
The Impact of the Russia–Ukraine War on Georgia’s Financial System (2022–2025)

Maia Tetrushvili¹; Natia Kakhiashvili²; Khatuna Barbakadze³; Nato Kakashvili⁴

¹Candidate of Economic Sciences, Visiting Professor of Iv. Javakhishvili Tbilisi State University, Faculty of Economics and Business; ²Doctor of Business Administration, Assistant Professor, Iv. Javakhishvili Tbilisi State University, Faculty of Economics and Business; ³Candidate of Economic Sciences, Associate Professor, Iv. Javakhishvili Tbilisi State University, Faculty of Economics and Business; ⁴Candidate of Economic Sciences, Associate Professor, Iv. Javakhishvili Tbilisi State University, Faculty of Economics and Business

Abstract

The article presents a comprehensive analysis of the impact of the Russo–Ukrainian War on Georgia’s financial system. The study is based on macroeconomic and financial data from 2022–2025. It examines the dynamics of economic growth, the factors contributing to the appreciation of the Georgian lari, the increase in remittances, the profitability of the banking sector, inflationary pressures, and the response of monetary policy.

The paper concludes that Georgia’s financial stability during 2022–2025 was largely driven by temporary external inflows, which, in the long term, create risks of increased economic concentration and heightened geopolitical vulnerabilities.

Keywords: financial stability, foreign exchange inflows, remittances, banking sector, inflation, monetary policy.

Introduction

The Russia–Ukraine War, which began in February 2022, triggered significant geoeconomic changes worldwide. Large-scale sanctions imposed on Russia, shifts in capital flows, and migration movements substantially transformed the financial environment of the Caucasus region, including Georgia.

As a small and open economy, Georgia is integrated into the international trade and financial system, making it highly vulnerable to external shocks that are rapidly transmitted to domestic markets.

The present study aims to assess the impact of the war on the structural and functional elements of Georgia's financial system. The paper is based on a mixed research methodology, including descriptive analysis, forecasting assessment, and comparative analysis of Georgia, European Union member states, and selected Transcaucasian countries.

The study analyzes Georgia's macroeconomic indicators, such as gross domestic product (GDP), inflation, capital flows, and foreign exchange and banking markets. (The macroeconomic indicators for 2024 are based on official statistical data, while the figures for 2025 are largely projected estimates and may be subject to official revision.)

The findings demonstrate that economic growth in Georgia, in addition to real economic activity, has been significantly dependent on external factors.

The resilience of the financial system is ensured by institutional transparency, the quality of regulation, and the ability to adapt to external shocks. Structural diversification also represents a critically important factor and serves as a key prerequisite for long-term stability.

Macroeconomic Dynamics of Georgia in 2022–2025

Theoretically, external shocks affect countries with small and open economies through exchange rates, capital movements, and interest rates. Under a floating exchange rate regime, an influx of capital and foreign currency leads to currency appreciation, while outflows result in depreciation. Georgia's economy is characterized by a relatively high level of dollarization, which increases the impact of exchange rate fluctuations on financial stability.

Against the backdrop of the Russo–Ukrainian War, Georgia recorded high rates of real economic growth during 2022–2025.

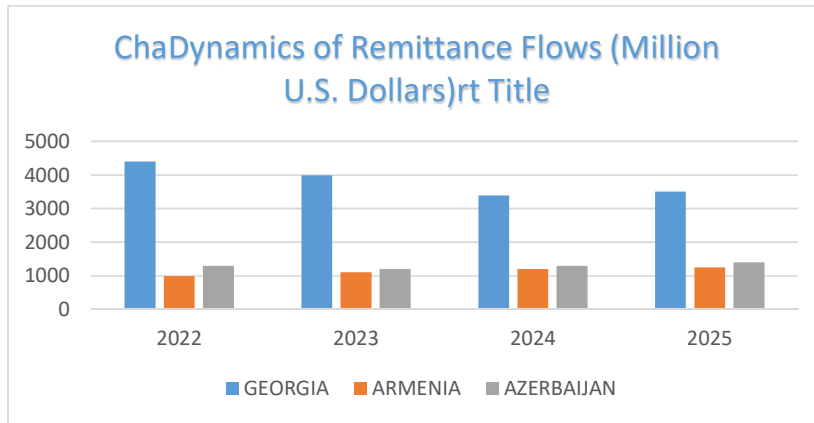
In 2022, real economic growth exceeded approximately 10 percent. The main drivers of this growth were the expansion of service exports, increased domestic consumption, and a sharp rise in foreign exchange inflows. This figure significantly surpassed the forecasts made prior to the war, indicating that the economic expansion was, to some extent, paradoxical, as it occurred amid a geopolitical crisis.

During the first months of the war, there were negative expectations regarding the Georgian lari, with concerns over depreciation. However, from the second half of the year, the currency began to appreciate. The growth of foreign currency inflows depended on the increase in remittances, visitors, and foreign investments in Georgia. It should be noted that today direct

foreign investments represent an important factor for the economic development of Georgia³²(Kakhniashvili, N., 2022), while the increase in remittances raised household incomes, consumption, and deposits.

Figure 1. - Dynamics of Remittance Inflows

Source: International Monetary Fund

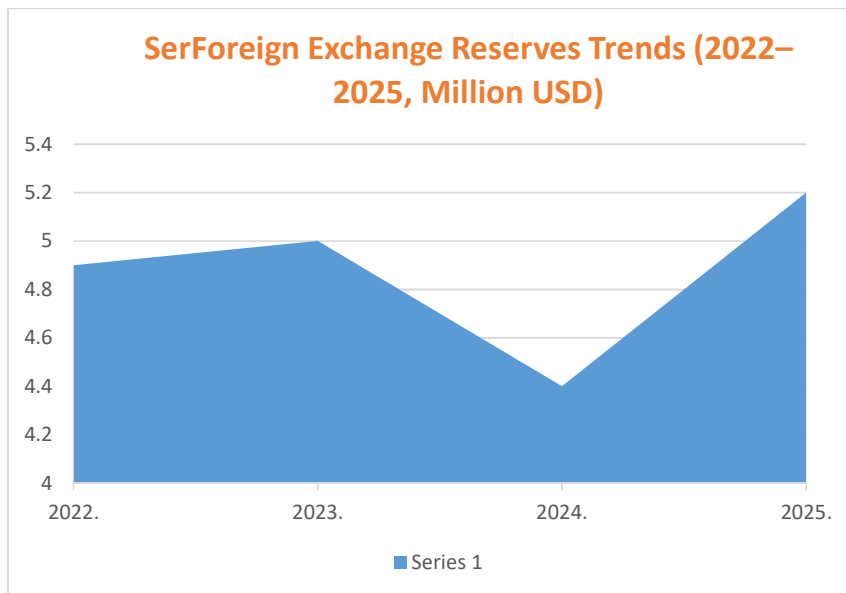


In 2022, the volume of foreign investment doubled compared to 2021.

Starting from 2022, Georgia’s international reserves began to grow significantly and exceeded USD 4 billion. This process indicates that exchange rate stability was largely based on external inflows rather than on structural improvements in exports.³³

Figure 2. - Dynamics of Foreign Exchange Reserves

Source: National Bank of Georgia



1.Kakhniashvili, N., in 2022

³³ <https://www.imf.org/en/countries/geo>

The Russia–Ukrainian War created significant uncertainty for the central banks and banking systems of many countries. The anticipated risks were largely negative in nature, which was reflected in investor sentiment and behavior across the region. As a result, global economic growth forecasts deteriorated, particularly for countries directly involved in the war and the related economic sanctions.

In 2022, credit activity within the Georgian banking sector remained stable, while economic growth indicators were sustained at a relatively high level.

Significant improvements were also observed in the financial performance of banks. From the beginning of 2022 until April, the National Bank conducted three swap operations as part of its monetary policy framework aimed at supporting the banking sector.

Despite the increase in compliance costs associated with sanctions and tighter operational controls, commercial banks continued to demonstrate overall financial stability and resilience.

The increase in deposits strengthened banks' funding base, while the expansion of the credit portfolio increased profitability. This, in turn, enabled the National Bank to reduce the interest rate on foreign currency reserves held by commercial banks at the central bank to zero. At the same time, the interest rate on reserves denominated in the national currency remained unchanged.

To reduce volatility in interbank interest rates and stimulate money market activity, the National Bank introduced an interest rate corridor. From March 2022, the overnight lending rate was set at 0.75 percentage points, while the overnight deposit rate was set at 1.75 percentage points.³⁴ Through this adjustment, the National Bank increased the relative attractiveness of interbank overnight deposits compared to overnight deposits held at the central bank.

In the same year, the collateral market for monetary operations utilized a range of instruments, including National Bank certificates of deposit; issuances by international financial institutions, specifically lari-denominated debt securities; government securities; lari-denominated securities issued by legal entities; commercial banks' loan assets; and other financial instruments.

The global inflationary wave also affected Georgia. Inflation reached double-digit levels. Monetary policy remained tight, with the refinancing rate maintained at a high level in order to contain inflationary expectations. This restrictive monetary policy moderated domestic demand; however, it strengthened macroeconomic confidence.

In 2023, the National Bank eased its monetary policy, which supported an increase in credit activity within the country. This was followed by a decline in market interest rates and,

3. National Bank of Georgia. Annual Report 2022.

consequently, an increase in the volume of loans issued by commercial banks. This development also stimulated aggregate demand.

In the same year, lending to the economy increased, supported by the stability of the country's financial system. As for the net international investment position, it deteriorated by USD 1,734 million compared to the previous year and amounted to negative USD 30,025 million.

According to the European Bank for Reconstruction and Development (EBRD), in 2024 the risks of economic slowdown remained high, driven by both external and internal factors. Despite this, the country's economy grew by 9.5 percent, exceeding the forecasted level. The main driving force of real GDP growth was domestic demand.

Inflation remained at 1.1 percent, representing a decrease of 2.5 percentage points compared to the previous year. The inflation rate was also significantly below the National Bank's target level of 3 percent.

Liquidity risk remains one of the most critical challenges for commercial banks, especially in the face of increased market volatility, changing customer behavior, and growing regulatory demands. Traditionally, liquidity risk has been managed through conservative methods, such as holding excess reserves, central bank support, and stress testing. However, the dynamic nature of modern financial systems requires the adoption of more advanced and data-driven strategies. (kakhniashvili, N, Barbakadze k, kakashvili N., 2025). In 2024, the level of dollarization in the country remained a significant challenge, reaching 52.3 percent by the end of the year.

The year 2025 was also significant in terms of structural changes in deposits. A shift of funds from current accounts to time deposits was observed. At the same time, the lariization rate improved significantly, increasing by 4.5 percent.

The level of dollarization in the assets of individuals remained below 20 percent. However, dollarization among legal entities remained a challenge, with the rate standing at approximately 68 percent.

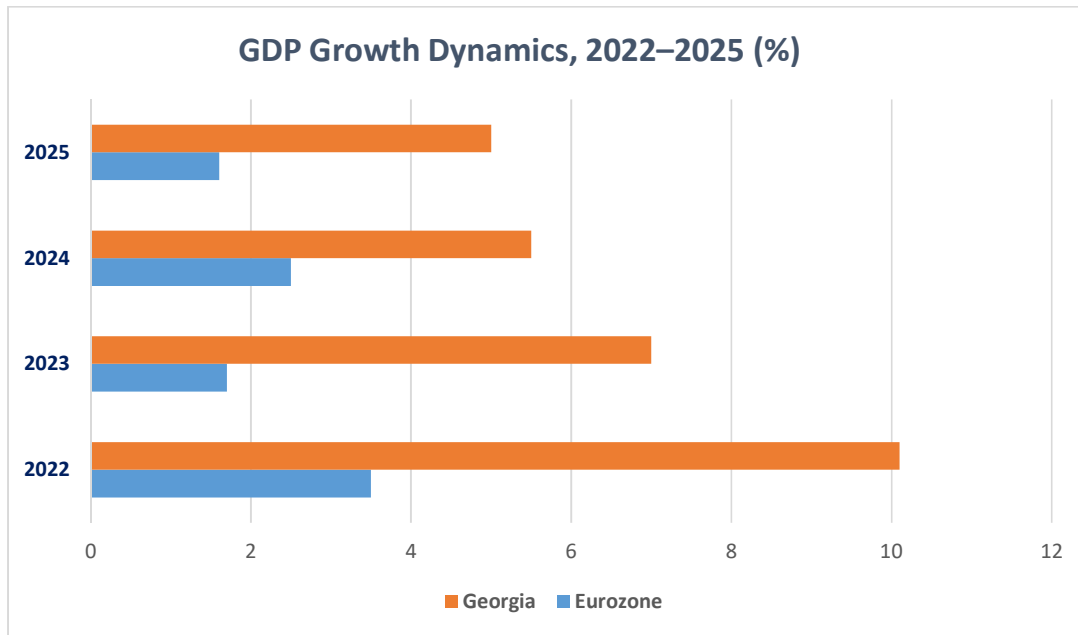
According to the international credit rating agency Moody's, the outlook for Georgia's banking system improved in 2025, shifting from negative to stable at the Ba2 rating level.

Amid the ongoing Russo-Ukrainian War, central banks in various countries continued to implement the tight monetary policies that had been introduced during the pandemic period.

The geopolitical situation created additional pressure on the global economy as a whole, particularly on the economies of countries directly involved in the war and participating in economic sanctions.

Figure 3. -GDP Growth Dynamics, 2022–2025 (%)

Note: The indicators for 2025 are approximate estimates for both Georgia and Eurozone countries.



Between 2022 and 2025, economic growth in European Union countries was characterized by a noticeable slowdown. In 2022, GDP growth averaged between 1.0 percent and 3.5 percent. In 2023, a sharp deceleration was observed, with growth ranging between 0.4 percent and 1.7 percent. In 2024, a partial recovery began, with growth recorded in the range of 1.1 percent to 2.5 percent. In 2025, according to preliminary estimates, economic growth stabilized within the range of 1.5 percent to 1.6 percent.

In Georgia, GDP growth followed a different trajectory: 10.1 percent in 2022, 7.0 percent in 2023, 5.5 percent in 2024, and an estimated 5.0 percent in 2025.

Conclusion

A comparative analysis of the economic dynamics of Georgia and the Eurozone during 2022–2025 demonstrates that the same geoeconomic shock can produce different effects across countries, depending on the structural characteristics of their economies and the degree of integration into the global financial system.

During this period, Georgia's economic growth significantly exceeded the average level observed in the Eurozone. This growth was primarily driven by inflows of foreign capital, increased remittances, and rising domestic demand.

Unlike Georgia, Eurozone economies during the war period experienced energy resource shortages, rising production costs, and inflationary pressures, all of which constrained economic growth.

These developments indicate that Georgia's economic growth was heavily influenced by exogenous factors that produced positive short-term effects.

Despite the high rates of economic growth, GDP growth has gradually normalized over the last two years, suggesting that a substantial portion of economic expansion was associated with temporary financial inflows.

In this context, Georgia's economic growth may be characterized as structurally mixed, where real economic activity and external financial factors jointly determine macroeconomic dynamics. However, dependence on external factors creates potential long-term risks for economic and financial stability.

References

1. Council on Foreign Relations. (2023). *The Russia-Ukraine war: Global implications*. <https://www.cfr.org>
2. International Monetary Fund. (2022). *Regional economic outlook*. International Monetary Fund.
3. Kakhniashvili, N. (2022). Directions for improving the investment environment in Georgia. In *Proceedings of the VII International Scientific Conference: Challenges of Globalization in Economics and Business* (pp. 227–233). Ivane Javakhishvili Tbilisi State University Press.
4. Kakhniashvili, N., Barbakadze, K., & Kakashvili, N. (2025). Modern approaches to liquidity risk management in the context of technological transformation. In *Proceedings of the International Scientific Conference: Georgia's Economic Security: Current Situation and Challenges* (pp. 262–267). Ivane Javakhishvili Tbilisi State University Press.
5. Liu, T.-Y., & Lee, C.-C. (2025). Impacts of the Russia–Ukraine war on energy prices: Evidence from OECD countries. *Policy Studies*, 46(3), 460–492.
6. Ministry of Economy and Sustainable Development of Georgia. (n.d.). <https://www.economy.ge>
7. Ministry of Finance of Georgia. (n.d.). <https://www.mof.ge>
8. National Bank of Georgia. (2022). *Annual report 2022*.
9. National Bank of Georgia. (2023). *Annual report 2023*.
10. National Bank of Georgia. (2024). *Annual report 2024*.
11. National Bank of Georgia. (2025). *Annual report 2025*.
12. National Bank of Georgia. (n.d.). *Financial stability reports*.
13. National Statistics Office of Georgia (Geostat). (n.d.). <https://www.geostat.ge>
14. Parliamentary Budget Office of Georgia. (2024). *Annual report 2024*.
15. World Bank. (2023). *Europe and Central Asia economic update*. World Bank.