

**THE IMPACT
OF RUSSIA'S WAR IN UKRAINE
ON THE ARMENIAN ECONOMY**
STUDY



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Authors: Dr. Armen Ktoyan, Dr. Anush Shirinyan, Astghik Khachatryan

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Translated from Armenian by Kristine Soghikyan
English editor: Asbed Kotchikian
Authors: Dr. Armen Ktoyan, Dr. Anush Shirinyan, Astghik Khachatryan

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Contents

Introduction	05
1.The Impact of Russia’s War in Ukraine on the Financial and Banking Sector in the RA Economy (by Armen Ktoyan)	07
2.The Impact of Russia’s War in Ukraine on the external sector of the RA Economy. Export and Import (by Astghik Khachatryan)	21
3.The Impact of Russia’s War in Ukraine on the Real Sector of the RA Economy (by Anush Shirinyan)	37
Conclusions	53
Bibliography (by order of citation)	59

Introduction

Russia's war in Ukraine has had a multi-vectoral impact on the RA economy. On the one hand, Armenia has become a destination for temporary residence for tens of thousands of visitors, a unique hub of economic interests, enabling, inter alia, financial operations. Moreover, free market niches are emerging in the Russian economy which are a fertile ground for boosting exports and implementing re-export operations from the RA. Furthermore, the economic system of Armenia is definitely impacted by the sanctions, imposed on the Russian Federation. Besides, the impact of Russia's war in Ukraine can be viewed in direct as well as indirect dimensions.

The aim of this research is to comprehensively study the impact of the war [Russian-Ukrainian war, ed.] on the economy of RA. Particularly, the RA financial, banking, external economic and real sectors have been analyzed comprehensively as they currently are in the newly emerged conditions, caused by the war. The most significant threats and challenges caused by the impact of the war on Armenia's economy have been studied herein, along with the assessment of potential mid-term and long-term opportunities brought about by the war.

The data for the research were sourced from the publications and periodicals, issued by the RA Central Bank, Statistical Committee, other state entities, and international organizations. Analysis, synthesis, argumentation, systemic observation and other scientific methodological principles were applied in this research, supplemented by the authors' expert judgments.

The Impact of Russia's War in Ukraine on the Financial and Banking Sector in the RA Economy (by Armen Ktoyan)

This part of the research aims at studying the impact of Russia's war in Ukraine on the RA financial and banking system, and the opportunities and challenges caused thereby, as well as considering how the viability and stability of the system can be maintained in the new reality.

One of the main directions of the impact Russia's war in Ukraine has had on the RA economy is the qualitative growth of remittances and transfers from the Russian Federation (RF) to Armenia. Thus, the monthly volume of remittances from the RF to Armenia via the banking system by individuals in 2015-2021 exceeded 100 mln USD in only exceptional cases, whereas in the months deemed most productive, the total monthly amount of remittances would, as a rule, range between 80 and 100 mln USD.

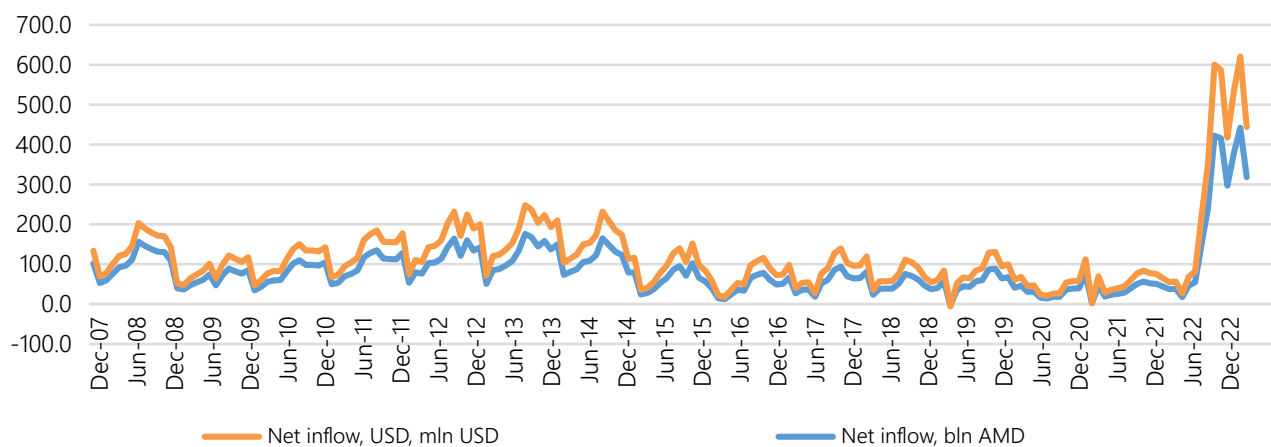


Figure 1.1. Monthly remittances received by individuals from the RF through RA banks¹

It should be noted that before and in 2014, remittances sent from the RF to Armenia in foreign currencies and AMD were significantly more than in 2015 and later, which is primarily conditioned by the economic impact of the sanctions, imposed on the RF in the general context of events around Crimea.

The remittances sent to the RA by individuals in 2013 were over 2 bln USD, however, after 2014, the devaluation of the ruble caused by the sanctions against Russia and the drop in oil prices led to a significant cut in remittances, channeled to Armenia. In 2015, as compared to 2014, remittances dropped from 2 bln USD to the threshold of 1.4 bln USD, falling by about 30%, caused by the restraining effect of 2014 sanctions on the RF GDP, by various estimates ranging from 0.2 to 2% annually².

Accordingly, the average monthly value of remittances from the RF to Armenia through the banking system amounted to almost 130 mln USD (54 bln AMD) in 2014, 144 mln USD (59 bln AMD) in 2013, and 137 mln USD in 2012. In the post-crisis year of 2010, this indicator was around 90 mln USD. After 2015, the volume of remittances from the RF to Armenia dropped significantly. The average monthly indicator fell to 84 mln USD (40 bln AMD) in 2015 and 74 mln USD (36 bln AMD) in 2016, to go up to 88 mln USD (42 bln AMD) in 2019. In 2020, the year of strict pandemic restrictions and the acute challenges caused by the 44-day [Nagorno-Karabakh, ed.] war, the average monthly value of remittances from the RF to Armenia was reduced even further, reaching 69 mln USD (34 bln AMD),

¹ Source: CBA, External sector statistics (<https://www.cba.am/am/SitePages/statexternalsector.aspx>)

² Tatevosyan, R. "Rus-ugrainakan hakamartootyuny. dransferdner [Russian-Ukrainian Conflict: Money Transfers]", Amberd Newsletter, #2, 2022, p. 80.

which, however, increased in the following year, reaching 72 mln USD (36 bln AMD). Yet, none of those levels are comparable to those in and after February 2022. Thus, in March-November 2022, the average monthly volume of remittances from the RF to Armenia via the banking system by individuals amounted to about 340 mln USD (142 bln AMD).

In 2015-2021, the average annual volume of remittances from the RF to Armenia amounted to about 1 bln USD, and in March-November 2022 alone, the total value exceeded the threshold of 3 bln USD.

The comparison of net cash flow for the period of April-November, by years

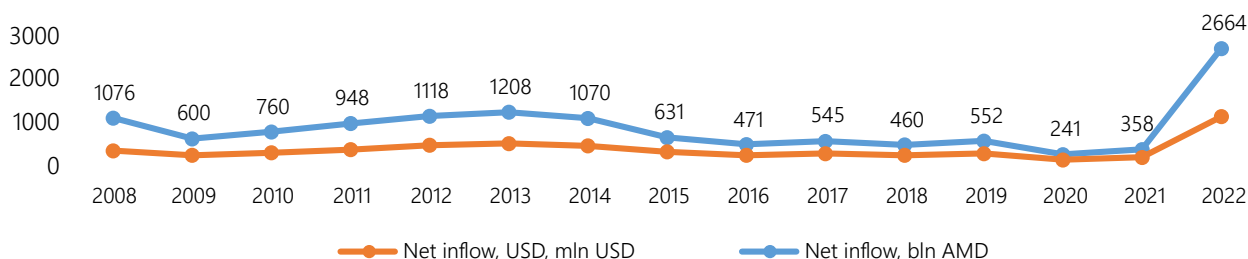


Figure 1.2. Monthly remittances, received from individuals in the RF through the RA banking system, April-November³

It should be noted that during the years under review not only was there a considerable cash flow due to remittances from the RF to Armenia, but we also witnessed considerable amounts of cash outflow. Hence, in the context of the studying the impact of remittances on the total demand in the RA economy it is important to make reference to the net cash flow (i.e. outflow deduced from the inflow) of RF and Armenia remittances. Accordingly, the net cash flow of annual remittances from individuals from Russia to Armenia through the banking system in 2015-2021 constituted a maximum amount of 722 mln USD (350 bln AMD), and the maximum annual volume of the net cash flow due to remittances before the imposing of sanctions caused by the developments in the Crimea amounted to 1.3-1.5 bln AMD (540-610 bln AMD). However, in April-November, 2022, the total amount of the net cash flow for only part of the year was already at 2.7 bln USD (1 tln AMD, Figure 1.2).

The level of net cash flow from the RF in 2022 (in USD) was more than the total of net cash inflow of remittances by individuals to Armenia from all directions in 2018-2021 and amounted to approximately 2.6 bln USD. And the 2018-2021 net inflow of remittances to Armenia in AMD from all directions globally via the banking system amounted to 1.25 tln AMD which, according to our estimation, will be below the annual level of net cash inflow only from the RF to the RA in 2022.

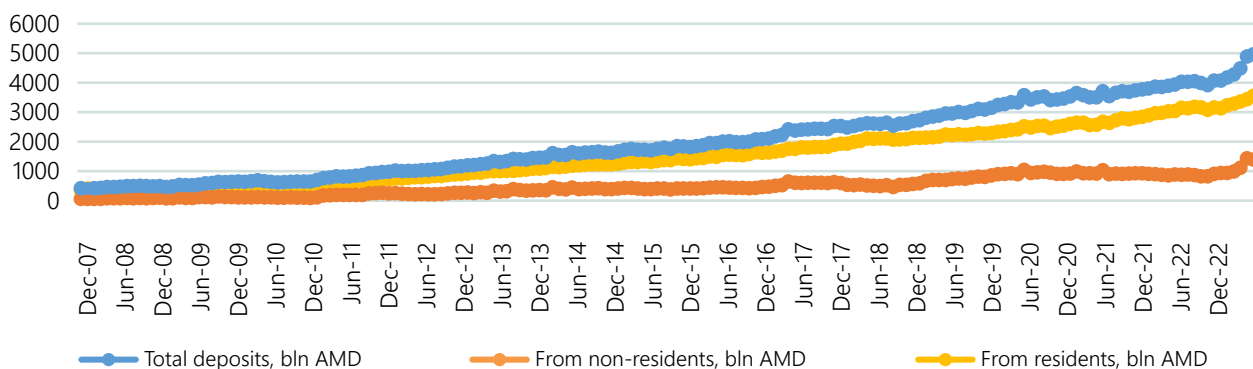


Figure 1.3. Deposits in the RA Banking System⁴

3 Source: CBA, External sector statistics (<https://www.cba.am/am/SitePages/statexternalsector.aspx>).

4 Source: CBA, Monetary and Financial Statistics (<https://www.cba.am/am/SitePages/statmonetaryfinancial.aspx>).

At the early stages of Russia’s war in Ukraine, namely during the first 2-3 months, the negative forecasts and spirits were especially acutely expressed among the participants of financial markets and financial institutions which is the reason why the central banks were trying to primarily restrain inflation by their monetary policy and consistently maintain financial sustainability. Investors were practicing even more conservatism, attempting at a rapid response to the newly emerging realities⁵.

Ever since the launch of the active stage of the crisis in Ukraine unleashed by Russia up until the end of November 2022, a substantial growth has been recorded in the deposits attracted by the RA banking system, amounting to about 1 tln AMD in absolute terms or an increase by 22% as compared to the level in February 2022. It should be noted that during the previous years, though the total value of deposits in the banking system has grown significantly, too, the maximum growth of the deposits in absolute terms in the months under review was 500 bln AMD (Figure 1.3).

In March- November 2022, the volume of deposits attracted by banks from non-residents in absolute terms expanded by 570 bln AMD, growing from 825 bln AMD to 1.4 tln AMD (with a growth rate of 70%). In addition, the observed current level of the total volume of deposits owned by non-residents is the historical maximum for the RA banking system, with the maximum level of deposits attracted from non-residents in the last 3-4 years taking place at the end of 2019 and 2020 at an approximate value of 1 tln AMD (Figure 1.4).

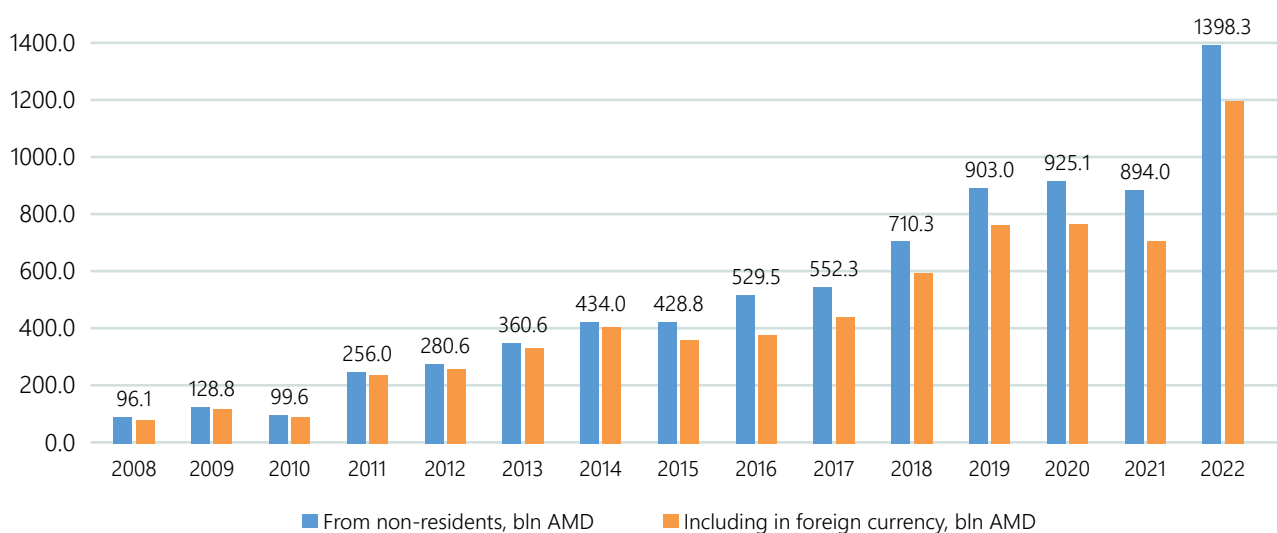


Figure 1.4. The attraction of deposits from non-residents by banks, as of the end of November⁶

About 86 percent of the deposits, made by non-residents, are foreign currency denominated. Moreover, the volumes of foreign currency denominated deposits of non-residents increased by 88% in November 2022, as compared to the level in March 2022.

The total amount of deposits attracted from residents showed a significant increase, too. The absolute growth in March-November 2022 amounted to 400 mln AMD (the growth was about 13%). About half of the increased share of the residents’ deposits can be accounted for demand deposit accounts. Those have grown by 200 bln AMD, and the relative growth is even more spectacular at around 32% (Figure 1.5).

5 Teryan, D. “Finansakan shookaneri ardzagangy rus-ukrainakan hakamartootyany [The Reaction of Financial Markets to the Russian-Ukrainian Conflict.]”, Amberd Newsletter # 2, 2022, p. 29.

6 Source: CBA, Monetary and Financial Statistics (<https://www.cba.am/am/SitePages/statmonetaryfinancial.aspx>).

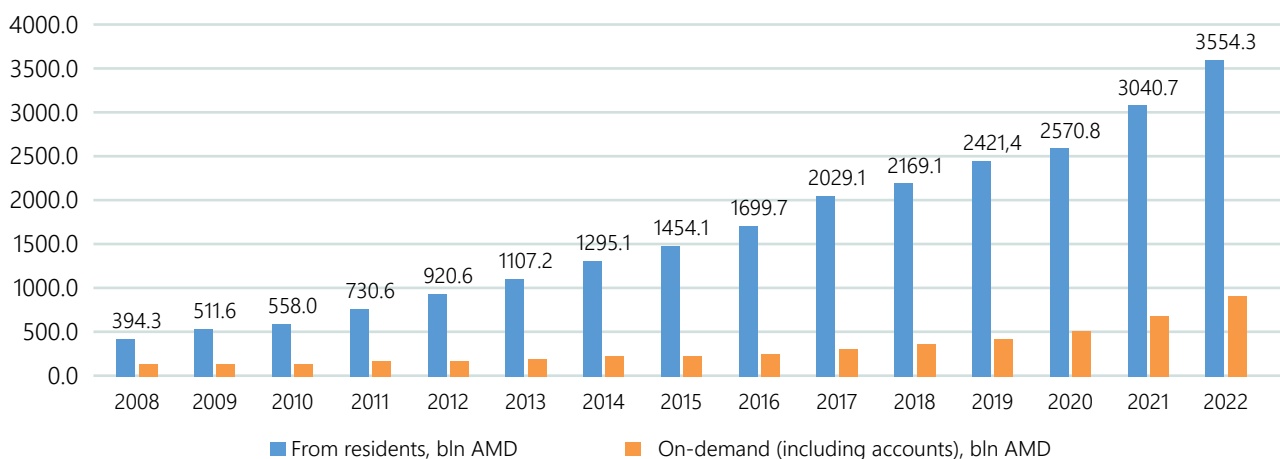


Figure 1.5. The attraction of deposits from residents by banks, as of the end of November⁷

Unlike the attraction of deposits, in the case of loans provided by the RA banks, the recorded trends in the period under review were quite different. Thus, on the one hand the total amount of loans, lent by the banks in March-November 2022 displayed no significant change. On the other hand, it should be kept in mind that in the first half of 2021, as compared to the preceding year, the lending volumes shrunk in the second half of 2021. Against this background, the level of 2022, as compared to the second half of 2021, implies some activation in lending which, however and in any case, is not comparable to the significant increase in deposit volumes (Figure 1.6).

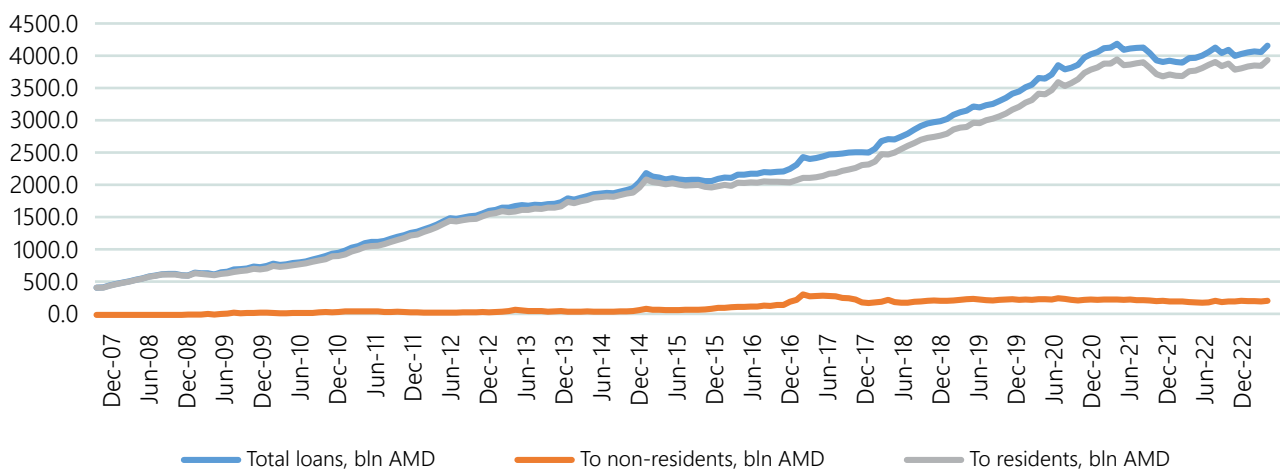


Figure 1.6. Loans provided by banks, monthly⁸

The loans provided to residents account for 95% of the lending portfolio of commercial banks. It is noteworthy that even though the total volume of loans provided to residents did not change in the months of 2022 under review, however, some structural shifts did take place. Thus, in March-November 2022 the total volume of the loans provided to resident households grew by 170 bln AMD or about 10%. At the same time the loans provided to resident enterprises decreased, almost in the same amount and after the same logic (Figure 1.7).

7 Ibid.

8 Ibid.

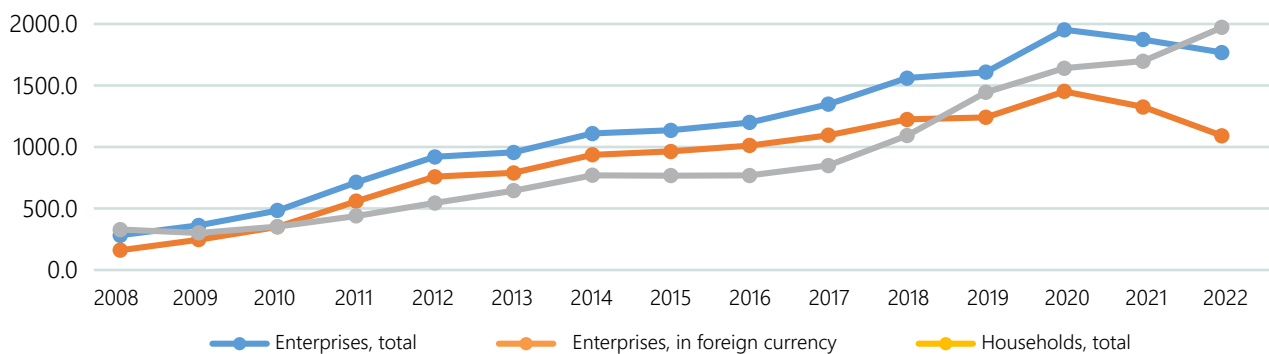


Figure 1.7. Lending to residents by banks, bln AMD, as of the end of November⁹

It is noteworthy that the volumes of lending in foreign currency to resident enterprises showed an even larger reduction – by about 250 bln AMD or 20%. The latter is also caused by the appreciation of AMD. In this context, the considerable shrink in the shares of foreign currency loans in the lending structure of enterprises must be viewed as a positive trend. The 70% indicator as of the beginning of the year reduced to 62% in November 2022.

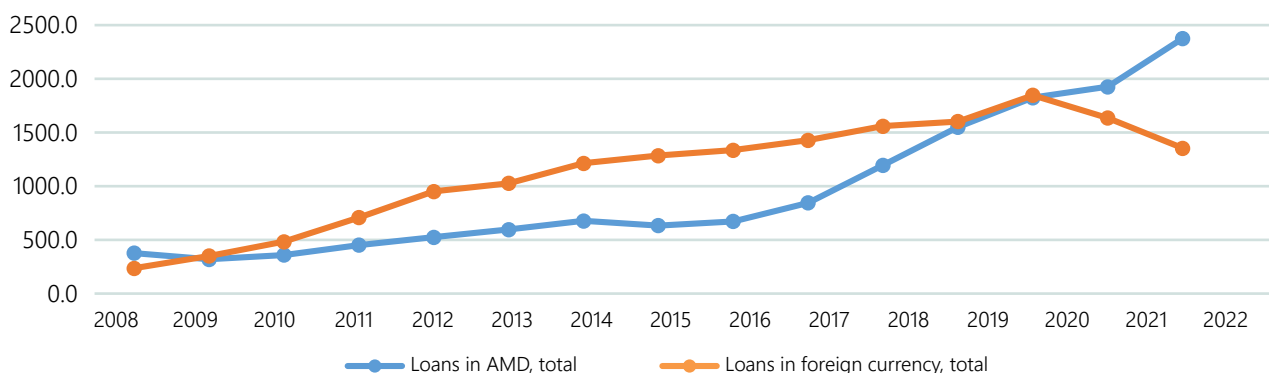


Figure 1.8. The loans provided to residents by currency, as of the end of November, bln AMD¹⁰

In general, the progressive growth in the rate of foreign currency lending is a phenomenon, typical of post-crisis stages in the RA financial system, various expressions of which may be noticed at varied intensity throughout the post-crisis period in 2008-2009. Contrary to the above-described, in the period following the crises in 2020, lending in AMD continued to remain progressive in the preceding years, in contrast to the considerable reduction in foreign currency loans (Figure 1.8).

9 Ibid.

10 Ibid.

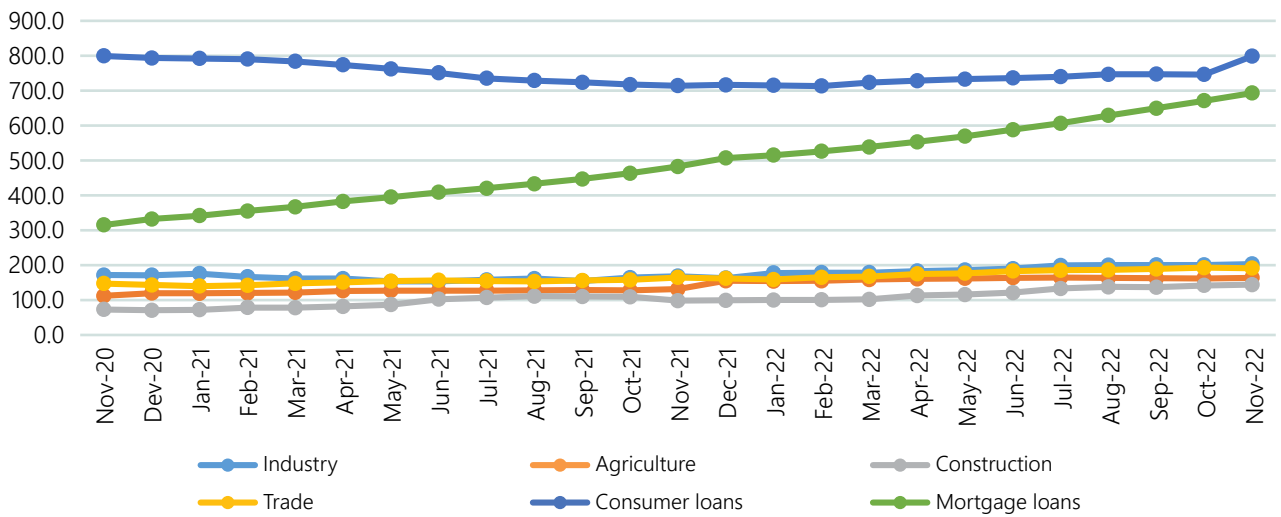


Figure 1.9. Loans in AMD provided to residents by sectors, bln AMD¹¹

Loans to residents in AMD in March–November 2022 showed a considerable increase of more than 300 bln AMD or 15%. In recent years, the lending in AMD to residents in the months of March–November expanded in much more modest terms. For example, in 2019, when lending started to get noticeably active, this increase was only 150 bln AMD for the months under review.

It is noteworthy that in March–November, 2022, more than half of the increase in the volume of lending by resident credit institutions was accounted for by mortgages. With the use of the latter, the volume of lending increased by 170 bln AMD or about 30% during the period under review. The consumer loans portfolio of the banks increased by 70 bln AMD or by more than 10%. In the context of the above-described, the general trend can also be explained by the increase in construction loan volumes, namely by 30 bln AMD or about 24% as compared to March (Figure 1.9).

Observing the trends of AMD lending to residents in the post-crisis phase allows us to infer that, especially since November 2020, the mortgage lending portfolio has doubled, while consumer lending volumes have remained unchanged. In addition, during the same period, the volume of AMD lending in the construction sector increased twice, the credit portfolio for the agriculture sector expanded by about 50%, and the volume of loans distributed in the trade sector increased by 44 bln AMD or 25%. Growth could be observed in the other sectors, too, however, at a less impressive pace.

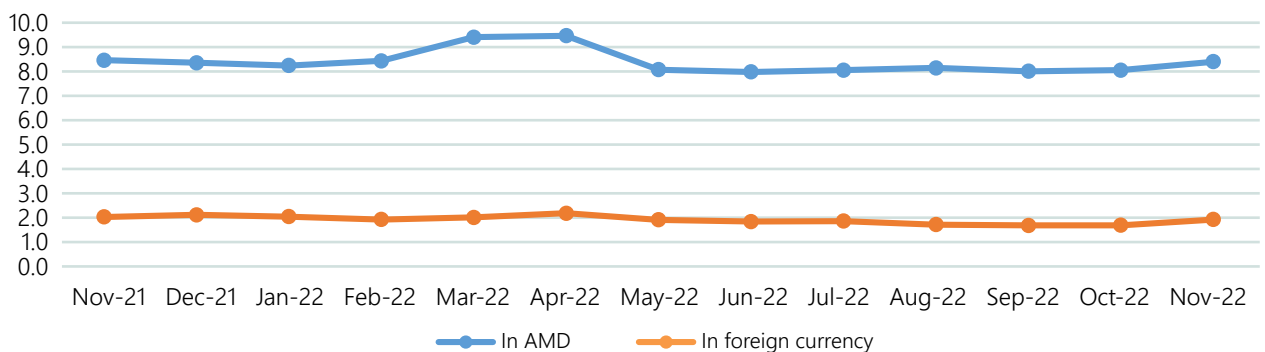


Figure 1.10. Interest rates on deposits by individuals for up to 1 year¹²

11 Ibid.

12 Ibid.

The interest rates in the financial market and the shifts in the volumes of investments in financial assets contain interesting information about the implications of the realities caused by Russia's war in Ukraine for the financial system.

In spite of the significant increase in the total volume of deposits in the banking sector in March-November 2022, the changes in the deposit interest rates were insignificant. For the sake of accuracy, it should be noted that especially in the case of interest rates for AMD deposits with a maturity term of up to one year, interest rates even dropped in the months under review, namely reducing from 9.4-9.5% in March-April to 8.4% in November of the same year. As for interest rates for the deposits in foreign currency, there was a decrease again, though an insignificant one (Figure 1.10).

As for the interest rates for AMD deposits for a term of over one year, there was no significant increase in their interest rates in the months under review either, namely those were at 9.4% in March, and at 9.5- 9.6% in October -November. The interest rates for deposits in foreign currency were adjusted with a falling trend in March-November 2022, dropping from 4% to 3.8%.

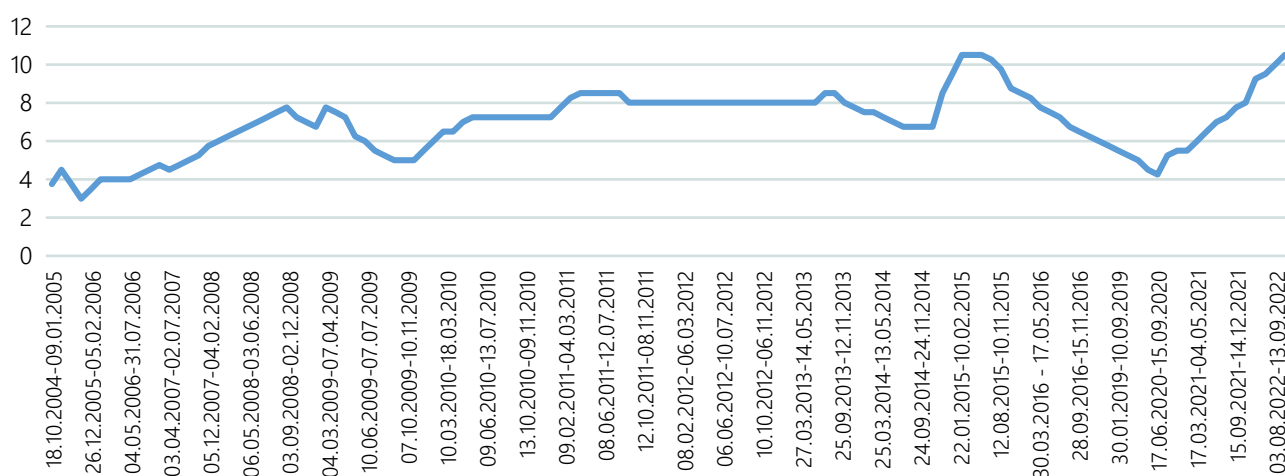


Figure 1.11. CBA repo interest rate¹³

On the other hand, the interest rate of CBA repo transactions, for example, in November 2022, was at 10.5% in early November, whereas before March 15 of the same year it was at 8%, and since March 16 – at 9.25% (Figure 1.11). Hence, in March-November the CBA repo interest rate grew by 2.5 percentage points whereas there was no increase in the interest rates of the deposits attracted by the banks. On the contrary, some decrease in the interest rates of deposits was recorded.

At the initial stages of Russia's war in Ukraine, some expert circles expressed concerns that the abrupt increase in the refinancing interest rate by the CBA and the anticipations of its further increase might bring about a stage of accelerating growth in the interest rates, which contained risks especially in relation to the stability in the bonds market and the management of the public debt¹⁴. However, it was possible to avert such situations in the later stages.

13 Ibid.

14 Aghabekyan, E. "Rus-ukrainakan paterazmy ev HH finansakan shookan. Risker ev spasumner [The Russian-Ukrainian War and the Financial Market of Republic of Armenia: Risks and Expectations]", Amberd Newsletter #2, 2022, p. 22.

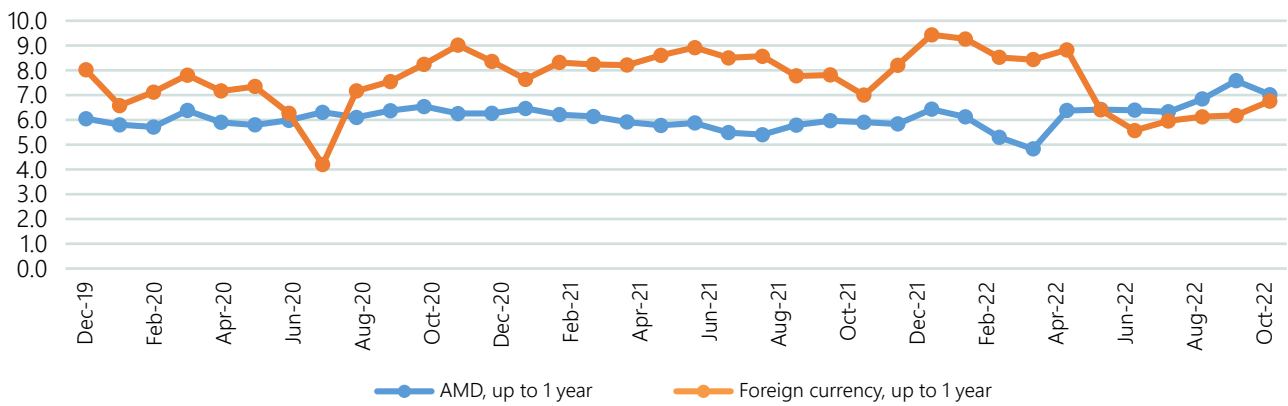


Figure 1.12. Spread of interest rates for loans with a maturity term of up to 1 year and deposits¹⁵

The spread of interest rates for loans and deposits with a maturity term of up to a year in commercial banks showed interesting ups and downs in the recent months. Thus, the spread of the interest rates for AMD loans and deposits in October and November 2022 exceeded 7%, which had been the maximally high level since June 2018 (Figure 1.12). Accordingly, a certain increase in the spread of the interest rates is due to the drop in the deposit interest rates, on the one hand, and on the other hand, we should also take into account the impact of one percentage point increase in the short-term AMD loan interest rate in October-November, as compared to March. In fact, the growth in the lending interest rate in at a pace 2.5 times slower than the increase in the CBA repo interest rate.

It can be stated that, on the one hand, the RA banks organize lending considerably at the expense of their own resources, and on the other hand, taking into account the high level of uncertainty still maintained in the global financial and economic system conditioned by Russia's war in Ukraine, they are trying to apply additional tools for the effective management of the lending risk.

The spread of the interest rates for short-term foreign currency instruments showed a general decline with a more rapid fall from 8.5 % by 3 percentage points in May-July. This can fully be accounted for by the decrease in the interest rates of foreign currency loans in the same time period, with a drop from 10.7% to 7.4%.

Unlike the above-mentioned, the interest rate for long-term foreign currency loans in March-November 2022 increased by two percentage points. The spread of the interest rates of foreign currency loans with a maturity term of over a year and deposits increased equally (Figure 1.13).

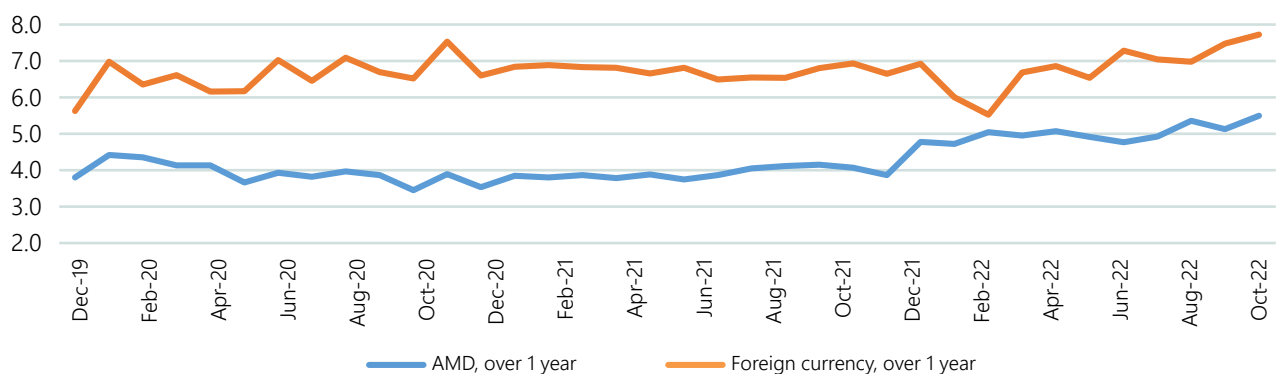


Figure 1.13. The spread of interest rates of loans for a period over 1 year and deposits¹⁶

15 Source: CBA, Monetary and Financial Statistics (<https://www.cba.am/am/SitePages/statmonetaryfinancial.aspx>).

16 Ibid.

The spread of AMD loans and deposit interest rates increased, too, however, in a much smaller amount – by a total of 0.5 percentage points. Accordingly, in the currently complicated geopolitical situation, banks have considerable reservations in relation to expanding the short-term positive trends onto the longer-term sector. Extra measure to insure against long-term risks is seen as a more rational option for the management of the risks in the given situation.

The total assets within the banking system in March–November 2022 grew by about 1 tln AMD, reaching the ceiling of 8 tln AMD. In the same period last year, the growth of the total system assets within the banking system was more modest in amount – approximately 300 bln AMD, and such an absolute increase was recorded also in 2019 (Figure 1.14).

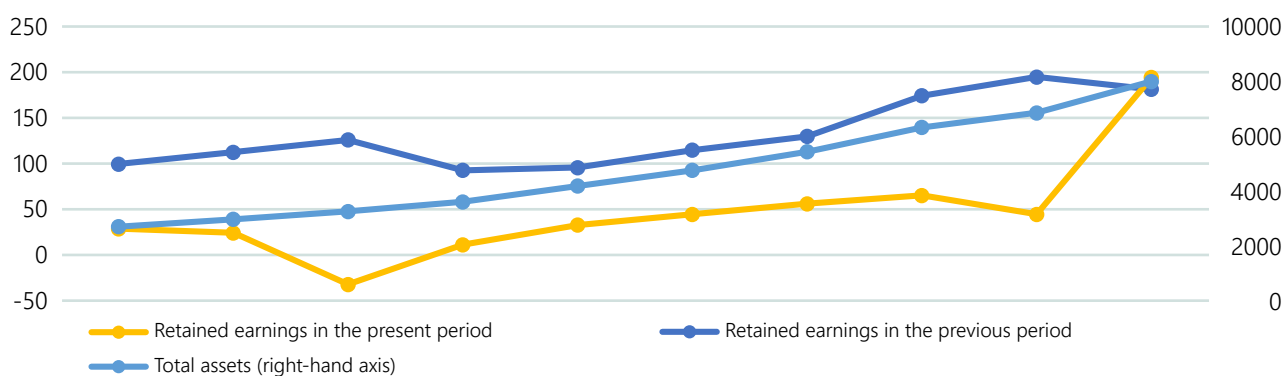


Figure 1.14. Banking system balance indicators, bln AMD, as of the end of November¹⁷

As of November 2022, the accrued amount of retained earnings reached an unprecedentedly high level, exceeding 190 bln AMD. For the sake of comparison, it should be stated that in November 2021, the retained earnings of the banking system in the present period amounted to a total of 45 bln AMD, 65 bln AMD in 2020, and 56 bln AMD in 2019 (Figure 1.15).

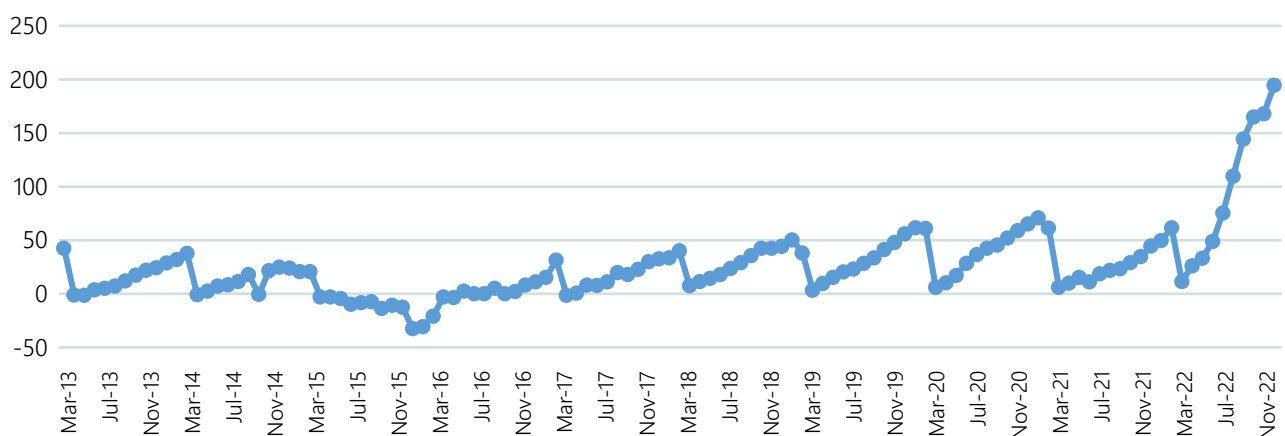


Figure 1.15. Retained earnings (losses) of the banking system in the present period¹⁸

Generally speaking, in 2013–2022, the amount of retained earnings in the banking system in the present period was within the 50–65 bln AMD range in the best case and the threshold of 100 bln AMD was never exceeded before.

The unprecedented level of retained earnings accrued in the banking system in the recent months, mainly due to short-term and non-operational processes, and yet in the conditions of lower levels of

17 Ibid.

18 Ibid.

financial leveraging, creates additional opportunities for the volume of the placement of internal funds and the effective management of banking risks.

The dynamic of balance indicators of RA credit organizations shows some difference from the indicators of the banks. Thus, in March-November 2022, even though the total assets of the credit organizations showed some growth, the latter was much more modest as compared to banks at about 7% and did not qualitatively differ from the general trends in the previous years (Figure 1.16).

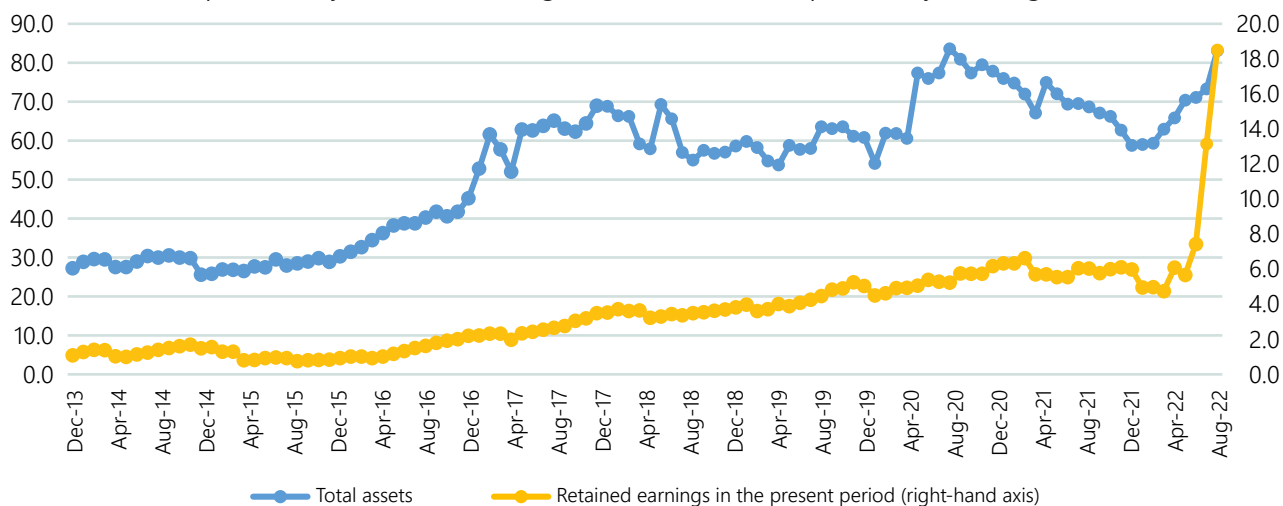


Figure 1.16. Balance indicators of credit organizations, bln AMD¹⁹

The retained earnings of credit organizations in the present period amounted to 26.4 bln AMD in November 2022. Unlike the situation with the banking system, this indicator, though exceeding the 2021 November level twice, cannot be considered unprecedented. In 2017-2019, credit organizations managed to record much higher levels of retained earnings, also conditioned by the Russian-Ukrainian conflict or in the absence of such a conducive external shock. This reflects a reality where the participation of credit organizations in providing financial services to persons relocated from the RF to Armenia is much more modest, due to the significant limitations of their toolkit (and especially the capacity of generating income from their non-operational services).

In February-November, 2022, an increase in the capital adequacy ratio of the RA banking system was recorded. Thus, the value of Norm N1(2), the ratio of the total capital to risk-weighted assets in September-November 2022, exceeded the threshold of 19%, whereas at the beginning of the year it was in the range of 17-17.5% (Figure 1.17).

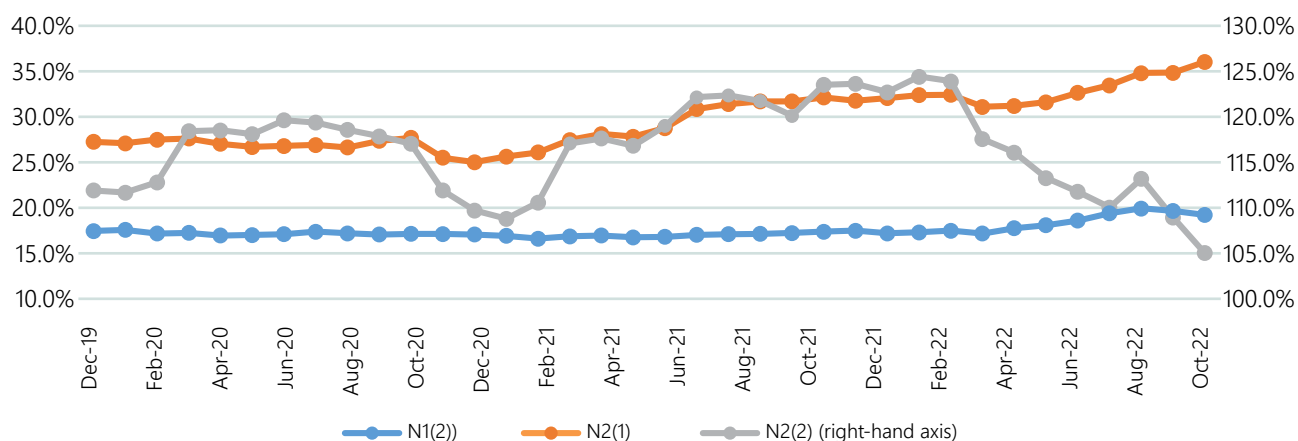


Figure 1.17. Capital adequacy and liquidity norms of the RA banking system²⁰

19 Ibid.

20 Ibid.

Similarly, Norm N2(1) (the ratio of high liquidity assets to total assets) was at 36% late in October 2022, whereas at the beginning of the year it was 31- 32%.

In the period under review, a progressive growth in the on-demand liabilities of the highly liquid assets was recorded, too, which was manifested by some decrease in Norm N2(2).

Generally speaking, the growth in the above norms was manifested in the excess liquidity expansion trends, reflecting the increased opportunities for solving potential risk-reduction in the banking system.

At the end of the third quarter of 2022, the number of payment cards issued by the RA banks and in circulation exceeded 3 mln, which, as compared to the indicator in the same period of 2021, was higher by 16%, whereas the increase in the number of cards in the same quarters in 2020- 2021 was only by 5%.

It should be stated that in the third quarter of 2022, as compared to the same quarter in the previous year, the number of ArCa cards in circulation decreased by about 5%, and the same trend persisted in the first two quarters of the year (Figure 1.18).

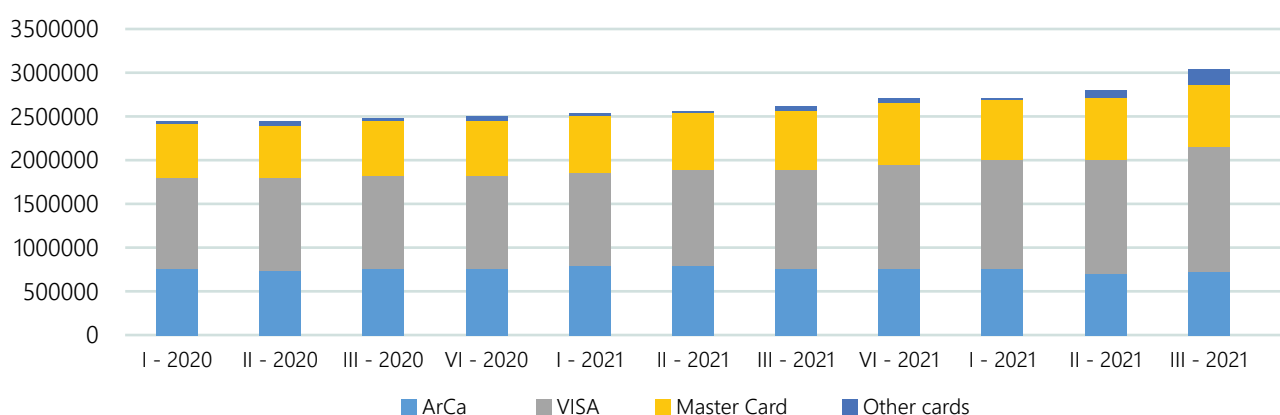


Figure 1.18. The number of payment cards issued by RA banks and in circulation²¹

However, the issuance of VISA cards by RA banks in the third quarter of 2022 as compared to the previous year grew by 24%. The growth was 21% and 15% in the second and first quarters, respectively. For the sake of comparison, the growth rate of issuing these cards in 2021 vis-à-vis 2020 was 5% on average.

A significant growth has been recorded in the issuance of other cards. The growth in the third quarter of 2022 as compared to the same quarter in the previous year was about 3.8 folds.

As for the issuance of ArCa-MIR cards by the RA banks, the 2022 volume thereof showed a considerable growth, too. Thus, in the third quarter of 2022, the number of ArCa-MIR cards in circulation was 11.7 thousand, which was over 68% of the level for the same period in the previous year. The growth indicator, as of the second quarter of 2022, was at 48%, and according to the data of the first quarter, it was a total of 13% (Figure 1.19).

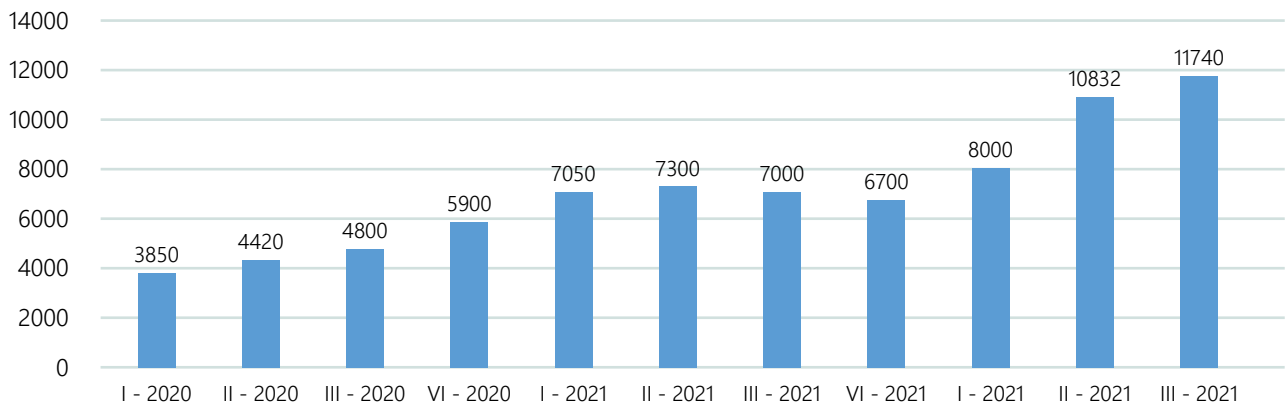


Figure 1.19. Number of ArCa -MIR cards issued by RA banks and in circulation, by quarters²²

The number of transactions in the territory of the RA with cards in circulation issued by RA banks, amounted to 42 mln in the third quarter of 2022 or the number of transactions as compared to the number in the same quarter of the previous year was higher by about 40%. In the first two quarters of 2022, similar growth rates were also recorded (36% and 42%, respectively).

The total volumes of transactions in the RA territory in the third quarter of 2022 exceeded 1 tln AMD, which is over 31% of the same level in the same quarter of the previous year. The largest growth in the volume of transactions was due to the use of VISA cards – by 38%, 34% and 29% in the third, second and first quarters, respectively. The growth in the volume of transactions with the use of ArCa cards in the third quarter also exceeded 30%. (Figure 1.20).

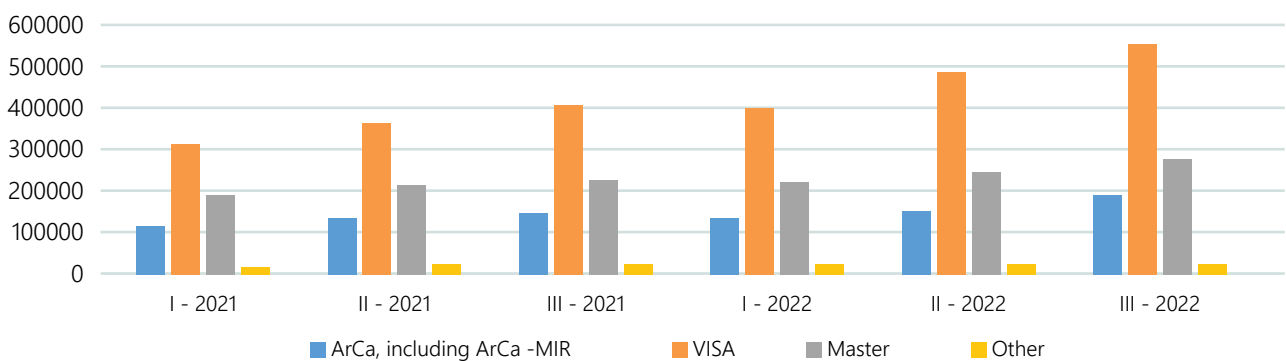


Figure 1.20. The volume of transactions made in RA with payment cards in circulation issued by RA banks, mln AMD²³

The volume of transactions by payment cards issued by RA banks abroad was 133 bln AMD in the third quarter of 2022, which was over the level of the third quarter in 2021 by 2.2 times. The growth of transaction volumes in the second quarter of 2022 was even larger – 2.7 times.

The largest volume of transactions abroad could be accounted for by the share of VISA cards, and the volume of transactions through them in the third quarter of 2022 grew 2.5 times, whereas in the second quarter the growth was threefold (as compared with the same quarter of 2021) (Figure 1.21).

22 Ibid.

23 Ibid.

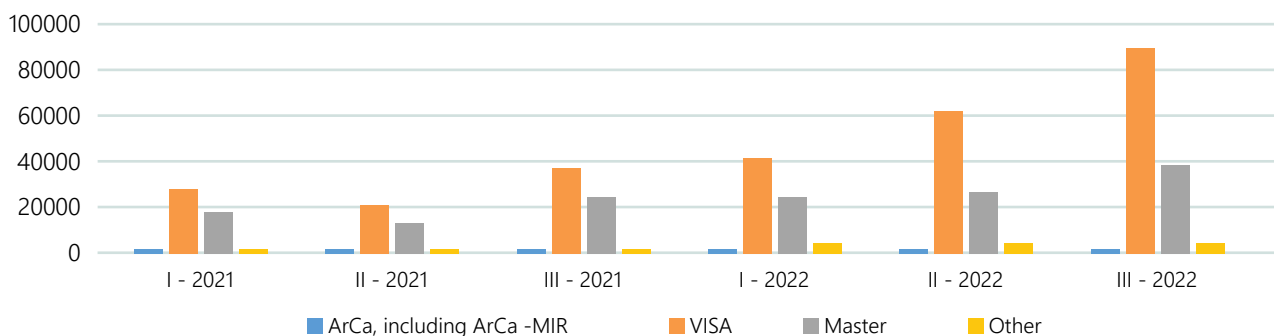


Figure 1.21. Volume of transactions made abroad with payment cards in circulation issued by RA banks, mln AMD²⁴

The growth of volumes of MASTER card transactions, by quarters, fell in the range of 68-120%. A multifold increase was also recorded in the number and volume of transactions made abroad with ArCa (ArCa -MIR) cards. Thus, in the second and third quarters of 2022, the number of transactions increased by 72 and 77 times with 110 and 82 times increase in volume, respectively.

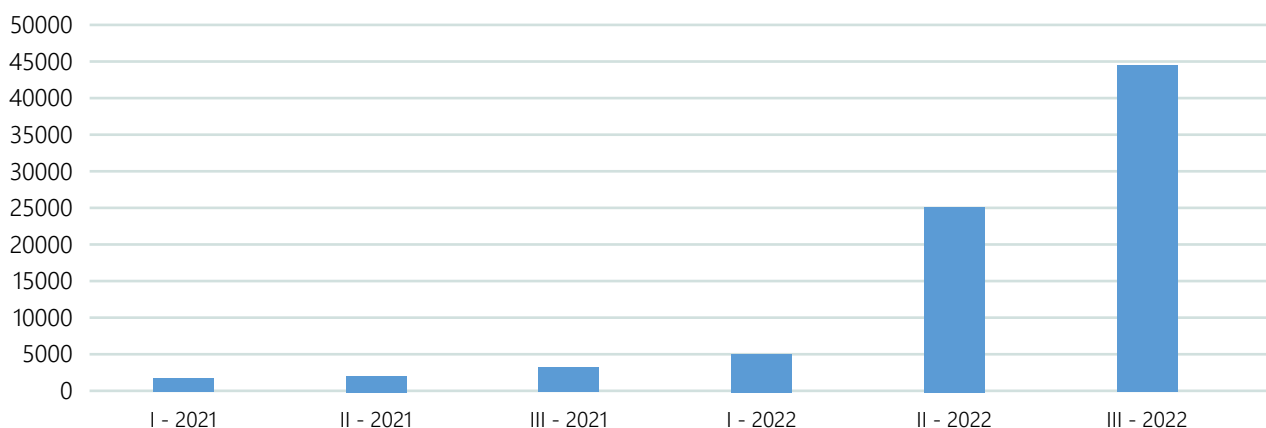


Figure 1.22. The volume of transactions made in the territory of RA with MIR cards issued abroad, mln AMD²⁵

2.3 mln transactions with MIR cards issued abroad were made in the territory of the RA with a volume of approximately 45 bln AMD in the third quarter of 2022. Compared to the same quarter of the previous year, the number of transactions increased tenfold, and the volume increased 16 times. The growth, observed in the second quarter of 2022, was impressive, too, 10 and 13 times respectively (Figure 1.22).

²⁴ Ibid.

²⁵ Ibid.

The Impact of Russia's War in Ukraine on the external sector of the RA Economy. Export and Import (by Astghik Khachatryan)

Russia's war in Ukraine has led to a disruption of value chains in the global economy and a significant increase in the prices of raw materials and energy carriers, thus contributing to the inflation trends already existing in the global market and bringing a major blow onto the rates of economic recovery after the COVID pandemic. It has also largely impacted on the economy of the Republic of Armenia, conditioned by the latter's close interactions with foreign and especially Russian markets. Historically, the RA has shaped multi-layered cooperative relations with the RF in which context economic relations imply existent links for foreign trade, transfers and remittances, foreign investments and tourism-related ties²⁶. The abrupt changes in the forecasts on the RA economic growth made by leading international organizations and institutions after the escalation of the conflict testify to the impact Russia's war in Ukraine has had on the RA economy. Thus, according to the report published in April 2022, the International Monetary Fund (IMF, hereafter) has significantly lowered the forecast for the RA economic growth, projecting it at 1.5% as opposed to 4.5% projection in October 2021.²⁷ However, the IMF later revised its RA economic growth forecast for 2022, setting it at about 5% in June²⁸ and revising it and projecting 7% growth in October,²⁹ based on the RA economic performance indicators. That is to say, considering the general context of the impact Russia's war in Ukraine has had on the RA economy, it should be stated that this situation may entail both certain risks and opportunities for the latter. Those opportunities, if effectively leveraged, may contribute to the growth of the RA economy. Considering Russia's war in Ukraine as an external factor, impacting on the RA economy, it is interesting to study the impact of the latter on the external sector of the economy – export and import.

Ever since independence, the RA economy has undergone many transformations, making a gradual shift from planned economy to market economy and overcoming the economic difficulties that arose due to the collapse of the Soviet Union. It has shown relatively good indicators in its economic performance, displaying GDP growth per capita and is currently characterized as an upper middle income country.³⁰ In the context of the transformation to market economy, the external sector of the economy played a central role in ensuring economic growth and development, conditioned by trade and collaborative relations with the RA has established with different countries of the world ever since its independence.

In the context of small internal consumption market and natural resources, the external sector of the economy—export and import—is significant for the RA, as a major source for the acquisition of state-of-the-art technologies, aiming at the enhancement of financial flows to the country, the attraction of the necessary funds for production and the increase of production capacity. In its own turn, enabling opportunities for integration in foreign markets in the conditions of the small internal consumption market,

26 Hergnyan, S. "1.3% achits' 3% ankum. Rus-ukrainakan paterazmi hnaravor azdets'utyuny hayastani tyntesutyan vra [From 1.3% Growth to 3% Decline: The Possible Impact of Russian-Ukrainian War on Armenia's Economy]". Hetq available at <https://hetq.am/hy/article/143564>

27 International Monetary Fund October 2021. World Economic Outlook. Recovery During a Pandemic: Health Concerns, Supply Disruptions, and Price Pressures, p. 116 International Monetary Fund April 2022. World Economic Outlook. War Sets Back the Global Recovery, p. 142.

28 PRESS RELEASE NO. 22/231 June 2022. "IMF Staff Concludes Staff Visit to the Republic of Armenia". Available at <https://www.imf.org/en/News/Articles/2022/06/27/pr22231-armenia-imf-staff-concludes-staff-visit-to-the-republic-of-armenia>

29 International Monetary Fund October 2022. World Economic Outlook. Countering the Cost-of-Living Crisis, p. 130.

30 The World Bank 2022. Armenia. Overview. Available at <https://www.worldbank.org/en/country/armenia/overview>

exports also contribute to the foreign currency income of the country, since exporters, receiving foreign currency for the goods sold in foreign markets exchange the latter for AMD in the internal market,³¹ forming foreign currency reserves in the country, which is deemed important from the perspective of the implementation of various key goals and priorities, such as servicing the foreign debt, ensuring the external stability of the financial system and economy.³²

The volumes of import in the structure of the RA foreign trade have constantly exceeded the export volumes,³³ conditioned by the appreciation of the actual exchange rate, as a result of which products originating in the RA (goods and services) become more expensive, which leads to the fall of exports and an increase in import volumes.

The above-mentioned is conditioned also by the “lack of competitive products meeting the qualitative and quantitative requirements of the foreign market, as well as the absence of an effective policy for the promotion of exports, production and diversification of markets.”³⁴

Armenia’s participation in foreign trade has been especially limited in recent years, and the export growth rate, as compared to economic growth, has been slower, whereas import has shown a progressive growth against exports, leading to an increase in the negative balance in the RA foreign trade balance. These developments were caused by the low attractiveness of the RA in the global market, the lack of transportation routes and communications, the small scale of the economy, the low effectiveness of projects to boost exports and so on.³⁵

31 United Nations Conference on Trade and Development 2005. Determinants of Export Performance, p. 49. https://unctad.org/system/files/official-document/ditctab20051ch2_en.pdf

32 Luys, 2019. “HH intesytyan artahaneli hatvatsi mitumneri u zargats’umneri [Trends and Developments in Republic of Armenia’s Economy’s Export Sector]”, p. 1.

33 Ibid, pp. 2, 5-6.

34 Avetisyan, S and Avetisyan A., 2015, “Gyughatyntesakan artadranqneri artahanman achi ev bazmazanets’man hnaravorutyunery Hayastani Hanrapetutyunum”, HPTH 25rd gitazhoghovi nyuter” [The Possibilities of Increasing and Diversifying the Export of Agricultural Products in Armenia”, Proceedings of the 25th Conference of Yerevan State Economic University], pp. 5-6. Available at: https://asue.am/upload/files/II_Baj_tarmacvac.pdf

35 Ayvazyan, T., 2017. “HH artahanman kht’anman hnaravoutyunneri YADM andamaks’utyam hamateqstum”, Aylyntranq gitakan handes [“The Possibilities of Increased Exports by Republic of Armenia in the Context of Membership in the Eurasian Economic Union”, Aylyntranq Scientific Journal], p. 138.

Available at: <http://alternative.am/wp-content/uploads/2017/07/%D5%8F%D5%AB%D5%A3%D6%80%D5%A1%D5%B6-%D4%B1%D5%85%D5%8E%D4%B1%D4%B6%D5%85%D4%B1%D5%86-%D5%80%D5%80-%D5%A1%D6%80%D5%BF%D5%A1%D5%B0%D5%A1%D5%B6%D5%B4%D5%A1%D5%B6-%D5%AD%D5%A9%D5%A1%D5%B6%D5%B4%D5%A1%D5%B6-%D5%B0%D5%B6%D5%A1%D6%80%D5%A1%D5%BE%D5%B8%D6%80%D5%B8%D6%82%D5%A9%D5%B5%D5%B8%D6%82%D5%B6%D5%B6%D5%A5%D6%80%D5%A8-%D4%B5%D4%B1%D5%8F%D5%84-%D5%A1%D5%B6%D5%A4%D5%A1%D5%B4%D5%A1%D5%AF%D6%81%D5%B8%D6%82%D5%A9%D5%B5%D5%A1%D5%B6-%D5%B0%D5%A1%D5%B4%D5%A1%D5%BF%D5%A5%D6%84%D5%BD%D5%BF%D5%B8%D6%82%D5%B4.pdf>

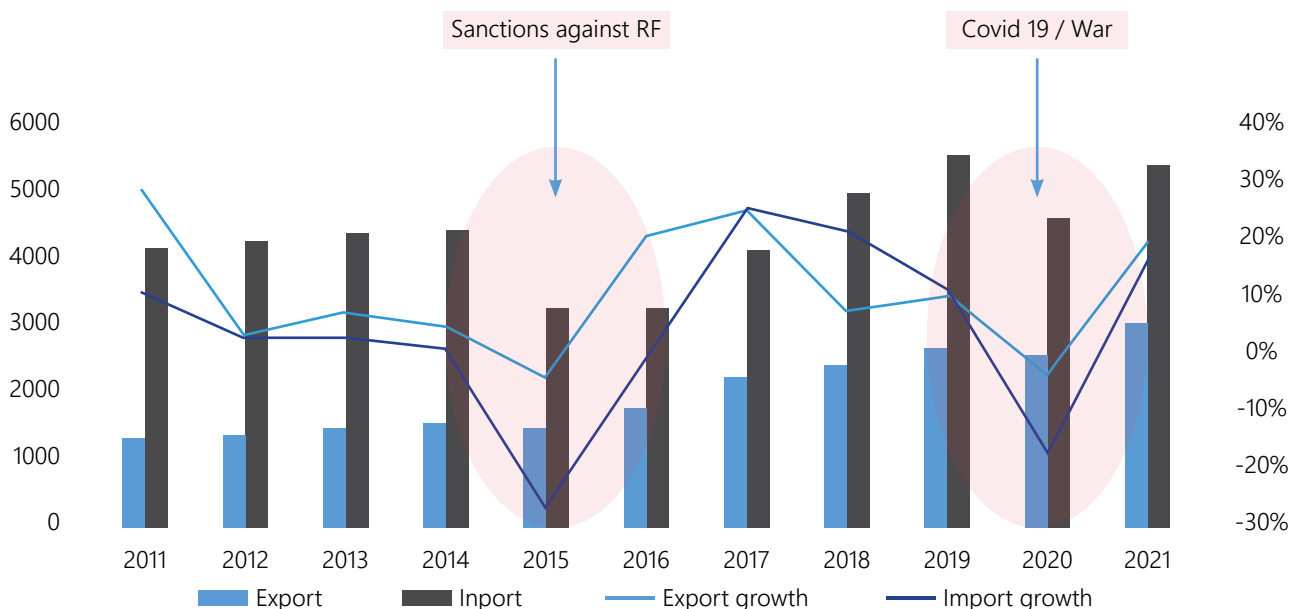


Figure 2.1. The volumes of export and import of the RA products and the annual growth thereof³⁶ (mln USD)

It should be mentioned that the export and import include the trade of not only various goods, but services, too. The volumes of the export and import of services have been growing, especially in the structure of the global trade in recent years, conditioned by various factors, the most significant of which is technological development which enables the provision of services at large distances at reduced operational and logistical expenses.³⁷ It should be noted that the specific weight of services in the RA is larger with some YoY reduction, regardless of its higher profitability.³⁸

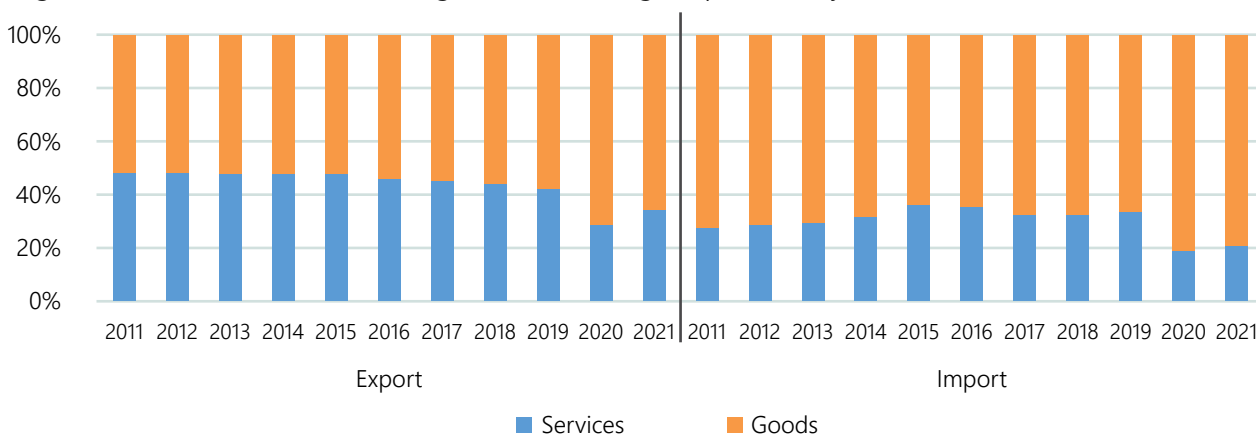


Figure 2.2. The structure of the RA export and import, according to balance of payments (goods and services)³⁹

36 The figure was designed by the authors based on the data available in the cited source. Source: Statistical Committee of the Republic of Armenia, RA Socio-Economic situation, publications of the years under review.

37 Movsisyan, Sh. 2019. "Tsarayut'yunneri arevtur. HH artaq'in tntsakan gortsuneyutyun herankarayin segmendy", HPTH "Amberd" hetazodakan kentron ["Trade in Services: The Prospective Segment of Republic of Armenia's Foreign Economic Activity", Yerevan State Economic University, Amberd Research Center. Available at: <https://asue.am/amberd/publication/analytics/trade-in-services-the-perspective-segment-of-the-ra-foreign-economic-activity>

38 Tarposhyan, H. V., 2020. "Tsarayut'yunneri artahanman himnakhndiry hayastanum" Регион и мир ["The Problem of Exporting Services in Armenia" Region i mir, # 3, p 160.

39 The figure was designed by the authors based on the data available in the cited source. Source: CBA, RA Balance of Payments. Available at: https://www.cba.am/storage/am/downloads/stat_data_arm/bop_arm_for sitebpm6_rev.xls

Though services had a significant share in the exports structure in 2009-2019, their weight gradually reduced by 8.4 percentage points in 2019, as compared to 2009, presumably conditioned by the more rapid growth in the volumes of the export of goods.⁴⁰ The average annual growth in the volumes of services exports in the period under review was 12% vis-à-vis 15.8% growth in the export of goods. The specific weight of services in the structure of exports dropped even more drastically, because of the impact of the COVID pandemic in the last two years, mainly conditioned by the reduction in the export of services in the tourism sector (travel) the volumes of which, though having a significant weight in the structure of exported services (60-63% in 2017-2019) considerably shrunk in 2020 by 81%, contributing to the reduction in the volumes of exported services. It should be added that in spite of the growth in 2021 (58%), the volumes of exported services are significantly smaller than the indicators in the pre-pandemic period in 2019.

Even though trade relations with different countries all over the world were established after the independence of the RA, the Russian Federation (RF) continued to remain the main partner market of Armenia for both export and import. Though the RF had a comparatively small weight in the export structure at the beginning of the 2000s, the weight of the latter increased in subsequent years, reaching the largest share especially after 2016, which is perhaps conditioned by RA's membership to joining to the Eurasian Economic Union (EEU) since 2015.

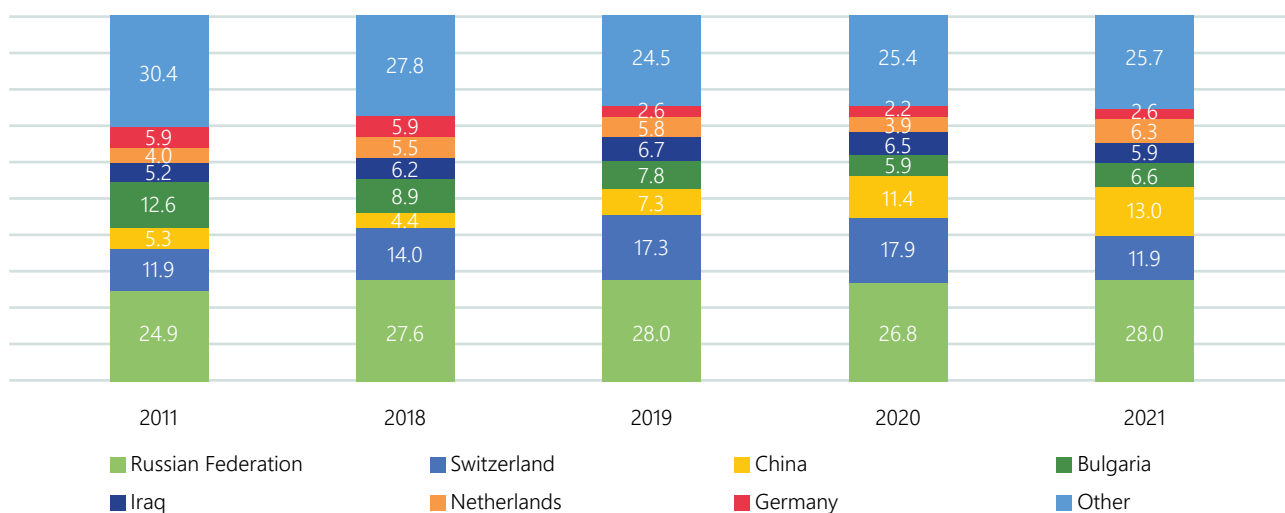


Figure 2.3. The structure of the RA export, by country (goods)⁴¹

It should be stated that the RA export structure is centralized, characterized by a low level of diversification in terms of the main partner markets. During the last five years, the countries with the comparatively large share of exports (seven countries), as presented in Figure 3, constituted 70% and more of the total market in the years under review. Among those, the RF had the heaviest specific weight in the structure of exports, which regardless of the reduction in export volumes in 2020, in 2021 already exceeded the level of 2019. Noteworthy is the heavy weight of China among the individual markets in the export segment, the share of which in the structure of export became more noticeable since 2013, reaching 13% in 2021 and placing it as the main secondary market for export. Switzerland has an almost equal share in the structure of exports, the weight of which in 2021, on the contrary, abruptly fell by 5-6 percentage points, as compared to the level in 2019-2020.

40 Tarposhyan, H. V., 2020. "Tsarayut'yunneri artahanman himnakhndiry hayastanum" Регион и мир ["The Problem of Exporting Services in Armenia" Region i mir, #3, p 158.

41 The figure was designed by the authors based on the data available in the cited source. Source: Statistical Committee of the Republic of Armenia, RA Socio-Economic situation, publications of the years under review.

As such, EU countries and the RF are the main export market for the RA, which jointly account for half of the export volume at 56% in 2018, 50% in 2019, 44% in 2020 and 50% in 2021.

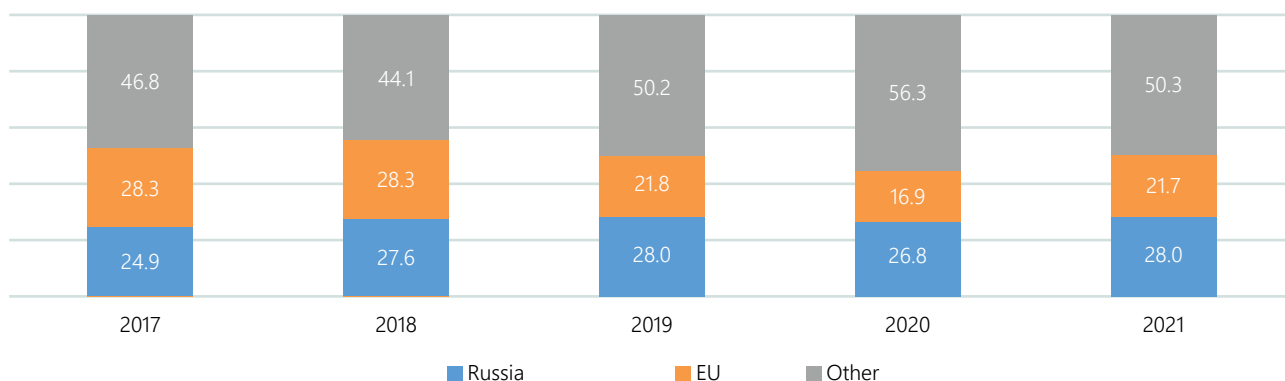


Figure 2.4. The shares of the EU, RF and other markets in the structure of the RA exports (goods)⁴²

It is worth noting that along with the continuous enhancement of the RF's weight in the export structure, the share of the EU (EU-27) continued to drop in recent years, reaching 22% in 2021, whereas in 2005-2011, the EU countries covered about half of the RA export volumes.

Additionally, the structure of partner markets for the import of both final consumption goods, and raw materials and semi-finished products, as compared to that of export markets, was more diversified (in 2000-2016, the first three countries of import accounted for no more than 40% of the market share). Starting from 2017, it was characterized by a higher level of centralization, and in 2021, the three major countries (the RF, China, Iran) for import accounted for 56% of the total market.

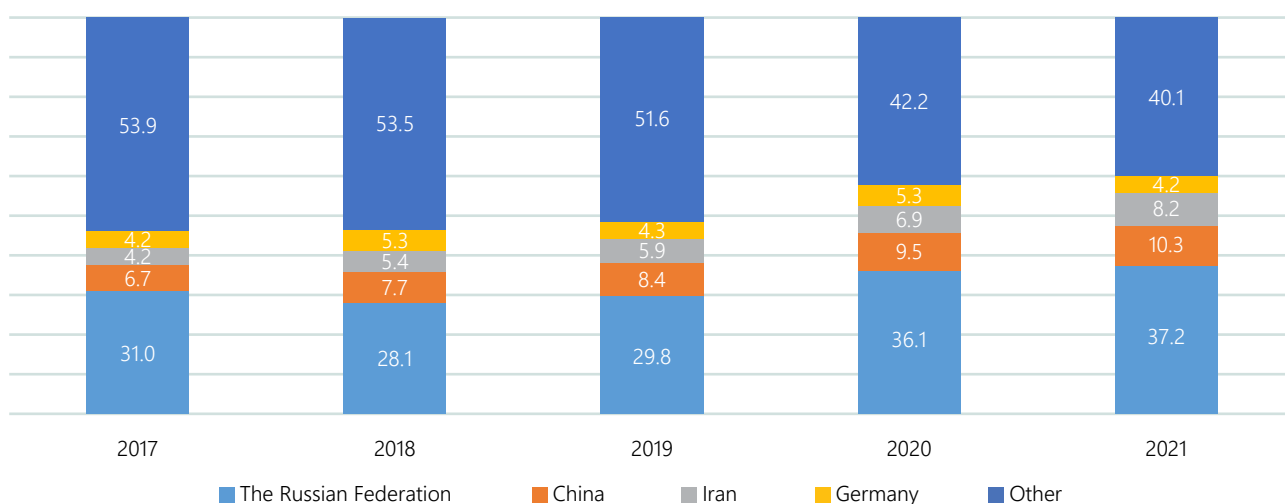


Figure 2.5. The structure of the RA import structure, by country of export (goods)⁴³

The increase in the level of centralization of import structure was mainly conditioned by the weight of the RF, which, as compared to the level in 2019, increased by 7.4 percentage points in 2021, growing from 29.8% in 2019 to 37.2% in 2021. Turkey, which in the course of the last five years was the 5th country due to the total volumes of import and the weight of which in the general structure ranged between 3-6% until 2020, shrunk in terms of its share in the general structure of imports (as a country of origin) in 2021 (4 percentage points as compared to 2016-2020), perhaps caused by the ban on the

42 Ibid.

43 Ibid.

final consumption goods of Turkish origin in 2020.⁴⁴

In case of import, too, the EU and RF act as the main markets which in the period under review constituted half of the import volumes in the period under review. It is noteworthy that in 2000-2015, the share of the EU countries exceeded that of Russia in the import structure the weight of which continued to grow, and in 2017 it had already reached 31%, which the RA membership to the EEU also contributed to.

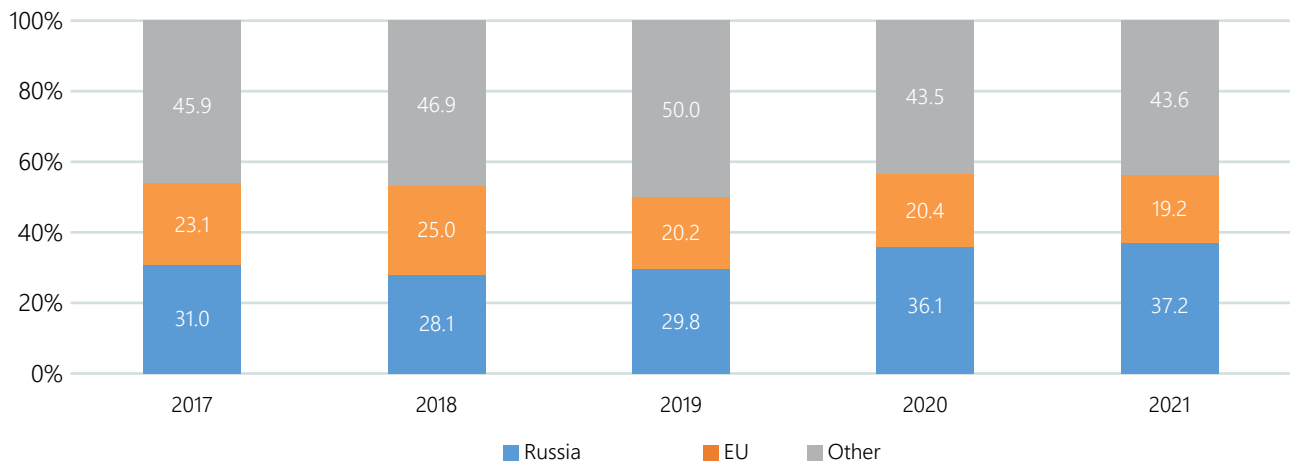


Figure 2.6. The shares of the EU, RF and other markets in the structure of the RA imports, by exporting country (goods)⁴⁵

From the perspective of boosting exports and enhancing the volumes thereof, great importance is ascribed to the production capacity of the country and the structure of produced goods. Striving for competitiveness in the global market, it is necessary to produce goods that would have an innovative and high added value, in order to address the existing and potential global demand for the given products. The release of such products, in its own turn, is decisive for economic complexity, which implies “the reflection of the quantity of productive knowledge [in the economy] and its effective application – through the implementation of new combinations of the capital and regrouping, and on that basis the release of complex products.”⁴⁶ Economic complexity “is expressed in the composition of a country’s productive output and reflects the structures that emerge to hold and combine knowledge.”⁴⁷ Economic complexity and its interrelatedness with export is reflected in this idea that “the degree of economic complexity is expressed by the specific weight of highly complex products in the export structure of the country.”⁴⁸ In order to assess economic complexity, Harvard University developed an Economic

44 Decree N1708-N of the Government of the Republic of Armenia, dated October 20, 2020, on the temporary ban on the import of goods of Turkish origin into the RA.

Available at: <https://www.arlis.am/DocumentView.aspx?docid=149696>

45 The figure was designed by the authors based on the data available in the cited source. Source: Statistical Committee of the Republic of Armenia, RA Socio-Economic situation, publications of the years under review.

46 Vardanyan D., Vardanyan, M. 2022, “Nerq’in khnayoghutyunerov ntesutyan bardutyany asdichani bardzrats’man hamar anhrzhesht nerdrumneri hayets’akargayin shrjanak”, Banber Hayastani petakan ntesagitakan hamalsarani [“A Conceptual Framework to Utilize Domestic Savings to Finance the Investments Needed to Increase the Level of Economic Complexity” Bulletin of Armenia’s State Economic University, 1(67) p. 11.

Available at: <https://asue.am/upload/files/science/banber/2022-year-1/1.1.pdf>

47 Hausmann, R., Hidalgo, C. A., Bustos, S., Coscia, M., Chung, S., Jimenez, J., Simoes, A., Yildirim, M. A. 2013. The Atlas of Economic Prosperity: Mapping Paths to Prosperity, p. 18.

Available at https://growthlab.cid.harvard.edu/files/growthlab/files/atlas_2013_part1.pdf

48 Vardanyan D., Vardanyan, M. 2022, “Nerq’in khnayoghutyunerov ntesutyan bardutyany asdichani bardzrats’man hamar anhrzhesht nerdrumneri hayets’akargayin shrjanak”, Banber Hayastani petakan ntesagitakan hamalsarani [“A Conceptual Framework to Utilize Domestic Savings to Finance the Investments Needed to Increase the Level of Economic Complexity” Bulletin of Armenia’s State Economic University, 1(67), p. 14.

Available at: <https://asue.am/upload/files/science/banber/2022-year-1/1.1.pdf>

Complexity Index which measures the current state of the productive knowledge in the country.⁴⁹ By the economic complexity index, in 2020 the RA ranked 77th with an index of 0.24, and in the pre-pandemic period of 2019 it came as 74th with an index of 0.23 for readiness.



Figure 2.7. Economic complexity index. Armenia⁵⁰

Looking at Armenia’s economic complexity index, we can state that in the last 20 years the RA economy got more primitive with a loss of about 40 positions. The above-mentioned may have been caused by the release of low-productivity products in the RA, characterized by a low level of innovation and a lower added value that are not competitive enough to meet the demand in foreign markets.

The issue of exports from the RA and its structure has faced a new and topical imperative in the context of recent developments in the external environment, especially Russia’s war in Ukraine. In the first months of 2022, conditioned by the recovery of internal and external demand, a double-digit growth in the external circulation of goods was recorded.⁵¹ The volume of export in January-February 2022 grew by 40%, as compared to the same period in 2021, and the volumes of import grew by 60.2%. However, because of the impact of Russia’s war in Ukraine, in March 2022, the growth rates of both export and import slowed down due to the developments in the RF market, the sanctions imposed on the latter, the volatility of foreign exchange rates, and the uncertainty among undertakings.

49 Atlas of Economic Complexity, Country & Product Complexity Rankings. Available at <https://atlas.cid.harvard.edu/rankings>

50 Ibid.

51 Ministry of Finance of the Republic of Armenia, Macroeconomic and Fiscal Developments of the Republic of Armenia in the First Quarter of 2022.



Figure 2.8. Volumes of export and import (thousand USD) and growth in 2022⁵²

The growth rates that noticeably slowed down since March 2022 were especially typical of export, due to the developments in the RF market caused by Russia’s war in Ukraine and the slower economic growth in the RF, the sanctions imposed on the RF, the disruption of supply chains, the appreciation of AMD against the Russian Ruble, and the temporary suspension of the operation of Teghut mine. The growth of 26.9% in the first quarter of 2022 was mainly conditioned by the recovery of the external demand and the high level of prices for metals in the international market.⁵³ However, the slow rates of growth of export and import volumes were recovered in the following months. In January-October, export grew by 71.2% and import grew by 63.5%.

Due to its focus on the impact of Russia’s war in Ukraine on the external sector – export and import – of the RA economy, this study should address the following phenomena, with reference to the current situation:

- **Actual foreign exchange rate**, which has a great impact on and regulates the circulation of goods with different countries: the actual foreign exchange rate situation, conditioned by the foreign exchange fluctuations as a result of Russia’s war in Ukraine, aggravated for a number of countries that act as the main partners of the RA, except for the RF, as a result of which the weight of the latter in the structure of exports grew, reaching 41.4% in January-October.

As a result of Russia’s war in Ukraine, the devaluation of the Russian ruble at the end of February and in March had a negative impact on exports, as the RF is the main export partner market for exports from the RA, a fact that caused some uncertainty among RA exporters. The main wave of Russian ruble devaluation—despite the impact on the ruble ever since the first day of the conflict escalation—started on March 4, as a result of another package of economic sanctions imposed on the RF by Western countries.⁵⁴ In that context, the RUB-AMD exchange rate fluctuated too, reaching the historic low of 3.74 AMD on March 7.⁵⁵ The appreciation of the Russian ruble in the following months contributed to the further growth of export volumes.

52 The figure was designed by the authors based on the data available in the cited source. Source: Statistical Committee of the Republic of Armenia. Foreign Trade Database <https://www.armstat.am/am/?nid=148>.

53 Ministry of Finance of the Republic of Armenia, Macroeconomic and Fiscal Developments of the Republic of Armenia in the First Quarter of 2022.

54 Bejanyan, H, Karapetyan N, 2022. “RT p’okharjek’l ankeyunotyuny ev tntesakan chgnazhami azdets’utyunnery HH tntesutyan vra” [“The Effects of the instability of the Russian Exchange Rate on Armenia’s Economy”] Amberd Newsletter, 2(15). Available at: <https://asue.am/upload/files/amberd/2022-year-2/1.pdf>

55 CBA, Exchange Rate Archive <https://www.cba.am/AM/SitePages/ExchangeArchive.aspx>.

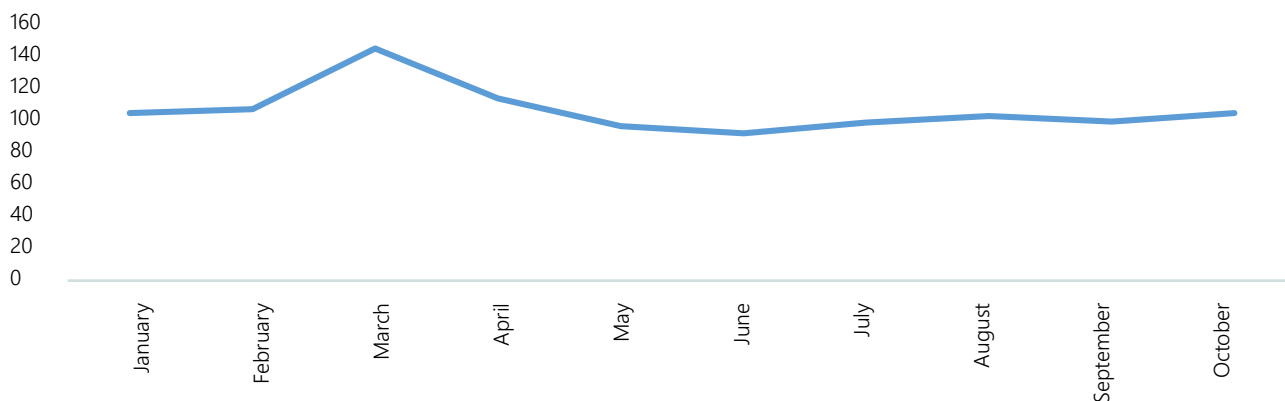


Figure 2.9. The actual forex rate for AMD/RUB (December 2021=100)^{56 57}

On the other hand, the appreciation of the AMD in relation to USD and EUR boosted import, leading to a significant growth of import volumes.

• **Free circulation of goods among EEU countries.** Since January 2, 2015, Armenia, as an EEU member state,⁵⁸ faced new challenges in the management of its foreign trade in the context of Russia's war in Ukraine. Due to various bans (sanctions) for the import of various goods into the Russian market, an opportunity arose for considering other EEU member states as transit countries in order to supply some goods to the Russian market, given the free circulation of goods in the EEU territory.⁵⁹ An essential growth in the export levels was already recorded for a number of goods in Armenia for the specified period, of which – diamonds, 3.9 times; fruit preserves, nuts, and berries, 4.5 times; automatic calculating machines and chips, 29.4 times; cars, 16.0 times; spare parts for cars, 2.3 times; precious and semi-precious stones, 2.5 times; fish (frozen), 3.6 times; raw or semi-processed gold, powder, 3.3 times; mushrooms, summer truffles and so on, 2.5 times; coffee, 3.3 times. Given the above-mentioned and the emerged context, Armenia must pursue a consistent policy, in order to maintain its commercial relations with many foreign partners and avert potential risks.

• **Retained gas prices.** In the context of the significant surge in global fuel prices as a result of Russia's war in Ukraine, the fact that the Russian gas price was not readjusted for Armenia⁶⁰ implies that locally produced goods were becoming more competitive due to their prices, taking into consideration the share of consumed gas in their cost, which in its turn, contributes to the increase in the volumes of goods exported from Armenia.

In the context of Russia's war in Ukraine, the above-mentioned phenomena also greatly impacted on the structure of export and import, in their main respective markets. Besides these, many organizations and suppliers terminated collaboration with the RF market, opening up a multitude of market segments in Russia which might bring about new opportunities for the RA exporters, leading to an increase in the volumes of exports to the RF. As compared to the same period in the previous year, the volumes of export to the RF in January-December 2022 grew 2.5 times, as a result of which the share of the RF in

56 The figure was designed by the authors based on the data available in the cited source. Sources: Statistical Committee of the Republic of Armenia, Consumer Price Index in the Republic of Armenia in January-November 2022.

<https://armstat.am/am/?nid=82&id=2534>; Statistical Committee of the Republic of Armenia, Socio-economic situation of the Republic of Armenia in January-October 2022, Prices and tariffs. https://armstat.am/file/article/sv_10_22a_130.pdf; Федеральная служба государственной статистики, Цены, инфляция, Потребительские цены. <https://rosstat.gov.ru/statistics/price>

57 Growth means appreciation of AMD.

58 Armenia's accession to the EEU Treaty was signed on October 10, 2014, which entered into force on January 2, 2015. Source: Ministry of Foreign Affairs of the Republic of Armenia <https://www.mfa.am/hy/international-organisations/6>

59 http://www.eaeunion.org/files/history/2014/2014_2.pdf.

60 <https://www.panarmenian.net/arm/news/297529/>.

the RA exports structures reached 41.4%, growing by 14.3 percentage points since January. It should be mentioned that the volumes of exports to the RF, according to a number of authors, may also include re-exported goods.⁶¹

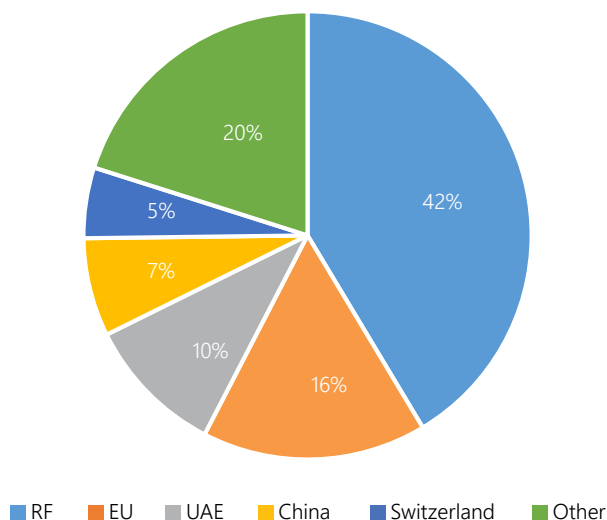


Figure 2.10. Export structure by main markets (January – October 2022) ⁶²

As a result of Russia’s war in Ukraine, to counterbalance the growth in the share of the RF in Armenia’s exports structure, the specific weight of EU countries significantly shrunk especially in the last months of 2022 under review, reaching only 16.2% in October. Having a significant weight in the Armenian exports structure, China and Switzerland, too, showed a reduction in their shares. It is noteworthy, that as a result of Russia’s war in Ukraine, Armenia has new export opportunities not only to the RF, but also a wide array of other markets. For example, in the period under review, as compared to the previous year, the volume of exports to the United Arab Emirates grew 6.7 times, as a result of which the weight of the latter in the structure of the RA exports rose from 1.3% in January to 10.1% in January- October (by 8.8 percentage points), leaving China and Switzerland behind. In the same period, the volumes of exports to other countries, too, for example Belarus and Georgia, grew significantly, 2.8 and 2.4 times, respectively.

However, it should be noted that in the context of the mentioned changes the structure of the RA exports, by major partner countries, became more concentrated. This was assessed also with the consideration of the Herfindahl-Hirschman Index (HHI) (Figure 2.11), enabling market concentration measurement. According to the US Department of Justice, the HHI markets in the range of 1500-2500 were indicated as markets with moderate concentration, and the markets with an HHI over 2500 were indicated as highly concentrated ones.⁶³ As it can be noticed from the figure presented below, the mentioned indicator considerably increased compared to that in January 2022, and despite a certain fall in October as compared to September, the RA export market was characterized as a highly concentrated one (HHI in October, 2902).

⁶¹ Mejlumyan, A. 2022. “Armenian Trade with Russia Raises Questions about Re-exports”. Eurasianet. Available at <https://eurasianet.org/armenian-trade-with-russia-raises-questions-about-re-exports>.

⁶² The figure was designed by the authors based on the data available in the cited source. Source: Statistical Committee of the Republic of Armenia, Socio-economic situation of the Republic of Armenia in January-October 2022, 4.1.1. Foreign and mutual trade, Publication. <https://www.armstat.am/am/?nid=82&id=2533>.

⁶³ The United States Department of Justice. <https://www.justice.gov/atr/herfindahl-hirschman-index>.

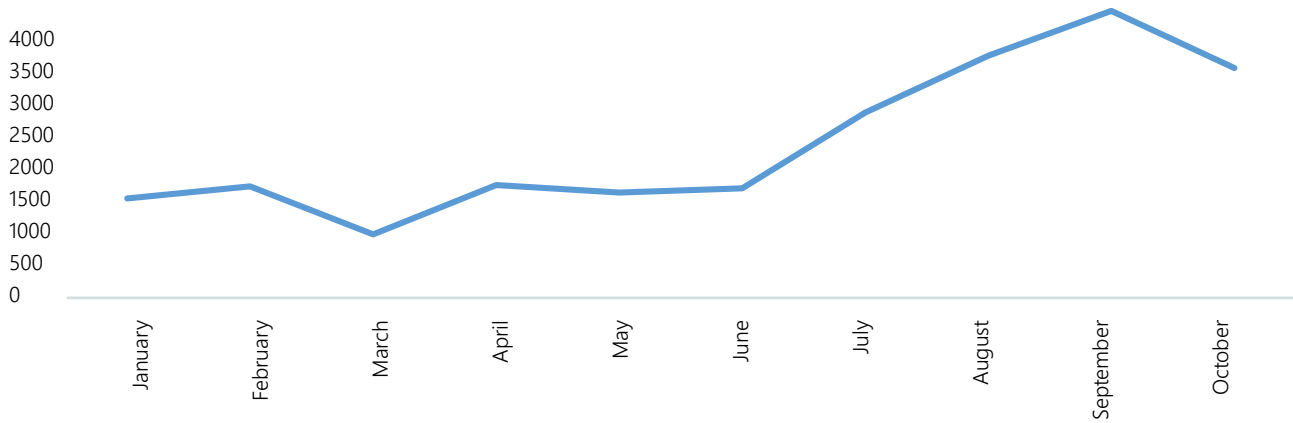


Figure 2.11. Herfindahl-Hirschman Index. Armenia⁶⁴

It should be noted that Russia’s war in Ukraine caused an increase of 3.7 percentage points in the share of other countries in the RA import structure since January 2022, which testifies to the higher level of import markets diversification.

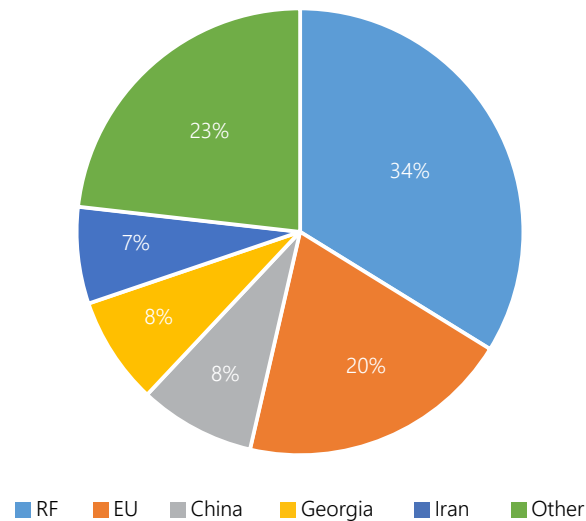


Figure 2.12. Import structure by major markets (by country of export, January – October 2022)⁶⁵

Being the main market for Armenia in terms of both export and import, RF’s share shrunk to some extent in the import structure since January 2022, namely by 6.5 percentage points, reaching 33.8% in January- October. It is noteworthy that in the specified period the share of EU countries slightly increased, as compared to that from the RF, by 3.4 percentage points, probably due to the larger growth of imports, namely import from the EU were at 64.7% vis-à-vis 48.2% of imports from the RF. This was probably conditioned by the appreciation of AMD against EUR. In comparison to January 2022, the share of Georgia increased (by 1 percentage point) in the import structure (by exporting country), most probably proving the increase in the volumes of circulation of goods by land, which can be explained by the smaller share of the latter in the import structure in the same period by country of origin (1.8% in January- October). In comparison with the same period in 2021, in January- October 2022, by country

64 The figure was designed by the authors, using the data available in the cited source. Source: RA Statistical Committee, Foreign Trade Database: <https://armstat.am/am/?nid=160>.

65 The figure was designed by the authors based on the data available in the cited source. Source: Statistical Committee of the Republic of Armenia, Socio-economic situation of the Republic of Armenia in January-October 2022. 4.1.1. Foreign and mutual trade, Publication. <https://www.armstat.am/am/?nid=82&id=2533>.

of origin, the volumes of import increased as follows: from Belarus, twice; from Spain, 2.2 times; from the USA, 2.9 times; the Republic of Korea, twice; from Japan, 3 times; from Greece, 3.3 times; from Brazil, 2.3 times; and the United Kingdom, 2.1 times.

It should be noted that the structure of exports in the specified period underwent some changes in terms of both major partner countries and goods. Thus, in January-October, 2022, as compared to the same period in 2021, the share of other goods considerably expanded in the export structure (by 14.4 percentage points), conditioned by the significant growth in the exports volumes for some commodities.

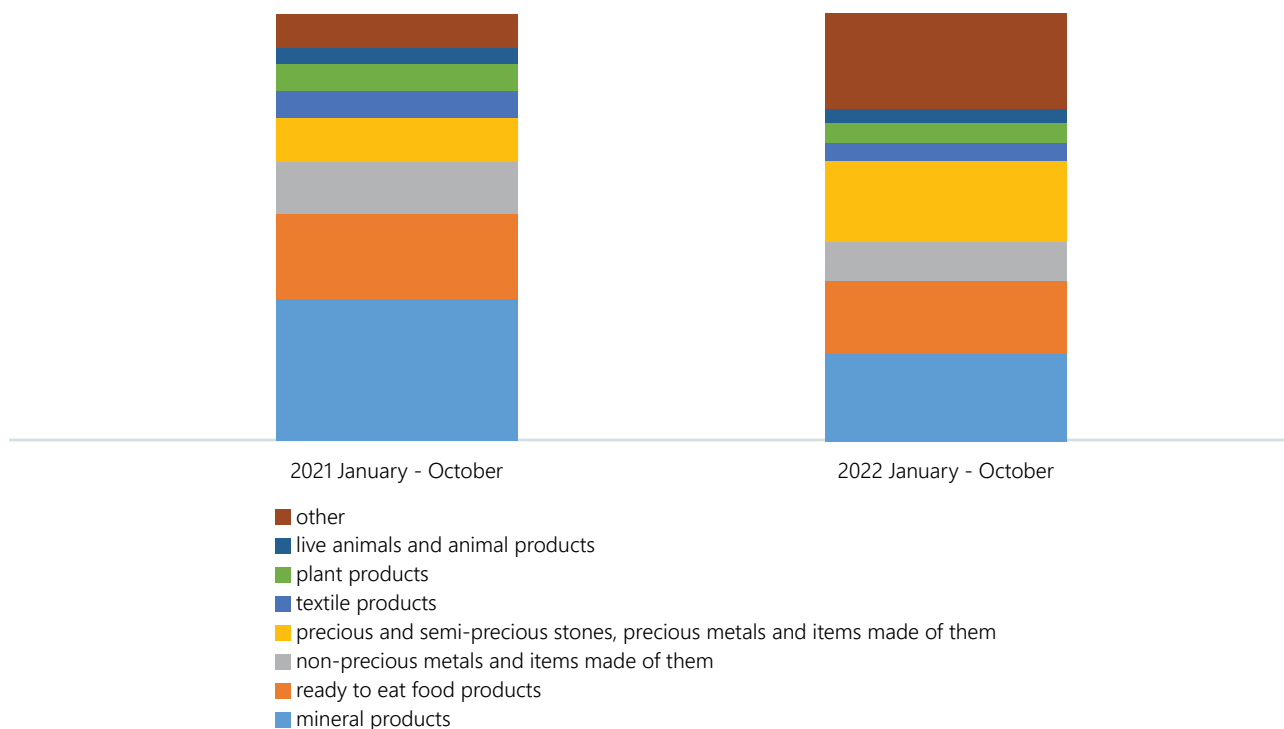


Figure 2.13. Exports structure, by commodities⁶⁶

The share for “cars, equipment and machinery” (by 10 percentage points) and “precious and semi-precious stones, metals, items made of them” (by 9 percentage points) significantly increased in the exports structure by commodities in the specified period by 89.5% and 2.6 times respectively due to the significant growth in their export volumes. On the other hand, mineral products that always had a considerable share in the exports structure (33% in January-October, 2021) manifested a reduction by 12.6 percentage points in the period under review, presumably caused by the decrease in the levels of copper ore export levels. Copper ore that has constantly had a significant share in the structure of the RA exports recorded a decrease in the export volumes in January-October 2022, as compared to the same period in the previous year, in terms of nominal dollar value, as well as real volumes at -12% and -6% respectively. It should be noted that the difference between nominal dollar and real volume decline indicators for copper ore is conditioned by the decline in the prices for the latter (-6,4%). Even though the prices of copper in the global market significantly went up in the first quarter of 2022 at 18%,⁶⁷ which, according to various sources,⁶⁸ can be accounted for by the limited resources of copper, as well as the decline in the demand for copper, Chinese demand and Russia’s war in Ukraine, the prices of copper

66 Ibid.

67 IndexMundi <https://www.indexmundi.com/commodities/?commodity=copper&months=120¤cy=eur>.

68 <https://www.rough-polished.com/en/analytics/127465.html>. Barrera, P. 2022 April 25, Copper Price Update: Q1 2022 in Review. <https://investingnews.com/copper-price-update-q1-2022/>.

dropped in April-July (-2% in the second quarter),⁶⁹ caused by the new wave of the COVID pandemic in China, the lockdown caused by it, the lower pace of economic recovery and the more stringent monetary policy to restrain inflation, to cite a few sources.⁷⁰

It is notable that the real export volume growth falls significantly behind the nominal dollar growth of the latter. Thus, in March-April 2022, a significant decline was recorded in the real exports volume – namely by 27% in March and 19% in April, and the growth in the volumes during these months was ensured mainly due to the prices that were higher by 44% in March and 51% in April.

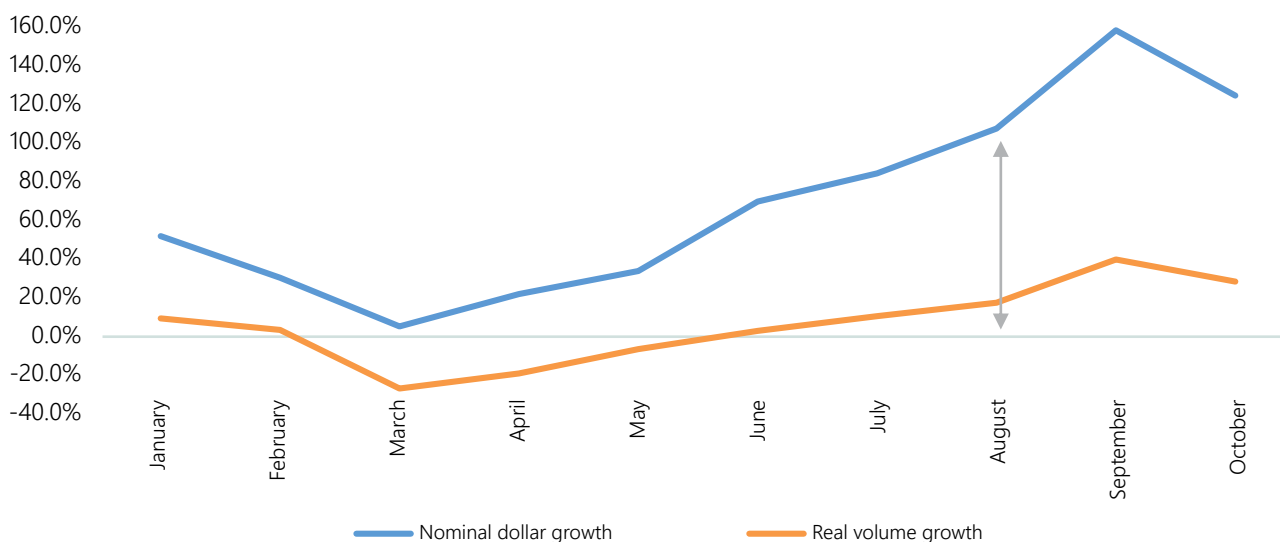


Figure 2.14. Nominal dollar and real volume growth. Exports⁷¹

Although there has already been a certain increase in terms of real export volumes since June, the growth of export volumes in nominal dollar terms significantly exceeded the growth rate of real volumes due to the further progressive increase of 62.3% in prices in January-October. It should be noted that in the case of imports, the significant increase in prices also led to high rates of nominal dollar growth. In January-October 2022, the nominal dollar growth of imports was 63.5%, instead of 23% of real volume growth.

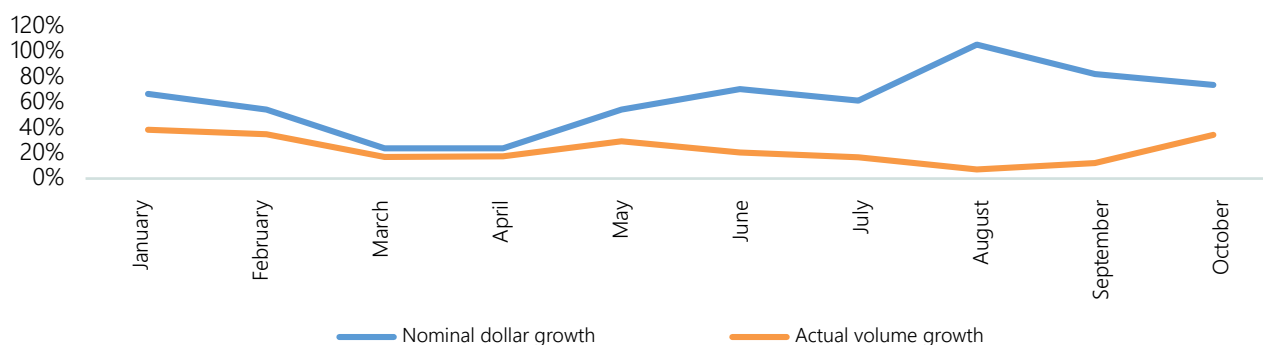


Figure 2.15. Nominal dollar and real volume growth. Imports⁷²

69 IndexMundi <https://www.indexmundi.com/commodities/?commodity=copper&months=120¤cy=eur>.

70 <https://www.rough-polished.com/en/analytcs/127465.html>. The Guardian, "Copper Price at Lowest Level Since 2020 as Fears over Global Economy Grow". <https://www.theguardian.com/business/2022/jul/15/copper-price-at-lowest-level-since-2020-as-fears-over-global-economy-grow-inflation>.

71 The figure was designed by the authors based on the data available in the cited source. Source: RA Statistical Committee, Foreign Trade Database. <https://armstat.am/am/?nid=148>.

72 Ibid.

Due to the escalation of the Russian-Ukrainian conflict, research was conducted by various entities in an attempt to assess the impact of the conflict on various countries and their economies. Particularly interesting are the studies of countries within the regional economies that have some economic and political relations with the Russian Federation in the context of Russia's war in Ukraine. Thus, N. Secieru, referring to other sources, notes that the volumes of exports from the countries in the region, namely Georgia and Azerbaijan, to the Russian Federation decreased, whereas the volumes of imports increased, namely oil products and coal in the case of Georgia and grains in the case of Azerbaijan. The author of this piece believes that to be insured against an increase in global grain prices, Azerbaijan is trying to accumulate large reserves of grain, which is also evidenced by the increase in the volume of grain imports from Kazakhstan. The author hereby assumes that Azerbaijan is thus trying to weaken its dependence on the Russian market for agricultural produce.⁷³

Due to Russia's war in Ukraine, in addition to the export of goods, new opportunities have also arisen in terms of export of services. Export of services implies "a service provided by a resident of any country to the residents or organizations of another country"⁷⁴ or "transactions, related to services provided by residents to non-residents."⁷⁵

Table 2.1. Border crossings by country of citizenship, entry and exit, January-September, 2022⁷⁶

		RF	Ukraine	Belarus
Q1	Incoming	142 117	5 938	5 051
	Outgoing	138 111	5 631	4 417
	Balance	4 006	307	634
Q2	Incoming	229 969	6 510	5 337
	Outgoing	193 197	6 457	5 546
	Balance	36 772	53	-209
Q3	Incoming	414 598	8 863	6 750
	Outgoing	413 200	9 039	6 817
	Balance	1 398	-176	-67
Total	Incoming	786 684	21 311	17 138
	Outgoing	744 508	21 127	16 780
	Balance	42 176	184	358

In January-October 2022, 959,343 people with the citizenship of the countries specified in the table above, arrived in Armenia from the countries directly involved in the conflict, those being Russia, Ukraine, and Belarus. The vast majority of incomers, 95%, are Russian citizens (with Ukrainian citizens comprising 3% and Belarusian citizens 2%). As a result of Russia's war in Ukraine, the large influx of people from the countries directly involved in the conflict to Armenia has created a great demand for services in the country, bringing about new opportunities for the export of services.

73 Secieru, S. 2022. "How Big Is the Storm? Assessing the Impact of the Russian-Ukrainian War on the Eastern Neighbourhood." European Union Institute for Security Studies, p. 4. Available at https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief_10_Impact%20of%20Russian-Ukraine%20war%20on%20the%20Eastern%20Neighbourhood_web.pdf.

74 Nagel, D. 2016. "What Are Service Exports, and Why Are They Suddenly So Important?" Available at <https://www.tradeready.ca/2016/trade-takeaways/service-exports-suddenly-important/>

75 Source: <https://www.insee.fr/en/metadonnees/definition/c1425>.

76 The figure was designed by the authors based on the data available in the cited source. Source: Statistical Committee of the Republic of Armenia, RA Socio-Economic situation in January-September 2022, Publication, p. 262, Appendix 2. Available at https://www.armstat.am/file/article/sv_09_22a_6200.pdf.

To sum up, it can be noted that, due to the multi-layered ties between Russia and Armenia, Russia's war in Ukraine has had a significant impact on the external sector of Armenia's economy. In January-October, compared to the same period of 2021, export volumes in RA increased by 71.2%, and import volumes increased by 63.5%. Due to the termination of cooperation by various suppliers in the RF market, many segments have emerged therein, due to which export volumes to the RF increased significantly, namely 2.5 times in January-October, as compared to the same period of the previous year. This has led to an increase in the share of RF export structure, reaching 41.4%. On the other hand, the share of other countries in the structure of imports has somewhat increased, leading to a higher level of diversification of import markets, perhaps due to the appreciation of foreign currency, namely USD and EUR against AMD. It should also be noted that the increase in both export and import prices contributed to the increase in their volumes. In the period under review, the real volume growth of both exports and imports fell behind the nominal dollar growth. Based on the analysis of the external sector of the RA economy in the context of Russia's war in Ukraine, it can be stated that the conflict implies both certain risks and opportunities for the latter, among which are as follows:

- risks
- further fluctuations in the exchange rate due to a number of fuel imports related sanctions imposed by Western countries on Russia,⁷⁷
- a high concentration of export markets due to the increase in the RF's share in the export structure,
- Further aggravation of the RA economic complexity index,
- Risks of foreign trade management in the RA due to the free circulation of goods in the territory of EEU and bans on importing a number of products to the Russian market.
- opportunities
- Due to the cessation of activities of various suppliers in the Russian market, the emergence of new market segments, new export opportunities for RA producers and an increase in export volumes,
- Due to the termination of cooperation with various Russian producers, opportunities for RA producers to export to niche markets in other countries,
- Opportunities for the diversification of RA export markets in the conditions of realization of opportunities to export to niche markets that have appeared in other countries,
- Due to unchanged gas prices, the price competitiveness of products made in the RA, as compared to those produced in other countries,
- Opportunities for increasing the volume of export of services due to the large influx of RF citizens to the RA.
- Considering the above-mentioned risks and opportunities, the RA government needs to develop and implement an evidence-based policy for foreign trade in order to fully take advantage of opportunities and effectively address possible risks.

⁷⁷ BBC News, 30 September, 2022, "What are the Sanctions on Russia and are they Hurting Its Economy?" Available at <https://www.bbc.com/news/world-europe-60125659>.

The Impact of Russia's War in Ukraine on the Real Sector of the RA Economy (by Anush Shirinyan)

Global Economic Developments in the Context of Russia's War in Ukraine

The forecasts on the pace of the global economic development have been revised, specifying a downward trend. Thus, the World Bank projected the 2023 global growth at 1.7%, which is the third lowest level of economic growth in the last three decades. The previous forecast made in June 2022 was higher at 3.0%, despite the persistence of pandemic-induced crisis phenomena, as well as partial recovery of supply and demand. The new forecast made at the beginning of January of 2023 reflected the current realities, in particular, the continuation of restrictive policies in the face of high inflation, the tightening of financial conditions, the maintenance of uncertainties caused by Russia's war in Ukraine, and the high level of risks. All the major global players – the USA, the EU, and China – are on the threshold of a new phase of economic weakening. Besides, the problems in developing and transition economies are an additional factor in slowing global economic growth. Accordingly, in the situation of slow growth, financial austerity, the initially heavy debt burden, the complex conditions of the post-pandemic period in combination with high inflation, even stricter monetary and fiscal policies, unfavorable developments in leading economies, geopolitical tensions deepened by Russia's war in Ukraine, the World Bank deems the global economic recession scenario quite probable.⁷⁸

Table 3.1. Economic growth outlook by WB, %⁷⁹

	2020	2021	2022	2023	Difference with the forecast of June 2022, percentage point	
					2022	2023
Global GDP	-3,2	5,9	2,9	1,7	0,0	-1,3
USA	-2,8	5,9	1,9	0,5	-0,6	-1,9
Euro zone	-6,1	5,3	3,3	0,0	0,8	-1,9
China	2,2	8,1	2,7	4,3	-1,6	-0,9
Europe and Central Asia	-1,7	6,7	0,2	0,1	3,2	-1,4
RF	-2,7	4,8	-3,5	-3,3	5,4	-1,3
Turkey	1,9	11,4	4,7	2,7	2,4	-0,5
Middle income countries	-1,2	6,9	3,2	3,4	-0,1	-0,8
Low income countries	1,6	3,9	4,0	5,1	0,0	-0,7

In 2022, compared to 2021, economic growth in developed economies slowed down more than twice, dropping from 5.3% to 2.5%. It is noteworthy that this is only the 4th case of such reduction in economic growth in the last 50 years. As a matter of fact, in the second half of 2022, there was a significant distortion of economic conditions due to a sharp decline in the purchasing power of households, a restrictive monetary policy, and a significant increase in energy prices as a result of Russia's war in Ukraine.

78 World Bank. 2023. Global Economic Prospects, January 2023. Washington, DC: World Bank. - p. 3.

79 Ibid, p. 26.

The rate of economic growth almost halved in developing and transition economies, too, dropping from 6.7% to 3.4% (2022). At the same time, the slowdown of the growth rates mainly happened in the second half of 2022 and is comparable perhaps only to the crises of 2009 and 2020.

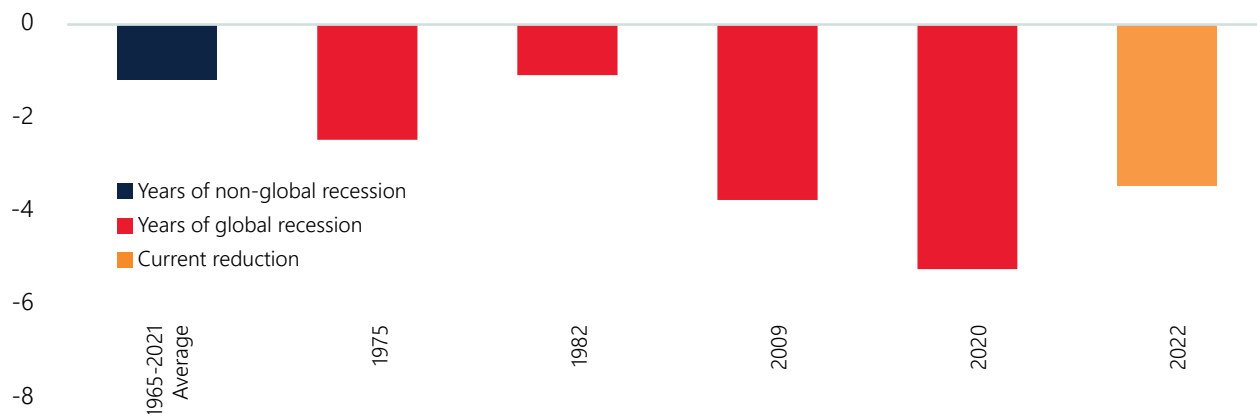


Figure 3.A. The slowdown of economic growth in developing and transition economies⁸⁰

It is interesting that the 2022 economic recession forecast for the RF has been significantly revised. If a 9% drop was projected in June, now the drop is assumed to be around 3.55%. On the other hand, according to internal estimates, a 1.3% growth was projected in the Russian economy⁸¹ for 2023, while the current forecasts of international organizations are much more pessimistic.

Forecasts of economic growth in developing countries, exporting raw material have been revised with an upward trend by 1.6 percentage points (1.9% for 2022), while the revision of growth projections for raw material importing countries is downward at -0.8 percentage points. It should be added that according to WB classification, Armenia is included in the first group of the above-mentioned countries.

Russia's war in Ukraine had a significant impact as it intensified inflation. The already high inflation of the post-pandemic period, despite a certain restraint at the beginning of 2022, was nudged into a new acceleration, especially in the context of geopolitical instability.

Thus, during 2022, the inflation rate increased in almost all countries. The median global inflation rate exceeded 9% in the second half of 2022, the highest since 1995. The rate of inflation in developing and transition economies reached almost 10%, the highest rate since 2008. As for developed economies, the 2022 inflation was at its peak for the last 30 years and exceeded 9%.

The inflation, expanding in 2022, was caused by the combination of supply and demand factors.⁸² In particular, the structural transformations in the demand of the post-pandemic period as well as the progressive growth of demand in relation to the output of sectors, significantly limited in 2020, were among the relatively major stimuli for demand inflation.⁸³ One of the supply inflation factors is the significant reduction in the supply of key raw materials, which largely boosted by Russia's war in Ukraine, led to a sharp increase in global prices for energy carriers and food products. It should be added that the limitation of labor supply in a number of countries led to an increase in labor costs, resulting in a new cycle of increasing investment and production costs.

80 –Ibid, p. 37.

81 Hovsepyan, M. "Tntesakan shokery u harkabyujeayin sherjanaky. Ardyok' kdimanank' ts'nts'umnerin [Economic Shocks and the Fiscal Framework. Could we Survive the Shocks?]", Amberd Newsletter #2, 2022, p. 36.

82 Ha, J., M. A. Kose, F. Ohnsorge. 2022. "Global Stagflation." Koç University-TUSIAD Economic Research Forum Working Papers 2204, Istanbul, Türkiye.

Shapiro, A. H. 2022. "How Much Do Supply and Demand Drive Inflation?" FRBSF Economic Letter, Federal Reserve Bank of San Francisco, San Francisco.

83 Kalemli-Özcan, Ş., di Giovanni, J., A. Silva, M. Yildirim. 2022. "Challenges for Monetary Policy in a Rapidly Changing World." ECB Forum on Central Banking, European Central Bank, Frankfurt.

Table 3.2. Inflation forecasts, according to WB⁸⁴

	2020	2021	2022	2023	Difference with the forecast of June 2022, percentage points	
					2022	2023
Index of energy carriers	52,7	95,4	151,7	130,5	7,1	4,4
Index of non-energy carriers	84,4	112,0	123,7	113,0	-8,4	-4,0

The large specific weight of food products in the market basket led to more acute inflation problems, especially in low-income countries.⁸⁵ The global rate of natural inflation increased significantly, surpassing the 6% mark, the highest since 1992. It is noteworthy that there was a significant increase, especially in the expected inflation levels in the short-term (within one year). In contrast, the expected inflation levels in the long-term perspective (five or more years) are relatively more stable. The latter inspires optimism in the central banks of the countries that, especially in the long term perspective, it will be possible to overcome the high rates of inflation, returning it to the target ranges set in the previous decade.

In Europe and Central Asia, economic growth in 2022 dropped significantly down to 0.2%. The major reason for this is Russia's war in Ukraine and the resulting energy crisis. Should the economies of Russia and Ukraine not be considered, the economic growth in this region for 2022 is estimated to be around 2.1%.

The estimate of economic growth in Armenia for 2022 was 10.8%. Although it is somewhat lower than the estimates provided by the RA government, on the other hand, it is 7.3 percentage points higher than the level, projected in June 2022. It is interesting to note that Armenia is among the few countries in Europe and Central Asia whose forecast for the economic growth in 2022 has been revised with more than 7 percentage points towards growth. The increase in the estimation of Armenia's economic growth for 2022 is due mainly to the impact of Russia's war in Ukraine and rather favorable factors therein for the country's economy, namely visits, business relocations, the large volume of remittances, the emergence of free market niches in the Russian economy and their saturation with products of Armenian origin or re-exported from Armenia's economy. It is also important to review the estimates of the decline of the Russian economy. Contrary to the previous forecasts, in the second half of 2022, the Russian government managed to maintain the financial and economic stability of the country, ensuring a sufficient level of budget revenues due to high energy prices, thus to some extent counterbalancing the potential short-term negative effects of Western sanctions by using large-scale support packages for entrepreneurs and households. Also, it should be kept in mind that the potential critical effect of the sanctions imposed especially on the Russian energy sector may have a rather medium- and long-term impact, therefore this impact in 2022 was less significant. On the other hand, the forecasts for the Russian economy for 2023 and 2024 have been revised to show a deeper GDP decline, by 1.3 and 0.6 per cent, respectively. This circumstance had a decisive role in reducing the growth forecast levels of the RA economy for 2023 and 2024. Accordingly, the WB projects a 4.1% growth for Armenia's economy in 2023, which is 0.5 percentage points lower than the June forecast. The forecast for 2024 is 4.8%, which is also slightly lower than the level projected in June. This means that, according to the WB's estimation, the medium-term consequences of Russia's war in Ukraine on the further development of the RA economy contain risks of a significant downward impact.

84 Source: World Bank. 2023. Global Economic Prospects, January 2023. Washington, DC: World Bank. - p. 26.

85 Ball, L., D. Leigh, P. Mishra. 2022. "Understanding U.S. Inflation during the COVID Era." BPEA Conference Drafts, Brookings Paper on Economic Activity, Washington, DC.

Table 3.3. Economic growth forecasts, Europe and Central Asia, according to CBA, %⁸⁶

Country	2020	2021	2022	2023	Difference with the forecast of June 2022, percentage points	
					2022	2023
Armenia	-7,2	5,7	10,8	4,1	7,3	-1,3
Azerbaijan	-4,3	5,6	4,2	2,8	1,5	0,6
Belarus	-0,9	2,6	-6,2	-2,3	0,3	-3,8
Georgia	-6,8	10,4	10,0	4,0	4,5	-1,5
Kazakhstan	-2,5	4,1	3,0	3,5	1,0	-0,5
Kyrgyzstan	-8,4	3,6	5,5	3,5	7,5	0,1
Moldova	-7,4	13,9	-1,5	1,6	-1,1	-1,1
Poland	-2,0	6,8	4,4	0,7	0,5	-2,9
Tajikistan	4,4	9,2	7,0	5,0	7,4	1,7
Russia	-2,7	4,8	-3,5	-3,3	5,4	-1,3
Ukraine	-3,8	3,4	-35,0	3,3	10,1	1,2

According to the forecasts of the International Monetary Fund, the upcoming developments in global economy will be largely determined by the effectiveness of the monetary policy, as well as the course of Russia's war in Ukraine. In addition, promoting supply in China is believed to play a central role, which was seriously limited in 2022 due to the new wave of the pandemic.⁸⁷

According to the results of forecasts published in October, the economic growth in 2022 will be 3.2%, which is almost twice less than the level of 2021, and a 2.7% growth of global economy is expected for 2023.

Global inflation was estimated at 8.8%, 6.5%, and 4.1% for 2022, 2023 and 2024, respectively.

Medium-term economic development risks are mainly showing downward trends. Among them, the following are considered the most significant:

- **Policy mistakes.** Monetary policy based on overestimated or underestimated inflation. The high level of inflation and the policy of cheap money aimed at overcoming the epidemic led to anchored high inflation expectations.⁸⁸ Under the existing conditions, targeting a narrow range of normal inflation is quite a difficult task and poses serious challenges to policy-making. In addition, low- and middle-income countries, compared to developed economies, have to pay a higher price to overcome inflation.⁸⁹
- **Extending the duration of the impact of inflation factors, although** it was initially expected to slow down inflation in the post-pandemic years of 2023-2024, however, especially in the context of Russia's war in Ukraine, a number of factors have emerged or got activated that may delay the process of bringing inflation down to moderate levels. First of all, we are dealing with a persistently high level of prices of energy carriers and food products, and the continued uncertainty in those markets.
- **Debt-related problems and their vulnerability, especially in transition and developing economies.** The challenges caused by this factor and the higher intensity thereof are partially accounted for by the growth of geopolitical uncertainties caused by Russia's war in Ukraine.

⁸⁶ Source: World Bank. 2023. Global Economic Prospects, January 2023. Washington, DC: World Bank. - p. 66.

⁸⁷ International Monetary Fund. October 2022. "World Economic Outlook: Countering the Cost-of-Living Crisis". Washington, DC. October. p. 18.

⁸⁸ Adrian, Tobias, Christopher Erceg, and Fabio Natalucci. 2022. "Soaring Inflation Puts Central Banks on a Difficult Journey." IMF Blog, August 1, 2022.

⁸⁹ Unsal, D. Filiz, Chris Papageorgiou, and Hendre Garbers. 2022. "Monetary Policy Frameworks: An Index and New Evidence." IMF Working Paper 22/22, International Monetary Fund, Washington, DC.

- **Reduction of gas supplies in Europe.** Russia’s war in Ukraine continues to have a negative impact on the European and global energy markets. In particular, the supply of Russian gas to Europe has been significantly cut and continues to decrease. This circumstance will not only have a short, but also a medium-term impact on household consumption, standards of living, and inflation expectations. The intensity of the impact of this factor varies from country to country and depends on the results of overcoming infrastructure and logistical problems, the so-called “bottlenecks” in the supply chain.⁹⁰
- **Fragmentation of the world economy, failure or slowing down of the deepening of international cooperation.** Russia’s war in Ukraine significantly changes the logic, sectors, priorities and scope of cooperation between Russia and many countries, including Armenia. The war has also fueled and escalated other geopolitical conflicts, particularly in East Asia and other countries and regions. Such pressures contain the risks of destroying and reshaping cooperative relations and value chains, developed over decades. These risks are deemed significant especially for the upcoming 3-5 years, when active processes of crystallization of individual sectors in the global economy may take place. All this puts the effective cooperation of countries in the sectors of global economic security and climate change prevention under serious threat. Fragmentation processes can also lead to the formation of different geopolitical conflict zones, which will have a negative impact on global trade and capital flows.

The Developments in the Real Sector of the RA Economy

In March-November, 2022, the indicator of economic activity recorded unprecedented high levels. Thus, economic activity continued to accelerate from March to July, reaching its peak in July 2021 with a 19.4% increase, as compared to the level in July. In July-September, the indicator of economic activity displayed a slight decline, but both in July and the following months, it continued to maintain a double-digit growth level (Figure 3.1).

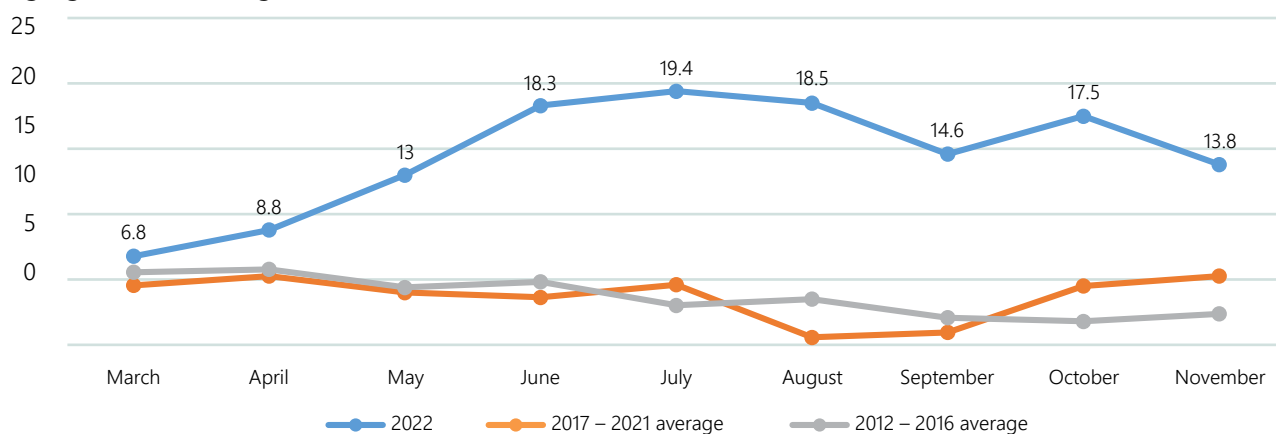


Figure 3.1. The growth of the economic activity indicator, monthly comparison with the respective month in the previous year⁹¹

It is interesting to note that in 2012-2016 and 2017-2021 there was no month during which the average economic activity growth, compared to the respective month of the previous year, exceeded

⁹⁰ Flanagan, Mark, Alfred Kammer, Andrea Pescatori, and Martin Stuermer. “How a Russian Natural Gas Cutoff Could Weigh on Europe’s Economies.” IMFBlogs, July 19, 2022. <https://blogs.imf.org/2022/07/19/how-a-russian-natural-gas-cutoff-could-weigh-on-europes-economies>.

⁹¹ Source: Statistical Committee of the Republic of Armenia, RA Socio-Economic situation, publications of monthly reports in the years under review.

6%. Accordingly, in judgments about the normal or potential growth of economic activity, one may consider the reference or approximate estimation of 6% for monthly indicators. In this regard, it is not accidental that the starting point of the unprecedented surge in the economic activity indicator in March-November 2022, namely its level as of March, falls within the described range.

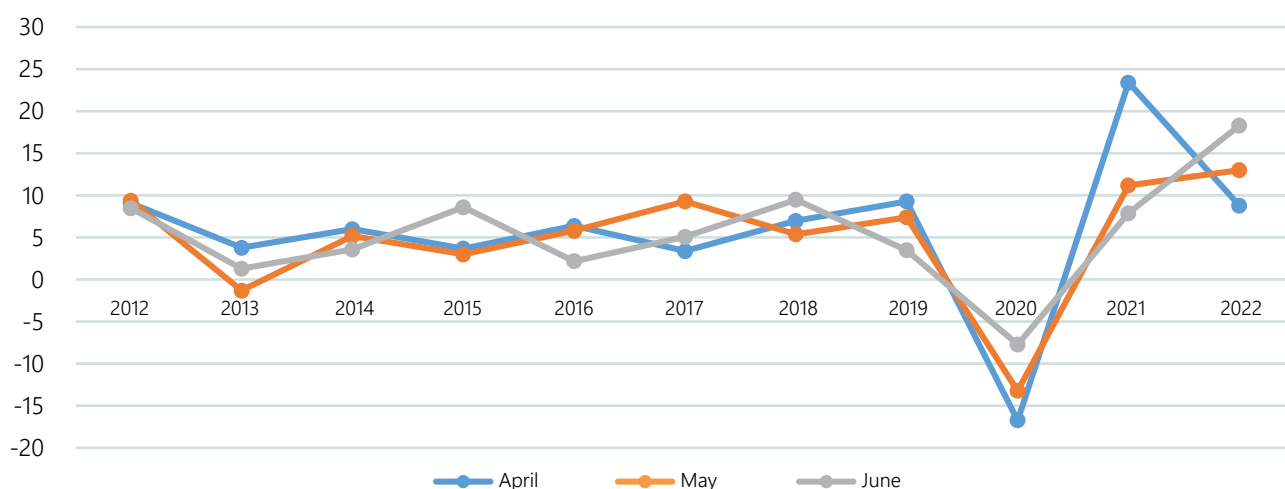


Figure 3.2. The economic activity indicator for April, May and June, compared to the respective months in the previous year⁹²

In April 2022, economic activity increased by 8.8% compared to the month of April of the previous year. It is true that this result is significantly lower than the level in 2021 (23.4%), but the latter should be viewed first of all in the context of the recovery following the deep decline in 2020 (-16.7%). It is not accidental that in the months of the greatest decline in 2020, a larger increase was recorded in the respective months in 2021. In 2012-2019, the maximum YoY growth of economic activity in the same month of April did not exceed 10%. The same should be noted for the months of May and June (Figure 3.2).

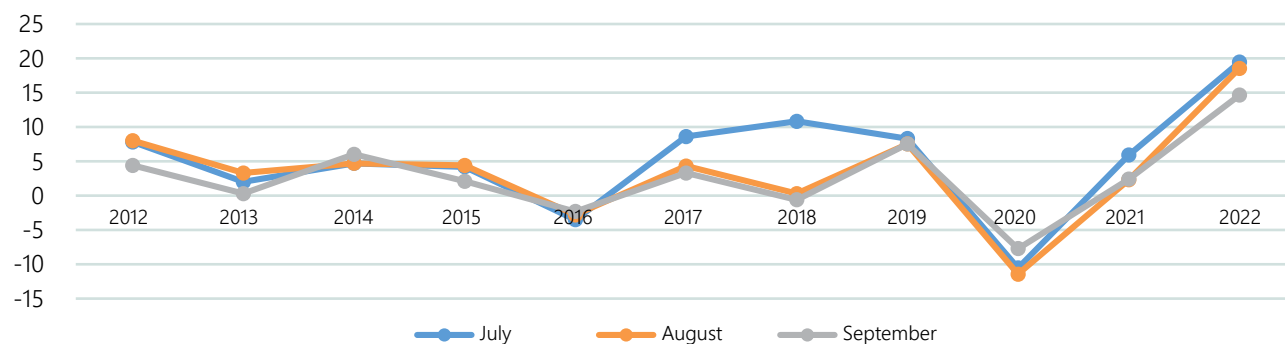


Figure 3.3. Economic Activity Indicator for July, August, September, compared to the respective months of the previous year⁹³

In July, August and September, 2022, the growth of economic activity, compared to the respective months of the previous year, was in the range of 14.6-19.4%. For the same months in 2020, the YoY decline in economic activity was from -7.7% to -11.4%. Explaining the growth of 2022 with reference to the gradual recovery from the decline in 2020 is not a robust argument, firstly because the growth of economic activity in the respective months of 2021 was much lower than in 2022. In addition, the months with peaked economic activity in 2022 displayed relatively low levels of decline in 2020. It turns out that the low recession in 2020 created a higher level of economic activity in 2022 than the deeper

92 Ibid.

93 Ibid.

recession in 2020 (Figure 3.3).

Basically, in July-September 2012-2019, the growth of the economic activity index, compared to the respective months of the previous year, was mainly in the range of 0 to 7%. Moreover, due to the relatively favorable external shocks in the same period, a fragmented double-digit growth was recorded, which, however, was not stable. Besides, the sanctions imposed on Russia following the Crimean events of 2014 had an adverse effect on the RA economy, as they led to a slowdown in the growth rate of economic activity.

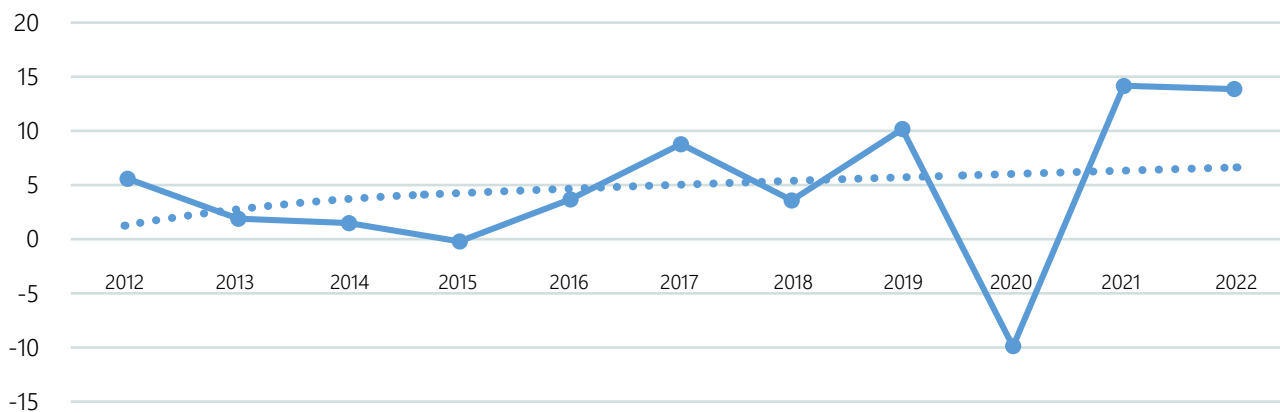


Figure 3.4. The economic activity indicator for November, compared to the same month of the previous year⁹⁴

In November 2022, the indicator of economic activity increased by 13.8% compared to the same month of the previous year (Figure 3.4). Moreover, unlike the previous months, this indicator for November is lower than the level in the respective month in 2021, which, in its turn, is the recovery reaction to the -10% decline in 2020. The economic activity indicator in November in 2012 – 2019, as compared to the respective month of the previous year, showed significant fluctuations, dropping to zero in 2012-2015, after which it accelerated up to the level of 8-10%. However, due to limited internal resources and some external favorable factors, the maximum increase in economic activity that can be generated in the economic system of Armenia is around 10%. As for the average growth rate or trend of economic activity, the estimate of the growth trend for the economic activity indicator, as extracted by a logarithmic function, was in the range of 6.0-6.5%. This means that in November 2022, the actual level of economic activity indicator growth exceeded the estimated level of the average trend, resulting from the economic potential by about 8 percentage points.

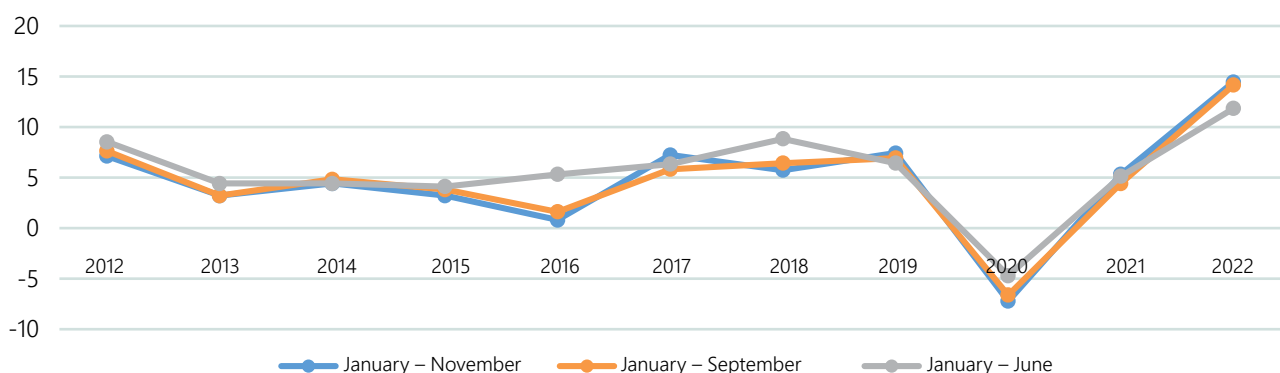


Figure 3.5. Accumulated economic activity indicator in the period under review, compared to the same periods in the previous year, %⁹⁵

94 Ibid.

95 Ibid.

It should be noted that the projected value of the growth in the economic activity indicator as the estimated on the basis of logarithmic modeling of the trends viewed in the previous period, in particular, January-November 2022, can be observed in the range of 6.0-6.5%, with the most probable value being at 6.24%. And if we also include the developments of 2010-2021 in the trend modeling process, when observing different trend models, the forecast estimate for 2022 varies in the range of 2.8-3.3%. This means that in 2022 the economic activity indicator growth rate in the period under review multiply exceeds the level of developments in line with the trends manifested in the previous period.

According to the RA budget message for 2023, 11% economic growth is expected due to external developments observed in 2022 and anticipated in the near future, namely the unprecedented influx of IT companies, people and capital from Russia to Armenia, as well as the increase in the demand for exports from Armenia to Russia because of the restrictions due to sanctions imposed on the Russian import market from some countries, along with the fiscal measures implemented by the Government of Armenia in 2022. This estimate is higher than any economic growth value recorded in the last 14 years.⁹⁶

7.0% economic growth is predicted for 2023, should the positive developments caused by the forecast external economic environment, the influx of people and capital to the RA as a result of Russia's war in Ukraine, as well as the relocation of IT sector companies sustain, in the conditions of policy measures, defined in the RA Government's Action Plan for 2021-2026, aimed at increasing economic potential and economic growth.

RA government based its economic growth forecasts for 2023, inter alia, on the assumptions and forecasts made regarding the reality emerging due to the direct and indirect impact of Russia's war in Ukraine.

Thus, along with the recovery of the world economy after the pandemic, and as a result of Russia's war in Ukraine, the rate of economic growth will slow down in the countries, partnering with Armenia. According to the 2022 October IMF forecasts, the external demand of the RA's main partner countries (excluding the Russian Federation) will grow by around 3.0% in 2022, instead of the formerly made forecast of 2.7% growth in June 2022. According to forecasts, the growth rate will continue to slow down in the main partner countries of Armenia in 2023 and will remain below the pre-crisis potential. In both 2022 and 2023, Russia is expected to go through a deep economic recession. However, it should be stated once again that the forecasts made in October are slightly more favorable, compared to those in June.

Even though various forecasts in 2022 anticipated an increase in international oil prices (for example, the Bloomberg agency predicted an increase of about 45%) mainly due to the disruption of supply chains from Russia as a result of the sanctions imposed on Russia due to Russia's war in Ukraine, at the end of the year, oil deflation somewhat balanced the sharp increase in international oil prices recorded in the first months of the war. The drop in international copper prices is in the forecast range of 4-5%. Oil and copper prices will fall in 2023 by 12% and 9% respectively.

As a result of restrictions on the Russian import market from some countries due to sanctions, there is an increase in the demand for exports from Armenia to Russia. According to August 2022 forecasts by the RA Government, exports of goods to Russia were expected to grow by around 55% in dollar terms, while the initial estimate of actual growth, based on the results of 11 months, is much higher, at around 170%. Should the positive developments sustain in 2023, a 20% increase in exports to the Russian Federation has been projected. We estimate that given the current trends, this projected

96 HH karavarutyanyan 2023 t' byujetayin ugherts' (bats'atragir), Yerevan, 2022, Bazhin 1.3. «Makrotntesakan zargats'umner ev kankhatesumner» [RA Government's 2023 Budget message (explanatory letter), Yerevan, 2022, Section 1.3. 'Macroeconomic Developments and Forecasts']"

level will be fully achieved in 2023.

According to forecasts, in 2023 the number of tourists to RA will increase by 14.6%. Remittances from the RF and other countries to Armenia will grow by around 4% in 2023. As a result of the sanctions imposed on Russia, some of the IT sector companies and employees who moved from Russia to Armenia will stay in Armenia in 2023.

In 2022, in the conditions of positive developments, the economy of the RA was in a better position than its potential level, thus entering the range of a positive gap. It is forecasted that in 2023 the RA economy will continue to remain in the range of a positive gap. At the same time, the potential growth of Armenia's economy will increase should the impact of upward risk factors caused by Russia's war in Ukraine, as well as a targeted increase in the level of state capital expenditure and the progressive growth of exports sustain.

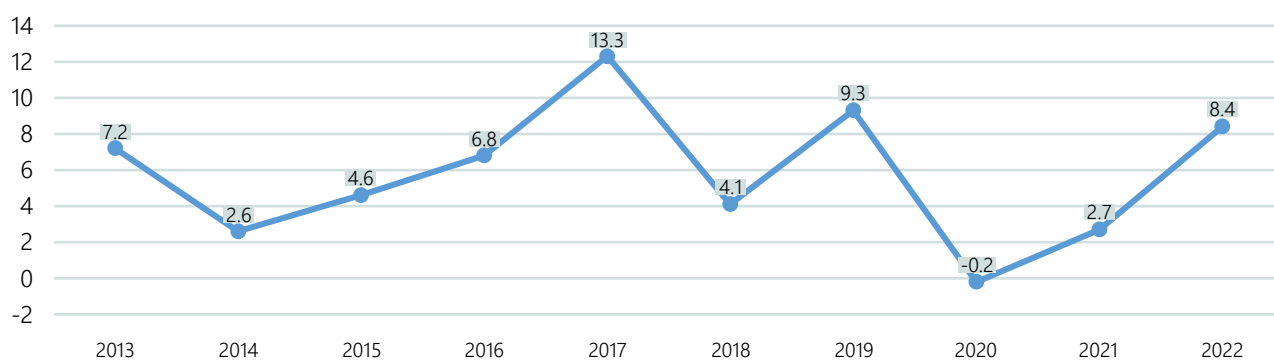


Figure 3.6. Volume index of industrial output, January-November, compared to the same period of the previous year, %⁹⁷

The positive shock effect of Russia's war in Ukraine on the general activity of Armenia's economy has a highly disproportionate distribution across the sectors of economic activity.

The industry growth indicators are much more modest than the rise in the economic activity indicator by months. Thus, in January-November 2022, the increase in the volume of industrial output compared to the same period in the previous year was 8.4% (Figure 3.6). In general, in the period under review in 2013-2022 industrial growth is of a pronounced cyclical nature. The decrease in the growth rate in 2014, as compared to the previous year, was transformed by an acceleration of growth in the following years, reaching a double-digit increase until 2017. In 2018, a three-fold slowdown in industrial growth rate was recorded, followed by a re-acceleration, and a decrease in 2020 with a gradual recovery in the following two years.

The analysis of the impact of the Russian-Ukrainian military and political conflict on the industrial growth in 2020 takes into consideration the index of the physical volume of industrial production per sector and branch.

97 Ibid.

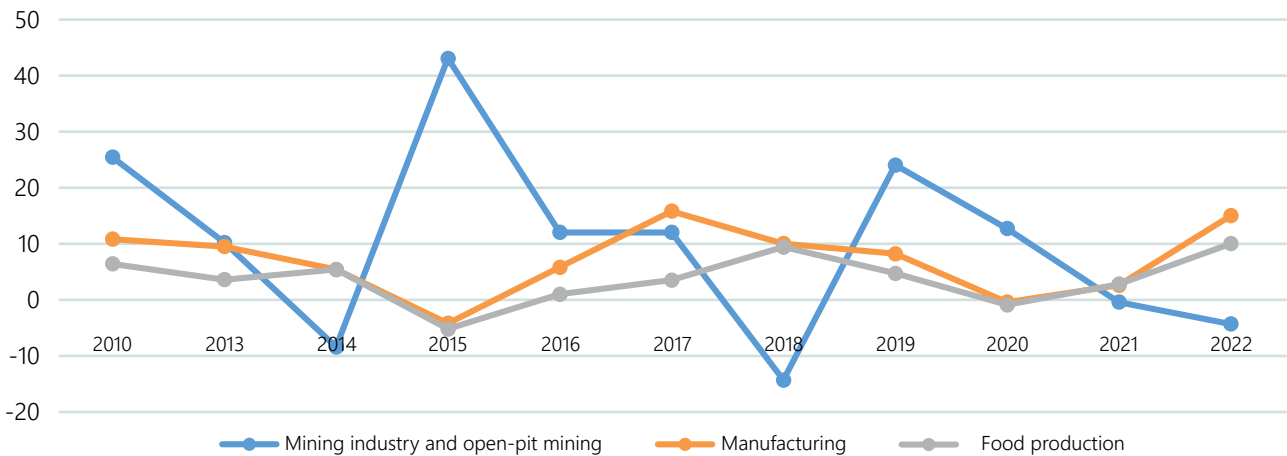


Figure 3.7. The growth rate of production in individual branches of industry in January-November compared to the same period in the previous year⁹⁸

The expansion of the manufacturing industry at an unprecedented rate for the period under review is noteworthy. The high growth rate of food production is even more remarkable. The average growth rate of food production was 4.7% in 2016-2019, and in the first year of the post-pandemic recovery, namely 2021, the sector grew by only 2%. Moreover, in 2008-2009 the rate of recovery following the crisis in the food industry was 6.4% (Figure 3.7). In this context, in January-November 2022, the expansion of food industry by 10% does not fit into the framework of the long-term development trends of the economy and is essentially the result of additional impulses given to the sector due to the impact of shock factors.

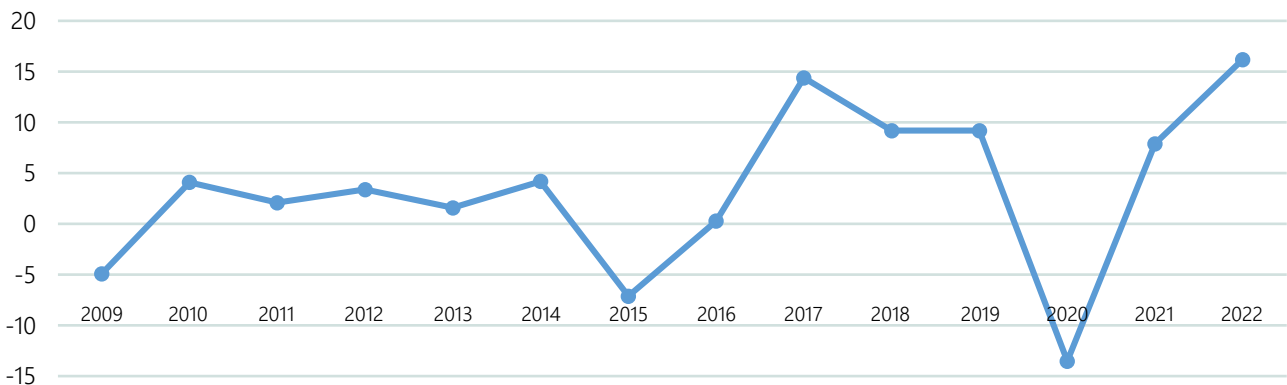


Figure 3.8. The growth of trading turnover in January-November, compared to the same period of the previous year, %⁹⁹

In January-November 2022, the increase in trading turnover, compared to the same period in the previous year, was 16.2%. This growth rate was unprecedentedly high since 2009. A level close to that was recorded in 2017 (14.4%), which, in the context of the zero growth in 2016 and the 7% decline in 2015, is completely possible to explain with reference to a mere recovery process. Before that, in 2010-2014, the growth rate of turnover in the trade sector was much more modest, yet stable, fluctuating in the range of 4-5% (Figure 3.8).

It is noteworthy that in January-November 2022, the double-digit increase in turnover in the trade is very unevenly distributed across sectors. Thus, in the same period retail trade increased by only 2.4%, while wholesale trade turnover increased by more than 25% and car trade by 46.6% (Figure 3.9).

98 Ibid.

99 Ibid.

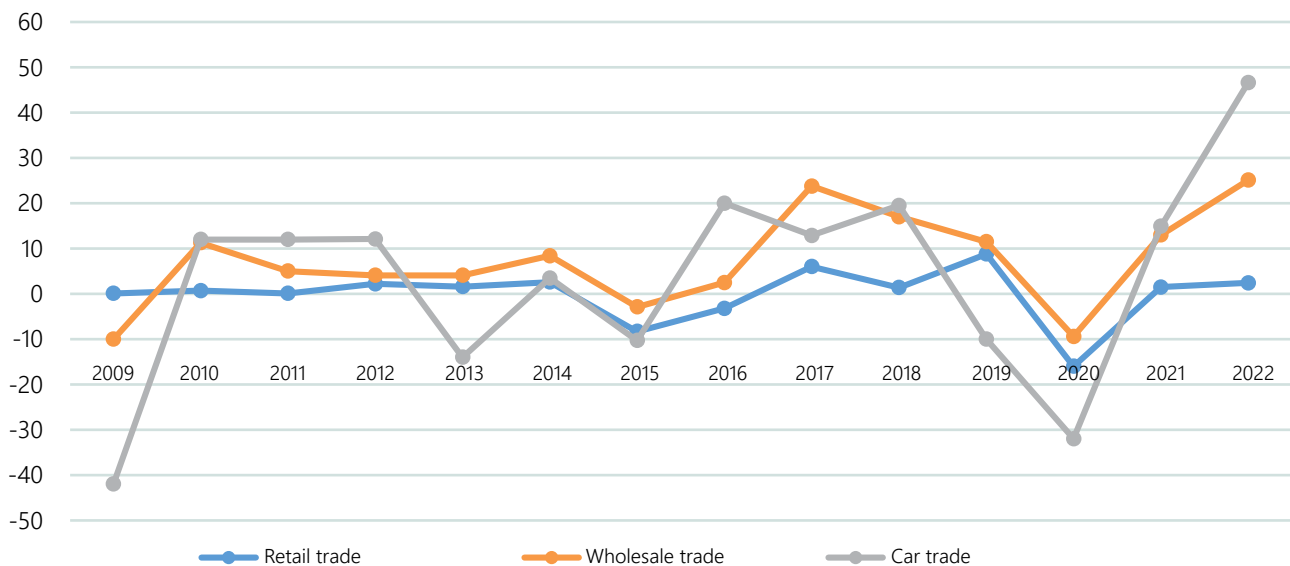


Figure 3.9. Growth rate of trade turnover, by sectors, January-November, cumulative, compared to the same period of the previous year, %¹⁰⁰

The above-described once again comes to prove the fact that the unprecedented activity in the RA trade sector is rather the result of the processes activated by the expansion of foreign demand as a result of a shock event. On the other hand, it can be noticed that an external shock factor-induced demand and the demand components deriving from the potential of the economy through internal processes display disproportionate development, and the transfer effect from external to internal potential factors is not fully operational, which means that as a result of the positive economic shocks initiated by Russia's war in Ukraine, the degree of probability for contribution to intermediate anchors in the RA economy is very low.

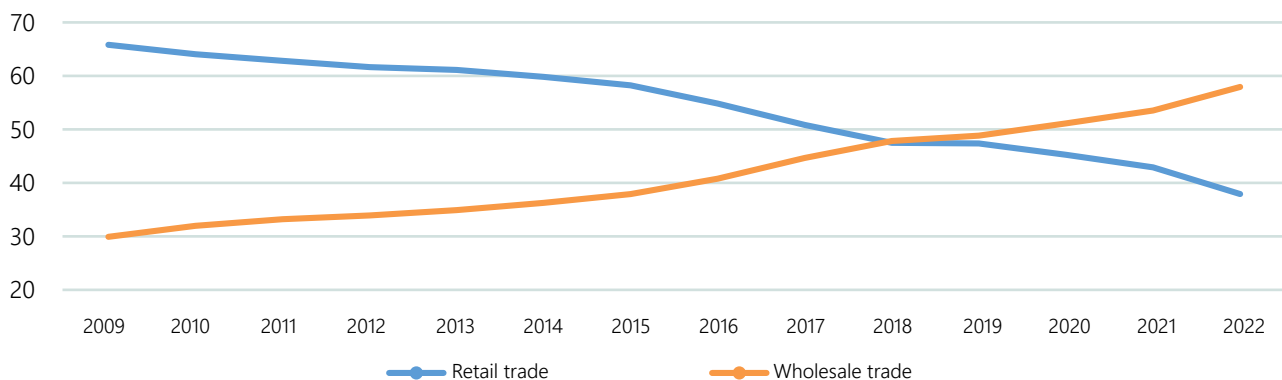


Figure 3.10 The share of retail and wholesale trade in the structure of overall trade, January – November, %¹⁰¹

On the other hand, the transformations taking place in the RA trade sector are long-term which means that the observation above is rather the description of the situation brought about by the objective reality than the evidence of the failure of the current policy. Thus, since 2009, the share of wholesale trade in the structure of trade turnover showed a steady increase, maintained throughout the period under review (Figure 3.10). As a result, during the first 10 months of 2022, the share of retail trade in the structure of total trade was 38% (instead of 66% in 2009), and the share of wholesale trade reached 58% in 2022 (instead of 30% in 2009). In addition, it should be noted that the described process

100 Ibid.

101 Ibid.

accelerated even more in the last year.

In January–November 2022, the service sector displayed an unprecedented growth, expanding by more than 28%, compared to the same period in the previous year. Since 2009, this is a historical high growth of the sector, which is 10 percentage points higher than the second highest growth indicator (at 18.4% in 2018, Figure 3.11).

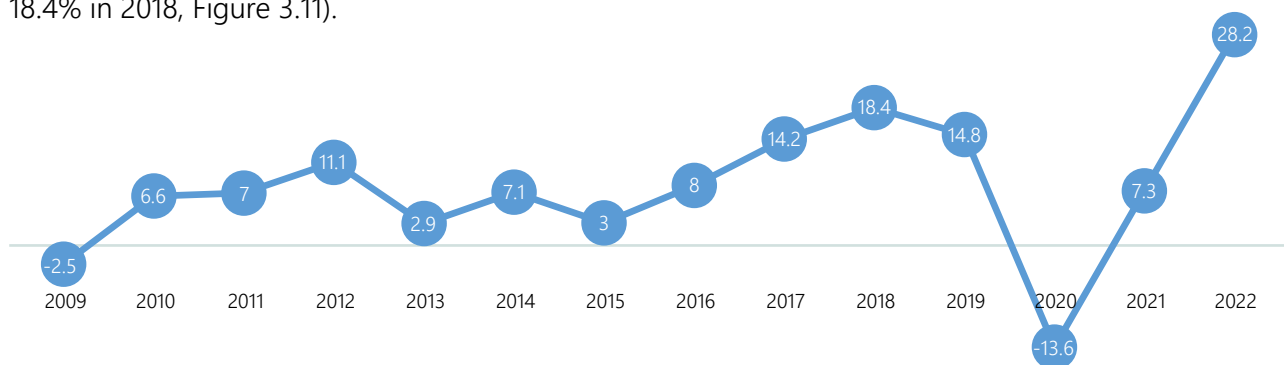


Figure 3.11. The rate of growth in the service sector, January–November, as compared to the same period of the previous year, %¹⁰²

When analyzing the impact of the Russian–Ukrainian conflict on the growth of the service sector, it should be taken into account that at least twice during the years under review, the sector’s decline (in 2009) or growth slowdown (in 2013) transformed into growth within the 6.5–7.1% range in the following year. A similar increase was displayed in 2021, followed by a much deeper decline of 13.6% in 2020. This may mean that the service sector only partially recovered from the severe economic shock caused by the pandemic and the 44-day war in 2021, and this recovery continued in 2022, too. Without refuting this argument, however, it should be borne in mind that the unprecedented expansion of the service sector was primarily due to the growth of those sectors that are directly linked to the reality resulting from Russia’s war in Ukraine.

The financial and insurance sector of the RA has the highest growth in the service domain. In a certain sense, it is one of the main “beneficiary” sectors of external economic shocks manifested as a result of Russia’s war in Ukraine. In January–November 2022, the financial and insurance sector expanded by almost 50%, compared to the same period of the previous year (Figure 3.12).

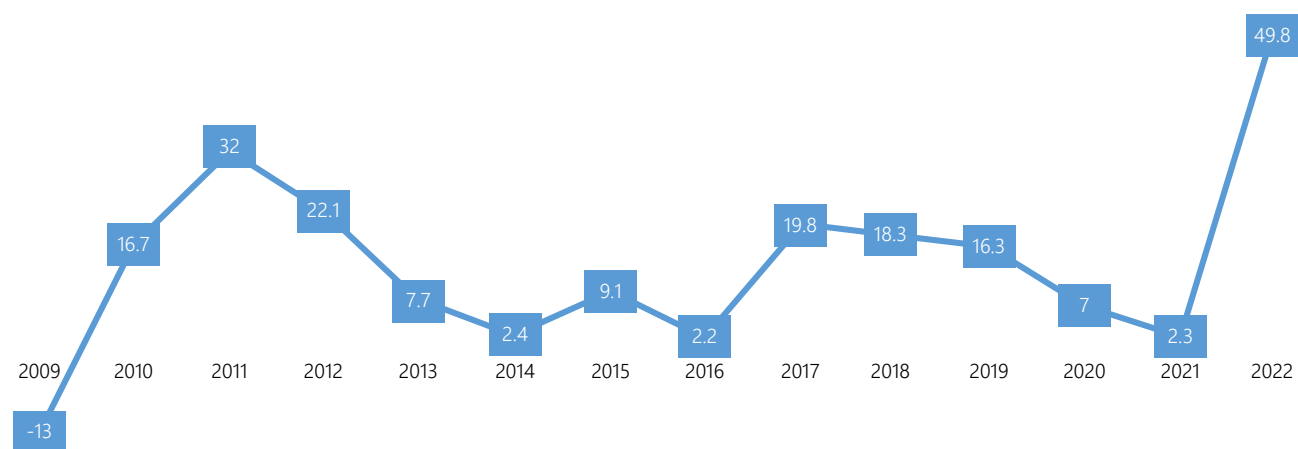


Figure 3.12. The growth rate of the financial and insurance sector in January–November, compared to the same period of the previous year, %¹⁰³

102 Ibid.

103 Ibid.

Trying to address the question on the range of growth in the sector due to the factors, induced by Russia's war in Ukraine, it is necessary to keep a number of issues in mind. First, the second highest growth rate in the sector was 32%, recorded in 2008-2009 - the second year of recovery from the deep recession caused by the financial and economic crisis, that is, the recovery growth component was significant therein. In addition, the trends manifested in the period preceding 2020 were somewhat similar to the development trends in 2011-2014, when the high growth gradually dropped and reached the minimum, transforming into a rapid growth later. In this context, the maximum limit of the sector's potential growth, in our estimation, is in the range of 20-25%, therefore, with a certain approximation, over half of the recorded growth in the first 10 months of 2020 in the financial and insurance sectors can be considered an expert assessment of the impact, induced by the external shocks due to Russia's war in Ukraine.

In the services domain, the financial and insurance sector with its growth rate in January – November 2022 was followed by the information and communication technology and transportation sectors. They are also directly related to the high rates of growth caused by external shocks as a result of realities brought about by Russia's war in Ukraine. Thus, in the months under review, the rate of growth in the mentioned sectors exceeded 37%, which is an unprecedentedly high level for all the years under review. Accordingly, if the development of the transportation sector experienced serious upheavals, during which the declines and the recovery therefrom directly followed each other, the same cannot be said about the information and communication sector. Since 2017, this sector has been experiencing a steady rise within the range of an annual growth of 10-12% (Figure 3.13). In this context, in the structure of the 40% growth recorded in the sector in 2022, about 1/3 contribution can be attributed to internal, normal, potential growth factors, and at least 2/3 contribution is accounted for by external economic shock factors.

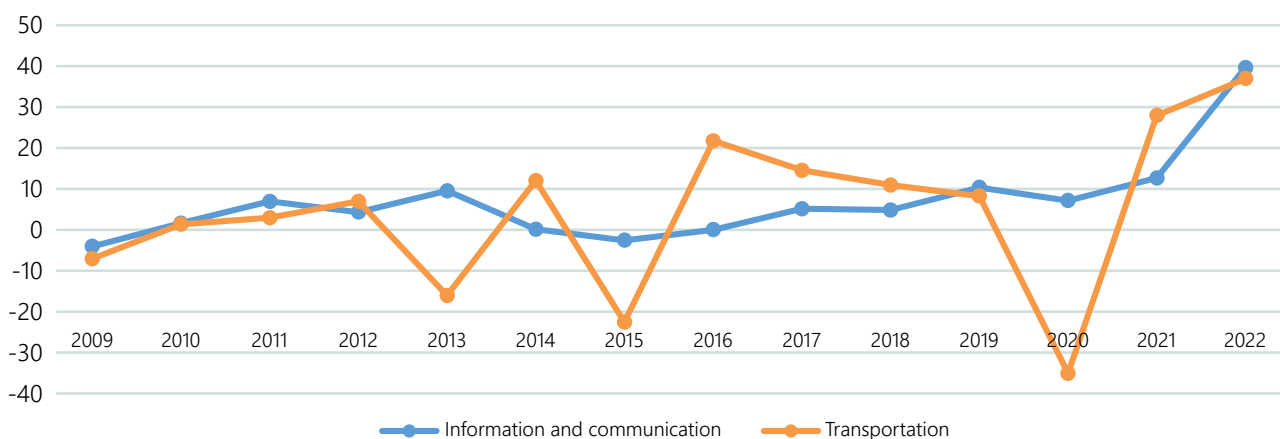


Figure 3.13. The growth rate in Transportation and Information and Communication sectors, in January–November, compared to the same period in the previous year, %¹⁰⁴

In the hospitality and catering sector, the relatively high growth rate recorded in the first 11 months of 2022 was partially due to the shock factors that came forth as a result of Russia's war in Ukraine. The expansion of the sector was greatly contributed by the large influx of visitors from the RF to the RA, the extra supply presented by them in terms of hospitality and catering services. Along with the above-mentioned, it is also necessary to take into account the still preserved effect of the post-pandemic recovery factor, despite the fact that the recovery rate was already 62% in 2021.

As comparison, it is worth stating that in January–February 2022, the shock factors caused by the

Russian-Ukrainian conflict were still absent, and the growth rates of the studied sectors in the service domain were much more modest vis-à-vis the same period of the previous year.

The developments that emerged in the services sector in 2022 have led to significant changes in the structural proportions. First of all, the increase in the share of financial and insurance services is significant with a growth from 25.6% in 2021 to 30.6% in 2022. The share of transportation sector, too, underwent some changes, whereas the information and communication sector, despite the significant increase in the service provision volumes on an annual basis, did not show a considerable change in terms of structural proportions. In general, the share of reviewed four sectors within the total volume of service output exceeded 70% in 2022, while it was 64% in the same period of 2021 (Figure 3.14).

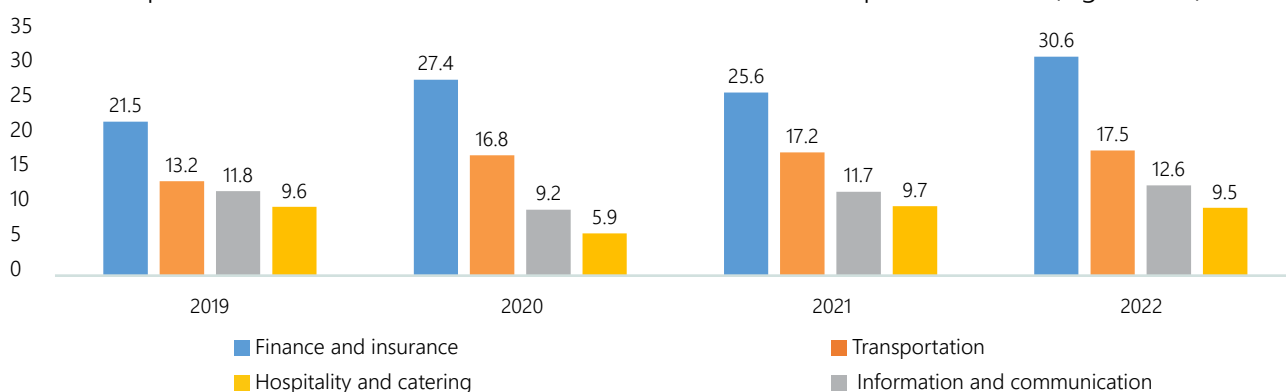


Figure 3.14. The share of various kinds of service outputs within the total service sector output structure, %¹⁰⁵

One of the active processes underway in the real sector of the RA economy and triggered by the factors caused by Russia's war in Ukraine is the noticeable surge in the number of registrations of individual entrepreneurs and legal entities.

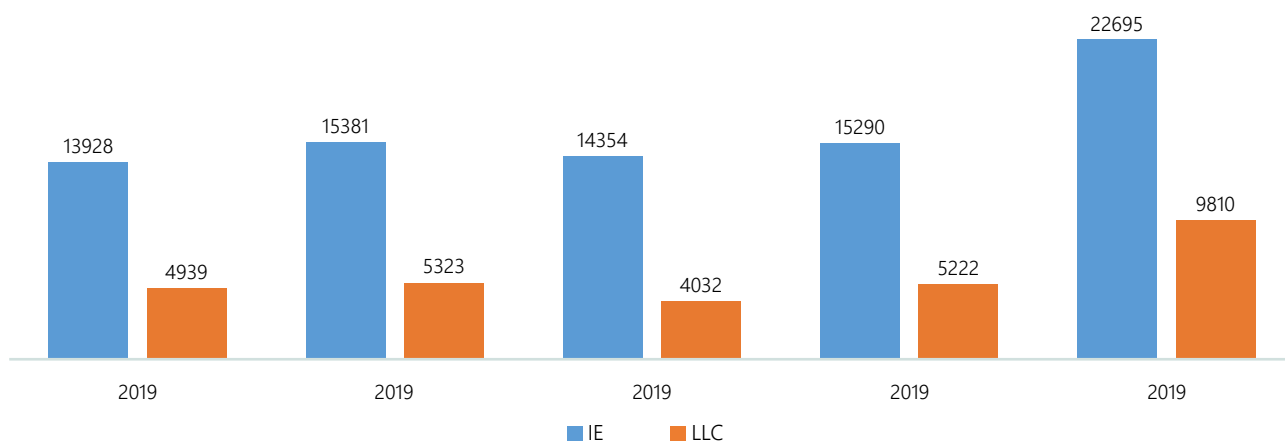


Figure 3.15. The number of individual entrepreneurs (IE) and limited liability companies (LLC) registered in the State Unified Register of Legal Entities in March-November¹⁰⁶

In March-November 2022, 22,700 new IEs and around 10,000 LLCs were registered in the State Unified Register of Legal Entities of the Republic of Armenia (Figure 3.15). The indicated level of registrations is qualitatively different from the trends recorded in the previous years. Thus, in the same months of 2018-2021, an average of 14,000-15,300 IEs were registered annually, and the number of initial registrations of LLCs fluctuated around 4,000-5,300. Hence, using non-complex extrapolation

105 Ibid.

106 Ibid.

approaches, it can be estimated that the impact of shock economic factors emerged due to Russia's war in Ukraine can account for the first wave of 32-38% IE and LLC registrations in the RA in March-November 2022.

In February-November 2022, the number of organizations with 1-9 employees increased by around 5,800. Moreover, compared to previous years, the growth rate of the number of similar organizations is higher by about 1/3. In the same period, the number of organizations with 10-49 employees increased by 600. This increase is generally consistent with the trends of the previous years. In this sense, it can be assumed that the partial impact of shock factors is noticeable in the process of increasing the number of organizations with up to 9 employees, whereas there are no sufficient grounds for such an assumption with regard to the increase in the number of organizations with 10-49 employees (Figure 3.16).

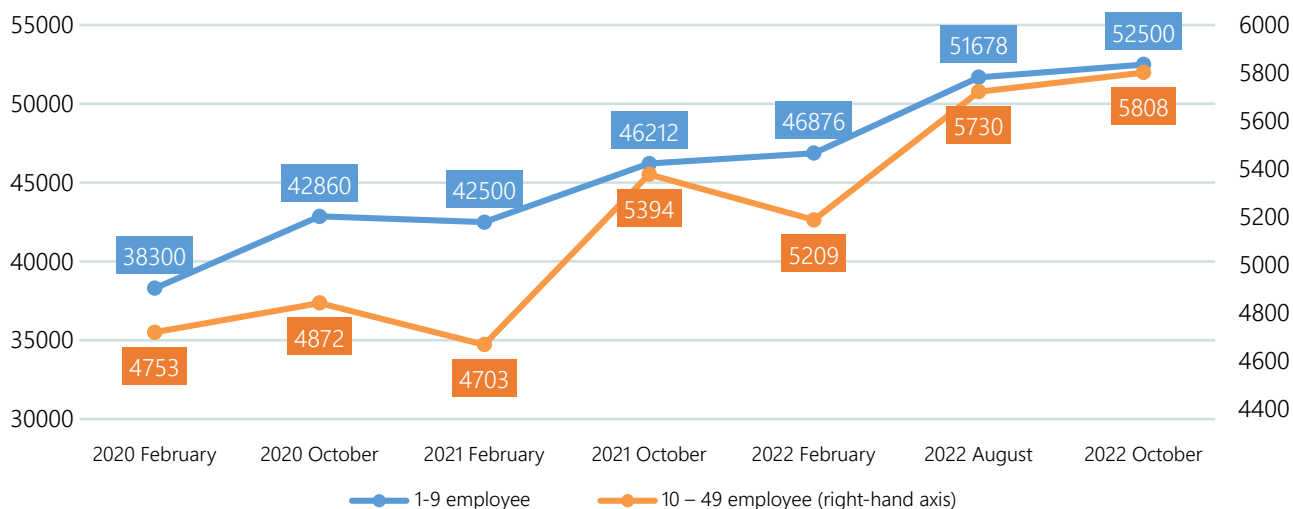


Figure 3.16. The number of organizations in the private sector¹⁰⁷

The total number of organizations with -9 employees, as of November 2022, was 131,000, which is about 12,200 more than the level in February. In fact, about 27% of the total number of the employed are employees in these very organizations, meaning an average of 2.5 employee per organization. Given the estimations regarding the establishment of such organizations, especially small ones in the RA due to the impact of factors, caused by Russia's war in Ukraine, it can be inferred that the estimated minimum number of the employed in organizations, especially small enterprises, founded by foreign visitors to the RA due to the above-mentioned factors amounts to 5,000-7,000.

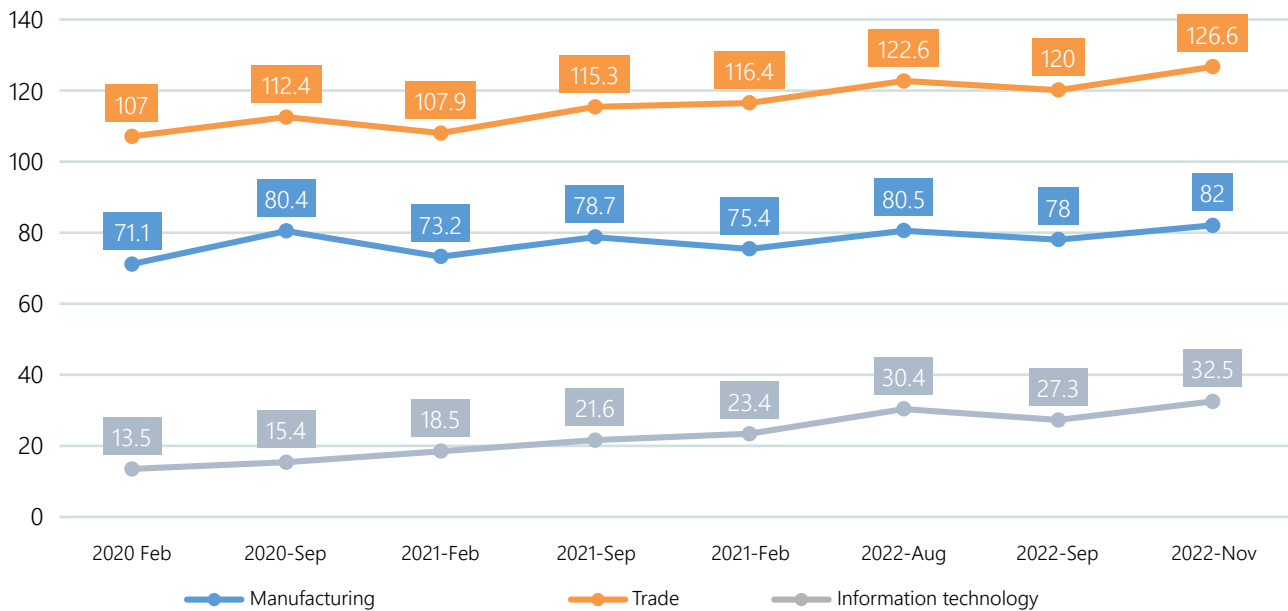


Figure 3.17. The number of employees by sectors, private sector organizations, thousand people¹⁰⁸

By November 2022, active shifts were recorded in the employment level in various sectors of the Armenian economy because of Russia’s war in Ukraine. Thus, in February-November 2022, in the IT sector the number of the employed registered grew by 9,100 or 39%. A growth in the employment numbers was recorded in the sector under review in the same period of the previous year, however, in absolute terms it is 2.5 times less than the growth in 2022 (Figure 3.17).

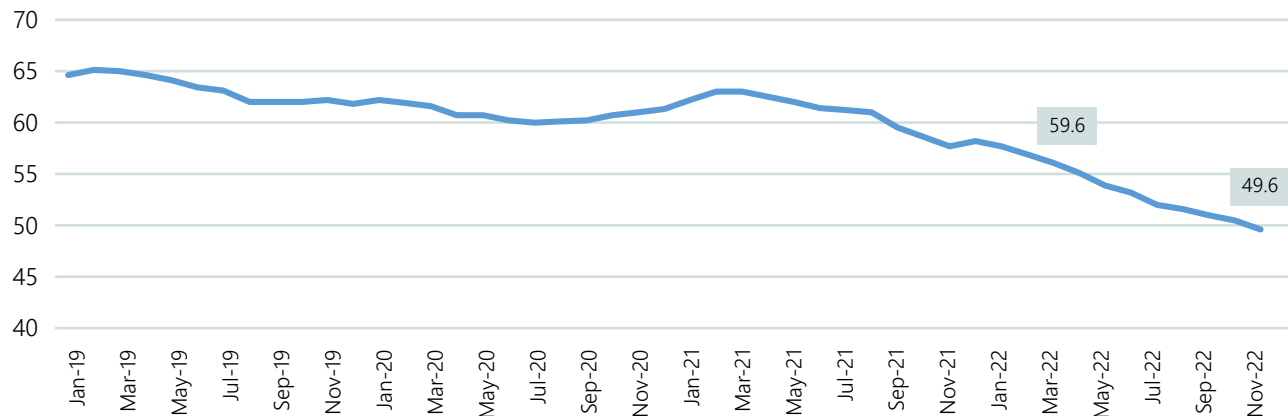


Figure 3.18. Number of the unemployed by months, thousand people¹⁰⁹

Generally, the rate of decrease in the number of the unemployed in the RA in the second and third quarters of 2022 was quite high. As a result, as of November 2022, the number of the unemployed in the republic reached its historic minimum at 49,600 (Figure 3.18). Given the shock-induced growth of the demand due to external realities, namely factors stemming from the situation caused by Russia’s war in Ukraine and especially those promoting the progressive development in individual sectors of the RA service domain, played a significant role in reaching such a low level of unemployment.

108 Ibid.

109 Ibid.

Conclusions

Finance and banking sector

✓ In 2015-2021, the annual average volume of remittances from Russia to Armenia was about 1 bln USD, and the total for March-November 2022 alone exceeded the limit of 3 bln USD.

✓ In 2018-2021, the net inflow of remittances made through the banking system to Armenia from all sources was 1.25 tln AMD in monetary terms, which, according to our estimation, will be below the annual level of net inflow from the Russian Federation to the Republic of Armenia in 2022.

✓ At the end of November 2022, in the context of Russia's war in Ukraine, a considerable increase in the deposits attracted by the RA banking system was recorded, reaching about 1 tln AMD in absolute terms or 22% as compared to the 2022 February level. The absolute growth of the indicator is at least twice higher than the expansion in the previous years.

✓ In March-November 2022, the volume of deposits attracted by banks from non-residents increased by 570 bln AMD in absolute terms, growing from 825 bln AMD to 1.4 tln AMD (growth rate: 70%). This level is the historic peak for the RA banking system.

✓ In contrast to attracting deposits, lending by RA commercial banks did not undergo any significant changes in March-November 2022.

✓ In March-November 2022, the total volume of loans provided to resident households increased by 170 bln AMD or about 10%. At the same time, loans granted to resident enterprises decreased almost to the same extent and after the same logic.

✓ The loans given to residents in AMD in March-November 2022 increased considerably, namely by more than 300 bln AMD or 15%, more than half of which were mortgage loans.

✓ In March-November 2022, the significant increase in the total volume of deposits placed in the banking system happened in the context of insignificant changes in deposit interest rates.

✓ In March-November 2022, the Central Bank's repo interest rate increased by 2.5 percentage points, while there was no increase in the interest rates on deposits attracted by the RA banks. On the contrary, there was a certain decrease in deposit interest rates.

✓ The RA banks, on the one hand, grant loans mainly at the expense of their own resources, on the other hand, taking into account the high level of uncertainty in the global financial and economic system caused by Russia's war in Ukraine, they are trying to apply additional tools for effective credit risk management.

✓ As of November 2022, the cumulative amount of retained earnings of the current period reached an unprecedentedly high level, exceeding 190 bln AMD. In November 2021, the retained earnings of the banking system of the current period amounted only to 45 bln AMD, 65 bln AMD in 2020, and 56 bln AMD in 2019.

✓ The unprecedented level of retained earnings in the banking system, accumulated during the last months was generated mainly due to short-term and non-operational processes; nevertheless, in the conditions of low levels of financial leverage, it has created additional opportunities for the

expanded use of internal funds and more effective management of banking risks.

✓ At the end of the third quarter of 2022, the number of payment cards in circulation issued by the RA banks exceeded 3 mln, which, compared to the indicator of the same period of 2021, is higher by 16%, whereas the number of cards in the same quarter of 2020-2021 increased only by 5%.

✓ The number of transactions made in the territory of the Republic of Armenia with cards in circulation issued by the banks of the Republic of Armenia was 42 mln in the third quarter of 2022, or compared to the same quarter of the previous year, the number of transactions increased by about 40%. Similar growth rates were also recorded in the first two quarters of 2022 (36% and 42%, respectively).

✓ The total volume of transactions in the RA territory in the third quarter of 2022 exceeded 1 tln AMD, which is 31% higher than the level of the same quarter of the previous year. The largest growth in the volume of transactions is with VISA cards: 38%, 34% and 29% in the third, second and first quarters, respectively. In the third quarter, the increase in the volume of transactions with ARCA cards exceeded 30%.

✓ The volume of transactions made abroad with payment cards issued by RA banks in the third quarter of 2022 amounted to 133 bln AMD that exceeded the level of the third quarter of 2021 by 2.2 times. In the second quarter of 2022, the increase in the volume of transactions was even greater – 2.7 times.

✓ 2.3 mln transactions with a volume of around 45 bln AMD were made with MIR cards issued abroad in the territory of the RA in the third quarter of 2022. Compared to the same quarter of the previous year, the number of transactions increased tenfold, and the volume increased 16 times. The growth observed in the second quarter of 2022 was impressive, too, tenfold and 13-fold, respectively.

External sector

✓ As a result of Russia's war in Ukraine, the devaluation of the Russian ruble at the end of February and March had a negative impact on exports because of Russia's position as Armenia's main export partner market and thereby the uncertainty experienced by RA exporters.

✓ As an EEU member state since January 2, 2015, Armenia has faced new challenges in foreign trade management in the context of the Russian-Ukrainian conflict. Due to bans (sanctions) on the import of various goods to the Russian market, an opportunity has been created for supplying a number of products to the Russian market, since other EEU member countries are viewed as a transit country, taking into account the free circulation of goods in the EEU territory.

✓ In the context of the significant increase in global fuel prices, the unchanged price of Russian gas for Armenia implies that locally produced products are more competitive due to their prices, taking into account the share of gas in the cost of produced units, which, in turn, contributes to the increase in the volume of products exported from Armenia.

✓ As a result of Russia's war in Ukraine, as a counterbalance to the increase in the share of Russia in the structure of RA exports, the weight of EU countries has significantly decreased in October, especially in the last months of 2022, reaching 16.2%. The shares of China and Switzerland, with a significant weight in the RA export structure, showed a decrease, too. It is noteworthy that as a result of Russia's war in Ukraine, opportunities for RA exports have come afore not only in Russia, but in various other markets, too. For example, in the period under review, as compared to the previous year, the export volumes to the United Arab Emirates increased 6.7 times, as a result of which the weight of the latter in the RA export structure went up from 1.3% in January to 10.1% in January-October (with an increase of 8.8 percentage points), surpassing China and Switzerland. During the same period, the volumes of exports to other countries, for example, to Belarus and Georgia, increased significantly, 2.8 and 2.4 times, respectively.

✓ Due to the termination of cooperation of various suppliers with the Russian market, there appeared many available niches in the Russian market, hence the export volumes to the Russian Federation increased significantly by 2.5 times in January-October, compared to the same period of the previous year, as a result of which the share of the Russian Federation in the export structure increased, reaching 41.4%. On the other hand, the share of other countries in the structure of imports has somewhat increased, leading to a higher level of diversification of import markets, perhaps due to the appreciation of the foreign currency – USD and EUR – against AMD.

Real sector

✓ In March-November 2022, the indicator of economic activity went up to unprecedentedly high levels. In no month in 2012-2016 and 2017-2021 did the average magnitude of economic activity growth exceed 6% compared to the same month of the previous year. Accordingly, in judgments about the normal or potential growth of economic activity, the range of 6 percent of YoY monthly indicators can be considered as a starting point or an approximate estimate.

✓ The estimated values obtained on the basis of the logarithmic modeling of the trends observed in the period before 2020, which, in particular, refer to the period of January-November 2022, the forecast value of economic activity indicator growth is believed to be within the range of 6.0-6.5%, and the most probable value is 6.24%. And if we include the 2010-2021 developments here, too, in the trend modeling process, the forecast estimate for 2022, based on various trend models, would vary in the range of 2.8-3.3%. This means that in the period under review in 2022 the economic activity indicator growth rate is multiply higher than the level of developments in line with the trends manifested in the previous period.

✓ In January- November 2022, the expansion of the food industry by 10% did not fit into the long-term development trends of the economy and was essentially the result of additional impulses given to the sector due to the impact of shock factors.

✓ In January-November 2022, the growth in trade turnover compared to the same period last year was 16.2%. This growth rate has been the highest ever since 2009. In 2017, a level close to this one was observed at 14.4%, which, in the context of zero growth in 2016 and a 7% decline in 2015, could be fully accounted for by the mere recovery process. Before that, in 2010-2014 the turnover growth rate in the trade sector was much more modest, yet stable, ranging from 4 to 5%.

✓ The unprecedented activity in the RA trade sector is rather the result of processes triggered by the expansion of foreign demand due to a shock event.

✓ The financial and insurance sector is the sector within the services domain that showed the highest growth. In January-November 2022, the financial and insurance sector expanded by almost 50% compared to the same period of the previous year. According to our estimation, the maximum limit of the sector's potential growth falls in the range of 20-25%, therefore, with some approximation, more than half of the growth in the financial and insurance sector in the 11 months of 2022 could be considered as an expert assessment of the results, caused by external shocks in the context of Russia's war in Ukraine.

✓ Within about 40% growth in the information and communication sector in 2022, internal, normal, potential growth factors accounted for about 1/3 contribution, and at least 2/3 contribution is due to external economic shock factors.

✓ In March-November 2022, 22,700 new individual entrepreneurs and around 10,000 LLCs were registered in the State Unified Register of Legal Entities of the Republic of Armenia. The indicated level of registrations is qualitatively different from the trends manifested in the previous years. In our opinion, the impact of shock economic factors caused by Russia's war in Ukraine can account for the first wave of 32-38% IE and LLC registrations in the RA in March-November 2022.

✓ In February-November 2022, the number of organizations with 1-9 employees in the private sector increased by about 5,800. Compared to the previous years, the growth rate in the

number of similar organizations is higher by about 1/3. The positive impact of shock factors is especially noticeable in the growth in the number of small organizations.

✓ The total number of employees in organizations with 1-9 employees as of November 2022 amounted to 131,000, exceeding the level of February 2022 by 12,200. Taking into account the estimated number of small organizations, founded in the RA under the influence of factors that emerged because of Russia's war in Ukraine, it can be inferred that in the period under review, the estimated minimum number of the employed in small organizations founded because of the above-mentioned factors, and especially by foreign visitors to the RA ranged from 5 to 7 thousand.

✓ As a result of Russia's war in Ukraine in February-November 2022, the number of the employed in the information technology sector in Armenia increased by 9,100 or 39%. In the same period of the previous year, there was an increase in employment levels in the studied sector, too, but in absolute terms, it was about 2.5 times less than the increase in 2022.

✓ As of November 2022, the number of the unemployed in the Republic reached its historic low of 49.6 thousand. The realities, brought about by Russia's war in Ukraine, and especially the factors, triggering the progressive development of various sectors within the RA services domain, play a major role in reaching such a low level of unemployment.

- Due to the large-scale sanctions imposed on the RF as a result of the war in Ukraine, the high level of geopolitical uncertainty persists in the region and creates significant risks from the point of view of the potential growth of the RF, overcoming the energy crisis in the Euro zone and setting prospects of economic growth. These factors continue to create risks and challenges for the stabilization of the global economy, ensuring and restoring the normal functioning of international markets for raw materials, food and finance, as well as value chains.¹¹⁰
- The WB's estimate of economic growth in Armenia for 2022 is 10.8%. Although it is somewhat lower than the estimates of the RA government, on the other hand, it is 7.3 percentage points higher than the forecast level of June 2022. It is interesting that Armenia is among the few countries in the Europe and Central Asia whose economic growth forecast for 2022 was revised upward with a growth of 7 percentage points.
- The higher estimate for the economic growth of Armenia in 2022 is due mainly to the effect of more favorable factors for our economy, caused by Russia's war in Ukraine, namely the large number of visits, business relocations, and remittances, the emergence of free market niches in the Russian economy and their saturation with products of Armenian origin or re-exported from our economy.
- It is essential to review the estimates of the decline of the Russian economy. Contrary to the previous forecasts, in the second half of 2022, the Russian government managed to maintain the financial and economic stability of the country, ensure a sufficient level of budget revenues due to high energy prices, and also, to some extent, counterbalance the possible short-term negative effects of Western sanctions by using large-scale support packages for entrepreneurs and households.
- The forecasts for the Russian economy in 2023 and 2024 have been revised, readjusting them towards a deeper GDP decline, by 1.3% and 0.6%, respectively. This circumstance had a decisive role in reducing the growth forecast levels of the RA economy for 2023 and 2024. Accordingly, the WB projected a 4.1% growth for Armenia's economy in 2023, which is 0.5 percentage points lower than the June forecast. The forecast for 2024 is 4.8%, which is also slightly lower than the level projected in June. This means that, according to the WB's estimates, the mid-term consequences of Russia's war in Ukraine on the further development of the RA economy contain risks of a significant downward effect.

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