



Quarterly Review of the Caucasus Economy

(Second Quarter, 2026)



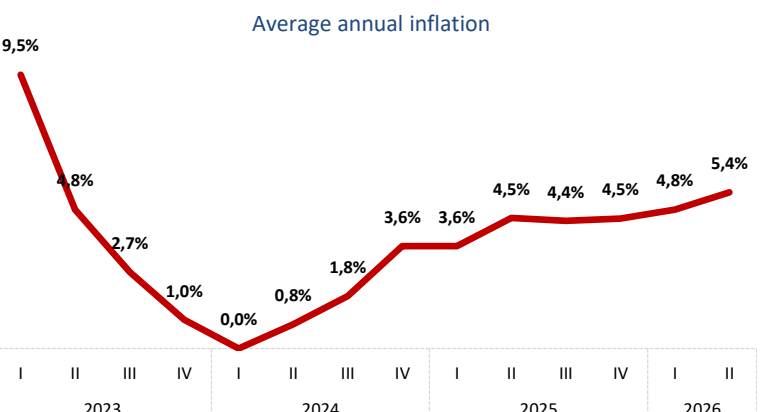
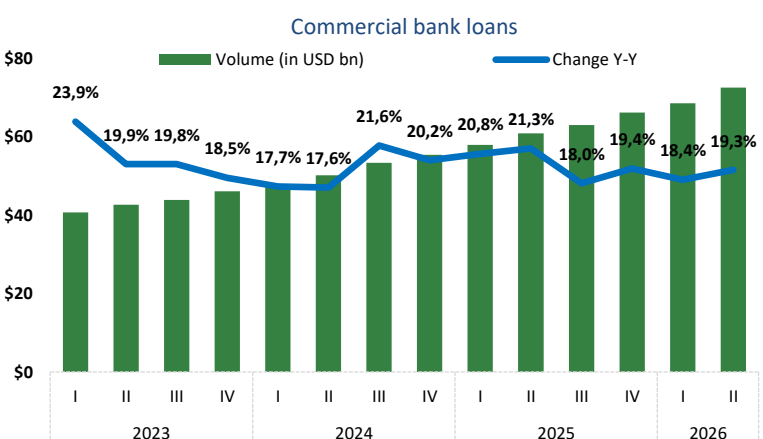
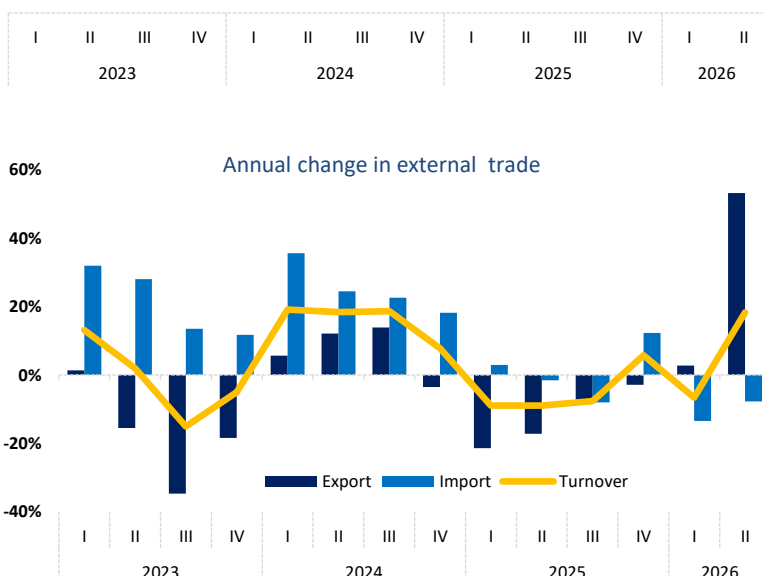
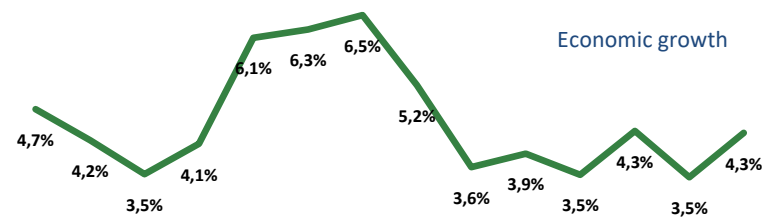


Following the slowdown of the high growth rate observed in the Caucasus during the post-pandemic period, the region's economy expanded by 4.3% in the second quarter of 2026 compared to the corresponding period of the previous year. By comparison, in the second quarter of 2025, the economic growth rate of the Caucasus was 3.9%. The upward pace of the region's economic expansion during this period is largely driven by the acceleration of the economic growth rate in Azerbaijan, whose share accounts for more than half of the Caucasian economy. The improvement in the economic situation is mostly attributed to the high growth of the services sector and a relative increase in oil production.

Foreign trade is a driving factor for economic growth. The region's economies are open, which determines the significant role of foreign trade in economic development. In the second quarter of 2026, the trade turnover of the Caucasus amounted to 27,808.1 million USD, exceeding the indicator of the same period of the previous year by 18.8%. In this regard, the trade dynamic improved this year. During this period, the growth dynamic is primarily characterized by the export of goods. In the second quarter of 2026, the value of exports increased by 53.2% year-on-year; however, at the same time, imports contracted by 7.7%.

Loans issued by commercial banks are a vital source for financing local consumption and investments in the Caucasus (especially in Georgia). At the end of the second quarter of 2026, the total volume of loans issued by the region's commercial banks amounted to 72,451.3 million USD, representing a 19.3% annual increase. The annual growth dynamic of the loan volume has slowed down during this period, as this indicator stood at 21.3% in the second quarter of last year.

Inflation remained a challenge for the region's central banks, as the overall price level growth in the second quarter of 2026 mostly exceeded the target indicator. In terms of consumer price growth, a relatively positive situation was observed in Armenia, while a negative one was noted in Azerbaijan. In the second quarter of the current year, the average annual inflation rate of the Caucasus amounted to 5.4%, which is an accelerated pace compared to previous periods. Against this backdrop, the monetary policy rates of the central banks mostly increased slightly.



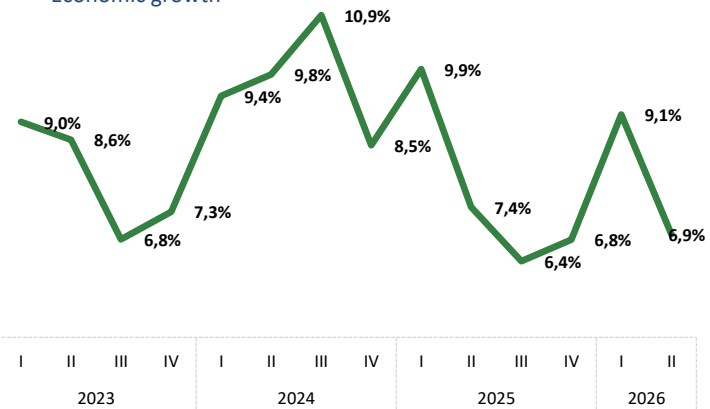
The high economic growth rate of the 2022-2024 period slowed down in 2025. In the second quarter of 2026, Georgia's economy grew by 6.9%, whereas in the corresponding period of 2025, the growth rate reached 7.4%. Although the pace of economic growth was slowed during the past year, it accelerated again from 2026 and exceeds the long-term average indicator. The driving force of economic growth remains the service-oriented, relatively less import-intensive sectors. The information and communication, as well as transportation sectors, which are service export-oriented fields, made a high contribution to the growth in the first half of 2026. At the same time, foreign demand had a significant impact on the formation of consumption. However, in the second quarter, revenues from tourism decreased by 3.8%.

In the second quarter of the current year, the expansion rate of Georgia's trade turnover is accelerated. In the second quarter of 2026, the turnover indicator increased by 11.3% year-on-year, which is slightly higher compared to the same period of the previous year, as the growth rate reached 10% in the second quarter of 2025. In the first half of 2026, a higher growth rate of exports was observed compared to imports. In the second quarter, the value of exported goods increased by 17.2% year-on-year, while in the case of imports, the rise was at the 8.8% mark. During this period, the value of imports exceeded the export indicator by 126.7%. Automobiles remained the main imported and subsequently re-exported goods in Georgia.

Recently, the growth rate of total loans in Georgia has slowed down. In the second quarter of the current year, the annual growth of loans amounted to 13.9%, which slightly lags behind the growth rates of the previous quarter of the current year and the first quarter of 2025 by 2.1 and 1.5 percentage points, respectively. During this period, loans became more expensive. While the average interest rate in the national currency was 15% in the second quarter of 2025, it already reached 15.2% in the same quarter of 2026. The cost of short-term and long-term loans amounted to 16.5% and 15%.

Inflation in Georgia is accelerated. From this period, inflation exceeds the target indicator (3%). In the fourth quarter of 2025, annual inflation amounted to 4.7%, which was 4.6% in the first quarter of 2026. In the second quarter, inflation reached 5.8%. During this period, the prices of transportation services grew faster than other commodity groups in the consumer basket. Against the backdrop of accelerated inflation, in the second quarter of 2026, the central bank's refinancing rate increased by 0.25 percentage points to 8.25%. However, since 2023, the policy rate had been intensively decreasing.

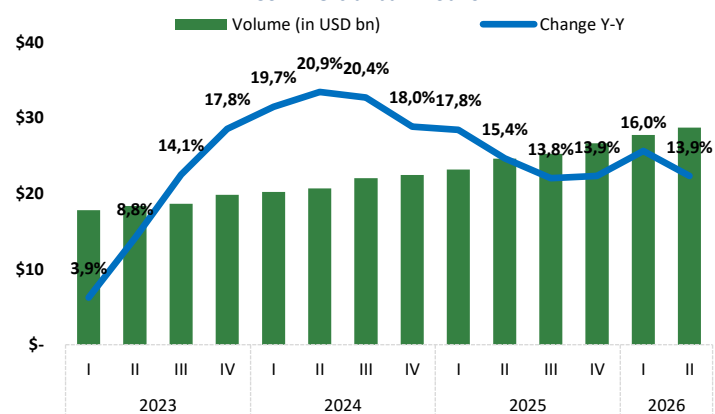
Economic growth



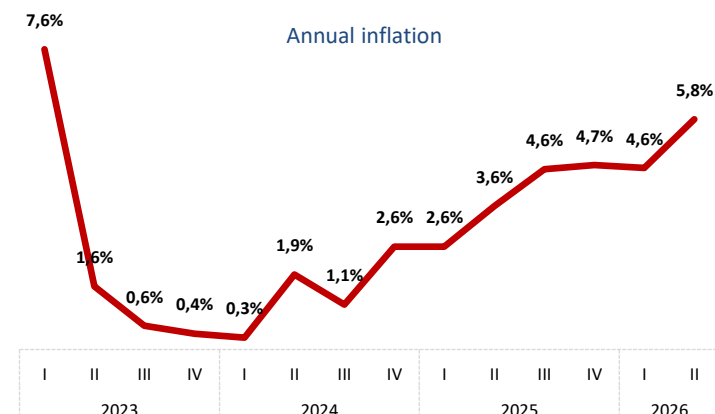
External trade, in USD mln



Commercial bank loans



Annual inflation

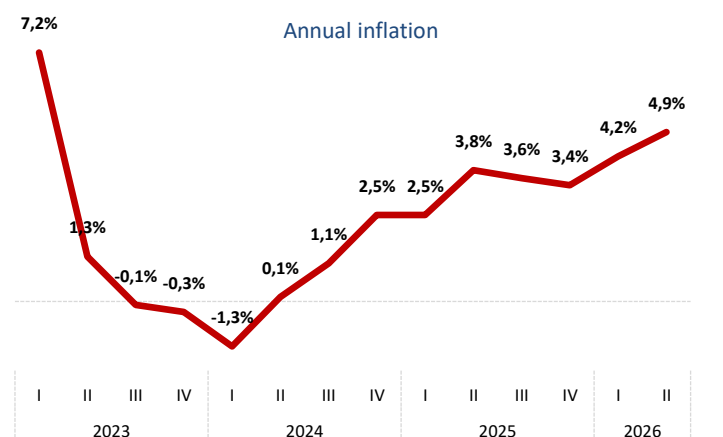
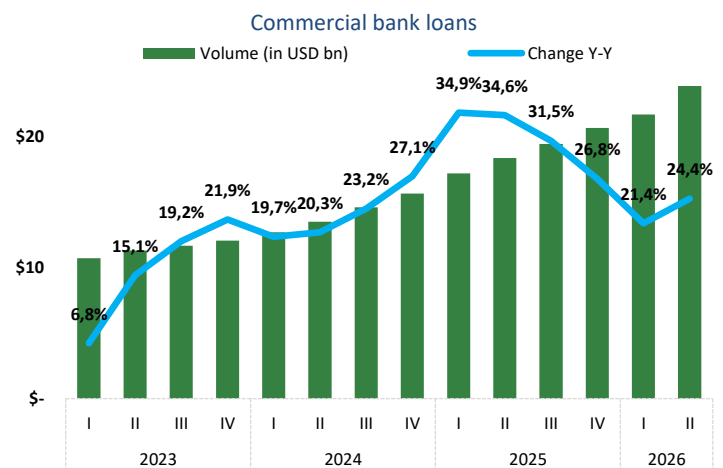
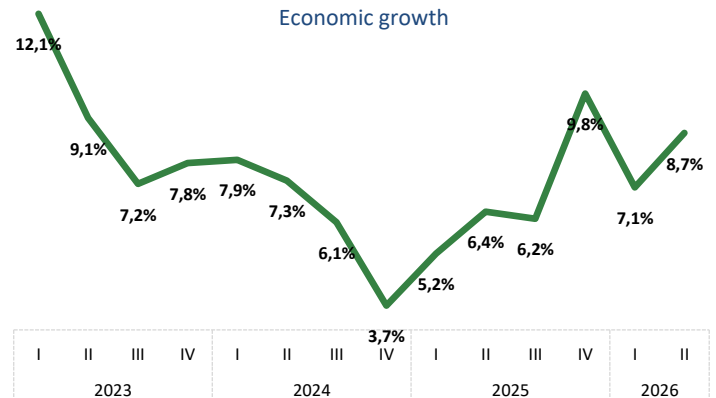


Following the high economic growth rate of the 2022-23 period, the pace of economic expansion in Armenia slowed down during 2024. In the fourth quarter of the same year, the growth mark was only 3.7%. However, in 2025, the economic growth rate accelerated again. In the second quarter of the current year, Armenia's economy grew by 8.7%, which had amounted to 7.1%. During this period, the growth rate of the construction sector was high, exceeding the levels of previous years. Consequently, the construction field had a distinctly significant contribution to economic growth, which was driven by investments from the private sector in real estate, and from the public sector in infrastructure. At the same time, based on the structure of the economy, the services sector had the highest contribution to growth, which was the result of the expansion of information technology services. In the second quarter, the annual growth of information technology was 15%.

Armenia's foreign trade turnover has worsened. In the second quarter of 2026, compared to previous periods, trade turnover decreased by 6%. In the corresponding period of the previous year, foreign trade turnover was reduced by 33.6%. In 2026, the decline in trade turnover is largely related to exports. In the second quarter of the current year, the value of Armenia's exports decreased by 19.6% year-on-year, while in the case of imports, a 2.8% increase was recorded. During this period, the value of imports exceeded that of exports by 95.6%. Precious metals and stones remained the main export and import goods. However, the role of this commodity group in Armenia's exports is twice as high as in the import value. In the first half of 2026, the pace of economy lending by commercial banks in Armenia relatively accelerated.

In the first quarter of 2026, the total volume of loans, compared to the corresponding period of the previous year, was 21.4% higher. In the second quarter, this indicator reached 24.4%. In the second quarter of 2026, the average interest rate on short-term loans in the national currency was 13.2%, while the cost of long-term credits in commercial banks averaged 15.2%. In the second quarter of the current year, compared to the corresponding period of the previous year, loans were cheaper.

Inflation in Armenia accelerated last year. In the second quarter of 2026, inflation was 4.9% - higher than the target indicator (3%). In the first quarter, this indicator amounted to 4.2%. In 2026, education services were characterized by a rapid price growth rate in the consumer basket. Despite the acceleration of the price level increase, the Central Bank of Armenia was easing its monetary policy. Compared to the second quarter of 2025, in the same period of 2026, the refinancing rate was reduced by 0.5 pp to 6.5%.



Following the high economic growth rate of 2024, the pace of Azerbaijan's economic growth slowed down. In the second quarter of the current year, the economy grew by 1.7%, whereas in the corresponding period of the previous year, it expanded by 1.5%. In the first quarter of 2026, Azerbaijan's economy contracted by 0.3%. The acceleration of the economic growth rate is associated with the increase in the services sectors, as the transportation services and information technology sectors grew by 8% and 7.5%, respectively. This year, the oil and gas industry declined by 0.7% in nominal terms. Specifically, a 3.1% decrease in crude oil production and a 1.1% increase in gas extraction were recorded. However, growth was also observed in other sectors, which was driven by an increase in household and government consumption. The growth in consumption was facilitated by the increase in the growth rate of consumer loans and government social expenditures.

In the second quarter of 2026, Azerbaijan's foreign trade turnover increased by 32.5% year-on-year. This, following the dynamic of the previous quarter, is an improvement. In the first quarter of the current year, the value of trade turnover was reduced by 15.1%. The upward dynamic in the second quarter is related to the expansion of exports, particularly oil exports. In the second quarter of 2026, exports grew by 88.2%, while the value of imports contracted by 26%. The main component of exports is the oil and gas industry, and the growth of their extraction production was reflected in the expansion of Azerbaijan's export value. Meanwhile, the main imported goods were machinery, equipment, and electronics.

Following the high growth rate of total loans in Azerbaijan in 2024, the pace of lending slowed down. If in the second quarter of 2025 the annual growth of the volume of commercial bank loans was 12%, in the second quarter of the current year this indicator amounted to 12.1%. During this period, the average interest rate on loans in the national currency at commercial banks was 18.3%, while in foreign currency, this indicator reached an average of 6.1%. In the second quarter of 2026, compared to previous quarters, loans in both local and foreign currencies became more expensive.

In 2025, inflation rate in Azerbaijan was maintained at a high level, but it did not exceed the upper limit of the target indicator ($4 \pm 2\%$). This trend continues in 2026 as well. In the second quarter, the overall price level growth was 5.6% year-on-year, whereas in the first quarter it amounted to 5.7%. However, against the backdrop of accelerating inflation, the Central Bank was easing its monetary policy. At the end of 2025, the monetary policy rate was 6.75%, which, in the first quarter of the current year, is 0.25 percentage points less. However, in the subsequent period, the rate remained unchanged and amounted to 6.5%.

