) with two other banks.

^{4/} Reported data in lari converted at end-period exchange rate.

Table 27. Georgia: Structure of Bank Deposits 1/

	1994 Dec.	1995 March	1995 June	1995 Sept.	1995 Dec.	1996 March	1996 June
(In millions of lari)							
Domestic currency deposits	19.5	15.6	17.7	35.2	32.9	30.5	45.7
Deposits of enterprises 2/	16.7	12.4	14.3	30.7	27.9	25.2	39.8
Current account deposits	15.8	12.2	13.9	30.4	27.6	24.8	39.3
Other deposits	0.9	0.3	0.3	0.3	0.3	0.4	0.5
Deposits of households/ Individuals	2.8	3.3	3.5	4.4	5.0	5.3	5.9
Foreign currency deposits 3/	39.2	23.3	22.0	23.6	22.9	39.0	30.3
Total deposits	58.8	38.9	39.8	58.8	55.8	69.5	76.0
(Percent of total)							
Domestic currency deposits	33.2	40.2	44.6	59.8	58.9	43.8	60.1
Deposits of enterprises 2/	28.5	31.7	35.9	52.2	49.9	36.2	52.4
Current account deposits	27.0	19.3	35.0	51.7	49.4	35.6	51.7
Other deposits	1.5	0.8	0.8	0.5	0.5	0.6	0.7
Deposits of households/ Individuals	4.8	8.5	8.7	7.6	9.0	7.6	7.8
Foreign currency deposits 3/4/	66.8	59.8	55.4	40.2	41.1	56.2	39.8
Total deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum items:							
Foreign currency deposits (In US\$ millions) 4/	32.2	19.0	17.4	18.2	18.6	30.9	24.1
Exchange rate (lari/US\$; end-period)	1.280	1.300	1.300	1.300	1.230	1.262	1.254
Former Savings Bank 5/ (In percent of):							
Domestic currency deposits	16.5	21.2	21.0	35.0	25.2	29.3	30.4
Total deposits	8.7	12.5	10.9	29.7	19.5	34.3	26.3

Sources: Georgian authorities; and staff estimates.

1/ Deposits of all commercial banks, including the former Savings Bank.

2/ Including deposits of cooperatives, state companies, and so-called public organizations.

3/ Available data on foreign currency deposits not broken down by instrument or by sector of holder.

4/ Reported data in domestic currency, converted at end-period exchange rate.

5/ On August 1, 1995 the United Georgian Bank submitted a consolidated balance sheet including "Industriabank", "Eximbank", and "New Georgian Bank."

Table 28. Georgia: Interest Rates, 1995-1996
(At an annual rate)

	Mar-95	Apr-95	May-95	Jun-95	Jul-95	Aug-95	Sep-95	Oct-95	Nov-95	Dec-95	Jan-96	Feb-96	Mar-96	Apr-96	May-96	Jun-96
Commercial banks (3 month) 1/																
Deposits	37.2	35.1	32.2	27.4	24.2	20.9	20.2	23.6	18.0	18.4	18.9	14.4	16.2	14.8	13.4	13.1
Domestic currency	49.3	47.9	43.0	33.7	29.6	22.6	20.1	20.7	15.3	15.0	18.1	13.6	17.1	14.7	13.6	13.4
Former state banks	52.3	54.3	44.3	33.3	28.0	19.7	20.7	20.7	20.7	19.0	19.0	19.7	19.7	12.3	11.7	9.3
Other	47.0	43.0	42.0	34.0	30.8	24.8	19.8	20.8	11.3	12.0	17.5	9.0	15.3	16.5	15.0	16.5
Foreign currency	25.2	22.4	21.4	21.0	18.8	19.2	20.2	26.4	20.8	21.8	13.6	15.2	15.2	14.8	13.2	12.8
Former state banks	32.7	28.0	27.3	26.7	22.0	22.7	25.0	37.3	27.3	26.0	12.3	17.7	16.7	17.0	14.3	13.7
Other	14.0	14.0	12.5	12.5	14.0	14.0	13.0	10.0	11.0	15.5	15.5	11.5	13.0	11.5	11.5	11.5
Loans	111.2	108.1	99.2	94.1	88.1	86.4	79.2	70.7	65.7	69.8	67.1	74.4	75.5	64.3	60.2	60.6
Domestic currency	115.0	108.7	96.9	92.0	86.3	85.6	77.9	65.7	65.9	66.1	63.9	68.1	72.7	57.2	51.3	60.6
Former state banks	154.7	140.0	115.7	104.3	94.3	94.3	79.7	70.0	70.3	68.7	71.7	70.0	75.0	72.7	65.3	66.7
Other	85.3	85.3	82.8	82.8	80.3	79.0	76.5	62.5	62.5	64.3	58.0	66.8	71.0	41.7	37.3	56.0
Foreign currency	107.4	107.4	101.6	96.2	90.0	87.2	80.6	75.6	65.6	73.4	70.4	80.6	78.2	71.4	69.0	60.6
Former state banks	116.3	116.3	109.0	107.3	97.3	95.7	91.0	86.3	76.7	90.0	81.3	93.3	87.0	88.7	79.7	69.0
Other	94.0	94.0	90.5	79.5	79.0	74.5	65.0	59.5	49.0	48.5	54.0	61.5	65.0	45.5	53.0	48.0
Interbank credit auction																
7 days	--	--	70.7	65.5	37.5	42.5	42.7	41.8	50.3	36.5	28.0	33.7	44.0	43.2	42.0	30.0
1 month	--	--	--	--	--	--	--	--	--	--	53.5	55.5	48.7	54.7	49.4	41.0
2 month	--	--	--	--	--	--	--	--	--	--	--	46.0	--	60.0	60.0	--
3 month	--	--	--	--	--	--	--	--	--	--	60.0	60.0	70.0	63.0	60.0	46.0
Memorandum items																
Inflation (annualized)																
In previous 12 months	1,233.7	616.0	427.4	448.5	421.0	214.7	5.3	41.8	39.9	57.4	42.8	45.9	55.0	59.3	52.3	54.8
In previous 6 months	-10.9	4.1	11.6	29.0	2.8	8.0	24.4	93.2	75.3	92.0	98.2	97.0	93.3	31.3	32.3	11.7
In previous 3 months	49.0	-12.2	3.8	11.7	20.4	12.4	38.5	210.1	173.4	166.1	26.7	42.0	40.4	36.0	23.3	2.6

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 rather than by value, as are foreign currency and domestic instruments.

Table 29. Georgia: Balance of Payments

	1992	1993	1994	1995 (Prel.)
(In millions of U.S. dollars)				
Current account (before official transfers)	-318.8	-485.1	-447.9	-487.4
Trade balance ^{1/}	-377.9	-448.3	-365.0	-338.5
Exports	266.6	457.0	380.7	347.2
States of former U.S.S.R.	106.0	228.4	195.6	167.0
Other states outside the former U.S.S.R.	160.6	228.6	185.1	180.2
Imports	-644.5	-905.3	-745.7	-685.8
States of former U.S.S.R.	-375.4	-444.7	-210.0	-202.5
Other states outside the former U.S.S.R.	-269.1	-460.6	-535.7	-483.3
Non-factor services	22.7	-17.2	-47.5	17.0
Credits	87.9	72.7	102.0	121.8
Debits	-65.3	-89.8	-149.5	-104.8
Factor services	36.4	-19.7	-35.4	-85.8
Credits	50.1	0.4	0.3	1.0
Debits	-13.7	-20.1	-35.7	-86.8
Official transfers	71.2	131.2	170.0	189.2
Capital account	247.7	305.6	-19.3	-85.5
Medium- and long-term borrowing	77.7	381.7	-23.7	-169.7
Disbursements	78.6	385.5	94.1	104.4
Amortization	-1.0	-3.8	-117.8	-274.1
Other capital ^{2/}	170.1	-91.2	4.4	84.2
Overall balance	0.2	-63.4	-297.2	-303.7
Overall financing	-0.2	63.4	297.2	303.7
Increase in net international reserves (-) ^{3/}	-0.2	-0.5	-1.0	-40.6
Exceptional financing ^{4/}	-	64.0	298.2	344.3
Memorandum items:				
Gross usable reserves	0.7	1.0	41.4	156.7 ^{5/}
Debt service due	2.5	15.3	149.9	324.7 ^{6/}
Stock of debt	94.8	596.9	1001.8	1230.1
(As a percent of GDP)				
Current account, excl. transfers	-27.5	-42.0	-35.9	-14.1
Gross usable reserves ^{7/}	-	-	0.7	2.7
Debt service due before relief ^{8/}	0.7	2.9	31.1	69.2
Debt service due after relief ^{8/}	0.7	2.9	31.1	28.3
Stock of debt	8.2	51.7	80.4	42.6

Sources: State Committee for 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 errors and omissions.^{3/} Includes a valuation adjustment.^{4/} Arrears and debt relief.^{5/} Excludes debt service paid into a special account at the Netherlands Bank.^{6/} Before rescheduling.^{7/} In months of imports.^{8/} As a percent of exports of goods and nonfactor services.

Table 30. Georgia: Net Energy Imports

	1992	1993	1994	1995
Total energy imports	103.0	395.1	277.5	184.9
Refined oil products				
Value (in millions of US\$)	0.6	2.6	23.0	94.9
Volume (in thousands of tons)	154.0	...	158.3	...
Price (US\$ per ton)	3.6	...	145.3	...
Natural gas				
Value (in millions of US\$)	80.2	362.5	233.1	72.8
o/w: transit 1/	...	43.6	79.5	...
Volume (in millions of m3)	4,982.6	4,265.7	3,011.0	910.6
Price (US\$ per thousand m3)	16.1	85.0	77.4	80.0
o/w: transit 1/	...	10.2	25.9	...
Liquified gas				
Value (in millions of US\$)	0.1	0.1	0.5	...
Volume (in thousands of tons)	5.7	1.3	3.0	...
Price (US\$ per ton)	25.8	81.8	176.7	...
Coal				
Value (in millions of US\$)	--	1.5	0.8	--
Volume (in thousands of tons)	--	87.6	11.4	0.6
Price (US\$ per ton)	--	17.1	71.1	30.0
Electricity				
Value (in millions of US\$)	22.1	28.4	20.1	17.2
Volume (in millions on kwh)	1,272.2	1,050.7	948.7	754.3
Price (US\$ per thousand kwh)	17.4	27.0	21.2	22.8
Total energy exports	6.4	6.3	1.1	2.7
Electricity				
Value (in millions of US\$)	6.4	6.3	1.1	...
Volume (in millions of kwh)	256.0	339.0	...	...
Price (US\$ per thousand kwh)	25.0	18.7	...	...
Natural gas				
Value (in millions of US\$)	...	...	...	2.7
Volume (in millions of m3)	...	...	...	910.6
Price (US\$ per thousand m3)	...	...	...	80.0
Net energy imports	96.6	388.8	277.9	182.2

Sources: State Committee for Statistics and Fund staff estimates.

1/ Refers to fees payable for transit of gas by pipeline from the source country to Georgia.

Table 31. Georgia: External Debt Outstanding

(In millions of U.S. dollars)

	1992	1993	1994	1995
Total debt outstanding	94.8	543.6	986.8	1215.0
Medium/long term	94.8	543.6	946.3	1098.8
Public and publicly guaranteed	94.8	543.6	946.3	1098.8
Official creditors	94.8	543.6	946.3	1098.8
Multilateral	-	-	1.0	91.1
World Bank	-	-	1.0	83.9
Other	-	-	-	7.2
Bilateral	94.8	543.6	945.3	1007.7
States of former U.S.S.R. 1/	...	364.8	648.8	677.7
Russia	...	142.6	156.3	167.4
Turkmenistan	...	181.2 2/	440.3 3/	453.2
Armenia	...	11.0	18.1	19.7
Azerbaijan	...	7.6	8.0	8.7
Kazakhstan	...	22.4	24.1	26.7
Other	...	2.0	2.0	2.0
Other states outside the former U.S.S.R.	94.8	178.8	296.4	330.0
European Union	14.0	88.5	146.9	156.0
Turkey	-	10.3	42.0	45.4
Austria 4/	79.9	79.1	92.0	98.8
Other	0.9	0.9	15.5	29.8
Private creditors	-	-	-	-
Private non-guaranteed	-	-	-	-
Short term	-	-	-	-
IMF	-	-	40.5	116.2
o/w ESAF	-	-	-	-
SBA	-	-	-	33.2
STF	-	-	40.5	83.0
Memorandum items:				
Export credits 5/	...	53.4	15.1	15.1
Gas arrears to Turkmenistan	...	38.3 6/	-	-
Gas arrears to Russia	...	15.1	15.1	15.1

Sources: Georgian authorities; and Fund staff estimates.

1/ Debts to other states of the former U.S.S.R. except for 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. Totals for 1992 do not include balances owed on correspondent accounts which were converted into 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\$452.8 million. After a reconciliation of accounts, concluded in May 1995, this figure was reduced to US\$440 million.

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.

5/ Not included in debts listed above.

6/ Gas transit arrears were not included in the end-1993 agreement.

Table 32. Georgia: External Debt Service Obligations

(In millions of U.S. dollars)

	1992			1993			1994			1995		
	Int.	Prin.	Total	Int.	Prin.	Total	Int.	Prin.	Total	Int.	Prin.	Total
Total scheduled debt service	1.5	1.0	2.5	11.5	3.8	15.3	32.1	117.8	149.9	50.5	274.1	324.7
Medium/long term	1.5	1.0	2.5	11.5	3.8	15.3	32.1	117.8	149.9	50.5	274.1	324.7
Public and publicly guaranteed	1.5	1.0	2.5	11.5	3.8	15.3	32.1	117.8	149.9	50.5	274.1	324.7
Official creditors	1.5	1.0	2.5	11.5	3.8	15.3	32.1	117.8	149.9	50.5	274.1	324.7
Multilateral	--	--	--	--	--	--	--	--	--	2.7	--	2.7
Bilateral	1.5	1.0	2.5	11.5	3.8	15.3	32.1	117.8	149.9	47.9	274.1	322.0
States of the former U.S.S.R.	--	--	--	1.6	--	1.6	17.7	108.6	126.3	28.5	162.7	191.2
Other States Outside the Former U.S.S.R. 1/	1.5	1.0	2.5	9.9	3.8	13.7	14.4	9.2	23.6	19.4	111.4	130.8
Private creditors	--	--	--	--	--	--	--	--	--	--	--	--
Private non-guaranteed	--	--	--	--	--	--	--	--	--	--	--	--
Short term	--	--	--	--	--	--	--	--	--	--	--	--
Memorandum items:												
Debt service/ratio 2/	0.4	0.3	0.7	2.2	0.7	2.9	6.6	24.4	31.1	10.8	58.2	69.0

Source: Georgian authorities, and Fund staff estimates.

1/ Includes debt to the European Union.

2/ At percent of exports of goods and non-factor services.

Georgia: Tax Summary

Tax	Tax Base and Nature of Tax	Tax Rates	Exemptions and Deductions
1. <u>Value-added tax (VAT)</u>	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. CIS trade is taxed according to the origin principle (imports from CIS countries are zero-rated and exports are taxed), non-CIS trade according to the destination principle (imports from non-CIS countries are taxed, also if they arrive in Georgia through another CIS country, and exports are exempt). For most transactions, VAT becomes due at the moment of delivery of goods and services. VAT on domestically acquired assets is not immediately deductible, but converted in a two-year tax credit. A threshold applies of 500 times the minimum wage for physical persons.	The general rate is 20 percent; a secondary rate of 10 percent applies to rye and wheat flour and bread.	Exempted from VAT are: goods and services for diplomats; housing rents; lease payments by former state enterprises; sales of confiscated property and other valuables that the state has acquired through inheritance or purchase; public transportation; wheat, children's food products and milk powder (until October 1, 1996); text books and notebooks for school; insurance and reinsurance; financial services as giving and receiving loans, operations with savings accounts, and operations connected with the circulation of domestic and foreign currency; post stamps; membership dues for children's hobby groups; tuition fees, fees for medical services to the old and disabled; funeral services; six types of medicines; medical equipment, prosthetic applications, and technical facilities for the handicapped; re-exports of goods (via a reimbursement scheme); transit goods; re-imports of Georgian representatives abroad; imported goods stored at custom warehouses; imports of national and foreign currency, and securities; goods temporarily stored in Georgia; humanitarian aid; imports of capital goods and spare parts; goods produced by the Georgian Patriarchate's enterprises for ecclesiastical purposes, and construction on rehabilitation of its churches; imported oil products; domestic newspapers and magazines; enterprises subject to the presumptive tax. Under the Foreign Investment Law, foreign enterprises and joint ventures are exempt for VAT for five years after establishment of the enterprise, and they are exempted indefinitely for imports of raw materials, unfinished products, and capital goods.
2. <u>Excise tax</u>	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; 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.	See Appendix I, Table 14.	Exempted from excises are: exports to non-CIS countries; re-exports (subject to a reimbursement scheme); goods in transit; goods temporarily imported; goods stored at customs warehouses; humanitarian assistance; and imports of oil products. Under the Foreign Investment Law, raw materials, unfinished products, and capital goods imported by foreign enterprises or joint ventures established in Georgia are exempted from excises.

Georgia (concluded): Tax Summary

3. <u>Profit and income tax for enterprises</u>	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. In addition, returns on security investments, earnings from partnerships, revenues from gambling, video and audio tape rentals, and profits from mass concerts are taxed at separate rates. Losses can be carried forward for five years, with a yearly maximum of 30 percent of the profit tax due before allowances. The allowed depreciation differs by type of asset and industry.	The standard rate is 20 percent. Industrial and manufacturing enterprises are taxed at 10 percent, and banks and credit institutions at 35 percent. In addition, enterprises pay a 10 percent tax on interest and dividends on domestic securities and on revenues from partnerships in other enterprises, a 70 percent tax on income from gambling activities, and a 60 percent tax on the profits from mass concerts.	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 ecclesiastical articles; new enterprises. New enterprises get a tax holiday of 1 year, after which the tax rate is reduced by 50 percent for two years. Under the Foreign Investment Law, foreign enterprises and joint ventures are granted a tax holiday of two years after the establishment of the enterprise, after which the tax rate is reduced by 50 percent for four years. For the calculation of the profit tax, reserves accumulations of up to 25 percent of funds paid in capital and 50 percent of profits are deducted from profits. These limitations do not apply to commercial banks; their reserve accumulation is exempt from profit tax as long as it is within the guidelines of the NBG. Allowances for the following items are deducted from the profit tax, with a maximum of 10 percent of taxable profit: expenditures for scientific research and restoring monuments; expenditures in the context of natural disasters; maintenance of houses for the elderly and handicapped and other specified social purposes up to 10 percent of profit; and interest on loans used for production purposes.
4. <u>Personal income tax</u>	The annual income of natural persons residing in Georgia is the tax base.	See Appendix I, Table 15. Marginal rates vary from 12 percent to 20 percent. In addition, dividend income is taxed at 10 percent.	Exempted from personal income tax are: persons subject to the presumptive tax; handicapped persons (depending on the degree of handicap, they are for 50 percent or 100 percent exempt); war veterans; women with many children; social benefits; revenues from domestic state bonds; interest income from domestic banks and credit institutions; lottery prizes; alimony; revenues from property sales; and revenues from the sales of agricultural goods produced privately.
5. <u>Trade taxes</u>	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), and a US\$10 fee applies to transshipments owned by a CIS resident and US\$100 if a non-CIS resident owns the goods.	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; six types of medicine; humanitarian aid; and diplomatic shipments. Under the Foreign Investment Law, raw materials, unfinished products, and capital goods imported by foreign enterprises or joint ventures established in Georgia are exempted from excises.
6. <u>Ecology tax</u>	The ecology tax is levied on polluting activities: the use of fuel for vehicles, 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.	None.

Georgia (concluded): Tax Summary

7. <u>Enterprise property tax</u>	The enterprise property tax is levied on the assessed value of non-financial assets, means of production, installed equipment, and unfinished constructions of the enterprise. Excluded from taxation are: housing, communal, social and cultural facilities; environmental and fire safety facilities; roads, communication services, and electric lines; land; and official measurement equipment. New enterprises get a tax holiday of 1 year, after which the tax rate is reduced by 50 percent for two years.	1 percent.	Exempted from the enterprise property tax are: budgetary enterprises and organizations, and property used for educational and cultural purposes. Under the Foreign Investment Law, foreign enterprises and joint ventures are granted a tax holiday of two years after the establishment of the enterprise, after which the tax rate is reduced by 50 percent for four years.
8. <u>Individual property tax</u>	The individual property tax is levied on the value of buildings and houses and means of transportation owned by natural persons.	0.1 percent of the value of buildings and houses and 0.2 percent of the minimum wage per horsepower of means of transportation.	Exempted from the individual property tax on houses and buildings are: pensioners; enlisted military personnel and their families; war veterans and their families; and houses and buildings in rural areas. Exempted from the property tax on vehicles are: invalid owners of hand controlled automobiles and motorcycles with side-cars; and boats with engines not exceeding 10 horse powers.
9. <u>State tax</u>	The tax is paid by juridical and natural persons for legal services provided by legal offices.	The tax rates are defined according to each action performed and document issued.	For persons under 16 years of age, the rate is reduced by 50 percent for documents needed for travel abroad. War veterans are exempted from the tax on prolonging documents certifying this.
10. <u>Tax for state licensing of enterprises and business activities</u>	The tax is paid by enterprises for registration of their business and business activities.	For legal entities who do not have authorized funds, the tax rate is three times the minimum wage; enterprises with authorized funds pay five times the minimum wage. Natural persons pay three times the minimum wage.	Not available.
11. <u>Presumptive tax (fixed tax)</u>	The presumptive tax is an annual tax levied on the business area of enterprises that occupy less than 20 m ² , and a flat tax in the case of exchange bureaus; it does not apply to enterprises and organizations of Tskhavshiri (state cooperative trade company) and communication enterprises. The presumptive tax replaces the VAT, profit tax, and personal income tax of entrepreneurs.	Enterprises with a business area of less than 10 m ² pay lari 13 per month, and enterprises occupying between 10 m ² and 20 m ² pay 1 lari per month for each additional m ² . The tax is reduced by 40 percent for enterprises located in the countryside and increased by no less than 30 percent for enterprises located near main roads and squares of cities. Exchange bureaus located in Tbilisi pay a flat tax of US\$100, while those outside of Tbilisi pay US\$70.	The same exemptions apply to natural persons as under the income tax.
12. <u>Tax on hazardous products</u>	The tax on hazardous products is levied on the production and sales of products that pose health risks (tobacco and tobacco products, liquor, and asbestos products). The proceeds of this tax are transferred to the Health Fund.	Production of cigarettes is taxed at a rate of lari 0.005 per 20 cigarettes, and the tax on the sales of cigarettes is lari 0.01 per 20 cigarettes. The tax on cigar sales is lari 0.01 per cigar. The production of other tobacco products, liquor, and asbestos products is taxed at 0.5 percent of the production value, while the sales of these products is taxed at 1 percent of the production value.	None.

Georgia (concluded): Tax Summary

13. <u>Social security levy</u>	Social security levies are imposed on money wages, and are used for the financing of activities of the SSF, EF, and the Health Fund. These extrabudgetary funds collect the social security levies themselves.	State-owned and private enterprises pay a 29 percent levy to the SSF on the money wages they pay to their workers; 1 percent to the EF and 3 percent to the Health Fund. Budgetary organizations pay 26 percent of their wage bill to the SSF. Workers pay 1 percent of their wages to the SSF and 1 percent to the Health Fund.	Employers can subtract the cost of providing benefits to their active workers, such as maternity benefits and sick pay, from their contribution to the SSF.
14. <u>Road tax</u>	Tax on the use of roads for commercial activities; the proceeds of this tax are paid into the Road Fund.	Enterprises who transport passengers or cargo by vehicles pay 2 percent of the profits from these activities; commercial banks pay 0.5 percent of their profits; while commerce enterprises and brokers pay 0.1 percent of turnover. For enterprises that have production, trade, service, or facilities located along roads (in inhabited areas within 50 meters and in uninhabited areas within 400 meters) the above rates are doubled.	Payments of the fuel and lubricants tax are subtracted from the Road Tax.
15. <u>Fuel and lubricants tax</u>	Tax on the sales of fuels and lubricants; the proceeds of this tax are paid into the Road Fund.	Production companies are taxed at 5 percent of the value of the production excluding VAT and excises, while wholesale and retail traders pay 5 percent of the difference between the purchase and the sales price.	None.
16. <u>Vehicle tax</u>	Tax on ownership of vehicles levied on an annual basis; the proceeds of this tax are paid into the Road Fund.	The tax is levied per horsepower in the domestic currency equivalent of: US\$0.2 for cars; US\$0.5-2 for buses (depending on number of seats); and US\$1-3 for trucks (depending on tonnage).	Exempted are city buses.
17. <u>Vehicle cross-border tax</u>	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 taxed at US\$20; buses US\$20-130 (depending on number of seats); and trucks US\$130-300 (depending on tonnage).	None.
18. <u>Underground communications and advertisement tax</u>	Tax on the exploitation of underground communications (telephone, electrical wiring, gas pipes, water lines, etcetera) constructed near roads and advertisement posters and boards placed at road-sides; the proceeds of this tax are paid into the Road Fund.	Owners of underground communications pay the national currency equivalent of US\$0.1 per meter, while owners of advertisement posters or boards pay the equivalent of US\$5-20, depending on the kind of road.	None.
19. <u>Land tax</u>	Tax levied on cultivated land, including pastures, and on land that could be cultivated.	Tax rates vary from the national currency equivalent of US\$0.3 per hectare to US\$1,000 per hectare, depending on the use, quality, and location of the land. During the first two years, newly established farms pay 50 percent of the tax.	Exempted are: cultural, educational, social welfare, environmental, and defense organizations and sports complexes; education and research institutions, experimental farms, hydrometeorological centers, environmental establishments and equipment funded by the Government; nature reserves, botanical gardens; national parks; natural historical and cultural monuments; cemeteries common-use lands, water pools, lands of monasteries and lands near state borders; pensioners, war veterans and invalids; newly cultivated land as well as state-owned property; while persons living in abandoned villages or who are moved in the context of government programs are exempt for five years.

Georgia (concluded): Tax Summary

21. Water tax	Tax on the use of water by enterprises.	Tax rates vary from 0.025 to 0.057 times the minimum wage depending on the water source	None.
20. Natural resources tax	Tax on the conducting of geological surveys and prospecting operations, and the extraction of minerals.	Tax rates vary from 1 percent to 5 percent of expenditures for surveys, prospecting and construction for mining operations; from 1 percent to 15 percent for extraction, depending on the type of mineral extracted (5 percent to 10 percent for oil and gas); a 30 percent profit tax for mining enterprises; and 10 percent of profits for the use of water in mining operations.	None.
22. Fixed tax on oil imports	Tax on the imports of oil products, that replaces customs duties, VAT, and excises.	The rate is 15 percent of the customs value	None.

The Social Safety Net

1. SSN benefits are provided by the Social Security Fund (SSF), the Employment Fund (EF), the Republican budget, and local governments. The SSF administers pensions, child allowances, as well as sickness, pregnancy and maternity benefits (the latter benefits via a deduction scheme, see below), while the EF takes care of unemployment benefits. The Republican government finances the child allowances provided through the SSF, and provides benefits for refugees, as well as stipends for students through the universities. Benefits for single mothers are administered by local governments, and financed by the Republican government.
2. The SSF was established in 1991, and provides old-age, invalidity and survivors pensions on a pay-as-you-go basis. It collects its own revenue, consisting of a 29 percent payroll tax for state-owned and private enterprises and 26 percent for budgetary organizations, and a mandatory contribution for workers of 1 percent of their wages. Employers are allowed to deduct benefits they pay to their active workers, such as sickness, pregnancy, and maternity benefits, from the payroll tax.
3. In February 1996, the retirement age was increased from 55 to 60 for women and from 60 to 65 for men. However, disability pensions are still granted liberally. The pension benefit is low; the standard pension is lari 8.5 (US\$6.8) per month while war veterans receive lari 11 (US\$8.7) per month as of June 1, 1996 (see Appendix I, Table 19). Pensioners cannot receive multiple pensions and benefits are withheld from those who have an income from work, except for war veterans who are allowed to work and receive a pension.
4. The EF was established at the same time as the SSF in 1991, but is much smaller. It also functions on a pay-as-you-go basis, and collects its own revenues, a 1 percent payroll tax on non-budgetary institutions. The EF provides an unemployment benefit for those who have been out of work for a period between 2 and 8 months. Moreover, the EF administers the labor exchanges, which collect information on vacancies and the unemployed and actively look for job opportunities. As of January 1, 1996, the EF eliminated all of its job creation schemes.
5. Out of the Republican budget, the Government finances social assistance to families with children, single mothers, refugees and students. As of July 1, 1995, families receive allowances from the second child onwards, until they reach 18 years old of age and as long as they attend school and live at home. Refugees receive a flat cash benefit, supplemented by a benefit for pensioned retirees and, since July 1, 1995, refugees living in Tbilisi receive a benefit to compensate for the increased cost of transportation. In addition, the Government pays for rent and food for refugees housed in hotels and guest houses. Finally, the republican government provides stipends for university students. Universities receive transfers from the MOF, which they allocate to students according to their study results.

6. In the past, the Republican government provided supplementary benefits to pensioners and government workers in the lowest pay scales to guarantee a minimum income. This program was discontinued as of July 1, 1995, when the lowest budgetary wage was increased.
7. The SSN provides benefits to a large number of people; out of a population of 5.4 million, about 1.8 million people received a social benefit as of July 1, 1996. This number is likely to fall in the coming years as the effect of raising the retirement age takes hold. However, without any change in policy, the ratio of benefit recipients to total population will rise in the longer run as the aging process continues.
8. The SSN has a limited significance for poverty reduction because benefits are very low due to resource constraints and the large number of benefit recipients. This should be addressed by improving the targeting of the SSN, for example by tightening the eligibility requirements for the invalidity pension and eliminating the provision of benefits to refugees who receive an income from work. The significance of the pension system could also be enhanced by setting up a framework for the creation of private pension funds.

The Budgetary Process

Coverage

1. The state budget includes the budgets of the Republican Government and 65 local governments: the two autonomous republics of Abkhazia and Adzhar, ten administrative regions, and 53 administrative districts.¹ In addition, as defined in this report, the state budget covers all the extrabudgetary funds, implicit subsidies financed by external food assistance and external arrears. The largest extra budgetary fund, the Social Security Fund (SSF), levies contributions on employers and employees to finance pensions and other social security benefits. Other extrabudgetary funds include the Employment Fund (EF), which uses employer and employee contributions for unemployment benefits and unemployment reduction measures; the Health Fund, which finances the basic health care which the Government is still responsible for after the privatization of a large part of the health sector in August 1995; the Privatization Fund, which administers the proceeds from privatization; the Road Fund, which was set up in October 1995; and the State Valuables Fund, which bought and sold precious metals and was eliminated with the 1997 budget.

The budget process

Budget preparation

2. The Law on the Budget System and Rights passed in June 1996 provides rules for the budget process. The budget cycle starts in May when the Ministry of Finance (MOF) receives the budget proposals from the spending ministries and independent budgetary organizations, and the draft budgets from the local governments and extrabudgetary funds. On the basis of this information and macroeconomic data, the MOF, Ministry of Economy, the Department of Statistics, and the National Bank of Georgia prepare indices for economic growth, aggregate government balances, and the general direction of tax and expenditure policy. These are discussed in the financial and budgetary committees of the Parliament, that send their reactions to the MOF by the third week of August. The MOF submits a draft law to the President by September 20 for discussion within the Government. By October 1 a revised draft is sent to Parliament, which passes the law 30 days prior to the beginning of the budget year on January 1.

3. In 1993 and 1994, no budget was approved before the beginning of the budget year. Instead, Parliament approved quarterly budgets after the quarter had passed and the spending had occurred. In 1995 and 1996, a budget was available for most of the fiscal year. However, the importance of the budget is greatly reduced by the lack of reliable data and forecasts at the

¹ Budget information from Adzhar, Abkhazia and South Ossetia is scarce due to a disruption of relations between these areas and the Republic.

time of the budget preparation, giving rise to frequent deviations during the implementation of the budget.

Budget implementation

4. For the implementation of the budget, the annual budget appropriations are translated into quarterly appropriations and monthly bank credits for the spending ministries. Since November 1994, the MOF limits the monthly bank credits to projected revenues and available financing, taking the budget appropriations as an upper bound. The MOF monitors the budget execution using daily payment reports from the NBG and monthly cash reports from the spending ministries.

5. The STS is responsible for all tax collections, apart from customs duties, and VAT and excises on imports and exports, that are collected by the SCC. After the tax bill is assessed, the taxpayer deposits the amount due in a local bank. The bank receiving the tax payment divides the revenues between the republican and local government according to the relevant revenue sharing formula, after which the payment is processed by the banking system and credited to the government account at the NBG or deposited in the proper bank account of the local government. Local STS and SCC offices check tax payments and code them. On the basis of this information, STS and SCC headquarters compile overviews of tax payments, which are sent to the MOF once a month. The MOF compares these overviews with revenue information received daily from the NBG.

Exchange, Trade and Payments Systems

Exchange arrangements

1. 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 Tbilisi Interbank Currency Exchange (TICEX) holds sessions on each working day at which the NBG and the banks, judged by the TICEX to have sufficiently large foreign exchange turnover, participate. 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.
2. 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 NIS countries, 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.
3. On August 12, 1996, the official exchange rates were lari 1.267 per U.S. dollar and lari 0.000225 per Russian ruble.

Administration of control

4. 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.
5. 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

6. Residents of Georgia may make and receive payments and transfers in any convertible currency as well as in rubles.

Resident and nonresident accounts

7. 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

8. Trade with countries other than the states of the NIS is controlled by the State Committee on Foreign Economic Relations (SCFER) (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 not required, except for weapons, narcotics, industrial equipment, industrial waste, pharmaceuticals, agricultural pesticides and various live animals, seeds and plants, which are licensed by the SCFER. A customs duty of 12 percent is levied on all non-CIS imports, except humanitarian aid; diplomatic shipments; non-commercial imports for internal consumption by cultural groups; 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; capital goods imports under foreign investment and by joint ventures; imports of gasoline; and various categories of foods and medicines. 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

9. Only 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 remain in force for steel and metals, manganese and copper concentrates, wine and liquor, and mineral water.

Payments for and proceeds from invisibles

10. 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

11. 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 by the NBG is limited to four units of each currency denomination.

Gold

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