

# COUNTRY REVIEW

## Armenia



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**EULER HERMES COUNTRY RISK GRADE: D**

Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.

**COUNTRY PROFILE**

Capital city:	Yerevan
GDP:	USD 11,917 mn (2008e)
Population:	3.234 mn (2008e)
GDP per capita:	USD 3,685 (2008e)
Currency:	Dram (AMD)
Form of state:	Presidential republic
Head of government:	President Serzh SARKISIAN (since April 2008)
Next elections:	Legislative: 2012 / Presidential: 2013

The domestic political scene has been volatile since the controversial presidential election in February 2008. Serzh Sarkisian, hand-picked by his predecessor, won the poll with 53% of the vote, but allegations of vote-fraud sparked mass protests that were only ended by a violent crackdown. The human rights record remains uneven. There is a growing risk of social unrest, also because unemployment will rise in the wake of a sharp economic downturn. However, serious ethnic or religious unrest is unlikely thanks to the large share of ethnic-Armenians (98%) and Christians (99%) in the population. Regional stability in the Caucasus is poor, though. Despite a 1994 cease-fire, Armenia has yet to resolve its conflict with Azerbaijan over Nagorny Karabakh, a primarily Armenian-populated enclave assigned to Soviet Azerbaijan in the 1920s by Moscow. Currently, Armenian forces not only hold Nagorny Karabakh but also one sixth of Azerbaijan proper. An end of the dispute is not in sight, which continues to threaten the long-term development of both economies. Efforts at rapprochement with Turkey have made some progress recently, but remain on shaky ground. However, Armenia is set to continue its good relations with Russia, though it will also seek to improve further relations with the US, the EU and Iran. Russian military support to Armenia will remain an important element of bilateral relations, and will be matched by growing economic ties. Nearly all of Armenia's major assets are already under Russian control, in particular the energy sector. Nevertheless, concerned about the security of Russian energy supplies and the sharp price increases of gas imports from Russia since 2006, Armenia started to import gas as well from neighbouring Iran in May 2009.

The economic structure is unfavourable. Agriculture accounted for about 16% of GDP in 2008, services 44%, construction 27% and industry for just 13%. Industrial production and exports are narrowly based on commodities, foodstuff and simple products, which makes the economy highly vulnerable to shifts in global prices for these goods. Accordingly, after double-digit real GDP growth rates in 2002-2007, falling commodity prices combined with the end of a construction boom and sharply reduced external demand in the wake of the global economic crisis caused growth to slow to 6.8% in 2008 and GDP to contract by 16.3% yr/yr in H1 2009. The fiscal deficit widened from just 1.2% of GDP in 2008 to 4.2% in H1 and could increase to around 7.5% in calendar 2009. Public debt—90% of which is foreign exchange (FX) debt—is set to double roughly in relation to GDP to 38% this year and will rise further in 2010. External trade collapsed in H1 2009, with exports and imports plummeting, by 46% yr/yr and 27.5% respectively and Inflows of remittances dropped by 36% yr/yr in H1. The current account deficit is forecast to widen further from 11.5% of GDP in 2008 to 13-15% in 2009-2010. Foreign exchange (FX) reserves came under pressure as a result of weakening exports and remittances, forcing the central bank in March 2009 to stop supporting the AMD, which has since devalued by about 27% to currently 387 AMD/USD. External debt will also roughly double in to 32% of GDP and 230% of export earnings this year and will further increase in 2010. A 28-month USD830mn IMF Stand-By Arrangement, in place since March 2009, helped FX reserves to recover to USD1.9bn in September 2009 and should mitigate the economic strain to some extent. Nonetheless, recession-related risks, external liquidity risk, exchange rate risk and solvency risk have all increased substantially and will constrain the country grade for some time. Despite some improvement, the structural business environment remains weak overall. Key areas of concern are government intervention in the economy, non-tariff trade barriers, red tape, protection of property rights, corruption and a high level of black market activity.

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