

ARMENIA'S ECONOMIC OUTLOOK

January-September 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 lead to more economic activity. However, the activity growth rate is evidently slowing down, as the initial shock fades out.
- In January-September 2023, the economic activity indicator observed a 9.7% growth (as opposed to 11.4% in the previous quarter).
- In September 2023, Armenian dram appreciated by approximately 2.3% since start of the year.
- Comparing January-September 2023 with the same time previous year we can observe that:
 - Exports grew by 44.8%.
 - Imports grew by 46.4%.
 - Number of tourists inflow increase by 48.4%.
 - Average salary increased by 10.4%.
 - Services output increased by 13.4%
 - Internal trade grew by 22.9%
- Armenia's inflation for January-September 2023 reached 2.8%.

Key economic indicators snapshot

Figure 1. Indicator of economic activity

Jan-Sep 2023, cumulative

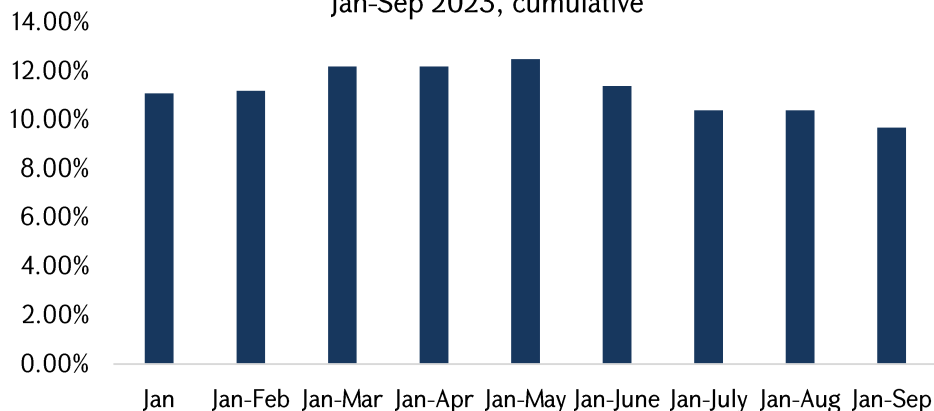


Figure 2. Growth by sectors
September 2023 com. to the same month previous year

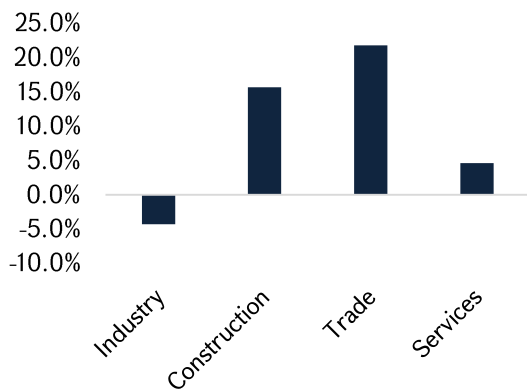
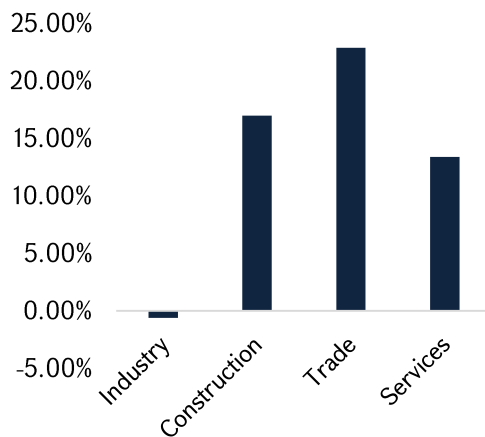


Figure 3. Growth by sectors
Jan-Sep 2023 com. to the same period previous year



- ♦ **Economic activity indicator (EAI)** was relatively stable from Jan-May. Throughout the first half of the year, the EAI was revolving around 11.1% to 12.5%. In Jan-Sep 2023, Armenia' EAI observed a slower growth rate compared to the first and second quarters with 9.7%.
- ♦ **Industry.** The volume of industrial production in Jan-Sep 2023 amounted to 1,842,959 million drams, decreasing by 0.6% compared to the same period last year. The main products that are negatively contributing to industrial production growth for 2023 are mining (-4.5% relative to the same period in 2022) and manufacturing industry (-0.4% relative to the same period in 2022). The industry's growth was positively affected by the energy and water supply industries (+4.2% and +5.6% respectively compared to the same period in 2022).
- ♦ **Construction.** The construction output in Jan-Sep 2023 amounted to 349,306.3 million drams, increasing by 17.0% compared to the same period last year. Construction growth was mainly contributed by organizational funds (38.6% relative to Jan-Sep 2022)
- ♦ **Trade.** The volume of internal trade turnover in Jan-Sep 2023 amounted to 3,740,362.6 million drams, increasing by 22.9% 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 2023 and boost in tourism.
- ♦ **Services.** The volume of services turnover in Jan-Sep 2023 amounted to 2,216,065.5 million drams, increasing by 13.4% compared to the same period last year. The main subsectors contributing to services turnover growth for 2023 are; transport (27% relative to Jan-Sep 2022), and information and communication industry (48.6% relative Jan-Sep 2022). Service's growth was negatively affected by the financial and insurance activities (-7.4% compared to Jan-Sep 2022). The high growth in the service sector can also be connected with the growth of tourism in the first three quarters of 2023 and the influx of Russians.

Tourism

Figure 4. International tourist arrivals

thousands

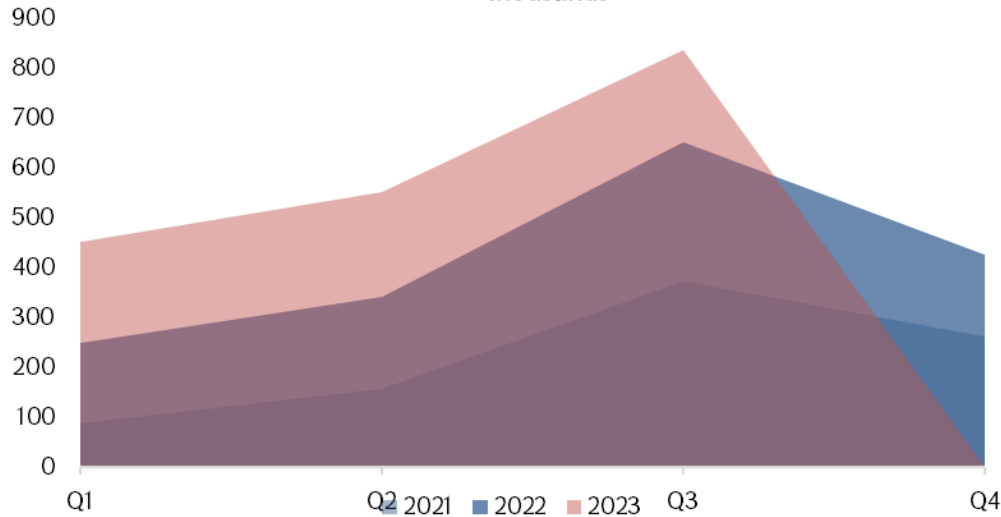
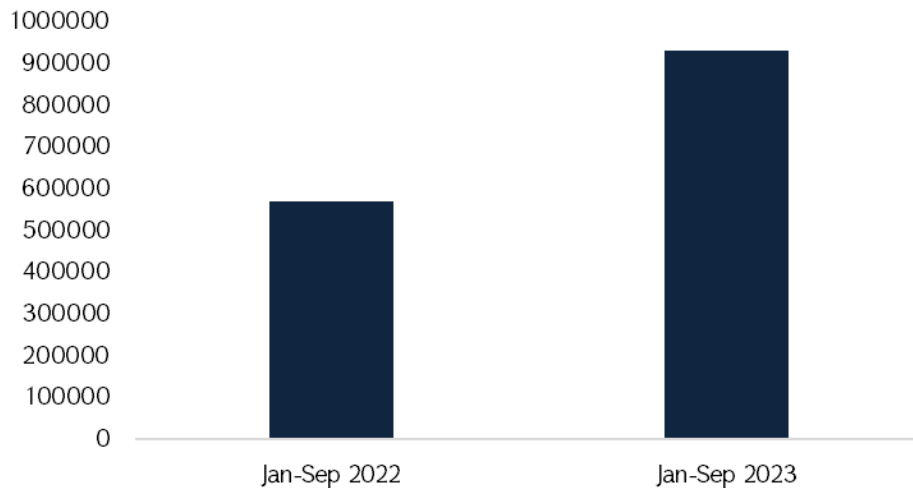
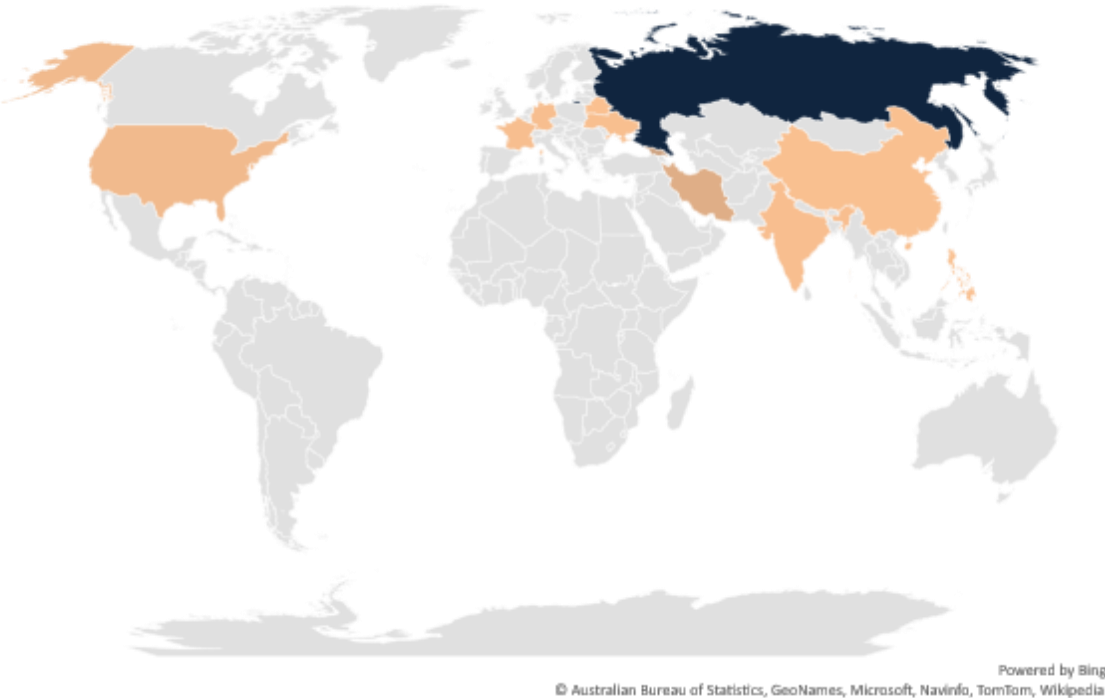


Figure 5. Number of tourists from Russia



- ◆ Armenia observed a huge jump in number of tourists in first three quarters of 2023 compared to the previous years.
- ◆ In Jan-Sep 2023, the number of tourists reached 1,839 thousand which increased by 48.4% when compared to the same period previous year.
- ◆ A few of the reasons for the surge in the number of tourists are;
 - ◆ the Russian-Ukrainian war
 - ◆ influx of Armenian diaspora
 - ◆ Seasonality
- ◆ Tourists from Russia accounted for 50.7% of the entire entries.
- ◆ Based on the increase in number of tourists we expect the inflows return to be increase by approximately 50.0% 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 63%.

Tourism



Arrival Origins

Jan-Sep 2023

1,839 thousand, 48.4% YoY change

Russia	931.7 thousand, 63.2% YoY change
Iran	116.0 thousand, 28.0% YoY change
Georgia	185.1 thousand, 60.2% YoY change
USA	48.7 thousand, 17.3% YoY change
France	22.5 thousand, 17.4% YoY change
Germany	22.0 thousand, 15.1% YoY change
India	21.5 thousand, 80.4% YoY change
Ukraine	20.5 thousand, 57.9% YoY change
China	14.4 thousand, 3.8x YoY change
Belarus	13.7 thousand, 4.1% YoY change
Philippines	11.9 thousand, 2.4x YoY change

931.7 thousand

11.9 thousand

International trade: Export

Figure 6. Exports of goods
January-September 2023, mln USD

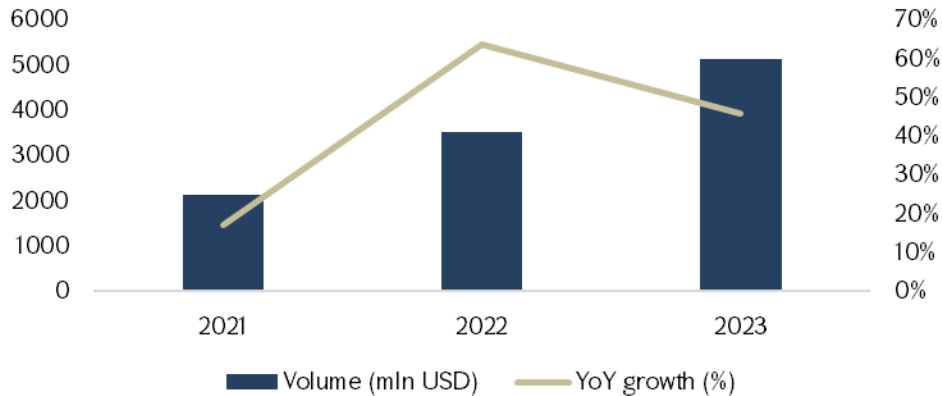
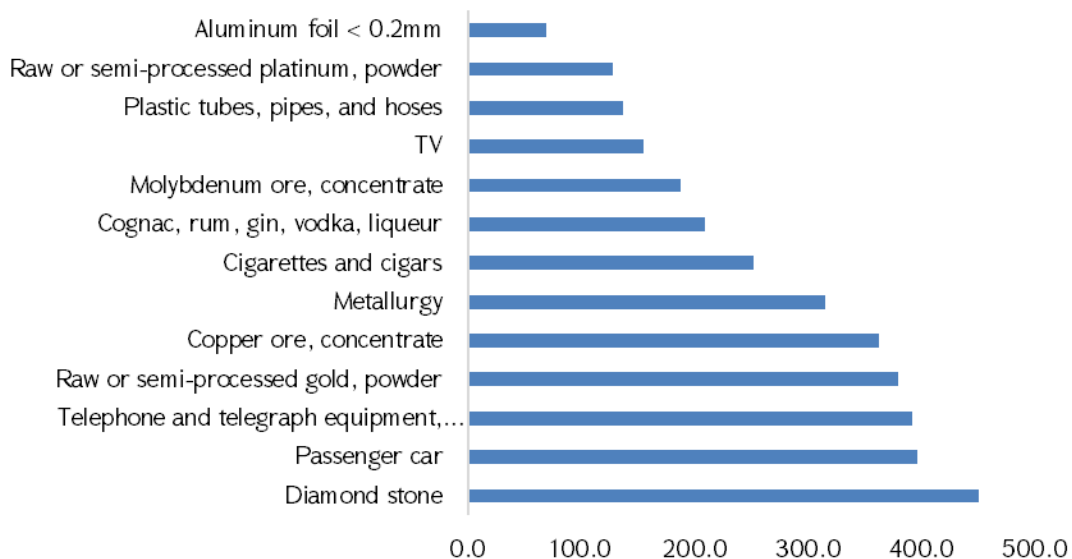


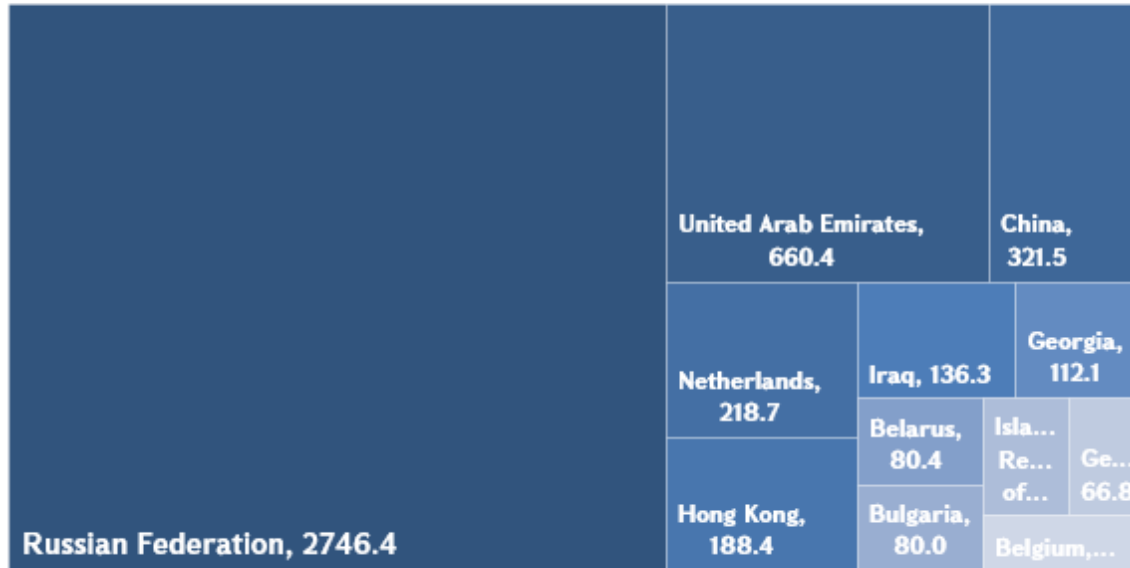
Figure 9. Exports by goods
January-September 2023, mln USD



- ♦ **Exports in Jan-Sep 2023** amounted to 5,120.6 million US dollars, increasing by 1,585.2 million USD or 44.8% over the same period last year.
- ♦ One of the main contributors for the export growth is the Russian-Ukrainian war, as the increasing number of sanctions on Russia opened new markets for Armenia to export
- ♦ The main products contributing to growth for Jan-Sep 2023 (percentages are relative to the same period):
- ♦ **Diamond Stone:** 450.6 million USD, increasing by 186.6 million USD or by 70.6%
- ♦ **Passenger car:** 397 million USD, increasing by 307.9 million USD or by 4.4x
- ♦ **Telephone and telegraph equipment, modem, spare parts:** 392.6 million USD, increasing by 213.7 million USD or by 2.2x
- ♦ **Raw or semi-processed gold, powder:** 380.2 million USD, increasing by 160.4 million USD or by 73%
- ♦ **Copper ore, concentrate:** 362.5 million USD, decreasing by 137.8 million USD or by 27.5%
- ♦ **Metallurgy:** 316 million USD, increasing by 129.3 million USD or by 70%
- ♦ **Cigarettes and cigars:** 252.1 million USD, increasing by 34.7 million USD or by 16%
- ♦ **Cognac, rum, gin, vodka, liqueur:** 209.6 million USD, increasing by 34.1 million USD or by 19%
- ♦ **Molybdenum ore, concentrate:** 188 million USD, increasing by 70.6 million USD or by 60%
- ♦ **TV:** 155.4 million USD, increasing by 129.7 million USD or by 6x

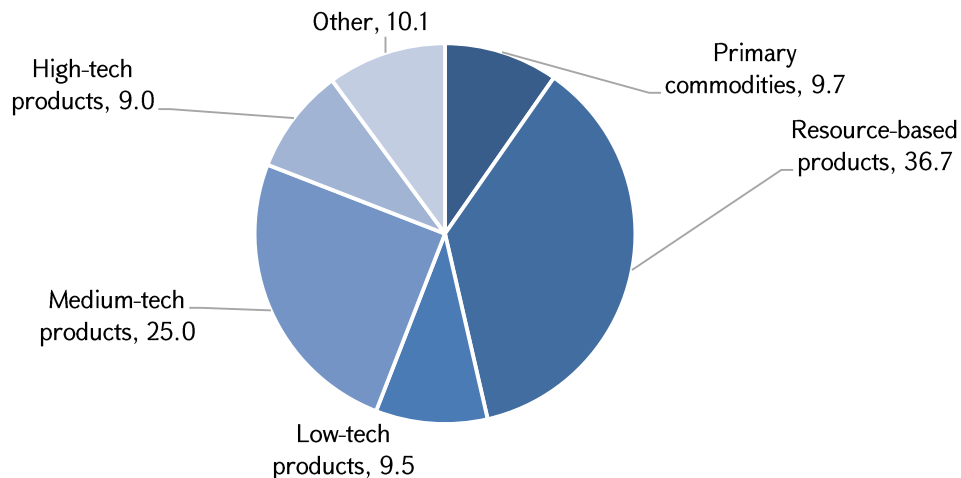
International trade: Export

Figure 8. Export volumes by country
Jan-Sep 2023, mln USD



- ♦ **Plastic tubes, pipes, and hoses:** 136.7 million USD, increasing by 135.2 million USD or by 88.2x
- ♦ **Raw or semi-processed platinum, powder:** 128.5 million USD, increasing by 128.4 million USD or by 1992x
- ♦ **Aluminum foil<0.2mm:** 69.9 million USD, decreasing by 26 million USD or by 27.1%.
- ♦ **Main exporting countries:**
 - ♦ Primary trade partner Russia accounted for 52.57% of total exports in Jan-Sep 2023, amounting to 2,746.4 million USD. This represents an increase of 1,371.1 million USD, or 2x growth compared to the same period last year.
- ♦ **Other major partner countries:**
 - ♦ **UAE:** Exports Jan-Sep 2023 amounted to 660.4 million US dollars, increasing by 383.7 million US dollars or 2.4x compared to the same period last year.
 - ♦ **China:** Exports Jan-Sep 2023 amounted to 321.5 million US dollars, increasing by 53.2 million US dollars or 19.8% compared to the same period last year.
 - ♦ **Netherlands:** Exports Jan-Sep 2023 amounted to 218.7 million US dollars, increasing by 55.2 million US dollars or 33.7% compared to the same period last year.

Figure 9. Exports of goods by tech level
January-September 2023, %



International trade: Import

Figure 10. Imports of goods
January-September 2023, mIn USD

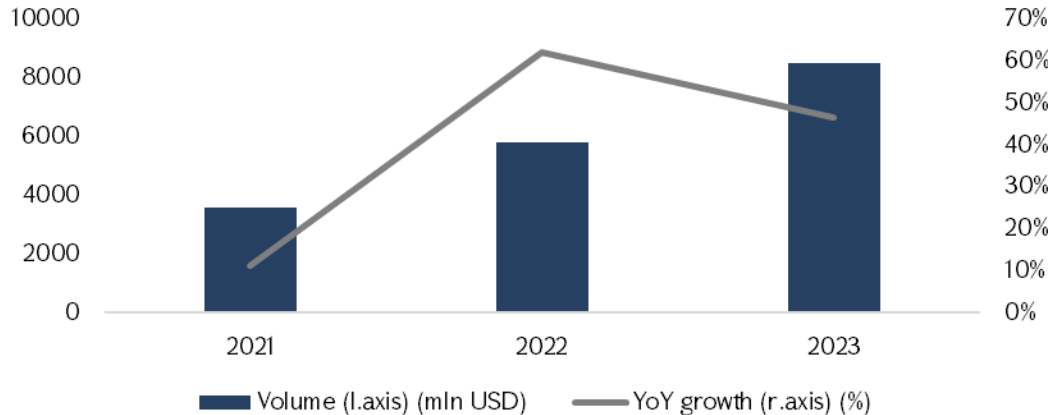
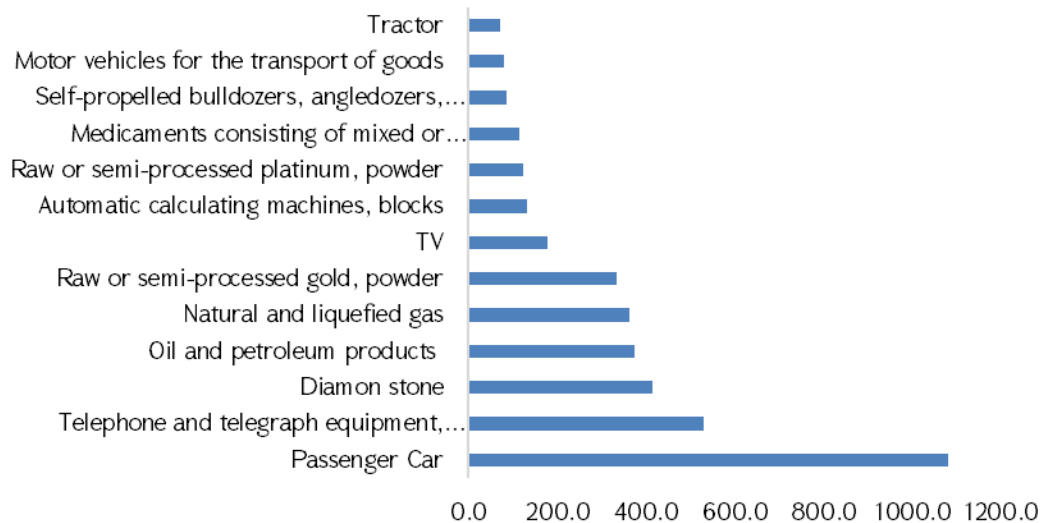


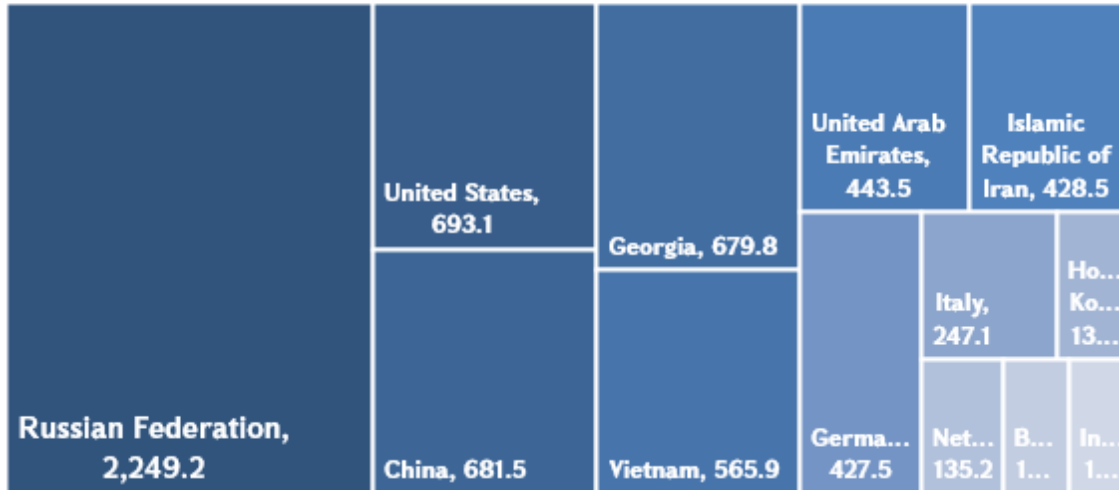
Figure 11. Imports by goods
January-September 2023, mIn USD



- ♦ **Imports in Jan-Sep 2023** amounted to 8,488.1 million US dollars, increasing by 2,690.9 million USD or 46.4% over the same period last year. The main products contributing to growth for Jan-Sep 2023 (percentages are relative to the same 2022 period):
- ♦ **Passenger car:** 1,079.8 million USD, increasing by 742.5 million USD or by 3.2x
- ♦ **Telephone and telegraph equipment, modem, spare parts:** 530.1 million USD, increasing by 264.9 million USD or by 2x
- ♦ **Diamond Stone:** 413 million USD, increasing by 148.9 million USD or by 56%
- ♦ **Raw or semi-processed gold, powder:** 332.6 million USD, increasing by 214.9 million USD or by 2.8x
- ♦ **TV:** 177.6 million USD, increasing by 128.9 million USD or by 3.6x
- ♦ **Automatic calculating machines, blocks:** 130.1 million USD, increasing by 12.1 million USD or by 10.2%
- ♦ **Raw or semi-processed platinum, powder:** 123.5 million USD, increasing by 122.5 million USD or by 128.5x
- ♦ **Self-propelled bulldozers, angledozers, graders, etc.:** 84.5 million USD, increasing by 24 million USD or by 39.5%
- ♦ **Motor vehicles for the transport of goods:** 80.9 million USD, increasing by 43 million USD or by 2.1x
- ♦ **Tractor:** 70.2 million USD, increasing by 41.6 million USD or by 2.5x

International trade: Import

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



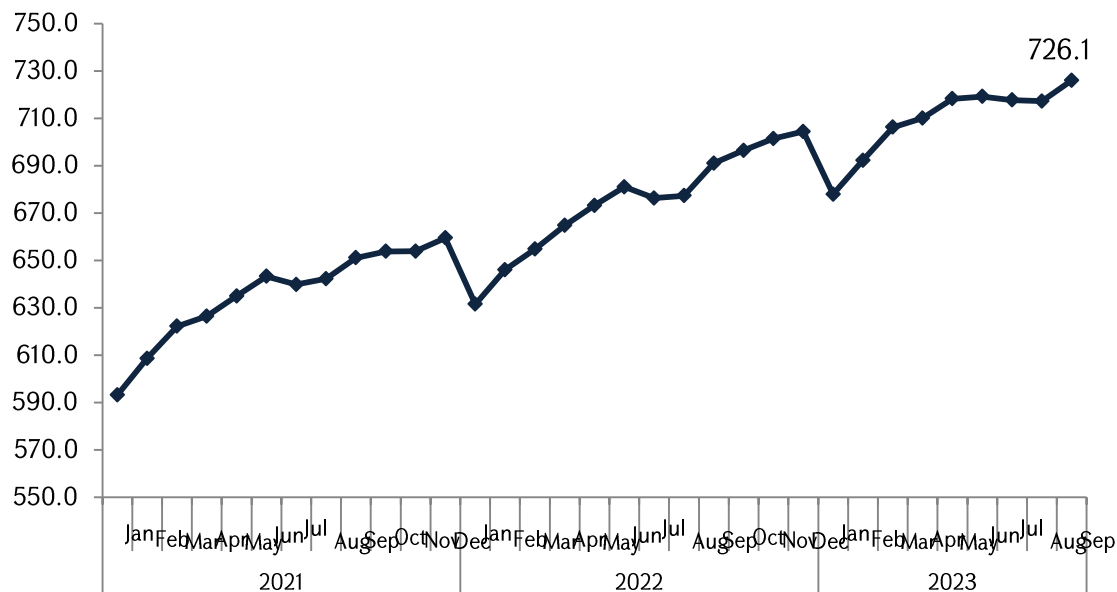
- Primary trade partner Russia accounted for 26.7% of total imports in Jan-Sep 2023, amounting to 2,249.2 million USD. This represents an increase of 298.7 million USD, or 15.3% growth compared to the same period last year.
- Other major partner countries:
 - **USA:** Imports in Jan-Sep 2023 amounted to 693.1 million US dollars, increasing by 421.7 million US dollars or 2.5x compared to last year's same period.
 - **Georgia:** Imports in Jan-Sep 2023 amounted to 679.8 million US dollars, increasing by 216.6 million US dollars or 46.7% compared to last year's same period.
 - **China:** Imports in Jan-Sep 2023 amounted to 681.5 million US dollars, increasing by 200.3 million US dollars or 41.6% 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 45.5% of total import volumes.
- Imports of consumer goods in Jan-Sep 2023 amounted to 3064.2 million US dollars, increasing by 1089.8 million US dollars or 55.2% compared to the same period last year. The growth is mainly due to the activation of domestic demand.
- Import of intermediate goods in Jan-Sep 2023 amounted to 3862.2 million US dollars, increasing by 874.6 million USD or 29.3% compared to the same period last year.
- Import of capital goods in Jan-Sep 2023 amounted to 1553.4 million US dollars, increasing by 726.5 million US dollars or 87.8% compared to the same period last year.
- Capital goods had the highest import growth rate.

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

	Import		YoY growth
	mln USD	mln USD	%
Total	8488.1	2690.9	46.4
Capital goods	1553.4	726.5	87.8
Intermediate goods	3862.2	874.6	29.3
Consumer goods	3064.2	1089.8	55.2
	Import structure		Growth structure
			%
Total	100.0		100.0
Capital goods	18.3		27.0
Intermediate goods	45.5		32.5
Consumer goods	36.1		40.5

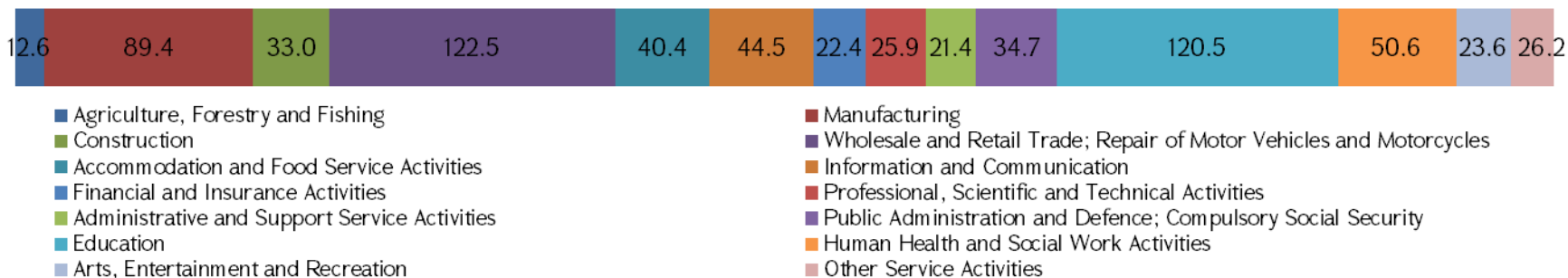
Labor market: Formal employment

Figure 13. Formal employment, thousand.



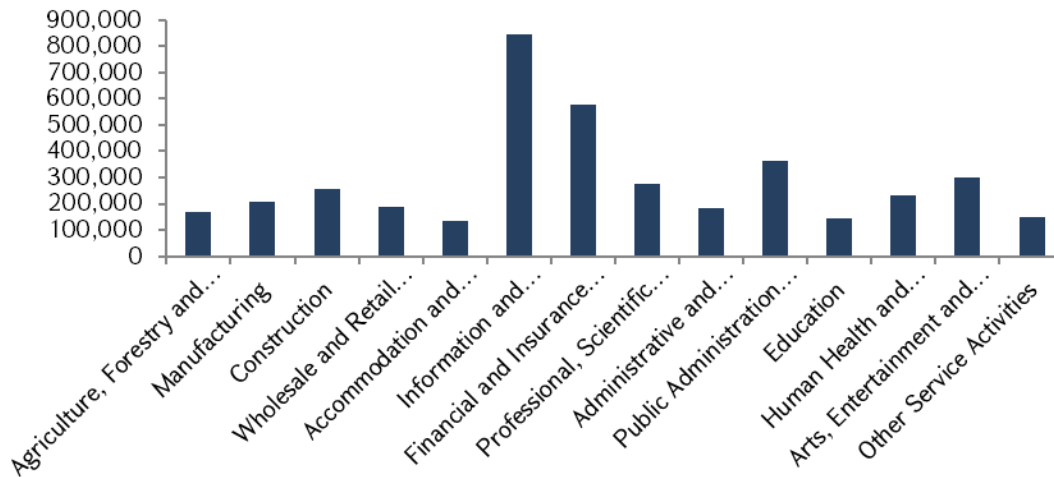
- ♦ The formal employment In September 2023 reached 726.1 thousand people, increasing by 35 thousand from September 2022 or by 5%.
- ♦ Trade, education and manufacturing categories have the most formal employees for September 2023.
- ♦ The formal employees of the Information and communication sector for September 2023 reached 44.5 thousand. Which Grew by 4.8% comparing with the same period previous year.
- ♦ Comparing with September 2022, “Trade” and “Other services” observed declines by 1%, and 2.3% respectively.
- ♦ The highest growth was been in the “Arts, Entertainment and Recreation” sector by 64.1%
- ♦ **The Russian-Ukrainian war 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 especially the IT sector**

Figure 14. Formal employment (by sector),
Thousand

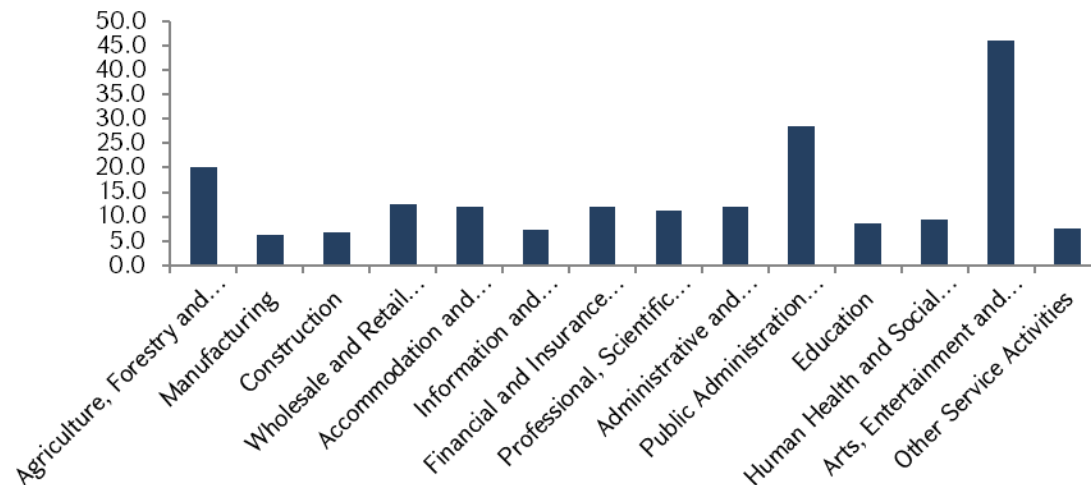


Labor market: Wages

**Figure 15. Salaries
By sectors**



**Figure 16. Salary change, %
By sectors**



- The average monthly salary in September 2023 amounted to 261,480 drams, increasing by 10.4% compared to last year. **From which;**
- Agriculture: Observed an average salary of 167,266 drams, which increased by 20% comparing with the same period previous year
- Manufacturing: Observed an average salary of 207,529 drams, which increased by 6.3% comparing with the same period previous year
- Construction: Observed an average salary of 256,662 drams, which increased by 6.8% comparing with the same period previous year
- Wholesale and Retail Trade: Observed an average salary of 187,975 drams, which increased by 12.4% comparing with the same period previous year
- Information and Communication: Observed an average salary of 843,166 drams, which increased by 7.2% comparing with the same period previous year
- Financial and Insurance Activities: Observed an average salary of 576,670 drams, which increased by 12.1% comparing with the same period previous year
- Professional, Scientific and Technical Activities: Observed an average salary of 274,235 drams, which increased by 11.1% comparing with the same period previous year
- Public Administration and Defense; Compulsory Social Security: Observed an average salary of 361,099 drams, which increased by 28.4% comparing with the same period previous year
- Education: Observed an average salary of 144,199 drams, which increased by 8.7% comparing with the same period previous year
- Human Health and Social Work Activities: Observed an average salary of 234,196 drams, which increased by 9.5% comparing with the same period previous year
- Arts, Entertainment and Recreation: Observed an average salary of 299,756 drams, which increased by 46.1% comparing with the same period previous year

Remittance inflow and Exchange rate

Figure 17. Remittance inflow
Mln USD

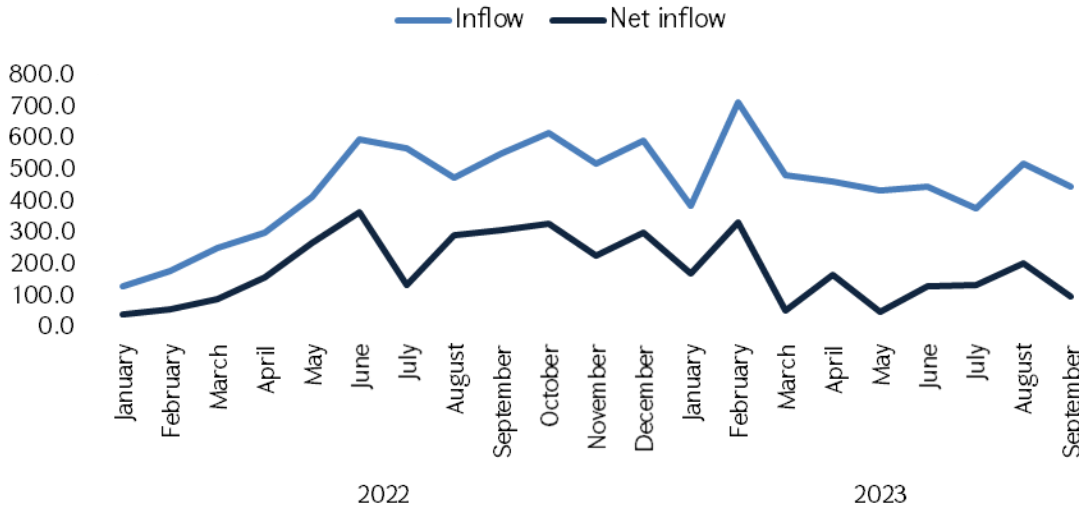


Figure 18. Remittances and USD/AMD relationship

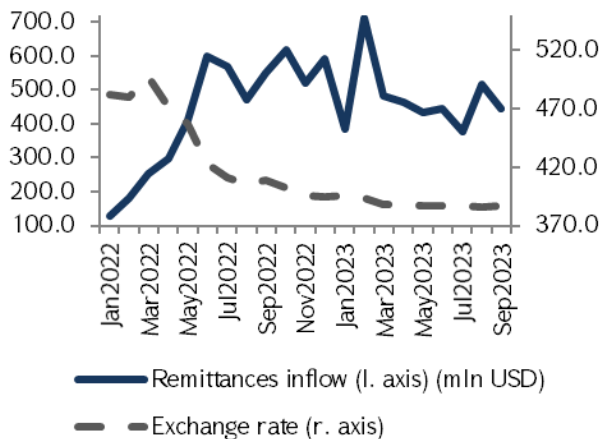
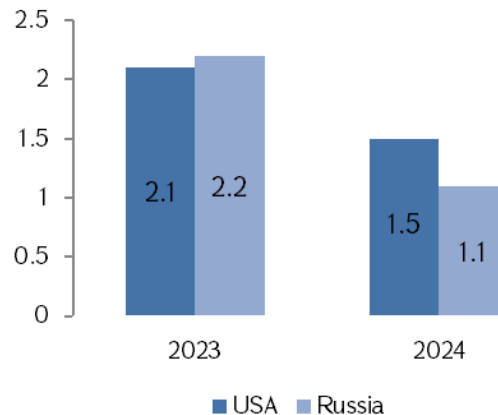


Figure 19: Forecasts of GDP growth for USA & Russia



- ♦ In Jan-Sep 2023, the total inflow volume of money transfers reached 4,264.3 Million USD, increasing by 23.2% compared to the same period last year.
- ♦ Most of the remittances were received from Russia, which accounts for approximately 70.3% of the remittances. For Jan-Sep 2023, inflows from Russia totaled to 3,001.6 million USD, increasing by 29.5% YoY.
- ♦ Remittances from the United States accounted for 11.3% of the remittances. In Jan-Sep 2023, it totaled 309.0 million USD, decreasing by 1.8% YoY.
- ♦ In Jan-Sep 2023, net inflow transfers of individuals amounted to 1330.4 million USD, decreasing by 23.1% YoY.
- ♦ After the Russian-Ukrainian the inflow of remittances from Russia grew 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 as the Armenian dram is showing stable rates throughout the year.
- ♦ According to IMF economic outlook, Russia & the USA will have 2.2% and 2.1% economic growth in 2023, respectively, followed by 1.1% and 1.5% in 2024.
- ♦ The slow growth of GDP in Russia, has not affected the pace of remittances from Russia, however, the slow growth in the USA has started to show its effect on the remittances as for Jan-Sep 2023, we observed negative inflow of remittances from the USA.

CPI- Armenia vs Rest of World

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

annual percent change, %

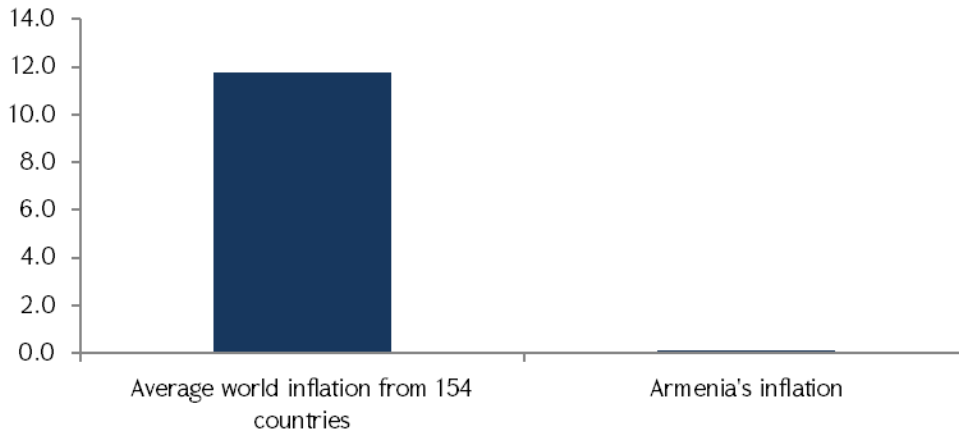
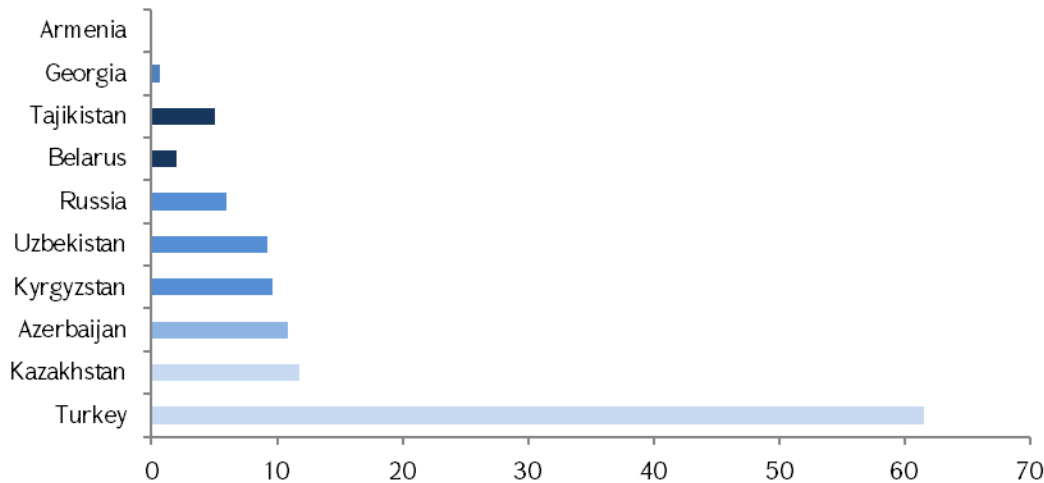


Figure 21. Inflation rate, average consumer prices

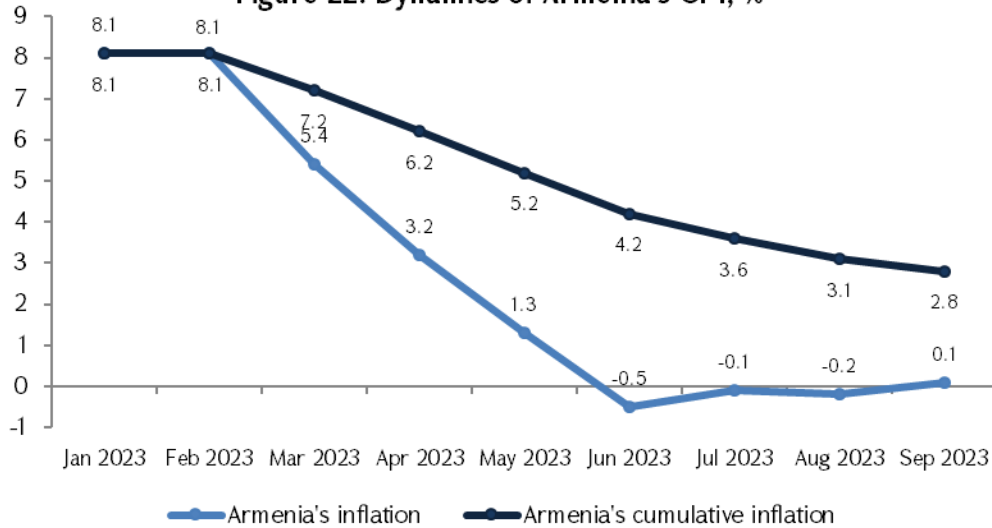
annual percent change



- ◆ Although throughout the world the inflation remains a huge concern. In the 3rd quarter of 2023, Armenia's inflation continues to remain low, increasing only slightly compared to the previous quarter.
- ◆ As of September 2023, world inflation remains a concerning and growing factor. According to the current data, average global inflation from 154 countries for the month of September 2023 is approximately 11.8%. This implies nearly all countries have suffered from the inflation surge.
- ◆ Armenia's inflation rate according to Armenia's statistical committee was 0.1% in September 2023.
- ◆ From figure 21, we can observe that Armenia has the lowest inflation rate in the region.
- ◆ As Armenia has entered a deflation stage, the central bank in the third quarter decreased the interest rate twice. We expect that until end of the year, Armenia will observe a drop in its refinancing rate few more times, because, currently Armenia does have the concern of growing inflation rate and the current CPI rate is below the CBA's target.

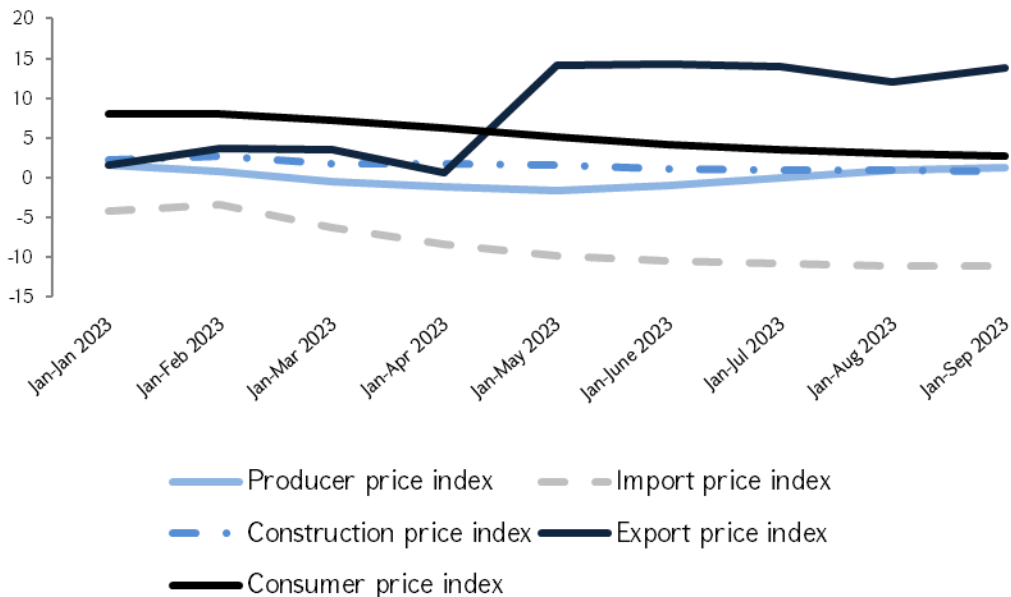
Armenia's Price Indices

Figure 22. Dynamics of Armenia's CPI, %



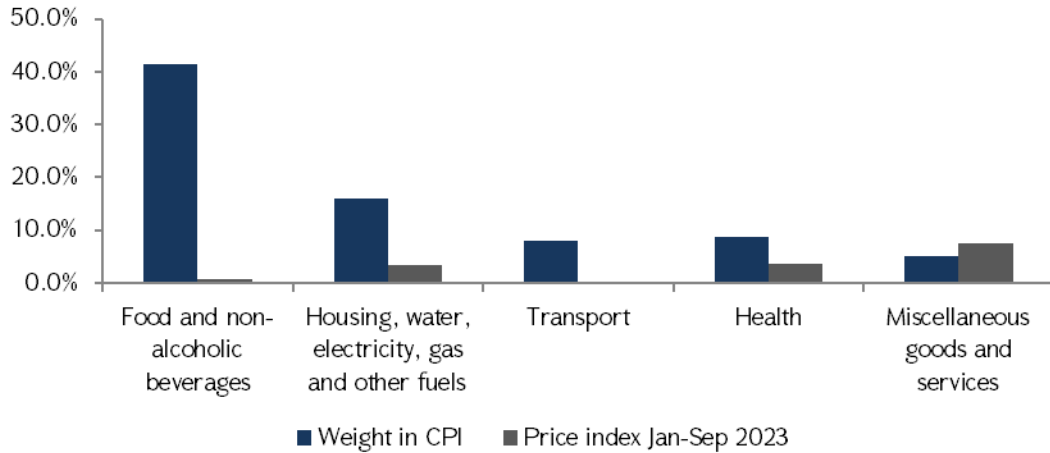
- The Statistical committee of the Republic of Armenia has reported the consumer price index of Armenia as 0.1% for September 2023 and 2.8% for cumulative Jan-Sep 2023.
- Most of the price indices of Armenia were relatively stable during the Jan-Sep 2023.
- The import price index of Armenia has been negative throughout the first 3 quarters of 2023. Starting from Jan-Mar 2023, the producer price index (PPI) observed negative rates as well, but in Jan-Sep 2023 it went up to 1.3% becoming positive once again.
- While the CPI was negative in Jun-Aug of 2023, it went up to 0.1 in Sep becoming positive. According to the CBA and their forecast the inflation will reach to 0.4% at the end of 2023, which is still below the target

Figure 23. Dynamics of price indices of Armenia, %



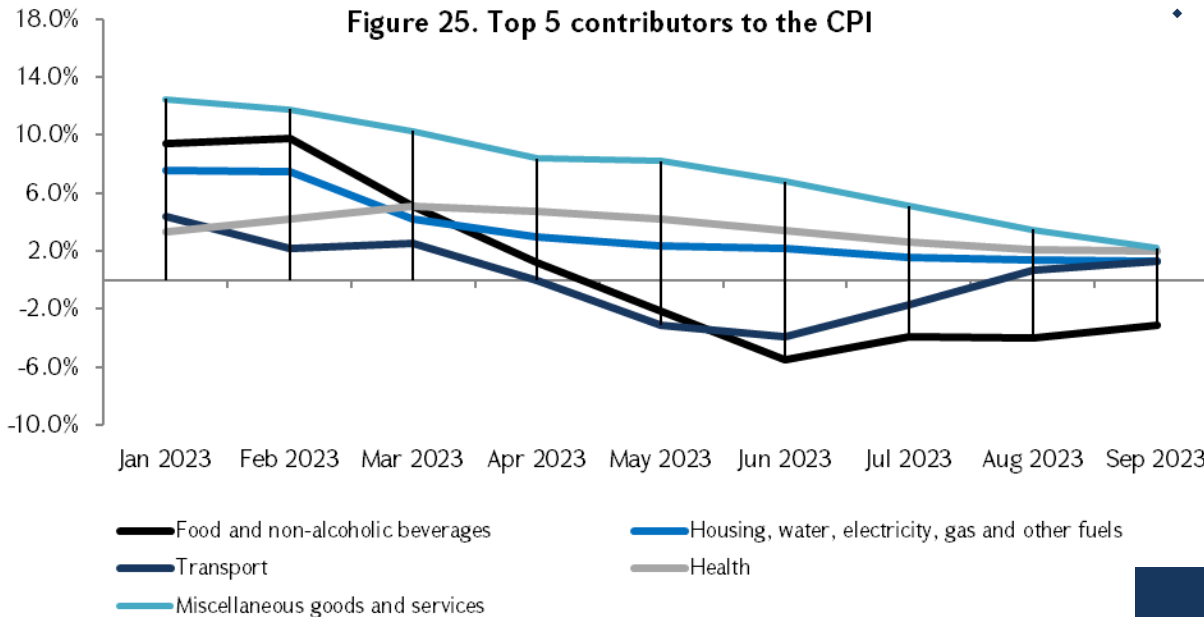
Armenia's Price Indices

Figure 24. 5 major weights in the CPI basket



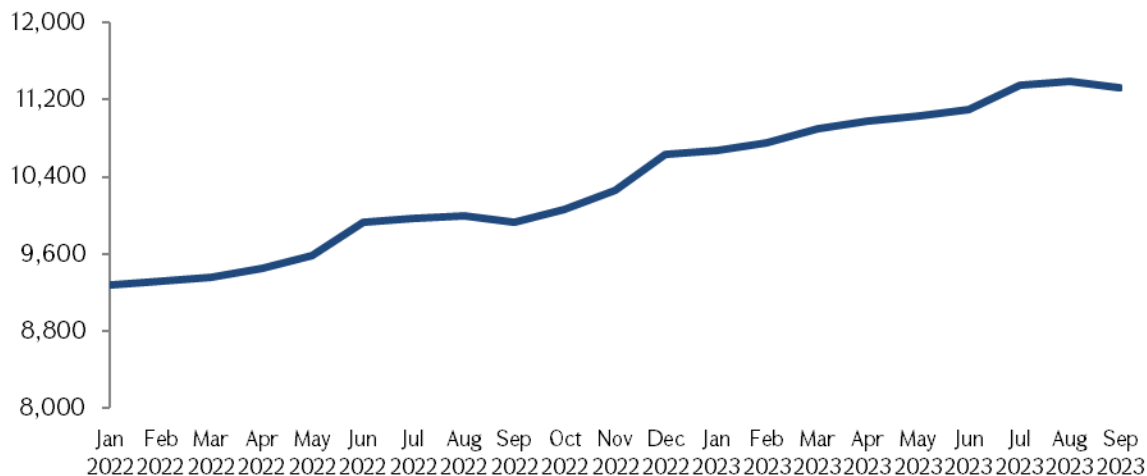
- ◆ Armenia's CPI basket is composed of twelve main categories, each category is weighted according to the needs and priorities of consumers.
- ◆ The twelve categories are: 1) Food and none alcoholic beverages, 2) Housing, water, electricity, gas, and other fuels, 3) Health, 4) Transport, 5) Alcoholic 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-Sep 2023 period, "Food" had the highest weighted inflationary bearing on CPI. It accounted for approximately 0.3 percentage point out the cumulative 2.8 inflation rate.

Figure 25. Top 5 contributors to the CPI



Armenia's Debt and Budget

Figure 26. Armenia's public debt, mln dollars



- ♦ Armenia's total debt in September 2023 reached 11,322.3 million USD.
- ♦ From this, 6,515.6 million dollars are external debts, which has increased by approximately 6% from September 2022, while the rest are internal debts, which increased by approximately 27%.
- ♦ The external debts are divided into two parts: Armenia's government debt, which accounts for approximately 91.8% and increased by 6.6% since September 2022, and the Central Bank of Armenia which accounts for approximately 8.2%, which has decreased since September 2022 by 0.32%.
- ♦ In Jan-Sep 2023, Armenia's budgetary income was 1,708,497.3 million AMD, which is up by 13.8% when comparing with the same period of the previous year.
- ♦ This was due to tax and fee revenue which increased by approximately 15.0%, reaching 1,617,050.2 million AMD.
- ♦ Government expenses increased for Jan-Sep 2023, by approximately 12.7% reaching 1,633,935.0. Government spending is separated into ongoing expenses and operation of non-financial assets.
- ♦ Ongoing expenses increased by 9.9%, which includes salaries of public sector workers, acquiring of goods and services, interest payments, grants, etc.
- ♦ Non-financial assets increased by 33.6% when compared with Jan-Sep 2022.

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

