



# Quarterly Review of the Caucasus Economy

## (First Quarter, 2026)

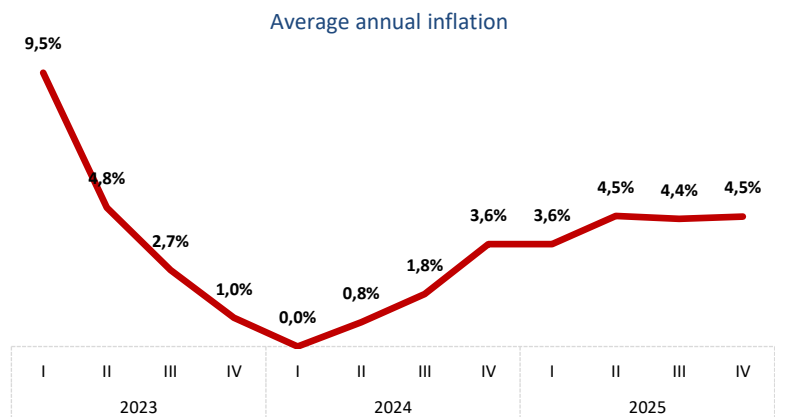
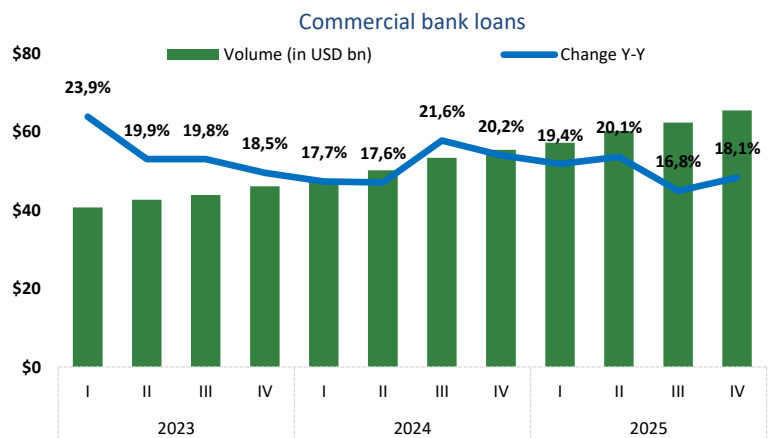
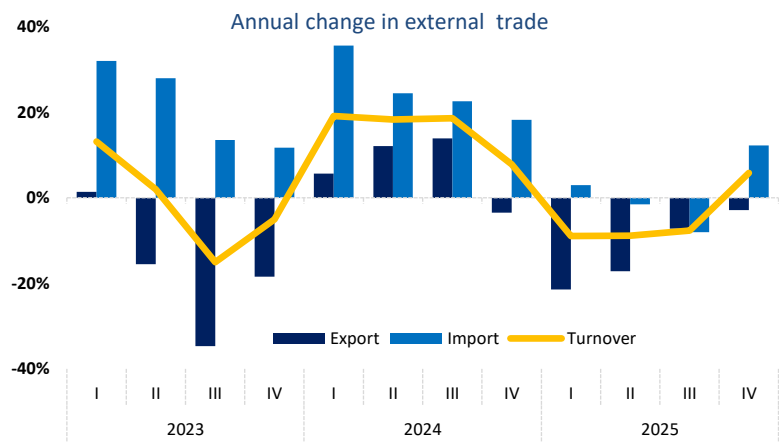
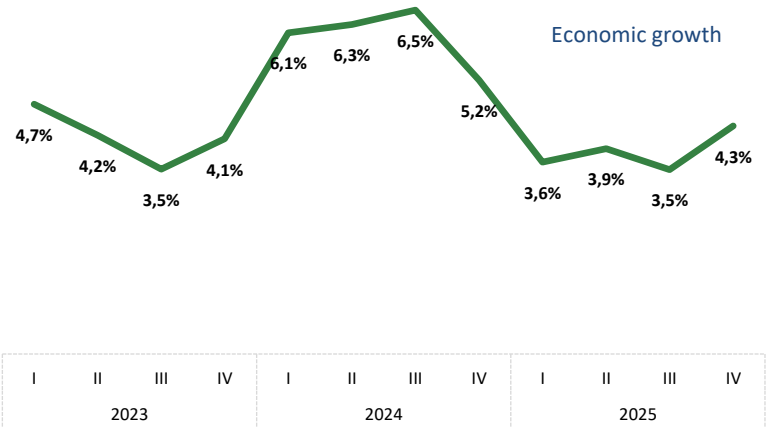


The strong post-pandemic growth momentum in the South Caucasus has moderated. In the first quarter of 2026, the region's economy expanded by 3.4% year-on-year. By comparison, economic growth stood at 3.6% in the first quarter of 2025. The slowdown in regional economic expansion is largely attributable to weaker growth in Azerbaijan, which accounts for more than half of the South Caucasus economy. The deterioration in Azerbaijan's economic performance is primarily driven by a decline in oil production, which accounts for approximately one-third of the country's economy.

External trade remains a key driver of growth. The region's economies are relatively open, which underscores the significant role of foreign trade in economic development. In the first quarter of 2026, total trade turnover in the South Caucasus amounted to USD 20,849.1 million, representing a 6.6% year-on-year decline. Against this backdrop, trade dynamics weakened at the beginning of the year. During this period, export performance showed positive momentum. In Q1 2026, export values increased by 2.7% compared to the previous year. However, imports declined by 13.4%, reflecting a contraction in export revenues from Azerbaijan, largely linked to developments in the oil industry.

Bank lending continues to represent an important source of financing for household consumption and investment in the South Caucasus, particularly in Georgia. By the end of the first quarter of 2026, total outstanding loans issued by commercial banks in the region reached USD 68,134.2 million, reflecting a 17.9% year-on-year increase. However, the pace of credit growth has moderated, as this figure stood at 19.4% in the fourth quarter of the previous year.

Inflation remained a key challenge for regional central banks, as consumer price growth in the first quarter of 2026 generally exceeded target levels. In terms of price dynamics, conditions were relatively more stable in Armenia, while the highest inflationary pressures were recorded in Azerbaijan. The average annual inflation rate in the South Caucasus stood at 4.8% in Q1 2026, indicating an acceleration compared to previous periods. Nevertheless, monetary policy rates across central banks remained broadly unchanged.



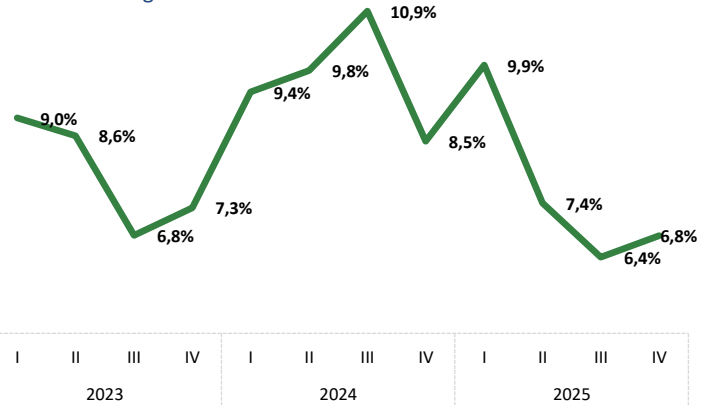
Following strong economic growth in 2022–2024, the pace of expansion in Georgia’s economy slowed during 2025. In the first quarter of 2026, the economy grew by 9.1% year-on-year, compared to 9.9% in the same period of 2025. Although growth decelerated over the course of 2025, it began to re-accelerate in 2026 and remains above its long-term average. Economic growth continues to be driven primarily by service-oriented and relatively less import-intensive sectors. In Q1 2026, the information and communications and education sectors made significant contributions to growth, both of which are export-oriented service industries. In addition, positive dynamics in the tourism sector supported consumption, with tourism revenues increasing by 6%.

In the first quarter of 2026, the expansion of Georgia’s trade turnover slowed. Total trade increased by 1.5% year-on-year, significantly below the 20.9% growth recorded in the first quarter of 2025. At the beginning of 2026, export growth outpaced import growth. Exported goods increased by 23.3% year-on-year, while imports declined by 5.4%. During this period, the value of imports exceeded exports by 144.3%. Motor vehicle imports and their subsequent re-export remained the dominant component of Georgia’s import structure.

Recent data indicate a slowdown in credit growth in Georgia. In the first quarter of 2026, total bank lending increased by 14.8% year-on-year, slightly above the level recorded in the previous quarter, but 3 percentage points lower than in the first quarter of 2025. During the same period, borrowing costs increased compared to the previous year. While the average interest rate on loans in national currency stood at 14.6% in Q1 2025, it rose to 15% in Q1 2026. Short-term and long-term lending rates stood at 16.5% and 14.8%, respectively.

Inflationary pressures in Georgia have recently accelerated, with price growth remaining above the central bank’s 3% target. Annual inflation stood at 4.7% in Q4 2025 and 4.6% in Q1 2026. During this period, food and healthcare prices increased at a faster pace than other categories in the consumer basket. Despite elevated inflation, the central bank’s refinancing rate remained unchanged in Q1 2026. However, since 2023, the policy rate has followed a gradual downward trend.

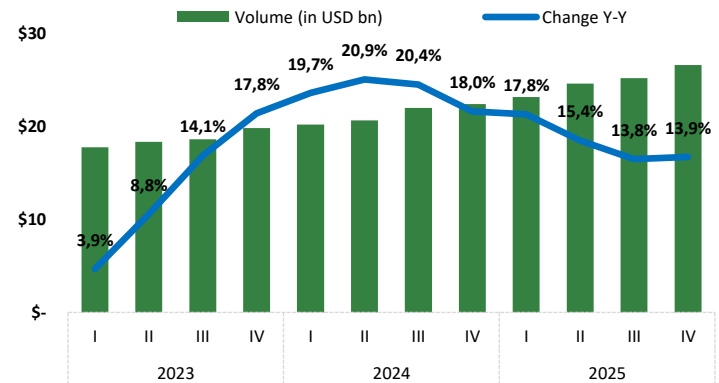
Economic growth



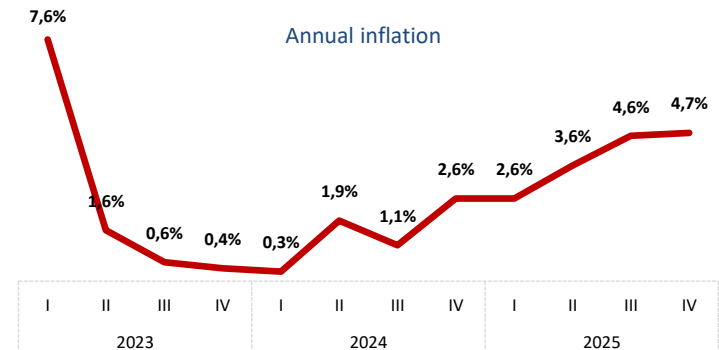
External trade, in USD mln



Commercial bank loans



Annual inflation

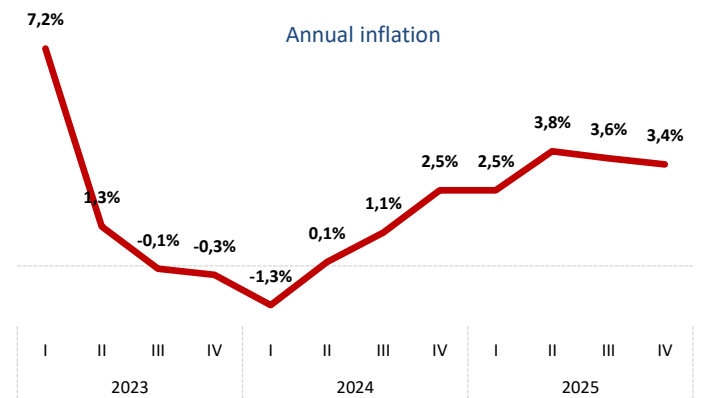
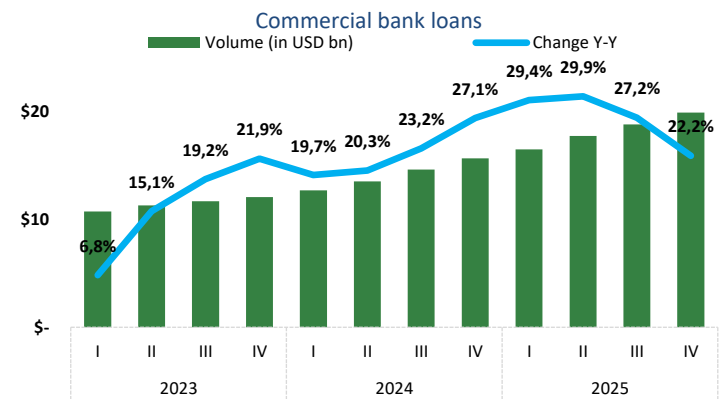
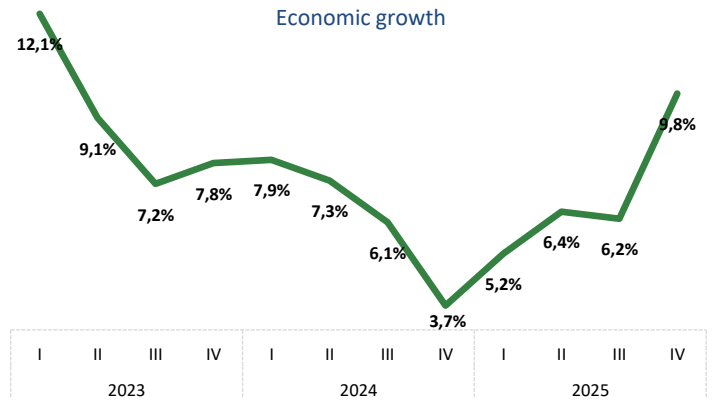


Following strong economic growth in 2022–2023, Armenia experienced a deceleration in the pace of economic expansion during 2024. In the fourth quarter of that year, growth stood at only 3.7%. However, in 2025, economic momentum recovered, and growth accelerated again. In the first quarter of 2026, Armenia’s economy expanded by 7.1%, following a 9.8% increase in the previous quarter. During this period, the construction sector recorded robust growth, exceeding levels observed in previous years. As a result, construction made a notably strong contribution to overall economic growth, driven by private sector investment in real estate and public investment in infrastructure. At the same time, reflecting the structure of the economy, the services sector remained the main driver of growth, with strong performance in administrative services, transport, and information technology services.

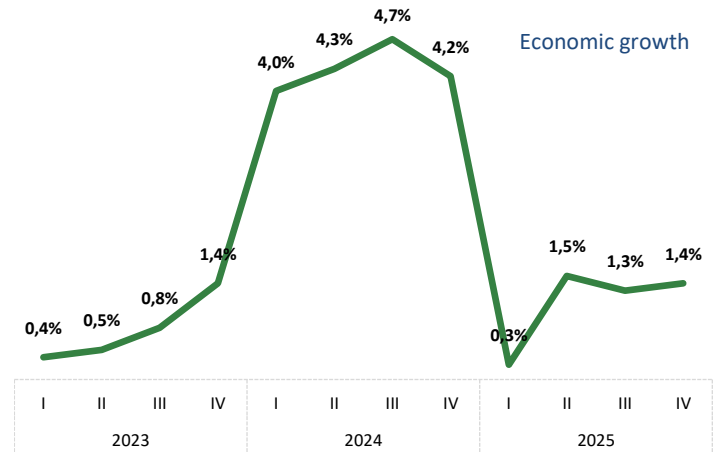
Armenia’s external trade turnover showed signs of improvement. In the first quarter of 2026, trade turnover increased by 5.4% year-on-year, in contrast to a 53.7% decline recorded in the same period of the previous year. The recovery in 2026 was driven by both exports and imports. Export values increased by 4.7% year-on-year, while imports grew by 5.7%. During this period, imports exceeded exports by 66%. Precious metals and stones remained the dominant categories in both exports and imports, although their weight in exports is approximately twice as large as in import composition.

At the beginning of 2026, credit growth in Armenia slowed noticeably. Total lending by commercial banks increased by 21.4% year-on-year in Q1 2026, compared to 26.8% in the same period of the previous year. During the first quarter of 2026, the average interest rate on short-term loans in the national currency stood at 13.7%, while long-term lending rates averaged 15.8%. Compared to the same period in the previous year, borrowing costs were higher.

Following low inflation in 2024, price growth in Armenia accelerated in 2025. In the first quarter of 2026, inflation stood at 4.2%, above the central bank’s target of 3%, compared to 3.4% in the fourth quarter of the previous year. In 2026, education services recorded the fastest price increases within the consumer basket. Despite rising inflationary pressures, the Central Bank of Armenia maintained an accommodative monetary policy stance. Compared to the first quarter of 2025, the refinancing rate was reduced by 0.5 percentage points to 6.5%.



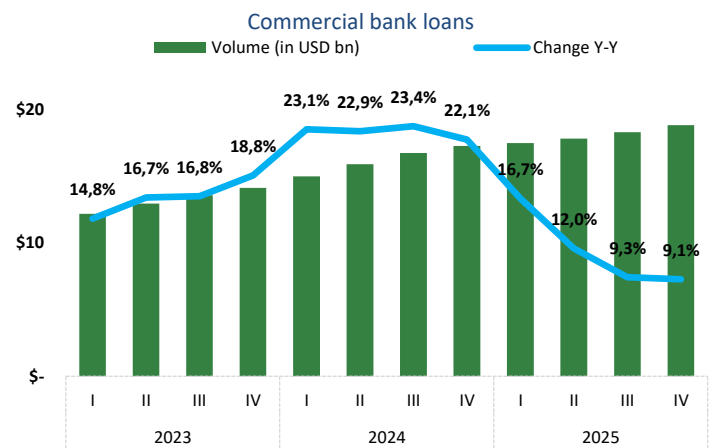
Following strong economic growth in 2024, Azerbaijan’s growth momentum slowed. In the first quarter of 2026, the economy contracted by 0.3%, compared to a 0.3% expansion in the same period of the previous year. In the fourth quarter of 2025, however, the economy recorded growth of 1.4%. The deceleration in economic activity is closely linked to declining oil prices and reduced production, as the oil and gas sector accounts for approximately 30% of Azerbaijan’s economy. In nominal terms, the oil and gas sector contracted by 1.2% in the current year, driven by a 3.4% decline in crude oil production and a 0.7% increase in gas extraction. At the same time, activity increased in other sectors, supported by higher household and government consumption. Growth in consumption was underpinned by rising consumer lending and increased public social expenditure.



In the first quarter of 2026, Azerbaijan’s foreign trade turnover declined by 15.1% year-on-year. This represents a deterioration following growth in the previous quarter, although the decline remains significantly milder compared to the contraction observed in 2023. In the fourth quarter of the previous year, trade turnover had increased by 2.1%. The downward dynamics affected both exports and imports. In Q1 2026, exports declined by 2.4%, while imports contracted sharply by 29.3%. The main component of exports remains the oil and gas sector, and the decline in production was reflected in lower export revenues. Key import categories included machinery, equipment, and electronics.



After strong credit growth in 2024, lending activity in Azerbaijan slowed. In the first quarter of 2026, commercial bank lending increased by 8.9% year-on-year, compared to 16.7% in the first quarter of 2025. During this period, the average interest rate on loans in the national currency stood at 19%, while the average rate on foreign currency loans was 6.5%. In Q1 2026, borrowing costs increased in both domestic and foreign currency segments compared to previous quarters.



In 2025, annual inflation in Azerbaijan remained elevated compared to the previous year but stayed within the upper bound of the central bank’s target range (4% ± 2%). This trend continued into 2026. In the first quarter, consumer price inflation stood at 5.7% year-on-year, compared to 5.5% in the fourth quarter of the previous year. Despite rising inflationary pressures, the Central Bank of Azerbaijan maintained an accommodative monetary policy stance. At the end of 2025, the policy rate stood at 6.75%, which was reduced by 0.25 percentage points in the first quarter of 2026, after which it remained unchanged.

