



## Armenia

### Highlights

- **Economic growth has moderated in 2024.** Industry, construction and external trade are all performing well, as is the tourism sector, which has boosted service exports, but the net inflow of remittances has subsided.
- **Environmental sustainability is progressing.** A new 2023 green policy agenda, developed with the support of international partners, outlines key goals for enhancing renewable capacity, strengthening waste management and sustaining biodiversity.
- **Support for refugees was timely and effective.** The authorities reacted promptly to the humanitarian crisis and put in place a comprehensive support package without jeopardising the overall fiscal stance.

### Key priorities for 2025

- **Humanitarian support for and the integration of refugees need to continue.** Support programmes should be expanded with the aim of fully including refugees in society. These programmes should focus on upskilling all refugees and introducing appropriate gender-sensitive policies to help smooth their integration into local labour markets.
- **The green policy agenda should be accelerated to improve energy resilience.** Given the country's high reliance on natural gas imported from Russia, the authorities should continue to make and promote investments in solar energy, upgrade the transmission network and build more interconnections with neighbouring countries.
- **Further progress on implementing tax reforms remains essential for robust public finances.** A new law to amend corporate tax collection has been adopted and it needs to be implemented in a timely manner. This will require efficient coordination between different government bodies.

### Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-7.2	5.8	12.6	8.3	6.2
Inflation (average)	1.2	7.2	8.6	2.0	3.1
Government balance/GDP	-5.4	-4.6	-2.1	-2.0	-4.6
Current account balance/GDP	-4.0	-3.5	0.8	-1.9	-2.8
Net FDI/GDP [neg. sign = inflows]	-0.7	-2.5	-4.9	-2.4	-1.2
External debt/GDP	102.1	99.8	78.2	64.2	na
Gross reserves/GDP	20.7	22.8	20.5	15.0	na
Credit to private sector/GDP	72.2	61.7	52.6	55.4	na

## Macroeconomic developments and policy response

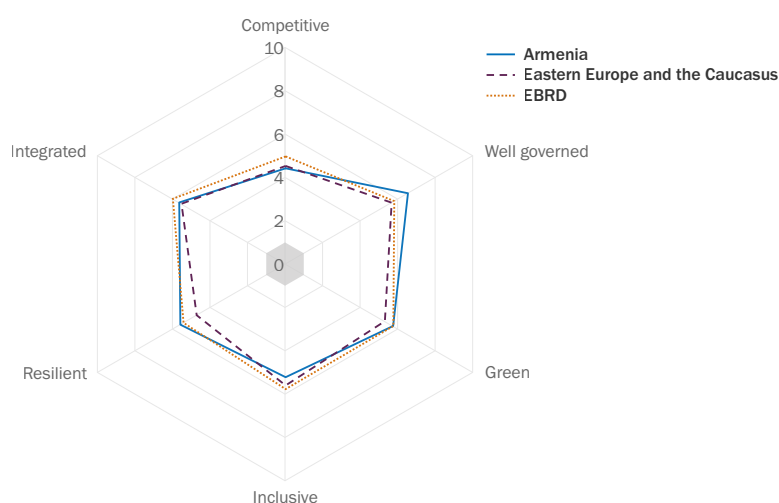
**Economic growth has been moderating in 2024.** After two years of robust growth, real gross domestic product (GDP) increased 6.5 per cent year on year in the first half of 2024, mainly driven by a double-digit percentage rise in construction, trade and the financial sector, along with robust growth in the manufacturing sector. Meanwhile, the growth of other services subsided after double-digit growth over the past couple of years, as the impact of highly skilled Russian migration moderated. The external sector remained driven by the same temporary factors that have dominated in recent years. Exports and imports of goods doubled year on year in the first half of 2024 thanks to an eightfold increase in exports and ninefold rise in imports of precious stones. Excluding these, exports and imports declined 15 per cent and 10 per cent, respectively. The current account deficit in the first half of 2024 was at a similar level to that of the first half of 2023, with an improvement in the balance of goods and secondary income offset by a deterioration in the balance of services and primary income. Net official transfers rose, related to refugee support, but the net inflow of remittances fell by 28 per cent year on year in the first half of 2024. Moderating capital inflows did not affect the Armenian dram, which remained broadly stable. Foreign reserves declined slightly to US\$ 3.6 billion (€3.3 billion) at the end of August 2024, covering 2.5 months of goods imports.

**Prudent monetary policy kept inflation low.** The inflation rate had dropped to zero in 2023, mainly due to falling food prices, a relatively high central bank policy rate and the appreciation of the Armenian dram. Successful disinflation has allowed the Central Bank of Armenia (CBA) to cut the policy rate by 200 basis points since the beginning of 2024, to 7.25 per cent in October 2024. Annual inflation rebounded slightly to 0.6 per cent in October 2024, but remains well below the target level of 4.0 per cent. Despite low inflation, the CBA remains cautious about easing monetary policy due to strong consumer demand and a GDP growth rate that is still well above its long-run potential.

**Further fiscal expansion is expected to temporarily widen the budget deficit in 2024.** The authorities announced an increase in government expenditure to accommodate the integration of over 115,000 refugees of Armenian origin and to strengthen national defences. As the fiscal deficit was lower than expected in 2023 due to under-executed public investment projects, there is more room for fiscal loosening in 2024. Nevertheless, the new medium-term expenditure framework aims to keep the fiscal deficit at 2 per cent of GDP between 2025 and 2027, a level it has achieved over the past two years. Fiscal policy is, therefore, designed to further enhance public debt resilience against potential exchange-rate risks.

**GDP growth is likely to moderate in the short run.** We forecast real GDP growth to ease to 6.2 per cent in 2024 and 4.8 per cent in 2025. Although temporary capital inflows related to the war on Ukraine have dissipated, increased government spending to meet the needs of refugees and to strengthen national defences will compensate to some extent. The operation of the new gold mine, once completed, should have a positive impact on mining-sector output and exports in the medium term. However, geopolitical uncertainty poses sizeable risks to the economic outlook.

### Assessment of transition qualities (1-10)



## Structural reform developments

**The policy response to accommodating refugees has been timely and effective.** In September 2023, an estimated 100,632 people, including some 30,000 children, arrived in Armenia. The Ministry of Labour and Social Affairs promptly launched social assistance programmes with a one-time direct transfer of AMD 100,000 (€230) per refugee. As more than half of the refugees are women, the programmes, which help them find employment and access to financial services, show great awareness of gender-specific risks, such as gender-based violence and sexual exploitation and abuse. Those refugees who have the right to a pension are eligible to reclaim their benefits in Armenia through an online platform.

**Relations with the European Union (EU) are gaining momentum.** Armenia started a new partnership agenda with the EU, underpinned by a €270 million Resilience and Growth Plan for 2024-27. At the same time, the EU launched a visa liberalisation dialogue with Armenia. These steps should have a positive impact on structural reforms, particularly those related to anti-corruption, rule of law and labour-market reform, and they will support investments in energy diversification and transport infrastructure.

**Measures to improve environmental sustainability are under way.** The green policy agenda, launched at the end of 2023 in collaboration with the Stockholm Environment Institute and the Swedish International Development Cooperation Agency, aims to develop a roadmap that will be finalised by the end of 2026. The policy agenda should harmonise national policies with European standards, ramping up renewable energy capacity, improving waste management, preserving biodiversity and preventing deforestation.

**The reform of the public finance management (PFM) system continues.** A new five-year PFM strategy and action plan has been in development since early 2024 following the conclusion of the first action plan for 2019-23. Proposed reforms included in the PFM aim to strengthen financial discipline and compliance while integrating digital tools to collect feedback from civil society. The plan should lead to enhanced transparency and improved methods of budgetary formulation and the evaluation of government service delivery.

**A new loan agreement between Germany and Armenia is targeting greater energy resilience.** Through this agreement, signed in March 2024, Armenia will receive a loan of €12 million for the development of renewable energy, with a focus on enhancing the capacity of solar power plants. The German-Armenian Fund, managed by the CBA, has been appointed to channel the loan directly to the private sector, with the aim of increasing solar energy capacity for households by as much as 150 MW.

**Tax reform continues to improve government revenues.** In June 2024, the National Assembly of Armenia adopted a draft law that aims to abandon the country's turnover tax and allows a switch to a unified tax system for fairer taxation. The authorities confirmed that the transition to the unified tax rate will be implemented gradually to avoid confusing business entities with changing tax codes. Initially, the turnover tax rate for small and medium-sized enterprises will be doubled and is set at 12 per cent for the catering sector, 10 per cent for trading companies and 7 per cent for manufacturing companies. Meanwhile, the threshold of eligibility for the turnover tax remains unchanged, at AMD 115 million (€265,000), above which business entities are subject to value-added tax and tax on profits. ●