

DELEGATION OF THE EUROPEAN UNION TO ARMENIA

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Summary

The mass exodus of the Armenian population from Nagorno-Karabakh became the reason for the rapid devaluation of the Armenian currency, which now is gaining back what was lost. There are confirmed reports of around 60 trucks with Armenian alcohol, mainly Armenian brandy (cognac), blocked at the Russian border. This situation is improving now. Armenia's economic activity index grew by 10.4% in the first eight months of 2023. The Foreign trade turnover increased by 53.0%. The exports increased by 51.8%, and the imports grew by 53.8%. The Consumer price index increased by 3.1%, and the industrial product index by 0.9%. Foreign trade turnover increased by 53.0% in the first 8 months of 2023. The exports increased by 51.8%, and the imports grew by 53.8%. The Consumer price index rose by 3.1%, and the industrial product index increased by 0.9%. Armenia's State Revenue Committee (SRC) collected by 452 million drams or 15.5% more in taxes and duties. Armenia's Gross International Reserves (GIR) reached a new record of USD 4.126 billion by August 2023. The Central Bank of Armenia (CBA) reduced the refinancing rate by 0.5 pp, setting it at 9.75%. Around 1.6 million foreign tourists visited Armenia in the first eight months of 2023. The Government debt stood at 42.7% of GDP in the first half of 2023.

Main developments

The Azerbaijani military attack against the Nagorno-Karabakh region starting on 19 September 2023 triggered the mass exodus of the Armenian population to Armenia. The economy's first reaction to this was the rapid devaluation of the Armenian currency, which now is gaining back what was lost. The main hard currencies, EUR and USD, have been gaining against the AMD. Daily demand for hard currencies increased almost ten times compared to the days before the Azerbaijani attack. The situation was changing hourly, which is why the CBA announced intervention to manage the devaluation. There are no objective economic reasons for this change. Even the Armenian Government's expenditures on refugees from Nagorno-Karabakh could not be the reason. A Number of countries donated money to meet the basic needs of the refugees. This also helped to serve the demand for hard currencies.

Besides the economic challenges created by the inflow of refugees, there are others influenced by an increasing worsening of Armenia-Russia relations. Russia, Armenia's first trading partner, started imposing trade restrictions in spring 2023. It started by banning dairy products from Armenia, which the Ministry of Economy described as going against the Eurasian Economic Union agreement. **There are confirmed reports of around 60 trucks with Armenian alcohol, mainly Armenian brandy (cognac), blocked at the Russian border.** The Russian side explains it by examination of the quality of the beverage. This situation is improving now.

Macroeconomic developments

Armenia's economic activity index¹ increased by 10.4% in January - August 2023² compared to the same period of 2022. It grew by 10.9% in August alone, compared to August 2022, and surged by 6.2%, juxtaposed to July 2023. All the sectors of the economy have shown an increase, except for electricity production, which declined by 2.6%. **Foreign trade turnover increased by 53.0% in the first 8 months of 2023.** The exports increased by 51.8%, and the imports grew by 53.8%. The trade balance remains negative at USD 3.1 billion. Exports make up 59.2% of imports. **The Consumer price index rose by 3.1%, and the industrial product index increased by 0.9%** in the mentioned period. Armenia's SRC collected by 452 million drams or 15.5% more in taxes and duties in the first eight months of 2023, than in the same period last year.

The European Bank for Reconstruction and Development (**EBRD**), in its report "Regional Economic Prospects published in September 2023, **expects 6.5% growth of Armenia's economy in 2023 and 4.5% in 2024.** The CBA revised upward from 6.9% to 7.2% its forecast of economic growth for 2023. The Armenian Government's growth projection is 7% for 2023.

The CBA reported on **Armenia's GIR, which reached a new record of USD 4.126 billion by August 2023.** Almost all of the GIR, around 99%, are external assets in hard currency. On 12 September 2023, **the CBA reduced the refinancing rate by 0.5 pp, setting it at 9.75%.** This is the third time during this year that CBA is lowering the refinancing rate.

Around 1.6 million foreign tourists visited Armenia in the first eight months of 2023. The number of visitors increased by 53.8% compared to the same period of 2022. The airport in Kapan in southern Armenia receives the International Air Transport Association (IATA) code. In order to operate as an international airport, it must comply with ICAO standards. The ICAO Annex 14 sets out the fundamental Standards and Recommended Practices for airport design and operations. "States shall certify aerodromes used for international operations in accordance with the specifications contained in this Annex."

The International Monetary Fund (IMF) expects central government debt to be below 50% of GDP by the end of the year. **The Government debt stood at 42.7% of GDP in the first half of 2023.** Armenia's public debt stood at USD 11.3 billion on 31 July 2023. It has increased by USD 247.5 million month on month. The S&P Global Ratings expects Armenia's public debt to be 42% of GDP in 2023-2026. Fitch's forecast is 44.6% in 2023-2025.

Sign-off: Vassilis MARAGOS, Head of Delegation

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/99540073.pdf>