

BUFF/06/151

September 27, 2006

**Statement by the Staff Representative on Georgia
Executive Board Meeting
September 29, 2006**

1. The following information has become available since the issuance of the staff report (EBS/06/121). These developments do not change the thrust of the staff appraisal.
2. The authorities are reportedly on track to meet the indicative quantitative targets and performance criteria for end-September, although final data will not be available for several weeks. Fiscal and monetary performance through end-August appear to be broadly in line with program targets. Based on more recent daily data, reserve money is slightly below, and the cumulative deficit close to, their respective end-September ceilings under the program. The authorities have assured staff that all efforts will be made to meet the targets, including by restraining pressures to spend in late September ahead of local elections in early October.
3. The money multiplier increased in August, compared to program projections of a modest decline in the multiplier in the second half of 2006.
4. Staff has received the preliminary version of the 2007 budget that is being discussed at the government level. The budget that is adopted by government is to be submitted to parliament on October 2. The deficit in the draft is broadly in line with the authorities' commitments in the Memorandum of Economic and Financial Policies. However, the composition of expenditures differs significantly from the pattern discussed with staff; current expenditures are 1.7 percent of GDP lower than described in the staff report, and capital expenditures are 1.8 percent of GDP higher. The budgeted level of current expenditures reflects a slight decline in nominal terms from the 2006 projected level which, with the projected inflation, implies a more than 6 percent reduction in real current expenditures, primarily in local government expenditures. The authorities have informed staff that this reflects a careful policy decision.
5. The authorities have begun the process of expanding the coverage of the targeted extreme poverty from Tbilisi to the rest of Georgia, consistent with their stated intention to cover the entire country by September.