



Georgian Economy Russia-Ukraine War Impact

Georgia | Economy
March 1, 2022

Georgian economy has track record of navigating different types of global and regional shocks relatively well. This is supported by a stable macroeconomic environment, prudent monetary and fiscal policies, a business-friendly environment, and a healthy banking sector. In the face of Russia-Ukraine war, we expect GDP to remain in positive territory growing by 3.0% in 2022 (revised downwards from our initial forecast of 5.0%) considering already imposed sanctions on Russia, and expect 1.0% contraction in worst case. Notably, central bank vowed to smooth market panic if it arises and government announced that it's working to minimize negative impact from external shock on the economy. We do not rule out upside in growth outlook as Georgia being a relatively stable destination may attract financial assets from the regional countries.

2022 growth scenarios

Despite unprecedented geopolitical situation, we expect external balance (goods trade, remittances, and tourism) to remain positive in 2022 even in the worst case scenario (scenario 2 discussed below) in contrast to the loss incurred in 2020 due to COVID pandemic (as tourism impact was more pronounced). However, compared to the initial forecast we estimate Georgia's external loss at US\$ 2.0bn in 2022. In worst case scenario we estimate exports and remittances to reduce by US\$ 520mn y/y, which is far below of US\$ 2.7bn y/y loss incurred from only tourism in 2020.

Table 1: External flows in different crises episodes

US\$ mn	2009 global financial crises	2015 Russia-Ukraine conflict and commodity price slump	2020 COVID pandemic	2022F Scenario 2
Tourism, US\$ mn change y/y	29	81	(2,727)	754
Remittances, US\$ mn change y/y	(160)	(360)	153	(54)
Goods exports, US\$ mn change y/y	(362)	(657)	(455)	(462)
Goods imports, US\$ mn change y/y	(1,826)	(1,298)	(1,466)	(504)
Net saving/loss (+/-) from above categories	1,333	362	(1,563)	742
Real GDP growth, %	-3.7%	3.0%	-6.8%	-1.0%

Source: NBG, Geostat, Galt & Taggart

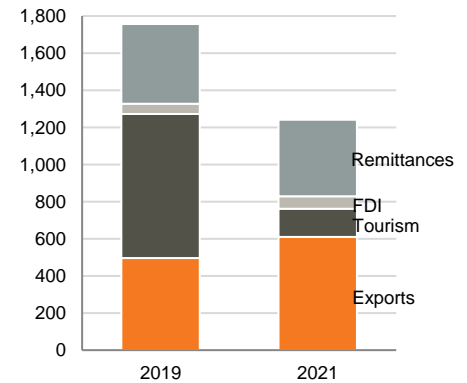
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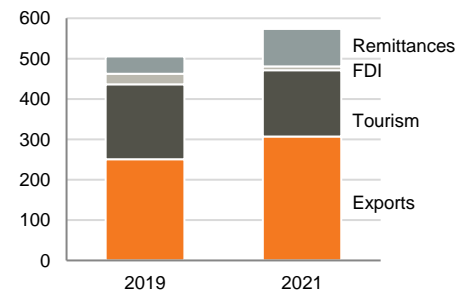
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Figure 1: Georgia's exposure to Russia, US\$ mn, 2021 vs 2019 (pre-COVID)



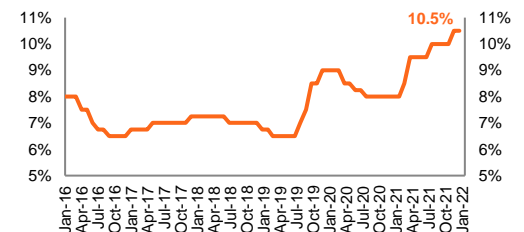
Source: Geostat, NBG

Figure 2: Georgia's exposure to Ukraine, US\$ mn, 2021 vs 2019 (pre-COVID)



Source: Geostat, NBG

Figure 3: Monetary policy rate



Source: NBG



Scenario 1, resolution of Russia-Ukraine war in 1-2 months: this scenario is based on current situation (EU/US sanctions on Russia throughout 2022, including SWIFT exclusion for some Russian banks, etc.) and assumes cease-fire between Russia-Ukraine to be reached. In this case we forecast GDP growth at 3.0% in 2022, GEL/1\$ at 3.25 and inflation at 7.0%. In this scenario, we assume tourism to recover at 75% of 2019 level (down from 85% recovery in our initial forecast).

Scenario 2, protracted resolution of Russia-Ukraine war: this scenario assumes additional sanctions on Russia (e.g. sanctions on Russian oil and gas) and protracted conflict. We expect economy to contract by 1.0% in 2022, GEL/1\$ at 3.4, and inflation at 9.0%. In this scenario, we assume tourism to recover at 60% of 2019 level (down from 85% recovery in our initial forecast).

Table 2: Growth scenarios in 2022

	2022 forecast		
	Initial	Scenario 1	Scenario 2
Real GDP growth, %	5.0%	3.0%	-1.0%
Inflation, average	4.9%	7.0%	9.0%
GEL/US\$, average	3.1	3.25	3.4
Monetary policy rate, eop	9.0%	10.5%	11.0%
Current account deficit, % of GDP	7.9%	9.5%	10.9%
Fiscal deficit, % of GDP	4.4%	5.0%	5.7%

Source: Galt & Taggart

We also see upsides to our growth outlook, considering Georgia being a relatively stable destination. As Georgia remains open for Russian visitors with limited other alternatives, we do not rule out growth in tourism arrivals despite worsened economic situation. Capital flows from regional economies may also grow considering Georgia's developed and stable financial sector.

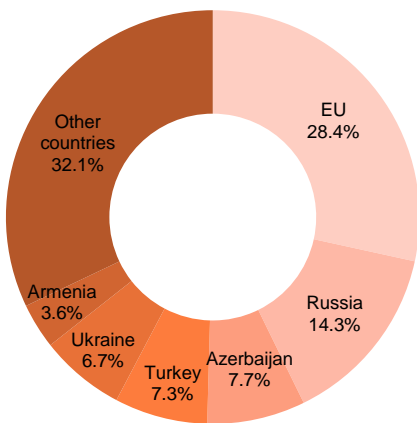
Georgia's exposure to Russia and Ukraine

All external flows (exports, remittances, tourism and FDI) from Russia and Ukraine to Georgia cumulatively accounted for 9.6% of GDP in 2021. The major negative impact expected from reduced exports to these countries (Russia accounted for 14.4 % of total exports and Ukraine for 7.2% in 2021), mostly commodities, wine, spirits and agricultural exports, followed by negative impact on tourism (Russia and Ukraine together accounting for 25.4% of total tourism revenues or 1.7% of GDP in 2021). Notably, Russia's share in remittances decreased significantly in recent years to below 20% of total in 2020-21 (c. 50 % of total during 2010-14 and c. 30% during 2015-19) and the reduced remittances expected to be compensated by inflows from other countries (mostly from EU, US and Israel). Meanwhile, FDI flows from Russia and Ukraine are generally very low (1-6% of total).



Financial linkages are very limited. There is only 1 bank linked to Russia in Georgia - VTB Bank Georgia (accounting for just 4.49% of total banking sector assets in Georgia). It has transferred its consumer loans and deposits portfolio to Basisbank after sanctions imposed by the EU/US on VTB over Russia's invasion of Ukraine. This transaction was announced by the National Bank of Georgia on 27 February 2022.

Figure 4: Exports, tourism, remittances and FDI by country in 2021, as % of total



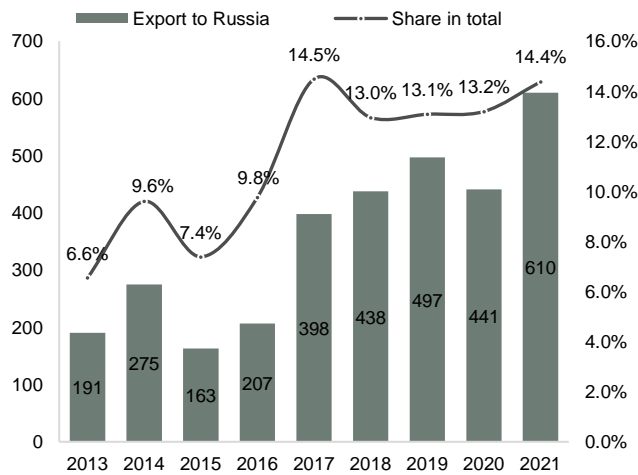
Source: Geostat, NBG, GNTA
Note: EU includes EU countries and the UK

Table 3: External linkages breakdown in 2021, share in each category

	Exports	Tourism	FDI	Remittances
EU	17.5%	13.7%	75.2%	41.6%
Russia	14.4%	12.2%	7.3%	17.5%
Turkey	7.6%	9.8%	10.4%	4.4%
Azerbaijan	12.5%	3.5%	-0.4%	3.6%
Ukraine	7.2%	13.2%	0.9%	3.9%
Armenia	6.1%	2.4%	0.8%	0.5%
Other countries	34.7%	45.3%	5.9%	28.4%

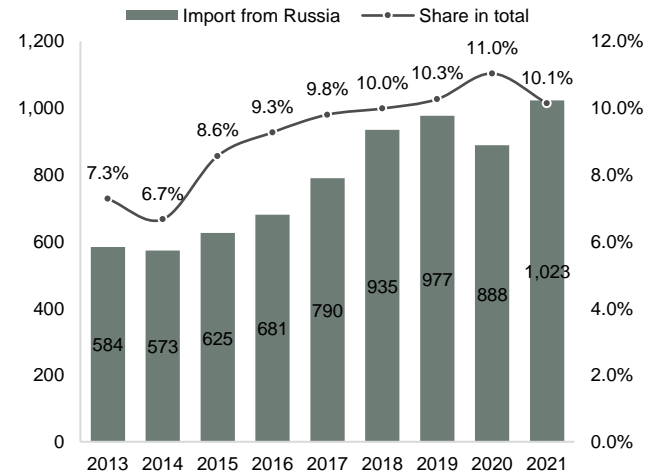
Source: Geostat, NBG, GNTA
Note: EU includes EU countries and the UK. FDI is for 9M21. Negative investment means a sale of shares or distributed profit

Figure 5: Exports to Russia



Source: Geostat

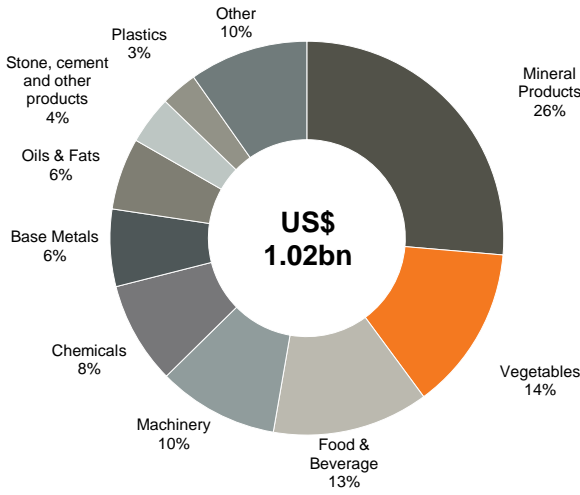
Figure 6: Imports from Russia



Source: Geostat

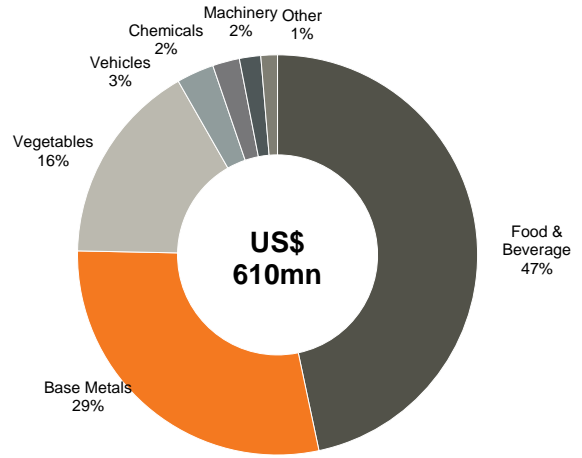


Figure 7: Imports from Russia by category, 2021



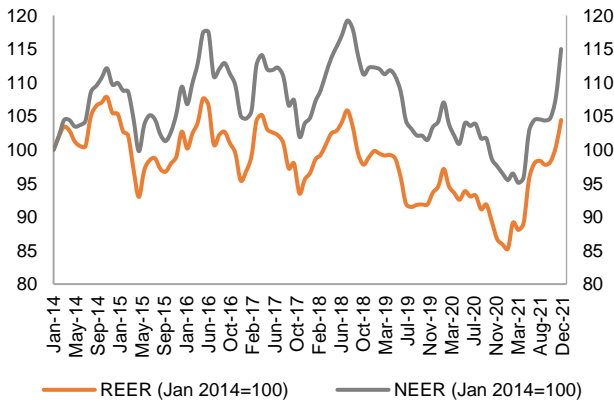
Source: Geostat

Figure 8: Exports to Russia by category, 2021



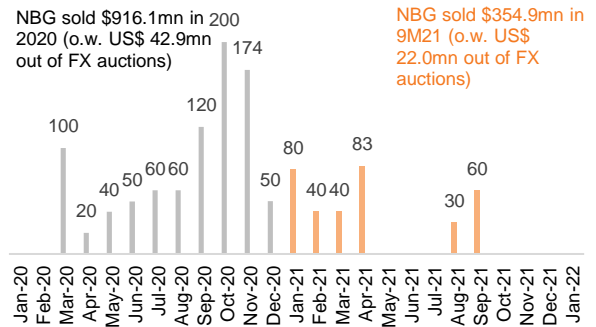
Source: Geostat

Figure 9: REER and NEER (index, Jan 2014 = 100)



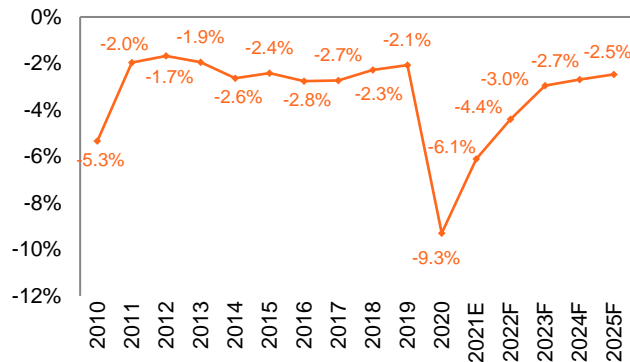
Source: NBG
Note: +/- means appreciation/depreciation

Figure 10: NBG's net interventions, US\$ mn



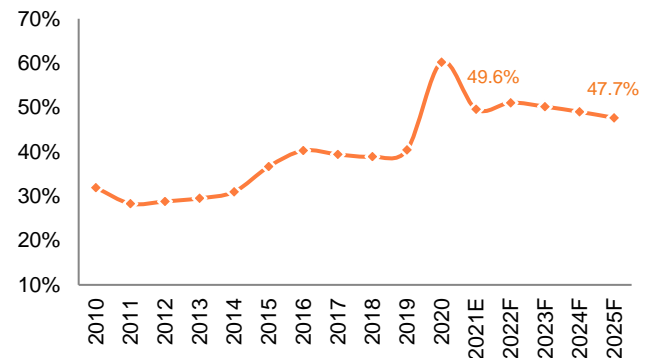
Source: NBG

Figure 11: Fiscal deficit, as % of GDP



Source: MOF, Geostat, forecasts as of 2022 budget law

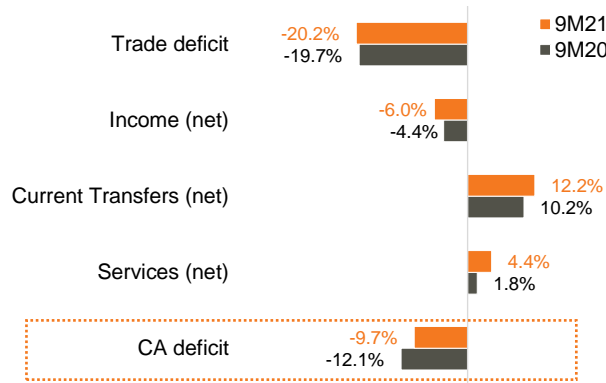
Figure 12: Public debt, as % of GDP



Source: MOF, Geostat, forecasts as of 2022 budget law

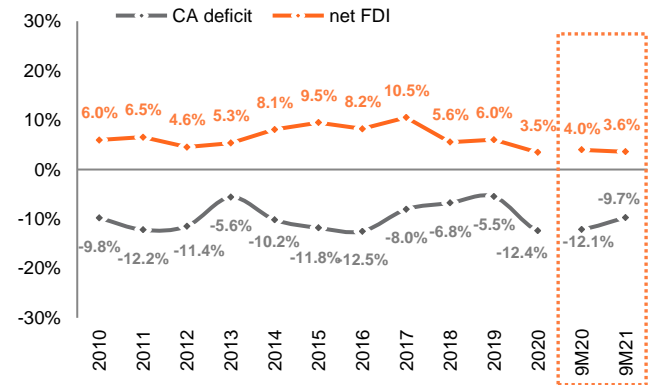


Figure 13: CA balance and its components, as % of GDP



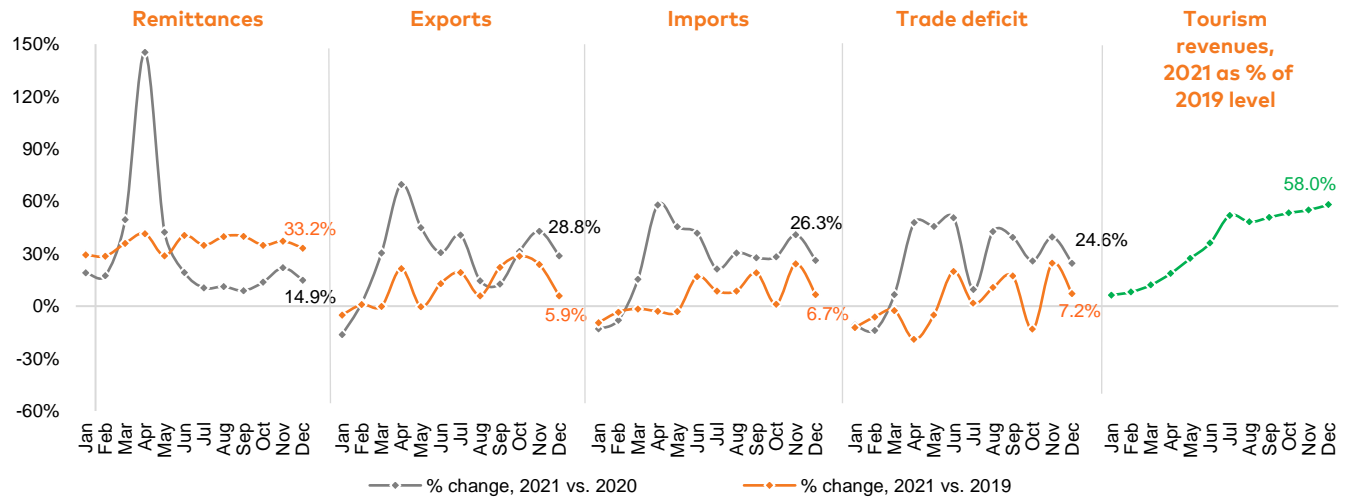
Source: NBG, Geostat

Figure 14: CA and net FDI, as % of GDP



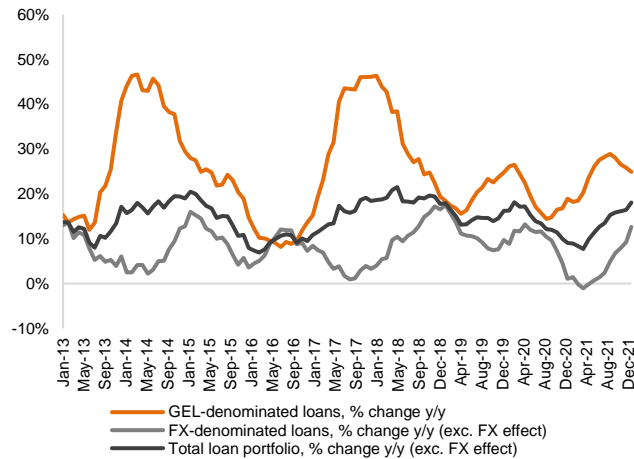
Source: NBG, Geostat

Figure 15: Foreign inflows



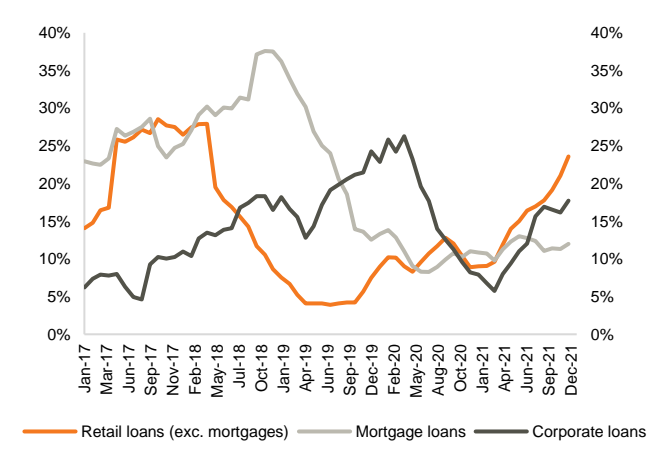
Source: Geostat, NBG

Figure 16: Banking sector loan portfolio growth, by currency



Source: NBG

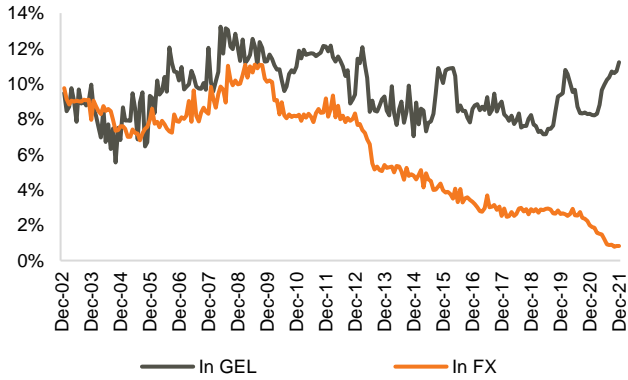
Figure 17: Loan portfolio growth, exc. FX effect



Source: NBG

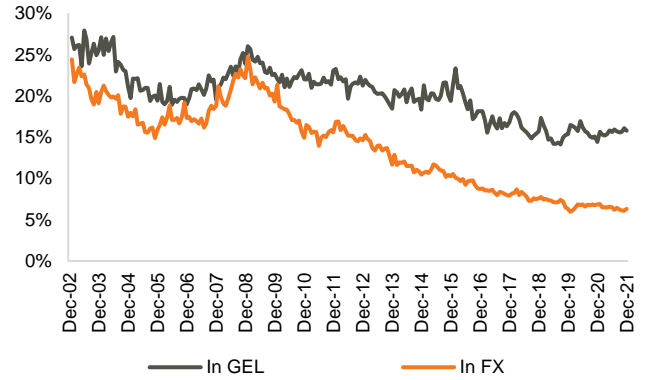


Figure 18: Market interest rates on bank deposits



Source: NBG

Figure 19: Market interest rates on bank loans



Source: NBG



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