

THE INTERNAL ECONOMIC DEVELOPMENTS AND ITS IMPACTS ON ARMENIAN ECONOMY

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Abstract

In the first quarter of 2025, the risks of economic growth slowdown and inflation acceleration in the global economy, as well as in Armenia's main partner countries, have significantly increased due to the increase in prices of goods and services characterized by rigid prices in international commodity markets, the risks of possible disruption of supply value chains, as well as increasing tensions in international trade relations. Against the background of the above developments, it is expected that the central banks of leading countries will maintain relatively tight monetary conditions in the near future, in which case weak inflationary effects from the external sector may penetrate the RA economy.

The high external demand observed in Armenia since mid-2022 has gradually weakened, resulting in a slow pace of economic growth. On the one hand, high growth in retail trade, consumer credit, domestic tourism and services indicates strong domestic demand. On the other hand, still, somewhat concentrated economic growth, the continued decline in remittances, the gradual weakening of labour market conditions and the current general weak inflation environment indicate relatively weak demand, as well as uncertainties regarding the outlook for domestic demand, persist.

In general, during 2024, the pace of economic growth gradually slowed down and approached a stable level, and its concentration also weakened somewhat. However, despite the trends in the slowdown in economic growth rates, in the last months of 2024, there were trends in the revitalization of traditional sectors of the manufacturing industry, especially in the food and tobacco production sectors. In the information and communication sector, despite the high growth recorded in 2024, which is largely of a technical nature, risks related to the medium-term growth outlook remain. In the services sector, the main driving force is still trade due to both the progressive growth of demand compared to supply and the re-export process. In the construction sector, despite the maintained high growth, there are signs of a slowdown in the growth of the housing construction sector, mainly due to the end of the income tax refund program in the mortgage market in Yerevan.

Keywords and phrases: Economic growth, domestic demand, inflation rate, labor market, trade, services.

ԱՐՏԱՔԻՆ ՏՆՏԵՍԱԿԱՆ ԶԱՐԳԱՑՈՒՄՆԵՐԸ ԵՎ ԴՐԱՆՑ ԱԶԴԵՑՈՒԹՅՈՒՆՆԵՐԸ ՀԱՅԱՍՏԱՆԻ ՏՆՏԵՍՈՒԹՅԱՆ ՎՐԱ

ԿԱՐԵՆ ՍԱՐԳՍՅԱՆ

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Համառոտագիր

2025 թ. առաջին եռամսյակում համաշխարհային տնտեսությունում, ինչպես նաև Հայաստանի հիմնական գործընկեր երկրներում տնտեսական աճի դանդաղման և գնաճի արագացման ռիսկերն էականորեն ավելացել են՝ կապված միջազգային ապրանքահումքային շուկաներում կոշտ գներով բնութագրվող ապրանքների և ծառայությունների գների աճով, առաջարկի արժեզրեթմաների հնարավոր խաթարման ռիսկերով, ինչպես նաև միջազգային առևտրային հարաբերություններում աճող լարվածությամբ: Նշված զարգացումների ֆոնին ակնկալվում է, որ առաջատար երկրների կենտրոնական բանկերն առաջիկայում կպահպանեն դրամավարկային համեմատաբար խիստ պայմանները, ինչի պարագայում՝ արտաքին հատվածից ՀՀ տնտեսության վրա հնարավոր են թույլ գնաճային ազդեցությունների ներթափանցում:

Հայաստանում 2022 թվականի կեսերից դիտարկվող բարձր արտաքին պահանջարկը աստիճանաբար թուլացել է, ինչի արդյունքում դանդաղել է տնտեսական աճի տեմպը: Մի կողմից՝ մանրածախ առևտրի, սպառողական վարկերի, ներքին զբոսաշրջության և ծառայությունների բարձր աճը վկայում է ներքին բարձր պահանջարկի մասին: Մյուս կողմից՝ դեռևս որոշակիորեն կենտրոնացված տնտեսական աճը, դրամական փոխանցումների շարունակական նվազումը, աշխատաշուկայի պայմանների աստիճանաբար թուլացումը և առկա ընդհանուր գնաճային թույլ միջավայրը վկայում են համեմատաբար թույլ պահանջարկի առկայության մասին, ինչպես նաև պահպանվում են ներքին պահանջարկի հեռանկարի վերաբերյալ անորոշությունները:

Ընդհանուր առմամբ, 2024 թ. ընթացքում տնտեսական աճի տեմպն աստիճանաբար դանդաղել է և մոտեցել կայուն մակարդակի, որոշակիորեն թուլացել է նաև վերջինիս կենտրոնացվածությունը: Չնայած տնտեսական աճի տեմպերի դանդաղման միտումներին՝ 2024 թ. վերջին ամիսներին նկատվել է մշակող արդյունաբերության ավանդական ճյուղերի աշխուժացման միտումներ, հատկապես՝ սննդամթերքի և ծխախոտի արտադրության ճյուղերում: Տեղեկատվության և կապի ճյուղում, չնայած 2024 թ. արձանագրված բարձր աճին, որը մեծապես կրում է տեխնիկական բնույթ, միջնաժամկետ աճի հեռանկարի հետ կապված ռիսկերը պահպանվում են: Ծառայությունների ճյուղում հիմնական շարժիչ ուժը դեռևս հանդիսանում

է առևտուրը, ինչը պայմանավորված է թե առաջարկի համեմատությամբ պահանջարկի առաջանցիկ աճով, և թե վերաարտահանման գործընթացով: Շինարարության ճյուղում, չնայած պահպանվող բարձր աճին, նշմարվում են բնակարանաշինության ճյուղի աճի դանդաղման ազդակներ՝ հիմնականում պայմանավորված հիփոթեկային շուկայում եկամտային հարկի վերադարձի ծրագրի ավարտով Երևան քաղաքում:

Բանալի բառեր և բառակապակցություններ՝ տնտեսական աճ, ներքին պահանջարկ, գնաճի տեմպ, աշխատանքի շուկա, առևտուր, ծառայություններ:

ВНЕШНЕЭКОНОМИЧЕСКИЕ РАЗВИТИЯ И ИХ ВЛИЯНИЕ НА ЭКОНОМИКУ АРМЕНИИ

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Аннотация

В первом квартале 2025 года риски замедления экономического роста и ускорения инфляции в мировой экономике, а также в основных странах-партнерах Армении существенно возросли из-за роста цен на товары и услуги, характеризующиеся жесткими ценами на международных товарных рынках, рисков возможного нарушения цепочек создания стоимости поставок, а также из-за усиления напряженности в международных торговых отношениях. На фоне вышеизложенных событий ожидается, что центральные банки ведущих стран в ближайшем будущем сохранят относительно жесткие денежно-кредитные условия, в результате чего слабые инфляционные влияния из внешнего сектора могут проникнуть в экономику РА.

Высокий внешний спрос, наблюдаемый в Армении с середины 2022 года, постепенно ослабевает, что приводит к замедлению темпов экономического роста. С одной стороны, высокие темпы роста розничной торговли, потребительского кредитования, внутреннего туризма и услуг указывают на высокий внутренний спрос. С другой стороны, все еще несколько концентрированный экономический рост, продолжающееся сокращение денежных переводов, постепенное ухудшение условий на рынке труда и текущая общая слабая инфляция указывают на относительно слабый спрос, а также на сохраняющуюся неопределенность относительно перспектив внутреннего спроса.

В целом за период 2024 г. темпы экономического роста постепенно замедлились и приблизились к стабильному уровню, а его концентрация также несколько ослабла. Однако, несмотря на тенденции замедления темпов экономического роста, в последние месяцы 2024 г. наметились тенденции

к оживлению традиционных отраслей обрабатывающей промышленности, особенно в секторах производства продуктов питания и табака. В секторе информации и связи, несмотря на зафиксированный в 2024 году высокий рост, который носит в основном технический характер, сохраняются риски для среднесрочных перспектив роста. В секторе услуг основной движущей силой по-прежнему остается торговля, что обусловлено как поступательным ростом спроса по сравнению с предложением, так и процессом реэкспорта. В строительном секторе, несмотря на сохраняющиеся высокие темпы роста, наблюдаются признаки замедления темпов роста сектора жилищного строительства, в основном из-за завершения программы возврата подоходного налога на ипотечном рынке Еревана.

Ключевые слова: экономический рост, внутренний спрос, уровень инфляции, рынок труда, торговля, услуги.

Introduction

Due to the effects of the Russian-Ukrainian conflict that has been going on for more than 3 years and the tension in international relations in various regions, the level of uncertainty in the global economy has recently increased sharply, which has also been reflected in the dynamics of economic developments.

In general, a slowdown in the pace of economic growth is currently observed in the global economy, due to the continued maintenance of tight monetary and credit conditions in leading countries, which has created additional risks of a slowdown in economic activity growth. In the first quarter of 2025, Armenia's main partner countries recorded uneven economic developments. First of all, the level of uncertainty around economic policy, especially trade and fiscal policies, has increased, which has led to increased volatility in financial markets in recent months.

Dwelling on the main leading countries of the world, we see the following picture. In the US, high economic growth, driven by high domestic consumption, is still maintained. During the last quarters of 2024, consumption continued to grow at a high rate, contributing to the maintenance of high economic growth; however, certain signals of its slowdown are already noticeable. At the same time, the main driving force of economic growth is the high activity formed in the services sector. Wage growth in the country, despite some recent weakening, remains high. In the 4th quarter of 2024, economic growth in the United States remained at a high level, amounting to 2.4%, which is significantly higher than the potential estimate [1]. Already in early 2025, due to the uncertainty surrounding the future of President Trump's economic policy, a restraint in private demand is possible, which will lead to a slowdown in economic growth.

As for the European Union, it is worth noting that uncertainties regarding both the short-term and medium-term prospects for economic growth still persist. In 2024, the EU recorded a very low economic growth rate of 1%, due to the economic downturn recorded in the largest economies [2]. The low economic growth of the Eurozone continues to be largely due to the decline in the manufacturing sector, where serious structural problems caused by the effects of the Russian-Ukrainian war persist. Moreover, in this context, the tightening of foreign trade policy by the US towards the Eurozone and the further weakening of domestic demand in the Chinese economy may become an additional challenge to the recovery of this already declining sector. However, it is worth noting that the support for the

Russian-Ukrainian conflict, as well as the possible significant expansion of military spending by the Eurozone within the framework of NATO, may serve as a certain stimulus for the recovery and revitalization of industry.

In Armenia's main trading partner, the Russian Federation, due to developments in the gradual normalization of the Russian-Ukrainian relationship, uncertainties around the economic outlook have increased significantly. High economic activity remains here, primarily supported by high growth in domestic consumption, especially in the services sector. In 2024, the Russian GDP expanded by 4.1% 2024, the same rate as the upwardly revised value from the previous year, with support from the soaring amount of government expenditure and investment in its military industry. Government expenditure grew by 4.5%, accelerating firmly from 3.8% in the previous year, and gross fixed capital formation rose by 10.2% from 7.7%. In the meantime, household expenditure expanded by 5.5%, slowing sharply from 7.5% in 2023 as higher inflation drove consumers to face crisis-level interest rates by the central bank, which ended the year at 21%. In the meantime, the GDP deflator totalled 8.9% [3].

The conditions of the Russian labour market remain significantly tense: the unemployment rate remains at a low level of about 2.3% in December 2024, and real wages grew at a high pace, at 13.2% in December. In this context, domestic demand exceeds the productive capacity of the economy, and increasing competition between the military and other sectors of the economy and the ongoing shortage of labor limit further growth of the productive capacity of the economy, contributing to the maintenance of a high inflationary environment.

Dwelling on the inflationary environment in the global economy, it should be noted that the latter has continued to gradually weaken, although in some countries, it still exceeds the target level. In the United States, although the inflationary environment continues to weaken, the high inflationary environment still persists, particular due to the inflation of services, as well as goods with rigid prices, which characterizes core inflation. From January 2024 to January 2025, the Consumer Price Index increased by 3.0 per cent after rising 2.9 per cent over the 12 months ending December 2024 [4].

The euro area annual inflation rate was 2.3% in February 2025, down from 2.5% in January. A year earlier, the rate was 2.6%. European Union annual inflation was 2.7% in February 2025, down from 2.8% in January. A year earlier, the rate was 2.8%. Eurostat, the statistical office of the European Union, publishes these figures. The lowest annual rates were registered in France (0.9%), Ireland (1.4%) and Finland (1.5%). The highest annual rates were recorded in Hungary (5.7%), Romania (5.2%) and Estonia (5.1%). Compared with January 2025, annual inflation fell in fourteen Member States, remained stable in six and rose in seven [5].

It is worth noting that in March 2025, the ECB continued to reduce the policy rate, setting it at 2.65% in March 2025 [6].

In the conditions of excess demand formed in the Russian economy, inflation remains at a fairly high level, amounting to 9.9% in January 2025, mainly due to the growth of prices for services and food. Although inflation expectations have weakened somewhat, they remain significantly above the inflation target, amounting to 13.7% in January 2025 [7]. Despite the fact that in February 2025 the Central Bank of Russia maintained the policy interest rate at 21%, however, the more expansionary

fiscal policy, through high interest rates, creates obstacles for regulating excess demand and curbing high inflationary pressures.

In the global commodity market since September 2024, international copper prices have increased somewhat, driven by positive expectations about the large-scale fiscal stimulus announced by the Chinese government, which have gradually faded. Already at the beginning of 2025, due to uncertainties over US foreign trade policy, as well as expectations of a significant increase in spending on strengthening the military-industrial complex in the Eurozone, international copper prices have increased sharply, exceeding the threshold of 10,000 USD [8].

World oil prices have continued to show significant volatility in the past few months, driven by uncertainties about the global economic outlook, geopolitical developments and global oil supply. Thus, the prolonged persistence of weak domestic demand in China and in Eurozone, the risks of a sharp decline in domestic demand in the United States, as well as the decision by several major OPEC+ economies to cut production by 2025 make the prices go down. At the same time, the gradual easing of production restrictions since April has certain implications for a decline in global oil prices, while at the same time, the possible tightening of previously imposed sanctions on a number of oil-producing economies has certain implications for an increase in oil prices.

Regarding the food market developments, it should be noted that the international food price index (FAO) has generally stabilized in recent months, showing some volatility, mainly due to changes in actual or expected harvest volumes and weak global demand. In February 2025, an increase of about 8% was recorded compared to the same period of the previous year. Geopolitical tensions and trade restrictions create additional risks of supply chain disruptions and food price volatility. Moreover, significant heterogeneity in the prices of separate food products included in the index was recorded; in particular, vegetable oil prices recorded an increase of about 25%, while sugar prices fell by about 20% [9].

Results

Due to the developments in the global economy, the high external demand observed in Armenia since mid-2022 has gradually weakened, as a result of which the pace of economic growth has slowed down.

The economic growth in Armenia amounted to 5.9% in 2024 (Figure 1), which was mainly contributed by the sectors driven by the demand expansion: trade, services and construction. Despite the slowdown in economic growth rates, in the last months of 2024, there were trends in the revival of traditional sectors of the manufacturing industry, especially in the food and tobacco production sectors. In the information and communication sector, despite the high growth recorded in 2024, which is largely of a technical nature, risks related to the medium-term growth outlook remain. In the services sector, the main driving force is trade, which is due to both the progressive growth of demand compared to supply and the re-export process. As for the construction sector, despite the continued high growth, there are signs of a slowdown in the growth of the housing construction sector, mainly due to the end of the income tax refund program in Yerevan's mortgage market.

In 2024, the economic growth amounted to 16.8% in the trade sector, 13.5% in the construction sector, 10.9% in the information and communication sector,

10.9% in the electricity generation sector, 4.3% in the manufacturing sector and 1% in agriculture [10].

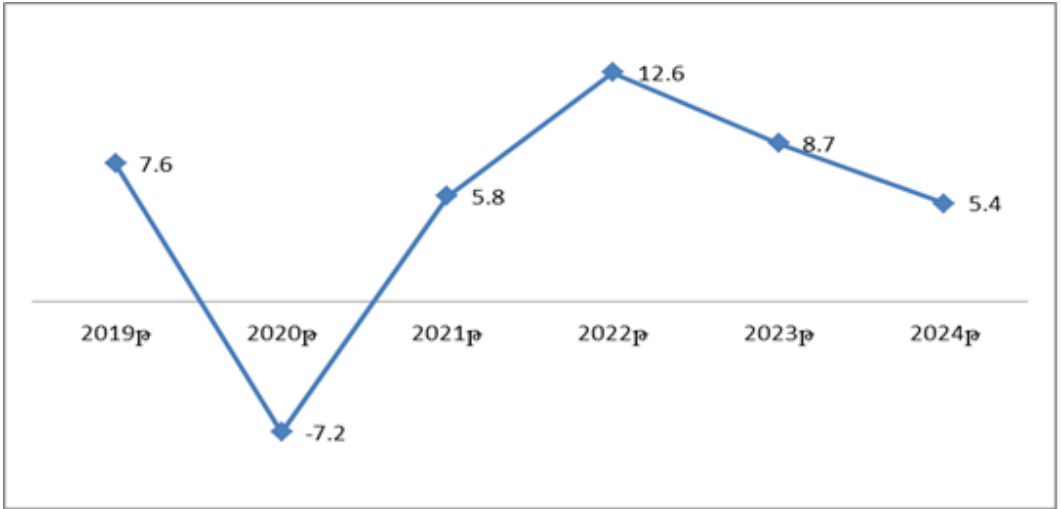


Chart 1 Dynamics of economic growth rate in Armenia in 2019–2024 [11]

Turning to inflation, it should be noted that in the first quarter of 2025, the weak inflationary environment in the economy persists, largely due to the still deflationary effects transmitted from the external sector, as well as the weakening of external demand for some domestic services. In this situation, 12-month inflation from April 2023 has remained below the target, amounting to 1.5% in December 2024, 1.7% in January 2025, and 2.5 in February (Figure 2).

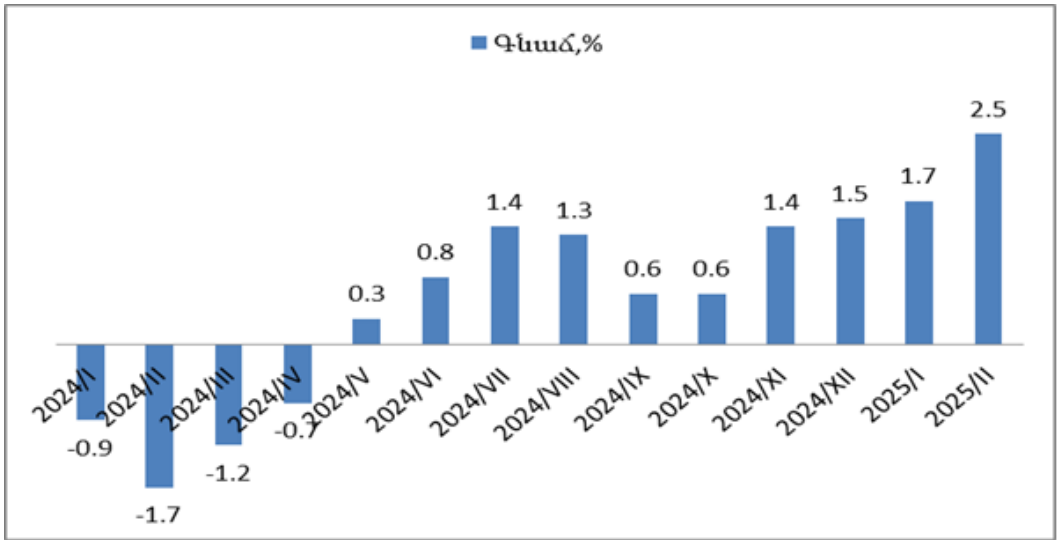


Chart 2 12-month inflation rate in RA in January 2024–February 2025 [12]

The increase in inflation rates is mainly due to the increase in food prices in the

international market and the increase in transport tariffs. Inflation of non-exportable goods, characterized by relatively rigid prices, which mainly characterizes the behavior of prices determined by domestic demand, remained at a relatively stable level, amounting to 2.2% in February. However, on the other hand, due to the weakening of external demand, the prices of several services continued to decrease, as well as a decline in the prices of imported non-food goods, mainly due to the decline in producer prices in the Chinese economy.

Dwelling on the labour market, it should be noted that although the unemployment rate in Armenia has been steadily decreasing over the past 4 years (Figure 3), high uncertainty regarding labour market developments still persists. Thus, in 2024, The unemployment rate in the 1st quarter was 15.5%, in the 2nd quarter – 13.8%, and in the 3rd quarter – 13.3%, which is about 1.2 percentage points higher compared to the corresponding quarter of the previous year. The latter is due to the weakening of demand conditions in the economy, taking into account that the increase in the unemployment rate compared to the same period of the previous year occurred not due to an increase in labour supply but due to a decrease in the number of employed people. This is also consistent with the trends of a certain outflow of foreign workers and a slowdown in wage growth rates in the current year.

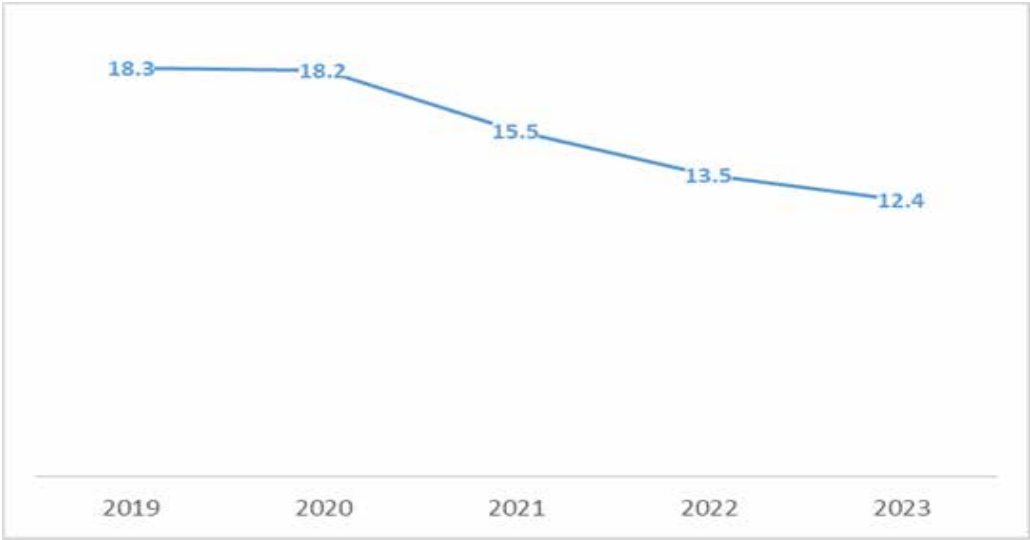


Chart 3 Unemployment rate in Armenia,2019–2023 [13]

Gross consumption volumes decreased in the 4th quarter of 2024 compared to the same period of the previous year, due to a significant reduction in government consumption. After being restrained compared to the economic growth of previous years, private consumption has shown an acceleration trend since 2024, recording a growth of 6.9% in the 4th quarter. The growth of gross investments, which in the second half of 2023 and the first quarter of 2024 was significantly driven by the growth of government investments, slowed down somewhat at the end of the year, in line with the significant underperformance of capital expenditures during the year. On the other hand, the high growth rates of private investments remain, largely due to the high investment activity maintained in the real estate sector.

Conclusion

In the first quarter of 2025, the risks of economic growth slowdown and inflation acceleration in the global economy, as well as in Armenia's main partner countries, have significantly increased due to the increase in prices of goods and services characterized by rigid prices in international commodity markets, the risks of possible disruption of supply value chains, the growing tension in international trade relations, as well as the current increase in geopolitical tensions. At the same time, prices in partner countries still remain relatively high, and labour market conditions are tight. Against the background of the above developments, it is expected that the central banks of leading countries will maintain relatively tight monetary conditions in the near future, in which case, weak inflationary influences from the external sector may penetrate the Armenian economy. In the first quarter of 2025, the weak inflationary environment in the economy persists, largely due to the still deflationary effects transmitted from the external sector, as well as the weakening of external demand for some domestic services. The increase in food prices in the international market has not yet been fully reflected in domestic prices.

On the other hand, the deflation of imported non-food goods continues, which is mainly due to the decline in producer prices in the Chinese economy. In parallel, due to the weakening of external demand, the prices of some services have continued to decrease. In these conditions, inflation expectations have also continued to decrease, approaching the target level.

In Armenia, the high external demand observed since 2022 has gradually weakened, but domestic demand still exhibits unstable behaviour and uncertainty regarding its future conditions remains elevated. On the one hand, high growth in retail trade, consumer credit, domestic tourism and services indicates strong domestic demand. On the other hand, still, somewhat concentrated economic growth, the continued decline in remittances, the gradual weakening of labour market conditions and the current overall weak inflation environment indicate the presence of relatively weak demand. In addition, uncertainties regarding the outlook for domestic demand also persist.

Overall, in 2024 the pace of economic growth gradually slowed down and approached a stable level, and its concentration also weakened somewhat. However, despite the trends in the slowdown in economic growth rates, in the last months of 2024 trends of revitalization of traditional branches of the manufacturing industry were observed, especially in the food and tobacco production sectors. In the information and communication sector, despite the high growth recorded in 2024, which is largely of a technical nature, risks associated with the medium-term growth outlook remain. The main driving force in the services sector is still trade, which is due to both the progressive growth of demand compared to supply and the re-export process. In the construction sector, despite the continued high growth, there are signs of a slowdown in the growth of the housing construction sector, mainly due to the end of the income tax refund program in the mortgage market in Yerevan.

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