

FORMATION OF THE POST-PANDEMIC BUSINESS ENVIRONMENT IN GEORGIA: CHALLENGES AND PREDICTIONS

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Abstract: The COVID 19 pandemic has transformed the entire world's strategy. The governmental oversight, fundamental and significant views were renewed and prioritized according to the unpredictable pandemic process and force-majeure demand. The world's governments and private sectors have faced new socio-political and economic problems and challenges that require quick, effective and powerful solutions. The nation's economic viability during the pandemic and post-pandemic periods depended on these decisions and their effectiveness. Monetary, fiscal, and financial policies suffered significant difficulties in maintaining the economic system. Covid 19 has created difficulties in predicting economic sequences alongside social problems and the complete lack of economic precision in all segments has caused macroeconomic uncertainty.

This paper deals with the microeconomic analysis of Georgia in the post-pandemic period, discussing both the main economic parameters of the country and its dynamics, as well as the analysis of its impact on the microeconomic situation.

The paper analyzes the impact of the pandemic on the main sectors, as well as the decisions made by the state for economic stimulation and its effect. The work is mainly based on the official information of state structures and international organizations, as well as the works of Georgian and foreign scientists, and based on them, a coherent, multi-component analysis is presented.

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The theoretical framework of the article is based on fundamental, conceptual studies of Georgian and foreign authors in the field of our research. The paper presents conclusions and recommendations based on a complex study of macroeconomic factors, which are important for scientific circles, both the state and the private sector.

Keywords: post-pandemic economics, macroeconomics, economy of Georgia

JEL: E0, E2, E3, E6, M0, M1.

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Introduction

In recent years, two events of great global influence have completely changed the rules of the game in world economic relations - these were the COVID 19 pandemic and the war in Ukraine.

Georgia, which is mainly dependent on external factors, was subjected to a huge economic shock as a result of the pandemic. The coronavirus, which had an extremely detrimental effect on Georgia, quickly damaged the economic growth achieved in 2019. Additionally, it directly affected industries. The Covid 19 pandemic was a stress test for the global macro- and micro economy, the consequences of which are costly but very important for future sustainable development (Koval et al., 2023; Shonia et al, 2022; Werke & Agazu, 2023). In Georgia, the pandemic affected also traders, individual entrepreneurs, day labourers and so on. (Abuseridze et al., 2023A; Abuseridze et al., 2023B)

The pandemic period was particularly problematic for inflation. During the first phase, after declaring the state of emergency and the closing of the borders in March 2020, the national currency depreciated. During this period, the prices of food products also started to increase. COVID-19 was a global pandemic that brought economic activity to an end and posed a serious risk to overall well-being. The global socio-economic impact of COVID-19 included higher levels of unemployment and poverty, lower oil prices, altered education sectors, changes in the nature of work, lower GDP and increased risks for healthcare workers (Mofijur et al., 2021). Regarding the role of labour standards in a pandemic, international labour standards are a useful compass for decent work in the context of the crisis response to the COVID-19 outbreak. Firstly, respecting key provisions of ILS relating to occupational safety and health, working arrangements, the protection of specific categories of workers, non-discrimination, social security or employment protection (Abuseridze, 2021A; Abuseridze, 2021B).

Also, due to significant increase in the number of infectious cases, the daily worker count has decreased leading to a major impact on the industrial

sectors (Pramathesh Mishra et al, 2020). Traders who were totally dependent on the transportation systems were the most affected due to this pandemic. The post-pandemic era is an area that deserves future research as recovery from the catastrophic effects of COVID-19 is a process that requires extensive attention - both academically and institutionally (Petrova & Tairov, 2022; Petrova et al., 2022), bringing about significant changes not only in the global economy, but also in its own functioning or in the daily lives of consumers. Such a pandemic situation is often referred to in the literature as the "black swallow" or the shocks of supply and demand. (Niewczas-Dobrowolska et al., 2024). The pandemic caused by Covid 19 has become the cause of the economic crisis (Narmania & Zurashvili, 2022). This situation has changed not only the lives of consumers, but also the way almost all world economies function, imposing certain restrictions on them. Both on the supply side and on the demand side, everyone had to adapt to the changes and develop some solutions to adjust to the pandemic, the difficult reality (Górka-Chowaniec & Sikora, 2022). The crisis has worsened the state of public finances in emerging market and developing economies (Kovzanadze, 2021).

The imposed restrictions against the spread of COVID-19, along with the subsequent intensification of the economic recovery process and accompanying growing demand, have led to bottlenecks in the transport channels, dramatically increasing global transport costs and other operating costs. These, in turn, have affected the final prices of almost all products. After the deep economic crisis of 2020 resulting from the COVID-19 pandemic, global economic activity recovered significantly in 2021. However, it should not be forgotten that the radical changes in the contemporary environment that occurred in 2019 as a result of the epidemic, which quickly turned into an emerging public health crisis and ultimately on March 11 2020, the World Health Organization (WHO) declared COVID-19 a pandemic in a decidedly different way than previous crises that world economies had to face so far, both in terms of cause, scope and degree of "prevalence". The effects of these disturbances are serious and characterized by long-term wave effects that can affect enterprise activities at multiple levels at the same time, including supply, production and distribution (Górka-Chowaniec et al., 2023).

Methodology

The research methodology is determined based on the research objectives and includes the following methods: statistical analysis method -

based on the official information of the National Statistical Service of Georgia, statistical data were processed and dynamics and trends were determined; Comparison method - using this method, a comparative analysis of existing data was carried out within identical categories to determine trends and by analyzing the official documents, we examined the decisions related to the economic policy of the government.

Main indicators and factors

Inflation in Georgia has a decreasing trend, with headline inflation falling to 0.6% in June 2023. This reduction was mainly due to exogenous factors. Prices of raw food commodities and oil on international markets have been decreasing recently. Together with the strengthened GEL exchange rate, this reduces the prices of imported goods in Georgia. Inflation of domestically produced goods is also decreasing, albeit at a relatively slow pace – a trend that is expected to continue throughout the year (National Bank of Georgia, 2023)

With the stabilization of fuel prices and the gradual recovery of supply chains, the cost of transportation continues to decline globally. The price of international shipping peaked in September 2021 and has had a downward trend since early 2022, which has had the effect of slowing down imported inflation. In June 2023, freight prices decreased by 7.4% month on month and by 77.5% annually to near pre-pandemic levels (National Bank of Georgia, 2022).

A high inflation environment prevailed in both developed and emerging and developing countries in the second quarter of 2023. However, it should be highlighted that despite a recent downturn in food and oil prices and the difficult economic situation, the level continues to decrease globally.

High domestic inflation is largely related to the increase in the price of services, of which the highest contributions were made by the increase in prices of banking services, apartment rent, notary tax, and cafes and restaurants. Of the 8.5% local inflation in June, 5.4 pp came from services.

The high inflation in services is partially a result of a sharp increase in the number of foreigners in the country and a reflection of increased pressure on prices. Despite positive indications given the reality of the slow global economic expansion, the ongoing high and above-target global inflation and the uncertainty, macroeconomic projections continue to be characterized by unusual uncertainties and dangers related to the Russia-Ukraine war. The

FORMATION OF THE POST-PANDEMIC BUSINESS ENVIRONMENT ...

country's general macroeconomic indicators and international rating indices are as follows (National Bank of Georgia, 2022):

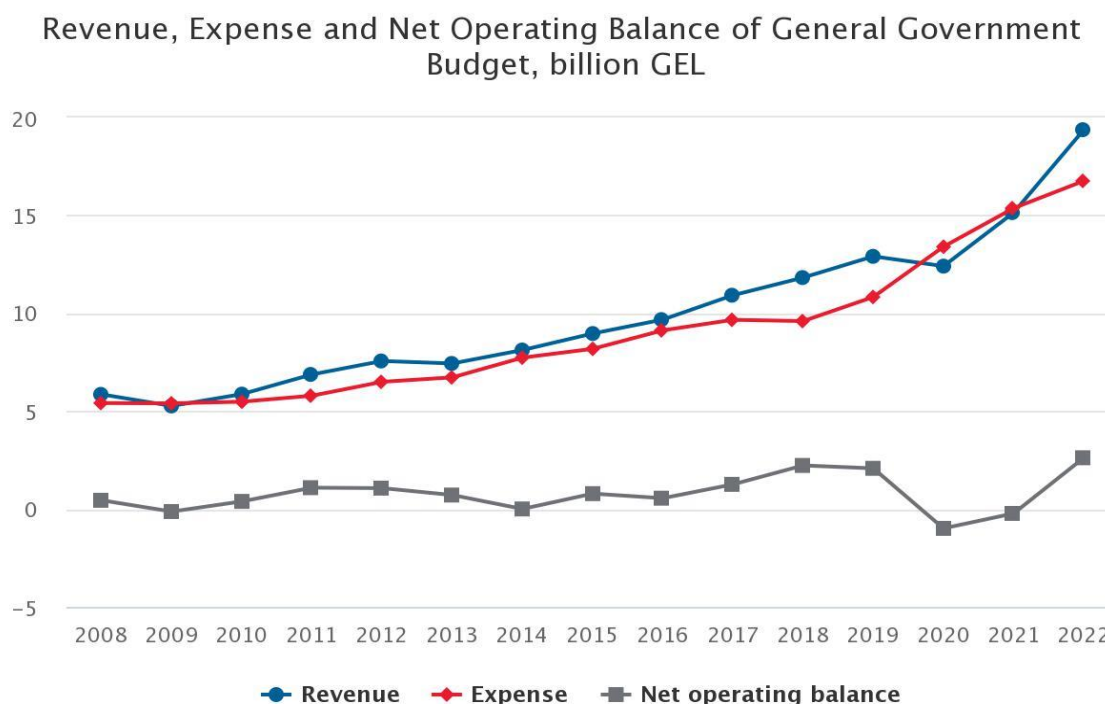
Table 1.
Country's general macroeconomic indicators and international rating

Name	Source:	2015	2016	2017	2018	2019	2020	2021	2022
Population, end of the year (thousand)	<u>Geostat</u>	3,729	3,726	3,730	3,724	3,717	3,729	3,689	3,736
Unemployment Rate	<u>Geostat</u>	21.9%	21.7%	21.6%	19.2%	17.6%	18.5%	20.6%	17.3%
Annual Inflation, end of period	<u>Geostat</u>	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.8%
GDP, Bill. GEL	<u>Geostat</u>	33.9	35.8	40.8	44.6	49.3	49.3	60	71.8
GDP, Bill. USD	<u>Geostat</u>	14.9	15.1	16.2	17.6	17.5	15.8	18.6	24.6
GDP real growth	<u>Geostat</u>	3.0%	2.9%	4.8%	4.8%	5.0%	-6.8%	10.5%	10.1%
GDP per capita, USD	<u>Geostat</u>	4,013	4,062	4,359	4,722	4,696	4,256	5,023	6,672
Trade openness (Export of goods and services+Import of goods and services)/GDP	NBG calculations	98.8%	96.9%	104.0%	111.8%	118.5%	94.0%	103.3%	117.2%
International Reserves, Bill USD	<u>NBG</u>	2.5	2.8	3.0	3.3	3.5	3.9	4.3	4.9
Gross External Debt/GDP	<i>NBG calculations</i>	102.4%	105.2%	106.7%	101.5%	107.8%	131.4%	118.2%	95.7%
Fiscal deficit/GDP	<i>NBG calculations</i>	-2.3%	-2.7%	-3.0%	-2.1%	-2.1%	-9.3%	-6.0%	-3.0%
Commercial Banks' assets/GDP	<i>NBG calculations</i>	74.2%	84.1%	84.9%	89.0%	95.8%	115.4%	100.9%	98.0%
Monetary Policy Rate	<u>NBG</u>	8.00%	6.50%	7.30%	7.00%	9.00%	8.00%	10.50%	11.00%

Source: (National Bank of Georgia, 2022)

General Government Budget revenue, expense and net operating balance has been steadily increasing over the past years. As a result of the data analysis, it can be seen that the dynamics in the post-pandemic period is positive. The data can be viewed in detail on the chart (National Statistics Office of Georgia, 2023).

Table 2.
Government Budget revenue, expense and net operating balance



Source: WWW.GEOSTAT.GE

In the second quarter of 2023, compared to the same period last year, consolidated budget revenues increased by 24.2 percent and expenditures increased by 12.5 percent. Concurrently, the government's savings were represented by the operational budget of the consolidated budget, which came to 1291.9 million GEL, and the overall balance was set at 77.4 million GEL. Tax revenues provide for a large portion of budget revenues; in the second quarter of 2023, they accounted for 84.5 percent. Tax revenue accumulated by the consolidated budget was GEL 4,900 million, a 23.9% increase over the same time in the previous year. To GEL 1,471 million, income tax revenue increased by 20.0 percent annually. Reduction is shown in the form of revenue from profit, which came to 442 million, or 9.0 percent of total revenue, and declined yearly by 1.6 percent from the second quarter of 2022. (Ministry of Finance of Georgia, 2023).

Taking into account the business crises in the background of the pandemic and the Russian-Ukrainian war, it is interesting to analyze the employment statistics, where it can be seen that the number of employed people in Georgia is increasing, while the number of unemployed is decreasing (National Statistics Office of Georgia, 2023).

*Table 3.
Employment and Unemployment*

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023-I	2023-II
LABOUR FORCE, THOUSAND PERSONS	1629	1676	1654	1641	1605	1573	1524	1534	1552	1551	1594
EMPLOYED, THOUSAND PERSONS	1255	1309	1295	1287	1296	1296	1242	1217	1284	1272	1327
UNEMPLOYED, THOUSAND PERSONS	374	367.2	359.2	354.5	309	276.9	281.9	316.2	267.9	279.2	266.9
UNEMPLOYMENT, PERCENTAGE	23	21.9	21.7	21.6	19.2	17.6	18.5	20.6	17.3	18	16.7

Source: WWW.GEOSTAT.GE

It should be noted that the number of registered, active and newly registered business entities also increases every year, and if we look at the dynamics of the last 10 years, a decrease was recorded in only a few components in 2020, the main reason for which was the Covid-19 pandemic (Katamadze, 2023).

It is also important to consider the general statistical data related to business in recent years, according to which the dynamics of growth in the last three years in important directions is clearly expressed.

There are important prerequisites for the successful activity of small and medium-sized businesses in Georgia, including: a simplified business registration procedure, complete legislation taking into account international standards, preferential regimes, special statuses, state business support projects, good infrastructure, etc. (Katamadze, 2023).

Business sector dynamics

As an important component of the economy, business is highly affected by political and economic processes. The development of business entities is heavily influenced by the state, and the growth of business activities is very important for the country's economic growth process and achievements (Katamadze, 2023).

The general key business data looks like this (National Statistics Office of Georgia, 2023):

Table 4: Business Statistics

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 I	2023 II
Turnover, Billion Gel	50.1	57	64.1	71.7	86.6	109	114.3	150.4	181.8	44.1	48
Production Value, Billion Gel	26.1	30	34.2	38.2	41.6	47.5	46.2	57.6	71.8	15.9	18.3
Value Added, Billion Gel	12.8	14.8	16.8	19	20.7	22.3	22.3	27.8	36.2
Intermediate Consumption, Billion Gel	13.2	15.2	17.4	19.2	20.9	24.2	24	29.8	35.6
Fixed Assets, Billion Gel	23.2	24.8	28.2	34.9	33.8	36.8	38.7	44.7	46.8
Number of Employed, Thousand Person	592	627	667	708.2	734.2	756.9	703.9	744.3	779.4	716.1	737.7
Average Monthly Remuneration of Employees, Gel	801	897	938	1020	1101	1162	1223	1348	1606	1759	1915

Source: WWW.GEOSTAT.GE

Geopolitical instability and a difficult external environment did not prevent Georgia from achieving its international credit ratings at the levels achieved before the beginning of the crisis. The COVID-19 pandemic in 2020 caused a global economic crisis due to the temporary lockdown of the activities of certain sectors of the economy and companies operating in them. This lockdown proved to be an effective mechanism to stop the spread of the virus by restricting contacts between humans (Papava, 2021).

In 2020, in response to the new challenges facing the economy due to the spread of the novel coronavirus (COVID-19), the promotion of entrepreneurship was extended in the direction of existing business support programs. In particular, the existing interest subsidy scheme in the direction of production and hotel industry was expanded, the design of the credit guarantee mechanism was changed, and a new stage of the micro-grant competition was announced with increased funding and coverage. Along with this, additional effective business promotion mechanisms were developed, namely in the areas of tourism, restaurant industry, event organizers and construction sector. Based on the above, in 2020 the budget of the agency increased from 57.5 million GEL to 477 million GEL (Enterprise Georgia, 2020).

The COVID-19 outbreak posed serious problems for the financial condition of the business. SMEs in particular suffered a great deal in this situation. As previously indicated, the Covid-19 outbreak and accompanying economic difficulties had a significant effect on the financing of the business sector. As a result, the aim of the government support for businesses was to minimize the demand for liquidity by offering direct financial support as well as by reducing or extending tax liabilities (Koval et al., 2021; Davydenko et al., 2023). To achieve this, modifications were implemented in the government's support programs, including an expansion of the range of sectors eligible for co-financing and adjustments to the deadlines and co-

financing levels. Also new instruments were added to existing ones (Ministry of Economy and Sustainable Development of Georgia, 2021)

Georgia is able to take advantage of the important and rapid changes in the global supply chain caused by the Covid-19 epidemic in order to maximize its geographical advantages in transporting goods from Asia and Europe (Katamadze & Katamadze, 2023).

Georgia's food transportation system falls inadequate of the sustainable development targets outlined in the 2030 Agenda, the transportation market is characterized by unequal infrastructure, and transportation has a minor role in inclusive economic growth. In order to increase local production, create food markets, and ensure food security, sustainable transportation is essential (Kharaisvili & Gechbaia, 2023).

Economic dynamics

The international evaluation is extremely significant for the economic condition of the country since it is the first source of data on the macroeconomic situation and it is easily accessible. This record can definitely serve to provide an overview for an investor before making an investment in a country. According to the World Bank "Doing Business" ranking, Georgia occupies leading positions (Ministry of Economy and Sustainable Development of Georgia, 2022). See details in the Table below:

Table 5.
Doing Business ranking



Source: WWW.ECONOMY.GE

In the first half of 2023 tourism revenues increased by 58% compared to the same period of 2022 and reached USD 1804.5 million. In the first half of 2023, tourism revenues increased by 24% compared to the first half of 2019. The strongest recovery was observed from Israel, Turkey, Ukraine, EU and Russia (Ministry of Economy and Sustainable Development of Georgia, 2023).

During the economic analysis of the post-Covid period, it is also important to note the Russian-Ukrainian war factor, due to which the number of temporary residents from Ukraine, Russia and Belarus significantly increased. At the same time, against the background of the large amount of foreign currency that came in, the national currency GEL also strengthened sharply. It should be noted that a large number of arriving foreigners settled in tourist-attractive cities, where the infrastructure is optimally maintained. The abundance of newly opened coworking space-offices in cities (especially Batumi and Tbilisi) proves that access to fast Internet is especially important for them to be able to work remotely online. Along with all this, it should also be taken into account that the COVID-19 pandemic accelerated the expansion of the digital economy in all countries of the world (Lucaci et al., 2022).

Some reviews show that almost all macroeconomic indicators have slowed down or turned hostile, suggesting a negative effect of Covid19 in the economy of underdeveloped countries. Similarly, at the micro-level, the review shows that it has seriously affected the national economy and commercial companies (Tisha, 2021).

A high EPU (economic policy uncertainty) index also negatively affects capital expenditures, mergers and acquisition activities, payout policies and payouts, cash holdings, and innovation. Policymakers and legislators should carefully analyze the phenomenon to create new rules structured to help businesses and individuals avoid the negative impact of uncertainty on corporate actions (Al-Thaqeb et al., 2022).

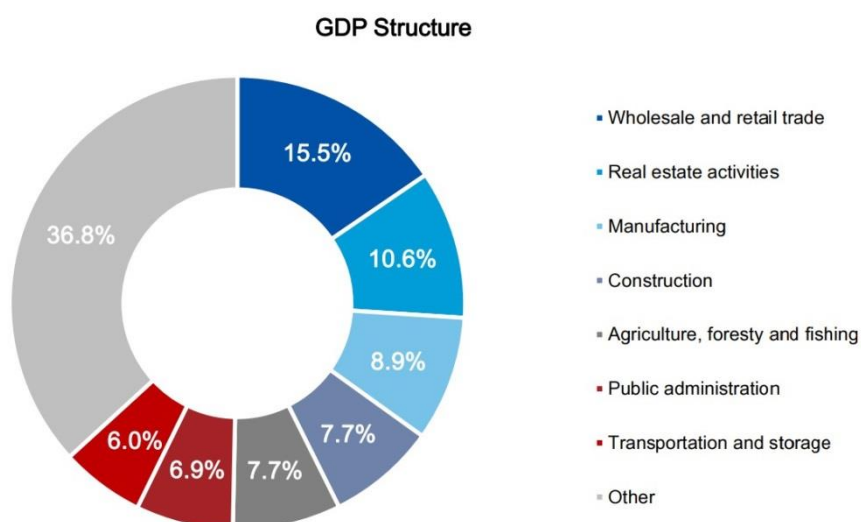
Restrictions on travel and mobility have had severe impact on labour markets as well as consumer demand for products and services, while they have also affected the transport of materials which has exacerbated the inadequacy of companies to meet the production requirements which has affected all societies and had a ripple effect in the economy (Delardas et al., 2022).

In the third quarter of 2023, international passenger travel increased by 19.4% YoY and amounted to 2,706,863. International tourist trips also include trips made by international visitors. In Q3 2023, International visitor trips

reached 2,298,720 (21.0% higher compared to the same indicator of Q3, 2022). The majority of trips made by international visitors were from Russia (571,421, up 7.2% YoY), Turkey (498,892, up 77.3% YoY) and Armenia (338,970, up 4.0% YoY). In Q3 2023, foreign travel revenue amounted to 1,447.1 mln USD, an increase of 5.3% YoY (Parliamentary Budget Office of Georgia, 2023).

According to Georgian Parliamentary Budget Office in the second quarter of 2023, wholesale and retail trade had the highest share in GDP structure (15.5%). The important share was observed for several sectors, namely, real estate operations (10.6%), manufacturing (8.9%), construction (7.7%), agriculture, forestry and fishing (7.7%), public administration, defense, social security (6.9%) and transportation and storage (6.0%) (Parliamentary Budget Office of Georgia, 2023).

Table 6.
GDP structure



Recourse: Parliamentary Budget Office of Georgia, 2023

Businesses need to adapt to the constantly changing business environment, which depends on a wide range of factors. This is the reason for the following factors to be taken into account by the companies and their management: 1) existing processes; 2) adequate assessment or adjustments of any changes to the business activities (Katamadze, 2023).

With the overall objective of ensuring that major developments in macroeconomic environment are detected in a timely manner and decision-makers are provided with the most up-to-date information for

planning/adjusting relevant policies, the Parliamentary Budget Office provides macroeconomic reviews on a monthly, quarterly and an annual basis. According to 2023 Quarterly Report:

- Preliminary estimates indicate that real GDP grew by 5.4% in Q3 2023. It should be noted that the Parliamentary Budget Office estimate of real GDP growth for August of 6.9% was below actual growth;
- In Q3 2023, annual inflation reached 0.6%, which was less than the inflation target of 3.0% .
- The negative total balance of the consolidated budget in Q3 2023 was GEL 834.5 million;
- There is a trend towards a nominal increase in government debt. The ratio of external debt to the total amount of government debt fell. In other words, the external debt ratio was 73.7%, compared to 76.3% in the third quarter of 2022;
- The current account balance decreased in Q2 2023. In particular, there was a negative current account balance of USD 366.0 million;
- Foreign exchange reserves reached USD 5,273.2 million in Q3 2023;
- The percentage of foreign trade exports fell from 30.0% to 28.7% YoY in Q3 2023;
- Remittances decreased by 15.1% YoY in Q3 2023, totaling USD 872.0 million. Since September 2023, the monetary policy (refinancing) rate has been reduced to 10.0%;
- GEL increased by 7.7% YoY but decreased by 2.4% QoQ against USD;
- Dollarization coefficient decreased for both deposits and loans YoY (Parliamentary Budget Office of Georgia, 2023).

As research based on official sources and data shows, currently, the post-pandemic dynamics and macroeconomic situation in Georgia are positive. Despite the severe consequences of the pandemic and wars in recent years, the development of the country is proceeding irreversibly and the planned projects and programs are being carried out in a normal manner, without restrictions or interruptions.

Conclusions

- The current macroeconomic situation in Georgia was significantly determined by the decisions taken by the Government of Georgia during the Covid-19 pandemic, according to which various directions of

the economy were in the mode of maximum monitoring and assistance. The government has tried to put less pressure on businesses despite the strict restrictions around the world.

- The financial interventions carried out by the government in the direction of both health care and economy turned out to be vitally important both for business entities and for the country as a whole.
- After the end of the pandemic, the economy began to recover quickly, but all this coincided with the beginning of the Russian-Ukrainian war, which again created an unstable economic and political situation in the region. However, at the same time, it should be noted that due to the inflow of foreign currency by temporary residents from Russia, Ukraine, Belarus and other countries during that period, the national currency stabilized and began to strengthen.
- As the research revealed, at the moment the macroeconomic data of Georgia is good and does not suffer from sharp fluctuations. Clear directions of monetary, fiscal and general state economic policy allow for positive forecasts.

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CONTENTS

INFORMATION AND TELECOMMUNICATIONS technologies

THE IMPACT OF REVIEW AND RATING ON CUSTOMER EXPERIENCE IN ELECTRONIC MARKETPLACES

Canh Chi Hoang, Bui Thanh Khoa 5

METADATA MANAGEMENT FRAMEWORK FOR BUSINESS INTELLIGENCE DRIVEN DATA LAKES

Snezhana Sulova, Olga Marinova 22

ADVANTAGES AND ETHICAL CONSIDERATIONS OF INDUSTRIAL IOT ARTIFICIAL INTELLIGENCE SOLUTIONS USAGE

Natalia Marinova 43

MANAGEMENT practice

FORMATION OF THE POST-PANDEMIC BUSINESS ENVIRONMENT IN GEORGIA: CHALLENGES AND PREDICTIONS

Giorgi Katamadze, Mariana Petrova, Natela Tsiklashvili 59

MEASURES TO BALANCE THE LABOUR MARKET: AN INSTITUTIONAL PARTNERSHIP BETWEEN BUSINESS AND THE VOCATIONAL TRAINING SYSTEM

Olha Mulaska, Taras Vasylytsiv, Ruslan Lupak,
Iryna Biletska, Oleh Mykytyn 76

DRIVING PROFITABILITY THROUGH SOCIAL RESPONSIBILITY: UNVEILING THE SUCCESS STORY OF AUTOMOTIVE PLANT STELLANTIS SLOVAKIA

Simona Cincalova, Leo Mataruka, Kamila Masarova, Joe Muzurura97