

## РОЗДІЛ 8. ГРОШІ, ФІНАНСИ І КРЕДИТ

## FINANCIAL PROBLEMS CAUSED BY THE SITUATION OF CORONAVIRUS (COVID-19) AND THE WAYS OF COPING WITH THOSE PROBLEMS IN GEORGIA

## ФІНАНСОВІ ПРОБЛЕМИ, СПРИЧИНЕНІ КОРОНАВІРУСОМ (COVID-19), ТА ШЛЯХИ ЇХ ПОДОЛАННЯ В ГРУЗІЇ

*The pandemic of the new coronavirus (Covid-19) turned to be an unexpected challenge for the whole world. The scale of the disease is unprecedented. As a part of the open world, Georgia, among the other countries, turned to be in the complex situation due to the number of reasons, the economic challenges. In the circumstances where we have the perspectives of the possible humanitarian and economic collapse, the detailed and thorough anticipation of the humanitarian as well as economical damages according to the existing data is almost impossible. As a rule, in the crisis situations, the governments of several countries, increase taxes parallel to reducing the taxes and the rates of refinancing in order to achieve balancing of the decreased demands, which have resulted out of the crisis, and economical stimulation in such way as the real sector of the economy during the process of crisis/recession could retain the position which is near to the balanced situation.*

**Key words:** pandemic, inflation, crisis, restructuring, expenditure of reserves, anti-crisis plan.

*Пандемія коронавірусу нового типу Covid-19 стала неочікуваним викликом для світу, масштаби якого безпрецедентні в новітній історії. Грузія як частина відкритого світу, опинилася у важкій ситуації з ряду причин, включаючи економічні проблеми. За наявними даними, майже неможливо повністю передбачити масштаби очікуваної гуманітарної та економічної шкоди з точки зору розвитку подій. В основному, в кризових ситуаціях уряди різних країн зменшують податки та ставки рефінансування паралельно зі збільшенням витрат, щоб компенсувати кризовий попит та забезпечити економічний стимул, щоб реальний сектор економіки залишався близьким до рівноваги під час кризи / рецесії. Невідомо як швидко з'явиться вакцина і як людство зможе подолати цю проблему. Нам доведеться жити з Covid-19, що вимагає додаткових зусиль. Люди будуть боротися, бізнес буде боротися, і суспільство до цього має бути готовим. Для цього жодна країна не може відійти на другий план із власними ресурсами. Особливо така маленька країна, як Грузія, сподівається на таких партнерів в умовах такого глобального виклику. Це правда, що є ряд симптомів того, що економічний спад – як в світі, так і в Грузії – скоро закінчиться, але криза матиме довгострокові наслідки, щоб вийти на докризовий рівень, потрібен час. Будь-який вид економічного стимулювання в цих умовах повинен здійснюватися з максимальною обережністю, оскільки існує ризик інфляції, з одного боку, і неефективного витрачання ресурсів, з іншого. Нинішня криза відбувається на тлі спаду реальної економіки. Іншими словами, при певній ціні є менше товарів і послуг, ніж було б до нинішньої кризи. Природно, що будь-який вид економічного стимулювання в цих умовах повинен здійснюватися з максимальною обережністю, оскільки існує ризик інфляції, з одного боку, і неефективного витрачання ресурсів, з іншого. На думку уряду, в нинішній ситуації важливо підтримувати робочі місця і безпосередньо забезпечувати фізичне виживання бізнесу. Природно, відстрочка сплати податків в майбутньому створює проблему для господарюючих суб'єктів, яким в посткризових умовах доведеться безпосередньо працювати. Тут теж туманні перспективи майбутнього розвитку. Крім того, забезпечення збільшення державних витрат за рахунок збільшення бюджетного дефіциту або збільшення боргу може викликати довгострокові інфляційні процеси.*

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<https://doi.org/10.32843/bses.59-40>**Bidzinashvili Davit**Candidate of Economic Sciences,  
Professor

Gori State Teaching University, Georgia

*мира оказалась в сложной ситуации по ряду причин, включая экономические проблемы. По имеющимся данным, практически невозможно полностью предсказать масштабы ожидаемого гуманитарного и экономического ущерба с точки зрения развития событий. По сути, в кризисных ситуациях правительства разных стран снижают налоги и ставки рефинансирования параллельно с увеличением расходов, чтобы компенсировать вызванный кризисом спрос и обеспечить экономические стимулы, чтобы реальный сектор экономики оставался близким к равновесию во время кризиса / рецессии. Неизвестно как быстро появится вакцина и как человечество сможет преодолеть эту проблему. Люди будут бороться, бизнес будет бороться, и общество должно быть к этому готово. Для этого ни одна страна не может уйти на второй план с собственными ресурсами. Придется жить с Covid-19, а это требует дополнительных усилий. Особенно такая маленькая страна, как Грузия, надеется на таких партнеров перед лицом такого глобального вызова.*

**Ключевые слова:** пандемия, инфляция, кризис, реструктуризация, расходные резервы, антикризисный план.

**Ключові слова:** пандемія, інфляція, криза, реструктуризація, витратні резерви, антикризовий план.

**Introduction and setting of the problem (Relevance of the issue).** Recently, the COVID-19 pandemic has become the part of the new reality. We witnessed new measures and actions daily, from the official Government side as well as from the side of the several organizations. This caused the new reality and new challenges. Since the WWII ended, the world did not face with such serious challenge. If it

could ever happen that we would face to the necessity of increasing our foreign debts, it is just the moment now because we see that the crisis has involved the whole world and we do not know when and how it will end. We do not know when the vaccine will be invented and used, how the humanity will manage this wide crisis, response effectively to the challenge, so we will have to get used to living with this disease,

which demands new efforts; it will be difficult for people, for governments, for businesses; the society has to be prepared for the challenges and it is not easy for the separate countries, especially for such small and economically weak country as Georgia. In such serious global crisis our country depends on the help of its friendly, partner countries.

**Analysis of the recent researches and publications.** The appropriate special literature available in the Georgian and foreign languages was used in the process of researching the mentioned issues along with the legislative and statutory acts, statistic information; also the methods of analysis and synthesis, induction and deduction, empiric method, sociological questionnaires and mathematical statistics were used during the researching process.

The problematics of the process of financial crisis overcoming is studied in many ways by Georgian and other scientists (R. Abesadze, I. Archvadze, N. Chikhladze, V. Papava, V. Charaia, P. Aroshidze, M. Jibuti, A. Nadaraia, Hadi A., Kadhom M., Hairunisa N., Yousif E., Casselman B., Roubini N., and others). These problems are studied by practical workers as well. Our main contribution in the process of researching the financial problems caused by COVID-19 lies namely in the fact that we studied this problem and worked out several recommendations on the regional level on the example of Georgia.

**The purpose.** The purpose of the represented work is to conduct a broad analysis of the economical problems caused by the pandemic and to develop the measures and recommendations supporting the effective economical activities to overcome the complex situation which will help the population of the country to withstand the hard times.

Presentation of the basic material. The pandemic taking place all over the world has influenced several directions of the Georgian foreign currency exchange market and has touched almost all the sources of the currency flows. First of all, as a result of the pandemic, the tourism activities have stopped all over the world. In this case, Georgia lost all the money flows which used to be received earlier for years and could be received further from the tourism activities. Resulting from this fact, the market lost that part of the foreign currency, which it was waiting for, from the export of the services (tourism).

The crisis resulting from the COVID-19 situation all over the world has damaged the world economy much more faster and severely in comparison with the 2008 global financial crisis (GFC) or even the Great Depression. In the mentioned episodes the capital markets decreased for more than 50%, the credit markets were frozen, which caused mass bankruptcy, unemployment rate increased to 10%, GDP decreased but these results appeared about in three years from the beginning of the crisis. In case of the present situation the analogous macro

economical and financial results were “achieved” just in three weeks [1, p. 1].

“The tempo of the world’s economic growth had been quite low even earlier of the virus attack – it was only within the 2% and thus, it is not difficult to understand what can happen in case if it turns impossible to defeat the pandemic as soon as possible” [2, p. 2].

As it is pointed in the report of the UNU WIDER (United Nations University, World Institute for Development Economics Research), current poverty indices can come back to the indices documented 30 years ago. It can happen that additionally, in total about half a billion people will appear beyond the poverty line” [3, p. 2].

The world economics was hit by the pandemic very seriously, the incomes decreased globally, as well as the amount of money, which the Georgian citizens, used to send steadily to their families when working in the different countries all over the world; people found themselves in the difficulties as the working places reduced all over the world; for example, in Italy almost all the activities were restrained, which were the working places for the immigrants, and this influenced the amount of money transfers which represented the important financial flow. In its turn, decreasing of the monetary flow caused diminishing of the foreign currency delivery [4, p. 2].

In the unstable situation, in which the world’s economics found itself today, the investors are in the standby mode. According the international currency fund, the investors have already withdrawn 83 billion dollars from the emerging markets (Georgia also belongs to the emerging markets). This is the highest amount of the capital ever withdrawn up today. Correspondingly, the situation with investments is not going to be much better taking into consideration the fact that the situation in Georgia in the sphere of attracting the investments showed to have difficulties even before the crisis; namely, in 2019, the volume of the direct foreign investments comparing with the previous data almost did not increase (only 0.2%) and the data of 2018–2019 exceeded only the data of 2013 [5, p. 2].

The reduced demands from the trading partners on the export as one more source of the foreign currency, has its negative influence too, especially at the background of diminishing trade turnover processes, the same will happen with the volume of exporting as a result of diminishing of the natural volume and the price of goods. On the other hand, the demands on import from the Georgian side will in its turn also decrease which from one side prevents draining of the foreign currency and balances the rate of the Georgian lari (though it is not sufficient).

Besides the mentioned fundamental factors, which jointly would cause reduction of the course of the Georgian lari in any case, it can also be supposed

that the panic situation taking place in the market played important role. The exact data, which would confirm that the role of expectations is evidenced, is not available. But basing on the empiric observation and operative information allows to believe that the factor exists.

*Some factors, which cause devaluation of the Georgian Lari, are named here:*

*Tourism* – After the time when a great part of the countries were in lockdown and touristic traffics stopped (it was the end of February 2020), the Georgian lari began devaluating immediately (in January-May 2020, the income of tourism, as compared to the same period of 2019, decreased by 655 million dollars).

*International remittances* – the most part of them usually come to Georgia from Russia and Italy. Due to the epidemic situation in Italy the economic activities stopped. At the same time, the money transferring to Georgia significantly decreased. Prices of oil dramatically dropped in Russia and this fact greatly influenced the Russian economics, including the money transfers as well. The Georgian lari followed its trend and began devaluating as early as the beginning of March.

The direct input of tourism sector to Georgian economics was about 8%. This means about 4–4.2 billion laris of the Gross Domestic Product; the amount of money spent in Georgia by the foreign tourists goes up to 10 billion laris. It is easy to imagine what will happen when such amount of money lacks from the economics. Our goal is not to provide skepticism but the long-term orientation to tourism is not always justified as we can see now. Profitability of this business is high and earning of money happens quickly but this sphere of business is quite vulnerable to force majeure situations and negative events; a small problem only, and this kind of business will quickly go to the end. That is why it is necessary to be oriented towards the development of more realistic sectors especially those branches which use high technologies and innovations in their activities.

*Export* – Beginning from the end of February this year, economical activities reduced all over the world and the demands towards the Georgian exports reduced accordingly.

*Import* – At the background of the mass uncertainty and isolation, the diminished joint request conditions reducing of import and this in its turn reduces the flows of the foreign currency out from the country.

If we want to create favorable conditions for the state to stand stable and experience as little financial damage as possible from the unordinary situation as the coronavirus pandemic is, it should have high level of private agricultural production and the means to achieve that goal in different areas of production. For example, this can be the cereals; the ratio of local producing to consumption is 10–15% of the harvest.

We import agricultural production every year, which costs about 400 million dollars more than our exported agricultural production. We criticize the National Bank of Georgia for selling the currency reserves and at the same time, we have less effective and imperfect agriculture. It should be underlined once more that every year agricultural products of not less than 400 million dollars more cost are imported in our country, than we export; we should achieve that this amount of currency stays in the country.

Though there are some symptoms of the economic decrease, which really seen to end in Georgia and other countries soon, but the results of the crisis will have prolonged results. It will not be easy to achieve the pre-crisis level in economics. Any kind of the economic stimulation should be realized very carefully in the given situation as there exist some risks of inflation from one hand and the ineffective expenditure of the resources on the other.

The new type of pandemic (COVID-19) became the unexpected challenge for the whole world. Its scales seem so far unprecedented in the nearest history. As a part of the open world, Georgia, among the other countries, turned to be in the complex situation due to the number of reasons, the economic challenges. To see any perspectives about the future development, fully preview all the events and their results, which will influence the economics, seem impossible. [6, p. 1]

At the background of sharp reduction of the economic activities, the subjects of the world economy are experiencing losses of income because of which the economy suffers even more, adding to the above said the loss of working places, inability of service, inability to fulfill duties – these all sharply increase the risks of bankrupts cases. Directly or indirectly, almost all the branches of economy experience important losses and, especially, the spheres of service, transport, trading, and tourism industry. All the named branches have been marked out by their growing dynamics in Georgia; they have been contributing greatly to the country's economical development. Besides the crisis of tourism at the background of pandemic, from March 18 onwards, the flow of the tourists or non-citizens to Georgia was banned due to the state of emergency, all kinds of traffic air, sea or land – were confined. The restrictions did not touch only for cargo traffics. The activities of entertainment places, cinemas, sport complexes, beauty salons and night clubs were suspended. Many services were retained only in confined manner.

If it is prolonged, the pandemic crisis can obviously bring considerable damage on both – macro and micro economics. Generally, there exist different views about the question what kind and what scales the responsive measures should be. The character of those views depends on different ideological approaches.

Basically, in the crisis situations, the different governments parallel to growth of expenses reduce the refunding rates in order to balance and stimulate the reduced requests caused by the crisis economically, in such way that the real sector of economics retains the position near to balanced during the crisis/recession period.

It must also be noted that the ground, on which the large-scale economical crisis bases, including the existing period and the expected one in the future, is "not economical." Thus, there are some questions towards efficiency of the standard mechanism of reaction. Namely, delivery of additional means to the economics in the crisis period works for balancing of the decreased requests but slowing down the economics is not caused directly by decreasing of the request but mainly by the reduced activities which are in their turn caused by the regulations and recommendations of security measures. As for the failure caused by fulfilling the given recommendation, it cannot be eliminated by fulfilled delivery of financial resources and it can be discussed as bearing not economical but more likely social goals.

Aiming towards requesting and encouraging the additional financial resources likely will be more effective to appear in the post-crisis period when the restrictive measures of safety will be removed and the economical agents will receive opportunities for full-fledged operating. Thus, as the content of the reaction and the period of its activating also must be chosen correctly in order the goal of the economical stimulation would be reached from one side and not to foster the inflation processes through excess of liquidity on the other side.

At the background of the crisis, the course of GEL in relation to USD reduced by 24%. On March 18, by the decision made at the meeting of the monetary policy committee, the rate of refinancing was not changed and remained 9% as earlier. We can conclude here that severity of the inflation processes cannot be reduced by reducing the interest rate (which in other situations is one of the responsive measures) [7, p. 1].

The Georgian Prime Minister Giorgi Gakharia uttered the phrase in connection with the position of the Government related to the response to crisis; he presented the plan of the measures directed to the economics stimulation, together with his economical team. This plan implies arranging and fulfilling many events which will result in additional sum up to one billion laris as the economical resource, for some reasons namely:

- The banks will make individual restructuring of the debt for the business in case there are difficulties of payment;
- Besides that, for the citizens who want to postpone the payment of the debt for the next three months, the bank will allow them to postpone;

- The companies, which provide services associated to the tourism business, will receive permission to postpone the payments of property and income which they have to pay during the next month (to the 1st of November);

- In order to supply companies with the financial resources, the government will double the VAT returns and instead of 600 million laris planned for the end of the year the Ministry of Finances there will be returned 1,200 million laris (600 million laris more) to the companies;

- The special state program will be worked out by means of which all over the country, the hotels of size from 4 to 50 rooms will receive the bank loans with co-financing of the percents for 6 months;

- For additional stimulation of the economics by the state, the support for the capital projects will increase in the country. The capital expenditures considered in the budget 2020 will increase by 300 million laris in addition.

The current crisis goes on at the background of reduced economics, or in other words, paying a certain price we get less products and services than before this crisis period. It is natural that any kind of economic stimulation should be carried out in especially careful way as we are facing the threats of inflation from one hand and ineffective expenditure of resources. According to the position of the government, in the existing situation, retaining the workplaces and business or in other words, saving them, is the most important. It is true that postponing the payments will produce a serious problem for the economic entities in the future that will have to operate in the post-crisis situation. Here, again, the perspectives of the future development are uncertain. The same can be said about the measure of increasing the government expenditures through increasing the budget deficit or amount of debt, almost certainly produces long-time inflation processes.

According to the information of the prime minister of Georgia for 2020, the economics of Georgia will reduce for 4%, as for the budget deficit in the part of the income it will go up to 1.8 billion laris and naturally, the government of Georgia will have to review the budget in the future and to increase the governmental debt, which will influence the prices of the products.

The pandemic caused breaking of the existing economical ties and interrelations between the states which were established during the years; the economical obligations, contracts, delivery chains became unable to be preserved. Many countries and large corporations decided to transfer their actives from China to other countries. According to the questionnaire of the quality control and delivery audit network (QIMA) 80% of the American companies and 67% of the European companies.

Japanese government has already allocated 240 billion yen (2.2 billion dollar) to move Japanese

companies from China to Japan (in the most cases) or to other countries. Seven percents out of 2600 Japanese companies are now conducting the process of searching the other countries where to move or are now in the process of moving their businesses.

Why is not it possible for Georgia to make corresponding steps in the given situation to introduce those companies to our country?! – favorable geographic situation, comparatively cheap qualified labor forces, vicinity of the markets, easy conditions for business, the 7th place in the world – the best rate in the post Soviet space, low tax burden, as for the GDP 1.9 times less than as compared to Euro zone. Briefly, there we see a bunch of advantages and it would be a great mistake and even a crime towards the population of our country and future generations not to use them.

**Conclusions:**

– much special attention is necessary to be paid to the development of the local production especially to the goods which will be able to replace the imported ones. I hope that the government can response to this challenge with special efforts and increased financial support. The state should activate all the means in order to keep the local production safe, to develop it, keep it safe, and ensure its producing abilities develop and competitiveness capacities will grow.

First of all, to response to the requirements of our own market, and then, as soon as the global markets enable us to do so, we can expend exports at the maximum and support the activities;

– human lives and health are the main things and the state of emergency is absolutely necessary in the quarantine situation. Though the government and the economists as well all should strain their imagination and should reach to the conditions in which as many segments as possible could stay able to function as otherwise it will be impossible even to imagine how our economy can escape the collapse. In this especially hard situation, all the necessary resources should be activated in order to save the country and to save the people. The overall responsibility on overcoming the crisis, save people and retain the economic potential lie on the government. Correspondingly, the government and the State are obliged to mobilize all the resources (financial or non-financial) in order to stay ready to solve the tasks;

– reaction of the National Bank of Georgia to the current processes was overdue and from the very beginning they switched on the standby mode. It became active quite late. The reserves of currency should have been used (spent) earlier; in that case our currency market would be less damaged and it would be easier for all the Georgian economics;

– we should know that today devaluation of lari is an inevitable process, it must be devaluated by all means. It cannot be otherwise. But it is bad that there

are large leaps as they destroy our currency market and create additional difficulties. For today this is the weakest point of the Georgian economy. This does not need any programs, it only needs to extinguish the fire and not to spend money in pointless manner but spend them very carefully.

– today we need minimal expenditures, minimal loss to the economic to make minimal expenditures and minimal loss for the economics, then end of the epidemic and after all that events, according to the existing loss of money, should decide which sector is more damaged and support it, and regarding the loss, we should stimulate the development of the economics of the country;

– it is necessary to fight against the coronavirus though the different countries in the world are comprehending that staying at home can bring even the worse results. As the problems brought by ruining of the economics will be much worst and severe than the virus itself. Battling with the virus should go on but by effective methods and not by ruining of economy;

– it is the most important that in the period when the economical activities are descended to the minimum the government must ensure minimum financial injection in the social sphere in order the population could overcome this hard period relatively easy and painless;

– finding the credit resources will not be difficult but how to set its amount, where to borrow and how to spend those money resources but when borrowing, it is more important to define correctly the amount of the loan than its purposes. For this aim it is necessary to underline more or less exactly the scale of the negative influences of the coronavirus on our economics;

– COVID-19 is a very serious danger, it has already brought us serious negative effects and will bring them even more. But we think that the main danger is not the coronavirus but it is the possible economical collapse. It will take place all over the world and surely in Georgia too. We have the signs of this danger implying the stock markets which are in fact collapsed, the scales of which depend on how long the virus will be raging;

– the world's economical crisis begun in 2008, and after the Russo-Georgian war we were able to stop the collapse of the economics and financial system only by means of the five billion dollars received from the USA and the EU. At least half of the sum was spent for this goal, but today the USA and the EU themselves are in great difficulties. As far as I know they have already begun negotiations with the international monetary institutions – the International Monetary Fund and the World Bank and their help will be of great importance for reanimation of our economics. In such situation the government needs our help and support in order to avoid ruining of the economy and to achieve its rebuilding as near in the future as possible.

– at the same time, we should learn to live and work in the environment of the COVID-19 pandemic because in the earnest future this disease will one day disappear.

This is the global challenge and when it happens, many countries and Georgia among them, will start escaping the economical crisis and the main process of competition will emerge namely here; and the most important thing for Georgia at the moment will be maintaining competitiveness within the regional and local economical development, knowing that we need new vision, new approach to the post-crisis events, which will be conducted by the State in order to help the private sector and the business to escape the crisis situation and begin successful economical activities as fast as possible, to increase employment, and return to the pre-crisis starting situation, that is most important.

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