

ECONOMIC MONITOR

ARMENIA

Overview

- » 2023: real GDP growth of 8.7% yoy; no significant reversal of positive effects related to external demand/influx of migrants from RUS
- » 2024: economic growth forecast in a range of 5.0% (IMF) to 6.1% yoy (CBA); integration of 100,000 refugees from Nagorno-Karabakh might be a growth driver
- » Inflation significantly declined over the course of 2023 and stood at -0.6 % at the end of the year; this development goes hand in hand with a gradual easing of the monetary policy stance
- » Armenian dram remained mostly stable against the US dollar; international reserves declined to USD 3.6 bn (Jan-24), import cover down to only 3.6 months
- » Higher budget deficit in 2023 (3.1% of GDP) and a further increase in 2024 expected (4.6%), reflecting higher refugee spending; public debt has increased slightly (2023: 48.1% of GDP)
- » Strong increase of goods exports (2023: +55% yoy) and imports (+40% yoy); external trade is still dominated by re-export business

Special issues

- » **Re-export of vehicles.** Strong surge of vehicle re-exports since the start of the war in UKR. Significant economic relevance, as value addition takes place in ARM
- » **Metals and mining.** Important economic sector for ARM. Mining Sector Strategy for 2035 aims to reach international environmental, social and governance standards

Basic indicators

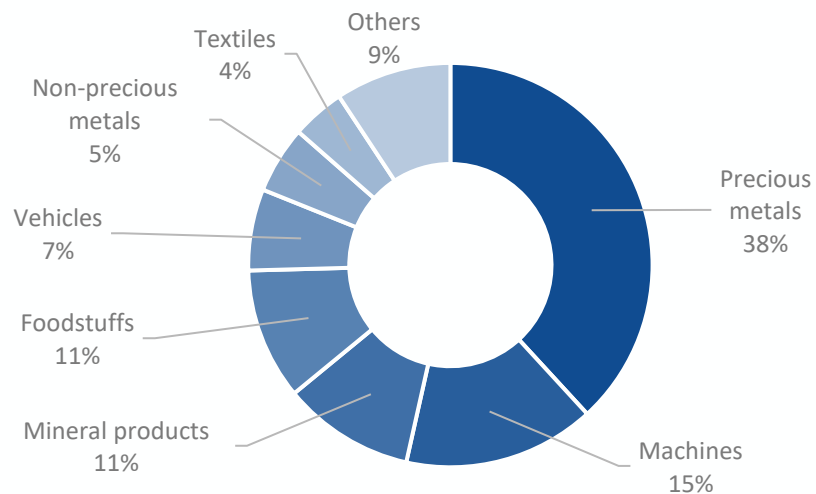
	Armenia	Azerbaijan	Georgia	Ukraine	Russia
GDP, USD bn	24.2	77.4	30.0	173.4	1,862.5
GDP/capita, USD	8,168	7,530	8,170	5,225	13,006
Population, m	3.0	10.3	3.7	33.2	143.2

Sources: Armstat, IMF WEO October 2023, estimates

Trade structure

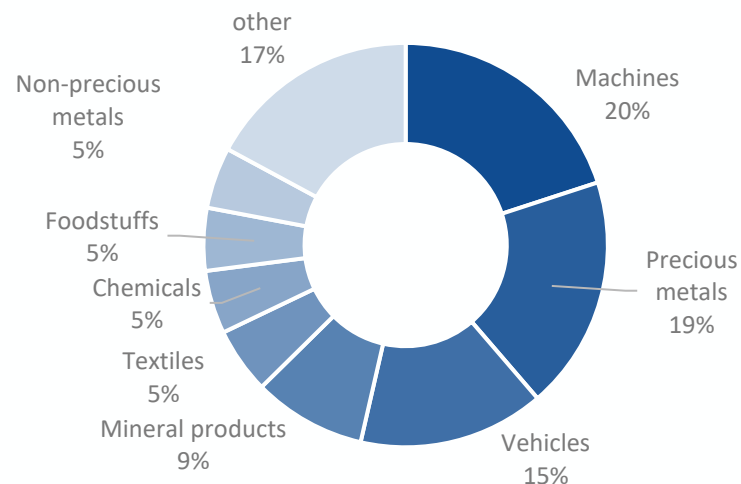
Exports

RUS 41% | UAE 26% | EU 8% | CHN 5% | Other 19%



Imports

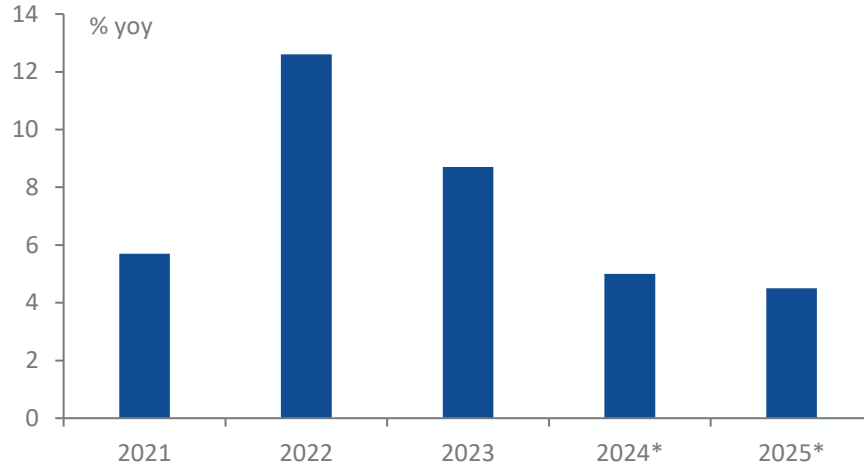
RUS 32% | EU 15% | CHN 14% | IRN 5% | Other 66%



Source: Armstat, data for 2023, Note: merchandise trade

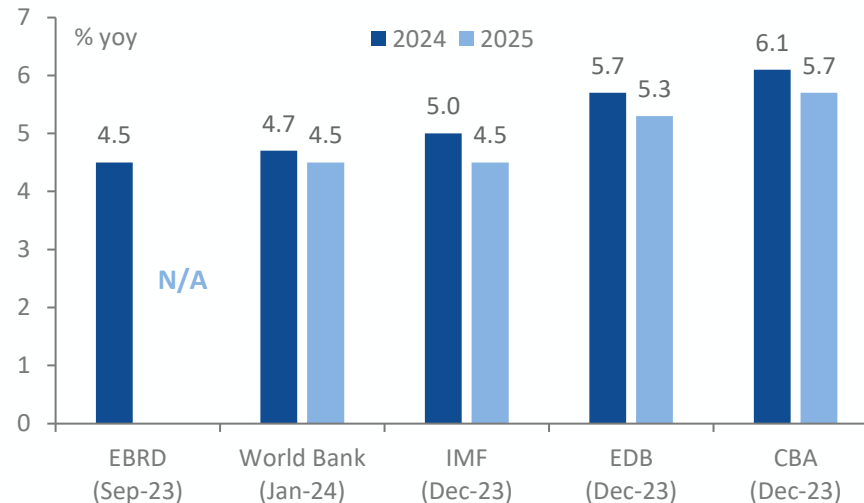
Economic growth

Real GDP growth



Source: IMF, CBA; *estimate/**forecast

Comparison of real GDP forecasts for Armenia



Source: respective institutions

2023

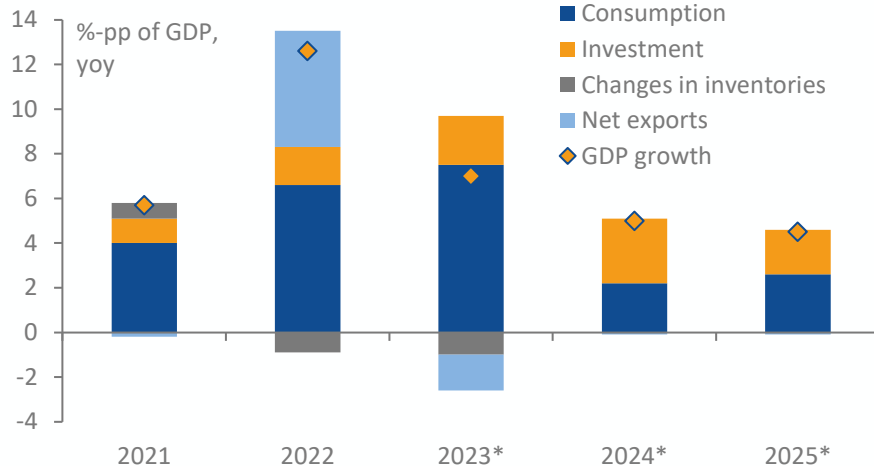
- » Real GDP at 8.7% yoy; second consecutive year with strong economic growth
 - Combined with strong dram, GDP/capita (in USD) grew by 74% (vs. 2021)
- » However: still a slowdown as positive impact of migration inflows from RUS is fading out
 - But: no significant reversal of the trend as most migrants remained in Armenia

2024/2025

- » Forecasts project further slowdown of real GDP growth in the coming years
 - 2024: 4.5% (EBRD) to 6.1% yoy (CBA)
 - 2025: 4.5% (WB/IMF) to 5.7% yoy (CBA)
- » Major challenges/uncertainty factors:
 - Integration of 100,000 refugees (ca. 3.3% of ARM population) from Nagorno-Karabakh; potential growth driver
 - Potential worsening of economic relations with RUS
- Growth to remain strong, but with an imminent slowdown throughout 2024

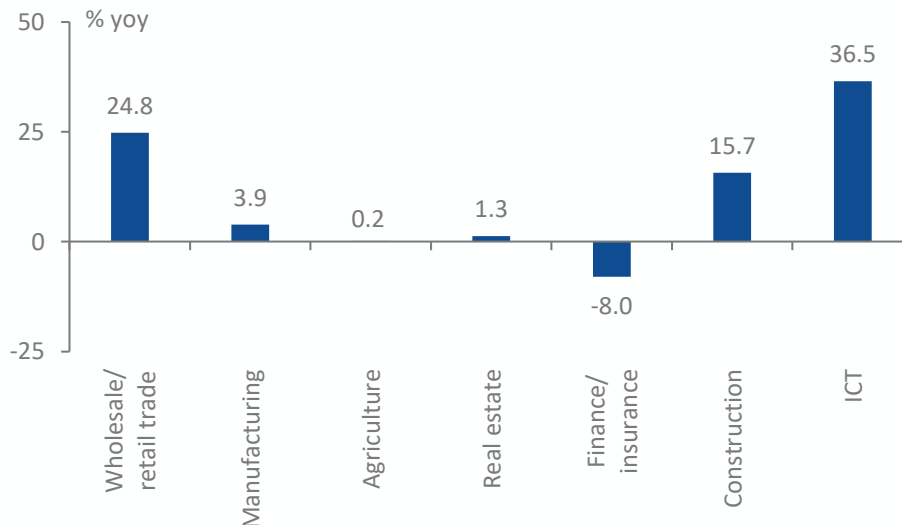
GDP: demand and supply

Contribution to real GDP growth



Source: IMF, *estimate/forecast

Sectoral dynamics (2023)



Source: Armstat; Note: sorted from left to right by share in GDP in 2023 in descending order

Demand-side dynamics

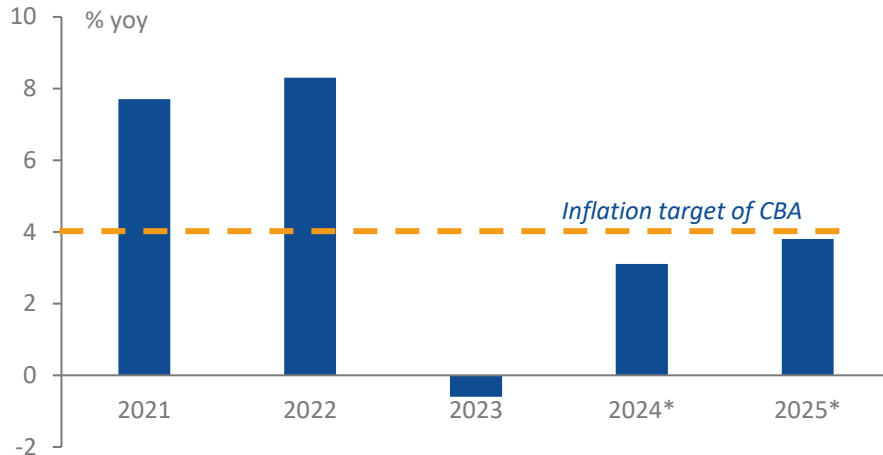
- » 2023: consumption was the main growth driver; (public) investment also grew
- » 2024/2025: weaker contribution by consumption as migration effect fades out; (public) investment to remain strong

Supply-side dynamics

- » Positive migration /external demand shock continued to boost growth in related sectors
 - ICT: +36.5% yoy
 - Trade: +24.8% yoy
 - Construction: +15.7% yoy
- » Performance of manufacturing was rather low in direct comparison (+3.9% yoy); agriculture also remains weak (+0.2%)
- » Shrinkage in the finance sector (-8.0% yoy) as activity returns to normal
- Positive migration shock continued to boost consumption and sectoral growth
- Slowdown to be expected in 2024/2025

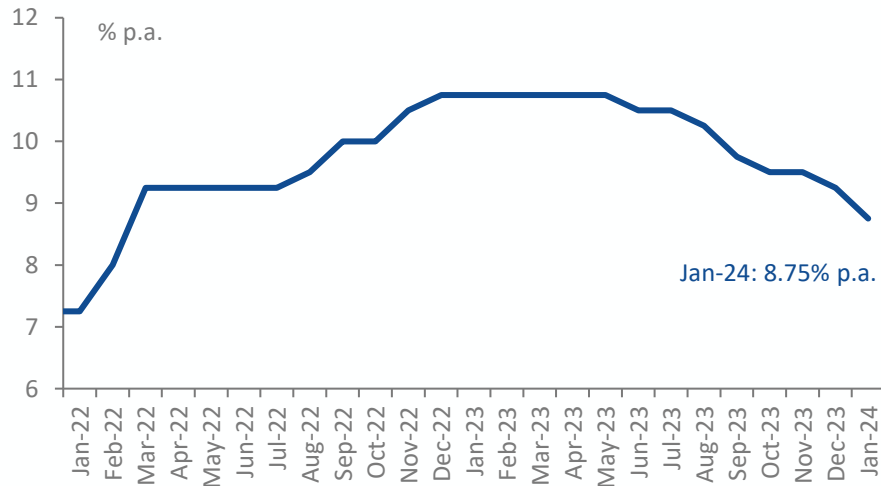
Inflation and monetary policy

Inflation rate



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

Policy rate of CBA



Source: CBA; Note: eop

Inflation

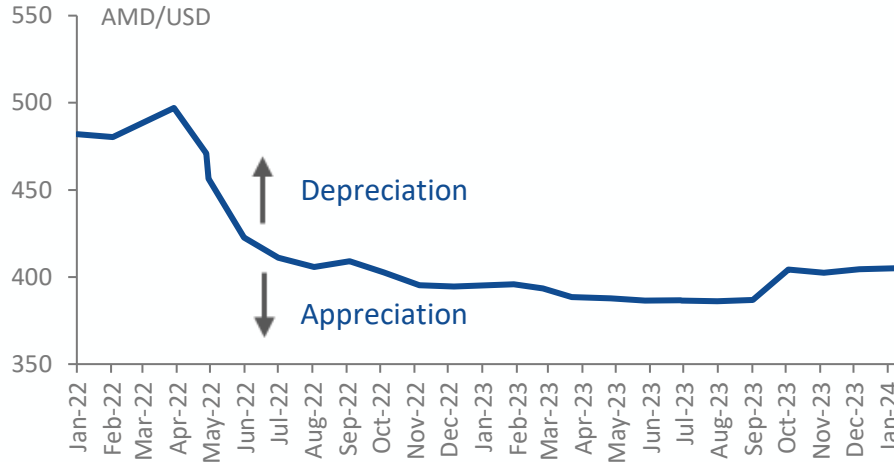
- » 2023: -0.6% yoy; rapid decline throughout the year, below CBA target
 - Main reasons: strong dram and decreasing food (especially imported) and fuel prices
- » 2024: 3.1% yoy; gradual rebound towards the CBA target is expected

Monetary policy

- » Tight monetary policy stance helped to ease the inflationary environment
 - Policy rate remained at 10.75% p.a. for most of 1H2023
- » Easing of policy stance as inflation declined
 - Jan-24: 8.75% p.a. (total cut of 200 bp since May-23)
 - CBA expects the inflationary environment to remain low
 - Thus: policy rate cuts are likely to continue in 2024
- » Low inflation allows for a gradual easing of the monetary policy stance

Exchange rate and currency reserves

Exchange rate



Source: CBA; monthly averages

Exchange rate

- » Exchange rate vis-à-vis the US dollar remained mostly stable in 2023
 - Strong service exports due to positive migration shock, but also higher imports
 - Oct-23: slight depreciation (4.3% mom) after the escalation of the situation in Nagorno-Karabakh
 - Remains stable since then at a level that is still far above early 2022

International currency reserves

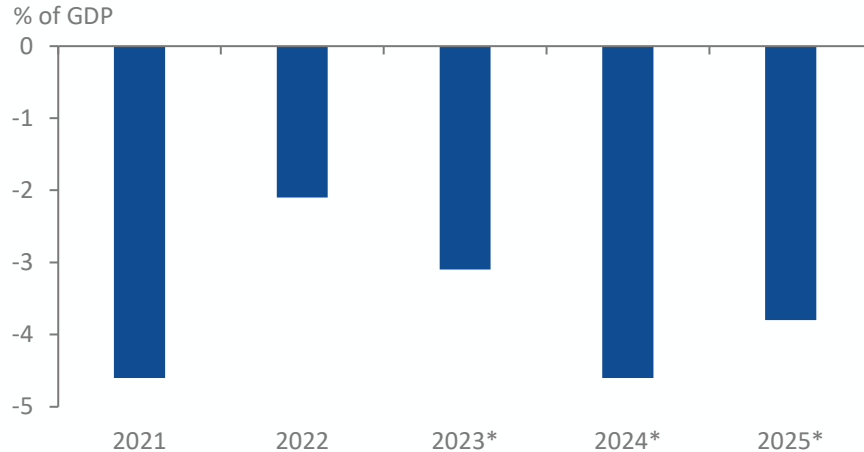


Source: CBA, end of period

- » 2023: build-up of reserves until Aug-23, but declining trend ever since
 - Jan-24: USD 3.6 bn; slightly below Jan-23 value of USD 3.7 bn
 - Import cover decreased to 3.6 months; now only slightly above the international standard of 3 months
- Exchange rate against the US dollar remained mostly stable
- Decreasing trend in international reserves

Public finances

Budget balance

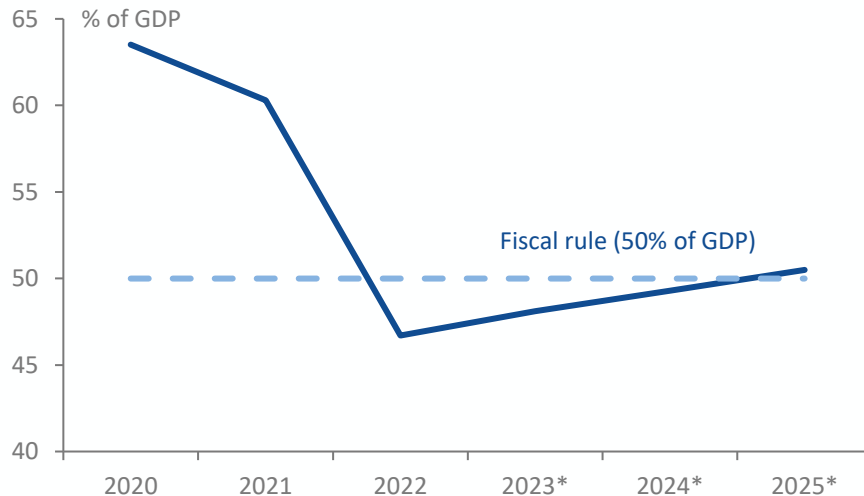


Source: MoF, IMF, *estimate/forecast

Budget balance

- » 2023: increase of deficit to 3.1% of GDP
 - First response/social assistance for refugees from Nagorno-Karabakh
 - Nearly full execution of domestic capital expenditures; planned projects with foreign investment still under-executed
- » 2024: -4.6% of GDP
 - Increase of deficit planned to enable appropriate refugee support; around 1.5% of GDP allocated for this

Public debt (central government)



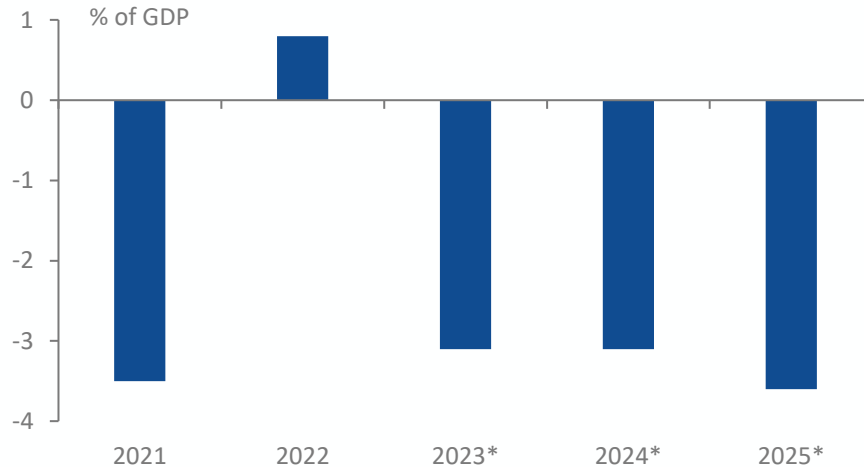
Source: MoF, IMF, *estimate/forecast

Public debt (central government)

- » 2023: estimated at 48.1% of GDP
 - Slight increase of public debt
 - Assumption of a part of the Nagorno-Karabakh debt (ca. USD 550 m)
 - USD 186.8 m buyback of 2025 Eurobond
- » 2024/2025: debt to further increase to 49.3% and 50.5% of GDP respectively
- Fiscal loosening due to expenditures related to Nagorno-Karabakh crisis expected

Current account and FDI

Current account balance

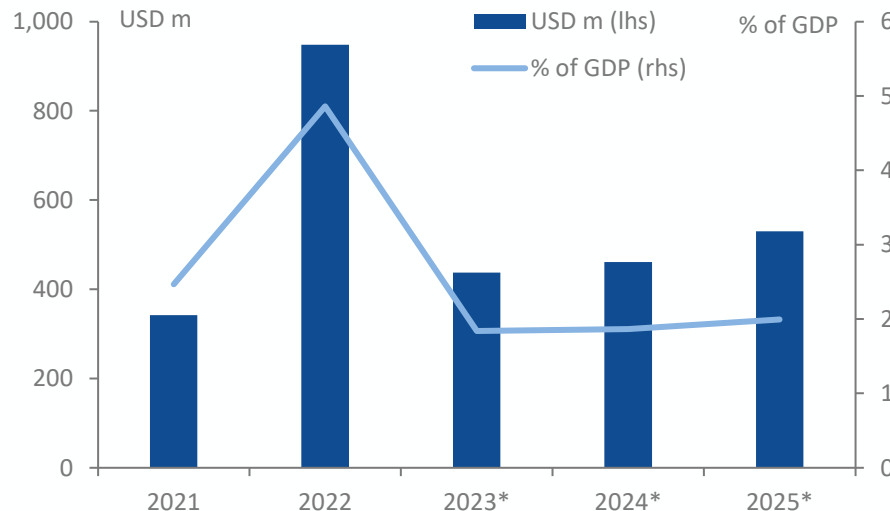


Source: IMF, *estimate/forecast

Current account

- » 2023: -3.1% of GDP estimated; return to deficit after a surplus in previous year
 - Strong service exports, as majority of RUS migrants remained in ARM
 - But: deficit in the trade in goods continuously widens
 - Also: decline of remittances
- » 2024: deficit is expected to remain at the same level as in previous year

Net foreign direct investment



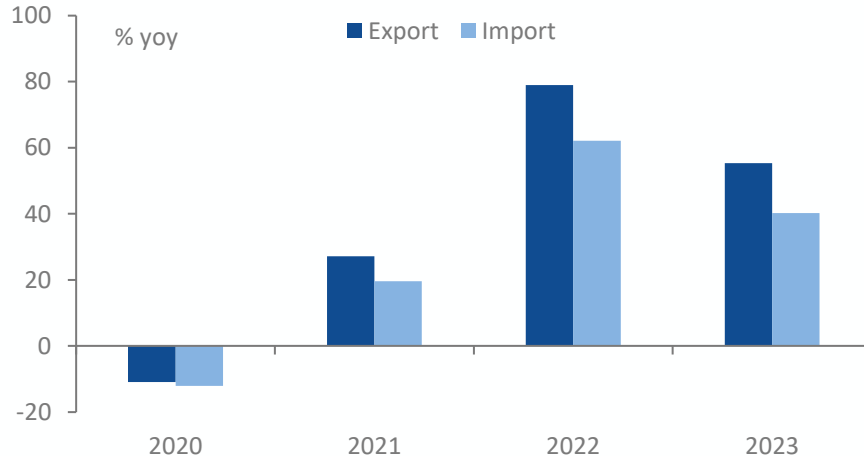
Source: IMF, *estimate/forecast

FDI

- » 2023: decrease to 1.8% of GDP
 - After the surge in the previous year, normalisation of flows expected
 - Close to the historical average of 1.5% of GDP
- » 2024: similar level as in the previous year expected
- External position normalised in 2023 and is expected to remain stable in 2024

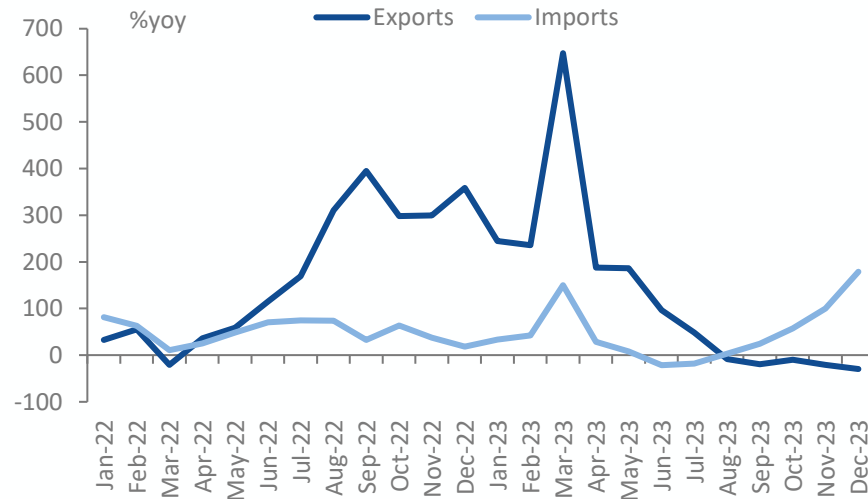
Trade in goods

Foreign trade in goods



Source: Armstat

ARM trade with RUS



Source: Armstat

Exports

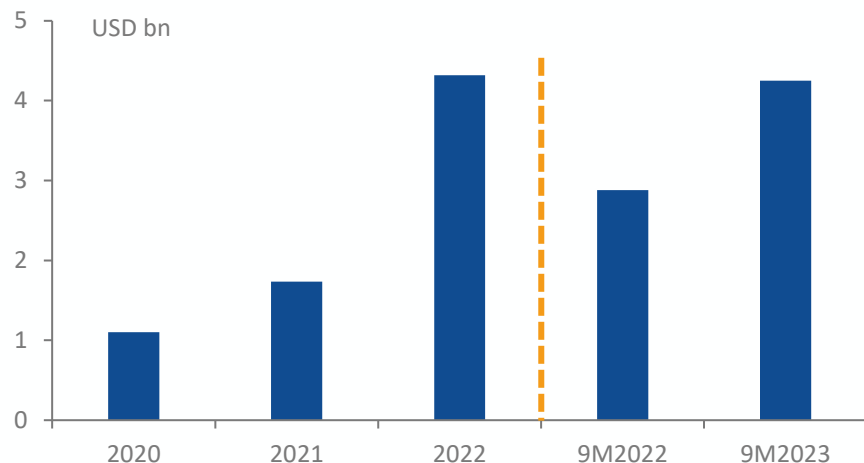
- » 2023: +55% yoy; strong growth driven by re-exports of goods
 - Machinery: + USD 572 m; +80% yoy
 - Vehicles : + USD 216 m; +65% yoy
- » RUS main destination: 41% share in 2023; (2022: 45%; -4 pp)
 - Growth rate significantly slowed down in H2 2023; new sanctions on car exports (11th EU sanctions package)

Imports

- » 2023: +40% yoy; mainly driven by imports connected to re-export business
 - Vehicles: + USD 874 m; +91% yoy
 - Machinery: + USD 731 m; +42% yoy
- » Imports from RUS grew strongly in Q4 2023
 - Mainly imports of gold and diamonds, which are being re-exported to UAE
 - Likely related to 12th sanctions package
- » External trade is still dominated by re-export business, with new dynamics arising

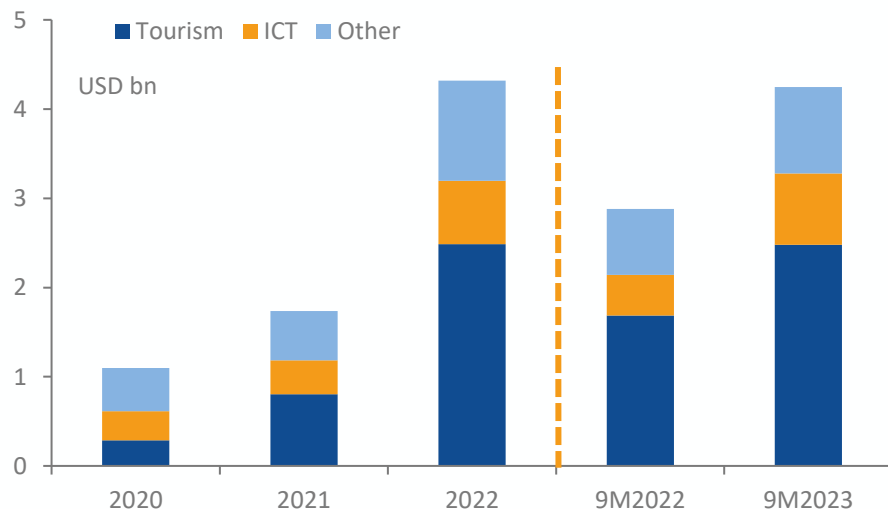
Trade in services: exports

Exports of services



Source: CBA

Exports dynamics by service category



Source: CBA

Exports of services

- » 9M2023: USD 4.2 bn, +48% yoy; slowdown of growth in Q3 2023
- » Positive: no significant reversal of the migration trend in 2023; most migrants stayed
- » As such: service exports continue to benefit from the influx of export-oriented migrants
- » However: growth rate will likely slow down

Tourism

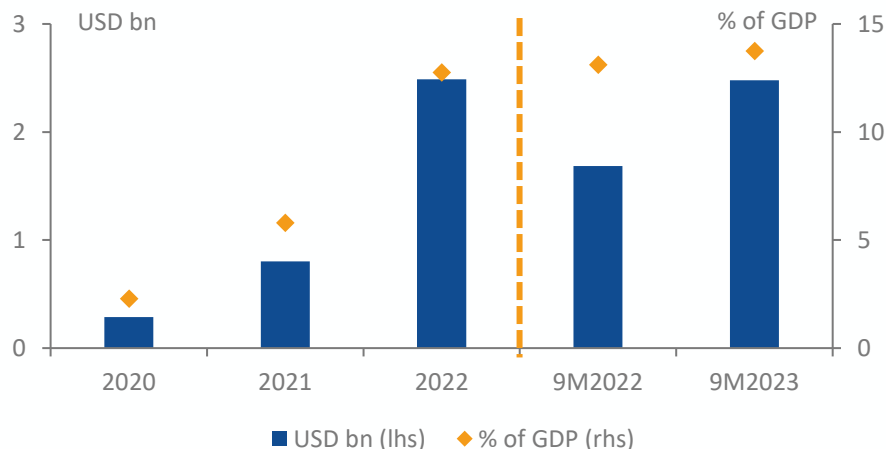
- » 9M2023: USD 2.5 bn; +47% yoy
- » Main driver of strong growth in service exports

ICT sector

- » 9M2023: USD 0.8 bn; +76% yoy
- » Overall: opportunity to further develop the Armenian IT sector
- Strong dynamic continued in 2023, but growth has already begun to slowdown

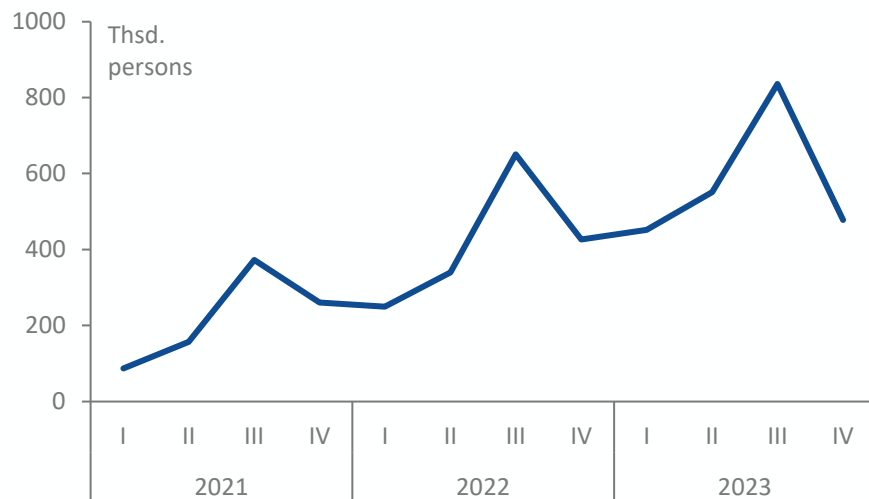
Trade in services: tourism

Tourism-related revenues



Source: CBA; Note: 2023 % of GDP refers to estimated value of the whole year

Inbound tourists



Source: Armstat

Economic importance of tourism

- » Tourism is a key source of income for the Armenian economy
- » 2022: strong post-pandemic recovery driven by influx of tourists from RUS (13.1% of GDP)

2023

- » 9M2023: 13.7% of GDP; tourism exports continue to be an important pillar of economic growth
 - In line with the GET study on RUS migrants, which pointed to more long-term plans of the migrants
- » Number of inbound tourists also grew significantly (2023: +39% yoy)
 - 2022: 1.7 m tourists
 - 2023: 2.3 m tourists
 - However: statistics might be distorted by the relocation of people from RUS
- » Further development will depend on the economic and political situation in RUS
- **Tourism-related revenues remain strong in 2023 as most RUS migrants remained**

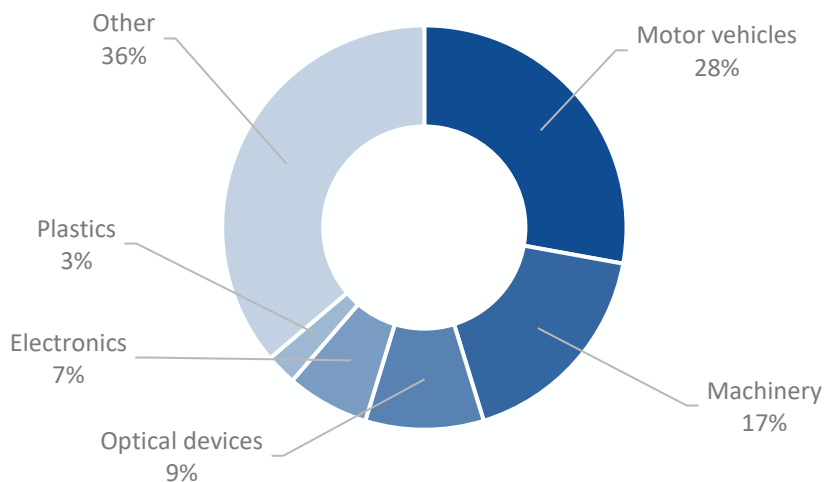
Bilateral trade between Armenia and Germany

German trade with Armenia



Source: Destatis

German exports to Armenia



Source: Destatis; data for 2023

2023

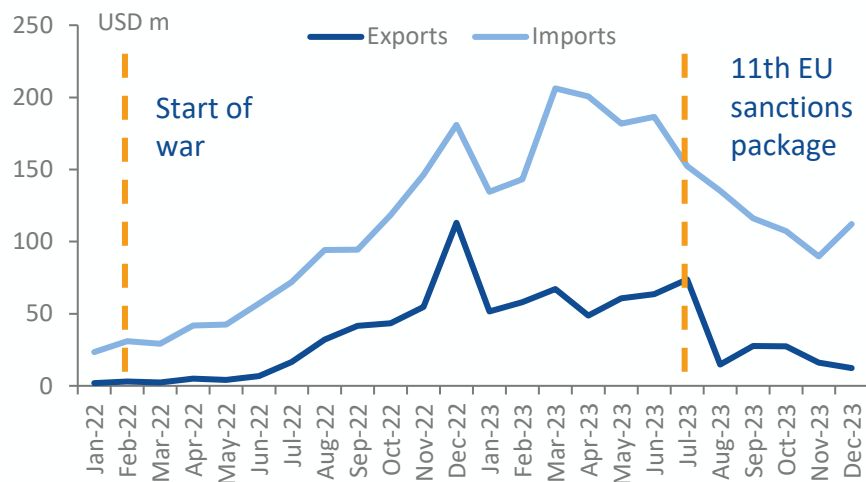
- » German exports: EUR 494 m; +3.5% yoy
- » German imports: EUR 173 m; +11.1% yoy
- » Trade balance: EUR 321 m
- » Growth momentum continues, but at a slower pace than in the previous year

Structure of exports

- » Structure of exports changed significantly since 2022 and remained similar in 2023
 - Among others: strong exports of motor vehicles and parts
- » Strong growth for some goods suspected to be related to Armenian re-exports
- » However: trade dynamics for some of these goods started to slow down
 - Motor vehicles: -0.3% yoy (vs 2022)
 - Machinery: -11.6% yoy
- Trade volume between Germany and Armenian continues to grow

Re-exports of vehicles

Armenian trade of vehicles and parts



Source: Armstat; Note: HS codes 8701-8716

Armenia's vehicle re-export value chain



Source: own display

Background

- » Since the start of the war in UKR: EU/US introduced sanctions that partly banned the exports of vehicles to RUS
- » Thus: RUS started to import Western cars through third countries (such as ARM)

Economic relevance for Armenia

- » Not only re-exports, but also value addition in Armenia (especially repairs)
- » GET analysed the economic relevance of the sector in more detail (see next slide)
- » Size of the sector is quite significant (around USD 550 m; ca. 3.7% of GDP in 8M2023)

Recent developments

- » Aug-23: significant decline of exports due to introduction of new EU sanctions
- » Moreover: RUS started to contain re-exports in favour of domestic production
- » Chinese producers also more active in RUS

Outlook

- » Size of ARM vehicle re-export business is likely to significantly decline in 2024

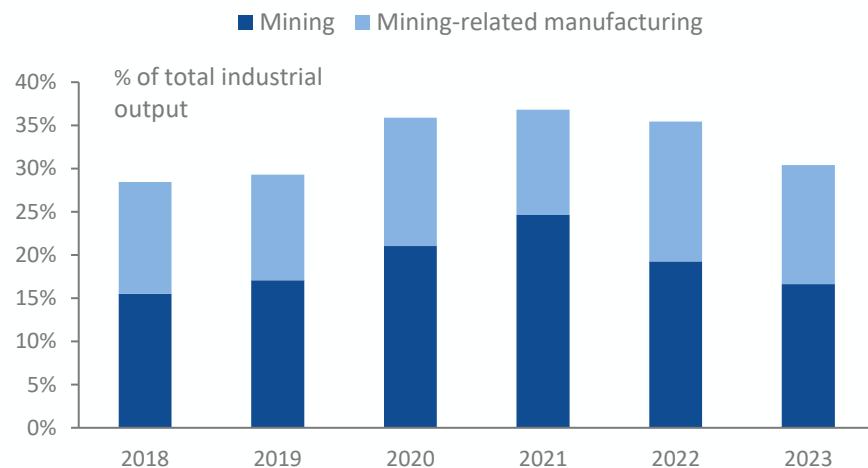
Re-exports of vehicles: economic relevance

Indicator	2022	8M2023	Comments
Number of enterprises	6,892 enterprises (ca. 7% of total non-financial enterprises)	7,313 enterprises (ca. 7% of total non-financial enterprises)	A significant number of enterprises are engaged in sector, but most of them are micro businesses.
Employment	11,388 employees (1.0% of total employment)	12,437 employees (1.0% of total employment)	Accordingly: sector not very relevant in terms of its share in total employment ...
Salary fund	USD 31.7 m (ca. 0.7% in the total salary fund)	USD 31.5 m (ca. 0.5% in the total salary fund)	... and even less relevant in terms of its contribution to the salary fund.
Turnover	USD 869 m	USD 1,235 m	However: the sector does generate a significant amount of turnover ...
Taxes	USD 183 m (ca. 4.1% of total tax revenues)	USD 254 m (ca. 7.0% of total tax revenues)	... and pays a significant amount of taxes. As micro-businesses in ARM do not pay turnover tax, most of the tax revenues come from VAT.
Estimation of the overall economic relevance	USD 520 m (ca. 2.7% of GDP)	USD 552 m (ca. 3.7% of GDP)	Overall, vehicle business is quite a relevant sector in terms of GDP contribution. However, it is not clear how much of it is accounted for in official statistics (around 50% might be not reflected in the GDP)

Source: own display

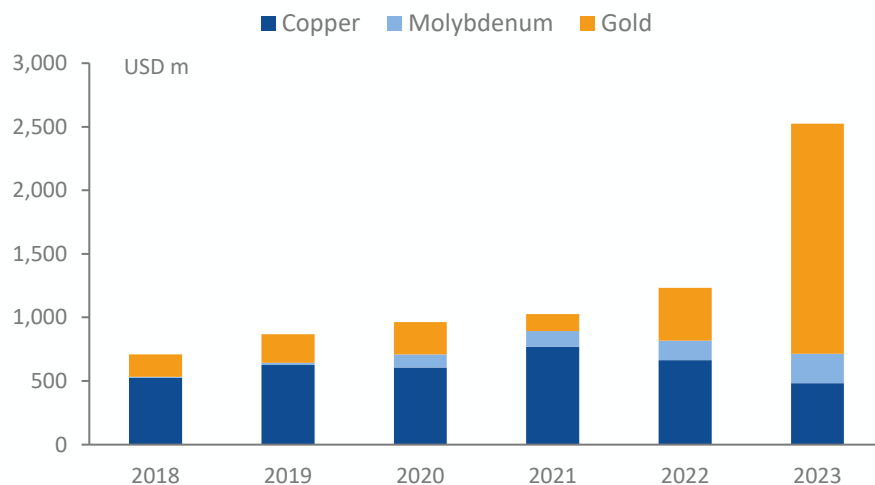
Metals and mining sector overview

Share of mining and mining-related manufacturing



Sources: Armstat; excluding non-metallic manufacturing

Armenia's exports of metals



Source: Armstat

Background

- » ARM production of minerals focuses on copper, molybdenum and gold
- » Sector is crucial for economy & government budget (industrial output, exports, taxes)

Current issues

- » Dependency on global market fluctuations and problems with RUS ownership of mines
- » Environmental and security-related issues
- » Temporary work stoppages

Sector vision and regulatory changes

- » Mining Strategy 2035 addresses six areas of current issues to reach international ESG standards
- » Abolishment of export duties for change in royalty regime

Potential

- » Increasing demand opens further capitalisation window
- Reforms in the mining sector pave the way for it to continue playing a central role in the economy

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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