

ECONOMIC MONITOR

– *draft for discussion* –

ARMENIA

Overview

- » 2024: real GDP growth of 5.9% yoy; above potential
- » 2025/2026: economic growth back at its potential; 4.9% yoy (2025) and 4.5% (2026) expected by IMF; peace agreement with AZE is a significant upside factor
- » Inflation remains low (Feb-25: 2.5% yoy) and is expected to reach the new CBA target of 3% +/- 1pp in 2025/2026
- » Stable and strong exchange rate; international reserves declined slightly (Feb-25: USD 3.4 bn)
- » Fiscal policy remains expansionary, as budget deficit is expected to increase to 5.5% of GDP and public debt to 53.7% of GDP in 2025 (i.e. above fiscal rule)
- » Normalisation of merchandise trade dynamics expected as “gold rush” and “vehicle re-exports” discontinue
- » Services trade stagnates as external demand weakens (especially tourism and ICT)

Special issue

- » **Peace agreement with AZE.** Potential economic benefits stemming from a peace treaty

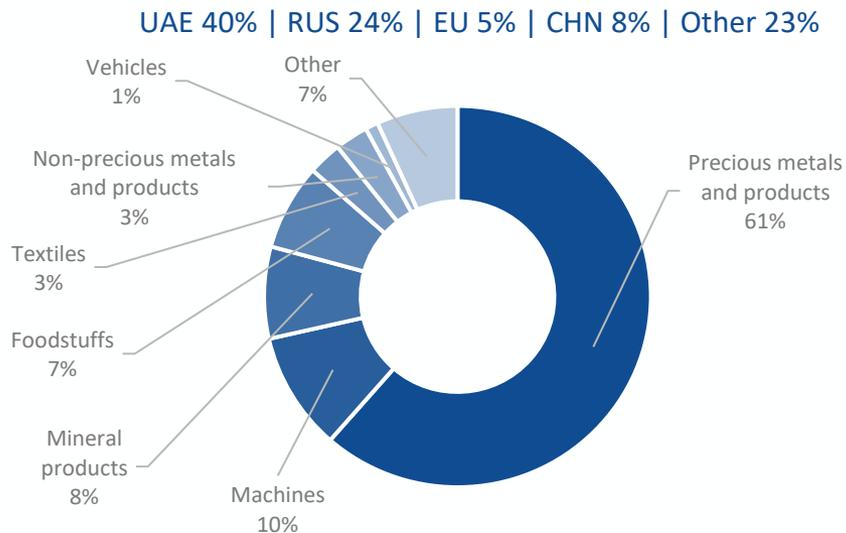
Basic indicators

	Armenia	Azerbaijan	Georgia	Ukraine	Russia
GDP, USD bn	25.4	78.7	32.9	188.9	2,056.8
GDP/capita, USD	8,575	7,641	8,825	5,663	14,391
Population, m	3.0	10.3	3.7	33.4	142.9

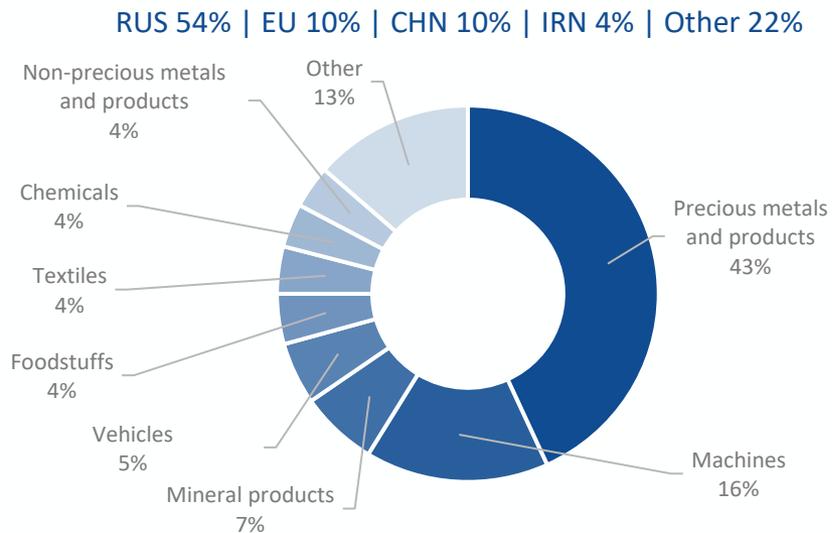
Sources: IMF, Note: data for 2024

Trade structure

Exports



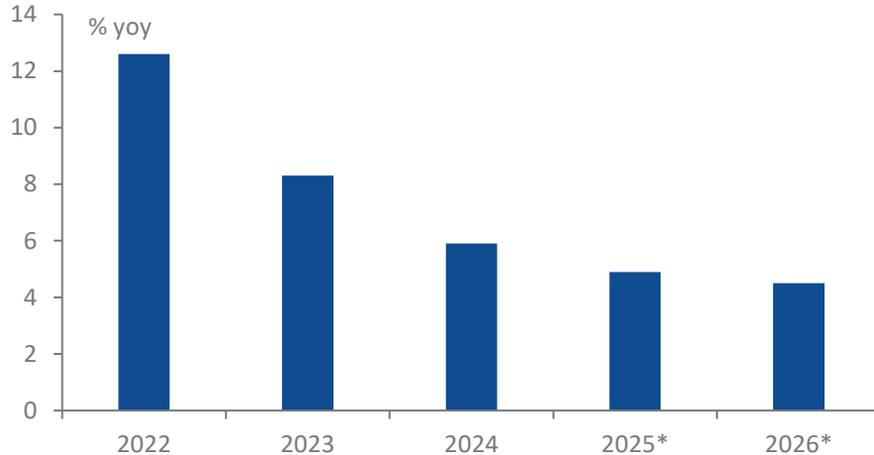
Imports



Source: Armstat, data for 2024, Note: merchandise trade

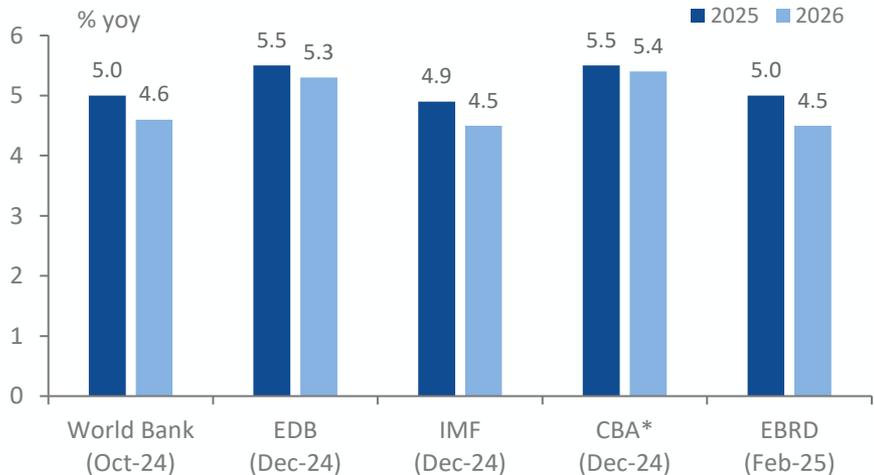
Economic growth

Real GDP growth



Source: IMF; *estimate/forecast

Comparison of real GDP forecasts for Armenia



Source: respective institutions; *CBA Macro Survey Q4 24 of financial market participants

2024

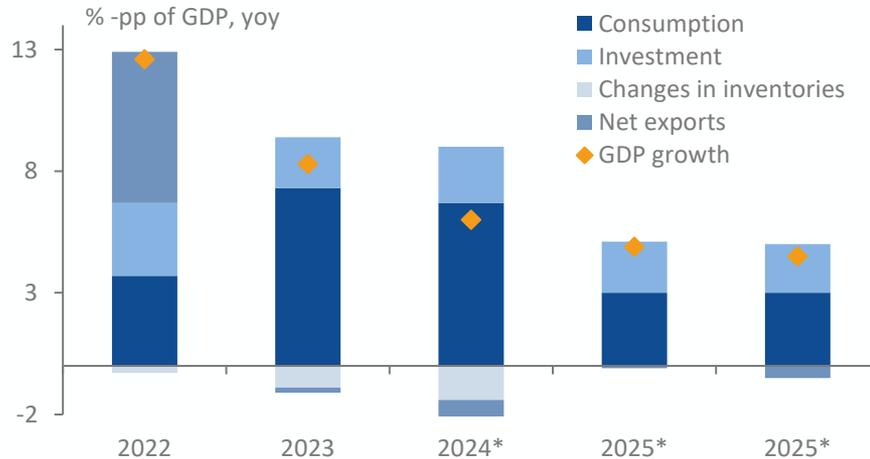
- » Real GDP growth of 5.9% yoy
 - Economy grew above potential
 - Special factors linked to relocation of RUS citizens (stronger consumption, exports of ICT, tourism and capital inflows) still active, but less than in 2022/2023
 - Expansionary fiscal policy in the context of high refugee inflows supports growth

2025/2026

- » Economic to grow at its potential
 - 2025: 4.9% yoy (IMF)
 - 2026: 4.5% yoy (IMF)
- » Expansionary fiscal policy will continue to support GDP growth
- » Upside factor: finalisation of peace agreement with AZE
- » Risk factor: deterioration of economic relations with RUS, especially in the energy sector
- **Robust economic growth with upside factor**

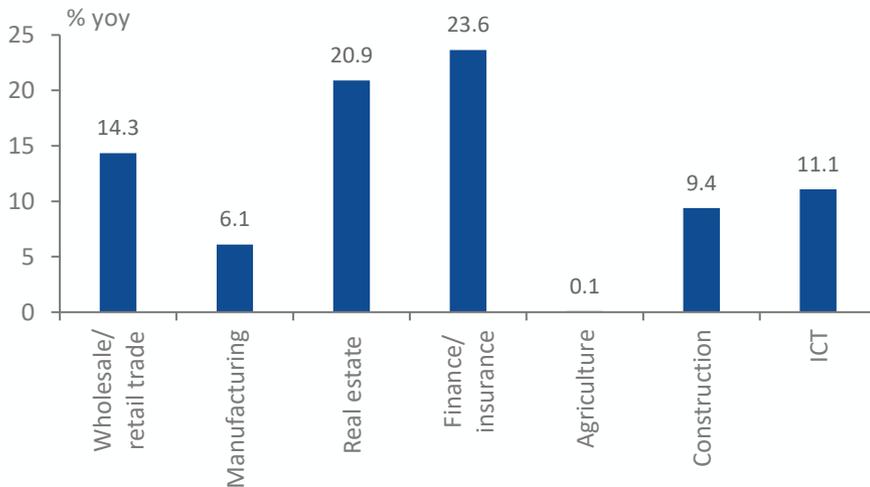
GDP: demand and supply

Contribution to real GDP growth



Source: IMF, *estimate/forecast

Sectoral dynamics (2024)



Source: CBA; Note: sorted from left to right by share in GDP in 2024 in descending order

Demand-side dynamics

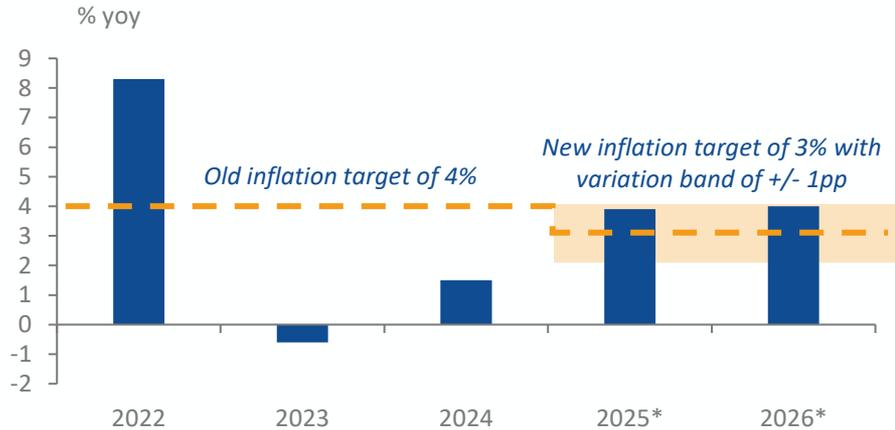
- » 2024: negative contribution of net exports as special factors fade out; consumption still main driver of growth
- » 2025: consumption and investment expected to remain key drivers

Supply-side dynamics (2024)

- » Positive special factors linked to relocation of RUS citizens continued to stimulate activity in several sectors
 - Finance: +23.6% yoy
 - Real estate: +20.9% yoy
 - Trade: +14.3% yoy
 - ICT: +11.1% yoy
 - Construction: +9.4% yoy
- » However: fade out of the positive factors especially visible in trade and ICT sector
- » Moderate growth in manufacturing (+6.1% yoy), while agriculture (+0.1%) stagnated
- Economic growth supported by many sectors

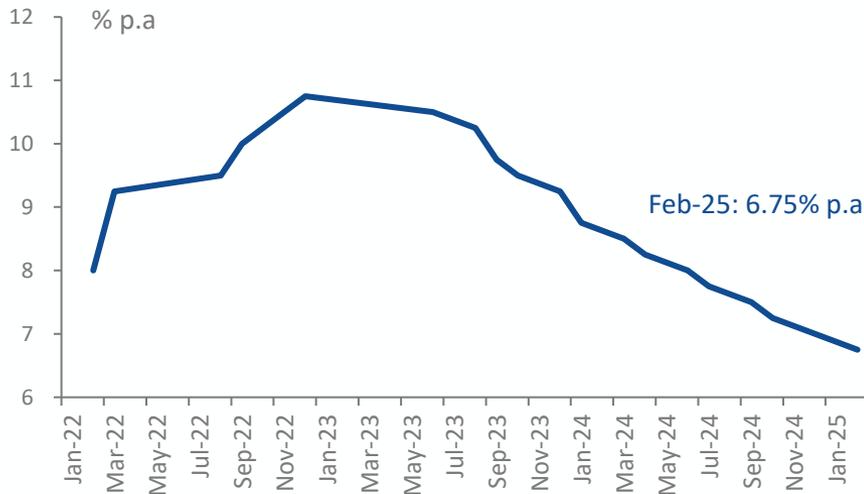
Inflation and monetary policy

Inflation rate



Source: CBA, IMF, *estimate/forecast; Note: end of period

Policy rate of CBA



Source: CBA; Note: end of period

Inflation

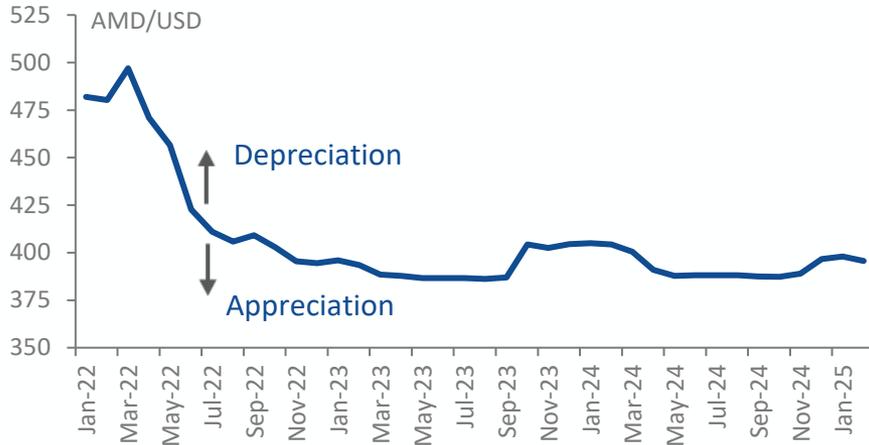
- » 2024: 1.5% yoy, below CBA target of 4.0%
 - Strong dram contributed to low inflation
- » 2025/2026: inflation is expected to increase
 - Feb-25: 2.5% yoy
 - Slight depreciation of the dram expected as role of special factors weakens
 - Also: expansionary fiscal policy
- » New CBA inflation target of 3% with variation band of +/- 1pp

Monetary policy

- » 2024: easing of policy stance continued
 - Eight adjustments with a total policy rate cut of 175 bp
- » 2025: further easing, but cycle is likely to be nearing its end
 - Feb-25: policy rate at 6.75% p.a.
- Low inflation and new CBA inflation target of 3% +/- 1pp

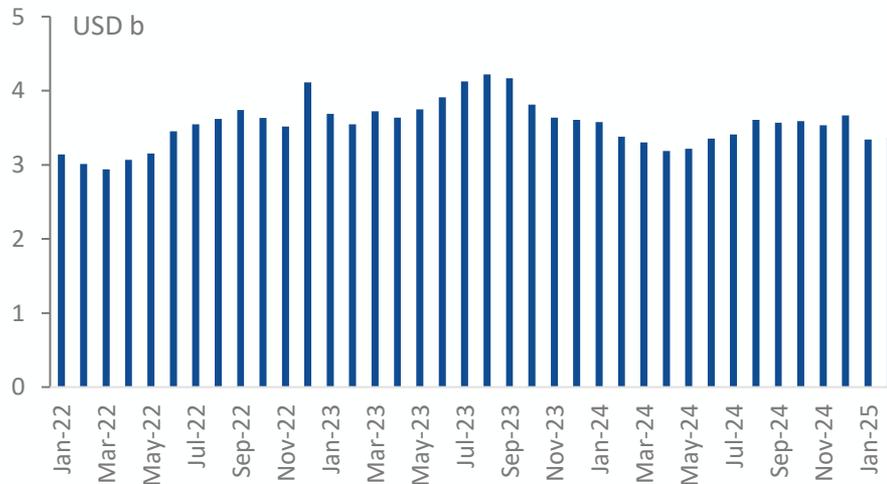
Exchange rate and currency reserves

Exchange rate



Source: CBA; monthly averages

International currency reserves



Source: CBA, end of period

Exchange rate

- » 2024: exchange rate vis-à-vis the US dollar remained mostly stable
 - Temporary depreciation after escalation of Nagorno-Karabakh conflict
- » 2025: minor depreciation at the start of the year, but dram remains far above its early 2022 level

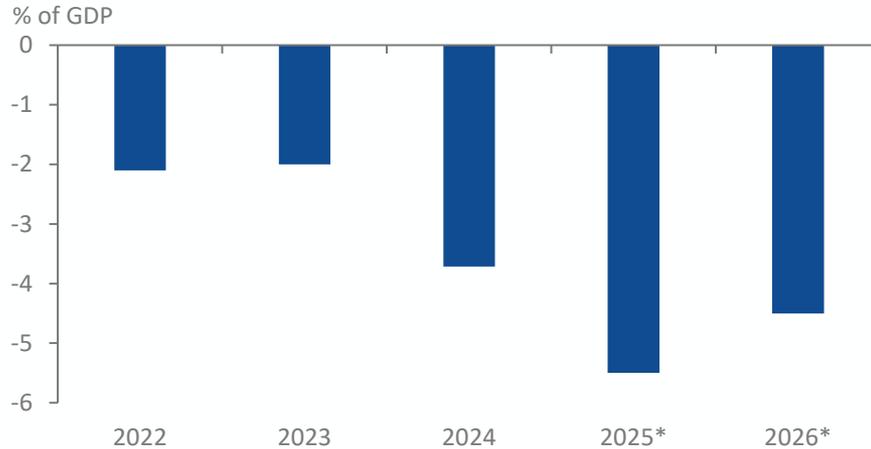
International currency reserves

- » Latest developments
 - Peak in Aug-23 (USD 4.2 bn), followed by decline until Apr-24 (USD 3.2 m) and a stabilization until Dec-24 (USD 3.7 bn)
 - Feb-25: decline to USD 3.4 bn
 - Import cover now close to international standard of 3 months

- Stable and strong exchange rate
- International reserves somewhat lower, but at a sufficient level

Public finances

Budget balance

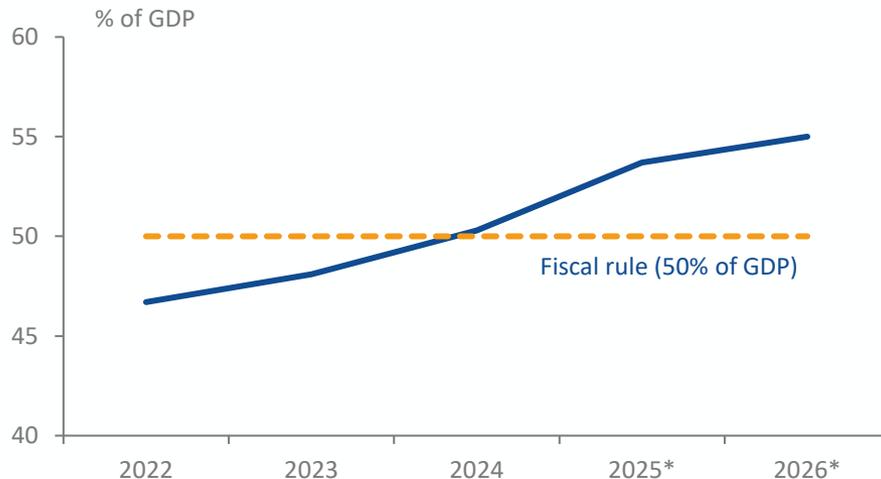


Source: MoF, IMF, *estimate/forecast

Budget balance

- » 2024: higher deficit of 3.7% of GDP
 - Refugee support expenditures, as well as higher capital and defence spending
 - Revenue target not met as tax revenues fell short of the projections
- » 2025/2026: further widening of deficit
 - Continued refugee expenditures and introduction of the new universal health insurance system

Public debt (central government)



Source: MoF, IMF, *estimate/forecast

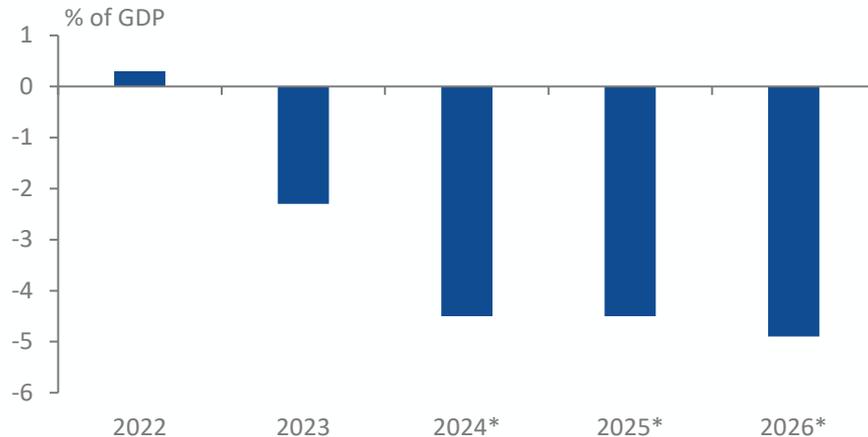
Public debt (central government)

- » 2024: 50.3% of GDP
- » 2025/2026: further increase to 53.7% and 55.0% of GDP respectively
 - Above fiscal rule threshold (50% of GDP)
 - Financing of planned higher capital spending on infrastructure and security
 - Mar-25: issuance of new 10Y Eurobond worth USD 750 m (7.1% yield)

➤ Continuation of expansionary fiscal policy

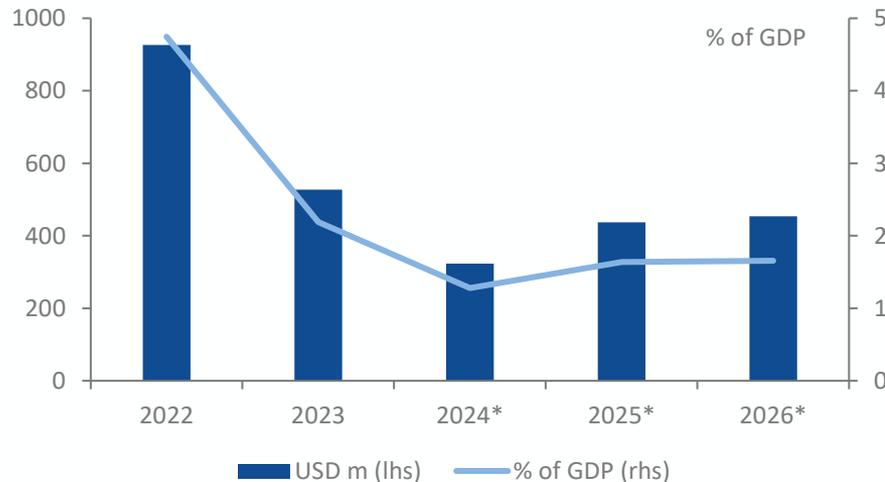
Current account and FDI

Current account balance



Source: IMF, *estimate/forecast

Net foreign direct investment



Source: IMF, *estimate/forecast

Current account balance

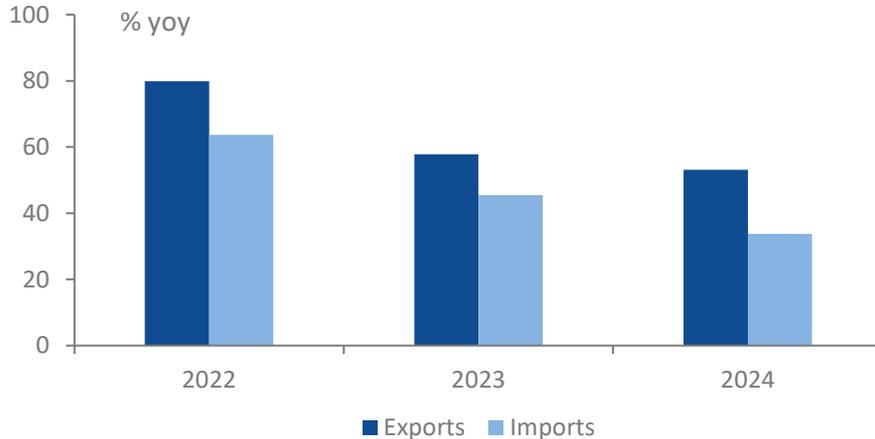
- » 2024: -4.5% of GDP; widening of deficit
 - Lower exports (in particular tourism revenues) and higher imports due to (public) capital spending
 - Remittances continue to decline (9M 2024: -23% yoy)
- » 2025/2026: deficit to remain at similar level

FDI

- » 2024: further decline to 1.3% of GDP
- » 2025/2026: slight rebound to approximately 1.6% of GDP
- » Overall, no significant new FDI after the one-off inflow in 2022
- » Strong potential for FDI in case of a lasting peace agreement with AZE
- Current account deficit likely to remain at a similar level
- New impulses for FDI could stem from a potential peace agreement

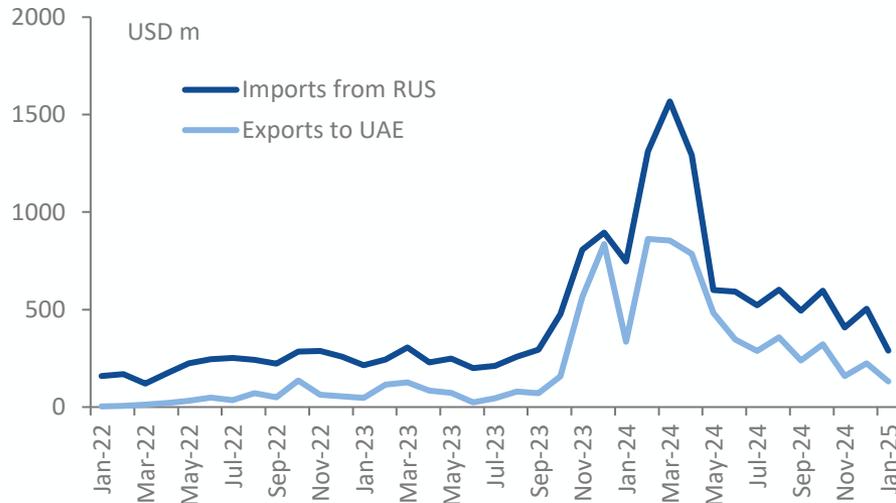
Trade in goods

Foreign trade in goods



Source: Armstat

Armenia's "gold rush"



Source: Armstat; total exports and imports of goods

Exports (2024)

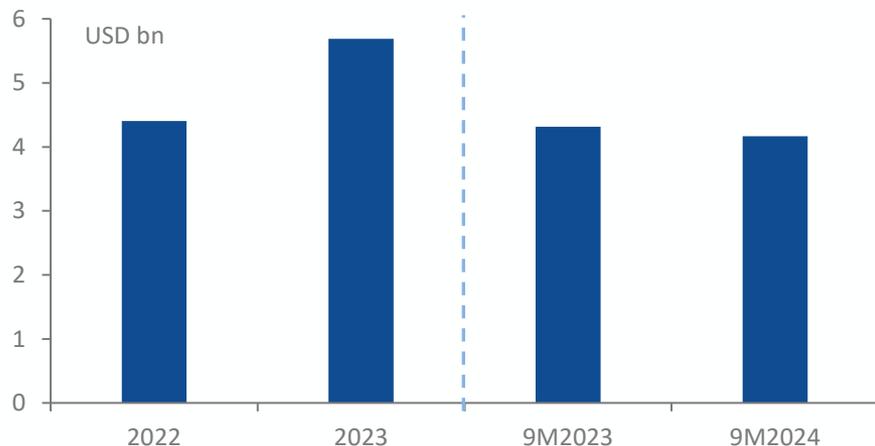
- » Strong growth of 53% yoy
- » Continuation of "gold rush"
 - Exports of precious metals and products (mostly to UAE) up by 150% yoy
- » At the same time: vehicle re-exports (mostly to RUS) decreased by 76%
- » Accordingly: share of UAE increased to 40%, while share of RUS is down to only 24%

Imports (2024)

- » Also, a strong increase of 34% yoy
- » Dynamics strongly connected to "gold rush"
 - Imports of precious metals (mostly from RUS) up by 170% yoy
- » Vehicle imports down by 49% yoy
- » Share of RUS in imports increased to 55%
 - This (as well as UAE exports) should not be treated as higher exposure
- Normalisation of trade dynamics to come as "gold rush" and "vehicle re-exports" fade out

Trade in services: exports

Exports of services



Source: CBA

Exports dynamics by service category



Source: CBA

Exports of services

- » 9M2024: USD 4.2 bn; -4% yoy
- » Stagnation of service exports as external demand weakens

Tourism

- » 9M2024: USD 1.9 bn; -23% yoy
- » Decline of tourism related revenues as positive migration shock (i.e., relocation of RUS citizens) fades out

ICT sector

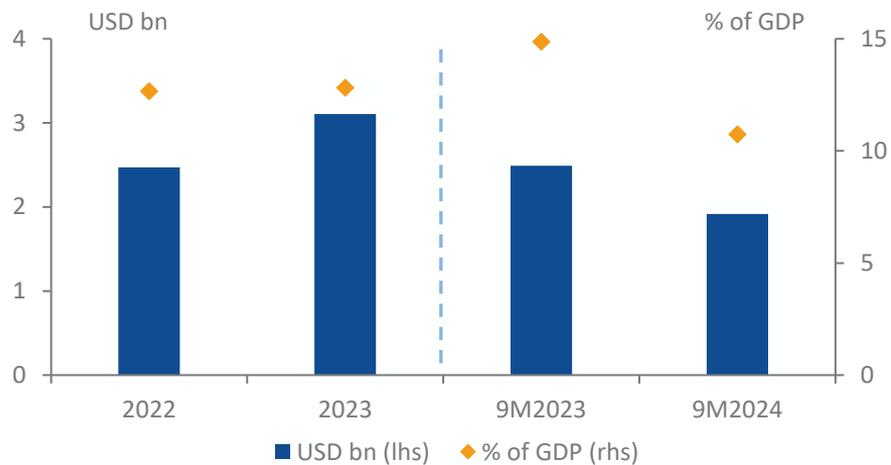
- » 9M2024: USD 0.7 bn; -15% yoy
- » Slowdown of ICT sector due to weaker foreign demand and some outflow of RUS migrants

Others

- » 9M2024: USD 1.6 bn; +54% yoy
- » Mostly due to growth of financial services provided to non-residents
- Services exports continue to stagnate as external demand gradually weakens

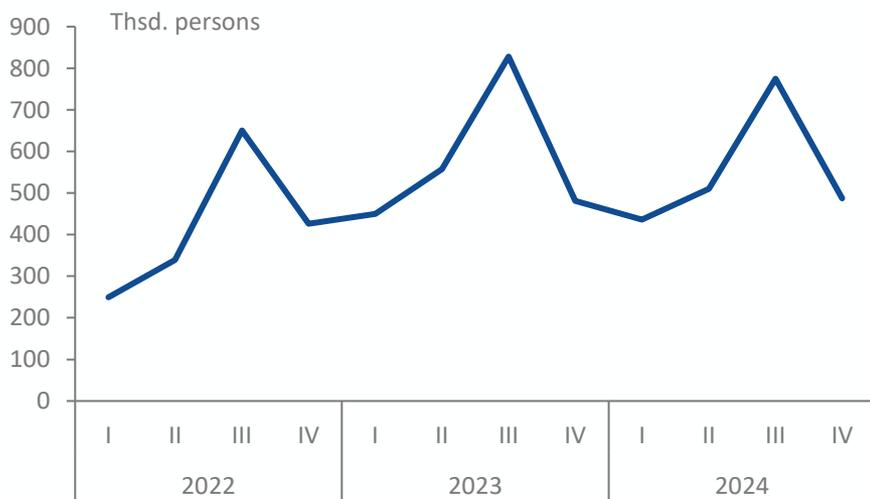
Trade in services: tourism

Tourism-related revenues



Source: CBA

Inbound tourists



Source: Armstat

Economic importance of tourism

- » Tourism is a key source of income for the Armenian economy
- » 2022/2023: strong post-pandemic recovery driven by influx of tourists from RUS
- » Share in GDP increased to 12.8% (2023)

Current developments

- » Tourism-related revenues declined significantly (9M2024: -23% yoy)
 - Share decreased to 10.7% of GDP
- » At the same time: number of inbound tourists declined only slightly
 - 2024: -4% yoy; 2.2 m tourists
 - Likely also change in visitor structure: less high-spending migrants (who were statistically counted as tourists)
- Slowdown of tourism-related activity after significant recovery in recent years

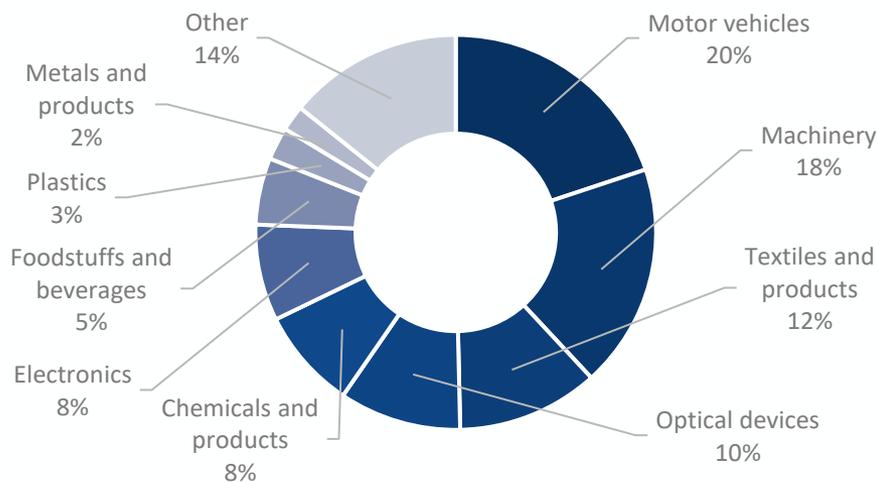
German bilateral trade with Armenia

German trade with Armenia



Source: Destatis

German exports to Armenia



Source: Destatis; data for 2024

2022/2023

- » Huge increase in DEU exports to ARM on the basis of large re-exports (mainly cars)

2024

- » German exports: EUR 433 m; -12% yoy
- » German imports: EUR 115 m; -35% yoy
- » Trade contracted as re-exports normalise

Exports to ARM

- » Structure somewhat normalised after the strong shift in 2022
- » 2024
 - Motor vehicles: -37% yoy
 - Machinery: -8% yoy
 - Textiles and products: -8% yoy
 - Optical devices: -8% yoy
 - Only slight growth of electronics (+5% yoy)

Imports from ARM

- » Decline driven by non-precious metals (2024: -53% yoy; nearly half of imports)
- Trade contraction due to lower re-exports

Potential benefits of a peace agreement

Peace agreement with Azerbaijan

- » 13 March 2025: ARM and AZE announced that they had completed negotiations on a peace treaty
- » Apparently, two disputed provisions have been resolved
 - Withdrawal of legal disputes against each other from international courts
 - Removal of third-country representatives from shared border
- » However: a major perquisition from AZE includes a change of ARM constitution, which still references to a law on the unification of Armenia and Nagorno-Karabakh
- » As of now: no peace treaty signed yet

Potential economic benefits for ARM

	Likely effect	Medium term potential
Fiscal	Large (+++)	Potential for reduction of military expenditures (2025: 6% of GDP)
Goods trade	Moderate (++)	Moderate benefits mainly from increased trade with TUR Small impact on trade with AZE due to lack of complementarity and market size
Service trade	Small (+)	Main benefit could come from more tourists who could visit ARM and TUR (e.g., close proximity of Ararat to Yerevan) during the same trip
Energy	Electricity: Large (+++) Gas: Moderate (++)	<u>Electricity</u> : synchronization of electricity markets increasing potential for trade, reduced need for investment in gen. capacity <u>Gas</u> : ARM could buy gas from AZE, thus diversifying import sources
FDI and external debt	Large (+++)	Very large FDI potential Potential rating upgrades, reducing premia on Eurobonds

Source: Berlin Economics, own display

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia* and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Within the framework of project activities in Georgia, we are in contact solely with reform-oriented partners for the time being; in Belarus advisory activities are suspended.*

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