

Overview

- Overall limited impact of the war in Ukraine on Armenia. After an initial downward correction, macroeconomic forecasts revised upwards again
- Real GDP expected to grow by 4.6% in 2022; mainly on the back of strong consumption
- Significant inflow of migrants and tourists from Russia accelerates aggregate demand. At the same time: challenge to control negative consequences of inflow
- Inflation still above CBA target, but slowed down to 9.3% in Jul-22
- Strong appreciation of the dram against the US dollar (15.2%) since the start of the war in UKR is easing the inflationary pressure
- Budget deficit expected at 2.1% of GDP in 2022; slight reduction of public debt to 58.4% of GDP. Fiscal consolidation on the back of good economic performance
- Strong exports (6M2022: +36.3% yoy) and even stronger imports (+48.7% yoy); current account deficit expected at 5.2% of GDP in 2022

Special topics

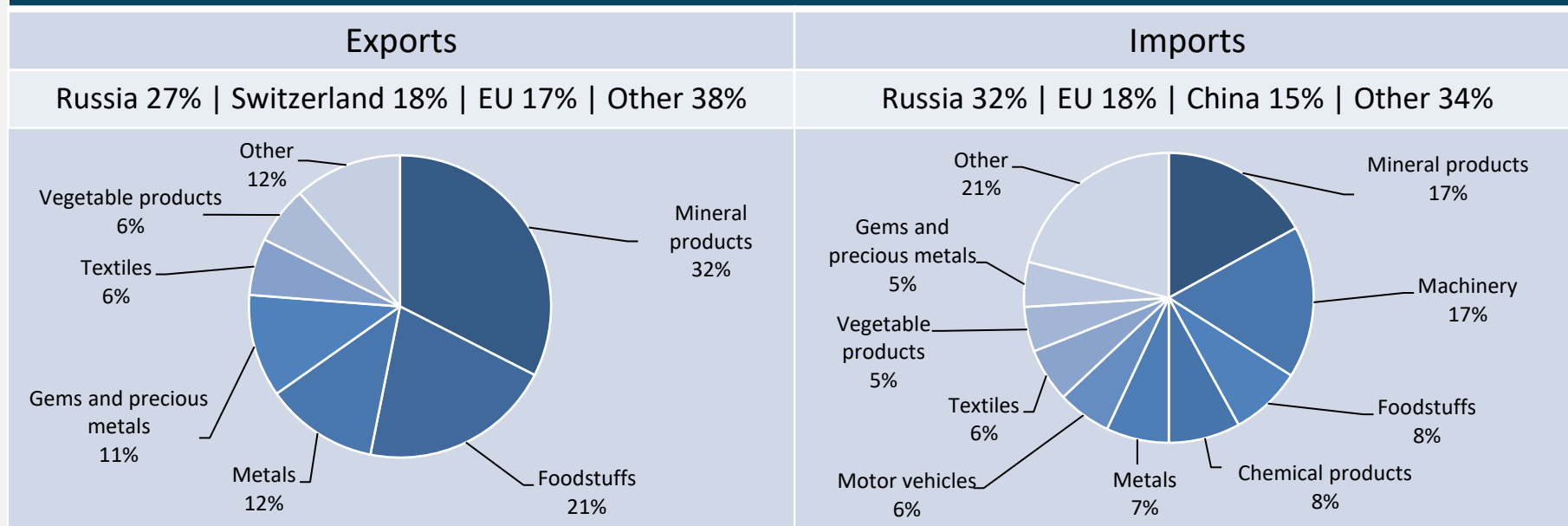
- **Inflow of people from RUS.** Estimation of economic impact based on own survey
- **Trade normalisation with Turkey.** Positive impact on Armenian trade
- **Energy.** High import dependency on RUS, but ambitious plans for renewable energies
- **GDP forecast.** Revised forecast of the GET Macro Model

Basic indicators

	Armenia	Azerbaijan	Georgia	Ukraine	Russia
GDP, USD bn	13.9	54.6	18.7	200.3	1,775.5
GDP/capita, USD	4,702	5,398	5,014	4,838	12,198
Population, m	3.0	10.1	3.7	41.4	145.6

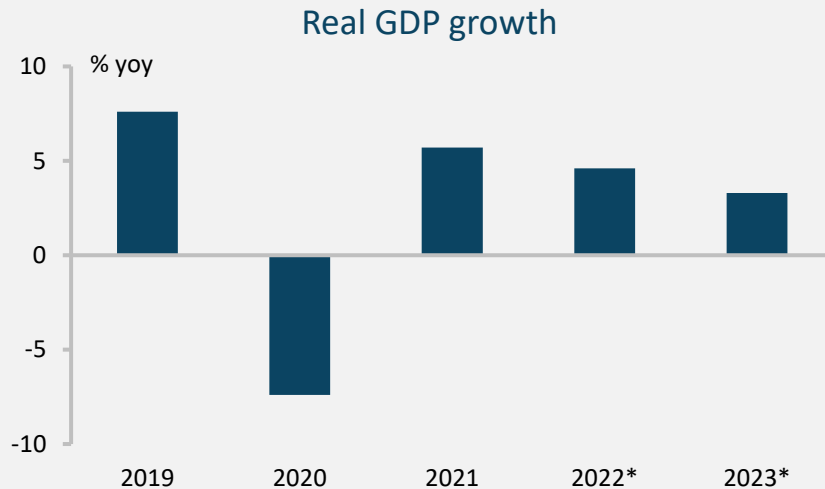
Sources: IMF, national statistics offices, note: data for 2021

Trade structure

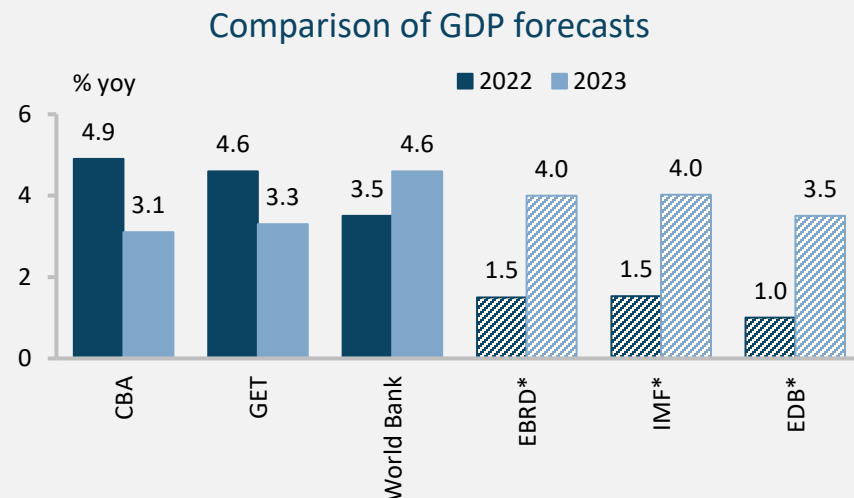


Source: Armstat, 2021, note: trade in goods

Economic growth



Sources: IMF; *GET estimation/forecast



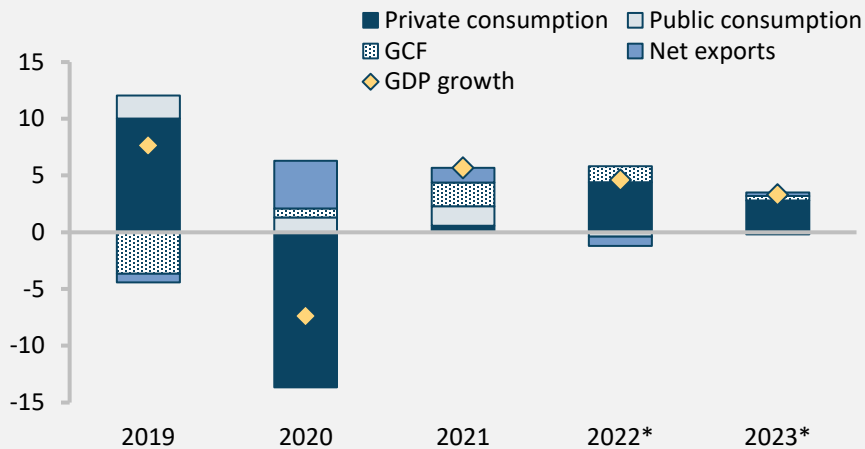
Sources: respective institutions; *forecast after the start of the war in Ukraine, likely to be revised upwards for 2022

GDP

- War in UKR created major uncertainty due to strong economic exposure to RUS
 - Initially, massive downward correction of GDP forecasts to 1.0-1.5%
 - However, current data points towards a less pronounced effect
 - Acceleration of aggregate demand driven by strong inflow of people from RUS (migrants and tourists)
 - Correspondingly, good performance of services and trade; strong service exports
 - Thus: GDP forecasts had to be reviewed for the second time this year, but this time upwards
 - 2022: 4.6% yoy (GET)
- **Positive growth outlook; limited impact of war in Ukraine on Armenia**

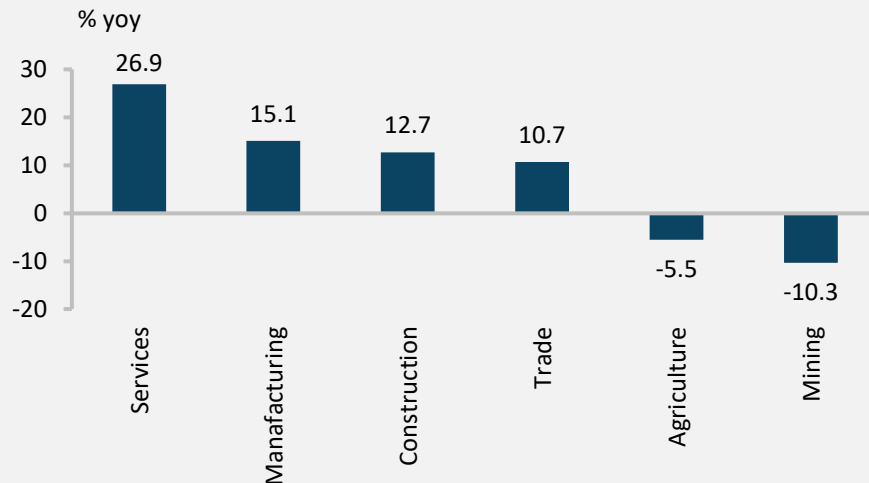
GDP: demand and supply

Contribution to economic growth



Sources: Armstat, *GET estimation/forecast

Sectoral dynamics



Source: Armstat, data for 6M2022; note: output growth

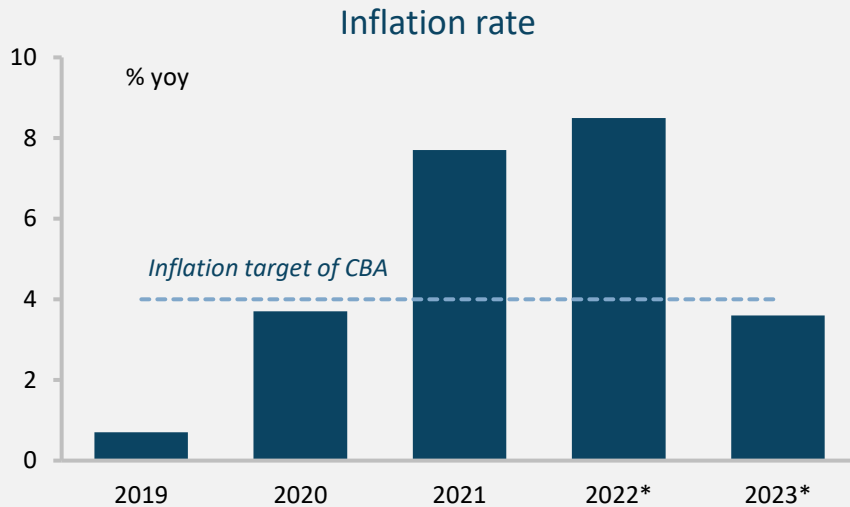
Demand-side dynamics

- 2022: growth mainly driven by private consumption and investment; negative contribution of net exports
- 2023: private consumption expected to remain main driver of GDP growth

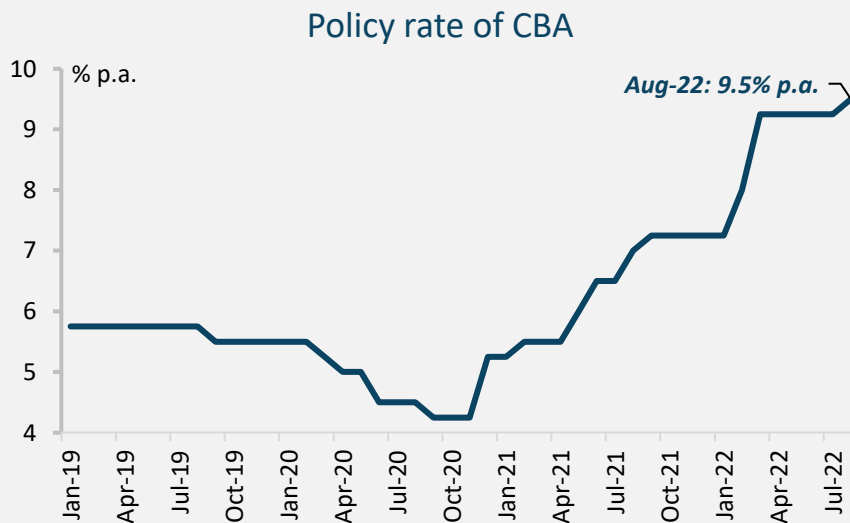
Supply-side dynamics (6M2022)

- Positive impact of strong inflow of migrants/tourists and money transfers
 - Services: +26.9% yoy
 - Trade: +10.7% yoy
 - Manufacturing (+15.1%) and construction (+12.7%) also positively affected by higher domestic demand
 - Decline in mining (-10.3%) related to closure of Teghut copper mine in Mar-22
- **Positive dynamics in most sectors due to higher consumption and investment**

Inflation and monetary policy



Source: CBA, *estimation/forecast; note: consumer prices, eop



Source: CBA; note: eop

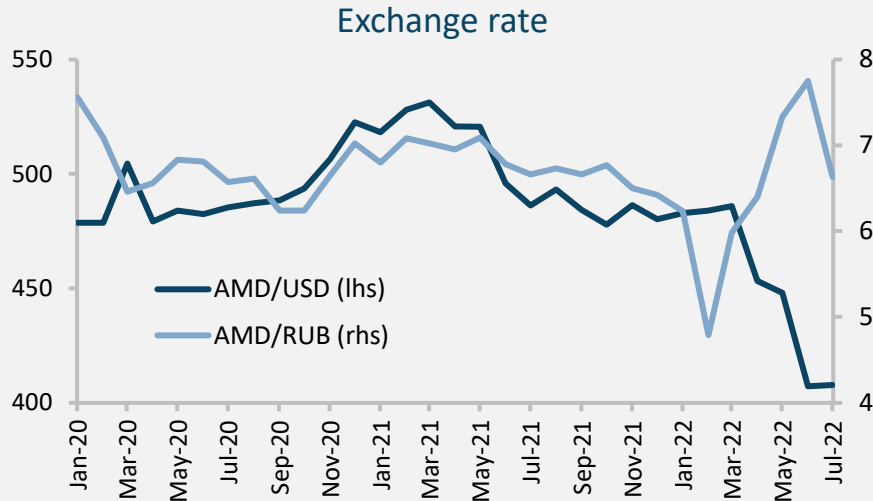
Inflation

- Acceleration in 2022
 - High global commodity and food prices
 - Strong domestic demand due to significant inflow of migrants/tourists
- Jul-22: slowdown of inflation to 9.3% yoy after peak in Jun-22 (10.3%)
- 2023: pull-back of inflation towards the inflation target of CBA expected on the back of a strong dram

Monetary policy

- CBA further tightened monetary policy
 - Aug-22: another hike to 9.5%; third increase in 2022
 - Easing of inflationary pressure expected starting from Q4 2022
- **Stabilisation of inflation and return to target expected in 2023**

Exchange rate and currency reserves



Source: CBA, period average



Source: CBA

Exchange rate

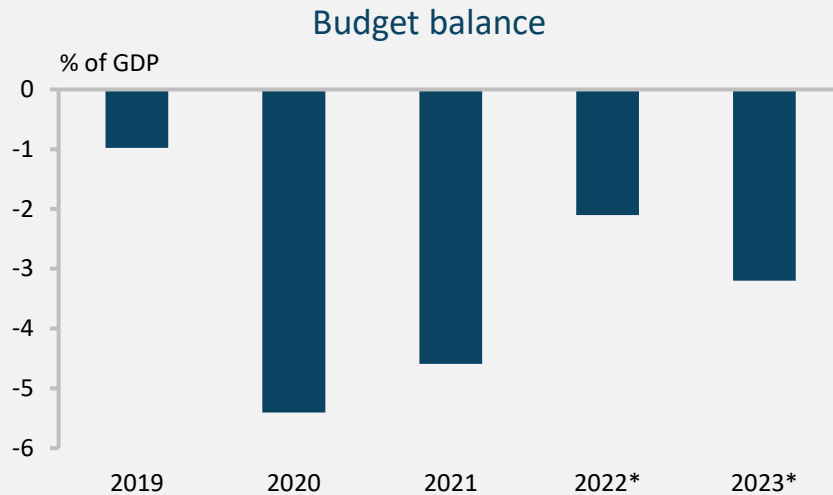
- Strong appreciation against the USD since the start of the war in UKR
- Aug-22: 15.2% since 23.02.2022
 - FX supply and dram demand increased (migrants/tourism), while FX demand fell (change in gas payments)
 - Positive effect on inflation (cheaper imports), but less competitive exports
- Depreciation against the RUB of 13.3% since the start of the war
 - Tailwind for exports to RUS market

FX reserves

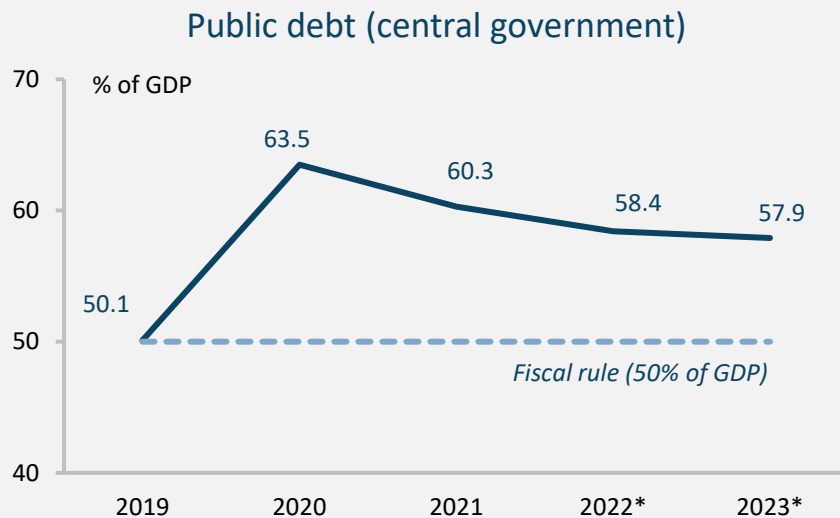
- Gradual increase of FX reserves in 2022 on the back of higher FX inflows
 - Jul-22: USD 3.5 bn
 - Comfortable import cover at around 8.7 months

➤ **Heterogeneous exchange rate dynamics and growing FX reserves**

Public finances



Source: MoF, *according to revised 2022-2026 budget and debt programme



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Budget

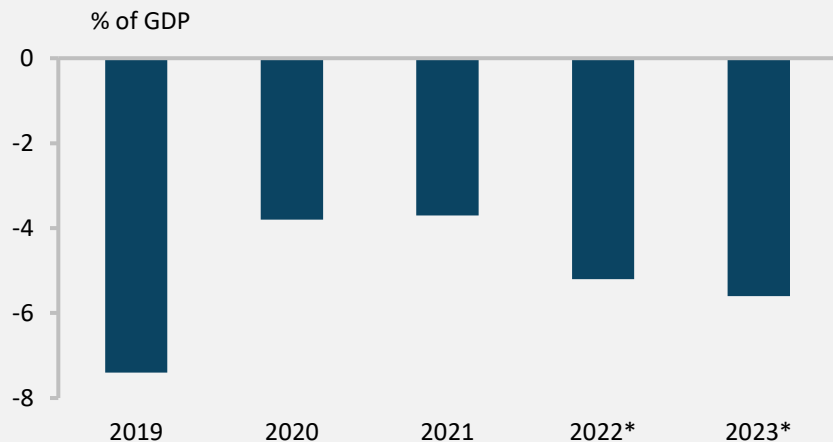
- 2022: planned deficit adjusted downwards to 2.1% of GDP
 - 6M2022: revenues increased by 24%, as expenditures only grew by 5%
 - Favourable economic situation contributes to the consolidation
- 2023: widening of the deficit expected as the economy cools down

Public debt

- Gradual reduction planned in the adjusted budget and debt programme
 - 2022: 58.4% of GDP
 - 2023: 57.9% of GDP
- Lower than expected, but still above the fiscal rule threshold
- **Fiscal consolidation in 2022 on the back of a good economic performance**

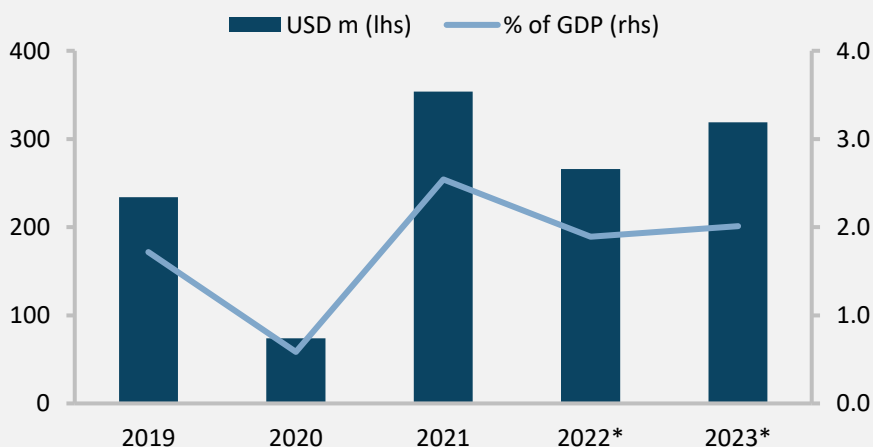
Current account and FDI

Current account



Sources: CBA, *estimation/forecast

Net foreign direct investment



Source: IMF; *estimation/forecast

Current account

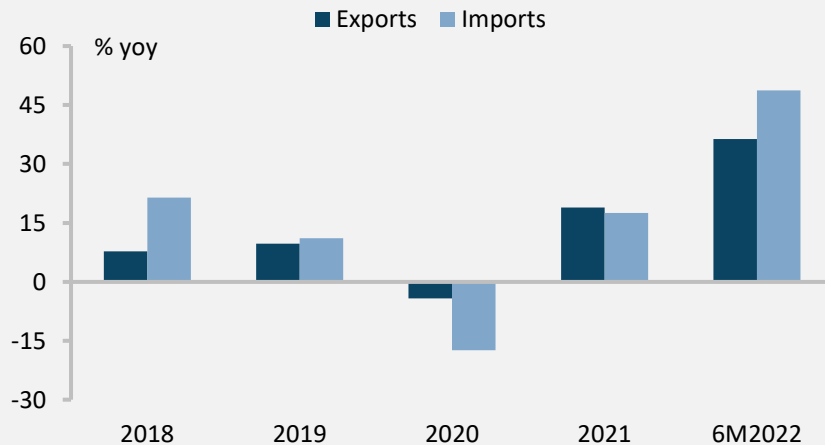
- 2022: increase of current account deficit to 5.2% of GDP expected
 - Increase of trade balance deficit due to higher domestic demand and thus growing imports
- 2023: CBA expects stabilisation of the deficit in the range of 5.0-6.0% of GDP

FDI

- 2022: slowdown to 1.9% of GDP
 - High global uncertainty due to war in Ukraine and weakened RUS economy
 - 2023: slight increase to 2.0% of GDP as global outlook is expected to improve
- **Widening of current account deficit in 2022/2023**
- **Slowdown of FDI; especially from RUS**

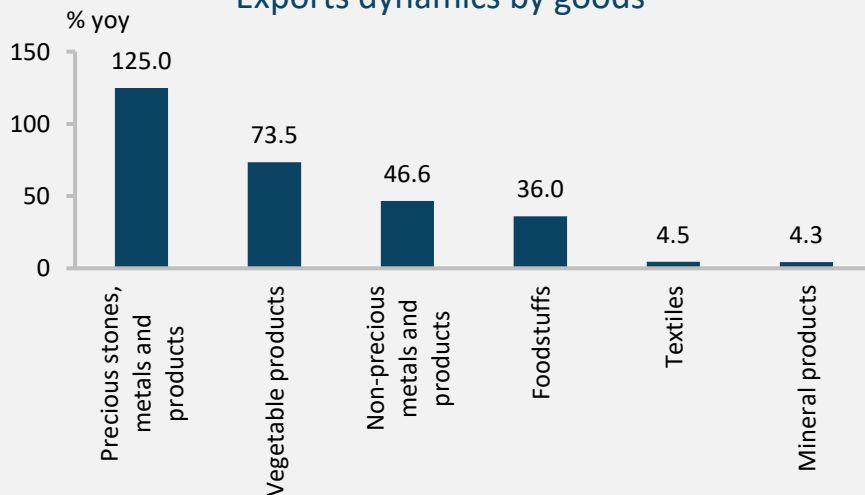
Trade in goods

Foreign trade in goods



Source: Armstat

Exports dynamics by goods



Source: Armstat; data for 6M2022

Exports

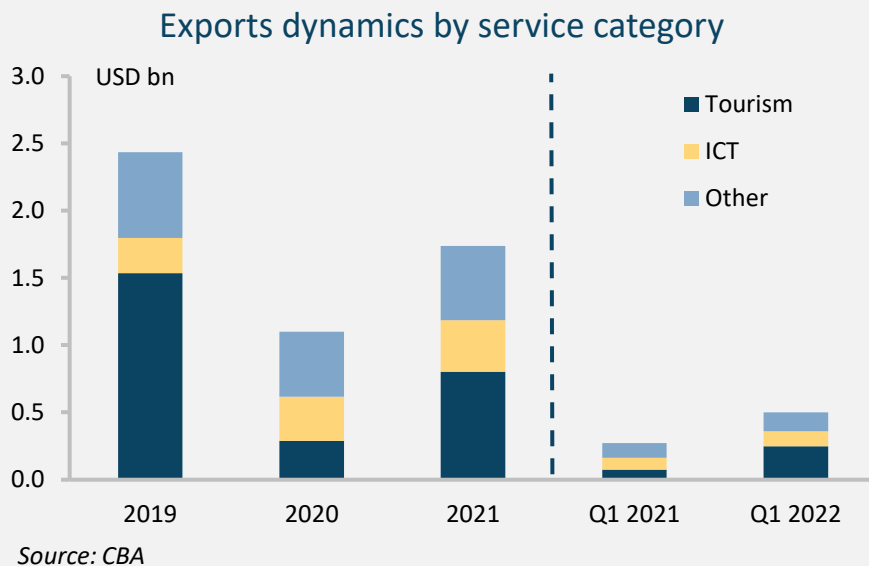
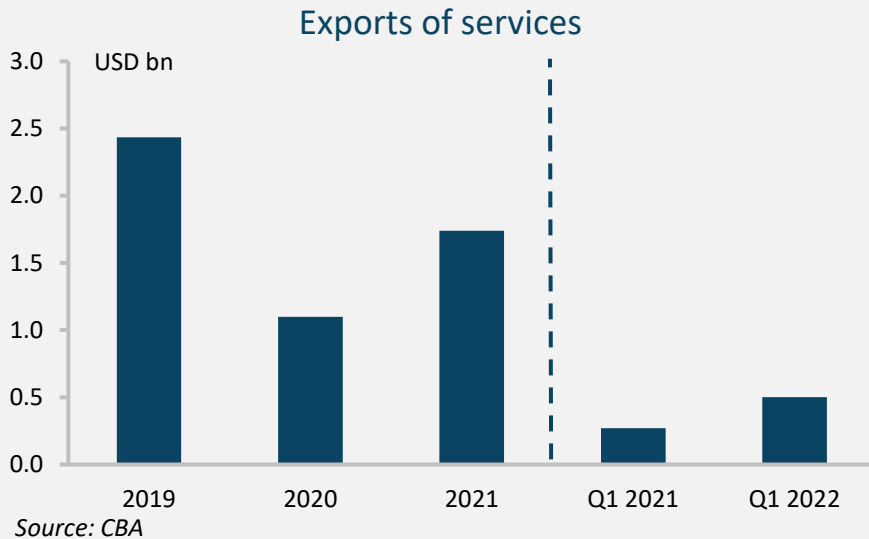
- 6M2022: +36.3% yoy
- Strong growth of precious stones and non-precious metals exports
 - Mainly supported by high global prices
- Vegetable products and foodstuff also profited from positive price dynamics
- Mineral products (e.g. copper) exports only up by 4.3% despite high global prices
 - Closure of Teghut copper mine
- Exports to RUS (+48.4%) grew slightly stronger in comparison to EU (+43.2%)

Imports

- 6M2022: strong growth of 48.7% yoy
- Broad-based growth, especially consumer goods (food, vehicles, etc.)
 - Higher demand due to migrants and tourists from Russia

➤ **Strong performance of trade in goods, but significant balance deficit**

Trade in services: exports



Export of services

- Exports of services are traditionally very strong (2019: 42% of total exports)
- Q1 2022: +85% yoy; strong recovery after pandemic continues
 - Mostly on the back of tourism

Tourism

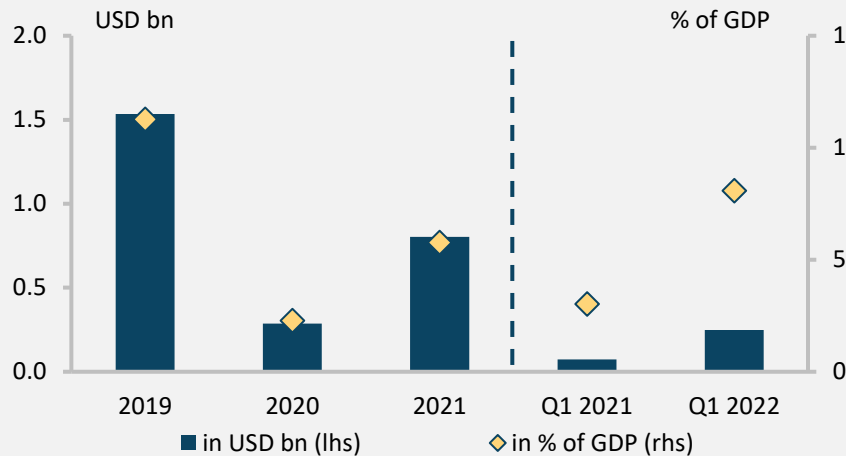
- Q1 2022: +236% yoy
 - Normalisation after the pandemic; pent-up travel
 - Strong inflow of migrants and tourists from RUS after the start of the war

ICT sector

- Q1 2022: +26%; positive dynamic continues
 - Migrants from RUS are mostly highly skilled IT specialists; more impact possible in H2 2022
- **Strong recovery of services exports at the beginning of 2022 likely to continue**
- **One of the main reasons for strong GDP growth**

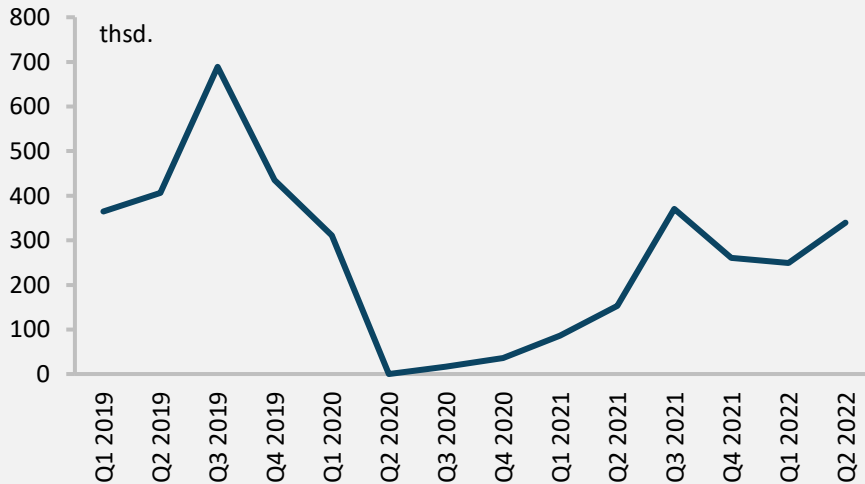
Tourism-related inflows

Tourism-related inflows



Sources: CBA, GET calculations

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 USD 1.5 bn or 11.3% of GDP
- 2020/2021: sharp drop to 2.3% and 5.7% of GDP respectively due to pandemic

2022

- H1 2022: number of inbound tourists increased by 142% yoy
- In particular: strong inflow of migrants and tourists from RUS
 - No travel restrictions, direct flights and possibility to use credit cards
 - Strong inflow of high-skilled IT specialists
- Note: detailed analysis of influx below

➤ **Strong recovery of tourism in 2022 positively affects the ARM economy**

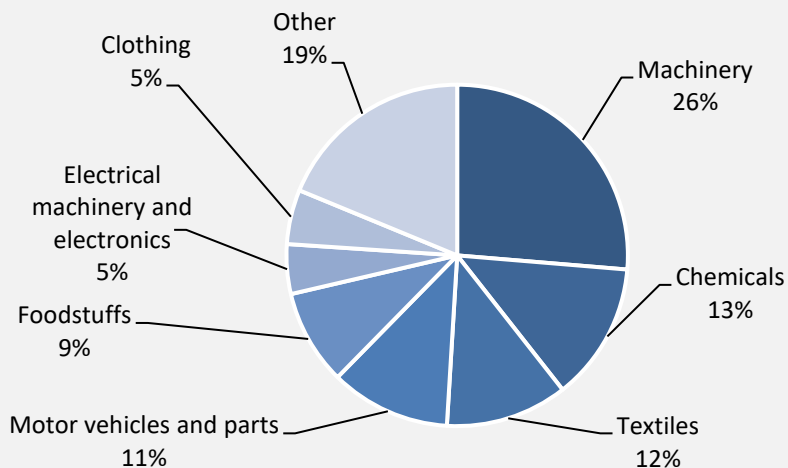
Bilateral trade between Armenia and Germany

German trade with Armenia



Source: German Federal Statistics Office, note: trade in goods

German exports to Armenia



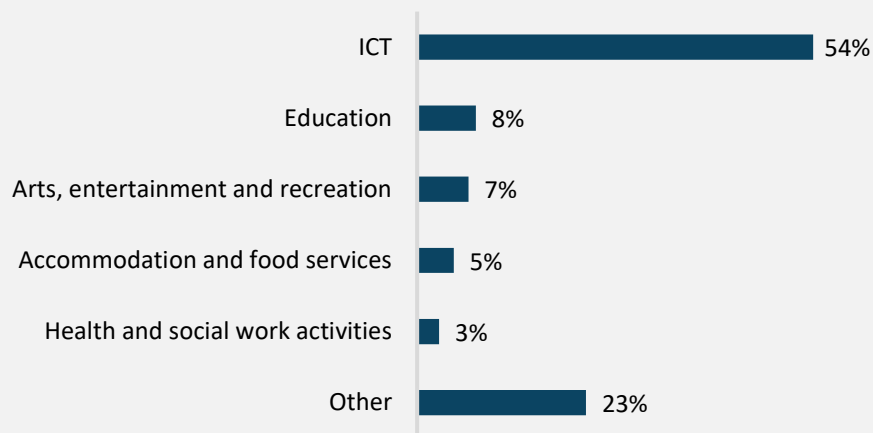
Source: German Federal Statistics Office, data for 2021, note: trade in goods

6M2022

- Strong performance of bilateral trade
 - German exports: EUR 141 m; +78% yoy
 - German imports: EUR 77 m, +50% yoy
 - Balance: EUR 64 m; +127% yoy
 - German exports recovered significantly after a decline in 2021
 - Especially exports of smaller product groups grew significantly
 - Electrical machinery and electronics: +350% yoy
 - Motor vehicles and parts: +291% yoy
 - But: still a rather low volume
 - On the import-side, metals and clothing (93% of imports) grew significantly
 - Nonferrous metals: +103% yoy
 - Clothing: +30% yoy
- **Overall strong performance of bilateral trade**

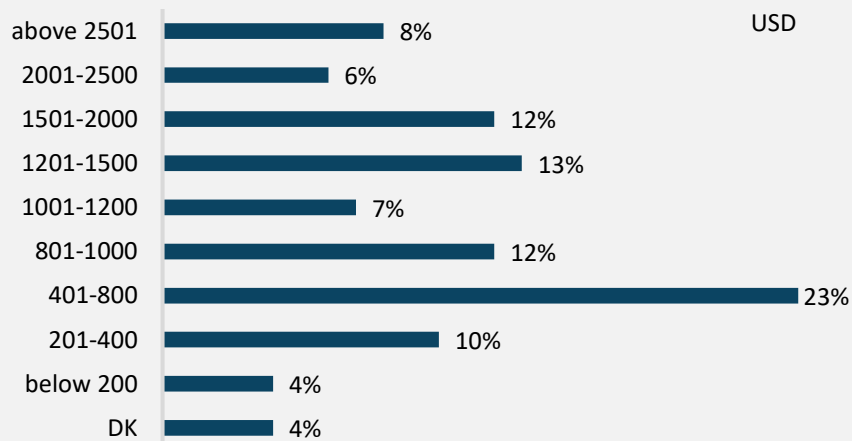
Inflow of people from Russia: results from own survey

Employment by sector



Sources: GET survey results, NACE rev.2 activity codes, N=275

Household expenditure distribution



Sources: GET survey results, N=355; DK=don't know / refuse to answer

Inflow of migrants from RUS, BLR and UKR

- Strong inflow since the start of the war
 - May-22: approx. 24,400 people (stock)
 - Also migrants from BLR & UKR: approx. 1,500 people

Own survey: results

- CRRC conducted a survey on behalf of GET
- 355 migrants, who entered ARM after 24.02.2022, interviewed
- Main results
 - 84% have a higher education
 - High level of employment (78%)
 - Majority of employees (91%) are involved in high-skilled, white-collar activities; mostly in the ITC sector (54%)
 - Average monthly income of USD 3,510; average expenditures of USD 1,300
 - 46% plan to stay longer than 6 months

➤ **Significant inflow of highly skilled people with high wages**

Inflow of people from Russia: economic impact

Summary of impact assessment

	March	April	May	Jun – Dec*
Total relocated persons**	11,600	18,400	24,400	28,000
Total relocated households***	5,800	9,200	12,200	14,000
Consumption of relocated HH (USD m)	7.5	12.0	15.9	18.2
Total in 2022 (USD m)				162.8

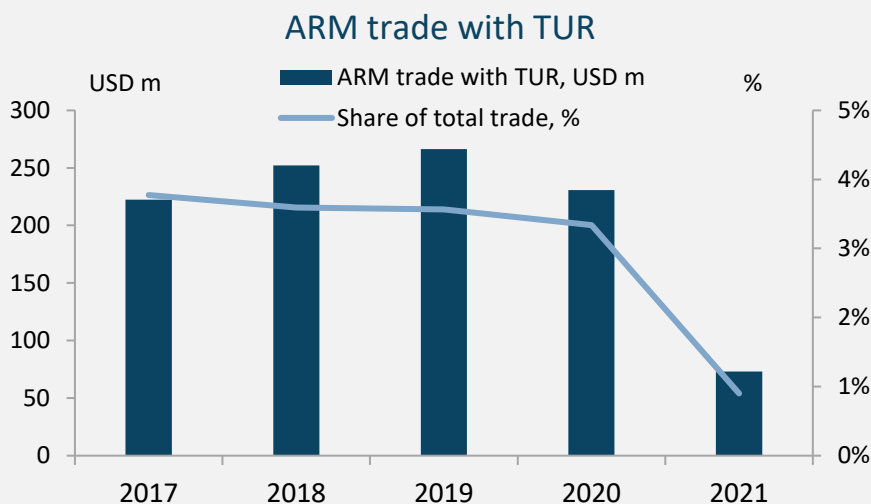
Sources: Armstat, GET. Visitor figures rounded to full hundreds; *Forecast based on a slowdown of the Mar-May trend, **Assumption: two people per household, ***Average monthly consumption expenditure of approx. USD 1,300 assumed based on GET survey (see slide with survey results)

- Assuming that the stock of relocated persons will stabilise after May-22: consumption expenditures would amount to **USD 163 m or approx. 1.2% of GDP** in 2022
- The relocation of approx. 28,000 persons from RUS, BLR and UKR entails a positive shock on aggregate demand (and thus GDP growth) and the balance of payments
- This is one of the main reasons why the war in Ukraine has a limited effect on the ARM economy. But: it also entails negative implications for inflation and social policy (rents)

Policy implications

- Economic/political prospects in RUS & BLR severely impaired for the foreseeable future
- Chance to attract high-skilled people for the longer term; especially in the IT sector
- But: need to control for negative policy implications of windfall income (Dutch disease)

Opening of common border between Armenia and Turkey



Source: WITS

Summary impact assessment

	Actual (2021)	Gravity model	Trade complementarity model
Exports to TUR, % of total	0.01%	–	6.7%
Imports from TUR, % of total	1.4%	–	12.8%
Trade with TUR, % of total	0.9%	11.8%	10.7%

Source: WITS, own estimates; for trade complementarity model results, shares are calculated as percentage of 2021 ARM exports, imports and trade

ARM-TUR trade, 2021

- Due to closed common border, there is no direct trade between ARM and TUR
- Indirect trade: USD 73 m (>99% imports)
- Share in ARM total trade: 0.9%

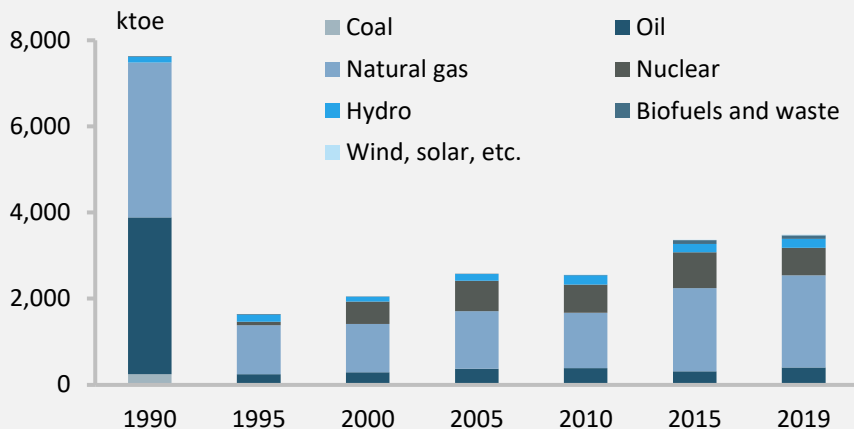
Impact of a hypothetical border opening

- GET estimation based on two models
- Gravity model (long term): TUR share in ARM trade would amount to 12% of total
- Trade complementarity model (short/medium term)
 - Exports to TUR: USD 185 m or 6.7% of total; main items: jewelry, copper ores and cigarettes
 - Imports from TUR: USD 678 m or 12.8% of total; main items: petroleum preparations, knitted garments and medicaments

➤ **Opening of the border with TUR would be very much in the economic interest of ARM**

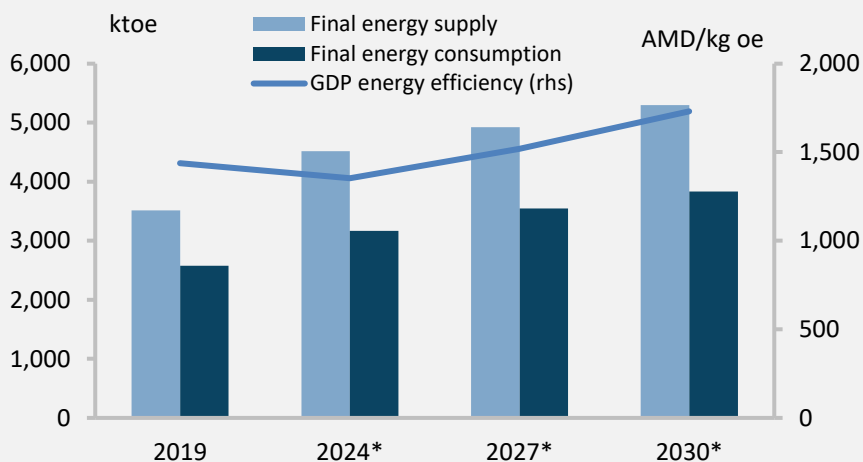
Energy sector: recent developments and outlook

Total energy supply by source



Source: IEA, Armstat

Final energy supply and consumption



Source: Energy Strategy for 2022-2030; forecast after 2019

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Energy supply

- ARM is highly dependent on RUS imports
 - 100% of domestically used gas and nuclear fuel, accounting for >70% of electricity generation
- But: limited impact of war in UKR on energy sector due to long-term contracts with RUS

Reform agenda to decrease dependence

- Ambitious plans put inside the new energy strategy (2022-2030)
 - Expected increase of 51% in energy supply and 49% in consumption
 - Export of electricity to neighbours
 - Target of 1,000 MW installed PV solar, accounting for 15% of electr. generation
 - 300 MW of storage to allow electricity system to absorb additional renewables
 - Energy efficiency plans to decrease fossil fuel imports equivalent to 1.6% of GDP

➤ **Reform of ARM energy system will require significant effort and investment**

GDP forecast: GET Macro Model

Real GDP forecast: demand side

	2021		2022 (estimation)		2023 (forecast)	
Real GDP growth, % yoy	5.7		4.6		3.3	
Real growth (% yoy) / GDP growth contributions (pp)	% yoy	pp	% yoy	pp	% yoy	pp
Total consumption*	5.2	4.8	4.4	4.0	2.9	2.6
Investment**	6.3	0.5	11.5	1.4	4.6	0.4
Exports	17.1	4.4	5.8	2.0	8.9	2.6
Imports	12.5	-4.0	8.5	-2.8	5.5	-2.3

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

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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