

Barisitz, Stephan

Research Report

The South Caucasus (Armenia, Azerbaijan and Georgia): A high-growth, resource-rich strategic crossroads in the focus of geo-economic tensions

Occasional Paper, No. 12

Provided in Cooperation with:

Oesterreichische Nationalbank (OeNB), Vienna

Suggested Citation: Barisitz, Stephan (2025) : The South Caucasus (Armenia, Azerbaijan and Georgia): A high-growth, resource-rich strategic crossroads in the focus of geo-economic tensions, Occasional Paper, No. 12, Oesterreichische Nationalbank (OeNB), Vienna

This Version is available at:

<https://hdl.handle.net/10419/318446>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

OCCASIONAL PAPER No. 12
April 2025

**The South Caucasus (Armenia,
Azerbaijan and Georgia):
a high-growth, resource-rich
strategic crossroads in the focus of
geo-economic tensions**

Stephan Barisitz

The *Occasional Paper* series of the Oesterreichische Nationalbank is designed to disseminate and to provide a platform for discussion of either work of the staff of the OeNB economists or outside contributors on topics which are of special interest to the OeNB. The opinions are strictly those of the authors and do in no way commit the OeNB.

The Occasional Papers are also available on our website (<http://www.oenb.at>).

Publisher and editor

Oesterreichische Nationalbank
Otto-Wagner-Platz 3, 1090 Vienna, Austria
PO Box 61, 1011 Vienna, Austria
www.oenb.at
oenb.info@oenb.at
Phone (+43-1) 40420-6666

© Oesterreichische Nationalbank, 2025. All rights reserved.

May be reproduced for noncommercial, educational and scientific purposes with appropriate credit.

The South Caucasus (Armenia, Azerbaijan and Georgia): a high-growth, resource-rich strategic crossroads in the focus of geo-economic tensions

Stephan Barisitz¹

The three South Caucasus economies – Armenia, Azerbaijan and Georgia – have performed relatively well since the COVID-19 pandemic, benefiting from certain spillovers of Russia’s war against Ukraine. The oil importers Armenia and Georgia achieved double-digit GDP growth in 2022 – 12.6% and 11.0%, respectively, followed by annual average rates of 7% to 8% in 2023–24. A recovery in tourism and private consumption since 2021 and a (temporary) surge in immigration, capital and remittance inflows and intermediated trade triggered by the war and sanctions have bolstered economic growth and fiscal revenues and shored up external balances as well as national currencies. The strengthened currencies contributed to declines in inflation and public debt, while vigorous growth helped lower unemployment and poverty. Structural problems and insufficient investment in its oil industry are largely responsible for Azerbaijan’s lower GDP growth dynamics – 4.7% in 2022 and an average of 2% to 3% in 2023–24. Notwithstanding the suffering inflicted by the Nagorno-Karabakh war, fiscal expenditure for the reconstruction of the region (Azerbaijan) and for sheltering and integrating about 100,000 refugees (Armenia), respectively, stimulated growth in 2023–24. While the European Union is Azerbaijan’s dominant trading partner, Russia and China together outstrip the EU in trade with Armenia and Georgia. EU integration prospects of candidate country Georgia are currently shrouded in political and geo-economic uncertainty. The same holds true for Armenia’s recently expressed EU aspirations.

JEL classification: E52, E63, G21, G28, P34

Keywords: fiscal policy, monetary policy, exchange rate regime, sanctions, trade and financial spillovers, banking, oil and gas exporters, relocation, remittances, intermediated trade, COVID-19, standard of living, South Caucasus, Armenia, Azerbaijan, Georgia, geo-economic tensions

The South Caucasus region consists of two relatively small countries – Georgia (in the west, bordering on the Black Sea) and Armenia (in the south, land-locked) – and a relatively large one – Azerbaijan (in the east, bordering on the Caspian Sea). The region’s immediate neighbors are Russia in the north (North Caucasus), Türkiye in the southwest and Iran in the southeast. The EU’s nearest member countries, Romania and Bulgaria, lie at a distance of more than 1,000 km across the Black Sea from Georgia, and further away from the other two South Caucasus countries. Armenia has slightly less than 3 million inhabitants, Georgia’s population is 3¾ million and Azerbaijan’s exceeds 10 million. While Armenia and Georgia benefit from tourism and inflows of guest worker remittances², Azerbaijan is an important oil and gas producer and exporter.³ Georgia is an EU candidate country, Armenia has recently expressed interest in joining the EU, while Azerbaijan is interested in cooperating with, but not joining the European Union.

¹ Oesterreichische Nationalbank, Central, Eastern and Southeastern Europe Section, stephan.barisitz@oenb.at. Opinions expressed by the authors of studies do not necessarily reflect the official viewpoint of the OeNB or the Eurosystem. The author is most grateful to Julia Wörz (OeNB) for her valuable comments and proposals. Nico Petz (OeNB) also provided precious suggestions. Cutoff date: March 31, 2025.

² Armenian guest workers are mostly active in Russia, Georgian guest workers in Türkiye and Russia. In 2024, the largest share of remittances flowing to Georgia came from the EU.

³ Hydrocarbons account for about nine-tenths of Azerbaijan’s merchandise exports (ADB, 2022, p. 162). Azerbaijan also benefits from remittance inflows, but to a more limited degree; in this case too, Russia is the most important destination of guest workers.

As they are located between Southeastern Europe and Central Asia, and between Russia and the Middle East, the South Caucasus countries gained further importance as a strategic crossroads due to Russia's invasion of Ukraine and multiple Western sanctions against Russia, which supported increased economic activity in the South Caucasus. Russia's war against Ukraine moreover incentivized the search for an alternative east-west transportation corridor between Europe and China, circumventing Russia, as well as the EU's search for alternative energy suppliers to Russia. The present short study tries to retrace and explain economic developments in the South Caucasus over the last five years (2021–25), from post-pandemic recovery (2021) via the momentous impact of Russia's full-scale invasion of Ukraine (2022–23) to most recent moderating tendencies (2023–25). Section 1 briefly compares the three countries' post-COVID-19 recovery policies, section 2 explains the economic boost that Russia's invasion of Ukraine had indirectly triggered through various channels in the region, section 3 describes the most recent waning or easing of these stimulating factors and section 4 deals with sectoral economic aspects and their possible impact on growth, standards of living and trade. Section 5 wraps up the short study with an outlook and some concluding remarks.

Before going to section 1, it is important to grasp two geopolitical features of the region: First, Georgia does not control two of its former autonomous regions (which together comprise about 9% of its population and 18% of its territory): Abkhazia in the northwest and South Ossetia in the north had declared their independence from Georgia soon after Georgia had declared its independence from the USSR in 1991. A Georgian attempt to retake South Ossetia by military force in violation of peacekeeping agreements in 2008 was followed by Russia's intervention and unlawful occupation of both regions, which has lasted until today.⁴

Second, the Azerbaijani former autonomous region of Nagorno-Karabakh (situated in the west of the country and formerly mostly populated by ethnic Armenians)⁵ had also declared its independence in the early 1990s and was conquered by Armenia in the first Karabakh war (1992–94). Azerbaijan reconquered the region in the second (2020) and third (summer of 2023) Karabakh wars, followed by the flight of over 100,000 ethnic Armenians to Armenia. While Russian troops opened a humanitarian corridor between Nagorno-Karabakh and Armenia, Russia did not militarily intervene in the conflict on the side of its traditional ally Armenia.⁶ This led to a cooling off of Armenia's diplomatic relationship with Russia, which both remain members of the Eurasian Economic Union (EAEU), a customs union and single market the two countries share with Belarus, Kazakhstan and the Kyrgyz Republic. Confrontations between Armenian and Azerbaijani forces continue in disputed border areas.

⁴ For more information on the conflict in Georgia, see Tagliavini Report (2009).

⁵ Nagorno-Karabakh accounts for about 13% of Azerbaijan's territory and in 2019 comprised around 1.5% of its population.

⁶ Since 1992, the two countries together with Belarus and four Central Asian republics have been members of the Collective Security Treaty Organization (CSTO), a post-Soviet military alliance, which however has not been very active in the decades following the dissolution of the USSR.

Chart 1

Annual GDP growth in the South Caucasus from 2021 to 2025



Source: National statistics, IMF.

Note: ARM = Armenia, AZE = Azerbaijan, GEO = Georgia.

I From post-pandemic recovery (2021) ...

Led by surging private consumption and services following the lifting of COVID-19 restrictions in the second half of 2021, all three South Caucasus economies reversed sharp GDP contractions in 2020 to strong recoveries in 2021. While Armenia did not yet manage to fully offset its 2020 economic contraction (-7.2%) with its recovery the following year (+5.7%), Azerbaijan (GDP 2020: -4.3%, 2021: +5.6%) and notably Georgia (GDP 2020: -6.8%, 2021: +10.6%) did overcome their pandemic-triggered slumps already in 2021 (ADB, 2022, pp. 155, 160, 165).

Recovering tourism and remittance inflows (Armenia and Georgia), and hydrocarbon prices (Azerbaijan), respectively, strengthened current accounts. Pandemic fiscal stimuli were moderated or withdrawn in 2021. Consumption and investment recovery as well as rising energy prices pushed up inflation, which partly reached double digits (2021, year-end: Azerbaijan: 12%, Georgia: 13.9%), exceeding target rates. This of course prompted central banks to tighten their monetary stances and raise their key interest rates, which, however, in some cases (again Azerbaijan and Georgia) remained negative in real terms (see tables 2 and 3). Whereas the Georgian lari and the Armenian dram have had floating exchange rate regimes (since 1997 and 2009, respectively), the Azerbaijani manat has been pegged to the US dollar (at a rate of 1.7 AZN/USD since May 2017). The State Oil Fund of Azerbaijan (SOFAZ), the country's sovereign wealth fund, is a major supplier in the domestic foreign exchange market (ADB, 2022, p. 161). South Caucasus banks recovered and performed well in 2021, as lending expanded with the reopening of businesses and the revival of consumption.

2 ... to Ukraine war-triggered economic boost (2022–23)

In 2022 and 2023, against the backdrop of Russia's full-scale invasion of Ukraine, the South Caucasus economies, apart from Azerbaijan, witnessed a pronounced economic upswing, even producing double-digit growth rates in 2022, as shown in chart 1. The expected adverse spillover from Russia's war failed to materialize (ADB, 2023, p. 63). Azerbaijan's economic slowdown in 2022–23, despite high oil prices, was due to declining oil production given the gradual depletion of reserves and modest investment (Mammadov, 2024).

A total of around 250,000 Russian migrants (called *relokanty*) may have come to the South Caucasus countries since the start of the war in Ukraine in February 2022. An estimated 120,000 came to Georgia, around 80,000 arrived in Armenia, and about 50,000 in Azerbaijan (EBRD, 2024a, p. 22; Namazova, 2022). Many of these migrants were highly skilled information and communication technology (ICT) professionals. The influx of Russian *relokanty*, many of whom had rather high purchasing power, boosted private consumption, tourism, transportation, construction, banking, insurance and other services in the host countries. Their influx also drove up the number of newly registered companies (IMF, 2022, p. 33, p. 36). Money transfers from migrants surged and numerous bank accounts were opened. Housing prices and rents were temporarily pushed up. The ICT sector flourished, and export-oriented manufacturing expanded (IMF, 2024a, p. 8; EBRD, 2024a, p. 22).

At the same time, with the Russian labor market tightening due to war mobilization measures and out-migration, rising numbers of guest workers, particularly from Georgia and Armenia, moved to Russia and generated inflows of remittances to the South Caucasus.⁷ Swelling money transfers and other financial inflows exerted upward pressure on exchange rates (ADB 2024, pp. 65–66). Transit trade through the region, sometimes circumventing Western sanctions, expanded. Most of these war- and sanctions-related inflows of financial means and in- and outflows of people and goods climaxed in 2022 and eased in 2023. While *relokanty* inflows had spiked in late 2022 (following Russia's partial mobilization), many of them left the South Caucasus countries again from early 2023 and returned to Russia or moved to third countries.

The Armenian and Georgian economies' growth accelerated to 12.6% and 11.0%, respectively, in 2022 – on the back of a rapid expansion of private consumption and services – before moderating to 8.3% and 7.5% , respectively, in 2023 (see tables 1 and 3).⁸ The two economies' external positions improved, reflecting marked surpluses in services (gains in finance, travel and tourism) and increased inward money transfers,⁹ mainly from Russia. What was likely intermediated trade through Armenia spurred double-digit growth in both Armenia's exports and imports (IMF, 2022, pp. 35–36; ADB, 2023, p. 55). Similar developments were observed in Georgia, which in 2023 i.a. witnessed a doubling of vehicle re-exports, accounting for 35% of all exports that year (ADB, 2024, p. 67). Moreover, while Georgia had still featured COVID-19 restrictions in early 2022, tourism inflows that year already exceeded the pre-pandemic peak of 2019 by 8% and further increased in the first half of 2023. These favorable conditions enabled the National Bank of Georgia (NBG) to augment its international reserves (ADB, 2023, p. 65; EBRD,

⁷ For example, remittance inflows to Georgia grew substantially in 2021–24 (average: 8.2% of GDP) compared to the years from 2017 to 2019 preceding the COVID-19 pandemic and Russia's war against Ukraine (average: 5.0% of GDP).

⁸ These extraordinary growth rates exceeded those of any CESEE country in these two years.

⁹ For instance, in Georgia inward money transfers swelled by 86% to a record 17.7% of GDP in 2022, and further increased by 29% in the first half of 2023 (year on year), before ebbing (EBRD, 2023, p. 27).

2023, p. 27). Armenia's current account balance turned negative again in 2023 on waning money transfers, while Georgia's remained largely unchanged in negative territory.¹⁰

Gradual fiscal consolidation, helped by robust growth and improved tax administration, made progress in Armenia as well as in Georgia. In Armenia, inflation accelerated to 8.3% at end-2022 on the back of buoyant demand and high global food and energy prices. This was well above the upper limit of the Central Bank of Armenia's (CBA) target range of 2.5% to 5.5%. To curb inflation, the CBA went on tightening its monetary stance in 2022 by raising its policy rate by a cumulative three percentage points to 10.75% by year-end (ADB, 2023, p. 54). Yet the sharp decline of global food and energy prices in 2023 was the major factor influencing the price front, leading to a plunge of the inflation rate to -0.6% that year. Given already high Georgian inflation in 2021, the NBG hiked its elevated policy rate by 50 basis points to 11%, which contributed to bringing inflation below double digits to 9.8% at end-2022. In this case though, it was the Georgian lari's exchange rate appreciation – largely due to swelling money transfers from Russia – that was pivotal in bringing down price pressures.¹¹ As a result, in 2023 Georgian inflation further dropped to 0.4%. As domestic demand and cash inflows from migrants remained strong, the Armenian and Georgian central banks “only” cut their policy rates by 2 percentage points and 1.5 percentage points, respectively, to 8.75% and 9.5%, respectively, at end-2023 (see tables 1 and 3).

Azerbaijan's GDP growth slowed to 4.6% in 2022 because of lower oil production even as the oil price spike that year sharply widened the current account surplus to almost 30% of GDP. Oil output shrank by 5.6% in 2022 because major oil rigs were shut down for maintenance, which more than offset expanding gas production. As table 2 shows, economic growth declined to 1.1% in 2023 on the back of further shrinking oil output and dwindling transshipment activities (ADB, 2024, p. 60). Declining oil prices and output slashed net exports and reduced the current account surplus to 12% of GDP in 2023. Public investment grew by 8.3% in 2022 as reconstruction in regained territories (in and adjacent to Nagorno-Karabakh) picked up, while private investment stagnated. In mid-2023, the authorities amended the budget to (further) increase public rebuilding investment and to lift public sector wages, providing fiscal stimulus to the economy (EBRD, 2023, p. 27). Overall, after spiking at 6.3% of GDP in 2022 (fueled by high hydrocarbon prices and brisk growth), the budget surplus receded to 2% of GDP in 2023.

Financial inflows rose sharply from USD 0.7 billion in the period from January to September 2021 to USD 2.3 billion in the corresponding period of 2022 because of rising remittances from Azerbaijani guest workers and increasing money transfers from *relokanty*. In 2023, financial inflows moderated again to USD 1.9 billion (ADB, 2024, p. 62). To curb double-digit inflation (14.4% in 2022), the Central Bank of the Republic of Azerbaijan (CBRA) reined in broad money growth and raised its policy rate from 7.5% to 9.0% in May 2023. The maintained *de facto* peg of the Azerbaijani manat to the US dollar held down pressure from imported inflation (ADB, 2023, p. 61; ADB, 2024, p. 61).¹² The monetary tightening exercise, the sharp drop of global

¹⁰ The annual inflow of money transfers to Georgia decreased by 5% to USD 4.1 billion in 2023 from an all-time high in 2022 (ADB, 2024, p. 67).

¹¹ IMF staff estimates that at its peak, Georgian lari appreciation cut inflation by 6 percentage points (IMF, 2024a, p. 7). Another argument explaining lower inflationary pressures in Georgia in 2022–23 relates to productivity increases due to the inflow of often highly skilled Russian migrants that (temporarily) elevated Georgia's potential growth.

¹² Notwithstanding the Azerbaijani manat's *de facto* peg to the US dollar, the low level of Azerbaijan's financial integration, given modestly developed domestic financial markets, has permitted the CBRA to pursue a relatively independent monetary policy (IMF, 2023, p. 11).

commodity prices and slower inflation in trade partners pushed domestic inflation down to 4.4% at end-2023. This improvement prompted the CBRA to cut its policy rate back to 8% at the end of the year.

The South Caucasus countries' financial sectors remained broadly healthy during the growth spurt of 2022–23. They benefited from the economic boom, substantial money transfers and capital inflows. Armenia and Georgia even saw their bank deposits grow by 60% to 70% relative to 2021. That said, with *relokanty* returning home or moving on, deposits then started to level off again (EBRD, 2024a, p. 24). As tables 1 to 3 show, banking activity remained highly dollarized, notably in Armenia and Georgia (40% to 45% of total lending), less so in Azerbaijan (20% to 25%).

3 From waning war-triggered boost to new growth drivers (2024–25)?

With capital and financial inflows, remittance payments and intermediated trade with Russia further waning in 2024, Armenia's GDP growth eased to 5.7% that year. While Georgia was also affected by receding favorable economic spillovers from Russia, its strong growth of 9.4% in 2024 was underpinned by rising wages, domestic consumption as well as a buoyant tourism sector, positioning the country among the fastest-growing economies globally (Dow Jones Newswires, 2025). Yet in 2025, economic expansion is expected to moderate in Armenia as well as Georgia (IMF GDP growth projections¹³: 4.9% and 6.0%, respectively), given continuing geopolitical volatility in Armenia and the risk of persisting domestic political instability related to the recent electoral cycle in Georgia (see also Isayev, 2025, and section 6 below). Azerbaijani economic growth, under pressure from weak oil production and emerging capacity constraints, picked up from a low level to 4.1% in 2024 due to the expansion of the country's non-oil economy, notably the gas sector, as well as public investment (EBRD, 2025, p. 36). Gas output has been rising steadily amid expanding EU demand for Azerbaijan's oil and gas (EBRD, 2024a, p. 33). This increasing demand emerged i.a. as the EU sought to replace sanctioned Russian hydrocarbon exports. Azerbaijani GDP growth is expected to ease to below 3% in 2025 (IMF GDP growth projection¹⁴: 2.6%), as shown in chart 1.

Among the driving forces of the continuing strong growth in Armenia were a surge in industry, notably in jewelry and gold production, and a substantial rise of public fixed capital formation, centered on the urgent construction of apartments and amenities for Nagorno-Karabakh refugees (most of whom had fled in September 2023). This additional expenditure, as well as further public spending to strengthen national defense and boost social protection, pushed the budget balance deeper into the red (deficit: 4.8% of GDP in 2024). Notwithstanding sizable inflows of secondary income related to Armenian refugees, slowing remittance inflows from Russia coupled with continuing strong domestic demand caused the current account shortfall to further deteriorate to 4.5% of GDP in 2024. Relatively low food and energy prices and a still quite high, if lowered, CBA policy rate (7% at end-2024) caused the inflation rate to hover at modest levels (e.g. 1.7% at end-January 2025).

While fewer Russian tourists came to Georgia in 2024, rising numbers of tourists from EU countries and Türkiye sustained revenues in this critical sector.¹⁵ Falling Georgian re-exports to

¹³ As of January 2025.

¹⁴ As of January 2025.

¹⁵ The Georgian tourism sector reportedly even attained record highs in 2024, welcoming 7.4 million international visitors (EBRD, 2025, p. 37).

Russia¹⁶ combined with robust domestic demand (i.a. fueled by wage rises) contributed to the widening of the current account deficit to 5.8% of GDP. Foreign direct investment (FDI) inflows reportedly declined in 2023 and 2024; the further decline in 2024 may have also reflected some domestic uncertainty (see also section 6).¹⁷ While inflation had dropped sharply in 2023, it somewhat rebounded in 2024 to 4.0% (year-end). The NBR responded with a limited reduction of its still high policy rate to 8%. Monetary easing has been cautious amidst persisting dynamic loan growth (EBRD, 2024b, p. 29).

As mentioned above, the Azerbaijani oil and gas sector has benefited from increased demand in the European market, with Italy not only becoming Azerbaijan's number 1 oil importer and gas deliveries to Italy strongly increasing, but with Italy strengthening its impressive lead as Azerbaijan's number 1 trading partner (see charts A3 and A4; Azernews, 2025). Non-oil GDP has continued to be supported by sizable public investments in the reconstruction of Nagorno-Karabakh, which contributed to pushing Azerbaijan's budget from surplus to near-balance (see table 2; IWF, 2024b, p. 10). In a way that is somewhat comparable to the monetary development in Georgia, Azerbaijani inflation slightly rose to 4.9% at end-2024, which prompted the CBRA to continue easing its policy rate cautiously to 7.25% against the backdrop of robust domestic demand.

Financial systems have (so far) continued to be a driving force of economic expansion in the South Caucasus countries. While deposit inflows have slowed down, credit expansion – whether corporate or retail – has remained strong for the time being. For example, loan growth in Armenia reached about 21% (year on year) in September 2024, supported by building, consumer and mortgage loans (IMF, 2024c, p. 6).

¹⁶ While re-exports declined in 2024, the numbers of used cars resold to Russia that year were reportedly still four times what they had been in 2021, which likely indicates that this served as some sort of sanction circumvention.

¹⁷ That said, two large investments were announced in 2024 and early 2025, respectively: A USD 6 billion project of the EMAAR corporation (United Arab Emirates) for the economic modernization of Tbilisi and a USD 600 million construction project of the strategic Black Sea port of Anaklia awarded to a Chinese-Singaporean holding (Sikharulidze, 2025).

Table 1

Armenia: key macroeconomic and financial sector indicators

	2021	2022	2023	2024 (estimated)	2025 (projected)
GDP growth (annual, in real terms, %)	5.8	12.6	8.3	5.7	4.9
Current account (% of GDP)	-3.5	0.3	-2.3	-4.5	-4.5
FDI flows ¹⁾ (net, % of GDP)	2.4	4.8	2.2	1.3	1.7
Remittance flows (% of GDP)	11.2	10.4	7.6	x	x
Gross external debt (% of GDP)	98.4	79.8	66.4	65.8	67
Gross international reserves (USD billion)	3.23	4.11	3.61	3.55	3.34
Gross international reserves (% of GDP)	23.3	21.1	15	14.1	12.6
External public debt service (% of exports)	9.2	4.7	5.7	4.1	8.7
Central government budget balance (% of GDP)	-4.6	-2.1	-2	-4.8	-5.5
CPI inflation (year-end, %)	7.7	8.3	-0.6	1	3.9
Exchange rate: AMD/USD (annual average) ²⁾	504	436	392	x	x
Central Bank of Armenia (CBA) policy rate (year-end, %)	7.75	10.75	8.75	7	x
Credit to the private sector (annual growth in %)	-3.9	4.5	18.4	15.4	11.7
Nonperforming loans (to total gross loans in %)	1.9	2.8	2.4	1.2 ³⁾	x
Banks' foreign exchange liabilities to total liabilities (%)	47.4	50.3	46.1	43.0 ³⁾	x
Capital adequacy ratio (%)	17.2	20.3	19.9	20.4 ³⁾	x
Unemployment rate (average, %)	15.5	13.5	12.6	13	13.5
<i>Memorandum items:</i>					
Population (million)	2.96	2.93	2.96	2.96	2.96
GDP (nominal, AMD billion)	6,992	8,501	9,453	10,161	11,015
GDP (nominal, USD billion)	13.88	19.51	24.09	25.25	26.58
GDP per capita (purchasing power parity, USD thousand)	15.92	19.41	21.53	23.38	24.97

Source: National statistics, IMF, theGlobalEconomy.com, Statista.

¹⁾ Negative sign = inflows.²⁾ AMD = Armenian dram.³⁾ Third quarter.

Note: x = data not yet available.

Table 2

Azerbaijan: key macroeconomic and financial sector indicators

	2021	2022	2023	2024 (estimated)	2025 (projected)
GDP growth (annual, in real terms, %)	5.6	4.7	1.1	4.1	2.6
Current account (% of GDP)	15.1	29.8	12.4	13.4	10.5
FDI flows ¹⁾ (net, % of GDP)	-4	-6.5	-4.3	-2.8	-2.5
Remittance flows (% of GDP)	2.8	5	3.6	x	x
Gross external debt (% of GDP)	15.1	9.7	9.8	8.8	8.8
Gross international reserves (USD billion)	7.1	9	11.3	11.5	11.7
Gross international reserves (% of GDP)	13	11.4	14.7	14.4	14.1
Assumed oil price ²⁾ (annual average, USD per barrel)	71.2	98.4	82.5	81.9	78
SOFAZ ³⁾ assets (% of GDP)	82.1	62.3	66.5	66.2	64.3
Overall fiscal balance (% of GDP)	4.1	6.3	2	0.4	-1.4
CPI inflation (year-end, %)	12	14.4	4.4	4.9	5
Exchange rate: AZN/USD (annual average) ⁴⁾	1.7	1.7	1.7	x	x
Central Bank of the Republic of Azerbaijan (CBRA) policy rate (year-end, %)	7.5	8.25	8	7.25	x
Credit to the economy (annual growth in %)	16.7	17.4	17.4	12	10
Nonperforming loans (to total gross loans in %)	4.5	3.8	3.5 ⁵⁾	x	x
Share of foreign currency loans in total loans (%)	27.7	24.9	22.4	20.2	18.2
Capital adequacy ratio (%)	20	19.3	18.5 ⁵⁾	x	x
Unemployment rate (average, %)	6	5.7	5.6	x	x
<i>Memorandum items:</i>					
Population (million)	10	10.1	10.1	10.2	10.4
GDP (nominal, AZN billion)	93.2	133.8	130.6	135.5	140.7
GDP (nominal, USD billion)	54.8	78.7	76.8	79.7	82.8
GDP per capita (purchasing power parity, USD thousand)	20.34	22.73	23.66	24.7	25.48

Source: National statistics, IMF, Statista.

¹⁾ Negative sign = inflows.²⁾ IMF WEO plus USD 2-3 premium.³⁾ SOFAZ = State Oil Fund of Azerbaijan (oil stabilization fund, sovereign wealth fund).⁴⁾ AZN = Azerbaijani manat.⁵⁾ Third quarter.

Note: x = data not yet available.

Table 3

Georgia: key macroeconomic and financial sector indicators

	2021	2022	2023	2024 (estimated)	2025 (projected)
GDP growth (annual, in real terms, %)	10.6	11	7.5	9.4	6
Current account (% of GDP)	-10.3	-4.5	-4.3	-5.8	-5.6
FDI flows ¹⁾ (net, % of GDP)	-4.8	-7.2	-4.3	x	x
Remittance flows (% of GDP)	8.6	9.4	8	6.8	6.7
Gross external debt (% of GDP)	98.7	81	70.2	66.7	62.8
Gross international reserves (USD billion)	4.4	4.9	5	4.5	x
Gross international reserves (% of GDP)	23.4	19.6	16.4	13.7	x
External debt service (% of exports and primary income)	29.5	22.7	20.8	x	x
Overall fiscal balance (% of GDP)	-6	-2.6	-2.3	-2.5	-2.2
CPI inflation (year-end, %)	13.9	9.8	0.4	4	3.7
Exchange rate: GEL/USD (annual average) ²⁾	3.22	2.9	2.63	x	x
Exchange rate: GEL/EUR (annual average) ²⁾	3.82	3.1	2.8	x	x
National Bank of Georgia (NBG) policy rate (year-end, %)	10.5	11	9.5	8	x
Credit to the economy (annual growth in %)	12.3	3.7	16.6	15	x
Nonperforming loans (to total gross loans in %)	1.9	1.7	1.6	x	x
Share of foreign currency loans in total loans (%)	50.9	45	44.5	44.1	43.7
Capital adequacy ratio (%)	19.6	20.3	22.2	x	x
Unemployment rate (average, %)	11.8	11.7	11.6	x	x
Memorandum items:					
Population (million)	3.73	3.69	3.74	3.74	3.74
GDP (nominal, GEL billion)	60.7	72.9	80.2	88.6	97.6
GDP (nominal, USD billion)	18.8	25	30.5	32.9	35.6
GDP per capita (purchasing power parity, USD thousand)	18.81	22.61	24.85	27.36	29.53

Source: National statistics, IMF, World Bank, Statista.

¹⁾ Negative sign = inflows.

²⁾ GEL = Georgian lari.

Note: x = data not yet available.

4 Comparing South Caucasus oil importers (Armenia, Georgia) and oil exporter (Azerbaijan) with respect to growth, standard of living and trade

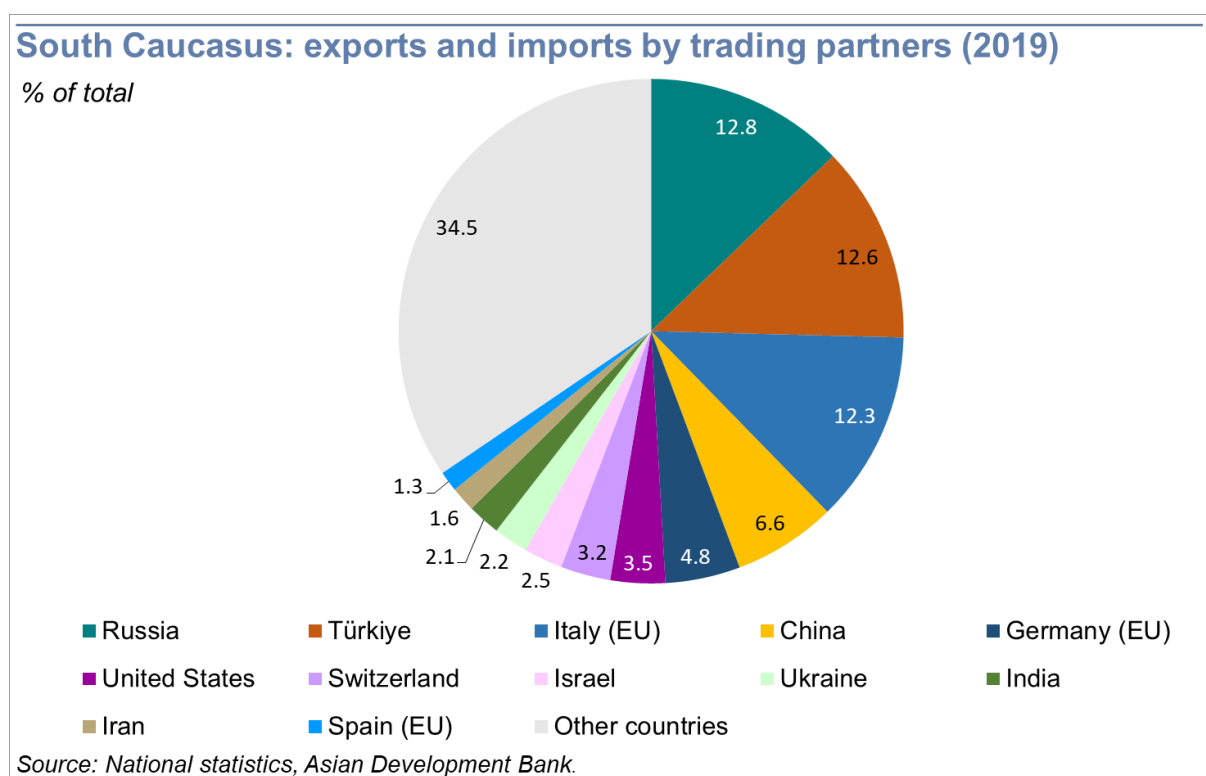
Both Armenia's and Georgia's economic growth spiked at double digits (12.6% and 11.0%, respectively) in the first year of Russia's war against Ukraine (2022) and remained above pre-war growth rates also in 2023 and 2024. In these two years, Armenia boasted an average GDP growth of 7.0% p.a. and Georgia one of 8.4% p.a.; in the pre-war and pre-pandemic years of 2017–19, Armenia's average growth had been 6.7% and Georgia's 5.6%. Azerbaijan also recorded an economic upswing from 2022, if from a lower point of departure. After expanding by 4.7% in 2022, Azerbaijan's GDP "only" grew by 2.2% on average in the following two years, which, however, was still almost twice the country's average growth rate in the period from 2017 to 2019 (1.3%). Therefore, notwithstanding protracted oil production problems, it is difficult to discard the inference that war-related spillovers contributed to lifting Azerbaijan's growth rate in 2023–24.

Despite its losses in the Nagorno-Karabakh conflict, the oil importer Armenia is reported to have largely caught up with the oil exporter Azerbaijan in terms of standard of living in recent years: According to data provided by the IMF World Economic Outlook of October 2024 (IMF, 2024d), the gap in per capita income (measured in purchasing power parities) between the two countries shrank from 22% in 2021 to 5% in 2024 (see tables 1 and 2). This was probably due to a combination of protracted weaknesses of Azerbaijani oil production and of positive trade and financial spillovers from the war in Ukraine that Armenia profited from to a greater degree than

its eastern neighbor. Georgia has, in recent years, not suffered from warfare on its soil, while it appears to have benefited even more from (temporary) inflows of human capital and other favorable externalities of the Ukraine war. It is therefore not surprising that Georgia's standard of living overtook that of Azerbaijan in 2023 and clearly exceeded that of both of its South Caucasus peers in 2024 (Armenia's by 15% and Azerbaijan's by 11%). Compared with their peers in Central, Eastern and Southeastern Europe (CESEE), and based on purchasing power parities, all three South Caucasus countries were richer in 2023 (GDP per capita: Armenia: USD 21,530, Azerbaijan: USD 23,660, Georgia: USD 24,850) than e.g. Moldova (USD 17,320), Albania (USD 20,020) or Bosnia and Herzegovina (USD 20,430); yet the South Caucasus was poorer than e.g. Belarus (USD 30,120), Bulgaria (USD 36,860) or Kazakhstan (USD 39,460) (IMF, 2024d).

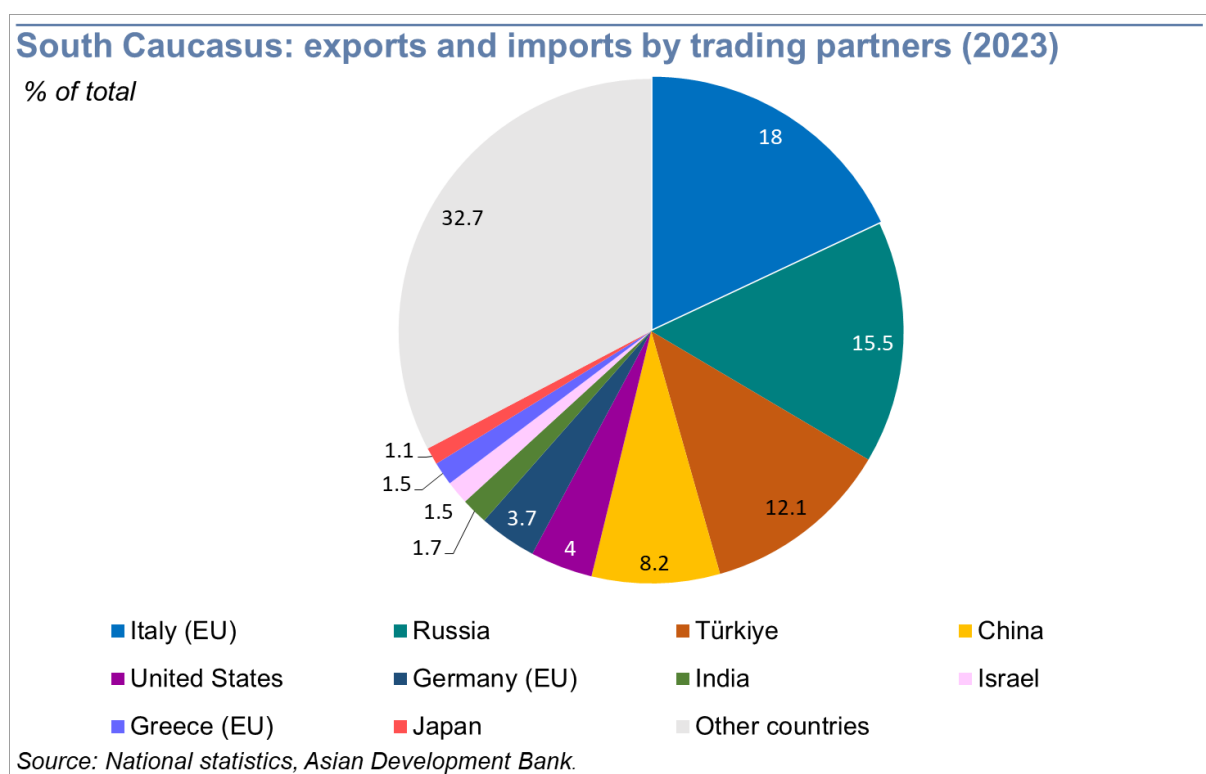
As far as foreign trade is concerned, the two smaller South Caucasus countries – Georgia (an EU candidate country) and Armenia – distinguish themselves from the larger country – Azerbaijan (that has not expressed interest in joining the EU) – in a perhaps unexpected way. The EU regional trade share is largest and has expanded most with Azerbaijan (to almost 40% of the country's foreign trade volume in 2023), largely on account of already substantial and expanding EU imports, predominantly of oil replacing Russian oil deliveries, chiefly to Italy – Azerbaijan's most important trading partner by far, as mentioned above (see also chart A4). Türkiye is Azerbaijan's second most important trading partner (15%), followed by Russia (9%) and China (6%). In contrast, the European Union's trade share is yet quite modest in EU candidate country Georgia and in Armenia, which has recently expressed its willingness to join the EU. The European Union's trade share has reportedly contracted in 2019–23 from low double digits to a one-digit level in Armenia, and has remained at one-digit level in Georgia. As charts A1 and A2 show, Russia remains Armenia's principal trading partner (accounting for more than one-third of Armenia's trade volume in 2023 and leading in exports as well as imports), followed by the United Arab Emirates (11% in 2023), China (10%) and Vietnam (4%). In Georgia's case (see charts A5 and A6), Türkiye is the trading partner number 1 (14% in 2023), followed by Russia (11%), the United States (10%) and China (8%).

Chart 2



Looking at the entire South Caucasus region (see charts 2 and 3), Italy displaced Russia and became trade partner number 1 in 2023 (18%), followed by Russia (16%), Türkiye (12%) and China (8%). Overall, Russia and China together account for a share of the region's trade that is approximately the same size (2023: 24%) as that of the European Union. The Western countries (2023: around 30%) remain somewhat outdistanced by emerging markets (around 38%) as trading partners of the South Caucasus.

Chart 3



5 Outlook and concluding remarks: robust but easing growth, persisting geo-economic uncertainty

The IMF expects GDP growth of the oil importers Armenia and Georgia to remain strong but to ease (Armenia 2025: 4.9%, 2026: 4.5%; Georgia 2025: 6.0%, 2026: 5.0%), as positive trade and financial spillovers from Russia’s war against Ukraine further peter out and external vulnerabilities and regional tensions likely persist. In Azerbaijan, the outlook is for more modest growth (2025: 2.6%, 2026: 2.4%), as hydrocarbon production is expected to stabilize amid capacity bottlenecks, while government investments in infrastructure and defense continue to support the economy (IMF, 2024b, pp. 11–12; EBRD, 2025, p. 36).

In any case, the South Caucasus – “sandwiched” between the EU, Russia, Iran and Türkiye – remains highly exposed to geopolitical and geo-economic developments. Escalating tensions and sanctions related to the war in Ukraine could (further) drive up input prices and disrupt payment systems. Looking at Armenia and Azerbaijan, peace discussions to reach understandings over border delineation and territorial control have continued since the end of open hostilities in Nagorno-Karabakh in September 2023, but progress has been limited and critical security issues remain unanswered (IMF, 2024c, p. 4)¹⁸. Against the backdrop of persistent tensions with Azerbaijan and of the cooler diplomatic relationship with Russia, Armenia has lately reached out to establish closer relations with Western powers. The new Armenia-United States Strategic Partnership Charter was signed in mid-January 2025 by Armenia and the outgoing

¹⁸ While the two countries announced in mid-March 2025 that they had agreed on the terms of a peace deal, the two sides have so far not concurred on the preconditions to be met for signing this deal (Geybullayeva, 2025).

US administration of President Biden.¹⁹ In January 2025, the Armenian authorities also approved a bill to launch an EU accession bid (Light, 2025). Yet, Armenian membership in the EU would be institutionally incompatible with its membership in the EAEU customs union, which the Armenian authorities do not intend to replace with anything else for the time being (Zargarian, 2025). Brussels has not yet officially responded to the country's intentions.

Although Azerbaijan does not harbor European integration ambitions, it currently participates in the EU's European Neighborhood Policy and in the Eastern Partnership, as do its South Caucasus neighbors. But unlike the latter, Azerbaijan is the European Union's largest regional trading partner, given its size and given the fall-out from Russia's war against Ukraine and from the EU's oil sanctions against Russia, which contributed to surging oil purchases from Azerbaijan. As pointed out in Barisitz (2025, p. 9), the European Union has been promoting the multimodal "Middle Corridor" for overland trade from China across Central Asia (circumventing Russia), Azerbaijan and Georgia to Europe, while Russia and also heavily sanctioned Iran have made attempts to modernize connectivity on the "International North-South Transport Corridor" (INSTC) leading from St. Petersburg via Azerbaijan and Iran to Mumbai (Kundu, 2024). Thus, while both transport corridors have yet to take off, and INSTC is still in its infancy, it is particularly Azerbaijan that constitutes the (potential) hub of east-west and north-south connectivity in the region.

Georgia earned EU candidate status in December 2023 against the backdrop of deep domestic political divisions (IMF, 2024a, p. 5). The European Union stated that the Georgian government will need to make progress in nine priority reform areas to be able to officially start accession talks, including in sensitive domains like judicial reforms, de-oligarchization, LGBTQ+ rights, media reforms and central bank independence. In the parliamentary elections of October 2024, the governing Georgian Dream Party won an absolute majority of votes; while a number of irregularities and alleged fraud were widely criticized and the Organization for Security and Cooperation in Europe (OSCE) in its monitoring report recommended measures to improve future elections, the OSCE did not demand a cancelation and repetition of the election (OSCE, 2024, pp. 3–7). In late October 2024, the European Commission decided to pause accession talks with Georgia given the country's lack of progress in the above-mentioned fields and the serious shortcomings of the 2024 elections. In late November 2024, Prime Minister Kobakhidze formally suspended talks on joining the EU until 2028 in view of deteriorated relations between the Georgian authorities and the European Union (Megrelidze, 2024).²⁰

While the US administration of President Biden, before leaving office in January 2025, sanctioned a number of Georgian government officials for crackdowns on opposition demonstrations following the elections, the EU – apart from suspending visa-free travel for Georgian diplomats in late January 2025 – has so far not achieved a consensus on sanctioning the Georgian authorities. While further progress on the EU integration route could send a positive signal, benefits would probably be limited, at least in the near term, as Georgia already enjoys preferential economic ties

¹⁹ This agreement provides for bilateral cooperation in the promotion of democracy, economic freedom, human rights, the rule of law and energy security.

²⁰ The political tensions that Georgia experienced throughout most of 2024 also had an impact on foreign exchange markets. Particularly in the runup to the elections did the NBG intervene heavily in foreign exchange markets to support the Georgian lari. As of February 2025, international reserves were again at the level of late 2021/early 2022 in absolute terms (prior to their substantial expansion in 2022 and the first half of 2023); but given Georgia's strong economic growth since then, in relative terms, reserves in early 2025 were about ten percentage points of GDP lower (at 13% of GDP) than they had been three years earlier. The year 2024 accounted for about one-third of that decline.

with the EU through its Association Agreement on the EU-Georgia Deep and Comprehensive Free Trade Area (DCFTA) (IMF, 2024a, p. 9). Moreover, the European Union itself has been struggling with very sluggish economic activity for a couple of years now and its share in Georgia's foreign trade remains quite modest, compared e.g. to the shares of Türkiye or Russia.

References

- ADB (Asian Development Bank). 2022.** Asian Development Outlook 2022 – Mobilizing Taxes for Development. April.
- ADB. 2023.** Asian Development Outlook. 2023. April.
- ADB. 2024.** Asian Development Outlook. 2024. April.
- Azernews. 2025.** Azerbaijani Gas Exports to Italy Surge in 2024. January 5. Baku.
- Barisitz, S. 2025.** Robust growth in Central Asia 2019-24 – In the face of uncertainties, the pandemic and protracted war in the neighborhood. OeNB Occasional Paper No. 10. January.
- Dow Jones Newswires. 2025.** S&P Global Ratings Affirms Georgia ‘BB/B’ Ratings; Outlook Stable. February 7.
- EBRD (European Bank for Reconstruction and Development). 2023.** Regional Economic Prospects in the EBRD Regions – Shifting Gears. September.
- EBRD. 2024a.** Regional Economic Prospects in the EBRD Regions – Taming Inflation. May.
- EBRD. 2024b.** Regional Economic Prospects in the EBRD Regions – Along the Adjustment Path. September.
- EBRD. 2025.** Regional Economic Prospects in the EBRD Regions – Weaker Momentum amid Fragmenting Trade and Investment. February.
- Geybullayeva, A. 2025.** Armenia and Azerbaijan stuck yet again in signing peace deal – just days after agreeing on the final text. OC Media. March 28.
- IMF (International Monetary Fund). 2022.** Annex I. Spillovers from the War in Ukraine, in: Republic of Armenia – Request for a Stand-by Arrangement. December 7.
- IMF. 2023.** Republic of Azerbaijan – Staff Report for the 2023 Article IV Consultation. December 19.
- IMF. 2024a.** Georgia – Staff Report for the 2024 Article IV Consultation. April 29.
- IMF. 2024b.** Regional Economic Outlook Middle East and Central Asia – Navigating the Evolving Geoeconomic Landscape. October.
- IMF. 2024c.** Republic of Armenia – Fourth Review under the Stand-by Arrangement and Request for Modifications of Performance Criterion and Monetary Policy Consultation Clause. November 22.
- IMF. 2024d.** World Economic Outlook – Policy Pivot, Rising Threats. October.
- Isayev, K. 2025.** EBRD raises Georgia’s economic growth forecast to 6% for 2025. Caliber. Baku. March 2.
- Kundu, N.D. 2024.** International North-South Transport Corridor: Enhancing India’s Regional Connectivity. Valdai papers. January 24.
- Light, F. 2025.** Armenian Government Approves Bill to Launch EU Accession Bid. Reuters. January 9.
- Mammadov, S. 2024.** Azerbaijan’s Oil is in Decline, but Gas is Growing. bne IntelliNews. January 24.

Megrelidze, S. 2024. Georgia Suspends Talks on Joining European Union, Accusing Bloc of Blackmail. Los Angeles Times. November 28.

Namazova, F. 2022. Ukrainian War and its Impact on Socio-Economic Situation in Azerbaijan. UNEC Research Foundation. Baku.

OSCE (Organization for Security and Cooperation in Europe). 2024. Georgia, Parliamentary Elections, 26 October: Final Report. December 20.

Sikharulidze, A. 2025. Is Georgia turning Eastward? The ruling party of the republic is looking for a replacement for European partners. Nezavisimaya Gazeta. March 24. 11.

Tagliavini Report. 2009. Independent International Fact-Finding Mission on the Conflict in Georgia. Report. Volume I-III. Max Planck Institute.

Zargarian, R. 2025. Yerevan Has ‘No Plans Yet’ to Quit Russian-Led Trade Bloc. Radio Liberty. January 13.

Annex

Chart A1

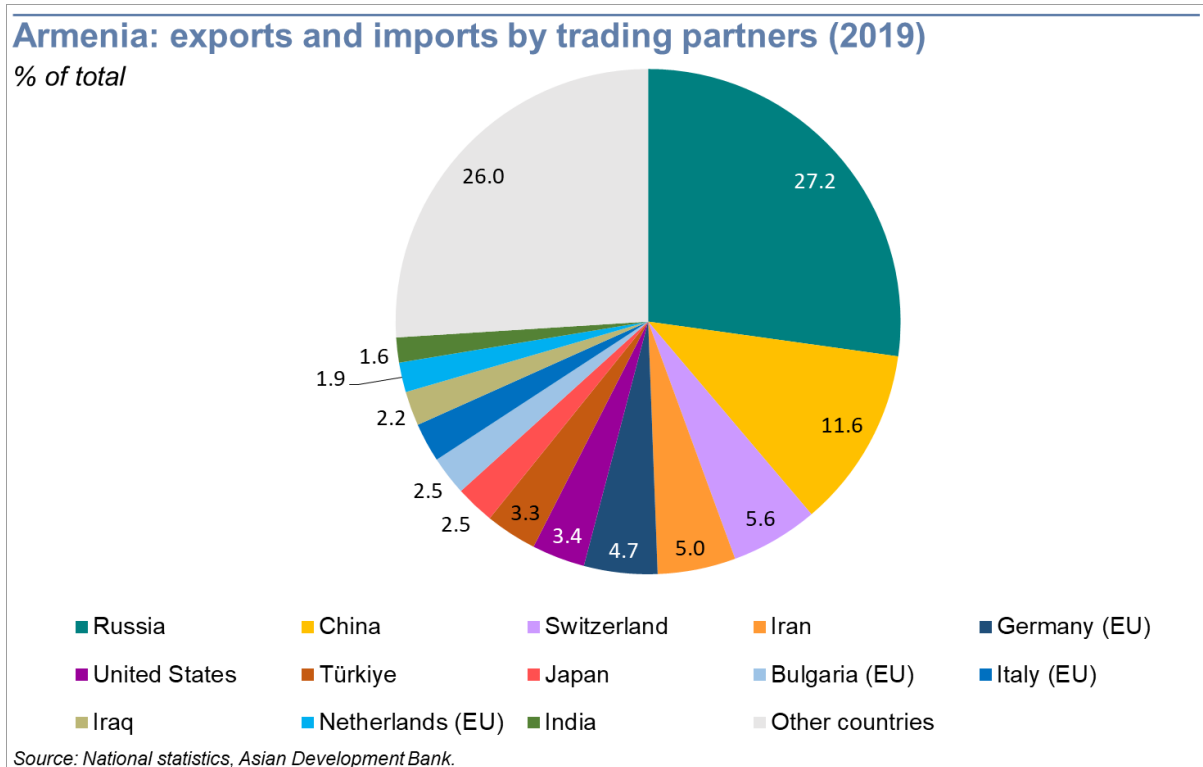


Chart A2

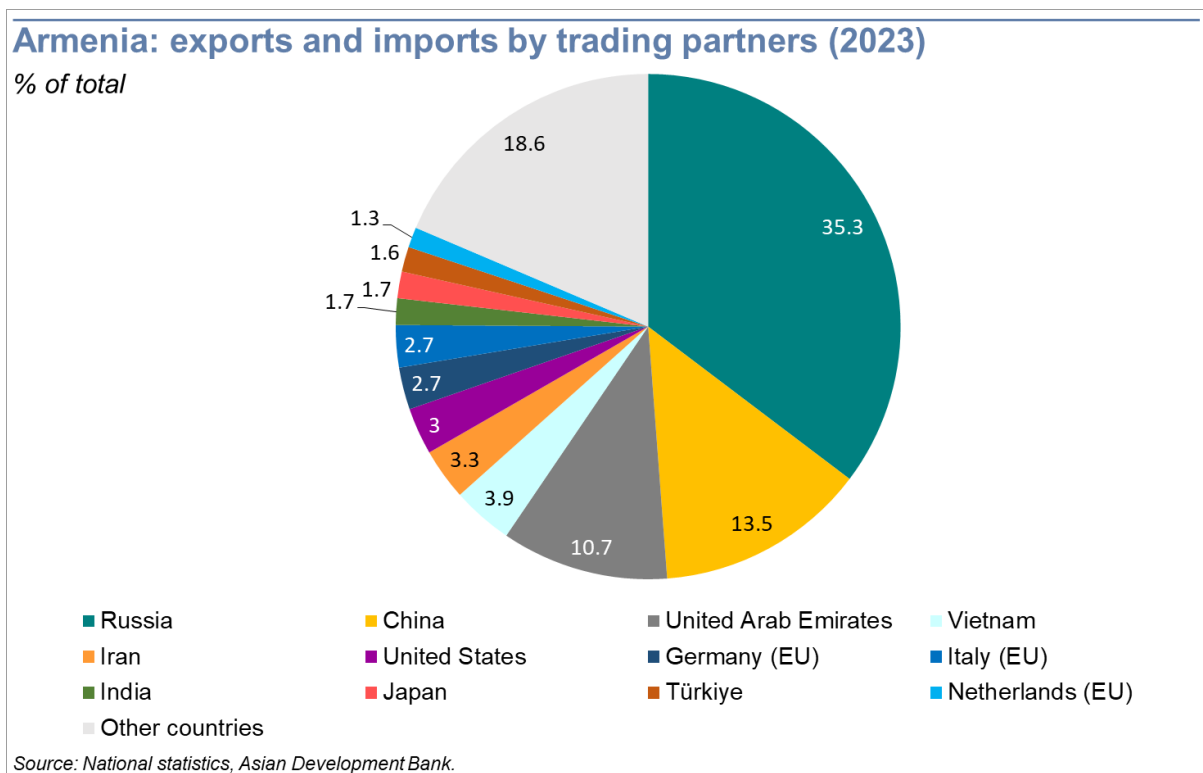


Chart A3

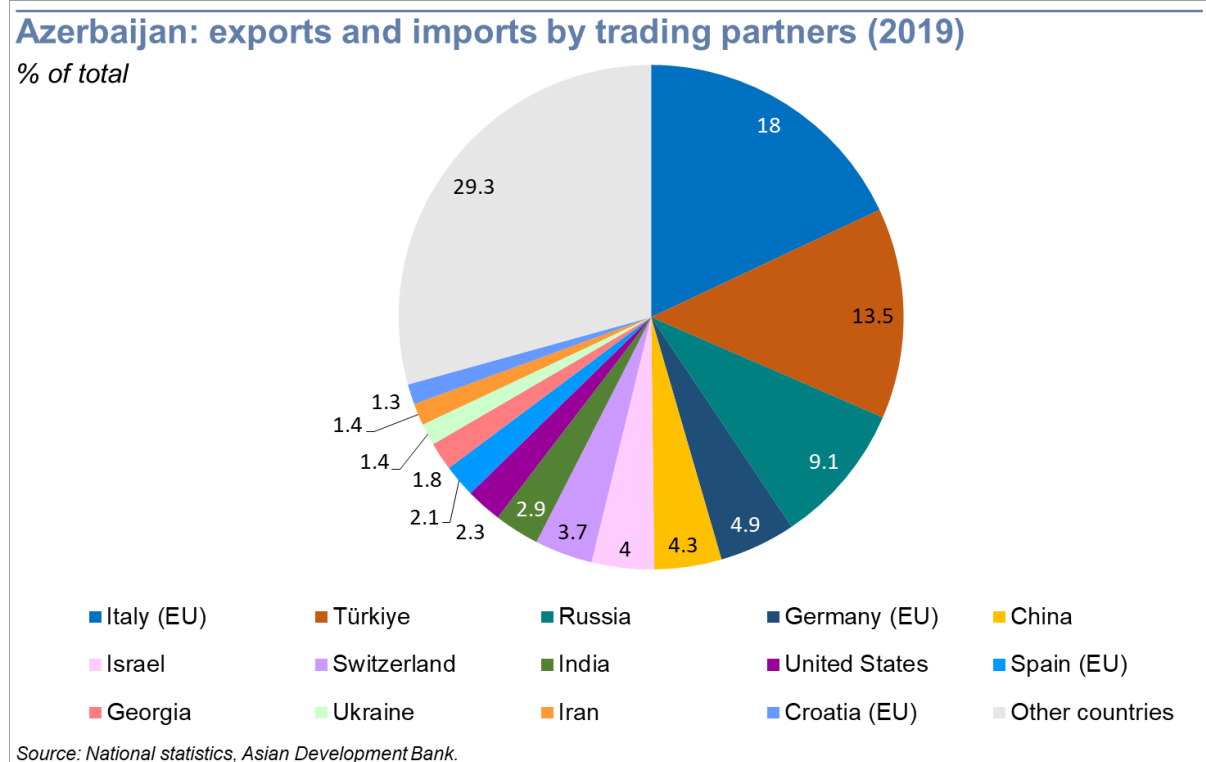


Chart A4

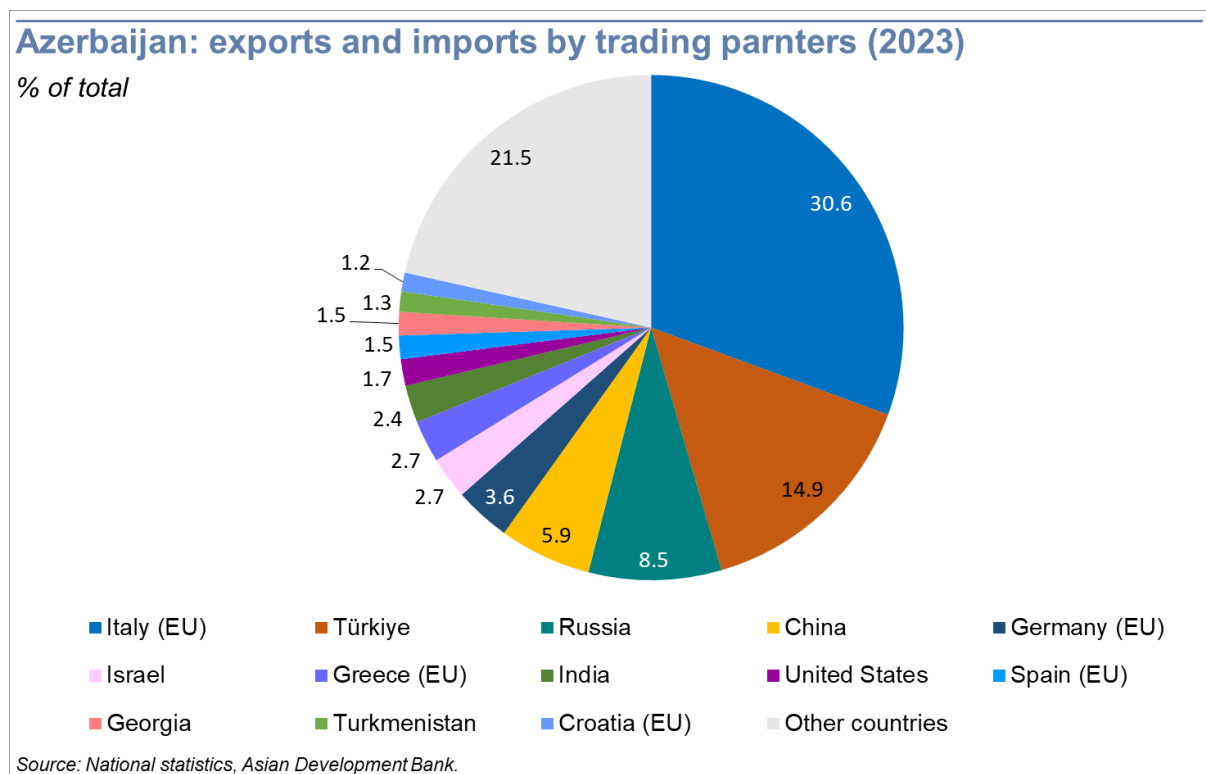


Chart A5

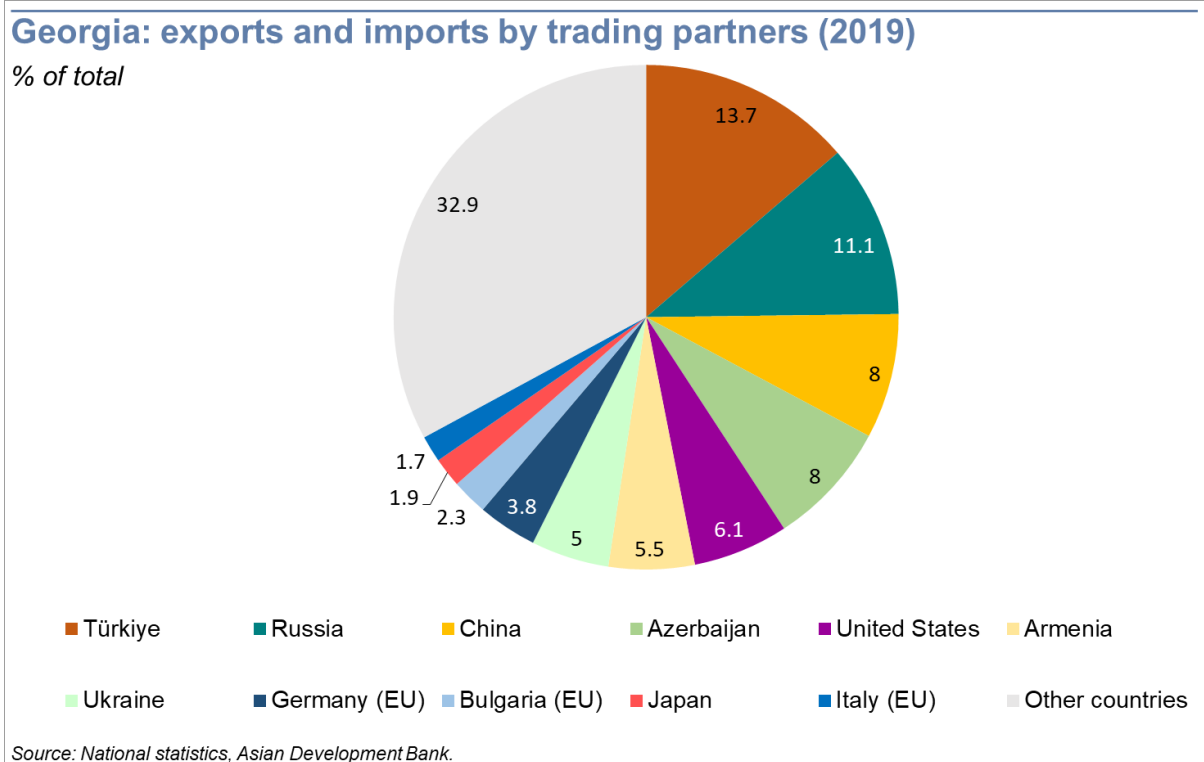


Chart A6

