



## IMF Resident Representative Office in Georgia News Bulletin

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### IMF Staff Visit to Georgia, January 30-February 7, 2001

An IMF mission visited Tbilisi during January 30 – February 7, 2001 to review progress under the new program supported by the Poverty Reduction and Growth Facility (PRGF). The principal tasks of the mission were to determine whether end-December 2000 targets were observed; to assess macroeconomic performance relative to the program; to assist with preparation of an external debt strategy; to assess structural reform progress; and to discuss progress in preparing the full Poverty Reduction Strategy Paper (PRSP). The following key points summarize the mission outcomes:

- Macroeconomic indicators are in line with the economic program supported by the PRGF (Table 1).
- Performance relative to program targets for end-December 2000 was broadly satisfactory. However, two targets were missed by small margins. In view of the small size of the deviations from the targets, which do not threaten achievement of broader program objectives, the mission will recommend that the IMF Board of Executive Directors approve disbursement of the second tranche under the PRGF arrangement.
- The implementation of the 2001 macroeconomic program requires continued efforts to implement the necessary fiscal adjustment. Revisions to the tax code should aim at broadening the tax base and simplifying the tax system. The mission advised the government to eliminate the recently created differential on domestic versus imported cigarette excises, which is not consistent with Georgia's World Trade Organization obligations. The mission urges the authorities to oppose export bans on scrap metal and timber, and address issues of theft through law enforcement instead.
- The National Bank of Georgia should continue to maintain a prudent monetary policy, based on cautious assumptions about the remonetization process and external financing.
- A successful debt rescheduling agreement with bilateral creditors is a vital element of the economic program supported by the PRGF. The Paris Club envisages a meeting in March 2001 to reschedule Georgia's previously rescheduled bilateral external debts on a nonconcessional basis. Georgia will also have to pursue bilateral debt rescheduling with non-Paris Club creditors on comparable terms.
- Progress in structural and institutional reforms was in line with the program, but efforts will need to be accelerated, especially in the fight against corruption, in order to meet program objectives at the time of the mid-term review in May.
- Power shortages are hampering economic activity and creating social hardship. The authorities are planning to introduce a small debt surcharge on electricity tariffs to reduce the sector's large external debts
- The mission agreed with the authorities' proposal to aim to complete a full Poverty Reduction Strategy by November 2001.

**Table 1. Georgia: Selected Economic and Financial Indicators, 1996-2001**

	1996	1997	1998	1999	2000		2001
					program <sup>1/</sup>	Prel.Outturn	program <sup>1/</sup>
(Percentage change relative to previous year; unless otherwise indicated)							
National income and prices							
Nominal GDP <sup>2/</sup>	55.0	19.1	7.8	13.4	9.5	...	11.8
GDP at constant prices <sup>2/</sup>	10.5	10.7	2.9	2.9	1.2	1.9	3.8
Nominal GDP (millions of lari) <sup>2/</sup>	3,786	4,511	4,863	5,513	6,035	...	6,748
Consumer price index, period average	39.3	7.0	3.6	19.1	4.3	4.0	7.6
Consumer price index, end-of-period	13.7	7.2	10.7	10.9	6.8	4.6	5.9
External sector <sup>3/</sup>							
Exports	15	18	-3	0	9	...	9
Imports	10	37	11	-13	9	...	6
Exchange rate, lari/U.S. dollar							
Period average	1.26	1.30	1.39	2.02	1.97	1.98	...
End-of-period	1.27	1.30	1.79	1.96	...	1.98	...
(In percent of GDP; unless otherwise indicated) <sup>2/</sup>							
General government							
Total revenue and grants	14.0	14.8	16.2	15.8	15.0	15.1	16.8
Tax revenue <sup>4/</sup>	10.8	13.0	13.2	14.2	14.1	14.1	14.9
Tax revenue (in percent of current expenditure)	55.6	65.9	64.5	69.1	79.0	77.8	87.3
Total expenditure and net lending <sup>5/</sup>	21.4	21.8	22.5	22.7	19.5	19.1	18.8
Current expenditure	19.5	19.7	20.5	20.5	17.9	18.1	17.1
Fiscal balance, commitment basis	-7.4	-7.0	-6.4	-6.9	-4.6	-3.9	-2.0
Fiscal balance, cash basis	-7.2	-6.3	-5.1	-5.1	-3.2	-2.5	-3.2
External sector							
Trade balance	-11.7	-16.1	-19.6	-19.8	-19.0	...	-17.8
Current account balance							
Excluding transfers	-13.9	-16.5	-17.2	-14.9	-13.7	...	-12.4
Including transfers	-9.2	-10.8	-11.1	-8.0	-8.1	...	-7.1

Sources: Georgian authorities; and Fund staff estimates.

1/ Based on an economic program supported by a three-year arrangement under the PRGF, approved on January 12, 2001.

2/ GDP is based on program assumptions, which differ from the recently revised GDP series for the period from 1996 to 2000.

3/ Goods only; in US\$ terms.

4/ Program definition. Includes general government tax revenue and special state funds (pension, employment, and road funds). Excludes privatization proceeds.

5/ On a commitment basis. Cash expenditures differ by the change in expenditure arrears.