

Measures to contain the COVID-19 pandemic have had a significant impact on the global economy. The International Monetary Fund (IMF) forecasts that the world economy will shrink by 3% in 2020, which is even more severe than the 2009 global financial crisis (-1.73%). The IMF also predicts a 4% reduction in real GDP in Georgia in 2020, the most negative forecast in the region of the South Caucasus. This is mainly attributable to the relatively high contributions of tourism and remittances to the country's economy¹ (in 2019, currency inflows exclusively from these two sectors accounted for 28.2% of Georgia's GDP)². In March 2020, compared to March 2019, the number of tourists coming to Georgia decreased by 56.1%, while the remittance inflows for the same period dropped by 9%. Further declines in these figures are expected in the coming months. In addition, Georgia's open economy is vulnerable to foreign trade shocks. In March 2020, compared to March 2019, trade turnover decreased by 16%, and by 5.8% compared to February 2020. As a result of the COVID-19-related restrictions, consumer demand is also declining, exacerbated by the expected rise in unemployment and declining wages and remittances³.

Scenarios and forecasts

Levels of uncertainty have peaked due to the pandemic⁴, which makes the accurate forecasting of economic growth nearly impossible. Indeed, developments affecting factors such as the dynamics of the spread of the virus, the creation of a vaccine or treatment for the virus, changes in the patterns of production and consumption, and financial stability are highly unpredictable. Based on various sources⁵, PMCG has developed three possible scenarios for the development of the crisis, each of which correspond to different periods of time for which containment measures remain in place.



Scenario I: Optimistic
Economic activity completely stalls for **2.5 months**, and then partially stalls for a further 3 months. Consequently, economic activity partially resumes by the start of June and fully resumes by the start of September.

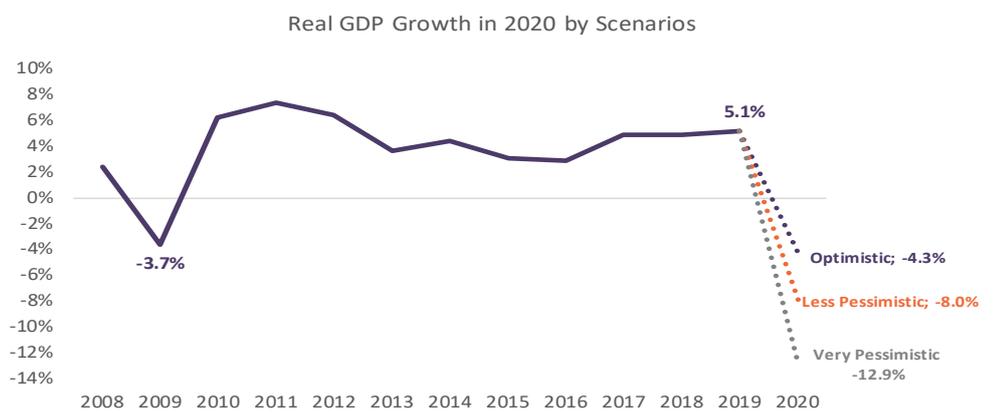


Scenario II: Less pessimistic
Economic activity completely stalls for **4 months**, and then partially stalls for a further 3 months. Consequently, economic activity partially resumes by the middle of July and fully resumes by the middle of October.



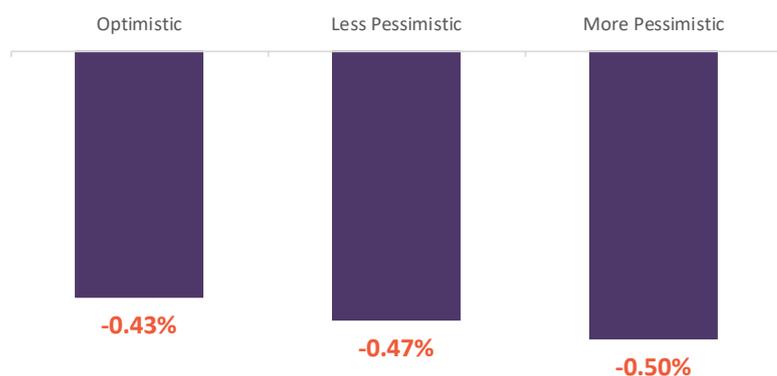
Scenario III: Very pessimistic
Economic activity completely stalls for **6 months**, and then partially stalls for a further 3 months. Consequently, economic activity partially resumes by the middle of September and fully resumes by the middle of December. This scenario also foresees a possible resurgence of the virus.

By considering the impact on certain sectors of the economy of Georgia⁶ in the three proposed scenarios, it is possible to forecast the real growth of the Georgian economy in 2020⁷. If the optimistic scenario proves true, Georgia's real economy is expected to shrink by 4.3%, which would be more severe than in 2009 (-3.7%). Should the less pessimistic scenario play out, the Georgian economy is expected to decrease by 8% while in the event of the very pessimistic scenario becoming reality, the expected fall is 12.9%.



Source: Geostat, PMCG's calculations

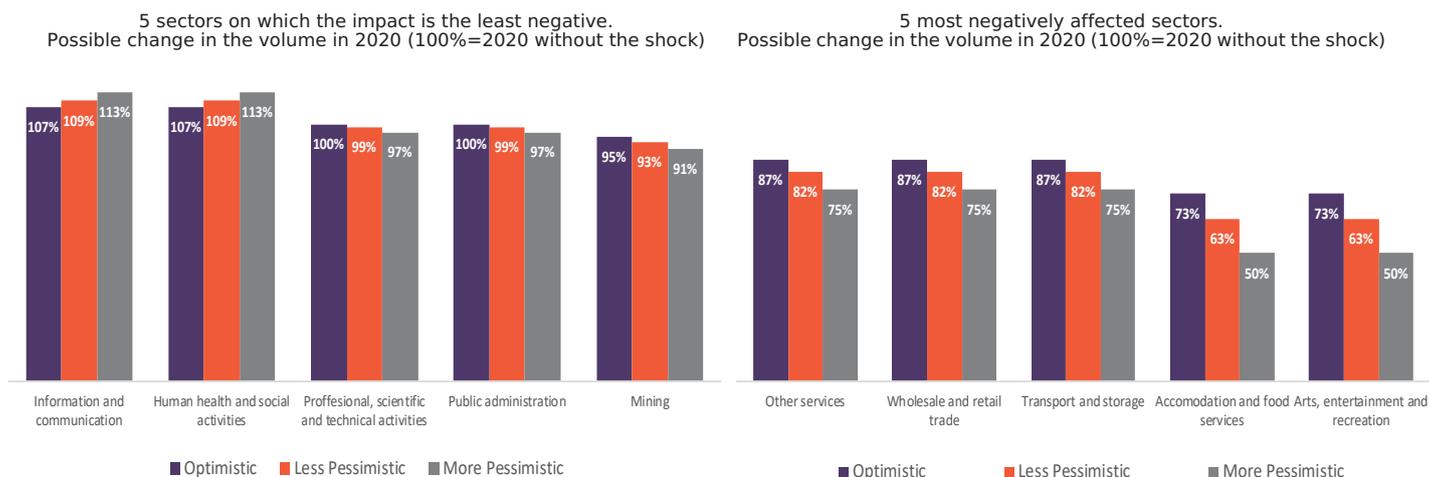
Weekly deviation of the GDP growth rate (%)



The weekly loss suffered by the economy is expected to increase the longer the containment measures go on: In the optimistic scenario, Georgia's real GDP growth is expected to drop by 0.43% every week until the full resumption of economic activity, while the weekly loss is more pronounced for the less pessimistic (-0.47%) and very pessimistic (-0.5%) scenarios respectively.

Thus, the extension of containment measures would result in an increase not only to the total economic loss, but also to the weekly rate of loss.

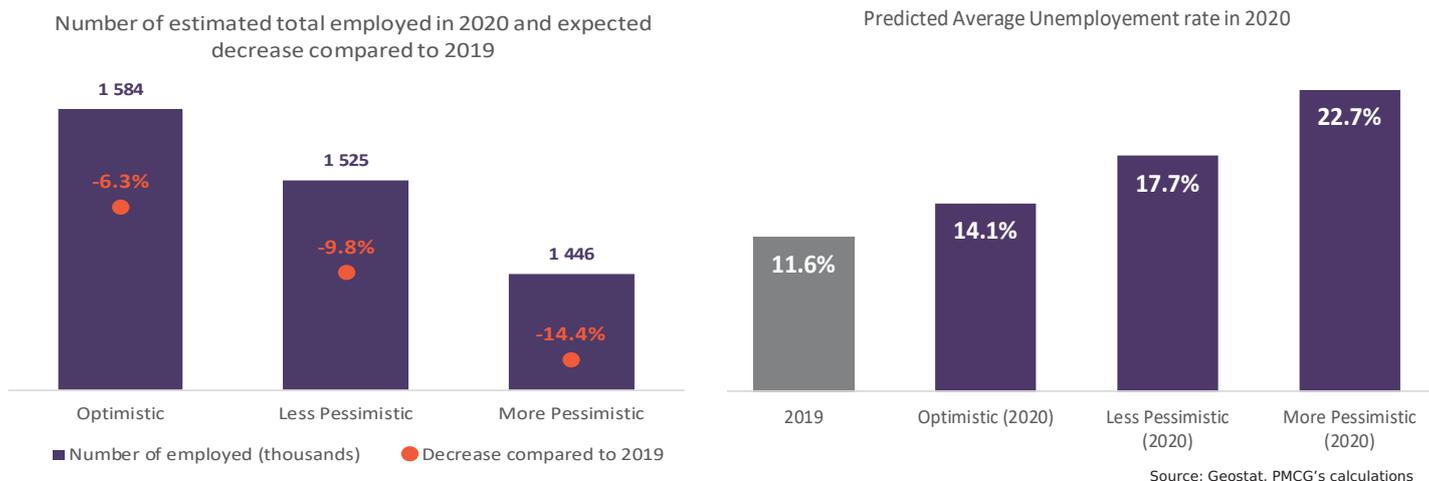
For all three of the proposed scenarios, we have identified the five sectors likely to be most affected and the five sectors likely to be least affected. The following five sectors are expected to be the most severely affected: *arts, entertainment and recreation; accommodation and food services; transport and storage; wholesale and retail trade; and other services*. On the contrary, the following sectors are expected to be least affected (some even positively affected): *information and communication; human health and social activities; professional, scientific and technical activities; public administration; and mining*.



Source: Geostat, PMCG's calculations

For those sectors negatively impacted by the crisis, a decrease in employment is almost inevitable. In the optimistic scenario we forecast a 6.3% decrease in the total number of employed persons in Georgia, while job losses are forecast to be greater in the less pessimistic scenario (-9.8%) and in the very pessimistic scenario (-14.4%).

Regarding the **average** unemployment rate in 2020, in optimistic scenario we expect an increase of 14.1%, while for the less pessimistic scenario the expected increase is 17.7% and for the very pessimistic scenario it is 22.7%. Additionally, it is likely that the negative impact of the pandemic will change the structure of the labor force in Georgia. The self-employed, which represented 44% of the Georgian labor force in 2019, will be particularly vulnerable to the changes.



Source: Geostat, PMCG's calculations

When and how should the restrictions come to an end?

Extraordinary measures have been taken in scores of countries around the world to curb the spread of the pandemic, including restrictions on movement, closing educational institutions and shops, banning mass gatherings, and mandatory social distancing. Although a complete assessment of the effects (social, economic and otherwise) of these measures has not yet been conducted⁸, studies indicate that strict measures have caused the transmission of the virus to decelerate and the mortality rate to decrease⁹. However, in the absence of a vaccine, the speed and dynamics of the spread of the virus remains unpredictable.

The World Health Organization (WHO) envisages three scenarios regarding the spread of the virus: complete cessation of human-to-human transmission; periodic epidemic waves (large or small) (this is considered the most likely scenario by the WHO); or a constant spread on a small scale. **Naturally, when lifting constraints, it is important to do so cautiously so that the revival of economic activity does not increase the risk of a resurgence of the virus.**

The European Commission has developed the following three main criteria for assessing the readiness of member states to reduce restrictions¹⁰: reduced and stable number of infections over a period of time; the readiness of the member state's health-care system to respond to an increased number of cases of infection as a result of loosening restrictions; the existence of an effective monitoring system, which includes large-scale testing, and a mechanism for tracking those in contact with the infected, and for isolating infected people. **It is also important to plan for phased lifting of restrictions and to maintain suitable intervals between each step in order to assess how the easing of certain measures has affected the spread of the virus before advancing to the next step.**

Georgia appears to have successfully addressed the first challenge of the pandemic, which was to prevent the spread of the virus. According to official statistics, the number of people infected in Georgia is significantly lower than in European countries and also lower than in neighboring states¹¹. The severe restrictions imposed under the state of emergency seem to have been effective, and Georgia now approaches the next stage of handling the virus, which will involve the gradual easing of restrictions.

Country	Total infected	Deaths	Recovered
Georgia	425	5	111
Armenia	1,523	24	659
Azerbaijan	1,548	20	948
Russia	62,773	555	4,891
Turkey	101,790	2,491	18,491

source:worldometers.info, as of 24th April

The timely and effective easing of restrictions will be crucial in terms of reducing the economic and social cost of the virus. From April 27, the Georgian government is beginning a phased relaxation of restrictions. We think that **the decisions, and in some cases the experiences, of some other European countries relating to the lifting of restrictive measures should be taken into account here**. Restrictions are to be lifted in stages, with the first stage mainly involving the easing of access to small shops and other services (with social distancing still in place). The second stage would entail the re-opening of public educational institutions and relatively crowded places (such as stadiums and cinemas). Ultimately, it is important that the Georgian government develops a consistent plan to overcome the limitations and takes into close consideration the measures taken by some European countries to prevent a resurgence of the pandemic.

Country	Stages of lifting restrictions
Czech Republic	<p>From April 20 - Agrarian markets and car dealerships allowed to re-open; athletes allowed to train in the open air, wedding ceremonies with the participation of no more than 10 people, individual consultations for graduate students.</p> <p>From April 27th - Businesses with an area of up to 200 square meters will be opened.</p> <p>From May 11th - Businesses with a space of up to 1000 square meters, driving schools, and fitness centers to re-open. In high schools, the following will again be permitted: normal classes for final-year students; one-on-one lessons for students of all ages; and conservatoires will be re-opened for final-year arts and music students.</p> <p>From May 25th - Restaurants will be able to serve in open spaces / gardens / yards. Beauty salons, museums, botanical gardens will be opened, attendance in primary schools (maximum 15 students) and art schools with a maximum of 5 students will be allowed.</p> <p>From June 8th - Shopping centers will be opened, Businesses with an area of more than 1000 square meters, restaurants, accommodation services, taxi services, theaters, cultural events with a capacity of no more than 50 people, wedding ceremonies, high school graduation exams and state university exams are located in the area.</p>
Switzerland	<p>From April 27th - Businesses will be opened with low levels of direct contact and simple health and safety provisions (e.g. beauty salons, massage, tattoo and cosmetic studios, florists, family and yard equipment stores, and contactless car wash services) to re-open; hospitals to be allowed to perform full range of activities.</p> <p>From May 11 - Primary schools, shops and markets to re-open.</p> <p>From June 8 - High-schools, vocational and higher education institutions to re-open.</p>
Austria	<p>From April 14 - Stores with an area of less than 400 square meters re-opened.</p> <p>From May 1 - Shopping malls, large shops and beauty salons to re-open. * Wearing a face mask and social distancing to remain mandatory.</p>
Norway	<p>From April 20 - Kindergartens re-opened; domestic travel allowed but only if necessary.</p> <p>From April 27 - Primary schools, universities and beauty salons re-open.</p>
Germany	<p>From April 20 - Shops with a space of less than 800 square meters, car showrooms, and book and bicycle shops re-opened.</p> <p>From May 4 - Schools re-open for graduating students, state-owned galleries, museums and libraries are to re-open in Berlin; weddings and baptisms with a maximum of 20 people to be allowed; and beauty salons to re-open.</p>
Denmark	<p>From April 14 - Day care centers and primary schools re-opened.</p> <p>From April 20 - Beauty salons and tattoo parlors re-opened; and psychologists permitted to practice. * Prohibition of gatherings of more than 10 people remains in force.</p>

¹IMF, Regional Economic Outlook: Middle East and Central Asia

²National Bank of Georgia

³IMF, Regional Economic Outlook: Middle East and Central Asia

⁴<https://blogs.imf.org/2020/04/04/global-uncertainty-related-to-coronavirus-at-record-high/>

⁵The narrative of the 3 scenarios is based on 9 scenarios formulated by McKinsey&Company. When considering the length of each scenario, both IMF assumptions and the assumptions of IESE Business School professor Nuno Fernandes were taken into account.

⁶The assumptions about the impact on the economic sectors were made based on the most vulnerable sectors identified by the International Labor Organization, the OECD and McKinsey&Company. These were analyzed in the context of the Georgian reality.

⁷Assumption: the real GDP growth rate in 2020, in the absence of the pandemic, would have been equal to the real growth rate in 2019.

⁸https://apps.who.int/iris/bitstream/handle/10665/331773/WHO-2019-nCoV-Adjusting_PH_measures-2020.1-eng.pdf

⁹European Center for Disease Prevention and Control (ECDC), "Coronavirus disease 2019 (COVID-19) in the EU/EEA and the UK - eighth update", 8 April 2020.

¹⁰European Commission, Joint European Roadmap Towards Lifting COVID-19 Containment Measures, Europe, April, 2020.

¹¹www.worldometers.info

Basic Economic Indicators	2015	2016	2017	2018	2019
Nominal GDP (mln USD)	14 948.2	15 141.7	16 248.5	17 596.6	17 736.6*
GDP per Capita (USD)	4 012.6	4 062.1	4 358.5	4 722.0	4 763.5*
GDP Real Growth (%)	3%	2.9%	4.8%	4.8%	5.1%*
Inflation	4.0%	2.1%	6.0%	2.6%	4.9%
FDI (mln USD)	1 729.1	1 650.3	1 962.6	1 265.2	1 267.7*
Unemployment Rate (%)	14.1%	14.0%	13.9%	12.7%	11.6%
External Debt (mln USD)	4 314.9	4 515.7	5 177.4	5 434	5 741
Poverty Rate (relative)	20.2%	21.0%	22.3%	20.5%	-

*preliminary data