

Author: Karen Azaryan

Date: 22.12.2023

Subject: ARMENIA: Economic Report for November 2023

Summary

- Armenia's GDP grew by 7.4% in the third quarter of 2023. GDP per capita stood at EUR 2 050. The International Monetary Fund (IMF) forecast for GDP growth is 7% in 2023.
- Armenia's economic activity index grew by 9.2% in ten months of 2023. The foreign trade increased by 41.2%. The exports increased by 38.5%, and the imports grew by 42.9%. The consumer price index increased by 2.5%, and the industrial product index grew by 1.6%.
- The State Revenue Committee (SRC) of Armenia assesses turnover of the shadow economy about AMD 240 billion. SRC is working on further de-shadowing the economy.
- Armenian exporters of agricultural products experience difficulties at the Russian border. Russian authorities referring to phytosanitary requirements returned 35 trucks with Armenian products. Only after Armenia called an emergency meeting under the Eurasian Economic Union (EAEU) to discuss the problem did the Russian authorities reopen the border.
- The Ministry of Finance calculated a share of the re-export at 80,6%, contributing to the total export growth of 85% from Armenia to Russia.
- The Government extended the ban on exporting a few agricultural products from Armenia to non-EAEU countries. The food security and economic stability in Armenia are the main justifications for the decision.
- Armenia plans to spend around EUR 50 million in 2024 to extend the nuclear power plant (NPP) service life until 2036.
- Armenia joined the International Solar Alliance.

Details:

Main developments

Macroeconomic developments

1. According to the National Statistical Committee¹ **Armenia's GDP grew by 7.4% in the third quarter of 2023, compared to the same period of 2022.** The GDP year-on-year grew by 12.1% in the first quarter and 9.1% in the second quarter of 2023. GDP per capita in market prices stood at EUR 2 050. GDP in current prices amounted to AMD 2 trillion 580 billion or EUR 6.1 billion in the third quarter. The highest growth rates were registered in the information and communication sector, which grew by 41.6%, and the culture, entertainment and recreation industries increased by 34.7%. On the contrary, financial and insurance activities declined by 15%, real estate-related activities by 12.4%, processing industries by 7.1%, and transportation and warehousing dropped by 2.4% in the mentioned period.
2. **IMF expects Armenia's GDP growth to reach 7% in 2023 and 5% 2024.** The IMF team under positive risks mentioned "a renewed bout of income and capital flows and strong implementation of reforms, downside risks are elevated, including from geopolitical tensions, tight global financial conditions, slowdown in external demand, and abrupt reversal of capital flows."

¹ GDP - <https://armstat.am/file/doc/99541828.pdf>

3. **Armenia's economic activity index** ² **increased by 9.2% in January - October 2023**³ compared to the same time of 2022. It increased by 6% in October alone, compared to the same month of 2022, and decreased by 1.4%, juxtaposed to September 2023. All the sectors of the economy have shown growth except for electricity production, which declined by 3.5%. **Foreign trade turnover increased by 41.2% in the first ten months of 2023**. The exports increased by 38.5%, and the imports grew by 42.9%. The trade balance remains negative at USD 3.8 billion. Exports make up 60% of imports. It is the first time in the history of the independent Armenia that Foreign trade turnover exceeds country's GDP. **The Consumer price index rose by 2.5%, and the industrial product index increased by 1.6%** in the mentioned period.
4. The State Revenue Committee (SRC) of Armenia estimates **turnover of the shadow economy at about AMD 240 billion, which is about EUR 566 million**. Of these, about half is unpaid value-added tax (VAT), and the other half is unpaid income tax. The Government plans to increase the ratio of taxes to GDP, including via de-shadowing the economy.

Armenia-Russia economic relations

5. **Trucks exporting Armenian-made preserves, fruits and vegetables, flowers, fish, and other agricultural products to Russia were stuck at the Upper Lars border crossing point** between Georgia and Russia for several days, undergoing stricter than normal phytosanitary controls. Besides the queues created because of weather conditions, there is another queue for the Armenian trucks transporting agricultural products waiting for the control. According to the Minister of Economy of Armenia, the Russian authorities returned 35 trucks with agricultural products due to non-compliance identified by the Russian border control authority.

Armenia called for an EAEU emergency meeting to discuss issues at Upper Lars. The Food Safety Inspection Body of Armenia issued a statement of frustration regarding the unprecedented increase (110 times) in cases identified by the Rosselkhoznadzor. The statement mentioned that 72 cases were reported by the Russian side in 2023, of which 36 were reported in only three days. This happened in circumstances where the Russian side did not change, as they claim, their control approach. After the EAEU meeting, the situation at the Upper Lars border crossing point has changed. **The Russian authorities lifted the restrictions on Armenian trucks with agricultural products starting 04 December.**

In early October 2023, about 60 trucks with Armenian cognac from different producers were stuck at the Georgian-Russian checkpoint Upper Lars due to quality checks by the Russian customs service. **Russia started imposing trade restrictions by banning dairy products from Armenia on 5 April 2023**. The Ministry of Economy of Armenia described it as going against the EAEU agreement.

Foreign trade

6. According to Deputy Minister of Finance Vahan Sirunyan, **exports from Armenia to Russia increased by 85%** in the nine months of 2023, compared to the same period of 2022. **Out of which, approximately 80,6% is the re-export**. Only the remaining 4,4% of growth is associated with the exports of products of Armenian origin. He also mentioned **a 6,4% increase in state debt, which stood at AMD 4 trillion 454 billion** in the mentioned period.

² **Economic Activity Index** is a monthly aggregate indicator of change in output real volume in economy

³ **Armstat report EAI** - <https://armstat.am/file/doc/99542323.pdf>

7. In its Cabinet session, the **Government of Armenia decided to extend a temporary ban on the exports of a few agricultural products from Armenia to other countries outside of the EAEU for another 6 months, until 2 July 2024.** The previous decision on 29 June 2023 will end on 2 January 2024. The ban covers agricultural products, including wheat, meslin, barley, corn, buckwheat, sunflower seeds, and sunflower oil. Armenia does not produce these products, and the decision does not affect local producers. The justification of the decision referred to the food security and economic stability in Armenia.

Energy

8. The **Government of Armenia will allocate about AMD 20 billion or less than EUR 50 million in 2024 out of the EUR 150 million budget for the second extension of the service life of the NPP until 2036.** The new program also envisages a component of nuclear waste management. The NPP's renewed license is valid until 2026. At the same time, the Government is actively looking for opportunities to construct a new power unit. The EU will allocate EUR 2 million to improve the safety of Armenian NPP under the financial agreement "Drawing the lessons learned from the Fukushima Daiichi accident."
9. **Armenia signed the Framework Agreement on establishing the International Solar Alliance on 16 November 2023.** France and India are co-founding countries. Armenia's accession aims to combat climate change, develop green and renewable energy resources, and ensure energy security and energy access.

Sign-off: Frank Hess, Acting Head of Delegation