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INTERNATIONAL FINANCE CORPORATION

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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. VLADIMER PAPAVA ,
Alternate Governor of the Bank for GEORGIA ,
at the Joint Annual Discussion

Dear Chairman,

Ladies and Gentlemen,

Distinguished delegates,

After restoration of its independence in 1992 Georgia became a member state of the International Monetary Fund and the World Bank. By that time the country was going through the most turbulent times of its modern history - ethnic conflicts, civil war and rampant crime. That is why the reforms started only in the spring of 1994. They were initiated and based upon the anti-crisis program signed by the President of Georgia Eduard Shevardnadze. At the outset of the reforms the socio- economic situation in the country was extremely difficult. Inflation reached 8,000 % annually and the Gross Domestic Product (GDP) was 3 times less the index of 1990. 80% of the population lived beyond the official line of poverty.

The reforms bore the first tangible results even in the end of 1995 when annual inflation rate maintained at 57% and the downward tendency of GDP was stopped.

By the fall of 1995 these measures laid down the basis for the monetary reform which to some extent was extraordinary and unprecedented. Three

currencies altogether - Georgian coupon, Russian rouble and US dollar - were replaced by the National currency "lari", which has become the real legal tender and has been stable since its very introduction.

In 1996 the Georgian Government in cooperation with the IMF and the World Bank prepared a stabilization and structural reforms program which was supported by a three year ESAF and Structural Adjustment Credits. This program focused on three strategic goals:

1. Support economic growth;
2. Acceleration of the process of the transition to a market economy and safeguarding the stabilization achievements with constant improvement of the social conditions of the population;
3. Deeper reforms in the sphere of education and health care.

The results of the implementation of this program in figures can be identified as follows:

If in 1995 inflation stood at 57%, in 1996 it fell down to 13,7 % and in 1997 it reached 7.3%. This year inflation has not taken place at all.

In 1995 the falling of the GDP was stopped, 1996 marked the 11% growth and in 1997 the growth rate amounted to 11.3%. In the 8 - month period of the current year the growth rate stood at 9 %.

It should be mentioned that with the purpose of acceleration of the economic development, irreversibility of reforms and deeper transformation, on the basis of close cooperation with international financial institutions, in winter of 1997 President of Georgia issued the Decree on Main Guidelines for the deepening of Economic Reforms. This Decree covers all the necessary measures that the Georgian Government should implement in the next two years.

Although in the course of reforms we encountered numerous obstacles and hardships the Georgian Government is firm in its determination to continue democratic and market-oriented transformations. But recently the reforms have been nearly thwarted by the immense difficulties caused by Russian financial crisis. It is not unnatural whereas Russia remains the largest foreign trade partner of Georgia. A drastic fall in Georgian export sales to Russia was observed after the crisis.

In order to overcome that situation it would be appropriate that the IMF and the World Bank elaborate the program of special emergency assistance to the countries that have been or still would be negatively affected by the Russian crisis.

Speech of Mr. Papava

Alternate Governor of The World Bank

Minister of Economy of Georgia

7 September, 1998