Georgia and the IMF

Press Release:
IMF Executive Board Completes Sixth and Final Review of Georgia's PRGF Arrangement and Approves US$21.3 Million Disbursement August 20, 2007

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Georgia: Letter of Intent

August 1, 2007

The following item is a Letter of Intent of the government of Georgia, which describes the policies that Georgia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Georgia, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
LETTER OF INTENT

August 1, 2007
Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431

Dear Mr. de Rato:

In June 2004, shortly after the Rose Revolution, the International Monetary Fund approved a three-year Poverty Reduction and Growth Facility (PRGF) arrangement for Georgia. In the subsequent three years, we have accomplished much, including macroeconomic stability, strong economic growth, improved governance, and wide-ranging structural reforms. Such was our performance that the World Bank named Georgia the leading economic reformer for 2007. During this period, the support of the International Monetary Fund was of great importance and we wish to thank you for the Fund’s efforts on our behalf.

Looking forward, we plan to continue implementing economic policies that will enhance macroeconomic stability and encourage growth led by the private sector. In the face of continuing strong economic performance—real GDP growth was close to 10 percent in 2006 and we expect even faster growth in 2007—the major economic challenge confronting us will be managing the large private inflows to Georgia, in a way that allows these inflows to contribute effectively to future growth, while keeping inflation under control and maintaining external competitiveness.

To accomplish this objective, the National Bank of Georgia (NBG) will have as its primary target keeping inflation below 10 percent in 2007. We recognize that, to achieve this in the face of the significant inflows and a need to increase the NBG’s international reserves, fiscal policy will need to be supportive of this inflation target. Thus, while the recently adopted first supplement to our 2007 budget targets a fiscal deficit of three percent of GDP, we will act to ensure that the actual deficit is below this level. In addition, the Ministry of Finance will work closely with the NBG and will stand ready to tighten fiscal policy further to insure macroeconomic stability.

Another action that will be necessary to ensure the effective utilization of these inflows will be to strengthen our financial sector. To accomplish this, we are determined to strengthen the independence and effectiveness of financial sector supervision. Specifically, we have signed several agreements with supervision authorities of different countries to expand the exchange
of information on banks’ activities. Recently approved legislation will strengthen supervision of insurance and securities firms and constitutes a step toward consolidated supervision. We have intensified work on systemic risks, conduct more frequent targeted inspections and are going to increase the number of supervision staff and their salaries. We believe that despite the rapid credit expansion of recent years, the Georgian banking system is healthy. At the same time we take into account need of gradual responses to some, but increasing risks.

We have complied with all but one of the performance criteria, indicative targets and benchmarks for end-December 2006 and end-March 2007, as detailed in our most recent Memorandum of Economic and Financial Policies. We hereby request a waiver of the performance criterion that called for the adoption, by end-December 2006 of Fit and Proper legislation consistent with international best practices. While we had submitted appropriate legislation to Parliament in 2006, action on this legislation was delayed because of a heavy work load. Parliament has now begun discussions of this draft legislation and we expect formal adoption later this year.

In light of our recent performance and given our commitment to macroeconomic stability, we request the completion of the sixth and final review under the PRGF arrangement.

Further, we grant our permission for the publication on the IMF’s website of the staff report and this letter.

Sincerely yours,

/s/
Zurab Nogaideli
Prime Minister of Georgia

/s/
Aleksi Aleksishvili
Minister of Finance

/s/
Roman Gotsiridze
President of the National Bank