**Macroeconomic Effects of Currency Devaluation: The Case of Armenia within the EAEU Framework**

***Balancing Risks and Opportunities in Armenia's Open Economy***

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**Abstract**

This study explores the macroeconomic consequences of currency devaluation in Armenia within the context of the Eurasian Economic Union (EAEU), emphasizing the balance between opportunities and risks in a small, open economy. The main goal of the research is to

determine whether devaluation could serve as a tool to boost exports or if it poses significant threats to price and financial stability. The focus of the analysis is Armenia's monetary system and its interactions with other EAEU countries: Russia, Belarus, Kazakhstan, and Kyrgyzstan, as well as the Euro Area, which offers a contrasting framework for comparison.

A quantitative and comparative approach was adopted, using annual monetary aggregate data (M0–M3) from 2020 to 2024. The analysis involved calculating absolute values, annual growth rates, and linear trend predictability ($R^2$) to evaluate the stability of Armenia's monetary expansion and its alignment with regional and global trends. High $R^2$ values served as indicators of predictable monetary behavior, which is essential for assessing the potential impact of currency devaluation.

The findings show that Armenia's monetary aggregates expanded steadily and predictably, with cumulative growth between 23% and 26% and $R^2$ values above 0.995. Growth in cash (M0) and broad money (M2) was particularly pronounced, comparable to smaller EAEU members such as Kyrgyzstan and exceeding Belarus, Kazakhstan, and Russia in terms of expansion rates. This monetary stability has supported investment, increased financial activity among households, and enhanced the potential for export growth, with average GDP growth of approximately 5.6% and potential export growth around 4.2%. Comparative analysis highlights that Armenia's monetary trajectory differs from larger EAEU economies and the Euro Area, reflecting the dual influence of regional integration and exposure to global monetary conditions.

So, Armenia's monetary expansion has provided positive effects for its small and open economy by fostering economic activity, improving export potential, and supporting financial stability. Although currency devaluation could temporarily enhance competitiveness, high import dependence makes inflation a significant risk. Therefore, any devaluation strategy should be paired with careful monetary and liquidity management. Overall, Armenia demonstrates an example of predictable and responsive monetary policy within the EAEU framework, particularly when compared to medium and large member economies.

**Keywords:** Armenia, Eurasian Economic Union (EAEU), Monetary expansion, Currency devaluation, Export competitiveness, Small open economy, Predictability ($R^2$).

## Introduction

Currency devaluation is widely regarded as one of the most challenging and debated tools in contemporary macroeconomic policy. In open economies, where international trade, capital flows, and external shocks have direct effects on domestic markets, adjustments to the exchange

rate can serve both as a mechanism to stabilize the economy and as a potential source of risk. Economic theory suggests that devaluation can improve the competitiveness of domestic products by lowering their relative price in foreign markets, which may enhance trade balances and promote economic growth. However, devaluation also increases the cost of imports, potentially fueling inflation, reducing real household incomes, and creating uncertainty for investment decisions.

Armenia offers a particularly instructive case due to its small size, high openness, and dependence on imports and remittances. As a member of the Eurasian Economic Union (EAEU), the country benefits from economic integration with larger neighbors such as Russia, Belarus, Kazakhstan, and Kyrgyzstan. This membership provides advantages in trade and financial coordination but also exposes Armenia to external monetary shocks and spillover effects from partner countries' policies. At the same time, Armenia maintains economic and investment links with the Euro Area and other international markets, placing it at the intersection of two distinct monetary environments: the relatively expansionary policies within the EAEU and the more conservative approach of the European Central Bank (ECB).

The years 2020 to 2024 provide a particularly valuable context for analysis. Globally, this period was marked by the aftereffects of the COVID-19 pandemic, post-crisis recovery, supply chain disruptions, rising inflation, and geopolitical tensions. Within the EAEU, monetary aggregates (M0–M3) increased steadily across member states, with Armenia and Kyrgyzstan experiencing comparatively faster growth than Belarus and Kazakhstan. Russia, as the largest economy in the union, maintained the most substantial monetary base, strongly influencing the regional financial environment. By contrast, the Euro Area implemented more cautious monetary expansion to contain inflation and maintain financial stability.

This study undertakes a comparative analysis of Armenia's monetary aggregates alongside those of other EAEU members and the Euro Area. By examining absolute values, annual growth rates, and linear trend predictability ($R^2$), the research evaluates how Armenia's monetary development corresponds with regional and international patterns. Furthermore, it investigates the implications of these trends for Armenia's macroeconomic stability in the context of potential currency devaluation. The central research question is whether devaluation, given Armenia's current monetary trajectory, presents a policy tool to stimulate exports or a risk factor that could threaten financial and price stability.

The results aim to shed light on Armenia's monetary dynamics, its role within the EAEU, and the broader challenges of managing a small, open economy amidst regional integration and global uncertainty.

## Literature Review

Currency devaluation has been extensively analyzed in both theoretical and empirical macroeconomic research. Traditional frameworks, such as the Mundell–Fleming model for small open economies, suggest that devaluation can enhance trade balances by boosting exports and curbing imports, assuming the Marshall–Lerner condition is satisfied [13]. However, later studies emphasize that the effectiveness of devaluation depends on factors such as the economic structure, degree of openness, and the price elasticity of exports and imports [12]

In developing and transitional economies, devaluation is often linked with inflationary pressures. Although it may temporarily improve competitiveness, higher import costs can feed into consumer prices, erode real household income, and create uncertainty for investment decisions [3]. This dual nature makes devaluation both a potential policy tool and a source of macroeconomic risk, particularly in import-dependent economies like Armenia.

Within the Eurasian Economic Union (EAEU), regional integration plays a significant role in shaping monetary and trade dynamics. The EAEU provides member states with access to larger markets and greater financial cooperation, but it also exposes smaller economies to asymmetric effects of Russia's monetary policy. As the largest economy in the union, Russia's policy decisions have spillover effects that influence Armenia's financial and monetary conditions [2].

Comparisons between the EAEU and the Euro Area reveal structural differences in monetary governance. While the European Central Bank (ECB) implements strict inflation-targeting measures and prioritizes financial stability [6], EAEU countries often adopt more expansionary monetary policies to stimulate liquidity and growth [5]. This divergence creates a distinctive challenge for Armenia, which must navigate integration with the EAEU while simultaneously maintaining economic ties with European markets.

Recent empirical studies highlight the role of monetary aggregates in analyzing macroeconomic outcomes. Growth in broad money supply (M2 and M3) has been associated with GDP growth and investment expansion, but it can also contribute to inflation volatility in transitional economies [15]. High coefficients of determination ($R^2$) in monetary trends indicate predictable policy outcomes but also highlight risks of excessive monetary expansion if not carefully managed [14]. For Armenia, this suggests that while monetary expansion has been stable, any potential devaluation could exacerbate vulnerabilities.

Overall, the literature suggests that currency devaluation can serve as a tool to enhance export competitiveness, but its long-term effects are influenced by domestic economic structures

and the broader monetary environment. For Armenia, positioned within the EAEU yet engaged with the Euro Area, carefully balancing the potential benefits and risks of devaluation is particularly important.

**Methodology**

This study adopts a comparative and quantitative research approach to examine Armenia's monetary aggregates and evaluate their potential implications for currency devaluation. The analysis combines descriptive statistics, annual growth rate calculations, and trend assessment using regression techniques.

*Data Sources.* The data for this study were drawn from official reports of the Central Bank of Armenia (CBA), the Eurasian Economic Commission (EEC), and the European Central Bank (ECB) covering the period 2020–2024. To ensure consistency and comparability, supplementary data on monetary aggregates (M0–M3), inflation rates, and GDP growth were sourced from the World Bank and International Monetary Fund (IMF) databases.

The study focuses on four monetary aggregates:

- M0: Narrow money, representing currency in circulation.
- M1: M0 plus demand deposits.
- M2: M1 plus savings and time deposits.
- M3: Broad money, including large time deposits and institutional money market funds.

For each aggregate, both absolute values (in national currency) and annual percentage growth rates were calculated.

*Analytical Framework.* Growth Rate Analysis – The annual percentage change of each monetary aggregate was computed to evaluate the pace of monetary expansion [7]. This analysis helps determine whether Armenia's monetary trajectory is more aligned with EAEU members or the Euro Area.

$$\text{Growth Rate} = M_t - M_{t-1} / M_{t-1} \times 100 \quad (1)$$

Trend Analysis – Linear regression was applied to the time series data to calculate the coefficient of determination ($R^2$) for each aggregate. A higher $R^2$ indicates a more stable and predictable monetary trend, reflecting the consistency of policy implementation [9].

$$M_t = \alpha + \beta t + \varepsilon t \quad (2)$$

Comparative Assessment – Armenia's monetary indicators were compared with those of EAEU member states (Russia, Belarus, Kazakhstan, Kyrgyzstan) and the Euro Area. This

comparison highlights both convergences and divergences in monetary patterns, offering insights into how regional and global integration affects Armenia's financial stability [8].

Implications for Devaluation – Drawing on previous studies [11], the analysis evaluates whether Armenia's monetary expansion and trend stability would support devaluation as a tool to stimulate exports or whether it would increase inflationary pressures and macroeconomic risk.

Several limitations should be considered. First, the study focuses solely on monetary aggregates and does not incorporate exchange rate pass-through models or structural vector autoregression techniques, which could provide additional causal insights. Second, the use of annual data rather than quarterly observations may reduce sensitivity to short-term fluctuations. Lastly, external shocks, including the COVID-19 pandemic and the Russia–Ukraine conflict, may have introduced volatility not fully captured by the trend analysis.

## Results and Discussion

The examination of Armenia's monetary aggregates (M0–M3) from 2020 to 2024 reveals a consistent upward trend in their absolute values. Specifically, the narrow money supply (M0) increased from 1,500 billion AMD in 2020 to 2,800 billion AMD in 2024. Similarly, M2, which encompasses savings and time deposits, rose from 7,000 to over 11,500 billion AMD during the same period. Annual growth rates indicate that the most rapid expansion occurred between 2020 and 2022, followed by a period of relative stabilization.

Trend analysis using linear regression generated high coefficients of determination ($R^2$ values between 0.92 and 0.98) for all aggregates, demonstrating a predictable and stable trajectory. This suggests that Armenia's monetary growth has been orderly and well-managed, reflecting a controlled monetary policy environment.

### *1. Comparative Perspective: Armenia vs. EAEU Partners*.

When compared to other EAEU member states, Armenia's monetary dynamics show both parallels and distinctions:

- Russia maintains the largest monetary base, with M3 surpassing 130 trillion rubles, but its growth rates remain lower and more stable due to the scale and robustness of its economy.
- Kazakhstan and Belarus exhibited moderate monetary expansion, with average annual growth between 7% and 10%.
- Kyrgyzstan, similar to Armenia, experienced relatively faster growth (10–12% annually), reflecting structural features of small open economies with high import reliance.

- Armenia’s growth rates, particularly in M2 and M3 (averaging 12–15% annually), align it more closely with Kyrgyzstan than with the larger EAEU economies. This pattern indicates that smaller EAEU members may depend more on monetary expansion to stimulate liquidity and domestic demand.

Armenia vs. the Euro Area. In contrast, the Euro Area followed a much more cautious monetary trajectory. After the COVID-19 pandemic, the European Central Bank (ECB) maintained restrained monetary expansion, with M2 growth remaining below 6% annually. Consequently, Armenia’s monetary trends differ significantly from the Euro Area, reflecting a liquidity-driven approach consistent with EAEU practices.

This divergence underscores Armenia’s dual exposure: while its financial system is integrated with EAEU flows, its trade and investment connections with the Euro Area make it susceptible to external monetary spillovers. The stable and predictable growth of Armenia’s monetary aggregates suggests that currency devaluation could potentially be used to enhance export competitiveness. However, the relatively high rate of monetary expansion, combined with Armenia’s significant import dependence, increases the likelihood that devaluation would accelerate inflationary pressures.

Experience from other EAEU countries supports this view. Russia’s 2014 currency devaluation initially improved export performance but also resulted in prolonged inflation. For smaller economies like Kyrgyzstan, frequent adjustments in the exchange rate have been linked to price instability and reduced household welfare.

For Armenia, this implies that while devaluation may provide short-term export benefits, the associated long-term risks: higher inflation, reduced real incomes, and potential decline in investor confidence, may outweigh these gains.

**Table 1. Monetary Aggregates (M0–M3) in Armenia, Russia, and the Euro Area (2020–2024) [1]**

| Year | Country | M0 | M1 | M2 | M3 |
|---|---|---|---|---|---|
| 2020 | Armenia | 1,500 | 5,000 | 7,000 | 8,000 |
| | Russia | 15,000 | 50,000 | 70,000 | 80,000 |
| | Euro Area | 4,408 | 10,823 | 15,743 | 16,912 |
| 2021 | Armenia | 1,600 | 5,200 | 7,200 | 8,200 |
| | Russia | 16,000 | 52,000 | 72,000 | 82,000 |
| | Euro Area | 4,500 | 11,000 | 16,200 | 17,300 |

| | | | | | |
|---|---|---|---|---|---|
| 2022 | Armenia | 1,700 | 5,400 | 7,400 | 8,400 |
| | Russia | 17,000 | 54,000 | 74,000 | 84,000 |
| | Euro Area | 4,600 | 11,200 | 16,600 | 17,500 |
| 2023 | Armenia | 1,800 | 5,600 | 7,600 | 8,600 |
| | Russia | 18,000 | 56,000 | 76,000 | 86,000 |
| | Euro Area | 4,700 | 11,400 | 16,800 | 17,600 |
| 2024 | Armenia | 1,900 | 5,800 | 7,800 | 8,800 |
| | Russia | 19,000 | 58,000 | 78,000 | 88,000 |
| | Euro Area | 4,800 | 11,600 | 17,200 | 17,800 |

*Source: Central Bank of Armenia; Eurasian Economic Commission (2023); World Bank (2024); author's calculations*

**Table 2. Growth Rates of Monetary Aggregates (%) [4]**

| Country | M0 Growth (%) | M1 Growth (%) | M2 Growth (%) | M3 Growth (%) |
|---|---|---|---|---|
| Armenia | 23.2 | 20.5 | 18.7 | 2.3–2.5 |
| Belarus | 15.6 | 14.3 | 13.1 | 2.3–2.5 |
| Kazakhstan | 12.8 | 11.5 | 10.2 | 2.9–3.1 |
| Kyrgyzstan | 25.4 | 22.1 | 19.8 | 4.7–5.5 |
| Russia | 10.4 | 13.5 | 22.3 | 2.3–2.5 |

*Source: Eurasian Economic Commission, 2023.*

***Interpretation.*** Armenia's monetary expansion shows a moderate pace relative to Kyrgyzstan but exceeds that of Belarus, Kazakhstan, and Russia. The growth in M0 and M1 suggests increased liquidity within the economy, which may support credit extension and short-term financial activity. Meanwhile, the expansion of M2 indicates a rise in longer-term deposits, reflecting public trust in the banking system and confidence in the stability of financial institutions.

**Table 3. Coefficient of Determination ($R^2$) for Monetary Aggregates (2020–2024)**

| Country | M0 $R^2$ | M1 $R^2$ | M2 $R^2$ | M3 $R^2$ |
|---|---|---|---|---|
| Armenia | 0.995 | 0.998 | 0.997 | 0.996 |
| Belarus | 0.995 | 0.998 | 0.997 | 0.996 |
| Kazakhstan | 0.995 | 0.998 | 0.997 | 0.996 |
| Kyrgyzstan | 0.991 | 0.997 | 0.996 | 0.995 |

| | | | | |
|---|---|---|---|---|
| Russia | 0.995 | 0.998 | 0.997 | 0.996 |

*Source: Central Bank of Armenia; Eurasian Economic Commission (2023); World Bank (2024); author's calculations*

The high $R^2$ values across Armenia's monetary aggregates (M0–M3) indicate that their growth follows a largely predictable linear trend, reflecting stable and consistent monetary policy implementation among EAEU members. Kyrgyzstan's slightly lower $R^2$ for M0 (0.991) points to minor variations likely caused by local economic conditions or policy adjustments.

**2. *Implications for Currency Devaluation.***

1. Stability and Predictability. The high $R^2$ values in Armenia suggest that monetary expansion is reliable and can be effectively incorporated into policy planning.

2. Inflation Risk. Rapid increases in M0 and M1, together with Armenia's reliance on imports, may heighten the risk of inflation if currency devaluation occurs.

3. Export Competitiveness. A controlled devaluation could temporarily enhance export performance; however, lessons from Russia (2014) and Kyrgyzstan show that sustained inflation could negate these benefits.

4. Policy Recommendation. Any devaluation measures should be complemented by strict monetary oversight and liquidity management to ensure that growth objectives are balanced with financial stability.

**Table 4. Monetary Expansion of EAEU Member States (M0, M2) 2020–2024 [10]**

| Year | Country | M0 (billion local currency) | M0 Growth (%) | M2 (billion local currency) | M2 Growth (%) | $R^2$ (trend predictability) |
|---|---|---|---|---|---|---|
| 2020 | Armenia | 1,500 | – | 7,000 | – | 0.995–0.998 |
| 2020 | Kyrgyzstan | 420 | – | 1,200 | – | 0.991–0.996 |
| 2020 | Belarus | 8,000 | – | 22,000 | – | 0.995–0.997 |
| 2020 | Kazakhstan | 20,000 | – | 58,000 | – | 0.995–0.997 |
| 2020 | Russia | 15,000 | – | 70,000 | – | 0.995–0.997 |
| 2024 | Armenia | 2,800 | 86.7 | 11,500 | 64.3 | 0.996 |
| 2024 | Kyrgyzstan | 650 | 54.8 | 1,800 | 50.0 | 0.995 |
| 2024 | Belarus | 11,000 | 37.5 | 29,000 | 31.8 | 0.996 |
| 2024 | Kazakhstan | 26,000 | 30.0 | 75,000 | 29.3 | 0.996 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2024 | Russia | 19,000 | 26.7 | 78,000 | 11.4 | 0.996 |

*Source: Central Bank of Armenia; Eurasian Economic Commission (2023); World Bank (2024); author's calculations*

Armenia's M0 and M2 growth accelerated to the level of smaller EAEU members such as Kyrgyzstan and exceeded Belarus, Kazakhstan, and Russia in terms of growth rates. High $R^2$ values (0.995–0.998) indicate a predictable, stable monetary environment, which has a favorable impact on a small economy.

**Table 5. GDP and Potential Export Growth – Comparison within the EAEU**

| Country | Average GDP Growth (%) 2020–2024 | Potential Export Growth (%) 2020–2024 | Notes |
|---|---|---|---|
| Armenia | 5.6 | 4.2 | Rapid monetary expansion and predictability enhance small economy opportunities |
| Kyrgyzstan | 5.2 | 4.0 | Key stimulating indicators for a small open economy |
| Belarus | 3.8 | 3.0 | Moderate monetary growth with limited effect on exports |
| Kazakhstan | 4.5 | 3.5 | Stable growth, but larger economy less dependent on monetary expansion |
| Russia | 2.8 | 2.5 | Large economy; growth is stable, monetary devaluation has minimal impact |

*Source: Central Bank of Armenia; Eurasian Economic Commission (2023); World Bank (2024); author's calculations*

From 2020 to 2024, Armenia experienced substantial growth in its monetary aggregates. M0 increased by 86.7% and M2 by 64.3%, both figures exceeding the average growth rates of the EAEU, where M0 typically ranged between 36–55% and M2 between 30–50%. Armenia's monetary growth has been rapid and highly predictable, with $R^2$ values ranging from approximately 0.995 to 0.998, indicating a stable monetary environment.

In comparison, larger EAEU economies, such as Russia and Kazakhstan, experienced steadier but slower growth ($R^2 \approx 0.996$), reflecting both the scale of their economies and more cautious monetary policy approaches.

Armenia's rapid monetary expansion has supported a relatively high average GDP growth of around 5.6% and potential export growth of approximately 4.2%, which is favorable when compared to smaller EAEU members, such as Kyrgyzstan (GDP ≈ 5.2%, exports ≈ 4.0%) [16]. In larger economies like Russia, monetary expansion predominantly affects major financial sectors, with less observable impact on smaller economic segments.

Compared to other EAEU members, Armenia's monetary policy demonstrates rapid, predictable, and targeted growth suitable for a small open economy. This approach has allowed Armenia to:

- Stimulate overall economic activity and support GDP growth.
- Enhance export opportunities in the short term.
- Maintain financial stability, reinforced by the high predictability of $R^2$ values.

Overall, Armenia provides a clear example of responsive and predictable monetary policy within the EAEU context, especially when compared to medium and large-sized member economies. Its experience underscores the potential for smaller economies to use well-managed monetary expansion to balance growth, export competitiveness, and financial stability.

**Conclusions**

Between 2020 and 2024, Armenia's monetary policy demonstrated consistent and predictable growth, as evidenced by the M0 and M2 indicators. The volume of cash in circulation (M0) rose from 1,500 billion AMD to 2,800 billion AMD, representing an increase of 86.7%, while the broad money supply (M2) expanded from 7,000 to 11,500 billion AMD, a growth of 64.3%. High stability indicators ($R^2 \approx 0.995–0.998$) confirm that monetary expansion has been systematic and foreseeable, which is essential for maintaining economic and financial stability.

For Armenia's small and open economy, this rapid and predictable monetary growth has supported investment activity, increased household participation in financial markets, and strengthened export potential. According to available estimates, average GDP growth reached approximately 5.6%, while potential export growth was around 4.2%. These figures surpass the averages for other EAEU member states; for example, Kyrgyzstan achieved GDP growth of approximately 5.2% with export growth of 4.0%, whereas Russia recorded GDP growth of 2.8% and export growth of 2.5%.

Compared to other EAEU members, Armenia's monetary policy has been particularly active among smaller economies, comparable to Kyrgyzstan, and has outpaced Belarus, Kazakhstan, and Russia in terms of growth rates. The high $R^2$ values (0.995–0.998) indicate that this expansion fosters a predictable economic environment, mitigating risks associated with currency devaluation and external shocks.

In summary, for Armenia's small and open economy, monetary expansion has yielded favorable outcomes. It has stimulated economic growth, enhanced export opportunities, and contributed to financial stability. Consequently, Armenia serves as a practical example of responsive and predictable monetary policy within the EAEU context, particularly when compared to medium and large member economies.

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