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POLICY STUDY
ARMENIA

Armenian mortgage subsidy programme: description, implications and outlook

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Executive summary (1/2)

Mortgage subsidy programme

- » In 2015, Armenia introduced a mortgage subsidy programme aimed at stimulating demand for existing residential real estate, which was newly constructed
 - Beneficiaries can get a refund on interest payments for mortgages (not principal repayments) for newly constructed residential property, limited to the amount of their income tax paid
 - Until 2025, approx. 62,000 beneficiaries have used the programme
 - The programme is expected to be in place until 2029. Since 2025, it no longer applies to properties located in Yerevan

Implications for the construction and banking sectors

- » Over the years, the programme has become an important stimulus for the population to buy new residential property (already existing or yet to be constructed)
 - Between 2015 and 2024, approx. 34,000 apartments were constructed. Most of the newly constructed apartments (2024: 94%) are in Yerevan and neighbouring marzes
 - Annual value of newly constructed residential housing increased 3-fold compared to 2014, amounting to AMD 319 bn or USD 812 m in 2024
 - Average apartment prices nearly doubled, with an especially strong increase since 2022
 - Foreigners play a rather minor role in the market (H1 2025: approx. 4.5% of purchase transactions), with Russian citizens being the most present (approx. 60%)
- » The mortgage portfolio of the Armenian banking sector grew strongly (2025: AMD 1,700 bn or USD 4.4 bn). This is 9 times the level of end of 2014
 - High concentration of the mortgage portfolio (42%) on two commercial banks (Ameriabank, 23% and Ardshinbank, 19%). The overall level of NPLs in the market remained very low so far

Executive summary (2/2)

Fiscal implications of the subsidy programme

- » While the mortgage programme was successful in stimulating activity in the construction sector, it also had significant fiscal costs for the Armenian budget
 - Total refunds to beneficiaries amounted to AMD 305 bn or USD 748 m (2015-2025)
 - 2025: AMD 96 bn (USD 248 m) or 3.6% of collected taxes and fees; this is a 9-fold increase compared to 2018
- » According to our projections, fiscal pressure on the state budget will be the highest in the upcoming years and will gradually diminish since 2031
 - 2026-2030: projected annual average of refunds of AMD 98 bn per year
 - 2031-2035: reduction to AMD 77 bn expected; 2036-2040: AMD 39 bn; 2041-2044: AMD 8 bn
- » Projected total refunds 2026-2044: AMD 1,098 bn (approx. USD 2.9 bn)

Policy discussion

- » The programme gave a significant boost to the construction and mortgage market in Armenia. While an estimation of the total benefits is beyond the scope of this study, they are expected to have been quite significant
- » As such, the discontinuation of the programme will likely negatively affect both sectors, with potential spillover impacts on the broader economy
- » At the same time, the amount of foregone income for the state budget grew significantly in recent years. With fiscal pressure piling up, the programme could not have been continued indefinitely
- » Given that most mortgage loans under the programme are repaid through annuity schedules, the share of interest payments (subsidised) will gradually decline over time while the share of principal repayment (not subsidised) increases. This may heighten the risk of default for some beneficiaries

Outline

1. Introduction
2. Description of the mortgage subsidy programme
3. Usage of the mortgage subsidy programme
4. Implications for the residential construction sector
5. Implications for the residential real estate market
6. Fiscal implications of the mortgage subsidy programme
7. Projected repayments and refunds

1. Introduction

Background

- » In 2015, the Government of Armenia introduced a mortgage subsidy programme aimed at stimulating demand for existing residential real estate
- » Over the years, the programme's scope has broadened, becoming a principal catalyst for new residential construction in Armenia
 - Newly built residential area grew eightfold from 151,194 m² in 2014 to 1,261,180 m² by 2024
 - As such: the mortgage subsidy programme is seen as one of the key drivers of developments in the Armenian residential construction sector over the last decade
- » However: while the programme is argued to have been effective in stimulating the construction sector, it also had significant costs for the budget
- » The mortgage subsidy program is currently being phased out. However, it is unclear how long its fiscal and economic implications will persist. While a precise estimation of the latter is beyond the scope of this study, we aim to understand the future costs to the Armenian budget

Main goal of the study

- » Description of the Armenian mortgage subsidy programme and the rationale behind it
- » Analysis of the main dynamics connected to the programme, especially in the residential construction and financial sectors
- » Scenario analysis of the outstanding repayments and the resulting refunds of the programme

2. Description of the mortgage subsidy programme

2.1. Description of the programme (1/2)

- » In 2015, by Decision No. 205 adopted on 19 February (ARLIS, 2015), the Government of Armenia introduced a **programme that refunds income tax equivalent to the interest paid on mortgage loans** for real estate purchased directly from developers
 - The programme aimed to boost sales of newly constructed outstanding real estate stock and reduce the risk of non-performing loans in the financial sector
 - No limits or restrictions were imposed; for example, there were no caps on the number of apartments a single beneficiary could purchase, nor were there ceilings on the price of eligible apartments
 - However, it soon became clear that the **programme lacked a social focus**. High-income individuals were using it as a tax optimisation mechanism (e.g., some beneficiaries purchased multiple apartments or very high-priced properties, including those located in the city centre)
- » In 2018, the Government introduced changes to the programme to **strengthen its social focus**:
 - Each beneficiary could participate in the programme only once
 - A price cap of AMD 55 m was set for apartments eligible under the programme
 - Total income tax refund for borrowers or co-borrowers was capped at AMD 1.5 m per quarter
- » Still, the number of beneficiaries increased significantly in the subsequent years, as did refunds from the state budget
- » Moreover, apartments acquired under the programme were highly concentrated in Yerevan, accounting for 93% of all such purchases in 2021

2.1. Description of the programme (2/2)

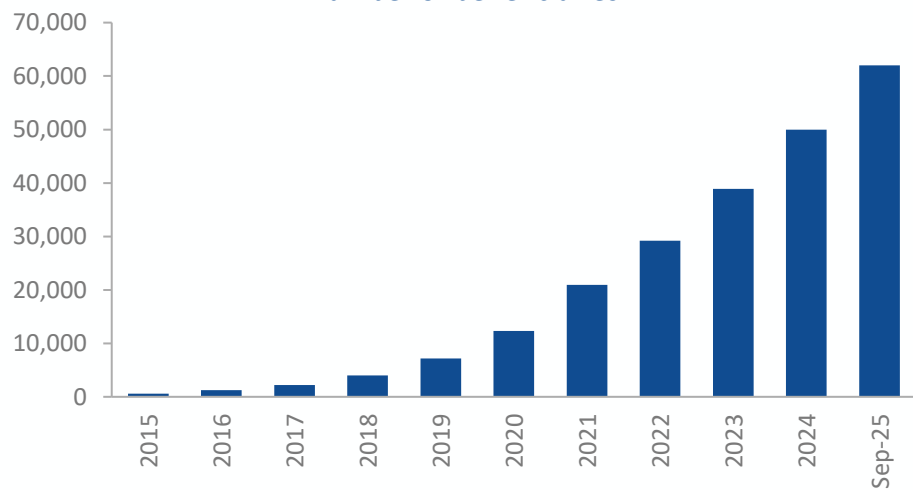
- » In 2021, the RA Ministry of Finance, following the recommendations of the IMF, proposed changes to the programme aimed at **promoting a more balanced territorial distribution and further strengthening its social orientation**
- » As such, **location-based restrictions** within Yerevan were introduced:
 - From Jul-22: mortgages were restricted for properties located (or to be constructed) in Zone 1 (downtown / inner city centre) of Yerevan
 - From Jan-23: the restriction was extended to Zone 2 (extended centre)
 - From Jul-23: the restriction was further extended to Zone 3 (centre-adjacent)
 - **Starting January 1, 2025, the programme no longer applies to properties located in Yerevan, whether completed, under construction, or planned for construction. An exception is made for properties for which construction permits were issued before Jan-22**
- » Moreover, the programme was designed to be gradually phased out nationwide, given its **growing burden on state finances**:
 - Starting Jan-27, the refund will no longer apply to properties in the Aragatsotn, Ararat, Armavir, or Kotayk regions
 - Starting Jan-29, the program will be discontinued in all regions of the country except the border settlements
- » Additionally, starting from Jan-25, the total income tax refund for borrowers or co-borrowers is capped at AMD 750,000 per quarter (down from the previous AMD 1.5 m)

2.2. Typical beneficiary case

- » The beneficiary selects a **newly constructed residential property** offered by a developer
 - Programme applies only to primary market purchases, meaning the apartment must be purchased directly from the developer. At this stage, usually construction **has not started yet**
- » The beneficiary and the developer reach a **verbal agreement** on the future purchase of property
- » The beneficiary applies for and receives a **mortgage loan** from a commercial bank and signs a **right-to-purchase agreement** with the developer
 - **As a rule, six months later**, construction begins and continues for approximately **three-five years**
- » Throughout the construction period, the beneficiary services the mortgage and **pays interest** from the moment the loan is disbursed
- » From the first interest payment onward, the beneficiary becomes **eligible for the state refund**
 - The programme operates as a **quarterly interest-refund mechanism**, where interest payments on the mortgage are reimbursed up to the amount of income tax paid by the beneficiary. As a result, higher taxable income and therefore higher income tax paid allow for a larger refund. Where interest accrued exceeds the income tax paid, the excess is paid by the borrower
- » After construction is completed and all permits and documentation are finalised, a **final purchase and sale agreement** is signed; ownership of the residential property is transferred to the beneficiary
 - Consequently, although the mortgage is taken and construction begins earlier, the purchase transaction is recorded only at completion, often several years later, resulting in a significant time lag between mortgage issuance, construction activity, and observed purchase data
- » Mortgages follow an **annuity repayment schedule**; interest payments gradually decline while principal repayments increase
 - The refund from the state budget gradually decreases and **eventually ceases**, as the programme applies **only to interest payments**, not principal repayments

2.3. Beneficiaries of the programme

Number of beneficiaries



Source: State Revenue Committee (SRC, 2025)

Distribution of mortgage agreements by marzes, as of July 2025

% share of total beneficiaries



Created with Datawrapper

Source: SRC (2025)

Number of beneficiaries

- » 2015: only 560 beneficiaries
- » Number of beneficiaries increase strongly since 2018 despite stricter social focus of the programme
 - Likely connected to increased financial trust since Velvet Revolution in 2018
- » 2024: 49,973 beneficiaries; average annual growth of 54% since 2019
- » Sep-25: ~62,000 beneficiaries

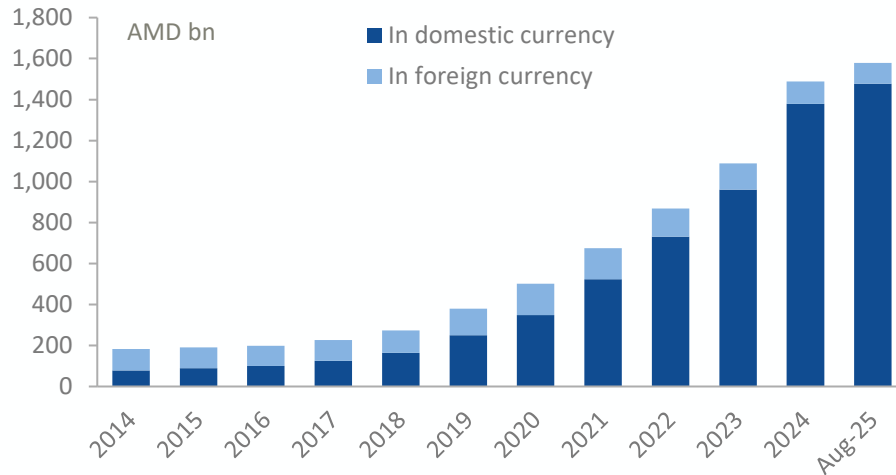
Geographical distribution

- » Jul-25: 82% of agreements were concluded for residential real estate in Yerevan; 15% for Kotayk region
- » H1 2025: 34% of new agreements still made for Yerevan; 47% for Kotayk region
 - Despite phasing out of Yerevan: properties with construction permits issued before 2022 were still eligible
- Very stark interest in the programme, with especially strong growth after 2018
- Heavily concentrated in and around Yerevan

3. Usage of the mortgage subsidy programme

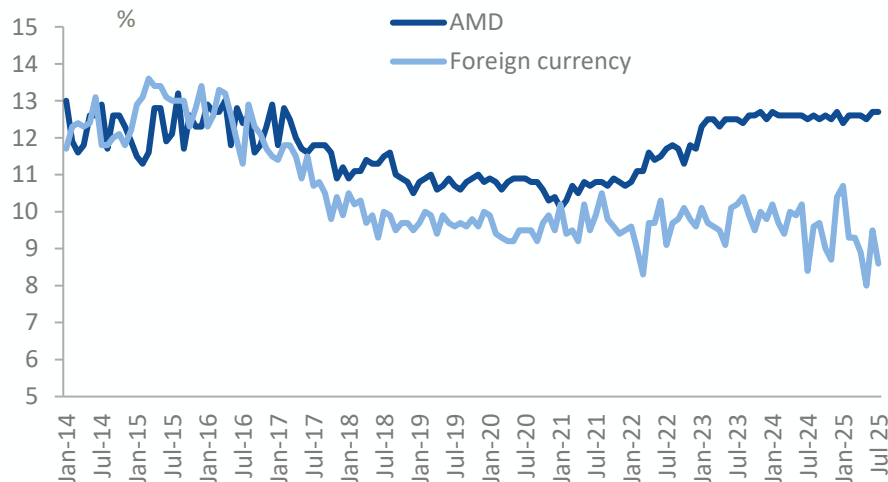
3.1. Armenian mortgage market (1/2)

Outstanding mortgage portfolio by currency



Source: Central Bank of Armenia (CBA, 2025a); Note: end of period

Average nominal interest rates on mortgage



Source: CBA (2025b)

Growth of the total mortgage portfolio

- » 2014: AMD 183 bn (USD 385 m)
- » Only moderate growth until 2018; similar dynamics as in the number of mortgage programme beneficiaries
- » 2019-2024: strong annual average growth rate of 33% (beneficiaries: 54%)
- » Aug-25: AMD 1,579 bn (USD 4.1 bn), 8.6 times the level at end-2014

Distribution of loans by currency

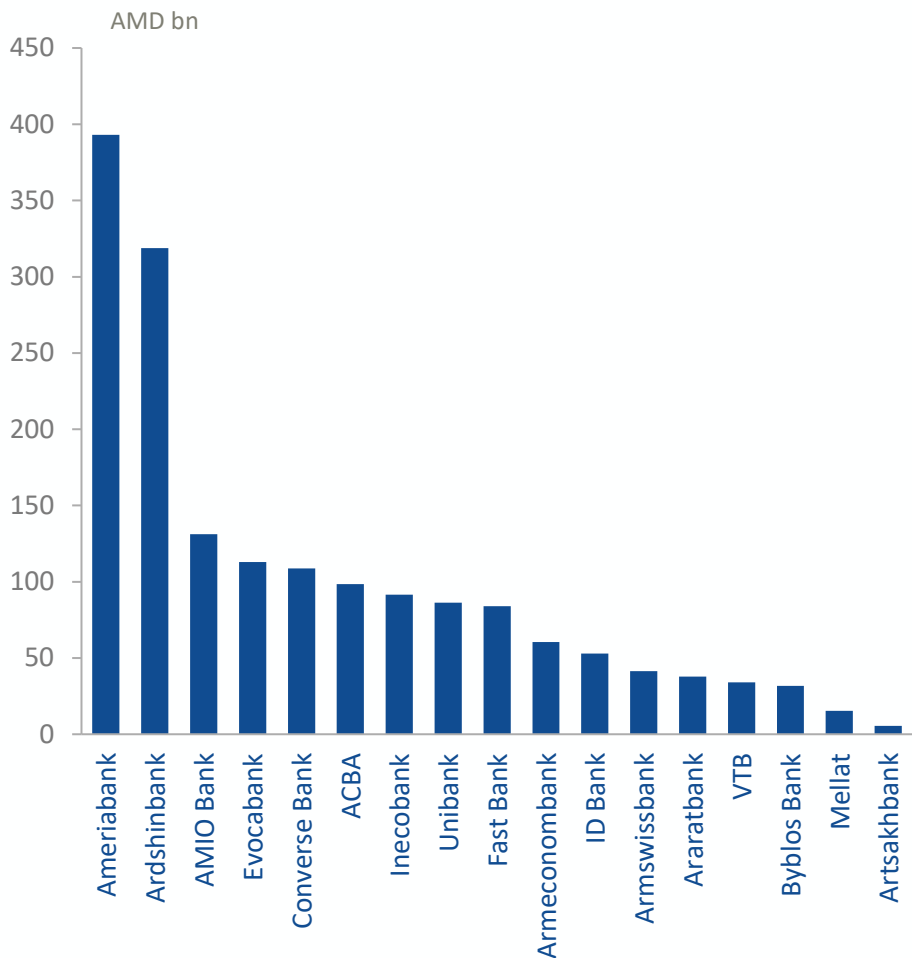
- » 2014: 43% were denominated in AMD, 57% in foreign currency
- » Starting May-23: all mortgage loans in Armenia are issued exclusively in AMD
- » Aug-25: 94% of the portfolio was in AMD

Interest rates

- » Jan-14: AMD-denominated loans – 13%, foreign currency loans – 11.7%
- » July-25: AMD-denominated loans – 12.7%, foreign currency loans – 8.6%
- Mortgage market accelerated since the launch of the programme

3.1. Armenian mortgage market (2/2)

Mortgage portfolio of commercial banks, 2025



Source: Financial reports of the banks of RA (2025); Note: end o period; data reflects the mortgage portfolio to individuals where available; where breakdowns are not published, the total mortgage portfolio for all clients is used

Main players (at end-2025)

- » Total portfolio at the end of 2025:
 - AMD 1,700 bn or USD 4.4 bn
- » High concentration of the mortgage portfolio (42%) on two commercial banks
 - Ameriabank: 23% (AMD 393 bn or USD 1,016 m)
 - Ardshinbank: 19% (AMD 319 bn or USD 824 m)
- » Other 58% are rather evenly distributed among the remaining 15 banks
 - Third largest player (AMIO Bank) has 8% of the total portfolio

Non-performing loans

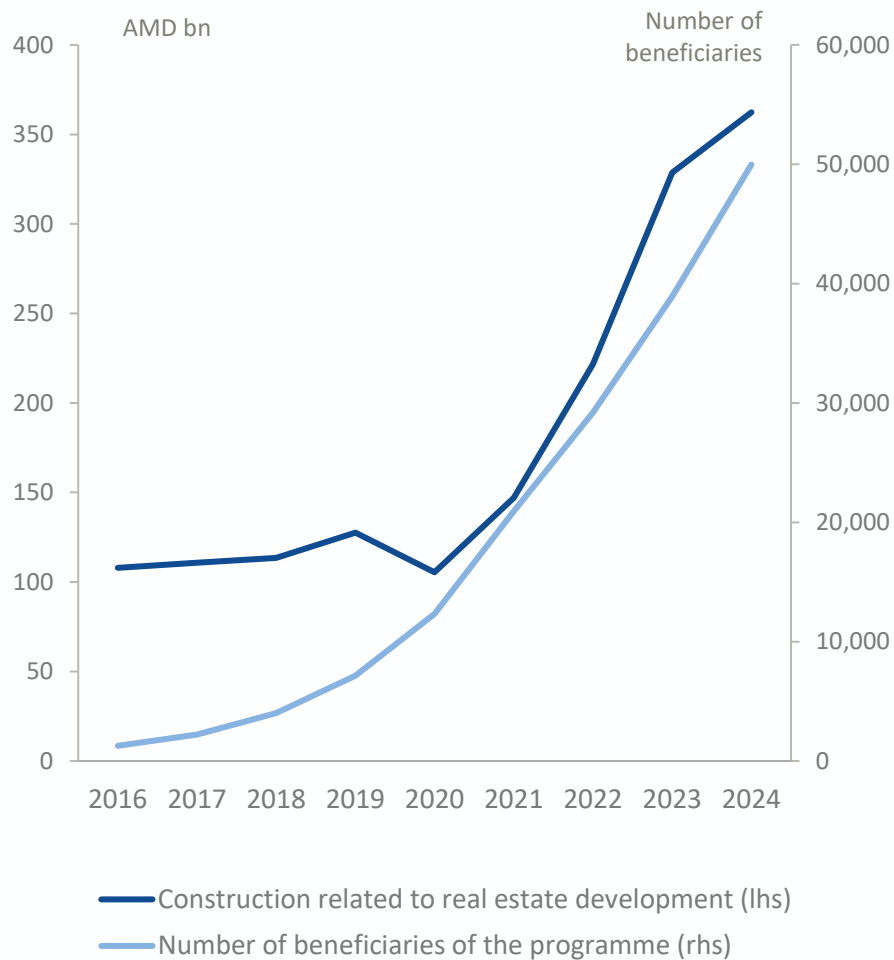
- » Overall low level of non-performing loans (NPL) in the commercial banking system
 - Nov-2025: 1.2%
 - NPL ratio for mortgage loans in particular amounts to only 0.15%

- High concentration on two banks
- Overall low level on NPLs in the market

4. Implications for the residential construction sector

4.1. Construction related to real estate development

Volume of construction related to real estate development



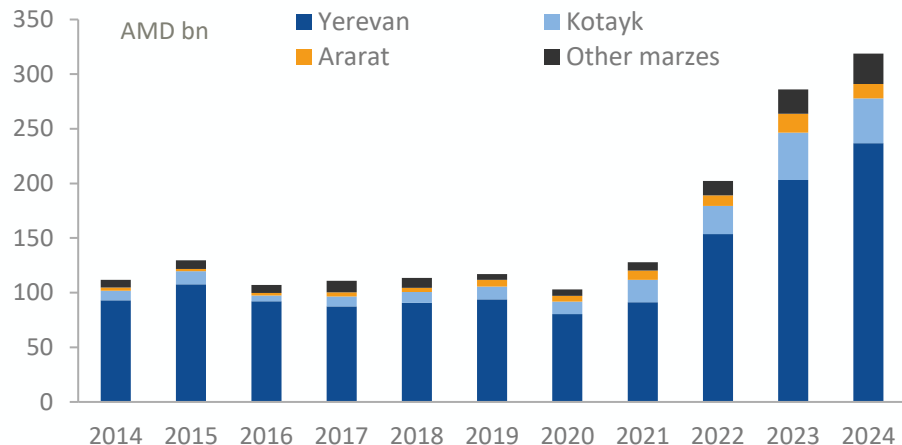
Impact on the real estate sector

- » Significant increase in the annual volume of real estate construction in recent years
 - 2016: AMD 108 bn
 - 2020: some drop due to the pandemic
 - 2024: AMD 362 bn (USD 923 m); 3.6-fold increase compared to 2016
- » Increase in annual construction volumes seems to be related to rapid growth in mortgage programme beneficiaries
 - Especially close correlation since 2020
 - Some delay likely due to the programme's initial design to support sales of existing newly constructed residential property in Yerevan
- After some delay, the programme gradually stimulated new construction activity

Source: SRC (2025),
Statistical Committee of the Republic of Armenia (Armstat, 2025a)

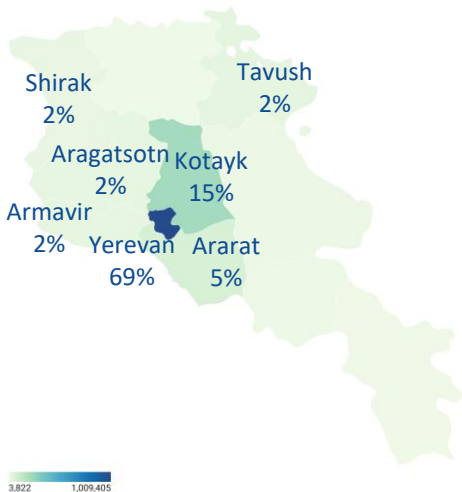
4.1. Newly constructed residential real estate (1/2)

Residential real estate put in operation by marzes



Source: Armstat (2025b)

Distribution of newly constructed residential housing (m²), 2024



Source: Armstat (2025c)

Commissioned residential real estate

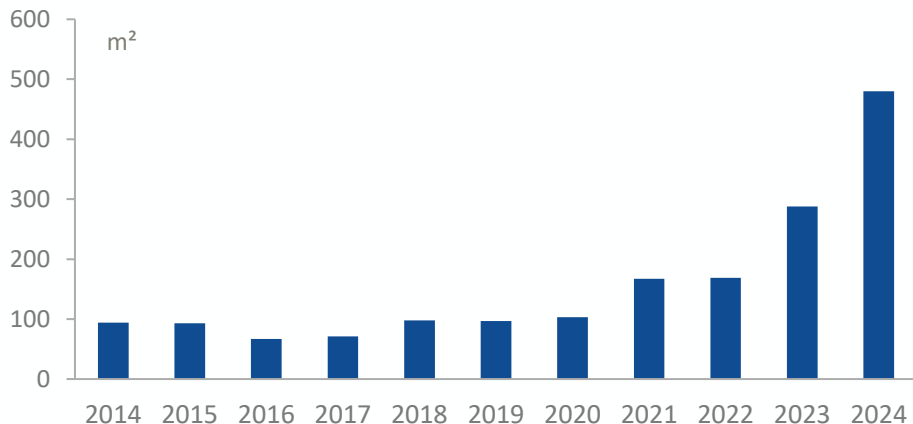
- » 2024: AMD 319 bn (USD 812 m) or 74% of the newly constructed residential real estate is in Yerevan
- » Between 2014-2024, the newly constructed residential housing value (and area) increased 3-fold:
 - Yerevan: 2.5-fold or by AMD 144 bn (USD 380 m)
 - Kotayk: 4.6-fold or by AMD 32 bn (USD 83 m)
 - Ararat: 4.5-fold or by AMD 10 bn (USD 27 m)

Distribution of newly constructed housing

- » 2024: 94% of newly constructed residential area is in Yerevan and neighbouring marzes
 - Yerevan: 69% or 1,009,405 m²
 - Kotayk: 15% or 222,431 m²
 - Ararat: 5% or 73,471 m²
- Programme stimulated the new residential construction sector in Armenia
- Strong focus on and around Yerevan

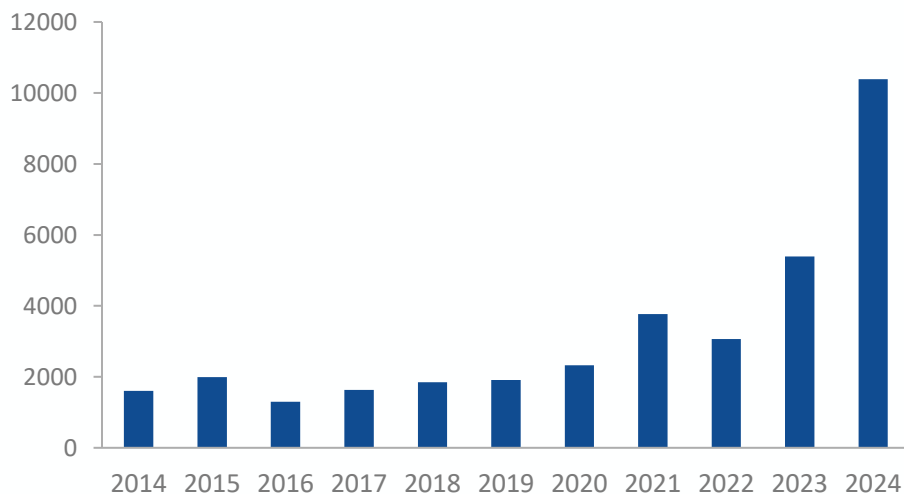
4.2. Newly constructed residential real estate (2/2)

Dwellings put in operation per 1000 persons



Source: Armstat (2025d)

Number of constructed apartments



Source: Armstat (2025d)

Dwellings put in operation

- » 2014: 94 m² per 1000 persons
- » 2023: 288 m² per 1000 persons,
- » 2024: 480 m² per 1000 persons, 67% growth from 2023, 5-fold growth from 2014
- Note: The calculations of indicators for 2023 and 2024 were carried out based on the data obtained from the 2022 census

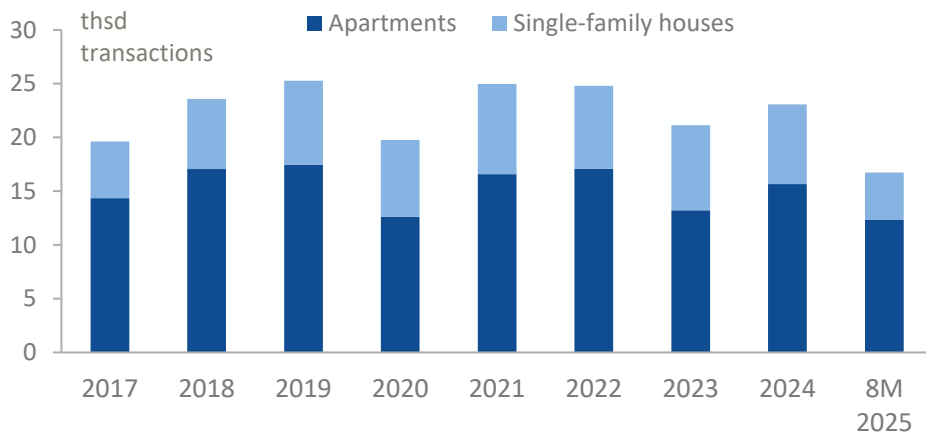
Number of constructed apartments

- » 2014: 1,602 apartments were constructed
- » 2024: 10,389 apartments were constructed, 93% more than in 2023
- » Overall, since the start of the programme in 2015, 33,619 apartments were constructed in ARM until 2024
- » The average space of the newly constructed apartments in 2024 was 120 m²
- Housing projects typically require several years to be completed and put into operation

5. Implications for the residential real estate market

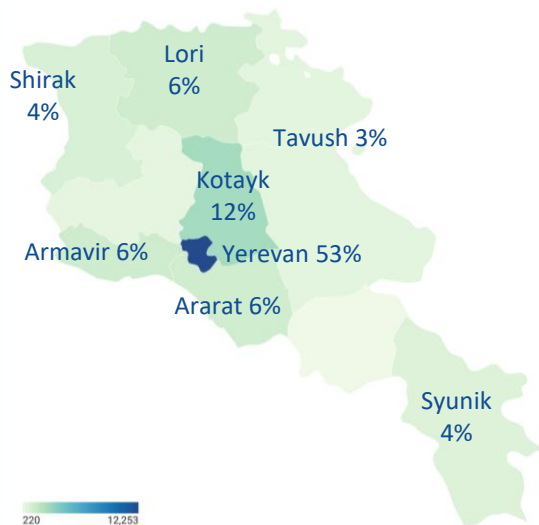
5.1. Purchase transactions

Residential housing purchase transactions



Source: Cadastre Committee (2025)

Distribution of residential housing purchase transactions by marzes, 2024



Source: Armstat (2025e)

Number of purchase transactions

- » Overall, number of transactions remained rather constant between the years
- » 2024: 23,071 transactions
 - Apartments account for 68%
- » However: significant number of apartments were acquired through right-to-purchase agreements
 - 2024: 15,730*; not shown in the data as apartments are not constructed yet
- » 8M 2025: 16,733 transactions; +17% yoy
 - Apartments account for 74% of transactions

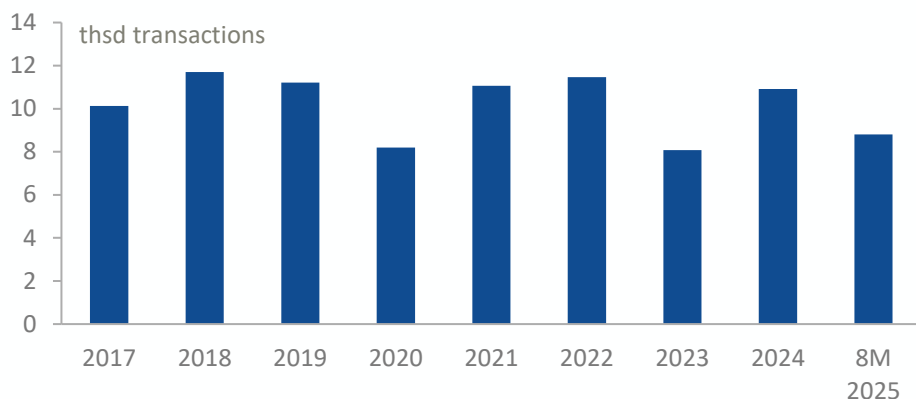
Regional distribution of transactions in 2024

- » Yerevan: 53% or 12,253 transactions
 - Compared to 2023, Yerevan's share increased by 8 percentage points
- » Kotayk: 12% or 2,780
- » Armavir: 6% or 1,369
- No significant change in the number of purchase and sale transactions yet

*Figure only published for 2024. No time series available

5.2. Apartment purchase in Yerevan

Apartments purchase transactions in Yerevan



Source: Cadastre Committee (2025)

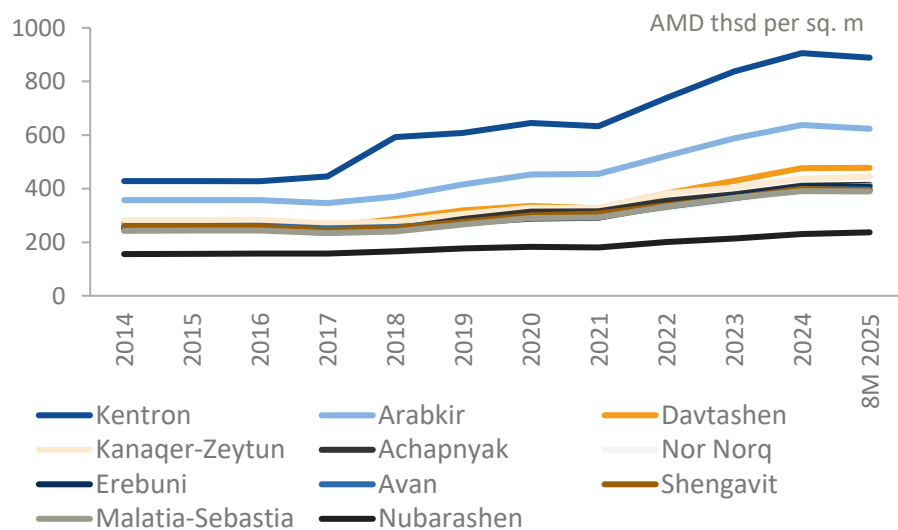
Number of purchase transactions

- » Similarly, number of purchase transactions for Yerevan remained constant
- » 2024: 10,913 purchase and sale transactions for apartments in multi-apartment buildings
- » 8M 2025: 8,812 transactions; +39% yoy

Average apartment prices

- » Between 2014-2024, average apartment prices in Yerevan increased:
 - City center (kentron): 2-fold growth
 - Arabkir: 79% growth
 - Davtashen: 73% growth
- » Prices peaked in 2024:
 - City Center (the highest price): AMD 960 thsd (USD 2,306)
 - Nubarashen (the lowest price): AMD 237 thsd (USD 585)
- » 8M 2025: prices declined slightly
- Housing prices in Yerevan have increased significantly as demand grew due to mortgage uptake

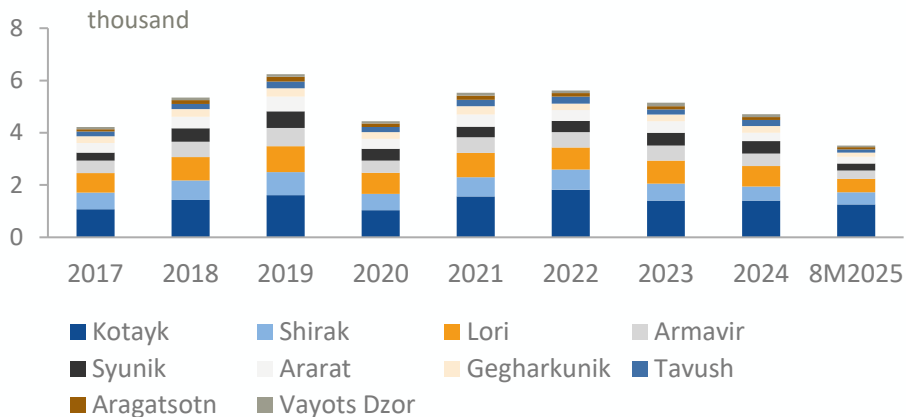
Average apartment prices in Yerevan by districts



Source: Cadastre Committee (2025)

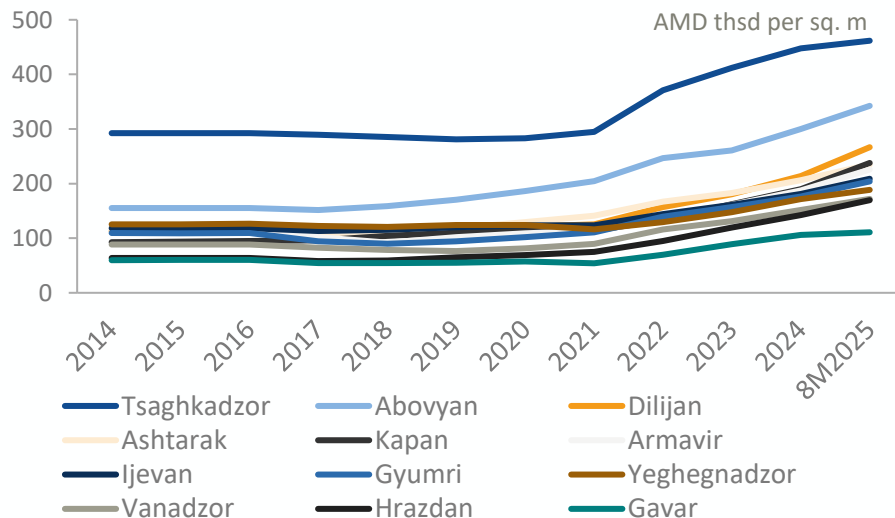
5.3. Apartment purchase in regions

Apartments purchase transactions in marzes



Source: Cadastre Committee (2025)

Average apartment prices in selected cities



Source: Cadastre Committee (2025)

Number of purchase transactions

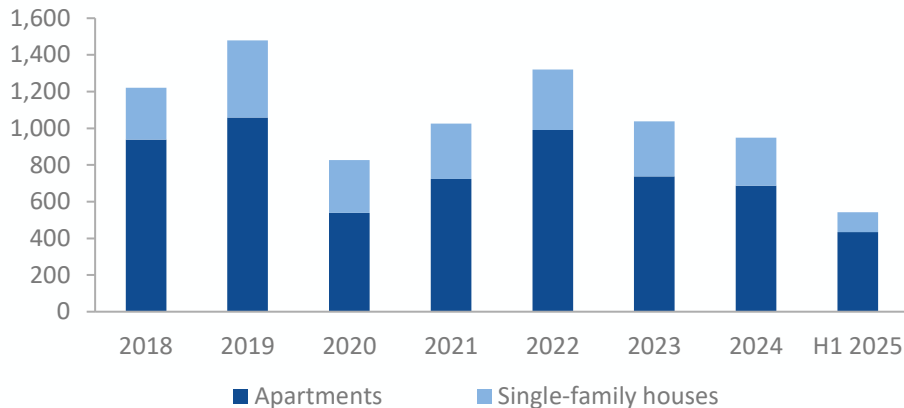
- » 2024: 4,710 purchase transactions for apartments in multi-apartment buildings
- » 8M 2025: 3,506 transactions; +16% yoy
 - Kotayk: 36% of transactions among regions outside Yerevan
 - Lori: 15%

Average apartment prices

- » 2014-2024: average apartment prices increased, especially since 2022
 - Tsaghkadzor (resort town, Kotayk): 53%
 - Abovyan (near Yerevan, Kotayk): 94%
 - Hrazdan (Kotayk): 123%
- » Prices peaked in 8M2025:
 - Tsaghkadzor (highest): AMD 462 thsd (USD 1,180) per sq. m
 - Tumanyan (lowest): AMD 27 thsd (USD 69) per sq. m
- Housing prices in the regions also increased, but with a delay compared to Yerevan

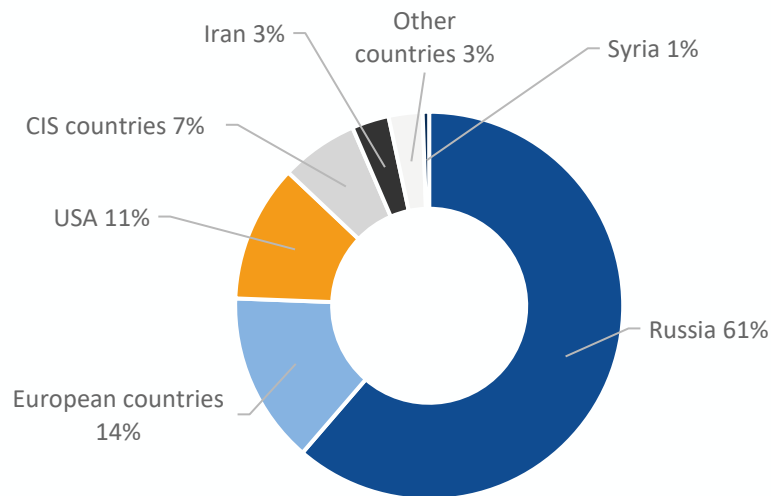
5.4. Foreigners in the Armenian real estate market (1/2)

Residential housing purchases by foreign citizens, by property type



Source: Cadastre Committee (2025)

Residential housing purchases by foreign citizens, by citizenship



Source: Cadastre Committee (2025); Note: data for 8M2025

Purchase transactions by foreigners

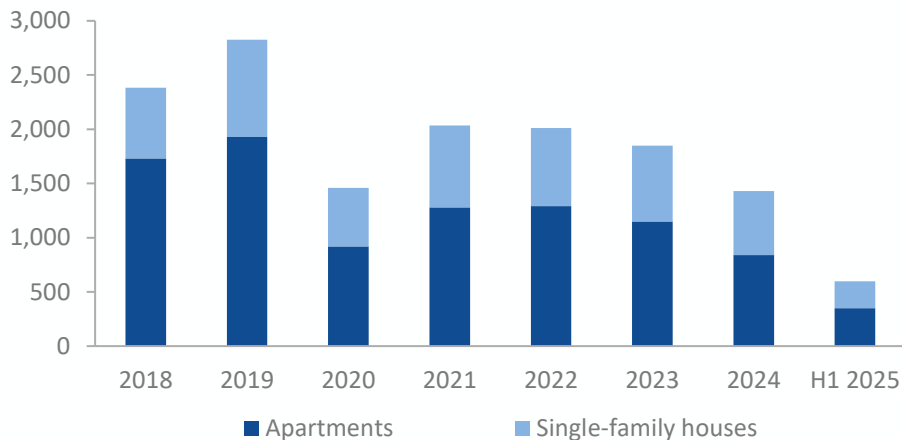
- » 2024: 948; only 4.1% of total similar transactions in ARM
 - Apartments: 687; share of 72%
 - Single-family houses: 261; 28% of transactions
- » 2025 H1: 543; 4.5% of similar transactions

Purchase transactions by citizenship

- » Distribution by share (8M2025):
 - Russian citizens: 61%
 - European countries: 13%
 - USA: 11%
- » 2024 vs 2018: number of purchase transactions by foreign citizens declined
 - Russian citizens: -11%
 - European citizens: -36%
- » Transactions by Russian citizens peaked in 2022 (865 purchase transactions); likely linked to the inflow of migrants
- Low share of purchases by foreigners
- RUS citizens are main buyers; transactions peaked following the 2022 migration wave

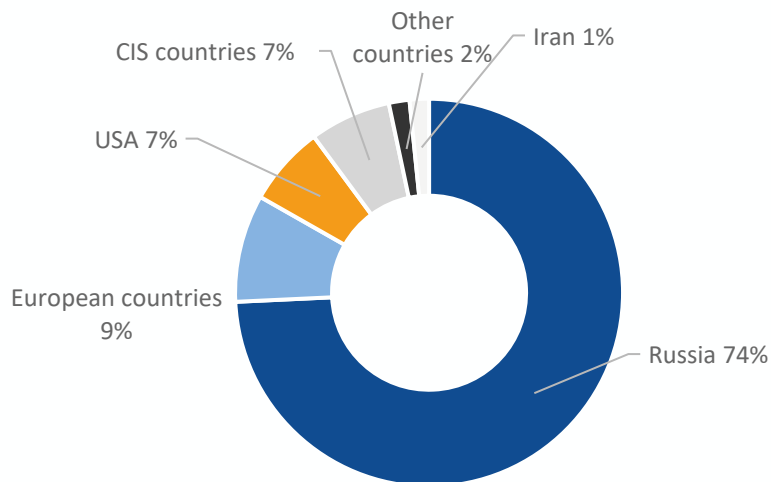
5.5. Foreigners in the Armenian real estate market (2/2)

Residential housing sales by foreign citizens, by property type



Source: Cadastre Committee (2025)

Residential housing sales by foreign citizens, by citizenship



Source: Cadastre Committee (2025); Note: data for 8M2025

Sale transactions by foreigners

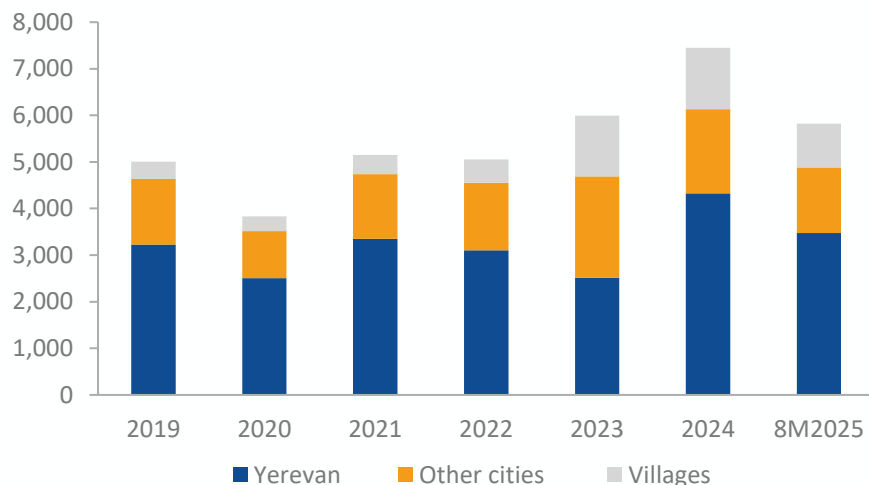
- » 2024: 1,431; 6.2% of total similar transactions in ARM
 - Apartments: 839; 59% of transactions;
 - Single-family houses: 592; 41% of transactions
- » 2025 H1: 597; 5% of similar total similar transactions in ARM

Sales transactions by citizenship

- » Distribution by share (8M2025):
 - Russian citizens: 74%
 - European citizens: 9%
 - Other: 17%
- » 2024 vs 2018:
 - Russian citizens: -46%
 - European citizens: +40%
 - USA citizens: -1%
- Overall, foreign citizens sell more residential property than they buy
- RUS citizens also dominate the sale transactions among foreigners

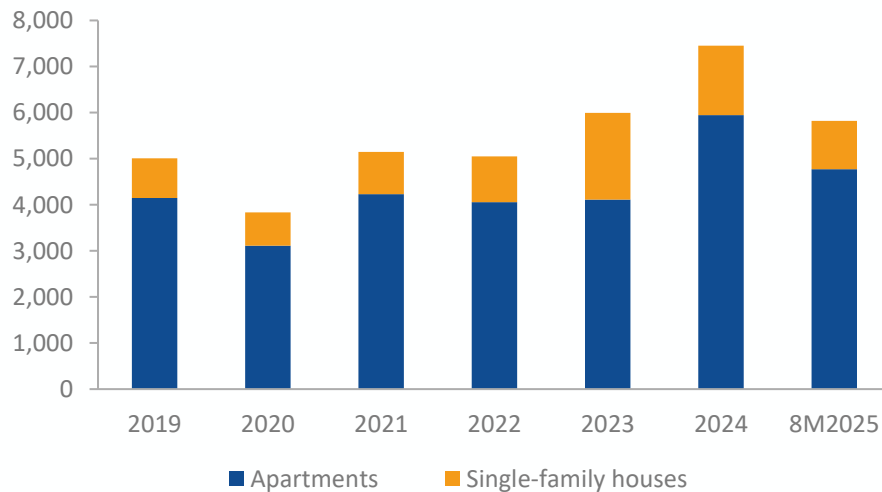
5.6. Residential mortgage transactions

Residential mortgage transactions in ARM



Source: Cadastre Committee (2025), Note: secondary and primary market

Residential mortgage transactions in ARM by property type



Source: Cadastre Committee (2025), Note: secondary and primary market

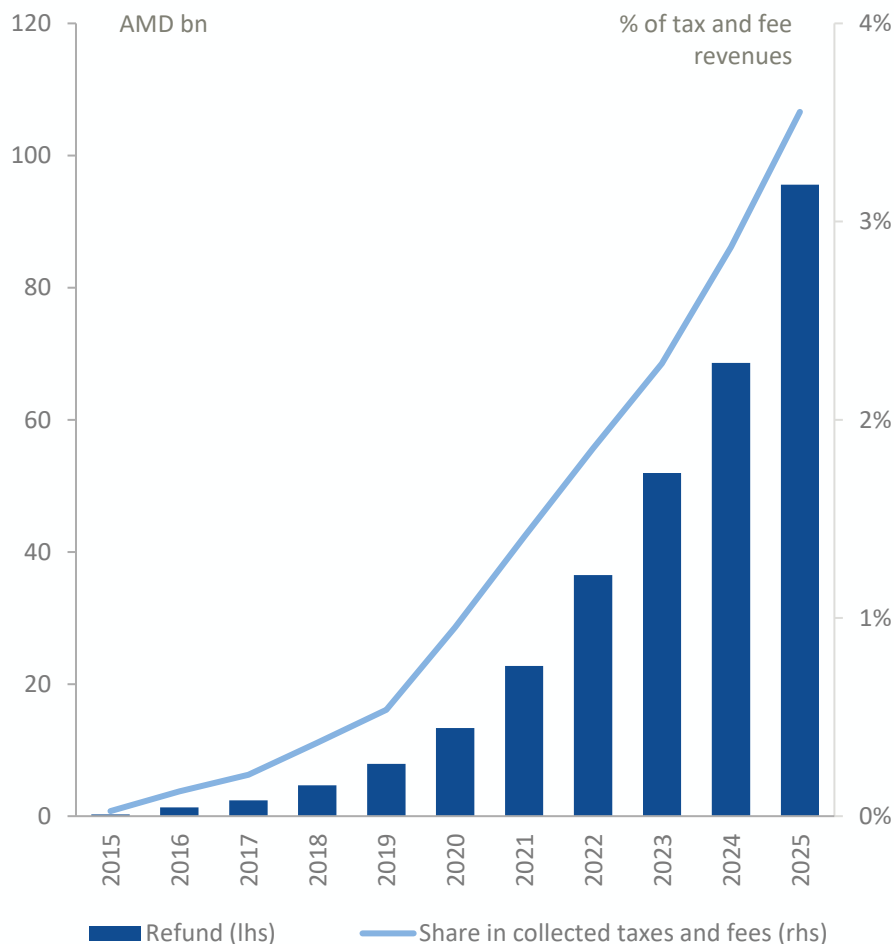
Number of residential mortgage transactions

- » 2024: 7,450 primary and secondary market transactions
 - Yerevan: 58% of transactions
 - Other cities: 24%
 - Villages: 18%
- » 8M 2025: 5,820 transactions
- » 2024 vs 2019: number of residential mortgage transactions increased by 49%
 - Yerevan: 34% growth
 - Other cities: 28% growth
 - Villages: 3.6-fold
- » 8M 2025: apartments accounted for 82% of transactions
- » 2024 vs 2019: transactions regarding apartments 43%; single-unit houses by 76%
- Residential mortgage transactions peaked in 2024, driven by growth in Yerevan
- Likely reflects higher demand ahead of the planned changes to the programme in January 2025

6. Fiscal implications of the mortgage subsidy programme

6.1. Income tax refunds for mortgage interest

Income tax refunded in the amount of the interest payments on the mortgage



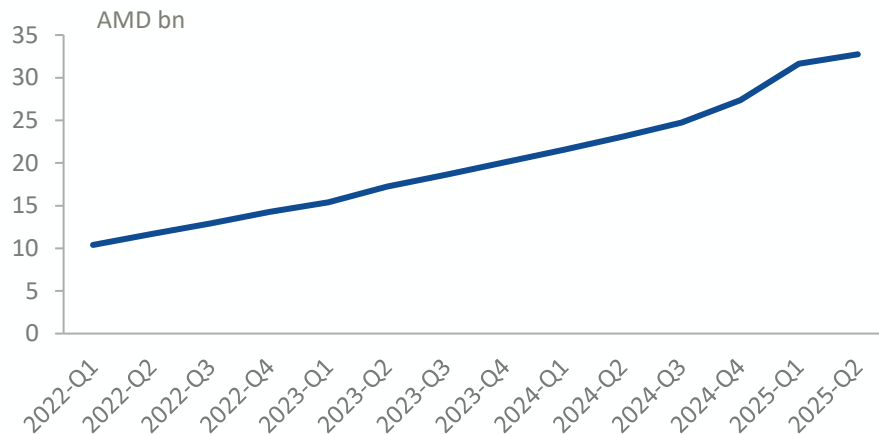
Source: SRC (2025), own calculations based on SRC (2025) and Ministry of Finance (MoF, 2025a)

Refunded amount from the state budget

- » Total refunded amount 2015-2025: AMD 305 bn (USD 748 m)
- » As the number of beneficiaries increased significantly since 2018, the amount of refunded income tax also grew:
 - 2018: AMD 5 bn (USD 10 m)
 - 2025: AMD 96 bn (USD 248 m); initial plan budget plan: AMD 84 bn
 - 19-fold increase in AMD value
- » As such, its share in tax and fee revenues also increased significantly
 - 2015: share of only 0.03%
 - 2018: increased to 0.4%
 - 2025: already 3.6%; 9-fold increase compared to 2018
- » Refund was counted as forgone revenue until 2024
- The expansion of the programme resulted in increased foregone revenues for the state budget

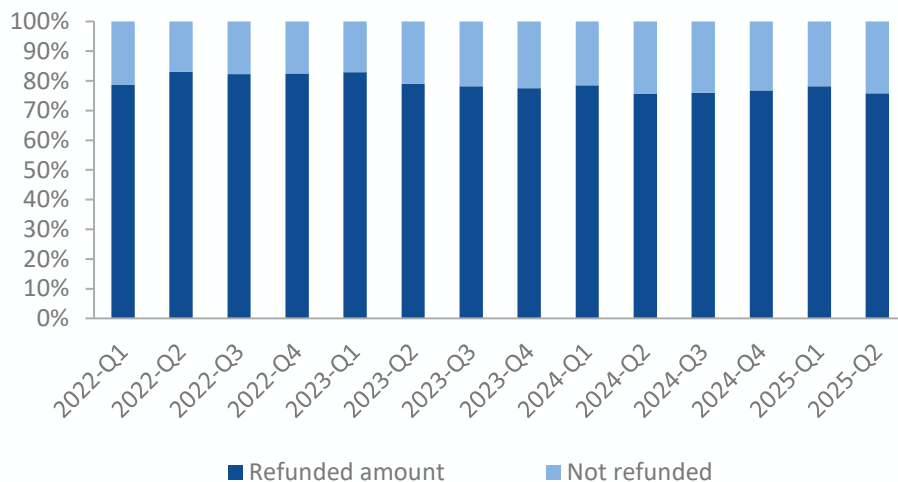
6.2. Interest payments and refund coverage

Mortgage interest payments from beneficiaries



Source: SRC (2025)

Refunded interest payments (% share)



Source: SRC (2025)

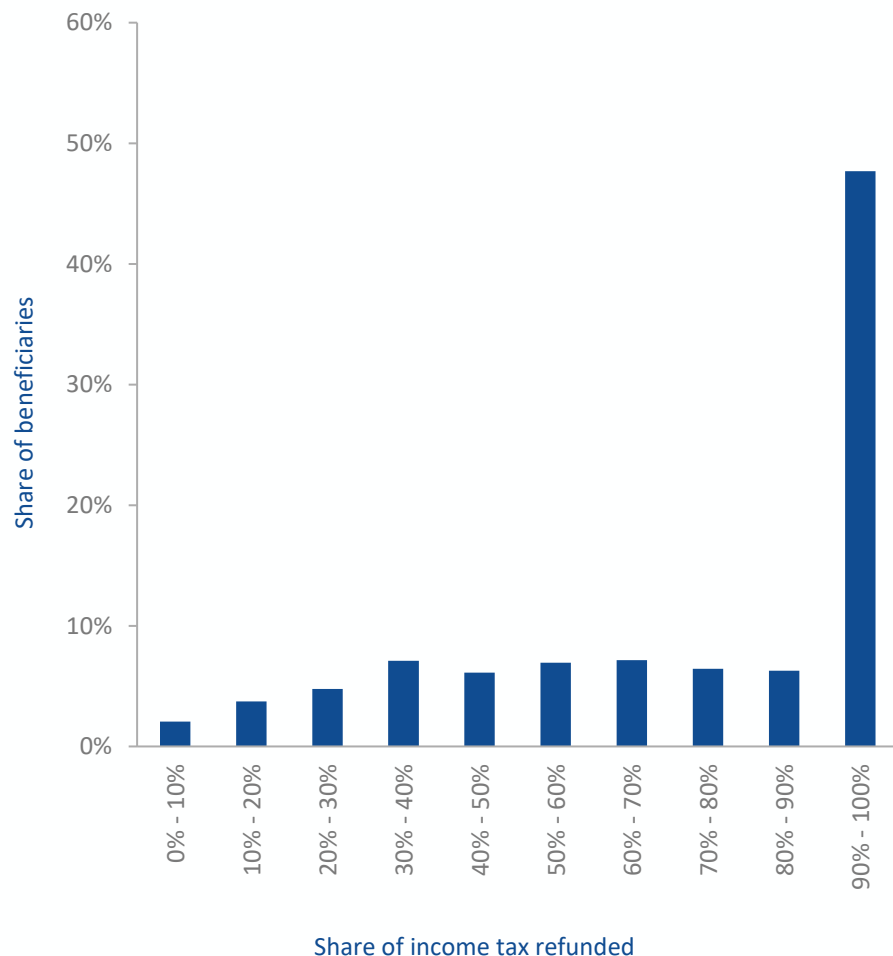
Interest payments and refunds

- » Since 2015, interest payments of beneficiaries of the programme multiplied
- » Q2-2025: AMD 33 bn (USD 85 m), 3 times more than in the Q1-2022
- » Around 80% of these interest payments annually have been returned to the beneficiaries

Note: Starting January 1, 2018, the total income tax refund for borrowers or co-borrowers was capped at AMD 1.5 million per quarter. Beginning January 1, 2025, this cap was reduced to AMD 750,000 per quarter. As a result of these caps, the full amount of mortgage interest paid is not always refunded

6.3. Refund coverage for end-2024 cohort

Distribution of loans under the programme by share of refunded income tax for the end-2024 cohort



Source: Own estimates based on SRC (2025)

Income tax refunded out of income tax paid

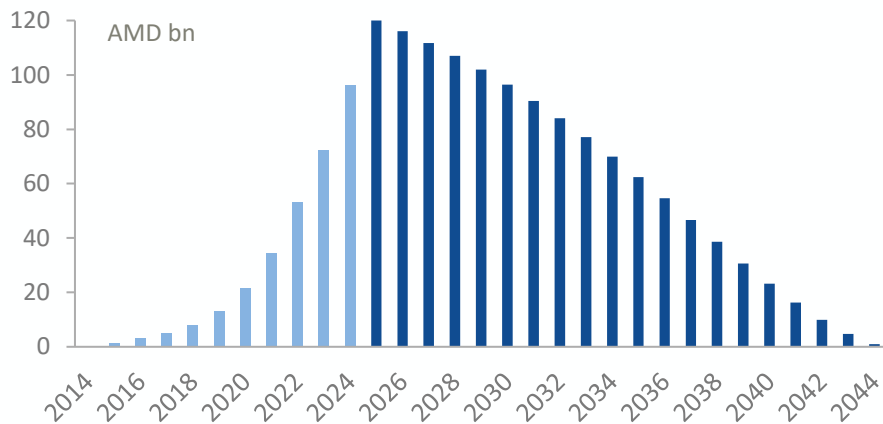
- » According to our estimations based on the cohort of beneficiaries at the end of 2024:
 - 48% of loans* receive a refund covering 90%–100% of their interest payments
 - 27% of loans receive a refund covering 50%–90% of their interest payments
 - 24% of loans receive a refund covering 0%–50% of their interest payments
- » Starting January 1, 2025, the income tax refund for borrowers or co-borrowers is capped at AMD 750,000 per quarter

**This refers to the loans specifically. The number of beneficiaries and loans differs; one loan may have multiple beneficiaries.*

7. Projected repayments and refunds

7.1. Projected repayments: baseline and assumptions

Actual and projected mortgage interest payments of beneficiaries
(Baseline scenario)



Source: Own estimates based on SRC (2025)

Scenario	Assumptions
Baseline (Scenario 1)	0.5% annual rate discontinuation (non-performing loans and early full repayments); incl. cases where the mortgage is repaid to sell the property
Scenario 2	10% increase in USD/AMD exchange rate in 2027
Scenario 3	25% increase in USD/AMD exchange rate in 2027
Scenario 4	0.5 pp increase in mortgage interest rates in 2026
Scenario 5	1 pp increase in mortgage interest rates in 2026
Scenario 6	0.5 pp decrease in mortgage interest rates in 2026
Scenario 7	1 pp decrease mortgage interest rates in 2026

Source: Own display

Baseline scenario

- » 2024: beneficiaries of the programme paid AMD 96 bn (USD 244 m) in interest payments on the mortgage
- » We assume that every year starting in 2026, 0.5% of loans are discontinued
 - 2026: beneficiaries of the programme will pay AMD 116 bn in interest
- » Most mortgage programmes follow annuity schedules; interest payments decline
 - 2031: AMD 90 bn
 - 2036: AMD 55 bn
 - 2044: AMD 1 bn

Alternative scenarios

- » We calculate six alternative scenarios
- » Each scenario introduces a one-time development in 2026 and illustrates how mortgage interest payments would evolve
 - S2/S3: exchange rate shocks
 - S4/S5: interest rate increases
 - S6/S7: interest rate decreases

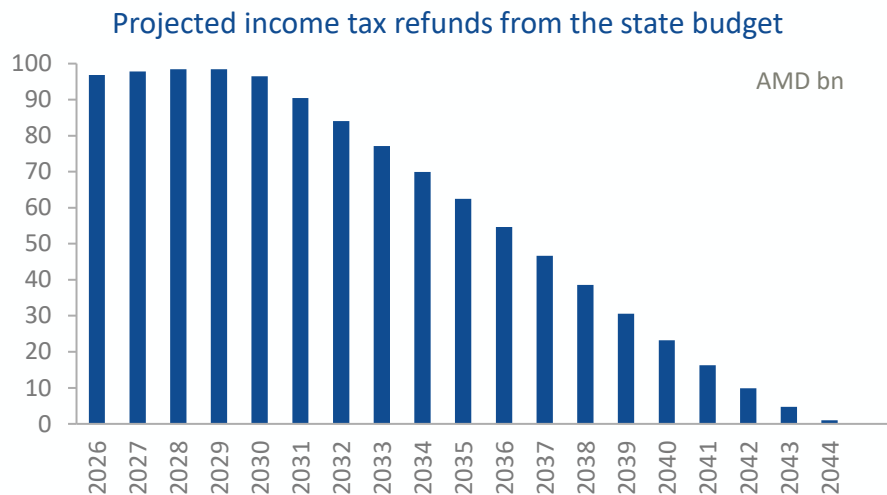
7.2. Projected repayments: summary of scenarios

Scenario	Assumptions	Total mortgage interest payments (2026-2044), AMD bn	Change vs baseline, AMD bn
Baseline (Scenario 1)	0.5% annual rate of discontinuation	1,143	
Scenario 2	10% increase in USD/AMD exchange rate in 2027	1,153	+10 (+0.9%)
Scenario 3	25% increase in USD/AMD exchange rate in 2027	1,167	+24 (+2.1%)
Scenario 4	0.5 pp increase in average mortgage interest rates in 2026	1,262	+119 (+10.4%)
Scenario 5	1 pp increase in average mortgage interest rates in 2026	1,324	+181 (+15.8%)
Scenario 6	0.5 pp decrease in average mortgage interest rates in 2026	1,139	-4 (-0.3%)
Scenario 7	1 pp decrease in average mortgage interest rates in 2026	1,079	-64 (-5.6%)

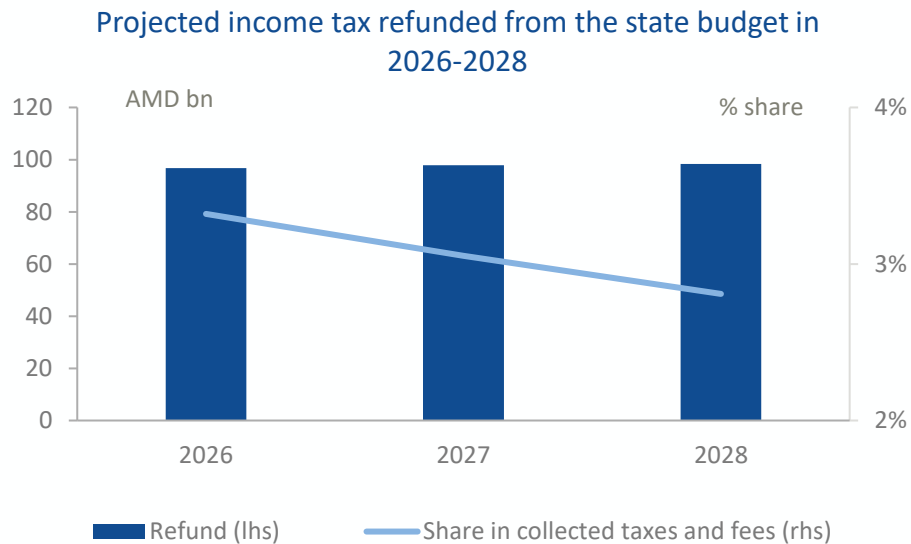
Source: Own estimates based on SRC (2025)

- » In all scenarios, total mortgage interest payments (2026-2044) of the end-2024 cohort (excluding new beneficiaries in 2025) are projected to exceed AMD 1,000 bn
- » Scenarios with changes in the exchange rate do not have a huge impact as loans are mostly in AMD
- » Significant increase in the burden, should average mortgage interest rates go up
- » On the other hand: less strong impact of decreases as total mortgage interest payments are a convex function of the interest rate, meaning that rate increases raise payments more sharply than equivalent decreases reduce them

7.3. Projected refunds: baseline scenario



Source: Own estimates based on SRC (2025)



Source: SRC (2025), MoF (2025b)

Income tax refund projections (base scenario)

- » In 2026-2044: projected refunds to beneficiaries will be AMD 1,098 bn
 - 2026-2030: projected annual average of AMD 98 bn per year
 - 2031-2035 avg.: AMD 84 bn/year
 - 2036-2040 avg.: AMD 39 bn/year
 - 2041-2044 avg.: AMD 8 bn/year
- » Projected refunds for the 2026-2028 will amount to AMD 301 bn (USD 756 m)
 - 2026: AMD 97 bn or 3.3% of the taxes and fees the government plans to collect
 - 2027: AMD 98 bn; 3.1%
 - 2028: AMD 98 bn; 2.8%
- Programme refunds will put a significant burden on the budget in the upcoming years
- Fiscal pressure on the state budget will gradually diminish starting 2030

7.4. Projected refunds: summary of scenarios

Scenario	Assumptions	Total projected income tax refunds (2026-2044), AMD bn	Change vs baseline, AMD bn
Baseline (Scenario 1)	0.5% annual rate of discontinuation	1,098	
Scenario 2	10% increase in USD/AMD exchange rate in 2027	1,107	+10 (+0.9%)
Scenario 3	25% increase in USD/AMD exchange rate in 2027	1,121	+23 (+2.1%)
Scenario 4	0.5 pp increase in average mortgage interest rates in 2026	1,213	+116 (+10.5%)
Scenario 5	1 pp increase in average mortgage interest rates in 2026	1,273	+176 (+16.0%)
Scenario 6	0.5 pp decrease in average mortgage interest rates in 2026	1,095	-3 (-0.2%)
Scenario 7	1 pp decrease in average mortgage interest rates in 2026	1,037	-61 (-5.5%)

Source: Own estimates based on SRC (2025)

- » As calculations are based on the projected repayments under the respective scenarios, the results for the projected refunds follow the same patterns (see section 7.2)
 - In all scenarios, total refund from the state budget (2026-2044) to the end-2024 cohort (excluding new beneficiaries in 2025) is projected to exceed AMD 1,000 bn
 - No major changes under the exchange rate scenarios, but a significant impact of average mortgage interest rates increases, while interest rate decreases are less noticeable

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.

**Advisory activities in Belarus are currently suspended.*

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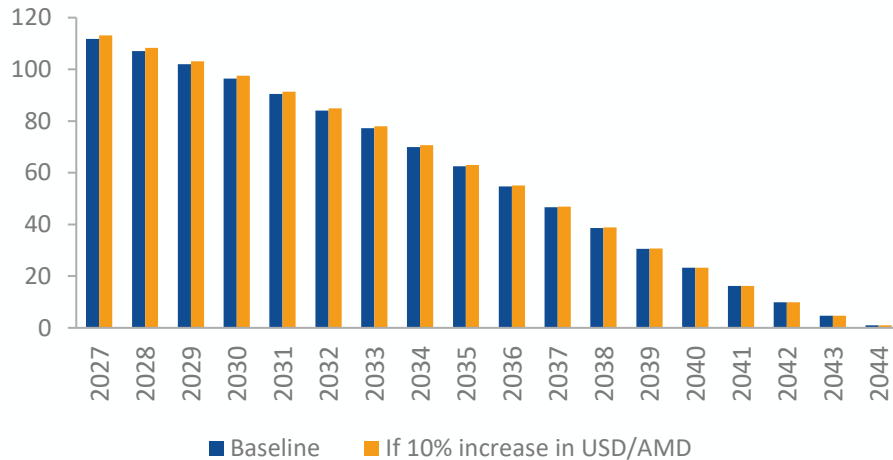
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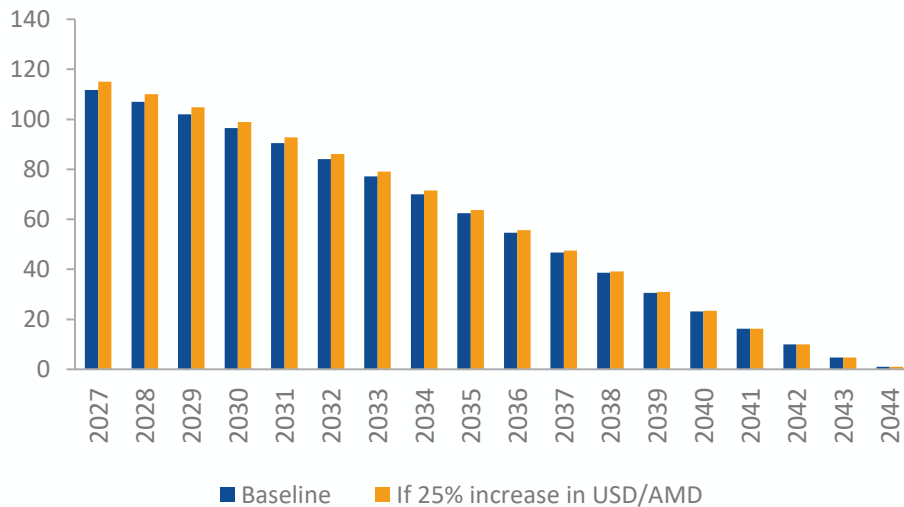
ANNEX. Alternative scenarios based on end-2024 cohort (1/3)

Projected mortgage interest payments of beneficiaries (Scenario 2)



Source: Own estimates based on SRC, CBA data

Projected mortgage interest payments of beneficiaries (Scenario 3)



Source: Own estimates based on SRC, CBA data

Description

- » Starting from May 2023, all mortgage loans in Armenia are issued exclusively in AMD
- » However, before this, the mortgage portfolio also included loans denominated in USD
- » In Scenarios 2 and 3, we assume a 10% and 25% increase in the USD/AMD exchange rate in 2026

Scenario 2 vs Baseline scenario

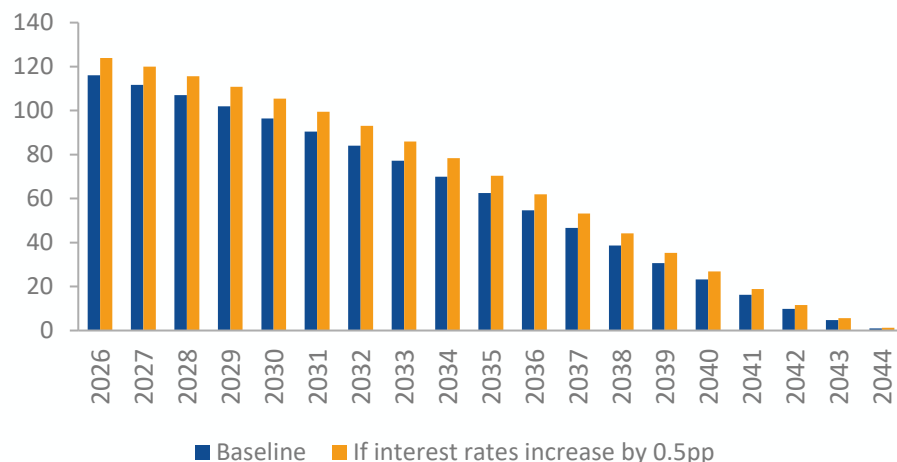
- » Annual payments rise by ~1% vs. baseline, dropping to under 1% after 2039
 - 2030: AMD 97 bn vs. AMD 96 bn
 - 2035: AMD 63 bn vs. AMD 62 bn
 - 2040 and 2044: nearly identical to the baseline scenario

Scenario 3 vs Baseline scenario

- » Around 3% higher vs. baseline, declining to ~2% after 2032 and under 2% after 2038
 - 2030: AMD 99 bn vs AMD 96 bn
 - 2035: AMD 64 bn vs AMD 62 bn
 - 2040 and 2044: nearly identical to the baseline scenario

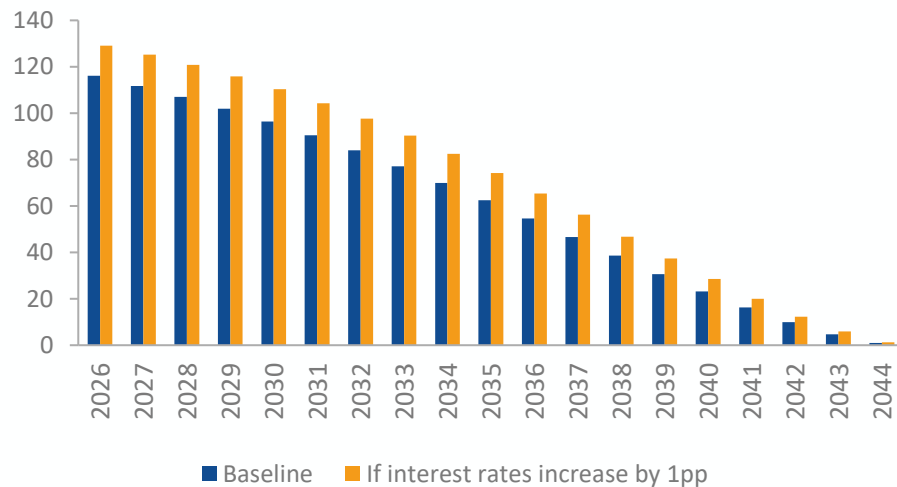
ANNEX. Alternative scenarios based on end-2024 cohort (2/3)

Projected mortgage interest payments of beneficiaries (Scenario 4)



Source: Own estimates based on SRC, CBA data

Projected mortgage interest payments of beneficiaries (Scenario 5)



Source: Own estimates based on SRC, CBA data

Description

- » The following two scenarios examine how mortgage interest payments would change if the average annual mortgage rate rises by 0.5 pp or 1 pp in 2026

Scenarios 4 vs Baseline scenario

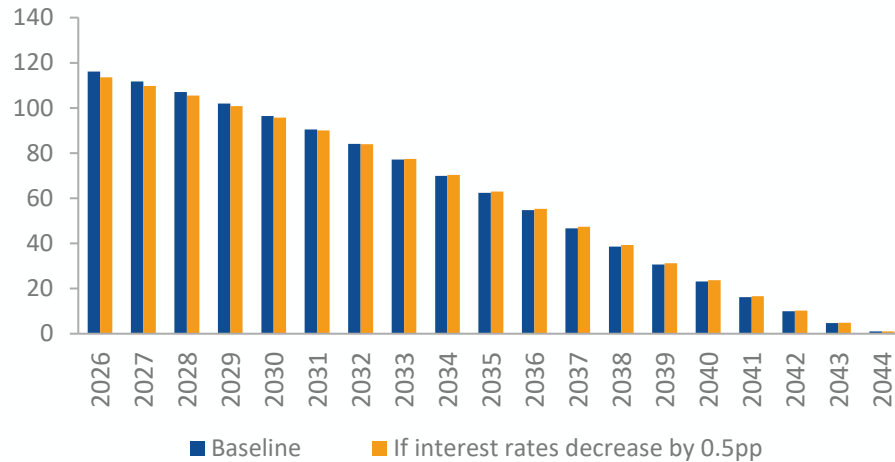
- » Between 2026 and 2044, annual payments are on average 13% higher than in the baseline, ranging from 7% to 19%
 - 2030: AMD 105 bn vs AMD 96 bn
 - 2035: AMD 70 bn vs AMD 62 bn
 - 2040: AMD 27 bn vs AMD 23 bn
 - 2044: AMD 1.2 bn vs AMD 1.0 bn

Scenarios 5 vs Baseline scenario

- » Between 2026 and 2044, annual payments are on average 19% higher than in the baseline, ranging from 11% to 27%
 - 2030: AMD 110 bn vs AMD 96 bn
 - 2035: AMD 74 bn vs AMD 62 bn
 - 2040: AMD 29 bn vs AMD 23 bn
 - 2044: AMD 1.3 vs AMD 1.0 bn

ANNEX. Alternative scenarios based on end-2024 cohort (3/3)

Projected mortgage interest payments of beneficiaries (Scenario 6)



Source: Own estimates based on SRC, CBA data

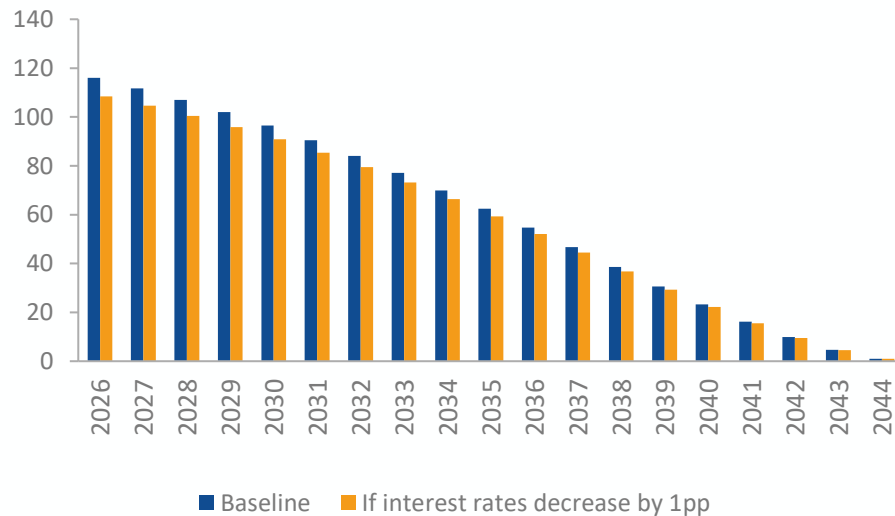
Description

- » The following two scenarios examine how mortgage interest payments would change if the average annual mortgage rate decreases by 0.5 pp or 1 pp in 2026

Scenarios 6 vs Baseline scenario

- » Between 2026 and 2030, annual payments are on average 1% less than in the baseline scenario, in the following couple of years identical to baseline

Projected mortgage interest payments of beneficiaries (Scenario 7)



Source: Own estimates based on SRC, CBA data

Scenarios 7 vs Baseline scenario

- » Between 2026 and 2044, annual payments are on average 5% less than in the baseline
 - 2030: AMD 91 bn vs AMD 96 bn
 - 2035: AMD 59 bn vs AMD 62 bn
 - 2040: AMD 22 bn vs AMD 23 bn
 - 2044: AMD 0.9 vs AMD 1.0 bn

Data sources

» RA Statistical Committee (Armstat):

- Newly constructed residential real estate, distribution of newly constructed residential housing by marzes, number of constructed apartments, etc.

» RA Cadastre Committee:

- Residential housing purchase and sale transactions, distribution of transactions by marzes, average apartment prices by cities, residential housing purchases and sales by foreign citizens, residential mortgage transactions in ARM, including by property type, etc..

» RA CBA and commercial banks:

- ARM mortgage portfolio by lending institution, mortgage portfolio of institutions by currency, average interest rates on mortgage;
- Mortgage portfolio of commercial banks;

» RA State Revenue Committee:

- The following information regarding beneficiaries of the income tax refund program was requested from SRC: annual number of beneficiaries of the program, income tax refunded to the beneficiaries by years, interest payments of beneficiaries of the program, distribution of mortgage agreements by marzes, information about the mortgage agreements of beneficiaries, including the prices of residential real estate, year of purchase, number of co-borrowers, etc..

Projections of beneficiaries' future interest payments

- » Data source: SRC database on active loans provided to the beneficiaries of the program, which includes information such as the apartment purchase price, year of purchase, address, interest paid from 2014 to July 2025, quarterly refunded interest amounts, and other related data
- » The projections for coming years (interests paid and the share of refunded interest payments) are based on end of 2024 beneficiary pool. After the data cleaning and imputation, 45,407 observations (active loans) remained
- » Assumptions:
 - Since information on the durations of these loans is not available, we rely on interviews with banking-sector experts. Based on their input, we assume that 5% of loans have a 10-year term, 20% have a 15-year term, and the remaining 75% have a 20-year term
 - Starting from May 2023, all mortgage loans in Armenia are issued exclusively in AMD. However, before this, the mortgage portfolio also included loans denominated in USD. Since information on the currency composition of beneficiary loans in that period is not available, we assign currency shares in line with the overall distribution of mortgage loan currencies in the country
 - Information on the interest rates of these loans is also not available in the SRC database. Therefore, interest rates were assigned using CBA data, based on the country's average mortgage rates for each specific currency in the corresponding month and year
 - The SRC database provides the purchase price of the apartment, but not the loan amount. Based on interviews with banking-sector experts, we assume that, on average, 80% of the purchase price is financed through a mortgage loan

» Calculation of future interest payments:

- Monthly payments are projected for each of the 45,407 loans over their full duration, based on the loan start date, interest rate, loan amount, and assumed loan term. Monthly payments are calculated using the following formula:

$$A = \frac{\text{Loan amount} * r * (1+r)^n}{(1+r)^n - 1}$$

where, $r = \text{Annual rate} / 100 / 12$ and is the monthly interest rate

n is the loan term in months

- A 0.5% annual rate of discontinued loans is assumed, reflecting both non-performing loans and early full repayments, including cases where borrowers repay the mortgage to sell the property
 - In addition, six alternative scenarios were discussed. Each introduces a one-time development in 2026 or 2027 (depending on the probability of occurrence), such as a change in the exchange rate or interest rates, and illustrates how mortgage interest payments would evolve if, in addition to the baseline 0.5% loan discontinuation, this development were to occur
 - Important: To validate the model, we performed a calibration exercise. Specifically, we ran the model backwards and then compared these simulated outcomes with actual historical data to assess how closely they align. They are closely aligned, confirming the model's reliability
- » The share of interest payments refunded from the state budget was estimated using a model developed based on end-2024 beneficiary cohort. An annual 5% growth in wages is assumed.

ANNEX. Limitations

- » A key limitation of the study is the quality and completeness of the SRC data at the individual mortgage-contract level. Information before 2022 is incomplete due to limitations in the data collection process at the time.
- » The database provided by SRC also contained issues such as missing values and implausible entries, where some inputs were unrealistically large or small, requiring data cleaning and imputation to construct the most complete and reliable contract-level dataset possible.
- » Several important variables on the loans provided to the beneficiaries of the program were unavailable in the database provided by the SRC, including information on the durations of these loans, the currency composition, interest rates, etc.. These variables had to be assessed by the authors.