

DELEGATION OF THE EUROPEAN UNION TO ARMENIA

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Summary

Armenia's economic activity index grew by 11.4% in the first half of 2023. The Foreign trade turnover increased by 72.9%. The exports increased by 72.8%, and the imports grew by 73.0%. The Consumer price index increased by 4.2%, and the industrial product index deflated by 1.0%. Armenia collected 24.4% more tax revenues and state duties in the mentioned period. A company from the mining industry is the largest corporate taxpayer in Armenia. The mining sector's share in the country's GDP increased from 2.6% ten years ago to about 10% today. Fitch Ratings upgraded Armenia's Long-Term Foreign-Currency Issuer Default Rating (IDR) from 'B+' to 'BB-' with the Stable Outlook. Central Bank of Armenia reduced the refinancing rate and set it at 10.25%. The number of foreign tourists visiting Armenia saw a 30% year-on-year growth and reached one million in the first half of 2023. The unemployment rate increased from 12.7% to 13.7% in the first quarter of 2023 compared to the previous quarter. Armenia Securities Exchange (AMX) conducted an allocation and buyback auction of EUR 14.0 million worth of Government bonds on 11 July 2023. The demand surpassed EUR 436.6 million.

Main developments

Armenia's economic activity index¹ increased by 11.4% in January - June 2023² compared to the same period of 2022. It grew by 6.8% in June alone, compared to June 2022, and surged by 9.9%, juxtaposed to May 2023. All the sectors of the economy have shown an increase, except for electricity production, which declined by 2.7%. **Foreign trade turnover increased by 72.9% in the first half of 2023.** The exports increased by 72.8%, and the imports grew by 73.0%. The trade balance remains negative at USD 2.4 billion. Exports make up 58% of imports. **The Consumer price index rose by 4.2%, and the industrial product index deflated by 1.0%** in the mentioned period.

The State Revenue Committee of Armenia collected 24.4% more tax revenues and state duties in January-June 2023 than in the same period last year and 47.1% more than in the same period of 2021. One thousand largest corporate taxpayers paid more than EUR 2 billion in taxes and duties in the mentioned period. Of which, EUR 1.6 billion are revenues from taxes, and the rest came from customs duties. Zangezur Copper and Molybdenum Combine (ZCMC) topped the list, paying about EUR 81 million in taxes and duties. Gazprom-Armenia CJSC comes the second. Grand Tobacco follows the latter.

Mr. Vardan Janyan, the Head of the Union of Miners and Metallurgists, who is at the same time the First Deputy CEO of ZCMC, presented a few facts regarding the mining sector in Armenia. In particular, he mentioned that the mining industry of Armenia increased its share in the

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/99538958.pdf>

country's GDP from 2.6% ten years ago to about 10% today. The sector is export-oriented, making around 30 to 40% of total exports. Mining absorbs a significant part of foreign direct investments. There are about 60,000 employees in the sector. Mr. Janyan also spoke about the plans of ZCMC to increase production capacity from 22 million tons per year to 40 million tons. The company plans to build a copper smelter plant in Armenia.

On 28 July, **Fitch Ratings, based on current economic trends, upgraded Armenia's Long-Term Foreign-Currency Issuer Default Rating (IDR) from 'B+' to 'BB-' with the Stable Outlook**³. Fitch forecasts Armenia's GDP to grow by 7.2% in 2023, 5.9% in 2024, and 4.5% in 2025. The agency listed several factors that can lead to positive or negative developments. Among negative factors are, Materialisation of geopolitical risks, External shocks that can negatively affect the international reserves or increase in current account deficits, and a significant increase in Government debt ratio to GDP. The positive factors are Continues high growth resulting in a sustained increase in GDP per capita, Fiscal consolidation that leads to a decline in government debt, and Reduction of geopolitical risks.

The Central Bank of Armenia reduced the refinancing rate by 0.25 percentage points, setting it at 10.25% on 1 August 2023. Lombard repo rate was set at 11.75% and the rate of attraction of funds at 8.75%.

According to the Tourism Committee, **the number of foreign tourists visiting Armenia saw a 30% year-on-year growth and reached one million in the first half of the year**. Around 199,000 foreign tourists visited Armenia in June 2023 alone, more than pre-Covid June 2019. The biggest share of visitors comes from Russia - 52%, Georgia - 11%, and Iran - 6%. The Minister of Economy expects more than two million tourists to visit Armenia in 2023.

The unemployment rate increased from 12.7% to 13.7% in the first quarter of 2023 compared to the previous quarter. Whereas, compared to the same period in 2022, it decreased by 1.1%. At the same time, the employment rate decreased by 0.1% and stood at 50.9% in the first three months of 2023 compared to the last three months of 2022. The index increased by 2.5% compared to the same period in 2022.

Armenia Securities Exchange (AMX) conducted an allocation and buyback auction of Government bonds totalling EUR 150 million on 11 July 2023. The allocation volume in the auction was EUR 18.7 million, and the share of Government bonds in it was EUR 14.0 million, with the demand surpassing EUR 436.6 million. In AMX's opinion, "This indicates the stability of the financial market, its attractiveness, and the confidence in the Armenian Government bonds." The auction price's weighted average yield is 11.1163%, and the coupon's annual yield is 9.60%. The period of the bond's maturity is ten years. Armenian Government's bonds, besides AMX's trading platform, are also available on gp.minfin.am retail platform operated by AMX.

Sign-off: Andrea WIKTORIN, Head of Delegation

³ <https://www.fitchratings.com/research/sovereigns/fitch-upgrades-armenia-to-bb-outlook-stable-28-07-2023>