

# Challenges of the pandemic on the economy of Georgia

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DOI: [10.56580/GEOMEDI0007](https://doi.org/10.56580/GEOMEDI0007)

## Abstract

The global pandemic is having a significant impact on the economy of Georgia. Statistical analysis of 2020-2021 shows that there is a significant decline in GDP (Gross Domestic Product), - the most important indicator of the country's development. A reduction is observed in individual components of Gross Value Added, - in almost all branches of the economy. Particularly noteworthy is to mention the decline in GDP per capita during this period. It negatively affects on the life of population. Overcoming the economic crisis and economic prosperity is a priority for today. However, it is very important that the goodness of economic growth is felt by each resident of the country.

## Keywords

Economy of Georgia, real GDP growth, pandemic, GDP per capita

## Introduction

The global pandemic has a significant negative impact on humans and all areas of their lives, including the economy. It has been two years since the world struggled with the pandemic and its negative consequences. Our area of interest this time is the economy, in particular such macroeconomic indicator as Gross Domestic Product (GDP). Statistical analysis of this indicator in 2020-2021 in Georgia is presented in this paper. In pandemic period there is a significant decrease in GDP – the most important indicator of the country's development. A reduction mentioned also in the individual components of Gross Value Added. Almost all sectors of the economy are characterized by a downward trend. Notably, there is a significant reduction in the following sectors: Hotels and restaurants, Transportation and storage, Manufacturing, Construction, Wholesale and retail trade; repair of motor vehicles and

motorcycles, Electricity, gas, steam and air conditioning supply, Arts, entertainment and recreation, Financial and insurance activities, Professional, scientific and technical activities, Administrative and support service activities, Other service activities.

Declined the GDP per capita too, which deepened the level of poverty of population in the face of an already dire social situation. Getting out of the crisis of the economy is a priority today.

## Main text

Gross Domestic Product, which is the sum of Gross Value Added of all goods and services produced in the country over a given period of time [1, 2, 5], decreased significantly in Georgia in 2020. A detailed methodology for calculating GDP and real GDP growth rates is provided in the National Accounts Manual [1, 3, 4, 6].

The decline in GDP in Georgia began in March 2020, which was related to the first cases of Covid 19 in the country. The reduction of real GDP was -14.5 % in the second quarter of 2020 compared to the same quarter of previous year. In 2020 compared to 2019 real GDP decreased by -6.8 %. The downward trend continued through February 2021. From March 2021 GDP growth began.

The trend of real GDP development for 2020-2021 shows the table 1 [7].

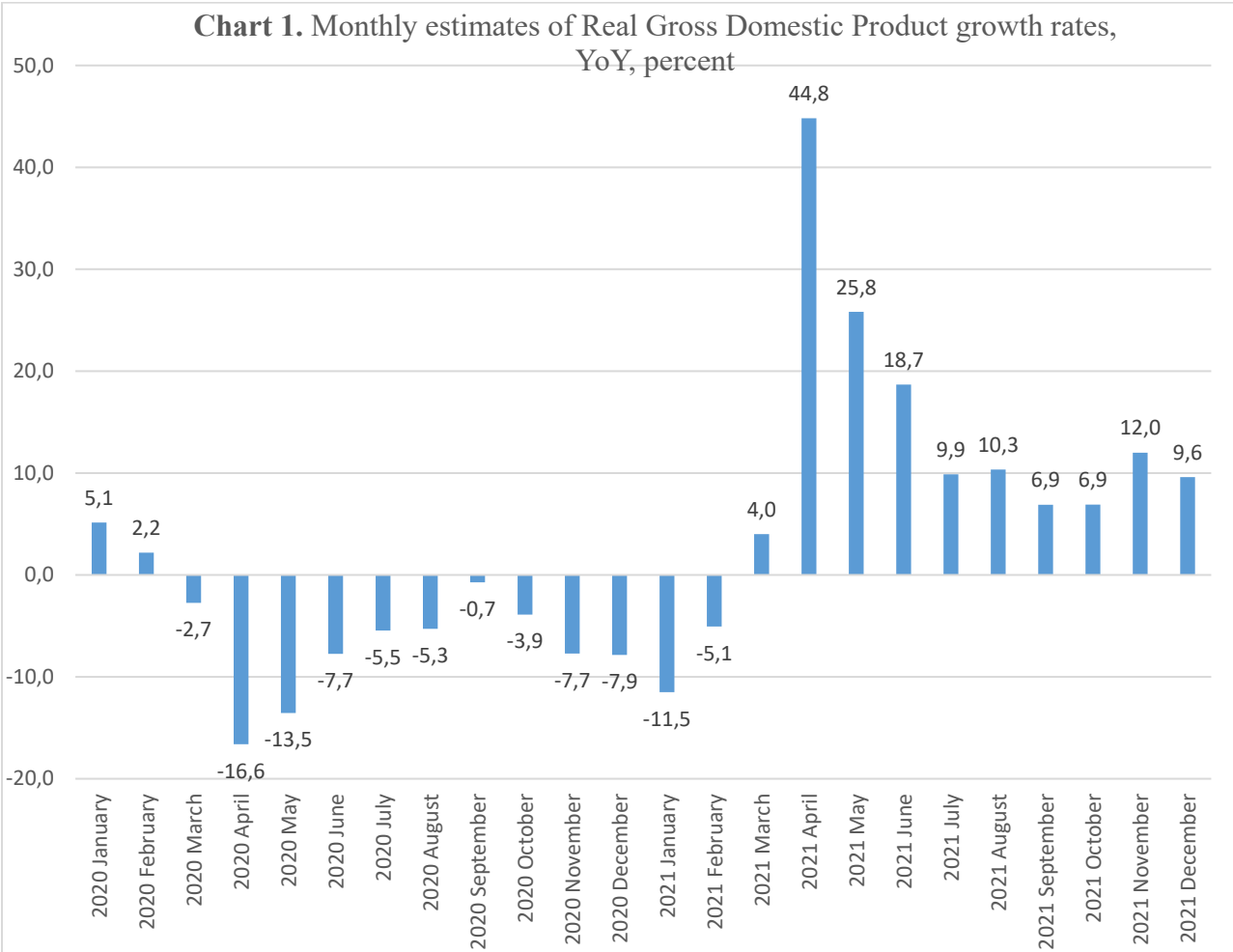
**Table 1.** Real Gross Domestic Product growth rates in Georgia in 2020-2021, YoY Percent

|  |       |
|--|-------|
| 2020 I Quarter   | 3.3   |
| 2020 II Quarter  | -14.5 |
| 2020 III Quarter   | -6.8  |
| 2020 IV Quarter  | -7.4  |
| 2020 Year  | -6.8  |
| 2021 I Quarter   | -4.1  |
| 2021 II Quarter  | 28.9  |
| 2021 III Quarter   | 9.1   |
| 2021 IV Quarter (Average quarterly from preliminary monthly estimates) | 9.5   |

|  |      |
|--|------|
| 2021 Year (Twelve months Average from preliminary monthly estimates) | 10.6 |
|--|------|

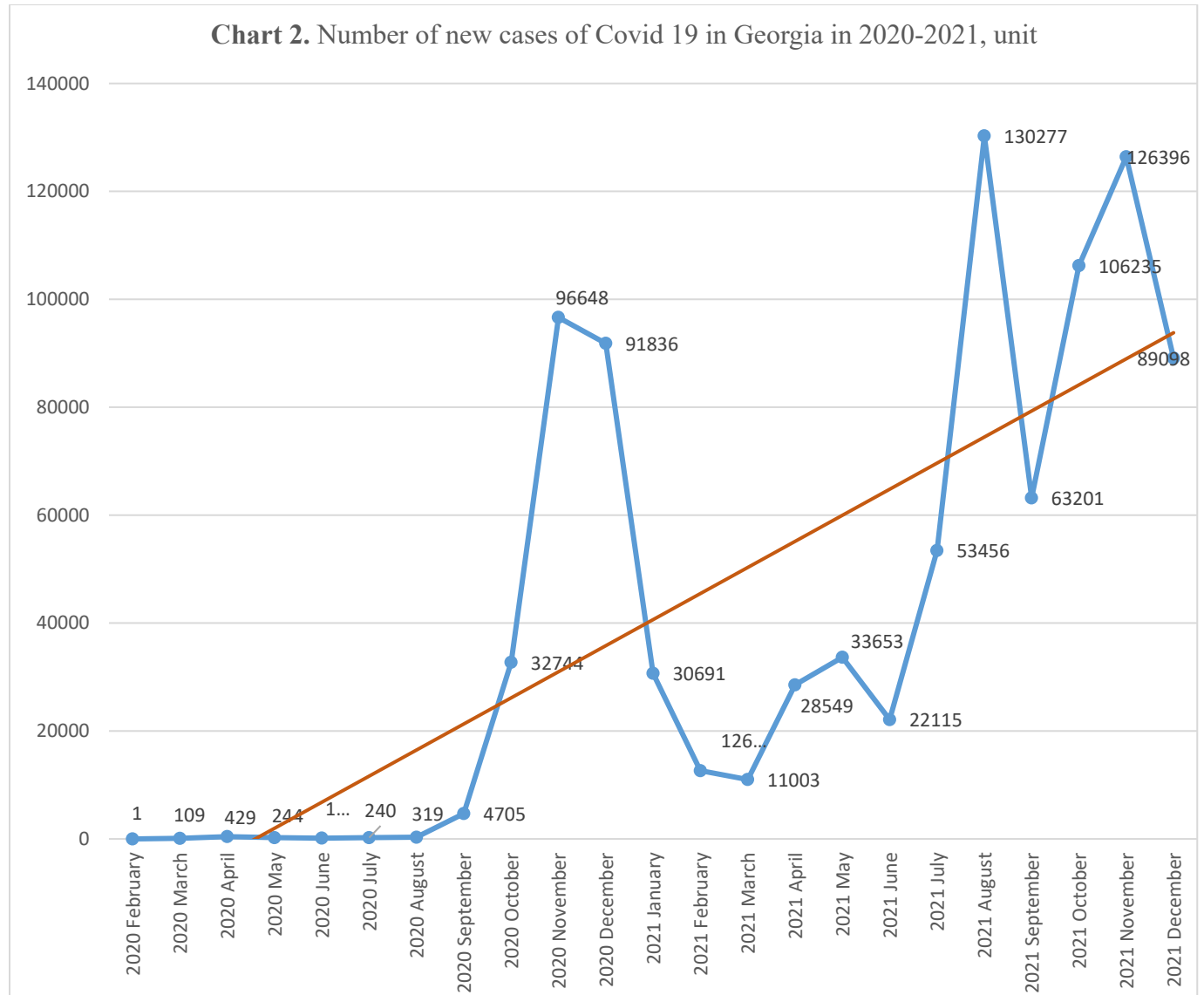
**Source:** National Statistics Office of Georgia (GEOSTAT)

An increase in new cases of Covid 19 was followed by a downturn in the economy. A significant decrease in GDP was noticeable in the early stages of the pandemic onset. The decrease in real GDP in March 2020 compared to the corresponding period of the previous year was -2.7 %, in April -16.6 %, in May -13.5 %, in June -7.7 %, in July -5.5 %, in August -5.3 % and so on. The following chart gives us a clear picture of the monthly economic growth trend in Georgia [7]:



**Source:** National Statistics Office of Georgia (GEOSTAT)

The cause of the rapid economic downturn is a pandemic. The official statistics about Covid 19 in Georgia are as follows [8]:



**Source:** country data from WHO database

As can be seen from the graph, the number of new cases of Covid 19 is still characterized by an increasing trend. The upward line of the trend visibly shows it. Recovering the economy in such a situation is not so easy. However, with the right economic decisions, a solution can be found. Proof of this is the start of real GDP growth from March 2021.

More interesting indicator of a country's development is the GDP per capita, which is the GDP per inhabitant and is calculated by dividing GDP to the number of population [3]. According to the official data of the World Bank, by 2020, Georgia ranks 116-th among 195 countries in the world in terms of GDP per capita [9]. This is not a good fact. According to the statistical data of Geostat, in 2020, compared to the previous year, the GDP per capita at current prices declined from 13 239.4 to 13 234.1 GEL (from 4 696.2 USD to 4 255.7 USD). But, in real terms, real GDP per capita decreased from 10 832.3 GEL to 10 093.1 GEL (from 3 842.4 USD to 3 245.7 USD). During the mentioned period, a downward trend is observed in the quarterly indicators too.

In 2020-2021, The largest decline was observed in the following sectors of the economy: Accommodation and food service activities, Transportation and storage, Manufacturing, Construction and Wholesale and retail trade; repair of motor vehicles and motorcycles. Growth rates of real GDP and its components clearly seen in the table 2 [7]:

**Table 2.** Real Gross Domestic Product growth rates in Georgia by types of economic activities in 2020-2021, YoY Percent

| NACE rev. 2 | Economic Activities  | I 20  | II 20 | III 20 | IV 20 | 2020         | I 21* | II 21* | III 21* |
|-------------|--|-------|-------|--------|-------|--------------|-------|--------|---------|
| A           | Agriculture, forestry and fishing                                    | 2.7   | 17.7  | 2.1    | 7.5   | <b>8.1</b>   | 0.2   | -3.4   | -2.9    |
| B           | Mining and quarrying   | 13.2  | 17.7  | 14.4   | 5.8   | <b>12.4</b>  | 48.3  | 15.9   | 2.2     |
| C           | Manufacturing  | 10.1  | -10.7 | -7.4   | -14.9 | <b>-7.1</b>  | -3.0  | 36.2   | 7.3     |
| D           | Electricity, gas, steam and air conditioning supply                  | -6.4  | -2.1  | -8.9   | -3.2  | <b>-5.2</b>  | -9.4  | 16.1   | 78.8    |
| E           | Water supply; sewerage, waste management and remediation activities  | -11.0 | -27.9 | -26.1  | -23.4 | <b>-22.5</b> | 24.3  | 43.4   | 35.1    |
| F           | Construction   | 17.6  | -34.0 | -7.0   | -2.7  | <b>-8.0</b>  | -22.1 | 17.2   | -29.7   |
| G           | Wholesale and retail trade; repair of motor vehicles and motorcycles | 2.4   | -21.2 | 1.9    | -2.2  | <b>-4.7</b>  | 6.2   | 58.9   | 12.3    |
| H           | Transportation and storage   | 0.0   | -29.2 | -29.8  | -27.9 | <b>-23.0</b> | -5.9  | 45.5   | 29.0    |
| I           | Accommodation and food service activities                            | -1.7  | -56.9 | -52.6  | -56.3 | <b>-44.9</b> | -50.1 | 99.4   | 49.8    |
| J           | Information and communication  | 7.7   | -12.0 | 5.7    | 8.3   | <b>2.6</b>   | 18.1  | 51.0   | 18.4    |
| K           | Financial and insurance activities                                   | -6.8  | -13.2 | -2.7   | 13.1  | <b>-2.3</b>  | 23.8  | 45.0   | 20.3    |
| L           | Real estate activities   | 3.2   | -4.3  | -0.5   | 0.6   | <b>-0.3</b>  | -4.1  | 19.7   | 6.6     |
| M           | Professional, scientific and technical activities                    | -12.0 | -21.7 | -8.4   | -13.1 | <b>-13.8</b> | -0.1  | 24.8   | 9.4     |

|   |  |            |              |             |             |              |             |             |            |
|---|--|------------|--------------|-------------|-------------|--------------|-------------|-------------|------------|
| N | Administrative and support service activities  | -13.0      | -55.3        | -55.5       | -49.1       | <b>-45.2</b> | -36.3       | 7.4         | 40.8       |
| O | Public administration and defence; compulsory social security  | 5.9        | 0.3          | 4.8         | -1.2        | <b>2.3</b>   | 1.6         | 0.4         | -3.9       |
| P | Education  | 12.5       | 16.0         | 5.2         | 0.9         | <b>8.6</b>   | -4.9        | -1.2        | -7.8       |
| Q | Human health and social work activities  | 5.2        | 3.8          | 1.5         | 0.9         | <b>2.8</b>   | 12.2        | 43.7        | 23.8       |
| R | Arts, entertainment and recreation   | 19.0       | -43.6        | -21.7       | -21.9       | <b>-18.4</b> | -24.1       | 181.0       | 48.1       |
| S | Other service activities   | 1.7        | -25.7        | -20.4       | -20.6       | <b>-16.6</b> | -39.7       | 29.6        | 27.3       |
| T | Activities of households as employers; undifferentiated goods and services producing activities of household for own use | 0.2        | -4.2         | 28.9        | 74.0        | <b>19.3</b>  | -11.0       | -0.7        | -29.3      |
|   | <b>(=) GDP at basic prices</b>   | <b>4.0</b> | <b>-13.6</b> | <b>-7.7</b> | <b>-7.3</b> | <b>-6.6</b>  | <b>-2.9</b> | <b>31.5</b> | <b>9.1</b> |
|   | (+) Taxes on products  | -2.7       | -19.3        | -0.7        | -7.2        | <b>-7.5</b>  | -12.6       | 8.1         | 8.4        |
|   | (-) Subsidies on products  | 0.3        | 8.0          | 7.7         | 4.5         | <b>5.5</b>   | 1.0         | 5.0         | 0.9        |
|   | <b>(=) GDP at market prices</b>  | <b>3.3</b> | <b>-14.5</b> | <b>-6.8</b> | <b>-7.4</b> | <b>-6.8</b>  | <b>-4.1</b> | <b>28.9</b> | <b>9.1</b> |
|   | GDP deflator   | 6.6        | 5.5          | 7.9         | 8.6         | <b>7.3</b>   | 7.9         | 11.6        | 9.4        |

**Source:** National Statistics Office of Georgia (GEOSTAT)

**Note:** \* Preliminary data.

As can be seen from the table 2, in the conditions of the global pandemic, the volume of production in almost all sectors of the economy decreased. Particularly noteworthy are those sectors that have made a significant contribution to GDP growth. The growth in the economy of Georgia will be observed from March 2021, which is a positive result of a number of measures taken in the country. Since the second quarter of 2021, there has been significant growth in GDP.

## Conclusions

The final conclusion is as follows: Georgia's economic crisis caused by the global pandemic, started in March 2020, has been positive since March 2021. The significant recovery of the economy starting from the second quarter of 2021 is clearly visible.

As a recommendation, it is desirable to consider:

- maintaining GDP growth,
- promoting the functioning of leading sectors of the economy, and most importantly,
- the goodness and impact of economic growth should be felt by every resident of the country.

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