

ARMENIA'S ECONOMIC OUTLOOK

January-March 2023



Executive summary

- As a result of the Russian-Ukrainian war in 2022, many Russians and Ukrainians continued to migrate and move their business to Armenia, which led to more economic activity. In January-March 2023, the economic activity indicator observed an 12.2% increase.
- In March 2023, the Armenian dram appreciated by approximately 1.3% since the start of the year.
- Comparing January-March 2023 with the same time of the previous year, we can observe that:
 - Exports grew by 2.3x.
 - Imports grew by 89.1%.
 - Number of tourists inflow increased by 81.2%.
 - Average salary increased by 25.3%.
 - Services output increased by 22.9%.
 - Trade grew by 21.0%.
- Armenia's inflation for January-March 2023 reached 7.2%.

Key economic indicators snapshot

Figure 1. Indicator of economic activity
Jan-Mar 2023 , cumulative

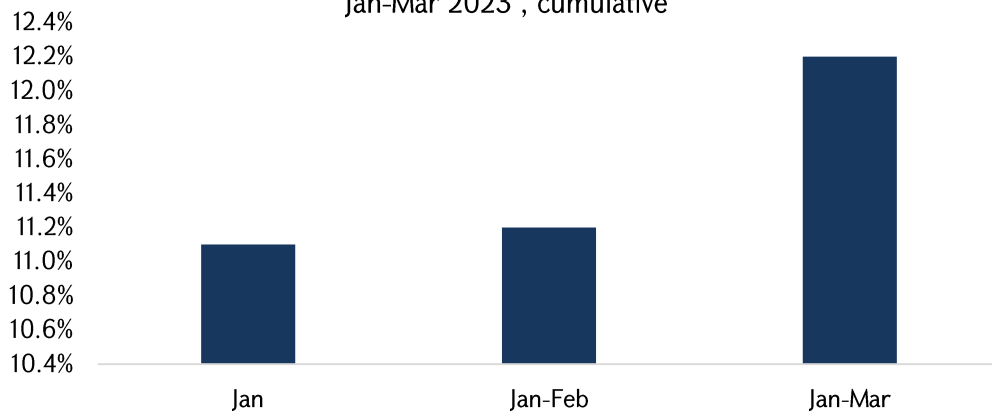


Figure 2. Growth by sectors
March 2023 com. to the same month previous year

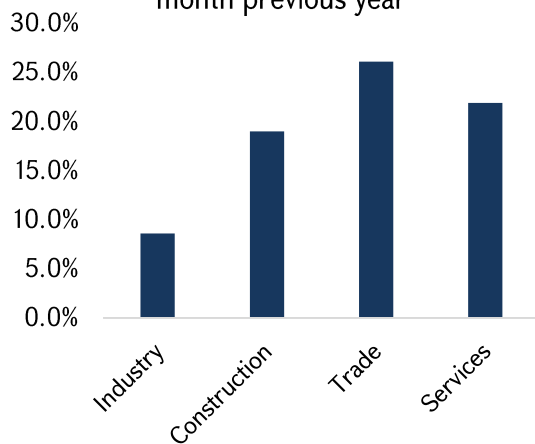
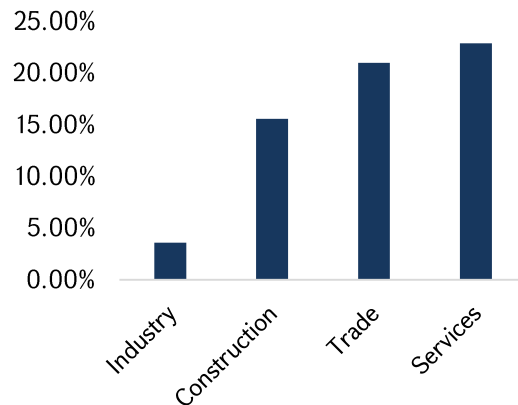


Figure 3. Growth by sectors
Jan-Mar 2023 com. to the same period previous year



- ♦ **Economic activity indicator (EAI)** has shown an upward-sloping trend throughout the first quarter of 2023, and in Jan-Mar 2023 it amounted to 12.2%.
- ♦ **Industry.** The volume of industrial production in Jan-Mar 2023 amounted to 556.5 billion drams, increasing by 3.6% compared to the same period last year. The main products contributing to industrial production growth for Jan-Mar 2023 are manufacturing (+8.1% relative to the same period in 2022). The industry's growth was negatively affected by the mining industry and electricity, gas, steam and high-quality air supply
- ♦ **Construction.** The construction output in Jan-Mar 2023 amounted to 64.8 billion drams, increasing by 15.6% compared to the same period last year. Construction growth was mainly contributed by organizational funds (32.4% relative to Jan-Mar 2022)
- ♦ **Trade.** The volume of internal trade turnover in 2023 amounted to 1007.9 billion drams, increasing by 21% compared to the same period last year. One of the main reasons for the growth of the internal trade is the inflow of Russian to Armenia throughout 2022 and in the first quarter of 2023.
- ♦ **Services.** The volume of services turnover in Jan-Mar 2023 amounted to 675.2 billion drams, increasing by 22.9% compared to the same period last year. The main subsectors contributing to services turnover growth for 2023 financial and insurance activities 18.5% relative to Jan-Mar 2022), transport (34.2% relative to Jan-Mar 2022), and information and communication industry (54.3% relative Jan-Mar 2022). The high growth in the service sector can also be connected with the growth of tourism in Q1 of 2023 and the influx of Russians.

Tourism

Figure 4. International tourist arrivals
thousands

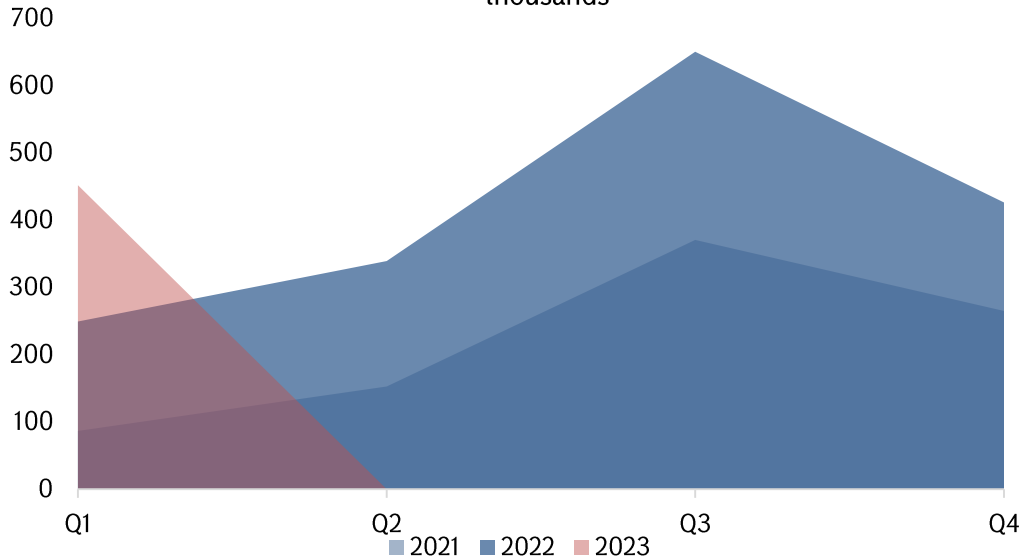
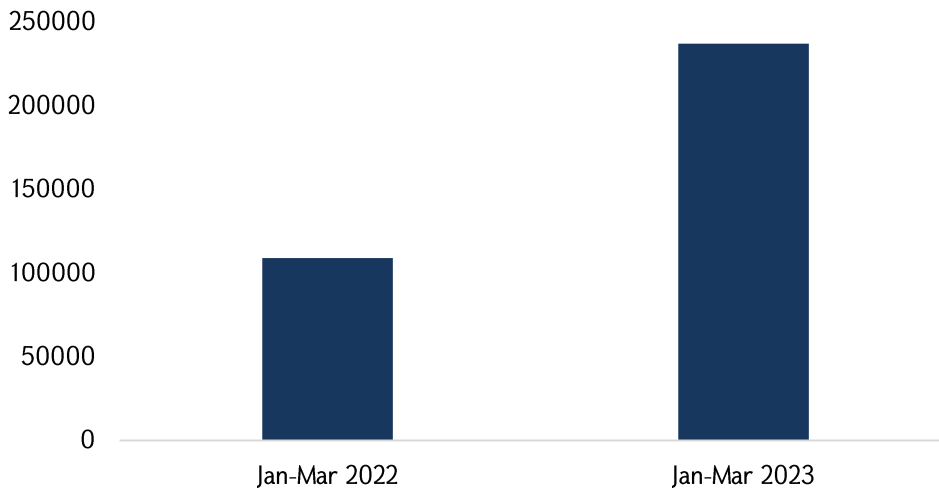


Figure 5. Number of tourists from Russia



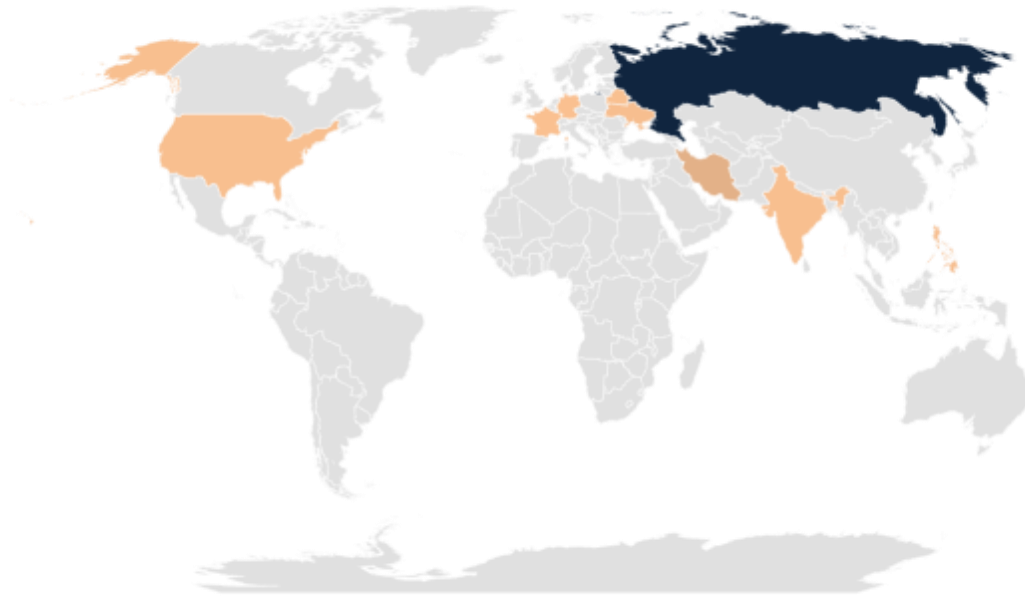
- ◆ Armenia observed a huge jump in number of tourists in first quarter of 2023 compared to the same period previous year.
- ◆ In Jan-Mar 2023, the number of tourists reached 451.9 thousand which increased by 81.2% when compared to the same period previous year.
- ◆ Few of the reasons for the surge in the number of tourists are;
 - ◆ the Russian-Ukrainian war
 - ◆ influx of Armenian diaspora
- ◆ Tourists from Russia accounted for 52.5% of the entire entries.
- ◆ Based on the increase in number of tourists we expect the inflows return to be increase by approximately 81% as well, as the inflows' return and number of tourist' increase are proportional for Armenia
- ◆ Because of the sanctions on Russia and continuation of the Russian-Ukrainian war, the number of tourists in 2023 from Russia, observed a huge jump. Comparing to the same period previous year, the number of tourists from Russia grew by 2.2 times.

Tourism

Arrival Origins

Jan-Mar 2023

451.9 thousand, 81.2% YoY change



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237 thousand



2.7 thousand

Russia	237.0 thousand, 2.2x YoY change
Georgia	53.7 thousand, 2.2x YoY change
Iran	25.5 thousand, 2.2x YoY change
Philippines	6.0 thousand, 2.9x YoY change
Ukraine	5.7 thousand, 41.7% YoY change
India	4.8 thousand, 2.2x YoY change
USA	4.8 thousand, 22.5% YoY change
Belarus	3.4 thousand, 20.0% YoY change
France	2.9 thousand, 22.1% YoY change
Germany	2.8 thousand, 29.2% YoY change
Turkey	2.7 thousand, 2.2x YoY change

International trade: Export

Figure 6. Exports of goods
Jan-Mar 2023, mln USD

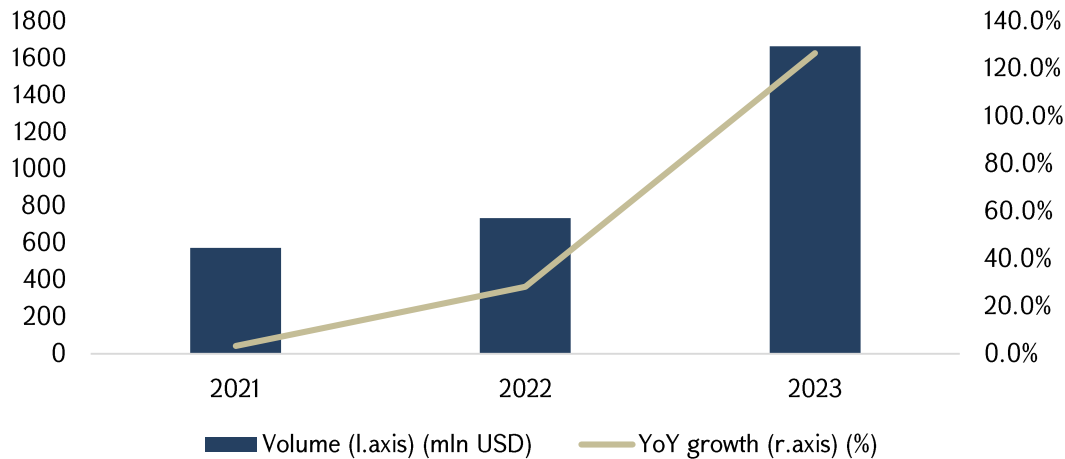
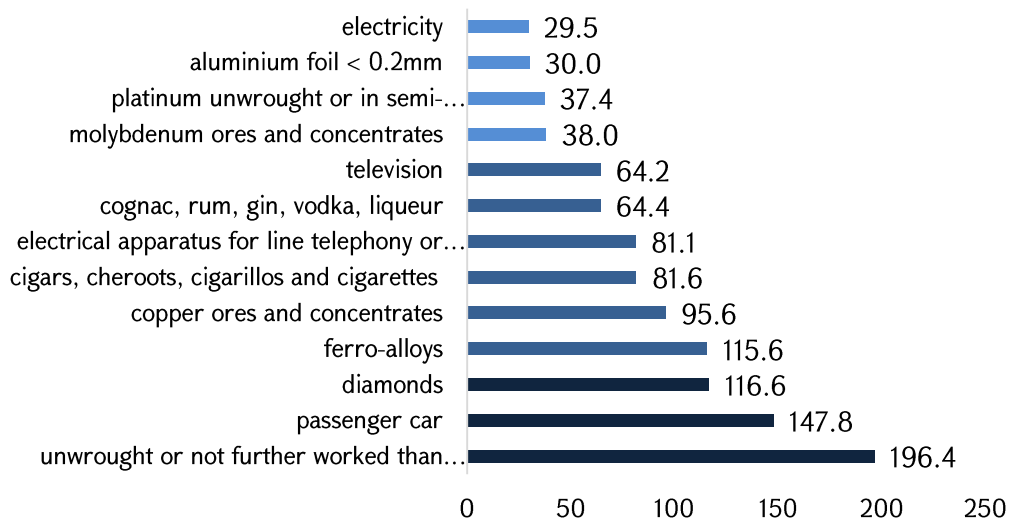


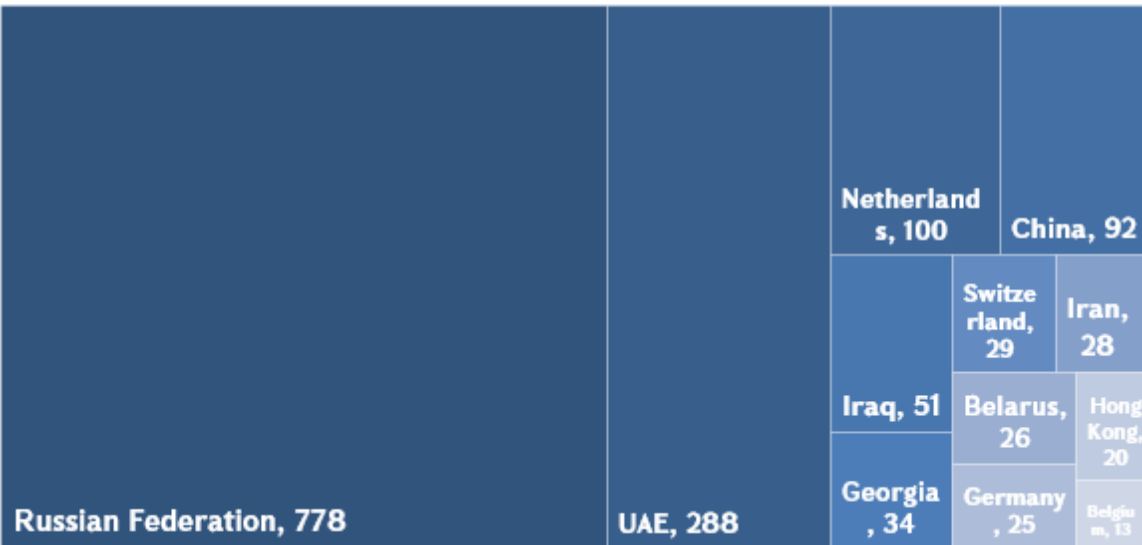
Figure 7. Exports by goods
Jan-Mar 2023, mln USD



- ♦ **Exports in Jan-Mar 2023** amounted to 1664.8 million US dollars, increasing by 929.9 million USD or 2.3x over the same period last year.
- ♦ One of the main contributors for the export growth is the Russian-Ukrainian war, as the sanctions on Russia opened new markets for Armenia to export
- ♦ The main products contributing to growth for Jan-Mar 2023 (percentages are relative to the same period):
- ♦ **Electricity:** 29.5 million USD, increasing by 5 million USD or 20.4%.
- ♦ **Aluminum foil < 0.2mm:** 30.0 million USD, decreasing by 4.6 million USD or 13.4%.
- ♦ **Platinum unwrought or in semi-manufactured forms, or in powder form:** 37.4 million USD, increasing by 37.3 million USD or 1,891.6x.
- ♦ **Molybdenum ores and concentrates:** 38.0 million USD, increasing by 9.3 million USD or 32.5%.
- ♦ **Television:** 64.2 million USD, increasing by 63.6 million USD or 93.9x.
- ♦ **Cognac, rum, gin, vodka, liqueur:** 64.4 million USD, increasing by 24.3 million USD or 60.5%.
- ♦ **Electrical apparatus for line telephony or line telegraphy:** 81.1 million USD, increasing by 80.8 million USD or 275.5x.
- ♦ **Cigars, cheroots, cigarillos and cigarettes:** 81.6 million USD, increasing by 18.5 million USD or 29.3%.
- ♦ **Copper ores and concentrates:** 95.6 million USD, decreasing by 59.7 million USD or 38.4%.
- ♦ **Ferro-alloys:** 115.6 million USD, increasing by 60.4 million USD or 109.5%.

International trade: Export

Figure 8. Export volumes by country
January-March 2023, mln USD



- ♦ **Diamonds:** 116.6 million USD, increasing by 78.9 million USD or 3.1x.
- ♦ **Passenger car:** 147.8 million USD, increasing by 144.8 million USD or 49.5x.
- ♦ **Unwrought or not further worked than semi-manufactured or in powder form gold:** 196.4 million USD, increasing by 162.8 million USD or 5.8x.

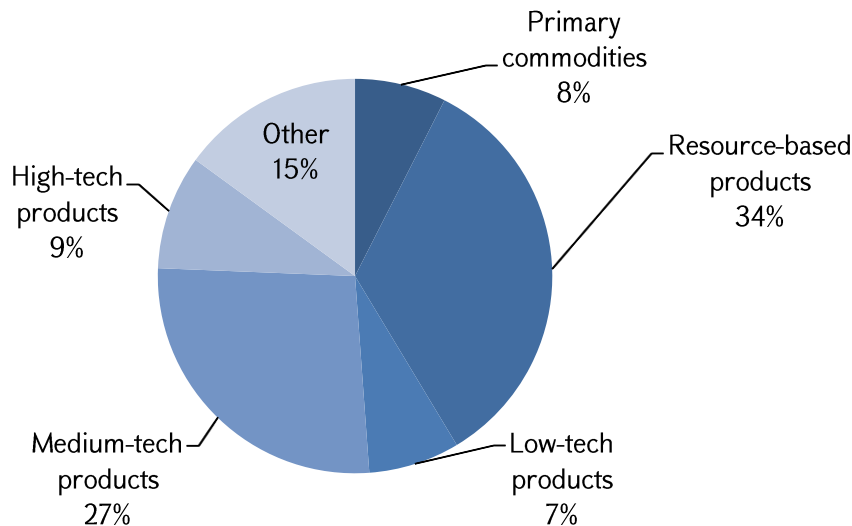
♦ **Main exporting countries:**

- ♦ Primary trade partner Russia accounted for 46.7% of total exports in Jan-Mar 2023, amounting to 778.5 million USD. This represents an increase of 592.0 million USD, or 4.2x growth compared to the same period last year.

♦ **Other major partner countries:**

- ♦ **UAE:** Exports Jan-Mar 2023 amounted to 288.3 million US dollars, increasing by 267.1 million US dollars or 13.6x compared to the same period last year, the exports to UAE have risen the most comparing with other countries in the top 10 list.
- ♦ **Netherlands:** Exports Jan-Mar 2023 amounted to 100.1 million US dollars, increasing by 44.6 million US dollars or 80.5% compared to the same period last year.
- ♦ **China:** Exports Jan-Mar 2023 amounted to 92.2 million US dollars, increasing by 12.1 million US dollars or 15.1% compared to the same period last year.

Figure 9. Exports of goods by tech level
January-March 2023, mln USD



International trade: Import

Figure 10. Imports of goods
Jan-Mar 2023, mln USD

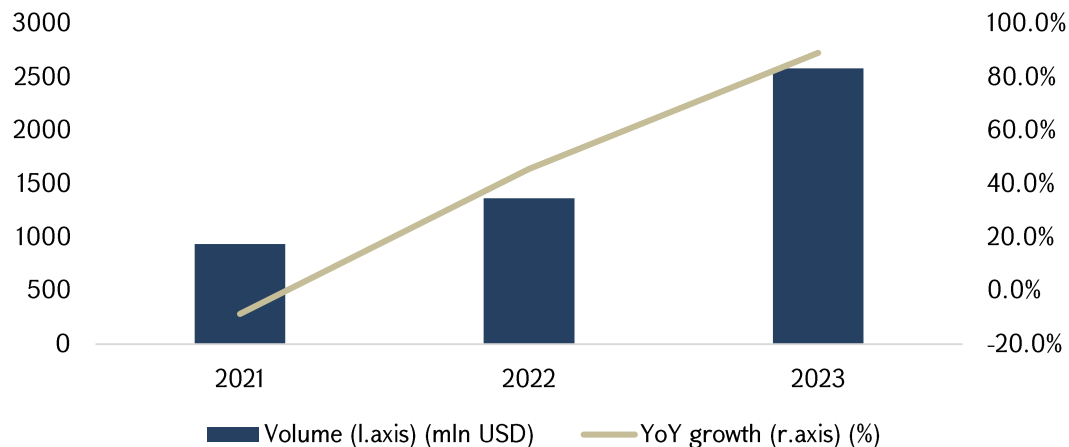
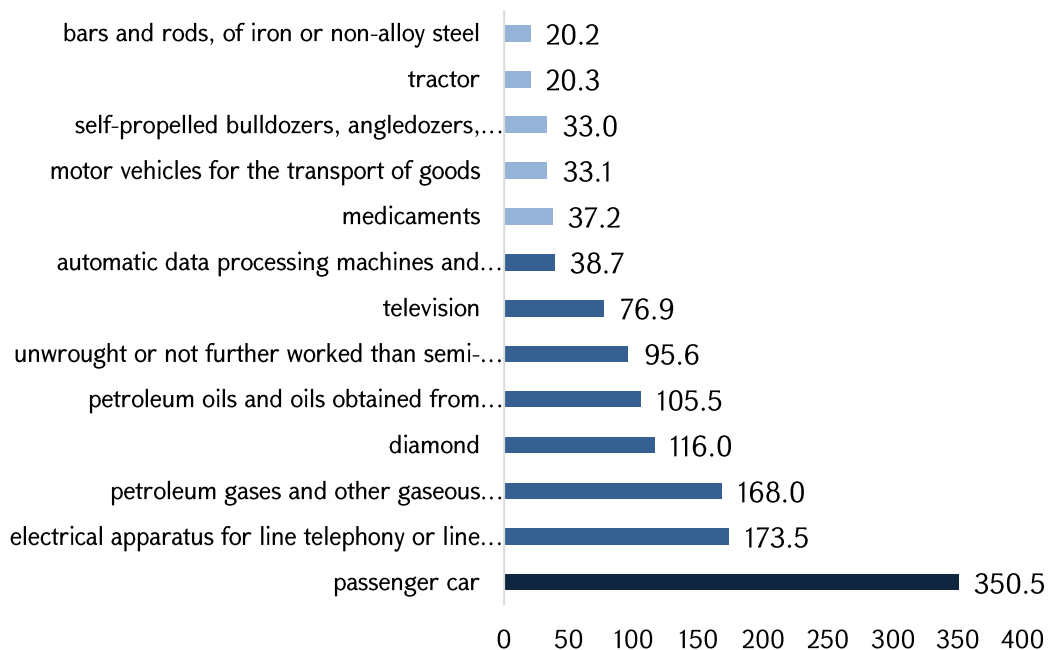


Figure 11. Imports by goods
January-March 2023, mln USD



- ♦ **Imports in Jan-Mar 2023** amounted to 2583.8 million US dollars, increasing by 1217.7 million USD or 89.1% over the same period last year. The main products contributing to growth for Jan-Mar 2023 (percentages are relative to the same 2022 period):
- ♦ **Bars and rods, of iron or non-alloy steel** : 20.2 million USD, increasing by 11.7 million USD or 2.4x.
- ♦ **Tractor**: 20.3 million USD, increasing by 14.6 million USD or 3.6x.
- ♦ **Self-propelled bulldozers, angledozers, graders, etc**: 33.0 million USD, increasing by 13.0 million USD or 65.3%.
- ♦ **Motor vehicles for the transport of goods** : 33.1 million USD, increasing by 23.6 million USD or 3.5x.
- ♦ **Medicaments** : 37.2 million US dollars, decreasing by 4.5 million USD or 10.7%.
- ♦ **Automatic data processing machines and units thereof**: 38.7 million USD, increasing by 20.0 million USD or 107.1%.
- ♦ **Television**: 76.9 million US dollars, increasing by 71.2 million USD or 13.4x.
- ♦ **Unwrought or not further worked than semi-manufactured or in powder form gold**: 95.6 million USD, increasing by 83.7 million USD or 8.1x.
- ♦ **Petroleum oils and oils obtained from bituminous minerals (excluding crude)**: 105.5 million USD, increasing by 3.3 million USD or 3.2%.
- ♦ **Diamonds**: 116.0 million USD, increasing by 72.1 million USD or 2.6x.
- ♦ **Petroleum gases and other gaseous hydrocarbons**: 168.0 million USD, decreasing by 19.7 million USD or 10.5%.
- ♦ **Electrical apparatus for line telephony or line telegraphy**: 173.5 million US dollars, increasing by 152.7 million USD or 8.3x.
- ♦ **Passenger car**: 350.5 million USD, increasing by 290.6 million USD or 5.9x.

International trade: Import

Figure 12. Import volumes by country
January-March 2023, mln USD

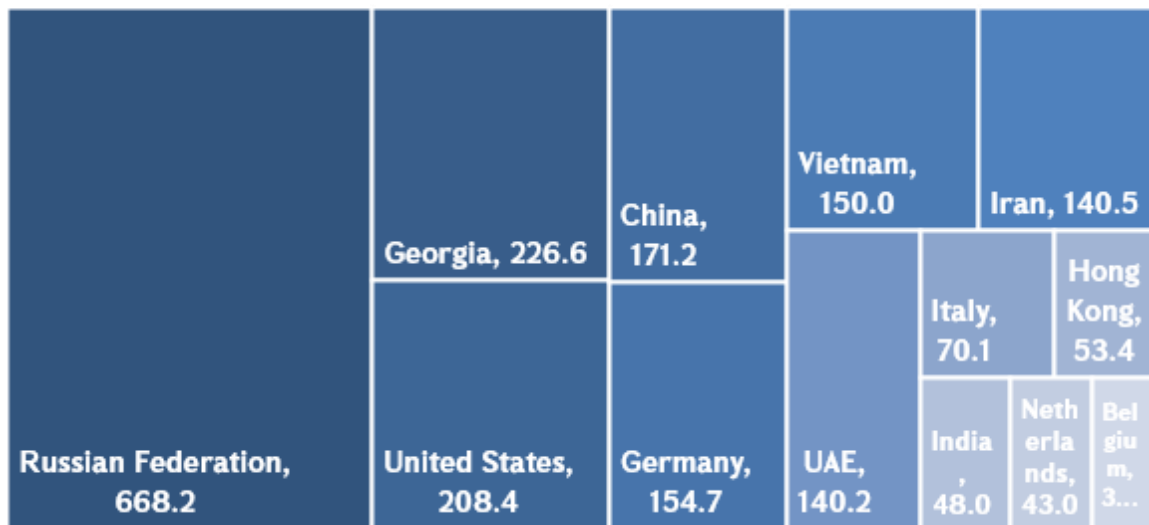


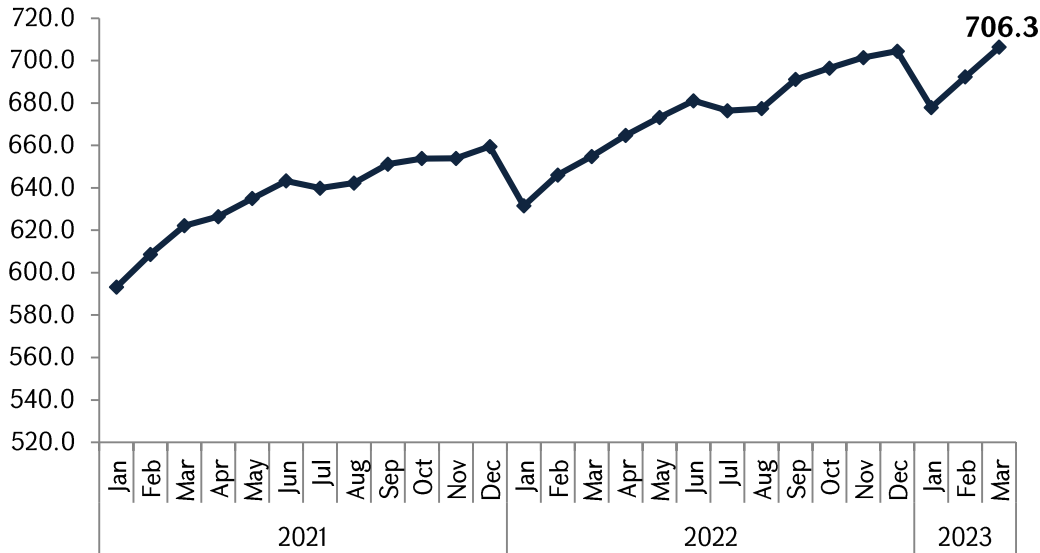
Table 1. Imports by BEC
January-March 2023, mln USD

	Import		YoY growth
	mln USD	mln USD	%
Total	2583.3	1217.2	89.1
Capital goods	463.8	282.0	155.1
Intermediate goods	1156.2	479.9	71.0
Consumer goods	963.3	455.3	89.6
	Import structure		Growth structure
			%
Total	100.0		100.0
Capital goods	18.0		23.2
Intermediate goods	44.8		39.4
Consumer goods	37.2		37.4

- ♦ Primary trade partner Russia accounted for 25.9% of total imports in Jan-Mar 2023, amounting to 668.2 million USD. This represents an increase of 182.0 million USD, or 37.4% growth compared to the same period last year.
- ♦ Other major partner countries:
 - ♦ **Georgia:** Imports in Jan-Mar 2023 amounted to 226.6 million US dollars, increasing by 128.0 million US dollars or 2.3x compared to last year's same period.
 - ♦ **USA:** Imports in Jan-Mar 2023 amounted to 208.4 million US dollars, increasing by 156.2 million US dollars or 4x compared to last year's same period.
 - ♦ **China:** Imports in Jan-Mar 2023 amounted to 171.2 million US dollars, increasing by 10.8 million US dollars or 6.7% compared to last year's same period.
- ♦ According to the Broad Economic Classification of Goods (BEC), the growth is largely due to the increase in the volume of Intermediate goods, which account for 44.8% of total import volumes.
- ♦ Imports of consumer goods in Jan-Mar 2023 amounted to 963.3 million US dollars, increasing by 455.3 million US dollars or 89.6% compared to the same period last year. The growth is mainly due to the activation of domestic demand.
- ♦ consumer goods had the highest import growth rate.
- ♦ Import of intermediate goods in Jan-Mar 2023 amounted to 1156.2 million US dollars, increasing by 479.9 million USD or 71.0% compared to the same period last year.
- ♦ Import of capital goods in Jan-Mar 2023 amounted to 463.8 million US dollars, increasing by 282.0 million US dollars or 2.6x compared to the same period last year.

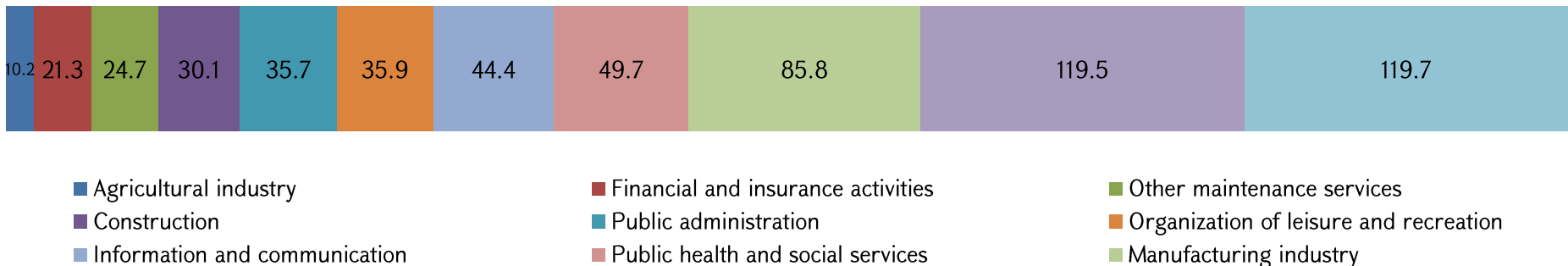
Labor market: Formal employment

Figure 13. Formal employment, Thousand



- ♦ The formal employment In March 2023 reached 706.3 thousand people, increasing by 51.5 thousand from March 2022 or by 7.9%.
- ♦ Trade, education and manufacturing categories have the most formal employees for March 2023.
- ♦ The formal employees of the IT sector for March 2023 reached 44.4 thousand. Which Grew by 21.9% comparing with the same period previous year.
- ♦ Comparing with March 2022, “public health and social services”, “Financial and insurance activities” and “Other services” observed declines by 1%, 1% and 0.6% respectively.
- ♦ The highest growth was been in the construction sector by 25.1%
- ♦ **The Russian-Ukrainian resulted to increase the inflow of tourists/immigrants to Armenia, which increased the demand for Accommodation and food service activities, which could be one of the reasons that the sector’s growth was faster than others**
- ♦ **With the war a new batch of employees also came to Armenia. By opening businesses or by finding jobs in Armenia, they have contributed to the growth of many sectors specially the IT sector**

Figure 14. Formal employment (by sector), Thousand



Labor market: Wages

Figure 15. Salaries
By sectors

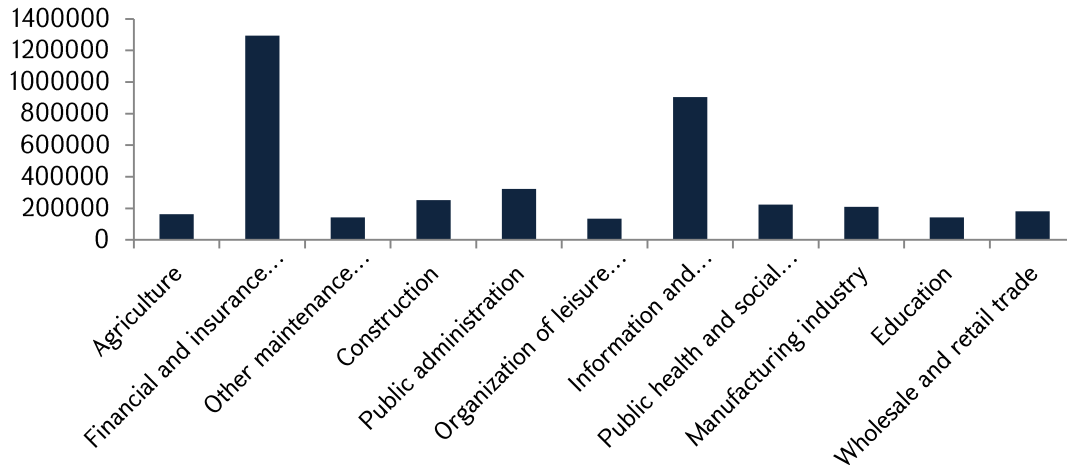
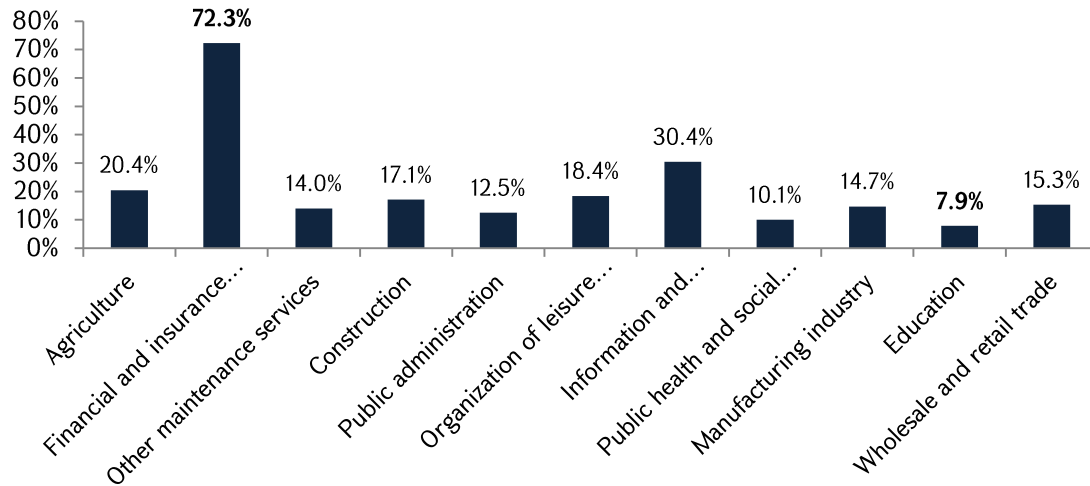


Figure 16. Salary change, %
By sectors



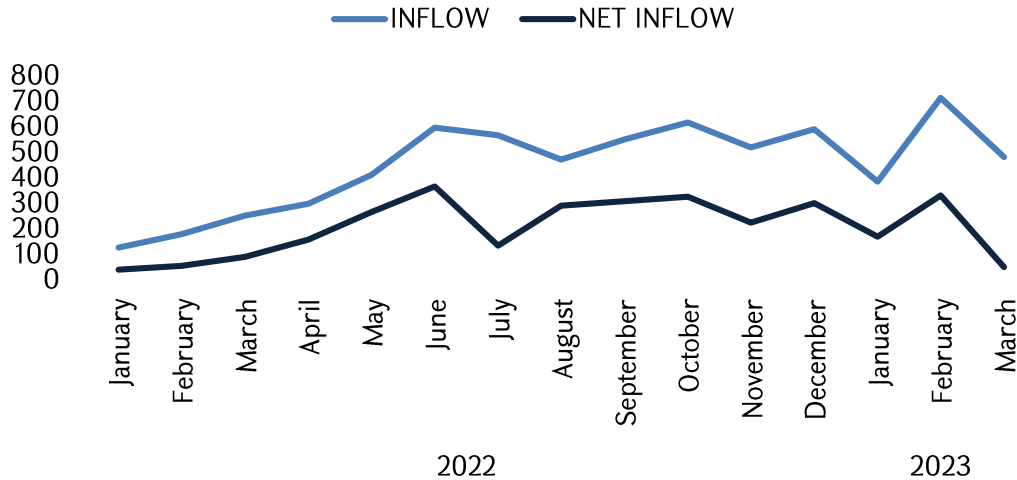
- The average monthly salary in March 2023 amounted to 284,500 drams, increasing by 25.3% compared to last year.

Of This:

- **Agriculture:** Observed an average salary of 163,100, which increased by 20.4% comparing with same period previous year
- **Financial and insurance activities:** Observed an average salary of 1,295,000, which increased by 7.2% comparing with same period previous year
- **Other maintenance services:** Observed an average salary of 143,000, which increased by 14% comparing with same period previous year
- **Construction:** Observed an average salary of 251,500, which increased by 17.1% comparing with same period previous year
- **Public administration:** Observed an average salary of 323,000, which increased by 12.5% comparing with same period previous year
- **Organization of leisure and recreation:** Observed an average salary of 134,500, which increased by 18.4% comparing with same period previous year
- **Information and communication:** Observed an average salary of 904,000, which increased by 30.4% comparing with same period previous year
- **Public health and social services:** Observed an average salary of 224,000, which increased by 10.1% comparing with same period previous year
- **Manufacturing industry:** Observed an average salary of 208,700, which increased by 14.7% comparing with same period previous year
- **Education:** Observed an average salary of 143,200, which increased by 7.9% comparing with same period previous year
- **Wholesale and retail trade:** Observed an average salary of 180,800, which increased by 15.3% comparing with same period previous year

Remittance inflow and Exchange rate

Figure 17. Remittance inflow
Mln USD



- In Jan-Mar 2023, the total inflow volume of money transfers reached 1582.5 Million USD, increasing by 2.8x compared to the same period last year.
- Most of the remittances were received from Russia, which accounts for approximately 77.1% of the remittances. For Jan-Mar 2023, inflows from Russia totaled to 1219.5 million USD, increasing by 5.1x YoY.
- Remittances from the United States accounted for 9.1% of the remittances. In Jan-Mar 2023, it totaled 143.4 million USD, increasing by 0.4% YoY.
- In Jan-Mar 2023, net inflow transfers of individuals amounted to 553.2 million USD, increasing by 2.9x YoY.
- After the Russian-Ukrainian the inflow of remittances and the net inflows increased significantly, meaning that although there is a shock factor, the pace of the remittances is not dropping if we exclude the effects of the war.
- The remittance inflow and the exchange rate of AMD, are usually negatively correlated, however, after the Russian-Ukrainian war the fluctuations in the remittance inflow have increased, moreover, in 2023, the obvious negative correlation have lost its pattern.
- According to IMF economic outlook, Russia & the USA will have 1.6% and 0.7% economic growth in 2023, respectively, followed by 1.1% and 1.3% in 2024.
- The slow and negative growth of GDP for the USA and Russia may not affect the inflow of remittances to Armenia, as the growth of the inflow from both Russia and USA did not slow down, despite the economic situations in 2022.

Figure 18. Remittances and USD/AMD relationship

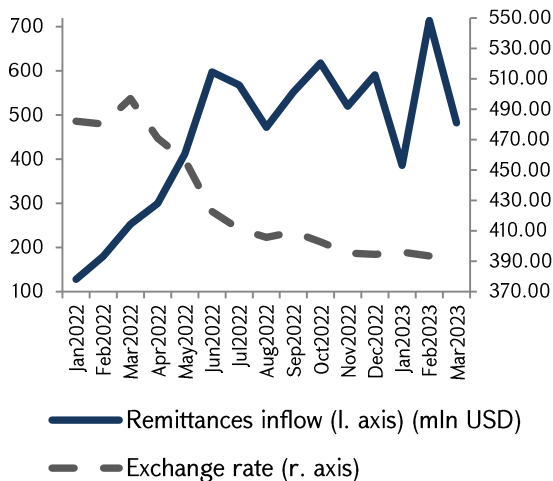
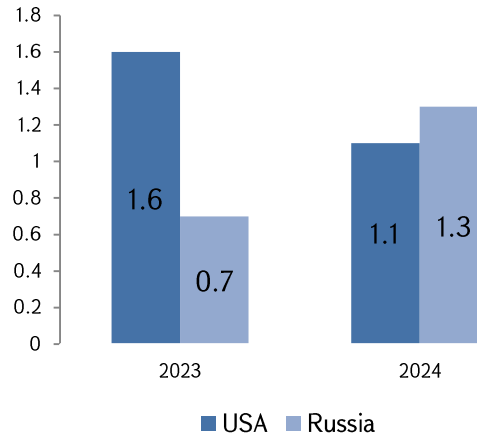


Figure 19. Forecasts of GDP growth for USA & Russia



CPI- Armenia vs Rest of World

Figure 20. Inflation rate, World vs Armenia for March 2023

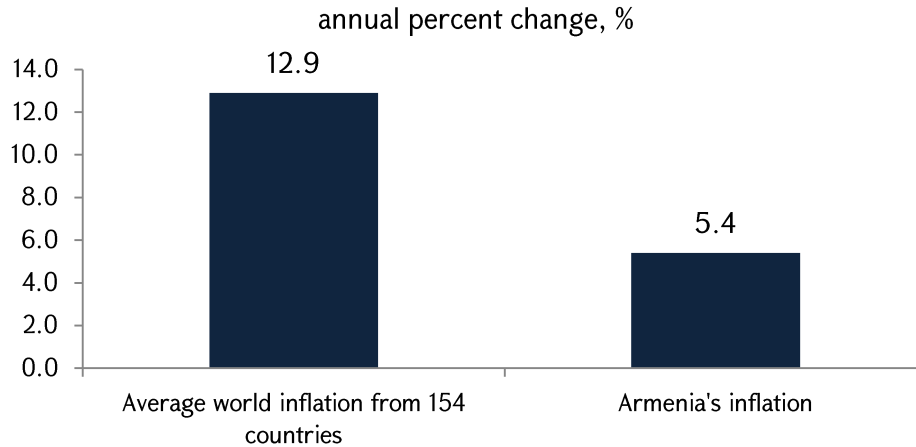
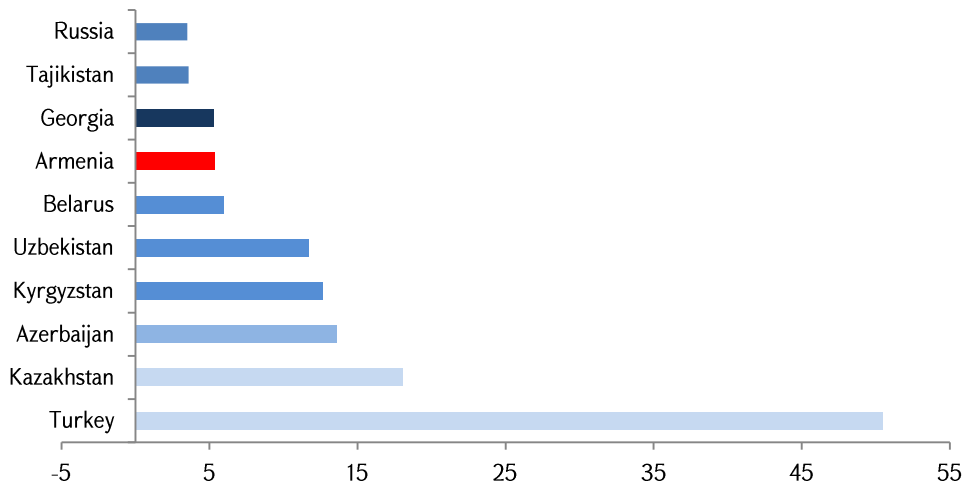


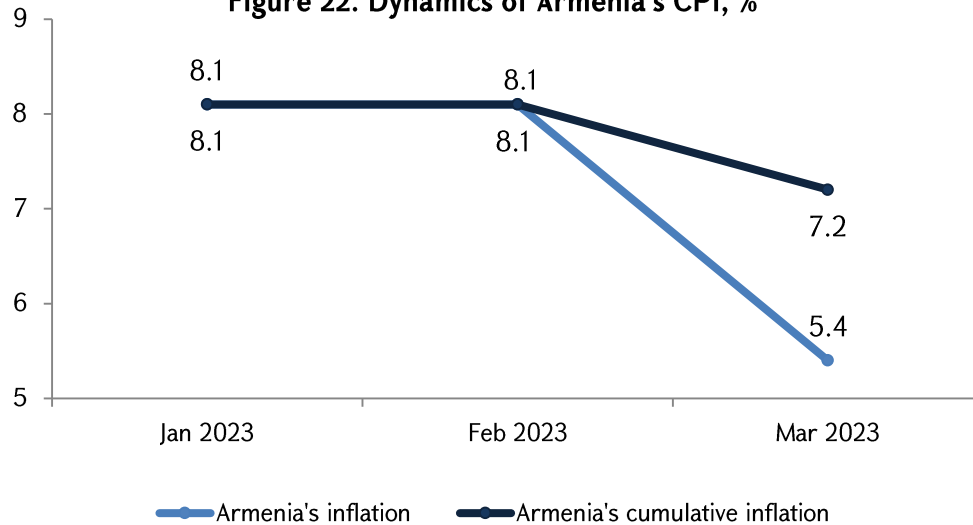
Figure 21. Inflation rate, average consumer prices



- ♦ After the Russian-Ukrainian war, many sanctions have been introduced on Russia. In response, Russia also introduced sanctions. As a result of this sanctions and war the recovery from COVID-19 slowed down and the inflation rate for Armenia and the world continued to accelerate.
- ♦ As of March 2023, world inflation remains a concerning and growing factor. According to the current data, average global inflation from 154 countries for the months of March 2023 is approximately 12.9%. This implies nearly all countries have suffered from the inflation surge.
- ♦ Armenia's inflation rate according to Armenia's statistical committee was 5.4% during March 2023.
- ♦ For March 2023, Armenia's inflation is lower than the world's average inflation rate
- ♦ Armenia, although its geographical location, does not have as high inflation rate as its neighboring countries. From Figure 21, we can observe that during March, Armenia has the 4th lowest inflation rate from 11 countries that are within its geographical location and main trade partner
- ♦ Armenia's Central Bank in the first quarter of 2023 did not raise its interest rate. Moreover, the decreasing inflation rate of Armenia shows that there is not any concern to increase the interest rate yet.

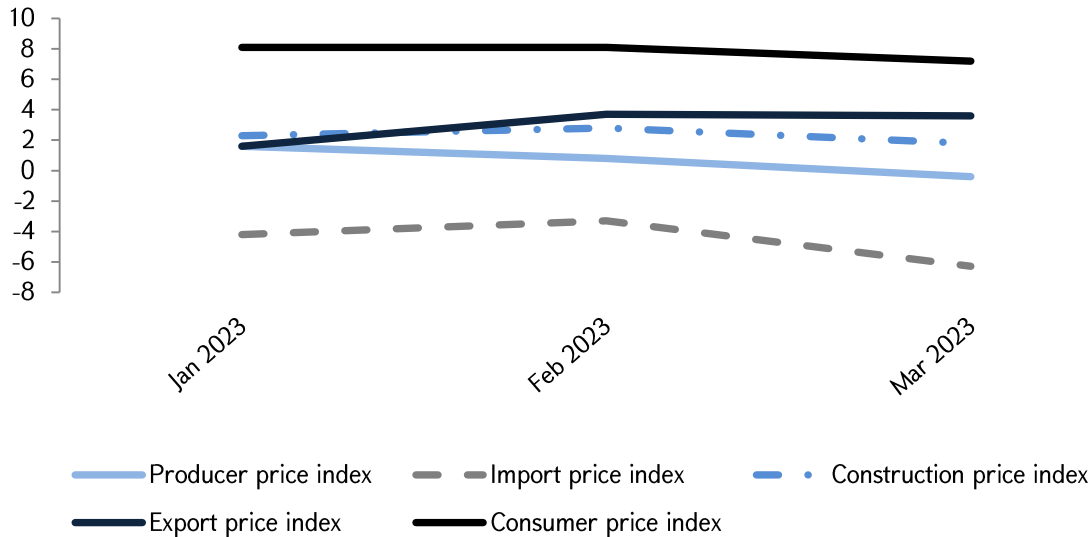
Armenia's Price Indices

Figure 22. Dynamics of Armenia's CPI, %



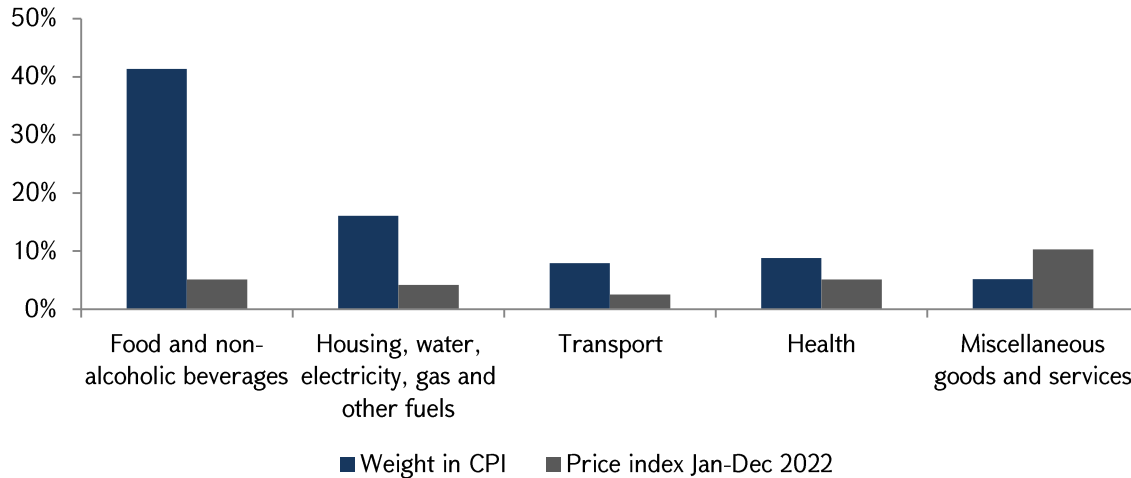
- ◆ The National Statistical committee of the Republic of Armenia has reported the consumer price index of Armenia as 5.4% for March 2023 and 7.2% for cumulative Jan-Mar 2023.
- ◆ Consumer price index and export price index throughout 2022 were relatively stable, when comparing with other price indices in Armenia .
- ◆ The import price index of Armenia has been negative throughout the first quarter of 2023
- ◆ The producer price index (PPI) for the first quarter is courteously decreasing. In Jan 2023, PPI was 1.6 and for Jan-Mar 2023, it is -0.4%
- ◆ The export price index, is the only price index that is showing a positive slope.
- ◆ The cumulative price increases/decreases for the construction price index and the consumer price index have been relatively stable.
- ◆ The CPI went from 8.1% in Feb 2023 to 5.4% in Mar 2023, which means that the price increases and seeing a slowdown. According to our study, we believe that at the end of 2023, Armenia's inflation rate will reach the CBA's target rate

Figure 23. Dynamics of price indices of Armenia, %



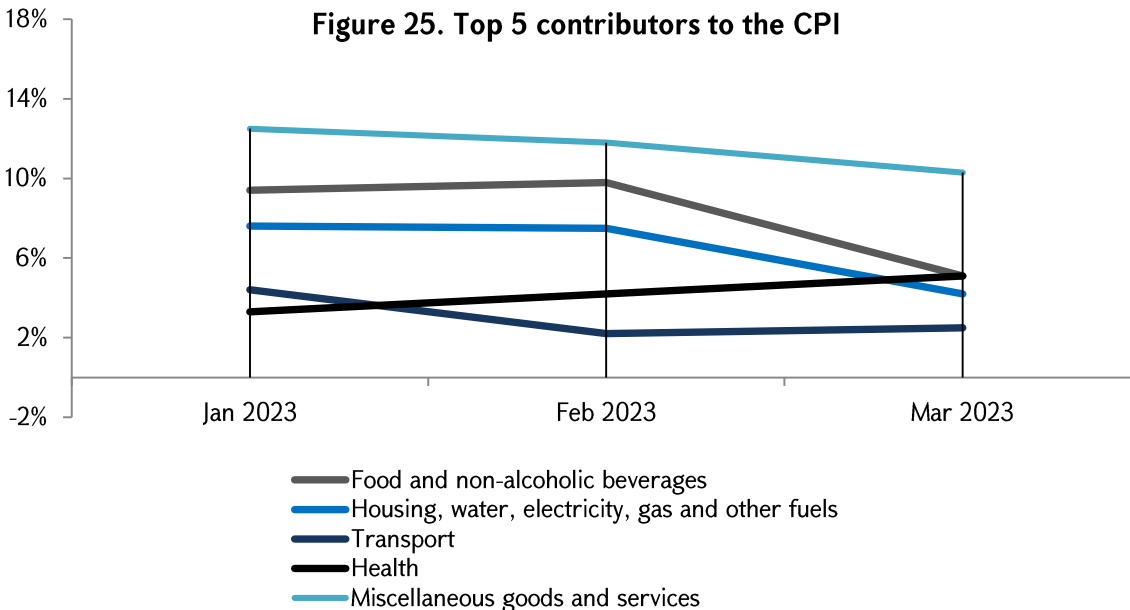
Armenia's Price Indices

Figure 24. 5 major weights in the CPI basket



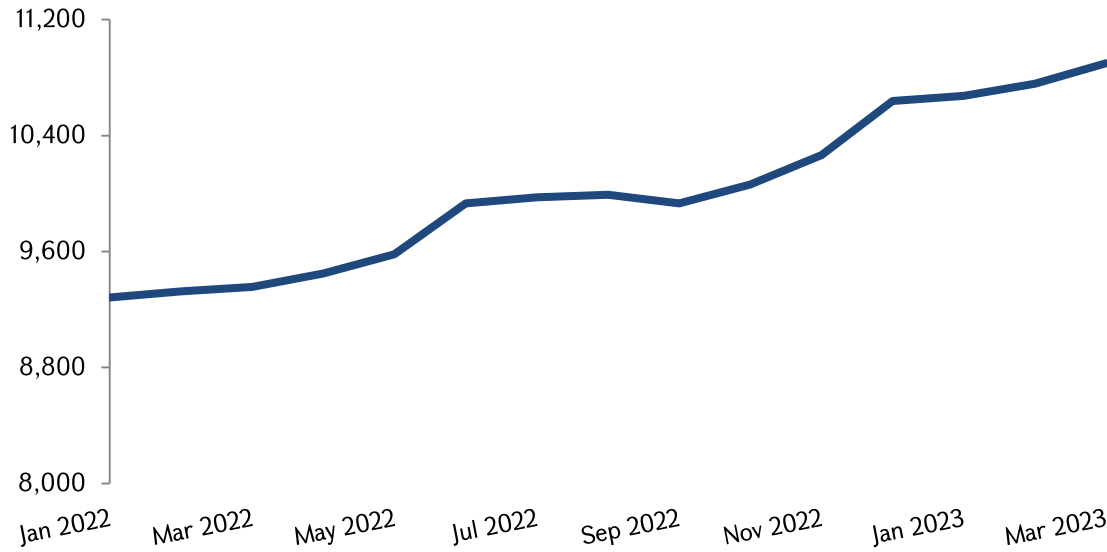
- ♦ Armenia's CPI basket is composed of twelve main categories, each category is weighted according to the needs and priorities of consumers.
- ♦ The twelve categories are: 1) Food and none alcoholic beverages, 2) Housing, water, electricity, gas, and other fuels, 3) Health, 4) Transport, 5) Alcoholic beverages, 6) Clothing and footwear, 7) Communication, 8) Furnishings, Household Equipment, 9) Recreation and Culture, 10) Education, 11) Restaurants and Hotels, and 12) Miscellaneous Goods and Services.
- ♦ The top two contributors by weight are food and housing.
- ♦ For the Jan-Mar 2023 period, "Food" had the highest weighted inflationary bearing on CPI. It accounted for approximately 3 percentage point out the cumulative 7.2inflation rate.

Figure 25. Top 5 contributors to the CPI



Armenia's Debt and Budget

Figure 26. Armenia's public debt



- ♦ Armenia's total debt in March 2023 reached 10,899.4 million USD.
- ♦ From this, 6,399.8 million dollars are external debts, which has decreased by approximately 3.7% from March 2022, while the rest are internal debts, which increased by approximately 66.0%.
- ♦ The external debts are divided into two parts: Armenia's government debt, which accounts for approximately 91.2% and decreased by 5.4% since March 2022, and the Central Bank of Armenia which accounts for approximately 8.8%, which has went up since December 2021 by 18.5%.
- ♦ In Jan-Mar 2023, Armenia's budgetary income was 483,578.3 million AMD, which is up by 13.7% when comparing with the same period of the previous year.
- ♦ This was due to tax and fee revenue which increased by approximately 15.2%, reaching 461,353.0 million AMD,
- ♦ Government expenses increased for Jan-Mar 2023, by approximately 6.5%. Government spending is separated into ongoing expenses and operation of non-financial assets.
- ♦ Ongoing expenses increased by 8.8%, which includes salaries of public sector workers, acquiring of goods and services, interest payments, grants, etc.
- ♦ Non-financial assets decrease by 17.6% when compared with Jan-Mar 2022.

Figure 27. Armenia's budget's income and expenses, mln Dram

