



**IMF Resident Representative Office in Georgia**  
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In June, a Fund mission assisted the Georgian authorities in developing a financial program for the remainder of 2000. Since then the Georgian government and parliament have moved quickly to pass a revised budget, recognizing the need for urgent action to stop the pattern of falling revenues and the build-up of payment arrears. There is also recent progress in developing anti-corruption and poverty reduction strategies.

### **Discussions with Fund Mission in June**

In light of the continued deviations from the financial program agreed with the Georgian authorities in early 2000, particularly in the fiscal area, it was agreed that a strong and sustained adjustment effort is needed in the period ahead. In discussions with the Fund mission the authorities agreed it was necessary to:

- i) Revise the 2000 Budget, so as not accumulate further expenditure arrears;
- ii) Establish a good track record in implementing the budget and other financial policies;
- iii) Implement measures aimed at tackling problems of governance and corruption;
- iv) Elaborate a poverty reduction strategy.

\* It was agreed that a **revised budget** would differ significantly from the original budget 2000, with lower and more realistic revenue targets, significant cuts in expenditure commitments, and substantially lower financing, including a sharp reduction in expected receipts from privatization. In view of the disappointing revenue performance and lower financing, substantial arrears repayments in 2000 was no longer feasible, but the new budget would clearly be designed to halt the accumulation of new arrears. At the same time, the main economic objectives for 2000 of GDP growth of 4 percent and inflation around 7 percent remain unchanged.

\* Although the unrevised revenue targets are lower than before, an **additional effort to collect tax** is still required in the second half of the year. The focus of revenue enhancement would be in strengthening tax administration including: institutional reform of the tax department, better use of pre-shipment inspection (ITS); improved procedures to tackle abuse of transit regime; a reduction of abuse of VAT refunds, and of exemptions for grant funded and humanitarian imports; and better control and management of taxation of cigarettes and fuel.

\* The mission also discussed policies which would **improve expenditure control** including: eliminating treasuries of force ministries; discontinuing guarantees for commercial bank lending; authorizing the central treasury to register and control large commitments by line ministries; eliminate tax offsetting transactions; reducing some civil servant benefits; auditing arrears stock.

\* In the area of **governance and corruption** the following measures would improve the situation: meet revenue targets for fuel and cigarettes; strong action against those found to be involved in tax evasion or corrupt practices; reform of tax and customs (latter with IMF technical assistance); more effective financial disclosure by civil servants; strengthened code of ethics for civil servants; strengthened procedures for government procurement and delicensing in line with World Bank recommendations.

\* The authorities agreed to prepare a **Poverty Reduction Strategy**, based on the working of five groups established. The strategy would include a summary of present and planned policies, an assessment of the extent and nature of poverty and lead to continuous monitoring of poverty indicators on a timely basis. In the context of the Strategy there will be a need to address a broad range of structural issues, including in the banking and energy sectors.

### Recent Steps

Since the discussions with the Fund in June, the Georgian authorities have taken the following steps:

\* The Parliament approved a budget on July 13 which kept close to the main parameters discussed in June with the IMF;

\* The President issued a decree on July 9 creating a group which will elaborate an anti-corruption strategy by the fall of 2000;

\* Work on a poverty reduction strategy has begun in earnest with work underway in four of the five sub-groups (social issues, infrastructure, fiscal and monetary policies and rural issues).

**Table 1. Georgia: Economic and Financial Data**

	1997	1998	1999	2000 Q1	2000 Q2
Exchange Rate, end period (Lari/\$),	1.30	1.79	1.96	1.93	1.96
Exchange Rate, period average (Lari/\$),	1.29	1.39	2.01	1.98	1.97
Consumer Prices (12 month change, percent)	7.2	10.7	10.9	1.1	2.3
GDP, current prices in lari million	4,516	4,844	5,475	1,374	1,531
Real GDP Growth, constant prices (percent) <sup>1/</sup>	10.7	2.9	3.3	4.8	1.0
			(in million dollars)		
Gross Official Foreign Exchange Reserves	173.3	118.4	132.4	123.0	109.2
			(in millions of lari)		
General Government Operations					
Revenue and grants	668.8	786.4	873.5	186.4	...
Expenditure <sup>2/</sup>	982.4	1096.4	1252.5	274.4	...
Financing <sup>3/</sup>	313.6	310.0	379.0	88.0	...

Sources: NBG, MOF, SDS and IMF estimates.

<sup>1/</sup> Revised GDP figures by the Georgian authorities; Q2 2000 data are preliminary

<sup>2/</sup> On a commitment basis.

<sup>3/</sup> Cash financing plus change in expenditure arrears and balancing item.