

Why Does the Majority of Georgia's Population Not Notice Double-digit Economic Growth?

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The current year stands out for Georgia in terms of economic growth. However, the surveys suggest that public perception of economic development is unchanged. According to the latest surveys, most of Georgia's population views the economic situation negatively, and polls suggest that poverty and unemployment are still rampant (CRRC, 2022; NDI, 2022). Therefore, there is a stark contrast between macroeconomic data seen in national accounts and public attitude, which shows that most of the population does not "feel" Georgia's current economic growth. The goal of this analysis is to explore the causes of this phenomenon.

In the first half of 2022, Georgia's economy saw a 10.5% growth in GDP. Similar growth has not been observed in Georgia after the war with Russia in 2008. In the first half of 2021, the economy grew by 12% compared to the previous year. However, this could be explained by the economic decline caused in 2020 during the lockdown associated with the recent pandemic. In the first half of 2020, the economy shrunk by 6.2%. Before the pandemic, from 2010-2019, the average GDP growth was around 5.6% (see [Graph1](#)).

The difference between public opinion regarding the economy and the dynamic of actual economic growth could be explained by **the one-off nature of GDP growth, the economy's structure and unprecedented inflation**.

During the first weeks of the Russian invasion of Ukraine, the economic growth forecast was dim. International organisations predicted 3.5% GDP growth for Georgia (IMF, 2022; WB, 2022). However, increased immigration in Georgia and the resulting influx of capital had a positive result. On the other hand, due to the irregular distribution of imported capital, not all sectors of Georgia's economy benefited equally. For instance, during the second quarter of 2022, the economy grew by 5.9%, where 3.8 percentage points are contributed by energy supply, logistics (transport) and telecommunications (see [Graph 3](#) and [Graph 4](#)). These sectors account for 10.0% of total employment and 7.0% of the population.

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Georgia's agricultural sector houses the most employees. According to 2021 data, this sector employed 230.3 thousand people, constituting 15% of the total labour force and 18.9% of the total employed. In the first half of the current year, the agricultural sector has a real growth of 7.7%, which lags behind total GDP growth by 2.8 percentage points. This was in contrast with the first quarter of 2022 when there was 14.7% GDP growth, and agriculture just contributed 0.1 percentage points. In the second quarter, agriculture contributes 0.9 percentage points.

Similar themes can be observed in wholesale and retail trading sectors, which employ 11.8% of the total workforce. According to 2021 data, this sector employed 180.7 persons and was characterised by steady growth before the pandemic. In 2019, 195.9 persons were employed in wholesale and retail trading. In the first half of 2022, this sector saw 5.5% growth. However, in the second quarter of 2022, the real growth of this sector is lower, 3.0% on average. This measure in the same period accounts for 0.4 percentage points of 5.9% of total GDP growth.

The construction industry is another leading sector of Georgia's economy. According to 2021 data, this sector employs 94.4 thousand persons, 7.8% of total employment and 6.2% of the total labour force. During the first half of 2022, the construction industry grew by 1.3%. However, in the second quarter of this year, the same measure was reduced by 3.2%. Therefore, this sector constitutes a negative 0.2 percentage point regarding total GDP growth.

Similarly, sectors of the economy associated with healthcare, social services, scientific, industrial production and real estate have shrunk. For instance, the healthcare and social services sector has shrunk by 12.7%. The scientific and technician sector has a net decrease of 9.2%. These sectors employ 87.8 thousand persons, 7.2% of total employment and 5.7% of the total labour force. The industrial sector also plays a significant role in the labour market. According to 2021 data, it accounts for 8.9% of total employment and 11.3% of the total labour force.

On the one hand, those sectors of the economy which have shrunk employ around 324.5 persons, 26.7% of total employment. On the other hand, in terms of growth, those sectors that lag behind total GDP growth accounted for 41.4% of total employment, which in absolute value, means around 503.4 thousand persons.

It should be noted that the growth seen in the industries mentioned above is not a result of some structural changes in the economy. In sectors with double-digit growth, it is related to one-off factors, and the latter's growth does not immediately affect the economy as a whole. Indeed, economic growth

generally improves society's welfare; however, positive impact takes time to show (Ram, 2006). Besides, Adams (2004) demonstrated that if economic growth is expressed in terms of GDP, the latter has little effect on reducing poverty.

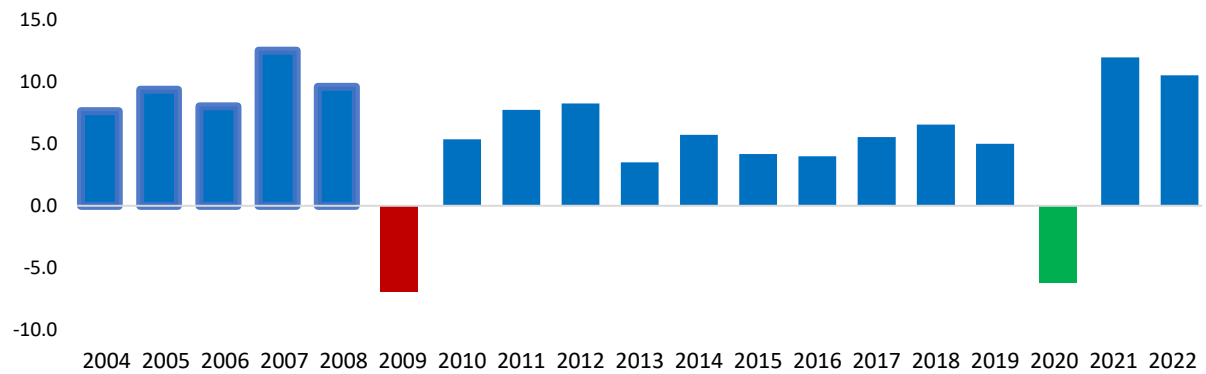
By this time, migrant inflow positively affected a small economic segment. However, this segment employed a relatively small number of people. Therefore, it is unsurprising that according to surveys, 79% of the population thinks their financial well-being has not improved (NDI, 2022). Double-digit inflation, which has already been present for 15 months, plays a crucial part here. It should also be noted that current inflation exceeds the target 3.0% mark for 43 consecutive months. Georgia last saw such an increase in the price of consumer goods in 1999 (see [Graph 2](#)).

Inflation causes an arbitrary redistribution of income (Romer & Romer, 1998; Dolmas et al., 2000; Bagchi et al., 2019; Mumtaz & Theophilopoulou, 2020), where the unknown majority subsidises the known minority. Inflation burdens poorer parts of the population the most because the income of the relatively poor grows slower than consumer prices. Because the incomes of this group of people - social transfers or wages - are fixed mainly (Kahn, 1997; Campbell & Kamlani, 1997; Smith, 2000) and grow more slowly than prices. For instance, In Georgia, the number of social transfer recipients, according to 2020 data, is 958.3 thousand persons. Social transfers contribute to 21.8% of average households. Wages contribute 44.4% of the average income for households.

Therefore, it is unsurprising that the increase in consumer prices in older age groups has become a considerable concern. As a result, many think their financial well-being has worsened in the last five years (see [Graph 6](#) and [Graph 7](#)). Also, people in small towns and villages are more concerned with growing prices than in urban centres (see [Graph 5](#)).

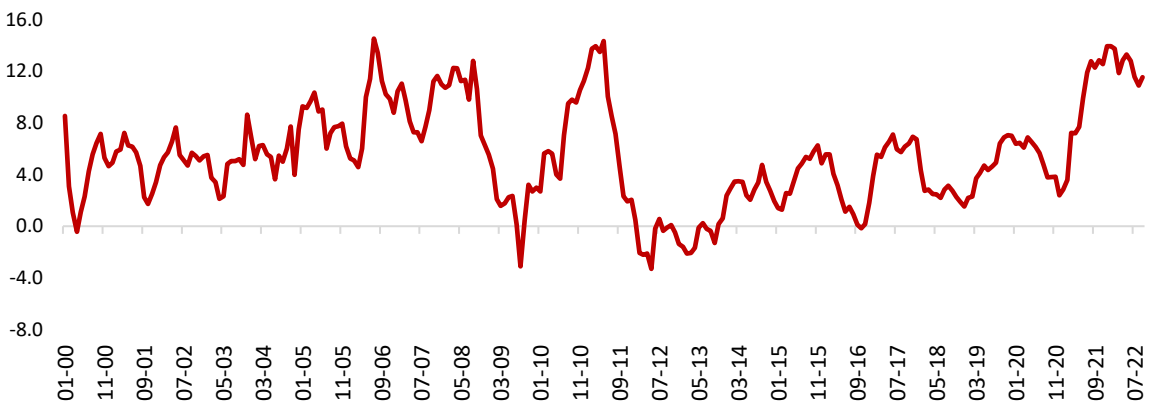
Graphs:

Graph 1: Economic growth in Georgia, the first half of the year (%)



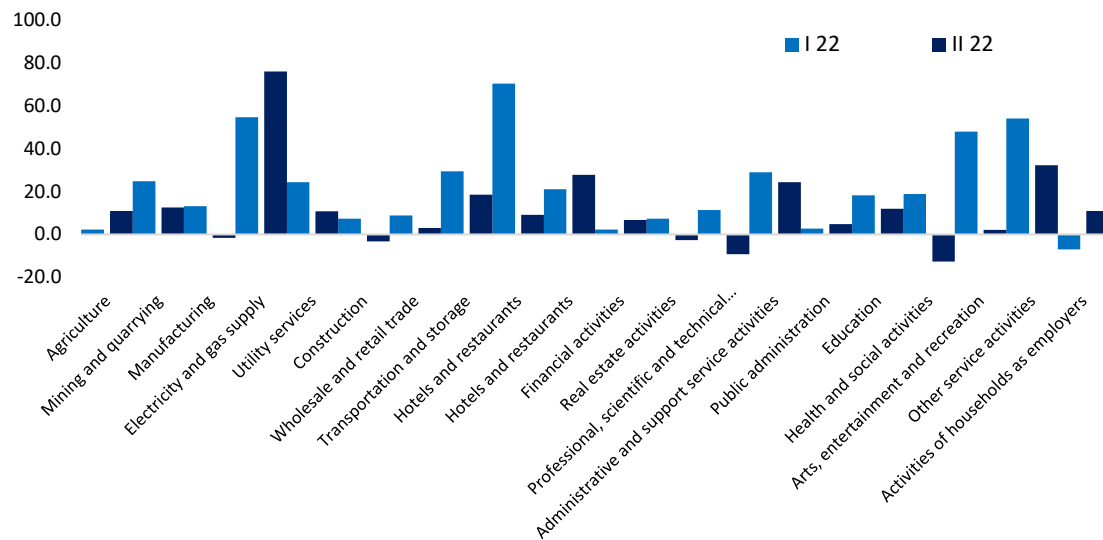
Source: National Statistics Office of Georgia, Author's calculation

Graph 2: Annual inflation in Georgia (%)



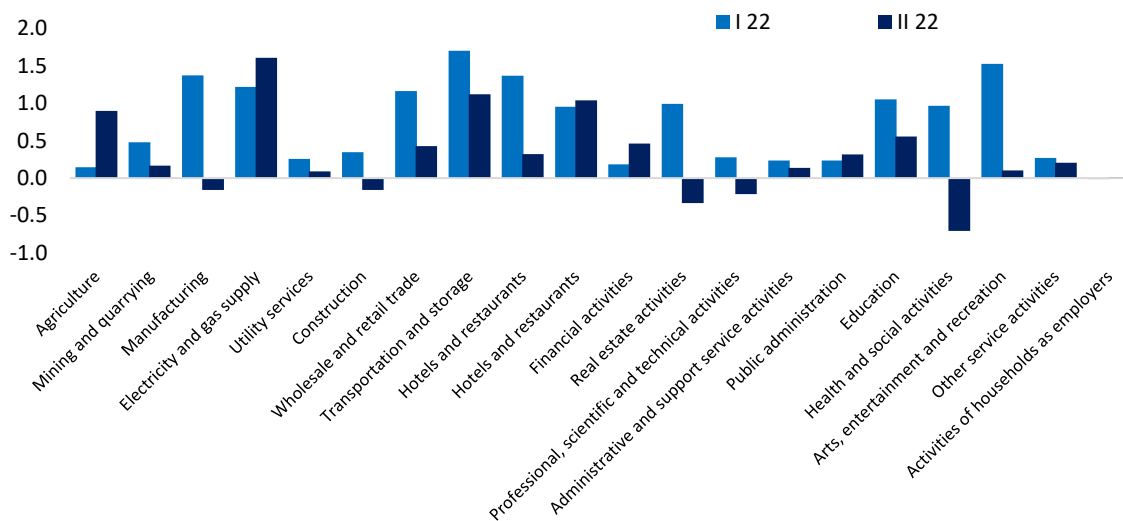
Source: National Bank of Georgia

Graph 3: Sectoral economic growth in Georgia (%)



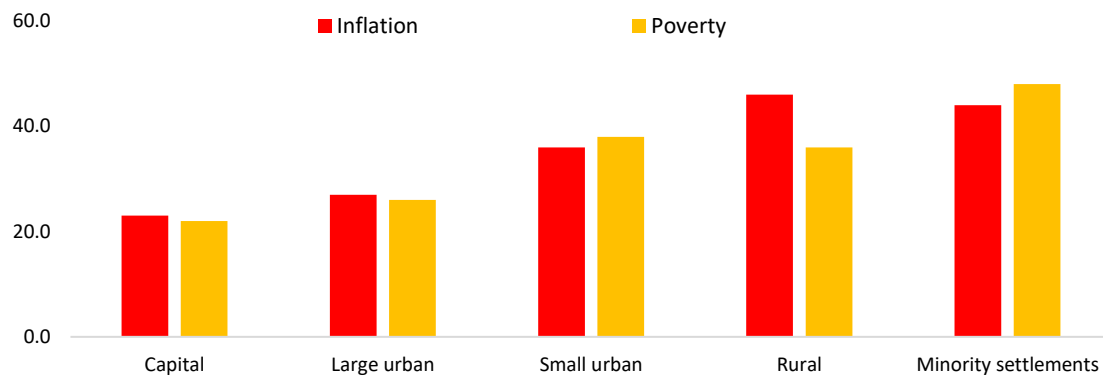
Source: National Statistics Office of Georgia, Author's calculation

Graph 4: Contribution of sectors to the economic growth in Georgia (P.P.)



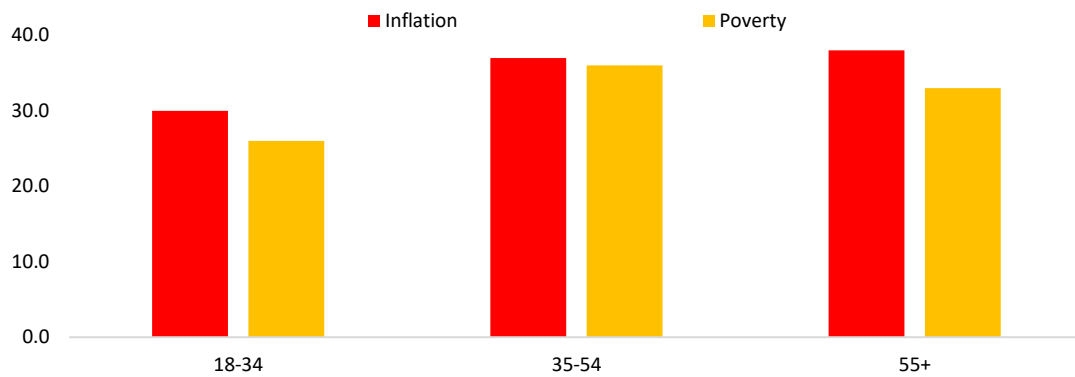
Source: National Statistics Office of Georgia, Author's calculation

Graph 5: Most important national issues by area (%)



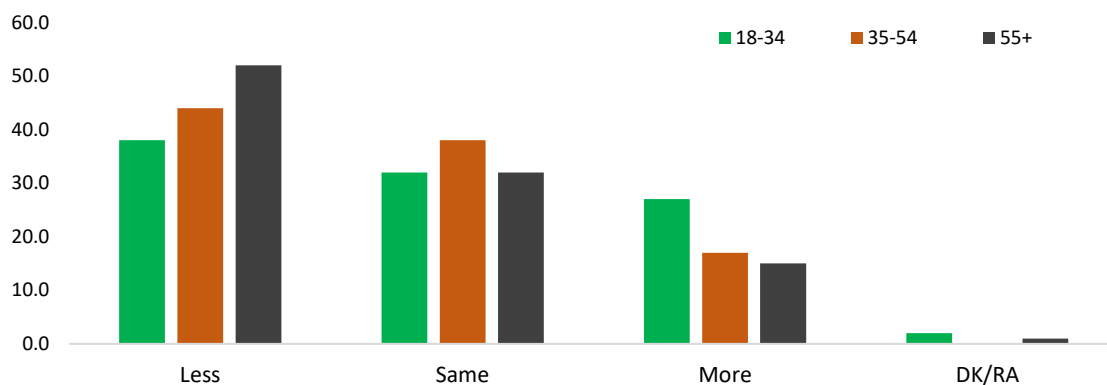
Source: CRRC, Public attitudes in Georgia, 2022

Graph 6: Most important national issues by age (%)



Source: CRRC, Public attitudes in Georgia, 2022

Graph 7: Compared to five years ago, financial ability by age (%)



Source: CRRC, Public attitudes in Georgia, 2022

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