

ARMENIA'S ECONOMIC OUTLOOK

2022 January-September



Executive summary

During the third quarter of 2022, the Russian-Ukrainian war continued, hence, the influx of Russians and Russian capital inflow did not slow down, moreover, after the announcement of partial mobilization in Russia, we expect that the pace to continue with the current trend until the end of 2022.

Armenia's cumulative economic activity indicator from January until September 2022, have shown an increasing trend

Comparing Jan-Sep 2022 with the same time previous year we can observe that:

- Armenia's exports grew by 63.8%.
- Imports grew by 61.6%.
- Number of tourists inflow increase by 2x.
- Average salary increased by 13.4%.
- Economic activity indicator grew by 14.1%.

Armenia's inflation for September reached 9.9% and the central bank increased the interest rate two times during the 3rd quarter of 2022

Key economic indicators snapshot

Figure 1. Indicator of economic activity
2022 Jan-Sep, cumulative

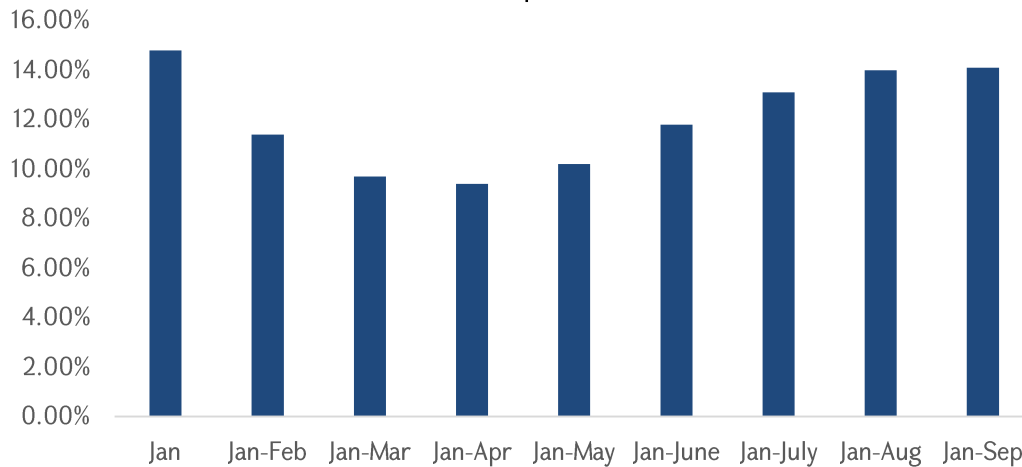


Figure 2. Growth by sectors
September 2022 com. to the same month previous year

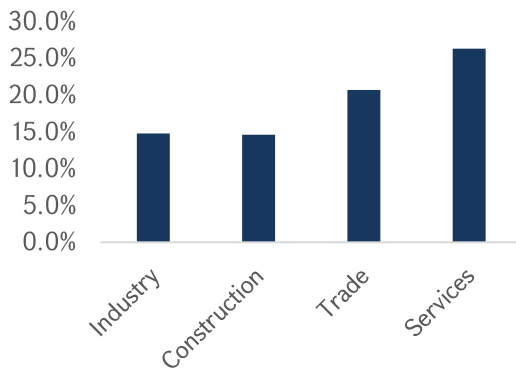
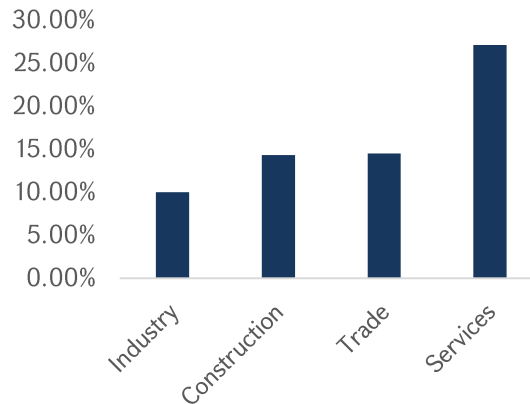


Figure 3. Growth by sectors
Jan-Sep 2022 com. to the same period previous year



- ♦ **Economic activity indicator (EAI)** has shown an upward-sloping trend throughout the year by revolving around 9.4-14.8% throughout the three quarters. The third quarter's data shows that Armenia's EAI is marginally increasing from one month to other, reaching to 14.1% cumulative growth in Jan-Sep 2022 period. The high growth can be connected with the positive spillover of the Russian-Ukrainian war, the influx of Russians to Armenia and the inflow of tourists throughout the period
- ♦ **Industry.** The volume of industrial production in Jan-Sep 2022 amounted to 1881.8 billion drams, increasing by 10.0% compared to the same period last year. The main products contributing to industrial production growth for Jan-Sep 2022 are manufacturing (+19.1% relative to the Jan-Sep 2021) and electricity, gas, steam and high-quality air supply (2.6% relative to the Jan-Sep 2021). The industry's growth was negatively affected by the mining industry
- ♦ **Construction.** The construction output in Jan-Sep 2022 amounted to 300.2 billion drams, increasing by 14.3% compared to the same period last year. Construction growth was mainly contributed by organizational funds (33.5% relative to the Jan-Sep 2022)
- ♦ **Trade.** The volume of internal trade turnover in Jan-Sep 2022 amounted to 3018.1 billion drams, increasing by 14.5% compared to the same period last year. One of the main reasons for the growth of the internal trade in the inflow of tourists in the third quarter, as well as, the influx of Russians.
- ♦ **Services.** The volume of services turnover in Jan-Sep 2022 amounted to 1,824.3 billion drams, increasing by 27.1% compared to the same period last year. The main subsectors contributing to services turnover growth for Jan-Sep 2022 financial and insurance activities 45.5% relative to the Jan-Sep 2021), transport (36.7% relative to the Jan-Sep 2021), and information and communication industry (35.0% relative to the Jan-Sep 2021). The high growth in the service sector can also be connected with the influx of Russians, as many of them permanently relocated to Armenia, opened businesses, and created new demands within the market.

Tourism

Figure 4. International tourist arrivals

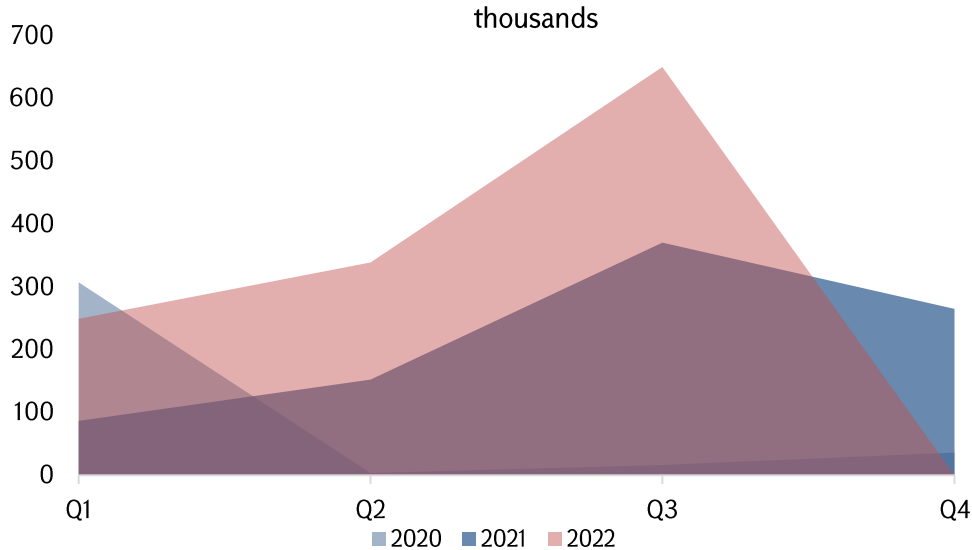
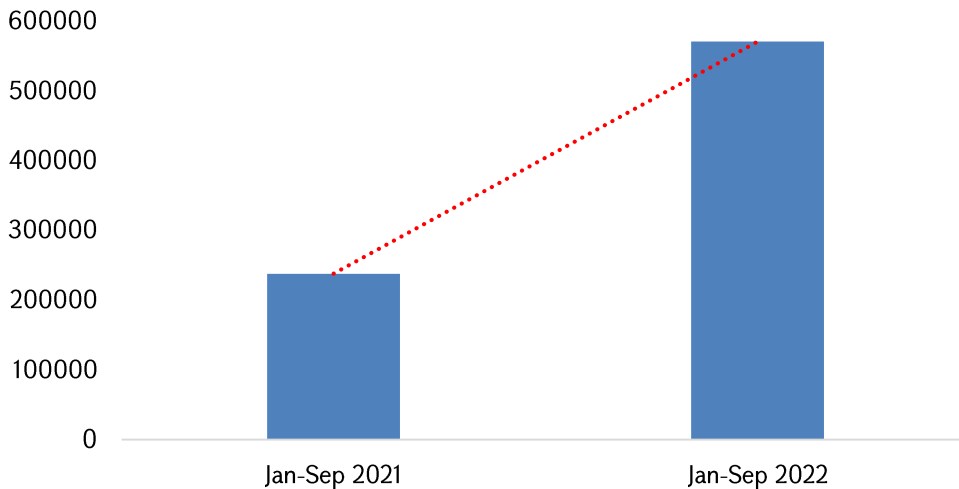


Figure 5. Number of tourists from Russia



- ◆ Armenia observed a huge jump in number of tourists in the first three quarters of 2022 compared to the same period last year.
- ◆ During the Jan-Sep 2022 the number of tourists reached 1239.4 thousand which increased by 2.0 times when compared to the same period previous year.
- ◆ Few of the reasons for the surge in the number of tourists are; the end of lockdowns, the Russian-Ukrainian war and influx of Armenian diaspora
- ◆ Tourists from Russia accounted for 46.1% of the entire entries.
- ◆ Based on the increase in number of tourists we expect the inflows return to be between 2.0 times comparing to the previous year as the inflows' return and number of tourist' increase are proportional for Armenia
- ◆ In result of the Russian-Ukrainian war the number of tourists from Russia, saw a huge leap. Comparing to the same period previous year, the number of tourists from Russia grew by 2.4 times. The influx of Russians to Armenia is continuously growing and with the recent developments and the partial-mobilization announcement in Russia, we expect the growth to continue.

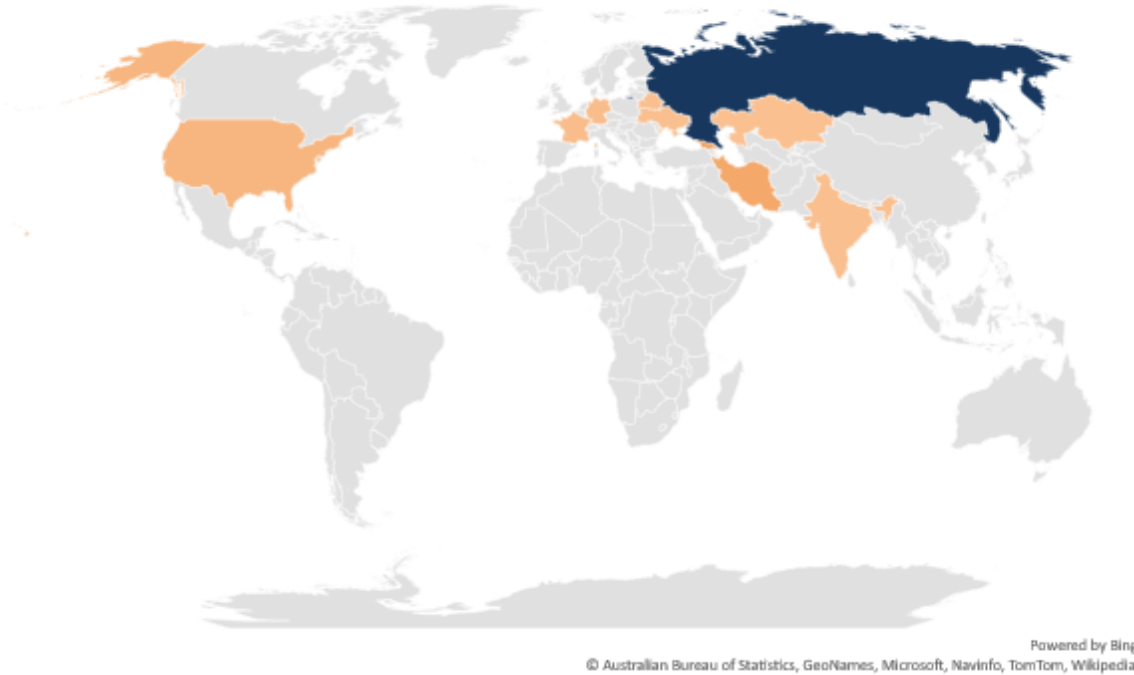
Tourism

Arrival Origins

January-September 2022

1239.4 thousand, 2.0x YoY change

RUSSIA	570.8 thousand, 2.4x YoY change
GEORGIA	115.5 thousand, 2.8x YoY change
IRAN	90.7 thousand, 31.5% YoY change
USA	41.6 thousand, 68.8% YoY change
FRANCE	19.2 thousand, 81.1% YoY change
GERMANY	19.1 thousand, 2.4x YoY change
BELARUS	13.2 thousand, 2.6x YoY change
INDIA	11.9 thousand, -22.9% YoY change
UKRAINE	13 thousand, -17.2% YoY change
KAZAKHSTAN	8.9 thousand, 2.8x YoY change



570.8 thousand



8.9 thousand

International trade: Export

Figure 6. Exports of goods
January-September 2022, mln USD

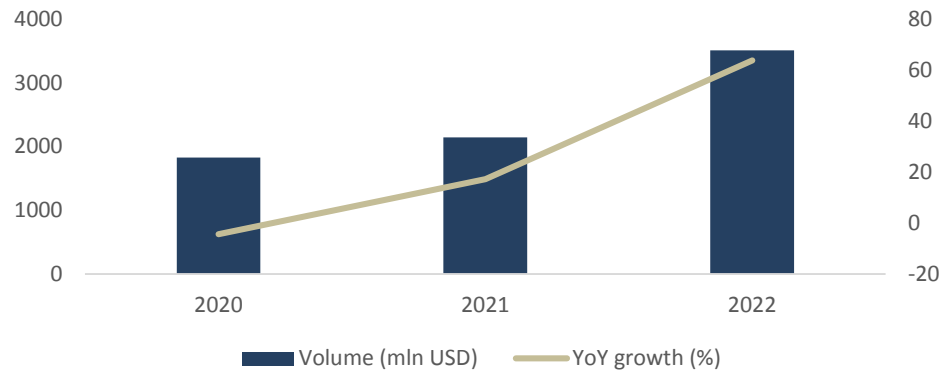
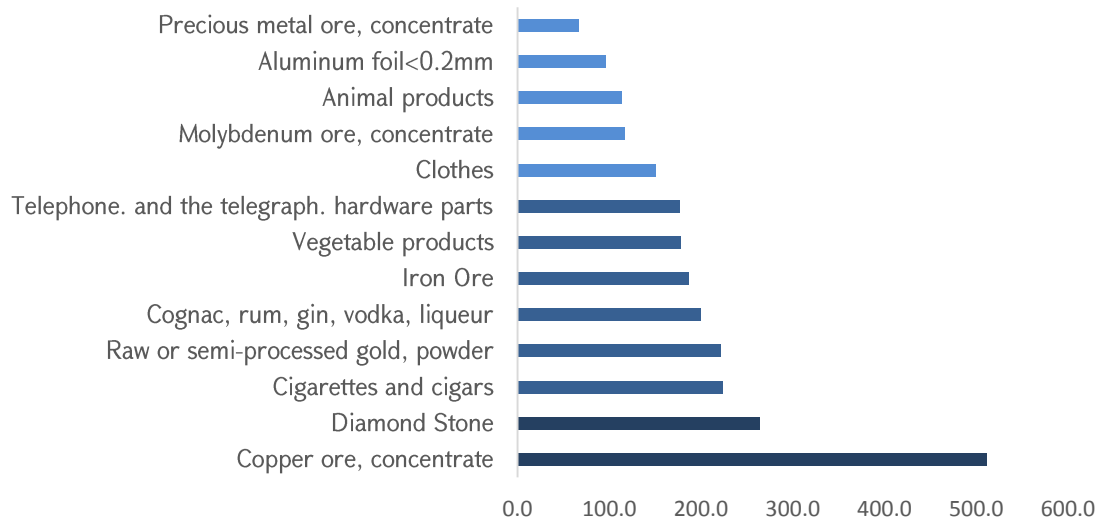


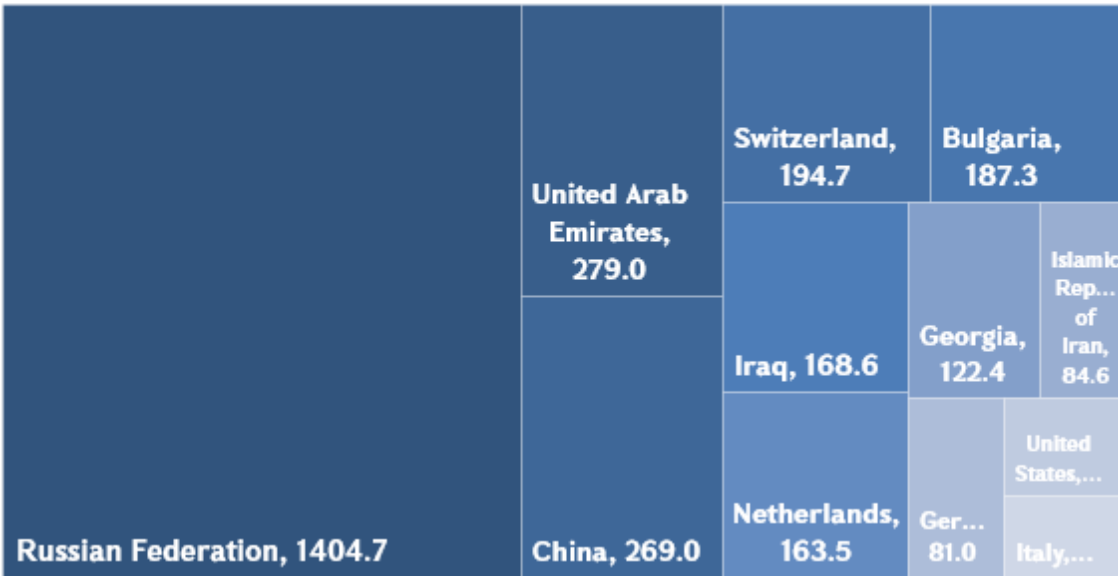
Figure 7. Exports by goods
January-September 2022, mln USD



- ♦ **Exports in January-September 2022** amounted to 3502.4 million US dollars, increasing by 1366.9 million USD or 63.8% over the same period last year.
- ♦ We anticipate that the exports to keep its growth pace for the whole year, as the sanction Russia after the war opened new market for Armenia to export
- ♦ The main products contributing to growth for Jan.-Sep. 2022 (percentages are relative to the same 2021 period):
- ♦ **Precious metal ores:** 66.9 million USD, increasing by 64.6 million USD or 28.9x.
- ♦ **Aluminum foil:** 96.3 million USD, increasing by 10.4 million USD or 12.1%.
- ♦ **Products of animal origin** 113.6 million USD, increase by 36.1 million USD or 46.5%.
- ♦ **Molybdenum ore:** 117.4 million USD, increasing by 8.6 million USD or 7.9%.
- ♦ **Clothing:** 150.8 million USD, increasing by 16.1 million USD or 12%.
- ♦ **Telephone parts:** 177.4 million USD, increasing by 175.9 million USD or 116.8x.
- ♦ **Products of plant origin:** 178.7 million USD, increasing by 41.0 million USD or 29.7%.
- ♦ **Iron ore:** 186.7 million USD, increasing by 66.8 million USD or 55.7%.
- ♦ **Cognac, rum, gin, vodka, liqueur:** 200.1 million USD, increasing by 41.5 million USD or 26.1%.
- ♦ **Raw or semi-processed gold:** 221 million USD, decreasing by 132.9 million USD or 2.51x.

International trade: Export

Figure 8. Export volumes by country
January-September 2022, mln USD



- ♦ **Cigarettes and cigars:** 223.7 million USD, increasing by 61.0 million USD or 37.5%.
- ♦ **Diamond:** 264.0 million USD, increasing by 195.8 million USD or 3.9x.
- ♦ **Copper Ore:** 511.9 million USD, decreasing by 75.3 million USD or 12.8%.

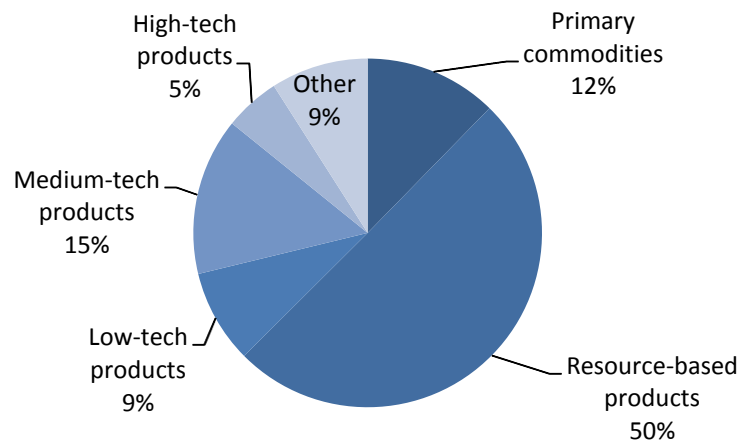
♦ Main exporting countries:

- ♦ Primary trade partner Russia accounted for 40% of total exports in Jan-Sep 2022, amounting to 1404.7 million USD. This represents an increase of 811.5 million USD, or 2.4x growth compared to the same period last year.

♦ Other major partner countries:

- ♦ **UAE:** Exports in January-September 2022 amounted to 279 million US dollars, increasing by 219.3 million US dollars or 4.7x compared to the same period last year, the exports to UAE have risen the most comparing with other countries in the top 10 list.
- ♦ **China:** Exports in January-September 2022 amounted to 269 million US dollars, decreasing by 32.6 million US dollars or 10.8% compared to the same period last year.
- ♦ **Switzerland:** Exports in January-September 2022 amounted to 194.7 million US dollars, decreasing by 39.5 million US dollars or 16.8% compared to the same period last year.

Figure 9. Exports of goods by tech level
January-September 2022, mln USD



International trade: Import

Figure 10. Imports of goods
January-September 2022, mln USD

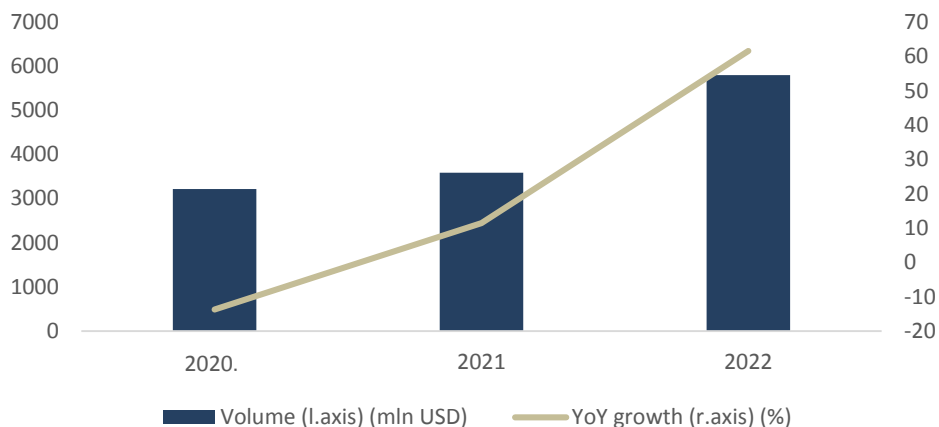
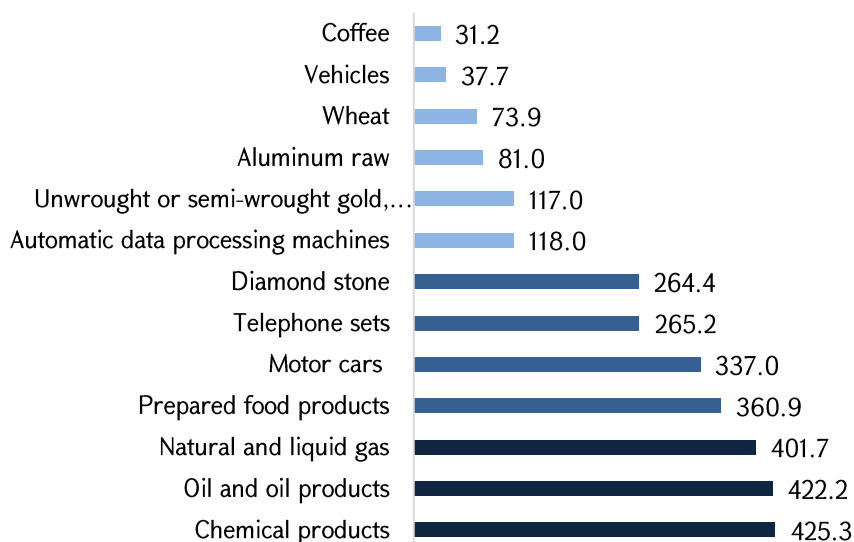


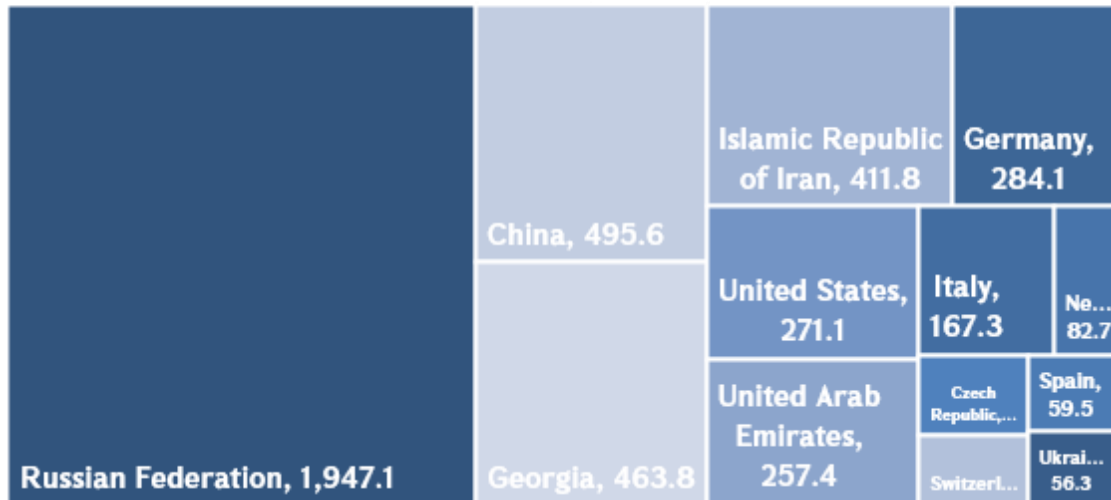
Figure 11. Imports by goods
January-September 2022, mln USD



- ♦ Imports in January-September 2022 amounted to 5797.2 million US dollars, increasing by 2209.8 million USD or 61.6% over the same period last year. The main products contributing to growth for Jan.-Sep. 2022 (percentages are relative to the same 2021 period):
- ♦ **Chemical products:** 425.3 million USD, increasing by 116.6 million USD or 37.8%.
- ♦ **Petroleum oils and oil products:** 422.2 million USD, increasing by 174.3 million USD or 70.3%.
- ♦ **Natural and liquid gases:** 401.7 million USD, increasing by 54.7 million USD or 15.7%.
- ♦ **Prepared food products:** 360.9 million USD, increasing by 68.8 million USD or 23.6%.
- ♦ **Motor cars:** 337 million US dollars, increasing by 260.6 million USD or 4.4x.
- ♦ **Telephone sets:** 265.2 million USD, increasing by 206.1 million USD or 4.5x.
- ♦ **Diamonds:** 264.4 million US dollars, increasing by 187.4 million USD or 3.4x.
- ♦ **Automatic data processing machines:** 118.0 million USD, increasing by 80.5 million USD or 3.1x.
- ♦ **Unwrought or semi-wrought gold, dust:** 117.0 million USD, increasing by 51.8 million USD or 79.5%.
- ♦ **Aluminum unwrought:** 81.0 million USD, increasing by 28.9 million USD or 55.6%.
- ♦ **Wheat:** 73.9 million USD, increasing by 41.4 million USD or 2.3x.
- ♦ **Vehicles:** 37.7 million US dollars, increasing by 19.7 million USD or 2.1%.
- ♦ **Coffee:** 31.2 million USD, increasing by 13.1 million USD or 72.4%.

International trade: Import

Figure 12. Import volumes by country
January- September 2022, mln USD



- Primary trade partner Russia accounted for 33.6% of total imports in Jan-Sep 2022, amounting to 1,947.1 million USD. This represents an increase of 602.5 million USD, or 44.8% growth compared to the same period last year.
- Other major partner countries:
 - **China:** Imports in January-September 2022 amounted to 495.6 million US dollars, increasing by 158.8 million US dollars or 47.1% compared to last year's same period.
 - **Georgia:** Imports in January-September 2022 amounted to 463.8 million US dollars, increasing by 228.2 million US dollars or 96.9 % compared to last year's same period.
 - **United states:** Imports in January-September 2022 amounted to 271.1 million US dollars, increasing by 189.0 million US dollars or 3.3x compared to last year's same period. United states accounted for the most year over year growth from the top 13 countries Armenia imports from.

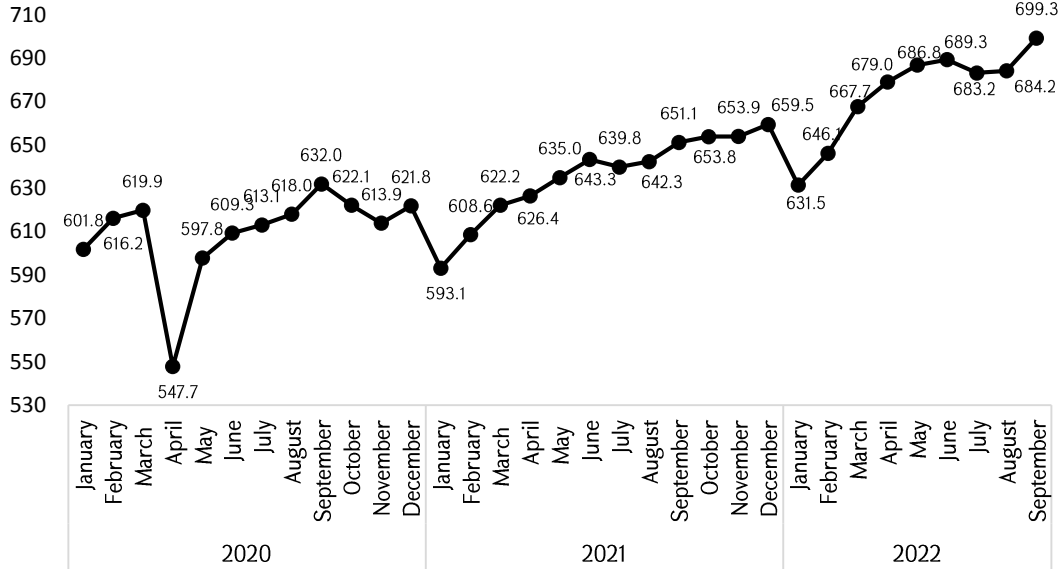
Table 1. Imports by BEC
January-September 2022, mln USD

	IMPORT		YoY growth
	mln USD	mln USD	%
Total	5797.2	2209.8	61.6
Capital goods	886.1	329.5	59.2
Intermediate goods	2968.6	1191.5	67.0
Consumer goods	1942.6	688.8	54.9
	IMPORT STRUCTURE		Growth STRUCTURE
			%
Total	100.0		100.0
Capital goods	15.3		14.9
Intermediate goods	51.2		53.9
Consumer goods	33.5		31.2

- 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 51.2% of total import volumes.
- Imports of consumer goods in January-September 2022 amounted to 1942.6 million US dollars, increasing by 688.8 million US dollars or 54.9% compared to the same period last year. The growth is mainly due to the activation of domestic demand.
- Intermediate goods import growth rate exceed those of capital and consumer goods.
- Import of intermediate goods in January-September 2022 amounted to 2968.6 million US dollars, increasing by 1191.5 million USD or 67.0% compared to the same period last year.
- Import of capital goods in January-September 2022 amounted to 886.1 million US dollars, increasing by 329.5 million US dollars or 59.2% compared to the same period last year.

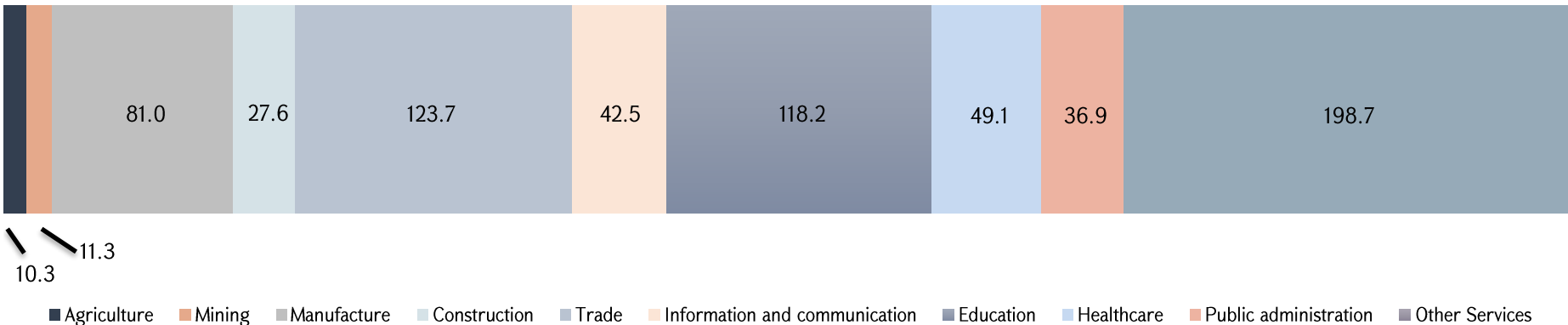
Labor market: Formal employment

Formal employment
thousands



- ♦ The formal employment for September 2022 reached 699.3 thousand people, increasing by 32.7 thousand from September 2021 or by 4.9%.
- ♦ Trade, education and manufacturing categories have the most formal employees for September 2022.
- ♦ The formal employees of the IT sector for September 2022 reached 30.9 thousand. Which Grew by 41.4% comparing with the same period previous year.
- ♦ The healthcare sector dropped by 2.7%
- ♦ The highest growth was been in the administrative and support service activities sector and information and communication sector.
- ♦ **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**

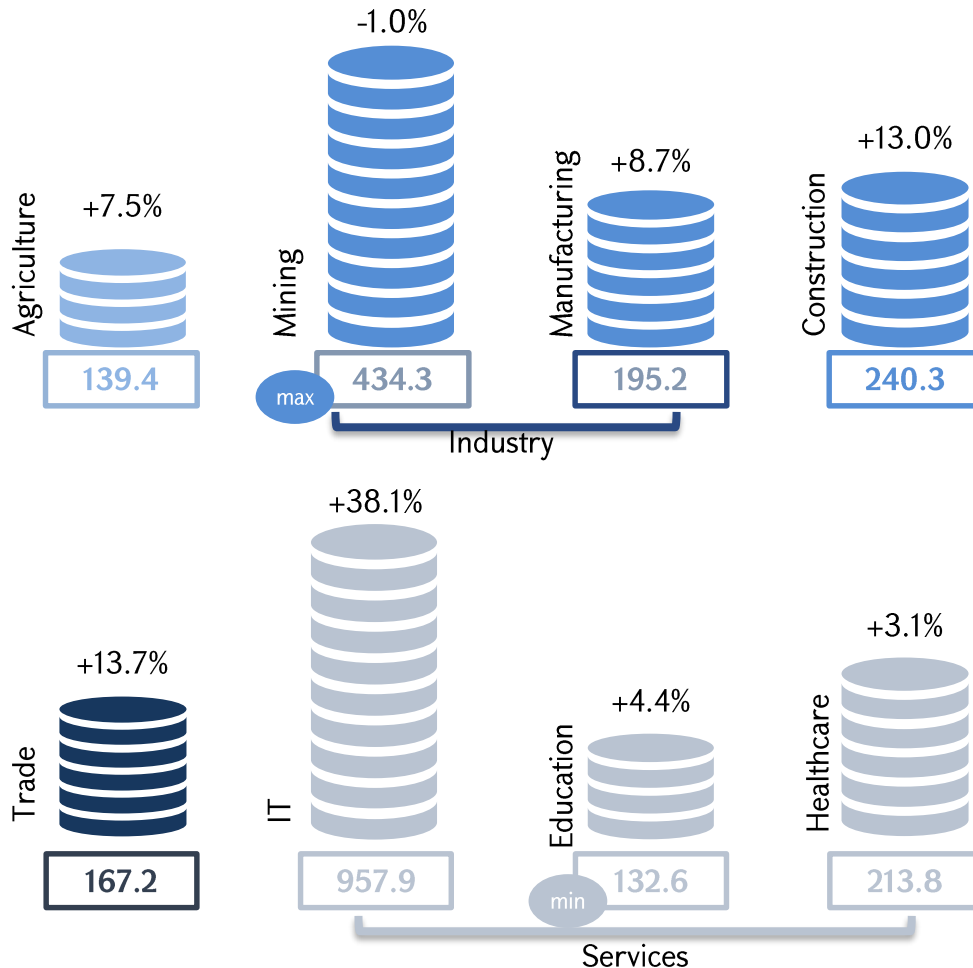
Formal employment
September 2022, thousands



Labor market: Wages

Average
September 2022

236 thousands, +17.4% YoY change



- ♦ The average number of employees (formal employment) in September 2022 amounted to 699.3 thousand increasing by 4.9% or 32.7 thousand compared to the same period last year.

Of This:

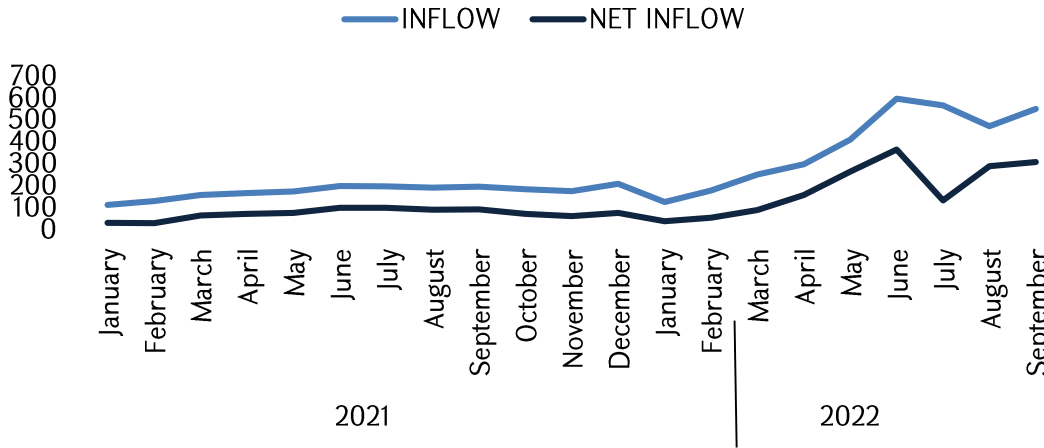
- ♦ **Agriculture:** the average number of employees was 10,306, increasing by 1.2%.
- ♦ **Industry:** the average number of employees was 118,787, increasing by 2.2%.
- ♦ **Construction:** the average number of employees was 27,557, increasing by 7.6%.
- ♦ **Wholesale and Retail Trade:** the average number of employees was 123,736, increasing by 7.3%.
- ♦ **Services:** the average number of employees was 418,239, increasing by 4.9%.
- ♦ The average monthly salary in September 2022 amounted to 236,742 drams, increasing by 17.4% compared to last year.

Of This:

- ♦ **Agriculture:** the average monthly salary was 139,366 drams, increasing by 7.5%.
- ♦ **Industry:** the average monthly salary in the Mining field was 434,259 drams, decreasing by 1.0% and the average monthly salary in the Manufacturing field was 195,168 drams, increasing by 8.7% .
- ♦ **Construction:** the average monthly salary was 240,317 drams, increasing by 13.0%.
- ♦ **Wholesale and Retail Trade:** the average monthly salary was 167,186 drams, increasing by 13.7%.
- ♦ **Services:** the average monthly salaries in the “Information and Communication” and “Education” subheadings were 786,665 and 132,628 drams, increasing by 41.2% and 4.4%, respectively.

Remittance inflow and Exchange rate

Figure 13. Remittance inflow
thousand USD



- ♦ January–September 2022 saw total inflow volume of money transfers at 3,461.6 Million USD, increasing by 2.2x compared to the same period last year.
- ♦ Most of the remittances were received from Russia, which accounts for approximately 67% of the remittances. For January–September 2022 inflows totaled to 2317.6 million USD, increasing by 3.7x YoY.
- ♦ Remittances from the United States accounted for 14.2% of the remittances. In January–September 2022 it totaled 492.6 million USD, increasing by 18.2% YoY.
- ♦ In January–September 2022 net inflow transfers of individuals amounted to 1714.5 million USD, increasing by 2.5x 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.
- ♦ From the figure 14, we can see the remittances and exchange rate are negatively correlated, however, the Russian-Ukrainian war have caused them have a similar pattern in the first quarter of 2022, however, after May 2022, the pattern went back to its original inversely correlated pattern
- ♦ According to IMF economic outlook, Russia & the USA will have -3.4 and 1.6 economic growth in 2022, respectively, followed by -2.3% and 1% in 2023.
- ♦ The slow and negative growth of GDP for the USA and Russia respectively, however, this may not affect the inflow of remittances inflow to Armenia, as the growth of the inflow from both Russia and USA, despite the economic situations did not slow down the pace.

Figure 14. Remittances and USD/AMD relationship

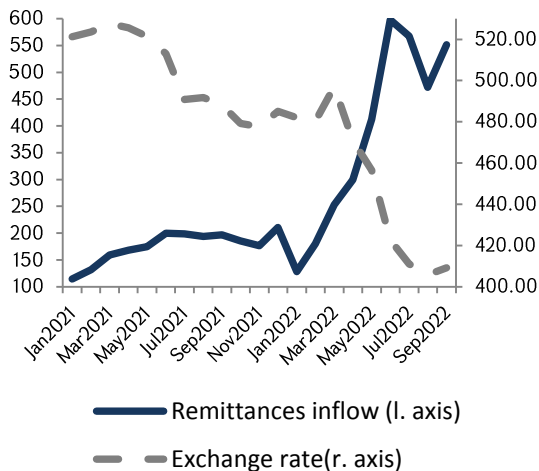
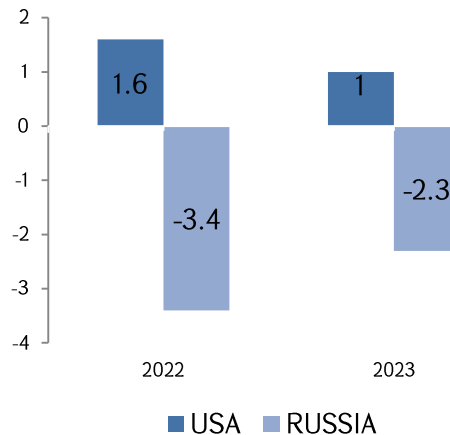


Figure 15: Forecasts of GDP growth for USA & RUSSIA



CPI- Armenia vs Rest of World

Figure 16. Inflation rate, average consumer prices*
annual percent change

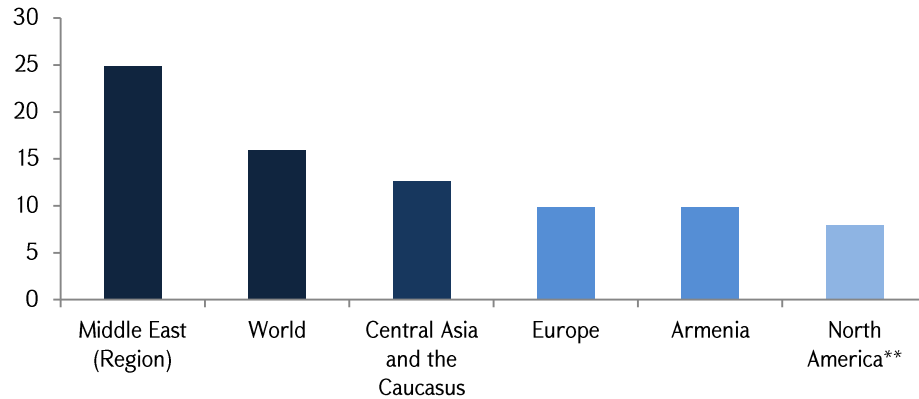
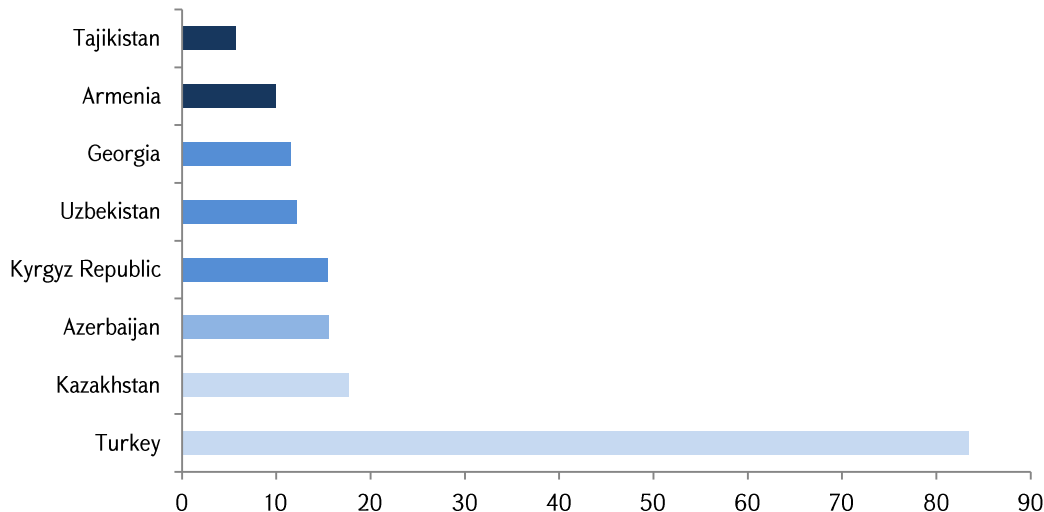


Figure 17. Inflation rate, average consumer prices
annual percent change



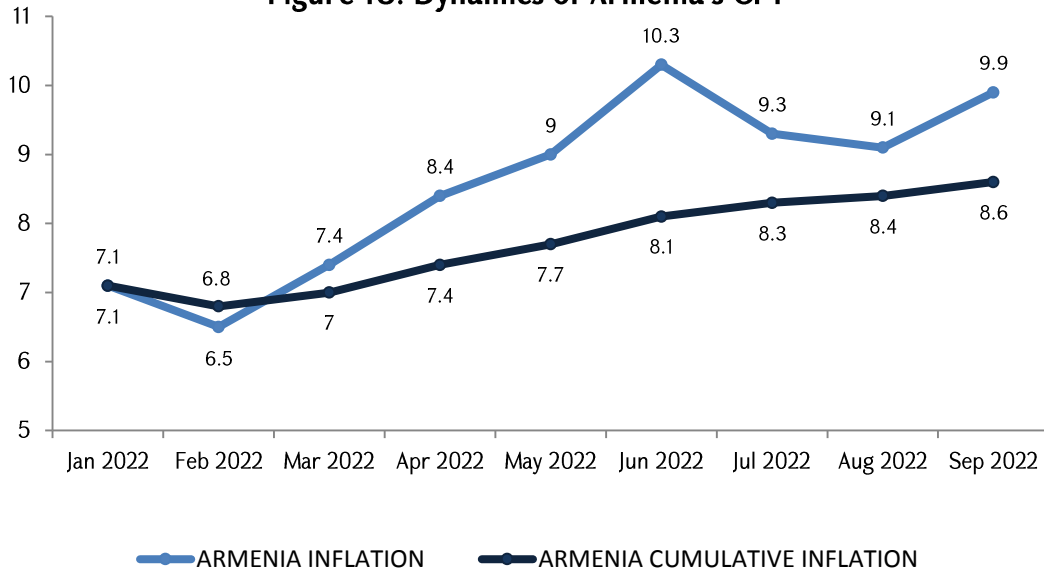
- After the Russian-Ukrainian war, many sanctions have been introduced on Russia. In response, Russia also introduced sanctions. As a result of this sanctions and war the recovery from COVID-19 slowed down and the inflation rate for Armenia and the world continued to accelerate.
- As of Q3 2022, world inflation remains a concerning and growing factor. According to the current data, average global inflation for the months of September 2022 is approximately 15.9%. This implies nearly all countries have suffered from the inflation surge. Of this, some of the highest rates were observed in Middle east and Central Asia and the Caucasus which have 24.9% and 12.6% inflation rate respectively.
- Armenia’s average inflation rate according to Armenia’s statistical committee was 9.9% during September 2022.
- Armenia, although its geographical location, does not have as high inflation rate as its neighboring countries. From Figure 20, we can observe that during September, Tajikistan is the only countries that had better inflation rate than Armenia in the region with 5.7%.
- Armenia’s Central Bank during the third quarter of 2022 have raised its interest rate two times, which is one of the factors that kept the inflation stable. The increase was with 0.75 percentage point
- We anticipate the inflation to increase as the our neighboring countries’ inflation could cause a spillover effect and the sanctions on Russia could also cause the inflation to grow.
- For September 2022, Armenia’s inflation is lower than the world’s average inflation rate.

* The average inflation rate is calculated based on the availability of the data and countries

** North America region’s countries are: USA, Canada and Mexico

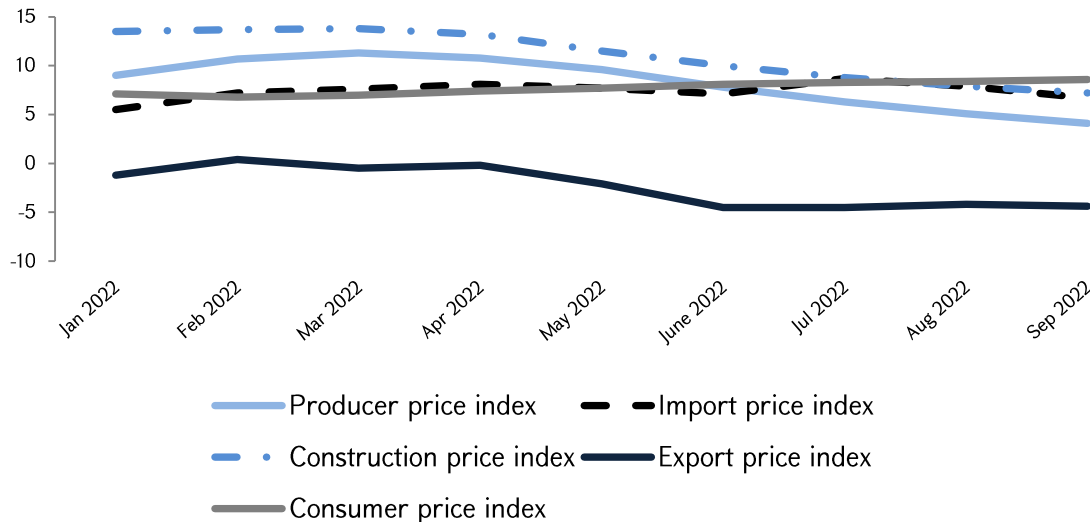
Armenia's Price Indices

Figure 18. Dynamics of Armenia's CPI



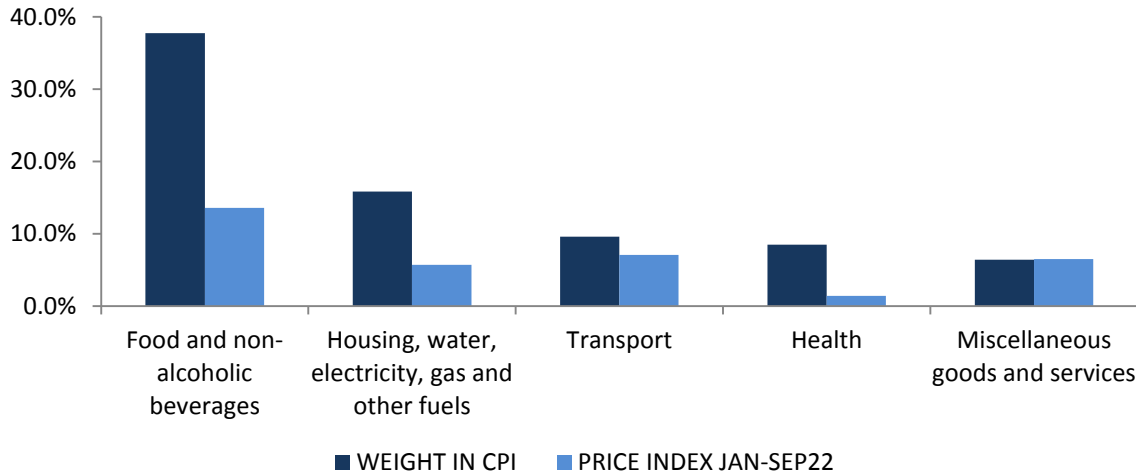
- ◆ The National Statistical Service of the Republic of Armenia has reported the consumer price index of Armenia as 9.9% for September 2022 and 8.6% for cumulative Jan-September 2022.
- ◆ The Deposit, Repo, and Refinancing Rates of the CBA increased for Q3 2022. They are currently: 9.0%, 12.0%, and 10.5% respectively.
- ◆ Rising costs of trade have resulted in the cumulative import price index reaching 6.7% in September 2022. The PPI has reached a cumulative 4.1% for Jan-Sep 2022 period, which is down from the 7.8% in Jan-Jun 2022.
- ◆ Activity such as this can affect a lot for a country like Armenia, which is to say: heavily import-dependent for final, capital, and intermediate goods. So, the spillover effect was somewhat inevitable.
- ◆ During the third quarter, the construction price index and producer price index have seen a downtrend. In Jan-Sep 2022, the construction price index and producer price index were 7.2% and 4.1%, which they have decreased by 3.7 and 2.8 percentage points respectively.
- ◆ Armenia's export index was reported negatively for Jan-Sep 2022 period. This could be, because Armenia's exchange rate appreciated by more than 20% since start of the year.

Figure 19. Dynamics of price indices of Armenia



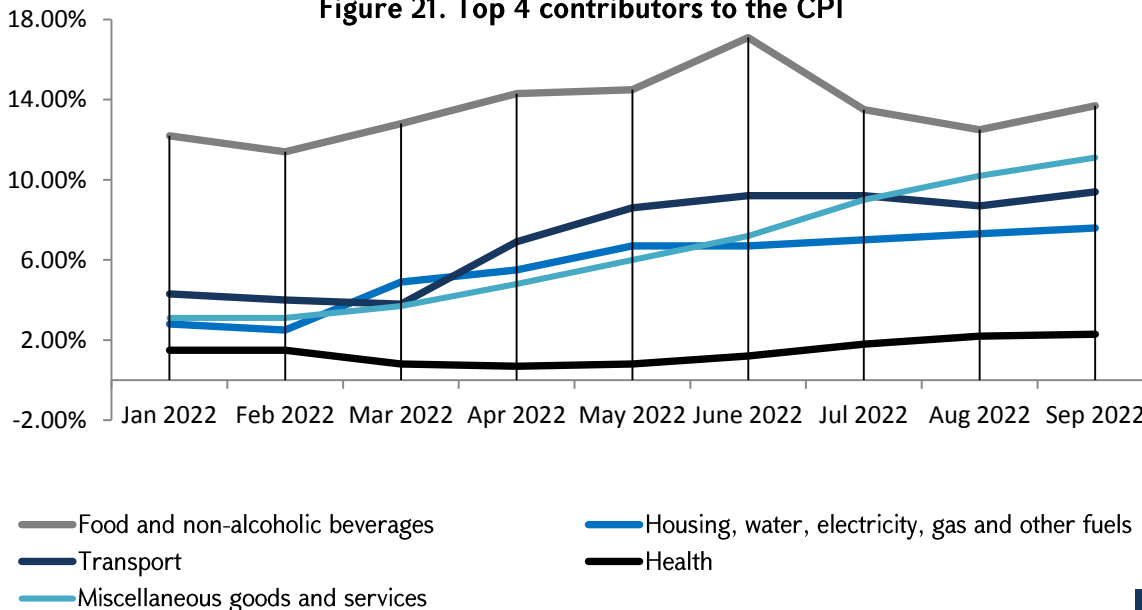
Armenia's Price Indices

Figure 20. 5 major weights in the CPI basket



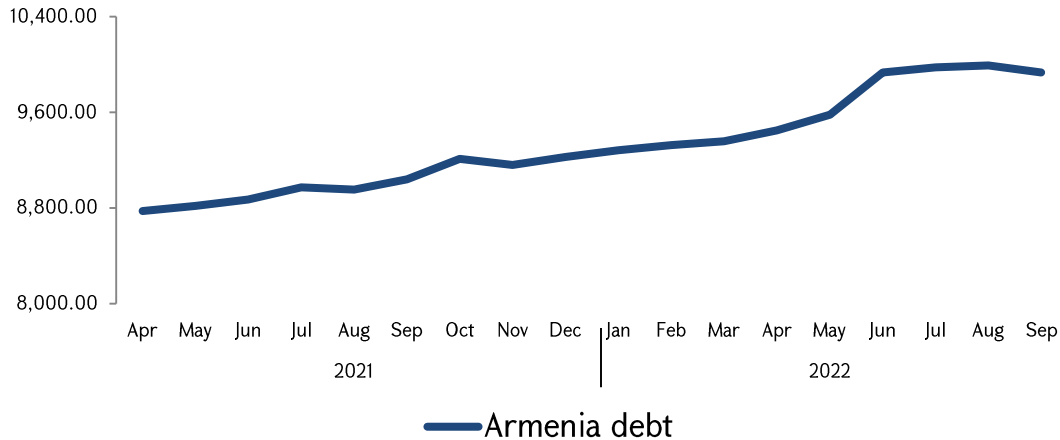
- ◆ Armenia's CPI basket is composed of twelve main categories, each category is weighted according to the needs and priorities of consumers.
- ◆ The twelve categories are: 1) Food and none alcoholic beverages, 2) Housing, water, electricity, gas, and other fuels, 3) Health, 4) Transport, 5) Alcoholic 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 Transport.
- ◆ For the Jan.-Sep. 2022 period, "Food" had the highest weighted inflationary bearing on CPI. It accounted for approximately 5.13% out the cumulative 8.6% inflation rate.

Figure 21. Top 4 contributors to the CPI



Armenia's Debt and Budget

Figure 22. Armenia's public debt



- ♦ Armenia's total debt during the months of Jan.-Sep. 2022 reached 9,931.5 million USD.
- ♦ From this, 6,147 million dollars are external debts, which has decreased by approximately 7.8% from September 2021, while the rest are internal debts, which increased by approximately 59.5%.
- ♦ The external debts are divided into two parts: Armenia's government debt, which accounts for approximately 91.3% and decreased by 9.3% since September 2021, and the Central Bank of Armenia which accounts for approximately 8.7%, which has went up since September 2021 by 12.7%.
- ♦ For Jan.-Sep. 2022, Armenia's budgetary income was 1,500,686.6 million AMD, which is up by 24.9% when comparing with the same period of the previous year.
- ♦ This was due to tax and fee revenue which increased by approximately 23.6%, reaching 1,405,766.3 million AMD,
- ♦ Government expenses increase for the Jan.-Sep. 2022 period, by approximately 7.4%. Government spending is separated into ongoing expenses and operation of non-financial assets.
- ♦ Ongoing expenses increased by 4.2%, which includes salaries of public sector workers, acquiring of goods and services, interest payments, grants, etc.
- ♦ Non-financial assets increased by 38.5% when compared with the same period of 2022.
- ♦ Armenia for the period Jan-Sep 2022 had a budget surplus. This is because the budget revenues have increased more than the expenses of the government comparing with the same period previous year

Figure 23. Armenia's budget's income and expenses

