

NEWSLETTER

ARMENIA



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Relocation of Russian citizens leads to remarkable economic growth

The Armenian economy performed very well in 2022. Real GDP grew by 12.6% and the Armenian dram appreciated by 18.5% vis-à-vis the US dollar. As a result, GDP per capita increased from ca. 4,700 in 2021 to ca. 6,600 USD in 2022, i.e. 40% in just one year.

This strong performance is linked to events in Russia and in particular to the relocation of Russian citizens to Armenia, which boosted domestic consumption. Besides this short-term positive shock, the relocation of Russian IT specialists offers the opportunity of strengthening the IT sector in Armenia. However, the relocation also entails risks. Should many of the relocated people leave the country at once, Armenia would face a strong negative economic shock. Therefore, the government should closely monitor the situation and try to facilitate the integration of Russian migrants. Against this background, the German Economic Team in cooperation with CRRC Armenia conducted a survey among the relocated people from Russia.

Unprecedented economic growth and appreciation

In 2022, the Armenian economy experienced some unprecedented economic developments. For once, real GDP grew by 12.6%; this is the first double-digit growth in 15 years. At the same time, the Armenian dram experienced a significant appreciation of approx. 18.5% against the U.S. dollar. As a result, GDP per capita grew from USD 4,679 to USD 6,569 – an increase of 40%. This is an impressive feature that would take more than five years to achieve under normal circumstances.

Gross domestic product of Armenia

	2021	2022
GDP, USD bn	13.9	19.5
GDP/capita, USD	4,679	6,569

Sources: Armstat

How could these unprecedented developments have taken place in just one year? Although this was certainly not the only reason, we argue that these developments are closely linked to events in Russia.

Influx of migrants from Russia boosted consumption

After the start of the war in Ukraine, many people left Russia for various reasons. This trend accelerated further after the start of the mobilisation in September 2022. Armenia was one of the many destinations of

these migration flows. According to our calculations, the stock of Russian citizens who came to Armenia after the start of the war amounted to approx. 55,000 people in November 2022. This represents 1.8% of the Armenian population.

The relocated Russians have significantly boosted domestic consumption, contributing to the growth of the services sector and thus GDP. We estimate that additional consumption expenditures of relocated households amounted to USD 372 m, or 2.0% of GDP in 2022. If the stock of migrants remains constant in 2023, consumption of Russian migrants could reach USD 533 m or 2.6% of GDP.

Economic relevance of relocated people from Russia

	2022*	2023**
Stock of relocated persons from RUS, average	40,940	54,740
Consumption of relocated households, USD m***	372.2	532.7
as % of GDP of corresponding year	2.0%	2.6%

Sources: Armstat, GET calculations; * Weighted period average; ** Constant stock as of Nov-22; *** Based on weighted average household consumption for the respective period

Strong appreciation of the Armenian dram

The significant influx of people from Russia was also one of the main reasons for the strong appreciation of the Armenian dram. Higher services exports and significant inflows of personal transfers, as well as strong tourism revenues, were the key drivers of appreciation. As a result, the dram appreciated against the US dollar by 15.7% during the first half of 2022, followed by a more moderate appreciation of 3.5% in the second half.

Exchange rate dynamic



Source: Armstat

The appreciation has not only strengthened nominal GDP in US dollars but has also been instrumental in keeping inflation under control (Jan-23: 8.1%) and bringing public debt down toward its threshold (2022: 51.3% of GDP). However, it has also been a source of problems for some export-oriented sectors (e.g. IT), which rely on

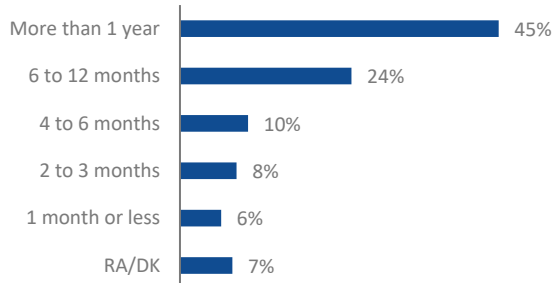
revenues in US dollars while paying their wages in local currency.

Survey amongst the relocated people from Russia

The influx of people from Russia had a positive impact on the Armenian economy in 2022. However, this positive shock could quickly turn negative if the relocated people decide to leave in the short term. It is therefore important to gain a better understanding of the composition and future plans of the relocated people. Against this background, CRRC Armenia conducted a survey on behalf of the German Economic Team among 500 Russian citizens who came to Armenia after the start of the war in Ukraine.

The relocated people are predominantly young and highly skilled professionals, working mostly in the IT sector. The average monthly income of a relocated household is approx. USD 3,100, while their average monthly expenditure is around USD 1,600. When asked how long they plan to stay in Armenia, 45% of the respondents answered that they want to remain longer than one year. Remarkably, 34% do not plan to return to Russia. Moreover, 27% would not leave Armenia at all, while 30% could imagine relocating to the EU if given the opportunity in the short term.

Planned length of stay of relocated people



Source: GET/CRRC survey; 500 respondents; RA/DK = refuse to answer / don't know

Apart from problems with finding housing and opening a bank account, no major obstacles were mentioned during the interviews. Overall, the results indicate that a significant proportion of the relocated people plan to stay in Armenia throughout 2023. This could be used as an opportunity to further integrate them into the domestic labour market. In particular, tapping the potential of the relocated IT talent should be a policy focus.

Outlook and policy recommendations

The unprecedented economic developments in 2022 were linked to events in Russia. However, most of the positive shock already occurred last year. Economic growth is therefore expected to slow down to its potential of 4% to 5% in 2023.

While the relocation of people from Russia offers opportunities such as the strengthening of the local IT sector, it also carries a major risk. Should most of the relocated people decide to leave Armenia in the short term, the country will face a negative economic shock similar in size to the positive shock of 2022. Therefore, it should be in the government's interest to integrate them into the local labour market or at least ensure that they do not face major problems.

In order to [tap the potential related to the inflow of foreign IT talent](#), needs-oriented aftercare and facilitation services should form key elements of the policy response. Building upon existing structures (e.g., the Union of Advanced Technology Enterprises or Enterprise Armenia), onboarding services should be extended and the scope of matchmaking formats widened in order to connect the relocated IT talents with the local community. At a later stage, specialised tech parks based on thorough feasibility studies could be created.

This newsletter is based on the [9th issue of the Economic Monitor Armenia](#) and the forthcoming [Policy Study: Relocation of people from Russia to Armenia: results of 2nd survey and update of 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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