

Economic outlook in Moldova, Georgia and Armenia in the context of the war in Ukraine: regional comparison

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Outline

1. Three regional shocks in the context of the war in Ukraine
 - i. Energy price increase
 - ii. Weakening of RUS economy
 - iii. Migration
2. Magnitude of shocks and macroeconomic implications
 - Moldova
 - Georgia
 - Armenia
3. Regional comparison

1. Three regional shocks in the context of the war in Ukraine

Topic of the analysis

- War in UKR has significant implications for the CIS region
- In this analysis: economic implications for MDA, GEO and ARM based on several GET studies
- Focus: implications of three shocks in the context of the war
 - i. Energy price increase
 - ii. Weakening of RUS economy
 - iii. Migration

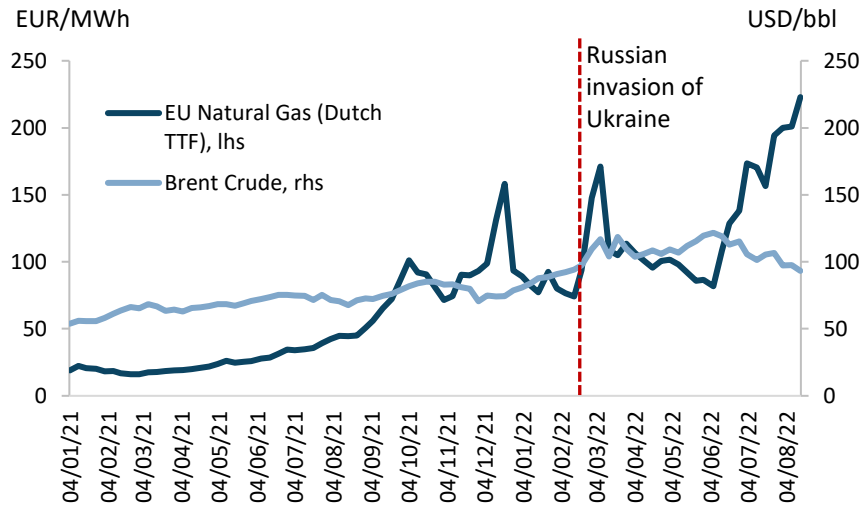
Structure of the analysis

- Description of the three external shocks
- Analysis of the magnitude of these shocks and their macroeconomic implications for MDA, GEO and ARM
- Regional comparison

Note: additional GET publications on the impacts of the war on Central Asian countries (UZB, KAZ, KGZ, TJK) forthcoming

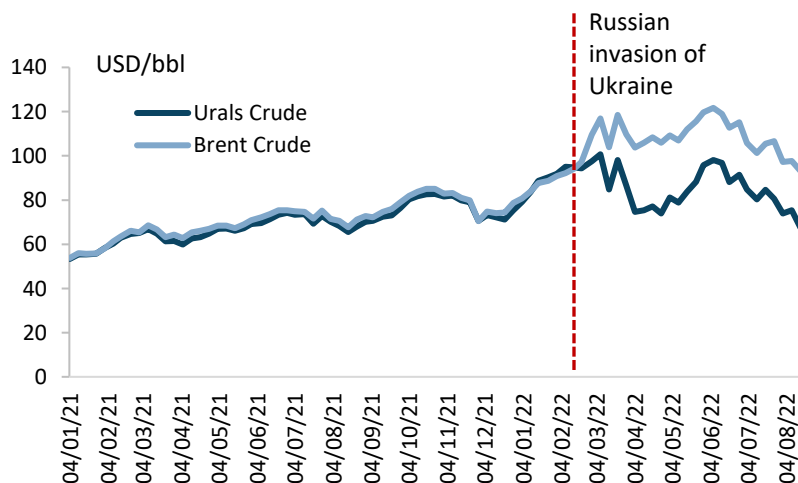
i. Energy price increase

Oil and gas prices



Source: Investing.com

Brent Crude vs. Urals Crude



Source: Investing.com

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Change in energy prices

- Strong increase in gas and oil prices, both regionally and globally

Potential shock in the region

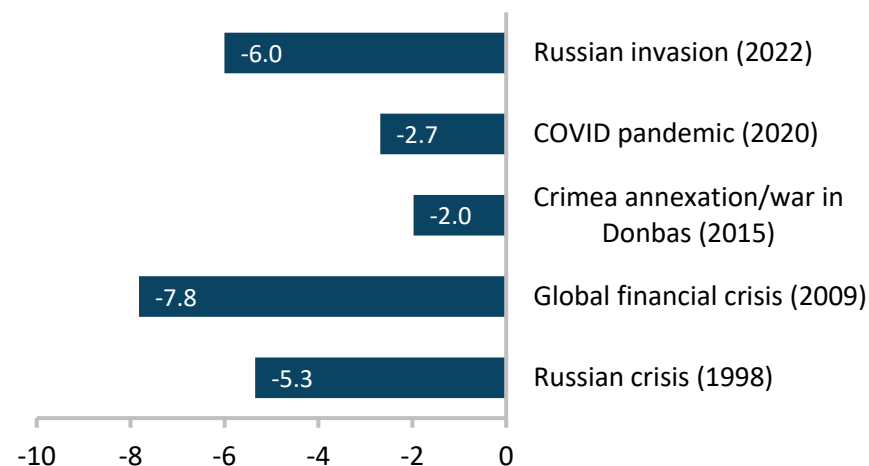
- High energy consumption in the region
- Additionally: private households spend a considerable share of their income on energy
- Potential impact: negative effect on GDP, public finances and inflation

However: differentiated analysis required

- Some countries have long-term gas contracts at fixed prices
 - Also: price of Russian oil (Urals Crude) increased much less than for Brent Crude
- **Potential negative impact on the region, but no automatism**

ii. Weakening of RUS economy

Historic GDP declines



Sources: Rosstat and IMF July 2022 forecast

RUB/USD exchange rate



Source: CBR

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Russian economy in 2022

- Strong GDP decline
- RUS rouble strong, but supported by massive restrictions

Potential shock on the region

- Decline of exports to RUS
- Reduced remittances from RUS
- Decline in tourism from RUS

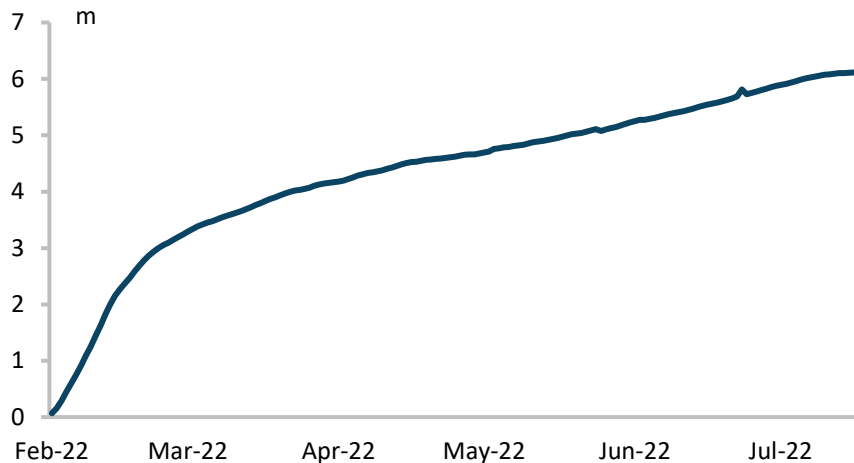
However

- Some countries are able to substitute for western exports to RUS
- In some countries, exchanging roubles is easy; no restrictions

➤ **Impact ex-ante not clear; country-specific analysis is needed**

iii. Migration

Migration from UKR



Source: UNHCR; Note: net emigration figures

Migration from Ukraine

- Many people have left Ukraine due to the war (net: > 6 m)
- Of these, many fled to countries in the region

Potential risk

- Higher public expenditures and expansion of budget deficit / public debt

However

- Countries in the region are affected in different ways
- In addition: many people from RUS and BLR have also left their countries
- In general, these are remote workers with high salaries
- In this regard: positive shock also possible

➤ **Ex-ante no assessment possible; country-specific analysis needed**

2. Moldova: magnitude of external shocks

i. Energy prices

- Unfavourable starting point
- High dependence on RUS gas for heat and electricity generation
- In addition: until Sep-21 gas prices relatively cheap

ii. Impact of weak RUS economy

- Exports: Decline in exports to RUS so far smaller than expected, but significant for some products, especially apples and medicines
- Balancing out through strong exports of agri-food products to other countries
- Remittances: reduction 0.8% of GDP possible

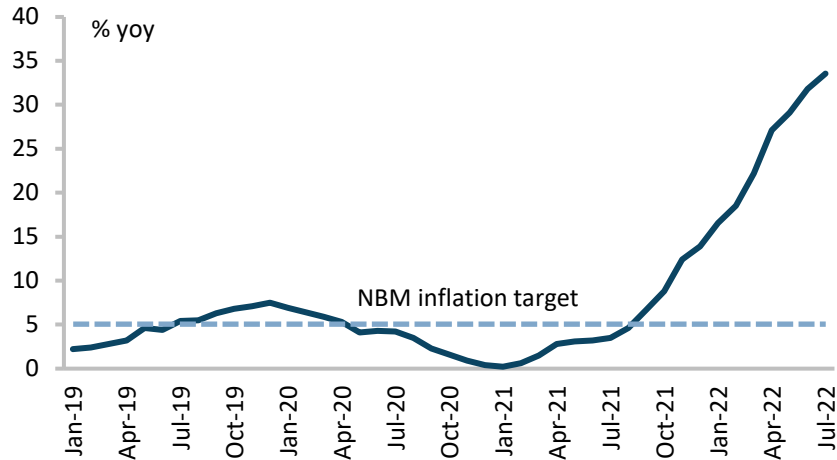
iii. Migration

- High number of refugees from UKR
- Total: > 500,000 with own population only 2.6 m
- In the country today: ca. 75,000

➤ **MDA severely affected by all three shocks; main problem: energy price shock**

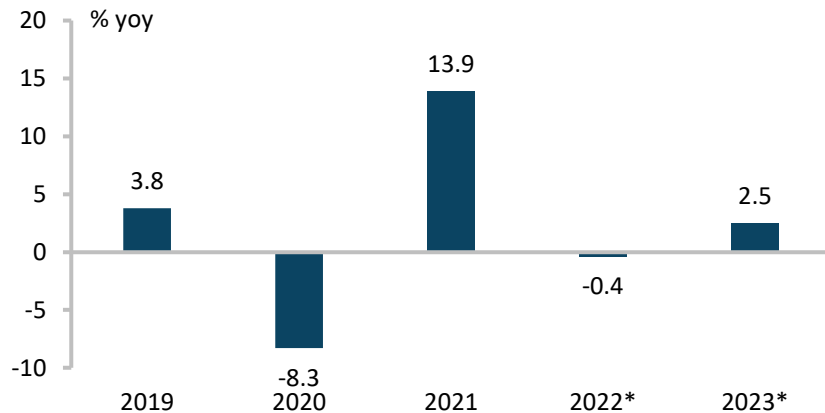
Moldova: macroeconomic implications

Inflation (CPI)



Source: National Bank of Moldova

GDP



Sources: IMF, GET, *own estimate/forecast

Inflation

- Rapid increase in inflation; Jul-22: 33.6%
- Driver: food prices, but also energy

Public finances

- High expenditures for energy subsidies
- But also for refugees from UKR

GDP

- Decline of GDP likely
- Own forecast: -0.4% for 2022

- **Stagflation and difficult fiscal situation**
- **MDA strongly affected by war in UKR**

Georgia: magnitude of external shocks

i. Energy prices

- Gas is imported based on long-term contracts in connection with the transit pipeline from AZE; little impact
- But: negative impact of higher oil prices; 2.1% of GDP

ii. Impact of weak RUS economy

- Little impact on exports; reduction of 0.4% of GDP expected
- Possibly no reduction at all since GEO is able to substitute some western exports to RUS (esp. wine and water)
- Remittances could decline by 0.8% of GDP
- Tourism likely to be negatively affected

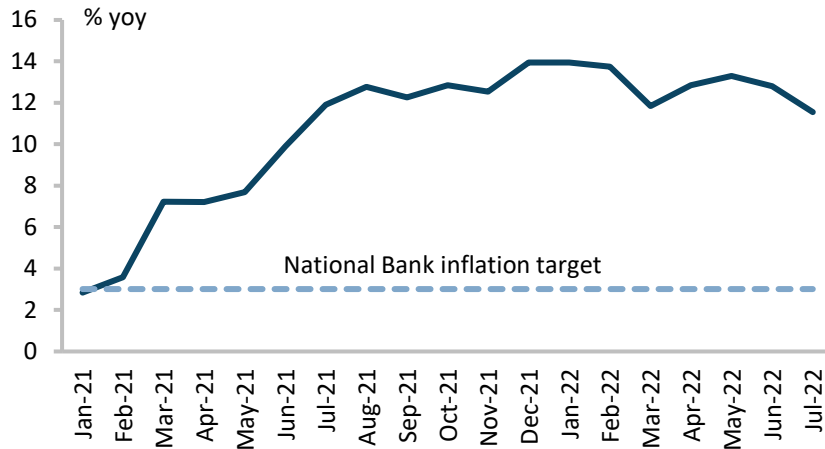
iii. Migration

- Only a few refugees from UKR
- But: influx of approx. 45,000 “remote workers” from RUS/BLR
- Positive economic effect; add. consumption expenditures of ca. 1.8% of GDP

➤ **Higher oil prices, but positive migration shock; overall little impact**

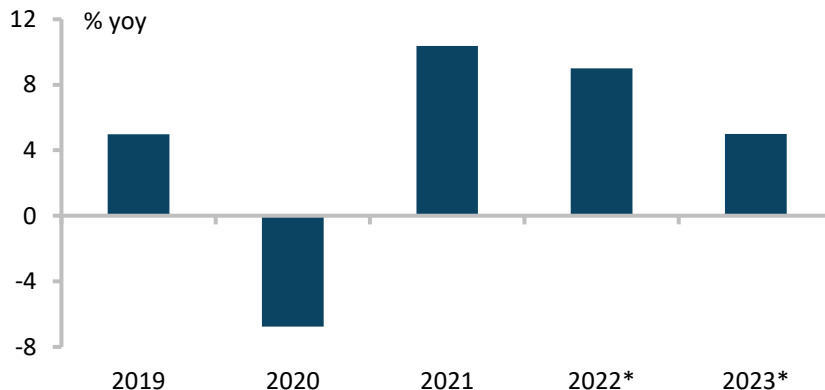
Georgia: macroeconomic implications

Inflation (CPI)



Source: National Bank of Georgia

GDP



Sources: Geostat, National Bank of Georgia; *estimate/forecast

Inflation

- Inflation is high, but under control
- Stable gas prices contribute to stabilisation of inflation

Public finances

- No impact; deficit: 3.6% of GDP

GDP

- Before the war: forecast of 5.0% growth
- Right after start of war: adjustment to ca. 3.5%
- Now: readjusted again, but up this time due to positive shocks
- Current forecast: 9.0%, significantly higher than in February 2022

➤ **Essentially no negative macroeconomic impact on Georgia; instead positive shocks**

Armenia: magnitude of external shocks

i. Energy prices

- Gas: high exposure towards RUS; but: prices in contract with Gazprom fixed until end of the year; so far no impact
- Oil: as a member of the EAEU, ARM mainly buys oil from RUS; but, price for RUS oil did not increase much

ii. Impact of weak RUS economy

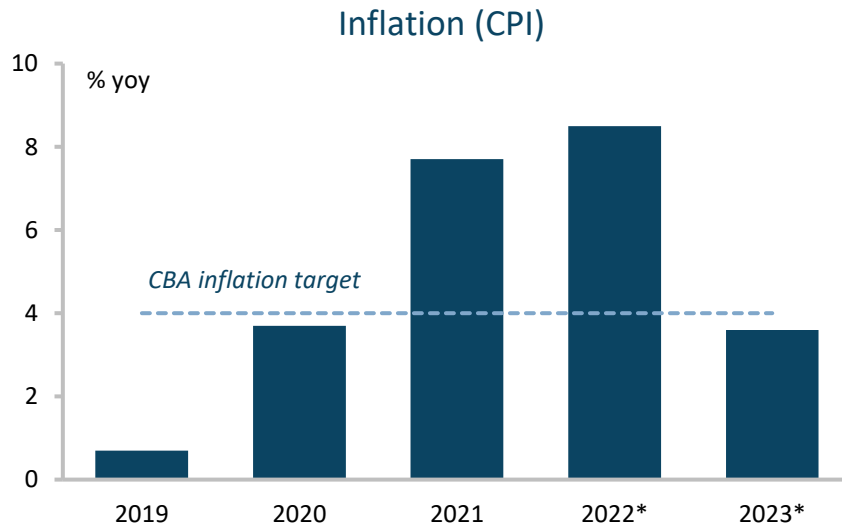
- Strong economic interconnection with RUS; high exposure
- Ex-ante: decline in exports and drop of remittances expected
- Ex-post: significant increase of exports to RUS (6M2022: +48%)
- Possible reasons: strong substitution of western exports to RUS, liquid market for exchange of roubles to dram (no discounts when selling rouble)
- Strong increase in tourists from RUS
- Effect on remittances currently unclear; likely to be rather small

iii. Migration

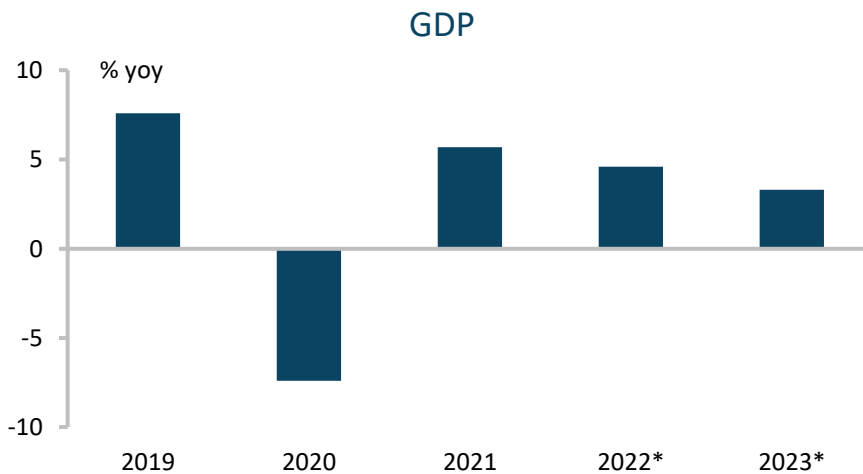
- High influx (ca. 28,000) of persons, esp. from RUS (among them, many IT experts)
- Positive shock amounting to 1.2% of GDP

➤ **Weak impact of external shocks on ARM despite high exposure to RUS**

Armenia: macroeconomic implications



Source: CBA, *estimate/forecast, eop



Sources: IMF, *GET estimate/forecast

Inflation

- Inflation rate significantly above CBA target
- But: CBA reacted with appropriate monetary policy
- Reduction of inflation to 9.3% in Jul-22; further reduction in inflation expected

Public finances

- 2022: budget deficit of 2.1% of GDP expected
- Slight reduction in public debt to 58.4% of GDP
- Fiscal consolidation due to good economic situation

GDP

- Overall limited impact of the war in Ukraine on Armenia
- In the beginning, downward revision of GDP forecasts, now GDP forecast back to pre-war level

➤ **Little macroeconomic impact of the war in UKR on ARM**

3. Regional comparison: magnitude of three shocks

Impact of the three external shocks on MDA, GEO and ARM

	Energy prices	Weak RUS economy	Migration
MDA	<ul style="list-style-type: none"> • Much higher gas prices • Plus: significantly higher oil prices <p>➤ Strong negative impact</p>	<ul style="list-style-type: none"> • Export: strong reduction for some products, but overall smaller than expected • Remittances: reduction so far smaller than expected <p>➤ Medium negative impact</p>	<ul style="list-style-type: none"> • High number of refugees from UKR drives up public expenditures <p>➤ Strong negative impact</p>
GEO	<ul style="list-style-type: none"> • Higher oil prices • But: gas prices mainly stable <p>➤ Medium negative impact</p>	<ul style="list-style-type: none"> • Export: so far little impact, -0.4% of GDP possible • Remittances: -0.8% of GDP expected <p>➤ Weak negative impact</p>	<ul style="list-style-type: none"> • Influx of “remote workers” from RUS/BLR; ca. 2% of GDP <p>➤ Strong positive impact</p>
ARM	<ul style="list-style-type: none"> • No impact on gas prices • Also little effect on oil prices <p>➤ No impact</p>	<ul style="list-style-type: none"> • Export: increase in 6M2022 • Remittances: rather marginal negative impact <p>➤ No impact</p>	<ul style="list-style-type: none"> • Influx of “remote workers”/IT experts from RUS; 1.2% of GDP <p>➤ Strong positive impact</p>

Source: own research and estimates

- Large differences in impacts of the three external shocks on MDA, GEO and ARM; not only negative, but also positive shocks
- No consistent regional pattern

Regional comparison: macroeconomic implications

Macroeconomics indicators

	Current GDP forecast for 2022	Change in GDP forecast (before/after war)	Inflation rate, Jul-22	Budget deficit 2022, planned, % of GDP
MDA	-0.4%	-4.9%	33.6%	7.2%
GEO	9.0%	+4.0%	11.5%	3.6%
ARM	4.6%	-0.2%	9.3%	2.1%

Sources: GET, relevant central banks and ministries of finance, IMF

- MDA: recession, very high inflation and high budget deficit; very serious situation
 - GEO: positive outlook, booming economy
 - ARM: little impact of war, good economic situation
- **Very different economic outlook across the three countries**
- **No consistent impact of the war in UKR on the region**

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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