

**LOCAL  
ECONOMY  
CHALLENGES  
DURING  
THE COVID-19  
PANDEMIC**

December 2020



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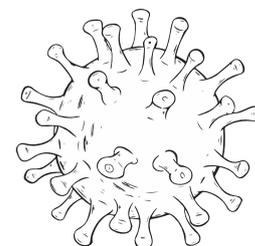
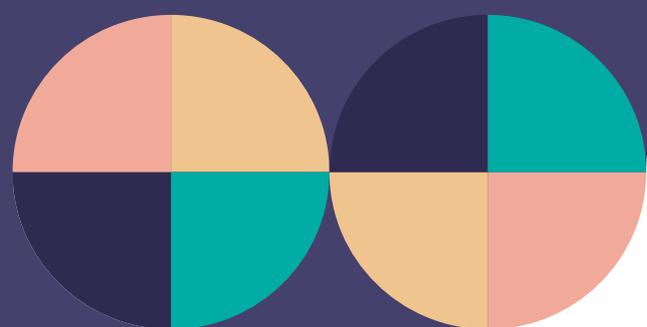


The research report “Local Economy Challenges During the COVID-19 Pandemic” is prepared by the National Association of Local Authorities of Georgia (NALAG) within the ***Fostering Regional and Local Development in Georgia, Phase 2*** project implemented by the United Nations Development Programme (UNDP) with the support of the Swiss Agency for Development and Cooperation (SDC), the Austrian Development Cooperation (ADC) and the Ministry of Regional Development and Infrastructure of Georgia (MRDI). The views expressed in the report are those of the author and do not necessarily reflect of the organizations listed above.

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## Brief overview

This research examines the impact of the COVID-19 pandemic on the economies of Georgian regions, particularly with respect to the macroeconomic environment, entrepreneurship, employment, and social conditions. According to the research findings, the impact on regions has varied, depending on their economic structure and the main economic activities therein. For example, the impact of the pandemic on international tourism-oriented regions has been profound, and this has flowed into other fields through the supply chain, affecting tourism-related production significantly.

This research, which is based on an economic assessment of the regions and municipalities of Georgia in the first half of 2020, confirms that the impact of the pandemic in the first half of the year damaged regions and municipalities with the highest tourist inflows and greatest dependence on foreign tourists the most. Meanwhile, medium-sized enterprises proved to be relatively stable in the business sector. During the same period, turnovers increased in agriculture where, together with households, business activities were carried out at the usual pace. Elsewhere, state mortgage financing policies created positive expectations and had a significant impact on maintaining the viability of the construction sector. In addition, the decline in entrepreneurial activity in municipalities (both those with reported COVID-19 cases, and those with none [so-called “green municipalities”]) was due to insufficient resources being made available for remote business management, along with the restrictions imposed on the movement of people. The pandemic had a particularly strong impact on small enterprises making labor-intensive products.

The research identified the following effective mechanisms applied to combat the pandemic: a) anti-crisis measures taken by the State in support of businesses, particularly the tax rescheduling and co-financing in loans (although their effectiveness is expected to decline over time); b) remote communication between customers and businesses, albeit this requires further support in terms of resources (small- and medium-sized entrepreneurs, which were able to continue to operate remotely, lack of sufficient resources, except for those in the field of tourism, which are relatively well-equipped with modern Internet technologies for customer relations); and c) the development of strategic management based on the use of digital technologies, which requires raising awareness among society. Support for entrepreneurs through various institutional and organizational mechanisms (e.g. supporting projects, organizing conferences and trainings for entrepreneurs, attracting IT experts to develop the digital economy) from the central government and municipalities will promote introduction of anti-crisis management practices in businesses operating on local level.

## Introduction



COVID-19, which was first detected in China at the end of 2019, spread around the world at an alarming speed. On 30 January 2020, the World Health Organization (WHO) declared COVID-19 as an international public health threat for 2019-2020. On March 11 the WHO declared it a pandemic.

Almost all governments in the world have since taken decisive measures to stop or limit the spread of the virus, such as closing borders, quarantining, restricting movement, and imposing sanitary norms, which in turn led to rapid economic decline in many countries.

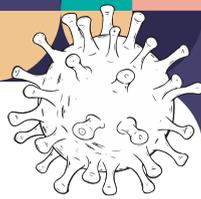
The economic damage caused by COVID-19 is already visible and represents the biggest economic shock the world has suffered in living memory. Indeed, according to the report entitled “Global Economic Prospects” released by the World Bank Group in June 2020, this will be the deepest global recession in eight decades, despite unprecedented support policy being afforded by governments. According to basic forecasts, the world economy is expected to decrease by 5.2 percent in 2020<sup>1</sup>.

The worst effects of the recession are reflected in the economies of developing countries, where per capita incomes have declined. The longer the pandemic continues, the more time it will take to overcome its economic impact, which will further aggravate the global recession process. Moreover, financial stress will call into question the solvency of countries, many of which may be at risk of default. Shortly after the WHO’s declaration of the pandemic, the following events characteristic of a recession swiftly appeared all over the world: price increases, depreciation of weak currencies, a decline in investments, and an increase in unemployment. Countries with weak health systems and those dependent on foreign trade, tourism and/or foreign remittances have been particularly hard hit by the effects of the pandemic.

## The Georgian Economy During the COVID-19 Period – General Overview

On February 26, Georgia confirmed its first case of COVID-19. As the virus spread around the world, serious measures were already being taken against the pandemic, and Georgia was no different. Flights into Georgian international airports, initially from China and Iran, and then from other countries, were canceled. Borders, large shopping malls, restaurants and bars were subsequently closed in the country, while local bus and rail traffic was suspended and vehicle traffic was restricted. Elsewhere, educational institutions switched to distance teaching/learning. Tight restrictions were also imposed on the entry of foreign citizens into Georgia. The Georgian government closed all enterprises except for hospitals, pharmacies and grocery stores. As a result, unemployment rose and small and medium-sized businesses decreased their activities or stopped altogether. Due to the threat of a large-scale spread of the virus, the municipalities of Marneuli and Bolnisi, in which several cases had been recorded, were placed under a strict quarantine regime in March-May, and the municipality of Mestia followed suit in August. In response to the pandemic, programs designed to overcome the crisis and stimulate the economy were initiated.

<sup>1</sup> Global Economic Prospects, A World Bank Group, June 2020.



Thanks largely to the anti-pandemic measures taken, the virus in Georgia spread moderately with a very low rate of infection initially. Indeed, by September 7 only 1650 cases of infection had been reported in Georgia, – with 19 deaths. By the same date, globally there had been 24.7 million cases of the virus, and approximately 887,600 deaths<sup>2</sup>. Although Georgia’s approach - including the imposition of a state of emergency and quarantine during the first two months, as well as prolonged traffic restrictions and other necessary anti-pandemic measures - had clearly had a relatively positive effect in terms of combating the virus, it had a significant negative impact on the economy which went into recession.

As a result of the pandemic and in light of declining aggregate demand and output, the rate of **inflation** increased since December of the previous year. The growth rate of inflation was 6.1 percent. Although subsidies were introduced by the Government to limit price increases for basic food products, the prices still increased. Prices for food and non-alcoholic beverages rose by 13.4 percent, which had a negative impact specifically on the poorer strata of regions and vulnerable populations. Inflation was relatively high in Zugdidi (8.8 percent) and lowest in Tbilisi and Batumi (5.7 percent). Prices for recreation, entertainment and culture fell, caused by the near absence of tourists. Even though demand in this field decreased drastically, prices in restaurants and hotels increased by 8.9 percent, mainly due to higher food prices and the costs of meeting pandemic-related hygiene regulations.

Meanwhile, the Industrial Production Index (IPI) increased, standing at 2 percent at the end of the second quarter of 2020. Prices for pharmaceutical products increased markedly, by 9.3 percent. The general rise in prices was partly due to the depreciation of the national currency, which dropped 10.7 percent in the first eight months of 2020 compared to the previous year. Prices were expected to relatively decline in subsequent quarters due to declining demand, however according to the forecast of the National Bank of Georgia increases would remain above 3 percent<sup>3</sup>.

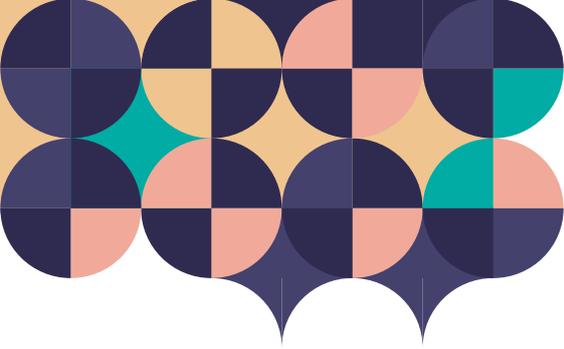
The Georgian economy has also been affected by the crisis situation in neighboring countries. Some Georgian citizens who have seasonal employment abroad returned to their home country, and despite the resumption of air traffic in August were still unlikely to be able to go back to their countries of employment due to the severe travel restrictions imposed elsewhere. Therefore, such workers and their family members were left with little or no income for the year. It should be noted that according to the data of 2019, the number of seasonal Georgian employees in Turkey amounted to 40,000<sup>4</sup>.

The shrinking of the Georgian economy was also attributable to **the reduction of remittances and foreign direct investment (FDI)**. According to the National Bank of Georgia, remittances decreased by about 10 percent in the first half of 2020 compared to the corresponding period of 2019, with remittances from Russia declining the most (27 percent). Over the past decade, remittances to

<sup>2</sup> COVID-19 CORONAVIRUS PANDEMIC, Worldometer, <https://www.worldometers.info/coronavirus/>

<sup>3</sup> Monetary Policy Report, May 2020 National Bank of Georgia. [https://www.nbg.gov.ge/uploads/publications/moneratyfiscal/2020/2020q2\\_geo\\_080520.pdf](https://www.nbg.gov.ge/uploads/publications/moneratyfiscal/2020/2020q2_geo_080520.pdf)

<sup>4</sup> Zurab Batiashvili, “The difficulties caused by the coronavirus in Turkey and its reflection on Georgia”, Rondeli Foundation 2020.04.13, <https://www.gfsis.org/ge/blog/view/1065>



Georgia have grown by an average of 8.5 percent per year. The sharp pandemic-related decline in remittances in 2020 has had a particularly heavy impact on the aggregate demand and the balance of payments. It has also exacerbated the depreciation of the national currency.

In the first half of 2020, **FDI** almost halved compared to the same period in 2019, while foreign trade turnover in the first half of 2020 amounted to only 70 percent of the corresponding amount for the same period last year<sup>5</sup>.

Ongoing uncertainty over the duration of the pandemic further impedes capital inflows and investments, and weakens domestic demand.

As the economy shrinks, **budget** tax revenues decrease. In order to mitigate the negative impacts of the crisis, budget expenditures have been increased at the expense of preferential foreign loans. In July 2020, 55.6 percent of total budget revenues were formed by loans, which will bring the country many macroeconomic problems in the future.

At this stage, it is difficult to accurately calculate the losses that the country has incurred due to the pandemic. It is also difficult to determine how long the damage will last. The world economy is continuing to decline due to the pandemic, and the signs of recovery are weak, which has prompted researchers to predict that the effects of the pandemic will be felt for a long time<sup>6</sup>. According to some estimates, the pandemic will shrink the world economy by an average of 3 percent by the end of 2020<sup>7</sup>.

Largely due to the COVID-19 pandemic, the Georgia's economy is expected to decline in 2020 by an estimated 5 percent, the country's worst economic performance since regaining its independence, while consumer price growth is expected to be below 5 percent<sup>8</sup>.

The economic decline in Georgia could lead to a long-term economic crisis and state aid might also be reduced due to the country's growing financial deficit, which will further aggravate the problems caused by the pandemic. This scenario demands the development of a policy targeted toward enterprise and business support.

At the time of writing this report, the pandemic is worsening, which is reflected in various economic indicators. The shutdown of most enterprises for some part of the first half of 2020 and the reduction in their activities had a negative impact on the Georgian economy. The crisis has changed the dynamics of economic and social development in the country. Accordingly, the short-term and medium-term priorities for the development of regions and municipalities have been reshaped.

<sup>5</sup> National Statistics Office of Georgia <https://www.geostat.ge/ka/modules/categories/191/pirdapiri-utskhouri-investitsiebi>

<sup>6</sup> Krugman, P. The New York Times Opinion, August, 25.2020. [https://messaging-custom-newsletters.nytimes.com/template/oakv2?campaign\\_id=116&emc=edit\\_pk\\_20200825&instance\\_id=21590&nl=paul-krugman&productCode=PK&regi\\_id=111212561&segment\\_id=36891&te=1&uri=nyt%3A%2F%2Fnewsletter%2F3919b3b0-93aa-5035-a68b-7b5dc278cd46&user\\_id=b51cbaa4596c28cdaf168c7b9fc3ba8b](https://messaging-custom-newsletters.nytimes.com/template/oakv2?campaign_id=116&emc=edit_pk_20200825&instance_id=21590&nl=paul-krugman&productCode=PK&regi_id=111212561&segment_id=36891&te=1&uri=nyt%3A%2F%2Fnewsletter%2F3919b3b0-93aa-5035-a68b-7b5dc278cd46&user_id=b51cbaa4596c28cdaf168c7b9fc3ba8b)

<sup>7</sup> World Economic Outlook, The Great Lockdown. International Monetary Fund, April 2020.

<sup>8</sup> Monetary Policy Report, November 2020, National Bank of Georgia. [https://www.nbg.gov.ge/uploads/publications/moneratyfiscal/2020/2020q4\\_geo\\_241120.pdf](https://www.nbg.gov.ge/uploads/publications/moneratyfiscal/2020/2020q4_geo_241120.pdf)

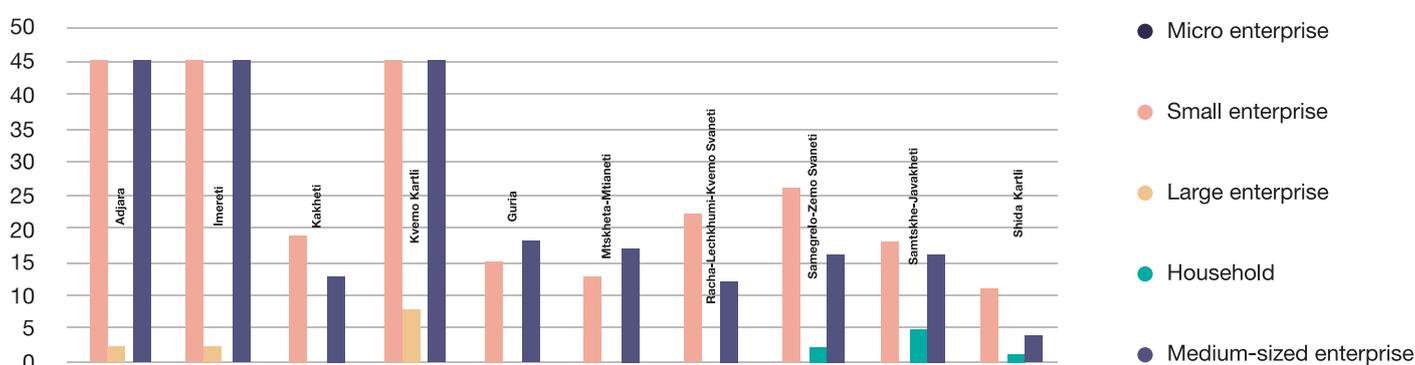
## Research methodology

To determine the impact of COVID-19 on municipalities' economies, data from the National Statistics Office (Geostat), the Georgian National Tourism Administration (GNTA), as well as survey data were used. We have explored the main barriers to entrepreneurship development in the municipalities, the impact of COVID-19, adaptation mechanisms applied, the role of municipalities, and the needs of entrepreneurs. Considering that the quarterly statistical survey of enterprises by Geostat does not provide generalizable data at the municipal level due to the small sample size, the characteristics of the economies in the municipalities were assessed using extrapolation. As part of this research, a survey was conducted in the second half of August and early November, which sought to assess the impact of COVID-19 on the economy per region and municipality. In addition, the anti-crisis activities of the local governments were assessed based on a survey of entrepreneurs.

Micro-, small- and medium-sized entrepreneurs were surveyed in all regions of Georgia. The survey was conducted electronically, via random sampling and through sending a structured questionnaire via e-mail. In the first stage, the questionnaire was sent to more than 21 thousand private enterprises in all municipalities of Georgia. Of these, 40 percent bounced back due to an inactive recipient email address; eventually, 467 responses were received which represents about 2.4 percent of the remainder.

Overall, 91 percent of research participants were owners of small- or medium-sized enterprises, with 49 percent of respondents being owners of small-sized enterprises and 42 percent being owners of medium-sized enterprises (*see Figure 1*).

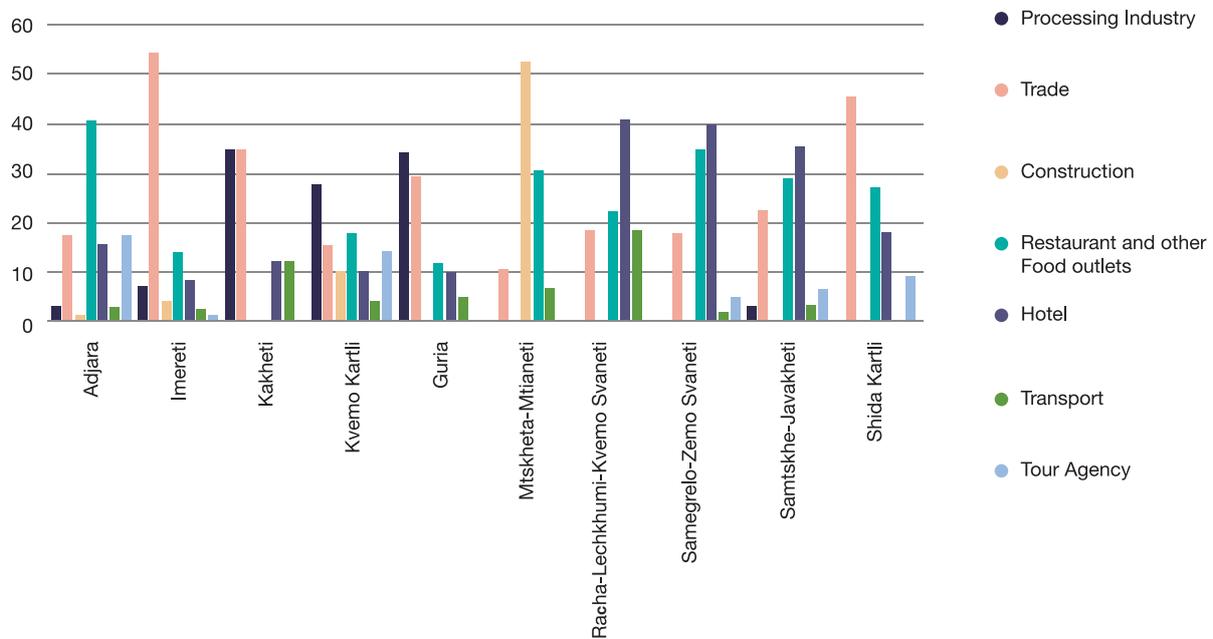
**Figure 1. Distribution of Respondents by Region and Enterprise Size (%)**



In total, 29 percent of respondents were employed in trade, 24 percent were employed in restaurants and food outlets, 16 percent were employed in the hotel industry, 14 percent were employed in the manufacturing industry, and 7 and 5 percent were employed in tourism and transportation services respectively (*see Figure 2*). This distribution is relatively close to the breakdown of employment for the whole country.



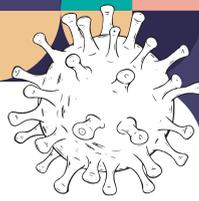
**Figure 2. Distribution of Respondents by Region and their Field of Activity (%)**



### **Research limitations**

The enterprise survey was conducted in the second half of August 2020. Considering the epidemiological situation, the fastest and most cost-effective survey method was an electronic structured survey using Google Forms. The program was set up to allow respondents to give only one answer to one question, which reduced the research’s ability to determine respondents’ second and third priorities. In addition, questionnaires could not be submitted incomplete, as respondents had to provide an answer for each question. This method also allowed for respondents’ anonymity to be protected. In some small municipalities, the number of responses was insufficient to generalize the findings for these whole municipalities. Therefore, in the course of the qualitative research, additional in-depth interviews were organized in the municipalities where the number of completed questionnaires was fewer.

Since the survey was conducted remotely, multiple-choice options in the closed-ended questions was kept to a minimum. The time required to complete the questionnaire did not exceed 10 minutes. With every question added, the threat increases that the number of completed questionnaires could be significantly reduced. Therefore, so-called filtering questions were not included. Meanwhile, in-depth interviews with representatives of the tourism sector (e.g., hotels, cafes, bars, restaurants, and small shops) were conducted only in Borjomi, which made further generalization of the research findings possible.



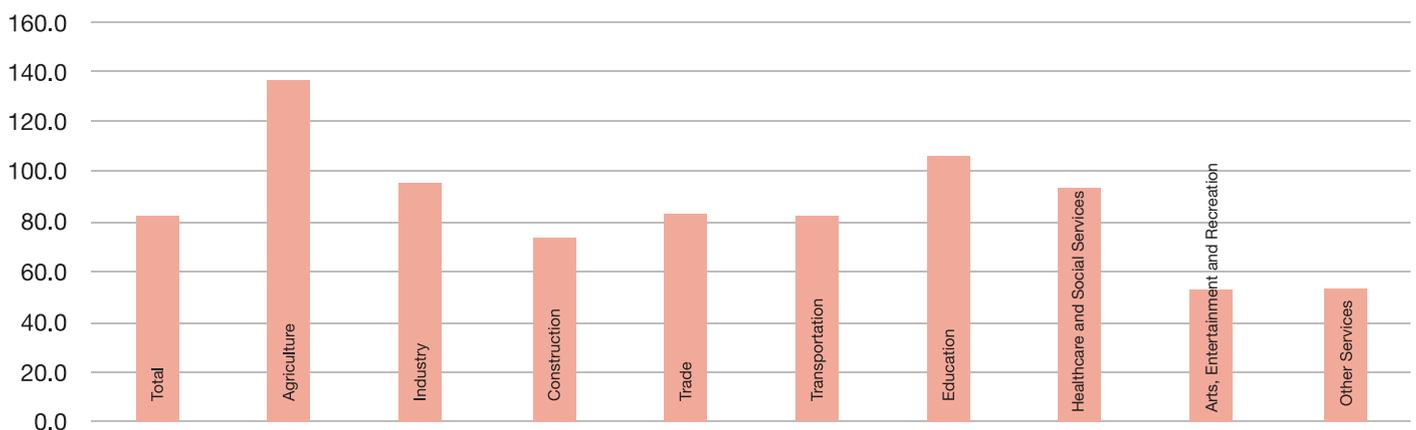
Official statistical information classified and kept by municipal and regional bodies is scarce. Regional information is only presented in annual reports, while municipal information is limited to products produced by each sector throughout the year. During the study period, the data for the first half of 2020 provided by Geostat included only turnover, output and employment by region. Household statistics, which cover an entire year, are scheduled to be published in the second quarter of 2021. In order to fill this information vacuum, a survey of practitioners and enterprise representatives was conducted.

### Impact of COVID-19 on the Economy of Georgia

The impact of the pandemic on the Georgian economy was first felt in the second half of March, with a subsequently significant impact on the economy and business activity in the second quarter of 2020. Georgia's GDP growth rate in the first quarter of 2020 compared to the same period of the previous year was 102.2 percent, while in the second quarter it plummeted to -87.4 percent. Overall, for the first half of 2020, GDP growth compared to the first half of 2019 was -94.4 percent.

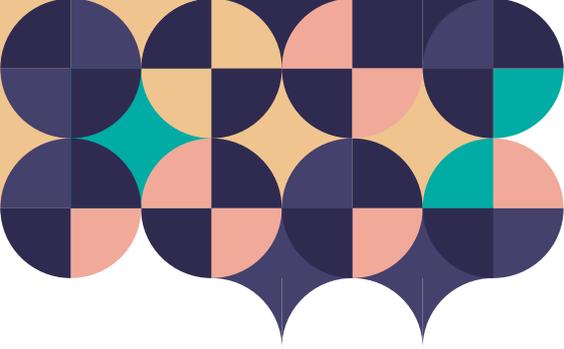
Production output in the business sector in the second quarter of 2020 exceeded that of the second quarter of 2019 only in agriculture and education. There was a decline recorded in all other sectors, with a decline of 20 percent for the entire business sector (*see Figure 3*).

**Figure 3. Production Output Rates by sector - second quarter of 2020 vs. second quarter of 2019 (%)**



Source: National Statistics Office of Georgia (Geostat)

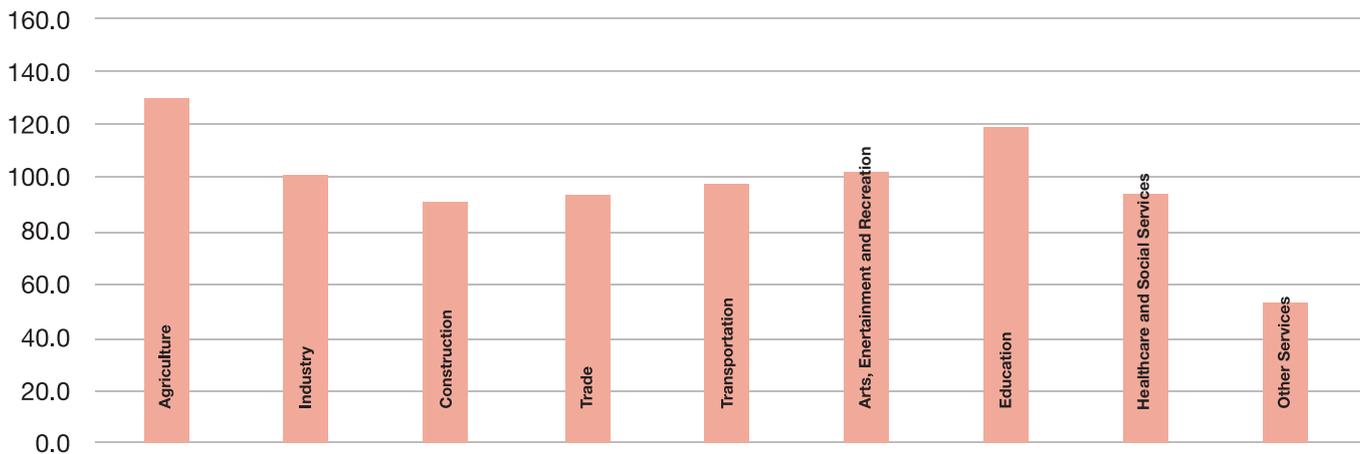
The turnover of the business sector in the second quarter of 2020 amounted to 22.3 billion GEL, which is 2.9 billion GEL less than the corresponding figure for 2019. The level of vulnerability in the Georgian economy to the pandemic varied according to industry and enterprise size. Compared to the



same period of the previous year, turnover significantly decreased in wholesale and retail trade (by 13.9 percent), in real estate (by 11.4 percent), in construction (by 8.3 percent), and in finance-insurance (by 6.1 percent)<sup>9</sup>.

Looking at specific sectors, turnover in agriculture increased the most in the second quarter of 2020, while construction, trade, and services (excluding education) declined (see Figure 4).

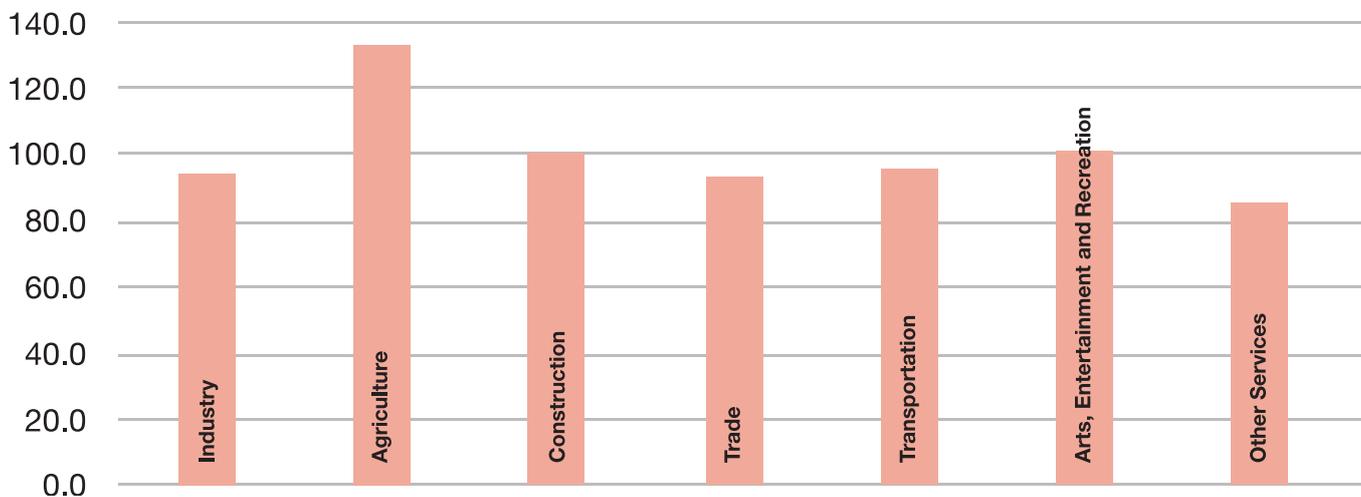
**Figure 4. Turnover by Region - the first half of 2020 vs. the first half of 2019 (%)**



Source: National Statistics Office of Georgia (Geostat)

In the first half of 2020, compared to the same period in 2019, turnover increased in agriculture, arts, entertainment, recreation, and education (see Figure 4), but over the same period agriculture was practically the only area of activity where output increased (Figure 5).

**Figure 5. Production Output by Sector - first half of 2020 vs. first half of 2019 (%)**



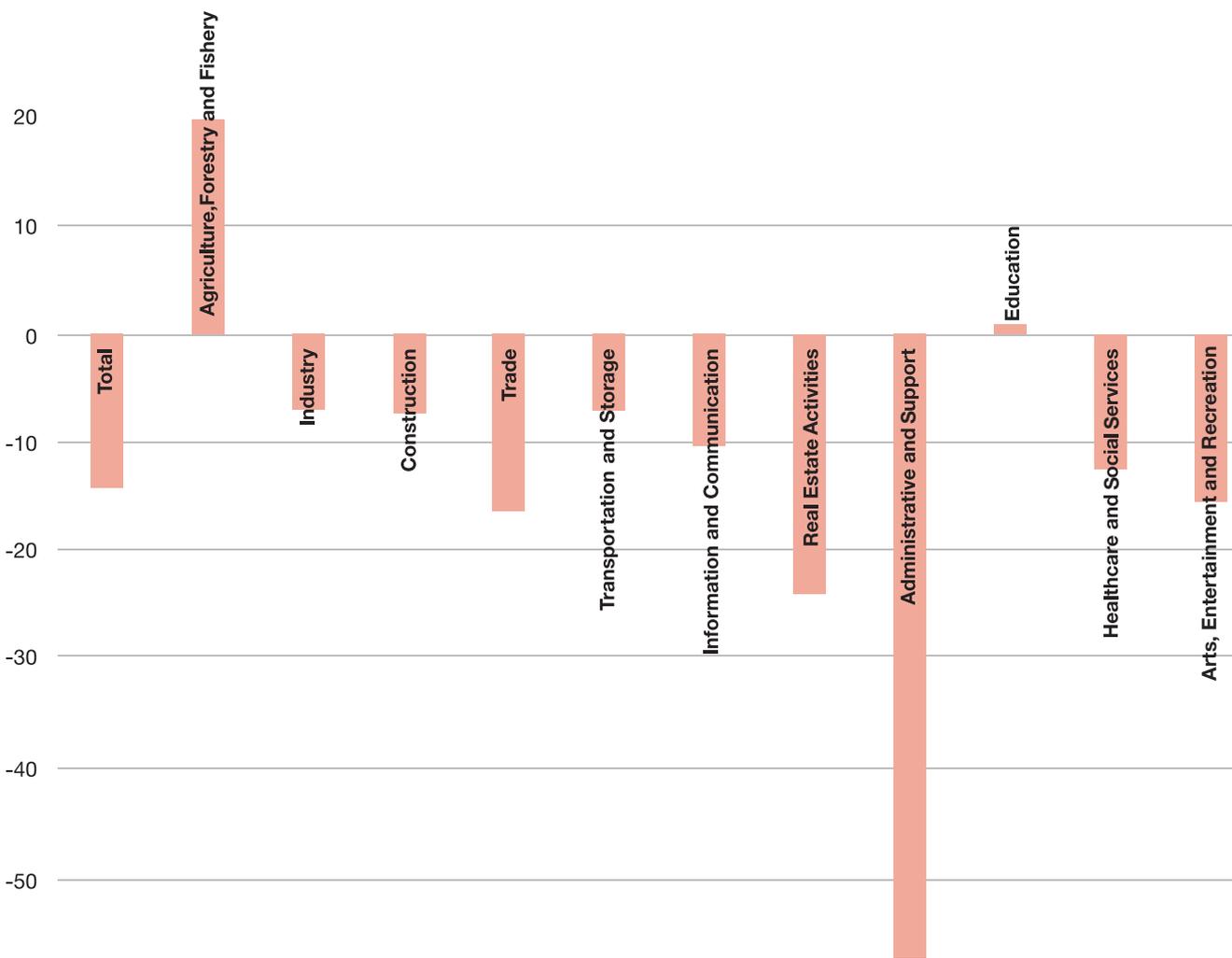
Source: National Statistics Office of Georgia (Geostat)

<sup>9</sup> National Statistics Office of Georgia [www.geostat.ge](http://www.geostat.ge)



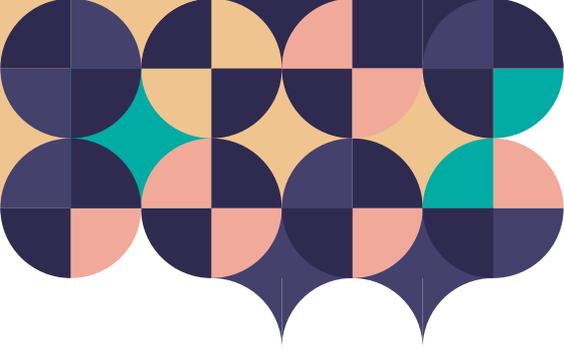
Turnover in the business sector decreased by 14 percent in the second quarter of 2020 compared to the first quarter, and the decline was particularly sheer in real estate (23.7 percent), trade (16.2 percent), arts, entertainment and leisure (15.4 percent), and healthcare (12.4 percent). Contrastingly, turnover in agriculture grew (19.8 percent). In the same period, turnover in industry decreased by 6 percent, in construction by 7.3 percent, and in transport by 7 percent (*see Figure 6*).

**Figure 6. Turnover by Economic Activity - second quarter of 2020 vs. first quarter of 2020 (%)**

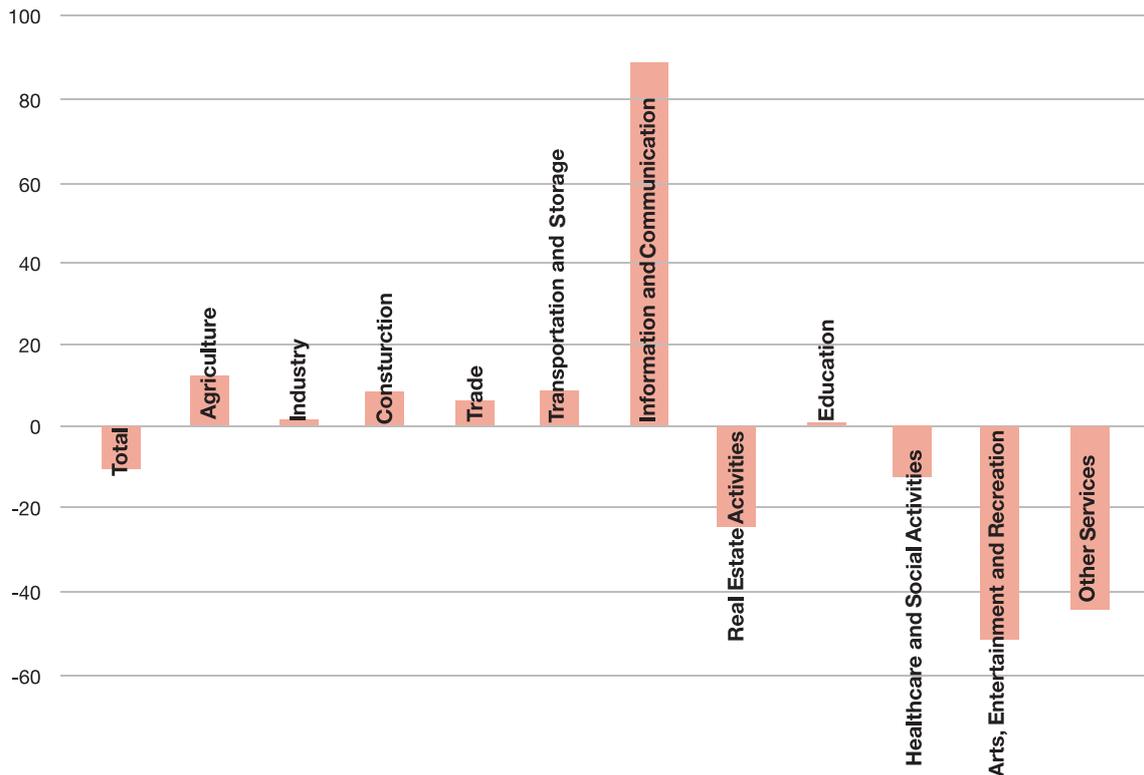


Source: National Statistics Office of Georgia (Geostat)

Output in the business sector decreased in the second quarter compared to the first quarter of 2020 in almost all sectors except agriculture, education, and communications (*see Figure 7*). In response to the pandemic-related restrictions, modern information technologies have been used in education as well as in the communication and information sector, ensuring that activities can continue remotely and that these sectors remain viable.



**Figure 7. Production Output by Economic Activity - second quarter of 2020 vs. first quarter of 2020 (%)**



Source: National Statistics Office of Georgia (Geostat)

The COVID-19 pandemic has had a significant impact on the scale of production and business activity in general. In the second quarter of 2020, compared to the previous quarter, turnover in the business sector decreased for all types of activities (except agriculture), while output also decreased in all activities except for agriculture, and information and communication field. Meanwhile, turnover and output in education have remained unchanged.

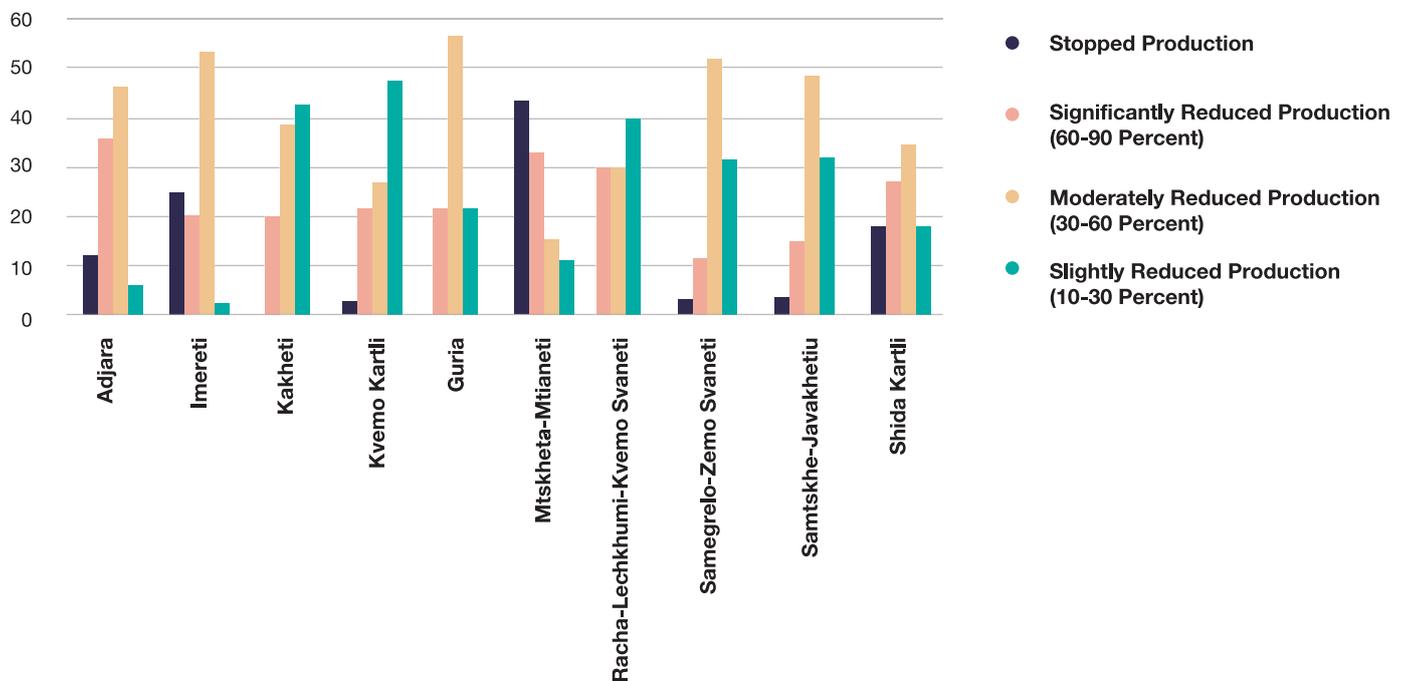
Compared to the first half of the previous year, turnover increased in agriculture, industry, and the arts and entertainment, while output increased only in industry.

## Impact of COVID-19 on the Regions of Georgia

The regions of Georgia are at different stages of development in various sectors. In some regions, tourism is well-developed along with industry, while in almost all regions the processing industry is predominantly at a developing stage.

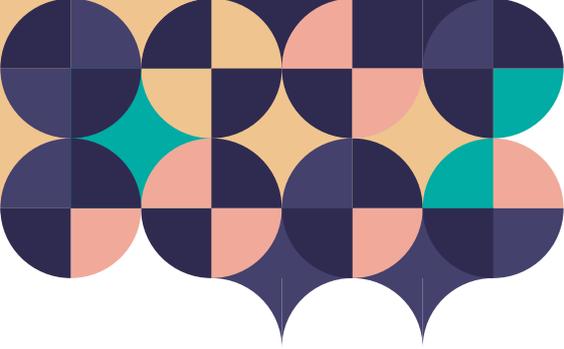
The survey showed that in the first half of 2020, 12 percent of enterprises had completely stopped production, 22 percent of enterprises had reduced production by 60-90 percent, 41 percent of enterprises had reduced production by 30-60 percent, and 25 percent of enterprises had reduced production by 10-30 percent (*see Figure 8*)<sup>10</sup>. In terms of regional comparison, the number of enterprises surveyed whose production decreased by 30-60 percent was greatest in Guria (56 percent) and Samegrelo-Zemo Svaneti (52 percent). Meanwhile, Adjara had the highest proportion of enterprises to reduce production by 60-90 percent, and the regions in which the highest proportions of 10-30 percent reductions were found were Kvemo Kartli (47 percent) and Kakheti (43 percent).

**Figure 8. Suspension / Reduction of Activities by Enterprise by Region (%)**



The contribution of **Adjara** to the economy of Georgia is important, and in this region a crucial role is played by construction, trade and services such as tourism, hotels and transport services. Infrastructural objects of national significance are located on the territory of Adjara, namely Batumi Seaport

<sup>10</sup> Includes temporary cessation of production during the quarantine period.



and Batumi International Airport. The region also boasts an array of hotels, ranging from luxury establishments to hostels.

COVID-19 has brought significant damage to the economy of Adjara, especially in the important areas of trade and services such as international tourism and hotels. Overall, 35 percent of respondents in Adjara had reduced production by 30-60 percent, while 43 percent had made a reduction of 60-90 percent (*see Figure 8*). The loss of international tourism was more or less compensated by domestic tourism, albeit not quite as there was some reluctance among the population about travelling to the coast due to fears of the spread of the virus. These fears proved well-founded as Adjara became the epicenter of the virus in Georgia in early September 2020.

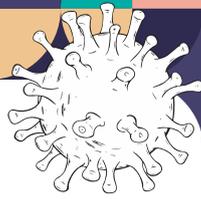
**Imereti** is one of Georgia's most active entrepreneurial regions, with a diverse economy and a diverse profile of cities. In its main city, Kutaisi, activities and services related to various industries serving the population of the city, as well as neighboring municipalities and regions are implemented. In addition, it is a local center for employment and a popular destination for labor migrants from remoter parts of Imereti region. The city is also distinguished by a relative abundance of large industrial enterprises.

Meanwhile, tourism in Kutaisi is one of the fastest-growing sectors and its development contributes to the development of infrastructure as well as various other areas of business, leading to employment growth in the local population in recent years.

Elsewhere in Imereti, in the small cities of Zestaponi and Samtredia, industry and transport and logistics are prominent, while Chiatura, Sachkhere, Tkibuli, and Khoni are better known for mining. In other municipalities, small scale trade and processing industries are at a developing stage. Trade, transport and communications, and construction are generally well-developed in the region.

In the first half of 2020, 26 percent of respondents in Imereti's municipalities stopped their production altogether, while the majority (53 percent) reduced production by 30-60 percent. Among the reasons given for stopping or reducing production, 24 percent mentioned lack of experience in operating an enterprise during times of crisis. Meanwhile, 78 percent requested aid from the State.

According to the survey, small enterprises in Imereti's municipalities attach great importance to the tax rescheduling and loan restructuring measures provided by the Georgian government. However, many large enterprises unlike their small and medium counterparts, had strategic plans in place. Representatives of large enterprises were less likely to report suffering losses due to COVID-19. The reverse however was true in the case of large tourism facilities - especially hotels - which have suffered more losses than their small counterparts. Small enterprises in this field have proven to be more flexible and adaptable to change than large enterprises. A large proportion of respondents (mostly small- and medium-sized enterprises) use Internet only for making payments. 74 percent of respondents that are representatives of trade, restaurants and food establishments, think that ensuring the IT safety is one of the main challenges they face. Only a small proportion of respondents said they used the Internet to place orders, while 19 percent of respondents had a strategy and future action-plan.



**Kakheti** is best known for viticulture and winemaking, both of which are well-developed in this region. In addition, tourism is particularly popular in the autumn. In the first half of 2020, Kakheti had a low rate of infection, but nevertheless more than 80 percent of respondents reduced production to a small or moderate level, particularly in the processing industry, with one of the reasons being reduced sales.

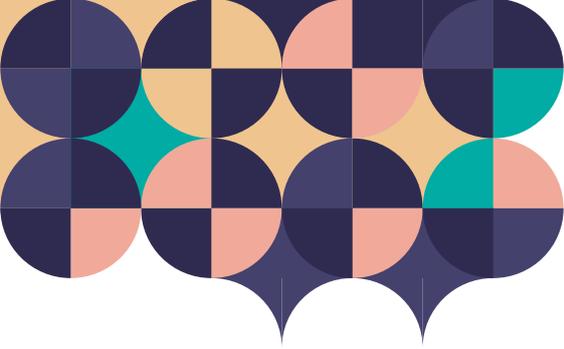
In **Kvemo Kartli**, the mining industry is relatively well-developed. In the first half of 2020, in Georgia the highest prevalence of the virus was observed in Marneuli and Bolnisi municipalities, in which the processing industry and the food industry are prominent. Elsewhere in this region, Rustavi is the industrial center, in which large enterprises are based. Nearly half of those surveyed in this region had suffered only small losses due to COVID-19 with small- and medium-sized enterprises suffering bigger losses.

In **Shida Kartli**, only food production and the food industry are more or less developed and carry importance across the region. In the second quarter of 2020, compared to the previous quarter, Shida Kartli, similar to the regions of Mtskheta-Mtianeti and Racha-Lechkhumi-Kvemo Svaneti, recorded a growth rate of more than 15 percent and, according to the research, the trade sector suffered the biggest losses in Shida Kartli. More than one-third of respondents reduced production by 30-60 percent.

In **Guria**, electricity, mineral and drinking water, hazelnuts, tea, beer, non-alcoholic beverages, wheat flour, bread and cookies, inert materials, and ground clay are most productive sectors. More than half of the surveyed enterprises reduced production by 30-60 percent, with reduction of sales and financial problems cited commonly as reasons. Meanwhile, state aid and subsidies were considered among respondents to be important in the course of overcoming the crisis.

The main economic sectors of **Mtskheta-Mtianeti** are agriculture, processing of agricultural products, production of food, alcoholic and non-alcoholic beverages, cattle breeding, energy, tourism, and restaurants. Mtskheta's tourism and restaurant sectors suffered the most losses in the region due to the pandemic. The declaration of a state of emergency in March as well as the quarantine and the closure of borders heavily reduced visits to the usually-popular resort of Gudauri with a significant reduction in local demand for the resort's services.

In **Samtskhe-Javakheti**, mining, as well as the production of mineral water, furniture and wood products are well-developed. Borjomi is also well-known for tourism. In-depth interviews with hotel representatives in Borjomi revealed that retailers had been hit especially hard by the pandemic. They also noted that adherence to safety rules had not been difficult for them and that hotels made the best use of electronic means to provide services. Moreover, they understand that the success of restaurants as well as other food and entertainment activities in the resort area depends on the availability and sustainability of hotels. The biggest obstacle cited by hotel representatives was the pandemic-related restrictions on movement. Specifically, restrictions on international traffic led to significant losses for all areas related to tourism, which could not be compensated for by local tourism.



Processing industries are developing within **Racha-Lechkhumi-Kvemo Svaneti**, in particular the production of meat, milk, honey and fruit, wine and wine products, non-alcoholic beverages, and wood processing. These areas have not been heavily affected by the pandemic. Indeed, 41 percent of respondents said that their production had decreased by 10-30 percent,

while 30 percent reported a decrease of 60-90 percent (*see Figure 8*). Although the region is well positioned for tourism development, its economic dependence on tourism is not yet heavy, so the impact of the pandemic-related travel constraints has been mainly felt in the decline of sales of products and services.

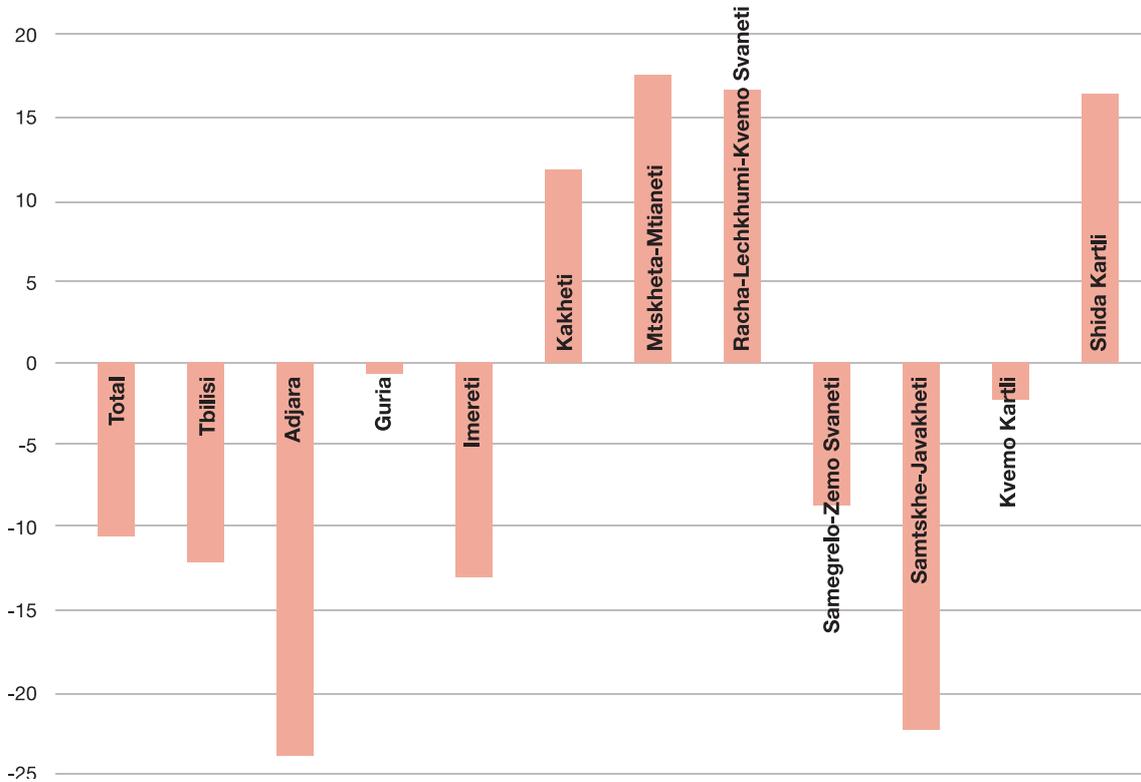
**Samegrelo-Zemo Svaneti** is an economically diverse region. Poti is its logistical center, while in Mestia tourism is well-developed and other municipalities are involved in the processing industry. The main types of production in Zugdidi municipality are hazelnut and tea processing, while in Abasha it is ice cream and confectionery production, in Tsalenjikha it is wood processing and tea production, in Martvili it is tea processing and wine production, and in Senaki it is wine production. Meanwhile, in Poti

it is production of fish oil, fish flour, meat and dairy products, in Chkhorotsku it is hazelnut production, and in Mestia it is wood processing. According to the research, more than 80 percent of respondents in the region said that their production had reduced by 10-60 percent. Meanwhile, almost half of the respondents in Poti said their production had reduced by 10-30 percent.

Mestia, Marneuli, Bolnisi and Tetrtskaro were the municipalities in Georgia most affected by the pandemic initially. In Mestia, tourism facilities such as hotels, food outlets, and trade suffered significant losses, while trade in Marneuli and Tetrtskaro also decreased significantly. Nevertheless, the perception of the crisis among entrepreneurs in these regions is no more dramatic than in other relatively 'green' municipalities. The research revealed that the impact of the pandemic on both green and COVID-19-heavy municipalities varied from region to region in the first half of the year. Its negative impact on production in Samtskhe-Javakheti region (production decreased by 22.2 percent) and in Adjara (production decreased by 24.6 percent) was particularly deep (*see Figure 9*). In Kakheti, Mtskheta-Mtianeti, Racha-Lechkhumi-Kvemo Svaneti, as well as in Shida Kartli, growth in production was maintained, while in Kvemo Kartli, where the quarantine period was particularly long in some municipalities, a small decline (-2 percent) was observed in production.



**Figure 9. Production Output by Region - second quarter of 2020 vs. first quarter of 2020 (%)**



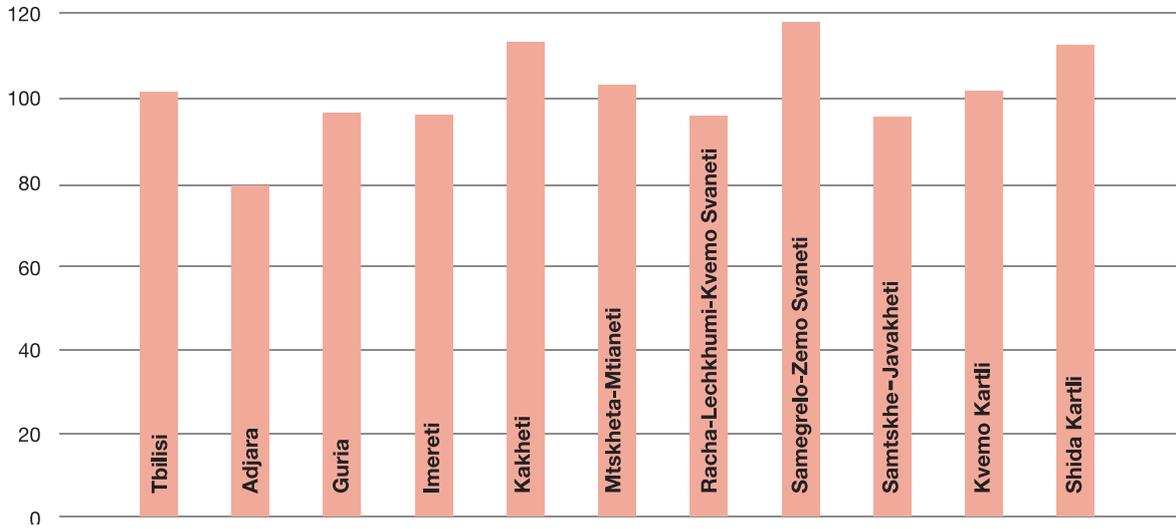
Source: National Statistics Office of Georgia (Geostat)

Some of the regional differences were due to the prevalence or otherwise of seasonal work (especially in agriculture) in each region’s business activities and sectoral structure. The impact of the pandemic was particularly heavy in tourism-oriented regions, in areas known for logistics services, and in places where trade is usually prominent.

In the first half of 2020, turnover in the business sector in Georgia more or less mirrored that of the first half of 2019, but the results differed from region to region. In Kakheti, Samegrelo-Zemo Svaneti, Kvemo Kartli, Shida Kartli, and Mtskheta-Mtianeti turnover in the business sector was slightly higher in the first half of 2020 than in the first half of 2019 (see Figure 10). However, a particularly heavy decline was felt in Adjara, where economic activity is heavily dependent on tourism.



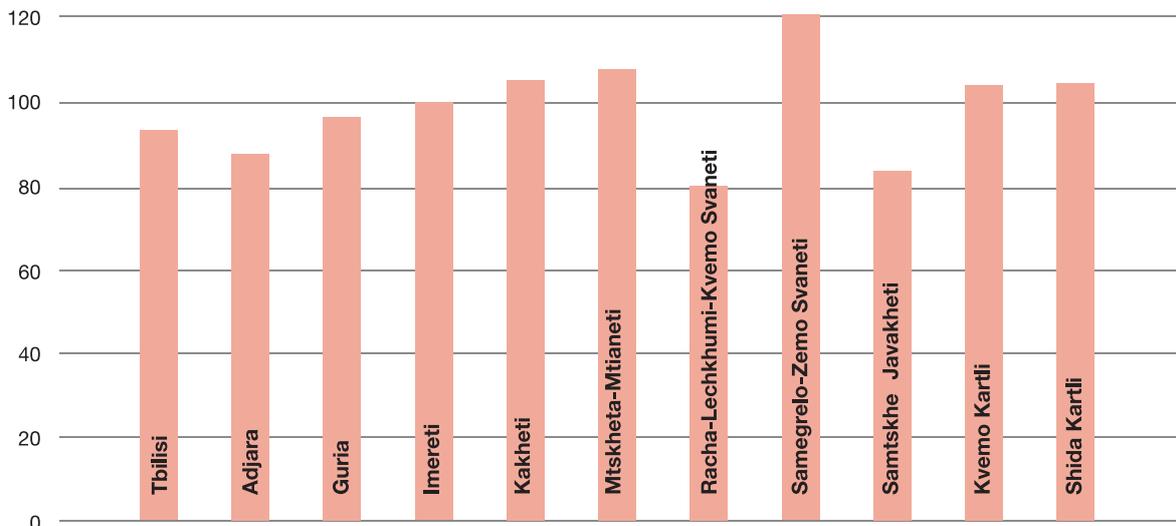
**Figure 10. Turnover by Region - first half of 2020 vs. first half of 2019 (%)**



Source: National Statistics Office of Georgia (Geostat)

Compared to the first half of 2019, the national output decreased by 7.1 percent. Nominal growth was however reported in Kakheti, Imereti, Samegrelo-Zemo Svaneti, Kvemo Kartli, Shida Kartli, and Mtskheta-Mtianeti. Notably, the most significant declines in output were observed in Adjara and Racha-Lechkhumi-Kvemo Svaneti (*see Figure 11*).

**Figure 11. Production Output by Region - first half of 2020 vs. first half of 2019 (%)**

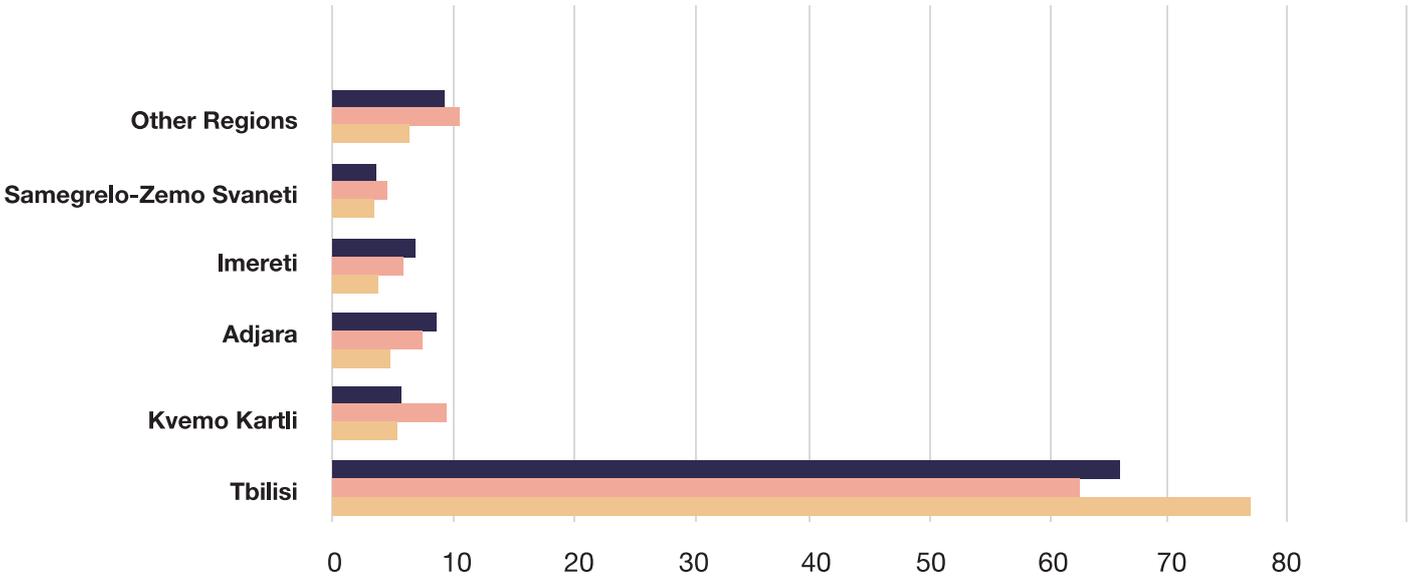


Source: National Statistics Office of Georgia (Geostat)



In terms of output, turnover, and employment, Kvemo Kartli, Adjara, Imereti, and Samegrelo-Zemo Svaneti had the largest shares in the second quarter of 2020, after Tbilisi, of the total figures for Georgia as a whole (Figure 12).

**Figure 12. Turnover, Output, and Employment in the Business Sector by Region - second quarter of 2020 (% share of the total)**



Compared to the first half of the previous year, turnover in the business sector in the first half of 2020 remained similar overall, however growth was observed in some regions (Tbilisi, Kakheti, Mtskheta-Mtianeti, Samegrelo-Zemo Svaneti, Kvemo Kartli, and Shida Kartli) (see Figure 10). However, outside Tbilisi, which made up 77.2 percent of overall turnover for this period, there was a significant decrease in the combined turnover of all other regions of Georgia.



## Impact of COVID-19 on Small Businesses and Construction<sup>11</sup>

The horizontal and vertical processes of business development in all regions form a network of inter-municipal and inter-regional producers, sellers, and consumers. A decline or failure in any of their activities leads to a decline or failure for other enterprises in a so-called chain reaction. Restrictions on movement and the closure of borders had a significant impact on the activities of tourism facilities (hotels, restaurants, cafe-bars, etc.) which in turn significantly reduced aggregate demand for transport and retail trade. All enterprises had the same grounds for stopping or reducing their activities, namely mitigating the effect of the pandemic. To deal with these challenges, material and financial resources as well as social and infrastructural support for the partnership network are essential.

As per the survey of entrepreneurs, the restriction on the movement of people in all municipalities had the greatest impact on business activities. Entrepreneurs' perceptions of restricted mobility were basically the same in both green and highly-infected municipalities (such as Marneuli and Bolnisi). Respondents named the following main obstacles hindering their business activities: the pandemic; having to observe sanitary-hygienic regulations; and a reduction in sales. The vast majority of respondents stated that their production had been reduced or stopped due to the pandemic. Thirty-eight percent of respondents considered adherence to pandemic-related regulations to be a relatively heavy burden. The restrictions had an impact on consumer behavior, which was reflected in a reduction in their aggregate demand.

In the first half of 2020, the economic downturn in Georgia mainly occurred during the quarantine period, the majority of which fell into the second quarter of the year. In April-May 2020, production and trade in almost all sectors either ceased or was reduced. The most affected businesses were small shops, medical service providers, and logistics firms. Production did eventually resume but with some delays. Meanwhile, mandatory adherence to sanitary-hygienic safety regulations posed serious challenges to many areas of production.

According to the data of Geostat, medium-sized enterprises were relatively stable in the business sector in the first half of 2020, with some even increasing their turnover, output, and employment. However, small enterprises only managed to retain employment levels, while large enterprises reduced both their output and employment. In the regions and municipalities of Georgia, the production of small businesses decreased more compared to that of medium or large businesses.

Medium-sized enterprises coped with the crisis relatively well. In the first half of 2020, compared to the first half of 2019, such enterprises were in a better position compared to large and small enterprises in terms of turnover, output, and employment parameters (*see Table 1*).

<sup>11</sup> The National Statistics Office of Georgia presents only annual figures for the business sector (turnover, employment, output, expenditures) at municipal level. The release of data for 2020 is scheduled for the second quarter of 2021. The data referring to municipalities in this document are based on results of the survey conducted within this research.



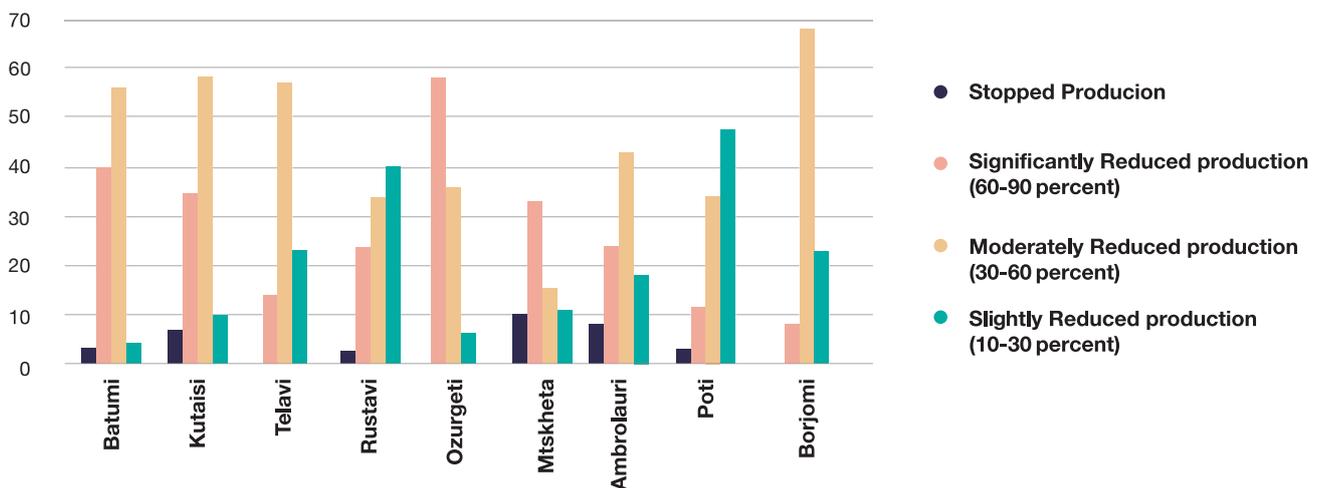
**Table 1. Turnover, output, and employment by size of enterprise (first half of 2020 vs. first half of 2019, %)**

	Large	Medium	Small	Total
<b>Turnover</b>	100.4	111.8	90.9	101.0
<b>Production output</b>	93.9	101.8	92.5	96.1
<b>Employment</b>	97.4	107.8	100.0	101.7

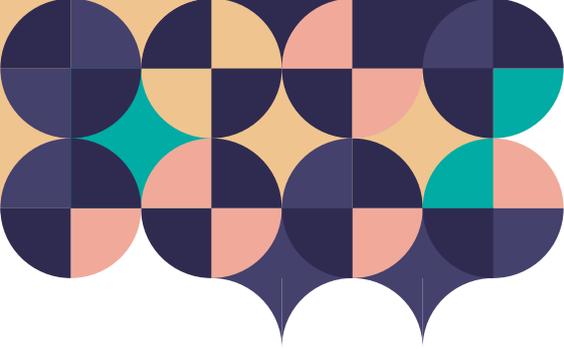
Source: National Statistics Office of Georgia (Geostat)

Looking at individual municipalities, according to small- and medium-sized businesses the impact of the pandemic in the first half of the year was especially significant in Mtskheta, where more than 60 percent of respondents said that their production was reduced by 60-90 percent. The same indicator was also high in Ozurgeti and Batumi. Meanwhile, in Borjomi, nearly two-thirds of respondents reduced their production by 30-60 percent. In other municipalities, production was mainly reduced by between 10 and 60 percent (see Figure 13).

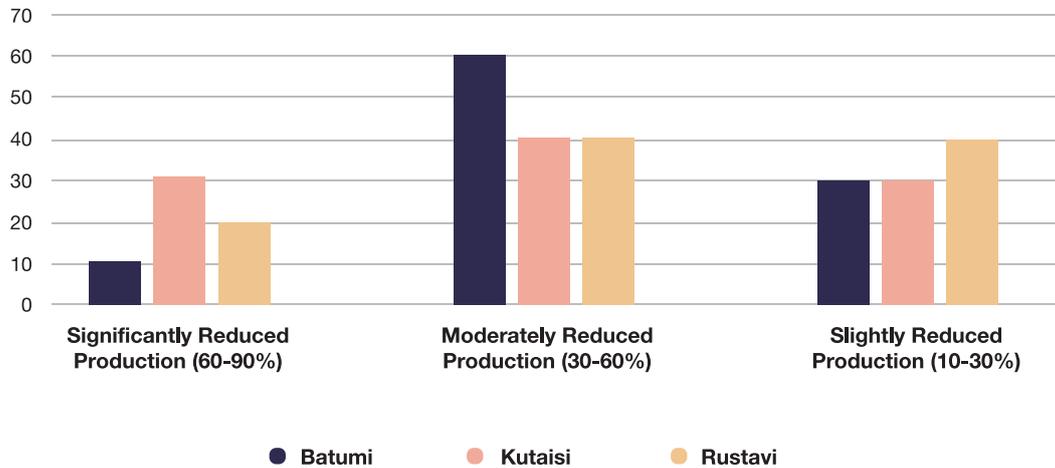
**Figure 13. Impact of COVID-19 on Production by Municipalities (%)**



The impact of the pandemic on construction has been relatively mild due to the Georgian government's mortgage financing policy. This policy generated positive expectations among construction firms regarding real estate sales and played an important part in the sector overcoming the crisis. Even though sales declined, the sector has prevailed. The responses of entrepreneurs from the municipalities indicate that the positive expectations aroused by the policy had a significant impact on maintaining the viability of the construction sector.



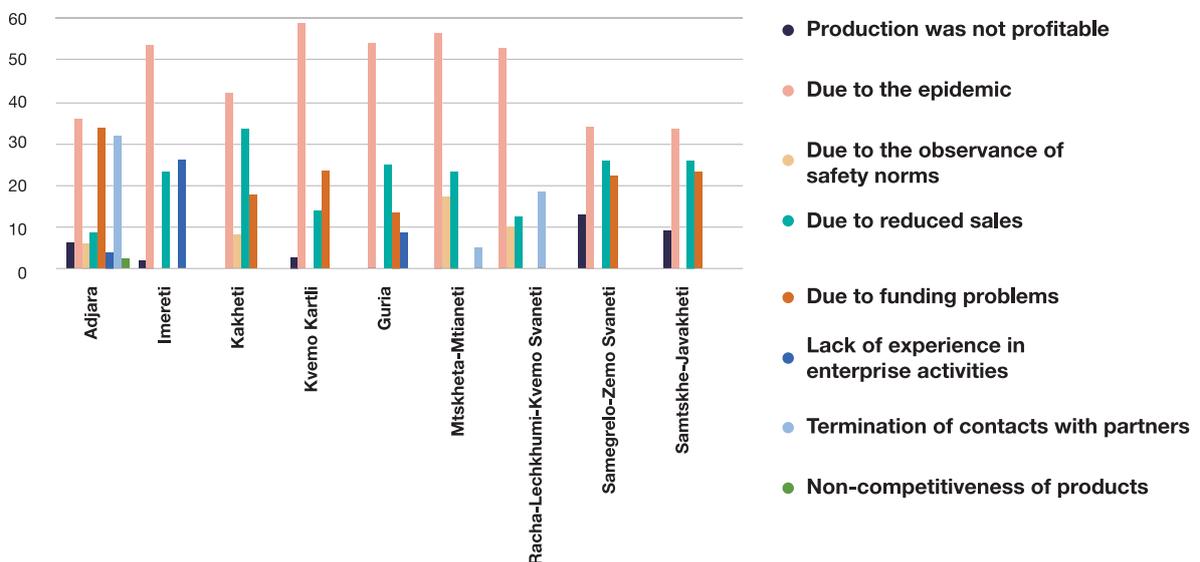
**Figure 14. Impact of COVID-19 on Construction by City (%)**

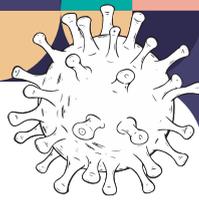


**Reasons for Reduction / Suspension of Production**

The research confirms that the impact of the pandemic on changes in the economies of municipalities was determined not by their rate of infection, but by the common restrictions imposed on business activities. According to the surveyed respondents, in response to the question “What was the reason for the reduction / suspension of production?” a total of 41 percent across all regions answered “the pandemic and various factors caused by the pandemic”, with 23 percent citing reduced sales and 14 percent citing financial problems.

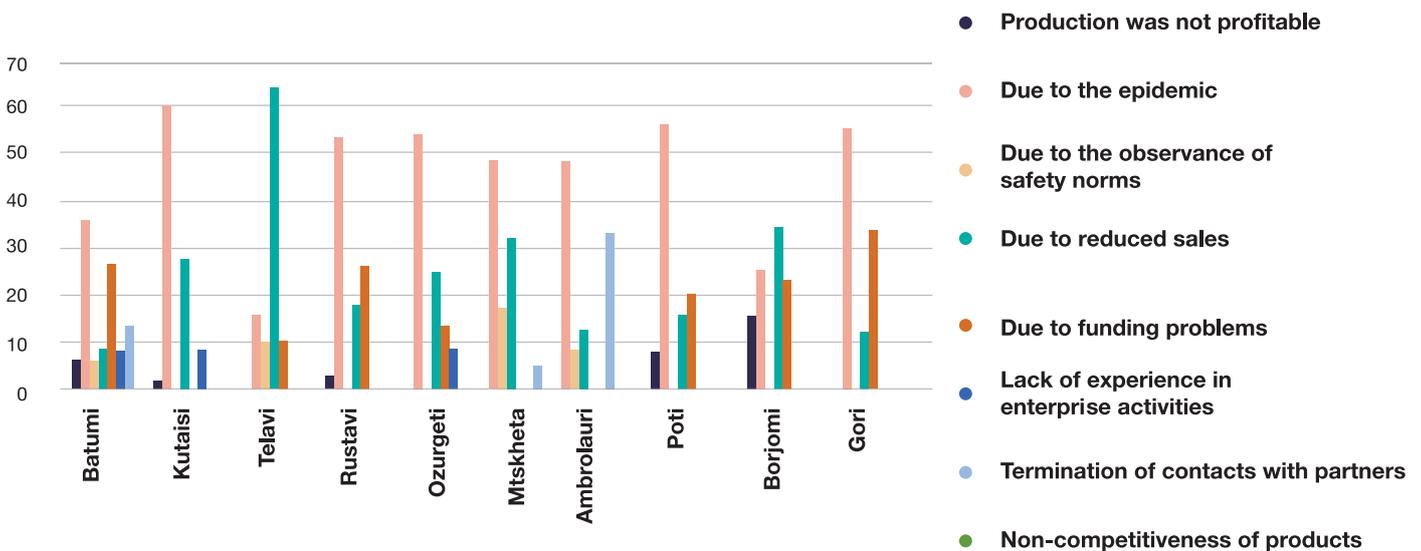
**Figure 15. Reasons for Reduction / Suspension of Production by Region (%)**





Across individual municipalities, the main reason for the reduction in production was the pandemic and the corresponding reduction in sales and financial problems related to it (see Figure 16).

**Figure 16. Reasons for Reduction / Suspension of Production by Municipalities (%)**



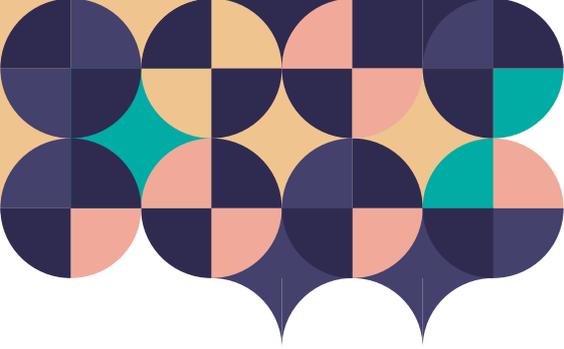
## Impact of COVID-19 on Agriculture and Households in the Regions

According to the data of Geostat, 78 percent of self-employed persons (approx. 659,000 people) are employed in agriculture. In 2019, the contribution of agriculture, forestry, and fisheries to Georgia's GDP amounted to 7.3 percent, and made up 6.3 percent of total output (equivalent to 5 041 million GEL). In the first quarter of 2020, the contribution of agriculture, forestry, and fisheries was 1,095 million GEL. In the second quarter of 2020, agricultural output increased by 14.3 percent compared to the same period of the previous year<sup>12</sup>, indicating that agriculture and household activities in rural areas continued at the usual pace despite the pandemic.

Stability was also ensured by the fact that during the state of emergency, the Government and emergency services prioritized agriculture along with healthcare, supplying the population with food, and ensuring timely and efficient implementation of agro-technical works, harvesting and transportation from quarantine zones as well as delivery to consumers.

During the state of emergency and with the introduction of the quarantine zone, the Government and local authorities took effective measures to procure products and transport them, as well as mobilize private procurement companies and vehicles. A good example of this was seen in Marneuli

<sup>12</sup> Source: National Statistics Office of Georgia, [www.geostat.ge](http://www.geostat.ge)



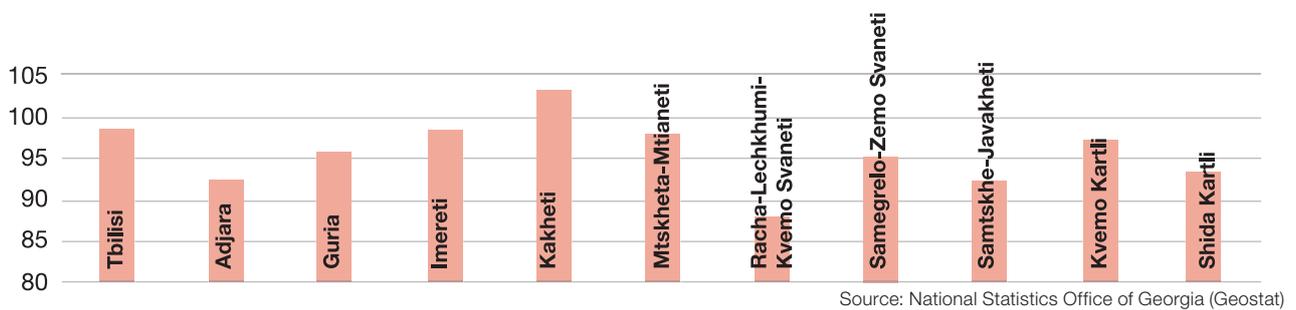
municipality, where hindrances to the sale of agricultural products by producers in the quarantine zone may have had a negative impact on the economic situation of the locals and even led to a shortage of certain types of food in the country.

The problem centered on entrepreneurial entities that had the right to purchase agricultural products in the quarantine zone and to transport them from the quarantine zone. Procurement entrepreneurs enjoyed temporary exclusive rights granted to them, and there was a lack of competition when it came to purchasing products. Taking advantage of the situation, they offered local producers prices lower than the market price, and then sold the products at several-fold profit to retail chains, which caused dissatisfaction among the local population. The Government and local authorities eventually stepped in to address this situation.

### Impact of COVID-19 on Employment

According to the data of Geostat, the number of unemployed persons in Georgia increased by 16,000 in the first half of 2020. Thereafter, the number of unemployed persons in the second quarter of 2020 increased by 10,700 compared to the second quarter of 2019 and reached a total of 235,900. If in 2019 the unemployment rate was 11.9 percent, it had reached 12.3 percent by the end of the first half of 2020. It is expected that this figure will continue to grow. Meanwhile, the total number of employed persons in the second quarter of 2019 was 687,874, and in the second quarter of 2020 it dropped to 631,814 (a decrease of 8.1 percent)<sup>13</sup>. In terms of the number of employed persons in the first half of 2020, the employment level increased in Kakheti’s municipalities compared to the same period of the previous year, while in other regions it decreased (see Figure 17). The employment rate for the whole of Georgia decreased by 3 percent during the mentioned period.

Figure 17. Number of Employed Persons by Region - first half of 2020 vs. first half of 2019 (%)

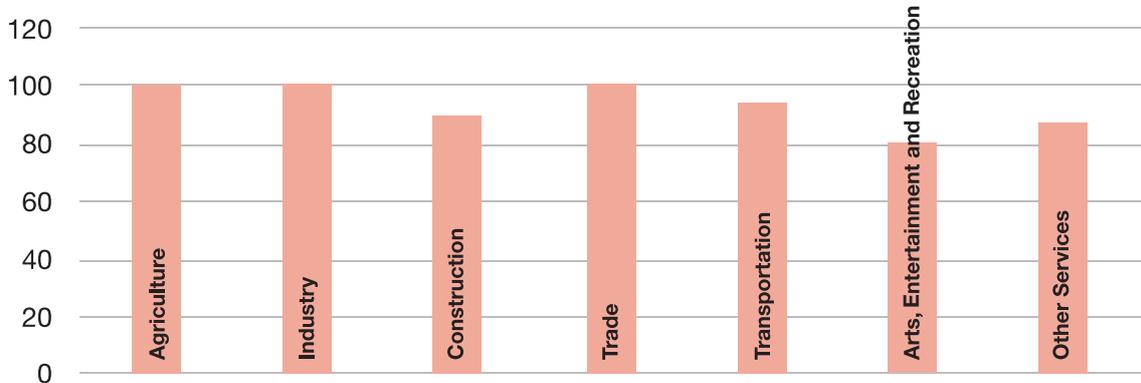


The employment rate decreased in almost all sectors (except for agriculture and trade), with particularly steep declines in arts, entertainment and leisure, construction, transport, and other services (Figure 18).

<sup>13</sup> Source: National Statistics Office of Georgia, [www.geostat.ge](http://www.geostat.ge)



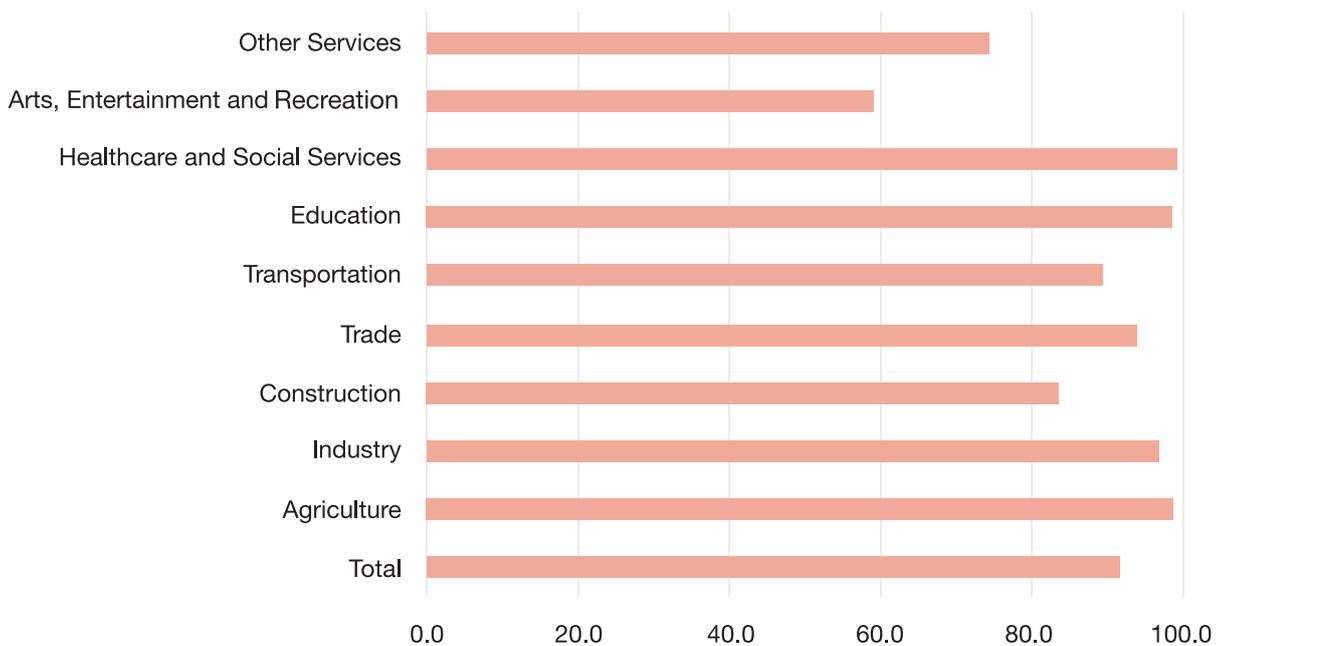
**Figure 18. Share of Employed Persons by Sector - first half of 2020 vs. first half of 2019 (%)**



Source: National Statistics Office of Georgia (Geostat)

Compared to the second quarter of 2019, employment in the business sector has decreased by 8.1 percent by the end of the in the second quarter of 2020, while in the first half of the year - by 2.7 percent. The employment rate decreased most significantly in arts, entertainment and recreation sector and other services (see Figure 19).

**Figure 19. Share of Employed Persons by Sector - second quarter of 2020 vs second quarter of 2019 (%)**

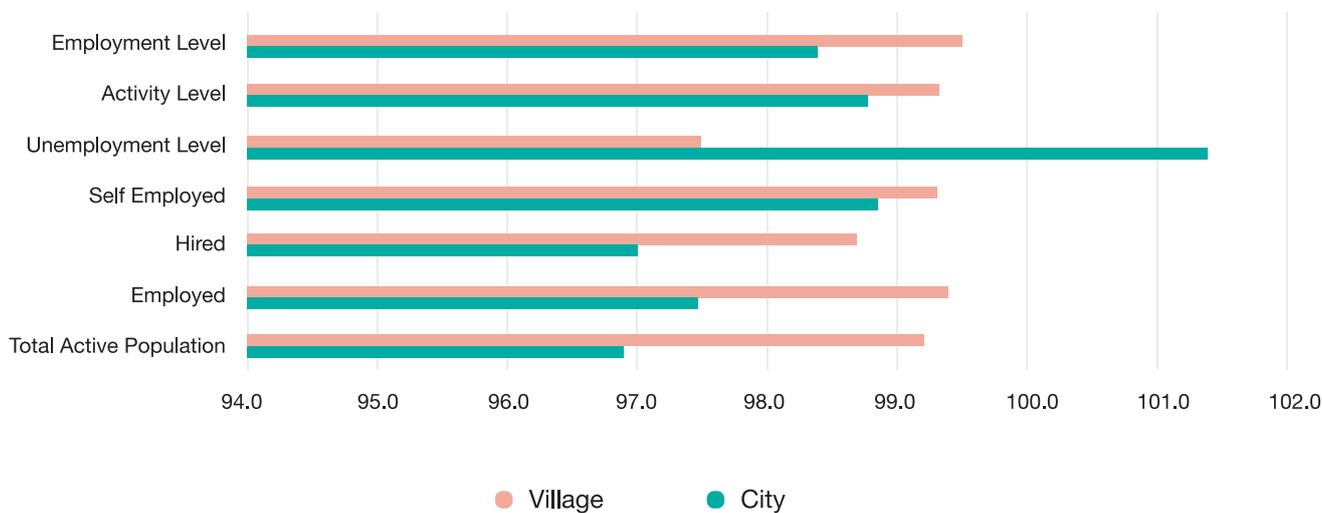


Source: National Statistics Office of Georgia (Geostat)



In terms of differences between urban and rural areas, the number of employed persons decreased more in urban areas (see Figure 20). The unemployment rate has seen the most significant increase in cities where business activity has decreased, whereas, at the same time, the unemployment rate in rural areas has decreased due to the fact that agricultural activities were not suspended during spring.

**Figure 20. Economic Activity of the Population by Type of Settlement - first half of 2020 vs. first half of 2019 (%)**



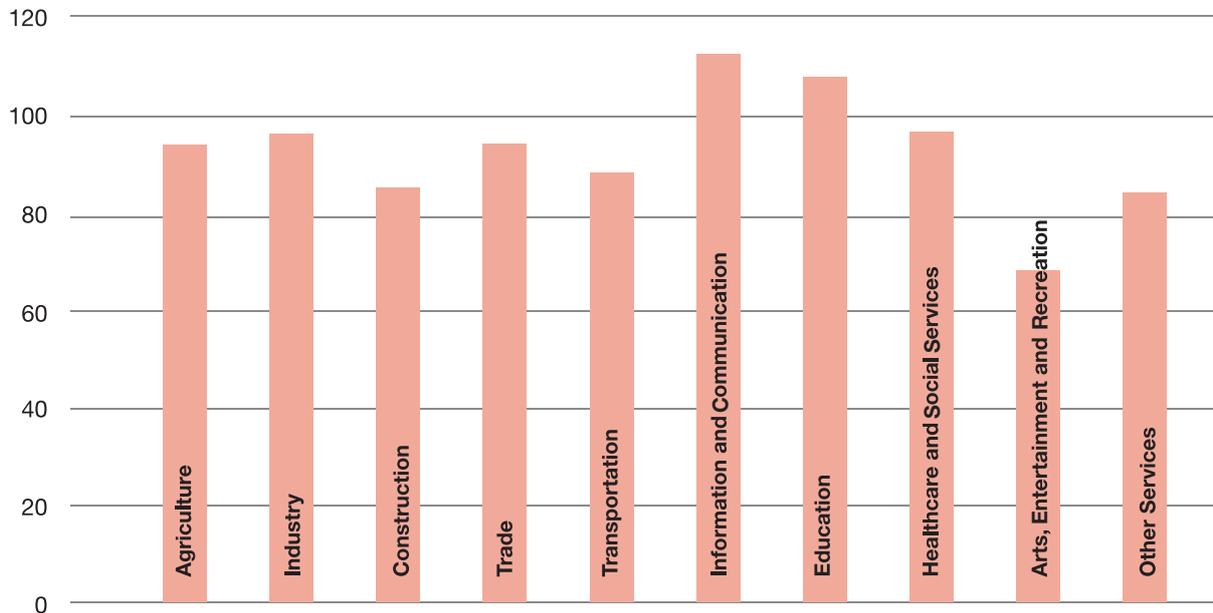
Source: National Statistics Office of Georgia (Geostat)

Compared to the first half of 2019, remuneration remained stable in the first half of 2020; in fact it slightly increased but declined by 8 percent during the second quarter accounting mainly for reductions in non-agriculture sector.

However, from the first to second quarters of 2020, along with the reduction in employment, the remuneration of hired employees also reduced. In the second quarter of 2020 average monthly remuneration was 1175 GEL, dropped from 1227 GEL in the first quarter (4.3 percent). During the same period, labor costs decreased in almost all sectors except for IT, technology, and education. In the first half of 2020, expenditures fell sharply in the arts, leisure and entertainment sector (32.6 percent), construction (14.7 percent), and other services (17.5 percent) (see Figure 21).



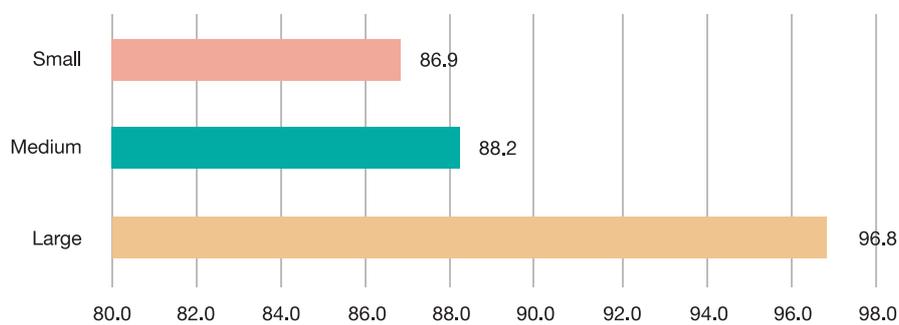
**Figure 21. Labor Costs by Economic Activity - first half of 2020 vs. first half of 2019 (%)**



Source: National Statistics Office of Georgia (Geostat)

Labor costs notably decreased in small enterprises (13.1 percent) and medium-sized enterprises (11.8 percent) (see Figure 22).

**Figure 22. Labor Costs by Size of Enterprise - first half of 2020 vs. first half of 2019 (%)**



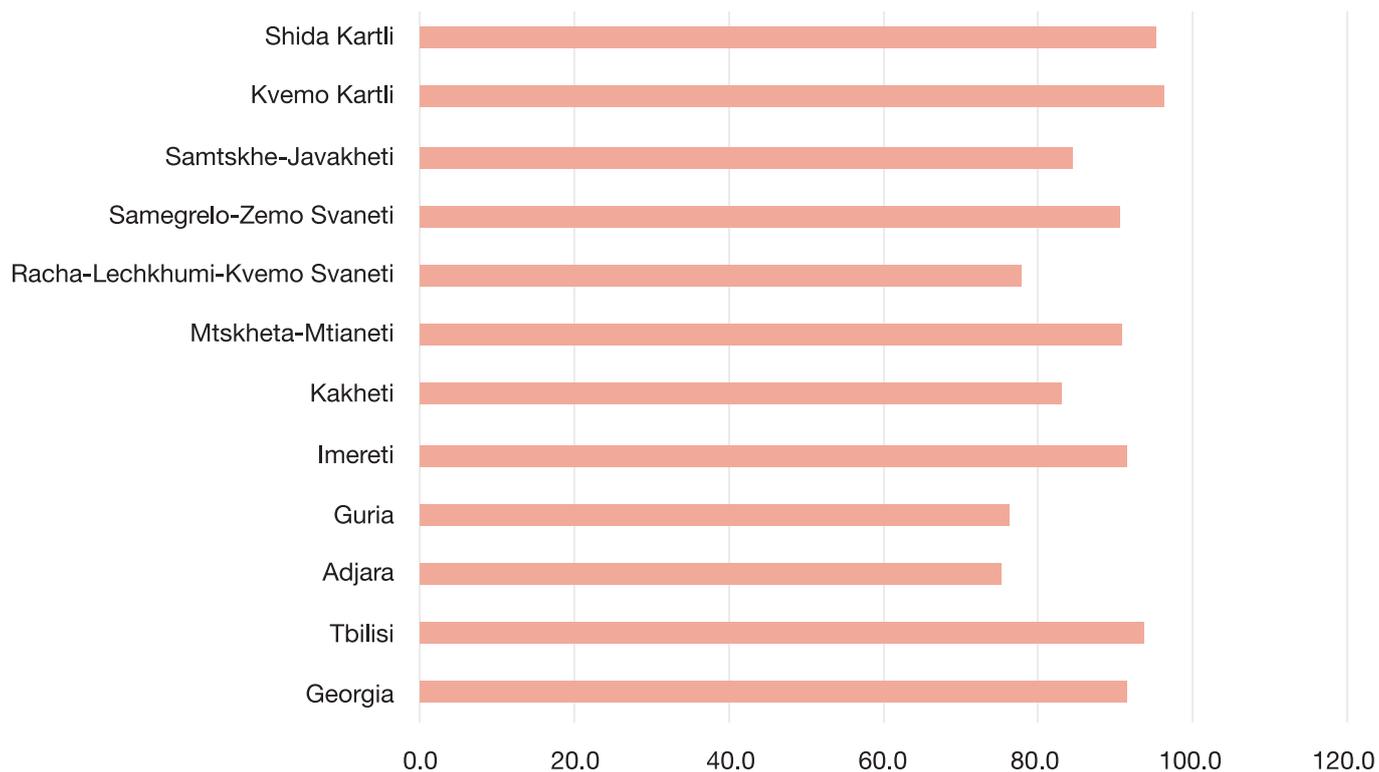
Source: National Statistics Office of Georgia (Geostat)

In municipalities with a significant number of large enterprises (Rustavi, Kutaisi, Tbilisi, and Poti), the reduction in labor costs was less pronounced than in small municipalities. Labor costs reduced significantly in Guria’s municipalities (Chokhatauri, Lanchkhuti, and Ozurgeti) and in Adjara (Batumi and Kobuleti).



Though labor costs decreased in all regions, Adjara and Guria experienced the greatest reductions (see Figure 23).

**Figure 23. Labor Costs by Region - first half of 2020 vs. first half of 2019 (%)**



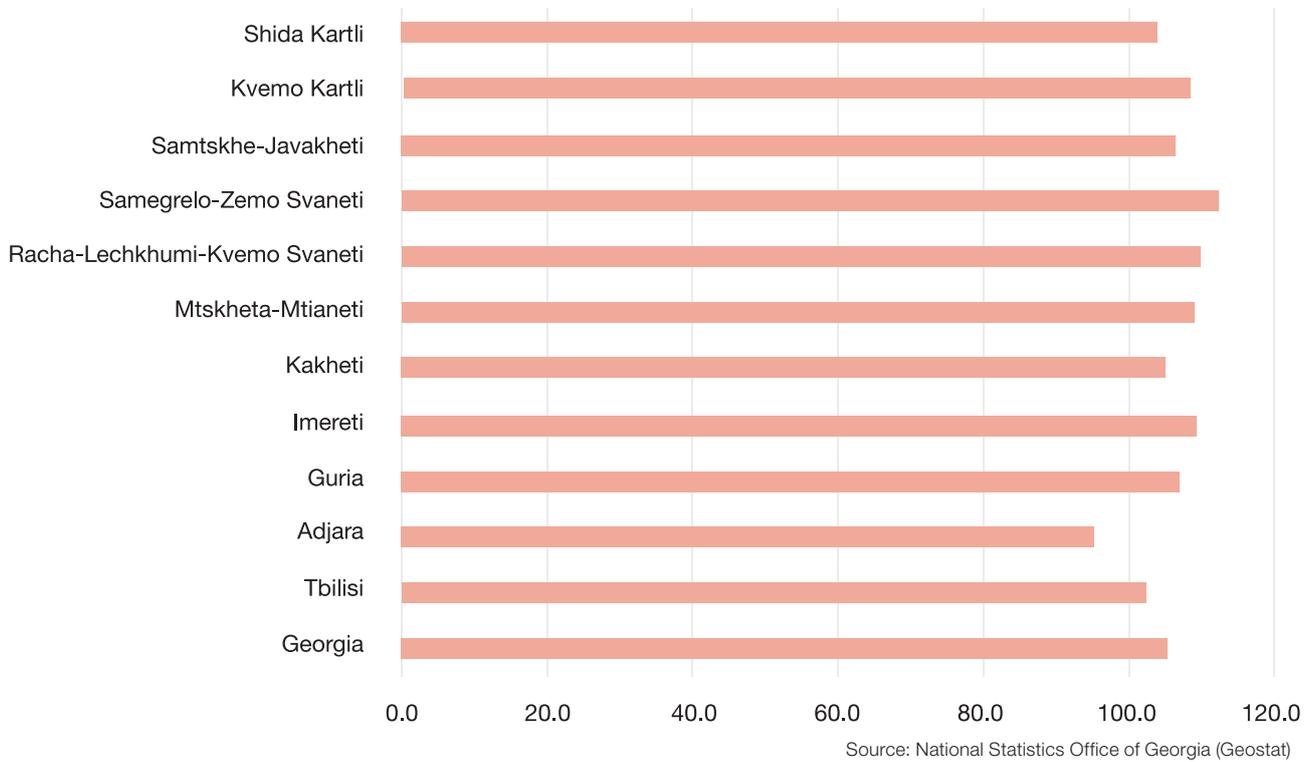
Source: National Statistics Office of Georgia (Geostat)

The reduction in labor costs was reflected in the reduction of employment and household revenues and costs. The decline in household revenues also had a negative impact on consumption.

In the first half of 2020, the remuneration of hired employees did not reduce compared to the same period of 2019, except in Adjara (see Figure 24). However, according to data of Geostat, remuneration decreased by 1-1.5 percent in all regions in the second quarter of 2020, compared to the same period of 2019. It was lower also compared to the first quarter of 2020. A significant contributing factor to this was the reduction of output recorded by most enterprises.



**Figure 24. Average Monthly Remuneration of Hired Employees by Region - first half of 2020 vs. first half of 2019 (%)**



Due to the prolonged nature of the pandemic, rising unemployment rates become inevitable in the future. According to research conducted by the International School of Economics at Ivane Javakhishvili Tbilisi State University, 30 percent of hired employees are at high risk of losing their jobs, while 83.5 percent of self-employed persons are expected to have to deal with decreasing incomes and reduced economic opportunities<sup>14</sup>.

<sup>14</sup> Levan Pavlenishvili, Ana Burduli, Mariam Katsadze, Giorgi Papava, The Social Effect of COVID-19 - The Basis for the Introduction of Universal Assistance? International School of Economics, TSU [https://drive.google.com/file/d/1O\\_6b3eglhQXSeTzoTIX8G90tRjh87E\\_/view](https://drive.google.com/file/d/1O_6b3eglhQXSeTzoTIX8G90tRjh87E_/view)



## Impact of COVID-19 on Tourism

Due to the pandemic, economic activity has been significantly reduced in all regions, mostly due to the reduction of domestic and external demand. Entrepreneurial activity has continued during the pandemic, but various industries have found themselves in crises of different magnitudes. In tourism, the radical reduction in the flow of visitors and tourists from abroad has had an enormous impact. Tourism-related enterprises such as hotels, restaurants and food outlets, and transport providers have borne a particularly heavy shock.

The tourism sector has been a major driving force in Georgia's economy in recent years. However, now employees in the tourism sector are at risk of prolonged unemployment.

Globally, tourism is a highly important economic sector. In 2019, the tourism sector accounted for 29 percent of world services exports and the number of employees in the tourism sector in the world reached 300 million<sup>15</sup>.

Tourism is among the economic sectors most affected by the COVID-19 pandemic. The United Nations World Tourism Organization (UNWTO) estimates that due to the drastic fall in international travel due to the COVID-19 pandemic, the tourism sector will suffer losses of US\$1.1 trillion worldwide in 2020, and the number of employees in this sector is expected to decrease by 100-120 million. The recovery and future of the tourism sector will depend on when restrictions on movement between countries are lifted<sup>16</sup>.

Tourism also indirectly affects employment in other areas of the economy such as construction and infrastructure, food and beverage provision, and souvenir trade. In addition, tourism has a direct effect on employment in travel agencies, air travel, cruise services, hotels, restaurants, shopping malls, and tourist attractions.

Tourism, as one of the priority sectors of the country's economic development, has suffered the most significant decline due to the pandemic in all municipalities of Georgia. This has been largely caused by the restriction of movement introduced not only by Georgia, but by most countries to prevent the rapid spread of the virus.

According to the data of the GNTA, the number of international travelers in the country decreased by 95.6 percent in July compared to July 2019. Compared to the first half of 2019, revenues from foreign tourism dropped by US\$1.1 billion in the first half of 2020<sup>17</sup>.

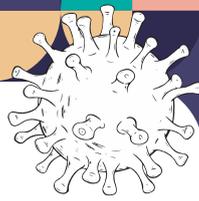
According to 2019 data, Georgia's tourism revenue contributed 21 percent of GDP, and the number of international traveler visits reached 9,357,964 for the year, which was a 7.8 percent increase on 2018<sup>18</sup>.

<sup>15</sup> COVID-19 and Tourism, Assessing the Economic Consequences, by Badri Narayanan Gopalakrishnan, Ralf Peters and David Vanzetti, UNCTAD [https://unctad.org/system/files/official-document/ditcinf2020d3\\_en.pdf](https://unctad.org/system/files/official-document/ditcinf2020d3_en.pdf)

<sup>16</sup> COVID-19 and Tourism, Assessing the Economic Consequences, Badri Narayanan Gopalakrishnan, Ralf Peters and David Vanzetti, UNCTAD [https://unctad.org/system/files/official-document/ditcinf2020d3\\_en.pdf](https://unctad.org/system/files/official-document/ditcinf2020d3_en.pdf)

<sup>17</sup> Georgian National Tourism Administration <https://gnta.ge/>

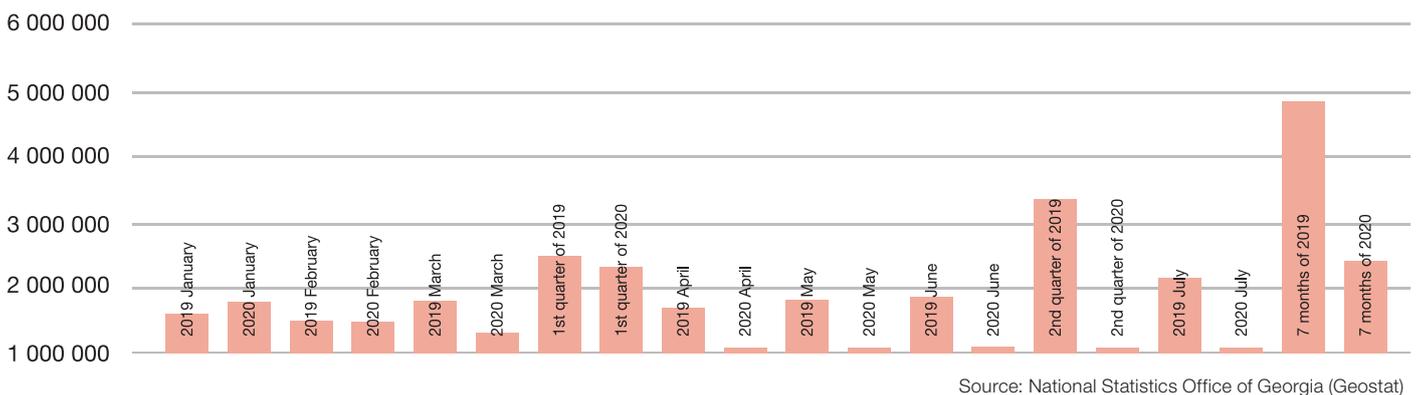
<sup>18</sup> Possible Impact of COVID-19 on the Georgian Economy (Current Situation and Overview of Forecasts), Georgian Parliamentary Research Center, May 4, 2020, N 03/08



According to the data of the GNTA, 1,617,548 tourists visited Georgia in the first quarter of 2019. The decline in tourist figures began in 2020 in February (down by 3,136) and March (down by 284,459). In the first quarter of 2020, the number of tourists visiting Georgia decreased by 284,459 (18 percent), and this was despite a 19 percent increase in January 2020 compared to January 2019. The decline in tourism became more apparent in the second quarter of 2020, with a drop of 95 percent compared to the second quarter of 2019. While in July 2020, the number of international travelers amounted to 48,535, which represented just 4.4 percent of the same figure for July 2019<sup>19</sup>.

A total of 1,495,743 international travelers entered Georgia in first seven months of 2020, which is equivalent to a 70 percent reduction compared to the same period of 2019 (see Figure 25). The decline from April to July was 95 percent.

**Figure 25. Number of International Visitors by Month and Quarter 2019-2020**



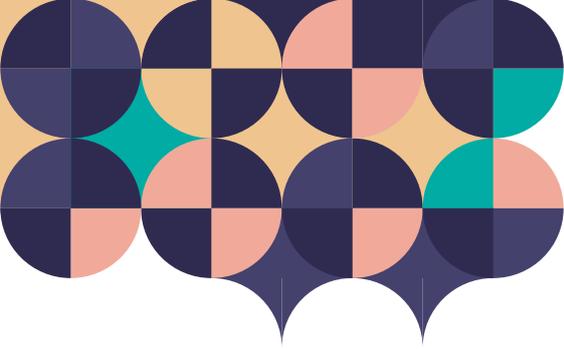
In the second quarter of 2020, the average monthly number of tourist visits made by Georgian residents within Georgia also decreased by 31.4 percent compared to the same period last year.

In 2019, Georgia earned US\$9.5 billion from exports of goods and services, of which tourism accounted for US\$3.3 billion (34 percent of the total). In the first eight months of 2020, travel revenue totaled US\$483 million, which represented a 78 percent drop compared to the first eight months of 2019 and in monetary terms amounts to a US\$1.8 billion decrease<sup>20</sup>.

According to the data of the GNTA, in 2019 Adjara (30.2 percent), Kvemo Kartli (17 percent), and Mtskheta-Mtianeti (16.9 percent) were the most popular places for foreign tourists to visit outside Tbilisi. The following regions, according to the same data, were visited by a smaller number of visitors: Samtskhe-Javakheti (6.6 percent), Kakheti (6.5 percent), Imereti (4.9 percent), Shida Kartli (3.1 percent), Samegrelo-Ze-

<sup>19</sup> Georgian National Tourism Administration, <https://gnta.ge/>

<sup>20</sup> Giorgi Kakauridze - According to 8 months data, revenues from tourism are reduced by 78%, which means decrease of about \$1.8 billion, Interpressnews, 10.09.2020, <https://www.interpressnews.ge/ka/article/617524-giorgi-kakauridze-8-tvis-monacemebit-turizmidan-migebuli-shemosavle-bi-78-it-aris-shemcirebuli-rac-daaxloebit-18-miliard-dolarian-klebas-nishnavs>

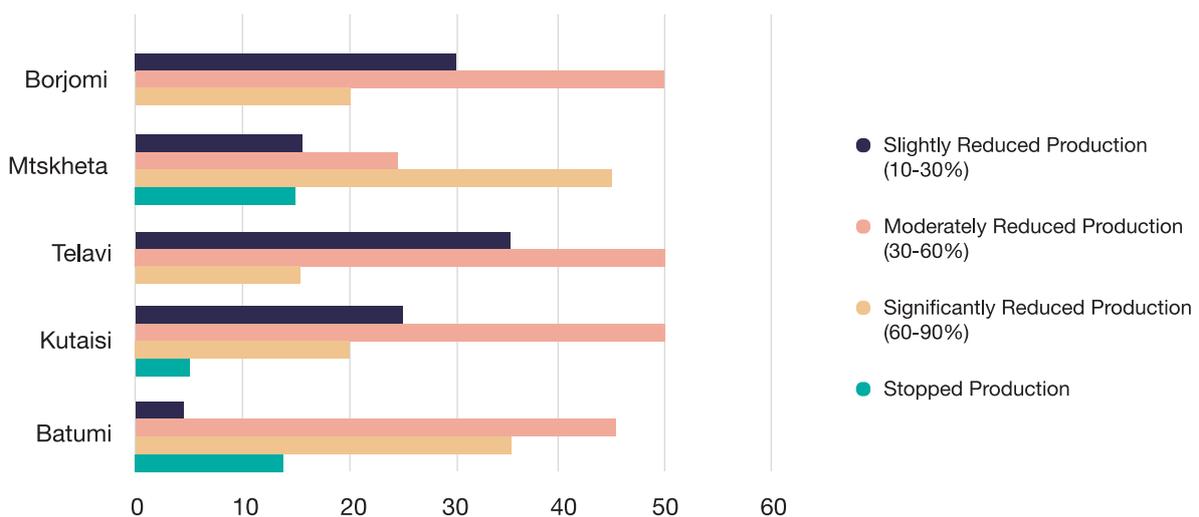


mo Svaneti (2.8 percent), Guria (1.3 percent), and Racha-Lechkhumi-Kvemo Svaneti (0.2 percent). Looking at municipalities, in 2019, the most popular were Batumi (28.9 percent), Kutaisi (4.6 percent), Gudauri (4.5 percent), Signagi (3.7 percent), Rustavi (3.7 percent), Borjomi (3.1 percent), Kobuleti (2.8 percent), Marneuli (11.4 percent), Kazbegi (8.3 percent), and Mtskheta (6.8 percent)<sup>21</sup>.

The reduction of international visits in 2020 will lead to proportional decreases in revenues and will cause marked losses for regions and municipalities where the volume of tourists is normally highest and which highly depend on foreign tourists (including Mtskheta, Borjomi, and Batumi).

The research confirms that small- and medium-sized enterprises related to the tourism sector experienced the biggest losses. Nearly half of those surveyed said that their production reduced by an average of 30-60 percent (see Figure 26).

**Figure 26. Losses Incurred by Business Entities Involved in Tourism by Municipalities as a Result of COVID-19 (%)**



Even though domestic tourism is considered one way of alleviating the crisis, this is limited in Georgia and would not be able to compensate for the losses incurred due to near absence of international tourism. Therefore, the issue of how the sector can be supported has arisen. Most entrepreneurs of hotels and small- and medium-sized catering establishments surveyed in the municipalities considered that state grants and loans represented the most significant support for them. According to the data of the National Bank of Georgia, loans issued for hotels and restaurants in the first two quarters of 2020 equated to only 45 percent of loans issued in 2019. Given the expected long duration of the crisis, the sector will need some further alleviation of its bank liabilities.

The damaged tourism sector has had a negative impact on foreign exchange flows as well, which has been reflected in the diminished value of the national currency (GEL). Revenues from tourism, along with remittances and FDI, are usually the pillars on which the GEL exchange rate depends.

<sup>21</sup> Georgian National Tourism Administration, 2019, <https://gnta.ge/wp-content/uploads/2020/09/2019-1.pdf>

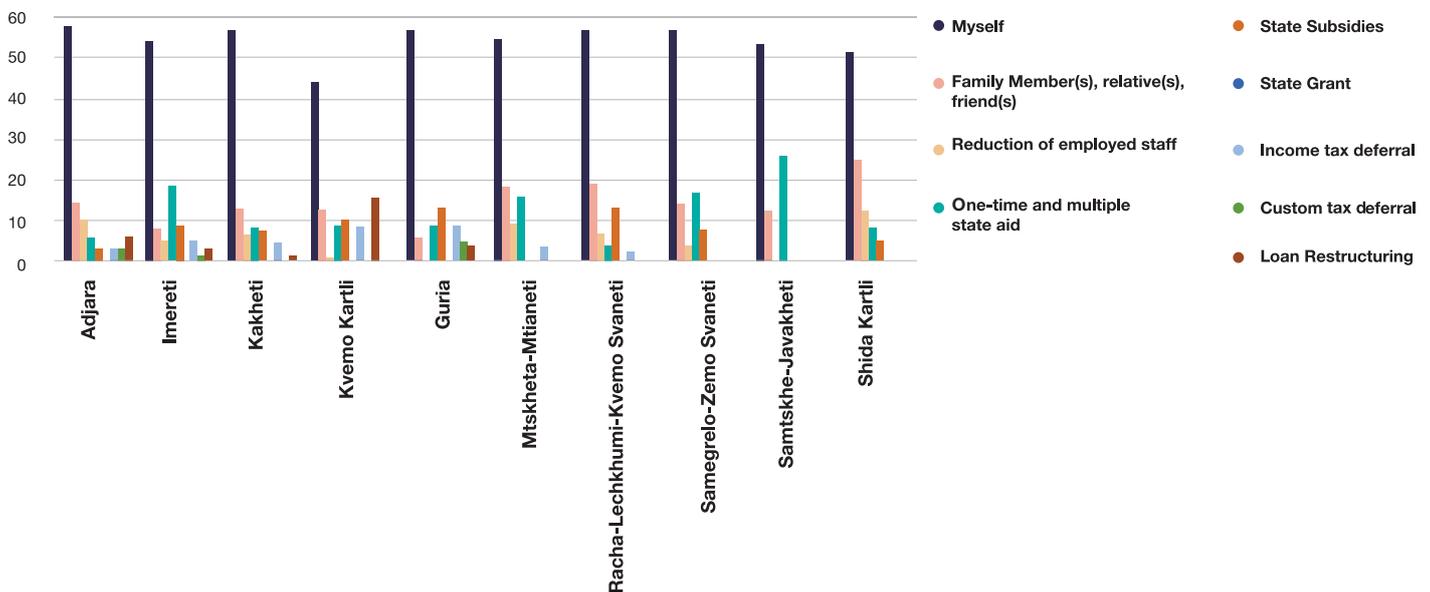


According to the forecast of Galt & Taggart, in 2020, the expected loss in the tourism sector of Georgia is US\$1.2 billion according to the optimistic scenario, US\$2.0 billion according to the intermediate scenario, and US\$2.8 billion according to the pessimistic scenario<sup>22</sup>.

## Business Support Mechanisms and the Role of Government During COVID-19

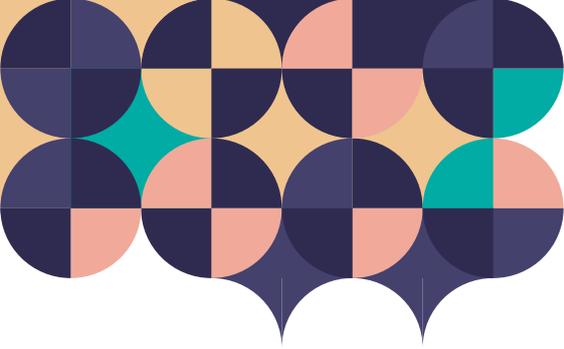
According to the survey, when asked “Which resource will help / assist you in running your business?” the majority of respondents across Georgia answered state aid and their own efforts. The majority of respondents, approximately 53 percent, said they relied only on themselves and 14 percent said they relied on themselves and their family members. Meanwhile, 25 percent of respondents claimed that one-time and multiple state aid / subsidies, state grants, income tax deferrals, customs deferrals, and loan restructuring were all important resources helping them to continue their businesses during the pandemic (see Figure 27).

**Figure 27. Resources that Will Help or Have Helped Enterprises in Conducting Business Activities by Region (%)**

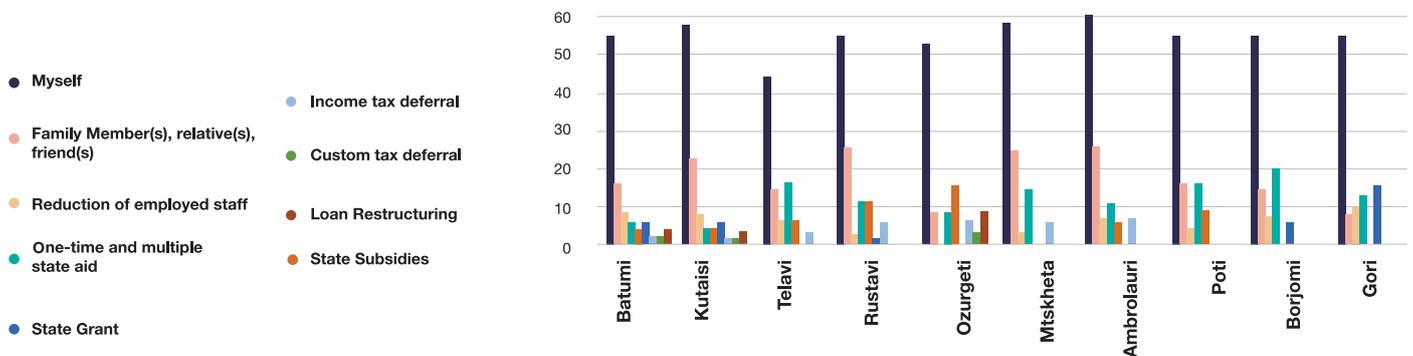


Looking at individual municipalities, when asked “Which resource helped you run the business?” 46 percent of respondents in Telavi named themselves, while this answer exceeded 50 percent in all other municipalities. Eleven percent of respondents in Kutaisi municipality and 40 percent in Ozurgeti municipality mentioned one-time and multiple state aid, subsidies and grants as the main resource helping them to conduct business. Across the 10 municipalities presented here, an average of 24 percent gave this response (see Figure 28).

<sup>22</sup> Possible Impact of COVID-19 on the Georgian Economy (Current Situation and Overview of Forecasts), Georgian Parliamentary Research Center, May 4, 2020 [http://www.parliament.ge/ge/ajax/downloadFile/136520/08\\_Viewpoint\\_2020-05-04\\_Covid\\_19\\_and\\_Georgian\\_economy](http://www.parliament.ge/ge/ajax/downloadFile/136520/08_Viewpoint_2020-05-04_Covid_19_and_Georgian_economy)



**Figure 28. Resources that Will Help or Have Helped Enterprises in Conducting Business Activities by Municipalities (%)**



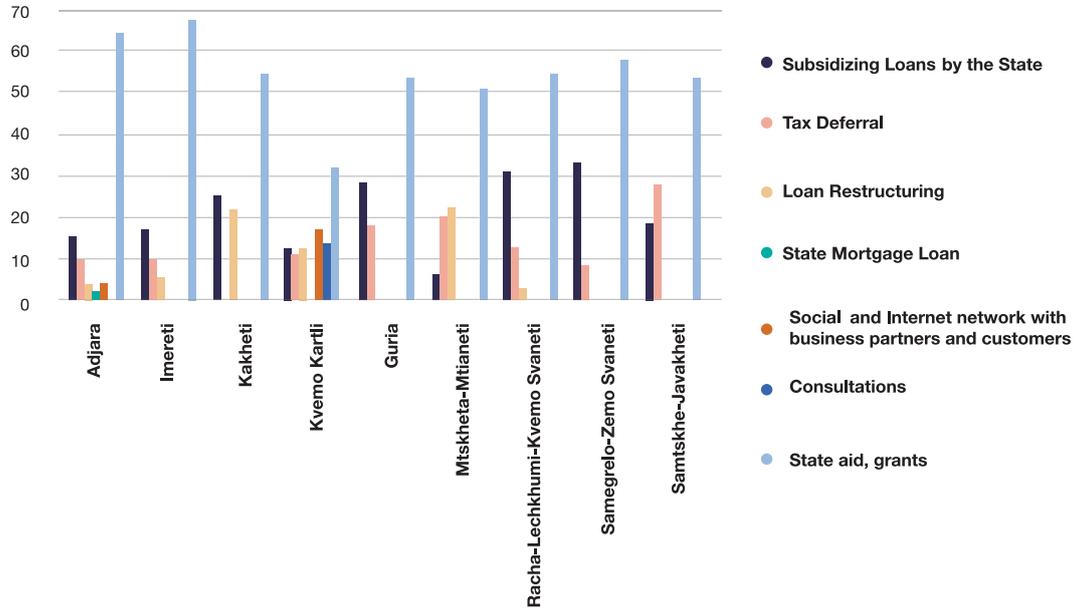
As for staff reductions, on average only 3 percent of respondents across all regions said they had reduced staff numbers (see figure 27). In Gori municipality, 10 percent admitted making staff reductions, and in Rustavi municipality only 2 percent said so (see Figure 28). This demonstrates that in the first half of 2020, only a small proportion of entrepreneurs resorted to the practice of reducing staff in order to continue the activities of their enterprise. This indicates that there have been no significant changes in the labor market, which is largely due to the anti-crisis measures imposed by the Government. In particular, the Government announced a subsidy policy for enterprises, which would allow to retain their employees. This employment policy somewhat offset the rise in unemployment, but as the pandemic goes on, the structure of the labor market will change and an increase in unemployment is expected.

It should also be taken into consideration that the expected reduction in aggregate demand will have a negative impact on the output of enterprises and employment, respectively. The strategy of most enterprises on the labor market has been passive during the pandemic. They have suffered from a lack of both experienced and skilled personnel, especially in crisis management. During the first wave of the pandemic, enterprises were only trained in compliance with sanitary-hygienic regulations.

Surveyed entrepreneurs also cited a lack of experience in the business specific activities of the enterprise as a hindrance (see Figure 16). However, their focus was mainly channeled towards state support tools. Factors such as contacts with partners, competitiveness, and qualification of staff were relatively unimportant (see Figure 29) for respondents. This indicates that the partnership network in business management is temporary and connection between producers and consumers, or with other producers is not strictly defined. In this sense, enterprises had relatively less impact on each other's activities. In these circumstances, the vast majority of respondents believed that state aid played an important role in their activities and that state aid was the main resource that would help them to run their business in the future (25 percent).

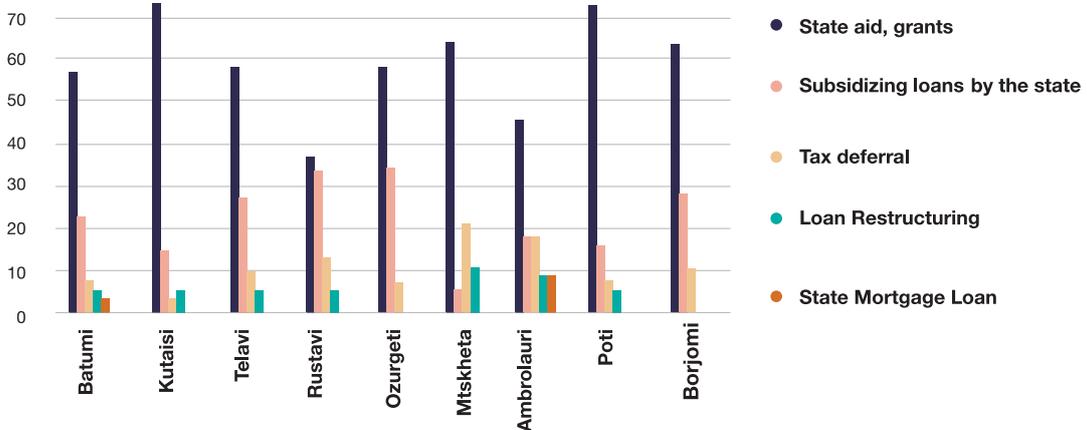


**Figure 29. Importance of State Support Mechanisms for Enterprises by Region (%)**



Entrepreneurs generally have high interest and hopes in state support. In terms of what respondents expected from the Government, 59 percent named government grants, 10 percent named tax deferrals, and 15 percent named loan subsidies (see Figure 29). Approximately 9 percent of respondents attached greatest importance to loan restructuring. Meanwhile, in almost all municipalities, state aid is recognized as an essential mechanism of support (see Figure 30).

**Figure 30. Importance of State Support Mechanisms for Enterprises by Municipalities (%)**

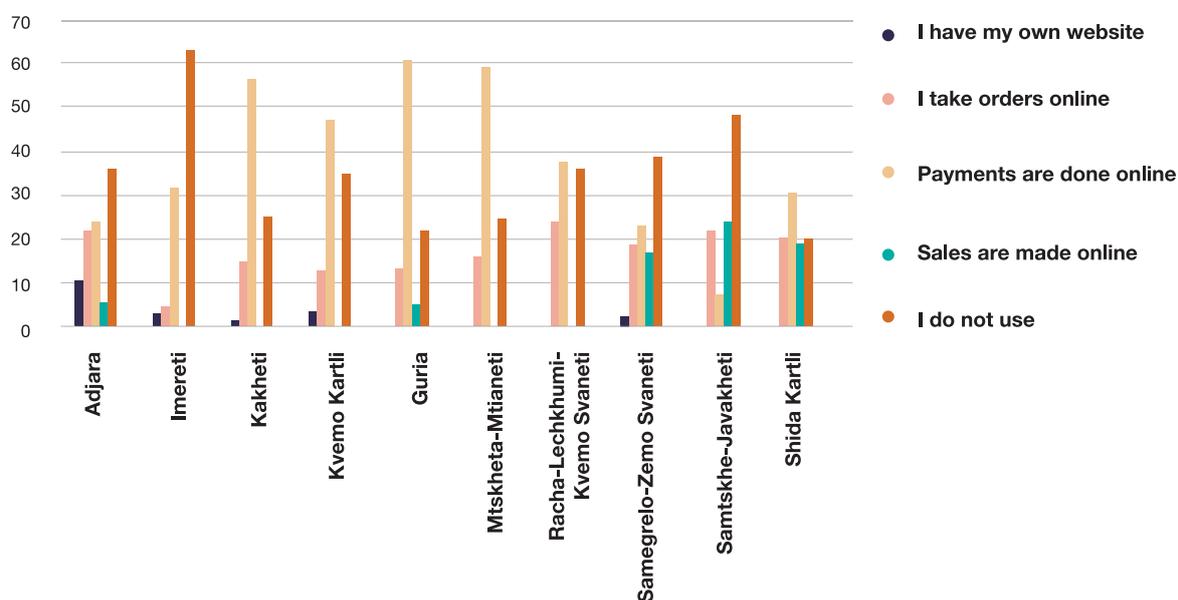




## Internet networks and communication with customers and suppliers

The level of market integration of small- and medium-sized enterprises is not deep, with small entrepreneurs particularly inactive in e-marketing. This was demonstrated by the number of emails sending questionnaires that bounced back during the survey, as only six out of every 10 enterprises had a valid e-mail address. The survey showed that digital communications are not used effectively as only 2 percent of respondents claimed that they sold products online, while 50 percent mentioned that they only use electronic transfers when making payments.

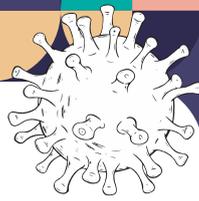
**Figure 31. Internet Usage in Communication with Partners and Customers by Region (%)**



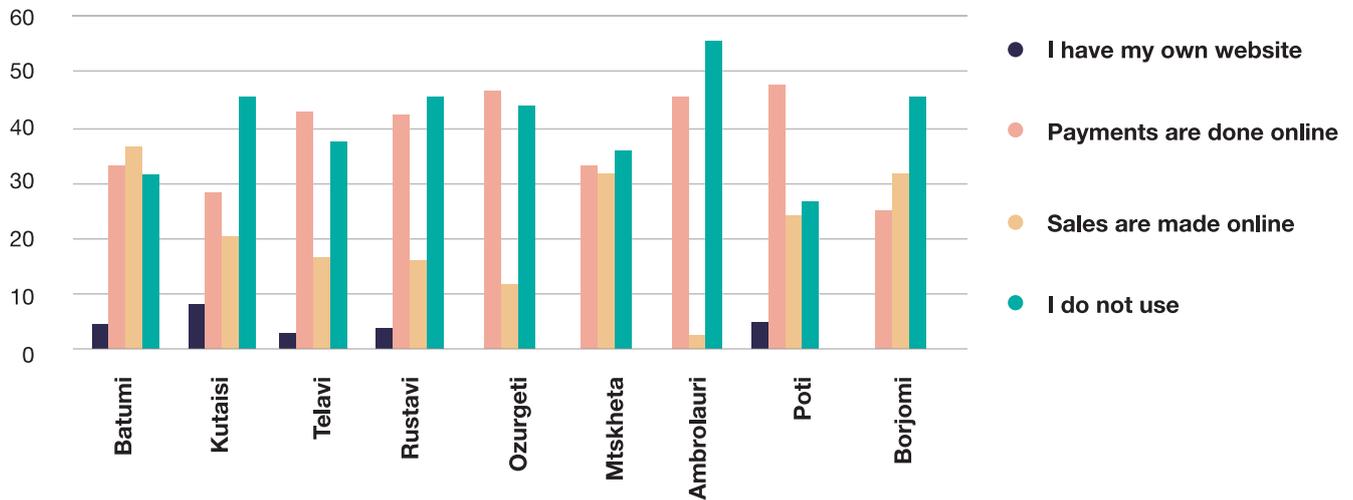
Entrepreneurs in Georgia who do not have access to the Internet are less likely to succeed under pandemic-related restrictions. Indeed, a lack of Internet access and/or proficiency significantly reduces the efficiency of their activities.

Most of the activities of the interviewed entrepreneurs are of a local nature. Their business activities have a short cycle, which negatively affects their crisis management, hinders the process of clustering and value growth, and consequently hinders their integration in value chain. Nevertheless, the survey revealed the importance of the business network as a support mechanism for entrepreneurs. Only a small number of surveyed enterprises have found new ways to deliver their products (mainly online) in order to retain customers in the present reality.

In Batumi, Kutaisi, Mtskheta, and Borjomi, more than 20 percent of respondents sell products online, while in other cities payments are mainly made online, and they have no plans or resources to use the Internet for other business activities.

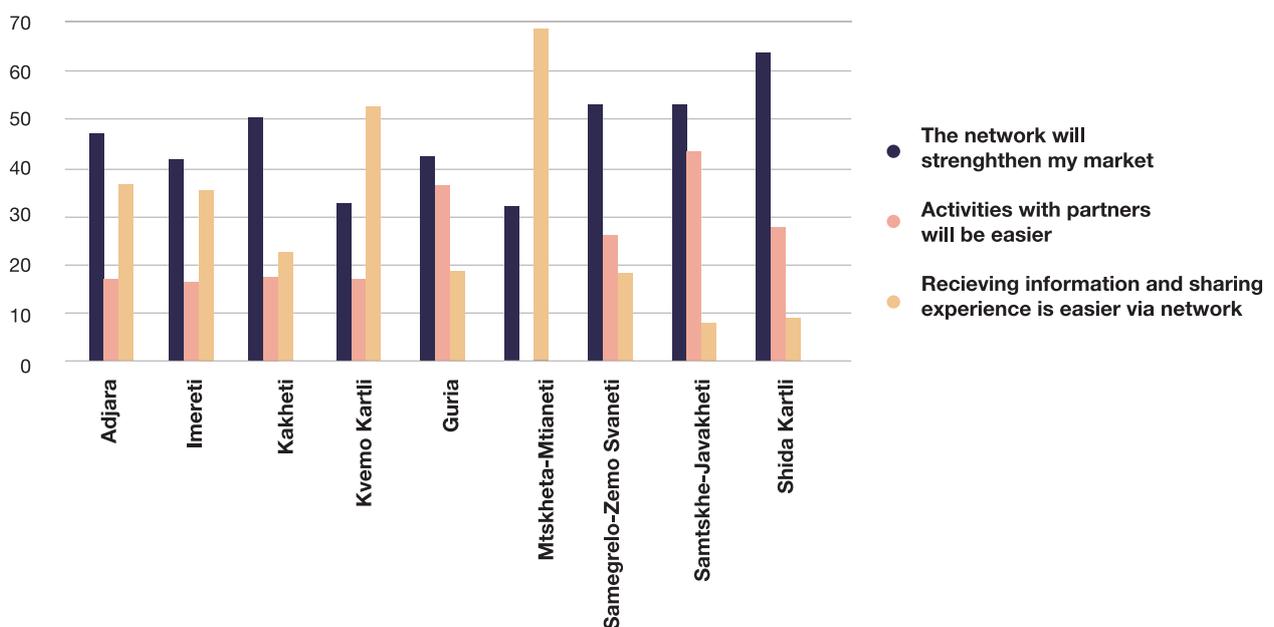


**Figure 32. Internet Usage in Communication with Partners and Customers by Municipalities (%)**



Surveyed small- and medium-sized entrepreneurs claimed they cannot use business networks to promote their products online or for joint advertising. However, some respondents admitted that the Internet would be helpful for their business in the process of promotion. The awareness of networking as a business empowerment resource was quite high across respondents in all municipalities.

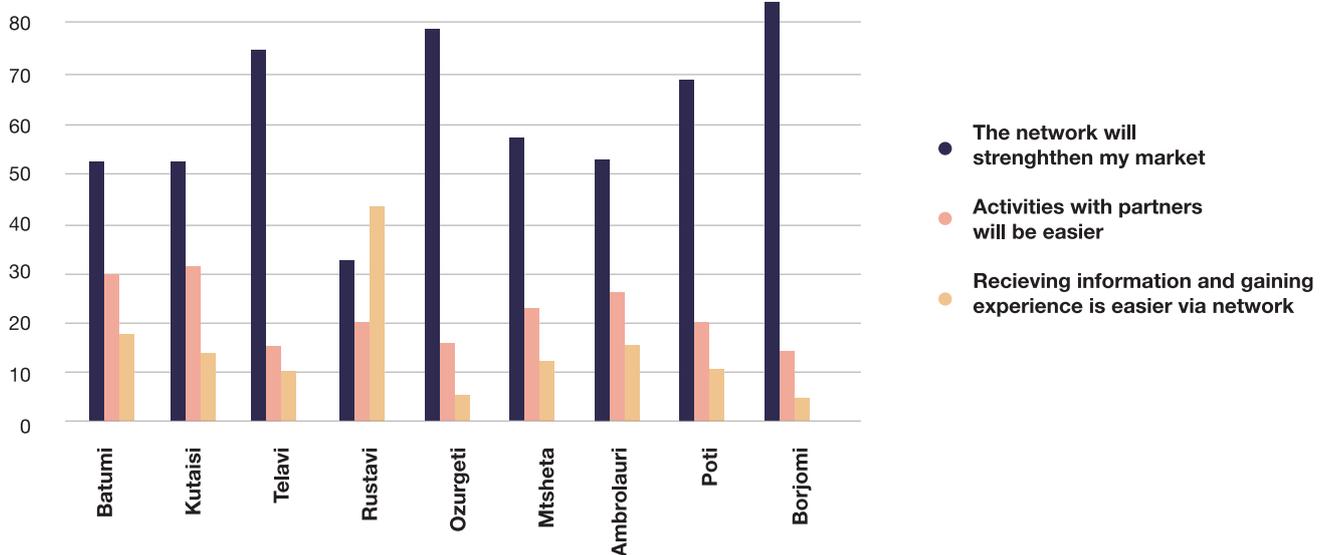
**Figure 33. The Importance of the Internet in Business Management by Region**



The respondents considered consultations, the existence of social support networks with business partners, online support in product sales, relations with partners, purchases of raw materials, and dissemination of information about their enterprise as important mechanism in order to overcome their crisis.



**Figure 34. The Importance of the Internet in Business Management by Municipalities (%)**

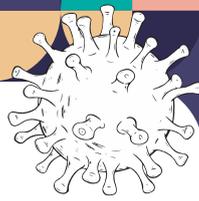


The research reveals that the pandemic had a major impact on business organizations and their activities. The crisis management mechanism offered by the State entails communicating remotely with customers and partners, and making intensive use of the Internet and other communication networks for the same purpose.

It was impossible for entrepreneurs to anticipate the pandemic and its associated risks, and none had pre-arranged anti-crisis plans. Moreover, as soon as financial difficulties arose, enterprises needed to restructure their credit liabilities and, due to pandemic-related constraints, to reorganize their business management and introduce remote management methods.

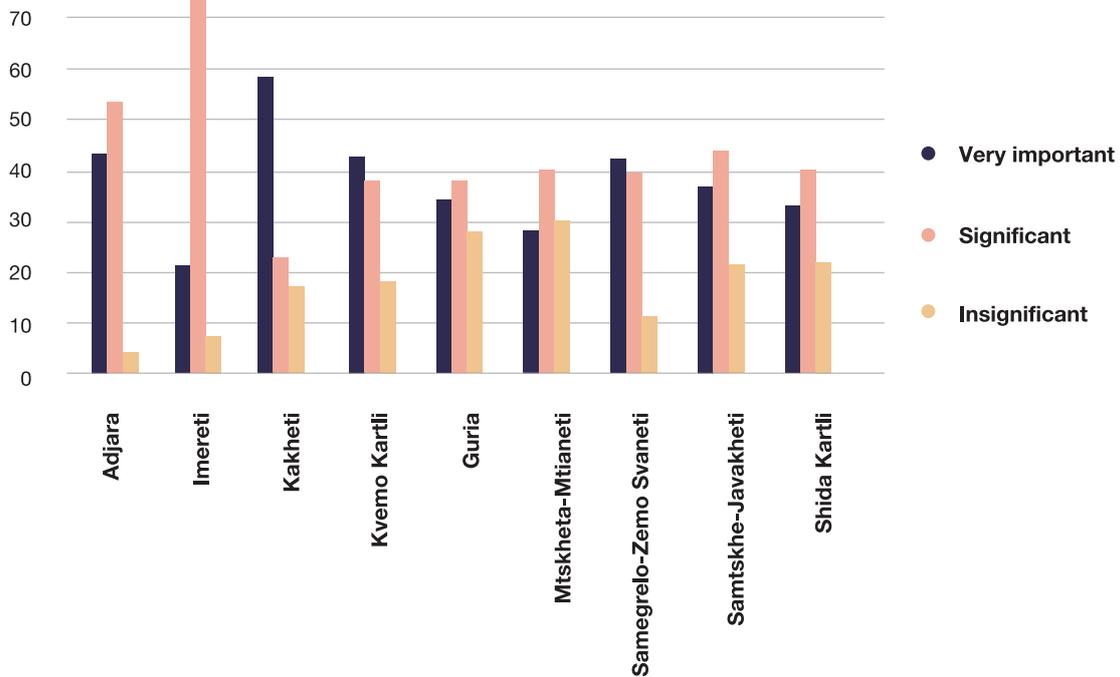
### ***Efforts made by the authorities during the pandemic***

During the survey, it was particularly important to see how respondents answered the question “How would you assess government’s measures taken during the pandemic?” Similar to businesses, the pandemic was a completely new challenge for local authorities as well. In order to neutralize the crisis, local authorities have mobilized resources together with civil activists, as well as provided necessary assistance to the most vulnerable groups of society, disseminated information, organized the supply of minimum livelihoods, and controlled the implementation of state regulations. Therefore, among the measures taken by local government, it was particularly important to ensure observation of sanitary-hygienic regulations and to identify the needs of vulnerable groups, as well as to organize the transport of agricultural products.

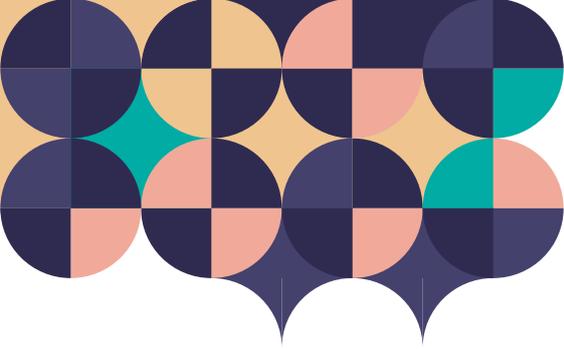


The research showed that 38 percent of respondents in the regions of Georgia considered the measures taken by the central and local governments to be very important, while 45 percent considered them significant and 18 percent thought they were insignificant. 74 percent of respondents in Imereti and 25 percent in Kakheti consider it as significant (see Figure 35). Such difference is probably due to the fact that during the survey period, industrially-developed municipalities of Imereti experienced a greater demand for support than the municipalities of Kakheti, where entrepreneurs are mainly engaged in seasonal agricultural production.

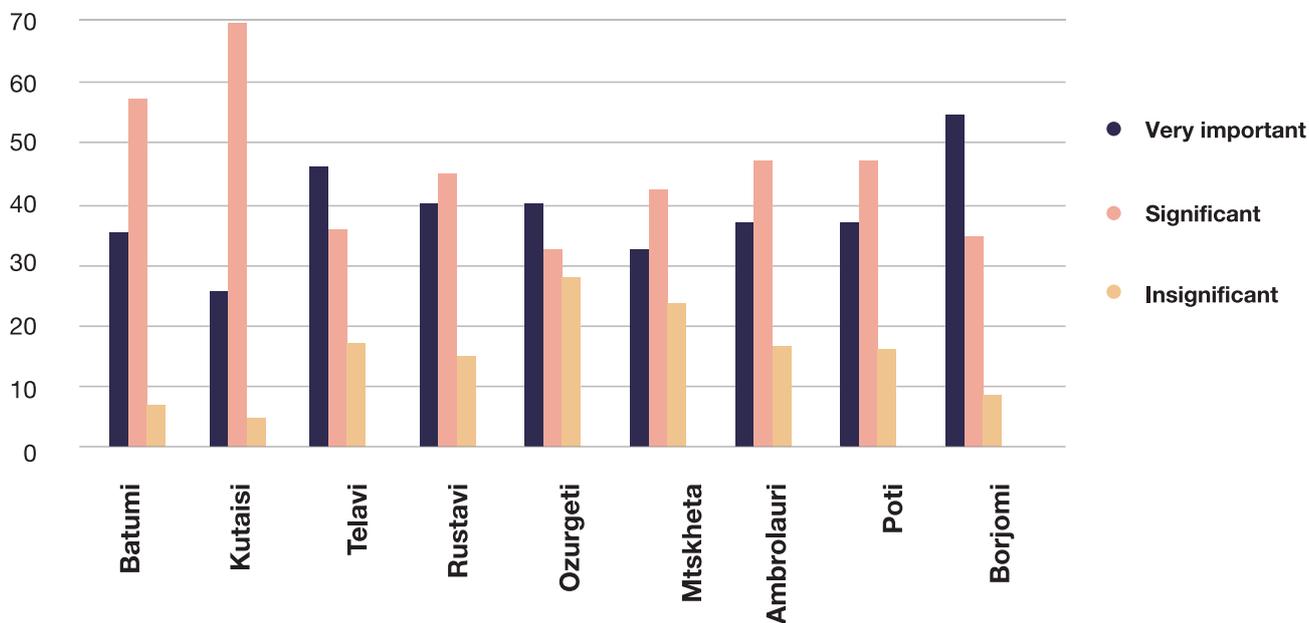
**Figure 35. Assessment of Measures Taken by the Government by Region (%)**



The activities of the local and central governments in the first half of 2020 were recognized by most respondents as important or very important. Moreover, 96 percent of respondents from Kutaisi considered the measures as important and very important, with the corresponding figures Batumi and Telavi standing at 93 percent and 84 percent, respectively (see Figure 36).



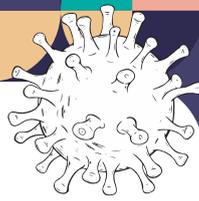
**Figure 36. Assessment of Measures Taken by the Government by Municipalities (%)**



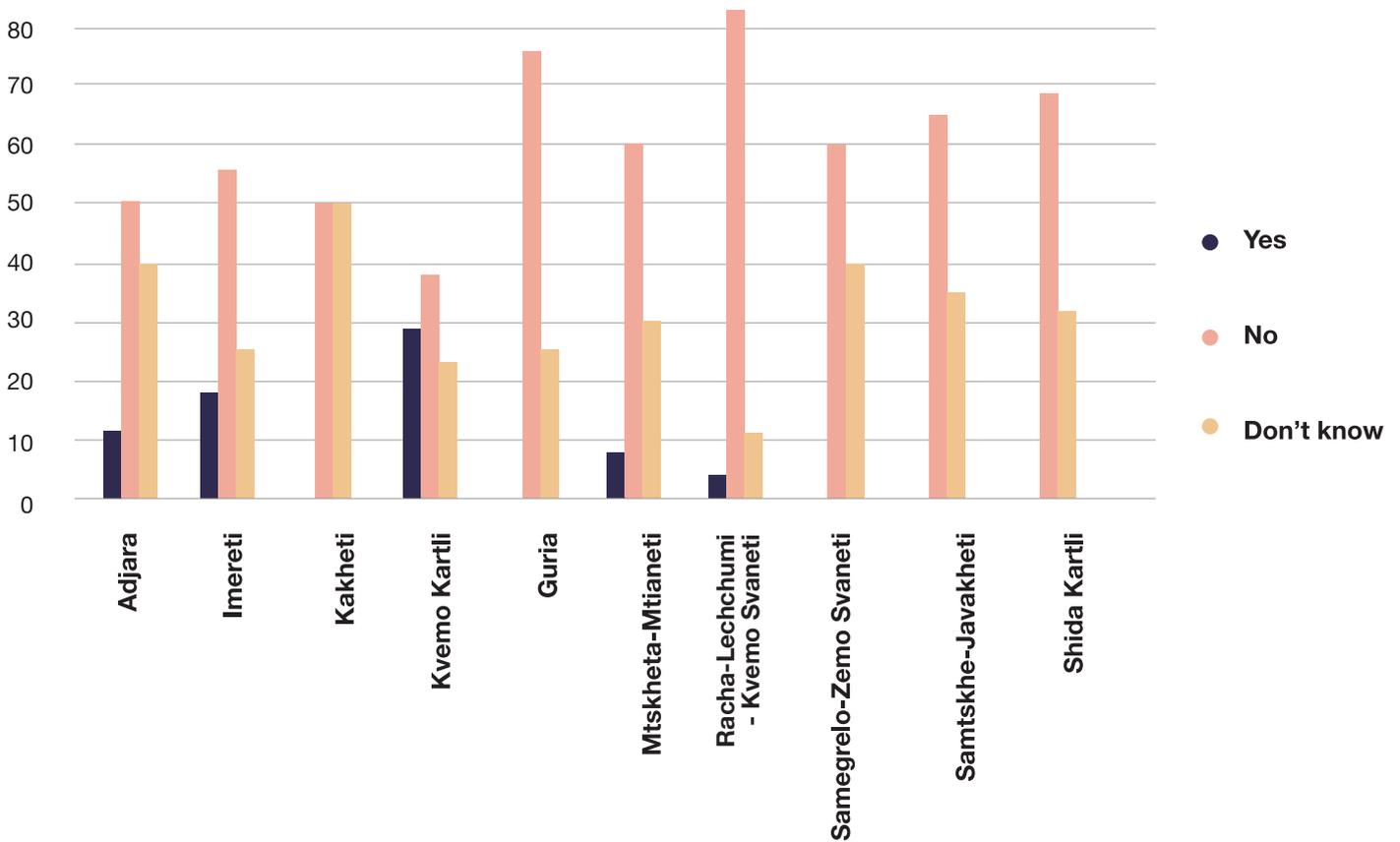
When asked “How would you assess government’s measures taken during the pandemic?” the respondents tended to refer to the measures taken by the Headquarters for Managing State of Emergency to assist the municipalities in limiting the spread of the pandemic. In this regard, the assessment of the Government as a supporting institution was positive in the quarantine zones (for example, Kvemo Kartli), where local authorities have been involved in organizing the transportation of agricultural products to markets. The municipalities’ support for local entrepreneurs was limited due to the scarcity of human, material, and financial resources at the disposal of local authorities. In addition, similar to the business sector, there is no long-term perception for the development of entrepreneurial activities in municipalities during the epidemic. Mid-term municipal development plans were drawn up before the spread of the pandemic, and in most of them one of the main priorities was the development of tourism, the revival of which is likely to be problematic in 2021. As new challenges emerge, it becomes necessary to review the mid-term development plans and set new realistic goals in light of the current situation.

### ***Strategic business plans***

The new reality requires the establishment of a flexible system to manage the economy. For this purpose, new strategic plans are needed that will effectively manage businesses in times of crisis. However, as the survey showed, enterprises were not ready for the pandemic and had no crisis management plans in place. Approximately 8 percent of respondents confirmed having an anti-crisis plan (*see Figure 37*).

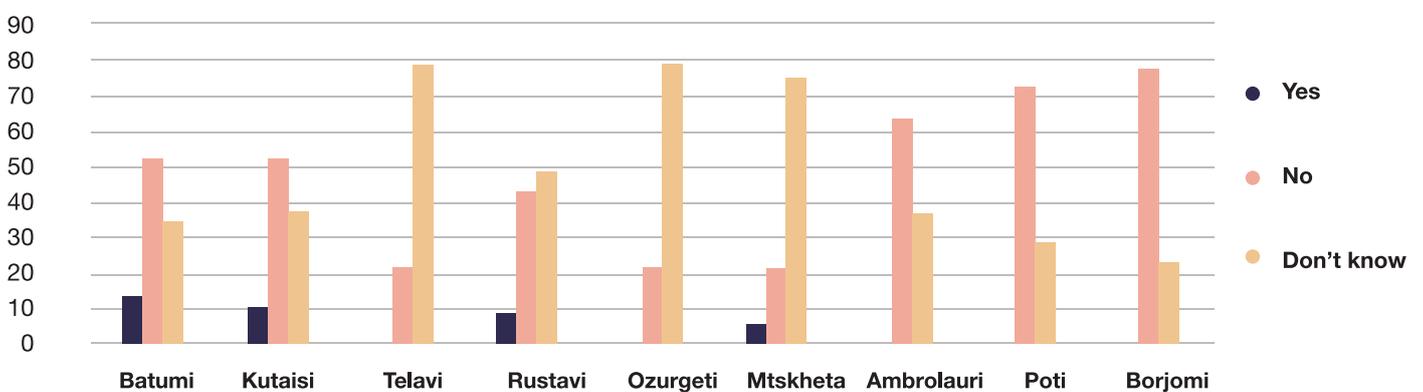


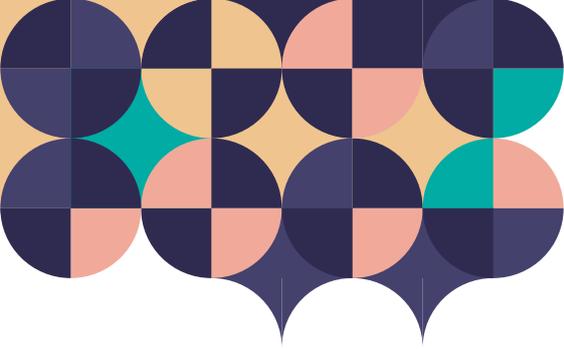
**Figure 37 . Existence of Anti-crisis Strategy Among Enterprises by Region (%)**



A lack of anti-crisis plans was confirmed by the surveyed enterprises in the majority of municipalities. The only exceptions to this were larger municipalities, namely Batumi, Kutaisi, and Rustavi, where some respondents did have anti-crisis plans in place (see Figure 38).

**Figure 38. Existence of Anti-crisis Strategy Among Enterprises by Municipalities (%)**





## Conclusions and Recommendations

The pandemic has affected the economy in two ways: on one hand, forced isolation has led to a reduction in economic activities; and on the other hand, it has had a particularly sensitive impact on populations living on or below the poverty line.

During the pandemic, the demand for state finances and the allocating of these to meet social needs has increased in Georgia. The demand among small- and medium-sized businesses for state support, including the restructuring and deferral of bank debts, has also increased, which has had a negative impact on the sustainability of the banking system<sup>23</sup>.

The crisis caused by the pandemic has required measures to counter a substantial decrease in consumption, hence a demand-driven policy to address the prevailing social needs has become dominant. At the same time, government spending is rising in order to prevent enterprise bankruptcy, to save small- and medium-sized businesses, to assist tourism and trade sectors, and to avoid serious social problems. In the face of declining tax revenues, and despite the state aid provided, financial and commodity markets are decreasing in scale.

It is not yet known how long the impact of the virus will last, how the country and its businesses will be able to adapt and rearrange itself, and what the losses will be. Some consequences are already known though. In particular, we have seen the bankruptcy of small- and medium-sized businesses, the collapse of the tourism and aviation sectors, a decline in investment, rising unemployment, and rising state debt.

The experience gained by the country from this crisis has seen development of Internet services in trade, education, consulting and other fields, and more investment in IT technologies. At the same time, it would be in the interests of the regions to make maximum use of local resources in order to produce important products and to establish a self-sufficient regional economy. This shift would create additional demands for agriculture and, particularly, for the processing industry.

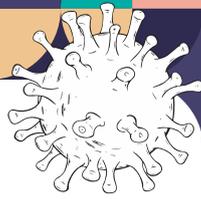
In addition, it is necessary to establish a strong crisis management mechanism and to diversify value and supply chains during pandemic and post-pandemic periods. It is clear that the State needs to implement targeted support for private enterprises. However, it is also clear that the State will not be able to provide assistance and support measures of a long-term nature<sup>24</sup>.

The recovery of the economy will depend on non-economic tools, and on how quickly the healthcare sector will be able to administer a vaccine. The longer this process goes on, the greater the burden on the State, making anti-crisis programs in even more demand. The impact on poverty and maintaining the business sector will diminish over time, and the economy will face new difficulties.

Measures implemented to prevent the spread of the pandemic - closing borders, banning traffic between cities, declaring a state of emergency and restricting economic activity to ensure social

<sup>23</sup> Economists across the world believe that human factor promotion, business debt relief and the two-year moratorium on these debts, are the most effective means of the elimination of the results of the pandemic. See: Gordon Brown, Lawrence H. Summers (2020), Debt Relief Is the Most Effective Pandemic Aid, 5 April 2020, Project Syndicate.

<sup>24</sup> Skidelsky, R., The Crowding-Out Myth Project Syndicate, 24 August.

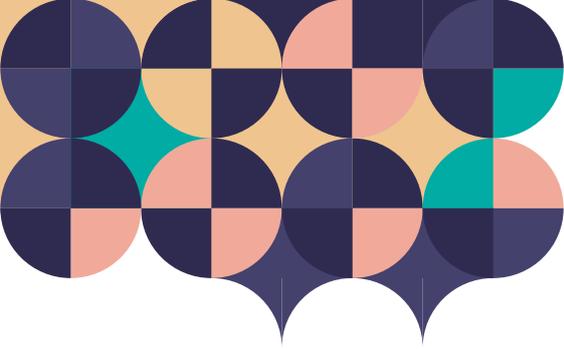


distancing - negatively affected economic development. The impact of the virus in Georgia has hit all sectors of the economy and in all regions, including a decline in domestic consumption, trade, investment, and remittances from abroad. These impacts have been especially deep and intense in regions with well-developed tourism infrastructure and markets.

Looking ahead, further damage and risks brought on by the pandemic are unpredictable. Economic isolation and dealing with restrictions have become common across all municipalities, with local entrepreneurs initially unprepared for them.

The nature of the pandemic means it requires ongoing review of short-term priorities and a shifted focus on management decisions. These include **state-sponsored anti-crisis measures**. Entrepreneurs see **the dire need for fiscal-monetary support from the State**, while the role of **the State and municipalities is changing**. Both central and local governments are forced to account for new realities and adopt new functions, including facing new challenges, becoming a support institution for small entrepreneurs, thereby redistributing the fiscal burden among the population and businesses. Entrepreneurs have been trying to find support from the Government to ensure the continued viability of production. To this end, they have emphasized the importance of social capital. This is an important lever when it comes to saving entrepreneurship. Business support measures and solid and effective government programs such as grants, tax reliefs, and co-payment of interest payments particularly contribute to the development of the economy. Today, the Government is considered to be the main lever of anti-crisis measures, which creates the threat of inertia among entrepreneurs. State support programs are limited in response to the spread of the virus, which could put the State into a crisis situation in the future. The State's anti-crisis measures can have a so-called "drug effect" and come to represent important institutions supporting businesses in Georgia. Dependence on such measures becomes risky, because public finances are limited and cannot of themselves ensure economic revival. In the future, the economy is expected to undergo a V-shaped recovery with a rapid recovery after recession followed by another crisis, if the increase in aggregate demand in the economy and the stimulus for investment is mainly based on public finances.

The introduction of **digital technologies** as a measure against the pandemic has become highly-demanded and many enterprises have developed ways to sell products via these technologies. The impact of the pandemic has been relatively small on enterprises, which have introduced sales and other activities online, especially in the trade and food sectors. The crisis has stimulated the introduction of new technologies and business models as well as accelerating the spread of online sales. Although it is impossible to fully switch to a digital and remote form of economic activity and management, its use in quarantine conditions should be maximized. Naturally, adapting to network technologies requires sufficient time and resources. The survey showed that social capital, with regard to remote management and entrepreneurship, is not being used effectively. Clearly, being informed about remote working and management is not sufficient. Digital technologies are not being used in marketing relationships, procurement, and for customer information. Through using remote

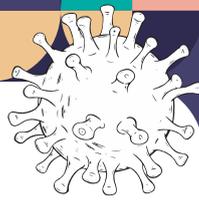


management in entrepreneurship in times of crisis, it becomes easier to overcome some business problems. This new relationship between civil society and businesses, once formed, creates a sort of “cluster” relationship in entrepreneurship, whereby everyone can safely pursue their interests.

The sustainability of enterprises today is based on digital management, digital strategic knowledge, and financial discipline. Business organizations are unable to conduct business due to a lack of proper knowledge and skills, which is a significant barrier to increasing competitiveness among entrepreneurs. Implementing remote management requires the raising of awareness about digital management and networks among entrepreneur in order to understand how to obtain a benefit from them. Business relationships with customers should be maintained digitally. To this end, it is necessary to raise awareness of digital business issues and crisis management in order to improve entrepreneurship skills and to expand commercial relationships and partnerships with business networks. It is also important to develop information delivery channels as well as consulting institutes and networks, and to develop strategic plans in both state and entrepreneurial sectors. At the same time, retaining customers requires companies to establish new communications and effectively use communication channels and social media such as Facebook and Instagram. In addition, ordering and no-contact services with mobile applications, the development of on-site delivery services, switching to network channels, the use of Internet sales and purchasing platforms, and cooperation with experienced Internet sales platforms (such as Glovo and Wolt) are increasing in demand. Risks and losses could be minimized through offering such services.

The pandemic has forced enterprises and entrepreneurs to transform management, strategy, and many other factors. The main priority in terms of social responsibility is the medical-hygienic safety of consumers and employees, meaning the observance of social distancing norms in accordance with the recommendations of the WHO. In this regard, it becomes necessary to hire additional personnel to honor new responsibilities such as the provision of remote services to customers, to engage in remote negotiations with suppliers to resolve issues that arise from delivery, to implement technological changes, to develop anti-crisis plans, to re-organize management systems, and to establish new alliances.

If the **value chain** of the business is not stable, the mutual influence of enterprises will be neither strong nor significant. Enterprises have been independently suffering from the impact of the pandemic. The impact of the pandemic has been strong in predominantly **labor-intensive sectors**. In this regard, tourism has suffered the most, as well as small- and medium-sized enterprises, where labor-intensive products are produced. These enterprises stopped production due to not using remote services, to protect consumer safety, and to avoid other risks.



## Recommendations

In response to the needs and new challenges being faced by the Georgian economy as a result of the spread of the virus identified in the scope of this research, it is desirable to implement the following initiatives:

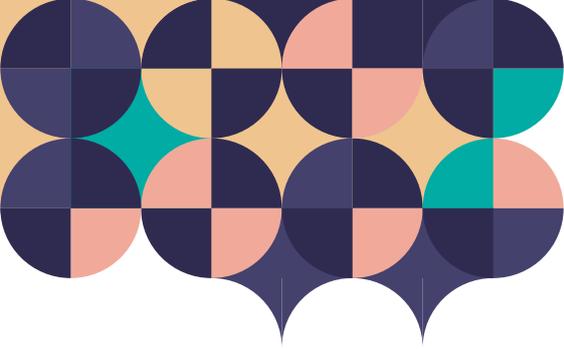
 Strong fiscal intervention, aids, grants, tax reliefs, etc. However, the measures might not be comprehensive in reality as public finances will also be declining as the crisis progresses and the pandemic intensifies. Therefore, **targeted government subsidies** should swiftly tackle the development of the digital economy and the adoption of necessary technology. To this end, it would be expedient to extend fiscal benefits to selected sectors (especially tourism and trade-related enterprises) in addition to reducing universal aid, which will make state fiscal and monetary measures more effective and strengthen the social responsibility of enterprises

 State support should be provided to **introduce digital technologies in businesses**. Companies are trying to adapt their business models according to their needs and opportunities. In order to increase sales (particularly for trade, restaurants and food establishments, as well as suppliers of various industrial goods) it is necessary for enterprises to switch to Internet services. The development of e-commerce business platforms with both consumers and businesses would ensure the introduction of effective ways to sell products and the digitalization of supply chains. Projects initiated by central and municipal governments to introduce these tools would help entrepreneurs to develop digital entrepreneurship.

 Currently, entrepreneurs are responding to COVID-19 only with short-term and spontaneous measures. However, the success of entrepreneurs in the future will depend on their longer-term strategic plans and risk management. This is particularly true for small- and medium-sized enterprises. Therefore, it would be desirable for the State to provide fiscal and monetary assistance to those enterprises which do have such strategies. To this end, it is necessary to stimulate scientific research and consulting activities within educational and non-governmental sectors, to contribute to the viability of the economy, to significantly increase the resilience of enterprises to risk, and to stimulate the development of the digital economy. As the practice of developing strategic plans in entrepreneurs is limited, any assistance and increased involvement of various **consulting and educational organizations** would significantly increase and improve the activities of entrepreneurs.

 As the research has shown, knowledge of the **digital economy** is poor among entrepreneurs and its capabilities are not exploited properly to save their businesses. It is thus necessary to offer entrepreneurs specific digital technologies tailored to their activities. Meetings with experts, conferences, and other types of events organized by municipalities would help local entrepreneurs to increase their awareness and help them to determine their strategic goals.

 In the process of value growth, engaging in **partnerships** in an electronic format and cooperation among enterprise clusters via the Internet are good preconditions for attracting financial and material re-



sources, and strengthening production flows from one value chain to another. This would make the entire chain attractive to banks and credit institutions when it comes to issuing credit, which would help entrepreneurs to remain viable. Targeted collaboration with industry associations, government agencies, and training and consulting institutions would enable them to participate in the value chain.

In the process of overcoming barriers to the development of small- and medium-sized enterprises, the establishment of business associations plays an important role, as does the development of institutions which help entrepreneurs in receiving and exchanging knowledge, information, and other services. As the research has shown, representatives of small- and medium-sized enterprises rarely turn to business associations for advice<sup>25</sup>. Such enterprises could improve the business environment and their own competitiveness via engaging in business associations. Therefore, it is necessary to strengthen business associations, which should become a priority for the Government as well as donors and international organizations.

It is important to involve **municipalities** in the implementation of digital technologies and to develop a long-term vision in order to respond to new challenges. It is also necessary to re-channel the **medium- and long-term strategic plans** (mid-term development plans) of the municipalities and to develop priorities that will help local entrepreneurs to operate smoothly in response to modern challenges.

The research has shown that in order to better manage the crisis, it is necessary to develop a standard methodology / map for the local self-government to ensure the management of the pandemic and other crisis situations. Functions of local authorities, as well as implementation and assessment rules should be formed in a standard methodology / map. When developing a standard pandemic and crisis management methodology / map, it will be important to identify measures that will facilitate the implementation of joint and individual measures between the central and local governments during the pandemic and other crisis situations, based on the formalization and relevant division of functions.

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