

ECONOMIC MONITOR

ARMENIA

Overview

- » 2024: robust real GDP growth of 5.9% yoy; above potential
- » 2025: growth of 5.1% yoy; expansionary fiscal policy supports consumption and investment
- » 2026: further slowdown to 4.8% yoy; upside potential: finalisation of peace agreement with AZE, opening of border with TUR; risks: uncertain economic outlook for RUS, deterioration of relations
- » Inflation picked up slightly but is still low; with 3.3% yoy in 2025 and 3.0% yoy in 2026, it is expected to remain inside the new CBA target of 3% +/- 1pp
- » Exchange rate vis-à-vis the US Dollar remains stable; international reserves increased significantly (Aug-25: USD 4.2 bn) after the issuance of the Eurobond in early 2025
- » Expansionary fiscal policy: budget deficit widened to 5.5% of GDP in 2025, with a slight decline to 4.5% expected in 2026; public debt will remain above the fiscal rule (50% of GDP)
- » Strong decline in exports (8M2025: -49% yoy) and imports (-34% yoy) of merchandise as trade shocks (e.g., “gold rush”) fade out; exports of services declined slightly (6M2025: -6.5% yoy)

Special issues

- » **Attracting German FDI.** Semiconductors and IT identified as most promising sector, with some niches in aerospace, robotics & automation, pharma and tourism
- » **Cross-border power trade.** Stronger regional integration would help to diversify trade partners, as well as improve solar integration and energy security

Basic indicators

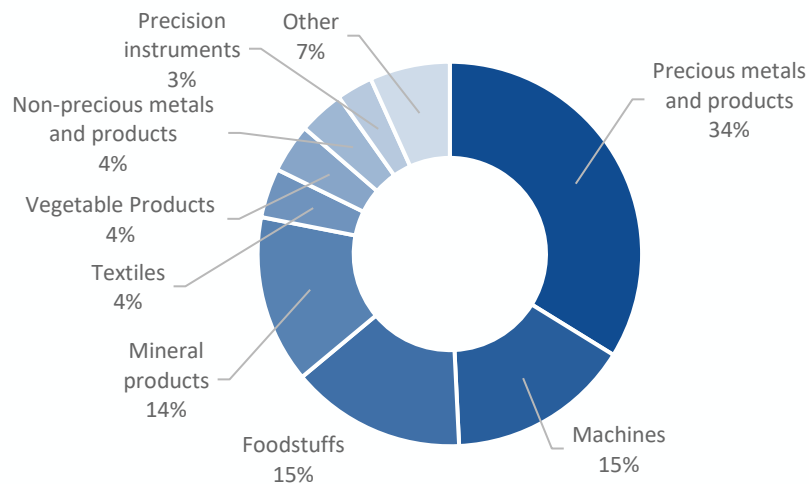
	Armenia	Azerbaijan	Georgia	Ukraine	Russia
GDP, USD bn	26.4	78.7	36.7	205.7	2,076.4
GDP/capita, USD	8,917	7,604	9,9	6,261	14,259
Population, m	3.0	10.4	3.7	32.9	145.6

Sources: International Monetary Fund (IMF, 2025a), Note: data for 2025

Trade structure

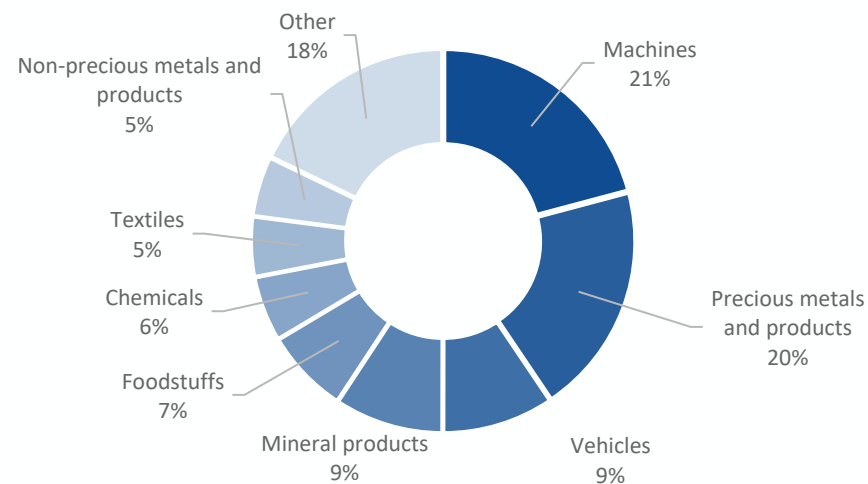
Exports

RUS 36% | UAE 28% | CHN 8% | EU 8% | Other 20%



Imports

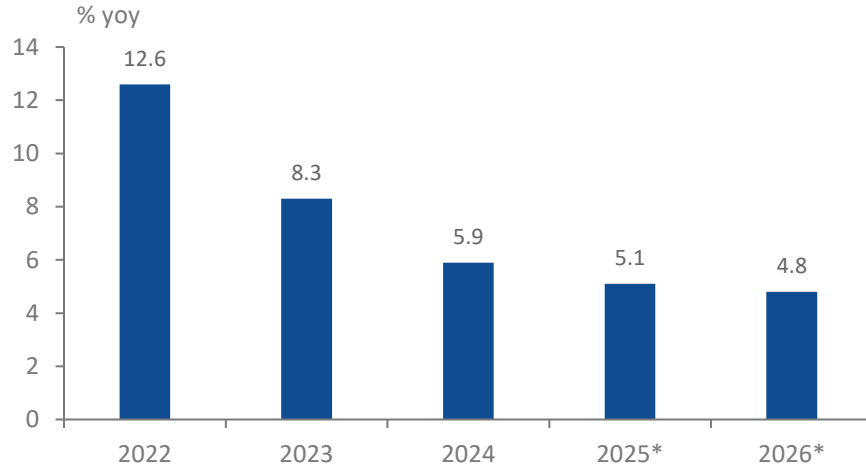
RUS 34% | CHN 15% | EU 15% | VNM 8% | Other 27%



Source: Statistical Committee Republic of Armenia (Armstat, 2025a, 2025b); Note: data for 7M2025, Note: merchandise trade

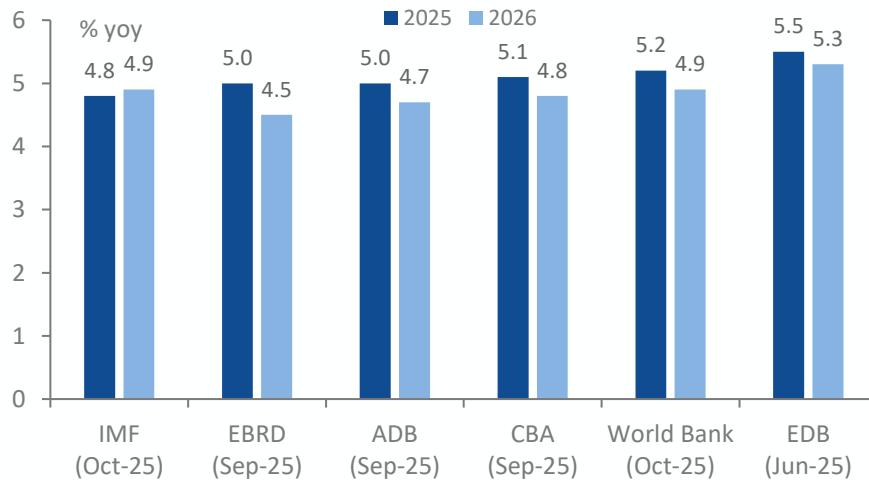
Economic growth

Real GDP growth



Source: Central Bank of Armenia (CBA, 2025a); *estimate/forecast

Comparison of real GDP forecasts for Armenia



Source: IMF (2025a), European Bank for Reconstruction and Development (EBRD, 2025), Asian Development Bank (ADB, 2025), CBA (2025a), World Bank (WB, 2025), Eurasian Development Bank (EDB, 2025)

2024

- » Real GDP growth of 5.9% yoy
 - Economic growth above potential
 - Special factors linked to relocation of RUS citizens continued to fade out

2025

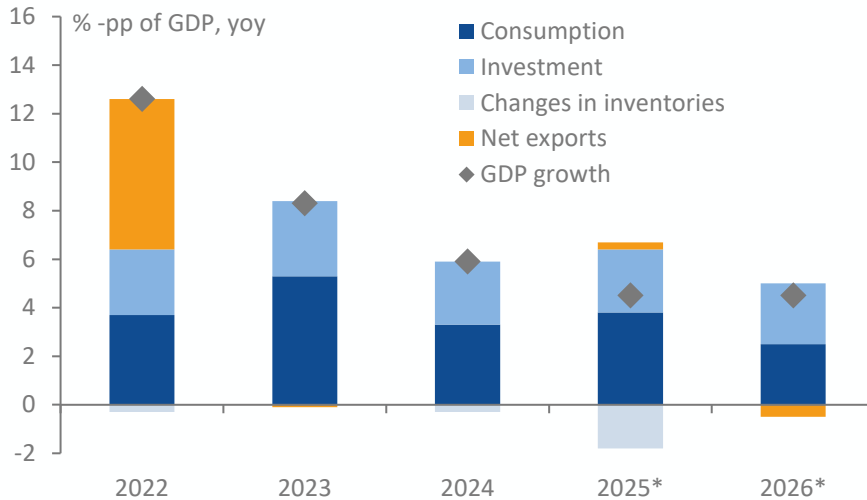
- » Real GDP projected at 5.1% yoy (CBA)
 - H1 2025: 5.5% yoy
 - Forecasts between 4.4% and 5.5% yoy
- » Expansionary fiscal policy supports growth
- » External demand continues to normalise

2026

- » Further slowdown to 4.8% (CBA)
 - Forecasts between 4.5% and 5.3% yoy
- » Significant upside potential: finalisation of peace agreement, opening of borders
- » Risk factor: uncertain outlook for RUS and possible deterioration of economic relations, especially in the energy sector
- Economic growth remains robust with upside potential

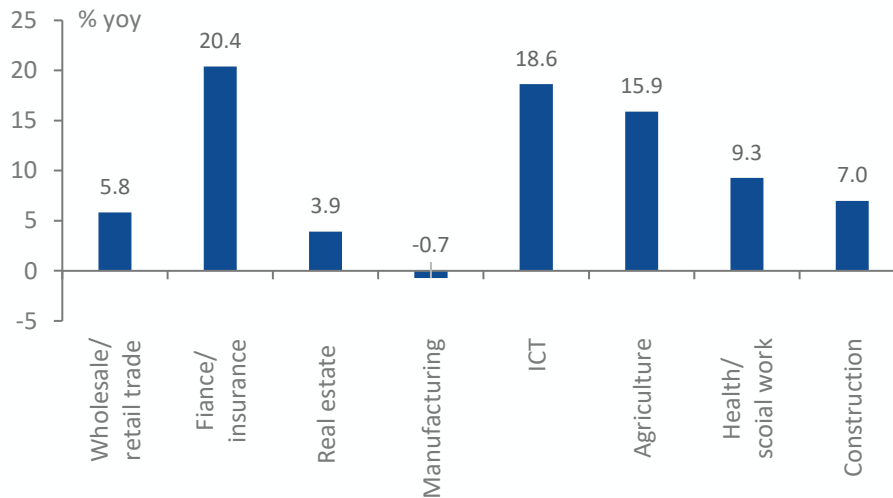
GDP: demand and supply

Contribution to real GDP growth



Source: IMF (2025b), *estimate/forecast

Sectoral dynamics (6M2025)



Source: CBA (2025b); Note: sorted from left to right by share in GDP in 6M2025 in descending order, nominal growth rates

Demand-side dynamics

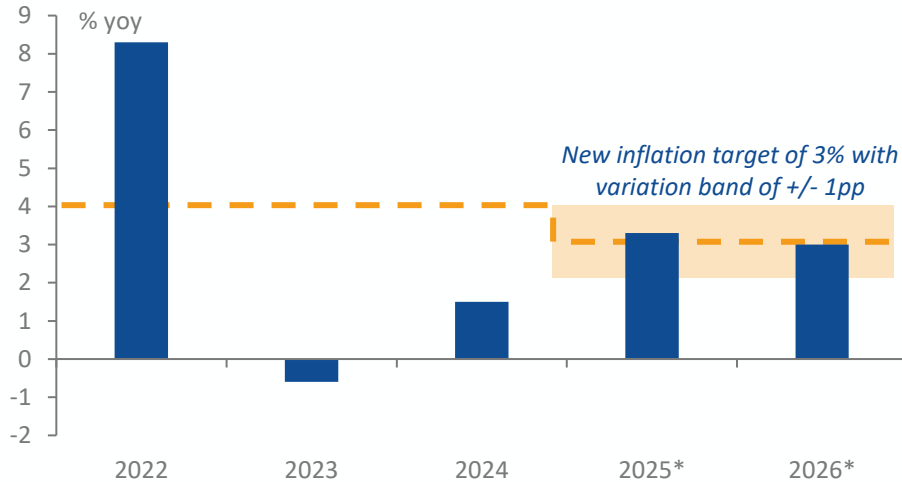
- » 2025: consumption and investment remain the main drivers of growth; negative contribution of inventories
- » 2026: similar situation; weaker contribution of consumption and negative net exports

Supply-side dynamics (6M2025)

- » Strong dynamics in service sectors continue to boost economic growth
 - Finance/insurance: +20.4% yoy
 - ICT: +18.6%
- » Significant growth also in other demand-driven sectors, but slowdown of activity
 - Construction: +7.0% yoy
 - Trade: +5.8%
- » Agriculture growing strongly (+15.9%) after weak performance over the last five years
- Growth supported by many sectors, with especially strong performance of services

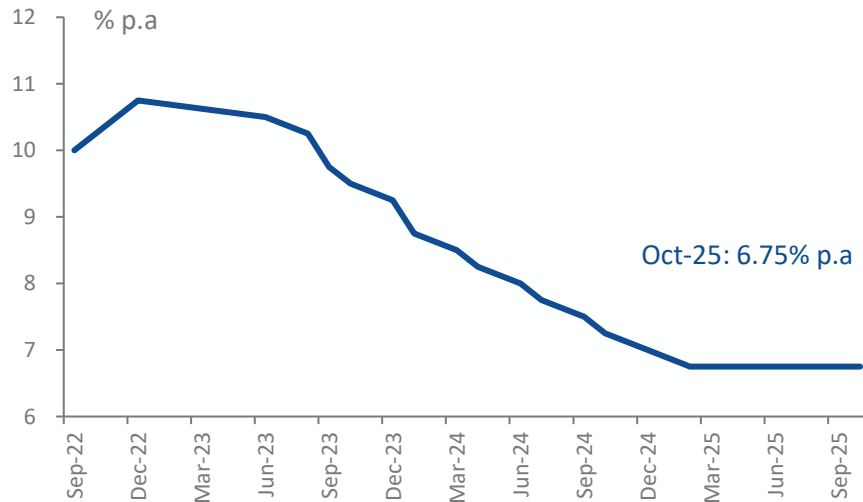
Inflation and monetary policy

Inflation rate



Source: IMF (2025a), *estimate/forecast; Note: end of period

Policy rate of CBA



Source: CBA (2025c); Note: end of period

Inflation

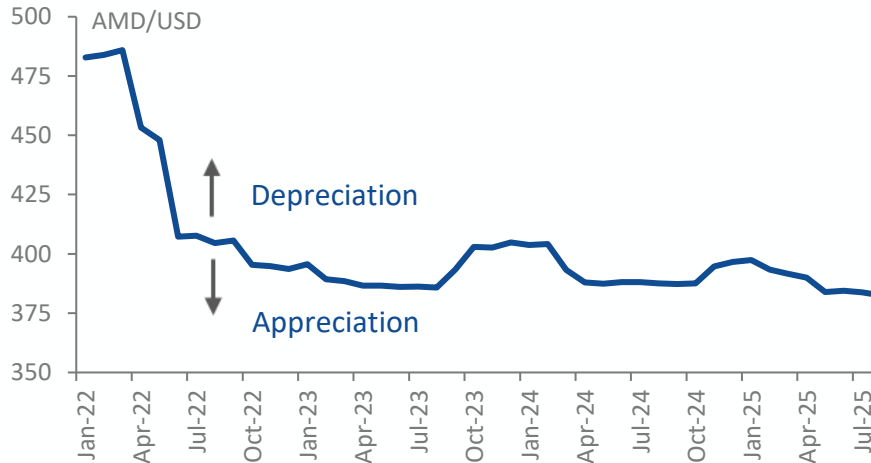
- » 2024: inflation stood at 1.5% yoy
- » 2025: projected at 3.3% yoy; slight increase, but inflation remains at a low level
 - Sep-25: 3.7% yoy
 - Mainly driven by higher food prices, both imported and domestic
- » 2026: forecast of 3.0% yoy
- » Thus: inflation to remain inside the new CBA target of 3% with a variation band of +/- 1pp

Monetary policy

- » Only one adjustment of the policy rate so far in the current year (on Feb-25)
 - Oct-25: remains at 6.75% p.a.
- » No immediate pressure to adjust policy rate
- » However: inflation expectations remain at the higher end of the variation band
- Inflation is expected to remain at a low level inside the new CBA target

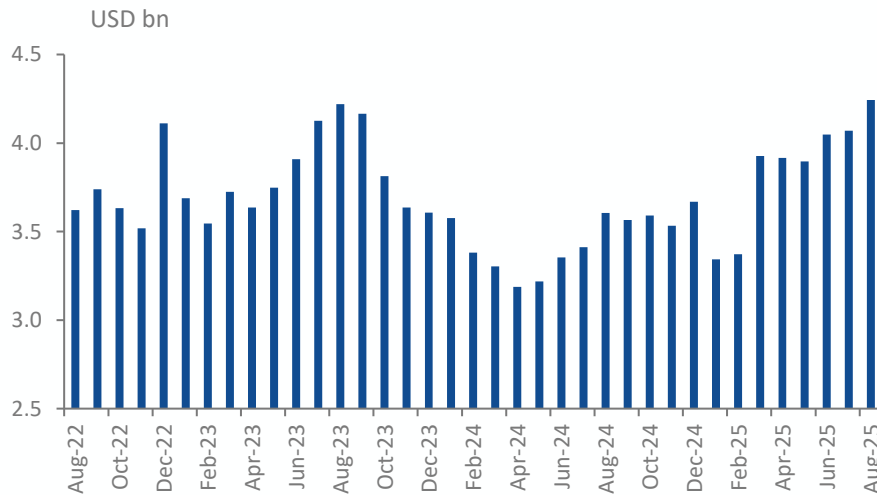
Exchange rate and currency reserves

Exchange rate



Source: CBA (2025d); Note: monthly averages

International currency reserves



Source: CBA (2025e), Note: end of period

Exchange rate

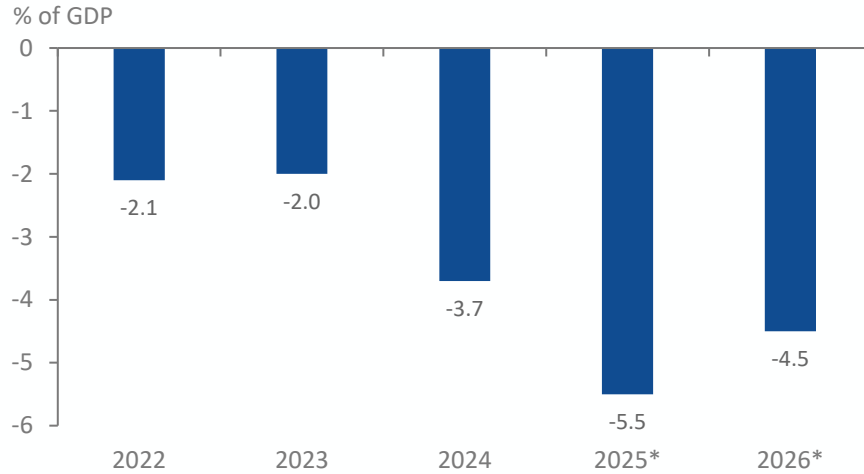
- » Exchange rate vis-à-vis the US dollar remains mostly stable at a level far above early 2022
 - Period of depreciation after Nagorno-Karabakh escalation
- » 2025: stable exchange rate, with some minor appreciation
 - Strengthening of capital inflows
 - Overall weak US dollar

International currency reserves

- » Latest developments:
 - Mar-25: USD 3.9 bn; reserves increased significantly after the issuance of a new USD 750 m Eurobond
 - Aug-25: USD 4.2 bn; same level as at its previous peak in Aug-23
- » Thus: import cover improved to 3.2 months; now slightly above int. standard of 3 months
- Exchange rate remains strong and stable
- International reserves improved

Public finances

Budget balance

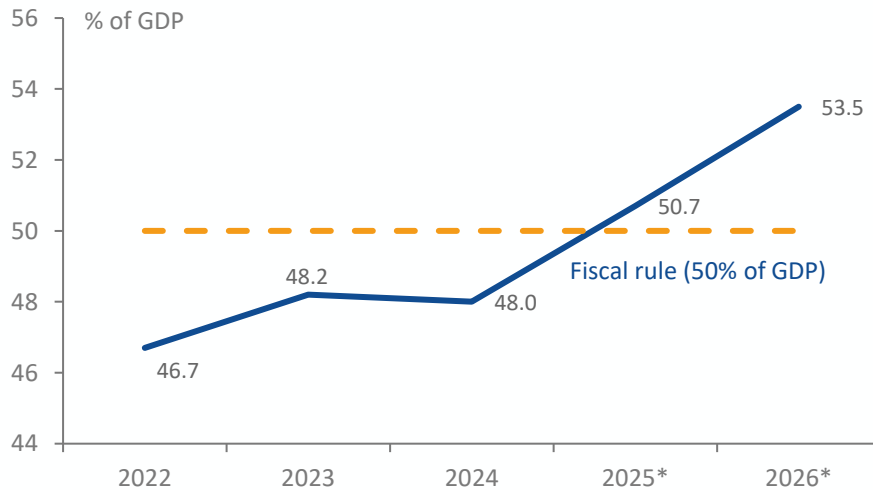


Source: Ministry of Finance (MoF, 2025), *estimate/forecast

Budget balance

- » 2024: deficit of 3.7% of GDP
 - Expenditures for refugee support instead of below-the-line loans to Nagorno-Karabakh
- » 2025: deficit expected to reach 5.5%
 - Continued support for refugees
 - Higher capital and defence expenditures
- » 2026: reduction of deficit to 4.5%
 - Cut of defence expenditures by 15% yoy

Public debt (central government)



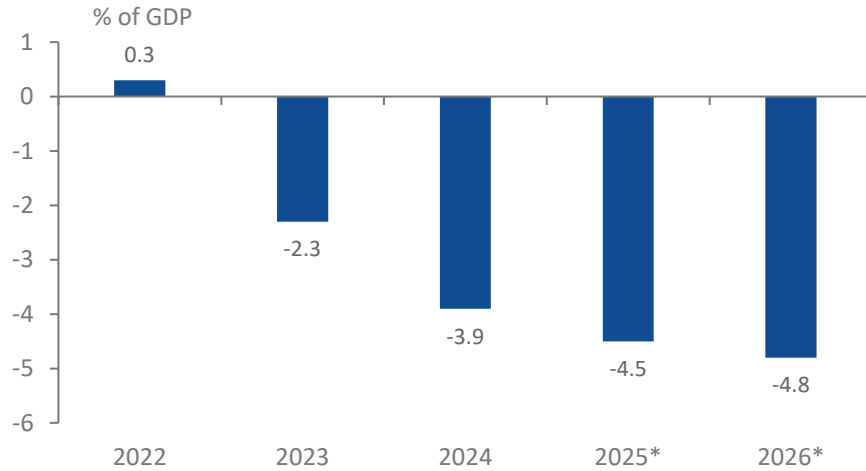
Source: Ministry of Finance (MoF, 2025), *estimate/forecast

Public debt (central government)

- » 2024: moderate deficit of 48% of GDP
- » 2025/2026: increase to 50.7% and 53.7% of GDP respectively
 - Thus: debt will remain above fiscal rule threshold (50% of GDP)
 - Financing of higher deficit; issue of 10Y Eurobond (USD 750, 7.15% yield)
- » Expansionary fiscal policy continues, only slow tightening expected

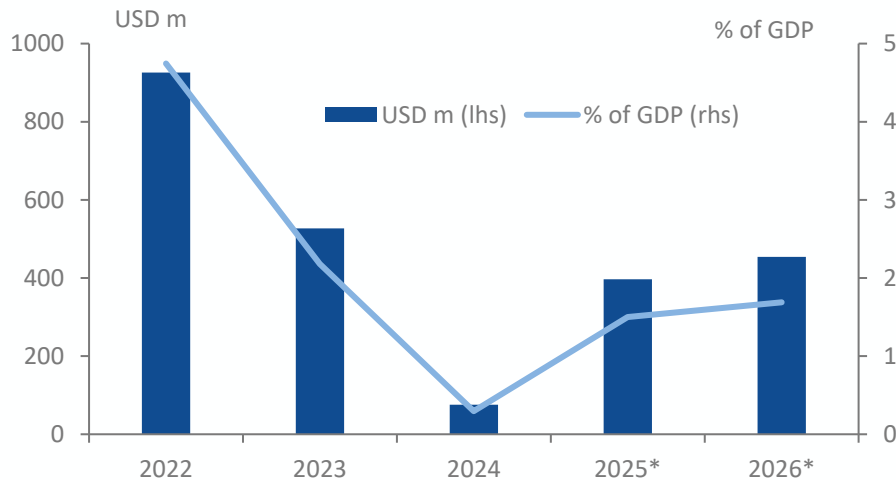
Current account and FDI

Current account balance



Source: IMF (2025b), *estimate/forecast

Net foreign direct investment



Source: IMF (2025b), *estimate/forecast

Current account balance

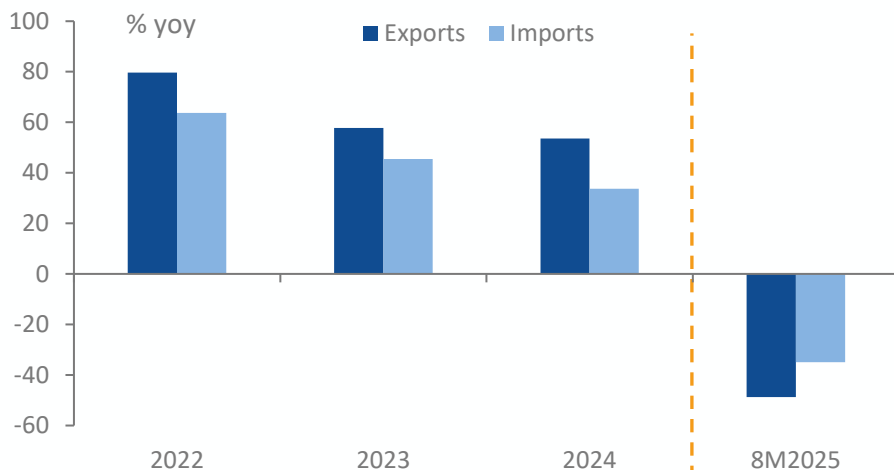
- » 2024: deficit widened to 3.9% of GDP
- » 2025/2026: further increase to 4.5% and 4.8% of GDP respectively
 - Decline in tourism-related revenues, normalisation of remittances

FDI

- » No major new FDI inflows after the one-off surge in 2022
- » 2024: strong decline to 0.3% of GDP
- » 2025/2026: rebound expected to 1.5% and 1.7% of GDP respectively
- » Strong potential for higher FDI after finalisation of peace agreement with AZE
- » Special topic: analysis of potential sectors to attract FDI from Germany
- Current account will remain in deficit
- Upside potential for FDI from finalisation of peace agreement with AZE

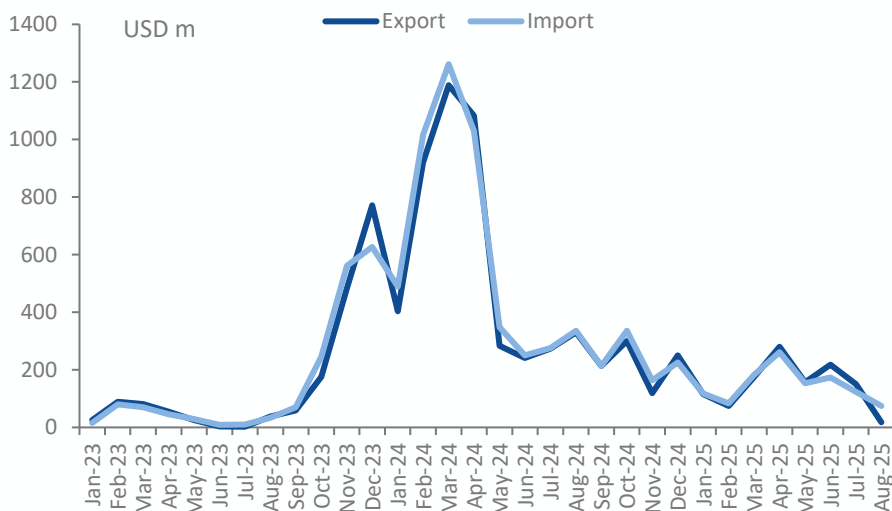
Trade in goods

Foreign trade in goods



Source: Armstat (2025c)

Armenia's "gold rush"



Source: Armstat (2025b)

Exports

- » 2024: exports increased by 54% yoy
- » 8M2025: strong decline of 49% yoy, reflecting the fading out of the "gold rush"
 - Gold re-exports (mostly to UAE) decreased by 75% yoy
- » New export strategy approved in Jul-25

Imports

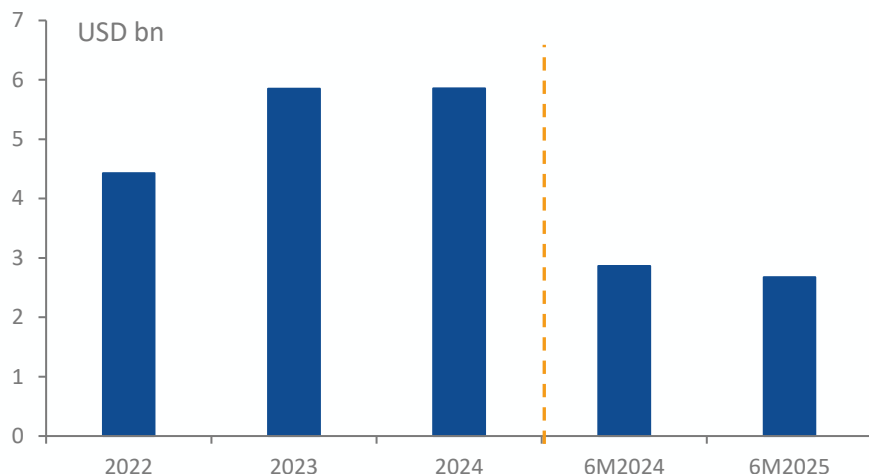
- » 2024: imports increased by 34% yoy
- » 8M2025: decline of 35% yoy also connected to the discontinuation of the "gold rush"
 - Gold imports fell by 77% yoy

General remarks

- » Decline in trade is normal, as dynamics normalise after several years of shocks
- » Effective measures by ARM government to prevent sanctions circumvention contributed to the normalisation
- » Future upside factor: normalisation of trade relations with TUR
- **Normalisation of trade dynamics continues**

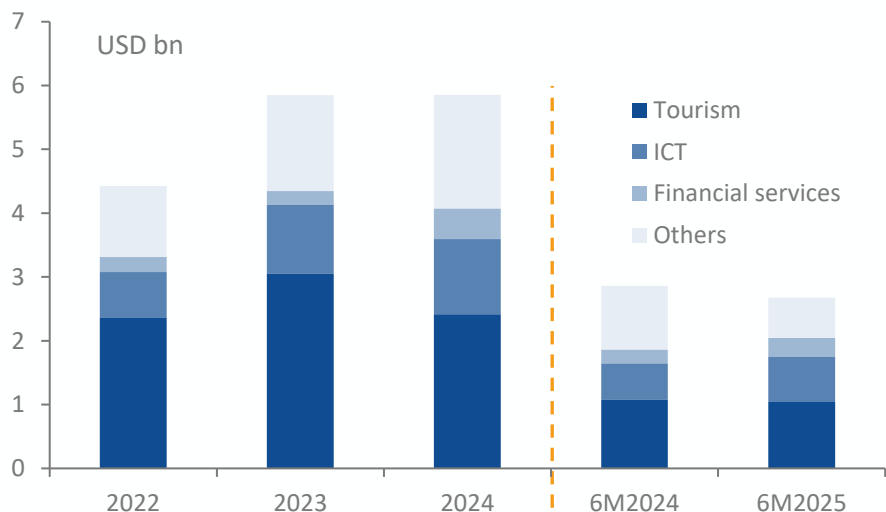
Trade in services: exports

Exports of services



Source: CBA (2025f)

Exports dynamics by service category



Source: CBA (2025f)

Exports of services

- » 2024: USD 5.9 bn; +0,1% yoy, stagnation in the wake of external demand normalisation
- » 6M2025: USD 2.7 bn, decline by 6.5% yoy

Tourism

- » 2024: USD 2.4 bn, -21% yoy
- » 6M2025: USD 1.0 bn, -3.3% yoy

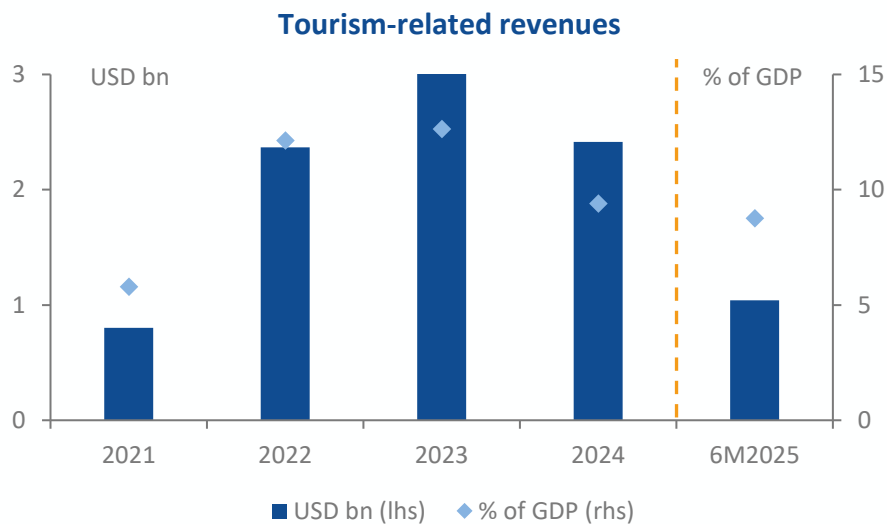
ICT sector

- » 2024: USD 1.2 bn; +10% yoy
- » 6M2025: USD 0.7 bn; +25% yoy

Financial Services

- » 2024: USD 0.5 bn; +117% yoy
- » 6M2025: USD 0.3 bn; +40% yoy
- Strong growth in financial services provided to non-residents
- Service exports weakened
- Decline of tourism revenues, but strong exports dynamics in ICT and financial services

Trade in services: tourism



Source: CBA (2025f)



Source: Armstat (2025d)

Economic importance of tourism

- » Tourism is a key income source for Armenia
- » 2022/2023: strong post-pandemic recovery driven by influx of tourists from RUS
- » 2024: share in GDP fell again to 9.4% after peaking at 12.6% in 2023

Dynamics in 2025

- » 6M2025: -3.3% yoy; tourism-related revenues continue to decline
 - Share decreased to 8.8% of GDP
- » Number of inbound tourists has also declined
 - 2024: 2.2 m tourists; -4.7% yoy
 - 1H2025: 0.9 m tourists; -4.1% yoy
- » Normalisation of tourism inflows continues
- » New impulses for the sector could stem from an opening of borders (especially with TUR)

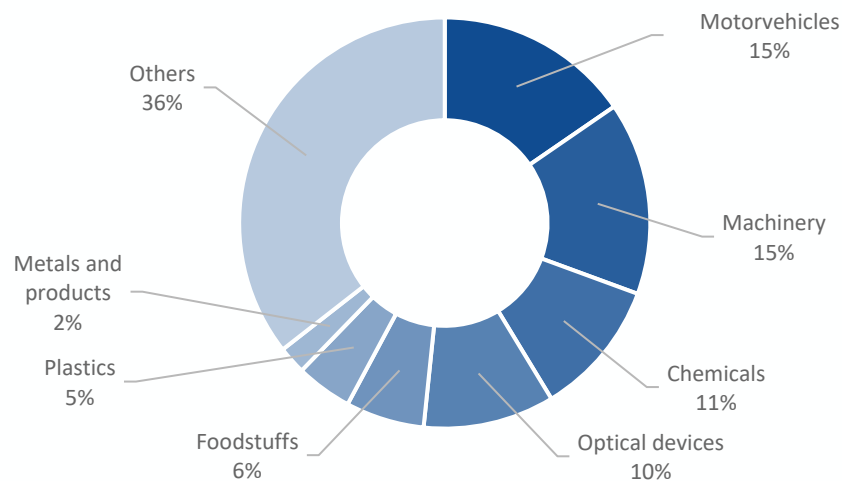
German bilateral trade with Armenia

German trade with Armenia



Source: Federal Statistical Office of Germany (Destatis, 2025), Note: trade in goods

German exports to Armenia



Source: Destatis (2025); Note: trade in goods; data for 7M2025

2022/2023

- » Huge increase in DEU exports to ARM due to re-export dynamics (mainly cars)

2024

- » German exports: EUR 433 m; -12% yoy
- » German imports: EUR 115 m; -35% yoy
- » Trade normalised after the strong shift

7M2025

- » German exports: EUR 220 m; +9% yoy
- » German imports: EUR 107 m; +49% yoy

German exports (7M2025)

- » Motor vehicles: -28% yoy
- » Machinery: -4% yoy
- » Chemicals: +27% yoy

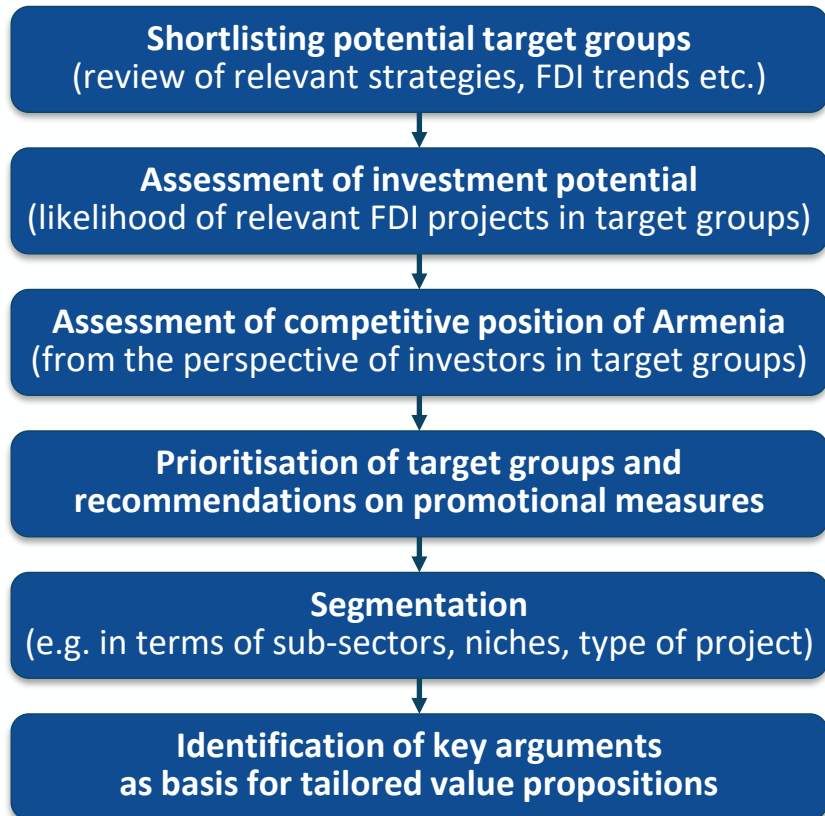
German imports (7M2025)

- » Increase mainly driven aluminium & product (+116% yoy) and apparel (+30% yoy); the two together amount for 85% of all imports

- Bilateral trade grows again after a contraction due to re-export normalisation

Attracting German FDI: Segmentation analysis (1/2)

Methodology for the segmentation analysis



Source: own display

Background and methodology

- » Critical role of FDI for development of Armenia's economy
- » Planned focus of investment promotion on German market requires alignment of segmentation and value proposition
- » Target group analysis included > 30 interviews with companies and industry experts both in Armenia and Germany

Challenges

- » Caucasus region not in the focus of German companies for capital-intensive manufacturing projects
- » Armenia's profile more suitable for IT- and R&D-related projects
 - As confirmed by presence of Siemens Industry Software and TeamViewer
 - Key strengths include the advanced tech ecosystem and strong talent pool

Attracting German FDI: Segmentation analysis (2/2)

Target group	Recommended segments
Priority 1: Lead generation & (virtual) events	
Semiconductors	<ul style="list-style-type: none"> » Chip design and R&D functions » Production equipment » Embedded software
IT	<ul style="list-style-type: none"> » Enterprise and industrial software » Cybersecurity » AI and analytics
Priority 2: Individual outreach in specific niches	
Aerospace	<ul style="list-style-type: none"> » Test labs and systems » Non-military UAVs
Robotics & automation	<ul style="list-style-type: none"> » Precision components » Engineering centres of integrators
Pharma	<ul style="list-style-type: none"> » Rose oil value chain » Generics
Tourism	<ul style="list-style-type: none"> » MICE tourism (meetings, incentives, conferences and exhibitions)
Priority 3: No proactive promotional measures	
Education & training	<ul style="list-style-type: none"> » Campus projects and branches of universities and training providers
Food process. machinery	<ul style="list-style-type: none"> » Smart factory components » R&D functions of large manufacturers

Source: own display

Results

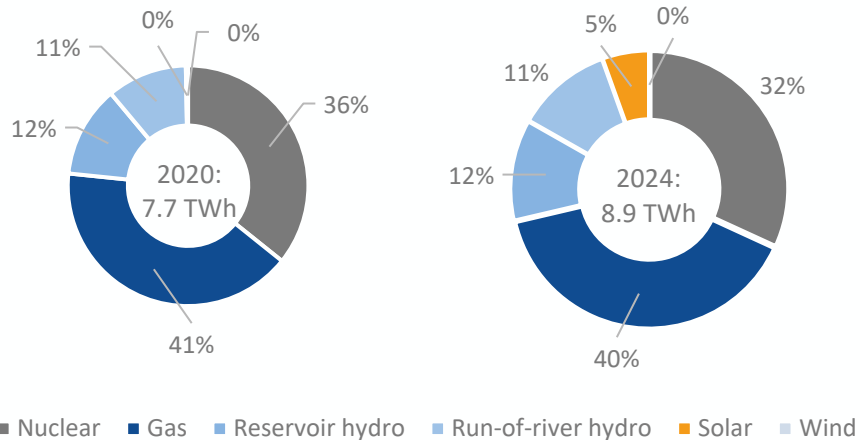
- » Based on a comparative assessment, the IT and semiconductor industry should be prioritised
- » For aerospace, robotics, pharma and tourism, opportunities are limited to specific niches (Priority 2)
- » The other target groups should be put on hold (Priority 3)

Recommendations

- Focus on promotional measures that allow a direct communication with potential investors
- Close collaboration with intermediaries (incl. existing investors) with relevant contact networks
- Tap potential at interface between different target groups (e.g. aerospace software)

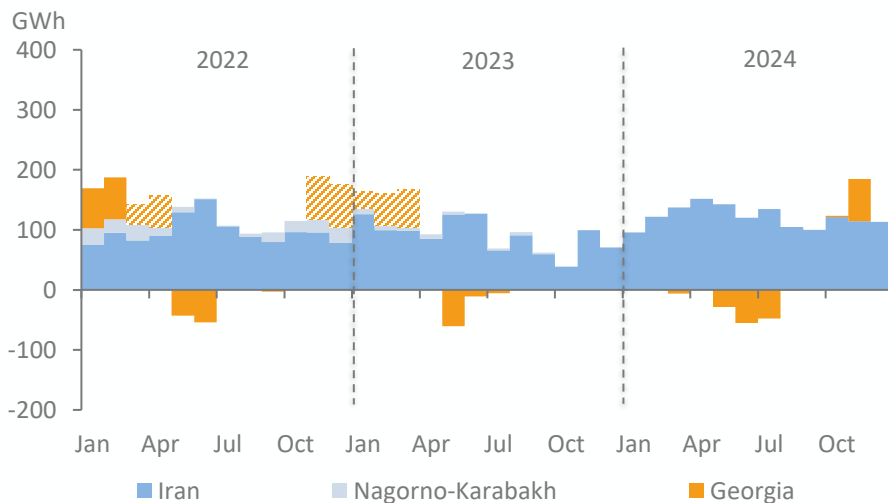
Armenia's cross-border power trade (1/2)

Armenia's power generation by source, 2020 and 2024



Source: Public Services Regulatory Commission of Armenia (PSRC, 2018-2024)

Armenia's seasonal electricity trade by trading partner



Source: PSRC, JSC Georgian State Electrosystem (GSE, 2024a); Note: Positive values depict ARM's exports. Pattered bars are flows to GEO that were re-exported to TUR

Relevance of cross-border power trade

- » Thermal and nuclear power dominate ARM's electricity mix, reliance on fuel imports poses energy security risk
- » Solar growth strengthens energy security through reduced import dependence
- » At the same time, strong solar creates system integration challenges
- » Power trade can support solar integration by balancing supply and demand across borders

Low diversification in power trade

- » Trade predominantly driven by ARM's electricity sent to Iran under gas-for-power barter agreement (~1.1 TWh annually)
- » Seasonal trade with GEO, mainly driven by GEO's system needs, with ARM exporting in winter and importing in summer
- » 2022/2023: particularly high TUR price level drove ARM-GEO flows for re-export to TUR
- Stronger cross-border trade would improve ARM's solar integration and energy security

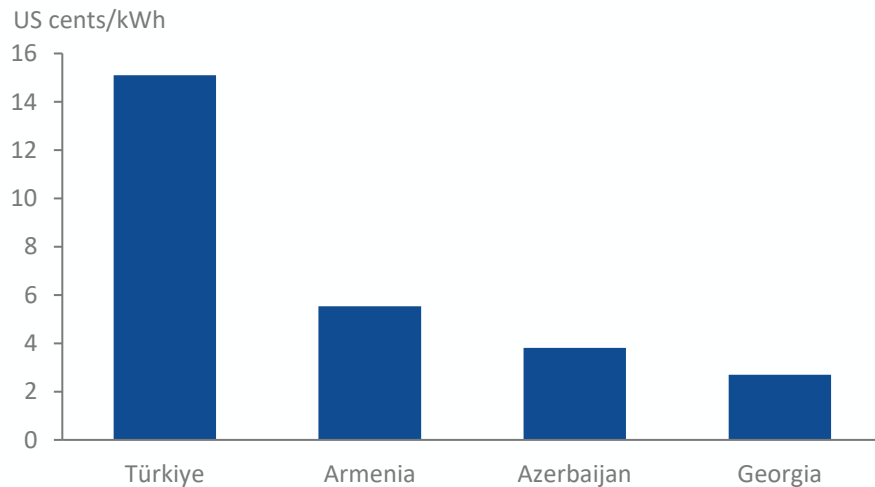
Armenia's cross-border power trade (2/2)

Existing and planned regional transmission capacity, 2024, 2034



Source: own illustration based on GSE (2024b) "TYNDP (2024-2034)", USAID (2023);
 Note: Position of interconnectors only indicative. Solid line is 2024 transmission; dashed line is plan by 2034

Regional average import prices for electricity, 2022



Source: Galt & Taggart (2025); Note: TUR-price is market clearing price; import prices are averages over all trade partners

Limited regional interconnections

- » Armenia relatively isolated, with active links only to GEO (150 MW) and IRN (350 MW)
- » Historical lines to TUR and AZE currently inactive due to political reasons
- » ARM-GEO interconnection asynchronous – unsuitable for flexible or short-term trade

Interconnection expansion plans

- » IRN: transmission upgrade to 1,200 MW underway; will support barter deal, but no energy security or RES integration benefits
- » TUR: promising long-term option (large system, high prices); but political barriers and costly reactivation of asynchronous line
- » GEO: expansion to 350 MW with back-to-back station planned; would enable efficient and mutually beneficial trade between the two asynchronous grids
- Stronger regional integration would allow ARM to diversify trade partners
- Near-term focus should be on advancing delayed project to expand ARM-GEO link

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About the German Economic Team

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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