

NEWSLETTER

ARMENIA



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Stronger economic links to Russia

After the start of the war in Ukraine, experts expected severe negative implications for Armenia, due to its high exposure to the Russian economy. However, recent data suggest a positive impact on Armenia: exports to Russia increased strongly, and so did tourism-related revenues and money transfers from Russia.

On top, many highly skilled specialists – especially from the IT sector – relocated from Russia to Armenia after the start of the war in Ukraine. This provided a significant push to the economy.

All dynamics combined contribute to the expected growth of around 7% for the Armenian economy in 2022. While these shocks might be welcome in the short term, they pose significant risks in the medium term. The exposure to Russia has increased significantly, while the mid-term outlook for Russia is highly unclear. Businesses and policymakers should keep these risks in mind and react accordingly.

Expectations after the start of the war in Ukraine

Back in spring 2022, the consensus forecast for Russia pointed toward a real GDP decline of 10% and a strong depreciation of the Russian rouble. Consequently, an economic crisis in Russia was expected to have significant negative implications for Armenia due to its high level of exposure to the Russian economy. In particular, 28% of Armenian goods and 19% of services exports went to Russia in 2021. At the same time, 41% of total remittances and nearly a third of net FDI inflows originated from Russia.

Exposure of the Armenian economy to Russia

	USD m	% of total
Goods exports to RUS	847.3	28.0
Services exports to RUS	323.8	18.6
Remittances from RUS	865.6	41.0
Net FDI inflows from RUS	76.8	31.1

Sources: Armstat, Rosstat; data for 2021

Thus, a weakening of the Russian economy was expected to result in a decline in Armenian exports to Russia as well as fewer remittances and FDI inflows from Russia. Initially, these expectations led to a massive downward revision in the range of 3 to 4 percentage points for the 2022 GDP forecast.

At the same time – contrary to other CIS countries such as Moldova – increasing global energy prices were not considered an issue for Armenia due to the fixed price for gas until the end of 2022 and discounts for the Russian Urals crude oil. Moreover, already back in spring, it

was assumed that Armenia could benefit from the substitution of Western exports to Russia, which would be discontinued due to payment difficulties, sanctions, and reputational risks.

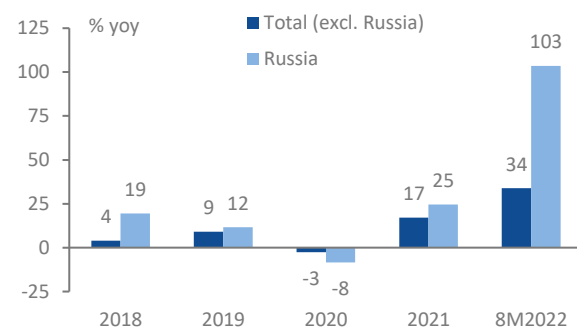
Current developments defy prior expectations

With more and more data becoming available, it has become clear that the initial expectations were too pessimistic in several regards. First, the Russian economy will not face a double-digit recession in 2022. Instead, the most recent IMF forecast (Oct-22) suggests a real GDP decline of only 3.5%, largely due to the stabilisation of the Russian rouble on the back of decisive monetary policy and capital regulations by the Central Bank of Russia. Second, Armenian goods exports to Russia are currently growing at record rates. Third, tourism-related revenues and money transfers increased significantly – mostly due to, fourth, the significant influx of people from Russia. The IMF, as well as most other forecasters, upgraded their 2022 real GDP forecast for Armenia from 1.5% (Apr-22) to 7.0% (Oct-22).

Strong growth of exports to Russia

Despite initial expectations, Armenian exports to Russia developed very positively. In 8M2022, they grew by more than USD 500 m or 103% – a record growth rate even after the post-COVID recovery in 2021. At the same time, total exports (excl. Russia) grew by only 34%, thus leading to an increase in the share of exports to Russia in total Armenian exports from 28% in 2021 to currently 36%.

Development of Armenian exports



Source: Armstat

Armenian exports to Russia grew stronger also due to a number of new goods now being exported in 2022 – especially from the category “machinery and equipment”. These new goods make up around 40% of the nominal growth in 8M2022.

What are the reasons behind this development? First, since the start of the war in Ukraine, the Armenia dram has depreciated by approx. 12% against the Russian rouble until the end of Sep-22. This, in turn, makes Armenian exports to Russia more competitive. At the same time, there was a significant appreciation against the US

dollar (14.8%) and an even stronger one against the Euro (25.5%), making Armenian exports to Western markets less competitive. Therefore, the strong growth of exports to Russia can already be partly explained by pure macroeconomic dynamics. However, especially in the case of the new export goods, a substantial substitution of Western exports to Russia has likely taken place.

Booming tourism revenues and money transfers

Tourism-related revenues, as well as remittances, are currently also doing exceptionally well. According to the latest data, tourism revenues grew by 155% (H1 2022), while money transfers from Russia increased by 247% (8M2022). While this does have a significantly positive effect on the Armenia economy, it should be noted that the tourism sector has not yet reached 2019 revenue levels. The growth in money transfers is mostly driven by the strong influx of people from Russia, who continue to transfer their funds from Russian to Armenian banks. As such, these transfers are not remittances in a classical sense and should be taken with a grain of salt. Similarly, tourism-related revenues are also inflated by the influx, e.g. migrants from Russia tend to have longer stays in hotels while searching for an apartment. However, the initial expectations in connection to a weakening of the Russian economy have also not materialised here.

Significant influx of people from Russia

After the start of the war in Ukraine, many young and highly qualified specialists – especially from the IT sector – have decided to leave Russia. Armenia, as well as other CIS countries, are popular destinations due to their easiness to reach and access to funds in Russia. GET has conducted a [detailed analysis for Armenia](#) (and [Georgia](#)), which looks at the influx and its economic implications in more detail. For Armenia, based on May-22 data, we estimated that a total of 28,000 people mostly from Russia (and to a small extent from Belarus and Ukraine) have relocated in 2022. With average monthly household expenditure of around USD 1,300, total additional consumption in 2022 would amount to USD 163 m or approx. 1.2% of GDP.

Economic impact of the influx of people from Russia

	2022
Total relocated persons	28,000
Total relocated households	14,000
Monthly consumption (USD m)	18.2
Total impact (USD m)	162.8
Total impact (% of GDP)	1.2

Source: GET analysis

It can already be seen that the influx dynamic has accelerated even more after the start of the partial mobilisation in Russia. However, the background of the people immigrating from Russia has likely changed, while the negative implications for inflation and social policy (rents) are likely to accelerate.

Outlook

Despite initial expectations, the weakening of the Russian economy did not have a negative impact on Armenia so far. On the contrary, bilateral economic relations between Russia and Armenia have deepened in recent months. In the short term, this is a positive factor for Armenia, contributing significantly to the exceptional economic growth in 2022. However, this might not necessarily be a good development from a medium-term perspective. Overly high exposure to one country is not healthy, especially as the likelihood of severe economic problems in Russia arising over the next year is rather high. The key question for companies and policymakers should be, how to take advantage of short-term opportunities while mitigating medium-term risks. In this regard, especially the ongoing efforts in the area of export diversification should be further strengthened.

This newsletter is partially based on the 8th edition of the [Economic Monitor for Armenia](#) and the Policy Study [“Relocation of people from Russia to Armenia: results of survey and economic implications”](#).

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

*Advisory activities in Belarus are currently suspended.

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