

# THE GEORGIAN CHRONICLE

## MONTHLY BULLETIN

### Major events and trends in politics, economy and social life

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## GOVERNMENT

**In May, the two major leaders of the armed insurrection against President Gamsakhurdia in December-January 1991-92 -- Tengiz Kitovani and Jaba Ioseliani -- resigned from their respective posts in the government. It was supposed to substantially strengthen Mr.Shevardnadze's position, though could also provide for new challenges to his rule, undermining a more or less settled balance of political and armed forces on which his power had previously been based.**

After continuous fears of possible complications to be caused by Minister of Defense Kitovani, who had begun to openly confront Mr.Shevardnadze, the manner of his removal from his position was regarded as a weighty success of the Head of State. It was made feasible due to Mr.Ioseliani's cooperation and a careful choice of the new appointee to the office. The decision was preceded by disbanding the National Security and Defense Council, where both Mr.Kitovani and Mr.Ioseliani served as Deputy Chairmen. For the latter, that had been the only official post in the government, and his willingness to give it up played an important role in the pressure exerted upon Mr.Kitovani. The latter declined an offer to fill an office of Vice-Premier with essentially symbolic powers. The whole procedure was crowned by decorating both men, who currently remain just independent MPs, with Orders of Vakhtang Gorgasali for their services to the country. Although Mr.Kitovani had walked out of the last meeting of the NSDC in protest, and did not attend the session of the Parliament which readily endorsed his removal, later on he displayed his peaceful disposition by attending the final banquet.

The new Minister Giorgi Karkarashvili, 27, is a young general especially popular with the military, and personally close to Mr.Kitovani. His nomination ruled out any possibility of Mr.Kitovani being supported by the army or some its units. The Parliament confirmed the new Minister almost unanimously (with 10 votes against). Mr.Karkarashvili had served as a junior officer in the Soviet Army and joined the National Guard from its very outset. He led the assault upon the government building in December-January 1991-92. He also served as the Commander-in-Chief during hostilities in the Tskhinvali region (South Ossetia) and Abkhazia, but resigned in both cases: in the former -- he was dissatisfied with the terms of the peace settlement, while in the latter he failed to find common ground with the Deputy Minister of Defense Kamkamidze. Although in both cases his behaviour meant discontent with Mr. Shevardnadze's policy (which he did not conceal in his interviews to the media) and displayed a tendency to independent decision-making, his being unentangled in political games makes him more acceptable for the Head of State as compared to his predecessor.

Mr.Karkarashvili's above-mentioned personal popularity with the military placed him in a favourable position to help create a more united and disciplined army. The new nomination already led to personal and structural changes in the Ministry of Defense: The Rapid Reaction Corps (National Guard) was abolished as a separate unit, while the status of the Guards will be granted to distinguished detachments. The new minister will have two first Deputies (Major Generals Paata Datuashvili and Avtandil Tskitishvili) and nine Deputies; the Russian-speaking Colonel General Anatoly Kamkamidze, previously regarded as a No.2 person among the military and Mr.Shevardnadze's favourite, lost his position. Mr.Karkarashvili named the Russian and Israeli armies to be the models to build a future Georgian army on.

Having cooperated with Mr.Shevardnadze in resolving the 'Kitovani problem', the paramilitary unit *Mkhedrioni* and its leader Jaba Ioseliani caused him a new headache later the same month. It consisted in *Mkhedrioni's* wish to obtain some legal standing for at least a part of its (reportedly, around 2,000) members in the form of *Georgian Rescuers' Corps*, which was to be a part of the Cabinet of Ministers with the State Committee status. Last spring the State Council had adopted a general decision on the establishment of such a Corps, but the Parliament had to give its final approval and define its Statute. The draft presented by Mr.Ioseliani during the April 25 and 27 sessions outlined the duties of the Corps during natural disasters and mass disorders, the right to bear and use arms, and to create a militia if needed. A number of MPs rejected it as an attempt to legalize a parallel armed structure insubordinate to the Ministry of Defense, and the draft did not pass. *Mkhedrioni* responded to that with a hunger strike in close vicinity of the Parliament building, while Mr.Ioseliani himself clearly threatened the current regime stating in the Parliament that '*Mkhedrioni* did not tolerate fascism in Georgia and will not tolerate new autocracy the signs of creating which are evident'. It was notable that *Mkhedrioni's* old rival Mr.Kitovani hurried to support their protest action. The hunger strike was ceased after the Head of State visited the strikers and promised them to try to find an appropriate solution. Mr.Shevardnadze also attended *Mkhedrioni's* meeting the next day. The April 28 session of the Parliament formed a Conciliatory Commission including major ministers, MPs and Mr.Ioseliani himself, which was to present its project to the Cabinet of Ministers in 15 days. It was a compromise solution which while denigrating the Parliament (whose approval was no longer needed) and relieving it of any responsibility, at the same time made *Mkhedrioni's* formal status less stable.

These changes left Mr.Kitovani as a clear loser, dissatisfied and possibly seeking for anti-Shevardnadze coalitions; as to Mr.Ioseliani however, as long as *Mkhedrioni* exists as an armed unit with whatever a status, he continues to maintain considerable unofficial power. If a compromise is found, *Mkhedrioni* or whatever it might be called will presumably support Mr.Shevardnadze in case his power is seriously threatened, but will at the same time hinder any steps towards establishing public order. On the other hand, an effort to suppress this well-armed group by force would be a risky enterprise hard to take the responsibility for. It clearly does not fit into conciliatory standing the Head of State had displayed up to now. He avoided any criticism of *Mkhedrioni*, even after their bloody clash with the Russian army unit deployed in Kutaisi (see the *Society...* section).

With the change of circumstances Mr.Shevardnadze's attitude to the crucial problem of local authorities continued to oscillate. While in April he openly doubted the efficiency of nominating heads of local administrations from Tbilisi and supported stronger regional self-rule, this time on several occasions he stressed the necessity of more centralization of power and resumed appointing local leaders (President of the *Ibervision* independent TV company G.Gogiberidze was appointed as *gamgebeli* of the Ozurgeti district).

The question of resolving the problem of several districts in the western province of Megrelia, still under the control of the former President's supporters brought about a new wave of discussions in the Parliament on May 4, after the units of transport police were deployed to the region. Mr.Gamsakhurdia's armed supporters led by Loti Kobalia answered with the withdrawal of their people from Ochamchire where they had joined the Georgian army, though no armed clashes occurred. It clearly contradicted Mr.Kitovani's efforts to come to an agreement with Mr.Kobalia and corresponded to Mr.Ioseliani's irreconcilable attitude to the former President's armed supporters regarding them as mere criminals (Minister of Internal Affairs T.Khachishvili is former member of *Mkhedrioni* and Mr.Ioseliani's ally). Mr.Shevardnadze was inclined to support Ioseliani's and Khachishvili's position, while some groups in the Parliament (*Charter-91* and *Merab Kostava Society*), otherwise critical of Mr.Kitovani, supported him on this particular occasion.

The problem of the Tskhinvali region (South Ossetia) which continued to remain out of the Georgian government's control attracted a comparatively heightened attention of Tbilisi. On May 1 Mr.Shevardnadze held a meeting with CSCE representatives who had visited the region. On May 18 Alexandre Kavsadze, Head of the State Committee on Human Rights and Ethnic Minorities, issued a statement concerning 'more frequent provocations' occurring in the region. On May 14 three ethnic Ossetians were murdered, followed by the disappearance of a major of the Georgian peace-keeping battalion.

On May 1, a large delegation of the Parliament (52 MPs) headed by its speaker Vakhtang Goguadze returned from the two day long visit to the Autonomous Republic of Ajaria. Members of the delegation highly assessed the stability of situation in Ajaria and expressed their support to its leadership. Thus the leader of Ajaria, frequently accused of regionalist and authoritarian tendencies, got a kind of an approval of his ways of ruling and encouragement in his fight against the opposition (mainly represented by the Republican Party).

The Cabinet of Ministers found itself crisis-ridden owing to the hyperinflation of the coupon. Disagreements between the Prime-Minister Sigua and Vice-Premier Gotsiridze on one side and the President of the National Bank (who formally is not subordinate to the Cabinet) Demur Dvalishvili on the other took severe forms. Mr.Gotsiridze openly accused the National Bank's dispensatory credit policy as the major cause of the hyperinflation (IMF in its letter to the Georgian government stressed the same moment). It is notable however, that Mr.Gotsiridze did not criticize that policy in a clear-cut manner until the end of May, which according to many observers held him also responsible for it. The Chairman of the Parliamentary Budget Commission T.Basilia, supporting the Cabinet's criticism of the National Bank, stated that the former had encouraged a more restrictive monetary policy in words rather than in practice, mentioning its support of expensive social programs on populist grounds. At the same time, other members of the Cabinet itself did not share the Vice-Premier's critical attitude to the National Bank, displaying once again the lack of unity in the Cabinet. Mr.Shevardnadze abstained from being involved into the discussion.

As usual, the Parliament neglected its legislative responsibilities and spent most of the time in political discussions, especially with regards to the relations with Russia. This time the champion of the issue, the leader of the Popular Front Nodar Natadze presented a draft Resolution demanding the withdrawal of the Russian troops in the shortest possible time, but on May 20 and 25 the draft did not pass. Two days before *Charter-91* failed to pass a Resolution declaring the territory north of the Gumista river as 'occupied by the Russian army'. The Head of State succeeded in preventing the Parliament from adopting any resolutions opposing Russia before and after his summit with the Russian President.

In the end of the month, the Parliament began to pay more attention to the problems of intensifying economic crisis. Despite the sharp criticism of the Cabinet both in the form of populist emotional utterances and of more detailed and professional comments on the part of the Chairman of the Budget Commission T.Basilia, no alternative plans or programs were presented. Reportedly, the Commissions spent little time on preparing draft laws and paid more attention to dealing with citizen's complaints. On May 27, even the quorum could not be secured, which the Speaker Vakhtang Gougou assessed as a sign of the 'parliamentary crisis'.

Only several minor legislative acts were passed during the month, like Changes in the *Law on Universal Military Service* referring the introduction of new military ranks (May 6), resolutions on joining the 1961 *Vienna Convention on Diplomatic Relations* (May 13), and *The United Nations Convention on Prevention of the Crimes of Genocide and Punishment for Them* (May 26), etc. A new attempt of the Judiciary Commission to pass a draft Law on the regulation of keeping and bearing arms (which presupposed prohibition of bearing and restrictions of keeping arms) failed due to the strong resistance of the *Merab Kostava Society* and Mr. Jaba Ioseliani. The draft bill *On the Legal Status of Foreigners* presented by the same Commission did not pass as either.

On May 19 N.Kvachadze resigned his office of the Member of Parliament.

## FOREIGN RELATIONS

The major event in the foreign policy was a Russian-Georgian summit of May 14 in Moscow. A joint communiqué was issued after a several hours long confidential meeting of Mr.Shevardnadze and Mr.Eltsin and negotiations between other members of the delegations. The two sides reached an agreement on a cease-fire and the beginning of the withdrawal of heavy military equipment from the conflict zone in Abkhazia from May 20. The necessity to normalize the situation in the Tskhinvali region (South Ossetia) was also mentioned. The sides stressed their will to achieve peace and stated that if the peace process was maintained, the 'major' Georgian-Russian treaty could be signed in June. The two Heads of States also agreed to appoint their personal representatives to the conflict zone who would closely cooperate with the Abkhaz side.

The next day at a meeting of the Ministers of Defense Karkarashvili and Grachev an agreement was reached on the withdrawal of Russian troops from Georgia by the end of 1995. A decision was taken to create a joint group of military experts to work out the ways of resolving the conflict. Colonel Alexandre Galkin on the Russian side and Deputy Minister of Defense Levan Sharashenidze were appointed leaders of the groups which started its work on May 17. Mr.Karkarashvili stated later that a verbal agreement was reached about dismantling the seismological laboratory in Eshera and the withdrawal of the Russian paratroopers' detachment from its territory.

The communiqué did not breed much optimism because of its vagueness and lack of any detailed plan of achieving peace. Having signed the agreement on cease-fire, the Russians did not officially admit to be one of the parties involved in the conflict. It did not thus clarify who was fighting whom and who was to be a guarantor of the peace process. Anyway, the meeting did help to promote Georgian-Russian relations. President Eltsin retracted his earlier statements on his unwillingness to meet the Georgian Head of State until the Abkhaz conflict was settled. The communiqué did not contain a standing demand of the Georgian side for an immediate withdrawal of Russian troops from Abkhazia which would eliminate the major obstacle to resolving the conflict.

Mr.Shevardnadze had to defend these agreements before his radical opponents in the Parliament. He said he had not forgotten more sharp-cut resolutions previously

adopted by the Parliament but could not afford to lose a chance to peace, and that Georgia had no other choice but to make a compromise with Russia.

The head of State continued his series of visits to neighbouring countries signing in Erevan *A Treaty of Friendship, Cooperation and Mutual Security* with Armenia. He assessed the visit as a step which could lead to all-Caucasian negotiations and have a certain impact on resolving the conflict in Abkhazia as well.

In the second half of May, the Chairman of the Supreme Council of Ajarian Autonomous Republic Aslan Abashidze paid nearly two week long visit to London and Amsterdam. He had been invited to the United Kingdom by Lord Nicholas Fairfax. Among others he was accompanied by an advisor to the Head of State Lazare Zakariadze, and two days later was joined by the Foreign Minister of Georgia Alexandre Chikvaidze. Mr. Abashidze held meetings in the House of Lords, European Bank for Reconstruction and Development, private companies participating in different projects in Ajaria. An *Aslan Abashidze Foundation* was established on the initiative of Lord Fairfax to support social programs in Georgia. A visit to Amsterdam was dedicated to meetings with business community, with a number of business contracts signed or prepared in both countries.

## CONFLICT IN ABKHAZIA

The situation in Abkhazia might be viewed within two definite periods: before and after the cease-fire of May 20, negotiated during the Moscow summit. Before the negotiations hostilities had continued with regular intensity without any serious attempts to change the established positions. Both sides used artillery and aviation, casualties included both the military and civilians. Bombing Sukhumi by means of warplanes and *Grad* plants had been quite intense with heavy casualties among the civilians, especially on the eve of the cease-fire. The Georgian side kept shelling Eshera and Akhali Athoni.

The Georgian side continued to stress an active role of the Russian army. On May 2 the Russian *SU-27* took off from the Bombora airport in Gudauta to bring down the Georgian *SU-25*. On May 6 a Russian warplane bombed Sukhumi. On May 8 Chairman of the Defense Council of the Abkhaz Autonomous Republic Tamaz Nadareishvili sent an information on the participation of the Russian military in the conflict to Russian Minister of Information Fedorov and Chairman of State Television and Radio Broadcasting company Lisenko.

Although both sides accused each other of violating the cease-fire which began on May 20, a large-scale shooting did indeed stop. The Abkhaz side spread information about 500 hundred new Ukrainian mercenaries joining the Georgian army after the beginning of the cease-fire, totalling the number of Ukrainians fighting on the Georgian side to one thousand; The Ukrainian Embassy in Russia as well as the Press Center of the Georgian Head of State denied that information.

All sides were concerned with the situation in the coal mines of Tkvarcheli, where the accumulation of marsh-gas could cause an explosion leading to an earthquake of the local scale.

The Defense Council of Abkhazia headed by the Prime Minister of the Autonomous Republic major-general Tamaz Nadareishvili began its activity aimed at coordinating all civil and military structures and establishing a unified and adequate authority over the part of Abkhazia under Georgian control. On May 6 the Council took a decision on military mobilization on the territory of the Autonomous Republic, and measures against those who avoided military service. On May 12, the Council suspended

the activities of political parties, mass organizations and mass media on account of 'hampering the normalization of the situation'; rallies, demonstrations, processions, mass meetings were also prohibited in the Autonomous Republic.

On May 6, the Russian-Abkhaz consultations took place in Maikop, capital of the Adigea Republic in North Caucasus. The Abkhaz side agreed to cease-fire but in its turn stressed the necessity of withdrawing Georgian troops from Abkhazia, admitting an exception for the members of possible tripartite forces that might be needed for defense of strategic installations.

Some steps were made in the direction of bilateral Georgian-Abkhaz negotiations. Consultations began on May 16 in Moscow concerning the details of the cease-fire. The Georgian participant G.Khaindrava, former State Minister of Georgia in Abkhazia, made an optimistic assessment of the talks.

Alexandre Kavsadze and Boris Pastukhov were appointed representatives of the Georgian Head of State and the Russian President to the conflict zone. On May 19, Mr.Kavsadze called the leaders of the hostile factions in Abkhazia -- Nadareishvili and Ardzinba -- to begin negotiations. He stated that there was no sense whatsoever in the continuation of the conflict since the absolute majority of political organizations in Georgia recognized the state status of Abkhazia. Mr.Pastukhov rendered it unrealistic to reach stable peace by means of tripartite Georgia-Russian-Abkhaz forces; he said other options had to be considered, possibly with the participation of the UN and CSCE. On May 23 Mr. Nadareishvili stated he was ready to resign if Vladislav Ardzinba did the same, and that a joint Georgian-Abkhaz commission could resolve the problems at issue. There was no response on the part of Mr.Ardzinba.

On May 27 an agreement was reached during tripartite talks in Sochi regarding a humanitarian action Sochi-Sukhumi-Tkvarcheli aimed at delivering food and medical supplies and evacuating the refugees.

On May 2 the United Nations representative Pierre Pastrem visited Sukhumi for the third time and observed the deterioration of situation both in this town and in Tkvarcheli. Peter Orlov of the UN Humanitarian Department had to be taken to hospital after a nervous breakdown caused by witnessing the bombing of Sukhumi. On May 20, Edward Brunner, the personal representative of the United Nations Secretary General Dr.Boutros Boutros-Ghali arrived to Tbilisi in order to study the situation in Abkhazia and assess the possibilities of the UN involvement in resolving the current conflict. Having visited the conflict zone Mr.Brunner had a meeting with Mr.Shevardnadze where he shared his considerations about the prospects of the conflict resolution and the participation of the UN in the peace process.

On May 11 an Armenian delegation headed by the Chairman of the Parliamentary Commission of Defense and Internal Affairs of the Parliament Georg Baghdasarian visited Sukhumi aiming at establishing an Armenian Representation in Sukhumi with the purpose of rendering assistance to ethnic Armenians living there.

## **OPPOSITION**

Although the supporters of the former President Zviad Gamsakhurdia somewhat lost their heart after the removal of the Minister of Defense Kitovani who, as some of them had hoped, could have taken their side with a part of the National Guard, nevertheless went on with their activities ultimately aimed at restoring Mr.Gamsakhurdia's power. Every Wednesday the so called 'briefing rallies' were held in Zugdidi, the 'Zviadist' stronghold in West Georgia. A pro-Gamsakhurdia TV channel in

Zugdidi continued its occasional broadcasting which could be received in neighbouring regions.

The acme of the 'Zviadist' movement was to be May 26 -- the Independence Day, when the ousted President was supposed to come back. A few days before that date several leaders of the 'resistance movement' were temporarily detained by the authorities on various charges. In Tbilisi, a protest rally was planned parallel to the official military parade, but was canceled. No incidents occurred except for some brawls between small groups of the former President's supporters and the policemen ready to disperse an expected rally. Pro-Gamsakhurdia groups gathered or tried to gather in several towns of West Georgia. In Kutaisi, the police dispersed several hundred men trying to conduct a rally and arrested the organizers of 'public disorders'. In Samtredia, two famous leaders of the movement, Mukhran Machavariani and Elizbar Javelidze were declared 'traitors' at a small 'Zviadist' gathering: They had announced on May 23 meeting in Kutaisi that the former President would return on Independence Day, but this did not come true.

The pro-Gamsakhurdia media continued to publish mass appeals of citizens supporting the 'Letter of 103', in which 103 employees of the Tbilisi State University had called for the resignation of Eduard Shevardnadze.

Mr.Kobalia made attempt at playing a peace-keeper's role in Abkhazia holding a meeting on May 6 with the Defense Minister of the Gudauta government Sultan Soslanaliev.

## **SOCIETY. ACCIDENTS. CRIME**

According to the Ministry of Justice of Georgia, there were 54 political parties, 222 newspapers, 55 TV companies, 538 public associations and 12 advertising agencies registered in the Republic by May 26.

On May 30 a new civil movement *Unity and Prosperity* was established. The movement included famous intellectuals supporting the Head of State and members of the Parliamentary faction *Liberals* (E.Shengelaia, L.Gogoberidze, M.Gigineishvili, etc.), while the main organizing figure was Gia Zhorzholiani -- MP from the *Unity* coalition and Chief of the Parliamentary Research Service. It was supposed to be a new way of mobilizing intellectuals and entrepreneurs to support Mr.Shevardnadze's policy and facilitate radical reforms through lobbying and exerting certain influence on public frame of mind.

On May 9, a *Young National Democrat* organization was founded.

On May 9, the victory day over the fascist Germany, the Head of State, the Speaker of the Parliament and the Minister of Defense brought flowers to the tomb of an unknown soldier (fallen in the World War II) and to the graves of those fallen for the sovereignty of Georgia at the Memorial Cemetery. An Independence Day (May 26) was marked by a military parade and a grand performance in the Tbilisi Sports Palace. The day before, the remains of a the prominent Georgian émigré scientist and diplomat Zurab Avalishvili were reburied in the Didube Cemetery in Tbilisi.

The official and pro-Gamsakhurdia media competed in widely commemorating a centennial of Konstantine Gamsakhurdia, a famous Georgian writer and the father of the currently ousted President.

On May 7 and 8, a conflict emerged in the town of Bolnisi situated to the south of Tbilisi between the Svans (a Georgian mountainous subethnic group whose representatives after a series of earthquakes and other natural disasters had been resettled to other provinces during last few years) and the local inhabitants. The conflict led to

several casualties and wounded. On May 9 the Head of State travelled to Bolnisi together with several members of the Cabinet of Ministers. He defined the main sources of the conflict to lie in the difficulties facing the mountainous Svans in adapting themselves to new conditions of life, as well as in an outrageous violence reigning on the highways, and constituting the main source of income for certain groups of people, that impede any struggle against it. A State Commission was created in order to resolve the problems of the region.

On May 12, a conflict arose between the *Mkhedrioni* and a Russian army unit in Kutaisi. About 70 of the *Mkhedrioni* members (most but not all of them armed) entered the territory of the Russian field-engineer battalion in Kutaisi which was to leave the town in several weeks. The clashes ensued two hours later, leaving six *Mkhedrioni* members dead and ten wounded (among them one bystander). The Russian side reported it to have been a compelled defense in response to the sudden attack of *Mkhedrioni* aimed at seizing arms, and accused the latter of taking members of the officers' families hostage; *Mkhedrioni's* spokesman G.Arveladze rejected this version and stated that *Mkhedrioni* members had visited the Russian detachment on the basis of agreement concerning arms trade and had become subjected to an unexpected attack. They argued that in case the *Mkhedrioni* had been an assaulter side there would have been at least some casualties among the Russians as well. The Mayor of Kutaisi T.Shashiashvili and later E.Shevardnadze accused the Russian military of having been too prompt to use force while the incident could have been peacefully settled by negotiations with the help of city authorities. Most observers regarded the incident as an ordinary outcome of a broken deal concerning illegal arms trade. Naturally, many assessed that as a provocation aimed at hampering the normalization of Russian-Georgian relations two days before the planned summit in Moscow.

On May 5, due to the damage of the high-voltage line in West Georgia at night, electricity was completely cut off for two hours in the entire country. The possibility of a subversive act was not excluded.

The index of officially registered crime continued to rise and relative to April increased by 25 per cent more. It included all major crimes: homicides (+12%), larceny of citizens (+25%) and of state property (+24%), robbery of citizens (+25%), stealing of cars 34%, the number of people arrested for illegal keeping, bearing and manufacturing of, or trading arms increased by 42% and of those confined for manufacturing, keeping, purchasing and use of drugs -- by 10.

## PUBLIC OPINION

The *Resonance* newspaper published the results of several telephone polls conducted in Tbilisi. 70% thought that Georgia would maintain its independence, with 12% expecting it to be lost and 18% without any opinion. 26,3% predicted the economic situation to be better in end of the current year than last winter, 47.7% -- to worsen, 21.7% -- to be the same, and 4.3% did not know. Among the neighbouring countries, 19.6% gave preference to Russia as a possible strategic ally, 7.4% -- to Turkey, 4.7% -- to Armenia, 4.1% -- to Chechenia, 2.0% -- to Azerbaijan, 0.7% -- to Iran, 43.2% -- to none of them and 18.2% did not know. 64% supported the appointment of G.Karkarashvili as Minister of Defense, 8.7% thought he would not cope with his work, 17.7% could not assess his merits; 3.3% thought it wrong to change a Defense Minister under the given circumstances and 1% said Kitovani had been a good Minister and should have been remained. After the Eltsin-Shevardnadze summit, 32.2% expected major changes in Georgian-Russian relations for the better, 35.3% hoped for slight improvement, 26.0% thought nothing would change, 2.7% and 0.7% expected 'deterioration' or 'dramatic deterioration' of relations, with 3.3% undecided.

The *7 Days* newspaper conducted a poll in Tbilisi in the end of April regarding the negotiations between T.Kitovani and L.Kobalia. 15.3% approved of them as a step towards national unity and 10.3% considered them to be a necessary compromise between previous and current governments; 19.2% appreciated the fact, but did not think it would bring substantial changes, 15.6% did not hasten to make any conclusions, 11% suspected some evil conspiracy, with 6.9% undecided.

## ECONOMY

The first month after the introduction of the provisional national currency -- coupon -- led to the fast decrease of its exchange rate. If in the beginning the market mostly accepted the coupon and its unofficial exchange rate vacillated between 1.2-1.5 to a rouble, in the course of weeks during May the exchange rate dropped roughly to 1:3, and most commercial structures came to reject it. The state sector continued to maintain the rate of 1:1, but at the expense of sharp increase in prices, and even heavier shortage of commodities. The tendency to growing shortage, however, was characteristic for the commercial sector as well. The farmers' market continued to mostly accept the coupon along with the rouble at a lower exchange rate (roughly 1:2). The change naturally led to a catastrophic decrease of the purchasing power of the population, conducting the government to double all salaries and pensions beginning June 1. This information, however, encouraged the inflation process still further.

Parallel to that, energy prices increased furthermore in line with the general tendency in the CIS countries and due to the growing political instability in the North Caucasus and Azerbaijan -- the main sources of petrol imports. Petrol price reached 500-600 roubles (\$.42-\$.50) per liter (from about 150 roubles the previous month), which also contributed to price increases and shortages.

In the first quarter of the year, the average per capita income had been less than 4 thousand roubles a month, with poverty line at about 12 thousand roubles. The share of food expenses absorbed 75% of the family budget, with 75% of all calories deriving from cereal products. An average daily consumption (about 2100 kilocalories) was far below the hunger limit. However, despite these conditions the shortage in consumer's market led to the continued increase of savings; the rise of unemployment rate for the last three months amounted to 34%.

Production output during the first five months of the year dropped 35% relative to the same period last year. In the public sector of agriculture, spring crops sown on only 67% of the land sown last year. Due to fuel and equipment shortages sowing on the privatized lands was hampered as well.

During his Press-Conference on May 21 President of the National Bank D.Dvalishvili defended his liberal credit policy prior to the introduction of coupon saying it was against the national interests of Georgia to help stabilize the Russian rouble. He stated the National Bank had given away 70 billion roubles in credits, of which 45 billions was spent properly, he had good faith in another 19 percent of it, while the fate of 6 billions was being investigated by the law enforcement bodies. Criticizing his policy as a major source of inflation, Mr.Dvalishvili's opponents accused him of fraud and mentioned the figures of granted credits going far beyond those he had stated.

Mr.Dvalishvili also stated that Russian Central Bank claimed a 39 billion roubles debt from Georgia, while according to their own data the debt amounted to 5 billions only.

On May 4, *Deutsche Bank* became the first major Western Bank to open its representation in Tbilisi. Tbilisi is the fifth city in the former Soviet Union where *Deutsche Bank* is represented.

Prospects of a new air-route Tbilisi-Istambul-Lyons were discussed on the May 29 meeting of Prime Minister Tengiz Sigua with representatives of the Ronalpeb-Georgia Association. CSCE is supposed to participate in financing the project.

*The bulletin is chiefly based on the Georgian media reports. We have also made use of some other sources at our disposal. We extend special thanks to the State Committee of Social-Economic Information of Georgia and the Press-Center of the Ministry of Internal Affairs of Georgia for granting us essential materials.*

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