

# **Policy Document**

## **Beyond Covid-19 – The Anti-Crisis Economic Plan of the Government of Georgia**

### **Background and Rationale**

Georgia successfully pursued economic transformation and development by extensive reform programs and prudent macroeconomic policies. The unexpected outbreak of COVID-19 interrupted this process, posing huge pressure on society and it practically stalled economic activities.

This policy brief gives a short analysis on the current state of play, including the immediate government's response to the COVID-19 pandemic and its plans for the coming months. The plans have two key objectives:

- In the short run protect the people from the health impact of the pandemic and support those who are financially most affected, most vulnerable,
- In the months to come to support the economy in recovering from the inevitable recession.

The main policy directions were recently presented by the Government of Georgia on 24 April (to the international donor community in the form of the anti-crisis economic plan).

Key issues addressed in the policy brief are:

### **Containment and mitigation COVID-19**

Following the first detection in Wuhan, China in December 2019 the outbreak of COVID-19 has been spreading worldwide. On March 11, 2020, the World Health Organization (WHO) declared a global pandemic. Georgia, with 3.7 citizens, was among the first countries in Europe to take immediate, countermeasures to contain the spread of COVID-19. The first case was confirmed 26 February 2020. Taking into account an international comparative perspective, the concerted efforts of the Georgian government and society resulted in a relatively low amount of registered cases <https://stopcov.ge/>. This is to a large degree due to the roll out of the Strategic Preparedness and Response Plan (SPRP) that follows international best practices: containing, delaying, researching resulting into prevention, preparedness response and recovery. As of date (April 27 2020) 486 confirmed cases were registered, 6 fatal cases were recorded and 149 patients recovered.

The Decree #164 “Approval of Measures to Prevent the Possible Spread of the New Coronavirus in Georgia and Approval of an Emergency Response Plan for Cases Caused by COVID-19” was adopted by the Interagency Coordination Council. Immediate actions were: suspending flights;

screening and early case detecting: quarantining incoming travelers; identification and COVID-19 patients at borders; set up checkpoints in Tbilisi, Batumi, Kutaisi, Rustavi, Poti, Zugdidi and Gori; proactively stopping public life by closing public spaces and when needed entire municipalities.

Moreover, the government launched a set of targeted awareness campaigns (#StayAtHome) on available state services and support for families, individuals and communities that are hit by hardship, within these campaigns special attention was given to gender and vulnerable groups such as minorities, elderly, and people at risk due to underlying diseases.

On March 21, 2020, the State of emergency was declared, social distancing measures were introduced and enforced. Full lockdown and quarantine measures were announced on 31<sup>st</sup> March.<sup>1</sup> April 12th more restrictive measures were introduced for the period of two weeks blocking private transport movement, except delivery cars and cargo transport. Schools and universities, the government administration and society at large shifted towards online existence indicating strong resilience and adaptability.

From the onset the Government sought expert advice from its public health professionals—many trained in the European countries and United States—who drew on scientific evidence and other countries' experience to formulate policy. The Ministry of the Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia has taken concrete measures to be able to detect, assess, contain and treat the first cases of COVID-19, followed by rigorous tracing procedures of potential contacts and accompanied by regular and transparent public risk communication with a focus on high-risk groups, coupled with quarantine measures to identify and monitor people with high probability of infection.

During the COVID-19 spread Georgian health care sector demonstrated very high capacity of confronting healthcare crisis in the country. The professionalism and dedication of healthcare workers was instrumental in not allowing virus spread and in managing the cases with high level of professionalism.

### **Negative economic impact**

Georgia saw rapid and sustainable growth in the previous 3 years, an average annual growth performance 5 % was reached. Especially 2019 macroeconomic figures were positive, due to the impact of the AA and unfavorable conditions set by Russia a reorientation towards the EU as one of the largest business partners took shape. Moreover, structural weaknesses, although remaining present to a certain extent were addressed and resulted in: the lowest 10 years fiscal deficit, lowest current account deficit (at 5.1 percent of GDP), lowest unemployment rate (at 11.6 percent), and lowest rate of absolute poverty (still high at 20.1 percent, however almost halved in comparison to 2007). As a result, all three main credit rating agencies upgraded Georgia's

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<sup>1</sup> We refer to Annex I and II for more time line details: Measures Implemented in Georgia Regarding the Novel Coronavirus (Covid-19) Prior to the confirmation of the first case and after the confirmation of the first case.

sovereign credit rating to BB/Ba2 from BB-/Ba3 referring to improved economic resilience as a main driver.

The COVID-19 pandemic interrupts the 10 years' positive trend, instead of the positive 4.5 % growth forecast for 2020, a significantly contraction of 4% is now expected. The BOP financing gap is estimated at USD 1.5bn in 2020. In a comparative perspective the downturn is expected to exceed the contraction suffered during the 2008-2009 economic crisis, and it will impact all sectors of the economy.

As a result, a higher fiscal deficit at 8.5 of GDP and government debt at over 55 percent in comparison to the 2019 level of 40.2% is expected. Considering the recent forecasts however, government debt is expected to go below 50 percent of GDP in the next 4-5 years. The debt target is expected to remain below 40 percent of GDP in the long-term perspective. The very steep deficit increase is due to forecasted diminished budget revenue's and increase of expenditure on healthcare and social security, such as unemployment compensation.

In line with prudent policies implemented in the previous years, sizeable fiscal buffers were created, resulting in modest levels of government debt and substantial deposits. Although these buffers mitigate to some extent the effects of the economic damage caused by the crisis, at the same time it is obvious that these reserves will be insufficient to close the expected finance gap.

Georgia recently completed the sixth IMF agreement which will be approved by the board on May 1st, 2020. The approval includes an agreed fiscal picture, that will be guiding through the (post) pandemic period. In addition, the existing EFF program was augmented which opened access to USD 200 million budget financing. Currently the short-term financing needs are estimated as high as \$1.5 billion.

Summing up, in the preceding two months Georgia countered COVID -19. The resilience showed by government and society will sustain the cultural and social fabric and contributes to political stability and security in the region. The downturn is that Georgia's integrated economy and supply chains have suffered, moreover the current health crisis come at significant costs to the country's savings. A fiscal response as well as policy initiatives to mitigate direct social and economic impact as well as and longer-term initiatives to reignite the economy are needed. Having said this Georgia now requires support from its international partners to meet the enormous economic challenge and bridging the period until the economy recovers.

To effectively deal with current economic hardships Government of Georgia has elaborated during-the-crises measures to avoid the economic crisis transpose into a humanitarian crisis and is working on post crisis mechanism to support economy recover from the current economic crisis

## **Measures related to COVID-19 treatment:**

**In During-The-Crisis period:** in the absence of immediate social protection measures aimed to preserve income of the most vulnerable with inadequate coping strategies or safety nets, the government has elaborated short-term strategies aimed to mitigate the adverse effects. Those include: ensuring adequate access to health care (particularly for at-risk groups), alleviating food shortages and compensating for reduced and/or lost income through appropriate social security transfers. Government included specific measures, which include:

1. **Case Detection and Confirmation.** The objective is to help strengthening public health laboratories and epidemiological capacity for early detection and confirmation of cases. It will support the strengthening of diseases surveillance systems and the capacity of the selected public health laboratories to confirm cases by financing medical supplies and equipment. It will include personal protection equipment (PPE) and hygiene materials, COVID-19 test kits, laboratory reagents, polymerase chain reaction equipment, and specimen transport kits.
2. **Isolating Highest Risk Group People.** This includes putting highest risk group people, those with international travel history or with suspected contacts, in specially organized quarantine facilities which will help in identifying and monitoring people with high probability infection.
3. **Health System Strengthening.** We are putting big emphasis on strengthening of health system preparedness, improve the quality of medical care provided to COVID-19 patients, and minimize the risks for health personnel and patients. These objectives will be achieved through the procurement of essential medical goods, rapid conditioning of designated public health facilities, which includes organizing standby healthcare facilities including by renting private Hospitals.
4. **Patient Treatment and Case Management.** Government introduced universal system for case management and treatment of COVID-19 patients in public and private facilities. Government is fully financing COVID-19 related treatment costs, provision of equipment, drugs and medical supplies. We are providing support case management for non-severe cases in non-medical settings;
5. **Reinforcing the Healthcare Sector.** We are investing in capacity improvements in designated public facilities, including Rukhi hospital, which is located near Abkhazia and serves a large internally displaced population. Also, we will strengthen specialized “Infection Diseases, Aids and Clinical Immunology Research Center” by rehabilitating and equipping it. The Center is the main COVID treatment facility. In addition, we plan to boost the resilience in healthcare sector by upgrading public facilities in a form of benchmark hospitals. We are planning to upgrade the ambulance fleet to address the growing challenges of the sector.

## Beyond Covid-19 – the Anti-Crisis Economic Plan

As to effectively deal with current economic hardships the Government of Georgia has elaborated an anti- crises and economic plan with immediate and midterm perspectives. The overall objective is to contribute to the Georgian government’s immediate response to Corona, as well as introducing midterm measures to support full and sustainable business translating into avoiding a humanitarian crisis and sustained economic downturn. The government’s anti- crises plan takes into account a perspective that the post-covid economy opens up opportunities for new initiatives following the EU green deal. This translates into two key objectives:

- In the short run protect the people from the health impact of the pandemic and support those who are financially most affected, most vulnerable,
- In the months to come to support the economy in recovering from the inevitable recession.

### Overall objective 1

**Reducing the Negative Effects of the Loss of Income, Supporting Preserving Jobs and Supporting Vulnerable Groups:**

|                   | 2019 (actual) | 2020 (est.) | 2021 (est.) |
|-------------------|---------------|-------------|-------------|
| Unemployment rate | 11.6          | 19          | 15          |

1. **Temporary expansion of the Targeted Social Assistance (TSA) program for households next to extreme poor.** TSA will be expanded to those groups which are at risk to fall into the category of extreme poor, due to measures to contain the outbreak and the resulting economic downturn. The existing TSA covers extreme poor households based on a PMT scoring formula (with a score less than 65 000). The program targets assisting households (with a score between 65000 and 100 000) that are next to existing TSA beneficiaries. The benefit will be for 6 months’ period.

**Specific Objective:** Address the needs of people with highest risk to fall in the category of most vulnerable;

**Means/Activities:** Temporary cash transfers

**Indicator:** Number of newly eligible households: 70.000

**Impact on budget:** 45 million

**Responsible Agency:** Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

2. **Additional Child Support to Vulnerable Families.** Additional child benefits for families with three or more children and those who score below 100,000 based on the PMT are planned.

**Specific Objective:** Supporting livelihood of children in poor and vulnerable families

**Means/Activities:** Additional cash transfers

**Indicator:** Estimated number of families affected: 21.000

**Impact on budget:** GEL 15 million

**Responsible Agency:** Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

3. **Scale up of the Targeted Social Assistance (TSA) program.** Due to a drop in income of households an increase of the number of new beneficiaries of TSA is expected, Government is planning to increase allocation of TSA to address the needs of new beneficiaries.

**Specific Objective:** Address the needs of new beneficiaries of TSA

**Means/Activities:** Increased allocation in the budget

**Indicator:** Estimated number of new beneficiaries: 22,000 households in 2020 - 2021 years

**Impact on budget:** in 2020 GEL15 million

**Responsible Agency:** Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

4. **Additional support for persons with severe disabilities and disabled children** These target groups will receive for six months an amount 600 GEL average.

**Specific Objective:** Supporting livelihood of disabled people during pandemic period

**Means/Activities:** Temporary cash transfers

**Indicator:** Estimated number of persons affected: 41.500

**Impact on budget:** GEL25 million

**Responsible Agency:** Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

5. **Pension Indexation.** We will introduce rules based pension indexation system. Based on which for the pensioners under 70 age pensions will be increased in line with the CPI starting from of 01 2021 with a minimum increase of 20 GEL/month and for those aged 70 and above pensions will increase by CPI plus 80% of the real GDP growth rate. Minimum increase will be 25 GEL/month

**Specific Objective:** Preserving real value of benefits to pensioners under 70 and preserving replacement rate for those of 70 and above.

**Means/Activities:** Legislation of indexation rule.

**Indicator:** Estimated number of persons affected: 780 thousand

**Impact on budget on 2020/2021:** GEL220 million

**Responsible Agency:** Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

6. **Temporary unemployment benefits for formal workers.** For those who lost their job after infection outbreak in the formal sector, temporary unemployment assistance be

made available in order to compensate job loss. A flat benefit of 200 GEL per month will be provided to private sector workers for six-month period.

**Specific Objective:** Preserve substance income for formally employed workers

**Means/Activities:** Cash transfers

**Indicator:** Estimated number of unemployed affected: 350,000

**Impact on Budget:** GEL460 million

**Responsible Agency:** Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

7. **Benefits for Self-employed people and informal workers.** Those employed in informal sectors will be supported with a onetime 300 GEL benefit

**Specific Objective:** Preserve substance income for self-employed people and informal workers

**Means/Activities:** Cash transfers

**Indicator:** Estimated number of unemployed affected: 250,000

**Impact on Budget:** GEL75 million

**Responsible Agency:** Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

8. **Support Companies in Preserving Jobs.** We will provide direct transfers, up to GEL150 per month—equal to the income tax on the first GEL750 of the salary, on monthly salary below 1,500 GEL to companies supporting employment retention. The transfers would be effective for up to 6 months

**Specific Objective:** Supporting the businesses

**Means/Activities:** Cash transfers

**Indicator:** Estimated number of preserved jobs: over 300,000

**Impact on Budget:** GEL250 million

**Responsible Agency:** Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

9. **Subsidies for utilities.** 3-month subsidy for small utility consumers on electricity and natural gas, targeted to vulnerable families is introduced by the government.

**Specific Objective:** Ensuring the availability of basic utility for livelihood;

**Means/Activities:** Payment of utility bills;

**Indicator:** Estimated number of households affected: 1,200,000 households;

**Impact on budget:** GEL150 million

**Responsible Agency:** Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

10. **Food Supply Security.** State insured nine main imported food products against price spikes and purchased supplies for some basic products

**Specific Objective:** Preserving price stability on basic food products

**Means/Activities:** Price insurance payment to importers

**Indicator:** stable prices on nine products

**Impact on budget:** 50 million GEL

**Responsible Agency:** Ministry of Environmental Protection and Agriculture

## **Overall objective 2.**

### **Restoring the macroeconomic stability and boosting growth**

|                                       | 2019 (fact) | 2020 (est) | 2021 (est) |
|---------------------------------------|-------------|------------|------------|
| Real GDP growth                       | 5.1         | -4.0       | 4.0        |
| Fiscal deficit (%GDP)                 | 2.0         | 8.5        | 4.8        |
| Government debt (%GDP)                | 42.7        | 59.8       | 55.4       |
| Current Account Balance (%GDP)        | -5.1        | -11.3      | -7.4       |
| Investments (%GDP)                    | 33.8        | 31.6       | 33.0       |
| Consumer Price Index (period average) | 4.9         | 4.6        | 3.7        |

Measures to be introduced in 2020-2021

#### **A. Structural measures**

Despite the hardships due to the COVID-19 spread Government of Georgia is committed to pursue rich reform agenda aiming at transformation and diversification of Georgian economy and increasing its resilience.

1. **Comprehensive Reform of the Energy sector.** Government's energy reform strategy will increase market competition, promote renewable energy, and enhance energy efficiency. We will develop competitive electricity and gas markets based on the EU energy market principles. This is expected to foster wholesale competition, promote cross-border trading capacity, and open the sector to private investment in renewable energy. In parallel, we will gradually deregulate the natural gas sector.

**Specific Objective:** Development of Energy sector

2. **New legislation on Insolvency.** We submitted to Parliament a draft insolvency law providing adequate protection of creditor rights, timely and efficient insolvency processes and effective rehabilitation framework in line with best international standards. This law will be critical to deal with the aftermath of the COVID-19 shock. To



advance the reform, we will finalize the framework for insolvency professionals and begin licensing professionals by end-December 2020;

**Specific Objective:** Developing “Doing Business” environment and enabling companies to withstand COVID-19 shock.

3. **Education Reform.** We have started implementing comprehensive education reform to improve job creation, productivity and wages. We will revise the government decree on teachers regulatory documents to clarify teachers’ roles and responsibilities at all four categories (Practitioner, Senior, Lead and Mentor); and to establish a non-discretionary approach to teacher’s career advancement.

**Specific Objective:** Enhancing education system in Georgia

4. **Law on Entrepreneurs.** We will submit to the parliament of Georgia draft Law on Entrepreneurs in line with the requirement defined in the EU Georgia Association Agreement. The legislation will reduce uncertainty regarding the governance of companies, increase transparency and improve companies’ access to finance.

**Specific Objective:** Improving “Doing Business” environment in Georgia

5. **Infrastructure Internal Connectivity.** We will develop core infrastructure network in the country to improve internal connectivity and support the strengthening of internal value chains in the country

**Specific Objective:** Expanding highway network in the country

6. **Energy Efficiency.** We will continue promoting energy savings and energy efficiency in the energy market. We are developing a national energy efficiency target and an energy efficiency obligation scheme and/or alternative policy measures for energy savings. The Parliament of Georgia adopted by second hearing the comprehensive Energy Efficiency legislation including the new Laws on Energy Efficiency and on Energy Performance in Buildings and is expected to adopt it by final reading in May 2020.

**Specific Objective:** Creating Energy efficiency ecosystem in the country

7. **Capital Market reform.** In spite of delays due to the COVID-19 shock, we will continue capital market development to support larization and reduce external vulnerabilities. Our steps to develop local capital markets are: a) we have submitted to Parliament (ii) legislation establishing investment funds; and (ii) related changes to the tax code; b) we have submitted to Parliament amendments to the securities market legislation to improve investor rights protection and corporate transparency. The legislation also targets approximation to the EU directives/regulations, as specified under the DCFTA agreement; c) we will strengthen the regulatory framework for investment funds, funded-pension operations, market abuse and transparency, business conduct and custody. d) The law on derivatives and financial collateral was enacted at the end of

2019 to help develop the money markets; e) We will submit legislation to Parliament for securities holding, creating the basis for dematerialized securities holding; f) covered bonds, to improve access to long-term lari funding for commercial banks and help develop the fixed-income market; g) we aim to transition gradually to a primary-dealer (PD) system in government securities market.

**Specific Objective:** Support the development of Capital markets in the country

B. Financial measures

1. **Credit-Guarantee Scheme.** To facilitate investment in the economy we will **revamp the credit guarantee scheme to sustain access to finance with loans co-financed with and administered by commercial banks.**

**Specific Objective:** Improve Access to finance to SMEs

**Means/Activities:** Allocate Funds for Credit-Guarantee Scheme in the Budget

**Indicators:** Total volume of credits guaranteed: GEL 2,000 million

**Impact on budget:** GEL 300 million

**Responsible Agency:** Ministry of Economy and Sustainable Development

2. **Supporting SME access to financing by expanding existing mechanisms.** We plan **changes in Produce in Georgia program (increasing period of co-financing of loans/leasing from 24 months to 36 months; changing the mechanism of interest co-financing; more types of activities; lowering the minimum threshold for loans/leasing; increasing funding for working capital;**

**Specific Objectives:** Supporting SME access to finance

**Means/Activities:** (extend and upgrade existing credit enhancement mechanisms)

**Indicator:** Number of financing SMEs supported: 300 SMEs

**Impact on budget:** GEL 30 million

**Responsible Agency:** Ministry of Economy and Sustainable Development

3. **Automatic VAT Refund Reform.** **The reform aims automatic refunding of new VAT credits. All risk-assessed and approved new credits will be refunded to the taxpayer without the need to request a refund.**

**Specific Objective:** Enhanced business liquidity and reduced state liabilities

**Indicator:** Number of average days of refund of risk assessed new credits will be reduced to automatic processing time

**Impact on budget:** Additional refunds over planned 600 million: GEL 600 million

**Responsible Agency:** Ministry of Finance

4. **Long term funding to commercial banks.** We will support the GEL liquidity in financial system by introducing Long-term lari instrument, which will increase long-term lari borrowing capacity.

**Specific Objective:** Growth of Long-term liquidity in the financial sector

**Indicator:** N/A

**Impact on budget:** GEL 600 million.

**Responsible Agency:** Ministry of Finance

5. **Micro and Small Grants' Program.** We will be providing grants to startup entrepreneurs in rural areas to support micro business development. In addition, we are providing technical assistance and business support.

**Specific Objective(s):** Increase access to finance and improve entrepreneurship culture

**Means/Activities:** Grants provided to micro entrepreneurs;

**Indicator:** Number of grants: Around 5000; Maximum size of grant: GEL 30.000 GEL

**Impact on budget:** GEL 40 million...

**Responsible Agency:** Ministry of Economy and Sustainable Development

6. **Agro credit Support.** We will provide 100% subsidy to agrocredit interest to promote investments in agricultural sector.

**Specific Objective:** Growth of investments in agriculture

**Means/Activities:** 100% subsidy to agro credit interest

Total volume of loans affected: GEL50 million

**Indicator:** Number of affected businesses: 5,000

**Impact on budget:** GEL 50 million

**Responsible Agency:** Ministry of Environmental Protection and Agriculture

7. **Support to Farmers through Amelioration Fee Subsidy.** We are providing the full coverage of amelioration fees to the farmers and are writing off accumulated arrears on such fees.

**Specific Objective:** Reduction of food production costs.

**Means/Activities:** 100% subsidy and debt write-off by amelioration company;

**Indicator:** Number of Beneficiary Farmers: 40,000

**Impact on budget:** GEL5 million

**Responsible Agency:** Ministry of Environmental Protection and Agriculture

8. **Tourism Sector Tax Relief.** For businesses in tourism sector government provides property and income tax deferral.

**Specific Objective:** Assisting survival of SMEs in tourism sector;

**Means/Activities:** Tax payment deferral

**Indicator:** Estimated number of SME hotels: 4,500

**Impact on budget:** GEL90 million GEL

**Responsible Agency:** Ministry of Finance

9. **Tourism Sector Support.** For hotels with up to 50 rooms Government subsidizes interest rate payments of 80 percent.

**Specific Objective:** Assisting survival of SMEs in tourism sector;

**Means/Activities:** Payment to bank loans

**Indicator:** Estimated number of SME hotels: over 2,000

**Impact on budget:** 10 million GEL

**Responsible Agency:** Ministry of Economy and Sustainable Development

The Plan totals over **GEL 3.5 billion** and consists of three major components:

- Caring for **citizens** and providing them with **social support** – GEL 1,305 billion
- Caring for the **economy** and supporting **entrepreneurs** – GEL 1,725 billion
- Strengthening the **Healthcare System and fighting against the pandemic** – GEL 550 million

### **Coordination, Monitoring and Evaluation**

The policy has been presented by the Government of Georgia on 24 April 2020 in the form of the **anti-crisis economic plan** to the Georgian Public and international donor community. The plan has been developed by the Government of Georgia.

The Government of Georgia will coordinate and monitor the further development of the follow up of the policies, including potential adjustment as appropriate in view of the Covid-19 crisis development and policies implementation feedback. The Responsible Agencies for each Objective and measure will be responsible for the development of sectoral performance based **action plans per sector with further specified including outcomes, outputs, KPI and budgets based on the government evidence based policy and budgeting principles adopted in decree #629 on the Approval of the Rules of Procedure for Development, Monitoring and Evaluation of Policy Documents.**