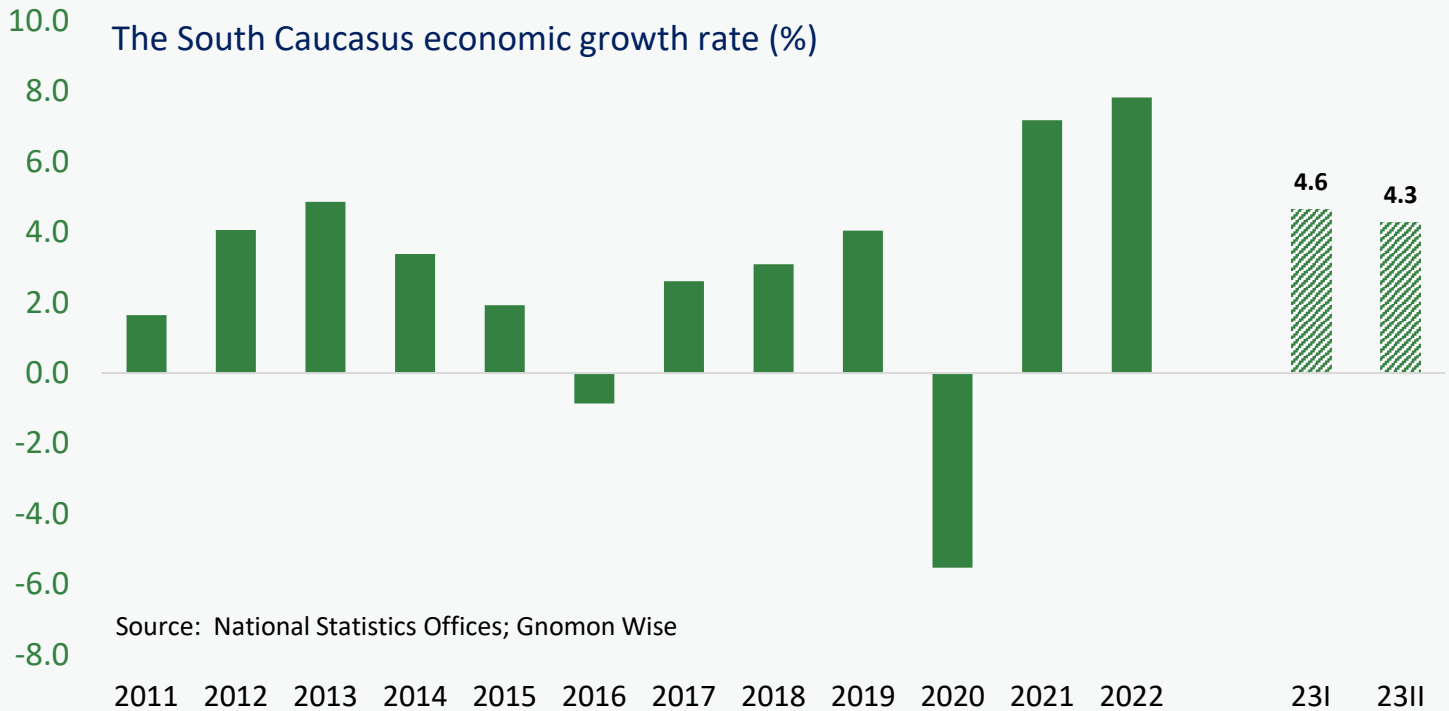




# Monthly Review of the Caucasus Economy

**April 2023**





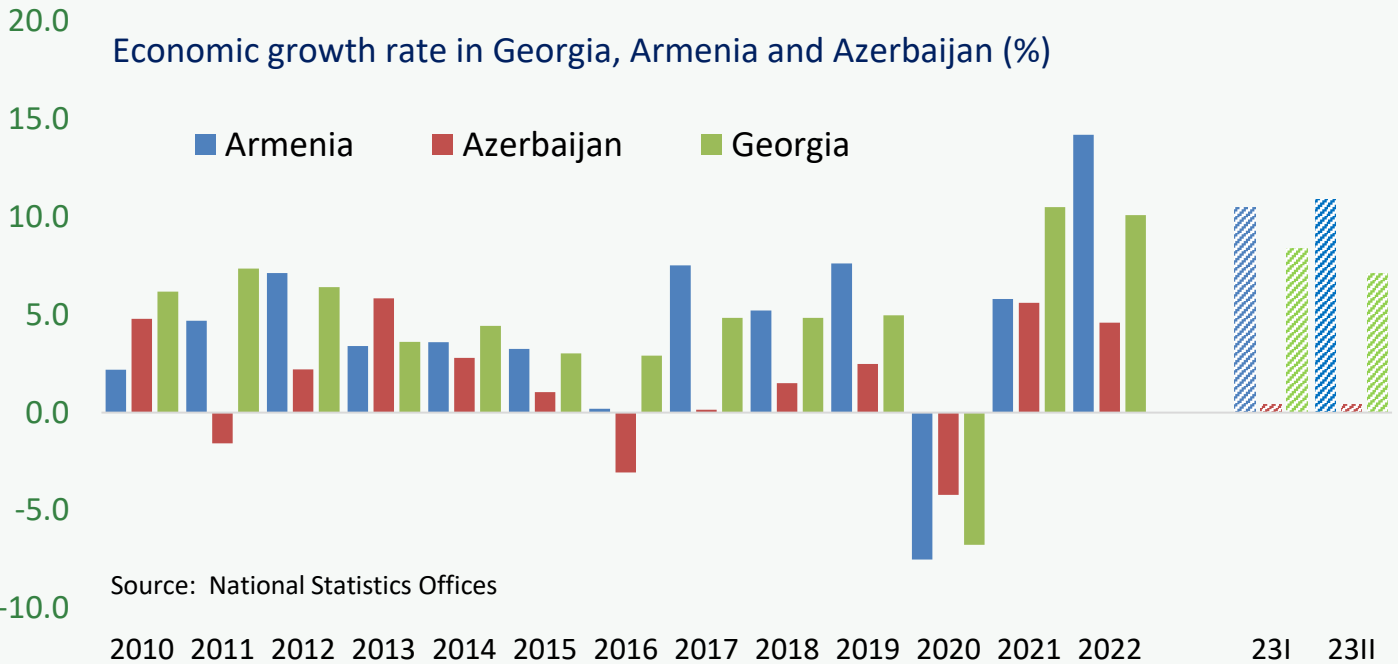
In the South Caucasus, the economic growths and inflations were high in 2022. However, both macroeconomic indicators have decreased this year. As of the first two months of 2023, the Caucasus economic growth is 4.3%, where Armenia is outstanding. In the latter, the growth rate remains at double-digit. Instead, inflation in Azerbaijan remains double-digit, while in Georgia and Armenia, it has decreased remarkably. Under these circumstances, the National Bank of the Republic of Azerbaijan (NBA) tightens the monetary policy, while the refinance rate in Georgia and Armenia remains unchanged.

## Economic Growth

In the last decade, Caucasus's average annual growth was 2.9%. In the first year of the pandemic, the region's economy shrank by 5.5%. However, the next two years were a fast recovery. In 2021, the growth rate was 7.2%, which climbed to 7.8% in 2022. Last year, Armenia and Georgia were denoted with high growth rates. In Armenia, the economy grew by 14.2%, and in Georgia, 10.1%.

In Armenia, the economy grew by 14.2%, and in Georgia, 10.1%. Migrants from Russia and, accordingly, financial inflows significantly contributed to these countries' growth. In 2022, Azerbaijan's growth amounted to 4.6%.

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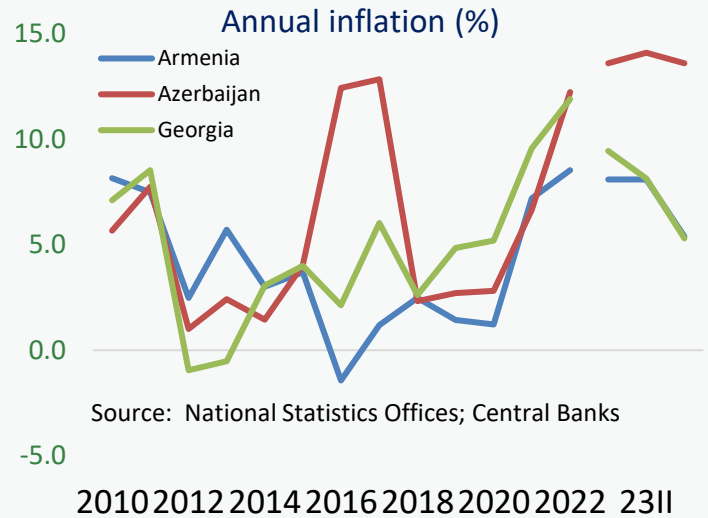
During this period, a relatively high growth rate in Armenia. The growth of the latter is 10.9%. In February, Armenia's economy grew by 11.3%. The trade sector, an essential part of Armenia's economy, has remarkably contributed to the growth. In February, compared to the previous year's corresponding trade turnover increased by 18.2%, and the construction sector's growth was 13.9%. In January-February, Georgia's average growth amounted to 7.1%. In February, the growth rate was 5.8%. Unlike Armenia, the growth rate slowed in the second month of this year.

However, like Armenia, the trade and construction sectors positively contributed to Georgian economic growth. In the current period, Azerbaijan is portrayed by a low growth rate. In January-February, compared to the same period of the previous year, the economy grew by only 0.4%. Yet, excluding the oil and gas industry, the other sectors' growth is relatively high at 4.9%. These sectors are 56.0% of the total economy. The unfortunate oil and gas industry situation is associated with a sharp price drop for the latter.

## Consumer Prices

The South Caucasus countries' inflation has been relatively different in the last decade. In 2013-22, the average annual inflation in Azerbaijan was 6.0%, and in Georgia - 4.9%. During this period, inflation was low, at 3.3% in Armenia. In 2022, the increase in the consumer prices index in Armenia was, on average, 8.5%. Azerbaijan and Georgia had 12.2% and 11.9%, respectively.

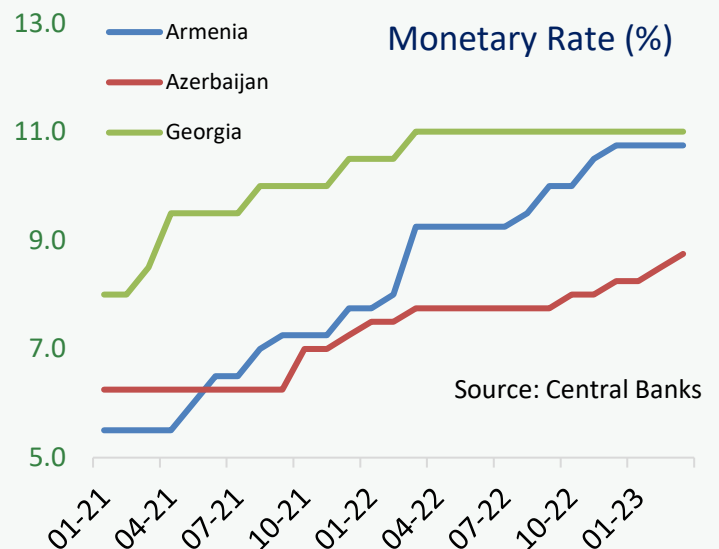
In the current year, the inflation in the Caucasus countries has decreased. In March, annual inflation in Armenia amounted to 5.4%, 2.7 percentage points lower than in February. In this period, inflation in Georgia is 5.3%, which is reduced by 2.8 percentage points compared to the previous month. In Azerbaijan, inflation remains double-digit. The consumer prices index's annual growth rate in March was 13.6%. And in February -14.1%.



## Monetary Policy

In mitigate high inflation in recent years, the Caucasus's central banks policies have responded at different periods and to different scales.

The tightening of monetary policy in Armenia started in May 2021, when the refinancing rate increased from 5.5% to 6.0%. Since then, the Central Bank of Armenia (CBA) has been intensively growing the monetary policy rate, which was already 10.75% at the end of 2022. The last decision of the CBA on the refinancing rate was in March 2023. The next meeting of the central bank's Board will be held on May 2.



The tightening of the monetary policy rate in Georgia started in August 2021. The refinancing rate then increased from 9.5% to 10.0%. The subsequent increase was in December 2021, up to 10.5%. From March 2022 until today, the monetary policy rate remains unchanged at 11.0%. The last meeting and decision of the Monetary Policy Committee at the National Bank of Georgia (NBG) was on March 29, and the next meeting will be held on May 10.

For a long time, the National Bank of the Republic of Azerbaijan (NBA) refrained from tightening the monetary policy. However, the refinancing rate increased from 6.25% to 7.0% in October 2021. After that, the policy rate is unchanged until December 2022. From this time, the refinancing growth began, which increased to 8.75% by the last decision on March 29. The Board of Governors of the NBA will meet on May 3 to make the next decision.

# Research Institute – Gnomon Wise

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We exchange ideas and make it possible for everyone to be a significant contributor to the marketplace of ideas.

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