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THE MAIN CHALLENGES OF THE POST-PANDEMIC ECONOMY IN GEORGIA

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Summary: For Georgia, the post-pandemic period turned out more positive than expected. Since the spring of 2022, the pandemic has been declared virtually over, which has significantly reduced the country’s budget for the fight against Covid-19, completely lifted restrictions on the tourism sector, renewed the production process, and created new expectations to overcome the crisis exacerbated during the pandemic. Georgia has made significant progress in terms of improving the financial sector and developing sound monetary and financial regulations, however, inflationary processes continue and place a heavy burden on citizens and the business sector affected by the pandemic. The agenda was to develop the right macroeconomic policy, develop an appropriate strategy and ensure sustainable growth. The article discusses the main challenges of the post-pandemic economy in Georgia and ways to overcome them.

Keywords: post-pandemic economy, macroeconomic policy, sustainable economic growth.

Introduction. In the conditions of the Covid pandemic, as in the rest of the world, macroeconomic indicators have deteriorated sharply in Georgia: the GDP, the volume of investments, remittances, the number of international travelers have decreased, and international trade has been disrupted. The restrictions introduced by the state to stop the pandemic significantly hampered business operations, increased the unemployment rate, aggravated inflationary processes, and made the population’s social problems, income inequality, and poverty even more unbearable [1]. Against the backdrop of the pandemic, the weakening of the global economy and the main trade partners of Georgia significantly hindered the process of rapid economic recovery and overcoming the health crisis [2].

Despite all this, Georgia faced the Covid-19 pandemic firmly, supported by the right macroeconomic policy, economic growth rate, high international rating, and implemented socio-economic reforms.

Purpose of the research. The study aims to evaluate the macroeconomic policy in force to stop the aggravated economic crisis in Georgia during the COVID-19 pandemic and improve macroeconomic indicators, ensure sustainable economic growth, and determine the possibilities of increasing its effectiveness.
**Research methodology.** In the research process, relevant scientific literature, studies, and government decisions were studied. A comparative analysis of the retrieved material and statistical data was carried out, and certain conclusions, recommendations were developed.

**Literature review.** The Covid pandemic has put the global world in front of new challenges. Along with the damage caused by COVID-19, Russia's invasion of Ukraine in February 2022 and prolonged hostilities further hampered the development of the global economy. The main challenges in the post-pandemic world are still inflation, rising interest rates, and war.

Inflationary processes can be found in all countries, although a lower rate of 1-3 percent was typical for developed countries. We got a completely different picture in 2022. The post-pandemic period was accompanied by the Russia-Ukraine war and the increase in energy prices, which in turn had an impact on other areas, and inflation in the US and European countries broke the decades-old record. Inflation in the United States reached 9.1% in June 2022. According to preliminary data, the average annual inflation rate in the USA in 2023 will be 7.1%. Consumer prices increased by 11.1% in the EU, including 10.1% in the Eurozone. In individual countries: Estonia, Lithuania, Latvia, and Hungary, the annual inflation rate exceeded 20% in November 2022. Due to internal reasons, a high inflation rate was recorded in Turkey as well - almost 85% [3].

According to the World Bank, per capita income in developing countries in 2023 will be almost five percent below pre-pandemic levels due to damage caused by the pandemic and war. The poorest countries, numbering more than 69, have been particularly affected. According to the International Monetary Fund, impoverished nations need 436 billion dollars to deal with the consequences of Covid [4].

In 2023, it will be difficult for many developed countries to avoid an economic downturn. World Bank cuts most 2023 economic-output forecasts. World Bank Predicts Global Growth of Just 1.7% this Year. GDP expansion is set to slow in all major economies and regions except China [5].

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**World Bank’s 2023 Economic Growth Forecast**

*Source: World Bank Global Economic Prospects report*
The World Bank forecast for Georgia is relatively reliable. By 2023, it is predicted that the economy of Georgia will grow by 4.0%, our neighboring Azerbaijan - by 2.8%, Armenia - by 4.1%, Ukraine - by 3.3%, Romania - by 2.6%, Bulgaria - by 1.7%, etc.

As recommended by the World Bank, it is significant to encourage production and avoid trade restrictions in the post-pandemic economy. A change in fiscal climate and debt policy is needed to combat capital inefficiency and inequality. Urgent global action is necessary to reduce economic growth and external debt risks [5].

Discussion/Results. After the end of the Covid-19 pandemic, the scale of foreign investments and net exports in Georgia has been sharply limited. Like the world economy, the main challenge in our country is still the high inflation rate. Weakened foreign demand and the losses suffered by the tourism sector caused a sharp devaluation of the Georgian lari. At the beginning of 2022, a double-digit inflation rate was recorded in the country, 74% of which was caused by increased food and fuel prices.

Average annual inflation in 2022 reached 11.9%, according to Saxstat. However, according to individual experts, at the end of last year, the migration of Russian citizens fleeing the war to Georgia accelerated the growth of the Georgian economy and strengthened the exchange rate of the lari [6].

The strengthening of the GEL and high economic growth eased the public debt burden, which exceeded the critical limit of 60% of the gross domestic product (GDP) at the end of 2020. It is undeniable that taking foreign debt is a significant way of attracting financial flows. In 2021, the state debt amount increased again and totaled 33.7 billion GEL [7]. In 2022, the government of Georgia increased its foreign and domestic liabilities by an additional 4.4 billion. In 2023, it is planned to take 2.22 billion GEL of new foreign debt [8].

Foreign demand in Georgia (due to tourism and migrant spending) is high, which contributes to high economic activity overall. In 2021, the economy of Georgia grew by 10.5%. At the end of 2021, by 2022, the Georgian government predicted a 6% growth in the economy. In this case, the rate of export of goods would increase by about 13%. In November, the Georgian government increased the expected growth forecast for 2022 to 10%. As expected, the pandemic and the war did not
slow down the growth rate of the Georgian economy. On the contrary, they accelerated it [6].

According to some researchers, the main reason for economic growth in Georgia is about 100 thousand migrants who came to live in our country. First, migration has affected the real estate sector, increasing the demand for buying and renting residential houses. In January-November, Georgia received 2.5 billion USD from migrants and remittances. Exports, which increased by 32% in January-November, significantly contributed to the high economic growth. In 11 months of 2022, Georgia received 1.2 billion dollars more from exports than in 11 months of 2021 [6]. After the COVID-19 pandemic, the country’s trade turnover decreased. The negative trade balance amounted to 7,857.3 million US dollars in 2022 which is 41.3 percent of foreign trade turnover.

| External Merchandise Trade (Million USD) |
|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|
|                 | 2017      | 2018      | 2019      | 2020      | 2021      | 2022*      |
| External Trade  | 10,802.7  | 12,741.1  | 13,317.9  | 11,398.3  | 14,342.4  | 19,082.9  |
| Turnover        |           |           |           |           |           |           |
| Export (FOB)    | 2,745.7   | 3,379.7   | 3,798.4   | 3,344.5   | 4,242.7   | 5,592.8   |
| Import (CIF)    | 8,057.1   | 9,361.4   | 9,519.5   | 8,053.8   | 10,099.8  | 13,450.1  |
| Trade Balance   | -5,311.4  | -5,981.7  | -5,721.1  | -4,709.4  | -5,857.1  | -7,857.2  |
| Domestic export | 2,006.4   | 2,224.1   | 2,323.8   | 2,409.1   | 3,127.1   | 3,704.2   |

Source: https://www.geostat.ge/en/modules/categories/765/external-merchandise-trade

It is significant for Georgia to develop and strengthen relations with the countries of the region (Azerbaijan, Turkey, Armenia, Iran, and others), which will contribute to the improvement of trade and economic cooperation, strengthening of security and stability, as well as deepening of relations in the fields of transport and energy. The priority of Georgia’s foreign policy is the deepening of strategic cooperation with the United States of America and the further development of friendly relations with China, which is among the top five Georgia trade partners. Cooperation with the countries participating in the “New Silk Road” project is also a
priority direction to fully utilize the potential of Georgia as a traditional transit corridor connecting Asia and Europe. Especially significant is the Black Sea submarine electric cable project, which aims to connect the South Caucasus region with South-Eastern Europe and will contribute to the strengthening of energy security, the development of the renewable energy sector, and the increase of transit opportunities between the mentioned regions. It is significant that our country should be represented in the project not only as a transitor but also as an exporter. Increasing Georgia’s foreign trade turnover, strengthening trade relations, and perfecting the trade policy are essential to building a sustainable economy.

In the most significant indicator of the country’s economic growth - in the gross domestic product - one of the priority sectors of the economy of Georgia - tourism, whose specific share was growing steadily before the pandemic and from 7.05% in 2016 to 8.1% in 2019 has a certain share [10], [11]. As a result of the pandemic, one of the biggest hits was the tourism sector. 5.4 million international travelers arrived in Georgia in 2022. Compared to 2019, this figure is 30% less, so we have not returned to the pre-pandemic number in 2022.

The main economic surprise of 2022 was the doubling of remittances from abroad. In 11 months of 2021, 2.1 billion dollars were transferred to Georgia, and in the same period of 2022, 3.8 billion dollars. In 2022, half of the money received by Georgia through remittances will come to Russia [6].

Direct foreign investments are the most important source of economic development in Georgia. According to the statistics of the first three quarters (January-September) of direct foreign investments in Georgia in 2022, 1,676 million dollars of investment entered Georgia, which is two times more than the investments of the same period in 2021 [12]. The number of investments increased the most from Spain (by 358 million dollars), the USA (by 126 million dollars), Ireland (by 119 million dollars), and China (by 94 million dollars).

Conclusion. Thus, the main challenge of the post-pandemic Georgia economy is still the reduction of the inflation level. In case of stable prices, the inflation level will decrease, and the National Bank will be allowed to gradually soften the monetary policy. Despite the GEL strengthening significantly in 2022, it had a specific reason - unexpected flows of foreign currency, which we do not know how long will last. Although the economy is projected to grow by 4% by 2023, it is relatively difficult to predict anything precisely. The main thing is that the war ends as soon as possible, and in peace, we will have more opportunities to overcome all the challenges that the post-pandemic economy is facing. For economic stability strengthening, it is necessary to carry out structural reforms of the economy and boost the image of Georgia as a leading reformer in the region.

References:


