HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

ARMENIA

Climate Policy Diagnostic

July 2026

Prepared By

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High-Level Summary Technical Assistance Report
Fiscal Affairs Department

Armenia: Climate Policy Diagnostic

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: Armenia's development agenda is closely intertwined with climate action, presenting an opportunity to align national priorities with its Transformation Strategy 2050 as new political momentum emerges in 2026. The country faces rising climate risks—heat, water stress, and disasters—despite relatively low but growing emissions. While policy frameworks have strengthened, implementation gaps persist across water management, disaster resilience, energy transition, social protection, forestry, climate finance, and institutional coordination. Addressing these challenges requires improved governance, stronger data systems, enhanced financing strategies, and expanded private sector engagement. Accelerating reforms can reduce long-term economic costs, strengthen resilience, and support sustainable, climate-informed growth.

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Background

Armenia's development objectives are closely linked to climate action. Addressing climate risks and opportunities can advance key national priorities, including Armenia's Transformation Strategy 2050. The period ahead presents an important opportunity to accelerate this alignment as Armenia prepares to host UN Biodiversity COP17 in 2026 and a new government takes office, creating momentum to integrate climate considerations more fully into development planning and strengthen implementation.

Armenia faces rising climate risks, including increasing temperatures, more variable precipitation, and greater exposure to extreme heat and hydrological hazards. Although emissions remain low by international standards, they are increasing and are concentrated in the energy sector. Armenia has strengthened its climate ambition through NDC 3.0 and its long-term low-emissions development strategy while identifying adaptation priorities in water, agriculture, infrastructure, and disaster risk management. But, without effective adaptation, climate change could impose substantial long-term economic costs.

Summary of Findings and Recommendations

Climate Sensitive Management of Water Resources. Armenia faces increasing water stress due to growing demand, inefficient use—particularly in irrigation—and climate pressures. Despite progress in legal and institutional reforms, implementation remains constrained by fragmented governance, weak coordination, insufficient monitoring systems, and limited technical capacity. The irrigation and water supply and sanitation sectors are characterized by aging infrastructure, low efficiency, and tariffs that fall well below financial cost recovery, resulting in significant fiscal burdens, underinvestment, and poor service outcomes. Key priorities include completing ongoing reforms to the Water Code and sector strategies, strengthening economic instruments such as tariffs and permitting fees, improving interagency coordination and regulatory oversight, and enhancing cost recovery.

Disaster Risk Management and Financing. Armenia has established a solid legal and institutional framework for disaster risk management, including the 2025 Disaster Risk Management (DRM) Law, but significant implementation gaps remain. Risk assessments are fragmented, building code coverage and enforcement are incomplete, retrofitting is limited, and early warning systems remain underdeveloped. Financial resilience is constrained by inadequate disaster risk data, limited fiscal risk analysis, fragmented institutional responsibilities, and reliance on post-disaster budget reallocations. Insurance penetration remains low, particularly for agriculture and property. Strengthening resilience will require operationalizing the DRM Law through clearer responsibilities and standardized methodologies, improving infrastructure standards and early warning systems, integrating disaster risks into fiscal planning, expanding contingency financing tools, and fostering a more developed insurance market.

Promoting Energy Security Through Climate Mitigation Policies. Introducing an explicit carbon tax, building on Armenia's existing fuel taxes, would provide a cost-effective tool to strengthen energy security, reduce emissions, mobilize revenue, and support alignment with EU climate objectives. Current fossil fuel taxes remain relatively low, leaving scope for reform. A gradually rising carbon tax could significantly reduce emissions, improve air quality, and generate revenues of up to 1 percent of GDP, while remaining broadly progressive given current energy consumption patterns. Any reform should be phased carefully, particularly with respect to natural gas, and accompanied by targeted revenue recycling to protect vulnerable households and maintain public support. Clear communication, a predictable tax trajectory, and complementary policies (energy efficiency measures, EV incentives, and strengthened MRV systems) would be critical to success. Armenia also remains dependent on

imported fossil fuels despite rapid solar expansion. Further deployment of solar power will require investments in grid infrastructure and energy storage. Priorities include setting more ambitious solar and storage targets, introducing incentives for solar-plus-storage projects, strengthening frameworks for storage services, and reforming tariffs to encourage electricity consumption during periods of high renewable generation.

Integrating Social Protection into Climate Policy Frameworks. Armenia's social protection system is relatively strong, with broad coverage of vulnerable households and ongoing reforms to improve targeting and service delivery through a Unified Social Service and Unified Social Registry. However, the system remains insufficiently responsive to shocks, with limited capacity for rapid expansion during crises. Climate change and energy transition policies could increase pressure on vulnerable households, while existing utility support programs remain poorly targeted. Priorities include strengthening the adaptive capacity of the social protection system, fully implementing the Unified Social Registry, establishing rapid-response mechanisms, and improving analysis of the distributional impacts of climate and energy reforms to support targeted assistance.

Climate Resilient Forestry. Armenia's forests provide important economic, social, and environmental benefits, but degradation—rather than deforestation—is the primary challenge. Dependence on fuelwood and unmanaged grazing continue to place pressure on forest resources. Outdated forest inventories and data gaps limit effective policymaking, carbon accounting, and enforcement. Priorities include completing the National Forest Inventory, improving data systems, reforming fuelwood subsidies to better target vulnerable households, strengthening enforcement, and expanding economic instruments such as payments for ecosystem services and tourism-related green levies. These measures can support rural livelihoods, mobilize financing, and unlock the economic value of forest ecosystem services.

Catalyzing Climate Finance. Armenia's financial sector is relatively deep but remains heavily bank-based, with limited capital market development and modest green finance capacity. While pension funds with ESG mandates represent a growing source of demand, the supply of green financial instruments remains limited. Significant gaps in climate risk management, ESG expertise, disclosures, and climate data continue to constrain private-sector investment. Although climate finance inflows have broadly matched historical needs, financing has been concentrated in mitigation activities from public or IFI sources, with adaptation finance and private-sector mobilization remaining limited. Priorities include operationalizing the national green taxonomy, strengthening climate disclosures and data systems, improving financial market infrastructure, and integrating existing initiatives into a unified climate finance strategy focused on mobilizing investment and delivering measurable climate outcomes.

Enabling Institutions to Support Climate Action. Armenia has established a broad to support climate action. Its legal framework is anchored in constitutional environmental protections and reinforced by the 2026 Climate Law, which establishes a comprehensive governance framework but still requires implementing decrees for full operationalization. Successive NDCs, NAP, and LT-LEDS define Armenia's mitigation, adaptation, and investment priorities, although climate considerations are not yet consistently integrated across sectoral strategies and institutional coordination remains fragmented. The planned Council on Climate Change provides an opportunity to strengthen policy coordination, mainstream climate objectives into fiscal and financial policies, and support results-based implementation. Significant climate data challenges continue to hinder effective decision-making, underscoring the need for a comprehensive climate data diagnostic. Strong leadership from the Ministry of Finance will be critical to integrating climate considerations into macro-fiscal management and mobilizing climate finance.