

DELEGATION OF THE EUROPEAN UNION TO ARMENIA

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Subject: Armenia – Economic Report for October 2022

Summary

Armenia's economic activity index grew by 14,1 % in January - - September 2022. The foreign trade turnover increased by 62.5%. The exports increased by 63.8%, and the imports increased by 61.6%. Armenia collected taxes worth EUR 3.5 billion. The International Financial Institutions forecasted Armenia's GDP to grow by 7% in 2022. International Monetary Fund's experts say Armenia has the highest potential to increase export volumes to key European partners. The Standard&Poors has confirmed Armenia's sovereign rating at "B+" and "B," with a stable outlook. Armenian Central Bank raised the refinancing rate by 0.5 percentage points to 10.5%. The net inflow of transfers from individuals increased annually by 3.3 times, reaching a record high of around EUR 1.7 billion. The Caucasus Research Resource Centre's survey says many Armenians still see corruption as a major problem in the country. Armenia and IMF reached a staff-level agreement on a three-year precautionary Stand-By Arrangement for SDR 128.8 million or about EUR 165.6 million. The United States Agency for International Development plans to support the Armenian economy by investing USD 25 million.

Main developments

Armenia's economic activity index¹ grew by 14.1% in January - September 2022² compared to the same period in 2021. It increased by 14.6% in September alone, compared to September 2021, and 8.9% compared to August 2022. All the sectors of the economy have shown an increase except for agriculture, which declined by 0.7% in the given period. **The foreign trade turnover increased by 62.5% in the first nine months of 2022.** The exports increased by 63.8%, and the imports increased by 61.6%. The trade balance remains negative. Exports make up 60.5% of imports. **The Consumer price index grew by 8.6%, and the industrial product index increased by 4.1%** in the same period. **Armenia collected taxes worth EUR 3.5 billion** in the first nine months of 2022, which is EUR 192 million more than projected and **24.2% more than last year** in the same period.

The World Bank, in its Economic Update published in October, forecasted **Armenia's GDP to grow by 7% in 2022**, 4.3% in 2023, and 5.2% in 2024. The growth rate for 2022 is twice higher as the previous forecast in June 2022. Similar figures were published by the **Asian Development Bank**, which expects Armenia's economy to **grow by 7% in 2022** and 4.5% in 2023. The **International Monetary Fund (IMF)** has the same as other mentioned agencies **forecast** in its World Economic Outlook report for 2022 and twice lower at 3.5% for 2023. According to the IMF, inflation in Armenia will stand at 8.5% in 2022 and 7% in 2023.

¹ **Economic Activity Index** is a monthly aggregate indicator of change in output real volume in economy

² **Armstat report EAI** - <https://armstat.am/file/doc/99533088.pdf>

The IMF study "Raising Armenia's Export Potential"³ suggests Armenia has the highest potential to increase export volumes to developed economies like key European trading partners and China. The largest potential the IMF experts see in export to the USA. The Study analysis concluded, "The analysis points to the need for a broad set of structural reforms to boost the economic complexity of Armenia and exports of high-skill products and modern services. The quality of physical infrastructure and education, export costs, and income equality are the important factors for upgrading the quality of goods exports."

Standard&Poors (S&P) has confirmed Armenia's sovereign rating at "B+" and "B" for issuing long-term and short-term liabilities in foreign and national currencies, with a stable outlook on 10 October 2022. In addition, S&P significantly upgraded from 1.3% to 8.6% its forecast for Armenia's GDP growth in 2022. At the same time, the agency warns that even though Russia's aggression against Ukraine did not negatively impact the Armenian economy so far, it remains at risk of the secondary impact of sanctions against Russia due to the large share of Russia in Armenia's foreign trade.

Armenian Central Bank (CBA) again raised the refinancing rate by 0.5 percentage points to 10.5% on 1 November 2022. The last increase, with the same step, took place in September 2022. According to CBA, the net inflow of transfers from individuals increased annually by 3.3 times, reaching a record high of around EUR 1.7 billion in January- September 2022⁴. The largest share of transfers comes from Russia, it is the impact of Russians relocated in two waves since the start of the war in Ukraine. Armenian Minister of Finance mentioned the remittances from Russia as one of the important factors of economic growth in 2022.

According to the Caucasus Research Resource Centre **many Armenians still see corruption as a major problem in the country.** After interviewing over 1,500 people in Armenia as part of the public opinion survey, most respondents mentioned several forms of corruption, nepotism, conflicts of interest, bribe-taking, and money laundering, which remain common in Armenia.

Radio Free Europe/Radio Liberty Armenian Service presents a **case of a construction company Euroasphalt managed by National Assembly speaker Alen Simonian's brother.** The company has won the ninth government contracts just this year alone. This case is covered by several media outlets and raised by the business community that question the integrity of the public procurement system in Armenia. Euroasphalt was established with a capital of around EUR 100 in March 2018. The speaker's brother Karlen Simonian became its executive director in 2021. Alen Simonian is part of Prime Minister's team. The latter claimed to have eliminated "systemic corruption" in Armenia after 2018.

Armenia and IMF reached a staff-level agreement on a three year precautionary Stand-By Arrangement (SBA) for SDR 128.8 million or about EUR 165.6 million, which is subject to approval by the IMF in December 2022. The press release states "The proposed arrangement will support the government's economic program to achieve investment-driven, knowledge-based, and export-led growth, while preserving macroeconomic, fiscal, and financial stability and reducing poverty."

³ IMF <https://www.imf.org/en/Publications/WP/Issues/2022/10/28/Raising-Armenias-Export-Potential-525082>

⁴ CBA - <https://www.cba.am/en/SitePages/statexternalsector.aspx>

The United States Agency for International Development (USAID) plans to support the Armenian economy by investing USD 25 million in various projects for a duration of five years. The agency says “This project will focus on the root causes of economic vulnerability and strengthen Armenia’s economic resilience in the face of precisely such challenges.”

Sign-off: Andrea WIKTORIN, Head of Delegation