

Issue 06 | November 2021

## Overview

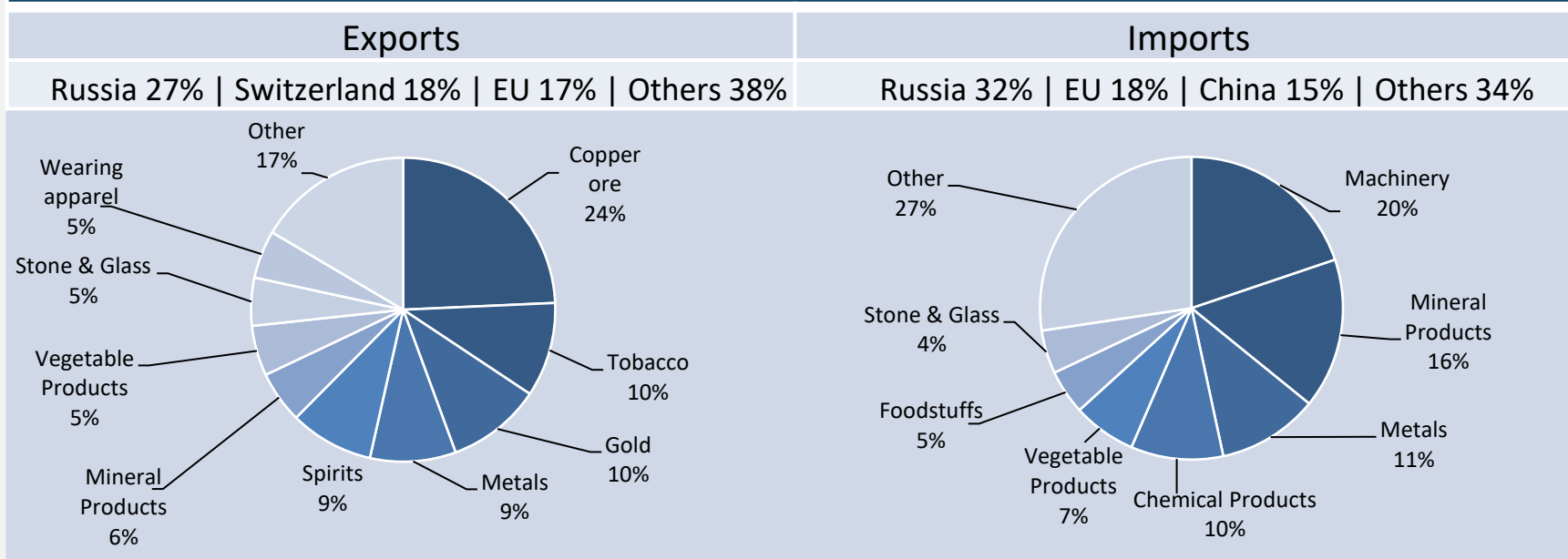
- Confidence has increased after clear outcome of parliamentary elections
- GDP to grow by 5.5% in 2021; significant recovery compared to 2020
- Drivers: higher remittances and increased political stability support consumption
- Budget deficit at 3.7% and public debt to remain stable at 63% of GDP in 2021; fiscal consolidation in 2022 likely
- Low current account deficit in 2020 and 2021
- Good performance of exports of goods on the back of high metal prices in 2021, but exports of services (esp. tourism inflows) remain weak
- Slow recovery of FDI after decline by more than half in 2020
- Issuance of USD 750 m Eurobond secures external sustainability for the time being
- Depreciation of Dram amid high uncertainty in Nov2020-Apr2021, followed by recent appreciation; Dram back to pre-crisis level
- Hikes in CBA's policy rate due to increased inflation and inflation expectations

# Basic indicators

	Armenia	Azerbaijan	Georgia	Ukraine	Russia
GDP, USD bn	12.6	42.6*	15.9	155.2	1,473.1
GDP/capita, USD	4,269	4,218*	4,278	3,709	10,037*
Population, m	3.0	10.1*	3.7	41.6	146.8*

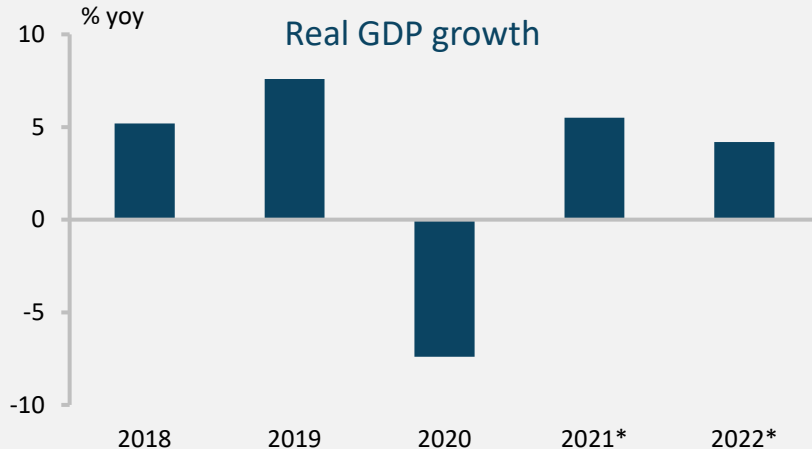
Sources: National statistical offices, IMF; 2020; Note: \*IMF estimates

## Trade structure



Source: Armstat; 2020; Note: trade in goods

# Economic growth



Source: IMF, \*GET estimation/forecast

## Regional comparison of real GDP growth (% yoy)

	2020	2021*	2022*
<b>Armenia</b>	<b>-7.4</b>	<b>5.5</b>	<b>4.2</b>
Azerbaijan	-4.3	2.3	1.7
Georgia	-6.2	7.7	5.8
Iran	1.5	2.5	2.1
Russia	-3.1	4.4	3.1
Turkey	1.8	6.0	3.2
Germany	-4.8	3.6	4.6
EU-27	-6.0	4.8	4.5

Source: GET, IMF, European Commission, \*forecast

## GDP forecast for 2021 and 2022

- 2021: 5.5% according to own forecast; significant recovery
- GDP rebound on the back of higher total consumption
- 2022: slowdown in GDP growth on the back of decreased government spending due to fiscal consolidation
- Downside risk: difficulties in tackling COVID pandemic and impact on confidence

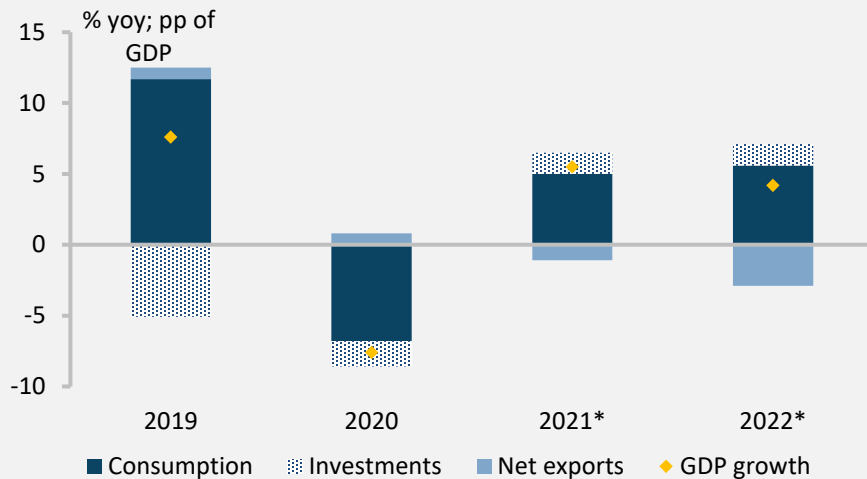
## Regional comparison

- Armenian growth rate in 2021 is comparable to other countries in the region

## ➤ **Significant GDP recovery in 2021**

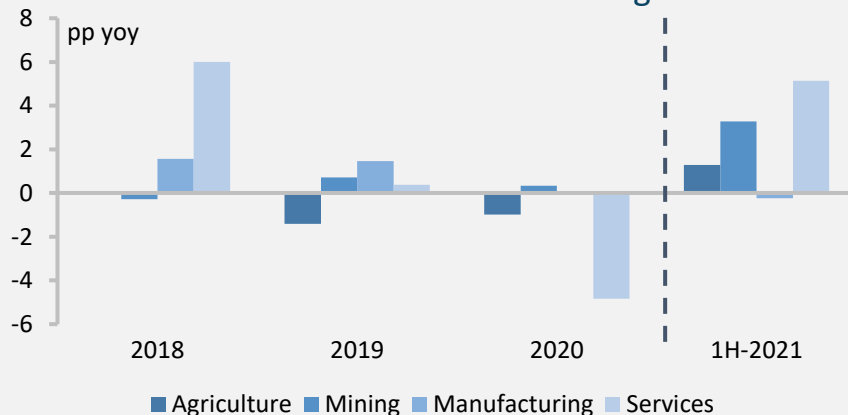
# GDP dynamics: demand and supply side

Contribution to economic growth (real)



Source: IMF, \*GET forecast

Sectoral contribution to economic growth



Source: Armstat, note: nominal GDP growth

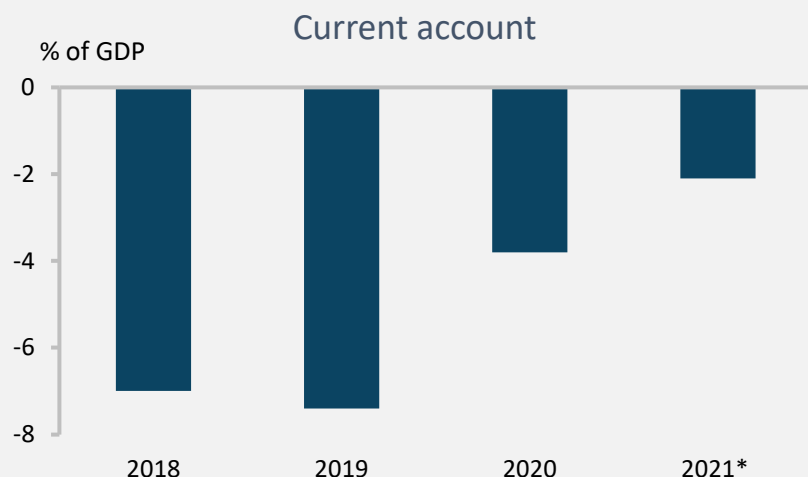
## GDP: demand side

- 2020: GDP contraction of 7.4%; strong decline of consumption and investment
- GDP contracted by 3.3% yoy in Q1-2021, followed by strong yoy growth of 13.1% in Q2-2021
- Forecast 2021: GDP to grow by 5.5%; consumption to pick up again driven by increased remittances and higher political stability

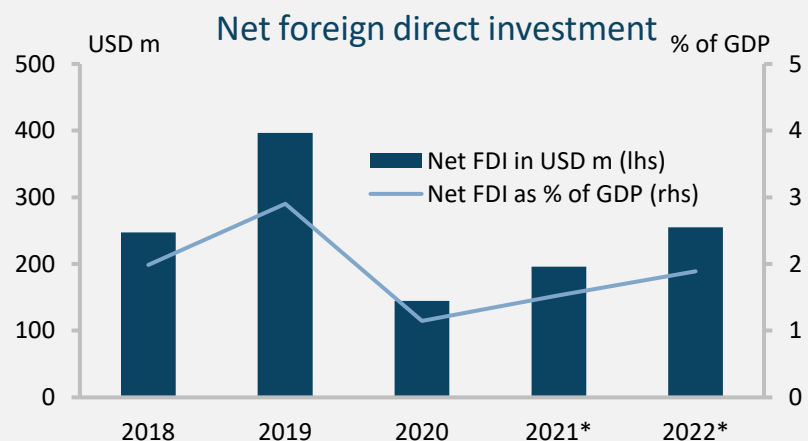
## GDP: supply side

- 2020: strong performance in mining (8.4% real growth yoy), but COVID impact on services and structural problems in agriculture
- 1H-2021: very strong performance in services and mining; some growth in agriculture, manufacturing stable

# Current account and FDI



Source: Ministry of Finance; \*forecast



Source: Central Bank of Armenia; \*IMF forecast

## 2020

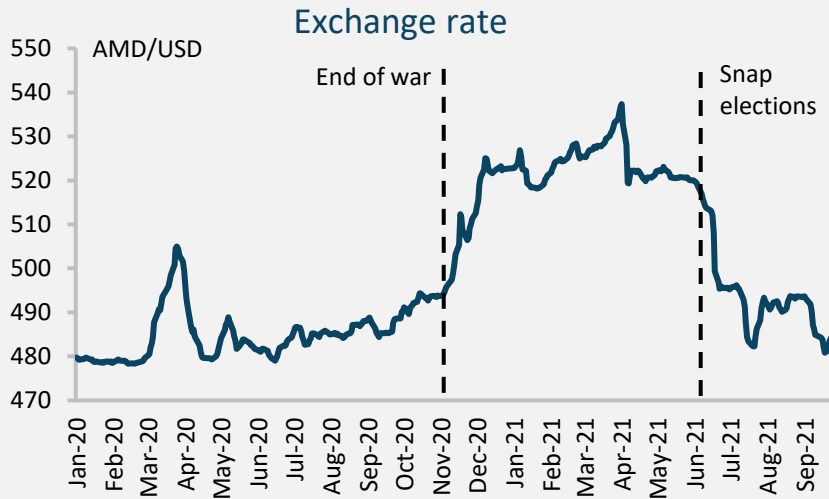
- Narrowing of current account deficit to 3.8% of GDP
- Reason: strong import contraction; imports dropped stronger than exports
- FDI inflows down by more than half; only 1.1% of GDP

## 2021

- Ministry of Finance expects a further reduction to 2.1% of GDP
- Reasons
  - Low deficit in 1H-2021
  - Strong exports of goods and increased remittances
- FDI: limited increase expected

➤ **Low current account deficit, but FDI remains weak**

# Exchange rate and currency reserves



Source: Central Bank of Armenia



Source: Central Bank of Armenia

## Exchange rate

- Nov2020-Apr2021: depreciation due to political uncertainty after military conflict
- Peak: shortly after PM Pashinyan announced his resignation in March 2021
- Since June elections: appreciation, Dram to pre-crisis level

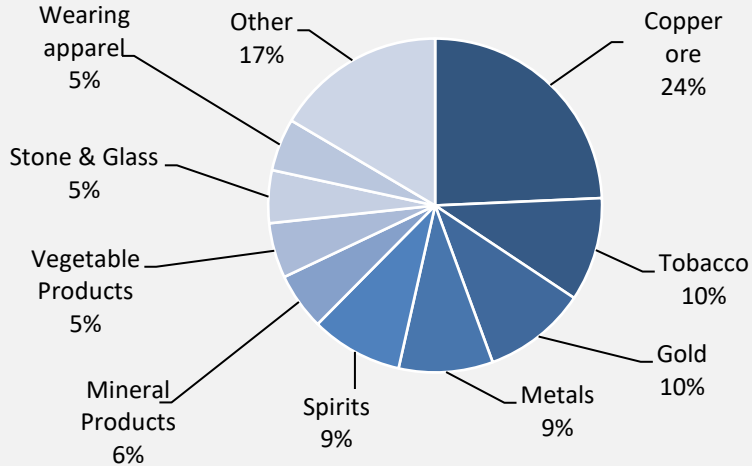
## FX reserves

- COVID effect + military conflict made reserves dwindle
- Feb-21: jump in FX reserves thanks to successful issuance of Eurobond amounting to USD 750 m

➤ **Exchange rate stabilised**

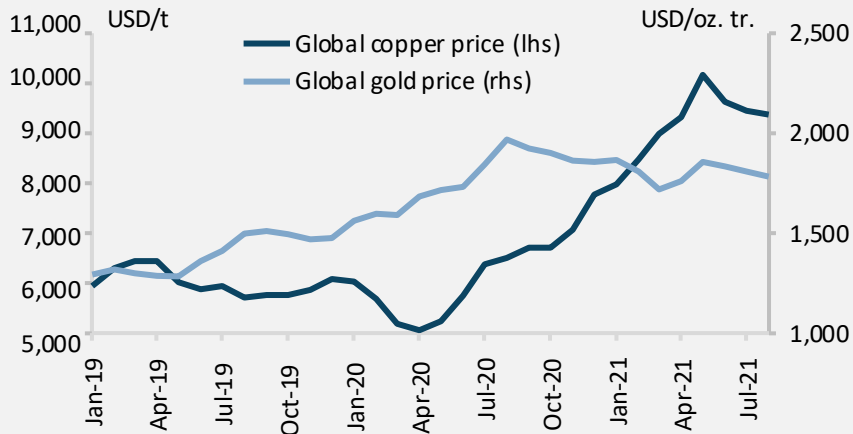
# Trade in goods

Exports by goods



Source: Armstat, 2020

Global price of copper and gold



Source: IMF

## 2020

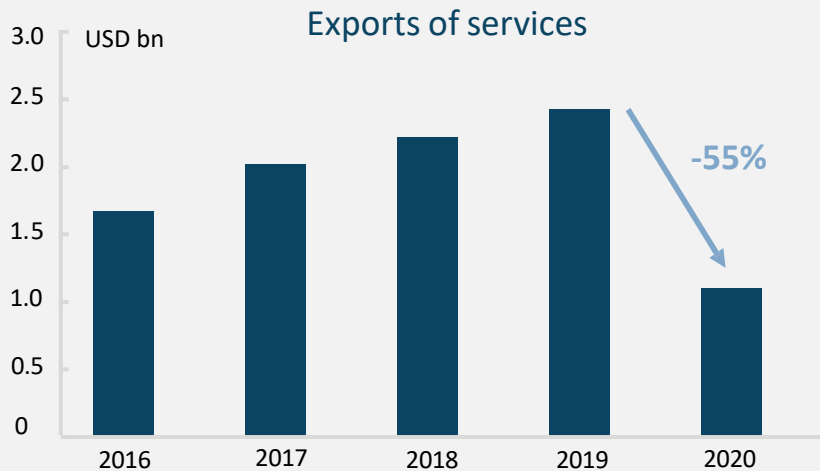
- Moderate decline in exports of goods by 4.2% yoy due to COVID-19 shock\*
- Comparatively strong impact on imports: -18% yoy

## 2021

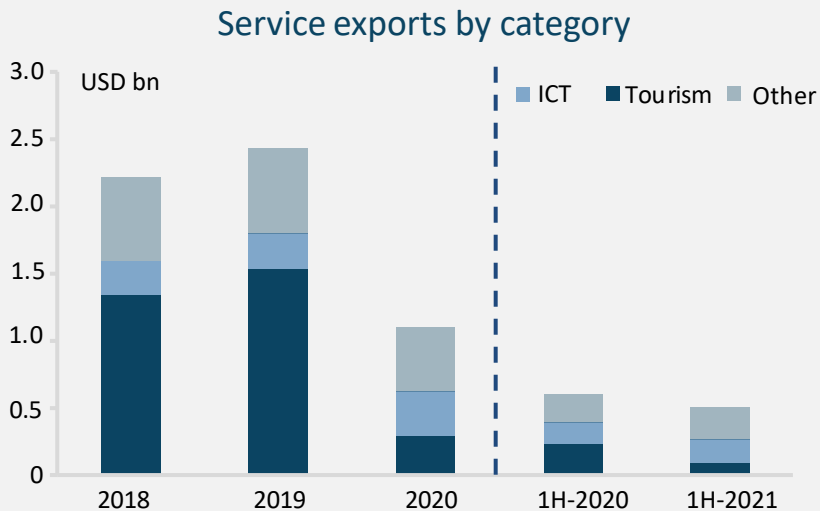
- 1H-2021: Exports (18% yoy) are growing more strongly than imports (8% yoy)
  - Higher copper prices support exports
  - But gold prices lower than in 2020
- **Moderate effect of COVID on exports of goods in 2020; stronger exports in 2021 fuelled by high copper prices**

\*Note: Balance of payments statistics show a much stronger decline of 19.2% yoy due to adjusted data on car exports, which are not reflected in Armstat data.

# Trade in services



Source: Central Bank of Armenia



Source: Central Bank of Armenia; Tourism: tourism-related services in travel and passenger transport; ICT: Telecommunications, computer, and information services

## Export of services

- Exports of services traditionally very strong in ARM; 43% of total exports (g&s) in 2019
- 2020: strong decline by 55% yoy, mainly due to lower tourism revenues
- 1H-2021 has so far underperformed, even compared to 1H-2020 (-14% yoy)

## Tourism

- Massive negative impact due to travel restrictions: -81% yoy in 2020
- Severe underperformance in 1H-2021, also in comparison to 1H-2020 (-61%)

## ICT sector

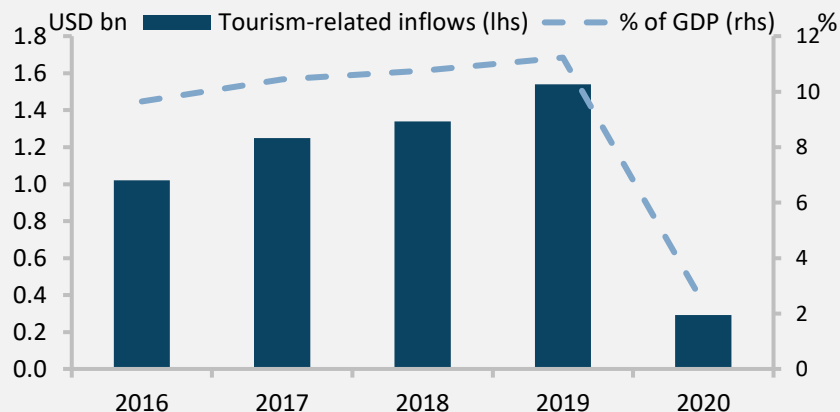
- Positive dynamic in 2020 amid pandemic
- Growth continues in 1H-2021

➤ **Strong impact of COVID on exports of services in 2020; no recovery in 1H-2021**



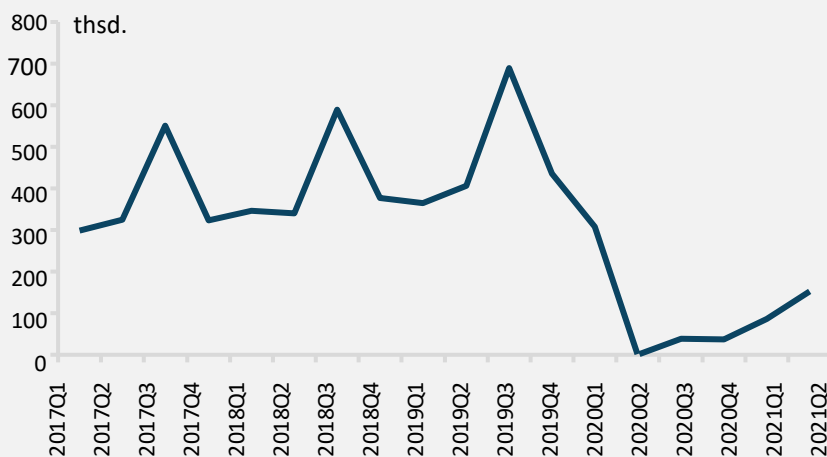
# Tourism inflows

Tourism inflows as % of GDP



Source: Central Bank of Armenia, IMF, note: tourism-related services in travel and passenger transport according to balance of payments

Inbound tourists



Source: Armstat

## Economic importance of tourism

- Tourism is not only a key factor for exports, but also for GDP
- 2019: tourism-related inflows amounted to 11% of GDP

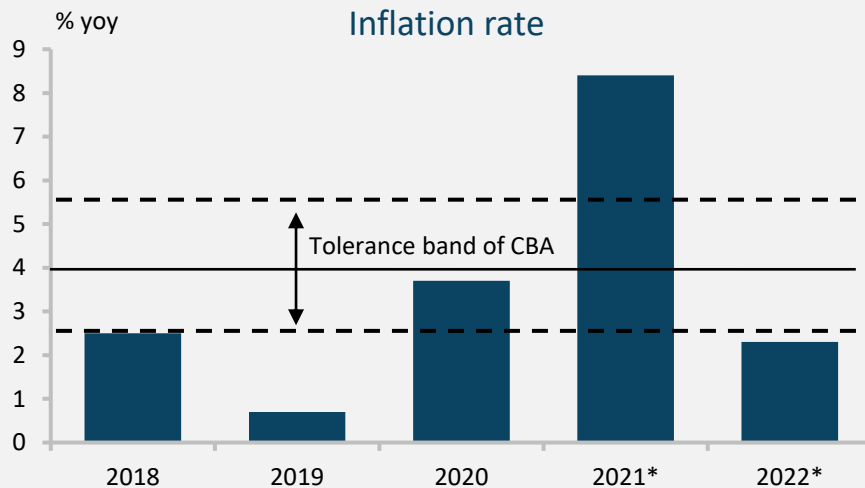
### 2020

- Tourism-related inflows only 2% of GDP
- **COVID-shock to a large extent linked to tourism**

### 2021

- Q1-2021: 72% decline compared to Q1-2020, as COVID effect started only in Mar-2021
- Q2-2021: very low tourism activity
- **Negative COVID effect on tourism continues in 2021**

# Inflation and monetary policy



Source: Central Bank of Armenia; \* forecast; Note: consumer prices, end of period

## Inflation

- 2020, eop: inflation increased to 3.7%
- Main reasons: rise in international food prices; pass through effect of Dram depreciation
- Sep-2021: inflation accelerated to 8.9% yoy
- Reasons: increase in raw material and food prices, Dram depreciation, price increase for in-person services, supply constraints

## ➤ Inflationary pressure

## Monetary policy

- In 2021, the policy rate was increased five times to 7.25% in Sep-21
- Reason: inflation and inflation expectations; demand growing faster than production capacities

## ➤ Policy rate hikes to reduce inflation in line with target

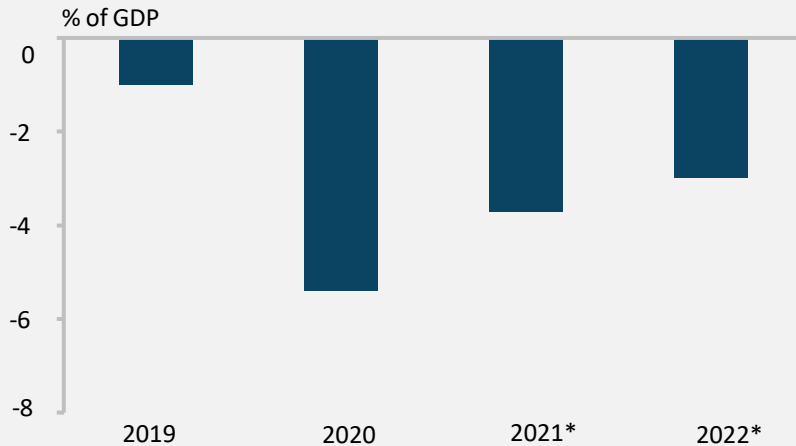
## ➤ Interest rates now substantially higher than pre-COVID



Source: Central Bank of Armenia

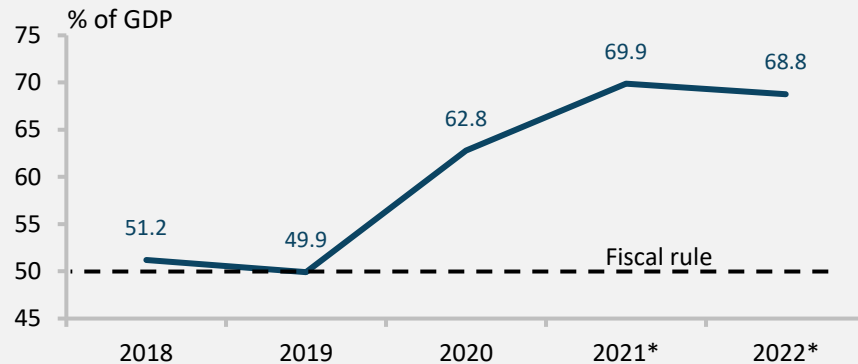
# Public finance

## Central government budget deficit



Source: Ministry of Finance, \*according to latest budget and future plans

## Public debt (central government)



Source: IMF, \*forecast, note: central government's public and publicly-guaranteed debt

## Budget 2021

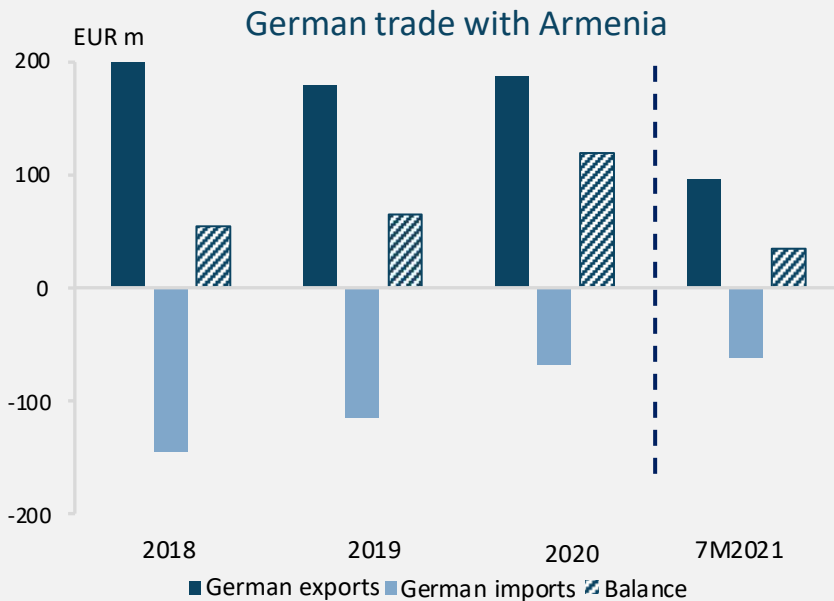
- Government continues supporting economy after twin shock in 2020, esp. subsidies as well as social benefits and pensions
- However, due to higher GDP growth, the budget deficit is now expected to be lower than originally planned: 3.7% of GDP compared to 5.3% in original budget

## Public debt (central government)

- Large increase from 49.9% in 2019 to approx. 63% in 2020
- Current value above the fiscal rule threshold, but exception due to military conflict
- Further increase in 2021 as % of GDP was expected, but new GDP growth data suggest debt may remain stable

➤ **Fiscal consolidation in 2022 likely**

# Bilateral trade between Armenia and Germany



Source: German Federal Statistics Office; Note: Trade in goods

## 2020

- Turnover: EUR 255 m, decline of 13%
- German exports to ARM: moderate increase by 4% due to delivery of Siemens gas turbine in April
- German imports from ARM: fell by 41%, mainly due to metals; but: positive dynamic in metallic ores and metal waste

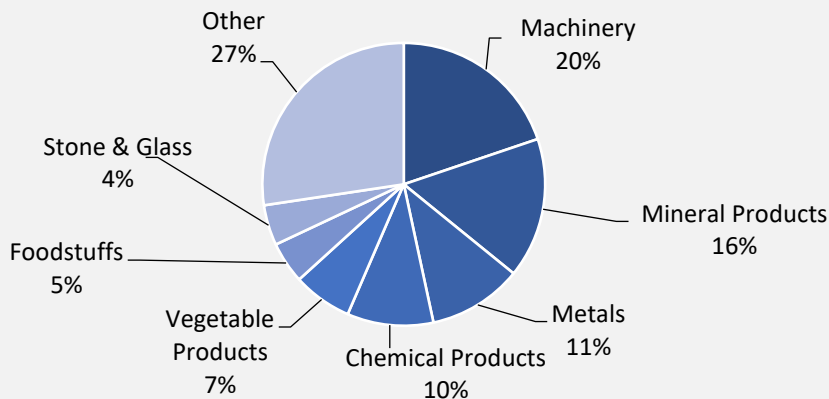
➤ **Significant, but not huge decline in bilateral trade in 2020**

## Outlook for 2021

- 1H-2021: German exports significantly below 1H-2020 (-20%), despite strong Q1-2021 with machinery exports
- Strong increase in German imports (+50%) from Armenia

➤ **So far, mixed performance in bilateral trade**

## German exports to Armenia



Source: German Federal Statistics Office; 2020; Note: Trade in goods

# GDP forecast: GET Macro Model

## Real GDP forecast: demand side

	2020 (actual)		2021 (forecast)		2022 (forecast)	
Real GDP growth, % yoy	-7.4		5.5		4.2	
Real growth (% yoy) / GDP growth contributions (pp)	% yoy	pp	% yoy	pp	% yoy	pp
Total consumption*	-10.1	-6.6	5.3	5.0	6.1	5.6
Investment**	-8.6	-3.3	9.1	1.5	4.3	1.5
Exports	-31.4	-12.9	4.2	1.8	6.2	2.2
Imports	-32.1	15.2	5.8	-2.9	7.1	-5.0

Source: GET calculations, \* private and public consumption, \*\* gross capital formation

- **2021:** GDP rebound on the back of higher total consumption
- **2022:** somewhat lower growth; less space for gov spending and higher imports

# About the German Economic Team



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

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