



COVID 19 IMPACT ON GEORGIAN ECONOMY



GALT & TAGGART
CREATING OPPORTUNITIES

25 March 2020

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COVID-19 and expectations globally

COVID-19 has been declared a global pandemic and is **spreading faster** than expected a few weeks ago.

Anti-virus **vaccine is expected to be available** in early 2021. **Effective medicine** that does not exist at the moment will also have a positive impact on alleviating the domestic situation.

Covid-19 is particularly severe shock as it is both **supply** (limited production, disrupted supply chains) and **demand** (social distancing, uncertainty, job loss) shock.

Uncertainty about the timing when the virus can be stopped makes economic forecasting difficult, as there is no comparable historical example globally. According to **some analysts**, the **scale of the negative impact** of the virus on the world economy may be similar to **World War II**.

Developed countries (US, EU, etc.) mobilized **sizable funds in response to the crisis and provided liquidity** to the markets. The EU has suspended fiscal rules.

International financial institutions **allocated solid funding** to member states (IMF – US\$ 1 trillion, WB – US\$ 12 billion, EBRD - US\$ 1 billion, etc.)



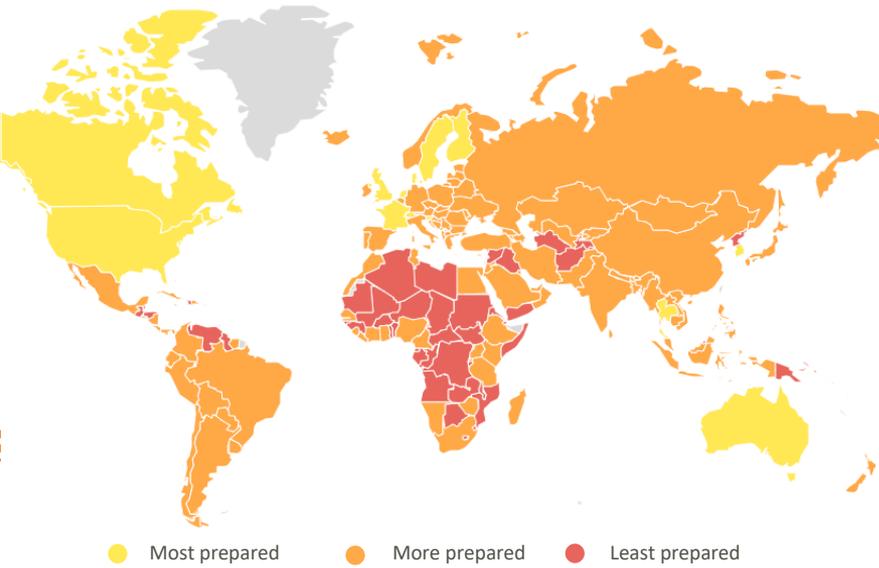
Georgia ranks 42nd out of 195 countries by preparedness for biological threats

According to Global Health Security index (GHS), **global preparedness for epidemics or pandemics is weak** (average score 40.2 out of 100).

Global preparedness for biological threats is weak according to GHS index

Top-10 countries		
#	Country	Score
#1	USA	83.5
#2	UK	77.9
#3	Netherlands	75.6
#4	Australia	75.5
#5	Canada	75.3
#6	Thailand	73.2
#7	Sweden	72.1
#8	Denmark	70.4
#9	South Korea	70.2
#10	Finland	68.7

Regional countries		
#40	Turkey	52.4
#42	Georgia	52.0
#44	Armenia	50.2
#63	Russia	44.3
#117	Azerbaijan	34.2



● Most prepared ● More prepared ● Least prepared

Source: The Global Health Security (GHS) Index 2019
 Note: Rank #1 is best, Index score 0 is the worst

Georgia's readiness (52) equals the average of high-income countries (51.9).

Georgia's performance in GHS index



Prevention of virus spread across country is important

Georgia

73

Confirmed cases

4,055

Under quarantine

Source: www.stopcov.ge, 25 March 12:30pm

10

Recovered

252

Under hospital supervision

Government safety measures

- State of emergency declared
- Georgia's borders closed for passengers, cargo transportation not restricted
- Learning process suspended in schools/universities
- Only essential businesses remain open
- Quarantine declared in Marneuli and Bolnisi regions
- Construction, production and transportation not restricted

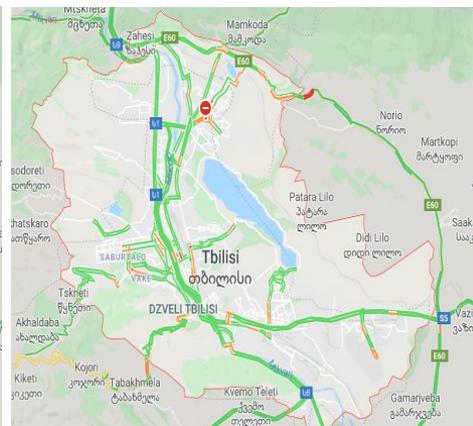
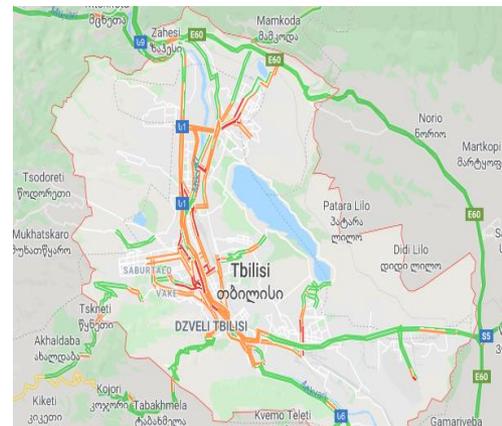
Traffic in Tbilisi reduced

Traffic before crisis

Friday 19:00
(Red – heavy traffic)

Traffic 20 March

Friday 19:00
(Green – light traffic)

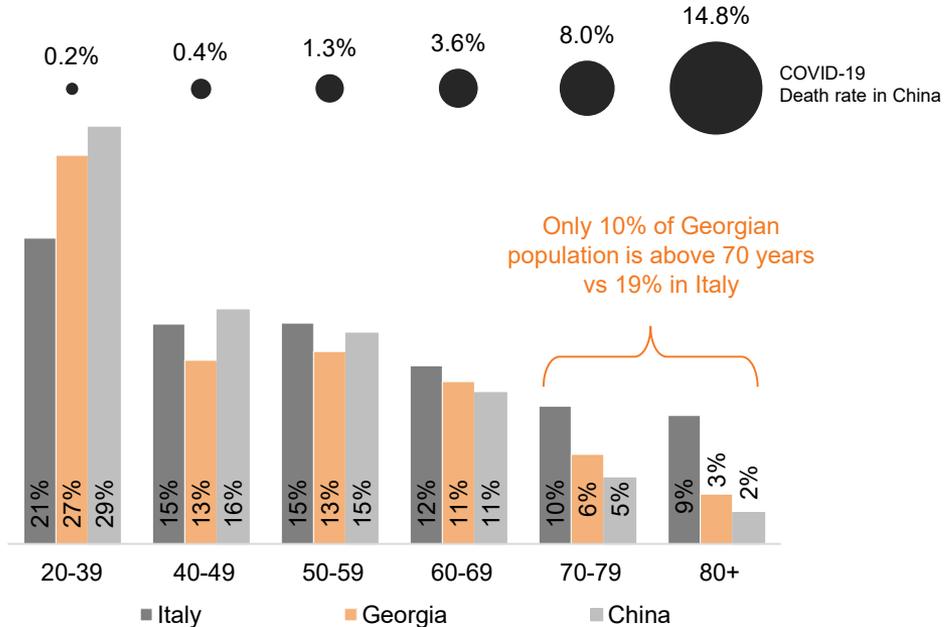


Source: Google maps



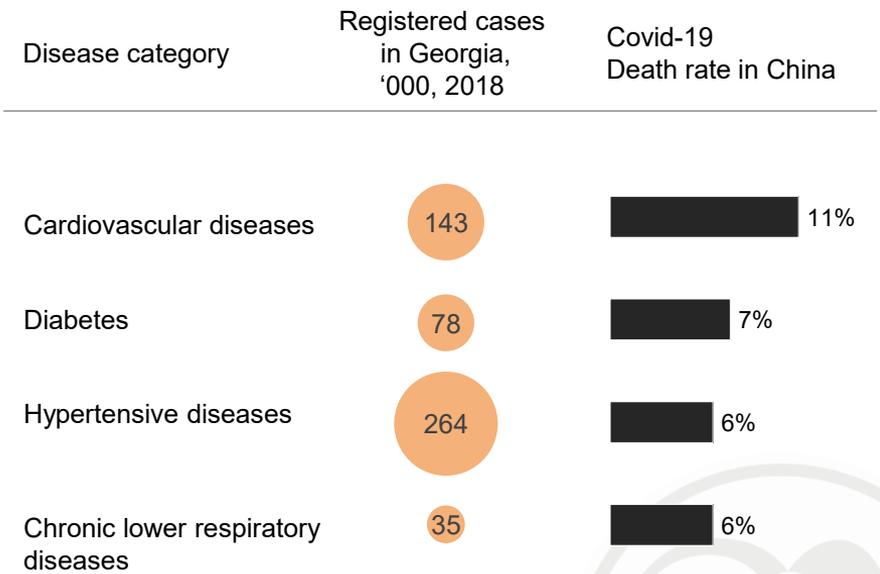
Georgia has younger population compared to Italy

Age distribution of population - Georgia, Italy, China



Source: World Bank, GeoStat, Galt & Taggart, China CDC
 Note: Death rate in China, February

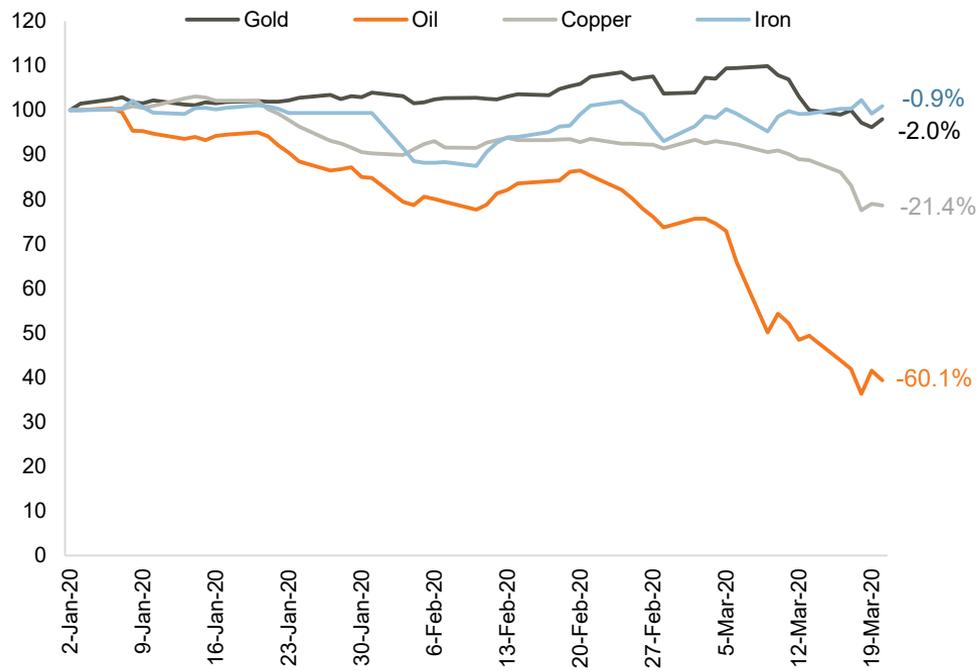
Patients with chronic diseases in Georgia



Source: NCDC, Galt & Taggart, China CDC, Registered cases in 15+ aged population
 Note: Death rate in China, February

COVID-19 impact on world commodity prices

Global commodity indices (January 2020 = 100)



Source: Bloomberg
Note: As of 22 March

Gold

- Georgia exported \$ 72.8mn (1.9% of total exports) gold in 2019
- Gold prices are relatively stable since the beginning of 2020 as it is perceived as a safe investment

Copper

- Georgia re-exported \$ 651.6mn (17.3% of total exports) copper in 2019
- Copper prices reduced significantly since the beginning of the year. Notably, China accounts for half of the global demand.

Iron

- Georgia exported \$ 303.0mn (8.0% of total exports) ferroalloys in 2019
- Iron prices remain stable, despite reduced demand globally

Oil

- Georgia imported \$ 757.0mn (8.4% of total imports) oil in 2019
- Oil prices plummeted to \$ 30/barrel on March 9, the largest daily drop since 1991. This means lower oil import bill for Georgia, however low oil prices also mean reduced remittances from and exports to Georgia's oil-exporting trade partners

Government measures to mitigate negative economic impact in Georgia



Anti-Crisis Stimulus GEL 1.0bn



Most sensitive sectors exempted from paying property and income taxes until November 2020



2,000 hotels with 4 to 50 rooms will receive bank loan interest rate co-financing for 6 months from government



Price subsidies for 9 food products – rice, buckwheat, pasta, oil, flour, wheat, milk powder, sugar and beans



Additional GEL 300mn for public capital expenditures



VAT refunds to double to GEL 1,200mn from initially planned GEL 600mn



National Bank eased banking sector regulations



3-month credit repayment moratorium for borrowers



Attracting funding from international financial institutions (IMF, etc.) in progress



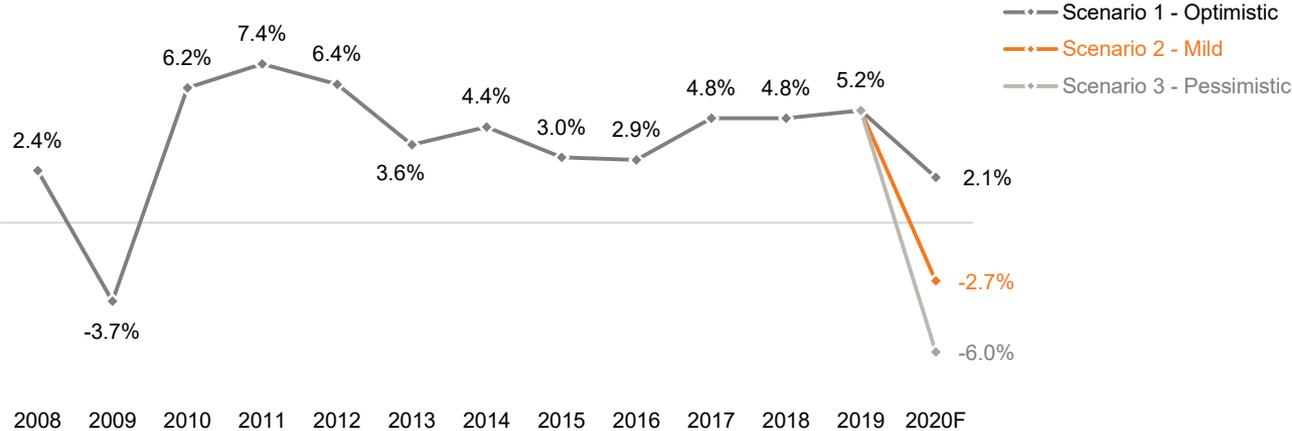
Tbilisi City Hall exempted open cafes from paying rents in 2020, SMES are exempted from paying rents for 3 months



3 possible economic scenarios for 2020

Scenario	Assumption	Date of virus control	Probability	Economic growth
1 Optimistic	Economic downturn from March to May, recovery from June	April-May	10%	2.1%
2 Mild	Economic downturn in March-May, recovery in June-September, and downturn again from October	Controlled in April-May, re-spread of the virus from October	50%	-2.7%
3 Pessimistic	Continued economic downturn from March	Not stopped in 2020	40%	-6.0%

Georgia's economic growth scenarios



Source: GeoStat, Galt & Taggart



Expected external losses/savings in different scenarios

Loss calculation in 2020 vs 2019, US\$ bn



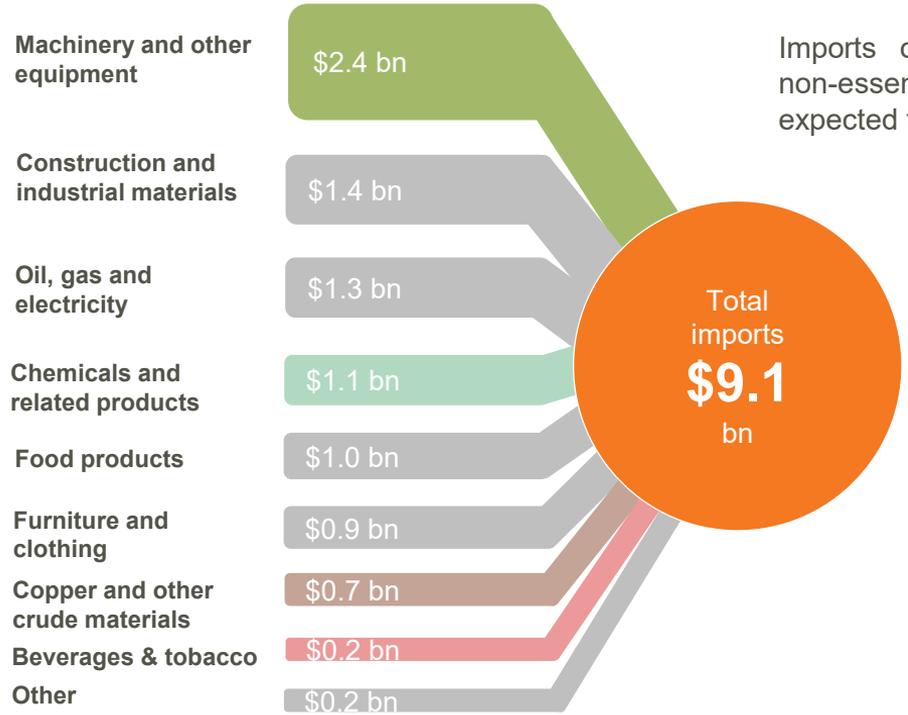
Source: Galt & Taggart

How to compensate these losses?

- 
\$1.7-2.6bn reduction in goods imports
- 
\$0.2-0.5bn Georgians stop traveling abroad
- 
\$0.2-0.4bn NBG interventions
- 
Minimum \$1.0bn external borrowing

Adjustment in external balance expected on the back of reduced imports

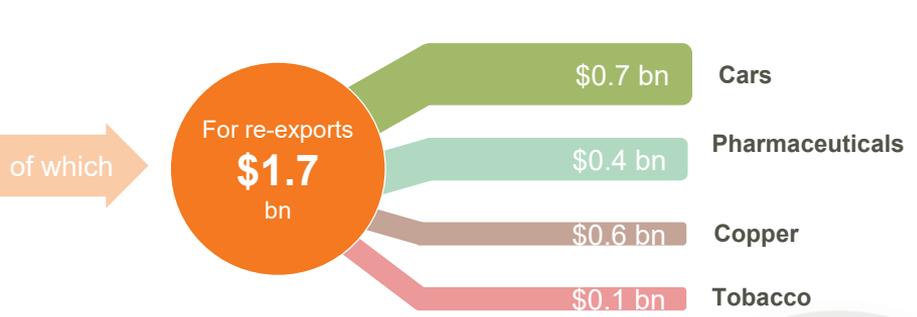
Imports 2019



Imports of cars and other non-essential goods are expected to drop dramatically

Imports for re-exports

4 large categories

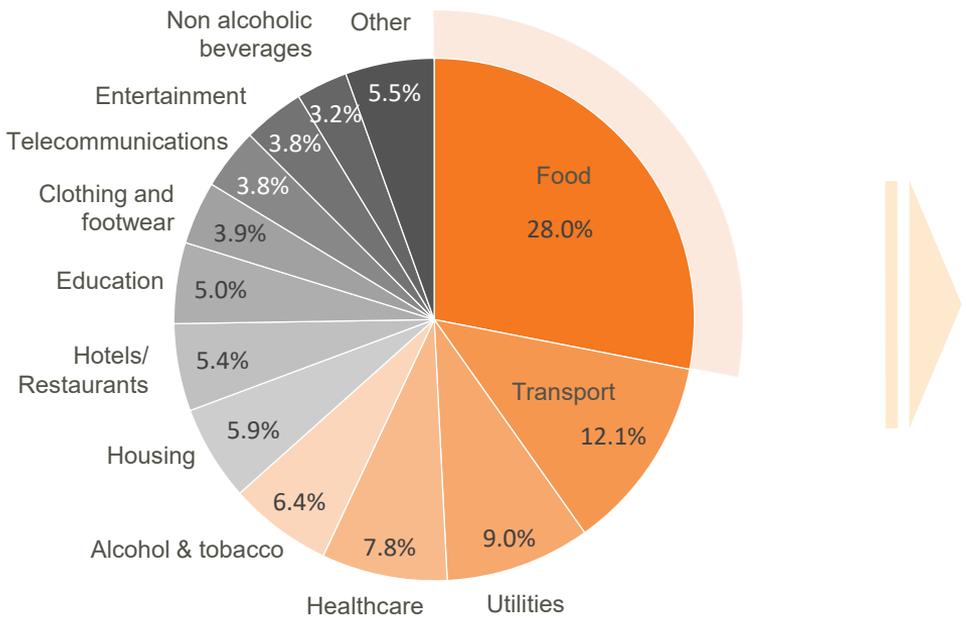


Source: Geostat, Galt & Taggart



Food makes up c. 1/3 of household spending in Georgia

Consumer basket in Georgia, 2020

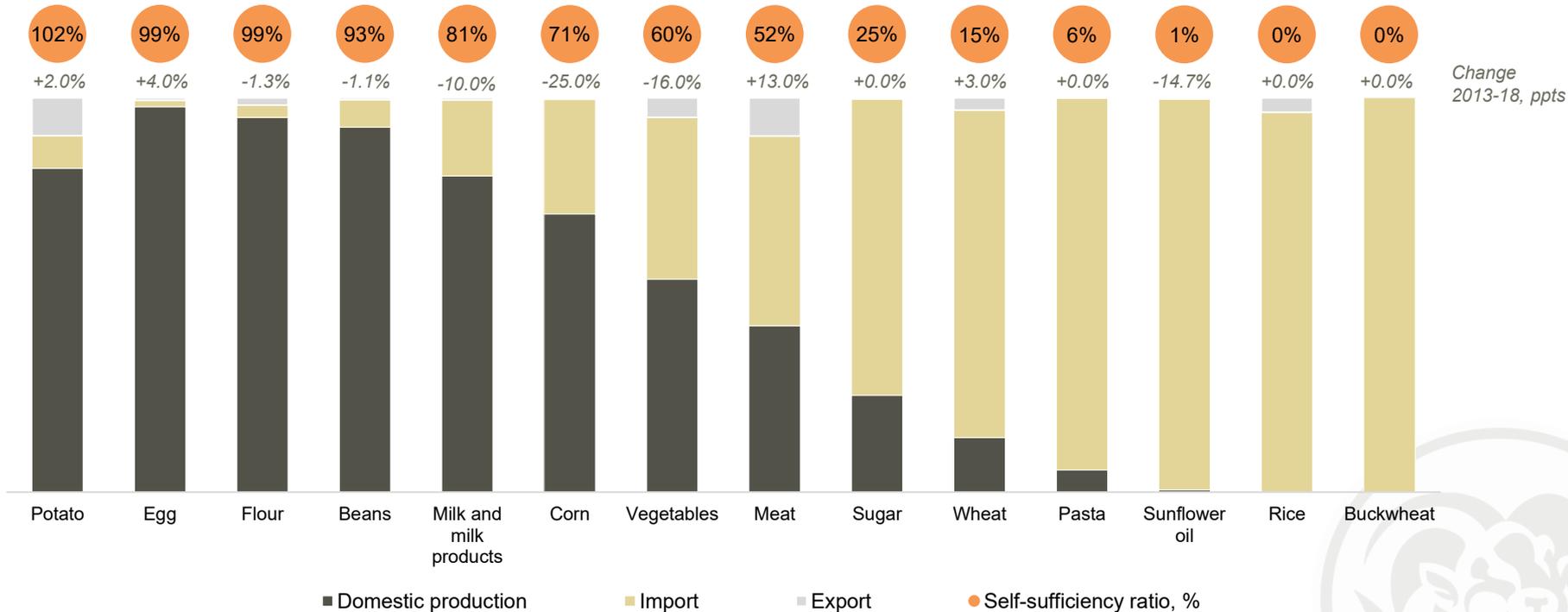


- One third of consumption in Georgia is food (vs 8% in EU)
- Tourists spend 5.0x less on food, alcohol and tobacco compared to Georgian households
- Food product consumption will be less affected during the crises compared to other goods/services
- During economic isolation, local food production can stimulate economic activity

Source: Geostat

Self-sufficiency on food products is important

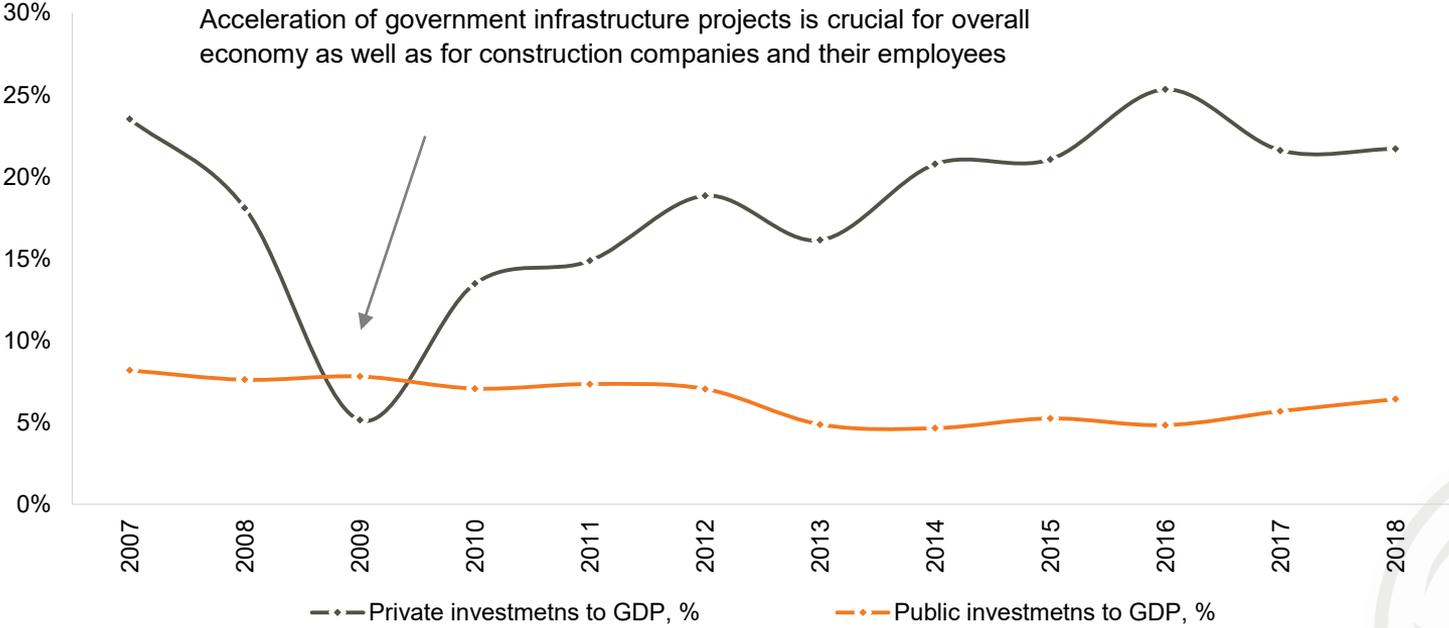
Self-sufficiency ratios and production/import/export of selected food products in Georgia, 2018



Source: Geostat, Galt & Taggart
 Note: In tones, coefficients also include non-resident consumption, self-sufficiency coefficient = production / (import + production-export)

Private investments normally fall during crisis

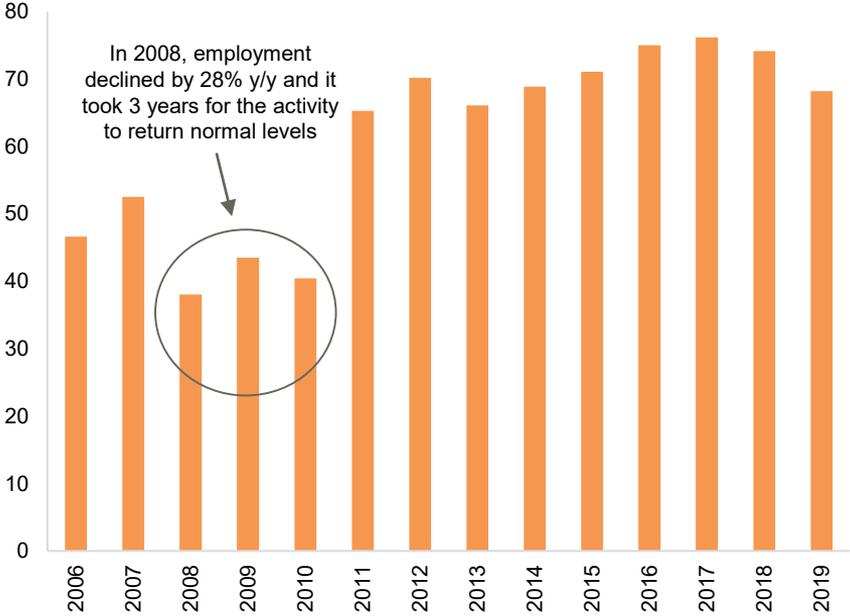
Public / Private Investments in Georgia



Source: Geostat, Galt & Taggart

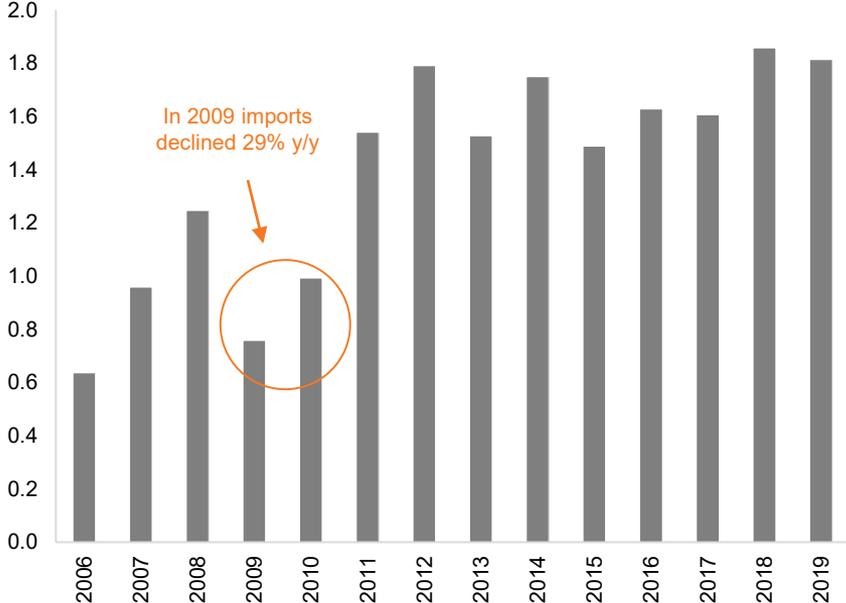
Construction sector fragile during crisis

Number of employees in construction business sector in Georgia, '000 persons



Source: Geostat
Note: 2019 is an expected number

Construction materials imports in Georgia, US\$ bn

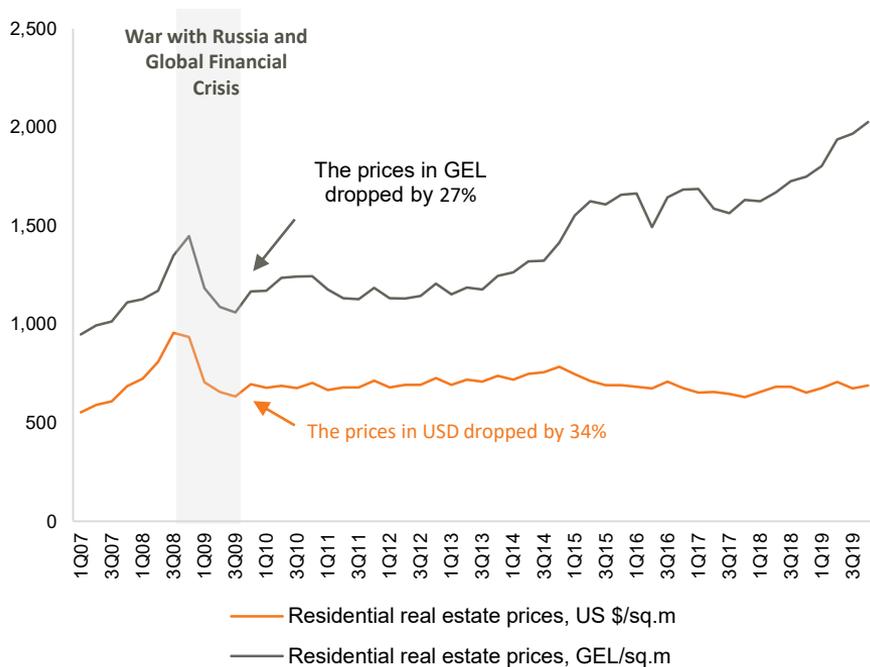


Source: Geostat



In pessimistic scenario real estate prices expected to fall by the same scale as in 2008-09 crises

Real estate prices in Tbilisi



Source: NBG, Galt & Taggart

Real estate demand drivers deteriorate during crisis

- Economic growth / employment
- Urbanization
- Shrinkage of family size
- Non-residents
- Tourism
- Remittances
- Local / foreign students
- Mortgages



Expected impact of COVID-19 on different sectors of Georgian economy

Immediate negative effect

Hotels

Restaurants

Shopping centers

Entertainment

Transport

Delayed negative effect

Financial sector

Construction

Real estate

Trade

Manufacturing

Education

Positive effect

Healthcare

Pharmacy

E-commerce

Agriculture

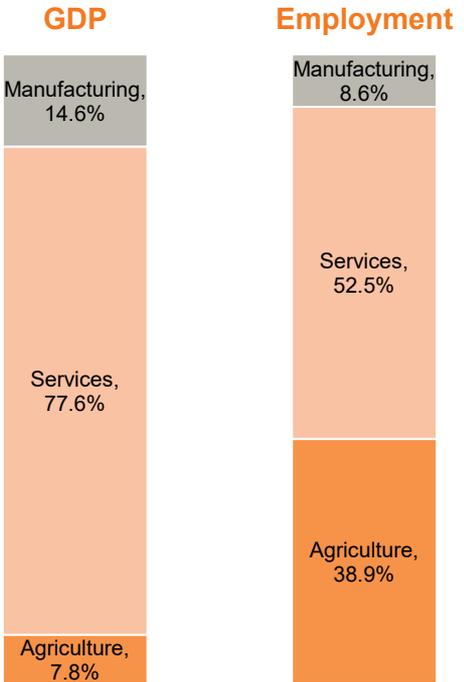
Communications

Local tourism



Share of sectors directly related to tourism in GDP is higher than in employment in Georgia

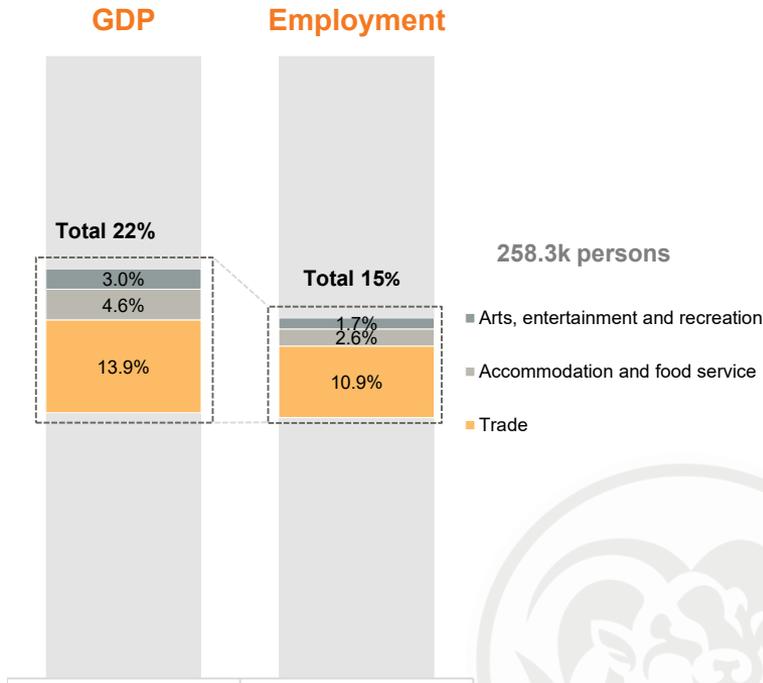
Employment and GDP by sectors, 2018



Tourism and other service sectors employ half of the workforce, while making up 80% of GDP. Consequently, the crisis will have a greater negative impact on the economy.

→ Service sectors directly related to tourism →

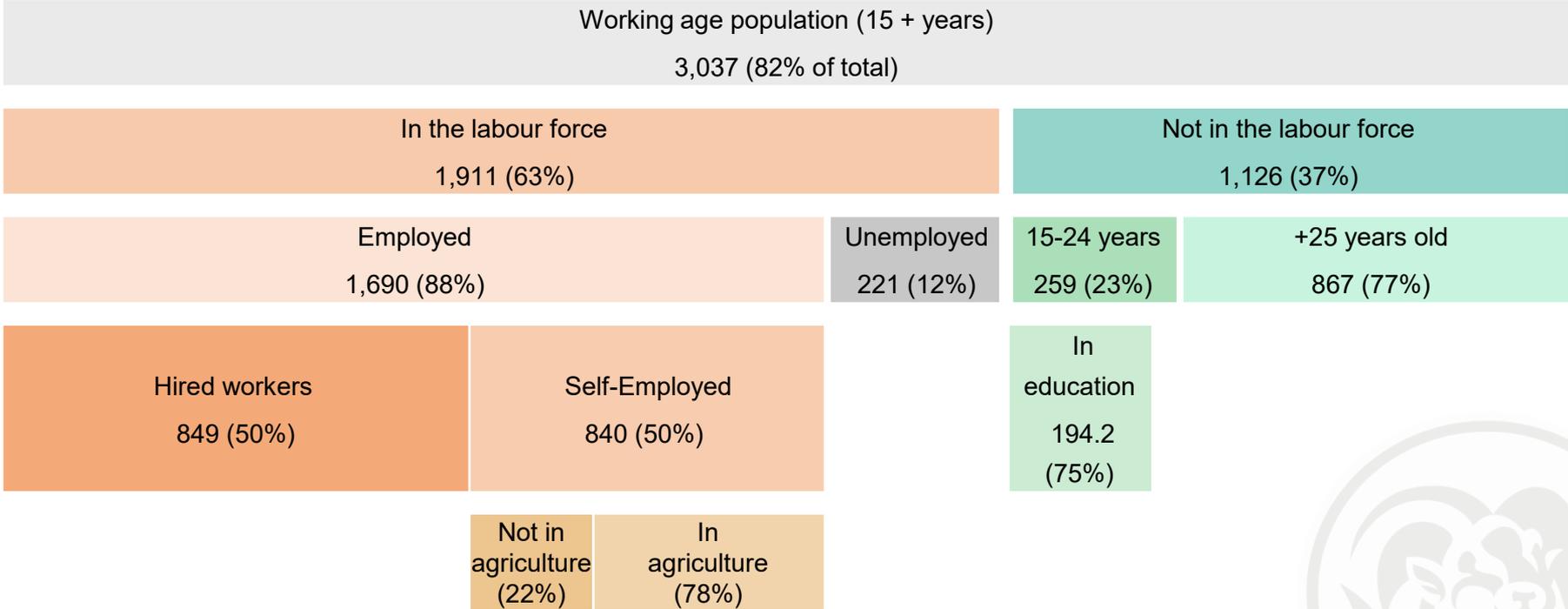
Sectors directly related to tourism in GDP and employment, 2018



Source: Geostat

Unemployment expected to increase

Georgian labor force structure (persons '000, 2019E)



Source: GeoStat, WB, G&T Research



What should the Government do?

Short-term measures

- Social assistance/utility cost financing for vulnerable population
- Slash property tax in half
- Attract foreign financing
- Review/suspend business sector regulations
- Temporarily suspend pension fund contributions
- Ease financial conditions for banks (capital requirements, etc.)
- Further ease banking sector regulations
- Enhance hospital capacity
- Continued support to strategically important sectors

Medium/long-term measures

- Elaboration of a new economic model in light of the changing global conditions
- Leverage existing free trade agreements (DCFTA and other bilateral trade agreements)
- Identify and support sectors with the production capacity:
 - for local market
 - for export markets
- Attract foreign investments
- Fundamental reform of the education system with active participation of private sector



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