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NEWSLETTER

German Economic Team

GEORGIA

Income distribution and poverty reduction in Georgia

In a recent study, the German Economic Team analyses recent developments in income distribution and poverty reduction in Georgia between 2010 and 2018, looking at trends within Georgia and putting them in an international context. Due to limited data availability, this study does not relate to the most recent distributional policies of the government and the impact of the COVID-19 pandemic.

As a key result, we find a strong decrease in poverty: while almost one third of the population was living in absolute poverty in 2010, this figure had halved to 16% by 2015. However, no further decrease materialized in the final years of our observation period and poverty is high compared to regional peer countries.

Inequality in net incomes has decreased, as shown by a reduction of the Gini coefficient from 45.0 to 40.4. Redistribution reduces market inequality by about one fifth. Notwithstanding the sizeable reduction in income inequality, its value remains high in international comparison.

Georgia's economy is characterized by the major importance of Tbilisi. The disparity between the capital and the rest of the country is sizeable, with Tbilisi having a GDP per capita about 2.4 times as high as the rest of Georgia. However, this gap has narrowed during the observation period.

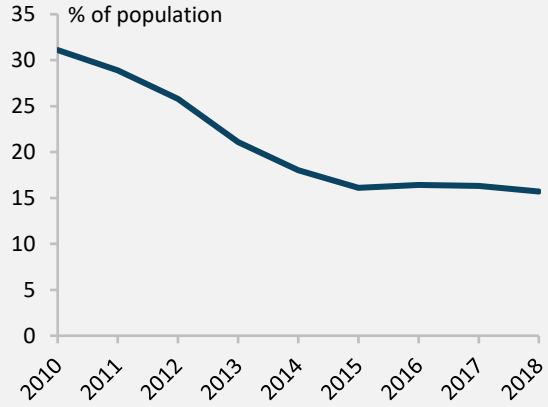
Strong reduction of poverty

As poverty definitions differ across countries, we base our analysis on the internationally comparable, standardized thresholds of the World Bank.

For most of the observation period, the World Bank classified Georgia as a lower middle-income country. For this income group, people living on less than USD 3.20 per day are considered to be poor. The poverty rate is thus the share of this group relative to the total population. As the amount is measured in 2011 international dollars, it allows for a comparison across countries and takes into account differences in price levels.

Based on this measure, Georgia has made significant strides in fighting absolute poverty during the observation period of our analysis. Whereas in 2010 almost one out of three Georgians (31%) was living in poverty, this figure had halved to 16% by 2015. At the same time, average incomes increased significantly. However, poverty did not decline further from 2016 to 2018.

Poverty rate in Georgia

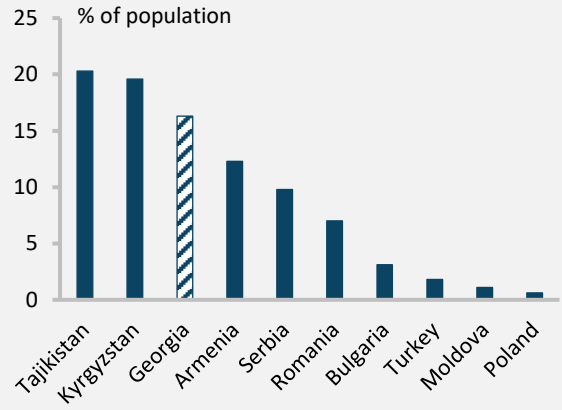


Source: World Bank

A proxy measure for income is the number of durable goods (such as stoves, TV sets, cars and the like) in a household. The number of average durables per household increased strongly, from 5.5 to 9.0. As the presence of (not strictly essential) durables indicates the ability to accumulate savings, it shows a move away from poverty and an increase in living standards. These findings corroborate the decline of the poverty rate.

For an international perspective, we compare this poverty rate to a sample of emerging European and Central Asian countries. Within our sample, only Tajikistan and Kyrgyzstan had higher rates.

International comparison of poverty rates



Source: World Bank

Income distribution

Using data from Geostat's Integrated Household Survey, we also analysed the evolution of income distribution. The most common indicator for measuring income inequality is the Gini coefficient, ranging from 0 (absolute equality) to 100 (absolute inequality). Our analysis

focuses on net income, meaning that the effects of taxes and transfers are taken into account.

Income inequality in Georgia has decreased, from 45.0 to 40.4. Most of the reduction materialized in the early years of the observation period. About one fifth of initial inequality, resulting from market outcomes, was reduced through taxes and transfers.

This is a sizeable reduction, but the international comparison shows that the value remains high nevertheless. Among our regional peer group, only Tajikistan and Turkey had a higher coefficient. However, Gini coefficients in this range are not limited to middle-income countries. The United States had similar values for the coefficient itself and the associated redistribution.

Regional disparities

In 2018, GDP per capita in Tbilisi was almost GEL 20,000, compared to around GEL 8,400 for the rest of the country. The nationwide average of approx. GEL 12,000 that is used to compare Georgia's economic position internationally thus conceals the strong regional disparities characterizing the Georgian economy.

Development of regional real GDP

	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

Sources: Geostat, GET calculations

Note: values for real GDP are in constant 2018 prices.

However, the gap between Tbilisi and the rest of the country has narrowed during our observation period. While Tbilisi had a GDP per capita approx. 2.8 times as high as that of the rest of Georgia in 2010, this ratio had decreased to approx. 2.4 by 2018. This is the result of the lower average yearly real growth rate in Tbilisi (3.5%) compared to the rest of Georgia (5.8%). Real GDP per capita in Georgia as a whole grew by 4.9% per year on average.

Outlook

The current analysis does not include the effects of the COVID-19 pandemic due to limited data. However, given the strong impact on growth, poverty rates are likely to be affected as well. Remittances, which are an important source of household income, are expected to decline. In addition to aggravating poverty for those who are already poor, there is a significant share of the population at risk of falling into poverty.

In response to the current crisis, the government has initiated multiple measures aimed at the easing the impact of the crisis for households. Examples include financing utility bills and targeted social assistance for newly unemployed and those on unpaid leave.

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A thorough analysis is provided in Policy Paper 01/2020. Additionally, slides with a more detailed summary of main findings are available in Policy Briefing 04/2020.

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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. It is funded by the Federal Ministry of Economics and Energy and implemented by the consulting firm Berlin Economics.