



IMPACT OF EXTERNAL SHOCKS TO THE ECONOMY OF ARMENIA

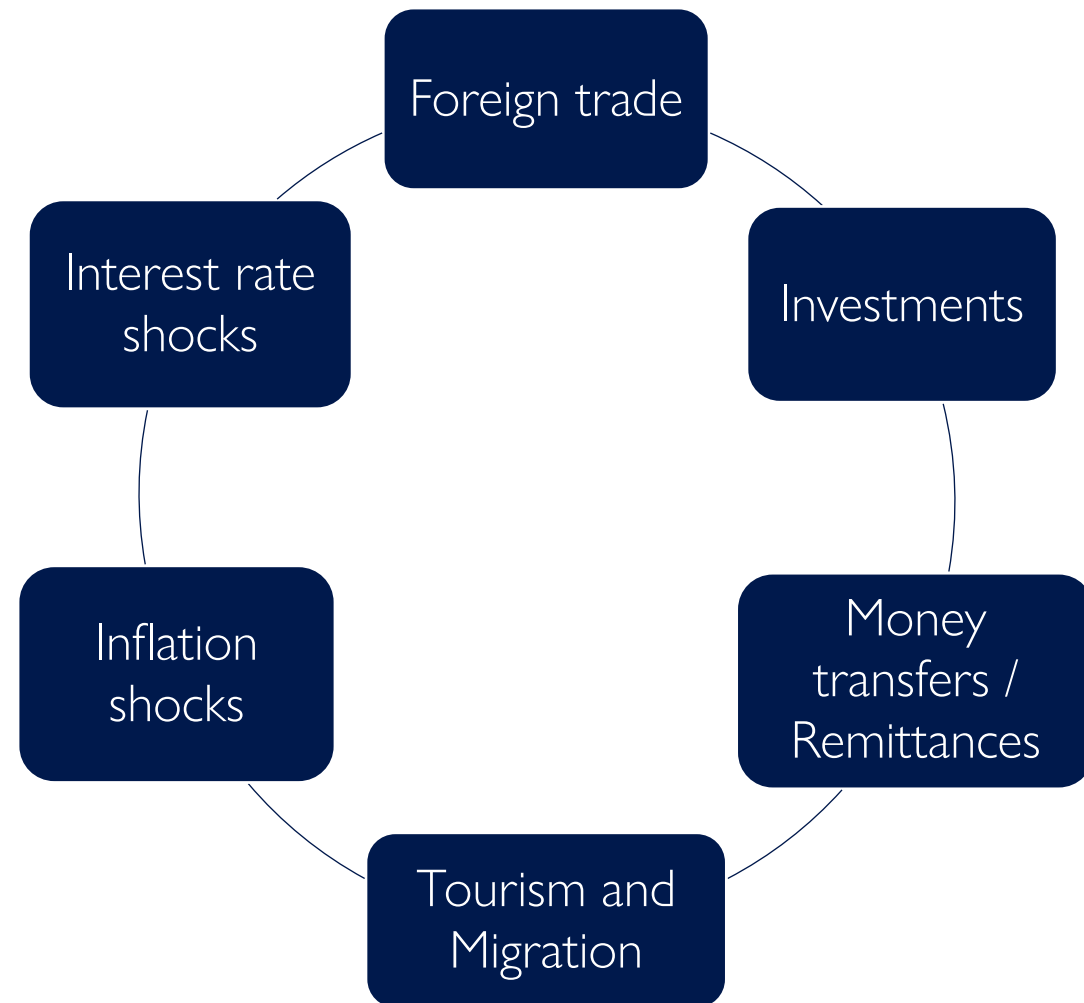
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Main impact channels of external shocks

Main external shocks impacting the economy of Armenia:

- Conflict in Ukraine
- Sanctions imposed on Russia
- Global prices increase
- Monetary policy tightening in advanced economies

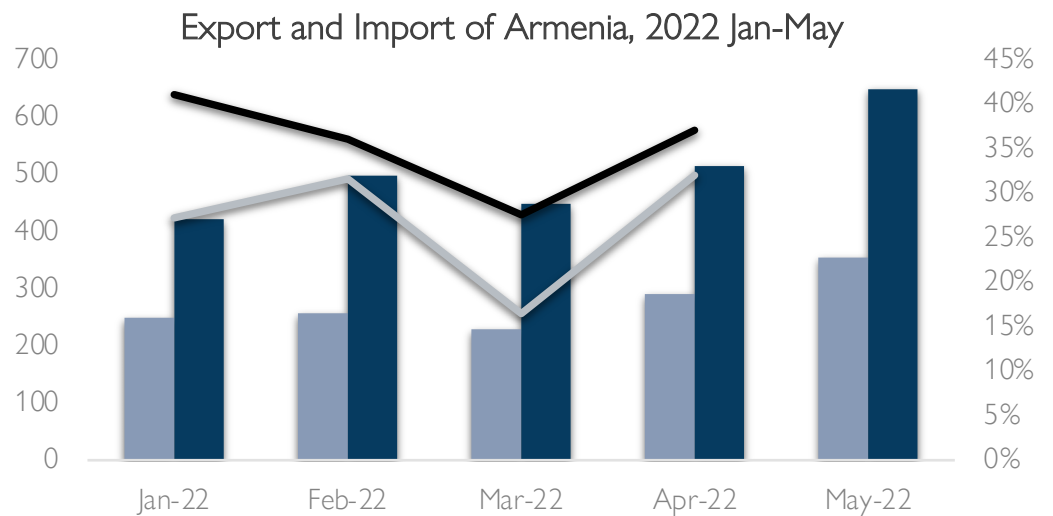


Foreign Trade

- In 2021 Russia accounted for 31.4% of Armenia's foreign trade turnover.
- Main exporting goods to Russia are:
 - ✓ Alcoholic beverages, agriculture and food – 61%
 - ✓ Apparel and footwear – 12%
 - ✓ Stones and precious metals – 11%
- Main importing products from Russia are mineral fuels (38.2%).

Impact on the Armenian economy:

- Russian population income decreases → Negative impact on export
- Ruble devaluation → Negative impact on export; Positive on import
- Sanctions on Export from EU/US to Russia → Positive impact on export and re-export
- Logistics issues → Negative impact on both export and import



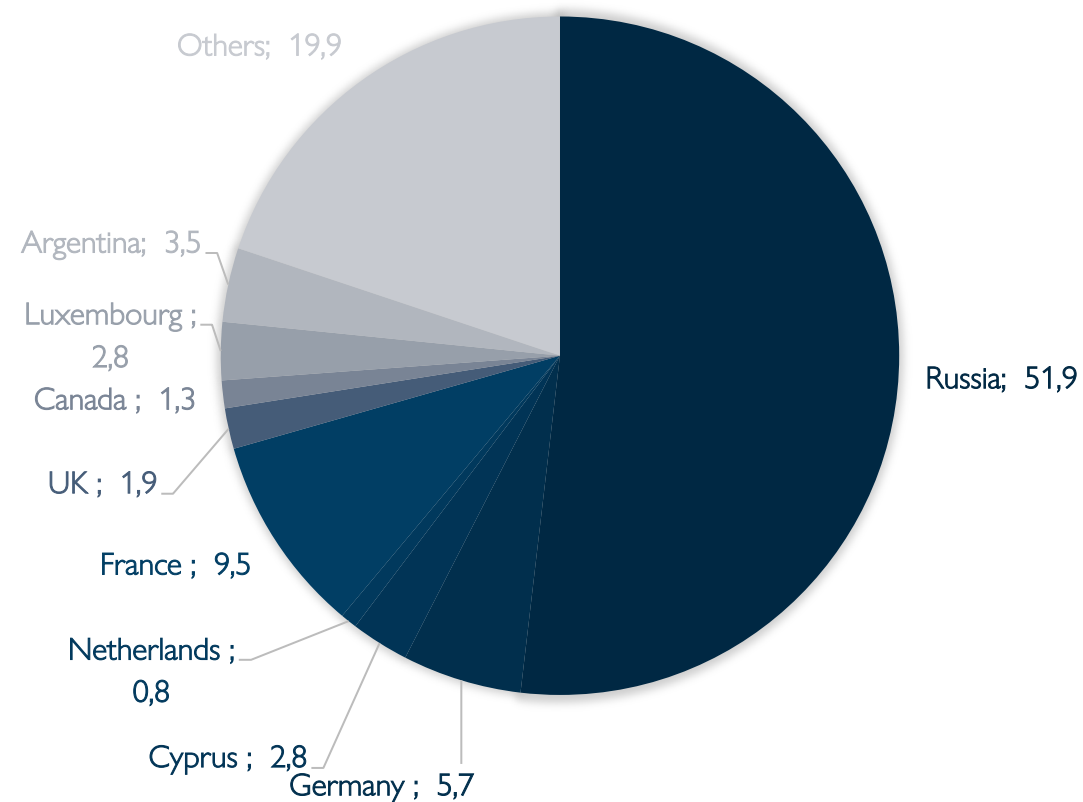
Investments

- In 2021 Russia accounts for 52% of Armenia's foreign direct investments' (FDI) inflows.
- Mainly investments flew into the following sectors:
 - ✓ Energy
 - ✓ Transportation
 - ✓ Construction.

Impact on the Armenian economy:

- Sanctions on Russian capital → Positive impact
- Russian population income decreases → Negative impact
- Limited resources of Russian state-owned companies → Negative impact

FDI inflow into Armenia, 2021



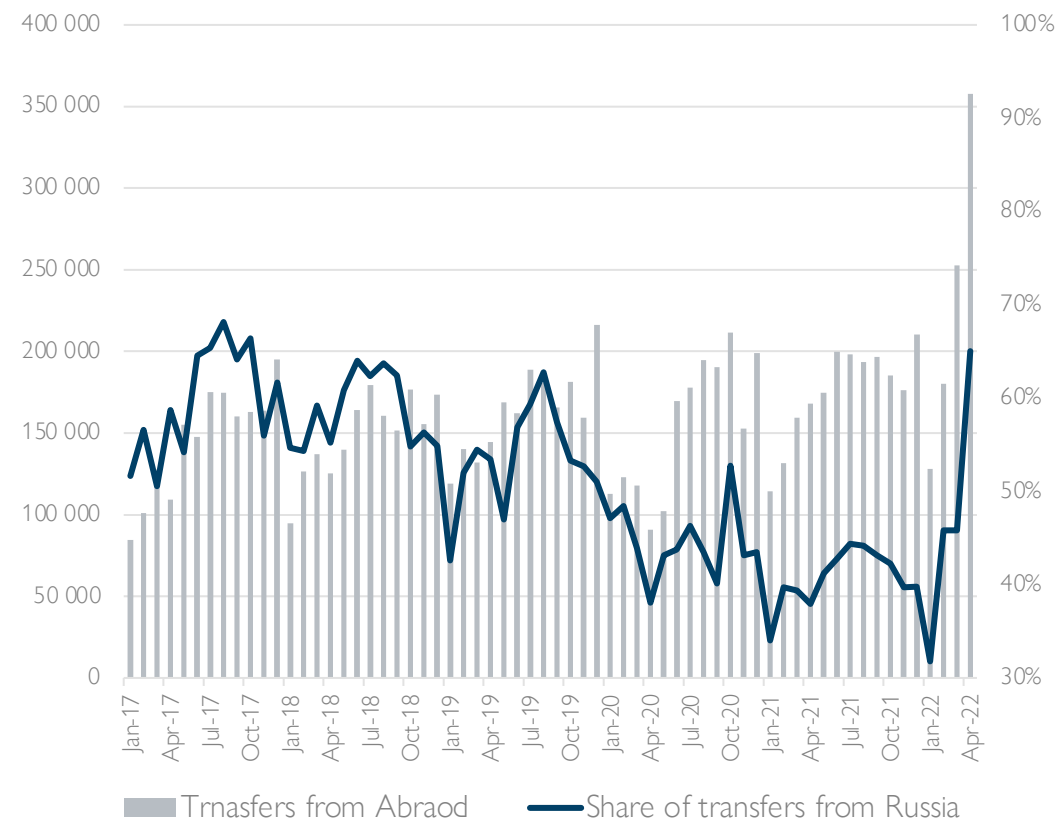
Money Transfers / Remittances

- Money transfers from Russia account for around 50% for the last few years.
- Only for 4 months of 2022 money transfers to Armenia have increased by 60% compared to the same period of 2021 (for net transfers increase was 95%).
- Share of transfers from Russia reached 65% of total transfers.

Impact on the Armenian economy:

- Inflow of money → Positive impact on domestic consumption
- Increased spending of immigrants from Russia → Negative impact on inflation
- Inflow of foreign currency → Negative impact on the exchange rate
- Russian population income decreases → Negative impact on money transfers for the local population

Money transfers to Armenia, 2017-22



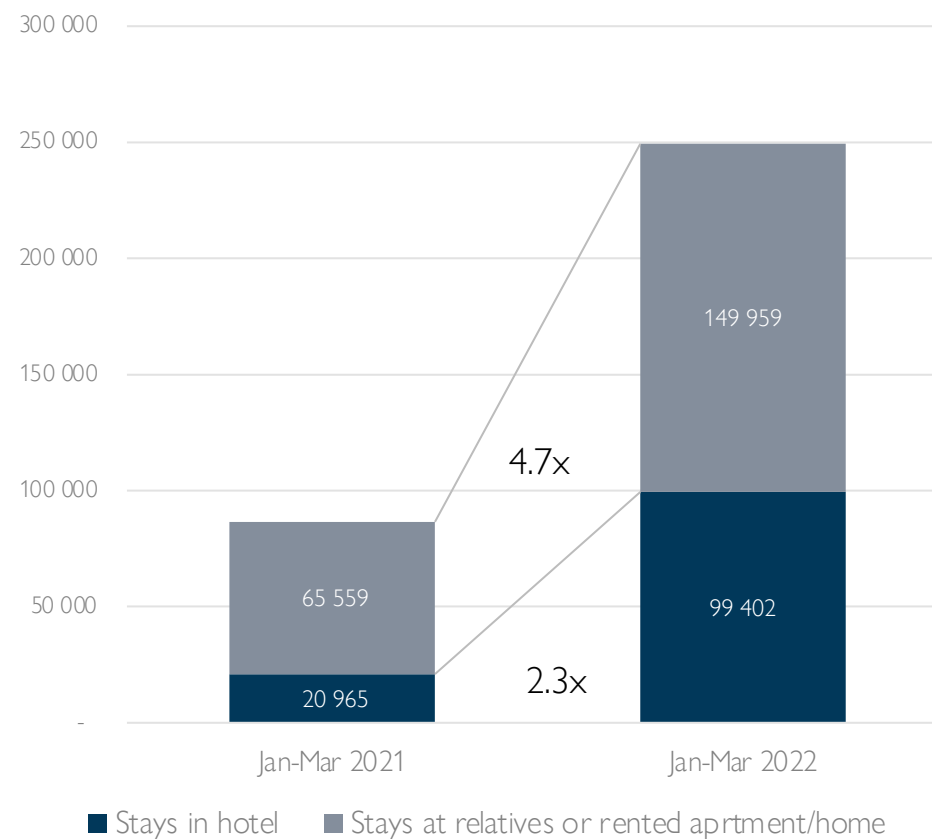
Tourism and Migration

- Tourists' inflow to Armenia increased by 3 times in Jan-Mar of 2022 compared to the same period of 2021.
- The number of tourists from Russia increased by 7 times for the same period.
- Tourists from Russia counts 56% of all tourists in Jan-Mar of 2022 (38% in 2021).

Impact on the Armenian economy:

- Significant influx of high-skilled Russians into Armenia because of military mobilizations risk → Positive impact on the labor market and domestic consumption.
- Russian population income decreases → Positive impact by substituting European tourism destinations with Armenia
- Russian economy reduction → Negative impact on employment of Armenian working immigrants in Russia

Tourist inflow in Armenia, 2022 Jan-Mar

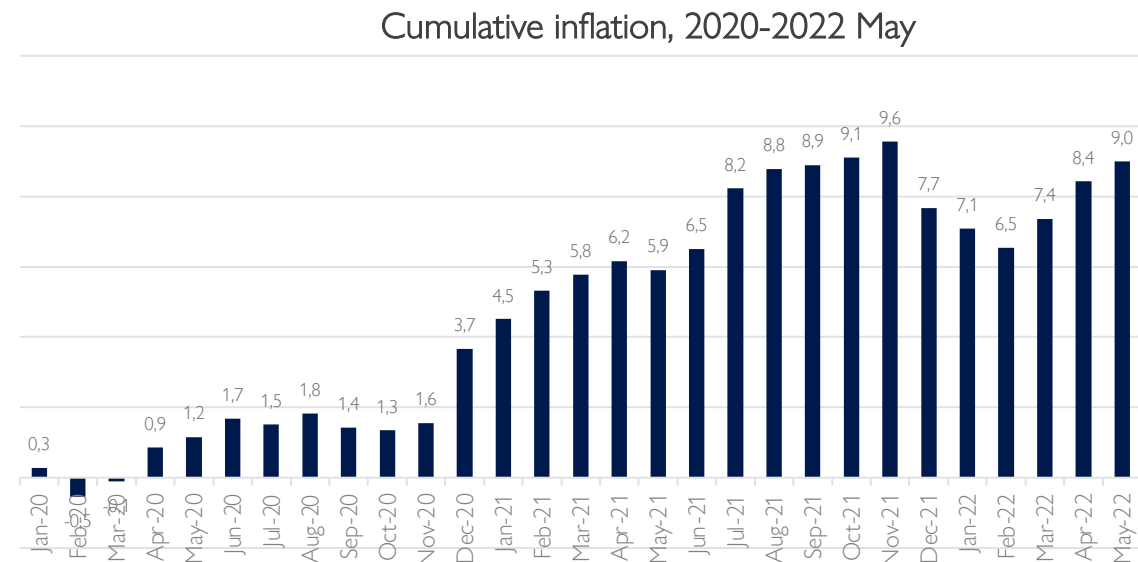
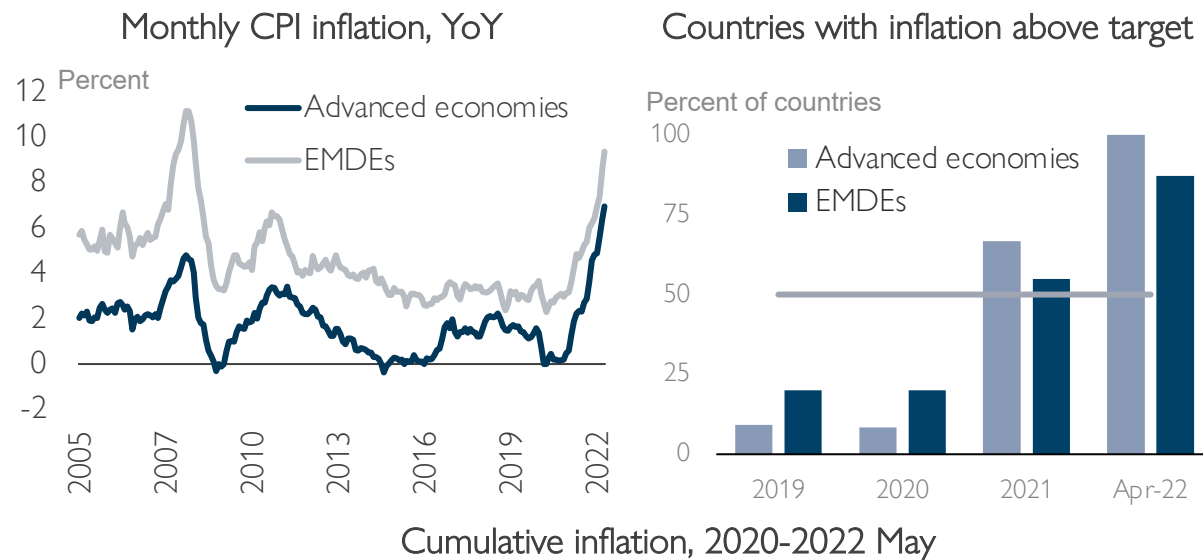


Inflation Shocks

- Global median headline CPI inflation rose to 7.8% (yoy) in April 2022.
- Aggregate EMDE inflation reached over 9.4%, while inflation in advanced economies, at 6.9 percent, is the highest since 1982.
- In two-fifths of EMDEs and most low-income countries, consumer food price inflation is expected to remain in double-digits this year.

Impact on the Armenian economy

- Inflation in Armenia reached 9.0% (yoy) as of May 2022.
- High inflation is driven by food prices hike (36% of CPI basket)
- Increased inflation hits the most vulnerable population of Armenia, pushing the poverty increase.



by Edgar Karapetyan

EMDC = emerging market and developing economies

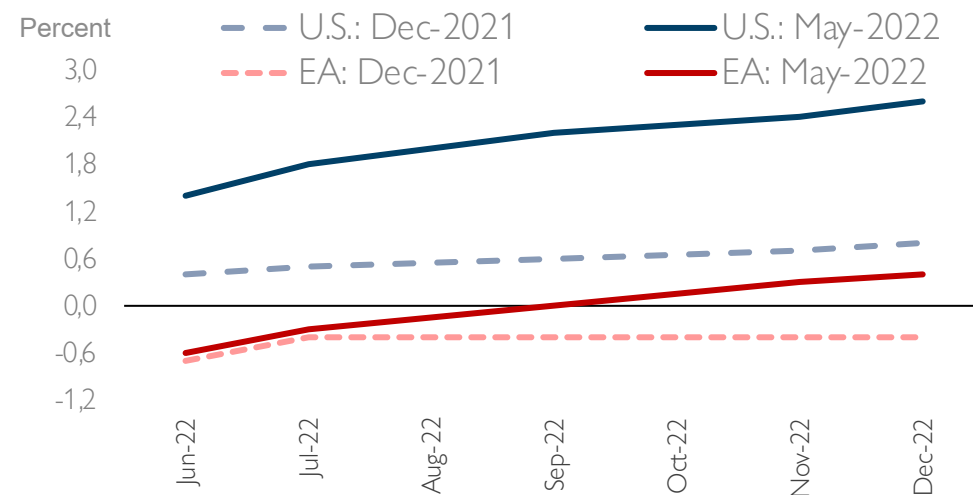
Interest rate shocks

- Rising inflation has led to expectations of faster monetary policy tightening across the world.
- Advanced-economy bond yields have risen markedly, and measures of equity volatility have seen a sustained increase, weighing on valuations of risky assets.
- Overall, EMDE financial conditions have reached their tightest level since the start of the pandemic, as investor risk appetite has been sapped.

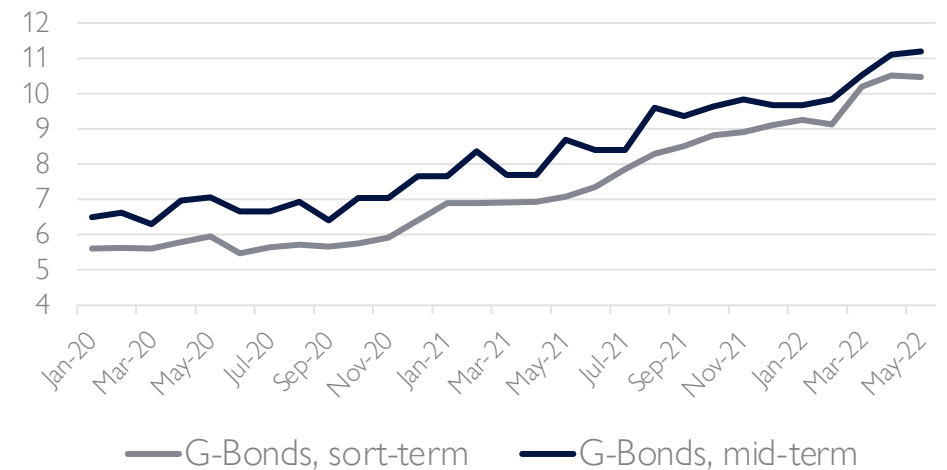
Impact on the Armenian economy:

- Public debt financing rates are higher and will continue increasing.
- Foreign financial resources for Armenian banks and enterprises became more expensive.
- Investments in the Armenian economy may become less attractive.

Market-based expectations of monetary policy rates



Government Bonds yield curve

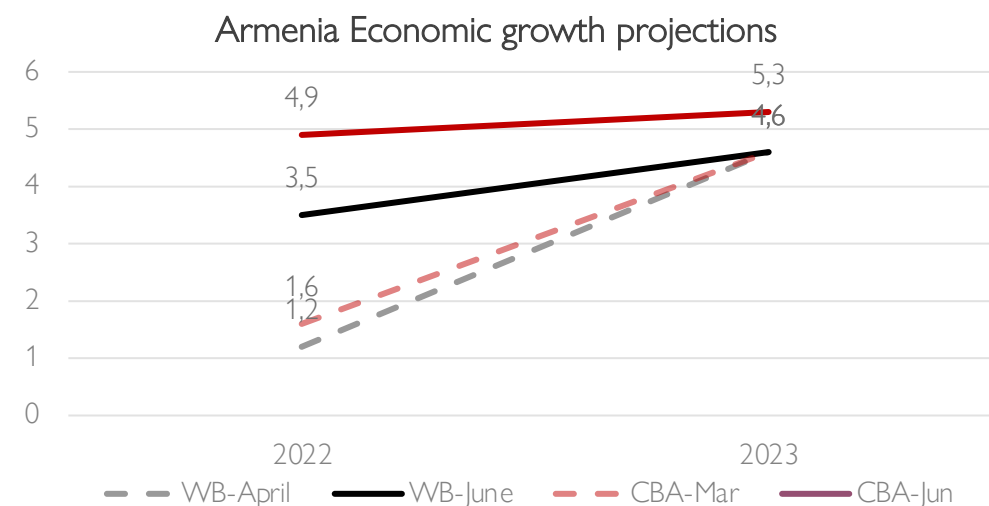
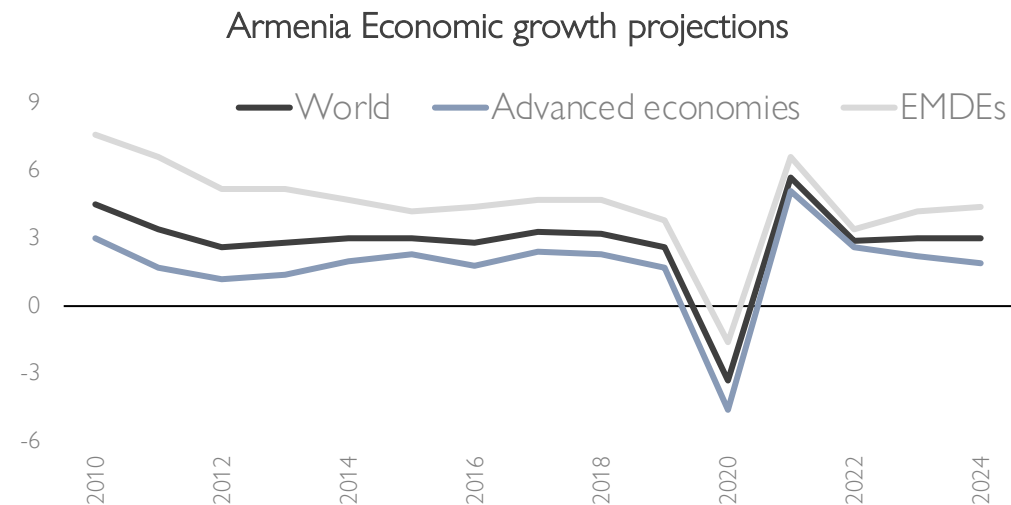


Economic growth projection

- These developments raise concerns about stagflation – a period of both weak growth and elevated inflation similar to what happened during the 1970s.
- After its pandemic-related collapse in 2020, global growth rebounded to 5.7% in 2021, supported by unprecedented fiscal and monetary policy accommodation.
- It is now expected to slow to 2.9% in 2022 and 3.0% in 2023.

Armenian economy:

- Recently Central Bank of Armenia has revised upwards the GDP growth forecast for the current year from 1.6% to 4.9%.
- The World Bank forecast is 3.5% instead of 1.2% for a previous projection.
- For Jan-May 2022 the economic activity index of Armenia reached 110.2%.
- For the same period Services sector growth was 25%, Export 27.5% and Import 42.2%.





**THANKS
FOR
ATTENTION!**