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Income distribution and poverty reduction in Georgia

A comparative analysis

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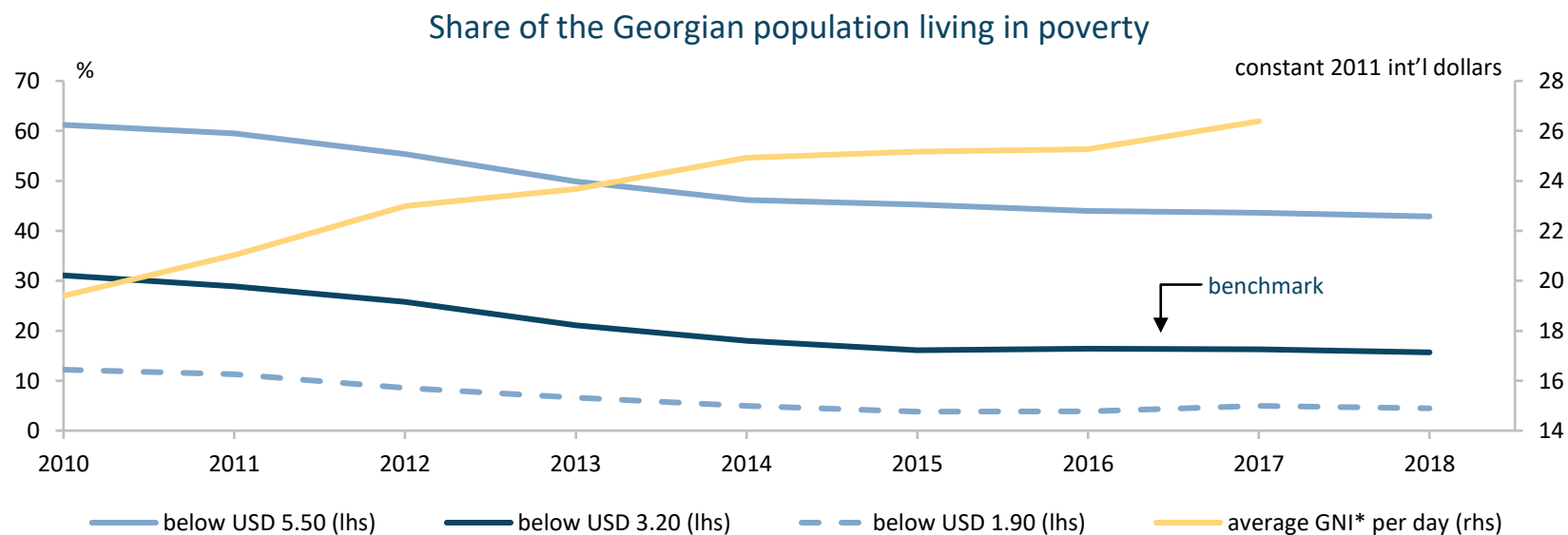
Berlin/Tbilisi, April 2020

Poverty reduction

Development of poverty rates in Georgia

Poverty rate almost halved in 2010-2015; from 31% to 16%

- However, no further reduction from 2016 to 2018
- Poverty reduction strongly related to an increase in average gross national income (GNI)* per day
- Technical remark: World Bank uses three standardised poverty measures (USD 1.90, 3.20 and 5.50 per day), derived from national thresholds and based on income groups
- Our benchmark for GEO: lower middle income (LMI; USD 3.20)



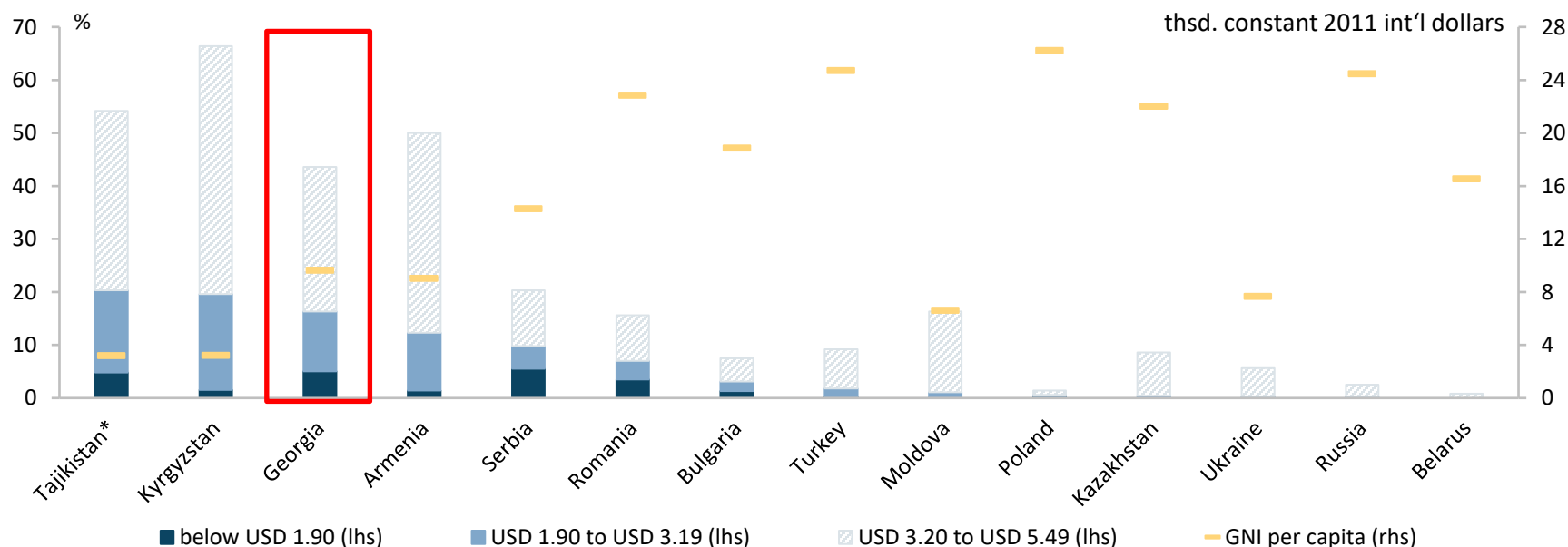
Source: World Bank; poverty lines and GNI are in const. 2011 international dollars. No data for GNI for 2018.

*Explanation: Gross national income (GNI) is a measure closely related to GDP: $GNI = GDP + [money\ inflow\ from\ foreign\ countries] - [money\ outflow\ to\ foreign\ countries]$.

International comparison of poverty rates

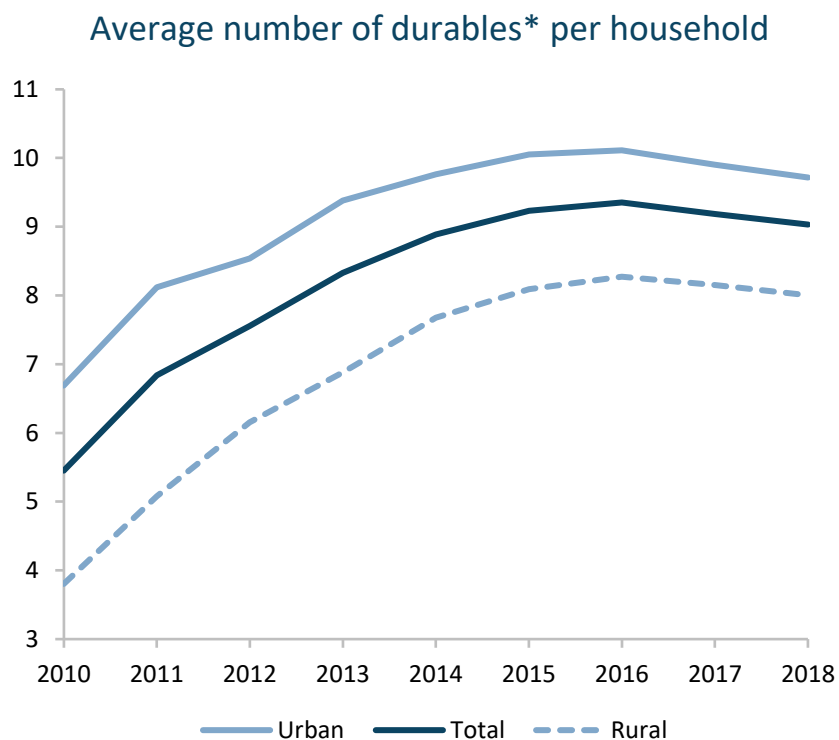
- Peer group: sample of (emerging) European and Central Asian (ECA) countries
 - Benchmark LMI: only Tajikistan and Kyrgyzstan with higher rates
 - However, most peer group countries have higher average incomes
 - Absolute poverty (USD 1.90) in range of Romania and Serbia
- **Poverty in GEO remains high compared to peer group**

Share of population living in poverty: international comparison (2017)



Source: World Bank; Poverty lines and GNI per capita are in constant 2011 international dollars, *) value for GNI per capita from 2013, value for poverty measures from 2015

Durable goods



Source: Integrated Household Survey (Geostat), GET calculations

*Durables are e.g. kitchen goods (refrigerator, stove), cleaning appliances (washing machines, vacuum cleaners), consumer electronics (PC, mobile phones) and cars.

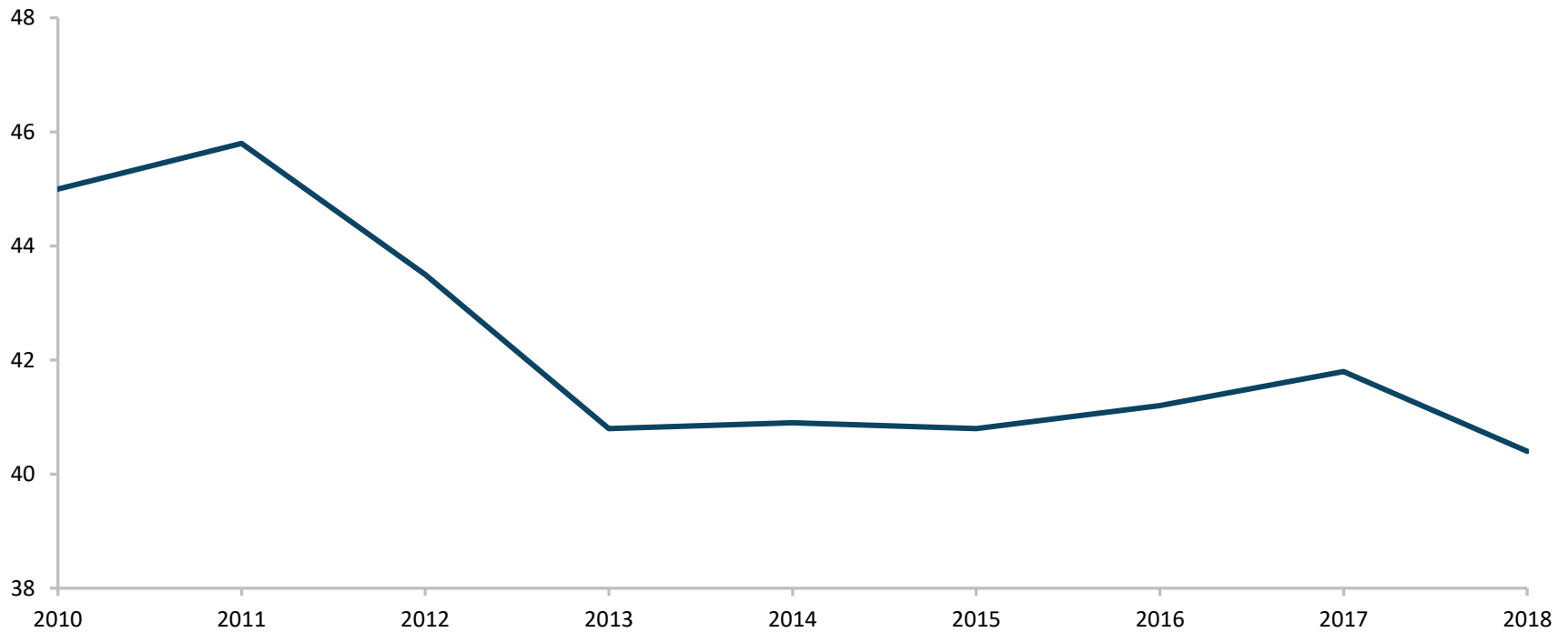
- Number of durables per household can be a proxy for living standard and for poverty reduction
- Coverage of kitchen goods and consumer electronics has strongly increased
- Since 2015: possible saturation
- In 2018, average of nine durable goods per household
- **Average number of durables has strongly increased**
- **Results corroborate data on poverty reduction**

Income distribution

Gini coefficient: development in Georgia

- Gini scale: 0 – perfect equality, 100 – absolute inequality
- Georgia: decrease from 45.0 in 2010 to 40.4 in 2018
- **Income inequality went down in the period 2010-2018**

Gini coefficient in Georgia



Sources: Integrated Household Survey (Geostat); GET calculations

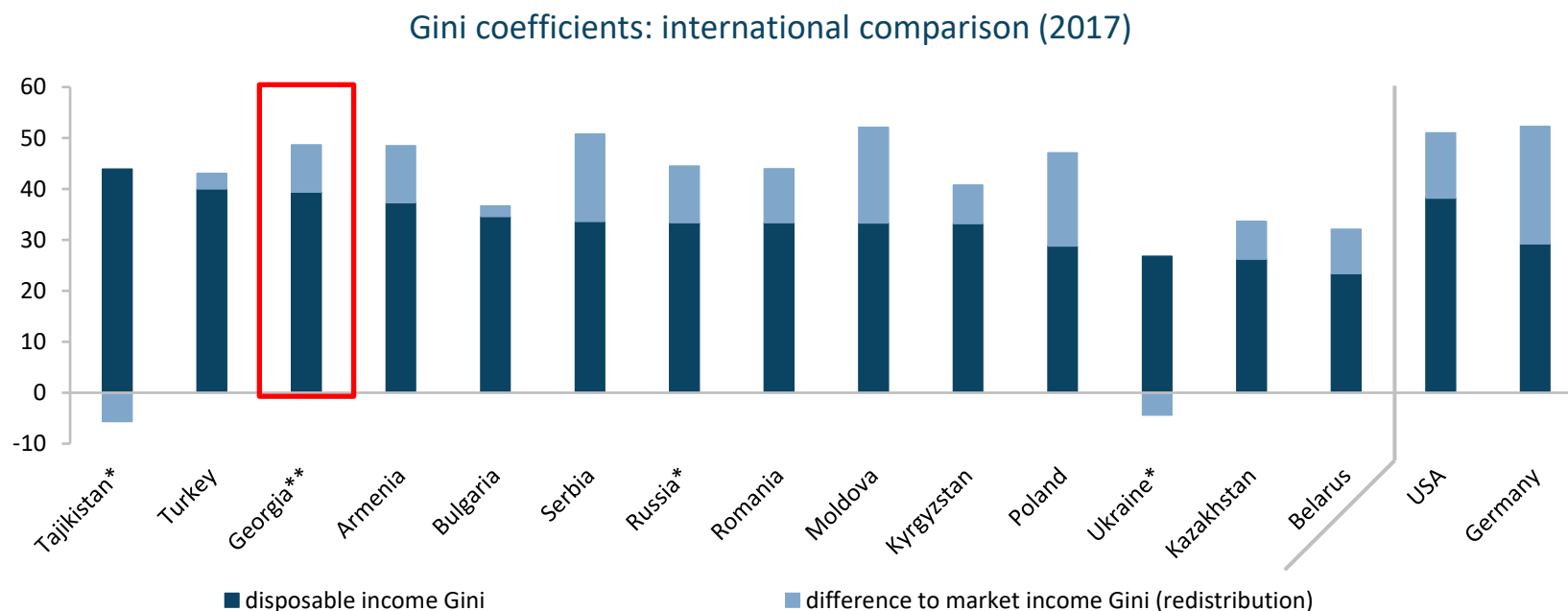
Gini coefficient: international comparison

International comparison

- Only Tajikistan and Turkey have a higher Gini coefficient
- **Income inequality in GEO is high compared to peer countries**

However:

- Redistribution reduces income inequality in Georgia by about 20%
- Gini coefficient at a similar level as in the USA



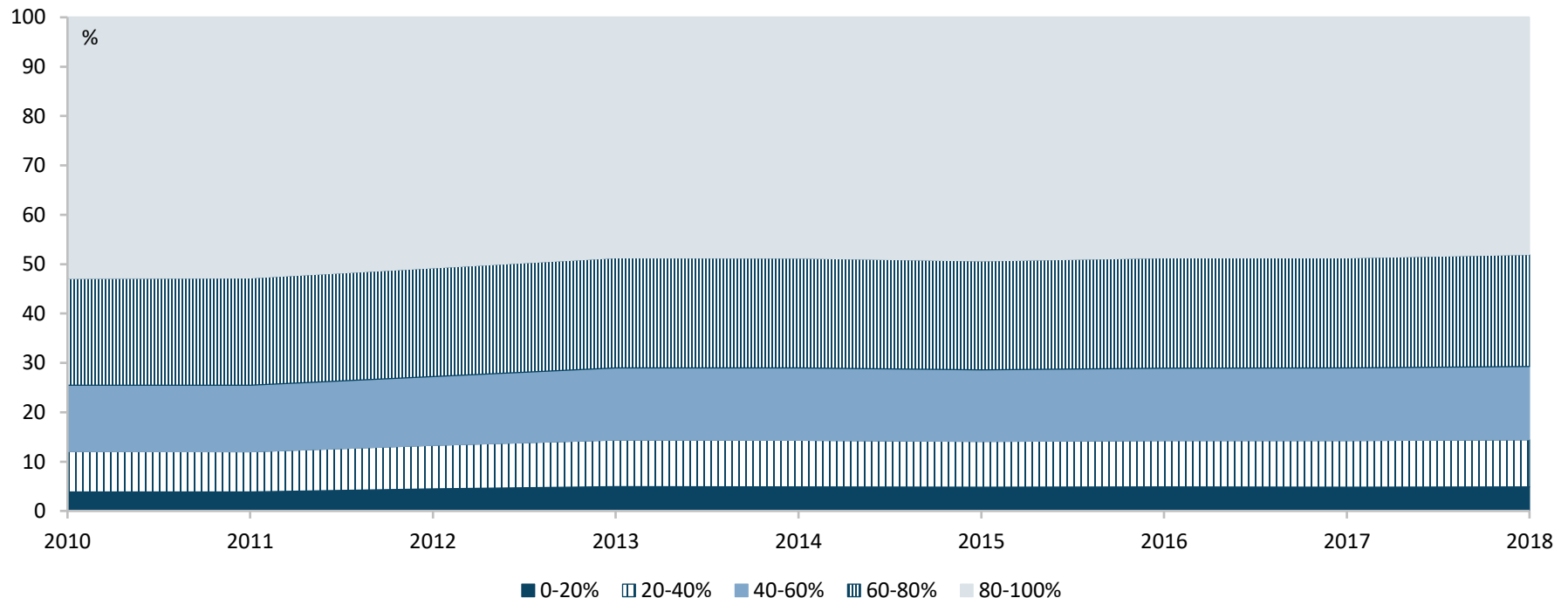
Source: Solt (2019)

*) value for Tajikistan from 2015, for Russia and Ukraine from 2016; **) value for Georgia differs from slide 7 due to data adjustments in Solt (2019) for international comparison

Distribution of income quintiles: development in Georgia

- In 2018: people below GEL 413 monthly were part of the lowest 20%, those above GEL 1,580 belonged to the richest 20%
- Share of income by quintiles stable, slight reduction for the top 20%
- **Share of top 20% account for 48% of total income (2018)**

Household quintiles and corresponding share of income

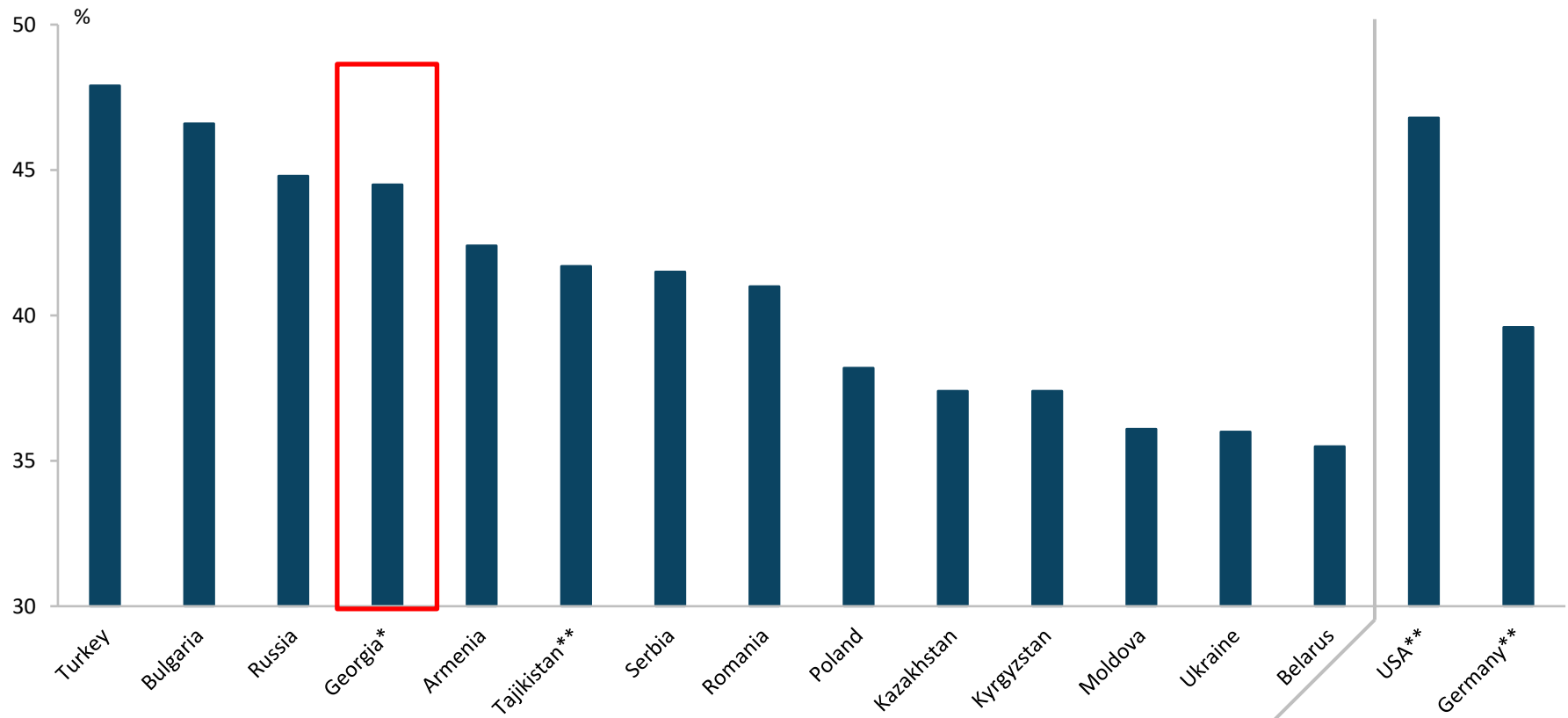


Source: Integrated Household Survey (Geostat); GET calculations

Distribution of income quintiles: international comparison

- In the peer group: Turkey, Bulgaria and Russia have a higher share
- **Share of top 20% is high compared to the peer group**

Share of top 20% in total income (2017)

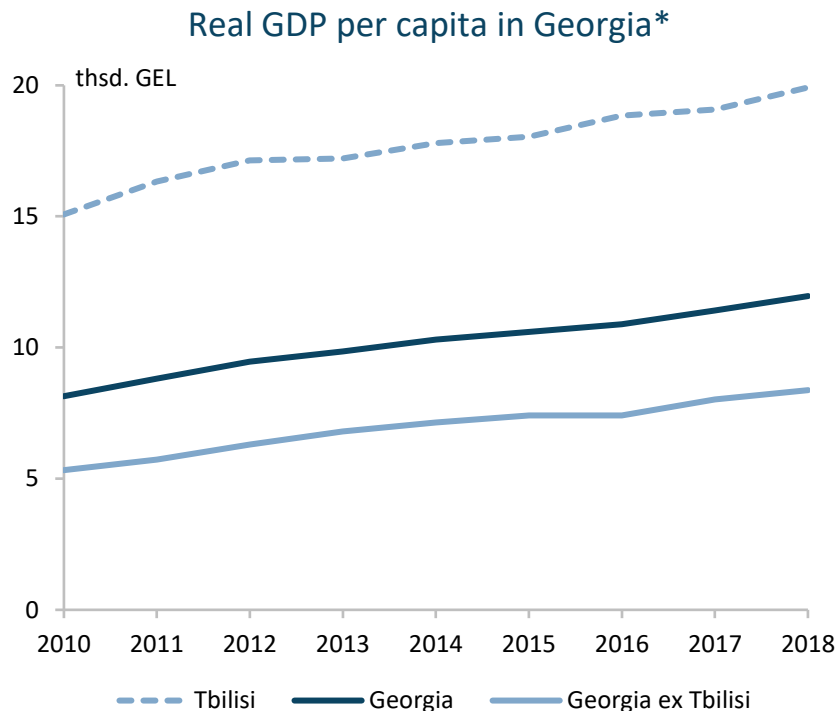


Source: World Bank

*) value for Georgia differs from slide 9 due to adjustments for international comparison; **) value for Tajikistan from 2015, for USA and Germany from 2016.

Regional income distribution within Georgia

The importance of Tbilisi within Georgia



Sources: Geostat, GET calculations; Remark: values are in constant 2018 prices

*) Regional GDP figures are based on the location of the headquarters of a firm rather than the actual location of economic activity. Figures for Tbilisi GDP might therefore be inflated due to registration of firms there.

- Tbilisi: 51% of total GDP, 31% of total population (2018)*
- **National average of GDP per capita heavily impacted by Tbilisi figures**
- Steady increase in GDP per capita
- Big gap between Tbilisi and the rest of Georgia in terms of GDP per capita
- **GDP per capita in Tbilisi around 2.4 times that of the rest of Georgia, but gap is narrowing**

Development of real GDP per capita within Georgia

	2018 (GEL)	2010 (GEL)	Avg. yrl. growth rate (%)
Tbilisi	19,915	15,066	3.5
Adjara A.R.	11,594	6,680	7.1
Mtskheta-Mtianeti	11,419	5,754	8.9
Samtskhe-Javakheti	8,854	6,308	4.3
Imereti	8,137	4,710	7.1
Racha-Lechkhumi and Kvemo Svaneti	8,136	4,374	8.1
Kvemo Kartli	8,087	6,049	3.7
Samegrelo-Zemo Svaneti	7,412	5,624	3.5
Kakheti	7,374	3,985	8.0
Guria	6,777	4,790	4.4
Shida Kartli	6,715	4,645	4.7
Georgia	11,958	8,146	4.9
Georgia ex Tbilisi	8,372	5,326	5.8

Sources: Geostat, GET calculations; values for real GDP are in constant 2018 prices

- Significant differences in the level and dynamics within Georgia
- Tbilisi has by far the highest GDP per capita
- At the same time: Tbilisi features the lowest growth rate (together with Samegrelo-Zemo Svaneti)
- Strongest growth: Mtskheta-Mtianeti
- **Thus: long term trend towards convergence in GDP per capita taking place**
- **In other words: reduction in income inequality within Georgia**

References

- International Monetary Fund (IMF) (2017): “Fostering Inclusive Growth.” Presentation at G20 Leaders Summit, Hamburg, July 7–8.
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- Solt, Frederick (2019): “Measuring Income Inequality Across Countries and Over Time: The Standardized World Income Inequality Database.” SWIID Version 8.2, November 2019.

About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

The German Economic Team is financed by the Federal Ministry of Economics and Energy. The consulting firm Berlin Economics has been commissioned with the implementation of the project.

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