



Armenia

Highlights

- **Armenia's robust economic performance continues amid geopolitical and economic uncertainty.** The strong performance of the services industry, in particular, remains largely driven by the inflow of money transfers, but the first signs of a slowdown are already visible.
- **Connections with neighbours are improving slowly.** The past year has seen enhanced energy interconnections with Iran, which may yield economic benefits for Armenia.
- **Anti-corruption efforts will benefit from new measures to detect and prevent corruption.** The recent launch of the Electronic Platform for Declarations of Assets, Incomes, Expenditures and Interests, as well as the use of artificial intelligence, will make it easier for the Corruption Prevention Commission (CPC) to detect and prevent corruption.

Key priorities for 2024

- **Continued progress on implementing the digital agenda is necessary to maintain growth momentum.** The focus should be on advancing the digital transformation of the economy by improving the delivery of digital public services and supporting the development of digital skills.
- **Initial steps to facilitate green investments should continue.** An efficient and transparent regulatory environment and favourable natural conditions for renewable energy could help attract foreign direct investment in initiatives to green the economy and open up new growth potential.
- **Addressing the basic housing and social needs of displaced Karabakh Armenians is an utmost priority.** Their efficient inclusion in the labour market, health system, social security network and education would have a positive impact on their integration and on long-term economic growth.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	7.6	-7.2	5.8	12.6	6.5
Inflation (average)	1.4	1.2	7.2	8.6	3.5
Government balance/GDP	-1.0	-5.4	-4.6	-2.1	-2.7
Current account balance/GDP	-7.1	-4.0	-3.5	0.8	-1.4
Net FDI/GDP [neg. sign = inflows]	-1.7	-0.7	-2.5	-4.9	-1.6
External debt/GDP	90.9	102.1	99.8	78.2	n.a.
Gross reserves/GDP	20.9	20.7	23.3	21.1	n.a.
Credit to private sector/GDP	57.1	68.6	58.2	50.1	n.a.

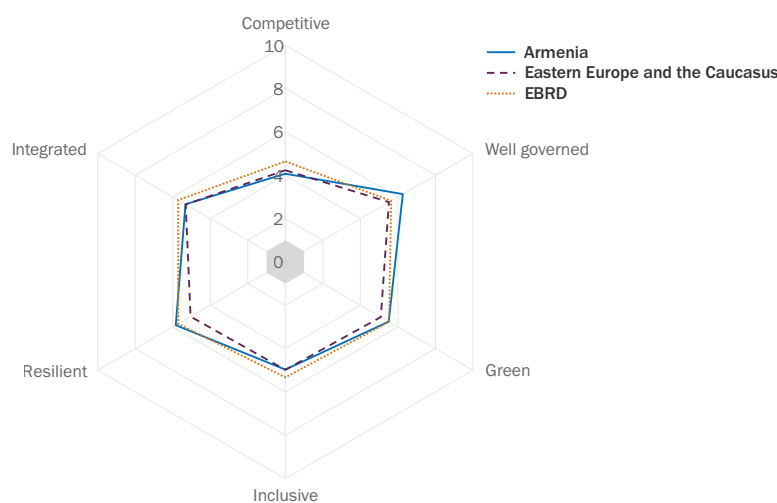
Macroeconomic developments and policy response

The economy continues to perform well in 2023. After exceptionally strong growth (12.6 per cent) in 2022, January to July 2023 saw further growth in gross domestic product (GDP) of 10.4 per cent year on year. Construction and services continue to drive GDP, posting double-digit rates of growth, although industrial production is almost flat. Money transfer inflows to individuals, which have been driving high demand for services, have remained robust, but there has been a noticeable rise in outflows in 2023 to date. While inflows from Russia have moderated slightly and outflows to Russia have edged up relative to the peak months of 2022, the main difference lies in the significant rebound in outflows to other countries. As a result, net money inflows in the first half of the year declined by 10 per cent from the same period in 2022 and by more than 40 per cent from their peak in the second half of 2022. At the same time, exports and imports increased by 72.8 and 73 per cent (year on year), respectively, in the first half of 2023, deepening the trade and current account deficits. Foreign reserves rose by almost one-third to US\$ 4.1 billion (around €3.8 billion, covering 3.8 months of imports) in 2022 and have remained around this level in 2023. Armenia's fiscal position has continued to improve in 2023 on the back of its prolonged, robust economic growth and improved public-finance management. Public debt has stabilised at around 50 per cent of GDP, after a sharp decline in the two preceding years, helped by low fiscal deficits, high GDP growth rates and the appreciation of the currency.

Annual inflation eased in the first half of 2023. Inflation peaked at 10.3 per cent in June 2022, but several factors have contributed to a significant decline since then. Timely monetary policy tightening, with a total increase in the policy rate of 650 basis points between December 2020 and December 2022, as well as falling global energy and food prices and significant appreciation of the Armenian dram in 2022, drove inflation to 0.1 per cent in September 2023. The Central Bank of Armenia (CBA) cut the policy rate three times beginning in June 2023, to 9.75 per cent in September, the first such reductions in almost three years. Nevertheless, the CBA is being cautious about easing monetary policy, as consumer demand remains strong. Successful disinflation and a stable nominal exchange rate since the beginning of 2023 have contributed to the eventual reversal of a two-and-a-half-year period of real currency appreciation.

Short-term growth is likely to slow down. The temporary factors that drove the exceptional economic activity of 2022 have been subsiding gradually in 2023. We expect GDP growth of 6.5 per cent in 2023 and 4.5 per cent in 2024. The exodus of more than 100,000 Karabakh Armenians will likely divert budget expenditures to address the immediate social needs, with an uncertain impact on short-term growth. The isolation of the Russian economy from Western markets could have negative long-term consequences for the Armenian economy, as Russia remains a major trading partner. On the positive side, progress on opening the border with Türkiye could have a positive impact on the medium-term growth outlook.

Assessment of transition qualities (1-10)



Structural reform developments

The government has committed to preventing Armenian companies from circumventing Western sanctions on Russia. In 2023 the authorities have made numerous decisions to help Armenian businesses comply with the sanctions. Notably, in the context of a fivefold increase in exports to Russia from 2022, the government has issued a list of goods prohibited from re-export to Russia and applied strict controls on “dual-use” goods that could ultimately be used by the Russian arms industry. The country acknowledges, however, that it will not be possible to prevent all exports of potential dual-use goods, given legitimate consumer demand for such products from Russia.

Some steps have been taken to enhance electricity market integration. Armenia is building a third interconnecting electricity transmission line to Iran, with a capacity of 400 kV, to add to the two existing ones, which have a capacity of up to 220 kV each. The new interconnection is expected to be operational by the end of 2023. In addition, Iran and Armenia have signed an extension to 2030 of the bilateral agreement under which Armenia exports electricity to Iran in exchange for natural gas.

Digital innovation in public administration is helping to prevent corruption. In February 2023 the CPC launched its Electronic Platform for Declarations of Assets, Incomes, Expenditures and Interests. By incorporating artificial intelligence and machine learning into the new asset declaration system, the CPC hopes to enhance its ability to scrutinise asset declarations filed by public servants, making it easier to detect and prevent corruption. Corruption watchdogs can now easily cross-check asset declarations with data in systems maintained by other state agencies. In addition, the requirement to submit declarations has been expanded significantly, with up to 35,000 declarations expected to be filed over the next year.

The authorities are striving to adopt international best practice on green investments. In February 2023 the Ministry of Economy launched its “Developing Green Taxonomy in Armenia” project, a year-long initiative aimed at creating a policy and legal basis for green investments in the country. The development of a green taxonomy in Armenia is another step in laying the foundations for a sustainable green finance ecosystem, by attempting to provide clear definitions and criteria for identifying and promoting environmentally sustainable investments, attracting capital and fostering the growth of green projects.