EUROPEAN UNION DELEGATION TO ARMENIA

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Subject: ARMENIA: Economic Report for January 2025

Summary

In 2024, Armenia's economic activity index rose by 8.0%. Exports surged by 153.1%, yet the trade balance remained USD 4 billion negative. Gross international reserves increased to USD 3.684 billion. The Central Bank lowered its refinancing rate to 6.75%. To encourage EU and UK market access, Armenia introduced a program reimbursing up to 20% customs duties for select exports. Fitch Ratings affirmed Armenia's 'BB-' credit rating, citing growth and fiscal challenges. Passenger and cargo traffic to the EU have soared. The EIB is investing in infrastructure and energy efficiency. Logistics improved slightly, but costs and closed borders hamper trade.

Detail:

Macroeconomic developments

1. **Armenia's economic activity index[1] grew by 8.0% in January – December 2024**[2] compared to the same period of 2023. It increased by 4.7% in December alone, compared to December of 2023, and grew by 22.7% juxtaposed to November 2024. All the sectors of the economy have shown growth. Foreign and merchandise trade, construction and services showing the highest growth rates. **Foreign trade turnover increased by 141.5%. The exports increased by 153.1%, and the imports grew by 133.8%.** The trade balance remains negative at USD 4 billion. Exports make up 76.7% of imports. **The Consumer price index increased by 0.3%, and the industrial product index grew by 3.6% in the mentioned period**.

2. **The Central Bank of Armenia (CBA) reported that Armenia's gross international reserves (GIR) increased by 2.3% or USD 82.4 million in 2024 to USD 3.684 billion**, exceeding the 2023 level of USD 3.602 billion. The current GIR covers 4.6 months of imports on average. Armenia's **annual inflation rate stayed under the target at 1.5%** in the last quarter of 2024. The increased fare for public transport in Yerevan will push annual inflation rates by 0.1% in 2025.

3. The **CBA decided to lower its refinancing rate to 6.75% on 4 February 2025.** This reduction of 0.25 percentage points marks the 14th consecutive decrease since June 2023, when the rate was set at 10.5%. The refinancing rate was gradually lowered to 6.75% through a series of reductions, with the rates for Lombard repo and attracting funds also being adjusted to 8.25% and 5.25%, respectively.

4. The Armenian Government, during its session on 23 January 2025, has **approved a temporary controversial program to support local processors in accessing the EU** and UK markets. The program, which will run until December 2026, will reimburse businesses for up to 20% of the customs duties paid to enter these markets, with an estimated compensation amount of AMD 10-15 billion. The program focuses on exporters producing high-value and complex products, such as food, aluminium foil, and textile

[1] **Economic Activity Index** is a monthly aggregate indicator of change in output real volume in economy
[2] **Armstat report EAI** - https://armstat.am/file/doc/99555143.pdf

products, and aims to increase exports to the EU market by 15-20% per year. Armenia's trade with the EU decreased by 14.1% to USD 2.1 billion in January−November 2024. According to the Minister of Economy, Armenia's loss of GSP+ benefits in 2022, due to its classification as an upper-middle income country, has also impacted its trade with the EU.

5. The **Accreditation Body of Armenia (ARMNAB) has initiated its application process with the European Co-operation for Accreditation** (EA), and completed the preparatory peer evaluation in 2024. Following a favourable outcome in the comprehensive peer evaluation, ARMNAB is anticipated to attain signatory status with the EA. It will enhance Armenia's international recognition and facilitating its businesses' integration into European markets. This development is significant for maintaining quality standards and boosting trade with European countries, aligning with Armenia's broader economic growth and export strategies.

6. **Fitch Ratings has affirmed Armenia's credit rating at 'BB-' with a stable outlook**. The country's strong economic growth prospects, robust macroeconomic policy framework, and stable governance indicators are balanced by its small economy, large fiscal deficits, and high financial sector dollarization. Fitch projects **Armenia's general Government deficit to increase to 5.5% of GDP in 2025** due to expansionary fiscal policies, including costs associated with hosting refugees and higher military expenditure.

7. **Armenian Prime Minister Nikol Pashinyan announced that passenger traffic from Armenia to the EU has increased by approximately 400% since 2018**, citing EU data. He further added that air passenger traffic has seen a similar 19.8% rise in the first six days of 2025 compared to the same period in 2024, with Armenian airports already serving over 5.2 million passengers and transporting 41,470 tons of cargo by air as of 25 December last year.

8. The **Armenian Parliament has approved amendments to the law on controlling the export of dual-use goods**, giving the government the authority to establish procedures for examining controlled goods and intangible assets, as well as a list of goods where dual-use items may be obtained during transit or export, enhancing the government's control over dual-use exports.

9. The **European Investment Bank (EIB) has decided to allocate EUR 236 million for the construction of one part of a new 60 km road section in Armenia's Syunik region bordering Iran**, as well as a grant of EUR 10.1 million for an energy efficiency program in Yerevan. The road project aims to reduce travel time by 1.5 hours, increase trade turnover, and develop tourism, while the energy efficiency program aims to reduce energy consumption by 65% in 38 public buildings, including clinics and kindergartens. The financing of the overall road is however not yet ensured.

Logistic performance improvement

10. Armenia, a landlocked country with two of its four borders closed, has struggled with logistics challenges in foreign trade, and its logistics performance has been hindered by high costs. However, the country has **made progress, ranking 108th among 139 countries in the 2024 Logistics Performance Index**, up from 112th in the previous year. Meanwhile, its neighbours Georgia ranked 85th and Turkey 39th, while Kazakhstan led the EAEU member states with a 80th place ranking, followed by Belarus and Russia. Despite this improvement, businesses in Armenia consider logistics costs to be a significant impediment to foreign trade.

Signed: **Jan Plešinger, CDA a.i.**