

DELEGATION OF THE EUROPEAN UNION TO ARMENIA

Authors: Karen AZARYAN, Jan PLESINGER and Frank HESS

Date: 20.01.2023

Subject: Armenia – Economic Report for December 2022

Summary

Armenia's economic activity index grew by 14.4% in January - November 2022 compared to the same period in 2021. The foreign trade turnover increased by 67.8% in the eleven months of 2022. The exports increased by 75.2%, and the imports increased by 63.5%. The Consumer price index grew by 8.7%, and the industrial product index increased by 2.9%. Foreign direct investments (FDI) Net flow to the real sector of Armenia's economy increased by 62% and stood at EUR 235.4 million in January-September 2022. The EU is the second source of FDIs in Armenia after Eurasian Economic Union (EAEU). The National Assembly of Armenian has adopted the “Law on State budget 2023.” The Central Bank of Armenia (CBA) decided to raise the refinancing rate by 0.25% to 10.75%. Tax revenues of Armenia's state budget as of 31 December 2022 exceeded those in 2021 by 26.4%. Turkiye announced that it lifted a ban on direct air cargo transportation with Armenia. Around 1.67 million foreign tourists visited Armenia in 2022. Armenia is 48th among 169 countries on the Social Progress Index. The Armenian Government decided to ban the export of some agricultural products from Armenia for six months. It also decided to extend restrictions on the import of cement and clinker for another six months.

Main developments

Armenia's economic activity index¹ grew by 14.4% in January - November 2022² compared to the same period in 2021. It increased by 13.8% in November alone, juxtaposed November 2021, and decreased by 4% compared to October 2022. All the sectors of the economy have shown an increase in the same period. **The foreign trade turnover increased by 67.8% in the eleven months of 2022.** The exports increased by 75.2%, and the imports increased by 63.5%. The trade balance remains negative. Exports make up 61.4% of imports. **The Consumer price index grew by 8.7%, and the industrial product index increased by 2.9%** in the mentioned period. According to the **World Bank's latest forecast, Armenia's GDP growth rate will be 4.1% in 2023.**

FDI Net flow to the real sector of Armenia's economy amounted to EUR 235.4³ million in January-September 2022⁴. It is by 62% more than in the corresponding period of 2021. The increase in AMD, due to the national currency's appreciation, was 26.8%. **The EU is the second source of FDIs in Armenia** after EAEU. The share of Russia in the latter is more

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/99535308.pdf>

³ Amstat 1 EUR= 479.23 AMD average in 9 months of 2022

⁴ **Armstat report FDI** in Armenian - https://armstat.am/file/article/sv_11_22a_420.pdf

than 99%. **In terms of FDI Net flow**, the EAEU share is 53.0%, and **the EU has an 8.6% share in total**. FDI stocks, at the average exchange rate, stood at EUR 8.6 billion at the end of September 2022. **The EU has a 22.0% share in FDI stocks**, following EAEU with 42.5%.

The **National Assembly of Armenian has adopted the “Law on State budget 2023”** on 8 December 2022. Both opposition parties voted against. The Budget foresees AMD 2.591 trillion, which equals to **EUR 6.6 billion⁵ in spending by 18.2% more than in 2022**. The revenues planned at AMD 2.302 trillion, or **EUR 5.9 billion, is 18.6% more than last year**. The Government projected a deficit of **AMD 289 billion or EUR 736 million, economic growth at 7%, and inflation at 4% +/-1.5%**. The Government foresees keeping its **debt at a 51.2% ratio to GDP** and, in case of currency shock, at 52.6%.

The CBA decided to raise the **refinancing rate by 0.25% to 10.75%**, the Lombard repo facility rate to 12.25%, and the Deposit facility rate to 9.25% on 13 December 2022.

Last year, Armenia's budget tax revenues exceeded the revised target by 1.7% and the previously set target by 4.4%. **Tax revenues of Armenia's state budget** as of 31 December 2022 **exceeded those in 2021 by 26.4%**, by 39% compared to 2020, and by 53.1% compared to 2018. Armenia's Government plans to collect 14.4% more taxes in 2023 than in 2022. According to the tax reform launched in 2019, the **income tax rate decreased from 21% to 20% starting 1 January 2023**.

Turkiye announced that it lifted a ban on direct air cargo transportation with Armenia. It is part of the agreement reached at the meeting of special envoys of both countries on 1 July 2022. Another part of the agreement foresees the possibility for citizens of third countries to cross the Armenia-Turkiye land border. There are ongoing talks on the re-establishment of diplomatic relations, which were unilaterally terminated by Turkiye in 1993, shortly after the establishment.

Around 1.67 million foreign tourists visited Armenia in 2022. According to preliminary data, it is by 44.5% more than in 2021. However, the number was lower than 1.89 million tourists in pre-pandemic 2019. About 130 thousand tourists visited Armenia in December 2022 alone. It is exceeding the 2019 record by nearly 20 thousand. The top three countries for tourist arrivals are Russia with a 46% share, Georgia with 11%, and Iran 7% share.

With a 74.78 rank, Armenia is 48th among 169 countries on the Social Progress Index⁶. The index measures the country on social and environmental performance. It enables assessment of a country's success in turning economic progress into improved social outcomes.

The Armenian Government decided to ban the export of some agricultural products from Armenia for six months during its session on 22 December 2022. The justification of the decisions says, "To ensure food security and stabilization of Armenia's economy, goods under codes 1206 00 990 0, 1512 11 910, 1512 19 900 2 and 1512 19 900 9, which correspond to wheat, meslin, barley, corn, buckwheat, sunflower seeds, and sunflower oil cannot be exported to non-members of the Eurasian Economic Union."

⁵ Exchange rate in the State Budget for 2023 is 1 EUR = 392.58 AMD

⁶

https://www.socialprogress.org/static/8a62f3f612c8d40b09b3103a70bdacab/2022%20Social%20Progress%20Index%20Executive%20Summary_4.pdf

During its session on 5 January 2023, **the Government of Armenia decided to extend restrictions on the import of cement and clinker for another six months**. The first restriction was approved a year ago and extended for another six months. Through these efforts, the Government is promoting domestic production, which increased by 14.5%. However, the demand exceeded the supply, given the increasing construction volumes in Armenia.

Sign-off: Andrea WIKTORIN, Head of Delegation