

**Georgia Economic Policy Against the Challenges Caused by the Pandemic****Iza Bukia**

PhD Candidate in Economics

Tbilisi State University, 0177, Georgia

E-mail: [iza.bukia556@eab.tsu.edu.ge](mailto:iza.bukia556@eab.tsu.edu.ge)Orcid ID: <https://orcid.org/0000-0003-4580-9359>**Abstract**

The world, and with it Georgia, has faced a number of economic problems which was caused by non-economic reasons. The global pandemic of Covid-19 has become the reason why the world economy has actually stopped. The economic damage caused by this pandemic is quite large. Countries around the world are trying different ways to run a stagnant economy. Georgia has effectively confronted the pandemic and the economic problems caused by it with its anti-crisis plan in various directions. A number of benefits have been used in the area of economic policy, including tax benefits, so that entrepreneurs can easily overcome the economic problems caused by the pandemic.

**Key Words:** Economic policy, Tax benefits, Tourism, Anti-crisis plan, Covid 19, Georgia.

**JEL Classification:** F43, F68, G38, H25, L26, M21 Z32.

**1. Introduction**

There have been many economic or financial crises in the history of the world economy, the reasons for which were again due to the economy. As a result of existing experience, economists are more or less aware of the causes, among them are economically wrong decisions that have led the world to a crisis. However, this time the world is facing such economic difficulties, the cause of which is not in economy, but in medicine. Consequently, this is the case when economists have no experience in overcoming such economic difficulties. Which can be expressed in specific decisions and recommendations. Therefore, it is impossible to say at this stage what the most optimal solution might be, which can bring the economy back to the level it has reached so far. Different countries of the world make appropriate economic decisions based on their capabilities and resources. As a result of analyzing the decisions made over time, the optimality of their reception will become visible. It is a fact that the global pandemic must teach the world to maintain and adapt the results achieved by the economy to such events under the conditions of a pandemic, if similar cases are repeated (which is most likely expected). Of course, many publications are published by economists, where general advice is given to overcome the current crisis. There are many tips, the problems of the countries and the damage are more or less different therefore, it is natural for each country to develop a specific plan, which will allow the country to rebuild its economy in less time. Well-known economist and Nobel Laureate Paul Krugman points out, that a similar pandemic was sooner or later expected, so the world economy must have been ready. The recommendation made in one of his recent articles was intended for the United States, although it may be taken into account by other countries as follows: „I hereby propose that the next US president and Congress move to permanently spend an additional 2% of GDP on public investment, broadly defined (infrastructure, for sure, but also things like R&D and child development) - and not pay for it“ (Krugman P. 2020). He has discussed and analyzed this advice in detail. According to Professor Vladimir Papava, the experience of the financial crisis of 2008-2009, the effectiveness of the various tools that the state has (imposing tax benefits, reduction income tax and value added tax rates, reduction of interest rates by central banks and carrying out liquidity measures, strengthening social protection by the government for the poorest part of the population, because of the pandemic added to this is an increase in health care funding) will depend on the duration of the pandemic and how long medicine will be able to solve this problem (creation of medicine and vaccine). Implementation of all the above tools will naturally lead to budget deficits, which will be a post-crisis problem for all countries with a pandemic. Therefore, in the author's opinion, the measures

should be separated which ones should be taken during the crisis and which ones should be taken in the post-crisis period (Papava, V. Charaia, V. 2020). According to the publication of the World Monetary Fund, Global growth is projected to grow by -3% by 2020, and this result is much worse than it was during the 2009 financial crisis (IMF, 2020). Expectations are unfavorable, the situation is complicated by the difficulty of accurately predicting economic damage. There are many recommendations and tips issued by economists, and time shows their optimality.

## 2. Review and analysis of Georgia's economic policy

Georgia, as part of the world, has also faced economic problems caused by the global pandemic. Georgia has taken a number of effective steps to eliminate economic damage, which manifested itself in the development of an anti-crisis plan in various directions and its implementation. The anti-crisis plan includes areas such as: health, economy, tourism, agriculture, education, etc. The measures envisaged in it are naturally intended to help ordinary citizens (for example, those who have lost their jobs), as well as for entrepreneurs whose business activities have been damaged due to this pandemic. The expected damage caused by the pandemic to the Georgian economy may be as follows: Economic growth is expected to decline by 4%, with budget revenues are down about with \$ 1.8 billion. Therefore, an anti-crisis economic plan has been developed, for the effective implementation of which Georgia has attracted three billion dollars from its international partners (USA, EU, IMF, WBG, ADB, EIB, FKW, AFD, etc.). Georgia's anti-crisis economic plan, among many other areas, includes both favorable conditions and support programs for entrepreneurs, as well as social packages for low-income residents and / or citizens who have lost their jobs. For example, we can cite a few, in particular (Georgia's Anti-Crisis Economic Plan. 2020):

- The state has ensured an increase of construction materials' prices for all infrastructure projects, for which GEL 200 million has been allocated;
- Entrepreneurs whose activities were associated with tourism (which suffered the most damage due to the pandemic) were delayed in income and property taxes. This includes GEL 90 million;
- For small hotels, the state will subsidize 80% of the total amount of the six-month bank loan, for which GEL 10 million has been allocated;
- The state has insured prices for nine major food products, for which GEL 15 million has been allocated;
- Legal entities were given the opportunity to restructure the loan;
- As a result of cooperation with commercial banks, the state has decided to defer payment to citizens who have lost and / or reduced their income and have taken out loans for a period of three months;
- Car importers have extended the deadline for customs clearance of cars, which includes 50 million GEL;
- GEL 150 million was allocated for low-income residents for 3 months of utility bills (electricity, natural gas, water, cleaning);
- GEL 460 million was allocated for citizens who lost their jobs and / or were temporarily on released unpaid leave. This assistance is distributed over a six-month period;
- Employers who have retained their employees during the pandemic will receive a state subsidy in the form of a tax deduction, namely: employers are exempt from income tax for a period of six months, up to 750 GEL in full and within the amount of salary up to 1500 GEL, 750 GEL is also exempt from income tax. This benefit costs the state 250 million GEL;
- Self-employed people will receive one-time assistance, for which 75 million GEL has been allocated;
- 83 million GEL has been allocated for socially vulnerable families during the six-month period;
- GEL 600 million considered as a long-term resource for commercial banks;

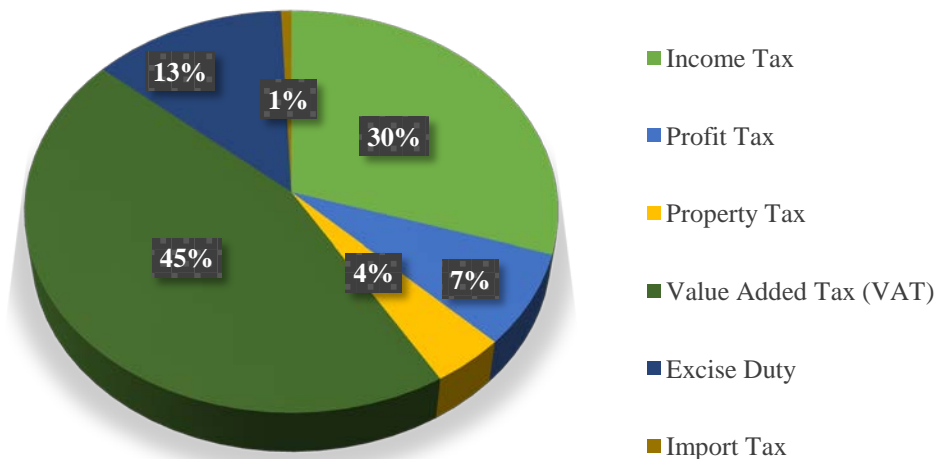
- Value added tax (VAT) refunds will be doubled (GEL 600 million), under the VAT Automatic Return Mechanism, which will be returned to the business for development;
- An additional GEL 500 million has been allocated to support businesses / entrepreneurs;
- Within the framework of agricultural development grants and agro-credits are provided, in the amount of approximately GEL 50 million;

The economic and entrepreneurship programs envisaged by the anti-crisis economic plan, as well as the social support programs, require a budget of about three billion GEL. The above is mainly intended for the vulnerable group affected by the pandemic.

The tax benefits introduced by Georgia are intended for entrepreneurs who have been harmed by the current pandemic. Tax benefits apply to value added tax (VAT), income tax and property tax. It should be noted that most of the taxes mobilized in the state budget of Georgia (45%) are VAT and the top three include income tax (30%) (see figure N1).

Therefore, the budget losses caused by the benefits provided by the anti-crisis plan are important. However, it is very important for those entrepreneurs to be able to continue their activities.

**Figure N1: Taxes Mobilized in the 2019 Budget of Georgia by Types**



Source: [www.treasury.ge](http://www.treasury.ge)

A tax benefit that provides for overpayments in value added tax (VAT), double the amount returned automatically, provides approx. 600 million GEL return to business. The VAT Automatic Return Program was established in Georgia in 2019 and although it has been newly introduced on the basis of research (Bukia I. 2019), the entrepreneurs who have already used this service are satisfied and the state took advantage of this leverage and made it more accessible to entrepreneurs to automatically refund their overpaid VAT amounts. This is very important for businesses and entrepreneurs to solve the problems caused by the pandemic and to develop their activities.

As for the income tax benefit, this is a kind of subsidy by the state to the employers who retained their employees despite the pandemic. As mentioned above, the income tax is entirely in the top three of the tax revenues. This serves to encourage both the employer and the employee, because on the one hand the employer is exempt from income tax and on the other hand the employee retains the job.

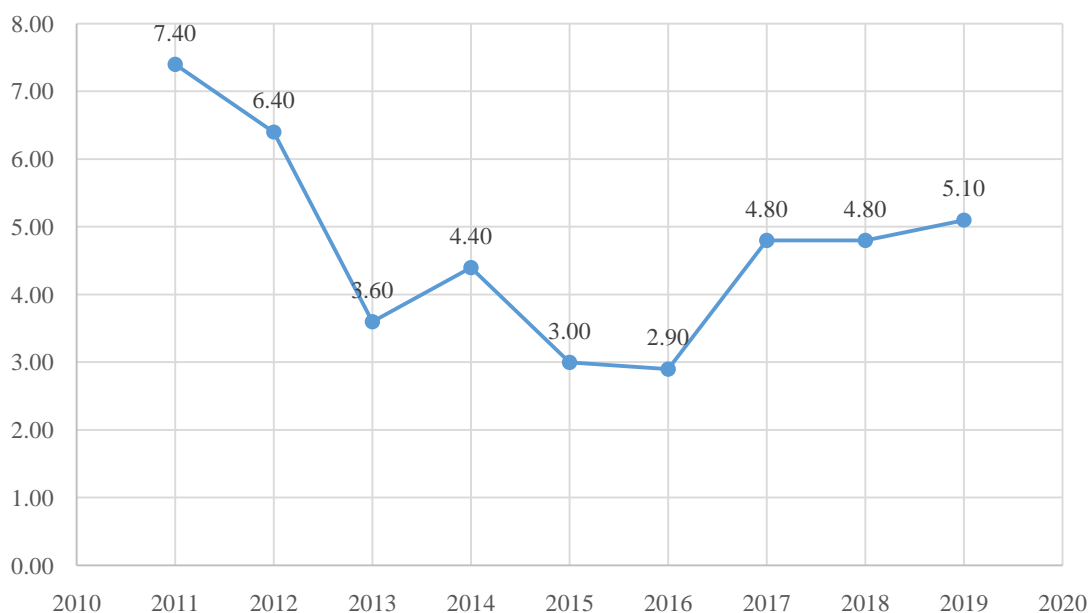
The income tax consideration is also discussed additional tax benefit, which includes additional incentives for entrepreneurs with fixed taxpayer status (Bukia I. 2019). Entrepreneurs have been granted this status according to the types of different activities, where a different amount of tax is determined for each activity (Decree N415. 2010). Due to the state of emergency in the country, the

Georgian government has decided that entrepreneurs with fixed taxpayer status are exempt from the three-month tax (Decree N353. 2020).

In addition, the field of tourism is noteworthy, which was primarily affected by the aforementioned pandemic and the damage caused by it is great for entrepreneurial entities in this field, the state has deferred for them income and property taxes. Naturally, this is a great benefit for entrepreneurs in this field (in addition to these tax benefits, additional incentives have been developed for businesses by sector, such as agriculture, small hotels, commercial banks, etc.). If you look at tourism statistics, the number of international visitors has decreased compared to the same period last year. Compared to the first quarter of 2019-2020, the number of tourists decreased by 17.6% ([www.geostat.ge](http://www.geostat.ge)). According to last year's data, most of the international tourists were citizens of Azerbaijan, Armenia, Turkey and Russia. It should be noted that the factor of more credibility in terms of tourism towards Georgia has been created in terms of effective fight against Covid-19, this is confirmed by a number of internationally rated publications. Georgia has the best rate in the region in terms of epidemiological situation, which is naturally one of the most important factors for tourists at this stage, which Georgia should use as its advantage to return the tourism sector to the mark of the previous year. In this regard, Georgia will resume accepting tourists from July 1, which is naturally very important for firms operating in the tourism sector. Naturally, in this regard, great attention will be paid to the epidemic situation in the countries for which the tourist border will be opened, in order to limited as much as possible the number of cases of imported viruses. In this regard, the Georgian government is negotiating with a number of countries, to more or less compensate the damage caused to the tourism sector in Georgia due to the pandemic.

Naturally, the damage done by the Covid-19 is great for the world economy, which can be seen in the forecasts of macroeconomic indicators. The International Monetary Fund (IMF) has forecast real GDP growth rates for most countries in the world, with a negative growth rate for most countries. In the case of Georgia, real GDP growth in 2020 is projected at -4%. and by 2021 at 3% ([www.imf.org](http://www.imf.org)). However, prior to the epidemiological situation, Georgia's projected real GDP growth of 4.5% by 2020 and 5% growth by 2021 ([www.mof.ge](http://www.mof.ge)). As for the data of previous years in this regard, the real growth rate of Georgia's gross domestic product (GDP) is more or less stable (see figure N2). As for the current indicators, the average real growth was 1.5% based on the data of the first quarter of 2020 ([www.mof.ge](http://www.mof.ge)).

**Figure N2: Real Growth Rate of GDP of Georgia**



Source: [www.geostat.ge](http://www.geostat.ge)



### 3. Conclusion

Georgia's economic policy developed to rehabilitate affected economy due to pandemic, it is more or less reliable. However, given the damage, the country will need several years to return to its pre-pandemic state. However, it should be noted that according to professor Vladimir Papava, it is still impossible to say exactly how much damage the world and Georgia's economy will suffer, because in this case the roots of the economic crisis are not in the economy, but in medicine and given the current situation, medicine has not yet been able to make an accurate prediction when will the given pandemic end ([www.interpressnews.ge](http://www.interpressnews.ge)). If we look at the IMF's forecast for real GDP growth in Georgia and contrast it with Georgia's GDP growth trends in recent years, it is clear that the country will need at least 2-3 years to get closer to the results achieved. It is also noteworthy that most of the country's budget consists of tax revenues, and the number of tax benefits imposed on entrepreneurs will cause less budget revenues to flow into the budget than planned. However, in order to avoid budget deficits and also to fully implement the anti-crisis economic plan, the government has attracted financial resources from international financial institutions (and not only).

The tourist sector is also noteworthy (whose share in GDP in recent years ranges from 7.8% to 8.1%) ([www.gnta.ge](http://www.gnta.ge)), most affected by this pandemic, as well as the entire tourism sector of the world. However, Georgia is in active talks with several countries that are more or less safe in terms of the epidemics to ensure that the improvement of the situation for the tourism sector. However, it is natural that in this case, the expectations of the next wave of the pandemic are of great importance, in order to actually implement the planned anti-crisis measures, both in terms of tourism and the recovery of the economy as a whole. It should be noted that Georgia has taken active measures to promote business, which has been reflected in various international rankings, where Georgia has held leading positions due to economic reforms carried out. For example, the latest World Bank ranking of 2020 can be distinguished from the latest ratings, where Georgia ranks 7th in terms of ease of starting a business ([www.worldbank.org](http://www.worldbank.org)).

### 4. References

- Bukia, I. (2019), Expectations and Results of Tax Reforms Implemented in Georgia, *Saudi Journal of Economics and Finance*, Scholars Middle East Publishers, Dubai, United Arab Emirates, pp. 396-397.
- Bukia, I. (2019), The Influence of Tax Reforms Implemented in Georgia for Entrepreneurship Development, *Ecoforum*, Romania, Vol. 8, Issue 2(19), pp. 584-585.
- Georgian National Tourism Administration. (2020), Economic indicators, available at: <https://gnta.ge/ge/%E1%83%A1%E1%83%A2%E1%83%90%E1%83%A2%E1%83%98%E1%83%A1%E1%83%A2%E1%83%98%E1%83%99%E1%83%90/> [Accessed 15.06.2020]
- International Monetary Fund. (2020), Database, available at: [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/OEMDC/GEO](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/GEO), [Accessed 08.06.2020]
- International Monetary Fund. (2020), World Economic Outlook, April 2020: The Great Lockdown, Chapter 1: Global Prospects and Policies pp.5. available at: <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020> [Accessed 10.06.2020]
- Interpressnews. (2020), Today the economy is a "hostage" of medicine, available at: <https://www.interpressnews.ge/ka/article/589879-lado-papava-dges-ekonomika-medicinis-mzevalia/>, [Accessed 10.06.2020]
- Krugman, P. (2020), The case for permanent stimulus, Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes, London, UK pp. 213-219.
- Ministry of Finance of Georgia, State Treasury. (2020), Revenues of the budget of Georgia, available at: <http://treasury.ge/5669>, [Accessed 09.06.2020]
- Ministry of Finance of Georgia. (2020), Current economic trends- April 2020, Tbilisi, Georgia, pp. 2-3. available at: [https://mof.ge/images/File/2020-publikaciebi/Outlook%20April%202020\\_GEO.pdf](https://mof.ge/images/File/2020-publikaciebi/Outlook%20April%202020_GEO.pdf), [Accessed 09.06.2020]



- Ministry of Finance of Georgia. (2020), Key economic and financial indicators (base scenario), Tbilisi, Georgia, pp. 1 available at: [https://mof.ge/images/File/makroekonomikuri-machveneblebi/2020%20BD%20Tables%20sen%2023\\_1\\_new%20BDD%20LEPL.pdf](https://mof.ge/images/File/makroekonomikuri-machveneblebi/2020%20BD%20Tables%20sen%2023_1_new%20BDD%20LEPL.pdf), [Accessed 09.06.2020]
- National Statistics Office of Georgia. (2020), Real Growth Rate of GDP of Georgia, available at: <https://www.geostat.ge/en/modules/categories/23/gross-domestic-product-gdp>, [Accessed 09.06.2020]
- National Statistics Office of Georgia. (2020), Statistics of foreign visitors to Georgia, 1 quarter of 2020, available at: <https://www.geostat.ge/ka/single-news/1843/utskhoel-vizitorta-statistika-i-kvartali-2020-tseli>, [Accessed 09.06.2020]
- Papava, V., Charaia, V. (2020), The Coronomic Crisis and Some Challenges for The Georgian Economy, Expert Opinion, *Georgian Foundation for Strategic and International Studies*, Tbilisi, Georgia, pp. 5-6.
- The Government of Georgia. (2020), Georgia's Anti-Crisis Economic Plan, (2020). Tbilisi, Georgia, pp 4-37.
- The Government of Georgia. (2010), Decree N415 of the Government of Georgia of December 29, 2010, Tbilisi, Georgia, pp. 6-7.
- The Government of Georgia. (2020), Decree N353 of the Government of Georgia of June 04, 2020, Tbilisi, Georgia, pp. 1.
- The parliament of Georgia. (2010), Georgian Tax Code, Tbilisi, Georgia, (as of 2020) pp 83-90.
- World Bank Group. (2020), Doing Business 2020, Washington, pp. 4. available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf>, [Accessed 08.06.2020]
- Georgian National Tourism Administration. (2020), Economic indicators, available at: <https://gnta.ge/ge/%E1%83%A1%E1%83%A2%E1%83%90%E1%83%A2%E1%83%98%E1%83%A1%E1%83%A2%E1%83%98%E1%83%99%E1%83%90/> [Accessed 15.06.2020]