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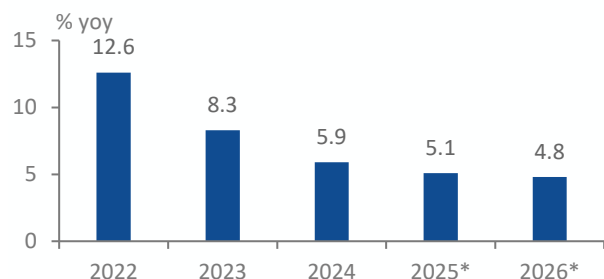
Armenia's economic growth settles at a stronger level

The Armenian economy experienced several years of significant growth exceeding its potential. Having absorbed most of the positive external shocks, economic growth is expected to stabilise at around 5% in 2025/26. This reflects a slight increase in potential growth, with sectors such as IT having attained a higher level of productivity. An expansionary fiscal policy continues to support consumption and investment, but it is also resulting in elevated budget deficits of 5.5% of GDP in 2025 and 4.5% in 2026, as well as public debt levels surpassing the fiscal rule of 50% of GDP. Inflation is expected to stay low at around 3%, thus remaining well within the new target. Foreign trade has declined significantly as the effects of previous trade shocks, such as the “gold rush”, continue to fade. Persistent peace in the region remains a key upside factor, with some progress recently having been made towards finalising it. However, the worsening outlook for the Russian economy might have a negative impact.

Economic growth stabilised at a higher level

Recent years have been marked by a steady decline in growth, as the Armenian economy has been absorbing the sharp increase of 2022, which was primarily driven by various special effects related to migration from Russia. This process appears to have concluded, with real GDP growth expected to stabilise at around 5% in 2025/26. It should be noted that this also reflects an increase in potential GDP growth, up from 4.5%.

Real GDP growth

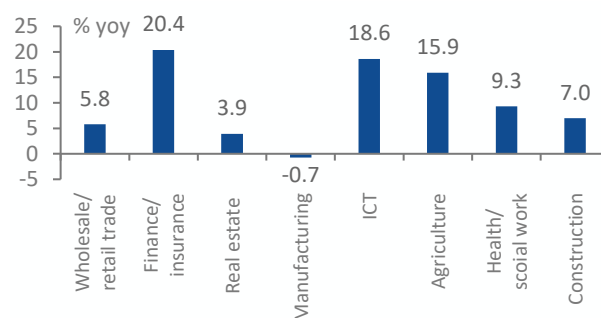


Source: Central Bank of Armenia (CBA); *estimate/forecast

A major factor behind this is an increase in productivity, particularly in the IT sector, which has greatly benefited from the influx of Russian IT specialists to Armenia. We estimate that its share of the total gross value added increased from 3.5% in 2021 to 8.3% in 2024. These positive dynamics appear to have continued into the first half of 2025, with the ICT sector growing by 18.6% yoy. The finance sector (6M2025: +20.4% yoy) also remains a

key driver of economic growth, with its strong performance connected to the inflow of capital from Russia after 2022. Additionally, there has been significant growth in other demand-driven sectors, such as construction and trade. However, there has also been a slowdown in activity. Overall, growth remains robust as it is supported by many sectors, with services performing especially strongly.

Sectoral dynamics (6M2025)

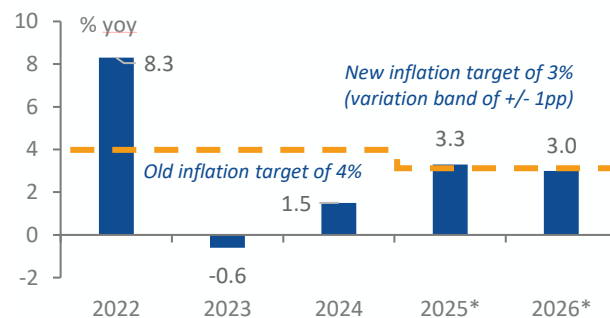


Source: CBA; sorted from left to right by share of GDP in 6M2025 in descending order

Inflation is well within the new target

Inflation remains low and is expected to stay within the Central Bank of Armenia's new inflation target of 3.0%, with a variation band of +/- 1 percentage point. With recent price increases (Sep-25: 3.7% yoy) mainly driven by higher food prices, both imported and domestic, inflation is expected to remain around 3% in 2025/26.

Inflation rate



Source: CBA, *estimate/forecast; eop

The stabilisation of inflation around its target also marks the end of the monetary policy easing cycle. The policy rate has remained unchanged at 6.75% p.a. since February 2025, with no immediate need for adjustments.

International reserves improved, dram remains strong

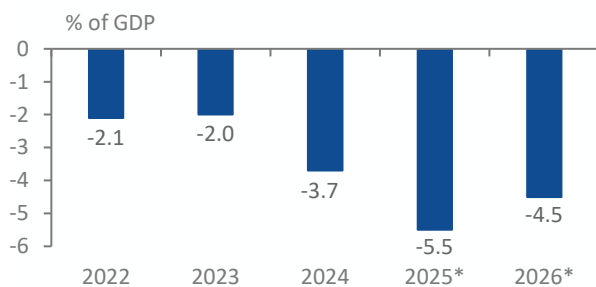
The Armenian dram remained stable at a level far above early 2022. Aside from some minor appreciation at the start of the year due to a weakening US dollar and increased capital inflows to Armenia, the same has been true so far in 2025. A strong dram also helps boost international reserves and spending related to expansionary

fiscal policy. Reserves increased significantly in March 2025 following the issuance of a new USD 750 m euro-bond. In August 2025, they stood at USD 4.2 bn, improving the import cover to 3.2 months – slightly above the international standard of three months.

Fiscal policy continues to be expansionary

An expansionary fiscal policy continues to support economic growth by strengthening consumption and investment. Higher spending is primarily attributed to the continued support for refugees, as well as increased capital and defence expenditure. This is also reflected in an elevated budget deficit, which is forecast at 5.5% in 2025 and 4.5% in 2026. However, a 15% cut in defence spending is planned for 2026.

Budget balance



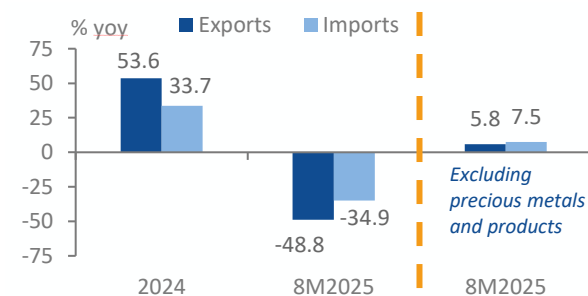
Source: Ministry of Finance of Armenia, *estimate/forecast

The higher budget deficit is also reflected in an increase in public debt, which is forecast to reach 50.7% of GDP in 2025 and 53.7% in 2026. Consequently, it is expected that debt will remain above the fiscal rule threshold of 50% of GDP.

Trade declined due to fade out of external shocks

It was expected that the fading of external shocks (e.g. the “gold rush”) would lead to a decline in foreign trade. In line with this, goods exports decreased by 48.8% yoy in 8M2025, while imports declined by 34.9%. However, excluding trade in precious metals and products shows positive dynamics in both exports and imports of (traditional) goods. A current account deficit of 4.5% of GDP is forecast for 2025, rising slightly to 4.8% in 2026.

Foreign trade in goods



Source: Statistical Committee Republic of Armenia, own calculations

Outlook

Armenia’s economic growth appears to have stabilised around its new potential growth level, which is slightly higher than before the various special effects related to migration from Russia took hold. To further boost Armenia’s economic potential, lasting peace in the region remains key. Recent events in Washington in August 2025, where a joint peace declaration was signed by Armenia and Azerbaijan, have sparked hope in this regard. Indeed, in October 2025, the first small positive steps were taken, such as the mutual agreement to lift cargo transit restrictions through each respective territory. Kazakh grain is set to be the first cargo transit to Armenia. Furthermore, Russia has announced that Russian Railways will organise the transit of goods to Armenia via Azerbaijan, which should significantly improve logistics. However, a main risk should also be noted here. A worsening outlook for the Russian economy could negatively impact Armenia due to strong economic ties in sectors such as agriculture and energy.

This newsletter is partly based on the [14th issue of the Economic Monitor Armenia](#).

Financed by the Federal Ministry for Economic Affairs and Energy, 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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