



International Monetary Fund Office in Georgia Monthly News Bulletin

IMF Executive Board Approves mid-term Review of Adjustment Program (ESAF) ^{1/}

Friday July 23 1999, the IMF Executive Board approved the final review of Georgia's 3-year economic program (1996-99). This decision enables the Georgian authorities to borrow up to U.S.\$ 45 million to strengthen the foreign exchange reserves of the National Bank of Georgia (NBG). ♦

The discussions in Washington recognized that the economic program supported by the Fund has encountered much difficulty. In part this resulted from the Russian crisis last year but also because of the underlying weakness of state finances. ♦

Progress in 1999

The Executive Board welcomed the significant progress made during 1999 to stabilize the lari exchange rate, reduce inflationary pressures and strengthen the banking system (Box 1). ♦

Box 1: Strengthening Commercial Banks

The IMF supported program envisages a phased strengthening of the capital base of commercial banks and liquidating banks which do not meet prudential requirements. International experience demonstrates the need for well-capitalized banks which in turn protects depositors, promotes confidence in the banking system and macroeconomic stability. Actions taken by the NBG have raised the minimum authorized capital requirement for new banks to lari 5 million, while existing banks must increase their capital to at least lari 3 million by end-1999 and it is expected to lari 5 million by end-2000. Six banks have had their licenses revoked by the NBG in 1999.

The Board expressed concern at the continuing difficulties with tax collections and delays in making budgeted expenditures that have led to increased arrears on core spending items. At the same time the Board welcomed several measures aimed at strengthening collection of taxes - on fuel, cigarettes (Box 2) and goods imports - and a sequestration of the state budget. Taken together these measures provide assurances that budget implementation will improve in the second half of the year, although clearing budget arrears remains a major challenge. ♦

Box 2: Excise Stamps on Cigarettes

The program calls for increase in revenues from cigarette taxes through the introduction of excise stamps on all cigarettes and better enforcement actions. Stamps - for excise and VAT - were introduced from April 1 and unstamped cigarettes removed from sale. Revenues have increased dramatically and for 1999 are likely to be at least five times higher than the previous year. The authorities envisage additional revenues through strengthened administration, increasing the excise and VAT specific tax by January 1, 2000 and possibly eliminating the current exemption from customs duty.

Continued progress was also noted in several other areas, including privatization of Tbilisi electricity distribution; judicial reform and the elimination of all taxes on exports. ♦

^{1/} The full text of the Supplementary Statement of Economic and Financial Policies is posted on www.donors.caucasus.net and on www.imf.org.

The Economic Outlook

In reviewing the outlook for the Georgian economy, the Board noted that the key to a sustainable economic reform program is a strengthening of fiscal policy. The government clearly requires more resources to provide quality public services, wages and pensions which will be important factors for mobilizing support for the reform program. This, in turn, requires forceful actions against nonpayment of taxes, corruption and continued reform of expenditure management. ♦

The Georgian authorities indicated that they intend to request the IMF support for economic reform policies in the period 2000-2002. Discussions are expected to begin in September during an IMF staff visit to Tbilisi. ♦

IMF Technical Assistance

During July 5-16 an IMF mission reviewed national accounts calculations with the State Department of Statistics. The mission recommended revising the historical data series and beginning publication of quarterly GDP data by 2000. ♦

IMF Board News

On June 30, 1999 the Executive Board of the IMF completed the financing assurances review under Ukraine's current three-year Extended Fund Facility (EFF), which was approved on September 4, 1998. As a result, Ukraine may now purchase an additional SDR 86.10 million (about US\$115 million) from the IMF. ♦

On June 30, 1999 the Executive Board of the IMF completed the reviews under Azerbaijan's ESAF and EFF loans and credits, and as a result, an additional amount of IMF-financing totaling SDR 11.1 million (about US\$15 million) is now available to Azerbaijan. ♦

IMF Office Vacancy

The IMF office in Georgia has a local staff vacancy for a personal assistant to the Resident Representative. Closing date for applications is August 2, 1999. For full details please refer to the IMF office web site. ♦

Georgia: Economic and Financial Data

| | 1996 | 1997 | 1998 | 1999 QI | 1999 QII |
|--|-----------------------------|-------|---------|---------|----------|
| Exchange Rate (Lari/\$) ^{1/} | 1.26 | 1.29 | 1.39 | 2.19 | 2.05 |
| Consumer Price Inflation ^{2/} | 13.7 | 7.2 | 10.7 | 19.4 | 20.4 |
| GDP Growth (percent) ^{3/} | 10.5 | 11.0 | 2.9 | 1.7 | 1.7 |
| | (in millions of US dollars) | | | | |
| Gross Official Foreign Exchange Reserves | 186.7 | 173.3 | 118.4 | 99.4 | 90.8 |
| Imports (c.i.f.) | 686.7 | 943.5 | N/A | 137.3 | 152.1 |
| Exports (f.o.b.) | 198.7 | 239.7 | 93.6 | 37.5 | 55.8 |
| | (in millions of lari) | | | | |
| General Government Revenues | 530.7 | 668.8 | 786.4 | 168.4 | 233.2 |
| Expenditures | 801.9 | 954.1 | 1,032.4 | 232.6 | 295.9 |
| Financing | 271.2 | 285.2 | 246 | 64.2 | 62.7 |

Sources: NBG, MOF, SDS and IMF estimates

^{1/} Period average rate

^{2/} Annual rate at end of period

^{3/} IMF staff estimates