Economic situation in Moldova, Georgia and Armenia in the context of the war in Ukraine and sanctions against Russia

Joint event by Ost-Ausschuss and German Economic Team
“The role of Moldova, Armenia, and Georgia into reshaping the supply chains”

Dr Ricardo Giucci, German Economic Team

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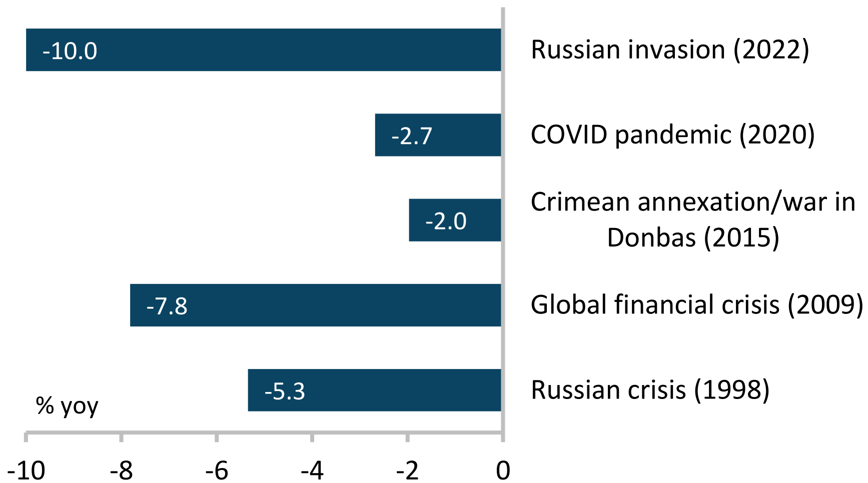
Economic outlook in Russia in 2022

Selected economic indicators

Indicators	2022
Real GDP growth, %	-10%
Nominal USD GDP growth, %	-34%
Inflation, % eop	20%
Exchange rate, RUB/USD	120

Sources: Goldman Sachs, CBR, own assumptions/calculations

Historic GDP declines



Sources: Rosstat, own calculations

Severe economic and financial damage

- The war has led to a wave of sanctions on Russia by Western countries
  - Significant impediments to trade (including logistics) as well as to foreign investments
  - Russia reacted by tightening financial conditions, e.g. emergency CBR rate hike to 20% p.a.
  - Material risk that RUS defaults, ratings only slightly above „Default" status

Still high uncertainty

- As war continues, new sanctions may follow & target the crucial energy sector

➢ **Russia's real GDP likely to decline by 10% in 2022, which is unprecedented in modern history**

Moldova

- **MDA economy** strongly hit by war in UKR and sanctions against RUS
- **Exports** are likely to drop by USD 190 m or 1.6% of GDP in 2022
- Strongest impact on apples (½ of total export drop) & medicaments (ca. ⅙)
- Apples and medicaments could be shipped to UKR; role of donors in financing
- Increase of EU tariff rate quotas (TRQs) for Moldovan plums, grapes and cherries would help to soften the shock
- **Remittances** from RUS to drop by USD 129 m or 1.0% of GDP in 2022; facilitation of labour access of Moldovans in EU would help
- Shock due to higher energy prices (3.5% of GDP); risk of disruption of RUS **gas transit** via UKR; in such a case, MDA could face sizeable electricity shortages
- Higher commodity prices (esp. food and energy) further fuel **inflation** in MDA; National Bank needs to combat inflation; no room for supporting the economy
- **Public finance** heavily burdened by weak economy and UKR refugees; budget deficit likely to amount to 7.5% of GDP in 2022

➢ **Strong balance of payments and fiscal shocks; need for donor support**

Georgia

- **GEO economy** is adversely affected, but the effect is not very large
- **Goods exports** are likely to drop by USD 65 m or 0.4% of GDP in 2022
- Effect relatively small as transport routes are not affected and there is strong potential for GEO to be substituting other suppliers
- Effects for **tourism revenues** are ambiguous, but the recent influx of Russians to Georgia present potential for additional revenues
- **Remittances** from RUS to drop by USD 210 m or 1.0% of GDP in 2022
- **Oil imports** to become much more expensive (additional cost of 2.1% of GDP), but no issue regarding energy security
- Higher commodity prices (esp. food and energy) further fuel **inflation** in GEO; National Bank needs to combat inflation; no room for supporting the economy
- **Public finance** affected by weak economy, but new IMF programme agreed

➢ **Limited economic shock for GEO**

➢ **Crucial factors for size of shock: oil prices and remittances**

Armenia

- **ARM economy** strongly affected by war in UKR and sanctions against RUS
- Significant drop in **exports** in 2022 expected: USD 244 m or 1.8% of GDP
- Strongest decline: **brandy** (USD 47 m) and further agro-food products (trout, tomatoes, peaches and cheese)
- **Remittances** from RUS likely to drop by 2.8% of GDP; strong shock
- Effect on **tourism** might be positive, due to influx of high-skilled Russians
- Neither **energy** security nor prices affected; ARM purchases Russian oil, which currently trades at a discount; gas contract with Gazprom covers full year
- Consequently, no negative effect of energy prices on **inflation**; despite this, need for maintaining tight monetary policy to anchor expectations
- **Budget deficit** likely to increase due to weaker economic outlook; possible sizeable emigration from RUS later this year would post a major challenge to fiscal policy; possible role for donors

➢ **Strong economic shock on ARM, mainly due to lower remittances and exports**

Summary and regional comparison

Economic implications of war in UKR and sanctions against RUS

	Effect on GDP, pp	Main reasons	Effect on inflation	Effect on fiscal policy	Need for int. support?
MDA	-4.2	Export, remittances, energy prices	Very strong	Very strong	Yes
GEO	-1.5	Energy prices	Strong	moderate	No
ARM	-3.7*	Export and remittances	Moderate	Likely strong	Probably

*Multiple sources; *excluding effect of supply constraints in copper industry*

Outlook for 2022

MDA

- GDP to grow by only 0.3%; high inflation of over 20% at its peak; stagflation
- On top: high budget deficit; very difficult year

GEO

- GDP likely to grow by 3.5%, but unclear situation regarding tourism
- So far positive outlook, despite current events

ARM

- GDP to increase by 1.6%
- Difficult year, especially if strong emigration from RUS takes place later in the year

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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