

ECONOMIC MONITOR

ARMENIA

Overview

- » High real GDP growth of 12.6% in 2022; influx of approx. 55,000 people from RUS one of the main growth drivers
- » 2023 forecast: slowdown to 4.5%, as main part of positive relocation shock in 2022
- » Inflation remains elevated (Jan-23: 8.1%), but return to target likely in 2023 due to restrictive monetary policy by the Central Bank of Armenia
- » Strong appreciation of dram against the US dollar (15.7%) in H1 2022, followed by moderate appreciation (3.5%) in H2 2022
- » Significant improvement of fiscal conditions; strong economic growth and appreciation to reduce public debt towards its threshold (2023: 50% of GDP)
- » Large increase in exports (77.7%) and imports (63.5%) in 2022; higher imports on the back of strong economy and appreciation, but also due to re-exports to RUS

Special issues

- » **Influx of people from RUS.** Results of new survey and economic implications
- » **IT sector.** Tapping the potential related to the inflow of foreign IT talent
- » **Trade.** Estimation of re-exports to RUS

Basic indicators

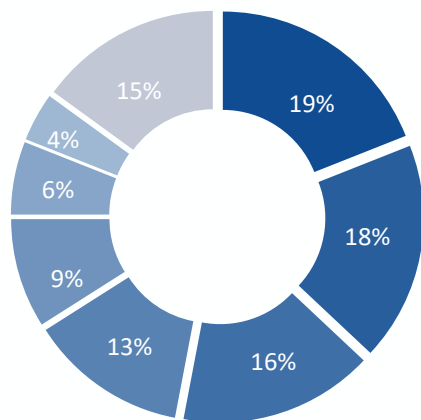
	Armenia	Azerbaijan	Georgia	Ukraine*	Russia
GDP, USD bn	19.5	70.1	25.2	200.3	2,133.1
GDP/capita, USD	6,569	6,842	6,770	4,862	14,665
Population, m	3.0	10.2	3.7	41.0	145.5

Sources: IMF, Note: data for 2022; *Data for 2021

Trade structure

Exports

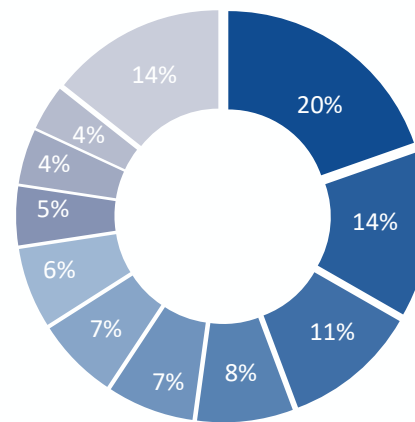
RUS 45% | EU 14% | UAE 10% | Others 31%



- Mineral products
- Precious metals
- Foodstuffs
- Machines
- Non-precious metals
- Vehicles
- Textiles
- Other

Imports

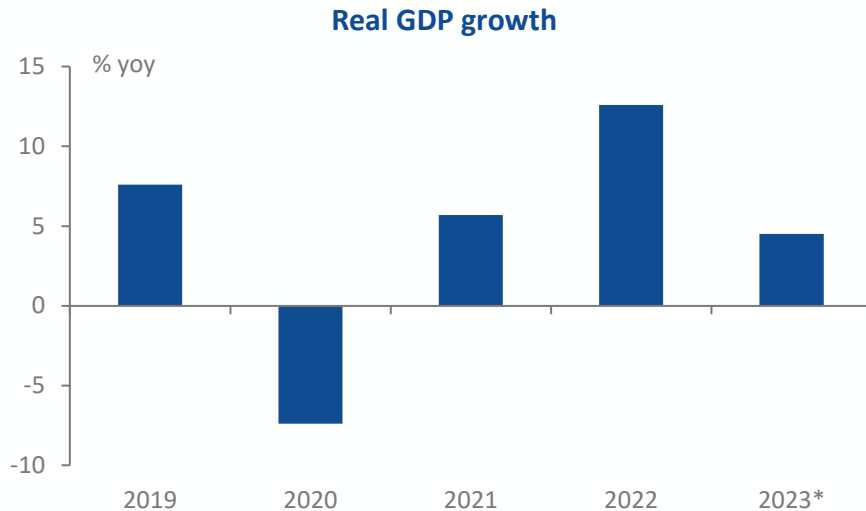
RUS 33% | EU 20% | GEO 8% | CHN 8% | Others 34%



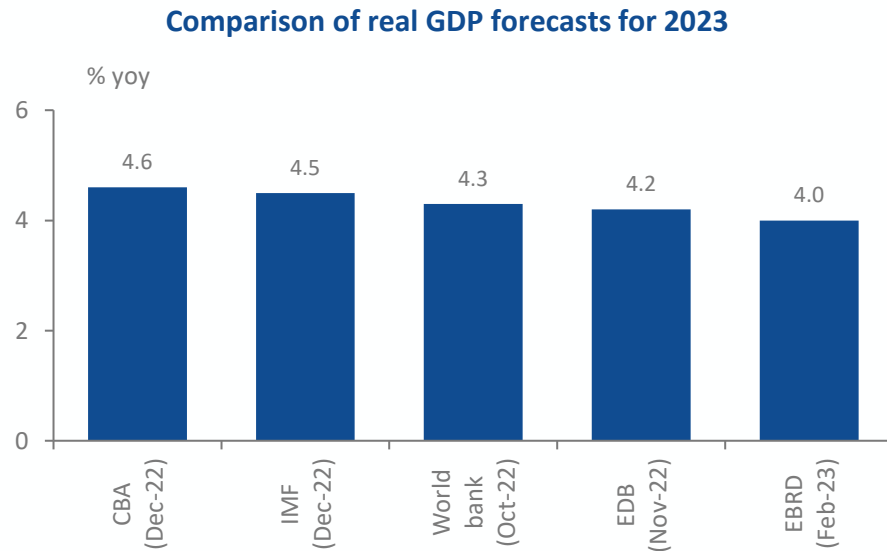
- Machines
- Mineral products
- Vehicles
- Precious metals
- Non-precious metals
- Chemicals
- Foodstuffs
- Vegetable products
- Textiles
- Plastic
- Other

Source: Armstat, data for 2022, Note: merchandise trade

Economic growth



Source: IMF, *estimate/forecast



Source: respective institutions

2022

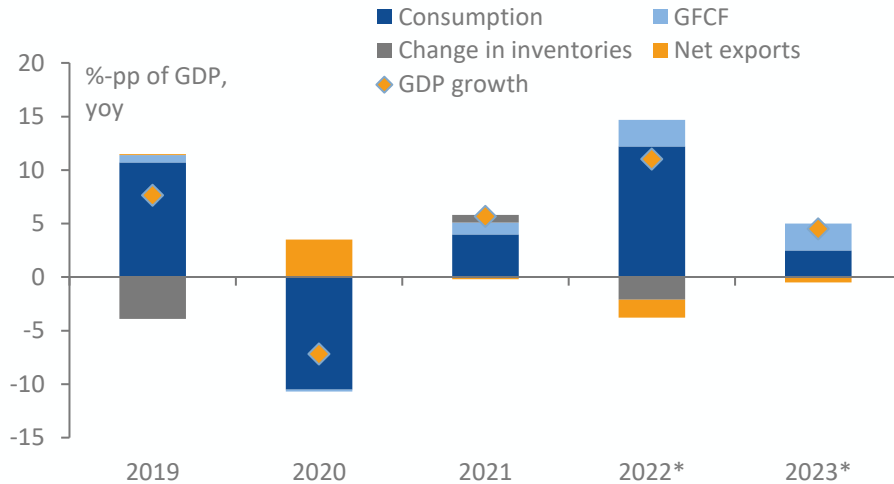
- » Very strong economic growth of 12.6%
- » Main driver: relocation from RUS to ARM
 - Stock of migrants estimated at approx. 55,000 people
 - 1.8% of the ARM population
 - Strong domestic consumption, good performance of the services sector and significant exports of services

2023

- » Slowdown of growth expected
 - 4.5% yoy forecast by IMF
- » Much will depend on the situation in RUS, but also regional developments
 - Sudden outflow of capital and overall reversal of migration trend possible
- Strong growth momentum likely to gradually weaken in 2023

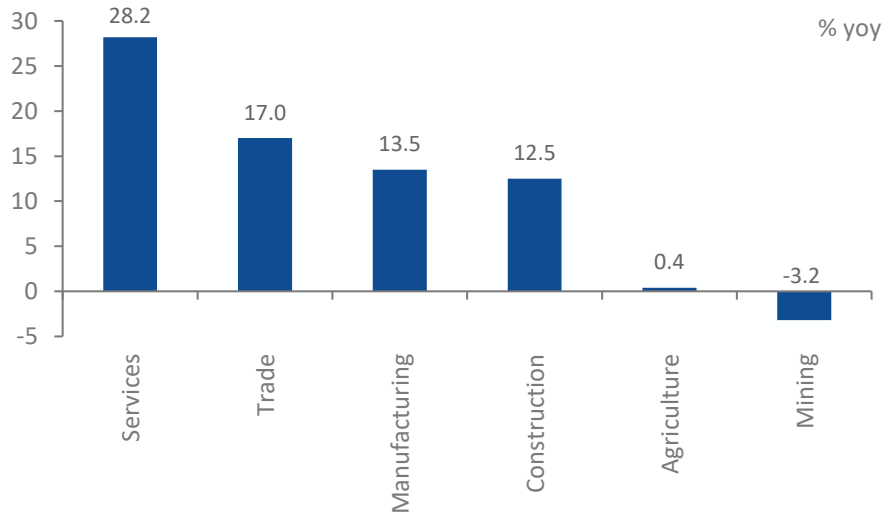
GDP: demand and supply

Contribution to real GDP growth



Source: IMF, *estimate/forecast

Sectoral dynamics



Source: Armstat; data for 2022

Demand-side dynamics

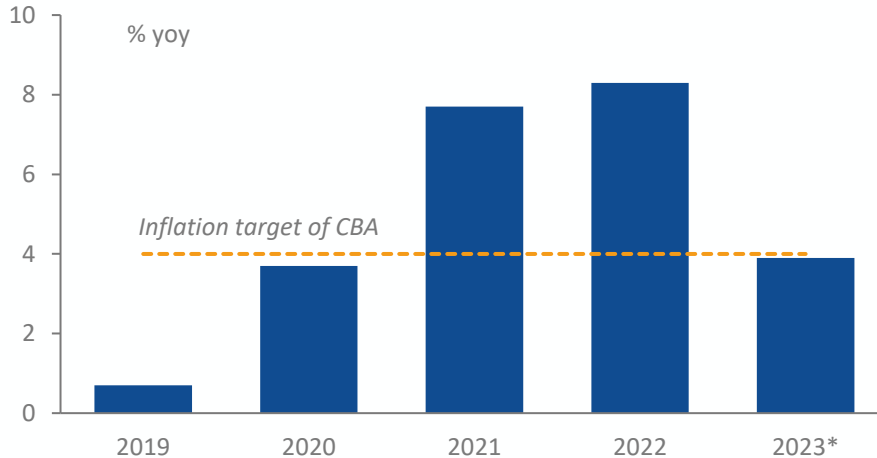
- » 2022: consumption boosted growth; positive contribution of investments, but negative net exports
- » 2023: slowdown of consumption; investment activity likely to maintain a similar level

Supply-side dynamics (2022)

- » Influx of people from RUS continues to be a pillar of growth
 - Services: +28.2% yoy
 - Trade: +17.0% yoy
 - Construction: +12.5% yoy
- » Strong manufacturing (+13.5% yoy), especially construction materials
- » But: stagnating agricultural sector and no recovery of mining
 - Mines owned by RUS stakeholders face problems due to sanctions
- High domestic demand support broad-ranged growth

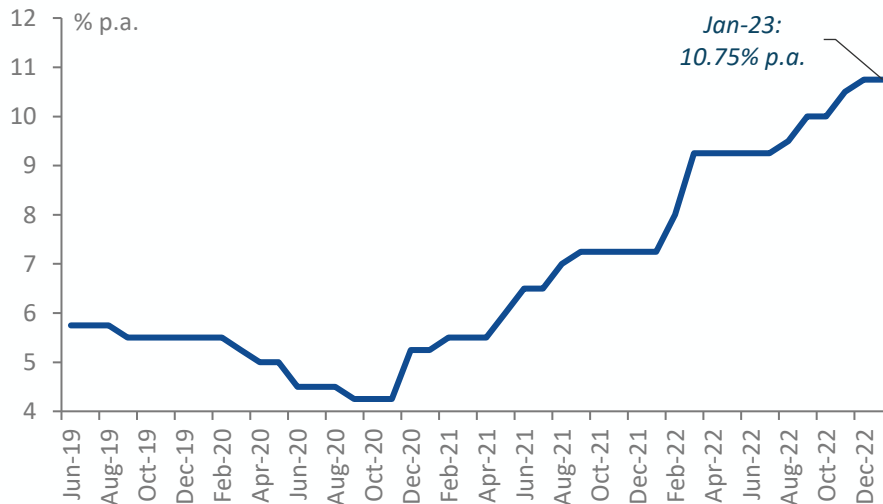
Inflation and monetary policy

Inflation rate



Source: CBA, *estimate/Forecast; Note: end of period

Policy rate of CBA



Source: CBA; Note: eop

Inflation

- » 2022: 8.3% yoy; inflationary pressure from external and domestic factors
 - High global food prices
 - Strong economic activity and demand
- » 2023: 3.9% yoy expected; return to the inflation target likely
 - Jan-23: further slowdown to 8.1% yoy

Monetary policy

- » Tight monetary policy stance in response to inflationary environment
 - Jan-23: policy rate at 10.75% p.a.; 6 hikes in 2022
- » Gradual easing might become possible as economic activity calms down
- » Decisive monetary policy keeps inflation under control
- » Return to target expected in 2023

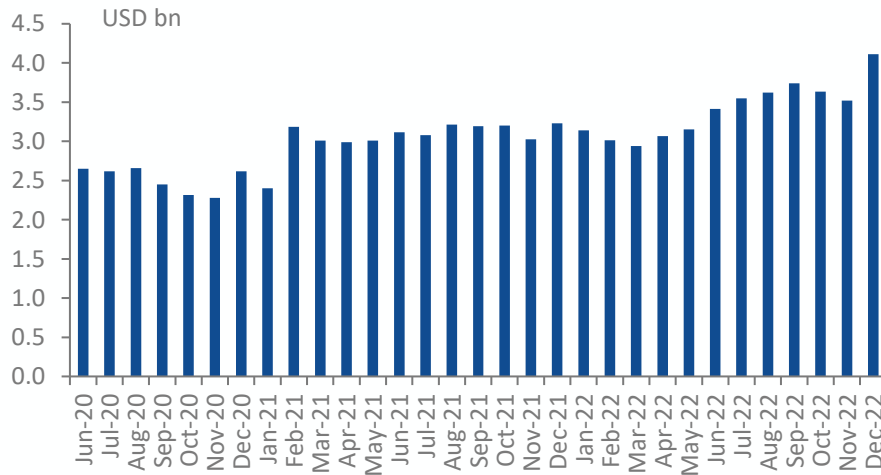
Exchange rate and currency reserves

Exchange rate



Source: CBA, period average

International currency reserves



Source: CBA

Exchange rate vis-à-vis US dollar

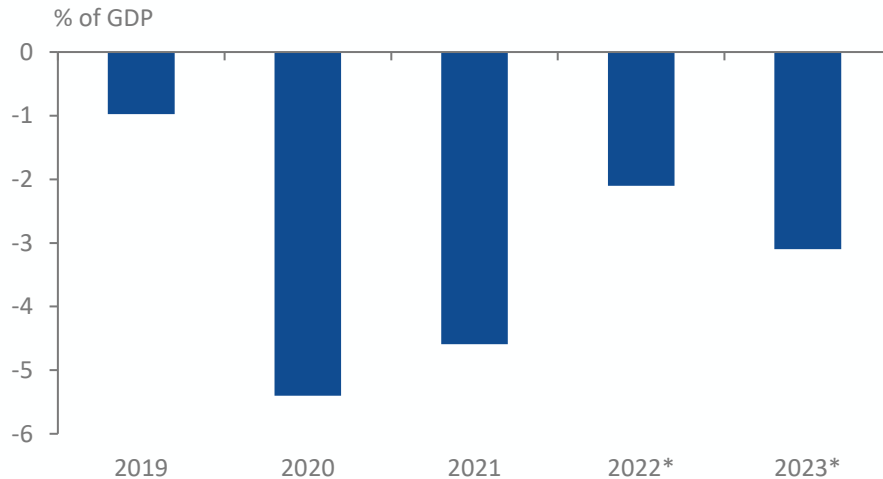
- » H1 2022: appreciation of 15.7%
- » H2 2022: only slight appreciation (3.7%)
- » Effect on economy
 - On the one side: problems for some export-oriented sectors (e.g. IT)
 - On the other side: key contribution to keep inflation under control
 - All in all: limited negative effect
- » Appreciation to a large extent linked to the influx of people from RUS
 - Higher service exports and personal transfers; strong tourism revenues

International currency reserves

- » FX reserves increased significantly
 - Dec-22: USD 4.1 bn; significant FX purchases by the CBA
 - Contributed to limiting appreciation
- » Rapid appreciation in H1 2022, followed by stabilisation in H2 2022

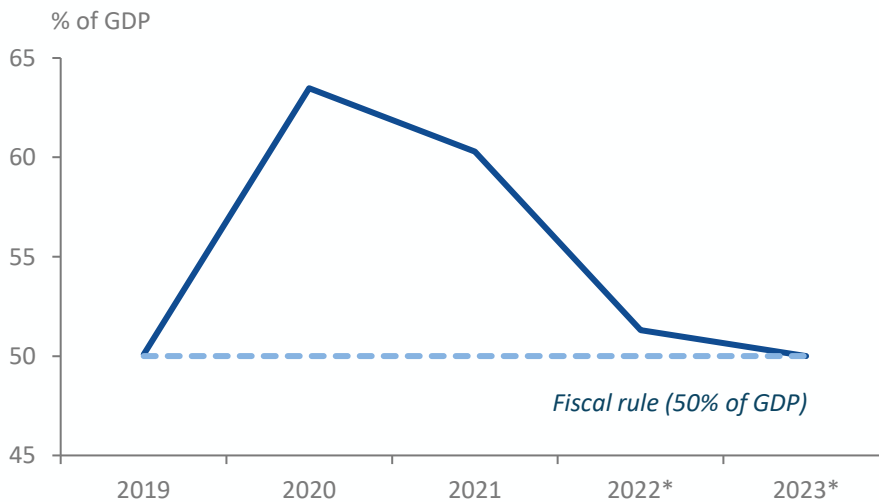
Public finances

Budget balance



Source: MoF, *estimate/forecast

Public debt (central government)



Fiscal rule (50% of GDP)

Source: IMF, *estimate/forecast

Budget

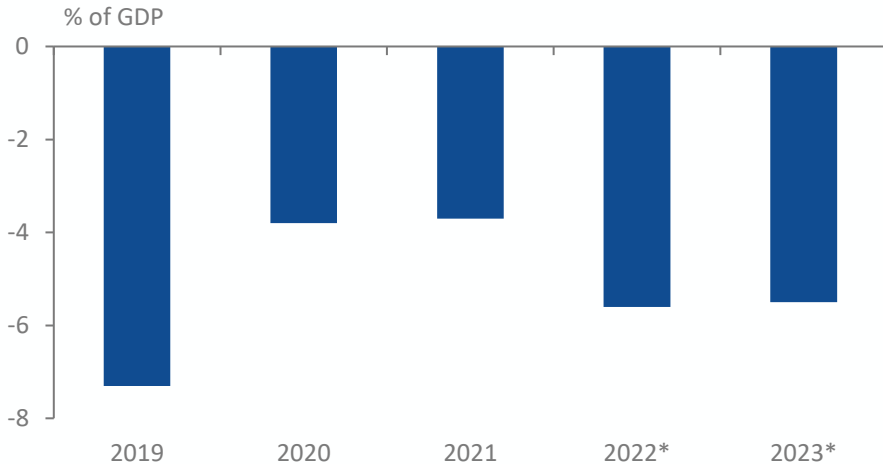
- » 2022: significant reduction
 - Deficit of 2.1% of GDP originally planned
 - But: strong economic situation allowed for a surplus over 9M2022
- » 2023: deficit widening to 3.1% of GDP
 - Increased capital spending and infrastructure development budgeted
 - Improvement of fiscal buffers planned to increase external shocks resilience

Public debt

- » End 2022: strong decline to 51.3% of GDP estimated (IMF)
 - High economic growth, good fiscal situation and significant appreciation
- » 2023: further reduction to 50% of GDP; thus, inside fiscal rule threshold again
- Significant improvement of fiscal conditions in 2022/2023

Current account and FDI

Current account

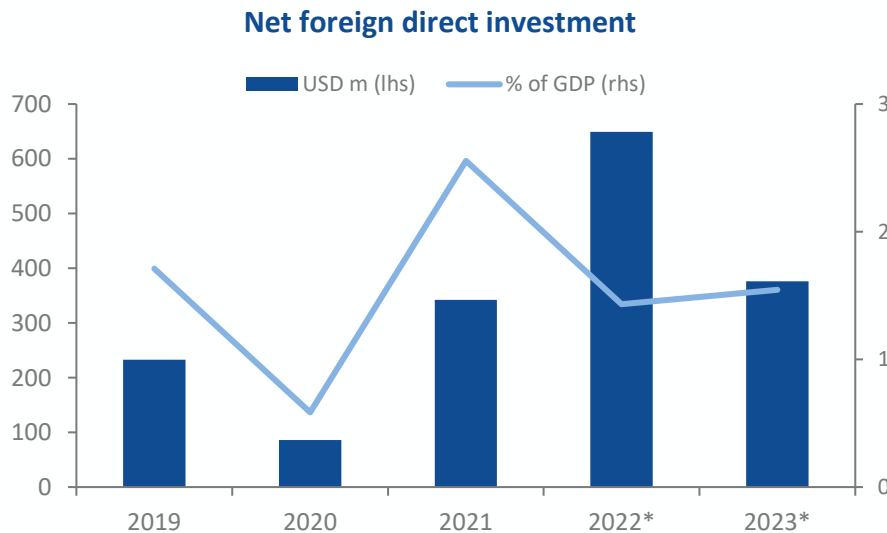


Source: IMF, *estimate/forecast

Current account

- » 2022: increase of current account deficit to around 5.6% of GDP
 - Widening of merchandise trade deficit
 - Somewhat offset by strong personal transfers, tourism and service exports due to influx of people from RUS
- » 2023: deficit expected to remain at a similar level

FDI

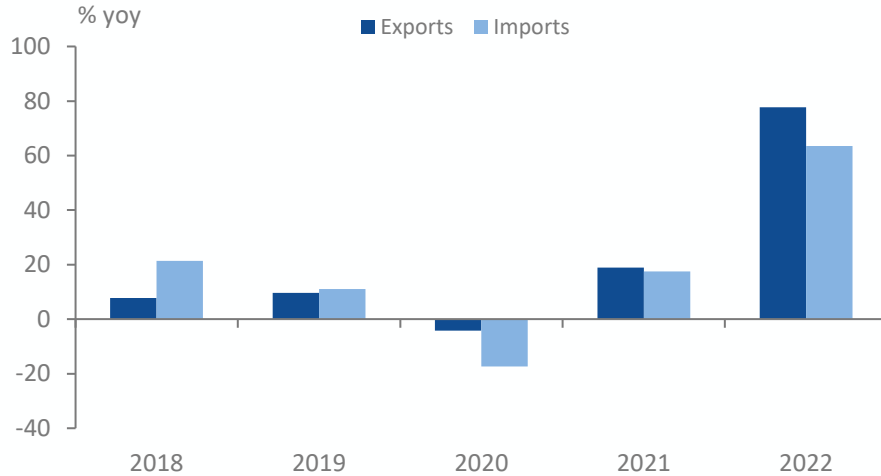


Source: IMF, *estimate/forecast

- » 2022: strong increase in nominal terms, but decrease as share of GDP
- » 2023: reduction in nominal terms expected as external factors fade out
- Strong growth and appreciation fueled imports, leading to a larger CA deficit

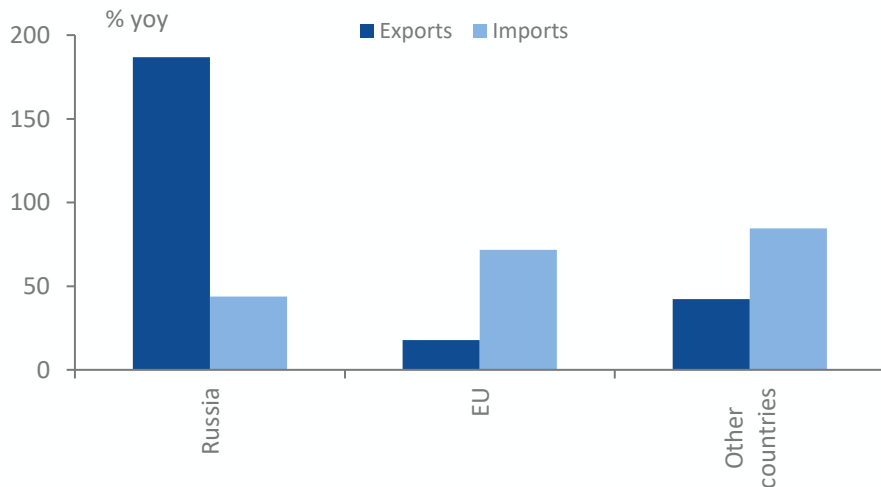
Trade in goods

Foreign trade in goods



Source: Armstat

Trade dynamics by countries



Source: Armstat, data for 2022

Exports

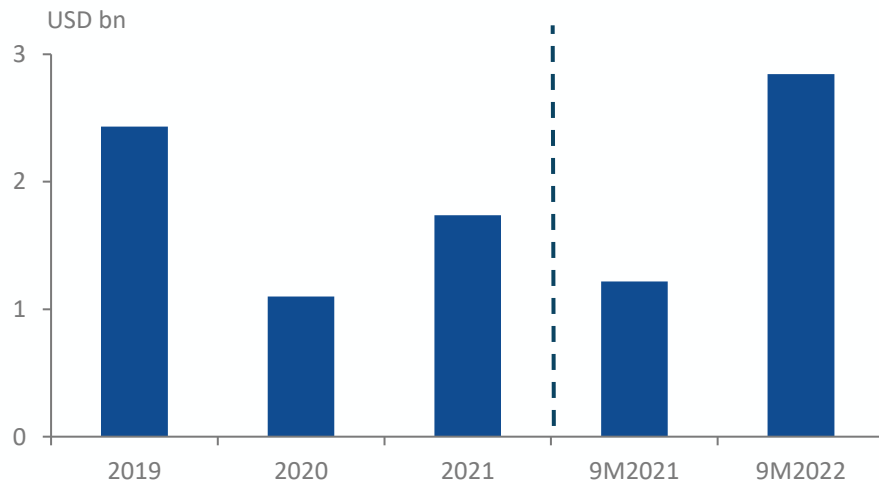
- » 2022: +77.7% yoy; very strong growth
- » Unnaturally high growth of exports for some goods
 - Machinery and equipment: +1,126% yoy
 - Vehicles: +731% yoy
 - Main reason: re-export of goods to RUS
- » As a result, share of exports to RUS grew from 27% (2021) to 45% (2022)
 - Increasing exposure to RUS economy

Imports

- » 2022: +63.5% yoy, in line with high economic growth and appreciation
- » Imports of machinery and vehicles increased significantly
 - Imports mainly from EU, Georgia and Arabic countries
- Very strong performance of external trade for different reasons

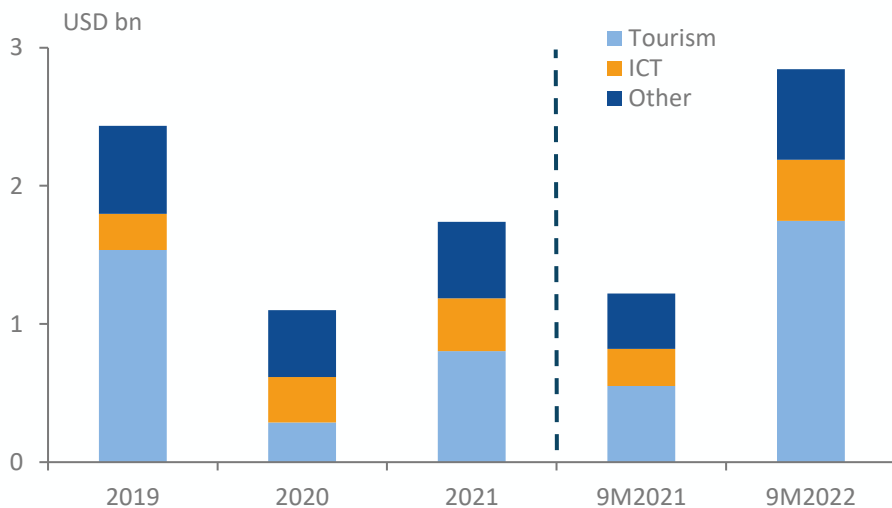
Trade in services: exports

Exports of services



Source: CBA

Exports dynamics by service category



Source: CBA

Exports of services

- » 9M2022: strong increase by 133.4% yoy
- » Main reason: strong influx of export-oriented migrants in the ICT sector, as well as tourists from RUS

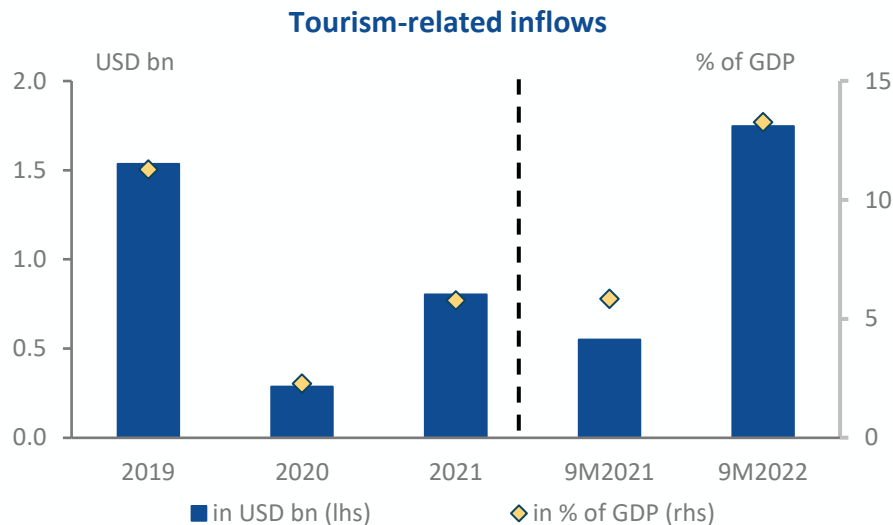
Tourism

- » 9M2022: +217.4% yoy
- » Tourism revenues in 9M2022 above 12M2019
- » Main driver of service exports

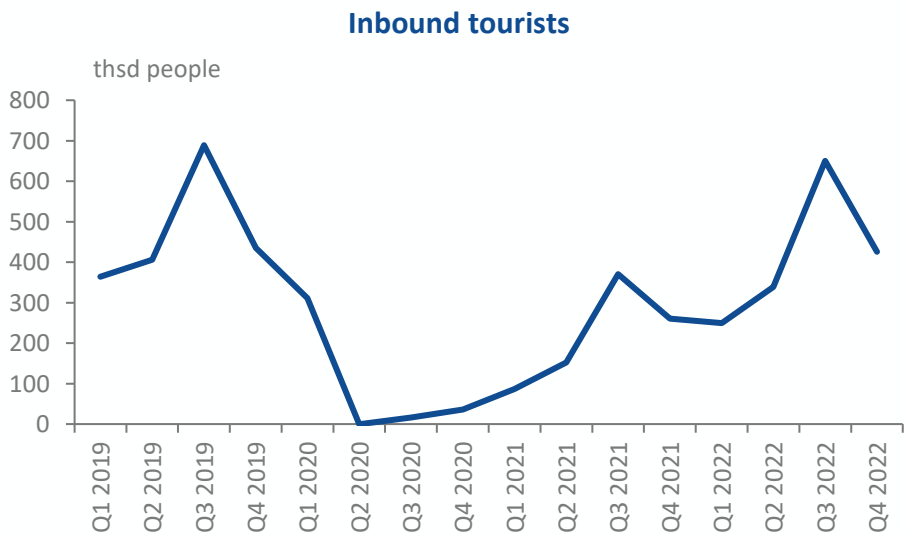
ICT sector

- » 9M2022: +63.9%
- » Not as pronounced as tourism, but also on its way to hit a record high
- » Overall opportunity to further develop the Armenian IT sector
- » Strong service exports one of the main pillars of economic growth in 2022

Tourism-related inflows



Source: CBA



Source: Armstat

Economic importance of tourism

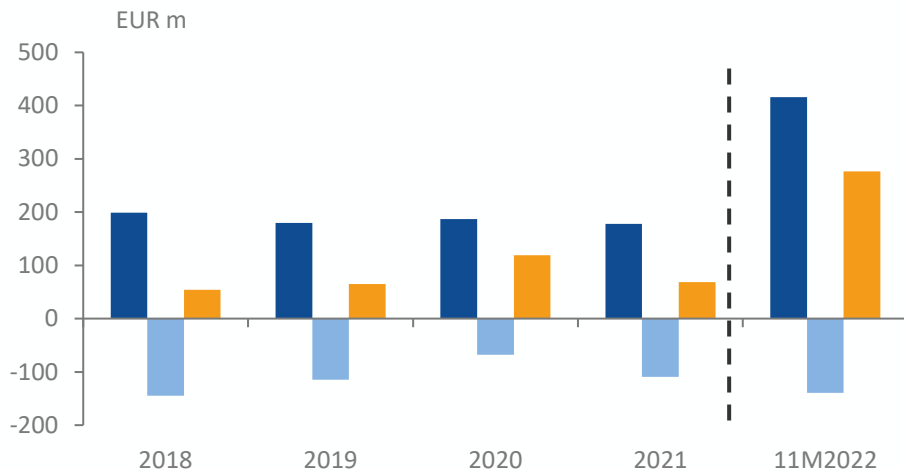
- » Tourism in ARM is a key factor for exports and GDP
- » 2019: tourism-related inflows amounted to USD 1.5 bn (11.3% of GDP)
- » 2020/2021: sharp drop during the pandemic

2022

- » 9M2022: inflows of USD 1.7 bn or 13.3% of GDP; already above 2019 level
 - However, overall number of inbound tourists still below 2019
- » Influx of tourists from RUS significantly contributed to growth
- » Further acceleration in Q4 possible, as mobilisation in RUS triggered a new wave of migration
- » Very strong performance of tourism, partly due to hike in Russian tourists

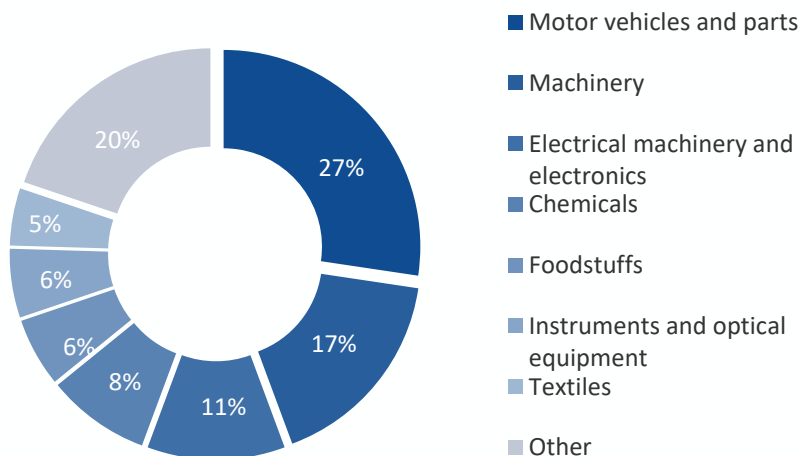
Bilateral trade between Armenia and Germany

German trade with Armenia



Source: Destatis

German Exports to Armenia



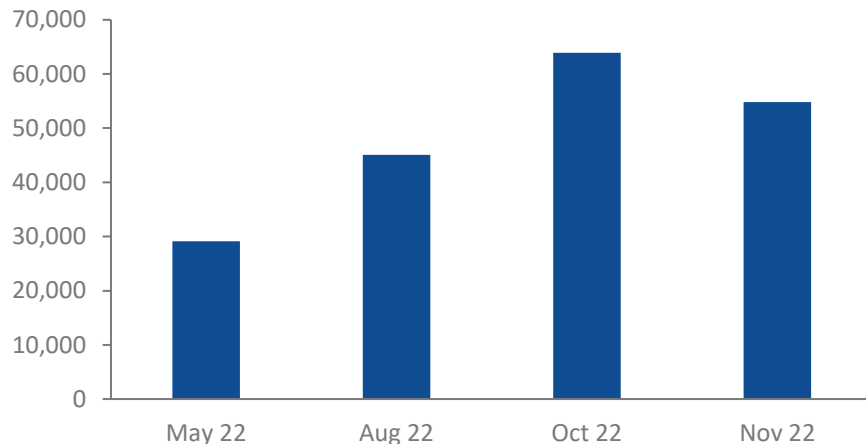
Source: Destatis; data for 11M2022

11M2022

- » German exports: EUR 416 m; +169% yoy
- » German imports: EUR 139 m; +37% yoy
- » Trade balance: EUR 277 m
- » Significant change in exports structure due strong growth of some goods
 - Electrical machinery: +1,041% yoy
 - Vehicles and parts: +603% yoy
 - Optical equipment: +411% yoy
 - Electronics: +386% yoy
- » Major reason behind this appears to be the re-export of goods to RUS
- » Strong development of bilateral trade, especially German exports to ARM
- » But: development needs to be treated with a grain of salt

Influx of people from Russia: new survey results

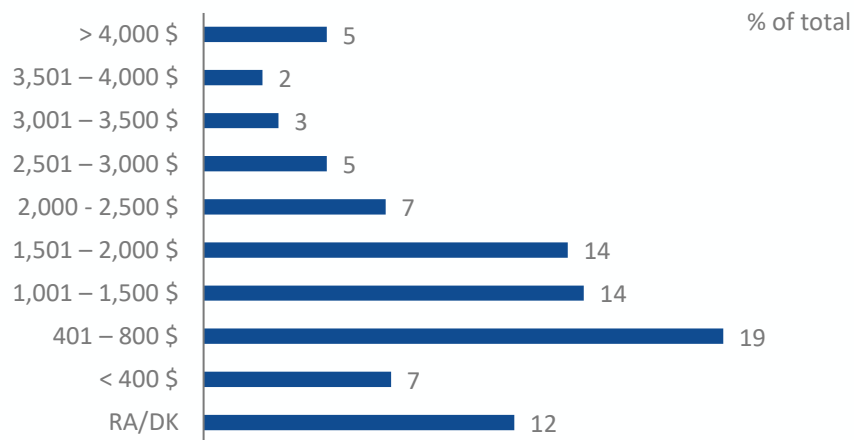
Stock of relocated people from RUS after start of the war



Sources: Armstat, GET calculations

Note: Stock of visitors calculated as the difference between incoming and outgoing visitors, excluding visitors in Jan-22 and Feb-22; end of month

Average monthly household expenditures



Source: GET/CRRRC survey; Note: N=500

Relocation of people from RUS

- » Strong inflow since the start of the war
- » Stock of relocated people from RUS estimated at 55,000 (Nov-22)
 - Significant spike after the announcement of mobilisation in Sep-22

Own survey: results

- » CRRRC conducted a survey on behalf of GET
- » 500 migrants interviewed; main results:
 - 57% came after the start of mobilisation
 - Mostly young and highly skilled professionals working in the IT sector
 - Average monthly income of USD 3,100; average expenditures of USD 1,600
 - 45% plan to stay longer than one year; a third does not plan to return to RUS
 - 16% have registered a business in ARM; 30% plan to open one
- Significant acceleration of influx after the start of mobilization in Sep-22
- Highly skilled people with high expenditures

Influx of people from Russia: economic relevance

Estimation of economic relevance

	2022*	2023**
Stock of relocated persons from RUS, average	40,940	54,740
Stock of relocated households, average ¹	20,470	27,370
Consumption of relocated households, USD m ²	372.2	532.7
<i>as % of GDP of corresponding year ³</i>	2.0%	2.6%

Sources: Armstat, GET calculations; * Estimated weighted period average; ** Based on most recently available data for Nov-22, assuming that stock remains constant
 (1) Assumption: two people per household (2) Assumption: average expenditures of USD 1,823 for Mar-Dec 2022 and USD 1,622 for 2023 based on current survey results;
 (3) GDP based on IMF estimates from Dec-22;

- » 2022: consumption expenditures of relocated people from RUS of approx. **USD 372 m or 2.0% of GDP**; key reason for very strong economic growth
- » 2023: consumption estimated at approx. **USD 533 m or 2.6% of GDP**

Policy implications

- » Relocation of people implies opportunities, but also risks
- » Opportunity: government should try to tap the potential of relocation of foreign IT companies and talent
- » Risk: should most relocated people decide to leave ARM in the short term, then the country will face a negative economic shock at a similar size as the current positive shock

Potential related to the inflow of IT talent

Employer of relocated IT professionals

Transnational corporation	33%
Russian company	24%
Local company	20%
Other foreign company	12%
Freelancer/self-employed	9%
Refuse to answer/don't know	2%

Source: CRRC / German Economic Team

Opportunities to leverage the inflow of IT talent



Source: own display

Background

- » Substantial inflow of IT professionals from RUS – mainly in the context of company relocations
- » Promising potential to improve and promote Armenia's value proposition as IT location

Challenges

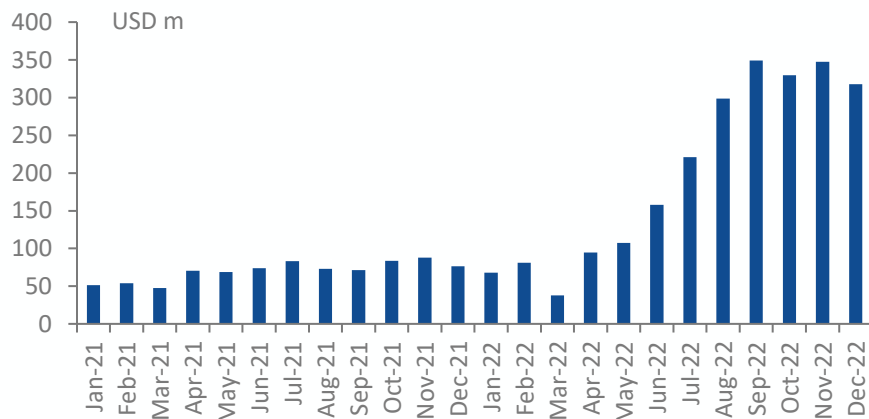
- » Generating spillovers requires closer integration of relocated companies / talent
- » Linkages between relocated and local IT community still rather weak

Recommendations

- » Comprehensive policy response in terms of geographic focus and policy tools
- » Initial focus on retaining and integrating IT companies and talent (e.g. with onboarding, matchmaking and aftercare services)
- » Complemented by development of specialised tech parks and collaborative training / educational programmes

Surging ARM exports to RUS: the role of re-exports

ARM goods export to RUS



Sources: Armstat

Results of estimation: ARM re-exports to RUS

	Mar- Nov 2021 (USD m)	Mar- Nov 2022 (USD m)	Change (USD m)	Change (%)	Cont. to growth, (%)
Domestic exports	525	821	296	56%	24%
Re-exports	92	1,015	923	1,002%	76%
Total exports	617	1,836	1,219	198%	

Sources: Armstat, GET estimates

Surge in ARM goods exports to RUS

- » 2022: exports to RUS reached USD 2,411 m
 - Exports to RUS tripled in 2022
 - Also structure of goods changed
 - Start of dynamic: spring 2022

Role of re-exports (Mar-Nov 2022)

- » Both ARM domestic exports and re-exports to RUS grew in 2022
- » But: re-exports grew much more pronounced, explaining most of the surge
 - Re-exports grew by USD 923 m and accounted for 76% of the surge
 - Main re-exported goods: telephone sets (21%) and vehicles (13%)
- » Plausibility check: increase of relevant imports by USD 1.1 bn
- » Thus: estimation looks very plausible
- » Origin: EU and USA, but also China as a manufacturing site of international brands
- The surge of ARM exports to RUS in 2022 was mainly determined by re-exports

About the German Economic Team

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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