Armenia: Economy Growing Faster Than Its Export Sector Can Adapt

Key Takeaway

Armenia entered the second half of 2026 with an unusual combination of indicators. Domestic economic activity is accelerating, construction is growing at a double-digit rate, industry and services continue to show positive momentum, and lending is supporting demand. At the same time, the country has faced the most serious disruption in recent years to access to the Russian market for agricultural products, food and beverages.

The latest detailed statistics primarily describe the situation before the export shock. Data on economic activity, foreign trade and wages relate to May, while a significant part of the Russian restrictions was introduced or expanded later. Current indicators therefore do not yet allow the full economic impact of these measures to be assessed.

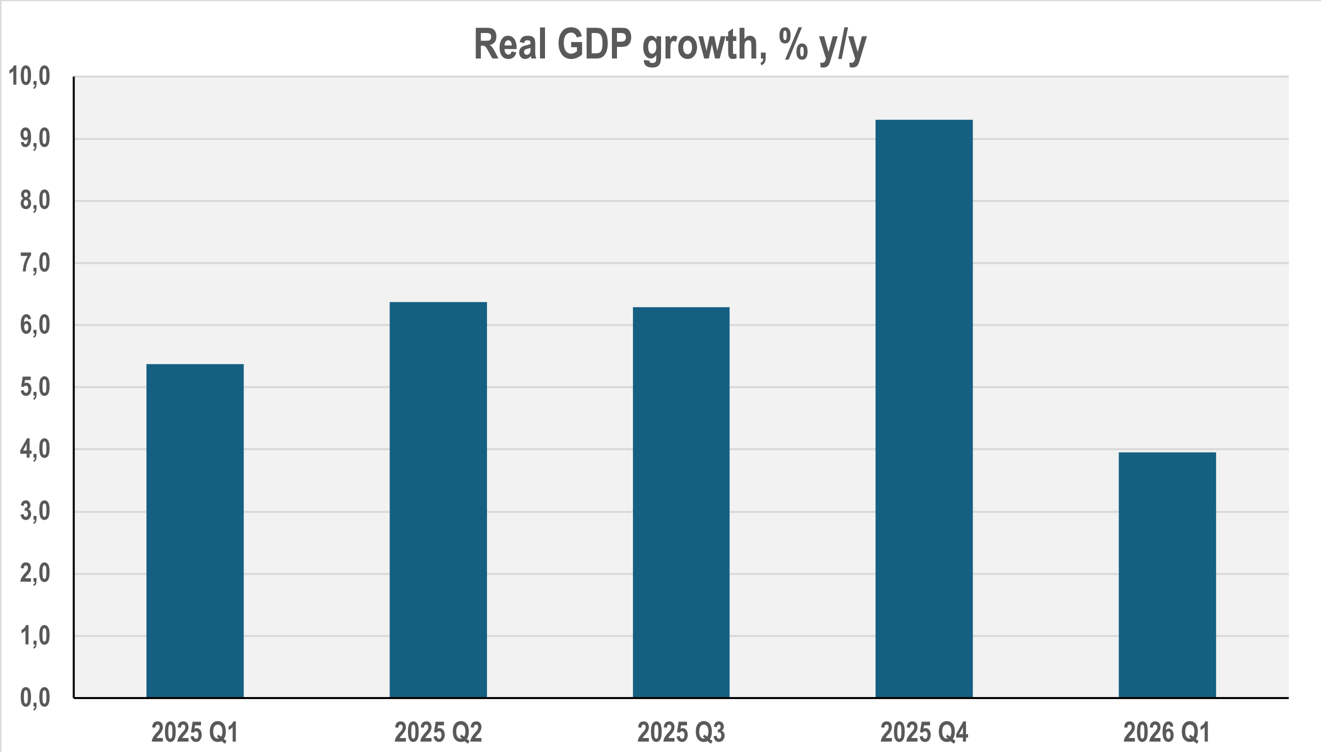
This divergence defines the central theme of the review. The question is no longer only whether Armenia can maintain growth of around 5%. It is equally important how quickly producers can move from a market where the main advantages were geographical proximity, familiar standards and established logistics to markets with more complex requirements for certification, product traceability and supply organisation.

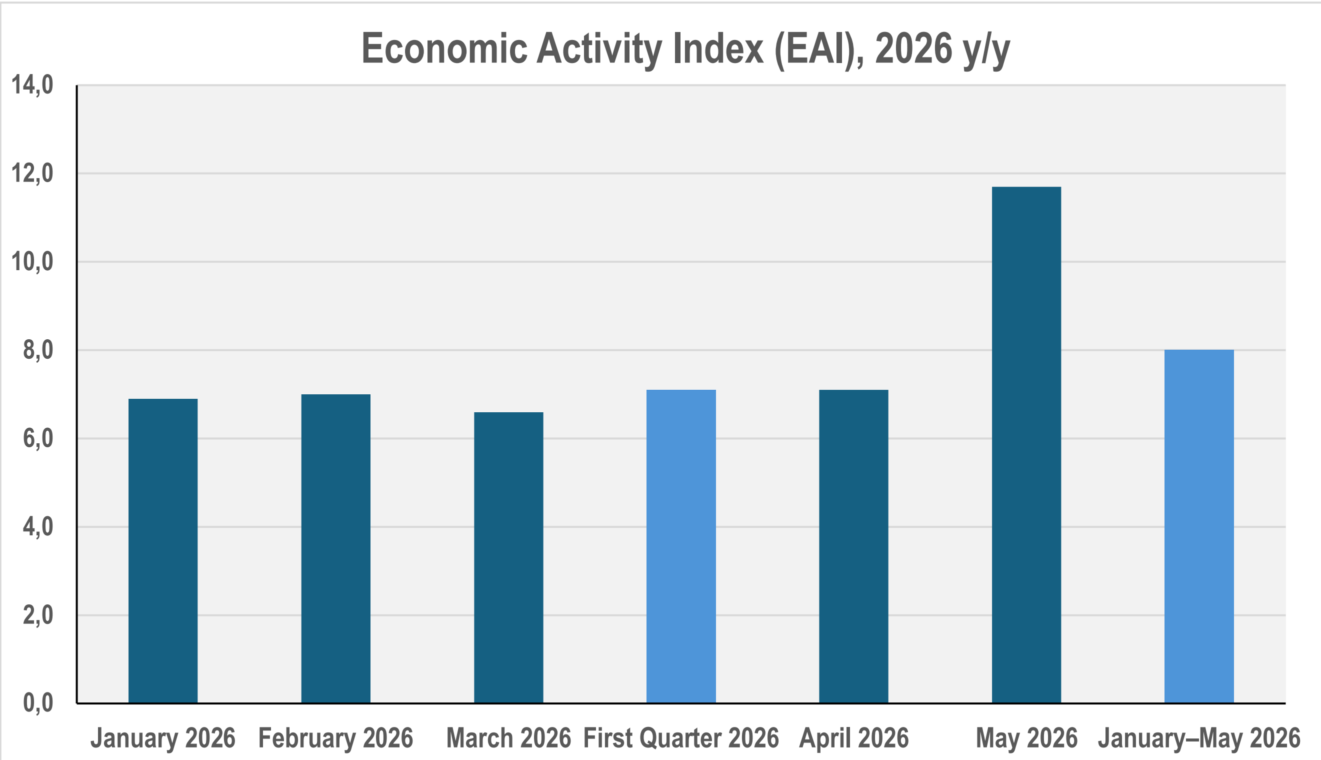
An Economy Moving at Two Speeds

The high-frequency indicators look convincing. In January–May 2026, the Economic Activity Index increased by 8.0% compared with the same period of the previous year. In May, growth reached 11.7% y/y. The fastest-growing sectors were construction, up 24.1%, industrial production, up 12.2%, and services excluding trade, up 9.1%. Trade turnover increased by only 1.2%.

The estimate of real GDP presents a more restrained picture. In the first quarter, the economy grew by 4.0% y/y, while the Economic Activity Index increased by 7.1% over the same period. The Central Bank attributes part of this divergence to one-off and volatile components of growth, but it nevertheless shows that the high-frequency index cannot automatically be treated as an estimate of future GDP performance.

Chart 1. Armenia's Real GDP Growth and Economic Activity Index, 2025–January–May 2026





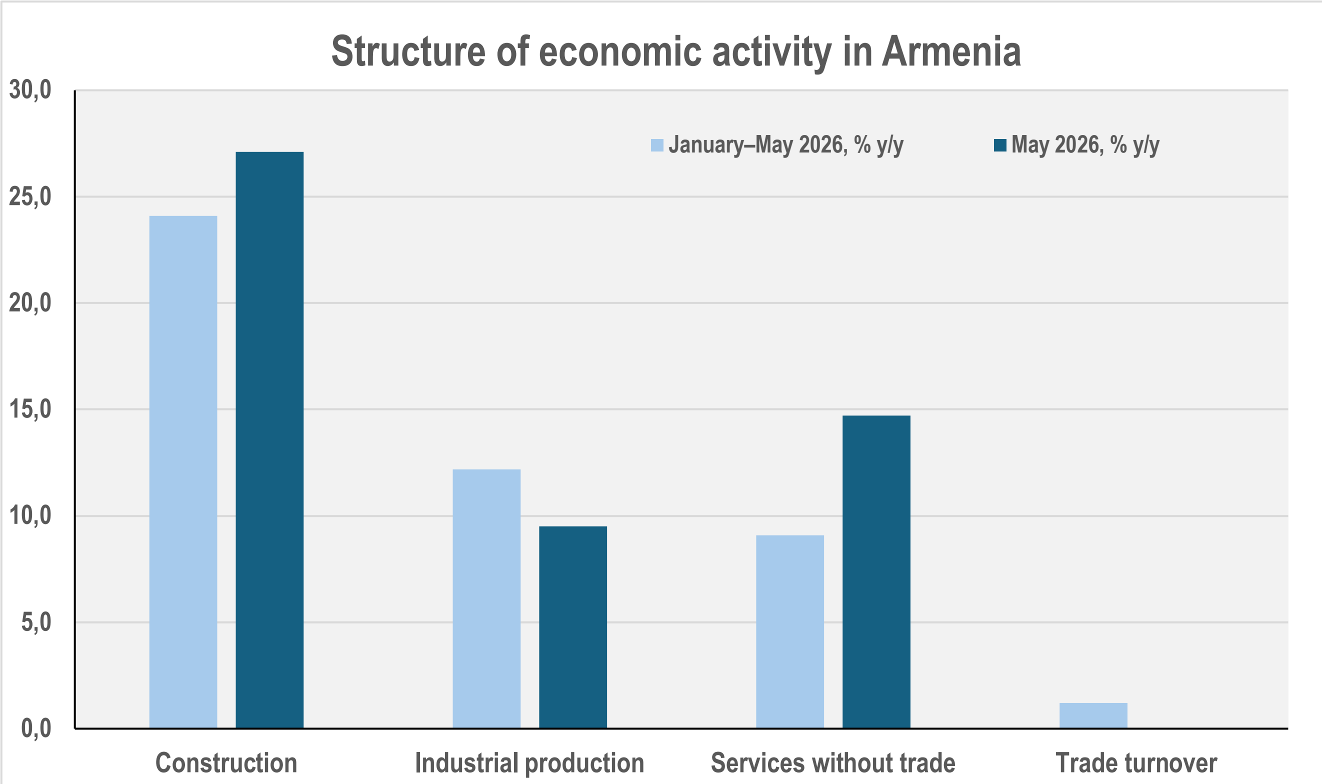
Source: Statistical Committee of the Republic of Armenia, Central Bank of Armenia.

The May figure of 11.7% should not automatically be extrapolated to the remainder of the year. Following a statistically strong spring period, a GDP growth rate of around 5–5.5% remains a more realistic benchmark.

The structure of the economy also remains uneven. Construction is expanding considerably faster than most other sectors and is supporting demand for labour, materials, lending and related services. At the same time, this concentration increases the economy's sensitivity to the real estate market, mortgage programmes and government capital expenditure.

Industry as a whole is showing strong growth, although its performance remains dependent on developments in individual industries, the mining sector, metals processing and the comparison base. Trade, meanwhile, is barely growing, which does not fully correspond to a picture of broadly expanding consumer demand.

Chart 2. Performance of Armenia's Main Economic Sectors, January–May 2026, % y/y



Source: Statistical Committee of the Republic of Armenia.

The labour market is also sending a mixed signal. Unemployment stood at 13.7% in the first quarter, while the average nominal monthly wage reached AMD 319,562 in May, increasing by 10.8% y/y. Incomes continue to support consumption, but the labour market as a whole appears uneven rather than overheated.

The economy is therefore moving at two speeds: construction and selected segments of industry and services are expanding rapidly, while GDP, trade and employment are sending more moderate signals.

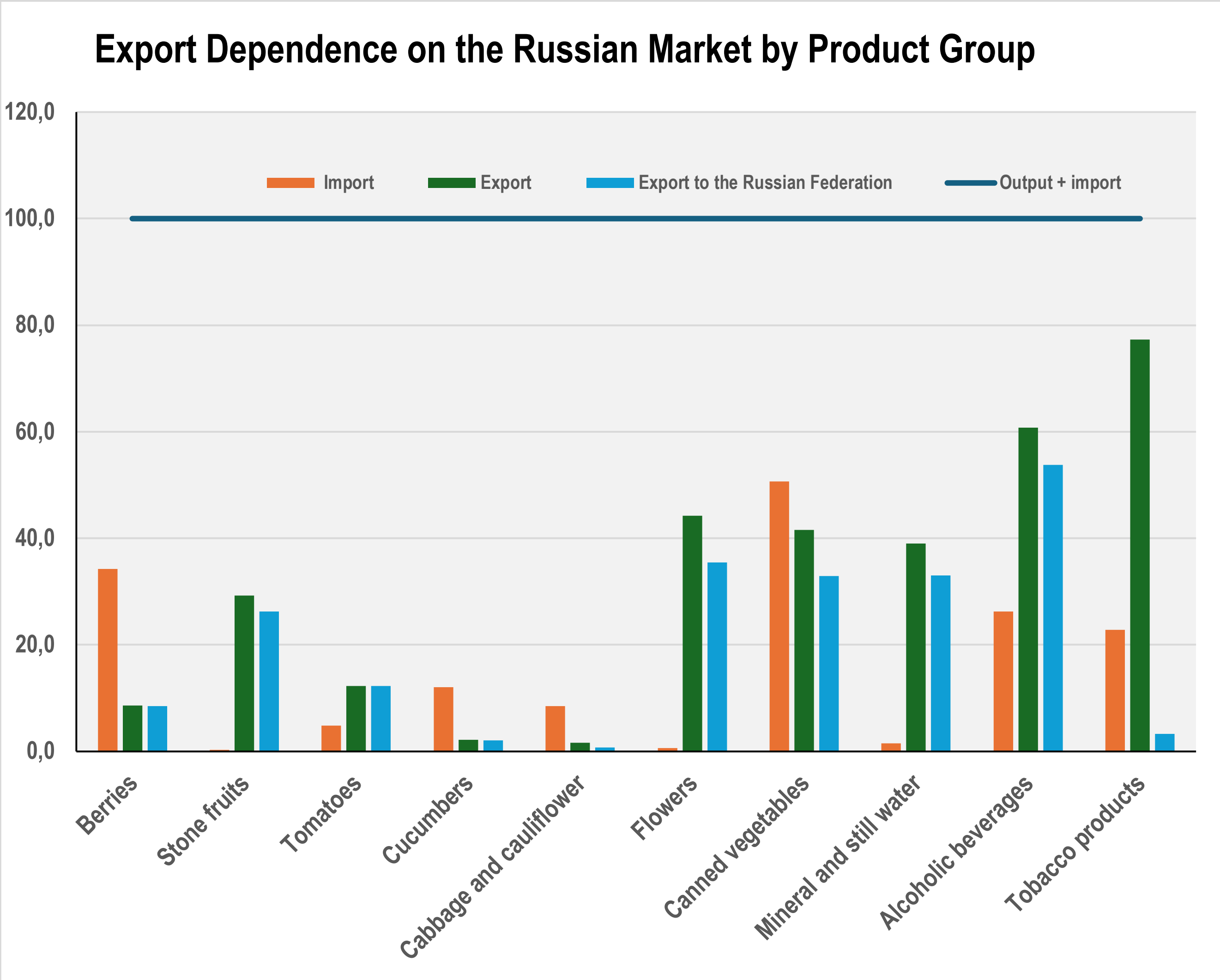
The Export Shock Arrived Later Than the Statistics

In May and June, external conditions for Armenian producers changed sharply. Russia introduced and expanded restrictions on supplies of fresh agricultural products, flowers, fish, wine, brandy, mineral water and other goods. Certain transit routes through Russian territory were also affected. The Russian side explained the measures by referring to product safety, compliance with phytosanitary requirements and the traceability of supplies.

For macroeconomic assessment, the reasons for the restrictions are less important than their duration and scope. Russia remains Armenia's largest trading partner and the principal market for many types of food and agricultural products. In certain product categories, more than 90% of Armenian exports are directed to the Russian market.

Such concentration means that even a sector that is relatively small in terms of total GDP may face a sharp decline in revenue, an accumulation of unsold products and a shortage of working capital. Enterprises that worked with a single major buyer or focused on perishable goods are particularly vulnerable.

Chart 3. Export Dependence on the Russian Market by Product Group



Source: Central Bank of Armenia.

The latest foreign trade data do not yet reflect the full effect of the new restrictions. In May, Armenian exports amounted to USD 522.7 million, while imports totalled USD 980.2 million. Exports were 11.5% below the level recorded in May 2025, although much of this decline occurred before the main trade shock had materialised. Data for June and July will provide the first more meaningful assessment of its scale.

Until those figures are published, the situation should be monitored not only through the total volume of exports, but also through domestic prices for agricultural products, producers' inventories, the amount of government support, companies' credit liabilities and the emergence of new supply destinations.

The Consequences Will Not Be Only External

The closure or temporary restriction of an export channel is usually associated with higher costs: routes must be changed, new buyers found and additional logistics financed. However, the initial effect on domestic inflation in Armenia may be the opposite.

Products that could not be exported on time are redirected to the domestic market. Storage options for fresh fruit, vegetables and flowers are limited, meaning that excess supply may quickly reduce purchasing and retail prices. The Central Bank also regards difficulties in export markets as a potential source of disinflationary pressure.

For consumers, this may temporarily appear positive. For producers, however, lower prices mean lost margins, difficulties servicing loans and fewer funds for the next production cycle. The same shock may therefore simultaneously reduce food inflation and weaken the financial position of the agricultural sector.

The impact will also be uneven geographically. The greatest risks arise in regions where a significant share of income is linked to the cultivation, processing, packaging and transportation of export products. The effect may be moderate for the economy as a whole, but highly significant for individual farms and municipalities.

The restrictions will therefore not necessarily lead to a noticeable decline in national GDP as early as the next quarter. They are more likely to create localised but socially and financially significant stress.

The European Window: An Important Decision, but Not an Immediate Replacement for Russia

On 2 July, the European Commission presented a proposal for the temporary liberalisation of access for Armenian goods to the EU market. It is important to take account of the initiative's legal status: as of 13 July, this is a European Commission proposal that must pass through the ordinary legislative procedure in the European Parliament and the Council of the European Union, rather than a trade regime that has already entered into force.

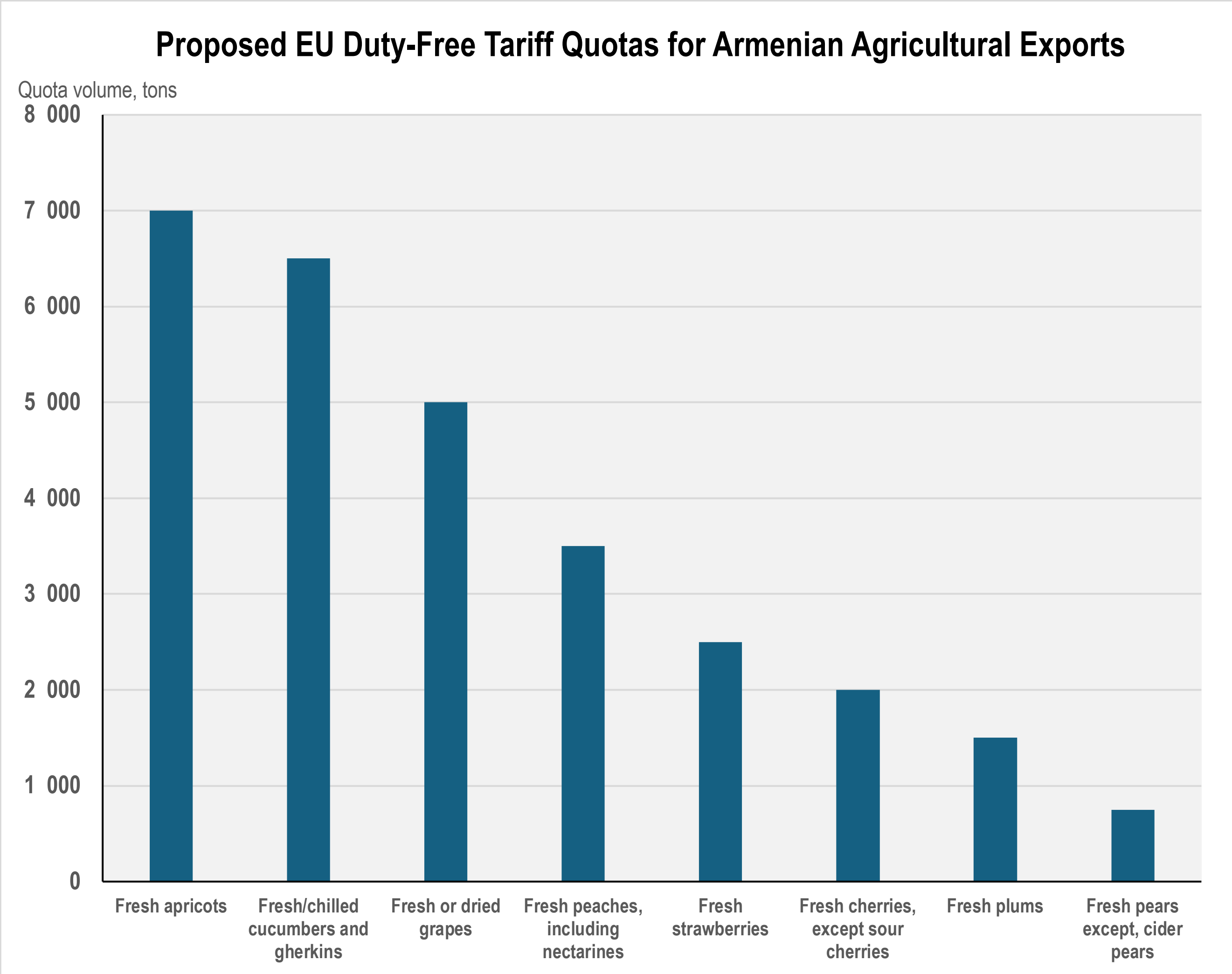
The proposal is designed to apply for two years. It provides for the suspension of ad valorem duties on a broad list of goods and duty-free tariff quotas for eight groups of agricultural products. The quota volumes range from 750 tonnes for pears to 7,000 tonnes for fresh apricots. The list also includes cucumbers, grapes, peaches and nectarines, strawberries, cherries and plums.

According to the European side, the proposed measures could liberalise around 80% of Armenia's current exports to the EU. They could potentially cover almost 99% of exports of fresh fruit, vegetables and plants previously directed to Russia, as well as more than 90% of the relevant exports of beverages and spirits. At the same time, the EU announced additional financial support, including EUR 18 million for trade diversification and the development of export infrastructure.

For Armenia, this is a significant opportunity, but the removal of tariffs alone does not create a sustainable sales market. Supplies to the EU require proof of origin, compliance with phytosanitary standards, administrative cooperation and documented traceability throughout the production chain. These requirements extend beyond border controls to cultivation, processing, storage, packaging and transportation.

For many small farms, access to the European market will require certification of production sites, the creation of refrigeration and sorting facilities, the consolidation of small consignments and changes to accounting systems. Armenian exporters will also have to compete with producers that are already integrated into European retail supply chains.

Chart 4. Proposed EU Duty-Free Tariff Quotas for Armenian Agricultural Products



Source: European Commission, COM(2026) 348 final, Annex II.

The European initiative may therefore become the basis for long-term diversification, but it is unlikely to replace the Russian market fully during the current agricultural season. There is an adjustment period between a formal reduction in tariffs and sustainable commercial supplies, and this period is measured in seasons rather than weeks.

The Government Is Financing the Transition Period

The Armenian government responded to the restrictions with a programme of direct support for exporters. Compensation was provided for exports in June of fresh fruit, wine, brandy and mineral water. The amount of assistance depends on the type of product: for example, compensation was set at AMD 200 per kilogram of apricots, AMD 400 per kilogram of cherries, AMD 350 per litre of bottled wine and AMD 830 per litre of absolute alcohol for brandy.

The logic behind these measures is clear: the government is attempting to prevent a temporary loss of market access from causing viable companies to default before new buyers emerge.

However, this support primarily addresses the problem of liquidity. It allows businesses to complete the current season, but does not eliminate dependence on a single export destination. If compensation programmes have to be extended regularly, the trade shock will gradually become an additional burden on the state budget.

Moreover, the permanent compensation of commercial and transportation losses may weaken incentives for businesses to restructure independently. Government support is therefore most effective as a temporary bridge to new markets rather than as an indefinite substitute for export revenues.

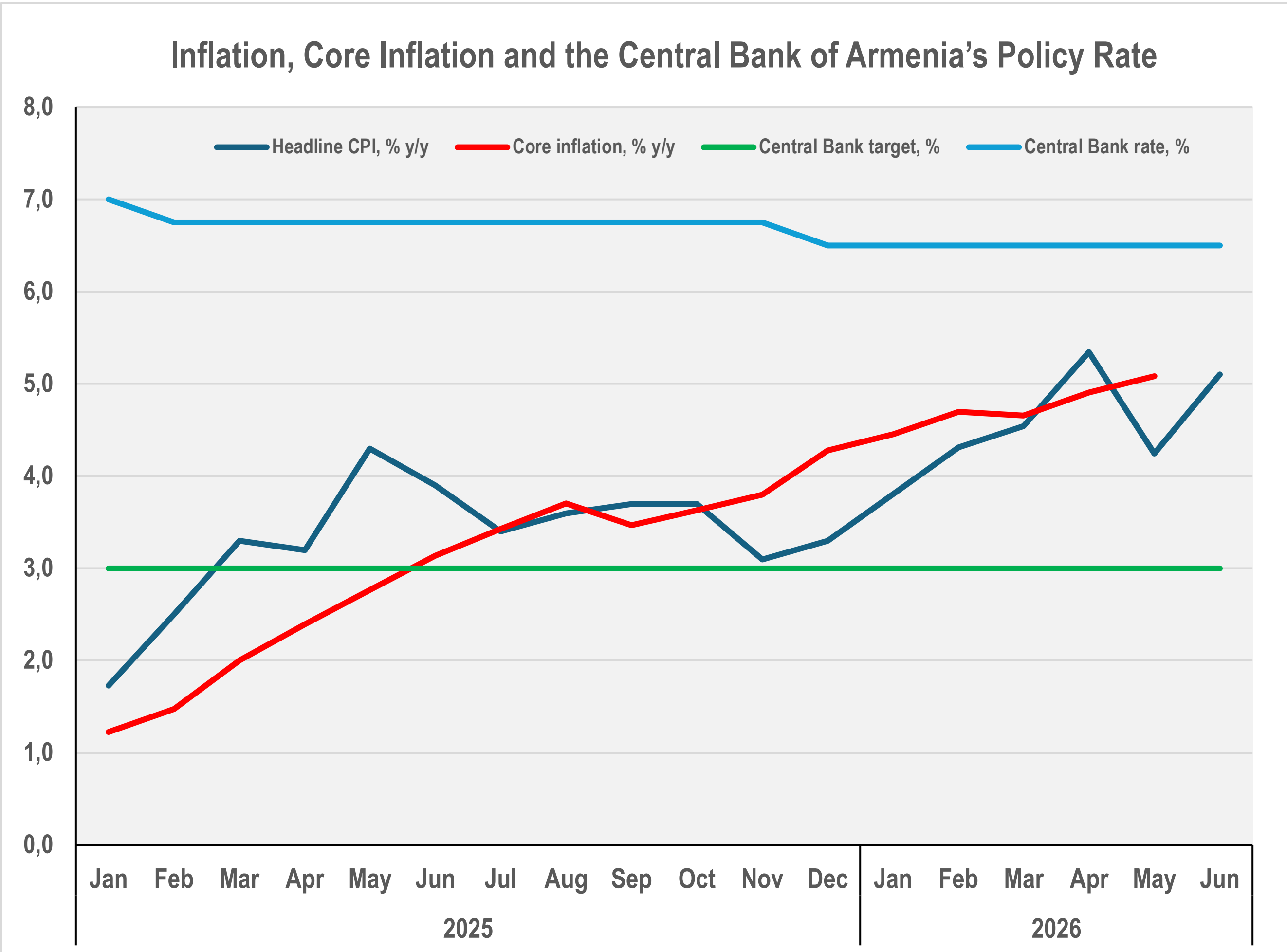
Inflation: The Headline Figure Conceals Diverging Trends

Annual inflation reached 5.1% in June, while consumer prices declined by 0.5% compared with May. Food and non-alcoholic beverages remained the main source of annual growth, with prices increasing by 8.6%. Prices for non-food goods rose by 2.3%, while service prices increased by 2.4%.

Core inflation also reached 5.1% in May. Price pressures are therefore no longer limited to seasonal products. At the same time, the Central Bank notes more moderate wage growth and more restrained price dynamics in services unrelated to foreign trade, and consequently does not yet regard economic overheating as an unambiguously established scenario.

Opposing forces will operate simultaneously in the coming months. An excess supply of agricultural products may reduce domestic prices for certain goods. However, the redirection of sales markets, longer transportation routes, certification costs and a possible increase in global commodity prices will raise producers' costs.

Chart 5. Inflation, Core Inflation and the Central Bank of Armenia's Policy Rate, January 2025–June 2026



Source: Statistical Committee of the Republic of Armenia, Central Bank of Armenia.

On 16 June, the Central Bank kept the policy rate unchanged at 6.5%, while its medium-term inflation target remains 3%. Under the current circumstances, a pause appears more logical than rapid monetary easing. The regulator must determine which part of inflation is associated with temporary food-related factors and which part reflects persistent domestic demand and a broader increase in costs.

The export restrictions do not in themselves constitute an argument in favour of reducing the policy rate. For the agricultural sector, they mean lost income, but their initial effect on the general price level may be disinflationary. The balance will shift towards monetary easing only if there is a broader weakening of consumption, lending and investment.

Growth Will Continue, but Its Quality Will Change

Growth forecasts for Armenia in 2026 are concentrated within a relatively narrow range. The International Monetary Fund expects real GDP to increase by approximately 5.25%. Forecasts by other international organisations are generally around 5–5.5%.

Such an outcome remains achievable. Construction, services, industry and domestic lending provide sufficient resilience to offset part of the difficulties affecting agricultural exports. Tourism and remittances also support domestic demand and the supply of foreign currency. In January–April, tourist arrivals increased by 34% y/y, while net non-commercial remittances rose by 11.7% in March.

However, the composition of growth is gradually changing. Armenia can no longer assume that access to traditional export channels will be preserved automatically. Producers will have to take account of more expensive logistics, the technical requirements of new markets and the costs of quality verification.

The principal risk is not that problems in agricultural exports will immediately reverse the entire economy. A gradual decline in the incomes of individual sectors, slower investment in agriculture and food processing, and higher government spending to support the transition period are more likely.

At the same time, the export shock creates an opportunity for structural change. If the European initiative enters into force and Armenian companies are able to meet the necessary requirements, the country will have an opportunity to reduce export concentration and become more resilient to decisions taken by a single trading partner. This restructuring, however, will require time and investment.

Final Assessment

The Armenian economy has not lost its capacity to grow. Its domestic engine — construction, services, selected segments of industry, lending and consumer demand — continues to operate. Russian restrictions alone are therefore unlikely to cause an immediate reversal in the overall economic trajectory. However, 2026 is becoming a test not so much of the pace of growth as of the economy’s ability to redirect its foreign trade.

The Russian market cannot be replaced quickly through a single administrative decision. The EU proposal significantly improves the potential tariff conditions, but full access to the European market will require a different level of production control, logistics, certification and commercial organisation. Government compensation can buy time, but it cannot perform this work on behalf of businesses.

The most likely outcome for the year is GDP growth of around 5–5.5%, with inflation remaining elevated and the policy rate staying close to its current level in the coming months. The positive scenario assumes a partial recovery in supplies to Russia together with a gradual expansion of Armenian goods into the markets of the EU and other countries.

The negative scenario is associated with a prolonged continuation of restrictions, delays in the European legislative procedure and the inability of a significant share of producers to meet the requirements of new markets within a short period.

Armenia continues to move at a strong pace, but it now has to restructure its export system while still in motion. The speed of this restructuring, rather than the May economic activity figures, will determine the quality of growth in the second half of 2026.

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