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RECENT TARGETED SANCTIONS: IMMEDIATE ECONOMIC IMPACTS AND LONG-TERM ECONOMIC RISKS FOR GEORGIA

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INTRODUCTION

The Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury recently imposed sanctions on Bidzina Ivanishvili, the billionaire widely regarded as Georgia's de facto ruler and the chair of the Georgian Dream party. These measures, which include asset freezes and travel bans, aim to address democratic backsliding in Georgia and Ivanishvili's personal role in the country's perceived drift toward Russian influence. While the sanctions target Ivanishvili personally, their economic consequences could ripple through Georgia’s political and economic landscape, with both immediate and long-term implications. Drawing from recent empirical studies, this report examines the broader potential impacts of these measures on Georgian economy.

THE NATURE OF SANCTIONS

Smart sanctions, also known as targeted sanctions, are designed to focus on specific individuals, entities, or sectors, minimizing harm to the broader population. Unlike traditional blanket sanctions, which often result in widespread economic damage, smart sanctions aim to localize and target those directly responsible for undemocratic practices, corruption, or geopolitical instability. The Global Sanctions Database (GSDB), a comprehensive dataset covering over 1,500 sanction cases between 1950 and 2023, defines these measures as including financial restrictions, travel bans, and asset freezes targeting political elites.[1]

Smart sanctions are not uncommon. Over the past two decades, the use of smart sanctions has significantly increased. The proportion of sanctions targeting individuals, such as political leaders and key stakeholders, has grown as governments seek more precise tools to exert pressure. Between 2000 and 2023, smart sanctions became the dominant form of economic sanctions, with financial and travel restrictions now representing the majority of newly imposed measures.[2]

In recent cases, sanctions have increasingly targeted political leaders and their close associates. This approach aims to disrupt governance structures and limit the ability of those in power to finance or sustain their activities. For example, sanctions against high-ranking officials in Russia following the annexation of Crimea and the 2022 invasion of Ukraine sought to curtail elite influence without broadly damaging the Russian economy.[3] Similar measures have been applied to leaders in countries such as Zimbabwe, Venezuela, and Myanmar, often with operational challenges and mixed results.[4]

The U.S. sanctions on Bidzina Ivanishvili follow this trend of smart sanctions. By freezing his assets, imposing travel bans, and restricting U.S. persons from engaging with entities under his

[1] See Yalcin et al., (2024); Felbermayr et al., (2025).
[2] See Gordon (2011); Yalcin et al., (2024).
[3] See Felbermayr et al., (2024); Yalcin et al., (2024).
[4] See Tostensen & Bull (2002); Felbermayr et al., (2025).

control, the measures aim to weaken his influence without causing broader economic harm to the Georgian population. Notably, OFAC has issued General License 116, permitting businesses in which Ivanishvili holds over 50% ownership to continue normal operations, except for transactions restricted by Directives 2 and 4 of Executive Order 14024, activities related to the Singapore Court of Appeal case with Credit Suisse, and those prohibited under the Russian Harmful Foreign Activities Sanctions Regulations. The structure of the U.S. sanctions likely reflects an effort to achieve political objectives with minimal collateral damage to Georgia's economy, while also serving as a warning shot and leaving room for Ivanishvili to back down and pursue a political resolution to the crisis.

IMMEDIATE ECONOMIC IMPACTS

Targeted sanctions against Ivanishvili, designed to minimize economic costs on the broader population, have the potential to create immediate economic challenges for Georgia. Empirical research shows that sanctions targeting political leaders often result in a decline in investor confidence, particularly in economies heavily reliant on foreign direct investment (FDI).[5] This aligns with findings that sanctions can deter international investment by raising perceived political and economic risks.[6]

Sanctions on Ivanishvili's assets could also cause some disruptions in the financial sector. Targeted financial restrictions often lead to liquidity challenges for banks associated with sanctioned individuals and increase reputation risks for financial institutions.[7] Georgian banks linked to Ivanishvili may face increased scrutiny, making it harder to attract international partnerships.[8] Similar disruptions have been observed in other countries subjected to targeted sanctions.[9]

Additionally, sectors such as real estate, tourism, and infrastructure, where Ivanishvili has significant influence, are likely to experience slower growth due to reduced investor activity and heightened regulatory concerns. Capital flight is another likely consequence. Evidence from sanctions on other states suggests that individuals and entities often move their assets to jurisdictions perceived as safer to shield them from restrictions.[10]

It is essential to note that sanctions often serve as a warning mechanism. Their primary effects may not immediately materialize, as investors might interpret them as signals of potential future action rather than definitive measures. However, should Georgia fail to make political progress and sanctions escalate, the economic impacts could become more pronounced.

[5] See Yalcin et al., (2024); Felbermayr et al., (2025).
[6] See Drezner (2011).
[7] See Felbermayr et al., (2025).
[8] See Felbermayr et al., (2024).
[9] See Peksen (2016).
[10] See Cipriani et al., (2023).

LONGER-TERM ECONOMIC RISKS

Beyond the immediate impacts, the sanctions could have long-term repercussions for Georgia's economy. Research highlights that targeted sanctions can indirectly erode trade volumes and increase transaction costs.[11] Georgian exporters and importers may face greater compliance-related challenges, dampening trade growth with Western partners.[12]

The broader consequences of sanctions often include financial instability and geopolitical fragmentation. Sanctions can weaken the status of reserve currencies, particularly when sanctioning countries depend on the international financial system for leverage. For Georgia, reliance on foreign financial flows could amplify these effects, especially if sanctions disrupt existing dollar-based trade and financial channels.[13]

Sanctions could also accelerate geopolitical fragmentation. Empirical research demonstrates how sanctions push sanctioned states toward alternative alliances, often with non-sanctioning nations.[14] This dynamic has been observed in the case of Russia, where Western sanctions deepened its economic reliance on China and other non-Western partners. For Georgia, the risk of increased dependence on Russia looms large, undermining efforts to diversify its economic ties.

COMPOUNDING EFFECTS

The recently passed "foreign agents" law has prompted significant concerns from Georgia's international partners, resulting in the suspension of critical aid programs. The United States has suspended $95 million in assistance, citing fears that the legislation undermines democratic principles. Similarly, the European Union has frozen €121 million in aid, emphasizing concerns that the law could restrict democratic freedoms. Additionally, Sweden has halted direct governmental cooperation with Georgia, with the Swedish Prime Minister expressing deep concern over the country's democratic trajectory.

In a developing country closely aligned with the Western world, investor sentiment plays a vital role in fueling growth.[15] This sentiment relies not only on political stability and the rule of law but also on large-scale aid programs that contribute to infrastructure development, human capital enhancement, and institutional improvements. These factors collectively create a more favorable environment for foreign investors. The suspension of these aid programs sends a strong signal to investors about heightened risks. As a result, through both direct and indirect channels, the

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[11] See Felbermayr et al., (2024).
[12] Similar patterns were observed in studies of sanctions on Zimbabwe and Venezuela, where trade disruptions created significant economic hurdles. See Tostensen & Bull (2002) and Gordon (2011).
[13] See Bianchi and Sosa-Padilla (2023).
[14] Bianchi and Sosa-Padilla (2023); Sturm (2023).
[15] See Tian (2024).

halted aid – along with sanctions – will likely have a compounded detrimental effect on Georgia's economy.[16]

STRICTER SANCTIONS AND THE MAGNITSKY ACT

Sanctions imposed on Bidzina Ivanishvili differ notably from those targeting Georgian officials directly involved in violence against civilians. Ivanishvili was sanctioned under the U.S. executive order, which accused him of undermining Georgia's democratic institutions and Euro-Atlantic aspirations – actions perceived as aligning with Russian interests. These sanctions appear more corrective than punitive, aiming to prompt a shift in his political and economic influence over Georgia's trajectory.

By contrast, sanctions under the Magnitsky Act were applied to officials directly implicated in human rights violations, including violence against demonstrators and political opponents. These sanctions, known for their harsher financial and travel restrictions, signal a stronger focus on accountability and retribution for specific actions.

However, Western countries have signaled a readiness to escalate sanctions if meaningful changes in Georgia's governance are not forthcoming. This growing inclination toward punitive measures underscores a critical shift on the international level, suggesting that leniency may give way to stricter accountability if democratic backsliding persists. This distinction between corrective and punitive sanctions reflects the broader international strategy of applying targeted pressure while keeping avenues open for reform.

CONCLUSION

The U.S. sanctions against Bidzina Ivanishvili mark a pivotal moment for Georgia, with significant implications for its economy. While these measures target a single individual, their broader economic effects include weakened investor confidence, financial sector disruptions, and heightened risks of capital flight. In the longer term, Georgia faces challenges to its trade relations, potential geopolitical isolation, and increased reliance on alternative markets, which could deepen its economic vulnerabilities.

Drawing from empirical studies, it is evident that while smart sanctions aim to minimize collateral damage, their ripple effects on the economy can be profound. For Georgia, overcoming these economic challenges will require the active involvement of civil society, international organizations, and Western countries to address potential economic and geopolitical risks.

[16] See Mertens (2024).

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