

# COVID-19 AND ECONOMIC CHALLENGES IN THE GLOBAL AND REGIONAL CONTEXT

**Tinatin Doliashvili**

New Higher Education Institute  
David Aghmashenebeli University of Georgia

## **Abstract**

COVID-19 is a difficult challenge and a significant threat not only to world health, but also to the global economy. The pandemic, which is not over yet and is still peaking in many countries, has exposed false and real priorities. In some countries, the human life is at stake as a counterweight to the economy, which is fundamentally wrong. However, there is no doubt that the negative impact of COVID-19 on the world economy is an irreversible fact. Consequently, the countries with the highest COVID-19 prevalence rates were hit hard, followed by the countries whose economies are most dependent on tourism, oil and other exports. The implementation of effective measures against the pandemic by the Government of Georgia in January-February did not delay the results: the Georgian economy was fully operational in June, which is associated with positive expectations; Georgia is the best example of a successful fight against COVID-19 in the region, but Azerbaijan is in a better position at the moment; According to the international rating, Georgia has been marked as the best tourist destination; the foreign exchange inflows were made in the form of international aid; the National Bank carried out the moderate and periodic foreign exchange interventions at its foreign exchange auction in May.

**Keywords:** global economy, economic challenges, exchange inflows, exchange interventions.

## **1. Introduction**

According to the statistics of the World Health Organization, the 60744487 people are infected people in the third decade of November (26.11), including 17267199 (28%) are in stable condition, 104516 (0.17%) are critical, 1427188 (2%) died and 42050100 people recovered, or (69%). As for Georgia, it is currently in the 57th place in the rating list. 118,690 people were infected, 98,781 (83%) recovered, 1,124 people (0.95%) died, and the remaining 16% were hospitalized and quarantined. It is also a sad reality that the citizens of our country have died of this incurable disease abroad. However, it should also be noted that the pandemic is slowly receding at this time and new cases of infection are no longer observed in many countries[1].

Despite such a bad situation, there are currently 10 oases on the Earth where no COVID-19 cases have been reported. These include the Pacific islands of Nauru, Micronesia, Vanuatu, Samoa, Kiribati, Palau, Tonga, Tuvalu, Post-Soviet Turkmenistan, and North Korea. As of June, the Marshall Islands and Solomon Islands were among them.

## **2. Presentation of the main research material**

COVID-19 is a difficult challenge and a significant threat not only to the world health, but also to the global economy. The pandemic, which is not over yet and is still peaking in many countries, has exposed false and

real priorities. It turned out that the key to this type of crisis was not to be a mega-state, the richest, nuclear country, and to dictate your rules to the world – the main thing was to be humane, wise, crisis-aware, not to deceive yourself and the people, which the governments of many countries tried. Consequently, human life should not be at stake as a counterweight to the economy, despite the fact that the negative effects of COVID-19 on the world economy are now an irreversible fact.

According to the Asian Development Bank (ADB), a pandemic will result from \$ 77 billion to \$ 347 billion loss for the world economy.

Based on the latest analysis proposed by the United Nations, the global economy will shrink by at least 2.5% after COVID-19, and the damage will reach about trillion dollars. The biggest damage was for the oil-exporting countries. The economic growth rate of such countries is expected to decrease by at least 1%.

According to the OSCE report, world economic growth will decrease to 2.4% that was predicted as 2.9%, mainly due to declining world trade. The developing economies should also expect the significant financial losses.

The Organization for Economic Co-operation and Development (OECD) has released an updated economic review that shows that due to the spread of the coronavirus, China's economic growth will slow to 4.9%, the eurozone to 0.8% and the US to 1.9% [2].

According to Bloomberg, the world economic growth will decline by 1.2% in 2020. According to the report, the economic result could include recessions in the US, the Eurozone, Japan and China, with a total loss of \$ 2.7 trillion [3].

According to a Rabo Bank study, global economic growth will be 1.6% in 2020 and 3.2% in 2021. Rabo Bank also suggested a risk scenario in which the economic growth in China would fall to 0.2% and in the world to 0.7% [4].

Goldman Sachs expects the world economy to shrink by 1% in 2020, further reducing the global economy than the 2009 financial crisis [5].

Fitch Ratings has almost halved its 2020 baseline estimate, falling from 2.5% to 1.3%, which is \$ 850 billion less than the previous estimate [6].

Certainly, the main economic shocks were received by the countries with the highest rates of COVID-19 prevalence, followed by the countries, which economies are most dependent on tourism, oil and other exports.

The Georgian government took the preventive measures against the virus in January-February without delay. In early June, Europe's leading independent travel agency (EBD), created to promote and popularize culture and tourism in Europe, they ranked Tbilisi as the safest destination and the first city out of the 20 safest travel destinations in Europe. The information rating published by the organization also included the city of Batumi, which took the 7th place. In addition to Tbilisi and Batumi, the EBD named the safest travel destinations for the period: Corfu, Zagreb, Warsaw, Vienna, Vilnius, Gdansk, Riga and Zagreb [7]. The international attitude towards Georgia is maintained at the moment. The National Geographic, one of the most influential travel publications in the world, named Georgia, Svaneti region, among the 25 best travel destinations in the world in 2021, which should be visited by tourists in the post-pandemic period [8].

COVID-19 has also had a significant impact on the international trade. Georgia has close economic relations with the European Union, which is 1/3 of the export market. The share of Azerbaijan in exports is

also significant, with the movement of goods being restricted, but the trade turnover did not stop and in January-February, 2020 the share of exports was 17.2%, China's share in exports, although in January-February and amounted to 12.4%. In third place is Russia, which share in exports was 11.5%. According to the Ministry of Finance, Georgia's exports in January and February, 2020 decreased compared to the same period last year. In January, the difference was only 0.46%, but already in February, Georgia's exports decreased significantly – by 17.9%. In June, the ambiguous negative trend continued, with a slight increase in the autumn [9].

The remittances are an important indicator for assessing Georgia's economic independence. The share of remittances in Georgia's GDP is 13.5%. According to the National Bank of Georgia, the amount of remittances in the country in February, 2020 amounted to 137.3 million US dollars. The growth rate in January was 8.6%. The remittances from the EU account for 41.7% of total remittances. Georgia receives the most remittances from EU countries from Italy (15.8%) and Greece (12%). A significant 10.4% share comes from the US. The remittances from Russia (20.9%) and Israel (10.5%) account for about 1/3 of total remittances. Although the total remittances have not decreased dramatically, such a spread of pandemics in Europe and America is likely to have a severe negative impact by the end of the year.

According to the Georgian Business Association (BAG) survey, at the beginning of the pandemic, about 47.2% of private Georgian companies thought that layoffs were inevitable, while the other half, 50.9%, did not intend to expand. The Georgian Business Association unites more than 70 large companies, including banks, petrol stations and large supermarket chains, construction and communications companies. The expectations of the surveyed members of the Georgian Business Association regarding employment in the framework of the quarterly survey of the BAG index have significantly deteriorated. The BAG employment barometer, which reflects the expected changes in the level of employment among the members of the association, became negative in the first quarter of 2020 and amounted to (-46.7) points. After the removal of the restrictions, the value of the indicator has significantly improved and is more or less fluctuating.

The negative impact of the pandemic led to a 4% slowdown in economic growth in the country, with budget revenues falling to 1.8 billion GEL, and the current expenditures falling to 300 billion GEL. In addition, the new expenditures related to social, economic support and management of COVID-19 will be added to the expenditure part of the budget, which was set at GEL 3.9 billion under the anti-crisis plan. It is noteworthy that for the first time on April 14, 2020, \$ 3 billion was allocated from the international partners for the country's economy. Inflows were carried out in the following period as well.

On February 26, one month before the first fact was confirmed in the country, on January 28, the Georgian government launched the fight against COVID-19, which was carried out in two directions – to save the health and lives of citizens and the Georgian economy.

The following measures were taken in the spring of 2020 within the framework of the anti-crisis plan of the Government of Georgia:

- ❖ Hired workers, who lost their jobs or were left on unpaid leave received GEL 1,200 in assistance for GEL 200 per month for 6 months – a total of 350,000 citizens received GEL 460 million;
- ❖ For each retained job, the employer received a state subsidy for 6 months;
- ❖ Salary in the amount of GEL 750 was fully exempt from income tax;
- ❖ Employees or self-employed people in the „informal sector“ received a one-time assistance in the amount of 300 GEL;
- ❖ In an average of 6 months, the families received an additional 600 GEL in assistance with a social rating score of 65,000-1,000, which benefits about 70,000 families and 190,000 citizens;

- ❖ Assistance will be provided to people with the severe disabilities and children – about 40,000 citizens;
- ❖ The introduction of the pension indexation rule from January, 2021, ensures that the pensions of all pensioners will increase not less than the inflation rate, ie price increases will not affect the size of the real pension. For retirees aged 70 and older, inflation will be added up to 80% of real economic growth, meaning that annual pension growth will be higher than inflation regardless of inflation and economic growth parameters. Accordingly, the pension increase will not be less than GEL 20, and for pensioners aged 70 and older – less than GEL 25. It should be noted that the pension of the citizens of the last category has been increased from 220 GEL to 250 GEL from July 1, 2020.

In addition, more than 1.2 million households were funded with a full 3-month utility bill. Electricity, water and cleaning bills were financed for more than 670 thousand families. The state insured the price increase for 9 main products, on which contracts were signed with major importing companies. The citizens were also given the opportunity to defer payment of the loan for 3 months with state aid. The similar actions are planned from November this year to next spring [11].

4,500 tourism-related business entities have deferred 4 months of property and income taxes until November 1, 2020. The small hotels will be subsidized by the state for 80% of the 6-month interest rate on a bank loan. The car importers had a 90-day period of customs clearance until September 1, which was used by 38,000 importers. And 7,000 legal entities were given the opportunity to restructure the loan.

As the part of caring for the private sector, an automatic VAT refund mechanism has been launched and exceed VAT refunds have been doubled, amounting to an additional GEL 600 million in compensation this year. An additional 500 million GEL was allocated to support commercial businesses for commercial banks.

The terms of co-financing in the state program „Produce in Georgia“ have changed, which affected:

- ❖ Increase the loan / leasing co-financing period from 24 to 36 months;
- ❖ Change in the co-financing interest rate mechanism;
- ❖ Increase in the type of activity;
- ❖ Lowering the minimum loan / leasing limit;
- ❖ Increase in working capital financing.

As the part of the care for the village, a grant of up to 30,000 GEL was allocated for the project „Financing of AgroCredit – Annual Crops“. In addition, the interest rate on loans issued to the agricultural sector was fully financed under the estimated total loan amount of 50 million GEL (the number of beneficiaries are 5000) and reclamation activities were supported [10].

Therefore, the effective measures in the fight against the pandemic have given us the following results:

- ❖ Georgia’s economy has been fully operated since June, which is associated with positive expectations;
- ❖ Georgia is the best example of a successful fight against COVID-19 in the region, but Azerbaijan is in a better position at the moment:

In Russia – 2,162,503 infected, 37,538 dead (5th place);

In Turkey – 467,730 infected, 12,840 dead (24th place);

In Armenia – 130 870 infected, 2 068 dead (51st place);

In Azerbaijan – 102,396 infected, 1,224 dead (62nd place).

- ❖ According to the international rating, Georgia has been named as the best tourist destination;
- ❖ Foreign exchange inflows were performed in the form of international assistance;

❖ The National Bank carried out the moderate and periodic foreign exchange interventions at its foreign exchange auction in May, which strengthened the GEL exchange rate by 21 Tetri against one dollar, i.e. from 3.19 GEL to 2.98 GEL. The same should happen now, though it is less likely.

The Prime Minister of Georgia, Mr. Giorgi Gakharia, has been working on a plan to quickly emerge from the economic crisis in Georgia and is currently holding the intensive consultations with a number of leading expert groups around the world. Among them are well-known experts from the Universities of Cambridge and London, who express their readiness to help our country emerge from the crisis and achieve rapid economic recovery.

### 3. Conclusion

In general, the pandemic has drastically shaken the everyday social and economic patterns of world societies. Consequently, the economists have focused on its economic impact and what central banks and governments must do to respond to the unusual disruption of both supply and demand at the same time. It is clear that the consequences of the pandemic will be „serious“ and its spread will have the biggest blow to small and medium-sized businesses, and this catastrophic circumstance will pose a serious threat to the stability of the global economy. Therefore, the experts predict that the coronavirus will cause the global recession of the world economy.

#### References

1. <https://www.worldometers.info/coronavirus/#countries>;
2. <https://www.oecd.org/economic-outlook/>
3. <https://www.bloomberg.com/graphics/2020-coronavirus-pandemic-globaleconomic-risk/>
4. <https://economics.rabobank.com/publications/2020/march/global-economic-outlook/>
5. <https://fortune.com/2020/03/20/coronavirus-economic-predictions-goldman-sachs-recession-gdp2q-2020/>
6. <https://www.fitchratings.com/site/pr/10114929>
7. [ghn.ge](http://ghn.ge)
8. <https://www.nationalgeographic.com/.../best-of-the-world-2021>;
9. [www.mof.ge/export\\_importis\\_informacia](http://www.mof.ge/export_importis_informacia);
10. [employer.ge](http://employer.ge) – Anti-crisis economic plan
11. <https://stopcov.ge/ka/daxmarebebi>