

Georgia's Economy during the COVID-19 Pandemic

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Abstract

The paper represents the economic crisis in Georgia caused by the covid-19 pandemic. The negative impact of the crisis on Georgia's economy is significant and by the end of 2020 it was already possible to express its effect in specific numbers and therefore, to make predictions and recommendations. The economic crisis primarily affects the developing countries, where the economy is experiencing a real sector deficit, negative balance of foreign trade that is balanced by attracting the tourism sector and foreign direct investments. Considering the Georgia's less developed economy the crisis pushes government to use monetary and fiscal instruments for stimulating the economy in the short and medium run, while in the long-term period it faces a wide range of challenges including local and international economy.

Key words: Covid-19, Economic Crisis, Georgia, International Economics, International Trade

JEL Classification: E44, F10, F41, F62, G28.

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INTRODUCTION

The purpose of this paper is to analyze the danger posed by the Covid-19 to the Georgia's Economy. Although the virus is primarily connected with the medical issues, it has already made a remarkable negative impact for several countries around the world. One of the main things that the coronavirus has affected in the economy is a tourism sector, as well as the decline in stock markets has had a direct impact on the real sector of the economy. Therefore, greater decline in supply directly results in the increased number of inflation, which on its side will have a negative impact on economic growth of Georgia [11]. During the coronavirus crisis, many countries will face the loss in the purchasing power of its population and therefore, it will negatively affect the export of Georgian products as well. At the same time, foreign direct investments will decline and it will affect once again the country's economic growth. In Georgia the government and policymakers should pay significant attention to overcome the pandemic situation for minimizing the damage to the national economy overall.

In the paper we have presented some macroeconomic data, including the GDP, the economic growth rate and so on, for getting the quantitative evaluation. The crisis has exposed many problems for Georgian community as the country has faced the lack of readiness to prevent and manage crisis. The

outcomes of the crisis has confirmed the importance of the effective cooperation of the government and private sectors in coping with global threats [1, 7].

One of the main problems connected with the covid-19 crisis is the significant growth of the public debt. Overall external debt of Georgia is divided into several components such as government, central bank, commercial banks, company loan and other sectors. The crisis has not caused the recession locally but of the world economy, and the overall amount of debt worldwide has also reached unprecedented levels. The high level of external debt put developing countries under greater fiscal pressure in the upcoming years which would be due to the worsening of the debt to tax revenues ratio [10]. Georgia belongs to the lower middle-income group of countries and therefore, it services its external debt with preferential conditions. As the Georgia's economy is less developed the external debt in public debt is much higher. Georgia was forced to attract additional external debt in 2020 as the economy faced many difficulties and challenges. The external debt that Georgia took helped the country significantly in implementing its anti-crisis plan.

Current Trends in Georgia's Economy

The global spread of covid-19 started to be quite damaging for the stability of Georgia's economy. Before the coronavirus crisis, in Georgia's economy there were identified three main areas, such as attracting

foreign direct investments, promoting small and medium sized businesses and development of the tourism sector. After the crisis Georgia's economy was

significantly affected and especially in tourism sector there was a particularly difficult situation.

Table 1: Dynamics of the gross domestic product in Georgia in 2017-2020

Indicator	2017	2018	2019	2020
GDP in current prices (billion Georgian Lari)	40.8	44.6	49.3	49.4
GDP in constant 2015 prices (billion Georgian Lari)	36.6	38.4	40.3	37.8
Real GDP growth, %	4.8	4.8	5	-6.2
Change in GDP deplator, %	8.5	4.4	5.2	6.9
GDP per capita (current prices, in Georgian lari)	10,933.9	11,968	13,239.4	13,292.7
GDP per capita (current prices, USD)	4,358.5	4,722	4,696.2	4,274.6
GDP at current prices (USD billion)	16.2	17.6	17.5	15.9

Source: National Statistics office of Georgia, www.geostat.ge

According to the above mentioned Table 1 there are indicated full dynamics of the GDP in Georgia for the years 2017-2020. We can clearly see the decline

in real GDP compared to the previous year that is relatively -6.2% [2].

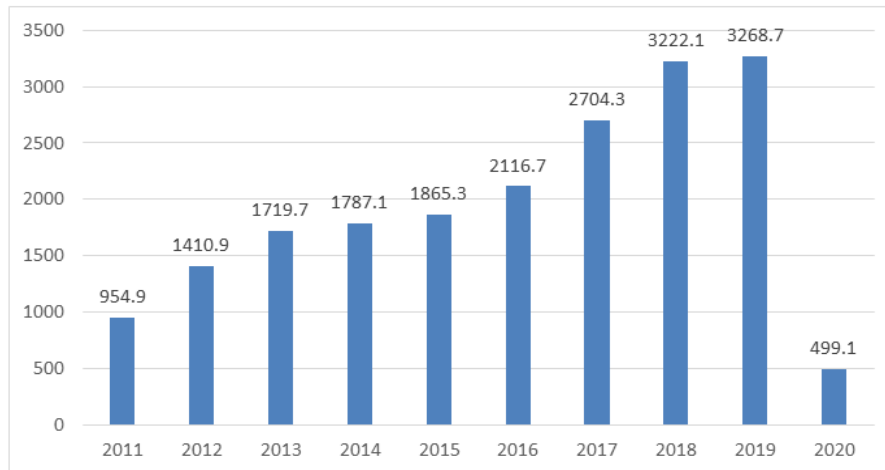


Diagram 1: International Tourism Revenues (Million USD)

Source: National Statistics office of Georgia, www.geostat.ge

The covid-19 pandemic has changed the whole world and it had a significant impact on the international tourism industry. Due to the decrease in international tourism revenues the damage on Georgia's macroeconomic indicators is certain. The revenue from tourism sector in 2019 was by 1.4% higher compared to the previous year and in 2020 it consisted only 499.1 million USD, which is a decrease by 80.7% compared to the previous year respectively. According to the National Tourism Agency the number of tourist visitors to Georgia increased by 4% and the number of international visitors decreased by 0.7%. However, there is a need for development of domestic tourism, but it can't be associated with receiving high revenues.

It will help to develop sustainable tourism and maintain the stability of the population involved in the segment, whose existence mainly depends on tourism. If we compare Georgia to other countries, we can see that the scale of domestic tourism in Georgia is quite limited as most locals do not visit hotels and instead, they rent private houses. The majority of visitors who plan their trips do visit relatives and friends [4, 5].

The global crisis in Tourism sector has affected Georgia's economy as according to the Georgian National Tourism Administration the number of international visitors has decreased by around 80% (Diagram 2).

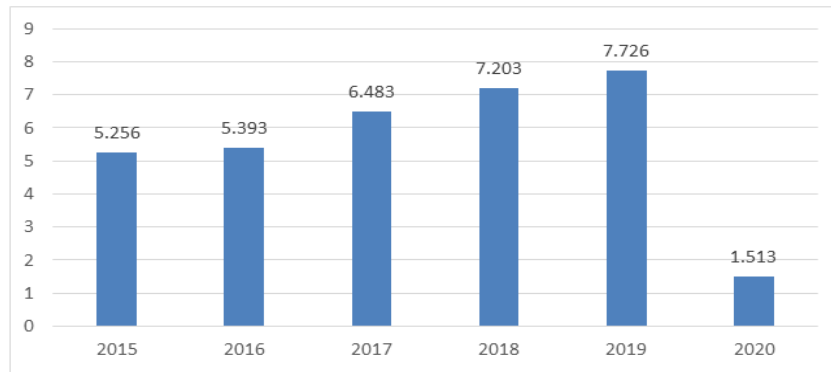


Diagram 2: International Visitors (in thousand)

Source: Source: National Statistics office of Georgia, www.geostat.ge

In 2020, the Georgian government implemented an anti-crisis assistance for tourism sector with a total budget of 200 mln GEL, which was meant for the abolition of property tax for the tourism industry, the exemption from income tax for the tourism industry and the deferred payment, subsidizing hotel loans, wage subsidies, cash benefits for the

unemployed, gift vouchers and the support for travel companies and guides [2].

The coronavirus epidemic has had an impact on foreign direct investments and remittances as well, and it has also reached labor markets around the world as a result of economic shocks.

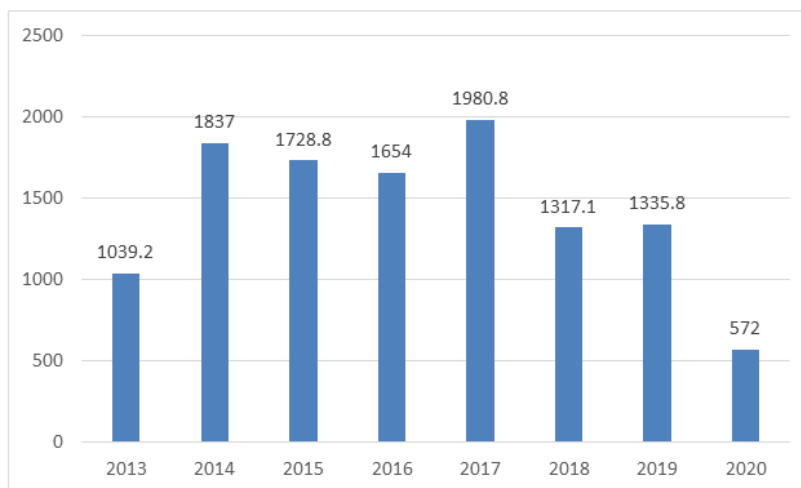


Diagram 3: Foreign Direct Investments (Million USD)

Source: Source: National Statistics office of Georgia, www.geostat.ge

The most important part of FDI's come from the European Union which is accounted for 47,2% of the total investments. Among the 15 most important investors are the USA, China and Japan. The economic effects of a viral outbreak in existing countries can therefore be directly spread in Georgia. The downward trend in FDI's has already posed a significant threat to the Georgia's economy.

Challenges for the Georgian Economy

The Covid-19 pandemic has threatened the Georgia's past economic gains. In early 2020 the government took stringent measures, such as a ban on public transport, lockdowns, border closures, which

allowed the country to contain the spread of pandemic. Afterwards, it was followed with the easing of measures that contributed to a significant surge for the end of the year 2020. Nowadays, Georgia has become one of the 20 most affected countries in the world in terms of the reported cases per million population.

Georgia has a small and open economy, for which the global crisis can have a significant impact. The preconditions for economic growth is therefore, the opening of foreign markets and placement of Georgian exports. For this it is important to analyze the decline in export (Diagram 4) [3].

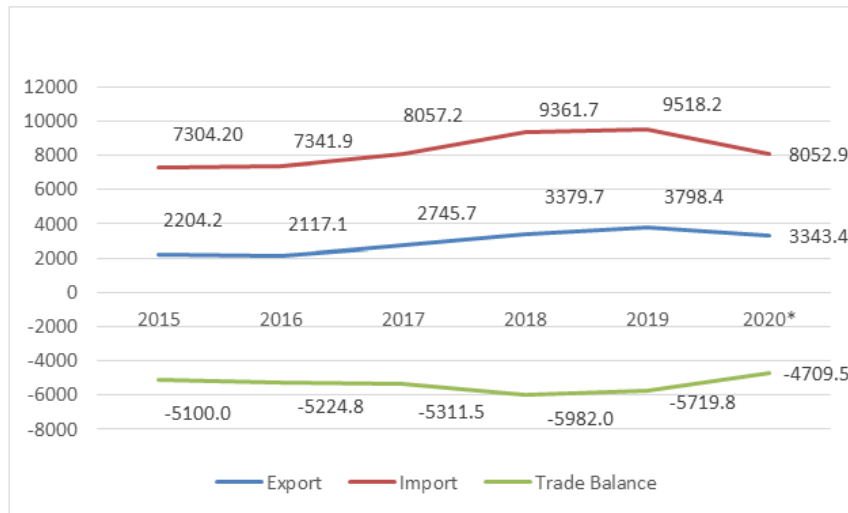


Diagram 4: Export, import and trade balance in Georgia (Million USD)

Source: Source: National Statistics office of Georgia, www.geostat.ge

The global economic crises which was caused by the epidemic situation has not only caused the recession of the world economy, but the amount of debt worldwide has reached some unprecedented levels. The public debt was mostly used for stimulating economic growth, but during the pandemic supporting the public health has become the number one priority. It has to be noted that the high scale external debt could put developing countries under greater fiscal pressure in the

upcoming years that could be due to the worsening of the debt to tax revenues ratio. Georgia belongs to the lower middle-income group of countries and when we mention the public debt it has to be noted that it services its external debt with preferential conditions. As Georgia’s economy is less developed in public debt structure the share of the external debt is much higher [10, 11].

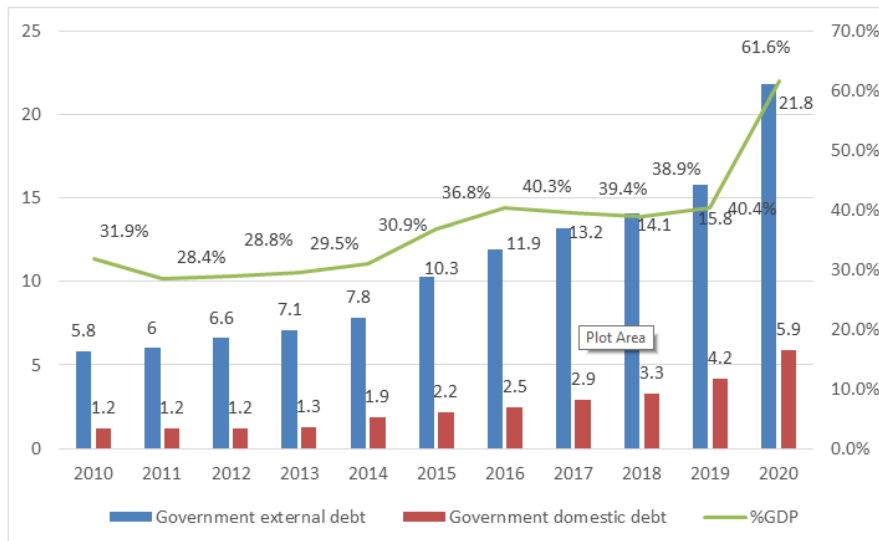


Diagram 5: Georgia’s public debt, the government’s domestic debt and external debt (Billion GEL) and their ratio to the GDP (%)

Source: Source: National Bank of Georgia, www.nbg.gov.ge

As we can see from the Diagram 5, the government of Georgia has taken debts over the various periods of time, but it is still notable that the overall volume of the external debt is lower till 2012 and starts to increase significantly after 2012. The growth of the Georgia’s external debt in 2020 was due to the economic crisis that was caused by the Covid-19 pandemic. During this period of time the government

attracted an external debt in the amount of 3 billion USD, out of which the half of the external debt was taken by the government itself and the second half was taken by the private sector. However, Georgia had to attract additional external debt at the same year as the economy faced many difficulties and challenges.

CONCLUSION

It is quite important for Georgia to understand and implement the positive and negative international experience in the management of the economic crisis. The main goal is to overcome the coronavirus pandemic, which has caused many obstacles as in the field of health care, but also in the field of economics. For this it is crucial to develop special programs and stimulate economic recovery in the post-crisis period, which will strengthen the economic profile of the country.

In the paper we have analysed the impact of covid-19, which had on local tourism segment in Georgia. The restrictions have caused significant damage to the tourism sector and it has become clear that the mass tourism international recovery will not be possible in the upcoming months. Therefore, we have emphasized that there is a need for change especially in the direction of the domestic tourism.

Among the many problems that was caused by the coronavirus crisis we have faced a substantial growth of the public debt in Georgia. Increased external debt will probably put developing countries under the great fiscal pressure in the upcoming years and there is a need to create a new global system for restructuring these debts. The most important factor in the period of crisis is to keep the sustainability of the economy to a maximum level, for which without mobilizing the funds majority of countries would have faced a much deeper economic crisis. The ratio on of the government debt to the GDP will most likely start reducing from 2022 in case of the improvement of the economic situation in Georgia.

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