

# FactCheck



## Nika Melia

“New jobs are not being created today, what we have is also being lost and this suspended economy is creating problems for the population.”

Nutsa TOKHADZE  
FactCheck

**N**ika Melia, Tbilisi's mayoral candidate from the United National Movement, stated the following at the rally of his party on 8 May 2014: “New jobs are not being created today and due to the feebleness of the government, what we have is also being lost. Undeveloped infrastructure and this suspended economy are creating problems for the population. The government is weak. We should make Tbilisi work and create jobs. We have a concrete plan for this.”

FactCheck took interest in the current economic situation of the country and verified the statement by the mayoral candidate.

According to GeoStat, 495,713 people are employed in the business sector based upon the data from the first quarter of 2014 while the number of employed people in the first quarter of 2013 is equal to 485,745. Accordingly, the number of employed people in the business sector in the first quarter of 2014 increased by approximately 10,000 or 2%. This information does not comply with Nika Melia's statement regarding the loss of jobs.

As for the statement about the suspension of the economy, according to GeoStat, it is true that there was 3.2% real growth in the economy in 2013, however, a real GDP growth of 7.4% was recorded in the first quarter of 2014 which implies a growth in the economy. The export indicator for the first quarter of 2014 is 23.1% higher and the import indicator is 16% higher than the same indicators from the corresponding period in the previous year. Accordingly, the number of Georgian products exported abroad in the first quarter of 2014 increased more than the volume of imported products. The turnout of VAT payer enterprises also increased by 16.1% in January, 12.4% in February and 19.6% in March.

Signs of business sector recovery were reflected in the budget's tax revenues. As is shown in Graph 1, the tax revenues in the first quarter of 2014 were equal to GEL 1,639,300 which is 5.5% more than the indicator from the previous year. Since 2010, the tax revenues have been increasing and the only exception is 2012 (the period of the Parliamentary elections) which showed a failure.

As for unemployment, GeoStat only publishes the annual unemployment rate. The unemployment rate for 2013 was published only on 27 May 2014; that is, 19 days after the mayoral candidate made his statement. As for the unemployment rate for 2014, this will only be published in 2015.

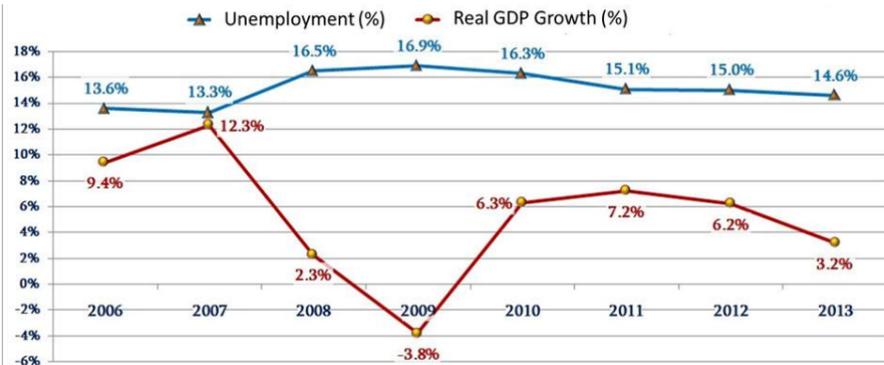
According to the data from GeoStat, the unemployment rate for 2013 was equal to 14.6% which is less by 0.4% (15%) as compared to the unemployment rate in 2012.

Despite the fact that the National Statistics Office of Georgia records unemployment based upon the methodology

Graph 1: Dynamics of the Indicators of Tax Revenues in the First Quarter



Graph 2: Unemployment and Real GDP Growth Rates



of the International Labour Organisation, the majority of experts consider that this figure does not correspond to reality and the unemployment rate is much higher than the figure from GeoStat (14.6%).

It should be noted here that the aforementioned level of unemployment in Georgia is a result of the large number of self-employed people. More citizens are trying to self-employ than in any other countries. This is influenced by the absence of a labour market and an unemployment insurance fund. It should be noted that the unemployment rate in cit-

ies and villages is significantly different from one other. According to GeoStat, the unemployment rate in cities in the previous year was equal to 30% while the figure was equal to 6.5% in villages. The reason for this kind of difference is that there are more employment opportunities in the villages due to the abundance of agricultural land. Everyone is considered self-employed if they have land or cattle and if they use agricultural products for sale or personal consumption regardless of what kind of income they have. According to the data from 2013, 63% of the

population is employed in agriculture while this sector has 9.3% in GDP. This implies that agriculture is characterized by low productivity and 63% of employed population has quite low income.

As for the previous years as it is illustrated in the Graph 2, we can see from the GeoStat data that since 2006 unemployment rate was decreasing until 2008, while since 2008 until 2009 (the unemployment rate reached its maximum level in 2009 with 16.9%). Since 2009 the unemployment has started to decrease again and this trend is still the same until now.

## CONCLUSION

According to the data from the first quarter of 2014, 495,713 people are employed in the business sector while the number of employed people in the first quarter of 2013 was equal to 485,745. Accordingly, the number of employed people in the business sector in the first quarter of 2014 was increased by 10,000 (2%). This implies that jobs have increased, even though in small quantities.

Real GDP growth rate in the first quarter of 2014 was equal to 7.4%. The export rate from the same period is 23.1% more and the import figure is 16% more than the indicators from the similar period in the previous year. Accordingly, the number of Georgian products exported abroad in the first quarter of 2014 has increased more than the volume of imported products. The turnout of VAT payer enterprises has also increased by: 16.1% in January, 12.4% in February and 19.6% in March.

Tax revenues in the first quarter of 2014 was equal to GEL 1,639,300 which is 5.5% more than the indicator from the previous year. As for the unemployment, the GeoStat is only publishing an annual unemployment rate and the statistics for 2014 have not been published yet. The unemployment rate in 2013 was equal to 14.6% which is 0.4 less than the unemployment indicator from 2012. At this point, FactCheck is unable to conclude whether the jobs have been decreased in the first half of 2014.

Accordingly, FactCheck concludes that Nika Melia's statement: “New jobs are not being created today, but what we have is also being lost and suspended economy is creating problems for the population”, is FALSE.



# FALSE

EUROPEAN  
ENDOWMENT OF DEMOCRACY

G | M | F The German Marshall Fund  
of the United States  
STRENGTHENING TRANSATLANTIC COOPERATION



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# The Sinking Cities Featured



## The FINANCIAL

**I**nsurers of large property portfolios in the world's great coastal cities will have factored the effects of climate change into their catastrophe models – including rising sea levels and more frequent storm surges. But what's often missed is that many of these cities are sinking faster than the water is rising. In some, subsidence outstrips sea level rise by a factor of ten to one, according to Lloyd's, the world's specialist insurance market providing insurance services in over 200 countries and territories.

Together with sea water inundation and flood damage, this can have disastrous consequences for the built environment – and property and business interruption insurers. The surge that overwhelmed New Orleans following Hurricane Katrina, and the subsequent cascading collapse of critical infrastructure, offered a glimpse of the sort of scenario underwriters fear. “We're going down and the sea is coming up,” said Gilles Erkens, of the Deltares Research Institute in Utrecht. “Potential losses could run into hundreds of millions of dollars every year.”

The causes are varied. Foremost is large-scale groundwater extraction for drinking water and industrial processes – although elsewhere, like Los Angeles, it is oil and gas extraction that is to blame. Some urban areas are also constructed on multiple layers of soft soil, which compacts when built on – one of the problems facing New Orleans, for instance, and a feature of megacities that spring up on river deltas, such as Guangzhou in south west China, according to Lloyd's.

One of the most severely affected cities was Tokyo, which grew rapidly in the middle of the last century and sunk over four metres as a result – until drastic remedial measures were put in place in the 1970s to restrict the extraction of groundwater. Since then the subsidence has stabilised. But from Jakarta and Dhaka to Venice, the risks are still all too real...

## JAKARTA, INDONESIA

Jakarta is subsiding faster than any other megacity. The northern part has sunk by nearly four metres in the last 35 years, mainly due to groundwater extraction as the population has mushroomed and former agricultural land has been taken over by massive residential and industrial developments, according to Lloyd's.

Across the city as a whole, Jakarta is sinking five to ten centimetres a year. The sub-

sidence has severely damaged buildings and infrastructure, increased flooding in densely populated areas, destroyed local groundwater systems and increased seawater intrusion. This has started to threaten key commercial districts of the city, where many major Asian, American and European companies are based. It is here that the largest insurance exposures will be concentrated, and one of the reasons the authorities are now taking action.

To help cope with the threat, the Dutch Government is giving \$4m for a feasibility study to build a dyke (levee) around Jakarta Bay, drawing on its experience of protecting its own coastal cities, such as Rotterdam. In January this year, the Indonesian Government also agreed to build two new dams and a 1.2 km flood relief tunnel. Plus, there are plans to expand the reservoirs that serve the conurbation of 28 million people that surrounds Jakarta, so that new restrictions can be imposed on the extraction of groundwater for both domestic and industrial use, according to Lloyd's.

## VENICE, ITALY

Venice sunk about 120mm in the 20th century due to natural and human causes. In addition, the sea level rose about 110mm. A range of measures – such as restrictions on groundwater extraction – were introduced to stabilise the problem. But recent satellite mapping suggests these may not be enough, as the city is still subsiding by one to two millimetres a year, according to Lloyd's. The causes are two-fold.

First, the Adriatic plate, on which Venice sits, is slowly sliding beneath the Apennine Mountains and causing the city and its environs to drop steadily. The area is also tilting by a millimetre or two eastward every year. The second cause is the restoration of its historic buildings: “When some people restore their buildings, they load them and they can go down significantly by up to five millimetres in a year,” Pietro Teatini, a researcher from the University of Padova, told the BBC.

Coupled with the threat of rising sea levels, estimated to be between three and ten millimetres a year, this persistent fall in ground level could prove a perfect storm for insurers.

And, unless there's better co-operation between property owners, authorities and commercial interests, it will hit Venice in the next decade, says the University of Padova's research team. Currently, a multi-billion dollar project to build new barriers that can be raised in the face of high tides is underway, according to Lloyd's.

# Vast Majority of Blacks View the Criminal Justice System as Unfair



The FINANCIAL

Michael Brown, an unarmed black teen was shot and killed by a police officer in a St. Louis, Missouri, suburb. Following the shooting, the predominately black city of Ferguson erupted into protests, prompting U.S. Attorney General Eric Holder to launch a federal investigation into the incident, according to Pew Research Center.

The shooting comes only weeks after the New York City Police Department was criticized for subduing a black man who later died in police custody. Both deaths have led to questions of whether discriminatory practices contributed to these incidents.

Blacks are much more likely than whites to say that blacks faced unfair treatment in dealing with police or in the courts, according to a 2013 Pew Research Center survey. And blacks perceived racial biases to be greater in the criminal justice system than in other institutions.

Seven-in-ten blacks said that blacks in their community were treated less fairly than whites in dealings with the police. In comparison, 37% of whites and 51% of Hispanics held that view. Also, 68% of blacks said that the court system was unfair to blacks, far more than whites (27%) or Hispanics (40%).

While half or more blacks said that blacks were treated less fairly than whites at work (54%) or at school (51%), those are still smaller percentages when compared with perceptions of unfair treatment by police or in the court system.

Additionally, younger black men are more likely to report unjust treatment by the police. Nearly one-quarter of black males ages 18-34 said they had been treated unfairly by the police in the last 30 days, according to a Gallup poll conducted June to July 2013. This represents a similar percentage with those 35-54 (22%), but double the rate cited for those 55 and older (11%), according to Pew Research Center.



## Zurab Japaridze

“I hope you don’t really believe that the Georgian economy is on an irreversible rising tide. The numbers which were published in November, December and January are the result of the so-called “base effect.” These months are compared to the same months of the previous year and that is why you have shown some growth.”



Nutsa TOKHADZE  
FactCheck

On 2 April 2014 at the Parliament’s plenary session, representative of the Minority, MP Zurab Japaridze, stated: “I hope you don’t really believe that the Georgian economy is on an irreversible rising tide. The numbers which were published in November, December and January are the result of the so-called “base effect.” These months are compared to the same months of the previous year and that is why you have shown some growth.”

The MP later made a similar statement on Rustavi2’s “Business Courier” where he discussed the “base effect” more extensively.

FactCheck took interest in the MP’s statement and verified its accuracy.

In economics and business, the “base effect”, or the low initial amount indicator effect, is a situation when a small absolute change from a low initial amount results in a bigger growth in percentage.

Let us take for an example two states – A and B (as in Table 1 above). The initial GDP of both states is GEL 100 million. In state A, the annual GDP growth is 20 units whereas in state B, the annual GDP growth for the first four years is 10 units and in the 5<sup>th</sup> year it amounts to 20 units. In the 4<sup>th</sup> year, the GDP of state A is equal to 180 units, while in state B – it is 140. In the 5<sup>th</sup> year, GDP change by 20 units results in 11.1% growth in state A and 14.3% in state B.

Despite the fact that the GDP growth in both states was equal to 20 units, the growth in percentage in the 5<sup>th</sup> year is higher in state B than in state A. At the same time, the GDP of state A is bigger at the end of the 5<sup>th</sup> year than the GDP of state B. Hence, in order to determine which one of the countries was more successful during the past five years, focusing on the percentage growth of only the 5<sup>th</sup> year is not the best option.

What Zurab Japaridze had in mind, when making his statement, was the low real growth of the Georgian GDP from the 4<sup>th</sup> quarter of 2012 to the 3<sup>rd</sup> quarter of 2013. He believes that the high GDP growth in the last quarter of 2013 and the 1<sup>st</sup> quarter of 2014 is the result of the “base effect” but, in reality, there is no growth.

Source: National Statistics Office of Georgia, geostat.ge

From Chart 1 it is clear that GDP growth rates in the last quarter of 2013 and the 1<sup>st</sup> quarter of 2014 are among the highest (based upon percentage change since the 1<sup>st</sup> quarter of 2012). Such high figures (4<sup>th</sup> quarter 2013 – 7.1% and 1<sup>st</sup> quarter 2014 – 7.4%) are indeed mainly due to the “base effect”, however the economic conditions in the country could have worsened so much that it would not have even this amount of growth.

In order to determine whether or not the economic condition of the country really improved, besides the changes in GDP percentage, we need to look into absolute GDP growth as well.

From Chart 2, it is clear that in the last quarter of 2013 and the 1<sup>st</sup> quarter of 2014 there was a substantial growth in [absolute] GDP (4<sup>th</sup> quarter 2013 – GEL 278.3 million, and 1<sup>st</sup> quarter 2014 – GEL 234.1 million).

If the GDP of the 4<sup>th</sup> quarter of 2013 and the 1<sup>st</sup> quarter of 2014 would stay the same and increase in the last quarter of 2012 and the 1<sup>st</sup> quarter of 2013, then, of course, growth – both absolute and in percentage at the end of 2013 and the beginning of 2014 – would be much less. However, the high level of the GDP at the end of 2012 and the beginning of 2013 would stimulate the economy and could trigger both absolute and percentage growth of the GDP in the last quarter of 2013 and the 1<sup>st</sup> quarter of 2014.

Category: Economy

Table 1: Example of “Base Effect”

State			I	II	III	IV	V
A	GDP	100	120	140	160	180	200
	Growth	-	20	20	20	20	20
	Growth in %	-	20.0%	16.7%	14.3%	12.5%	11.1%
B	GDP	100	110	120	130	140	160
	Growth	-	10	10	10	10	20
	Growth in %	-	10.0%	9.1%	8.3%	7.7%	14.3%

Chart 1

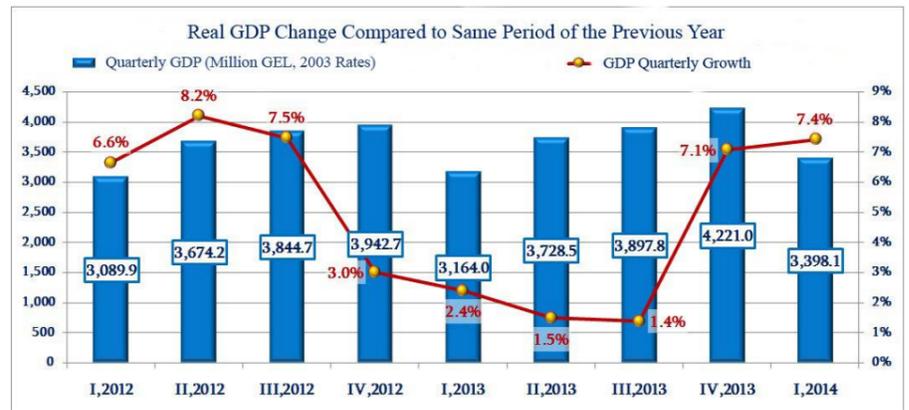
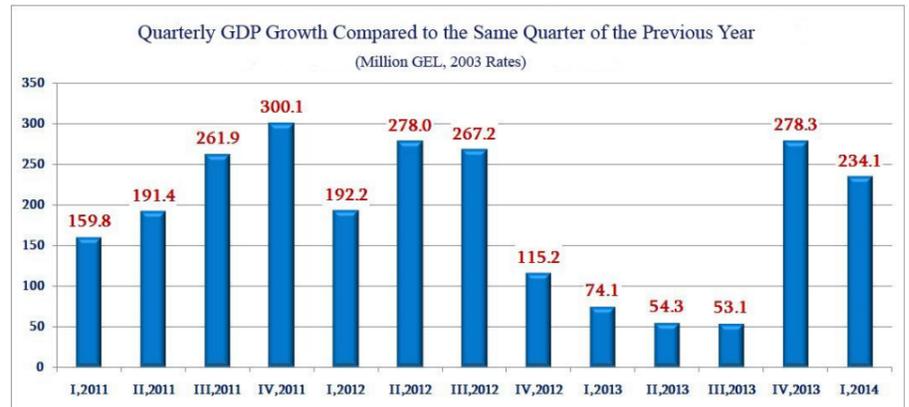


Chart 2



## CONCLUSION

In economics and business, the “base effect” or the low initial amount indicator effect, is a situation when a small absolute change from a low initial amount results in a bigger growth in percentage. If we take the example of two states, if the GDPs of both states grow with the same absolute amount, the state with the lower initial GDP will show a bigger growth in percentage.

From the above analysis, it is clear that both percentage and absolute growth was high at the end of 2013 and the beginning of 2014. In general, when the economy of a developing state begins to grow, its growth rate is usually higher than that of a developed country. This is another example of the “base effect”. Even though from the last quarter of 2012 to the 3<sup>rd</sup> quarter of 2013 (when the Georgian Dream coalition was already in power) Georgia had low real growth rates in GDP, at the end of 2013 and the beginning of 2014 (the Georgian Dream still being in government) the GDP growth rates started to rise. This rise is, indeed, somewhat due to the “base effect”, however the economic conditions in the country could have worsened so much that it would not have even this amount of growth. So, we definitely see tendencies towards improvement in the Georgian economy. The future will show whether or not these tendencies are irreversible.

We conclude that Zurab Japaridze’s statement, “I hope you don’t really believe that the Georgian economy is on an irreversible rising tide. The numbers which were published in November, December and January are the result of the so-called “base effect”.” These months are compared to the same months of the previous year and that is why you have shown some growth,” is **HALF TRUE**.

HALF TRUE

