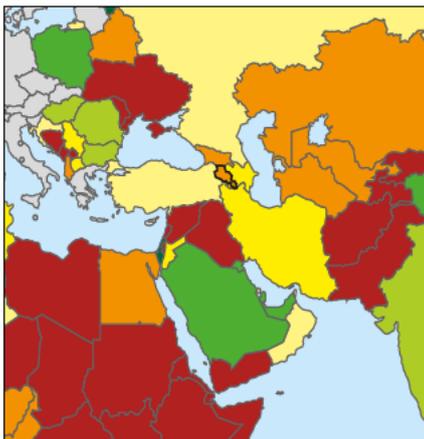




The country risk category are arranged on a scale från 0 to 7.

The lower the figure, the better the country's creditworthiness.



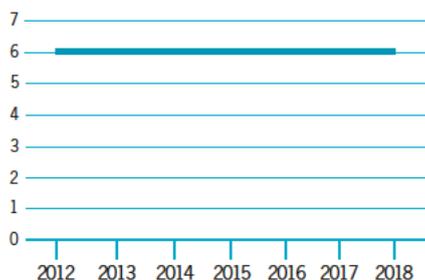
#### CONTACT

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#### BASIC FACTS

Population	3.0 million (2017)
Nominal GDP	USD 11.5 billion (2017)
GDP/capita	USD 3 800 (2017)

#### COUNTRY CLASSIFICATION HISTORY



Source: EKN

## Continued large fluctuations for the Caucasian Tiger

April 2018, Armenia's long-serving leader, Serzj Sargsyan, resigned unexpectedly after popular protest broke out when Sargsyan sought to retain power by switching office, from president to prime minister. A few weeks later, the leader of the protesters, Nikol Pashinyan, was sworn in as deputy prime minister. He has promised reforms and new elections. The new leader has chosen a pro-Russian line, but it is otherwise too early to determine which political direction the country will take.

In economic terms, the volatility in the small, natural resources- and trade-dependent economy continue, and it is highly vulnerable to external disruptions. In the period 2015-2016, the economy remained at a virtual standstill, only to gain a second wind and grow by over seven per cent in 2017. A recurring current account deficit, a large external debt and a high debt service ratio are cause for concern, while the low-intensity war with Azerbaijan over the Nagorno-Karabakh enclave continues to be costly for the country. Weak growth prospects in Russia put an addition damper on the Armenian economy, which is highly dependent on Russia in terms of trade, remittances, direct investment and aid.

#### THE COUNTRY'S STRENGTHS AND WEAKNESSES

##### STRENGTHS

- + Historically speaking, the country has enjoyed relative political stability.
- + Significant reserves of metals and minerals provide large export revenues.
- + Reassuring level of international reserves.

##### WEAKNESSES

- Low-intensity war with Azerbaijan over the Nagorno-Karabakh enclave.
- A prolonged current account deficit, along with very high external debt and debt service ratio.
- A small economy that is dependent on natural resources and trade entails large fluctuations in the current account, currency, international reserves and inflation.

## SWEDISH EXPORT TO ARMENIA, MSEK

	MSEK
2017	221
2016	67
2015	100
2014	181
2013	95

Source: SCB

## EKN:S EXPOSURE

	MSEK
Guarantees	553
Offers	131

## EKN:S POLICY

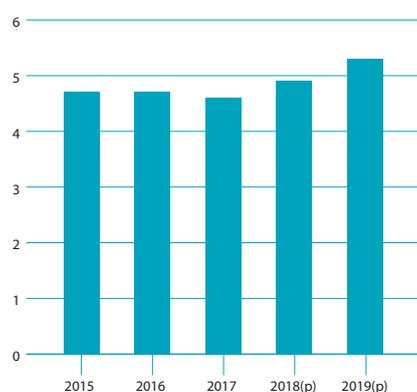
EKN has placed Armenia in country risk category 6 of 7 since 2006. Classification is carried out in collaboration with other OECD countries. EKN applies normal risk assessment for pure sovereign risks, bank risks and corporate risks. In the case of other public purchasers, a letter of credit or bank or sovereign guarantee is required.

## EKN:S EXPOSURE AND EXPERIENCE

EKN's outstanding exposure in Armenia amounts to SEK 684 million, following a significant increase in guarantees during 2016 and 2017. The outstanding guarantees consist mainly of transactions within the mining, power and transport industries. The number of guaranteed transactions is low. In 2016, three guarantees were issued, and in 2017 five were issued. Payment experience is very good – no claims adjustment has been effectuated in the last decade and there are currently no registered delays.

Civil society organisations in Armenia are active, and contribute information about challenges within various sectors. Existing data points to a poor understanding and management of environmental and social issues, including in the mining sector. The problems sometimes date back to the Soviet era, which resulted in high levels of air and water pollution.

## INTERNATIONAL RESERVE (MONTHS OF IMPORT)



The international reserves are at a reassuring level.

Source: IMF WEO 2018

## WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

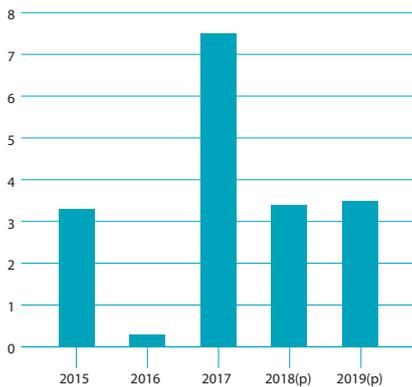
### LESS RESTRICTIVE

- A resolution of the conflict regarding Nagorno-Karabakh.
- Significantly reduced external debt and debt service ratio.

### MORE RESTRICTIVE

- A significant and prolonged reduction in exports, aid and remittances as well as a depletion of the international reserves, which jeopardises the country's ability to pay.
- Increased political instability, which for example threatens the important influx of direct investments.

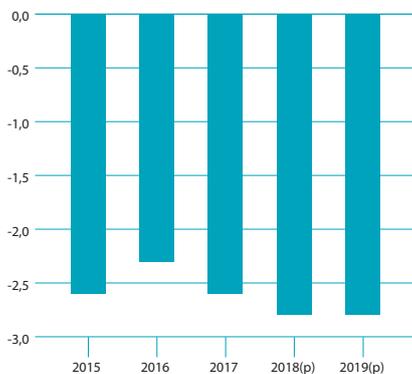
## GDP-GROWTH (% PER ANNUM)



Growth has returned

Source: IMF WEO 2018

## CURRENT ACCOUNT (% OF GDP)



Armenia is struggling with a prolonged current account deficit.

Source: IMF 2018

## COUNTRY ANALYSIS

### BACKGROUND

Armenia's independence from the Soviet Union was initiated in 1991 by a four-year war against its neighbour Azerbaijan. The reason for the conflict was Nagorno-Karabakh, which formally belongs to Azerbaijan but which is populated by ethnic Armenians and has been occupied by Armenian troops ever since the war. A ceasefire has been in place since 1994, but compliance is poor. From an economic perspective, the ceasefire constituted a turning point for Armenia. Its GDP grew rapidly until 2008, and the country's aggressive growth earned it the nickname the "Caucasian Tiger." Fewer remittances from the USA and Russia in connection with the global financial crisis in 2008 put an abrupt end to the high growth rate. In 2009, GDP dropped by 14 per cent, and the Armenian dram lost nearly 25 per cent of its value. Since then, the economy has grown an average of 3.5 per cent per annum.

As a result of the conflict regarding Nagorno-Karabakh, Azerbaijan and Turkey have set up an economic blockade of Armenia, meaning that the country's only trade routes go through Georgia and Iran. Russia is the country's closest ally, and has a military base in the country that provides protection in the event of a renewed conflict with the significantly wealthier Azerbaijan. Historically speaking, the domestic policy is characterised by nationalism, weak political parties, low election turnout and recurring electoral fraud. The population has been declining for decades, and this is a central problem for the government – the population of the Armenian diaspora is currently calculated to be nearly four times as large as that of the country itself.

tincidunt enim sollicitudin.

### RECENT DEVELOPMENTS

As had been feared, in April 2018 former president Sargsyan was appointed to the post of prime minister. He was expected to remain in power when the presidency became a ceremonial post. However, peaceful public protests broke out and in April 2018, Sargsyan abruptly resigned in the Armenian "Velvet Revolution". After first having been blocked by the parliament, opposition leader Pashinyan was elected to the post of deputy prime minister. Armenia's new leader wasted no time in adopting a pro-Russian stance, which probably explains Russia's neutral approach to the revolution. Pashinyan has promised new elections and reforms in what is described as a fresh start for the country.

Falling export prices on copper and reduced remittances from Russia led to zero growth for Armenia in 2015-2016, but in 2017 the economy regained momentum and grew by just over seven per cent. Inflation is rising and has approached the central bank's target of 4 per cent. The banking sector has long been one of Armenia's weaknesses, mainly

## PUBLIC DEBT (% OF GDP)



The external debt is high, given Armenia's income level

Source: IMF WEO 2018

because of the high proportion of non-performing loans. In recent years, the bank sector has stabilised, due in part to tighter regulation by the central bank. One lingering weakness of the banking sector is that approximately 60 per cent of deposits are made in dollars, which, when combined with a historically volatile dram, constitutes a significant currency risk for the banks. Armenia uses a floating exchange rate that suits the small, trade-dependent economy well, but which can lead to large exchange rate fluctuations.

### LONG-TERM TREND

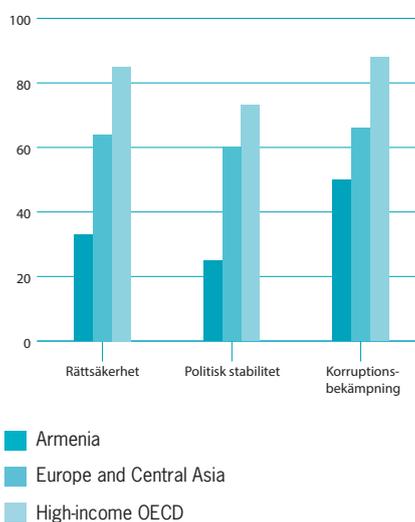
At present, it is too early to determine which direction Armenia will take after the change of power. Pashinyan will need to immediately initiate reforms to take control of the country and defeat the powerful political and economic interests that exist there. Although Sargsyan has left the post of prime minister, he and the Republican Party still wield considerable political power. The Nagorno-Karabakh conflict is likely to remain costly for Armenia. The low-intensity conflict with Azerbaijan entails significantly limited access to trade routes, increased military expenditure and significant costs associated with financing the regime in Nagorno-Karabakh. Armenia therefore has much to gain from a peace treaty in regard to the disputed region; an immediate resolution is unlikely however.

When it comes to growth, Armenia will benefit in the short term from the growth of the Russian economy. However, the weak long-term growth prospects in Russia entail unfavourable external conditions for Armenia, which hampers growth in the long term. The long-term forecast points to growth of three per cent per year. In the first decade of the 2000s, growth was driven primarily by a construction boom that was mainly financed through remittances and direct investments originating in a strong Russian economy. Armenia's period of rapid growth therefore more or less coincided with that of Russia.

As a result of aggressive borrowing, the Armenian government debt has risen from 15 to 55 per cent of GDP in the last decade and is now nearing a vulnerable level. The currency exposure constitutes the greatest vulnerability in terms of debt. As much as 90 per cent of the loans are in foreign currencies, primarily USD and EUR, which could lead to payment difficulties in case of a significant drop in the Armenian dram in relation to these currencies. The probability of default is somewhat reduced by the fact that the debt is exclusively medium to long-term, which entails a lower refinancing risk. An increased tax yield, a broadening of the tax base and more effective tax collection will be required to turn around the budget deficit of approximately three per cent of GDP. Since 2010, Armenia has completed two IMF programmes, the latest of which ended in June 2017. According to the IMF prognosis, the budget deficit and government debt will be reduced in 2018 and 2019, but the government finances will remain vulnerable.

Armenia's external debt remains high given the country's income level. In 2017, the external debt corresponded to a little over 90 per cent of GDP, which, when combined with a very high debt service ratio, constitutes a significant payment risk. Furthermore, the country struggles with a prolonged current account deficit, which is currently around three per cent of GDP. Copper exports and remittances, along with aid, are very important to the current account, while a substantial flow of foreign direct investment and loans are used to cover the current account deficit. The fundamental reason for the deficit is a non-competitive economy, and there are no indications that it will be possible to turn it into a surplus in the near future. This means that the economy will remain highly sensitive to changes in external factors. At present however, there are sufficient reserves, corresponding to five months' imports, to cover possible current account deficits and to stabilise the floating exchange rate if need be.

## BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

## BUSINESS ENVIRONMENT

Armenia is in place 47 out of 190 in the World Bank's Doing Business Index, which is in the middle for the countries of the Caucasus region. The neighbouring country Georgia is ranked in ninth place, while Azerbaijan is in place 57. When it comes to investor protection and insolvency procedures, Armenia is ranked especially low, while its position for contract compliance is slightly better. Among the challenges are monopoly/oligarchy structures in terms of import and sale of goods, which leads to a lack of competition on the domestic market. Large parts of the economy are dominated by business leaders who have very good connections within the government. The corruption within the business sector, legal system and government administration is still an issue. Armenia is ranked in place 107/180 in Transparency International's Corruption Perception Index, which is significantly worse than Georgia, but slightly better than Azerbaijan. The legal system is feeble, which, when combined with widespread corruption, can lead to arbitrary and unpredictable justice. Furthermore, there is a cumbersome bureaucracy. Government agencies are sometimes used to get to political opponents and companies.

When it comes to currency transfers, the regulation is liberal and the country has ratified the IMF's Article VIII on free currency convertibility. Armenians and foreign nationals alike are able to transfer currency more or less freely. Considering the large and persistent current account deficits, the large external debt and the high debt service ratio, there is a certain risk of problems in the balance of payments, which may entail increased currency regulation. When making export transactions, the transfer risk shall therefore be taken into consideration, despite the liberal regulations at present.

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