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**COUNTRY REPORT**

**Georgia**  
**Armenia**

**4th quarter 1998**

The Economist Intelligence Unit  
15 Regent Street, London SW1Y 4LR  
United Kingdom

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## The Economist Intelligence Unit

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Website: <http://www.eiu.com>

### Electronic delivery EIU Electronic Publishing

New York: Lou Celi or Lisa Hennessey Tel: (1.212) 554 0600 Fax: (1.212) 586 0248  
London: Jeremy Eagle Tel: (44.171) 830 1183 Fax: (44.171) 830 1023

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ISSN 1366-4069

### Symbols for tables

"n/a" means not available; "-" means not applicable

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November 10th 1998 **Summary**

### 4th quarter 1998

**Georgia** Outlook for 1999-2000: President Shevardnadze will continue in office until the election in November 2000. The most likely challenger to emerge so far is Adzharia's regional governor, Aslan Abashidze. Little progress is likely on the dispute with Abkhazia, but progress on peace with South Ossetia will continue. One of two oil pipelines intended to run westwards through Georgia, the Baku-Supsa pipeline, is due for completion in the first quarter of 1999, while prospects for the Baku-Ceyhan pipeline are bleaker. The Russian crisis will cause GDP growth to slow to 6% this year and 4% next year. Growth is expected to rise to 5% as the effects of the Russian crisis tail off. Inflation, which has slowed considerably in the first nine months of 1998, is expected to rise for the remainder of the year and in 1999-2000 as a consequence of the devaluation of the lari. The inflation rate is expected to reach a year-end rate of 1.1% in 1998 and then rise to a year-end rate of between 15% and 17% in 1999-2000. The trade and current-account deficits will widen considerably owing to falling demand in Russia for Georgian exports.

Review: The president's shake-up of the cabinet at the end of July was less radical than expected, although reformers remain powerful. An army rebellion in western Georgia has undermined confidence in the country. Relations with Russia remain cool and a NATO visit has underlined Georgia's pro-Western stance. Despite talks aimed at improving relations between Abkhazia and Georgia, the official negotiating positions remain far apart. Tension has risen in the strategically important southern region of Samtskhe-Dzhavakheti. GDP growth slowed further in the third quarter to a more steady rate of 7.3% in January-September over the corresponding period of 1997. Inflation maintained its steady decline to reach 0.4% year on year in September. Exports continued to perform poorly and the current-account deficit widened.

**Armenia** Outlook for 1999-2000: The president will continue to face criticism of his government's policies, fuelled to a large extent by next year's parliamentary election. Nevertheless, his position will remain secure, helped by the support of the largest parliamentary group. The July 1999 parliamentary election is likely to go ahead without the new election law. A short visit by the prime minister, Armen Darbinian, to Azerbaijan for a conference on regional transit routes represents an important breakthrough in Armenian-Azerbaijani relations. This, coupled with a softening of Armenia's position, augurs well for progress on the settlement of the Nagorny Karabakh conflict. The Russian crisis will halt the healthy pace of growth observed in the first eight months of this year and reverse progress on lowering inflation and the current-account deficit. GDP growth has been revised downwards to 5% for 1998, and is expected to slow further next year to 3.5%, before picking up to 6% in 2000. Following year-end inflation of -3% this year, inflation will reach double-digits in 1999-2000 and the current-account deficit is expected to reach 18.2% of GDP by the end of the forecast period.

Review: The government has faced increased criticism by the opposition on its privatisation policy and on a number of other fundamental policy issues. The Armenian prime minister attended the TRACECA conference in Azerbaijan in the first high-level visit between the two countries since independence in 1991. The OSCE Minsk Group mediators have come up with a new proposal for the settlement of the Nagorny Karabakh issue which they presented at a visit to the region on November 10th-11th. Real GDP growth has picked up strongly owing to a high increase in agricultural output between April and September and the high pace of investment. Inflation continued to decline sharply in the third quarter. Overall trade slowed in the third quarter and the trade deficit narrowed.

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# Georgia

## Political structure

Official name	Georgia	
Form of state	Georgia was an independent republic between 1918 and 1921, but in 1921 it was incorporated into the Soviet Union, from which it declared its independence in April 1991. The Abkhazian and South Ossetian autonomous republics, created in 1922, have both declared their independence from Georgia, but this is not internationally recognised. A new constitution was approved in August 1995 which reinforces the presidential-democratic form of government, providing for a strong executive branch and a unicameral 235-seat parliament. A constitutional court met for the first time in late 1996. The constitution does not address the status of Abkhazia, South Ossetia or Adzharia	
National legislature	The Republican Council with 235 members directly elected by proportional representation, 150 in single-member districts and 85 by party list	
National elections	November 5th 1995 (presidential and legislative); next elections due by November 1999 (legislative) and November 2000 (presidential)	
Head of state	President, Eduard Shevardnadze, elected by popular vote on November 5th 1995	
National government	The president appoints the cabinet, subject to approval by two-thirds of the legislature	
Main political parties	Union of Citizens of Georgia (UCG; ruling party); Union of Georgian Revival; National Democratic Party (main opposition); United Republican Party; Union of Georgian Traditionalists; United Communist Party; Socialist Party; Labour Party	
	President	Eduard Shevardnadze
	State minister with supervisory authority over other ministers	Vazha Lortkipanidze
	Chairman of parliament	Zurab Zhvania
Key ministers	Agriculture & food	Bakur Gulua
	Defence	David Tevzadze
	Economy	Vladimir Papava
	Education	Alexander Kartoziya
	Environment & natural resources	Nino Chkhobadze
	Finance	Mikhail Chkuaseli
	Foreign Affairs	Irakli Menagarishvili
	Foreign Trade	Tamar Beruchashvili
	Fuel & Energy	Teimuraz Giorgadze
	Health	Avtandil Dzhorbenadze
	Industry	Badri Shoshitaishvili
	Interior	Kakha Targamadze
	Justice	Lado Chanturia
	Labour	Tengiz Gazdeliani
	Security	Vakhtang Kutateladze
	State Property	Mikhail Ukleba
	Transport	Merab Adeishvili
Central bank chairman	Irakli Managadze	

## Economic structure

### Latest available figures

Economic indicators	1993	1994	1995	1996	1997
GDP at market prices <sup>a</sup> (Lari m)	27.5	1,418.9	3,137.0	4,543.9	6,394.0
GDP <sup>a</sup> (\$ bn)	-	1.3	2.4	3.6	4.9
GDP (\$ bn at PPP)	-	1.0	1.0	1.2	1.3
Real GDP growth (%)	-29.3	-11.0	2.4	11.4	11.3
Consumer price inflation (av; %)	3,125.4	15,606.5	162.7	39.4	7.1
(end-period; %)	7,488	6,473	57.4	13.8	7.3
Population (m)	5.38	5.36	5.35	5.35 <sup>b</sup>	5.35 <sup>b</sup>
Merchandise exports fob <sup>a</sup> (\$ m)	457	381	290	372	377
Merchandise imports cif <sup>a</sup> (\$ m)	905	744	711	686	1,052
Current-account balance <sup>a</sup> (\$ m)	-485	-446	-364	-295	-499
Total external debt (\$ m)	559	885	988	1,356	1,343
Exchange rate <sup>c</sup> (av)	12,280	1,102,300	1.29	1.26	1.30

November 10th 1998 Lari1.44:\$1

Origins of gross domestic product 1997	% of total	Components of gross domestic product 1995	% of total
Agriculture	28.4	Consumption	99.6
Industry	9.7	Gross fixed investment	12.3
Construction	4.8	Change in stocks	4.2
Transport & communications	10.0	Net exports of goods & services	-16.1
Trade	22.1	GDP	100.0
Total incl others	100.0		

Principal exports 1997	% of total	Principal imports 1997	% of total
Metals	21.5	Mineral products	28.6
Food, drink & tobacco products	20.7	Food, drink & tobacco products	20.0
Chemicals	10.7	Machinery	10.0

Main destinations of exports 1997	% of total	Main origins of imports 1997	% of total
Russia	27.4	EU	22.0
Turkey	20.0	Russia	15.2
Azerbaijan	10.0	Azerbaijan	12.3
EU	8.0	Turkey	11.9
Armenia	7.6	US	7.4

<sup>a</sup> Georgian Economic Trends estimates. <sup>b</sup> EIU estimate. <sup>c</sup> Coupon:\$ in 1993-94, Lari:\$ in 1995-97.



## Outlook for 1999-2000

The position of the current president looks strong—	The president, Eduard Shevardnadze, looks certain to continue in office until the presidential election due in November 2000, and to win re-election. Economic hardship and the unresolved dispute over Abkhazia mean that Mr Shevardnadze is not as popular at home as he is abroad, where he is remembered as the Soviet foreign minister of the <i>perestroika</i> period and is now seen as leading a relatively democratic and reformist regime. But he still has a considerable power base in the country, and it is difficult to imagine another candidate emerging with the same kind of personal standing and the ability to maintain at least loose control over most of Georgia's fragmented polity.
—although he will be challenged by a regional governor	One potential rival is Aslan Abashidze, the regional leader in Adzharia, who operates fairly independently from central government. But it is uncertain how Mr Abashidze would fare in an election: most of his appeal is negative rather than positive. For instance, he courts assorted political factions which are disgruntled with the president; his economic independence often allows him to duck the reforms that are central to government policies and his warm relationship with the locally based Russian military could cast him in the role of a proxy for Russian expansionism. In addition, many of his public pronouncements show poor judgment—he frequently claims he is about to be assassinated by government agents. By contrast, Mr Shevardnadze displays his political acumen by adopting a measured, conciliatory tone when discussing Adzharia. In addition, in an election campaign Mr Shevardnadze would get much better media exposure.
Georgia will face further instability—	The short-lived military revolt of October 19th-20th has underlined once again the chronic political instability that dogs Georgia. Such localised uprisings, centred on the west of Georgia, are likely to crop up again. The government will be able to contain them, but they will continue to damage Georgia's reputation with foreign investors.
—and little progress will be made on the dispute with Abkhazia	More serious still is the continuing problem of ethnic separatism, and here Abkhazia will remain the chief problem. Low-intensity hostilities will continue between Abkhazian forces and irregular Georgian units, with the possibility of larger-scale clashes of the kind seen in May-June 1998 not to be ruled out. There are nevertheless signs on both sides of a desire for a peace deal, or at least for a more stable armistice. Mr Shevardnadze is keen to meet the Abkhazian leader, Vladislav Ardzinba, and groundbreaking talks now look set to take place before the end of 1998.  Abkhazia will continue to make tentative moves towards restoring economic co-operation with Georgia. But a final political settlement will take time and is unlikely to happen within the next two years. Memories of the violence committed by both sides during the 1993 civil war are still fresh, and will make it difficult for the two leaderships to sell the idea of reconciliation to their respective electorates. Tens of thousands of ethnic Georgians from Abkhazia remain displaced, and their safe return and resettlement will be difficult to negotiate. There is a wide perceived gap between the constitutional arrangements to

which the sides would agree. However, it may ultimately prove possible to reconcile the Abkhazians' demand for independence within a confederate structure involving equal partners with Mr Shevardnadze's offer of the maximum possible autonomy within what he calls an "asymmetric federation". The Abkhazians' minds may be focused by the fact that Russia is no longer so supportive of their drive for independence, since it is worried about separatism in its own Caucasian territories.

In another region which has seen ethnic separatist conflict, South Ossetia, the peace process is much further advanced, and there seems little likelihood of a fresh outbreak of fighting. However, financial problems have meant that promises by the Georgian government to inject funds into the region for reconstruction work have not been fulfilled.

Centralised rule will also be subverted by Adzharia—

Adzharia in the south-west of Georgia is a different case: there the dispute with central government is politically rather than ethnically motivated. The tense relations between the Adzharian leader and the central government will continue, with Mr Abashidze manoeuvring to keep his distance from Tbilisi, build up his region's autonomy, and extend his appeal to other regions of Georgia. It is likely that Mr Abashidze plans to stand in the presidential election in November 1999. It has been reported that Mr Abashidze's officials have been negotiating with Samtskhe-Dzhavakheti, an adjacent region of Georgia where the population is mostly Armenian, about some kind of merger. While no formal administrative redivision is possible without Mr Shevardnadze's say-so, even a loose alliance between Adzharia and Samtskhe-Dzhavakheti would create a large strip of southern Georgia in opposition to Tbilisi. For instance, while Mr Shevardnadze wants to divest Georgia of the Russian military and thus of Moscow's geostrategic presence, Mr Abashidze (and the Armenians of Samtskhe-Dzhavakheti) enjoy a close relationship with their respective Russian military bases. The net result would be to reduce further the government's control of the country, and thus damage its reputation.

—with suspicions that some in Russia quietly support the unrest—

Such a powerful regional coalition, which is both anti-Shevardnadze and pro-Russia, would add to existing suspicions that Moscow wants to undermine the Georgian president. The upsurge in fighting which began in Abkhazia in May is seen by many in Georgia (and not entirely without foundation) as a deliberate move backed by at least some senior Russian officials to highlight Georgia's instability. They argue that was no accident that the fighting, like the assassination attempt against Mr Shevardnadze in March 1998 and the brief military insurrection in October, occurred during a critical period in which Georgia is trying to dissociate its security arrangements from Russia and is also promoting itself as a transit route for Azerbaijani oil, a role Russia would ideally like for itself.

—as Georgia seeks a role as an oil transit route

Georgia is set to benefit from transit revenue to be derived from an oil pipeline (or perhaps two) that will run westwards through its territory. One pipeline currently under reconstruction is scheduled to enter into service in the first quarter of 1999, taking oil from Azerbaijan to the Black Sea terminal of Supsa. This will earn Georgia badly needed revenue. Even more significant is the much discussed Baku-Ceyhan pipeline, which would also cross Georgia on its way to Turkey's Mediterranean coast. However, the earlier strong prospects

that the Turkish pipeline would be selected over other routes have faded as a combination of low world oil prices and doubts about Caspian reserves have been added to existing concerns about the viability of commercial financing for the pipeline. One alternative still open is routing the main oil pipeline neither through Russia nor through Turkey but instead following the route of the much shorter Baku-Supsa line. Either way, Georgia stands to gain. A public announcement by the Azerbaijani authorities and Western oil companies is due in November.

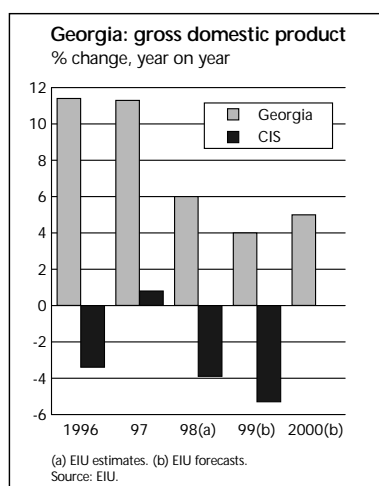
Growth will be slower—

The EIU has revised its forecast for real GDP growth in Georgia downwards in light of the Russian financial and economic crisis. Real GDP growth slowed from 11.2% year on year in the first quarter to 7.3% in January-September. We now forecast real GDP to rise by about 6% in 1998 as a whole. As the effects of the Russian crisis are felt, particularly on trade, we see growth slowing by 2 percentage points to 4% in 1999, but rising to 5% in 2000 as the effects of the crisis tail off.

These growth rates are significantly lower than Georgia might otherwise have looked forward to. For instance, the IMF policy paper for the third year of loans to Georgia under the enhanced structural adjustment facility (ESAF), approved on July 28th, envisages real GDP growth of 10% in 1998 and 8% in each of the following two years. But our growth predictions compare favourably with those for other economies in the Commonwealth of Independent States (CIS) and reflect an ongoing recovery, albeit from a low base.

—and inflation will accompany a devaluation

While the Georgian currency initially remained fairly steady after the Russian rouble devaluation, depreciating by only 2.2% between August 17th and October 29th, it has since depreciated much more rapidly to reach Lari1.44:\$1—a depreciation of 6.7% since the rouble devaluation. We predict that the authorities will loosen monetary policy sufficiently to allow a soft devaluation in 1999-2000. We forecast that the lari will fall to Lari2:\$1 by the end of 1999 from an estimated Lari1.5:\$1 at the end of 1998. By the end of 2000 the pace of depreciation should slow, leaving the currency at Lari2.3:\$1. Consumer prices have fallen in 1998 and year-on-year inflation reached 0.4% in September. However, inflation will accelerate in the remainder of this year and in 1999-2000, principally as a consequence of the currency devaluation. In addition, there are reports that the prices of consumer goods imported from the West via Russia have risen by 10-15%, as Russian traders pass on the inflated retail prices that are a consequence of the rouble devaluation. The inflation rate is thus set to reach a year-end rate of 1.1% in 1998. With further devaluation it could reach 17% in 1999.



Georgia: forecast summary  
(\$ m unless otherwise indicated)

	1997 <sup>a</sup>	1998 <sup>b</sup>	1999 <sup>c</sup>	2000 <sup>c</sup>
Real GDP growth (%)	11.3	6.0	4.0	5.0
Consumer price inflation (%)				
year-end	7.2	1.1	17.0	15.0
average	7.1	2.8	12.0	18.0
Merchandise exports fob	377.3	310.0	305.0	342.0
Merchandise imports cif	1,052.0	1,130.0	1,175.0	1,270.0
Trade balance	-675.1	-819	-871	-928
Current-account balance	-499.1	-695.0	-752.0	-750.0
% of GDP	-10.1	-13.5	-16.6	-17.1
Exchange rate (Lari:\$)				
year-end	1.30	1.51	1.96	2.3
average	1.30	1.36	1.78	2.14

<sup>a</sup> Actual. <sup>b</sup> EIU estimates. <sup>c</sup> EIU forecasts.

## Review

### The political scene

A government shake-up is  
less radical than  
expected—

The shake-up of the government at the end of July was not the comprehensive clear-out exercise that many had expected (see 3rd quarter 1998, page 9). The president, Eduard Shevardnadze, was thought to be going to use the reshuffle to get rid of individuals seen as corrupt or inefficient. All but the defence, interior and interior ministers were forced to resign. But after Niko Lekishvili had been replaced as minister of state (the top cabinet post; there is no prime minister) by Vazha Lortkipanidze, many cabinet members were simply reappointed. The only individual whose departure seems to fit the profile of discredited officials was the communications minister, Pridon Indzhia, who is under investigation for corruption. The key ministers handling economic affairs—the economy minister, Vladimir Papava, and the finance minister, Mikhail Chkuaseli—were left in place despite criticism of their ministries by the ruling party (see below). But there were new appointments to other economic ministries. The former first deputy foreign minister, Mikhail Ukleba, became minister for state property management; the former mayor of Tbilisi, Badri Shoshitaishvili, was appointed industry minister; and the new minister of trade and foreign economic relations was named as Tamar Beruchashvili, who had served as deputy minister since June 1998. In addition, Lado Chanturia was appointed the new justice minister.

—although reformers  
remain powerful

Mr Shevardnadze's promise of a renewal of the government for the new stage of development—in other words, a quiet purge of the bureaucrats obstructing reform and investment—has left many ministers in place. Nevertheless, the election of Mikhail Saakashvili to head the parliamentary faction of the ruling Union of Citizens of Georgia (UCG) indicates that the reformist wing has the upper hand in Mr Shevardnadze's entourage. Mr Saakashvili joins another outspoken member of the UCG's reforming wing, Zurab Zhvania, who is the

speaker of parliament. Both men have spoken out against government inefficiency and corruption. They have also identified the finance and economy ministries as the source of many economic ills, principally the parlous budget deficit. In October Mr Saakashvili accused the customs service of pocketing much of the revenue due to the state.

Corruption comes under the spotlight yet again

One of the weakest points of Mr Shevardnadze's administration is the perpetuation of corruption and cronyism. The president has repeatedly spoken out against the graft and bribery that are endemic in Georgia, and has made a point of joining the ranks of government officials filling out declarations of income and property. Yet even the new rules which make such a declaration compulsory have come under fire. Critics allege that amendments to the rules officially said to simplify them will make it easier for officials to conceal property. Given his anti-corruption platform, Mr Shevardnadze was embarrassed to find that a relative of his was embroiled in a civil case involving alleged financial misdealing. Nugzar Shevardnadze, the president's nephew, was the director of a fuel trading firm, Iveria Plus, which is being taken to court by its erstwhile partner, a Greek company.

An army rebellion seems designed to undermine confidence

Western Georgia has always been the seat of opposition to Mr Shevardnadze's rule. As well as providing a home to many of the refugees from the Abkhazian war who are restless for military revenge, the west is also identified with the former president, the late Zviad Gamsakhurdia, whose supporters are still bitterly opposed to Mr Shevardnadze. The region has seen sporadic uprisings and clashes in recent years, and it is not surprising that an attempted military coup should have started there.

On October 19th Lieutenant-Colonel Akaki Eliava, an army commander who had served under Mr Gamsakhurdia at one time, led about 100 soldiers equipped with tanks on a march towards Kutaisi, Georgia's second city. Government troops halted the rebels, and after a brief clash most returned to barracks. The mutiny did not appear to have the strong support of the conscripts involved; many seemed to have little idea of what was going on and thought they were on an exercise. Reports of Mr Eliava's motives were confused. He was quoted as saying that he wanted to restore the legitimate authorities—in other words, the Gamsakhurdia-era government. This would suggest that his action was the latest in a string of vain attempts by Gamsakhurdia loyalists to assert control at least in western Georgia. However, according to the government the rebellion fitted into the broader scheme of certain political forces to destabilise Georgia and thwart plans to build an oil pipeline (see Economic policy). Work on a smaller pipeline was suspended for a day because of the fighting. The government's argument carries some weight. It seems unlikely that without some political sponsorship an army commander could have embarked on such a risky enterprise on the off-chance that he might reach Tbilisi and topple the government.

One immediate consequence of the revolt has been the removal of Dzhemal Gakhokidze as security minister. While in no way implicated in the mutiny, he was made to shoulder the blame for the ill-preparedness of local security officers, who failed to avert the incident. Mr Gakhokidze also managed to get

himself briefly captured by the rebels. His replacement, Vakhtang Kutateladze, is a career KGB officer who served previously as head of Mr Shevardnadze's personal security guards.

Relations with Russia remain cool—

Georgian official attitudes towards Russia continue to be ambivalent and occasionally openly hostile. At the end of September the president's press secretary, Vakhtang Abashidze, said that some forces in Russia were trying to destabilise Georgia by diverting some of the instability so prevalent in the Russian north Caucasus. After talks with Gennady Seleznyov, the speaker of the Russian State Duma, Mr Shevardnadze said that relations with Russia could be better. He blamed some members of the generally conservative Duma for seeking to perpetuate the Russian military presence in Georgia, and for making good relations contingent on this.

In a further sign of the waning desire of southern-tier CIS countries to remain bound to Russia, Georgia and the other members of the "GUAM" grouping—Azerbaijan, Ukraine and Moldova—signed a co-operation agreement on border protection, a sensitive subject given Russia's view that the southern CIS border is its own periphery. Meanwhile the process of transferring border protection from Russian to Georgian forces has got under way (see 3rd quarter 1998, page 8). Even before Russian coastal vessels had stopped patrolling Georgia's maritime frontier, Georgian border guards had begun their own naval patrols. There has been some friction during the slow handover, with the Russians accusing the Georgians of breaking into a border post in Poti. Abkhazia, on the other hand, insists that it will patrol its own waters.

—and a NATO visit underlines Georgia's pro-Western stance

A visit by the NATO secretary-general, Javier Solana, in September highlighted Georgia's desire to reorient its military and security stance away from Russia. The visit itself was seen by some in Russia as ill-timed, being almost guaranteed to rile Russia with the implication that NATO would rush into Moscow's former spheres of influence at a time of Russian political and economic weakness. Mr Solana also visited two other GUAM states, Azerbaijan and Moldova.

Progress in mending relations with Abkhazia is patchy—

Some progress has been made in Georgian-Abkhazian negotiations, although the diplomatic success has not been matched by an easing of tension on the ground. In October three days of UN-sponsored talks in Athens resulted in Georgian and Abkhazian officials agreeing to a series of confidence-building measures that should help defuse future escalations of border skirmishes. The meeting was more important for its symbolic value, as the traditional mediating party, Russia, gave way to the more neutral UN.

—though fighting is low-level—

There was relatively little open fighting in the third quarter. In September three UN observers were injured in Sukhumi, the Abkhazian capital, when their vehicle was hit by gunfire, and along the Georgian-Abkhazian border strip both sides, as well as the Russian peacekeeping force, suffered casualties in skirmishes and mine explosions. The Georgian government vehemently denied reports emanating from the head of the Russian Duma's security committee, Viktor Ilyukhin, that the Georgian army had built up troops and acquired new weapons from Ukraine as a prelude to launching an attack on Abkhazia.

—but official negotiating positions remain far apart

In remarks timed to coincide with the fifth anniversary of the fall of Sukhumi to Abkhazian forces, Mr Shevardnadze said it was time for a great reconciliation and reiterated his promise of the highest possible level of autonomy for Abkhazia. But when the Abkhazian leader, Vladislav Ardzinba, spoke at a ceremony to remember his side's victory, he adopted an uncompromising tone. He said Mr Shevardnadze's offer was totally unrealistic and that Abkhazia was and would remain a sovereign state.

Yet while there is a long way to go to reconcile these positions, talks have proceeded between government officials on the two sides. For instance, the head of Abkhazia's government, Sergei Bagapsh, visited Tbilisi in September to discuss such mundane but important issues as the resumption of rail traffic and repairs to a hydroelectric power station on the Georgian-Abkhazian border. In October an agreement was signed under which Georgia's wine industry will co-operate with Abkhazian bottling plants. One unexpected side benefit of the Russian financial crisis for the Georgian government could be an economic weakening of Abkhazia and South Ossetia. In both these separatist regions the Russian rouble rather than the lari is in circulation, and the consequences of its devaluation might make the Abkhazians, in particular, more amenable to rebuilding economic ties with Georgia.

Adzharia continues to be a thorn in Mr Shevardnadze's side

Arguments have continued between the government in Tbilisi and the leadership of Adzharia. Although there is no question of separatist intentions, relations continue to be conducted as if between two alien, somewhat hostile states. High-level talks chaired by Vazha Lortkipanidze at the end of September produced only a mutual admission of the many unresolved issues. The Adzharians complained of what they said was a concerted media campaign against their leader, Aslan Abashidze, who himself said in September that his government possessed documentary proof that Tbilisi is planning a coup in Adzharia. Such statements do little to mend relations.

As with Abkhazia, Mr Shevardnadze has identified a personal meeting with Mr Abashidze as a possible way of easing some of the tension and, as he puts it, to kick-start the process of reconciliation. He has continued to defuse potential sources of antagonism, saying, for example, that a recent unilateral decision to hold elections of mayors and district heads in Adzharia did not really run counter to Georgia's constitution. Elsewhere in Georgia these officials are appointed centrally rather than elected. Mr Shevardnadze made another move to appease the Adzharian leader by erecting a statue of his grandfather, Memed Abashidze, a prominent historical figure. Mr Abashidze's somewhat graceless response was: "They are putting up monuments in honour of my grandfather in Tbilisi and planning terrorist acts against me."

Local elections will test the Adzharian leader's popularity

Mr Abashidze's next move will be to contest local elections scheduled for November 15th. The performance of his Union of Democratic Revival (UDR) and its left-wing allies will be an important test of their appeal across Georgia's disparate regions, as well as of popular discontent with Mr Shevardnadze. The vote will not only provide an indication of how political forces could line up in the 1999 parliamentary election, but also of how much support there is for Mr Abashidze as a presidential contender. The Socialist Party has already

accused the ruling Union of Citizens of Georgia (UCG) of gearing up to rig the election through intimidation. It warned that an unfair vote could spark civil unrest. The UCG has already been accused of fixing a controversial by-election in Lagodekhi, when its member won only after a repeat vote was held in June. The United Communist Party of Georgia has been barred from taking part in the November 1999 election because it is in favour of restoring the Soviet Union, and this has been deemed unconstitutional. Other parties were refused registration because they failed to provide the central election commission with a list of 50,000 supporters.

Yet another Georgian region shows signs of tension—

Tension has risen in Samtskhe-Dzhavakheti, another strategically important region of Georgia. Like Adzharia, this southern region has a border with Turkey and sits on the route of a potential railway link and oil pipelines. Samtskhe-Dzhavakheti has a mainly ethnic Armenian population, raising concerns about possible separatist activity as well as about the security of any Azerbaijani pipeline through the region. In August a group of Armenians, reportedly armed, halted and turned back a convoy of the Georgian army which was moving into the region to hold joint exercises with Russian military units based at Akhalkalaki.

—once again with hints of Russian backing for separatist moves

The local Armenian community in Samtskhe-Dzhavakheti supports the continuing presence of Russian troops and opposes the stationing of Georgian army units. According to the head of Javakhk, the local Armenian movement, the Armenians want autonomous status for Akhalkalaki district, the part of the region with the densest Armenian population. A former Georgian security chief, Irakli Batiashvili, has accused both Russia and Armenia of funding Armenian separatists in Samtskhe-Dzhavakheti. The government in Armenia has been quick to distance itself from any suggestion that it might sympathise with ethnic separatist aspirations. The foreign minister, Vartan Oskanian, promised to help Georgia root out any elements that were seeking to destabilise the situation.

There have also been reports that officials in Samtskhe-Dzhavakheti have been talking to their counterparts in Adzharia about merging the two regions. This would effectively create a politically separate southern tier within Georgia (see Outlook for 1999-2000).

The Samtskhe-Dzhavakheti problem is exacerbated by the existence of another ethnic group, the Meskhetian Turks. This Muslim group of heterogeneous Turkish and Georgian ethnicity was deported en masse to Central Asia in 1994. Unlike other deported nations in the former Soviet Union, the Meskhetians have not been allowed to resettle in Samtskhe-Dzhavakheti. Some have emigrated to Turkey, others remain in Azerbaijan and southern Russia waiting for the chance to return home. The government is committed to allowing some 5,000 Meskhetians to return under a plan approved in 1996, but little has been done to achieve this. Officials explain the inaction by saying that the return of the Meskhetians would create unnecessary further tensions in the region. The main problem seems to be a widely felt antipathy towards this group in Georgia. In September some 50 Meskhetians staged a demonstration outside a government building. The authorities reacted in heavy-handed manner, by arresting some protesters and deporting those without Georgian passports.



## Economic policy

Tax collection remains at critically low levels—

Eight-month figures for 1998 indicate that tax revenue at Lari217m (\$162m) amounted to only 74% of the target. Over January-June the figure was a slightly higher at 79% of the target, while total budgetary revenue was 93% of the planned amount. September figures reaffirmed the impression that budget execution has gone badly awry. As of September 25th the tax service had delivered only 19% of the amount due for the month, and the customs service only 29%. In mid-September the finance minister, Mikhail Chkuaseli, said that revenue was forecast to be well short of the target in 1998. He proposed slashing areas of expenditure not covered by protection, such as capital spending, transport and utilities, and to monitor more closely those that are covered through reports to parliament. President Shevardnadze called for a severe tax regimen to redress the non-payment of wages, pensions and benefits. He has pledged to supervise the tax and customs services personally via a financial commission set up to monitor the effects of the Russian crisis.

—causing alarm in the IMF—

During an IMF mission in September, IMF officials were quoted as saying that the low level of tax revenue could block further lending from the organisation. In October the IMF said it was delaying talks which would trigger the release of the remaining funds announced for 1998. The funds in question represent the second of two \$37m tranches scheduled under this year's lending scheme under the enhanced structural adjustment facility (see 3rd quarter 1998, page 13, on the release of the first part of the ESAF). The IMF's policy concerns are prompted largely by the low revenue accrued by the government. The IMF representative, Hunter Monroe, said the two-month postponement was decided on because Georgia had fulfilled none of the required terms for release. Mr Shevardnadze has pointed to the chronic revenue underperformance as an obstacle to external funding, adding that no one will provide concessionary lending to a country where corruption is so rife and that the IMF, the World Bank and the EU, in particular, will offer further loans only if the budgetary issues are resolved. The president has denied that Georgia's high tax rates are deterring people from paying their taxes, insisting instead that the mafia exploits tax privileges granted to legitimate businesses.

—while the non-payment of wages is the only remedy adopted so far

The government has curbed expenditure *inter alia* by not paying out salaries. By early October the interior ministry's 24,000 employees had not been paid since May, while defence ministry staff had not been paid for three months. Neither ministry had received money for its running costs. This is a pressing issue: army rebellions such as the one in October (see The political scene) could easily recur for economic rather than political reasons. Desertion is common.

Expenditure in January-August was Lari447m (\$334m), down by 16% from the Lari520m originally envisaged. As a result the eight-month budget deficit was Lari230m (\$172m). In August the government committed itself not only to paying off wage arrears but to a pay raise averaging 10% for employees of budget-financed organisation from September. It is difficult to see how such measures can be squared with a prudent expenditure plan. The budget for 1999 has undergone significant revisions as a result of negotiations with the IMF.

In particular, expenditure has been cut by Lari230m, as a government meeting heard in late September.

Georgia continues to back Azerbaijan's oil export plans—

Together with the presidents of Azerbaijan, Turkey, Kazakhstan and Uzbekistan, Mr Shevardnadze signed a document pledging to back plans to build an oil pipeline from Azerbaijan to the Turkish Mediterranean terminal at Ceyhan. Georgia's interest in the project stems from the transit revenue it would gain by having the pipeline cross through its territory. The declaration, signed in Ankara on October 29th, was essentially a political document; the actual decision to build the pipeline is scheduled to follow only after the Azerbaijani government has received the considered opinion of the main Western consortium operating in the Caspian Sea. This is due in early November, but it is likely that contrary to earlier hopes and despite positive statements from the regional countries concerned, no immediate decision will be made at that point. Western companies are concerned about the high investment levels that would be required to build a pipeline along the Baku-Ceyhan route, and also about whether enough oil will be recoverable from the Caspian region to fill the large-volume pipeline that is envisaged. Such issues have come into clearer focus as decision time approaches and as low world oil prices give oil firms cash-flow worries.

—although the prospects for building pipelines have deteriorated

Russia has been lobbying for an alternative route for Azerbaijani oil exports which would broadly follow the course of an existing small-volume pipeline that has taken oil from Baku to the port of Novorossisk since the end of 1997. However, Azerbaijan and its Western partners are wary of allowing Russia, a rival oil producer whose political intentions in the region are uncertain, such a hold over exports. In any case, much of the Russian route looks increasingly unstable as various Caucasian groups, not least the Chechens, engage in internecine struggle. If the Baku-Ceyhan route is rejected as too costly, it has been suggested that a middle way should instead be chosen. This would follow the route of another small-volume pipeline from Baku to Supsa on Georgia's Black Sea coast which, on completion in the first quarter of 1999, will take oil from Azerbaijan to market through Georgia.

## The economy

Growth has slowed—

Data from the State Statistical Committee point to a slowdown in Georgia's recovery. Real GDP grew by 7.3% year on year in January-September, lower than the 8.9% reported in the first six months and well behind first-quarter growth of 11.2%. There was no indication that the declining growth rate was influenced by the economic crisis in Russia. It may be that the economy was simply attaining a more steady rate of growth after two years in which impressive real GDP growth was achieved by starting from a very low base.

Industrial production has continued to perform erratically on a monthly basis, rising by 12.3% year on year in real terms in July. In January-September year-on-year industrial production fell by 1.2%, compared with first-half and first-quarter figures of 0.8% and -3.2%, respectively. However, the share of industry in GDP has increased to 14.6% of GDP in January-September, compared with 13.8% in 1997. Agriculture, the main component of GDP, contributed 26.1% of

the total (compared with 25.3% in January-September 1997), while the shares of construction, transport and communications all dropped.

—as the first signs of Russian contagion appear—

Like other governments in the former Soviet states, many Georgian officials claimed that the shock devaluation of the rouble in Russia of August 17th would have little effect on the Georgian economy. But the new head of government, Vazha Lortkipanidze, has admitted that the Russian crisis was having an effect on Georgia, and at an IMF annual meeting in October the economy minister, Vladimir Papava, conceded that the Russian crisis had caused a dramatic fall in exports. He suggested that an emergency assistance programme be set up by the IMF for countries that have been negatively affected by the Russian crisis.

—and the authorities take steps to counter it

The president has established an emergency financial commission to monitor the effects of the Russian crisis. When the lari took a brief tumble on September 5th and 6th, the National Bank of Georgia (the central bank) sold just over \$30m of its reserves of around \$130m to back the currency. The IMF reportedly demanded that these reserves be restored either through a devaluation, an idea rejected by the government, or else by introducing further austerity into budget plans—a laudable plan which has little prospect of being implemented.

The central bank took steps to tighten the supervision of commercial currency exchange bureaux, withdrawing trading licenses from a number of them in the first two weeks of September. Bank officials said the Treasury-bill market had not been hit by the Russian crisis but noted that foreign investors would be less forthcoming since many see the former Soviet Union as a single territory.

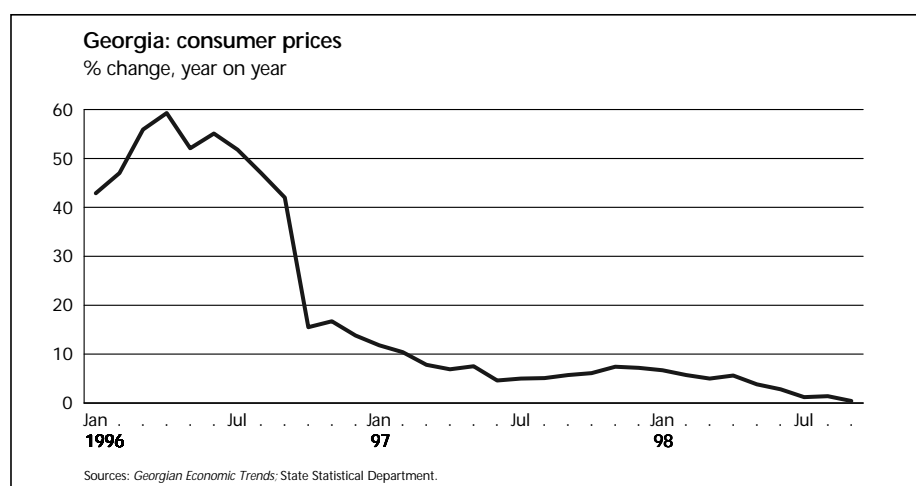
Devaluation has occurred but inflation is still declining

Low and steadily declining inflation kept the lari stable in the first seven months of the year. Inflation fell steadily from a year-on-year rate of 6.7% in January to 1.2% in July. The exchange rate depreciated by 2.5% between January and mid-August. The immediate result of the Russian crisis was to force the dollar exchange rate of the lari downwards. Central bank intervention helped make the decline a gradual one until the end of October. The lari fell by 2.3% in nominal terms from an exchange rate of Lari1.35:\$1 on August 17th, the date of the Russian devaluation, to Lari1.38:\$1 on October 29th. Since the beginning of November however, the lari has depreciated much faster, falling by 4.3% in the first ten days of the month to reach Lari1.44:\$1 on November 10th. The latest available data on monthly inflation—until the end of September—indicate a continuation in the decline in inflation since the Russian crisis. Year-on-year inflation reached 0.4% in September. Inflation is, however, expected to increase as the effects of the devaluation of the lari feed through.

Georgia: consumer prices  
(% change)

	Month on month	Year on year
1997		
Jan	0.8	11.8
Feb	2.1	10.4
Mar	0.7	7.8
Apr	0.3	6.9
May	1.0	7.5
Jun	-1.9	4.6
Jul	-0.9	5.0
Aug	0.1	5.1
Sep	1.1	5.7
Oct	0.8	6.1
Nov	2.3	7.4
Dec	0.8	7.2
1998		
Jan	0.3	6.7
Feb	1.1	5.7
Mar	0.0	5.0
Apr	0.9	5.6
May	-1.7	3.8
Jun	-1.9	2.8
Jul	-2.4	1.2
Aug	0.3	1.4
Sep	0.1	0.4

Sources: *Georgian Economic Trends*; State Statistical Department; EIU calculations of annual rates.



## Foreign trade and payments

The rate of export growth has fallen dramatically

Exports have continued to perform poorly as imports have mounted. By the end of September the trade deficit had widened to \$602.9m, with nine-month exports standing at \$143.9m and imports at \$746.8m. Russia continues to be the main trading partner, accounting for 14.5% of Georgia's total trade turnover. This is unevenly split between exports, which add up to 32.3% of total exports, and Russian supplies of goods, which make up only 11.1% of Georgia's official imports. The only non-CIS country with which Georgia has a land

border is Turkey, and it remains the second most important trading partner, followed by Azerbaijan, Germany and the US.

There was some concern in government circles that investors would be slower to put money into Georgia in the wake of the Russian crisis. Officials say Lari135.5m (\$102m) in foreign investment was received in January-June 1998. Most of this—37%—came from the US, 18% from the UK, 9.4% from Russia and another 9.4% from Azerbaijan. In August Ukraine confirmed plans to buy two MiG-25 combat aircraft assembled in Georgia, showing that at least parts of Georgian industry are still functioning.

Georgia: foreign trade  
(\$ m)

	1997				1998		
	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep
Export	37.3	100.3	157.2	230.11	38.9	109.1	143.9
Imports	187.5	419.7	684.1	930.7	210.1	505.9	746.8
Balance	-150.2	-319.4	-526.9	-700.6	-171.2	-396.8	-602.9

Note. 1997 totals differ from the data used in the Economic Summary, which uses revised balance-of-payments figures. The above figures, however, provide a more useful comparison with the as yet unrevised 1998 data.

Sources: TACIS, *Georgian Economic Trends* for 1997 and first-quarter 1998 data; Georgian State Statistical Department for later 1998 data.

## Business news

AES of the US has won a tender to take a 75% equity stake in Telasi, the state-owned electricity distributor; AES will pay \$25m for the shares. It is also to invest some \$84m and provide another \$10m to pay off Telasi's debts.

# Armenia

## Political structure

Official name	Republic of Armenia	
Form of state	The Republic of Armenia was independent between 1918 and 1921 and was incorporated into the Soviet Union in 1921. After a referendum on September 21st 1991 Armenia became independent. A new constitution was adopted in July 1995	
National legislature	National Assembly, with 190 seats, 150 elected from single-member districts and 40 by party list	
National elections	July 1995 (legislative) and March 1998 (presidential); next elections due by July 1999 (legislative) and March 2003 (presidential)	
Head of state	President, Robert Kocharian, directly elected in March 1998	
National government	The president appoints the prime minister, who appoints the members of government	
Main political parties	Yerkrapah; Armenian Pan-National Movement (APNM); National Democratic Union (AJM); Armenian Revolutionary Federation (ARF, also known as Dashnaksutun); Shamiram (women's party); Hairenik (Homeland); Self-Determination Union; Communist Party of Armenia; Liberal Democratic Party; Christian Democratic Union of Armenia; Social Democratic Party (Hnchak); National Party of Armenia; Law Governed Party of Armenia; Justice and Unity is a parliamentary faction	
Council of Ministers	Prime minister	Armen Darbinian
Key ministers	Agriculture	Vladimir Movsisian
	Construction	Felix Pirumian
	Defence	Vazgen Sarkisian
	Education & science	Levon Mkrtchian
	Energy & fuel	Gagik Martirosian
	Finance & the economy	Edvard Sandoyan
	Foreign affairs	Vartan Oskanian
	Health	Gagik Stamboltsian
	Industry & trade	Garnik Nanagulian
	Interior & national security	Serj Sarkisian
	Justice	David Harutiunian
	Privatisation	Pavel Kaltakhchian
	Social security	Gagik Yeghanian
Central Bank chairman	Tigran Sarkisian	

## Economic structure

### Latest available figures

Economic indicators	1993	1994	1995	1996	1997
GDP at market prices (Dram bn)	4.3	187.1	522.3	660.3	798.6
GDP (\$ bn)	0.5	0.6	1.3	1.6	1.6
Real GDP growth (%)	-14.8	5.4	6.9	5.8	3.1
Consumer price inflation (av; %)	1,920.0	4,964.8	175.5	18.7	13.8
Population (m)	3.7	3.8	3.8	3.8	3.8 <sup>a</sup>
Merchandise exports fob (\$ m)	156	216	271	290	232
Merchandise imports fob (\$ m)	234	344	625	758	778
Current-account balance (\$ m)	-67	-106	-279	-291	-346
Reserves excl gold (\$ m)	13.6	32.3	99.6	155.7	228.8
Exchange rate <sup>b</sup> (av; Dram:\$)	-	288.65	405.91	414.04	490.85

November 10th 1998 Dram514.95:\$1

Origins of gross domestic product 1997	% of total	Components of gross domestic product 1997	% of total
Agriculture & forestry	40.4	Private consumption	102.0
Industry	30.4	Public consumption	11.8
Trade	8.3	Gross fixed investment	19.6
Construction	6.3	Change in stocks	1.5
Transport & communications	4.4	Net exports of goods & services	-34.9
Total incl others	100.0	GDP	100.0

Principal exports 1997	% of total	Principal imports 1997	% of total
Non-precious metals	25	Raw materials	24
Jewellery	24	Vegetable products	12
Machinery & equipment	14	Machinery & equipment	11

Main destinations of exports 1997	% of total	Main origins of imports 1997	% of total
Russia	27.1	Russia	22.0
Belgium	20.2	US	13.0
Iran	18.3	Iran	9.9

<sup>a</sup> EIU estimate. <sup>b</sup> The dram was introduced in November 1993.

## Outlook for 1999-2000

The president will continue to face criticism over his policies—

Six months into his presidency, Robert Kocharian is facing increasing criticism over his government's privatisation policy, which has led to demands by the opposition for a change in government. Nevertheless, he is likely to remain in office. The opposition parties are not united, while protestations by parliamentarians against the government's privatisation policy are weakened by the fact that there has been some progress in the economy through privatisation. They are further weakened by widespread scepticism that their criticism of the government's privatisation policy may be motivated by the forthcoming parliamentary election. So far the government has been able to rely on the support of Yerkrpah, currently the largest group in parliament, to force through its legislative programme, but continued pressure will be applied to the president at least until the parliamentary election in July 1999.

—but his support base is likely to split

There is disagreement between Yerkrpah and Dashnaksutiun (the Armenian Revolutionary Federation—Dashnaks), the two main parties within the Justice and Unity alliance (formed to support Mr Kocharian's presidential candidature) over a number of fundamental policy issues. This continues to cast doubt on further co-operation among the political forces on which Mr Kocharian relies for support. Yerkrpah firmly rejects the proposed dual citizenship law, whereas the Dashnaks enthusiastically support it. Yerkrpah is still pitted against all the other parliamentary parties over the proposed election law. Four different draft election laws have so far been rejected by the National Assembly because Yerkrpah is blocking every draft which proposes anything other than a 70% share of single-mandate seats (30% by proportional representation) in the 131-member National Assembly. All other parties are in favour of a greater share of proportional seats, which they believe would leave less room for electoral fraud. It is likely that Mr Kocharian will side with Yerkrpah against the Dashnaks on the new election law. The Dashnaks were only recently legalised and have just one deputy in parliament, compared with Yerkrpah's 72. Mr Kocharian is unlikely to want to offend the majority in a parliament whose smaller factions are increasingly opposed to his policies.

The political parties gear up for the parliamentary election—

The political parties are gearing up for the parliamentary election due to take place in July 1999. The rejection by parliament of the fourth draft of the election law means that it is increasingly likely that the forthcoming parliamentary election will be held without the new legislation in place. The main election battle will be between Yerkrpah, led by the defence minister, Vazgen Sarkisian, and the Armenian Pan-National Movement, the party of the former president, Levon Ter-Petrosian, which is led by Vano Siradeghian. Other serious contenders are the National Party of Armenia, led by Karen Demirchian, the main opponent of President Kocharian in the 1998 election, and the Dashnaks, led by Vahan Hovannisian. The National Party of Armenia and the Dashnaks would do better under a system with a higher percentage of proportional seats. Other parties, such as the Self-Determination Union, led by Paruir Hairikian, the National Democratic Union, led by Vagen Manukian, and the Communist Party of Armenia, led by Sergey Badalian, have a fixed electorate and are thus likely to maintain the same number of seats.



—bringing greater cabinet representation of the political parties

The president does not belong to any political party. Although in the presidential election he relied on the support of the Justice and Unity alliance, which includes the Yerkrpah bloc, the Dashnaks and the Self-Determination Union, none of the parties was asked to form the government. Instead the president formed a government of professionals consisting of mainly non-partisan political figures. This is likely to change after next year's parliamentary election, when the president can gauge the standing of each political party among the electorate, and also the extent to which it supports him.

A breakthrough in relations with Azerbaijan—

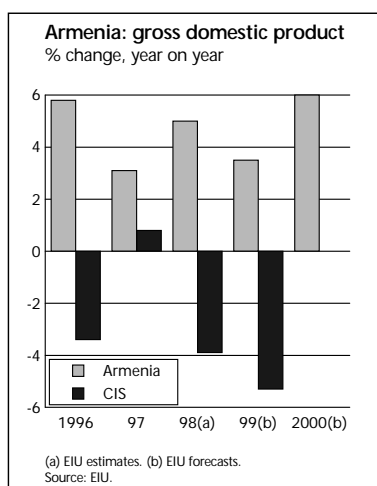
In the first high-level Armenian visit to Azerbaijan since the collapse of the Soviet Union, the prime minister, Armen Darbinian, in September headed a delegation to the EU-sponsored Transport Corridor Europe-Caucasus-Asia (TRACECA) conference on the forging of a new Silk Route from Europe to Asia through the Caucasus and Central Asia. President Kocharian had been invited by his counterpart in Azerbaijan but asked his prime minister to go instead. Hopes that this short visit might yield progress on resolving the conflict between Armenia and Azerbaijan were not realised because the Karabakh issue was not touched on. However, Mr Darbinian and the president of Azerbaijan, Heydar Aliyev, both expressed the view that transnational transport corridor would have a beneficial effect on the stability and economic development of the countries participating in it. More significantly, for two countries which have had no diplomatic or trade ties since they gained independence in 1991 (the war broke out in 1988), Mr Darbinian's presence represented an important step towards reconciliation and an end to hostilities.

—and negotiations on Nagorny Karabakh are likely to resume

Faced with the reality that Armenia's prospects for long-term economic recovery depend on a resolution of the conflict over Nagorny Karabakh, the Armenian government is keen to restart negotiations. However, it firmly rejects the "phased" proposal of the Organisation for Security and Co-operation in Europe (OSCE) Minsk Group, under which compromises would have to be made (captured territories would have to be returned to Azerbaijan and refugees returned to their abandoned homes) before negotiations on the status of Nagorny Karabakh could start. Mr Kocharian's government claims that there would then be no incentive for Azerbaijan to continue with negotiations or make concessions. Instead, it is of the view that a "package" deal, whereby all problems are addressed right from the outset, would be more balanced. The issue of wide autonomy for Nagorny Karabakh—but as a part of Azerbaijan—also remains contentious.

Nevertheless, the recent visit by Mr Darbinian to the TRACECA conference in Azerbaijan, and public utterances by President Kocharian on the need to resolve the conflict in order to foster swifter economic recovery, indicate a softening of stance. Additionally, Mr Kocharian's credibility with the hardliners in Nagorny Karabakh and in Armenia makes it easier for him than for his predecessor, Mr Ter-Petrosian, to sell concessions. This means that there is a better chance of progress on a settlement when a modified proposal is put forward by the OSCE Minsk Group in November.

<p>Real GDP growth will slow owing to the Russia crisis—</p>	<p>Official statistics show that real GDP continued to grow at a healthy pace and reached 7.9% in the first eight months of this year compared with the corresponding period in 1997. This was helped by high growth in agricultural output and the rapid pace of investment as the government continues to press ahead with privatisations and industrial restructuring. However, a slump in demand in the wake of the Russian economic crisis will reverse this trend. The EIU has revised its estimate for 1998 real GDP growth downwards to 5%. This is only slightly lower than the government's growth projection of 6%, owing to higher than expected growth in the first eight months of 1998. Growth in 1999 is expected to slow further to 3.5% as the effects of the Russian crisis are felt more fully. A pick-up in growth is expected in 2000, when the effects of industrial restructuring as a result of privatisation feed through. In the medium term Armenia's regional isolation, which has precluded trade with its neighbours, will have to end to foster sustained economic recovery.</p>
<p>—and inflation will meet the government's target</p>	<p>Following inflation of over 20% in the first quarter over the corresponding period in 1997 (month-on-month inflation was high and averaged 2.6%), month-on-month inflation was negative for the next six months from April to September, the longest period of deflation since the introduction of the dram. This deflation was attributable to an almost 50% reduction in the price of agricultural products after a much better harvest. Higher inflation is expected in the fourth quarter, as prices of agricultural products increase after the end of the harvest and the dram depreciates more swiftly following the devaluation of the Russian rouble. EIU estimates put year-on-year average inflation in 1998 at 8.5%, just below the government's target of 9.1%, while year-end inflation will reach -3%. We forecast higher year-end inflation of 10% in 1999 and 7% in 2000 owing to the faster depreciation of the dram, which will be necessary to offset some of the effects of the continued rouble depreciation.</p>
<p>The Russian crisis will cause trade turnover to slow</p>	<p>The Russia crisis will reverse Armenia's export recovery that started at the beginning of this year, and trade turnover will slow. Exports in the first eight months of this year grew by 21.4% on the corresponding period in 1997, much faster than imports, which grew by 4.3%. Exports will slow owing to lower growth in Armenia's major export markets, namely Russia and other CIS countries (these countries took 44.8% of Armenia's exports in the first five months of this year). The trade and current-account deficits will narrow in 1998 owing to lower overall trade, but they will widen thereafter until Armenia is able to redirect its trade further and Russia moves slowly out of its recession. Foreign direct investment (FDI), which surged in the first half of this year, will help reduce Armenia's reliance on foreign debt to finance the high current-account deficit. In the medium term, a continuation of the pick-up in FDI and exports will be necessary in order to maintain economic stability.</p>



### Armenia: forecast summary (\$ m unless otherwise indicated)

	1997 <sup>a</sup>	1998 <sup>b</sup>	1999 <sup>c</sup>	2000 <sup>c</sup>
Real GDP growth (%)	3.1	5.0	3.5	6.0
Consumer price inflation (%)				
year-end	21.9	-3.0	10.0	7.0
average	13.9	8.5	2.1	8.0
Merchandise exports fob	232	202	194	233
Merchandise imports fob	778	685	719	827
Trade balance	-546	-483	-525	-594
Current-account balance	-346	-262	-281	-311
% of GDP	-21.3	-14.4	-17.1	-18.2
Exchange rate (Dram:\$)				
year-end	500	536	607	666
average	491	499	581	637

<sup>a</sup> Actual. <sup>b</sup> EIU estimates. <sup>c</sup> EIU forecasts.

## Review

### The political scene

The government is criticised over its policies

The government has faced heavy criticism from the opposition on a number of its policies, prompted to a large extent by next year's parliamentary election. The opposition parties are dissatisfied with the government's privatisation policy after the sale of the Yerevan Cognac Factory to Pernod Ricard (France) for \$30m, which they thought was too low, and of the country's two major hotels. Yerkrpah deputies narrowly blocked the passage of an opposition motion to revoke the privatisation deals signed with foreign investors. Furthermore, the failure of the president, Robert Kocharian, to respond to a letter signed by 68 deputies demanding that he convene an emergency debate to discuss the sale of the cognac factory was seen as a breach of the constitution. The opposition applied to the constitutional court to demand a change in government, but this was rejected on the grounds that such a move is the prerogative of the president. In a further twist, the deputy speaker of the National Assembly, Albert Bazeian, resigned from parliament in protest at its handling of the debate on the sale of the factory, claiming that it was electioneering. He withdrew his resignation after Mr Kocharian and the defence minister, Vazgen Sarkisian, persuaded him to stay.

Similarly, demands by the opposition and by the Dashnaksutiun (Dashnaks), normally supporters of the president, that Mr Kocharian unequivocally condemn the government of his predecessor, Levon Ter-Petrosian, for corruption and economic mismanagement, which they claim has caused persistent economic hardship, have been construed as being geared to the forthcoming election.

The prime minister, Armen Darbinian, has also come under fire for having signed the declaration at the Baku conference on the TRACECA project in September. Point 3 of the declaration advocates that conflicts in the region should be resolved in accordance with UN Security Council resolutions and

within the OSCE framework. Parliamentary deputies interpreted the prime minister's endorsement of this clause as a concession over Nagorny Karabakh, prompting criticism of him.

The Armenian prime minister visits Baku

The prime minister led a high-level delegation, which included the minister of transport, the chief of government staff and several officials from the foreign ministry, to Azerbaijan for the EU-sponsored Transport Corridor Europe-Caucasus-Asia (TRACECA) conference in September. The international conference discussed the creation of a road, rail and ferry network linking Europe to Asia via the Caucasus. All in all, 38 countries and 16 international organisations were present at the conference. A multilateral framework agreement and four technical agreements on road and rail transport and on customs procedures were signed. This paves the way for closer economic integration of the region and could be a first step towards leading Armenia out of its regional isolation.

Armenia and Nagorny Karabakh are ready to compromise—

The administration in Yerevan, keen to resume the negotiating process, is prepared to abandon its demands for the immediate independence or annexation of the disputed enclave of Nagorny Karabakh and its insistence on direct negotiations between the authorities of Karabakh and Azerbaijan. In addition, following a meeting between President Kocharian and the president of Nagorny Karabakh, Arkad Gukasian, on 20th October, Mr Gukasian stated that Karabakh was ready to compromise with Azerbaijan. However, Armenia still insists that any relationship worked out between Azerbaijan and Karabakh has to be horizontal, not vertical—implying that Armenia is not yet willing to see the region become a fully integrated part of Azerbaijan. The mediators have advocated a plan that would give Armenians in Karabakh considerable autonomy within Azerbaijan, but Armenia has long rejected any formula that gives Azerbaijan control over the region. While Armenia's insistence on a "horizontal relationship" appears to leave little room for diplomatic manoeuvre, the government's readiness to back down on the issue of immediate independence, having publicly threatened to annex Nagorny Karabakh only a few months ago (3rd quarter, page 23) suggests a desire to search for possible common ground. The inability to resolve the dispute over Karabakh has hurt Armenia economically, disrupting trade and excluding it from direct participation in the oil boom now starting to unfold in the Caspian Sea region.

—while OSCE mediators attempt to put together a new proposal

As part of the effort to establish a framework for new negotiations on the Karabakh dispute, the Organisation for Security and Co-operation (OSCE) held talks with the governments in Yerevan, Baku and Stepanakert, the capital of Nagorny Karabakh, with the intention of offering new proposals soon after Azerbaijan's presidential election. According to the foreign minister, Vartan Oskanian, who was involved in the talks with the OSCE Minsk Group, the mediators used the term "non-conventional solutions", acknowledging that if the issue is to be resolved peacefully it will have to be non-conventional, involving neither full independence nor unification with Armenia. The OSCE Minsk Group plans to visit the region on November 10th-11th to present its new proposal. The last time negotiations were held with the participation of all three sides was March 1997.

In addition, the Council of Europe, keen to see progress on the settlement of the conflict, organised a meeting between Armenia, Azerbaijan and Nagorny Karabakh in Strasbourg on November 3rd.

Heydar Aliyev wins the presidential election in Azerbaijan

Heydar Aliyev's re-election as president of Azerbaijan on October 11th augurs well for improved relations between Armenia and Azerbaijan. It provides continuity in the negotiations on the Karabakh conflict and could mean greater co-operation between the two countries. Mr Aliyev's main presidential opponent, Nizami Suleymanov, head of the Independent Azerbaijan Party, had fought his election on the Karabakh ticket and had threatened to restart the war to regain lost territories. Although the presidents of Armenia and of Nagorny Karabakh did not congratulate Mr Aliyev on his re-election (the president of Karabakh offered the explanation that Mr Aliyev did not congratulate him when he was elected), Mr Kocharian stressed the importance of creating a positive atmosphere before resuming the negotiation process. For his part Mr Aliyev had previously made overtures by personally inviting Mr Kocharian, to the EU sponsored TRACECA conference and by welcoming the participation of Armenia at the conference.

Relations with NATO are strengthened

The NATO secretary-general, Javier Solana, paid his second visit to Armenia on October 1st and discussed issues related to the enhancement of relations between Armenia and NATO within the Partnership for Peace (PfP) programme, which Armenia joined in October 1994, and Armenia's participation in the Euro-Atlantic Partnership Council. Russia, which is suspicious of NATO's eastward expansion, had objected to Mr Solana's previous visit in February 1997, although Russia itself co-operates with NATO. This time round Russia had more serious domestic preoccupations, and objections came instead from the leader of the Communist Party of Armenia (CPA), Sergey Badalian, who voiced concern over the acceleration of NATO activity in the Transcaucasus. However, according to Armenia's foreign minister, Vartan Oskanian, the strategic military partnership between Yerevan and Moscow does not necessarily exclude NATO-Armenian co-operation but is instead based on a balanced foreign policy.

Local elections in Karabakh are held

The people of Nagorny Karabakh went to the polls on 27th September to elect the heads of administration in some 150 towns and villages along with their legislative bodies, in the first local elections in ten years. Figures released by Nagorny Karabakh's Central Election Commission indicated that the turnout exceeded 80% in rural areas but was only 51% in the capital, where Nagorny Karabakh's former interior minister, Karen Babaian, won the election for Stepanakert mayor with 87% of the vote. His opponent, Georgi Petrosian of the Armenian Revolutionary Federation Karabakh (ARF), got only 12% of the vote.

## Economic policy

The first-half budget deficit narrows—

Revised figures from the state statistics department indicate that budget revenue in the first half of 1998 amounted to Dram72.6bn (\$144m). Of this, Dram69.6bn was from the central government. Expenditure amounted to Dram88.1bn (\$171m), of which Dram85.4bn was for the central government.

The budget deficit for the first half of 1998 amounted to Dram15.5bn (\$30m) or 5% of half-year GDP.

Budget revenue was up by 58% in nominal terms over the corresponding period in 1997, boosted by a sharp increase in indirect revenue from value-added tax, excise taxes and non-tax revenue. The increase in indirect revenue is a result of more efficient tax collection and new tax laws introduced in July 1997. Expenditure was up by 39.8% in nominal terms over the corresponding period in 1997. Together with external financing, privatisation revenue, which amounted Dram3.6bn in the first half of the year, provided an important source of financing.

—and the social security system is overhauled

The government has announced a major overhaul of the social security system, which will result in slightly higher family benefits and stricter criteria to determine eligibility. The new system, due to be introduced at the beginning of 1999, envisages tougher screening procedures to cut the number of families receiving aid and redirect it to those who need it most. Corruption in the state bureaucracy means that many citizens who are not poor have received aid for years. Criteria such as the possession of a car and the size of monthly electricity bills will help social workers to decide whether a family should be ranked as poor. The huge shadow economy in Armenia means that the government's statistics do not reflect citizens' real incomes. For most of the poor, the monthly benefit will be raised to Dram8,000 (\$16).

FDI surges as privatisation moves ahead—

The government is pushing ahead with privatisation despite an outcry by the opposition in parliament about the price of the sell-offs. The government can point to a 100% increase in privatisation revenue to \$77.7m in the first nine months of 1998, compared with revenue of only \$800,000 in 1994-97. It can also refer to positive spillovers, for example in the form of increases in the price and volume of grapes since the sale of the Yerevan Cognac Factory, and the healthy pace of economic growth.

Alongside the government's emphasis on the privatisation of large enterprises through attracting strategic investors, the governments has made efforts to actively encourage foreign investment. The prime minister has recently toured the United States to establish ties with private investors. Mr Kocharian has targeted the Armenian diaspora to encourage investment from this quarter. These measures are starting to yield results. FDI has surged from a total of \$98.8m in 1993-96 to \$97.3m in the first nine months of 1998 alone.

—and voucher privatisation comes to a close

Voucher privatisation got under way three years ago, when vouchers with a face value of Dram20,000 (\$40) were handed out to every Armenian citizen. These are due to expire on December 31st 1998. Between 1994 and January 1998 a total of 7,271 enterprises—1,250 large and 6,021 small enterprises—were privatised using vouchers or cash auctions. However, voucher privatisation has failed to bring substantial revenue (cash sales have raised \$800,000) for the state budget, nor did it turn most citizens into shareholders. The government can therefore be expected to oppose another issue of vouchers vigorously, although this is favoured by Yerkrpah, the largest faction in parliament.

The privatisation of land will continue

The government plans to privatise the remaining 120,000 ha of state-owned agricultural land. Most agricultural land in Armenia was privatised in 1991, but a fledgling market infrastructure and lack of equipment have severely restricted the volume of agricultural output. According to the minister of agriculture, Vladimir Movsisian, the state's main task now is to engage in long-term agricultural planning and to offer consulting services to farmers through its "regional scientific centres", which are to be set up soon. The agriculture ministry will also encourage banks to lend more to the agricultural sector at lower interest rates.

The World Bank assists a land registration project

The World Bank's soft-loan arm, the International Development Association (IDA), has approved a \$8m loan to help set up a land registration system. The bulk of the money, more than \$6m, will be used to build a mapping centre, survey land and produce public-record maps. The remainder of the funds will be used to establish a central office and 11 branch offices to record land and other property in a chronological record of owners, their rights and their obligations.

## The economy

GDP growth continues to pick up

According to the state statistics department, real GDP grew by 7.9% year on year in the first eight months of 1998, helped mainly by growth in the agricultural sector, which grew by 12.3% on the corresponding period in 1997.

In the first six months of this year (the latest period for which data are available) industrial output grew by 3.2% on the first half of 1997. Power and the food industry accounted for the largest share in industrial output and were up by 3% and 16.6% compared with the same period in 1997. Output was also up in all other major industrial sectors—metallurgy, chemicals and petrochemicals, construction and machine tools—albeit from a very low base. Output continued to decline in jewellery manufacturing, which experienced a 27.8% decline in year-on-year terms.

In addition to rising economic activity, the strength of reported real GDP growth reflects improvements in tax legislation and tax collection, which broadened the taxation base and legalised one part of the grey economy. The extent of the recovery may therefore be overstated. (2nd quarter 1998, page 30).

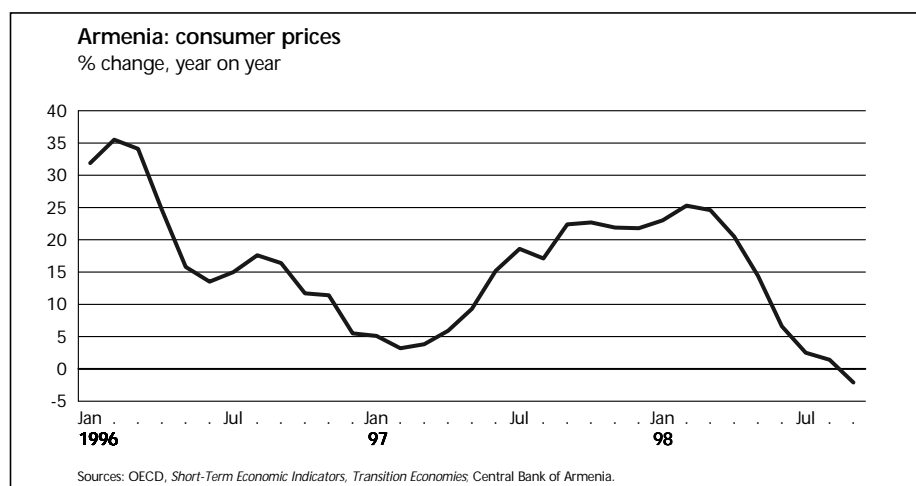
Inflation falls steeply in the third quarter—

The government's inflation target of 9.1% for 1998, which seemed very ambitious earlier in the year (given first-quarter year-on-year inflation of over 20%) looks set to be exceeded after month-on-month deflation in April-September, which averaged 2.3%. Year-on-year inflation stood at -2.1% in September. This deflation was mainly the result of high agricultural output, which led to a significant decrease in agricultural prices on the domestic market. Tighter monetary policies since the second half of 1997 also helped. In the first eight months of this year prices of consumer goods decreased by 3.7% year on year, prices of non-consumer goods remained stable, while prices of services increased by 0.2%. The high agricultural output, a stable dram and low import prices have all contributed to this deflation.

Armenia: consumer prices  
(% change)

	Month on month	Year on year
1997		
Jan	3.1	5.1
Feb	1.6	3.2
Mar	0.8	3.8
Apr	1.6	5.9
May	3.3	9.3
Jun	3.9	15.2
Jul	-0.4	18.6
Aug	-1.0	17.1
Sep	3.4	22.4
Oct	0.1	22.7
Nov	1.7	21.9
Dec	1.9	21.8
1998		
Jan	4.1	23.0
Feb	3.5	25.3
Mar	0.3	24.6
Apr	-1.8	20.5
May	-1.9	14.4
Jun	-3.1	6.6
Jul	-4.3	2.5
Aug	-2.5	1.4
Sep	-0.1	-2.1

Source: Central Bank of Armenia.



—and the Treasury-bill  
market suffers

Since the Russian crisis, supply on the Armenian Treasury-bill market has exceeded demand despite increased yields. In September four issues of nine-month T-bills and one issue of one-year T-bills were cancelled because of insufficient demand. Issues of shorter maturity—six months, three months and one month—have been taken up, but with greatly increased yields. Yields on three-month T-bills rose to 48.11% at the end of September, up from 42% on July 21st.

The Russian crisis causes  
trade to slow

Russia accounts for 25% of Armenia's trade (the CIS countries account for 37%), and consequently the Russian crisis has caused trade to slow. Preliminary estimates from the state statistics department indicate that trade turnover in



the third quarter of 1998 fell sharply by 31% from the previous quarter to Dram 94bn (\$188m). Exports fell by 25% in value terms to Dram24bn, while imports, helped in part by lower import prices of commodities such as fuel, fell by 33% to Dram70bn. However, lower overall trade has also caused a sharp narrowing of the trade deficit. In the third quarter of 1998 year-on-year exports fell by 22% and imports by 34%. The trade deficit consequently fell by 38% to Dram46bn. The trade deficit for the first three quarters of this year fell by 20% on the same period in 1997.

## Business news

The tourist industry is to be developed

A Swiss consulting firm, Valmet International Limited, will spend \$1m to draw up a comprehensive programme for the development of tourism in Armenia. The plan, due to be submitted in a year's time, will prioritise specific tourist sites in the country. The agreement grants Valmet the exclusive right to choose investors interested in developing Armenia's obsolete tourism infrastructure. In the late Soviet era roughly 800,000 tourists visited Armenia each year. The worsening economic situation and the Nagorny Karabakh war have reduced tourism to a trickle. The industry, trade and tourism ministry expects the number of foreign visitors to reach 45,000 this year, up from 13,000 in 1996. It hopes that foreign investment will help push the numbers as high as 300,000 by 2001.

The EBRD is to fund the privatisation programme of Hrazdan

The government has decided not to take out a new loan to complete the construction of the fifth block of the Hrazdan thermal power plant (TPP) and will instead privatise it on condition that the buyer completes the construction work. This will require \$100m. The block is an independent unit and can operate separately from the rest of TPP. The European Bank for Reconstruction and Development (EBRD) will fund the payment of a consulting firm to work on the privatisation strategy. This should be completed by February 1999. The privatisation process will last 12 months.

## Quarterly indicators and trade data

### Georgia: quarterly indicators of economic activity

		1995	1996				1997				1998
		4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Production	Monthly av										
Electricity	kwh m	664	504	599	610	658	616	523	514	735	678
Prices											
Consumer prices	Dec 1995=100	100.0	109.4	112.0	111.1	113.8	117.9	117.2	117.5	122.1	123.9
change year on year	%	n/a	55.9	55.1	42.0	13.8	7.8	4.7	5.7	7.3	5.1
Money	End-Qtr										
Currency in circulation	Lari m	131.4	129.0	139.7	172.0	185.6	170.6	178.2	220.3	254.6	229.0
change year on year	%	522.4	568.7	493.5	896.7	41.2	32.3	27.6	28.1	37.2	34.2
M3	Lari m	180.6	189.6	206.5	236.8	256.3	245.8	271.6	335.4	373.0	360.1
Foreign trade <sup>a</sup>	Qtrly totals										
Exports fob	\$ m	99.7	84.8	81.1	87.6	118.9	58.9	103.7	93.5	121.1	62.7
Imports cif	"	266.2	164.7	145.3	157.6	218.0	210.3	266.0	292.1	284.0	253.4
Exchange holdings	End-Qtr										
Foreign exchange	Lari m	220.8	269.7	260.0	216.2	224.7	173.9	172.1	186.8	273.2	233.6
Exchange rate	Lari:\$	1.230	1.262	1.255	1.270	1.274	1.294	1.300	1.298	1.300	1.335

<sup>a</sup> Balance-of-payments basis.

Source: Georgian Economic Trends.

### Armenia: quarterly indicators of economic activity

		1996			1997				1998		
		2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Employment	Monthly av										
Total	'000	1,428	1,431	1,412	1,405	1,400	1,395	1,389	1,386	1,377	n/a
Unemployment	"	144.7	151.2	155.8	160.2	165.5	169.3	172.9	161.4	132.5	n/a
Wages & prices											
Wages, total	Dram per month	9,448	9,547	10,153	9,921	10,480	11,858	12,810	14,935	16,887	n/a
Wages, ind	"	13,401	13,390	14,370	13,245	14,925	16,288	n/a	n/a	n/a	n/a
Consumer prices	Dec 1994=100	140.8	134.8	136.7	145.8	155.1	160.8	167.0	181.3	176.3	n/a
change year on year	%	17.8	16.4	9.4	4.0	10.2	19.3	22.2	24.3	13.7	n/a
Producer prices	Dec 1994=100	156.9	161.8	168.2	178.0	192.0	203.2	210.4	225.5	222.2	n/a
Money	End-Qtr										
M1, seasonally adj	Dram m	30,274	36,160	37,821	38,862	40,324	41,934	42,104	47,549	44,967	46,367 <sup>a</sup>
change year on year	%	25.8	43.2	29.5	35.0	33.2	16.0	11.3	22.4	11.5	n/a
Foreign trade	Qtrly totals										
Exports fob	\$ m	74.1	90.3	83.3	36.6	55.9	60.6	79.5	56.7	66.8	n/a
to CIS	"	20.7	32.8	51.7	13.3	18.0	25.4	38.0	n/a	n/a	n/a
Imports cif	"	204.5	233.3	260.5	190.6	227.9	209.1	265.9	201.1	209.6	n/a
from CIS	"	63.0	86.3	68.8	63.0	73.4	78.0	84.7	n/a	n/a	n/a
Exchange holdings	End-Qtr										
Gold <sup>b</sup>	\$ m	9.1	8.9	9.0	9.2	9.2	8.4	8.3	9.5	9.7	9.3 <sup>c</sup>
Foreign exchange	"	72.2	53.1	114.1	96.8	118.8	175.9	191.5	267.2	260.5	279.6 <sup>c</sup>
Exchange rate											
Official rate	Dram:\$	410	412	435	478	510	501	495	502	502	502 <sup>c</sup>

<sup>a</sup> End-July. <sup>b</sup> End-quarter holdings at quarters average of London daily price less 25%. <sup>c</sup> End-August.

Source: OECD, *Short-term Economic Indicators*; Armenian Economic Trends; IMF; *International Financial Statistics*.

Georgia: structure of trade  
(\$ m)

	Imports		Exports fob	
	Jan-Dec 1996 <sup>a</sup>	Jan-Dec 1997 <sup>b</sup>	Jan-Dec 1996	Jan-Dec 1997
Food, beverages & tobacco	247.6	321.2	58.2	76.6
Mineral fuels	266.1	258.4	37.5	30.9
Chemicals	36.3	85.0	21.9	24.2
Iron & steel & manufactures	8.2	28.6	28.7	47.0
Machinery non-electric	24.2	53.0	3.4	7.2
Electric machinery	30.8	40.2	4.3	4.5
Road vehicles & tractors	8.5	53.5	2.1	3.0
Total incl others	715.4	930.7	199.4	230.1

<sup>a</sup> State Customs Department, valued cif. <sup>b</sup> State Department for Statistics, valued fob.

Source: *Georgian Economic Trends*.

Georgia: direction of trade  
(\$ '000)

	Jan-Dec 1995	Jan-Dec 1996	Jan-Dec 1997	Jan-Mar 1997	Jan-Mar 1998
<b>Imports fob</b>					
CIS	159,000	270,000	340,650	74,870	66,009
Russia	48,000	127,000	125,011	37,568	30,614
Azerbaijan	48,000	79,000	115,509	20,069	18,528
Turkey	82,000	77,000	114,021	16,670	25,658
US	15,000	30,000	70,221	19,673	20,263
UK	12,000	34,000	41,922	3,829	16,928
Germany	11,000	25,000	39,932	8,974	8,512
Bulgaria	2,800	43,000	46,147	9,475	8,300
Romania	30,000	41,000	15,219	48	7,979
Italy	1,000	32,000	41,253	7,680	7,299
Total incl others	392,000	685,000	930,670	187,463	210,137
<b>Exports fob</b>					
CIS	94,000	128,000	137,225	17,317	22,664
Russia	47,000	57,000	68,600	6,805	12,584
Armenia	18,000	21,000	18,942	1,957	3,917
Azerbaijan	13,000	24,000	25,101	5,147	2,378
Turkey	34,000	26,000	30,040	5,851	4,649
Switzerland	6,000	7,000	13,849	3,713	2,787
US	n/a	n/a	4,219	291	1,762
Germany	1,000	4,000	4,896	2,281	1,977
Belgium-Luxembourg	n/a	n/a	2,170	0	1,281
Bulgaria	6,000	12,000	8,754	1,785	419
Total incl others	151,000	199,400	230,110	37,291	38,920

Source: *Georgian Economic Trends*.

Armenia: structure of trade  
(\$ m)

	Imports				Exports			
	Jan-Dec 1995	Jan-Dec 1996	Jan-Dec 1997	Jan-May 1998	Jan-Dec 1995	Jan-Dec 1996	Jan-Dec 1997	Jan-May 1998
Live animals & products	63.4	67.4	58.5	19.1	0.1	0.1	0.3	0.0
Vegetable products	85.6	112.8	105.3	58.0	0.9	0.9	2.8	0.1
Prepared food, beverages & tobacco	51.5	85.1	86.0	43.8	12.6	11.8	24.6	9.8
Mineral products, incl fuels	224.7	186.5	209.7	77.7	28.8	19.1	17.9	10.4
Chemicals	55.4	56.2	85.2	24.8	14.5	5.4	4.3	0.9
Plastics products	4.0	13.5	23.5	10.0	10.8	8.2	9.2	3.7
Textile fibres & manufactures, incl clothing	7.8	21.0	33.6	11.4	15.2	9.7	10.6	5.6
Precious stones, metals & jewellery	62.4	129.8	47.5	17.0	89.6	140.3	55.2	20.0
Base metals & manufactures	15.9	10.2	24.6	7.6	30.5	47.3	57.7	18.5
Machinery & transport equipment	55.9	92.5	117.8	35.0	50.4	37.0	34.2	24.7
Total incl others	673.9	855.8	892.3	340.6	270.9	290.3	232.5	100.8

Source: *Armenian Economic Trends*.

Armenia: direction of trade  
(\$ m)

	Jan-Dec 1994	Jan-Dec 1995	Jan-Dec 1996	Jan-Dec 1997	Jan-May 1998
Imports cif					
CIS	205.6	334.0	277.7	299.1	87.4
Russia	112.2	135.1	125.5	215.9	71.4
Georgia	17.8	61.8	51.2	38.2	11.3
EU	37.1	88.9	132.7	176.8	86.6
Italy	8.9	22.4	26.2	36.2	20.1
Belgium	1.4	15.6	49.5	49.7	20.0
France	10.7	16.3	12.0	19.5	11.8
UK	0.5	2.2	7.1	10.5	11.6
Other countries	151.1	251.0	445.4	416.4	166.6
US	96.1	114.4	103.6	116.1	41.5
Turkey	0.5	2.6	6.3	38.4	24.7
Iran	42.5	89.8	149.8	88.7	22.6
UAE	1.1	13.8	33.5	71.7	21.4
Total	393.8	673.9	855.8	892.3	340.6
Exports fob					
CIS	157.9	169.6	128.1	94.7	45.2
Russia	83.9	90.8	96.1	62.9	22.5
Turkmenistan	65.6	68.7	17.5	13.8	15.2
EU	35.3	48.3	61.9	66.4	26.3
Belgium	26.0	30.8	44.7	47.0	20.4
Germany	6.6	10.1	3.7	9.3	2.7
Other countries	22.3	53.0	100.3	71.4	29.3
Iran	14.6	35.0	43.9	42.6	12.5
UAE	0.1	0.4	1.9	2.9	4.7
US	0.4	0.6	4.4	7.1	4.7
Total	215.5	270.9	290.3	232.5	100.8

Source: *Armenian Economic Trends*.

## Former Soviet republics: exchange rates

	Exchange rate per \$									
	1996		1997				1998			
	Jul 5th	Oct 4th	Jan 1st	Apr 4th	Jul 11th	Oct 6th	Jan 12th	Apr 3rd	Jul 4th	Oct 7th
Outside rouble zone										
Armenia (dram)	410	412	440	469	505	501	496	502	502	508
Azerbaijan (manat)	4,300	4,304	4,200	4,074	3,968	3,928	3,891	3,858	3,861	3,857
Estonia (kroon)	12.2 <sup>a</sup>	12.2	12.4 <sup>b</sup>	13.4	14.0	14.2	14.5	14.8	14.5	13.1
Georgia (coupon/lari)	1.25 <sup>c</sup>	1.27	1.29 <sup>d</sup>	1.30 <sup>e</sup>	1.30	1.30	1.31	1.34	1.35	1.37
Kazakhstan (tenge)	66.9	70.0	72.5	75.4	75.6	75.6	75.6	76.5	77.1	80.5
Kyrgyz Republic (som)	12.4	13.3	17.0	17.6 <sup>f</sup>	17.3	17.3	17.4	18.1	19.3	22.4
Latvia (lat)	0.56 <sup>g</sup>	0.55	0.56 <sup>d</sup>	0.58	0.58	0.59	0.60	0.60	0.60	0.58
Lithuania (litas)	4.00 <sup>g</sup>	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Moldova (leu)	4.65	4.61	4.60	4.57	4.57	4.62	4.66	4.72	4.75	4.99
Turkmenistan (manat)	3,935	4,075	5,000	4,110 <sup>e</sup>	4,165	4,165	4,165	4,165	5,200	5,200
Ukraine (karbovanets/hryvnya)	178,900	1.77 <sup>h</sup>	1.83	1.85	1.86	1.87	1.90	2.04	2.07	3.41
Uzbekistan (som)	37.8	40.0	55.0	58.9 <sup>i</sup>	63.6	75.8	80.4	84.5	93.5	105.8
Inside rouble zone (local parallel currencies & Russian rouble)										
Belarus (ruble)	15,500	19,300	20,200	34,200	43,337	27,910	30,830	33,760	38,010	53,600
Russia (rouble)	5.131 <sup>a</sup>	5.424	5.747 <sup>b</sup>	5.737	5.788	5.865	5.972	6.112	6.202	15.794
Tajikistan (Tajik rouble)	280	298	330	380 <sup>i</sup>	398 <sup>g</sup>	747	748	754	754	754

<sup>a</sup> July 9th. <sup>b</sup> January 7th. <sup>c</sup> June 5th. <sup>d</sup> January 8th. <sup>e</sup> April 7th. <sup>f</sup> April 9th. <sup>g</sup> June 10th. <sup>h</sup> Karbovanets replaced by hryvnya on September 2nd, at the exchange rate of HRN1:KRB100,000. <sup>i</sup> April 11th.

Sources: OMRI; FT; BBC Monitoring, *Summary of World Broadcasts*; Reuters; Bloomberg.

## Former Soviet republics: GDP and GDP per head

(at purchasing power parity)

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Armenia									
GDP									
\$ bn	17.6	17.0	16.1	7.9	6.9	7.3	8.0	8.6	9.0
per head (\$)	5,058	4,804	4,467	2,142	1,853	1,942	2,122	2,287	2,389
Azerbaijan									
GDP									
\$ bn	21.8	20.0	20.7	13.8	10.9	8.7	7.4	6.6	6.8
per head (\$)	3,074	2,804	2,879	1,888	1,476	1,171	986	879	900
Belarus									
GDP									
\$ bn	49.4	50.0	51.4	47.7	43.8	39.2	36.0	37.7	42.2
per head (\$)	4,832	4,876	5,004	4,630	4,228	3,802	3,507	3,676	4,131
Estonia									
GDP									
\$ bn	7.9	7.6	7.0	6.2	5.8	5.8	6.2	6.6	7.5
per head (\$)	5,015	4,691	4,465	3,957	3,803	3,874	4,176	4,470	5,121
Georgia									
GDP									
\$ bn	23.4	21.4	17.8	10.9	7.7	5.6	5.5	6.2	7.0
per head (\$)	4,296	3,919	3,256	2,001	1,407	1,036	1,009	1,147	1,303
Kazakhstan									
GDP									
\$ bn	71.8	74.6	72.3	64.6	56.0	43.0	40.0	41.2	42.8
per head (\$)	4,342	4,477	4,302	3,825	3,316	2,569	2,421	2,495	2,587
Kyrgyz Republic									
GDP									
\$ bn	11.1	11.9	11.2	9.7	8.3	6.3	6.0	6.2	7.0
per head (\$)	2,553	2,706	2,523	2,163	1,863	1,405	1,336	1,419	1,529
Latvia									
GDP									
\$ bn	13.6	14.6	13.6	9.1	8.0	8.2	8.3	8.8	9.5
per head (\$)	5,094	5,469	5,114	3,460	3,070	3,213	3,313	3,516	3,847

*continued*

	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>Lithuania</b>									
GDP									
\$ bn	20.3	20.1	19.7	16.0	13.7	12.7	13.4	14.3	15.4
per head (\$)	5,505	5,412	5,278	4,268	3,681	3,409	3,612	3,853	4,148
<b>Moldova</b>									
GDP									
\$ bn	15.9	16.2	13.9	10.2	10.3	7.3	7.3	6.9	7.1
per head (\$)	3,664	3,723	3,193	2,335	2,362	1,675	1,681	1,583	1,637
<b>Russia</b>									
GDP									
\$ bn	865.0	875.4	864.7	759.7	711.9	636.3	623.6	613.1	629.5
per head (\$)	5,871	5,919	5,833	5,122	4,805	4,300	4,210	4,150	4,274
<b>Tajikistan</b>									
GDP									
\$ bn	9.9	10.2	9.7	6.9	5.2	4.5	4.0	3.9	4.1
per head (\$)	1,914	1,920	1,769	1,247	915	783	693	666	680
<b>Turkmenistan</b>									
GDP									
\$ bn	10.0	10.7	10.5	10.2	9.5	7.7	6.8	6.7	5.1
per head (\$)	2,797	2,903	2,806	2,541	2,195	1,757	1,513	1,476	1,107
<b>Ukraine</b>									
GDP									
\$ bn	171.6	179.0	186.1	191.2	168.4	132.9	119.4	109.5	107.9
per head (\$)	3,314	3,446	3,579	3,667	3,227	2,560	2,312	2,144	2,129
<b>Uzbekistan</b>									
GDP									
\$ bn	44.5	47.2	48.8	44.6	44.7	43.7	43.9	45.4	47.4
per head (\$)	2,215	2,312	2,341	2,089	2,048	1,963	1,952	1,982	1,998

Sources: IMF; World Bank, *Statistical Handbook: States of the Former USSR*; UN Economic Commission for Europe, *Bulletin for Europe*, Vol. 44 1992; EIU calculations.