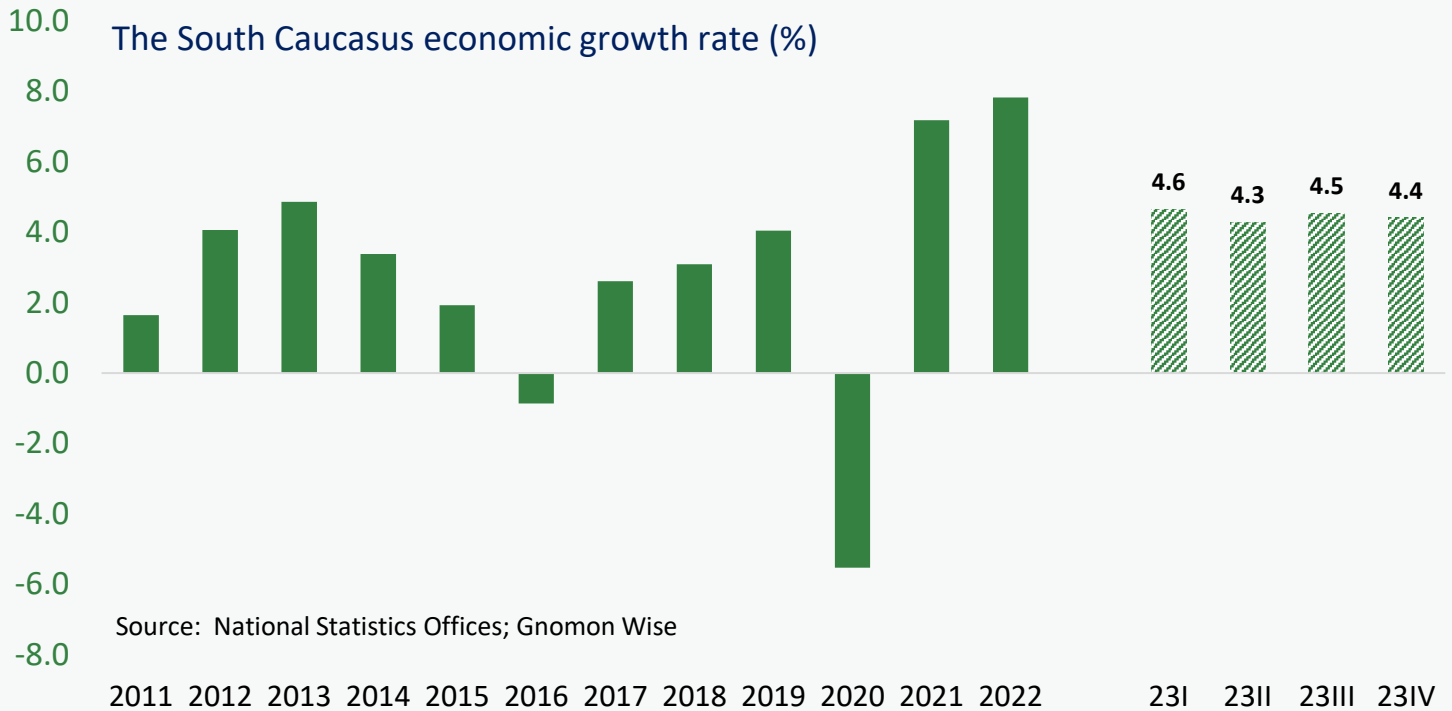




# Monthly Review of the Caucasus Economy

**June 2023**





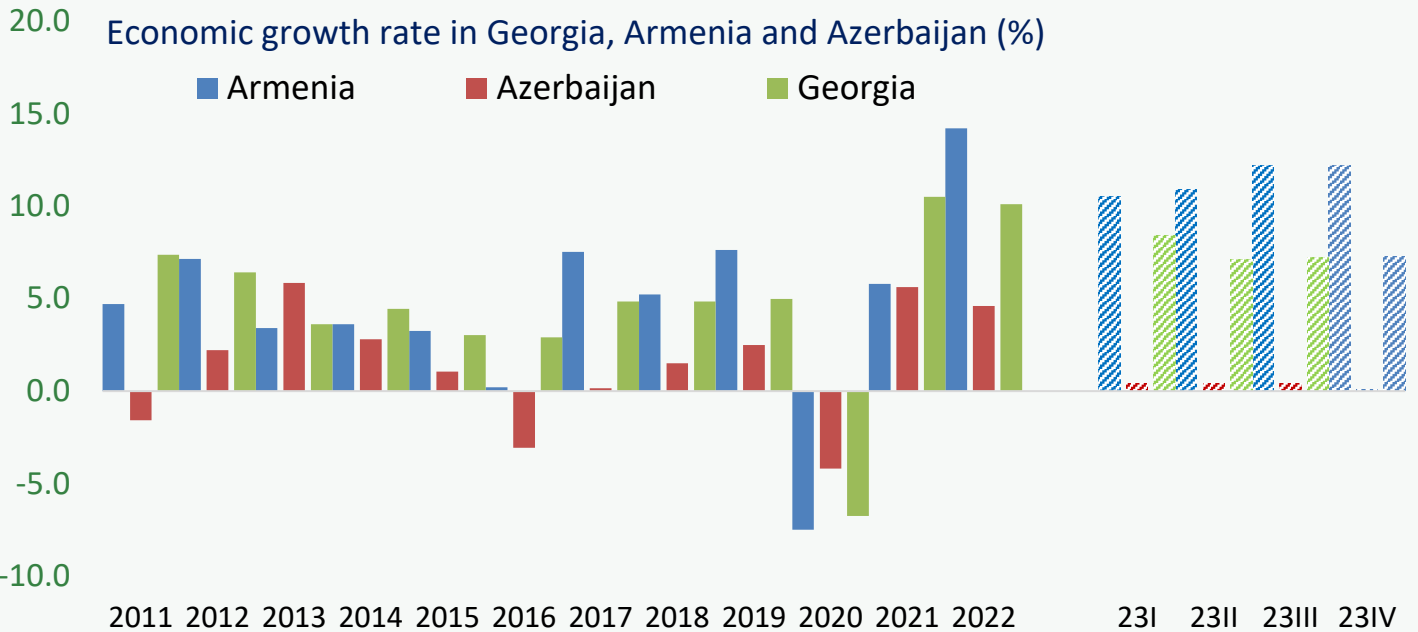
In the South Caucasus, the economic growths and inflations were high in 2022. However, both macroeconomic indicators have decreased this year. As of the first three months of 2023, the Caucasus economic growth is 4.4%, where Armenia is outstanding. In the latter, the growth rate remains at double-digit. 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) has narrowed the monetary policy, while in Georgia, the policy has begun to ease. In Armenia, the refinance rate has remained 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%.

Migrants from Russia and, accordingly, financial inflows significantly contributed to these countries' growth. In 2022, Azerbaijan's growth amounted to 4.6%.

In April growth rate was declined. According to the first four months, the Caucasus economy has climbed by 4.4%. In March this was at 4.5%.



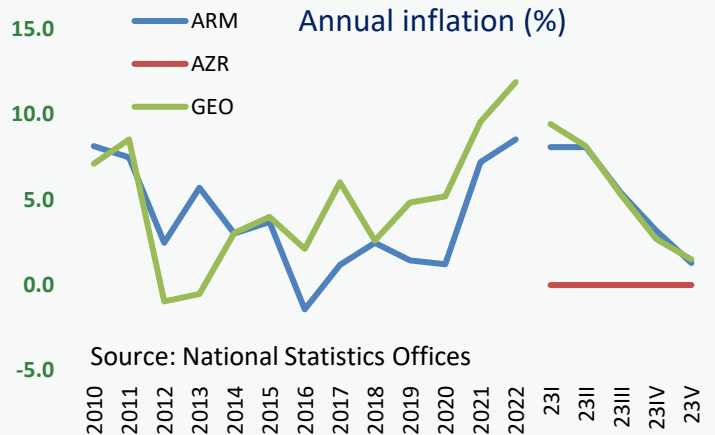
During this period, a relatively high growth rate in Armenia. The growth of the latter is 12.2%. In April, Armenia's economy grew by 12.1%. The trade sector, an essential part of Armenia's economy, has remarkably contributed to the growth. In April, compared to the previous year's corresponding trade turnover increased by 28.9%, the construction sector's growth was 19.6%. In January-April, Georgia's average growth amounted to 7.3%. In April, the growth rate was 7.5%. The growth rate rushed in the fourth month of this year.

Also, 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-April, compared to the same period of the previous year, the economy grew by only 0.1%. Yet, excluding the oil and gas industry, the other sectors' growth is relatively high at 3.1%. These sectors are 56.7% of the total economy. The unfortunate oil and gas industry situation is associated with a sharp price drop for the latter. As a result, the value-added produced in the oil-gas sector of the economy decreased by 2.4%.

## 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.

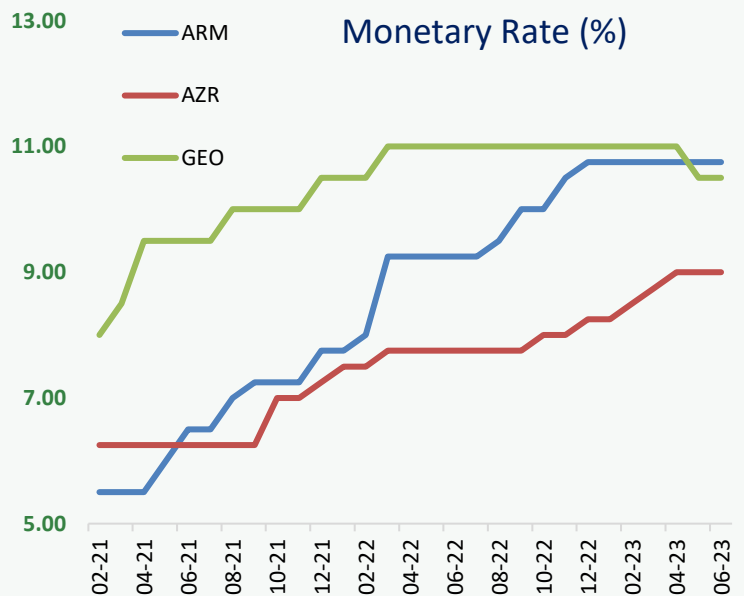
In the current year, the inflation in the Caucasus countries has decreased. In May, annual inflation in Armenia amounted to 1.3%, 1.9 percentage points lower than in April. In this period, inflation in Georgia is 1.5%, which is reduced by 1.2 percentage points compared to the previous month. In Azerbaijan, inflation remains double-digit. The consumer prices index's annual growth rate in May was 11.5%. And in April - 12.8%.



## 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 May 2023. In the previous decision, the monetary policy rate remained unchanged.



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 to April 2023, the monetary policy rate remains unchanged at 11.0%. The last decision of the National Bank of Georgia (NBG) was on May 10—the NBG reduced the policy rate to 10.5%. The next meeting will be held on June 21.

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 9.0% by the last decision on May 3. The Board of Governors of the NBA will meet on June 21 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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