Escalation in Iran - Impact on Georgian Economy

Georgia | Economy
March 2, 2026

Escalation centered on Iran since 28 February 2026 has increased volatility in global energy markets and caused disruptions in regional airspace and maritime transport.

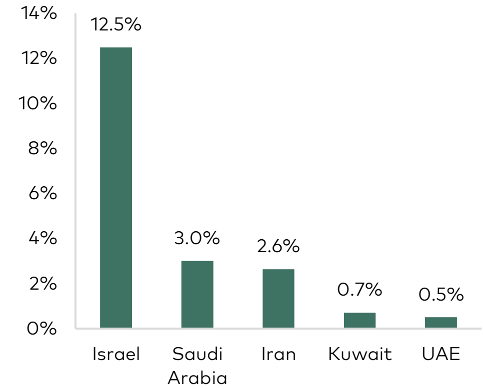
Georgia's direct economic links with Iran are limited accounting for 1.0% of Georgia's total FX inflows (exports, tourism, FDI and money transfers) in 2025. The 12-day Israel-Iran conflict in 2025 produced no measurable macroeconomic effects for Georgia, suggesting that short-duration and geographically contained escalations may result in limited spillovers. However, the current situation remains fluid, and economic implications will depend on how broadly tensions spread and how long disruptions persist.

Short-term scenario (see below scenario 1):
If tensions ease and disruptions remain limited, macroeconomic effects in Georgia are likely to be contained and temporary. Under a scenario in which the conflict continues for around one month, 2026 GDP growth could be lower by only 0.2 percentage points relative to our baseline projection of 6.0% growth.

Broader or prolonged disruption scenario (see below scenario 2):
If instability extends to other Middle Eastern countries - particularly affecting Gulf economies, Israel, major aviation hubs, or key maritime routes - the economic impact on Georgia could become more pronounced, but manageable.

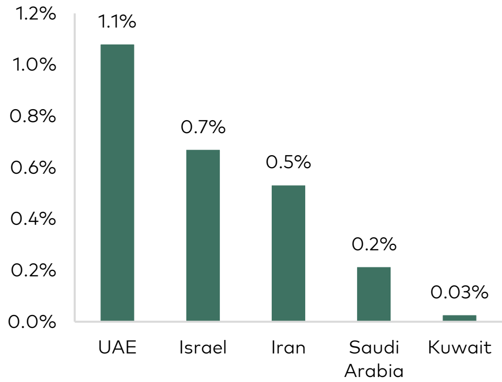
Selected Middle Eastern countries - Israel, Saudi Arabia, Iran, Kuwait, and the UAE - together accounted for tourism revenues equivalent to 2.4% of Georgia's GDP and goods exports equivalent to 0.5% of GDP in 2025. In addition, remittance exposure is concentrated primarily in Israel, amounting to 0.7% of GDP in 2025. Given the relatively limited share of these flows in Georgia's overall external receipts and as a share to GDP, the direct macroeconomic impact from these markets is expected to remain manageable under baseline assumptions.

Figure 1: Tourism revenues from selected Middle Eastern countries, share in total 2025



Source: NBG, Galt & Taggart

Figure 2: Goods exports to selected Middle Eastern countries, share in total 2025



Source: Geostat

In such a scenario, sustained higher oil prices, broader travel disruptions, and weaker tourism inflows from Israel and Gulf countries could moderate growth in 2026 and increase inflationary pressures through higher energy costs and potential exchange rate effects.

At the same time, several factors could partially cushion the impact. If instability persists in parts of the Middle East, some regional travel demand may shift toward alternative destinations, including Georgia. In particular, a portion of Russian tourists who typically travel to Gulf countries could redirect to Georgia. While this would not fully offset weaker inflows from affected markets, it could help mitigate the decline in tourism revenues.

In addition, a potential increase in migration from affected countries could provide support to domestic demand, including the real estate sector, thereby partially cushioning the impact on growth.

Under this broader disruption scenario, we estimate that Georgia's GDP growth could ease to around 4-4.5%, compared with a baseline projection of 6.0% in 2026, while inflation could rise to 4.2%, compared with a baseline of 3.0%.

We also do not exclude upside risk to the growth outlook. If regional uncertainty remains elevated, Georgia's relative macroeconomic and financial stability could attract some capital or asset inflows from affected countries. However, the scale and duration of such inflows are uncertain, and they are not incorporated into our scenarios at this stage.

<table>
<tr><th colspan="4">Scenario 1: Strike on Iran, calculations of impact on Georgian economy (duration 1 month)</th></tr>
<tr><th>Categories</th><th>Direct impact</th><th>Indirect impact</th><th>Total impact</th></tr>
<tr><td>Tourism</td><td>-$ 80mn</td><td rowspan="4">-$ 10mn</td><td rowspan="4">-$ 115mn</td></tr>
<tr><td>Money transfers</td><td>No impact</td></tr>
<tr><td>Goods exports</td><td>-$ 25mn</td></tr>
<tr><td>FDI</td><td>No impact</td></tr>
<tr><td>Inflation</td><td></td><td>If oil prices stabilize at around $80 per barrel and subsequently return to pre-war levels, Georgia's annual inflation would increase by approx. 0.1 percentage points.</td><td>Rise in inflation by 0.1 percentage points.</td></tr>
<tr><td>Economic growth</td><td>Negative impact on economic growth of approx. -0.2 percentage points.</td><td></td><td>Georgia's economic growth in 2026 will be lower by 0.2 percentage points relative to baseline projection.</td></tr>
<tr><td colspan="4">Source: Galt & Taggart</td></tr>
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<tr><th colspan="4">Scenario 2: Strike on Iran, calculations of impact on Georgian economy (prolonged conflict in 2026)</th></tr>
<tr><th>Categories</th><th>Direct impact</th><th>Indirect impact</th><th>Total impact</th></tr>
<tr><td>Tourism</td><td>-$ 600mn</td><td rowspan="4">-$ 100mn</td><td rowspan="4">-$ 840mn</td></tr>
<tr><td>Money transfers</td><td>-$ 50mn</td></tr>
<tr><td>Goods exports</td><td>-$ 70mn</td></tr>
<tr><td>FDI</td><td>-$ 20mn</td></tr>
<tr><td>Inflation</td><td>A decline in FX inflows could exert downward pressure on the GEL. If GEL depreciates by 5% against the U.S. dollar, this would increase inflationary pressures by c. 0.5-0.7 percentage points.</td><td>If oil prices stabilize at around $80 per barrel, Georgia's inflation would increase by approx. 0.4-0.5 percentage points.</td><td>Rise in inflation by 0.9-1.2 percentage points.</td></tr>
<tr><td>Economic growth</td><td>Negative impact on economic growth of c. -1.7 percentage points.</td><td>Negative impact on economic growth of approximately 0.2 percentage points.</td><td>Georgia's economic growth in 2026 will be lower by 1.9 percentage points relative to baseline projection.</td></tr>
<tr><td colspan="4">Source: Galt & Taggart</td></tr>
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Disclaimer

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