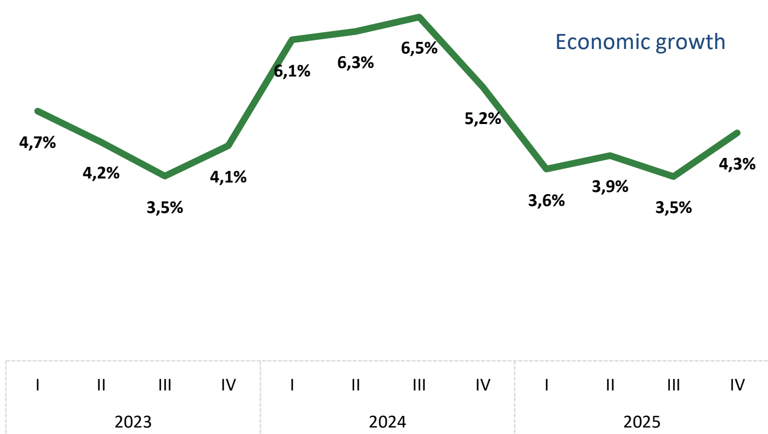
Research Institute Gnomon Wise

Quarterly Review of the Caucasus Economy

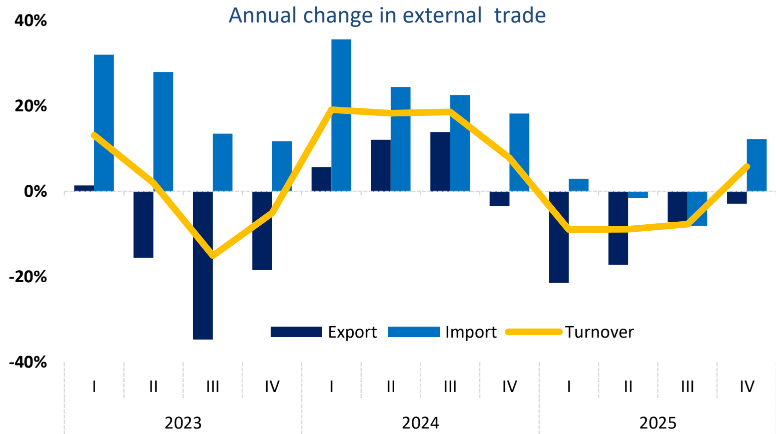
(4th Quarter, 2025)

Following several years of experience producing monthly reviews of the Caucasus economy, Gnomon Wise is launching a quarterly review of the South Caucasus. Namely, this new publication covers two key macroeconomic parameters: economic growth and inflation. Considering their leading role in regional economies and methodological relevance, external trade and lending are also analyzed. In addition, in response to inflationary developments, dynamics of monetary policy are highlighted.

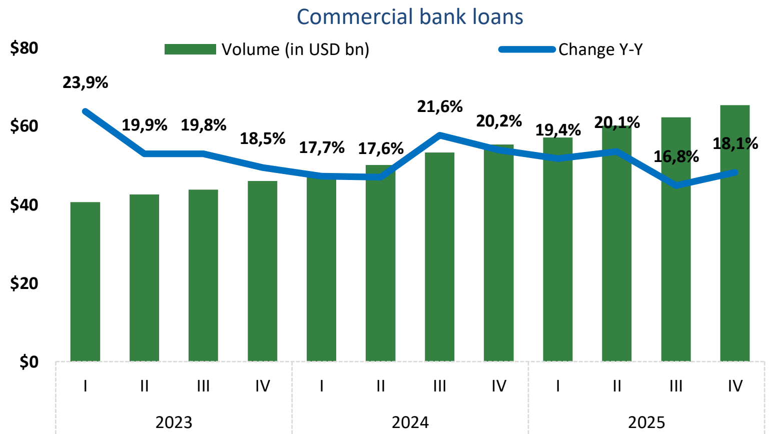
In the post-pandemic period, the previously high economic growth rate in the South Caucasus was slowed. In the fourth quarter of 2025, compared to the same period of the previous year, the region's economy expanded by 4.3%. For comparison, in the final quarter of 2024, economic growth in the South Caucasus stood at 5.2%. The slowdown in the region's economic expansion during this period is largely linked to lower economic growth in Azerbaijan, which accounts for more than half of the Caucasus economy. The deterioration of economic conditions in the latter is mainly due to declining oil prices, a sector that constitutes roughly one-third of the economy.



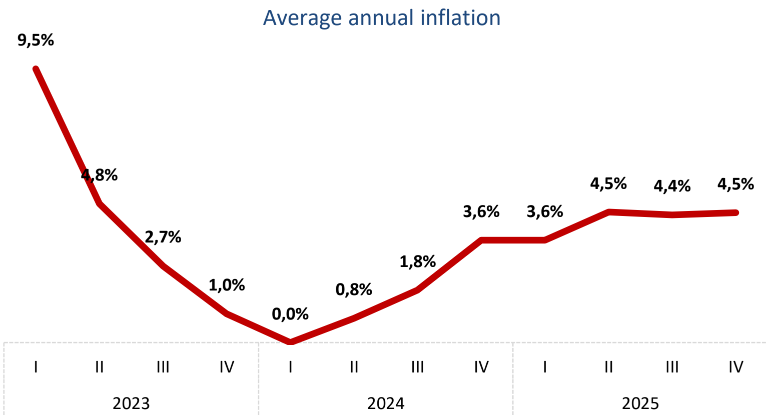
External trade is a key driver of economic growth. The region's economies are open, which underpins the significant role of foreign trade in economic development. In the fourth quarter of 2025, the total trade turnover of the Caucasus reached USD 27,340.2 million, representing a 5.8% increase compared to the same period of the previous year. In this regard, trade dynamics improved toward the end of the year. During this period, growth was primarily driven by goods imports. In Q4 2025, the value of imports increased by 12.3% compared to the previous year. At the same time, exports declined by 2.9%, mainly due to a contraction in export revenues from Azerbaijan, driven by falling oil prices.



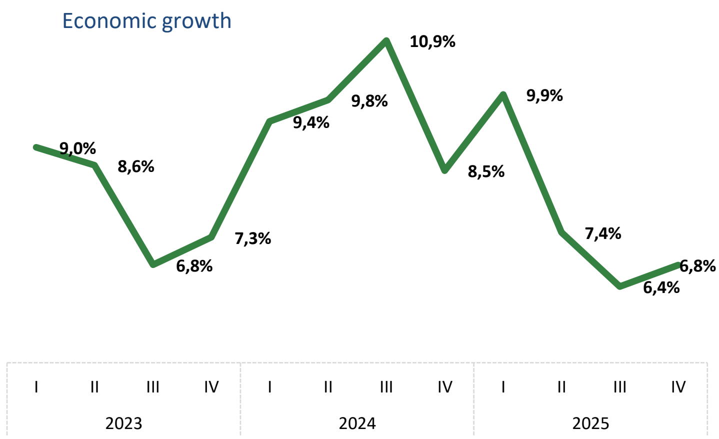
Loans issued by commercial banks represent an important source of financing for domestic consumption and investment in the Caucasus (particularly in Georgia). By the end of the fourth quarter of 2025, the total volume of loans issued by commercial banks in the region amounted to USD 65,291.4 million, reflecting an annual increase of 18.1%. The annual growth rate of lending showed relative improvement during this period, compared to 16.8% recorded in the third quarter of the previous year.



Inflation remained a challenge for central banks in the region, as in the fourth quarter of 2025, the overall increase in the price level largely exceeded target levels. In terms of consumer price growth, the situation was relatively favorable in Armenia, while more negative in Azerbaijan. By the end of the year, the average annual inflation rate in the Caucasus stood at 4.5%, reflecting an acceleration compared to previous periods. Nevertheless, central banks have generally pursued a monetary policy stance oriented toward easing.

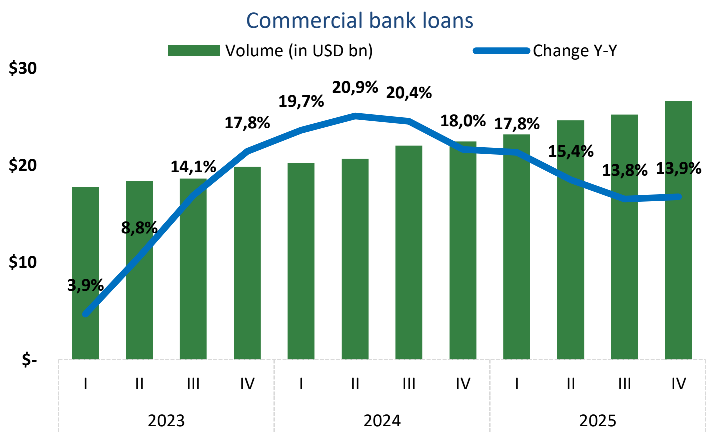


The high economic growth observed during 2022–2024 has slowed in recent periods. In the fourth quarter of 2025, the economy of Georgia grew by 6.8%, compared to 8.5% in the same period of 2024. Despite the slowdown over the past year, growth remains above its long-term average. The main drivers of economic growth continued to be service-oriented and relatively less import-intensive sectors. In the fourth quarter of 2025, significant contributions to growth came from the information and communication, as well as the education sectors, both of which are oriented towards service exports. At the same time, consumption dynamics were positively influenced by developments in tourism sector, where revenues increased by 6%. However, the pace of expansion slowed in the construction and transport sectors.

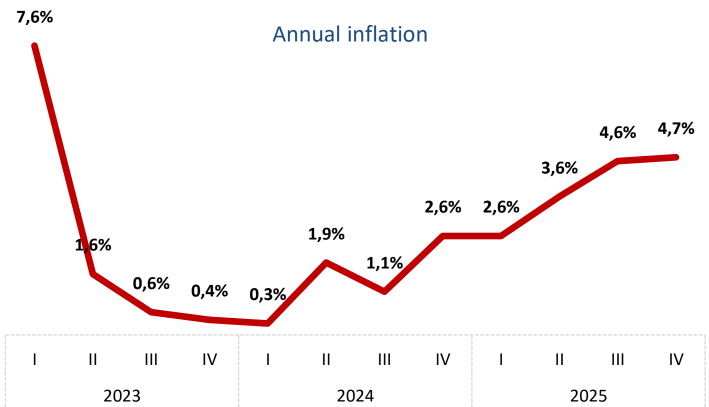


In the final quarter of last year, the growth rate of Georgia's external trade turnover was higher compared to the previous period. In the fourth quarter of 2025, trade turnover increased by 9.4% annually; however, this remains below the corresponding period of the previous year, when growth reached 17%. Toward the end of 2025, exports grew at a faster pace than imports. In the fourth quarter, the value of exported goods increased by 20.7% annually, while imports grew by only 5.2%. During this period, the value of imports exceeded exports by 130.1%. A major component of trade continued to be the import of vehicles followed by their re-export from Georgia.

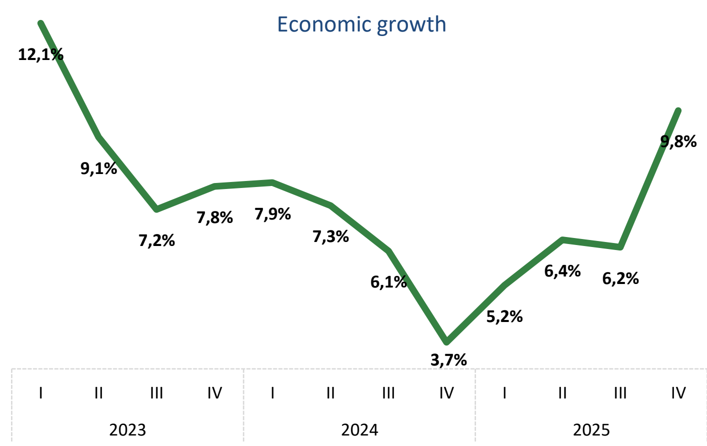
In 2025, the growth rate of total lending in Georgia slowed down. In the final quarter of last year, annual loan growth stood at 13.9%, slightly higher than in the third quarter, but 4.1 percentage points lower than in the fourth quarter of 2024. During this period, borrowing costs increased compared to the same period of the previous year. While the average interest rate on loans in national currency was 14.4% in December 2024, it reached 15% in the final quarter of 2025. The cost of short-term and long-term loans stood at 16.7% and 14.8%, respectively.



In 2025, particularly in the second half, price levels in Georgia accelerated. From that period onward, inflation exceeded the target level (3%). In the second quarter of 2025, annual inflation reached 4.7%, followed by 4.6% in the third quarter. During this time, prices for food and healthcare services increased more rapidly than other components of the consumer basket. Despite elevated inflation, the central bank kept the refinancing rate unchanged in 2025. However, since 2023, the policy rate has been gradually reduced, reaching 8% by the end of 2025.

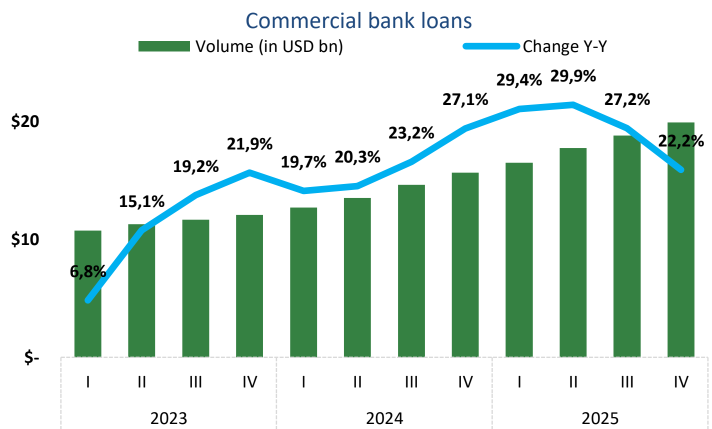


Following the high economic growth observed in 2022–2023, the pace of economic expansion in Armenia slowed during 2024. In the fourth quarter of that year, growth stood at only 3.7%. However, in 2025, economic growth accelerated again. In the fourth quarter of last year, Armenia's economy expanded by 9.8%, compared to 6.2% in the previous, third quarter. During this period, the construction sector recorded strong growth, exceeding levels observed in previous years. Accordingly, construction made a significant contribution to overall economic growth, driven by increased private investment in real estate and public investment in infrastructure. At the same time, given the structure of the economy, the largest contribution to growth came from the services sector, where strong performance was driven by the expansion of financial and information technology services.

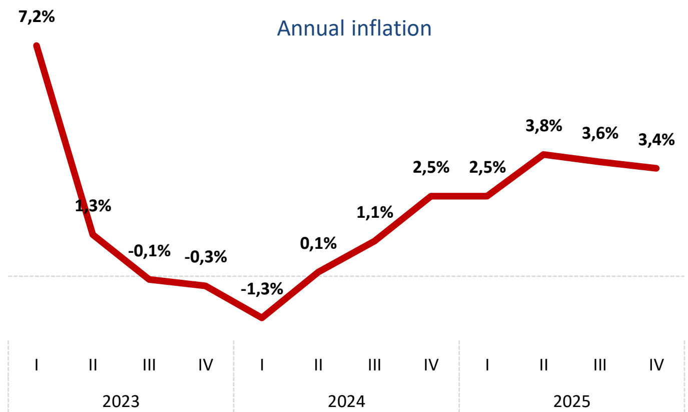


Armenia's external trade turnover has improved. In the fourth quarter of 2025, unlike previous quarters, trade turnover increased by 9.8%. In the corresponding period of the previous year, foreign trade turnover had declined by 14%. In 2025, the growth in trade turnover was driven by both imports and exports. In the final quarter of last year, the value of Armenia's exports increased by 9.3% year-on-year, while imports rose by 10.2%. During this period, the value of imports exceeded exports by 50.8%. Precious metals and stones remained the main export and import commodities; however, their role in exports was twice larger than in import.

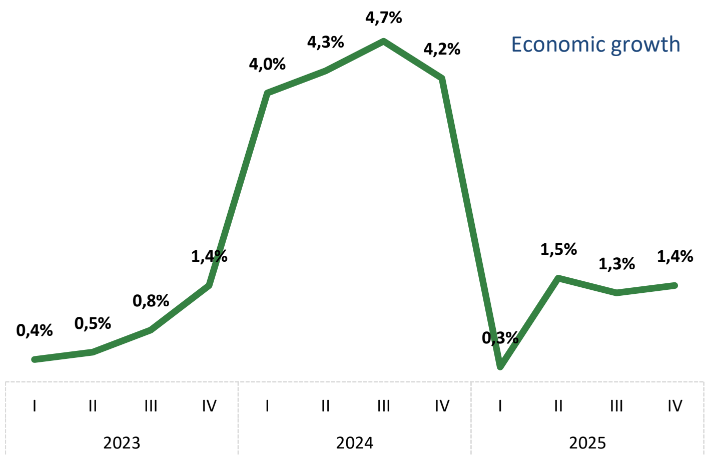
By the end of 2025, the pace of lending to the economy by commercial banks in Armenia slightly slowed compared to previous quarters. During this period, the total volume of loans was 22.2% higher compared to the same period of the previous year. In the fourth quarter of 2024, this figure amounted to 27.1%. In the fourth quarter of 2025, the average interest rate on short-term loans in the national currency stood at 13.8%, while the average cost of long-term loans was 15.5%. Compared to the same period of the previous year, loans became more expensive in the final quarter of last year.



Following the low rate of inflation in 2024, the overall price level in Armenia accelerated last year. In the fourth quarter of 2025, annual inflation stood at 3.4%, exceeding the target level of 3%. In the third quarter, inflation was 3.6%. In 2025, education services recorded the fastest price increases within the consumer basket. Despite the acceleration in inflation, the Central Bank of Armenia continued to ease monetary policy, a process that began in 2023. Compared to the final quarter of 2024, the refinancing rate was reduced by 0.5 percentage points to 6.5% by the end of 2025.

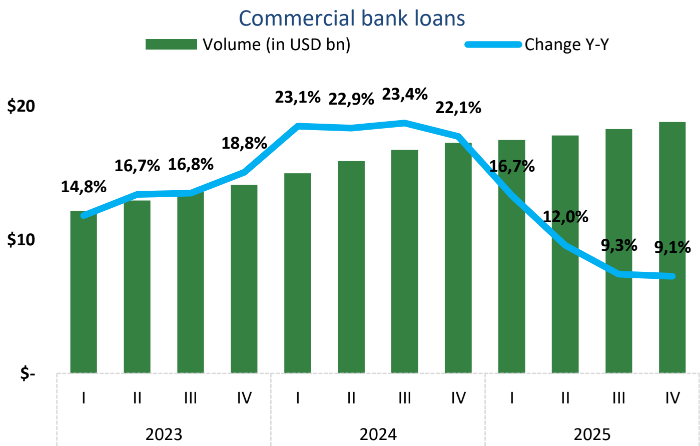


Following a strong economic growth in 2024, the pace of economic expansion in Azerbaijan has slowed from 2025 onward. In the fourth quarter of last year, the economy expanded by 1.4%, compared to 4.2% in the same period of the previous year. In the third quarter of 2025, Azerbaijan's economy grew by 1.3%. The slowdown in economic growth in 2025 is linked to declining oil prices, as the oil and gas sector accounts for approximately 30% of the country's economy. Last year, the oil and gas industry contracted by 1.6% in nominal terms. Namely, crude oil production declined by 4.8%, while gas production increased by 0.7%. However, growth was observed in other sectors, driven by increased household and government consumption. The rise in consumption was supported by higher growth in consumer lending and increased government social spending.



In the fourth quarter of 2025, Azerbaijan's annual external trade turnover was increased by 2.1%. This represents an improvement following the declines in previous quarters. However, it remains significantly below the dynamics observed in 2024. For instance, in the final quarter of the previous year, trade turnover had increased by 17.3%. The downward trend is mainly linked to exports, as their value declined during this period. In the final quarter of 2025, exports decreased by 13.4%, while imports increased by 18.6%. The oil and gas sectors remain the main component of exports, and declining prices for these commodities contributed to the reduction in export value. The main imported goods included machinery, equipment, and electronics.

Following the high growth rate of total lending in 2024, the pace of credit expansion in Azerbaijan slowed in 2025. While the annual growth rate of loans issued by commercial banks was 22.1% in the fourth quarter of 2024, it declined to 9.1% in the final quarter of last year. During this period, the average interest rate on loans in the national currency stood at 15.4%, while loans in foreign currency averaged 5.8%. Compared to previous quarters, borrowing costs increased in both local and foreign currencies in the final quarter of 2025.



In 2025, the annual inflation rate in Azerbaijan remained elevated compared to the previous year but did not exceed the upper bound of the target range (4 ± 2%). In the fourth quarter of last year, the overall price level increased by 5.5% year-on-year, compared to 5.2% in the third quarter. Despite the acceleration in inflation, the Central Bank of Azerbaijan pursued a monetary easing policy. By the end of 2025, the policy rate stood at 6.75%, which is 0.5 percentage points lower than in the same period of the previous year. However, the rate remained unchanged during the final quarter of 2025.