

Economics

Challenges of Economic Activities of Cities in the Context of the Covid-19 Pandemic

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Since the beginning of 2020, the economic complications caused by the Coronavirus pandemic (COVID-19) have entered the active phase. The world economy is facing the unprecedented challenges – global demand and global supply have declined, unemployment has risen, and losses amount to tens of trillions of dollars. The total value of the fiscal and monetary measures taken by governments in response to the COVID-19 pandemic has reached one-tenth of the world's gross domestic product (GDP). It is impossible to address the problems of the global economy caused by the COVID-19 pandemic without the concerted efforts of States. However, individual States are developing their own ways to overcome these problems. Investigating various sources and reviewing experience of different countries confirmed that in the context of the COVID-19 crisis, along with national governments, city administrations should also well have a role to play in financial support of small and medium-sized enterprises, as a particularly sensitive sector, mostly those enterprises that have more opportunities to expand their business. The main purpose of the authors was to identify the threats and economic opportunities that cities are facing in general and particularly in Georgia, in terms of neutralizing the consequences of the pandemic. According to conclusion derive from studies, cities have to employ their real capacity in order to remain functionally viable. This requires the new development strategies, enhancing work with investors, setting the realistic budget and the correct choice of priorities. © 2021 Bull. Georg. Natl. Acad. Sci.

Pandemic, economic crisis, urban economics, fiscal capacity

The Primary Consequences of the Pandemic

Given the global nature of COVID-19, different countries use similar methods of protection against the pandemic in terms of a public health and safety, while they use different ways of organizing support

for the economy. However, in force majeure situation of the past period, most measures were enforced in a hurry. The causes of the new global economic crisis did not arise in the economy, but the rapid spread of the coronavirus, as a source existing outside and beyond the economy, was what

had given rise to these causes. Taking this factor into account, the whole world finds itself facing the threat of the so-called "Coronomic Crises" different from a classic economic crisis [1:4]. The most painful of these processes is a sharp drop in the income against the background of a gradual rise in spending, driven by an increase in social expenditure and domestic investment. This might give us the "scissors effect" that took place during the crisis of 2007-2008 [2:26].

Different scenarios have been predicted by various reputable institutions in Georgia [3:10]. Unfavorable dynamics has been recorded by the National Statistics Office in various indicators (see Table 1).

pandemic due to the availability of appropriate communications and a more developed network of health care facilities. In the face of a pandemic, along with national governments, city administrations should also well have a role to play in financial support of small and medium-sized enterprises, as a particularly sensitive sector, mostly those enterprises that have more opportunities to expand their business.

Regardless of the level of decentralization, cities have to deal with the central government to increase the effectiveness of joint state measures as well as to devise local measures. The burden of territorial units should be assumed mostly by the central government. This is particularly true for

Table 1. Changes in some indicators in 2019-2020*

	Indicators	Period	Decline compared with the same period in 2019, %
1	Gross domestic product	January-May	13.5
2	Foreign direct investment	January-March	41.7
3	Visits of international visitors	January-March	16.0
4	Foreign trade turnover	January-May	16.8
5	Export	January-May	16.2
6	Import	January-May	17.0

*National Statistics Office, URL: <https://www.geostat.ge> (5.07.2010)

The main reasons for the decline in foreign direct investment include the completion of a main gas pipeline project and a transfer of ownership of several enterprises to the resident of Georgia. Researchers rightly believe that despite the challenges faced, the levels of reinvestment in the first quarter of 2020 were raised by 26.8% (\$28.5 million) and reached \$135.0 million. This confirms investors' confidence in a country's macroeconomic stability [4:34].

More than half of the world's population lives in cities, and their share will reach 68% by 2050 [5]. It is clear that cities, compared to other settlements, are better equipped to respond to the COVID-19

Georgia, where there is a high centralization of branches of the State power [6:141].

We believe that it is interesting to share various approaches that different cities have implemented in this difficult situation to support business. In different cities (New York, Madrid, Montreal, Tokyo), the approach is to help businesses on the condition that they retain staff, while the government would be covering the costs proportionally to a decline in profits from the business (particularly in the case of small businesses, travel agencies, recreational facilities and department stores, teleworks or software for teleworks). The widespread benefits are also tax

deferrals (Bilbao) and free business consultations (Tokyo, Brazil, Yokohama). A € 3 million mutual fund was set up in Milan (Italy) in the second half of March for the neediest and at-risk ones. Donations on the first day amounted to € 800 thousand [7:11-15].

All programs and measures aimed at the recovery of the economy are really about reducing the burden on firms and households, which is inconceivable for them without granting different types of tax benefits. The longer the restrictions on economic activity last, the greater financial losses, that is the lower the tax receipts (Fig. 1).

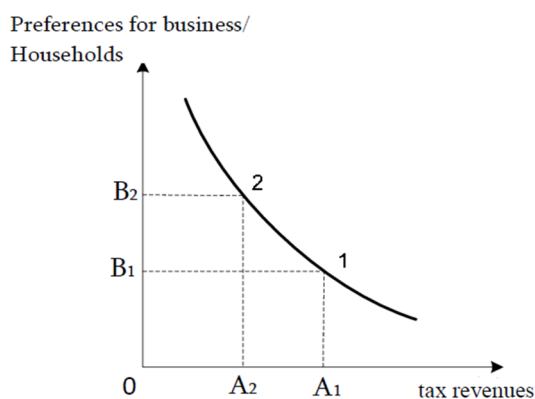


Fig. 1. A graphical representation of the relationship between Preferences for business/households and tax revenues.

Because of budgetary constraints, support for households and businesses will inevitably be reflected in declining tax receipts – the more support they receive, the lower the tax receipts are (when $0A_1 > 0A_2$, but $0B_1 < 0B_2$).

It can be said that this is a functional relationship:

$$R = f(X_1, X_2, X_3, \dots),$$

where, R – is a function that links dependent variable (tax receipts) to various independent variables. Accordingly, X_n – denotes certain types of tax benefits (reduction of rates, removal of taxes, introduction of tax holidays, and other actions related to anticyclical measures of tax policies).

Economic Consequences and Challenges of the Pandemic in Cities

An analysis has shown that the regions and cities of the countries are quite vulnerable structural units to crises and tectonic shifts in the economy. Addressing the consequences of the 2008 financial crisis in the regions of the OECD countries took a long time. In more than 40% regions of the OECD and EU countries, the GDP per capita in the post-crisis seven years was less than before the crisis [8].

The expected sharp decline in revenue will probably be particularly serious for cities of small and extremely open economies like Georgia. First of all, we should expect the fall in basic tax revenues. As a rule, basic revenues of self-governing bodies is often determined by the activities carried out over the course of the current year.

Owing to the decline in economic activity, the decreasing trend was also observed in local taxes and fees. Therefore, we should expect a more difficult situation in 2021.

In the first 5 months of 2020, the actual budget revenues of territorial unit of Georgia are characterized by the decreasing trend (a total of GEL 768.5 million, on average GEL 153.7 million per month). In 2019, overall income to the budget of this level was GEL 3081.8 million, or an average of GEL 256.8 million per month [9]. Thus, in the first five months we have already GEL 103.1 million lag in the monthly average income annually. Although the active tourist season with its budgetary effect is also reflected in 2019 revenues, if we take into account the lag in tourism in the remaining period of 2020, which we analyzed above, it is still expected to show a decreasing trend.

We analyzed VAT, turnover and submitted declarations in Georgia and Kutaisi Municipality (excluding customs operations, turnover and tax). This tax is especially related to the economic activities over the past period (the first quarter and January-April).

Over the period analyzed (January-April 2020), the turnover subject to VAT decreased by GEL 751.9 million as compared to the same period last year. The decreasing trend (18.5%) was also observed in the amount of money to be paid (GEL 31.9 million), as well as in the number of declarations (by 775 declarations) [10].

The complicated situation is also in the dynamics of the turnover subject to VAT by VAT taxpayers registered in Kutaisi: the turnover decreased by 13.2% (GEL 22.7 million) and the accrued VAT to be paid decreased by GEL 288.1 thousand, while the number of declarations decreased by 146 units. In the first 5 months of this year, GEL 11.5 million was transferred from VAT to the budget of Kutaisi Municipality, which is almost GEL 1 million less than in the same period last year [11]. At the same time, GEL 6.1 million was mobilized in three months (March, April, May), which is 1 million GEL less than in the same period in 2019. It turns out that GEL 1 million lag in a period of five months was conditioned by the mentioned period of the past three months (according to the plan for 2020, the budget of Kutaisi Municipality provides GEL 35 368.1 thousand from VAT, accounting for 65.4% of the total planned revenues and 79% of tax revenues).

Complications are expected in the following areas of budget revenues of self-governing cities:

- in terms of mobilizing cleaning fees (in many cities these payments have been suspended);
- in terms of mobilizing gambling business fees;
- in revenues from fines and penalties;
- in revenues coming from companies providing the regular local urban passenger transport services by vehicles;
- receipts for the use of non-financial assets.

With regard to expenditure, the following aspects are considered as room for mitigation: a significant proportion of costs of travels outside the country, as well as the suspension of funding for large-scale events (exhibitions, festivals, sports and

entertainment events, etc.) and some infrastructure projects.

The anti-crisis action plan of the government prioritizes first the tourism sector, and then agriculture, development business and education. Changes in the state budget and its anti-crisis format are naturally reflected in the main financial documents of territorial units.

In particular, the agreed forecast for the economic growth is minus 4%. Budget revenues are to be fallen by GEL 1.8 billion. Budgeted expenditure will be reduced by about GEL 600 million, while the budget deficit, according to these parameters, is expected to be about 8.5% [12].

In addition, State debt of Georgia this year will increase by about GEL 8 billion, and it will reach GEL 27 billion, or more than 55% of GDP, thus approaching the critical threshold of 60%.

Taking into account the slowing-down parameter (GEL 1.8 billion), according to the share of VAT in revenues (about 36%), it turns out that the decline in VAT will reach GEL 648 million, of which the budgets of local self-government units are expected to decrease by GEL 123.1 million ($= 648 \cdot 0.19$).

In such conditions, we should expect a sharp decline in budget revenues and the funding cuts for infrastructure projects. The focus will be on provision of basic social and economic services. Under these conditions, cities have to employ their capacity on making maximum use of the capabilities of the economic diplomacy. We have in mind the effective use of the activities of honorary consuls, as well as intensifying economic ties with the Assembly of European Regions, sister and partner cities [13:145].

The anti-crisis measures to combat the pandemic must be taken in a very prudent way. Nobel laureates J. Stiglitz and H. Rashid believe that the pandemic will last longer than originally expected. Consequently, more incentives will be needed (e.g., the U.S. has already spent \$3 trillion on various types of assistance to the population).

This money will simply prolong the life of many firms but not save them. The poorly designed incentive programs are not only ineffective, but also potentially dangerous. Bad policy may contribute to the promotion of inequality, and cause instability [14].

Conclusions

The pandemic crisis will undoubtedly increase the number of people out of work in territorial units, which will inevitably exacerbate territorial and social inequality. We therefore consider it appropriate:

- to create new city development programs/strategies based on the challenges caused by COVID-19 (significant changes will be made to the Local Economic Development Plans (LEDP) created in some cities under the EU Initiative "Mayors for Economic Development");

- in the near future, the urgent task is the optimization of budgetary expenditure by self-governing cities and intensive search for room for increased budget revenues. At the same time, in order to set the budgets of cities (municipalities), it is necessary to create the new realistic documents for the medium-term priorities;

- cities should prepare the packages of proposals for domestic and foreign investors, which will help to accelerate the investment processes and mobilize their own revenues in the budget;

- in order to supply to the local market the import-substitute products in the post-pandemic period, special attention should be paid to the development of processors of agricultural products in cities/municipalities, which is associated with the proximity to the raw material base of cities.

ეკონომიკა

ქალაქების ეკონომიკური საქმიანობის გამოწვევები COVID-19-ის პირობებში

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**რუსეთის ხალხთა მეგობრობის უნივერსიტეტი, მუნიციპალური სამართლის კათედრა, მოსკოვი; მოსკოვის სახელმწიფო სამხარეო უნივერსიტეტი, საკონსტიტუციო და მუნიციპალური სამართლის კათედრა

§აკაკი წერეთლის სახელმწიფო უნივერსიტეტი, სოციალურ მეცნიერებათა დეპარტამენტი, ქუთაისი, საქართველო

(წარმოდგენილია აკადემიის წევრის ა. სილაგაძის მიერ)

2020 წლის დასაწყისიდან, კორონავირუსის პანდემიით (COVID-19) გამოწვეული ეკონომიკური გართულებები ატიურ ფაზაში შედის. მსოფლიო ეკონომიკა არნახული სირთულეების წინაშეა – შემცირებულია გლობალური მოთხოვნა და გლობალური მიწოდება, გაიზარდა უმუშევრობა, ზარალი ათეულ ტრილიონობით დოლარს აღწევს. მიმდინარე წლის პირველი კვარტლის ბოლოს მსოფლიოში საჭირო ტრანსპორტის მგზავრთა რაოდენობა თითქმის 8-ჯერ შემცირდა. მთავრობების მიერ COVID-19-ზე რეაგირების ფარგლებში მიღებული ფისკალური და მონეტარული ზომების ჯამურმა ღირებულებამ მსოფლიოს მთლიანი შიდა პროდუქტის (GDP) –მეთედს მიაღწია. COVID-19-ის პანდემიით გამოწვეული გლობალური ეკონომიკის პრობლემების მოგვარება შეუძლებელია სახელმწიფოთა ერთობლივი ძალისხმევით, თუმცა ცალკეული სახელმწიფოები ამ პრობლემათა დაძლევის საკუთარ გზებს შეიმუშავენ. სხვადასხვა წყაროსა და ქვეყნის გამოცდილების შესწავლამ დაადასტურა, რომ COVID-19-ის კრიზისის პირობებში ეროვნულ მთავრობებთან ერთად საქალაქო ადმინისტრაციებმაც გარკვეული როლი უნდა შეასრულონ მცირე და საშუალო საწარმოების, როგორც განსაკუთრებით მგძნობიარე სექტორის ფინანსურ მხარდაჭერაში, განსაკუთრებით იმ საწარმოთა მიმართ, რომლებსაც ბიზნესის გაფართოების მეტი შესაძლებლობები გააჩნიათ. ცხადია, ქალაქები, სხვა დასახლებულ პუნქტებთან შედარებით, COVID-19-ის წინააღმდეგ საბრძოლველად უკეთ არიან აღჭურვილნი, თუმცა სახელმწიფოთა ტერიტორიულ-ადმინისტრაციული მოწყობის მიუხედავად, ქალაქების რესურსი მაინც შეზღუდულია დამოუკიდებლად, ფედერალური ხელისუფლების გარეშე გაუმკლავდნენ პანდემიით გამოწვეულ კრიზისს (ჯანდაცვის სისტემა ქვეყნების დიდ ნაწილში ცენტრალიზებულია). ავტორთა ძირითადი მიზანი მდგომარეობდა სწორედ იმ საფრთხეების დაფიქსირებასა და ეკონომიკური შესაძლებლობების გამოვლენაში, რაც ქალაქებს, ზოგადად და, მათ შორის, საქართველოში პანდემიის შედეგების განეიტრალებასთან დაკავშირებით გააჩნიათ.

კვლევის შედეგად მიღებული დასკვნის მიხედვით ქალაქებმა უნდა ამოქმედონ ის რეალური რეზერვები, რაც ხელს შეუწყობს მათი სიცოცხლისუნარიანობის შენარჩუნებას. ამისათვის გარდაუვალია განვითარების ახალი სტრატეგიების ფორმირება, ინვესტორებთან მუშაობის გააქტიურება, რეალისტური ბიუჯეტის ფორმირება და პრიორიტეტების სწორად შერჩევა.

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