

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	3Qrt
Government finance (Lari m)											
Revenue & grants	215.32	208.95	245.24	245.25	297.40	402.34	444.67	436.52	496.3	687.5	618.1
Expenditure & net lending	248.02	258.35	286.03	276.20	321.78	413.90	474.87	413.06	516.5	696.6	610.1
Balance	-32.71	-49.40	-40.80	-30.94	-24.39	-11.56	-30.20	-23.46	-20.2	9.1	8.0
Employment & prices											
Employed ('000)	1,679	1,805	1,897	1,877	1,746	1,809	1,819	1,783	1,708	1,763	n/a
Unemployment rate (% of the labour force) ^a	17.1	13.9	12.9	13.1	16.4	14.1	15.2	15.2	17.7	15.7	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	121.9	122.5
Consumer prices (% change, year on year)	4.3	3.1	5.1	6.8	5.9	4.8	5.4	6.4	9.4	9.05	7.6
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	1.805
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	1.796
Deposit rate (av; %)	8.87	8.50	8.67	11.07	9.97	6.70	5.87	6.43	7.1	7.6	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	5.7	n/a
Lending rate (av; %)	36.27	33.93	28.50	30.37	35.13	35.37	31.27	23.13	21.7	20.9	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	23.6	n/a
Money market (av; %)	19.30	15.54	14.37	18.31	17.53	15.54	8.08	6.34	8.68	5.07	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	857.46	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	47.2	n/a
M2 (end-period; Lari m)	893.16	933.60	1,062.13	1,068.85	1,131.59	1,196.80	1,334.85	1,521.58	1,496.9	1,643.9	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	37.4	n/a
Foreign trade (US\$ m)											
Exports fob	(158.1)	(286.0)			98.7	199.4	147.9	193.8	282.3	345.1	n/a
CIS ^b	(68.6)	(146.3)			37.8	119.5	70.6	73.2	54.7	111.0	n/a
Imports cif	(-439.9)	(-617.9)			-328.6	-436.3	-494.4	-589.5	-498.2	-564.0	n/a
CIS ^b	(160.1)	(198.2)			123.3	141.9	167.6	220.5	164.6	-200.5	n/a
Trade balance	(-281.9)	(-331.9)			-229.9	-236.9	-346.5	395.7	-215.9	218.9	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	-215.9	-218.9	n/a
Services balance	6.7	14.3	22.5	10.5	16.6	0.6	21.8	11.7	19.9	13.3	n/a
Income balance	5.2	13.0	13.1	3.1	4.7	14.7	37	37.0	31.1	14.9	n/a
Net transfer balance	38.4	30.5	45.8	54.0	64.6	71.8	87.2	150.7	57.2	64.9	n/a
Current-account balance	-102.9	-103.3	-55.0	-117.5	-113.9	-74.8	-117.7	-91.3	-111.4	-125.8	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	n/a

^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 increased in GDP terms and according to the preliminary data for September it equaled about 17% of GDP, well in excess of expectations. This outcome was caused also by increased tax rates and significant growth of imports, as VAT income from imported goods and services was almost twice higher than from domestically produced goods and services. Excise income from imported goods is three times higher than from domestic goods. Strengthening tax and customs administration was again the driving force for this over-performance.

Capital income due to the increased privatization proceeds increased to Lari 275.03 m (instead of Lari 3m. as it was in September 2004) and covered almost 16% of total revenues.

The total state revenue on year base more than doubled compared to the same period (three quarters) of the previous year.

State Budget Revenue

2005 (January-August)				
(Lari m unless otherwise indicated; end-period)				
	Target	Actual	Actual/target (%)	% Change, year on year
Total state budget revenue & grants	1,505.5	1,603.4	106.5	73.2
Tax revenue	1,035.9	1,088.5	105.1	152.2
Non-tax revenue	172.3	202.3	117.4	9.7
Grants	23.3	40.9	174.8	17.7

Source: MOF of Georgia

State Budget Revenue (Lari m.)

2005 (January-September)				
(Lari m unless otherwise indicated; end-period)				
	Target	Actual	Actual/target (%)	% Share of total
Total state budget revenue & grants	1688.1	1801.95	107	100
Tax revenue	1174.0	1269.28	108	70.4
Non-tax revenue	186.89	215.84	115	11.9
Grants	43.9	41.8	95	2.3

Source: MOF of Georgia

State budget expenditure

During the recorded period budget expenditure was quite moderate – only 79% of targeted. At the end of September the most share (49.5% of total) of the state budget expenditure covered category of “Subsidies and Transfers”. Capital expenditure increased considerably and amounted Lari 181.7m. At the same time, state budget expenditure on healthcare, defense, construction and mining increased to a large extent.

As a result of low level of expenditure, the government deposits accumulation increased. During the recorded period in the middle of July government deposits reached its highest amount Lari 358m. At the end of August government deposits increased by 40% on year base and amounted Lari 215 m

State budget expenditure

	2003	2004	2005 (January-August)

(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	160.9	10.2
Defence	55.4	15.6	5.0	158.8	8.2	232.1	14.7
Law & order	82.0	2.0	7.3	237.4	12.3	161.2	10.2
Education	37.8	2.1	3.4	65.3	3.4	46.8	3.0
Healthcare	7.1	-82.2	0.6	147.4	7.6	98.5	6.3
Social security	288.4	11.7	25.8	364.3	18.9	357.9	22.7
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	26.2	1.7
Energy & heating	36.6	116.5	3.3	78.4	4.1	107.2	6.8
Agriculture	11.0	23.5	1.0	29.2	1.5	27.2	1.7
Construction & mining	0.4	-44.4	0.0	1.5	0.1	0.4	0.0
Transport & communications	53.8	27.9	4.8	67.4	3.5	59.6	3.8
Other economic activities	298.2	12.2	26.7	4.8	0.2	10.4	0.7
Other				432.1	22.4	287.3	18.2
Total	1,118.5	7.5	100.0	1,930.2	100.0	1,575.7	100

Source: MOF of Georgia

Dynamics of monetary Aggregates

During the first three quarters of 2005 the NBG continued supervision policy and regulation the banking sector.

All through the recorded period monetary aggregates have been increasing. At the same time demand for local currency during the second quarter was high which can be explained by the seasonal factors. The Lari money supply still was characterized by the dominance of currency in circulation amounted to Lari 686.6 m (10.7% of GDP). M1 increased by 33.7% on yearly base during the third quarter of 2005. Broad money M2 (M1, private sector time deposits and savings) displayed 33.5% of year on year growth.

Decreasing trend of government deposits from the mid of July was the reason of considerable increase in currency in circulation (almost 7% at the end of the third quarter). Substantial growth was in demand deposits and timesavings and foreign currency deposits (12% and 8% respectively on quarterly base at the end of August of 2005).

Though comparing to the same period of the last year timesaving and foreign currency deposits increased slowly in 2004 by 4% on quarterly base.

Money supply												
(Lari m unless otherwise indicated; end-period)												
	2003				2004				2005			
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr ^b	4 Qtr	1 Qtr	2 Qtr	3 Qtr ^b
Base money (M1)	516.9	537.1	582.4	694.71	819.5	792.24	857.46	929.48				
% change ^a	5.1	3.9	8.4	19.3	17.9	-3.3	8.2	8.4				
Money supply (M2)	1,068.8	1,131.5	1,196.8	1,334.8	1,521.6	1,512.4	1,643.99	1781.53				
% change ^a	0.6	5.9	5.8	11.5	13.9	-0.6	8.7	8.4				

^a Quarter on quarter. ^b Based on the data for August

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

During the first half of 2005 the real sector of Georgian economy increased by 6.8% compared to the same period of the previous year, This expansion was due to the increase in industry, agriculture, trade, communication and transport sectors, which counted more than 45.4% of real sector of the economy. That could be considered as a result of high economic activity and good weather conditions for agriculture sector during the second and the third quarter of this year.

During the first half of the year the highest growth was in industry as a result of reasonable growth in processing sub sector (8.6%) during the second quarter. Due to the better climate conditions agriculture sector have started to recover from the considerable decline in last year.

Service activity namely Hotels and Restaurants increased by 9.0% and financial intermediation expanded by 31.9% during the second quarter of the year on year base.

Gross domestic product by sector

(% change, year on year unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005a)
Share of GDP (% , current prices)							
Industry	13.0	13.6	12.2	13.2	13.4	13.0	14.2
Agriculture	24.7	20.2	20.7	19.2	19.3	15.9	18.1
Construction	3.7	3.7	3.9	5.1	6.4	6.2	5.1
Transport & communications	11.9	14.3	13.7	14.2	11.3	13.7	13.1
Sectoral growth							
Industry	3.7	5.3	-4.5	7.8	14.0	12.2	8.2
Agriculture	6.9	-12.0	8.2	-1.4	10.1	-7.2	5.9
Construction	-21.5	4.0	10.3	43.1	46.6	5.9	3.5
Transport & communications	5.7	13.1	1.4	8.7	4.4	5.8	4.9
Trade	3.8	10.8	8.8	3.9	18.4	17.1	6.2
GDP (real % change, year on year)	3.0	1.8	4.8	5.5	11.0	6.2	6.7

a) For the first half of 2005

Sources: State Department for Statistics of Georgia

Consumer Price Inflation

Due to the increasing trend of prices on oil products and tobacco during August-September period, annual inflation as well as inflation from the beginning of the year jumped up significantly. The prices on petroleum increased by 19.1%, on domestically produced cigarette by 11% and on imported one by 3.6% compared to price level in August. At the same time prices went up on food products and transport services.

From December of this year CPI increased by 1.1%. During this year prices of meat and meat products increased by 15.4%, on tobacco and alcohol beverages by 21.5%, and on transport services by 12%. The main reasons of rising prices were increasing prices on oil

products in international market and growth of excise tax rates on tobacco and alcohol beverages. Prices on housing increased simultaneously almost by 62% compared to the same period of the previous year.

Good climate conditions and increasing supply of agricultural products decrease prices on food and vegetable. Also reduced VAT rates on some products offset exogenous pressure on inflation rate.

Consumer prices

(% change)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual average
2002													
Month on month	2.0	1.2	0.4	1.8	0.0	-2.3	-1.1	-0.1	0.4	0.4	1.1	1.7	5.6
Year on year	4.8	5.4	5.8	6.6	7.7	5.7	5.2	4.8	5.9	5.6	5.2	5.5	-
2003													
Month on month	2.1	-0.5	0.0	0.5	0.2	0.1	-0.9	-0.1	0.5	0.0	4.8	0.2	4.8
Year on year	5.7	3.9	3.5	2.1	2.3	4.9	5.1	5.1	5.2	4.8	8.6	7.0	-
2004													
Month on month	0.4	0.4	0.1	-0.2	0.0	-1.6	0.8	-0.6	1.5	1.6	1.3	3.5	5.6
Year on year	5.2	6.2	6.3	5.5	5.4	3.6	5.3	4.8	5.9	7.6	4.0	7.4	-
2005													
Month on month	2.1	0.3	0.6	0.4	-1.3	-1.5	-1.96	0.6	1.9				
Year on year	9.3	9.2	9.7	10.3	8.9	9.05	5.9	7.2	7.6				-

Sources: State Department of Statistics.

The Lari is stable against US dollar

During the third quarters of 2005 TIFEX market was quite stable. Lari exchange rate against US dollar fluctuated in 1.81-1.79 interval. At the same time the real effective exchange rate of the local currency depreciated by 1.6% during the first eight months but appreciated by 2.2% on year base.

The increasing demand on the local currency was the reason of appreciation of Lari against the US dollar. This seasonal appreciation trend was partially softened by the NBG interventions in TIFEX market. Unlike the last year, the NBG implemented two side interventions to ensure exchange rate stability during the first half of the year. However, US dollar amount sold was much lower than bought (almost by 40%).

The overall turnover of the US dollar during the nine months decreased by 12.5% and amounted US\$ m 191.2. The trade with EURO increased substantially from EURO 1.4 m to EURO 9.3 m. compared to the eight months of the previous year. The Lari exchange rate has appreciated almost by 7.9% against Euro from January of this year. During the recorded period foreign exchange trade outside of TIFEX increased and almost doubled compared to the same period of last year.

Exchange rates

(Lari:US\$ unless otherwise indicated)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2002												
End-period	2.197	2.210	2.215	2.235	2.215	2.190	2.185	2.165	2.175	2.165	2.165	2.090
Average	2.189	2.215	2.228	2.231	2.214	2.217	2.204	2.182	2.180	2.165	2.180	2.144
% change, month on month ^a	-6.2	-0.6	-0.2	-0.9	0.9	1.1	0.2	0.9	-0.5	0.5	0.0	3.6
% change, year on year ^b	-7.8	-6.9	-7.4	-8.0	-6.7	-7.1	-6.2	-5.4	-4.8	-3.9	-2.4	-0.2
2003												
End-period	2.185	2.175	2.125	2.145	2.148	2.110	2.121	2.112	2.113	2.107	2.190	2.075

Average	2.189	2.185	2.149	2.160	2.154	2.148	2.134	2.122	2.127	2.099	2.164	2.118
% change, month on month ^a	-4.3	0.5	2.4	-0.9	-0.1	1.8	-0.5	0.4	0.0	0.3	-3.8	5.5
% change, year on year ^b	0.0	1.4	3.7	3.3	2.8	3.2	3.3	2.8	2.5	3.1	0.8	1.2
2004												
End-period	2.110	2.028	2.005	1.990	1.920	1.920	1.890	1.785	1.840	1.827	1.780	1.825
Average	2.122	2.062	1.996	1.989	1.940	1.920	1.908	1.829	1.804	1.831	1.799	1.800
% change month on month ^a	-1.7	4.0	1.1	0.8	3.6	0.0	1.6	5.9	-3.0	0.7	2.7	-2.5
% change year on year ^b	3.2	6.0	7.7	8.6	11.0	11.9	11.8	16.0	17.9	14.7	20.3	17.6
2005												
End-period	1.820	1.829	1.834	1.825	1.827	1.813	1.810	1.790	1.793			
Average	1.817	1.828	1.837	1.831	1.826	1.819	1.816	1.802	1.796			
% change month on month ^a	0.3	-0.5	-0.3	0.5	-0.1	0.8	0.2	1.1	-0.2			
% change year on year ^b	16.8	12.8	8.7	8.6	6.2	5.6	5.1	1.5	0.4			

^a Based on end-period rate. ^b Based on average rate.

Source: National Bank of Georgia

Foreign trade and payment

According to the State Department for Statistics of Georgia during the first half of 2005 recorded foreign trade turnover was equal to US\$ 1,689.6 m., of which exports were US\$ 627.3 m and imports US\$ 1,062.2m. Compared to the same period of the previous year export growth was 31%, slightly higher, than expansion of import - 26%.

Such significance growth in trade is a result of GDP growth by 6.7% in the first half of the year, which facilitated trade as well. During the recorded period the export coverage of import ratio was about 59.1%, slightly increased compared to the last year – 57%.

Foreign trade							
(US\$ m)							
	2000	2001	2002	2003	2004	2005 Q1	2005 Q2
Exports of goods	475.4	346.3	355.1	465.3	648.8	282.3	345.1
Imports of goods	-711.0	-753.8	-978.3	-1,138.4	-1,847.0	-498.2	-564.0
Trade balance	-235.6	-407.5	-623.2	-673.1	-1198.2	-215.9	-218.9

Sources: State Department of Statistics

The composition of Georgian registered export has changed compare to the same period of the last year. Exports of scrap and ferrous metals, which goes mainly to Turkey, are on the leading position again with a value of US\$ 118.0m. Export of wine, mineral water and nuts almost doubled that is the good sign of local production growth. Decreasing trend in export of sugar has been continuing.

	January-August, 2004		January-August 2005		change y/y %
	US\$ m	% of total	US\$ m	% of total	
Exports, Total	407,7	100,0	525,2	100,0	28,8
of which:					
Scrap Black Metals	56,2	13,8	65,4	12,5	16,4

Ferrous Metals	26,4	6,5	52,6	10,0	99,2
Wine	29,1	7,1	47,7	9,1	63,7
Other Aircrafts	66,4	16,3	38,7	7,4	-41,7
Copper Ores and Concentrates	23,7	5,8	28,2	5,4	18,9
Gold Unwrought or in Semi-Manufactured Forms	13,8	3,4	23,1	4,4	67,2
Sugar	26,2	6,4	22,5	4,3	-14,0
Mineral Waters	10,6	2,6	19,7	3,7	85,4
Other Nuts, Fresh or Dried, Whether or not Shelled or Peeled	1,5	0,4	19,0	3,6	1164,5
Fertilizers	13,5	3,3	18,0	3,4	33,9
Other	140,2	34,4	190,3	36,2	35,7

Source: State Department for Statistics of Georgia.

The largest imported products group includes: oil and gas products, automobiles, and medicine. The share of wheat and wheat flour declined. Imports of oil almost doubled due to a strong performance in industrial sector and high oil prices.

	January-August, 2004		January-August 2005		change y/y %
	US\$ m	% of total	US\$ m	% of total	
Imports, Total	1095,5	100,0	1390,8	100,0	27,0
of which:			0,0		
Crude Oil and Petroleum Products	107,2	9,8	181,2	13,0	69,0
Automobiles	60,3	5,5	97,7	7,0	61,8
Medicines	46,4	4,2	63,4	4,6	36,9
Petroleum Gases and Other Gaseous Hydrocarbons	48,5	4,4	57,1	4,1	17,6
Sugar	29,5	2,7	43,6	3,1	47,4
Other Aircrafts	7,7	0,7	30,6	2,2	298,0
Wheat or Meslin Flour	25,4	2,3	28,5	2,0	12,1
Wheat	52,2	4,8	25,3	1,8	-51,5
Electric Power	22,0	2,0	21,0	1,5	-4,4
Transmission Apparatus for Radio & TV	11,0	1,0	18,9	1,4	71,2
Other	685,2	62,5	823,5	59,2	20,2

Source: State Department for Statistics of Georgia.

During the first eight months of 2005, CIS accounted 37 % of total trade instead of 34.4% during the first three quarters of the previous year. Russia and Turkey still are major trading partners with 16.9% and 17.7% of share in total turnover, which have been decreasing slightly. Russia remained largest import supplier, particularly of gas. Turkey provides consumer goods, followed by Azerbaijan, which provides oil and consumer goods also. Imports from Germany pushed according to the increased demand on used cars. Georgia has the positive balance only with Turkmenistan owing export of aircraft. Imports from EU and other developed countries are growing slightly according to the necessity of capital goods for basic infrastructure construction. However, the composition of ten largest trade partner countries remained the same

Main trading partners. (January-August. 2005)

(% of total)

Exports to

Russia	16.9
Turkey	17.7
Azerbaijan	11.4
Ukraine	2.9
Germany	2.2
Turkmenistan	7.9
Bulgaria	4.9
USA	2.1
UK	4.4
France	1.1

Imports from

Russia	15.8
Turkey	12.7
Azerbaijan	9.5
Ukraine	8.9
Germany	8.3
Turkmenistan	3.2
Bulgaria	3.5
USA	4.0
UK	2.8
France	3.5

Source: State Department for Statistics

During the first half of 2005 the current account deficit reached US\$ 243.8m (or 8.8% in GDP terms) according to the data from the State Department for Statistics that is higher by 53% compared to the same period of the previous year. The large deficit in current account is traditionally caused by big share of imported goods that is almost twice large than exported goods. Other components: service balance, income balance and net current transfers are positive. Service balance increased by 51% compared to the same period of the previous year and amounted US\$ 30.2m, caused by the increasing tendency of tourism. Current transfers decreased by 23 % compared to the first half of 2004.

Due to some constraints of privatization process and completion of Tbilisi-Baku-Jeihan project FDI decreased by 18.3% during the reporting period and reached only US\$194.9m.

Constrained by the undeveloped financial market portfolio investment is traditionally zero.

Balance of payments, IMF estimates

(US\$ m unless otherwise indicated)

1999	2000	2001	2002	2003	2004 ^a	2005 (Q1) ^a
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Exports fob	329.5	459.0	496.1	583.4	830.6	1025.1	281.8
Imports cif	-863.4	-970.5	-1,045.6	-1,041.6	-1,466.6	-1977.4	-497.2
Trade balance	-533.9	-511.5	-549.5	-458.2	-636.0	-952.3	-215.4
Services: credits	216.9	206.4	314.1	391.7	442.0	538.5	137.2
Services: debits	-224.0	-216.3	-236.9	-356.1	-389.5	-482.4	-117.3
Services balance	-7.1	-9.9	77.2	35.6	52.5	56.1	19.9
Income balance	146.9	117.5	32.3	18.7	34.3	96.8	31.1
Services & income balance	139.8	107.6	109.5	54.3	86.8	155.9	51.0
Current transfers (net)	195.7	134.9	228.3	153.3	152.0	413.8	53.0
Current-account balance	-198.4	-269.0	-211.7	-250.6	-397.1	-349.3	-111.4
Foreign direct investment (net)	81.3	131.6	109.9	161.3	334.1	499.1	60.5
Portfolio investment (net)	6.2	2.7	-0.1	0.0	0.0	0.0	0.0
Other capital flows (net)	29.4	-41.5	99.9	-127.0	-11.1	-21.4	23.4
Capital & financial account balance	128.4	88.0	204.5	51.9	303.1	333.4	96.6
Net errors & omissions	55.7	187.4	34.9	12.3	6.6	15.9	-6.5
Overall balance	-14.3	6.4	27.7	-186.4	-87.4	0	-21.3
Changes in gross reserves (- indicates increase)	-9.6	19.8	-47.0	-37.7	6.7	-192.1	21.3
IMF credit	23.9	-26.2	19.4	-0.1	-0.001	0.0	7.9

Note. Totals may not sum owing to rounding.

^a Source: State Department for Statistics of Georgia.

Sources: IMF, *International Financial Statistics*.

Privatization proceeds and increasing demand on Lari facilitated the NBG to increase its foreign reserves. Gross foreign reserves amounted to US\$444.2 m at the end August 2005 US\$100m higher than a year before. Reserves are used mainly to cover debt interest payment. Foreign reserves management enabled the NBG to earn interest income. Some of the reserves had been used to service the country's foreign debt. Given Georgia's high debt and its vulnerability to regional economic stability, the low level of reserves, that is only three months of import cover, is a cause for concern.

Reserves

(US\$ m; end-period; excl gold)

1997	199.8
1998	123.0
1999	132.4
2000	109.4
2001	160.3
2002	197.6
2003	190.7
2004	382.8
2005	
Q1	380.8
Q2	435.2
Q3*	444.2

Source: IMF, *International Financial Statistics*. National Bank of Georgia

*As for end of August 2005

In May 2005 the total foreign debt stock was US\$ 1,789.04 m. It decreased slightly, by 3.7% compared to the end of 2004 that was US\$1,857.7 m. But in GDP terms it is almost the same – 36%. The most part of the debt (57% of the total) is loans from multilateral creditors. The country again will need to finance capital expenditure by external sources, but as long as debt decreases and economy is growing this will not be a reason for concern.