

Central Asia and South Caucasus Affairs: 2003

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The Main Macroeconomic Tendencies of Georgia in 1995-2002

Teimuraz Beridze and Vladimir Papava

Economic Growth and Other Parameters of the Real Sector

In the first half of the 1990s, the impact of the extremely unfavorable domestic and foreign political, economic, and social factors exerted a destructive influence on the economy of the country. The result was a sharp decline in the level of the economy, with a substantial deterioration in the macroeconomic situation and the well-being of the population.

In the early 1990s the economy of Georgia (as in other countries of the former USSR and the socialist camp) was characterized by phenomena characteristic of a profound crisis. In the first instance, this was expressed in a sharp decline of production and by high rates of inflation. This period also marked an extreme curtailment in investment activity. The process of obsolescence in fixed capital accelerated. A sharp contraction in the share of savings in the national income limited the possibilities for a rapid revival of the country's economy. It should be emphasized that the economic decline in the countries of the former USSR nowhere assumed such a scale as it did in Georgia: in 1994 the real volume of the gross domestic product (GDP) had fallen by 72 percent from the level in 1990, the gross output of industry had declined by 84 percent, the production of agriculture by 46 percent, and investment in fixed capital by 95 percent.

Political stabilization in the country since 1995 created an opportunity to begin a full-scale economic reform.¹ Financial stabilization became the first step in economic reform and, in essence, the basis for the beginning of economic growth in the country.

For all practical purposes, it was only in 1995 that it became possible to

stop the decline in production and to renew economic growth. Compared to 1994, by 2002 the gross domestic product (GDP) in real terms had grown by 1.5 times (that is, by 50 percent), with an average per annum growth rate of 5.2 percent.² For recent years, as a whole, the rates of growth in the GDP were as shown in Table 1.

Table 1
Rates of Growth in GDP of Georgia, 1995-2002
(In percent)

| Index | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2001 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Percent of prior year | 102.6 | 111.2 | 110.6 | 102.9 | 103.0 | 101.9 | 104.7 | 105.3 |
| Percent of 1994 | 102.6 | 114.0 | 126.1 | 129.7 | 133.6 | 136.1 | 142.5 | 150.0 |

It should be noted that this very high indicator for the average per annum rate of growth of the GDP is due to the economic upsurge in 1996-1997. The ensuing five years (1998-2002) were characterized by relatively low rates of growth. Moreover, in the state sector of the economy, there was a tendency for the GDP to decrease; by contrast, in the non-state institutionalized sectors, one could see a rather stable tendency of growth. In particular, in the last seven years there has been average growth of 1.5 to 3.0 times in the following spheres: transportation services and communications, construction, and the service sector (hotels, cafes and restaurants, cafeterias). Particularly high rates of growth (6.6 times in seven years) were characteristic for financial and intermediary services. In 1996-2002 the share of added value to the GDP that was created by these branches increased 2.3 times.

¹For example, see: V. Papava and T. Beridze, "Problemy reformirovaniia gruzinskoi ekonomiki," *Rossiiskii ekonomicheskii zhurnal*, 1994, no. 3; V. Papava and T. Beridze, "Ekonomicheskie reformy v Gruzii," *Rossiiskii ekonomicheskii zhurnal*, 1998, no. 1; V. Papava, "O khode reform i perspektivakh razvitiia ekonomiki Gruzii," *Obshchestvo i ekonomika*, 1998, no. 2; V. Papava, "The Georgian Economy: Problems of Reform," *Eurasian Studies*, 2 (1995), no. 2; V. Papava, "The Georgian Economy: From 'Shock Therapy' to 'Social Promotion,'" *Communist Economies and Economic Transformation*, 8 (1996), no. 8; V. Papava, "'Social Promotion' of Economic Reform in Georgia," *Economic Systems*, 20 (1996), no. 4; V. Papava, "The Georgian Economy: Main Directions and Initial Results of Reforms," in: *Systemic Change in Post-Communist Economies. Selected Papers from the Fifth World Congress of Central and East European Studies*, ed. P.G. Hare (London: MacMillan Press, 1999).

²Here, and below, this paper utilizes data from the State Department of Georgia for Statistics.

The volume of trade has grown at a moderate rate, although its share in the added value created remains very high—12.9 percent.

Relative instability has been characteristic of the rates of growth in industry. It is here that the problem of insufficient competitiveness of industrial goods has been most sharply apparent. The result has been to create the basis of a necro-economy in Georgia.³ Notwithstanding all this, however, industry showed an 11-percent increase in 1996-2002, although that was still 2.8 times smaller than the overall growth in the GDP. Unstable growth rates also characterized the branches of commercial and personal services, but in 1996-2002 here too there was a double-digit index of growth.

Agriculture, the largest branch of the country's economy, has undergone a quite unstable pattern of development. Over the last eight years, this sector showed no substantial growth and its proportionate share of the GDP in Georgia decreased by 1.5 times. This was due, above all, to the underfinancing of this sector.

For an analysis of the macroeconomic processes, it is important that the indicator of the unemployment rate rose from 5-6 percent in 1997 to 12-14 percent in the ensuing period of 1998-2002. This was essentially determined by the changes taking place in the national economy: in effect, Georgia has embarked on a process whereby the self-employed population is concentrated in such branches as trade, transportation, and services. Although in each of these branches there is a tendency to reduce the self-employed, in the economy as a whole there is a growth in the number of those working as hired employees.

It is necessary to add that, with regard to the small agricultural peasant household units, there is hardly any opportunity for further growth or, in particular, an expansion of its share of employment. On the contrary, this surplus labor force (which ceases to work at home both because of the level of incomes and because of the inefficient technologies) goes onto the labor market in an effort to find more rewarding employment. For their part (in branches with a high degree of self-employment, such as trade, transport, and other spheres of service), under the conditions of intense competition within the labor force there has not been an expansion in the volume of participation by individual entrepreneurs.

³V. Papava, "Nekroekonomika—fenomen postkommunisticheskogo perekhodnogo perioda," *Obshchestvo i ekonomika*, 2001, no. 5.

From the foregoing one can conclude that the question of achieving sustained economic growth and full employment in the country's economy is linked to a further reform in the structure of the economy.

From the perspective of the characteristics of social processes in the country, it is exceedingly important to make an analysis of the dynamics in the level of the material well-being of the populace. According to analyses of data obtained on the basis of a selective sampling of households, the average monthly wage for hired employees has risen during recent years. At the same time, however, the level of average incomes (both monetary and non-monetary) of a single household is still below the poverty line (about 90-95 percent of that marker). Moreover, according to data for 1999-2000, the average level of real incomes somewhat declined; that was due to the failure to pay salaries in the state (budgetary) sector and to pay pensions and other forms of assistance. In addition, this was also due to the harm wrought by the drought in 2000 (with its impact felt mainly among the rural population).

One should also note the differentiation of the population in levels of current income, savings, and consumer expenditures. This significantly surpasses the outer limits of the level for social stability and economic security of the country. For example, the income of 10 percent of the richest part of the population is 25 to 30 times that of the lowest 10 percent (compared to 13 times in the United States, for example).

Despite the fact that, according to the forms of economic activity, the growth of the volume of net taxes (indirect taxes minus subsidies) exceeded the growth of the entire added value, there is nevertheless a chronic delay in the added value that is created in this sphere. Parallel with the impressive growth of net taxes on products, there has been an obvious reduction in the funding of the state budget with incomes of other taxes and non-tax revenues. As a result of insufficient funding for the budget sphere, in the last seven years there has been practically no growth in this sphere. And that poses a serious obstacle to the growth in this sphere in both the short- and long-term perspective.

The Monetary and Credit System

Since 1990, the monetary and credit system of Georgia has gone through stages that include the complete collapse and the creation of a new system. By 1995, it had become possible to prepare and to carry out a full-scale reform in the monetary and credit system. A two-tiered bank system was created, one where the National Bank bears responsibility for the monetary policy and regulates the activities of commercial banks.

Since 1995, the money supply in circulation had increased 2.86 times by the year 2002.

In 2002, compared with 1995, the average growth of currency and the money supply in the broader sense (as aggregates of M0, M2, and M3) amounted respectively to 285 percent, 266 percent, and 433 percent.

During the same period (per the deflator of the GDP), the rates of growth consisted correspondingly of 137.5 and 146.2 percent. Thus, in both monetary terms and in the indicators of the real sectors, the scale of the economy for 1995-2002 rose by more than twofold.

By the end of December 2002, the hard-currency reserves of the National Bank amounted to 197.7 million U.S. dollars, which is equivalent to the imports for a ten-week period. This level of reserves (which are essential for conducting foreign transactions to ensure that the country has a stable position) is less than half of the required level.

Over the long term, it is highly desirable to have a correlation (0.8) between the exchange rate of the lari in U.S. dollars and the changes in the deposits in the national currency. A relatively low correlation (0.6) is to be noted between the non-bank cash and the changes in deposits in the national currency.

As the data in Table 2 show (and despite the general stability of the monetary system of the country), the level of confidence in the national currency, unfortunately, is not very high. There persists an undesirable tradition of making assessments and calculations for sales and purchases of expensive goods in U.S. dollars. There remains a tendency for a dollarization of the economy and, in particular, in the banking sector.

Table 2
Share of Deposits in the National Currency among
All Deposits (in percent)

| Year | Percent of Deposits in National Currency |
|------|------------------------------------------|
| 1996 | 53.3 |
| 1997 | 47.5 |
| 1998 | 36.2 |
| 1999 | 23.7 |
| 2000 | 21.1 |
| 2001 | 17.2 |
| 2002 | 15.0 |

Analogous tendencies are to be seen with respect to loans. In particular, of the loans given by banks to individuals as well as non-state institutions and enterprises, 67.6 percent of the loans in 1996 were issued in the national currency. In 2002 this share had dropped to 13.4 percent.

The share of deposits in M2 in December 2002 (compared with the preceding month) dropped by 0.3 percentage points. That occurred in this period because of the growth in the money supply outside the banking system (by 6.8 percent) and the increase in the deposits in the national currency (by 4.0 percent).

At the end of December 2002, the change in the structure of M2 triggered a change in the money multiplier M for the given aggregate (the correlation of the indicator of the monetary aggregate to the national reserve money) by 0.02 percentage points.

Moreover, the monetary multiplier for the aggregate M3 in December 2002 dropped to 1.76 percent (from 1.79 percent the previous month).

For the aggregates M2 and M3, the dynamics of the monetary multiplier for 1996-2002 in average annual rates are presented in Table 3.

Table 3
Average Per Annum Indicators of Monetary Multiplier

| Year | M2 | M3 |
|------|------|------|
| 1996 | 1.09 | 1.29 |
| 1997 | 1.12 | 1.39 |
| 1998 | 1.09 | 1.49 |
| 1999 | 1.01 | 1.57 |
| 2000 | 1.01 | 1.70 |
| 2001 | 0.95 | 1.66 |
| 2002 | 0.93 | 1.73 |

Because of the dollarization of deposits, the multiplier is rising for M3 and decreasing for M2.

On the whole, the level of both multipliers of money is too low. Given the reserve norms established by the National Bank of Georgia, their maximum can reach 6. The main factor behind such a low level of the multiplier, above all, is the relatively low confidence in the banking system with respect to accounting and accumulation.

This fact finds confirmation in the results of study of the population and entrepreneurs conducted by the State Department of Georgia for Statistics. In particular, 70 percent of the enterprises and general populace prefer to conduct transactions in cash; with respect to savings, less than 5 percent of the population deems it possible to use banking services; only one-sixth of the entrepreneurs regards a bank credit as a resource of current and investment financing for their activities.

Given the foregoing, it is possible to confirm that the banking system of Georgia, despite the stability achieved thus far, is still far from being able completely to perform its function as a financial intermediary. One reason for this lies in the fact that the population remembers the loss of savings that had been deposited in banking or pseudo-banking systems (the so-called "pyramid" schemes) that occurred in the first half of the 1990s as a result of hyperinflation. It is also due to the widespread practice of using financial pyramids, which *inter alia* have a "rich" experience in the history of mankind.

It is also necessary to take into account the fact that a significant share in the economy of Georgia (approximately 40 percent) comes from informal production in individual households. As a rule, these do not resort to bank services in the purchase or sale of products. No less important a factor is the large-scale hidden activity that exists in the entrepreneurial sector to this very day.

State Finances

Economic stabilization and growth in the GDP caused an increase in budgetary revenues. In 1995-2002, where the real growth of the GDP amounted to 46 percent (with a nominal increase of 101 percent), the budget revenues in nominal terms rose by a factor 4.3; the ratio of tax revenues to the GDP increased from 7.3 percent to 14.2 percent. The share of transfers from abroad has decreased as a share of budget revenues (from 14.7 to 1.9 percent). The budget deficit, as a percent of the GDP, has decreased from 5.4 percent in 1995 to 3.3 percent in 2002.

According to data from the Ministry of Finances of Georgia, in 2002 the revenues of the consolidated budget of the country (i.e., the aggregate budget of the central government, special state funds, and territorial units of the country) consisted of 91.1 percent from taxation, 7.0 percent from non-tax revenues, and 1.1 percent from grants. In 2000 the deficit of the consolidated budget was on the level of 21 percent.

Altogether, during the last seven years, the nominal indicator of revenues of the consolidated budget increased 4.32 times, whereas the rate of the real growth (calculated in the use of the GDP deflator) stood at 2.4 times.

The revenues of the state budget in 1996-2002 did not exceed 16 percent of the GDP. In terms of the level of tax assessments against the GDP, Georgia lags behind almost all the countries of the former USSR. The main reason for this is the budget crisis that began in 1998 and has continued until the present day. That crisis resulted from the excessive politicization of the economy and the institutional shortcomings of the executive branch.

In 2002, the percentage ratio of all expenditures of the consolidated

budget to the GDP declined in comparison with earlier years (from 20.6 percent in 1998 to 18.8 percent in 2002). However, the deficit was 3.3 percent of the GDP, which is comparable to indicators from previous years.

Before 1998, the rate of growth of the foreign debt of Georgia exceeded the rate of growth of the GDP. In the course of 1996-1998, the foreign debt rose from 1.2757 billion U.S. dollars to 1.8649 billion U.S. dollars.

The magnitude of the expenditures needed to service the debt in 1998 amounted to 52 million U.S. dollars (10 percent of the state budget). In terms of international practice, this is almost twice as much as the critical norm (5 to 7 percent). Given the foregoing, the more urgent goal seems to be that of increasing tax revenues for the budget and limiting a further growth in indebtedness through additional loans.

The magnitude of the expenditures to service the foreign debt in 2002 amounted to 32 million U.S. dollars, or 5.8 percent of the income of the state budget.

Foreign Economic Transactions and the Hard-Currency Exchange Rate

From the second half of the 1990s, the balance of payments of Georgia has undergone substantial change. Since 1997, the deficit in the balance of current accounts has decreased. To a certain degree, this was due to the transition (since 1998) to a free-floating regime in the exchange rate for the national currency (*lari*); as a result of this, there has been a gradual reduction in the real exchange rate between the *lari* and foreign currency.

An improvement in the balance of current accounts was due to the fact that, since 1997, the country's exports have increased and its imports have decreased. The indicator for covering imports with exports increased from 32.4 percent in 1997 to 55.9 percent in 2002.

In recent years, the leading items in exports have included aircraft, gold, ferroalloys, fertilizer, and scrap metal. One can also see a growth in the share of natural grape wine, mineral water, and medicinal products. Of the total volume of

imports, a large share—as earlier—continues to consist of oil products and natural gas.

A significant part of the foreign trade connections belongs to the countries of Commonwealth of Independent States (CIS), but the largest trading partners are Russia and Turkey.

As noted above, since December 1998 the National Bank of Georgia has pursued a policy of a freely floating hard-currency exchange for the lari. Under these conditions, in 1999-2000 (as a result of a quite austere monetary and credit policy), it became possible for Georgia to achieve stability of the hard-currency market and the exchange rate of the lari and, in addition, to bring a halt to inflation.

The real hard-currency exchange rate of the lari (against the U.S. dollar) at the end of 2002 dropped by 3.1 percent against the level of December, and the exchange rate against the Russian ruble during the same period fell by 29.1 percent. This contributed both to an improvement in the balance of payments of the country and to the stability of the exchange rate of the lari and the price level.

The exchange rate in average indicators for recent years is given in Table 4. The indicators for changes in the purchasing power of the lari (against the U.S. dollar) on the domestic market of the country in recent years are given in Table 5.

Table 4
Average Annual Percent Changes in the Nominal and
Real Hard-Currency Exchange Rates for the Lari

| Period | U.S. Dollars/Lari | | Russian Ruble/Lari | |
|-----------------------|-------------------|-------|--------------------|-------|
| | Nominal | Real | Nominal | Real |
| 1999 compared to 1998 | -31.1 | -19.6 | 85.1 | 25.4 |
| 2000 compared to 1999 | 1.5 | 2.3 | 15.5 | -0.1 |
| 2001 compared to 2000 | -4.4 | -2.6 | -1.3 | -16.9 |
| 2002 compared to 2001 | -5.9 | -2.2 | 1.5 | -3.6 |

Table 5
Changes in the Purchasing Power of the U.S. Dollar Based on
Changes in the Exchange Rate and Consumer Prices

| Year | Quarter | Index of Quarterly Price Level Change | Lari/U.S. Dollar (Quarterly Average) | Quarterly Percent Change in Lari/ U.S. Dollar | Quarterly Percent Change in Purchasing Power of U.S. Dollar | Cumulative Change in Purchasing Power of U.S. Dollar |
|------|---------|---------------------------------------|--------------------------------------|-----------------------------------------------|-------------------------------------------------------------|------------------------------------------------------|
| 1995 | IV | 100.0 | 1.3 | 100.0 | 100.0 | 100.0 |
| 1996 | I | 108.6 | 1.3 | 99.2 | 91.3 | 91.3 |
| | II | 104.8 | 1.3 | 100.6 | 96.0 | 87.7 |
| | III | 99.6 | 1.3 | 100.5 | 100.9 | 88.5 |
| | IV | 101.8 | 1.3 | 100.8 | 99.0 | 87.6 |
| 1997 | I | 103.4 | 1.3 | 101.0 | 97.7 | 85.6 |
| | II | 101.5 | 1.3 | 100.8 | 99.3 | 85.1 |
| | III | 98.6 | 1.3 | 99.7 | 101.2 | 86.1 |
| | IV | 103.4 | 1.3 | 101.0 | 97.7 | 84.0 |
| 1998 | I | 102.3 | 1.3 | 101.5 | 99.2 | 83.4 |
| | II | 99.6 | 1.3 | 101.1 | 101.5 | 84.6 |
| | III | 96.0 | 1.4 | 100.7 | 104.9 | 88.8 |
| | IV | 106.0 | 1.6 | 114.8 | 108.3 | 96.2 |
| 1999 | I | 115.4 | 2.2 | 141.5 | 122.6 | 117.9 |
| | II | 102.6 | 2.0 | 93.1 | 90.8 | 107.0 |
| | III | 96.7 | 1.9 | 91.9 | 95.0 | 101.7 |
| | IV | 103.2 | 1.9 | 103.8 | 100.6 | 102.4 |
| 2000 | I | 101.8 | 2.0 | 102.1 | 100.3 | 102.7 |
| | II | 99.4 | 2.0 | 99.3 | 99.9 | 102.5 |
| | III | 101.0 | 2.0 | 99.4 | 98.5 | 101.0 |
| | IV | 103.4 | 2.0 | 100.4 | 97.1 | 98.1 |
| 2001 | I | 101.7 | 2.0 | 103.7 | 102.0 | 114.1 |
| | II | 100.4 | 2.1 | 100.6 | 100.3 | 114.4 |
| | III | 98.7 | 2.1 | 100.4 | 101.7 | 116.4 |
| | IV | 101.8 | 2.1 | 102.3 | 100.5 | 117.0 |
| 2002 | I | 104.4 | 2.2 | 104.2 | 99.8 | 102.4 |
| | II | 101.6 | 2.2 | 100.7 | 99.1 | 101.5 |
| | III | 97.4 | 2.2 | 98.6 | 101.2 | 102.7 |
| | IV | 101.9 | 2.2 | 98.9 | 97.0 | 99.6 |

On the domestic market of Georgia, the purchasing power of the U.S. dollar from 1996 to the end of 1998 was stable. At the end of 1998, after the devaluation of the lari and the shift to a policy a free-floating exchange rate for the lari, and also after the temporary increase in the purchasing power of the dollar, the result was a tendency for this exchange rate to fall. On the whole, for 1998 to 2002 (compared to 1997), the purchasing power rose an average of 24.5 percent. To a certain degree, this factor explains the rising level of dollarization in recent years.

Table 5 shows the rather large changes in the exchange rate of the lari and the price level in recent years; these have been a no less important factor in this phenomenon.

Conclusions

In 1996-1997, there was a rather high rate of growth in the economy of Georgia as well as a relative rise in the standard of living. The main factors of growth during this period were political stability, the restoration of the more or less normal operation of state institutions, a significant improvement in containing the criminal threat, and reestablishment of order in the transportation system. The main economic factors consisted of the financial reform and stabilization of the monetary and credit system.

Nevertheless, negative factors later came to have an impact: the deficiencies in the mechanisms of a market economy and normative juridical foundation; the disorder in the legal system; corruption; the low level of tax collection; the relative lack of trust in the banking system, and so forth.

A detailed analysis of the causes of the slowdown in economic growth of the country is linked to a whole series of objective difficulties. Several of the main (domestic and external) factors included the following.

1. The main factors causing the slowdown in economic growth in Georgia consist in the brake put on the development of market relations.

Market mechanisms in Georgia are still in a process of being created. Privatization is continuing, although with certain obstacles; as a result, in recent years economic activity in the country has shifted to the private sector; moreover, the proportion who are self-employed has now become dominant (over 60 percent). The share of self-employed is large in agriculture, trade, and transportation. In these branches mobilization of the labor force, on the one hand, constitutes a certain factor in economic stabilization; on the other hand, it exhibits a relatively low level of efficiency, and the small share of commodity production in agriculture impedes the development of the domestic market in Georgia.

The country's financial system poses a serious barrier to increasing the

concentration of production and the efficiency of labor:

- The market of the main means of economic entities is undeveloped. Despite the rather large-scale privatization of different types of land, unfortunately, the market for these resources for the present has not yet been established.
- The market for securities is still in the process of being created.
- A large part of financial operations, both in the sphere of circulation and in savings, takes place outside the banking system.
- A banking system, as an instrument for the accumulation of the savings of the populace and as a financial intermediary, has not yet been completely established.

In the economic resources of the country, the share of imports of goods and services is expanding. It is growing more quickly than the entrepreneurial sector of the economy: the volume of imported goods and services (as a percent of the GDP) rose from 32.6 percent in 1996 to 39.3 percent in 2000.

The existing problems in fulfilling the country's budget, together with the growth of past-due state debts and other domestic and foreign indebtedness, all constituted significant barriers to the growth of the economy of the country.

2. The international division of labor and the inclusion of Georgia in international trade have come to constitute factors in the development and stability of the national economy. In addition, this process is making the country's economy more sensitive with respect to international economic conditions. The existing monetary and credit mechanisms, the hard-currency mechanism, and fiscal policy do not always protect the national economy from negative exogenous factors. For example, in 1998 these were not able to deflect the impact of the financial and economic crisis in Russia.

Since December 1998, the National Bank has employed a policy of a free-floating hard-currency exchange rate against the lari. Under these conditions, in 1999-2002, as a result of the rather austere monetary and credit policy, it became possible to stabilize the hard-currency market of the country (as well as the exchange rate of the lari) and also to slow the rate of inflation.

The real hard-currency exchange rate of the lari (vis-a-vis the U.S. dollar), by the end of 2002 had dropped by 3.1 percent against the level of December 1998

and by 29.1 percent against the Russian ruble. This definitely contributed to the improvement in the country's balance of payments, to the stabilization of the hard-currency exchange rate against the lari, and to the country's price levels.

Moreover, despite the stability of the hard-currency exchange rate and prices, in recent years the level of dollarization of the country's system has intensified. Specifically, the volume of loans in foreign currency from the banking system (calculated in U.S. dollars) rose 5.0 times and the volume of deposits 3.2 times. At the same time, the loans and deposits in the national currency at the end of 2002 (compared to December 1997) were roughly equal: 100.4 percent for loans and 129.25 percent for deposits.

The economy of Georgia has exhibited, on the one hand, positive structural tendencies for a growth in the share of construction, transportation, and communications. On the other hand, it has also shown a growth in the private sector in the GDP.

Moreover, it must be pointed out that the impressive growth of 1996-1997 (expressed in double-digits: 11 percent) gave way to a rather lethargic growth rate in 1999-2000 (2 to 3 percent). In general, however, the economy of the country has continued to demonstrate positive tendencies of development. In 2001-2002 the growth again accelerated slightly, with the growth rate amounting to 4.7 (2001) and 5.3 percent (2002).

In analyzing the slower rates of economic growth during the last period, along with other factors it is necessary to note the unfavorable conditions that emerged in the second half of 1998:

- The financial crisis in Southeast Asia, and then in Russia brought not only tangible harm but also had an unfavorable impact on the stability of the monetary and credit system of the country.
- The crop failure, caused by drought, also had a negative impact.

Besides these factors, it is also necessary to note the impact of indigenous factors in the slower rate of growth. Despite the higher growth of infrastructure branches (construction, transportation, and communications), there was slower growth in such branches as agriculture, industry, and (in part) trade. The question of expanding reform in these branches (and in the economy more generally) has

been placed on the agenda.

The resolution of the above problems, but also the improvement of the tax system and the expansion of the legal reform will create the conditions for a concentration of production and the application of new technologies. It is on the basis of these that the country can achieve a growth in the efficiency of production.