



# Monthly Review of the Caucasus

## Economy

**September 2023**





In the South Caucasus, economic growth and inflation were high in 2022. However, both macroeconomic indicators have decreased this year. As of the first seven months of 2023, the Caucasus economic growth is 4.2%, where Armenia is outstanding. In the latter, the growth rate remains at double-digit. Inflation in Azerbaijan stays high, while in Georgia and Armenia, it has decreased remarkably. Under these circumstances, the National Bank of the Republic of Azerbaijan (NBA) has decided to keep the policy unchanged, while in Georgia and Armenia, the policy has begun to ease.

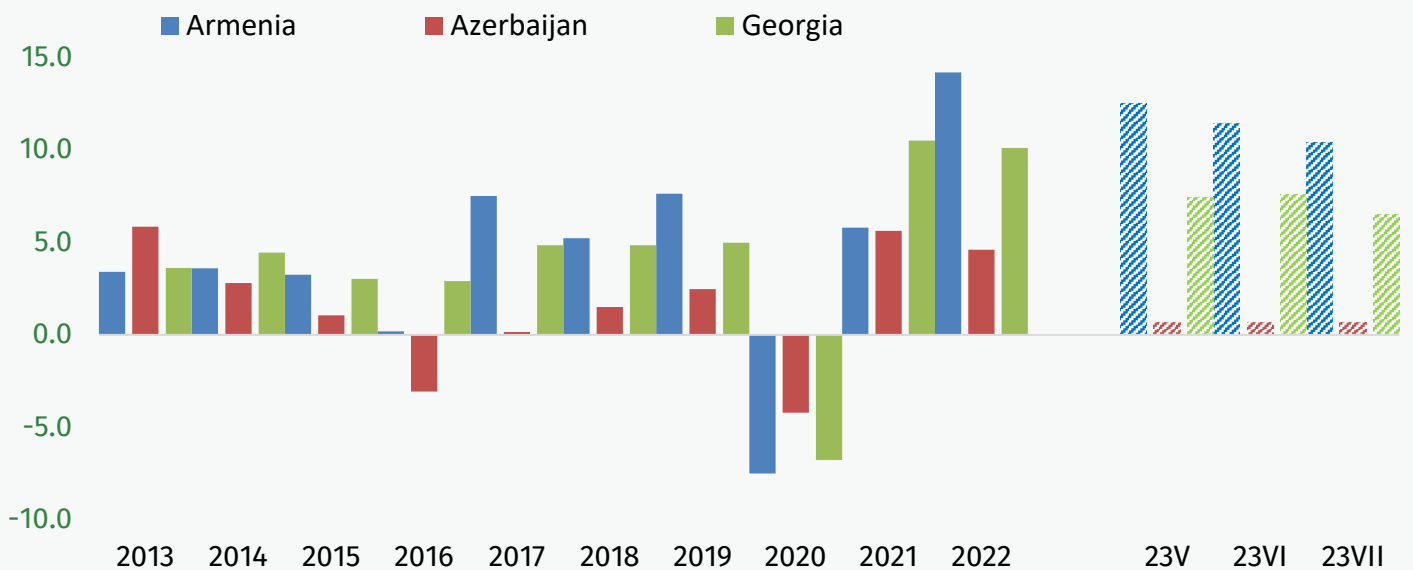
## Economic Growth

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 July, the growth rate was narrowed. According to the first seven months, the Caucasus economy has climbed by 4.2%. In June, this was at 4.7%.

20.0 Economic growth rate in Georgia, Armenia and Azerbaijan (%)



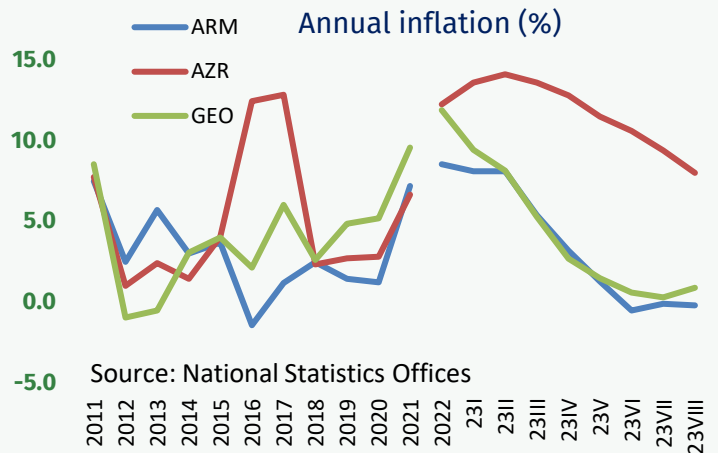
During this period, there was a relatively high growth rate in Armenia. The growth of the latter is 10.4%. In July, Armenia's economy grew by 6.0%. The trade sector, an essential part of Armenia's economy, has remarkably contributed to the growth. In July, compared to the previous year's corresponding trade turnover increased by 23.0%, the construction sector's growth was 17.2%. In the first seven months, Georgia's growth amounted to 6.5%. In July, the growth rate was 5.5%. The growth rate worsened in the seventh month of this year.

Also, trade and construction positively contributed to Georgian economic growth. In the current period, Azerbaijan is portrayed by a low growth rate. In January-July, compared to the same period of the previous year, the economy grew by only 0.7%. However, excluding the oil and gas industry, the other sectors' growth is relatively high at 3.4%. These sectors are 39.3% of the total economy. The unfortunate oil and gas industry situation is associated with a price drop for the latter. As a result, the value-added produced in the oil-gas sector of the economy decreased by 2.2%.

## 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.

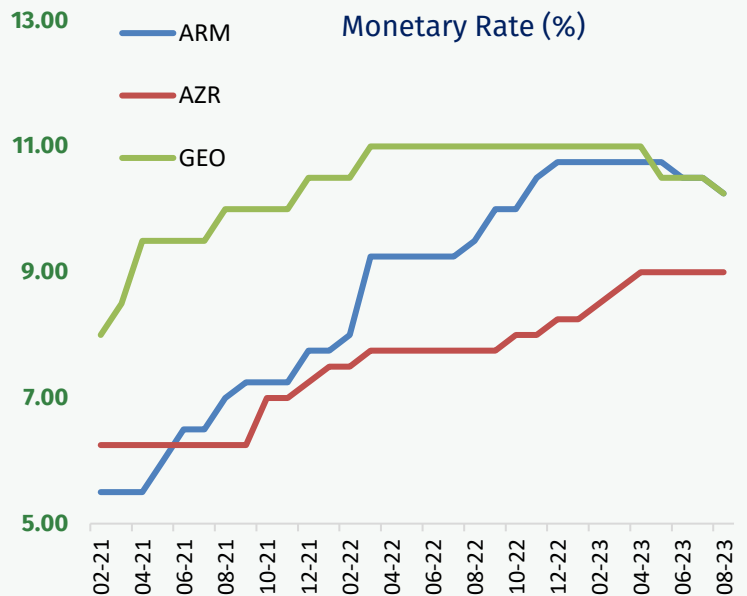
In the current year, the inflation in the Caucasus countries has decreased. In Armenia, deflation amounted to 0.2% in August, 0.1 percentage points lower than in July. In this period, inflation in Georgia is 0.9%, which is raised by 0.6 percentage points compared to the previous month. In Azerbaijan, inflation remains high. The consumer prices index's annual growth rate in August was 8.0%. And in July – 9.4%.



## Monetary Policy

In mitigating 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 August 2023. The monetary policy rate was reduced to 10.25%.



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 August 02 —the NBG declined the policy rate at 10.25%. The next meeting will be held on September 13.

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. The refinancing growth began from this time, but the policy rate remained unchanged in the last decision. The Board of Governors of the NBA will meet in September to make the next decision.

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