

# DELEGATION OF THE EUROPEAN UNION TO ARMENIA

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## Subject: Armenia – Economic Report for February 2023

### Summary

Armenia's GDP grew by 12.6% in 2022. The GDP per capita stood at EUR 6210. The economic activity index rose by 10.5% in January 2023 compared to January 2022. The foreign trade turnover increased by 93.8% in January 2023. The exports soared by 2.3 times, and the imports grew by 72.5%. Fitch Ratings and S&P Global have revised Armenia's Outlook from Stable to Positive. The fourth report of the Extractive Industries Transparency Initiative (EITI) on Armenia was published. Armenian Government will receive a 12.5% share of Lidian Armenia, and the latter will relaunch operations.

### Main developments

**Armenia's GDP grew by 12.6% in 2022<sup>1</sup>**, reaching AMD 8.497 trillion or **EUR 18.4 billion**. For the second year, Armenian economic growth exceeds the forecasts of the IFIs and projections in the State Budget. The latter projected 7% growth, while the IMF and WB, after several upgrades, expected 11% and 10.8%, respectively. The initial forecast of both instructions was around 1%. All the sectors have registered growth except for the agriculture and mining industry, which had a slight decrease of 0.7% and 3.4%, correspondingly. Despite the decline, the Agriculture sector has one of the highest shares of 10.4% in GDP. The other sectors with a large share are wholesale and retail trade - 11.8% and the processing industry - 11.7%. **The GDP per capita stood at EUR 6210**. According to Bagrat Asatryan, ex-governor of the Central Bank of Armenia (CBA), despite economic growth in Armenia last year, no economic progress was recorded, and the economic situation is far from being good.

**Armenia's economic activity index<sup>2</sup> grew by 10.5% in January 2023<sup>3</sup>** compared to January 2022. It declined by 46.1%, juxtaposed December 2022. All the sectors of the economy have shown an increase, except electricity production. **The foreign trade turnover increased by 93.8% in January 2023**. The exports soared by 2.3 times, and the imports grew by 72.5%. The trade balance remains negative. Exports make up 57.3% of imports. **The Consumer price index grew by 8.1%, and the industrial product index surged by 1.6%** in the mentioned period. The state budget projection for economic growth is 7% in 2023. The number of rating agencies and IFIs forecast around 4% growth this year.

**Fitch Ratings<sup>4</sup> has revised Armenia's Long-Term Foreign-Currency Issuer Default Rating (IDR) Outlook from Stable to Positive and affirmed the IDR at 'B+'**. The agency

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<sup>1</sup> Armstat report GDP in Russian - <https://armstat.am/file/doc/99536118.pdf>

<sup>2</sup> Economic Activity Index is a monthly aggregate indicator of change in output real volume in economy

<sup>3</sup> Armstat report EAI - <https://armstat.am/file/doc/99536233.pdf>

<sup>4</sup> Fitch - <https://www.fitchratings.com/research/sovereigns/fitch-revises-armenia-outlook-to-positive-affirms-at-b-10-02-2023>

listed a few factors positively affecting Armenia's economic performance. "A very large influx of immigrants and capital from Russia in 2022 has boosted external as well as macroeconomic and fiscal performance." It led to a 140% increase in money transfers by individuals, a marked improvement in the external balance sheet with a small surplus in the current account. As a result, the net external debt and fiscal deficit decreased. At the same time, Fitch mentioned a few risks for the Armenian economy in 2023 "Sharp reversal of capital inflows, sizeable decline in international reserves, or current account deficits.... the surge in the population leading to overheating or geopolitical shocks could undermine growth and financial stability."

**The S&P Global Ratings**<sup>5</sup> upgraded its Armenia Outlook on the long-term sovereign credit rating to positive from stable on 24 February 2023. The agency affirmed the 'B+' long-term and 'B' short-term sovereign credit ratings on the sovereign. S&P mentioned war in Ukraine as a major trigger for inflows of labor and capital from Russia, which in turn boosted Armenia's economic growth. The Outlook is revised to positive on the grounds that Armenia will keep a strong growth rate, fiscal and external balance sheets. However, the agency considered the possibility of inflows reversing in the coming years. The agency mentioned persistent external security risks potentially affecting domestic politics and the economy.

**Armenia's fourth national EITI Report for 2020 and 2021**<sup>6</sup> was published. The EITI National Report aims to provide information for the comprehensive sector analysis, promoting public understanding and informed decision-making. It includes information on the volumes and value of extracted ore, its production, domestic sales and export levels, employment data, payments to state and community budgets and revenues received by the Government, beneficial ownership, and other information required by the EITI Standard. The report mentioned the average share of the mining sector in the economy of Armenia, which was 3.57% during 2016-2021. The share of the rural population employed by the mining and quarrying sector was 39% in 2020-2021. There are registered 961 mines in Armenia, of which 45 are metallic. The latter includes copper, zinc, molybdenum concentrates, gold alloy, and ferromolybdenum. The metal mining sector's share in Armenia's total exports was 42.8% in 2020 and 41.5% in 2021.

**The Armenian Government and Lidian Armenia agreed to restart a multimillion-dollar gold mining project at Amulsar in Armenia.** Environmentalists' blockade disrupted its operation shortly after the 2018 "velvet revolution." Lidian Armenia received its operating license to develop a gold deposit at Amulsar in 2016. Amulsar gold mine is the second-largest gold mine in Armenia. Armenian Government will receive a 12.5% share of Lidian Armenia, according to the Minister of Economy Kerobyan, in exchange for managing their risks. He also said, "Amulsar will increase Armenia's GDP by approximately 1%." This will be the second mining company to donate part of its shares to the Government. Two of the shareholders of the largest mining company Zangezur Copper Molybdenum Combine donated parts of their shares to the Government in 2021.

**Sign-off:** Andrea WIKTORIN, Head of Delegation

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<sup>5</sup> **S&P** - <https://disclosure.spglobal.com/ratings/pt/regulatory/article/-/view/type/HTML/id/2953216>

<sup>6</sup> **EITI report** - <https://www.eiti.am/en/annual-reports/2022>