

I & II Quarter of Year 2005 Quarterly Indicators

	2003				2004				2005	
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Government finance (Lari m)										
Revenue & grants	215.32	208.95	245.24	245.25	297.40	402.34	444.67	436.52	496.3	n/a
Expenditure & net lending	248.02	258.35	286.03	276.20	321.78	413.90	474.87	413.06	516.5	n/a
Balance	-32.71	-49.40	-40.80	-30.94	-24.39	-11.56	-30.20	-23.46	-20.2	n/a
Employment & prices										
Employed ('000)	1,679	1,805	1,897	1,877	1,746	1,809	1,819	1,783	n/a	n/a
Unemployment rate (% of the labour force) ^a	17.1	13.9	12.9	13.1	16.4	14.1	15.2	12.6	n/a	n/a
Consumer prices (Dec 2001=100)	107.2	107.8	107.1	110.9	113.6	113.1	112.9	118.0	124.2	n/a
Consumer prices (% change, year on year)	4.3	3.1	5.1	6.8	5.9	4.8	5.4	6.4	9.4	n/a
Financial indicators										
Exchange rate Lari:US\$ (av)	2.174	2.154	2.128	2.127	2.060	1.950	1.847	1.810	1.8272	1.825
Exchange rate Lari:US\$ (end-period)	2.125	2.110	2.113	2.075	2.005	1.920	1.840	1.825	1.834	1.8125
Deposit rate (av; %)	8.87	8.50	8.67	11.07	9.97	6.70	5.87	6.43	7.1	n/a
Deposit rate (foreign currency; av; %)	9.53	8.80	9.33	9.10	7.63	7.93	8.53	6.53	5.9	n/a
Lending rate (av; %)	36.27	33.93	28.50	30.37	35.13	35.37	31.27	23.13	21.7	n/a
Lending rate (foreign currency; av; %)	27.70	27.00	28.60	27.17	26.07	28.37	27.43	26.37	25.6	n/a
Money market (av; %)	19.30	15.54	14.37	18.31	17.53	15.54	8.08	6.34	8.68	n/a
M1 (end-period; Lari m)	438.44	441.45	491.88	516.92	537.12	582.37	694.71	819.49	792.24	n/a
M1 (% change, year on year)	10.5	12.0	20.4	14.2	22.5	31.9	41.2	58.5	47.5	n/a
M2 (end-period; Lari m)	893.16	933.60	1,062.13	1,068.85	1,131.59	1,196.801	1,334.851	1,521.581	1,496.9	n/a
M2 (% change, year on year)	17.0	20.6	31.9	22.8	26.7	28.2	25.7	42.4	32.3	n/a
Foreign trade (US\$ m)										
Exports fob	(158.1)	(286.0)	98.7	199.4	147.9	193.8	262.1	n/a		
CIS ^b	(68.6)	(146.3)	37.8	119.5	70.6	73.2	54.7	n/a		
Imports cif	(-439.9)	(-617.9)	-328.6	-436.3	-494.4	-589.5	-488.4	n/a		
CIS ^b	(160.1)	(198.2)	123.3	141.9	167.6	220.5	164.6	n/a		
Trade balance	(-281.9)	(-331.9)	-229.9	-236.9	-346.5	395.7	-226.3	n/a		
Balance of payments (US\$ m)										
Merchandise trade balance	-153.2	-161.2	-136.4	-185.2	-199.8	-161.8	-263.6	-290.8	-226.3	n/a
Services balance	6.7	14.3	22.5	10.5	16.6	0.6	21.8	11.7	19.9	n/a
Income balance	5.2	13.0	13.1	3.1	4.7	14.7	37	37.0	31.1	n/a
Net transfer balance	38.4	30.5	45.8	54.0	64.6	71.8	87.2	150.7	57.2	n/a
Current-account balance	-102.9	-103.3	-55.0	-117.5	-113.9	-74.8	-117.7	-91.3	-107.2	n/a
Reserves excl gold (end-period)	188.37	185.44	194.03	190.72	211.02	273.51	364.43	382.90	380.8	435.2

a International Labour Organisation (ILO) "loose" methodology, including "discouraged" workers. b Commonwealth of Independent States.

Sources: TACIS, *Georgian Economic Trends*; IMF, *International Financial Statistics*. State Department for Statistics

State Budget revenue

The largest share of the state budget revenue traditionally was covered by tax income. Tax revenue that was about 15% of GDP was the highest in April, well in excess of expectations. This over-performance was due to the privatization of navy that brought US\$ m 93. Much of this was spent to reduce arrears, with the result that domestic indebtedness

decreased by GEL 259 m (about 2.6% of GDP). Strengthening tax and customs administration was the driving force for improvement of fiscal performance. The tax reform approved by the parliament in December was an important step towards making the tax system more equitable. At the same time excise tax rates were raised that offset the revenue loss from the tax cuts. For the first five months receipts from the VAT took the most share – about 55% of total tax revenue that was 4.8% higher than projected.

The non-tax revenue for the first five months increased by 19%, but for May it was considerably low – just 6% of the total amount for the five months of this year.

State Budget Revenue

	2005	(January-June)		
	Target	Actual	Actual/target (%)	% change, year on year
Total state budget revenue & grants	924.3	980.6	106.1	73.2
Tax revenue	596.9	626.5	104.8	152.2
Non-tax revenue	106.8	123.3	112.3	9.7
Grants	9.4	18.6	197.8	17.7

Source: MOF of Georgia

State Budget Expenditure

In the area of public expenditure management, significant progress has been made towards performance orienting budgeting. In particular, transparency in the budgeting process has been increased and two major extra budgetary funds were abolished.

The most share of the state budget expenditure covered category of “Subsidies and Transfers”.

Capital expenditure is again very low amounted to GEL m 55 for the five months. At the same time state budget expenditure on healthcare, defense, construction and mining increased to a large extent.

State budget expenditure

	2003			2004		2005 (January-June)	
(Lari m)	Actual	% change, year on year	% of total	Actual	% of total	Actual	% of total
General government	221.2	3.8	19.8	301.7	15,6	102.3	11.4
Defence	55.4	15.6	5.0	158.8	8,2	114.9	12.8
Law & order	82.0	2.0	7.3	237.4	12,3	88.5	9.8
Education	37.8	2.1	3.4	65.3	3,4	26.5	2.9
Healthcare	7.1	-82.2	0.6	147.4	7,6	55.9	6.2
Social security	288.4	11.7	25.8	364.3	18,9	221,0	24.7
Housing & heating	3.1	-27.0	0.3	2.8	0,1	-	-
Culture, sports & religion	23.6	-4.7	2.1	39.2	2,0	15.9	1.8
Energy & heating	36.6	116.5	3.3	78.4	4,1	60.1	6.7
Agriculture	11.0	23.5	1.0	29.2	1,5	15.1	1.7

Construction & mining	0.4	-44.4	0.0	1.5	0,1	230.7	25.8
Transport & communications	53.8	27.9	4.8	67.4	3,5	16.5	1.8
Other economic activities	298.2	12.2	26.7	4.8	0.2	13.4	1.5
Other				432.1	22.4	337.8	37.7
Total	1,118.5	7.5	100.0	1,930.2	100.0	895.8	100

Source: MOF of Georgia

Dynamics of Monetary Aggregates

During the first half of 2005 the NBG continued supervision policy and regulation the banking sector. All through the reporting period monetary aggregates were quite stable. At the same time demand for local currency during the first quarter was low which can be explained by seasonal factors. In May money aggregates increased slightly and deposits in foreign currency raised more rapidly than the deposits in local currency. Though comparing to the same period of the last year deposits in local currency increased more rapidly (by 83%) than in foreign exchange (by 21%).

The Lari money supply still was characterized by the dominance of currency in circulation amounted to Lari 628.3 m (6.3% of GDP). M1 increased by 45.5% on yearly base. Broad money M2 (M1, private sector time deposits and savings) displayed 32% of year on year growth.

As for the first quarter of the year accumulated government deposits ensured neutralization of the supplied liquidity by the NBG. From the beginning of the year government deposits increased by Lari 56.1 m and amounted to Lari 175.8 m. This tendency continued during the second quarter. Government deposits almost tripled compared to the same period of the last year and amounted to Lari 313 m at the end of May 2005.

Money supply								
(Lari m unless otherwise indicated; end-period)								
	2002	2003	2004			2005		
	4 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr b
Base money (M1)	452.8	516.9	537.1	582.4	694.71	819.5	792.24	814.1
% changea	10.9	5.1	3.9	8.4	19.3	17.9	-3.3	2.8
Money supply (M2)	870.2	1,068.8	1,131.5	1,196.8	1,334.8	1,521.6	1,512.4	1,599.3
% changea	8.1	0.6	5.9	5.8	11.5	13.9	-0.6	5.1

a Quarter on quarter. b Based on the data for May

Note. Monetary base is cash in circulation (M0) plus commercial banks' cash and reserves. M1 is M0, plus demand deposits of firms and households held at the NBG and in commercial banks in lari. M2 is M1 plus other household deposits and demand deposits in convertible currency of firms and households.

Source: IMF, *International Financial Statistics*.

The Domestic Economy