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RESEARCH

Iran Escalation: Fifty Days on - Assessing Georgia's Resilience

Georgia | Economy
April 22, 2026

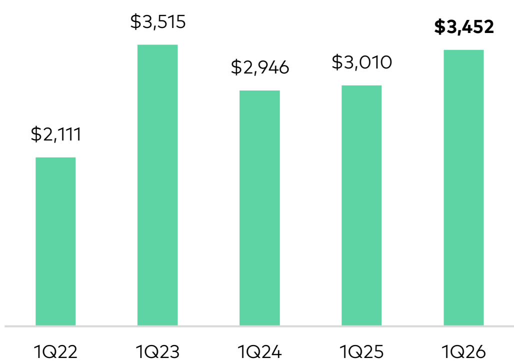
Nearly two months into the Iran escalation, the economic impact on Georgia has been milder than initially expected. In our 4 March note, we assessed Georgia's direct exposure to Iran at just 0.9% of total FX inflows (0.4% of GDP) and estimated that a short-lived conflict would reduce our 6.0% growth baseline by only 0.2ppts, with inflationary effects expected to be modest and temporary.

While the Iran escalation has persisted well beyond one-month, incoming data point to economic outperformance. In Mar-26, goods exports and remittances continued to grow year-on-year, tax revenues and VAT turnover - a real-time proxy for economic activity - remained robust, and the lari returned to an appreciating trend from mid-March. Based on these indicators, we estimate March GDP growth at above 6.0% y/y. Combined with 8.4% y/y growth in January-February, this implies a strong 1Q. As a result, we maintain our full-year 2026 growth forecast at 6.0%, as the Middle Eastern escalation has so far had limited spillovers into broader economic activity.

As anticipated in our 4 March note, tourism has been the most affected channel. Israel and Gulf countries together accounted for 17% of tourism revenues in 2025, and tourism receipts are estimated to have fallen by 32% y/y in Mar-26. However, this weakness has been offset elsewhere: goods exports rose by 24.0% y/y amid strong commodity prices, while remittances increased by 9.8% y/y in March. As a result, Georgia's external balance was broadly flat y/y in March and improved by US$280mn y/y over 1Q26. Under our baseline, a resumption of regional flights from May would support a meaningful tourism recovery.

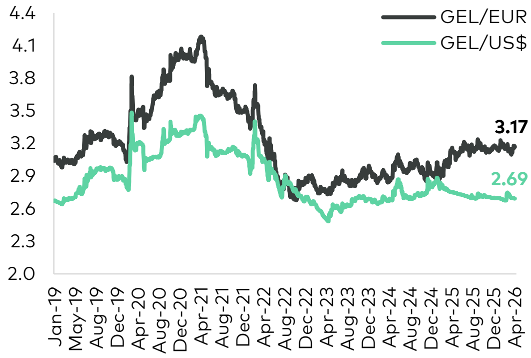
The geopolitical backdrop remains fluid. The two-week ceasefire agreed on 8 April between US and Iran was extended on 21 April with no fixed end date, while the US naval blockade of Iranian ports remains in place.

Figure 1: FX inflows (tourism, money transfers, exports), US$ mn



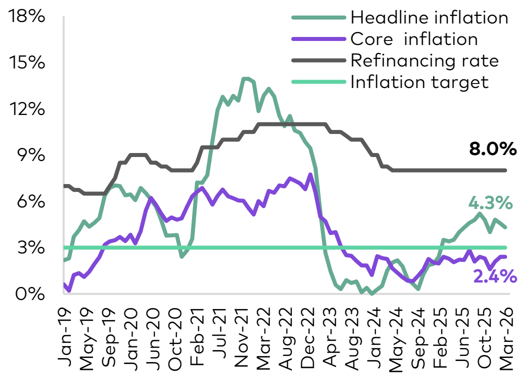
Source: NBG, Geostat

Figure 2: GEL/$ and GEL/€



Source: NBG

Figure 3: Inflation and refinancing rate



Source: NBG, Geostat

Key Indicators: Then vs. Now

Indicator	4-Mar-26 (our note)	22-Apr-26 (latest)
Conflict duration assumed	1 month	Ceasefire extended; no fixed end date
2026 GDP growth (baseline)	6.0%	8.4% in Jan-Feb; full-year maintained at 6.0%
2026 GDP impact (baseline)	-0.2ppts	No overall impact, only tourism affected
Tourism revenues	NA	+0.5% y/y to US$830mn in 1Q26; Mar -32% y/y
Goods exports (Mar-26)	NA	+24.0% y/y
Remittances (Mar-26)	NA	+9.8% y/y
Annual CPI inflation	3.0% expected for 2026	4.3% in Mar-26; revised to 4.2% avg for 2026
GEL/USD	Temporary pressure expected	Stable at 2.69-2.70; appreciating trend
Brent crude	Pre-war $70s	$90-100 range; down from $120 peak
NBG policy rate	Expected 7.5% by end-2026	8.0%; on hold through year-end

Source: Geostat, NBG, GNTA, Galt & Taggart

Tourism dynamics in 1Q26

International visitor arrivals were flat (-0.2% y/y) at 1.2mn in 1Q26, though overnight tourists rose 4.0% y/y to 1.0mn. Revenues rose by 0.5% y/y to US$ 830mn as a strong January-February more than offset an estimated 32% y/y decline in March. The source-market picture reflects the conflict clearly: arrival growth from Russia (+5.2%), Türkiye (+5.8%), Ukraine (+24.5%), China (+48.6%), and the EU (+30.2%) compensated sharp falls from Israel (-17.5%), Iran (–48.8%), and India (-29.5%, driven by IndiGo's flight suspension and disrupted connectivity via Middle Eastern hubs).

We expect low single-digit growth in tourist arrivals for full-year 2026. War-related headwinds - higher aviation costs, reduced flight capacity - are likely to persist through 1H26, shifting the arrival mix toward land-based visitors from neighboring countries. Our tourism revenue forecast stands at US$ 4.9bn (revised down from US$ 5.0bn), assuming the escalation ends in early May.

Oil Prices and Inflation

Oil prices have come down from their early-April highs but remain elevated and unpredictable. Brent is trading in the $90-100 range, well below the $120 peak but still about $20-30 above pre-war levels. The key factor is the Strait of Hormuz: a deal to reopen it would bring prices down; continued disruption keeps them elevated.

Before the Iran escalation, we expected Georgian inflation to average around 3.0% in 2026. Higher global oil prices are

feeding through to domestic costs, and the effect will be most visible in the April inflation data. On top of that, electricity tariffs in Georgia were raised on 1 April, adding further pressure on household bills. We now forecast average annual inflation of 4.2% in 2026 - higher than target, but still contained - falling back toward 3.0% in 2027.

This means interest rate cuts are off the table for this year. The NBG had been expected to start lowering its 8.0% policy rate in 2026. We now expect it to hold steady through year-end, with cuts only possible in 2027 once inflation is clearly coming down.

GEL Exchange Rate and Reserves

The lari is the fastest-moving signal of how markets are reading the conflict. Three things have kept it stable. **First**, the NBG entered the crisis with record international reserves of US$ 6.7bn. **Second**, overall FX inflows have continued to grow, with no deterioration in the external balance. **Third**, market sentiment has shifted - no longer panicking at the first sign of geopolitical stress.

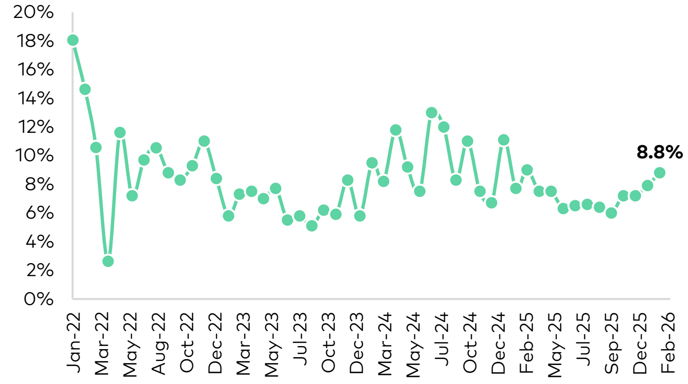
After a brief 2.7% depreciation in the first week of March, the lari recovered quickly and is now back on its pre-war appreciating trend at around 2.69-2.70 per dollar. Under our baseline scenario we expect it to stay stable.

The pattern of shrinking FX overreaction is now well established: COVID-19 in March 2020 (26% depreciation), Russia–Ukraine war in February 2022 (14%), the domestic political crisis of 2023-24 (4-6%), and the Iran escalation in March 2026 (2.7%). Speculative deposit conversions declined as the GEL recovered following recent shocks and this experience has gradually reduced panic-driven conversions.

Episode	Peak GEL depreciation	Deposit dollarization spike
COVID-19 (Mar-20)	26%	+4ppts
Russia–Ukraine (Feb-22)	14%	+1ppts
Domestic political crisis (2023–24)	4-6%	+5ppts
Iran escalation (Mar-26)	2.7%	+0ppt

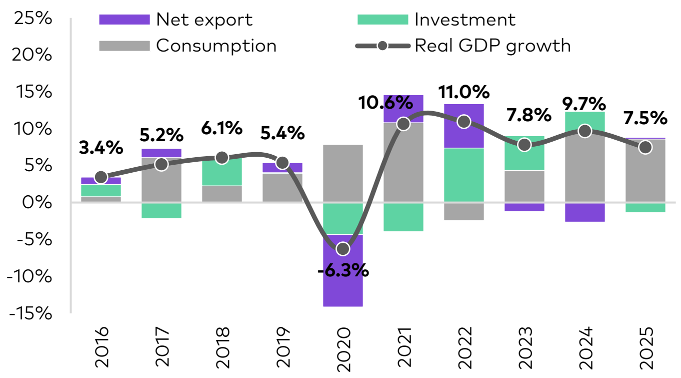
Source: NBG, Galt & Taggart estimate

Figure 4: Real GDP growth, % change y/y



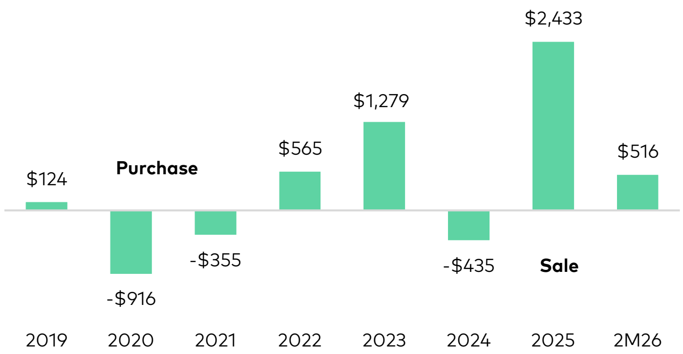
Source: Geostat

Figure 5: Contributions to real GDP growth, ppts



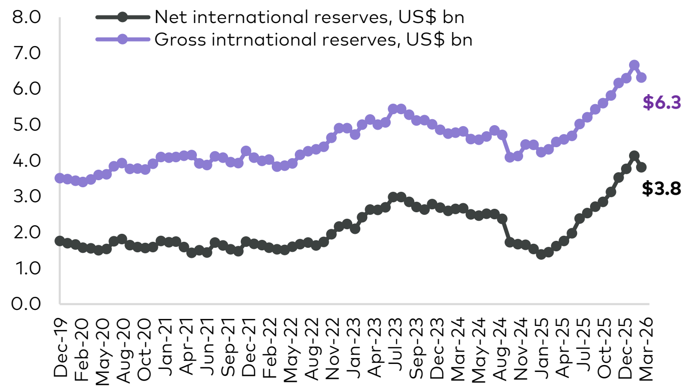
Source: Geostat, Galt & Taggart

Figure 6: NBG's net FX interventions, US$ mn



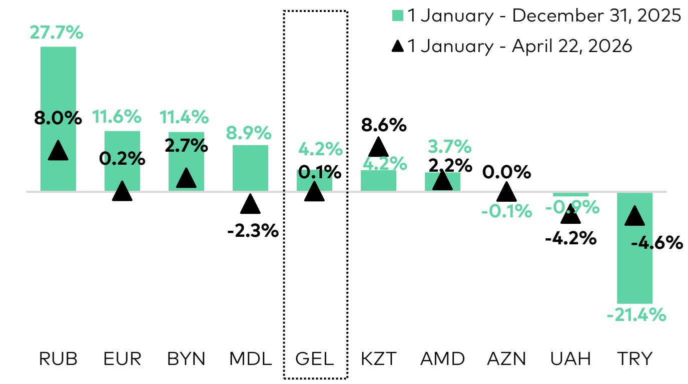
Source: NBG

Figure 7: NBG's gross and net FX reserves



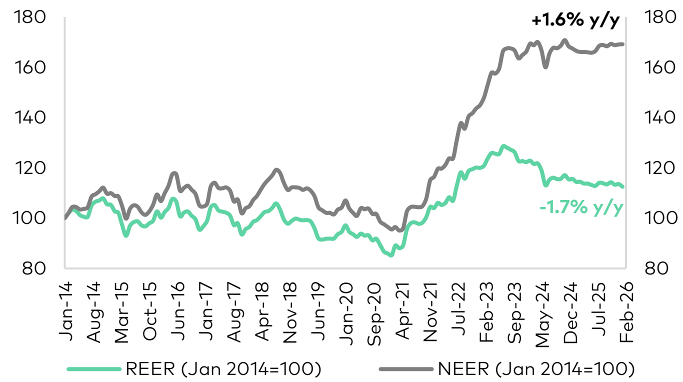
Source: NBG, Galt & Taggart

Figure 8: Regional currencies vs US dollar



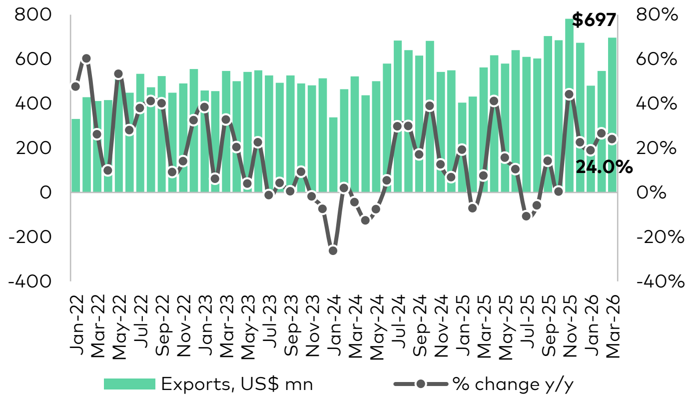
Source: NBG
Note: + means appreciation against dollar.

Figure 9: GEL's nominal and real effective exchange rates



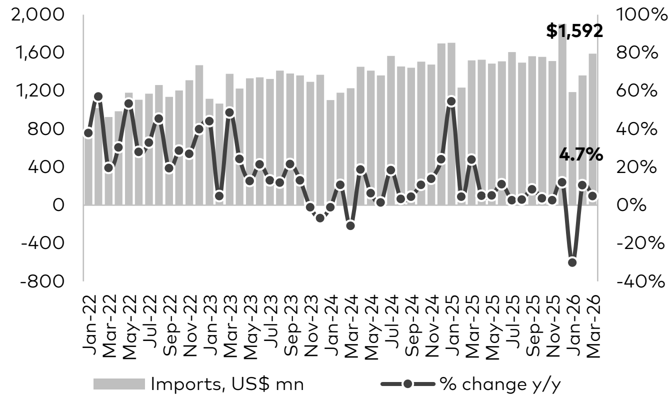
Source: NBG
Note: Index growth/decline means appreciation/depreciation of GEL

Figure 10: Goods exports



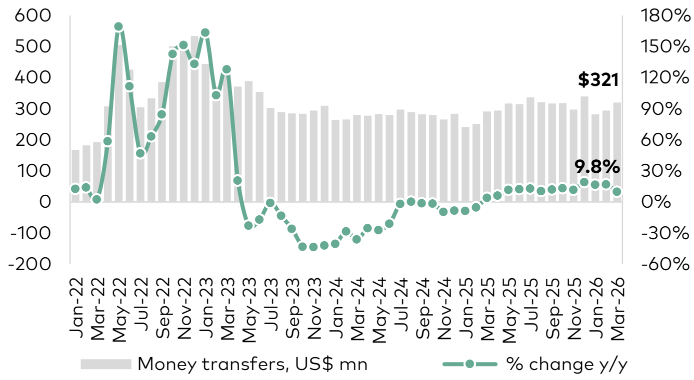
Source: Geostat

Figure 11: Goods imports



Source: Geostat

Figure 12: Money transfers



Source: NBG

Figure 13: Tourism revenues, US$ mn

Source: NBG

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