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# INFORMATION TECHNOLOGY SECTOR IN ARMENIA

# 2023

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# Main Facts 2023



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# Introduction

As a result of the relocation of many companies and IT specialists from Russia to Armenia in 2022 due to the Russian-Ukrainian war, the panorama of the information technology (IT) sector in Armenia has changed. To gain a comprehensive understanding of the current state of the Armenian IT sector, the **Modex** advisory company conducted a study of the Armenian IT sector.

The study was conducted based on data received from the State Revenue Committee (SRC) of Armenia.

The study consists of six sections, an introduction, a summary and a methodology.

**The entrepreneurship in the IT sector** section presents the dynamics of IT enterprises in 2022-2023, the structure by sub-sectors, and the distribution by number of employees.

**The tax contributions of the IT sector** section presents the taxes paid by the economic entities, their distribution by sub-sectors and the list of the top 20 taxpayers in 2022 and 2023.

**The employment in the IT Sector** covers the dynamics of the number of employees by month in 2022-2023, the share of foreign citizens, including the changes in the number of Russian citizens employed in the sector, the distribution of employees by type of activity, and the list of the major employers in the IT sector.

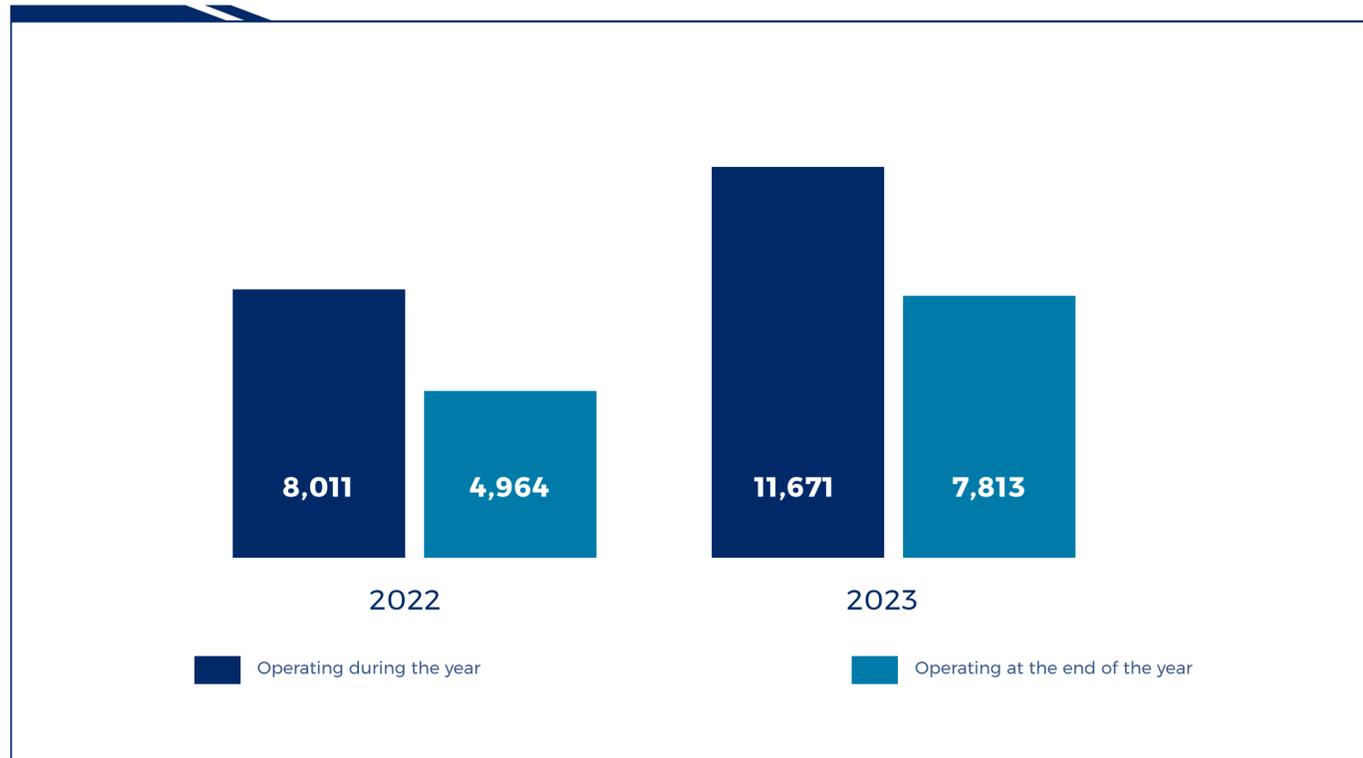
**Turnover in the IT sector section** summarizes the turnover by sub-sectors in 2022-2023, the distribution by the tax regimes of operating entities, the export of IT sector in 2023, the largest 10 companies by turnover.

**The value added in the IT sector** section presents the assessment of the value added created by the IT sector in 2022-2023, as well as its share in the GDP.

**The productivity in the IT sector** section presents the output and value added per employee in Armenia in 2022-2023.

# Entrepreneurship in the IT Sector 2023

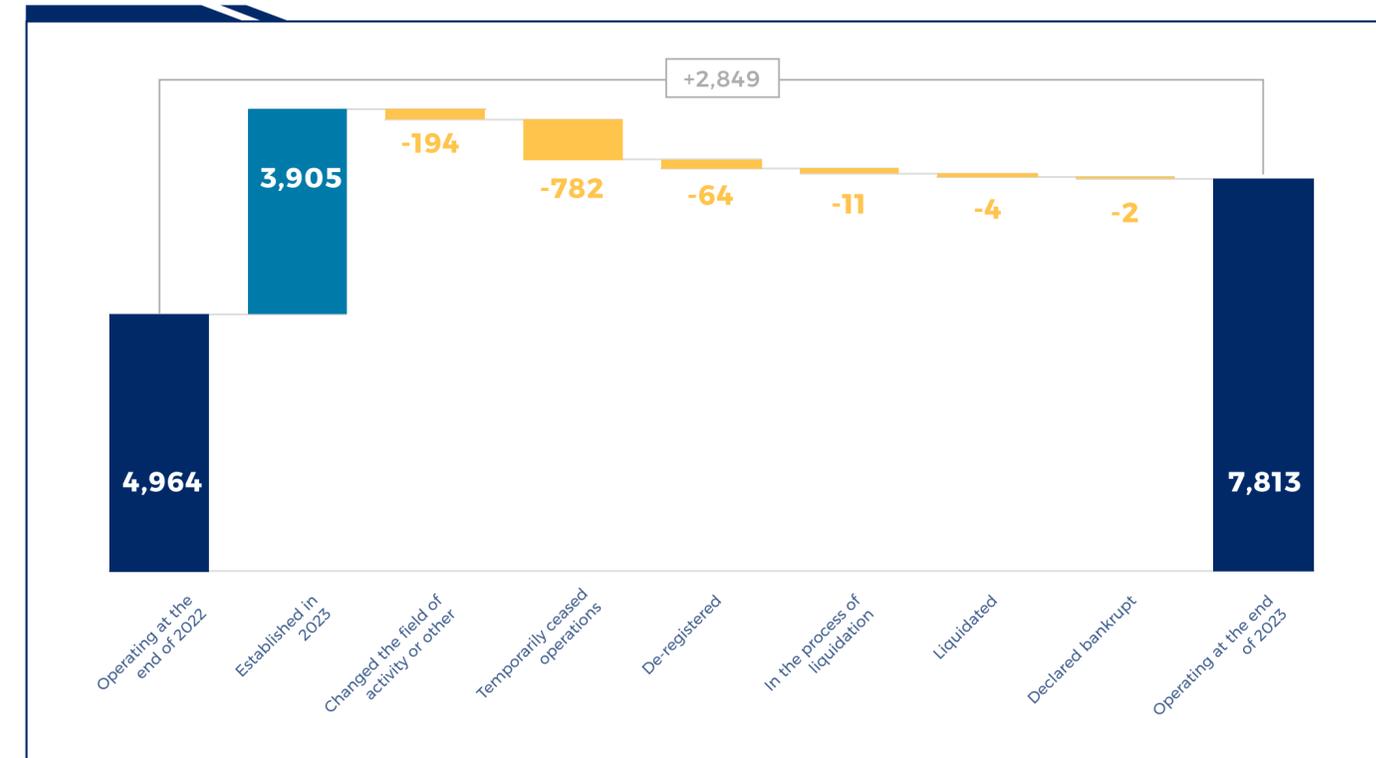
## The Number of Economic Entities in the IT Sector 2022-2023



In 2022, **8,011** economic entities operated in the IT sector, of which only **4,964** continued their activities as of the end of the year.

During 2023, **3,905** entities started their activities in the IT sector, 782 temporarily ceased their activities, 15 were liquidated or are in the process of liquidation, 64 were de-registered and 2 were declared bankrupt.

## Business Demographics of the IT Sector, 2023



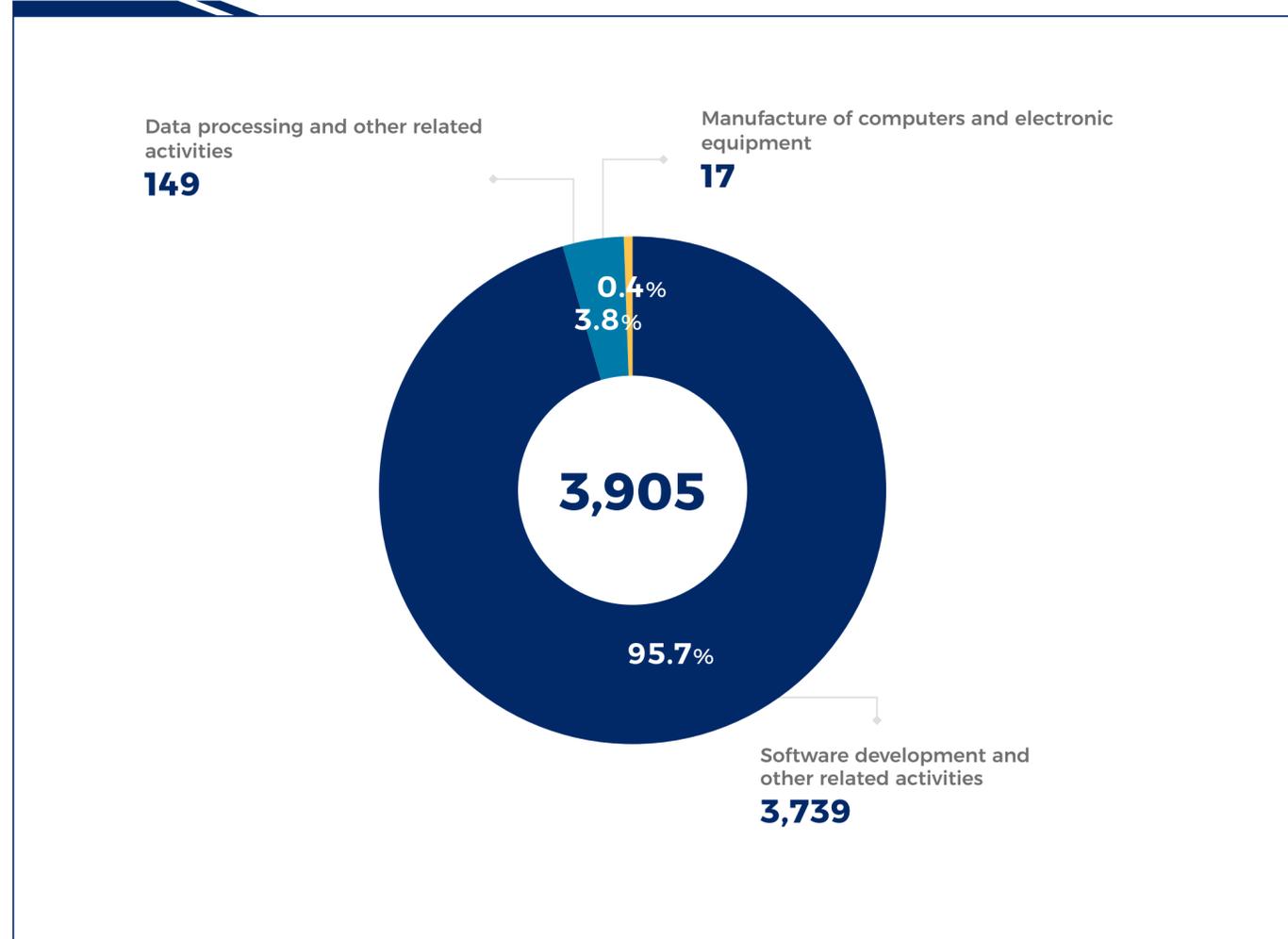
Overall, at the end of 2023, 7,813 enterprises worked in the IT sector, which is **about 1.6 times** more than at the end of 2022.

Note: Presented are the economic entities where activities categorized under the following classification codes—J58.2, J62, J63.1, and C26—had the largest shares in the total turnover of the enterprises.

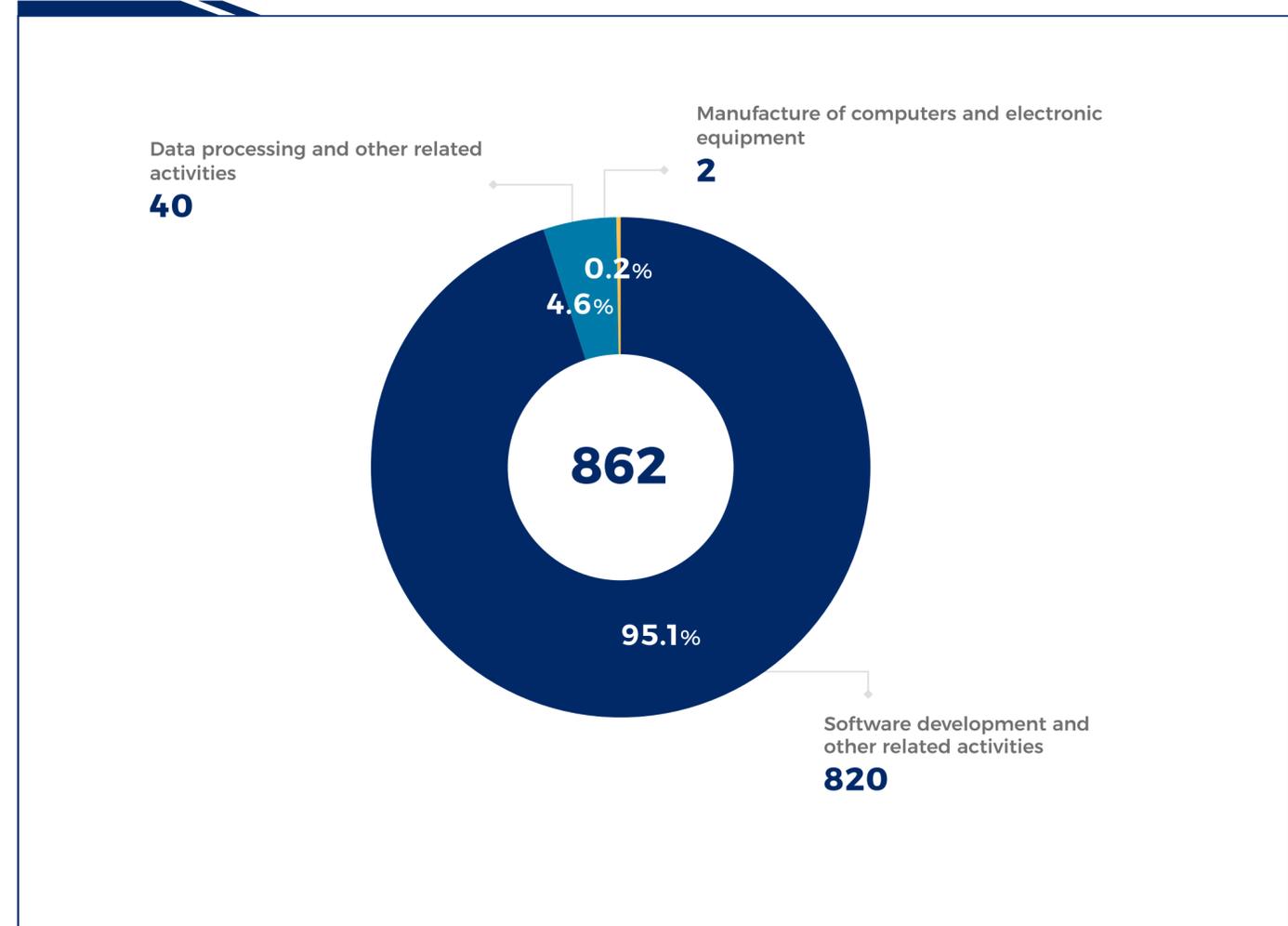
Source: SRC

# Companies That Were Established and Ceased Their Activities in IT 2023

## Enterprises Established in the IT Sector in 2023, by Sub-sectors



## IT Enterprises that Ceased Their Activities in 2023, by Sub-sectors

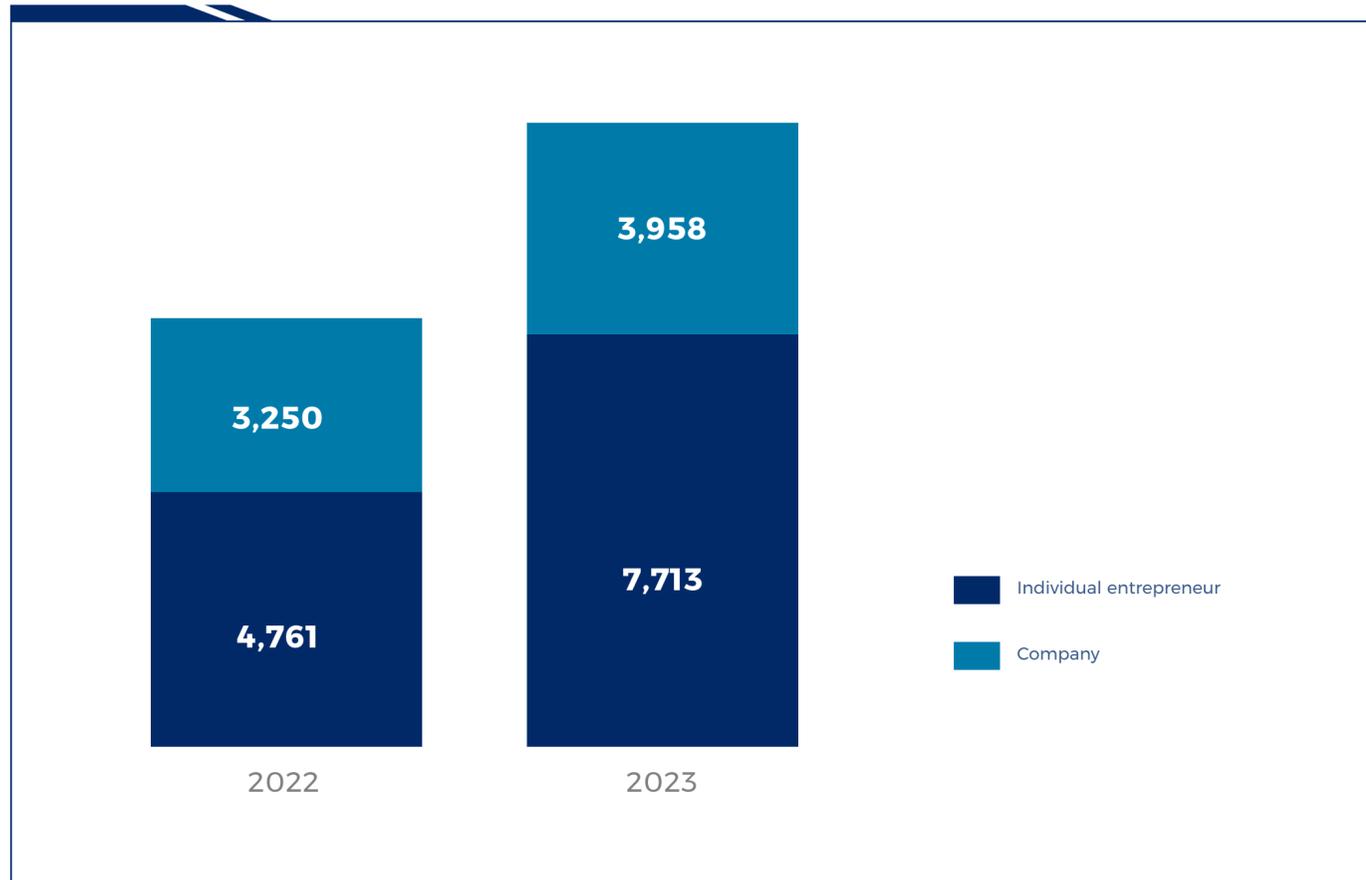


Note: Presented are the economic entities where activities categorized under the following classification codes—J58.2, J62, J63.1, and C26—had the largest shares in the total turnover of the enterprises.

Source: SRC

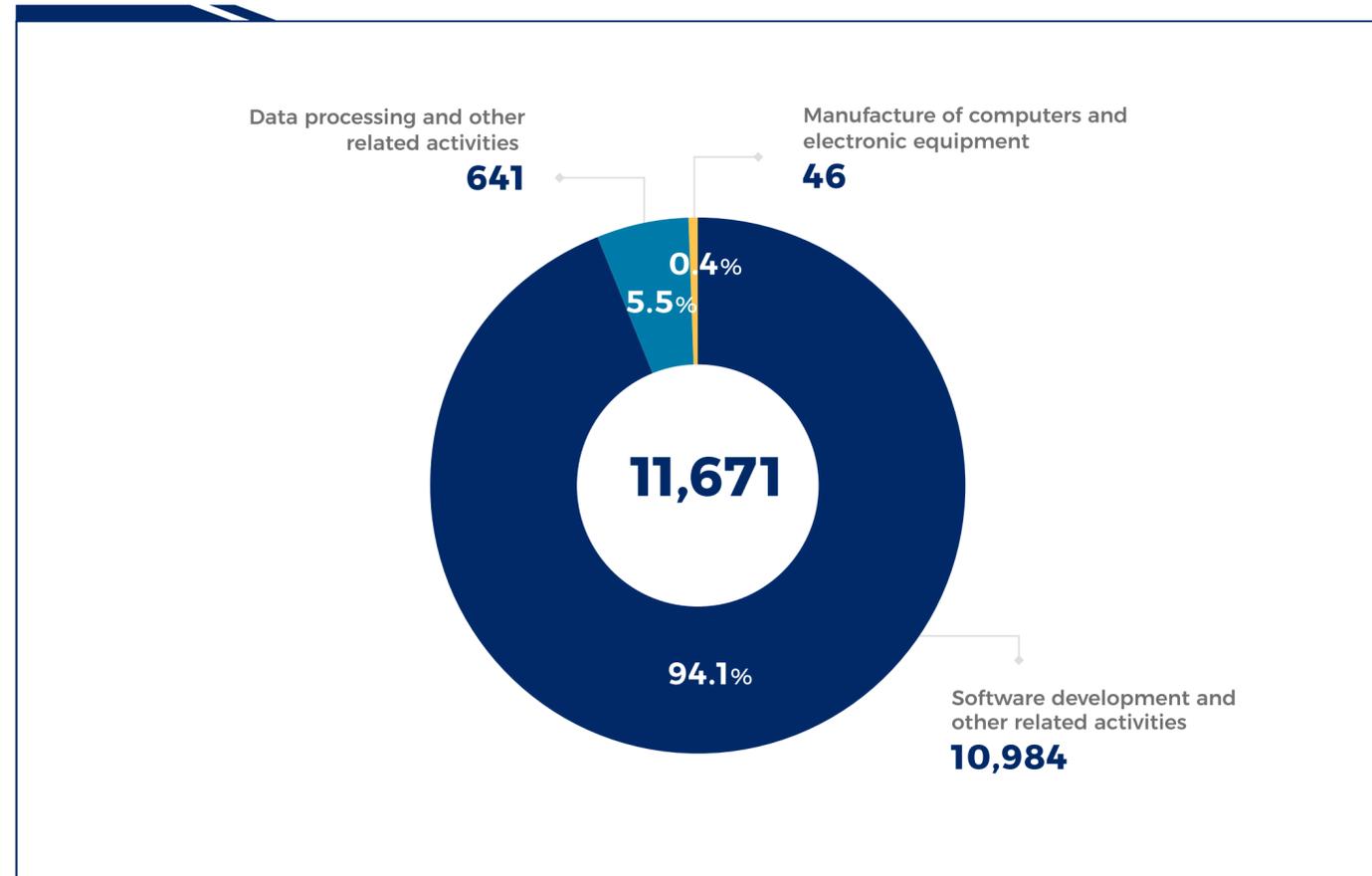
# Entrepreneurship in IT by Sub-sectors

## IT Enterprises by the Legal Forms, 2022-2023



During 2023, **66%** of the 11,671 economic entities operating in the sector of information technology were individual entrepreneurs.

## Distribution of Economic Entities in IT by Sub-sectors, 2023



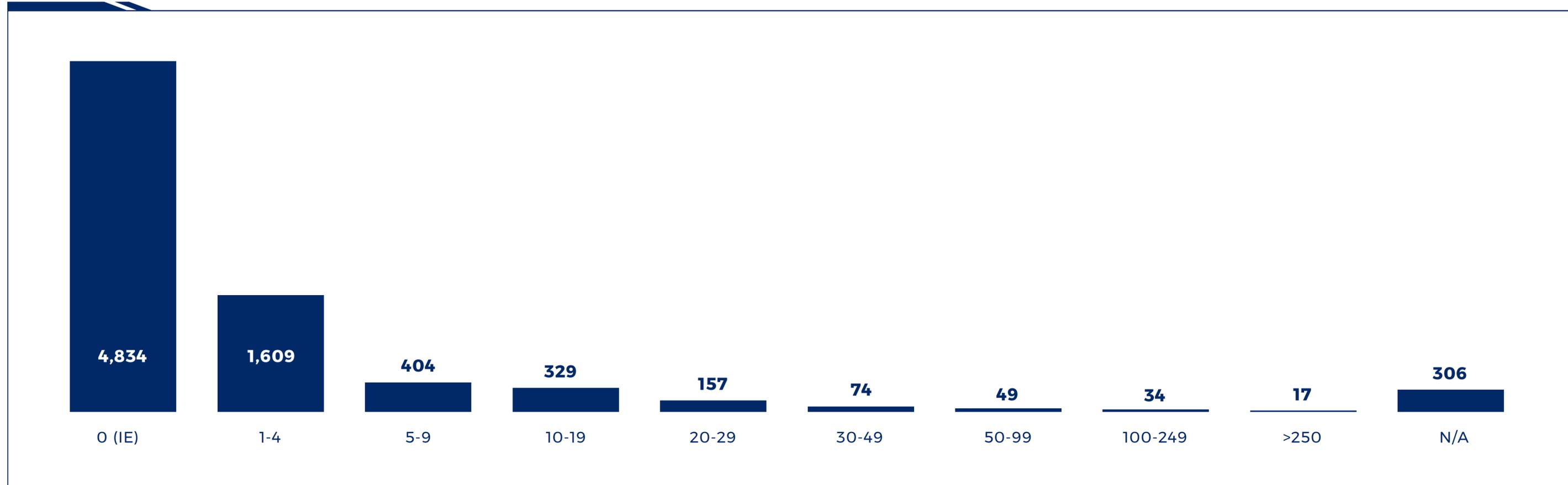
During 2023, **94.1%** of economic entities operating in IT were engaged in software development and related activities, **5.5%** were engaged in data processing, web portals and other related activities.

Note: Presented are the economic entities that carried out activities in the field of information technology during the given year, regardless of their status at the end of the year (active, inactive, liquidated, etc.)

Source: SRC

# IT Enterprises by Number of Employees 2023

Distribution of Economic Entities in the IT Sector by the Number of Employees, December 2023



As of December 2023, out of **7,813** enterprises (Individual entrepreneurs, LLC, etc.) working in the IT sector, 1,609 had from 1 to 4 employees, 964 had from 5 to 50 employees and only 17 companies had more than 250 employees.

At the same time, of the **17** largest employers, 6 are relocated companies from Russia.

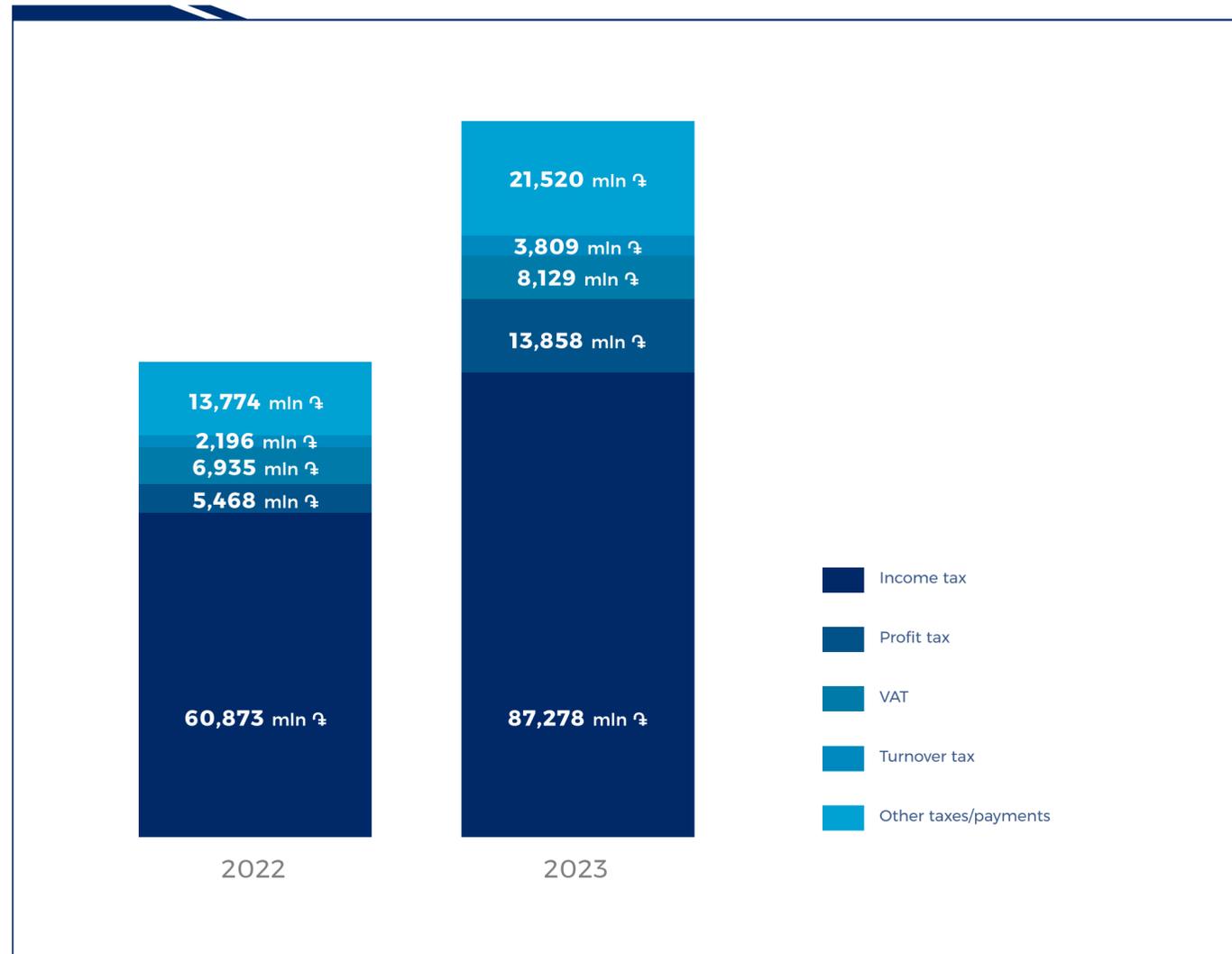
At the end of 2023, there were **4,834** individual entrepreneurs working in the IT sector who did not have employees (sole proprietors).

Note: Presented are the economic entities where activities categorized under the following classification codes—J58.2, J62, J63.1, and C26—had the largest shares in the total turnover of the enterprises.

Source: SRC

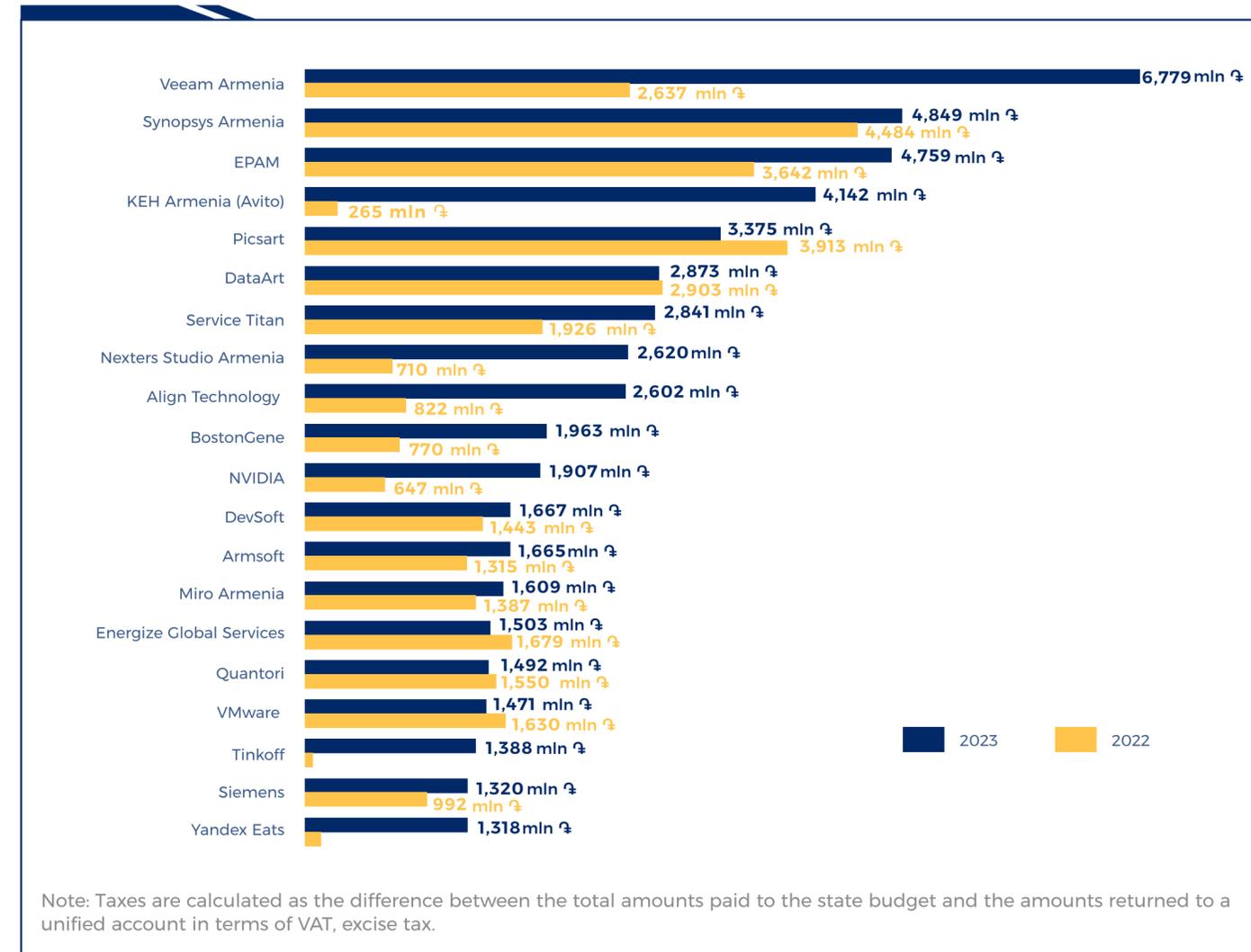
# Tax Contributions of the IT Sector

## Tax Contributions of IT Companies, 2022-2023



In 2023, IT companies paid about **AMD 135 billion** in taxes, 51% more than in the previous year.

## Large Taxpayers of the IT Sector, 2022-2023.

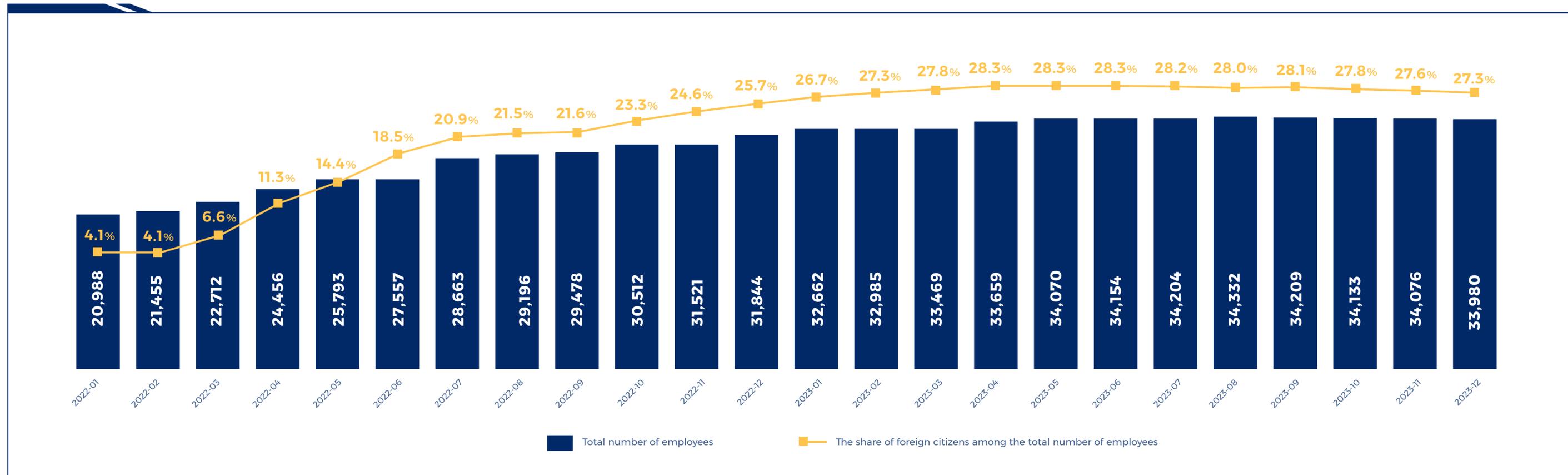


Note: Taxes are calculated as the difference between the total amounts paid to the state budget and the amounts returned to a unified account in terms of VAT, excise tax.

Overall, the tax contribution of IT enterprises constituted 6% of tax revenues and fees controlled by the SRC in 2023.

# IT Employment 2022-2023

The Dynamics of the Number of Employees in the IT Sector and the Share of Foreign Citizens, 2022-2023



As of the end of 2023, the number of salaried or contract employees in the IT sector was **33,980** people, which is up by 12,992 or 61.9% compared to the beginning of 2022, moreover 44.2 percentage point of 61.9% increase\* is due to the influx of foreigners, in particular citizens of Russia.

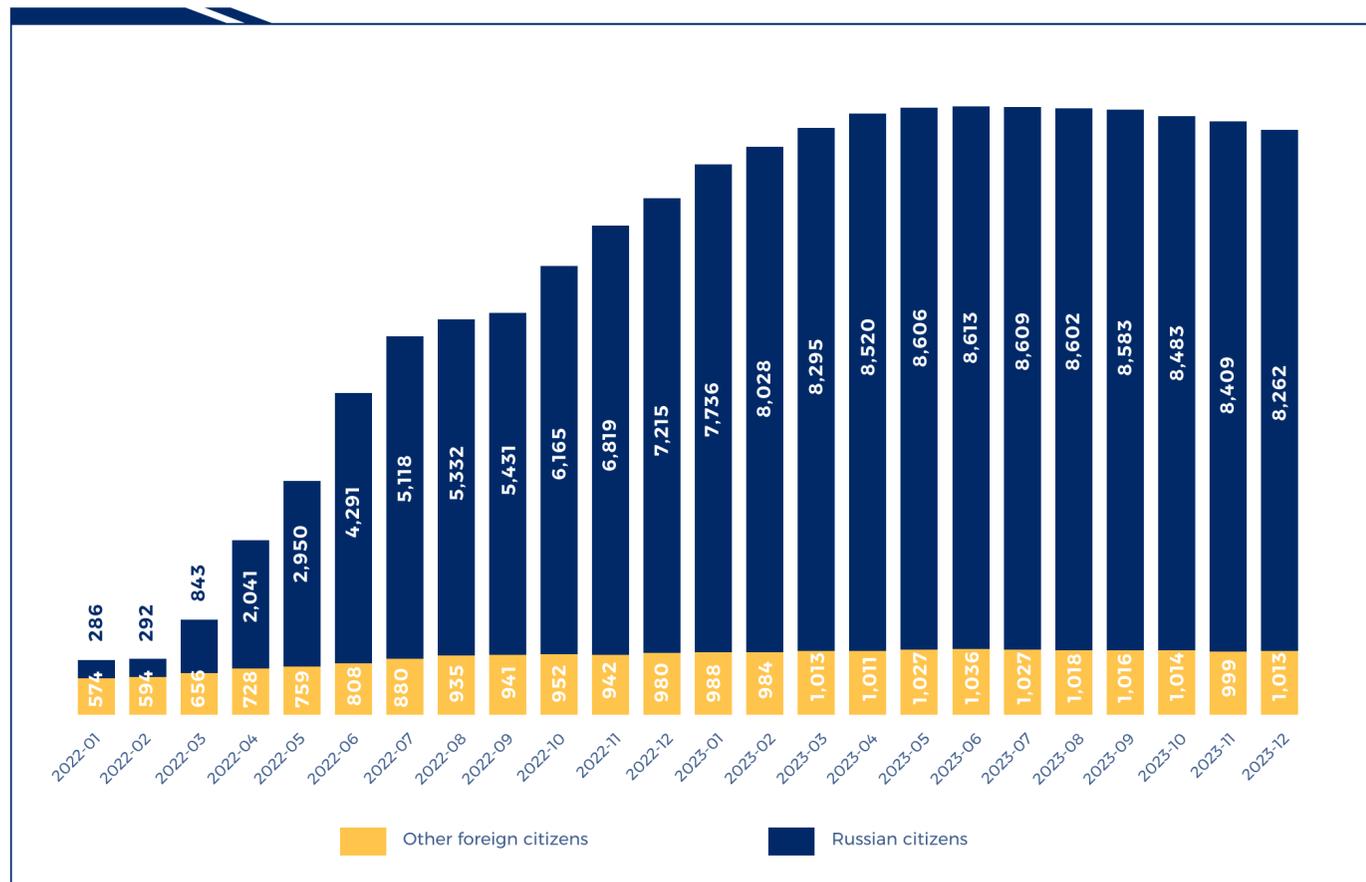
As a result, the share of foreigners in the structure of salaried or contract employees in IT increased from 4.1% in January 2022 to 27.3% in December 2023. During that period, the number of Armenian citizens employed in this field **increased by about 3.7 thousand**. Additionally, at the end of 2022, 2,653 sole proprietors operated in the sector, the number of which reached **4,834** by the end of 2023.

\* Presumably, some of the Russian citizens took Armenian citizenship some time after arriving in Armenia.

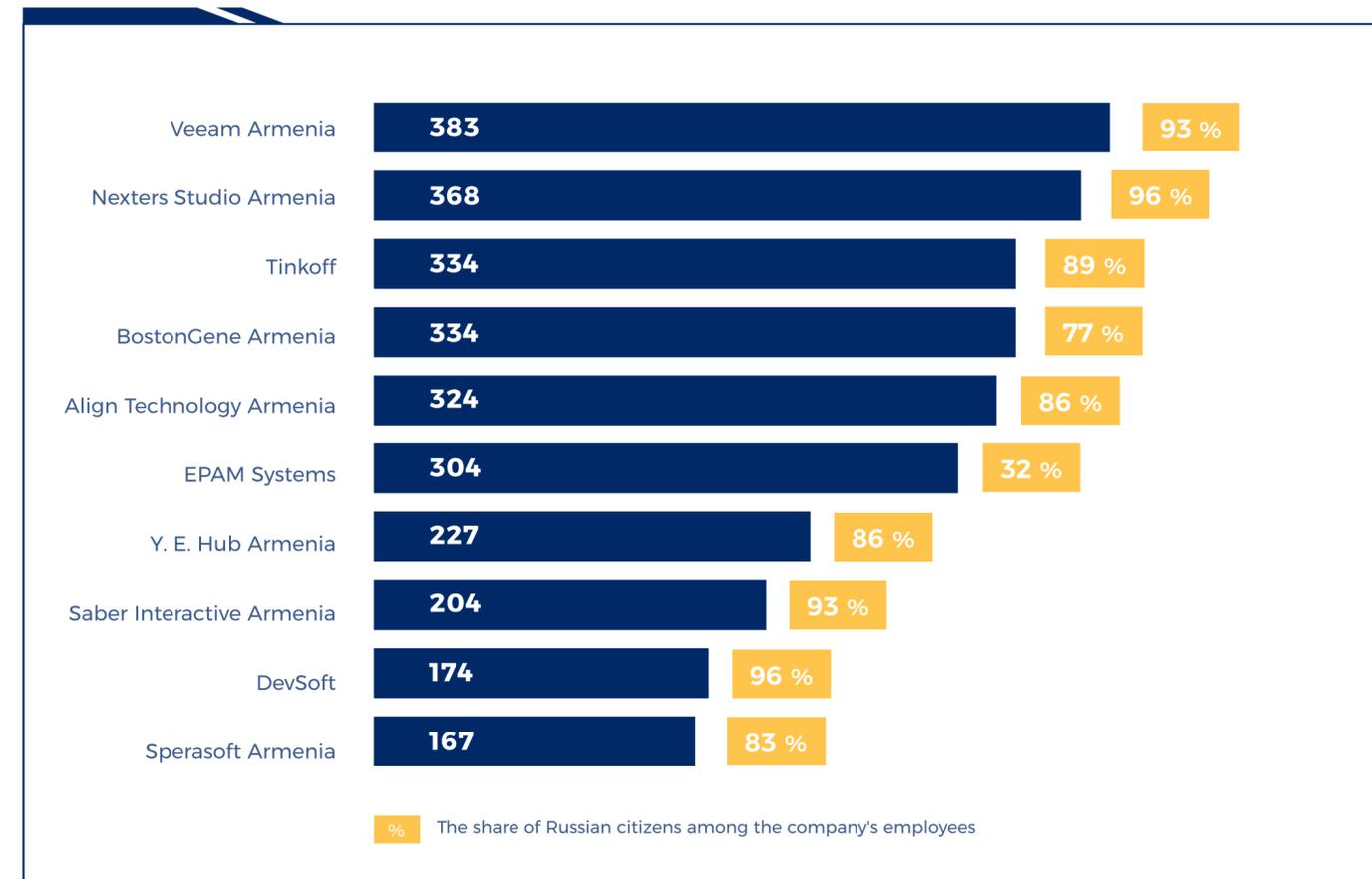
Source: SRC

# Dynamics of the Number of Russian Citizens Working in IT 2022-2023

Dynamics of the Number of Russian Citizens, 2022-2023



Leading Companies in Terms of the Number of Russian Citizens, December 2023

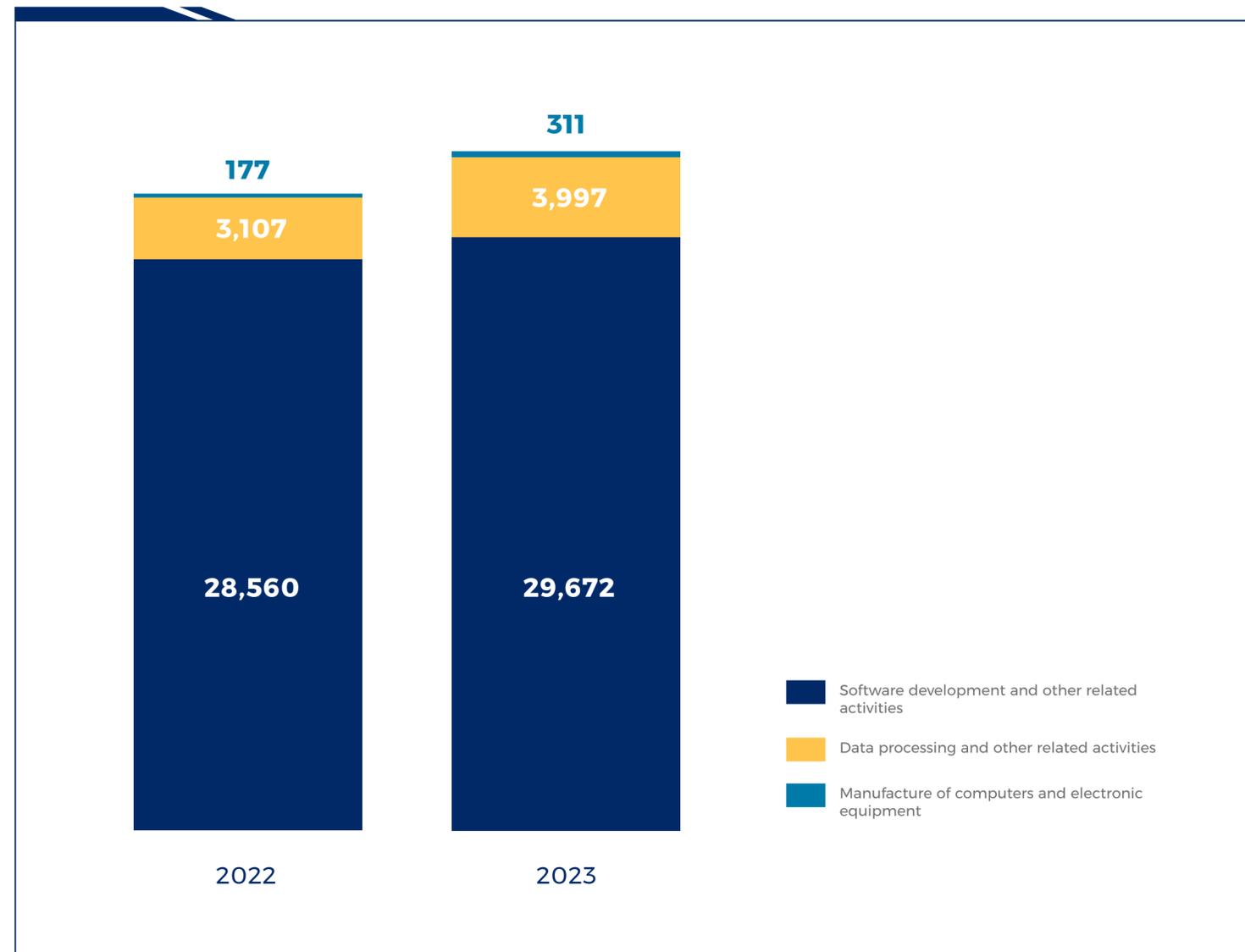


As of the end of 2023, **89%** of foreign citizens working in the sector were citizens of Russia, 3% of Iran and 2% of Belarus. It should be noted that the number of Russian citizens working in the IT sector peaked in June 2023 (8,613 people), after which it slowly decreased to 8,262 by the end of the year.

Our research shows that most Russian citizens work in relocated companies, and many of these companies, as a rule, don't hire Armenian citizens and operate in isolation from the Armenian IT community.

# IT Employment by Sub-sectors 2022-2023

The Number of Salaried or Contract Employees in the IT Sector, by Sub-sectors in 2022 and 2023, End of the Year

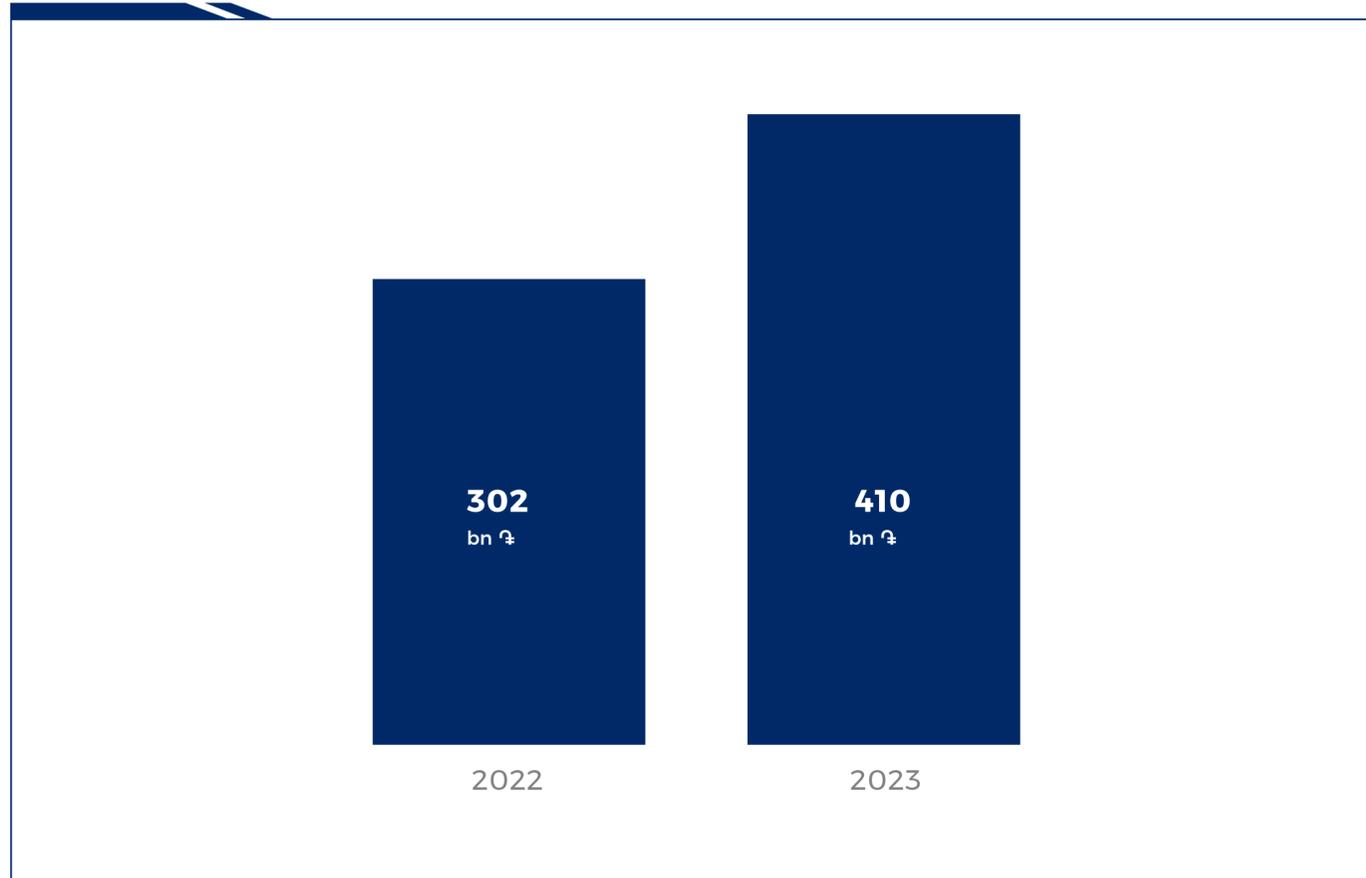


As of December 2023, about **87.3%** of salaried or contract employees in the IT sector were employed in software development and related fields, **11.8%** were employed in data processing and related activities, and **0.9%** were employed in sub-sectors related to the production of computers and electronic equipment.

At the same time, in December 2023, compared with the end of 2022, the number of salaried or contract employees in the software development, consulting and publishing of computer programs increased by 1,112, or **4%**, the number of employees engaged in data processing, web portals and related activities increased **by 890**, and the number of employees in the field of production of computers, electronic and optical equipment **increased from 177 to 311**.

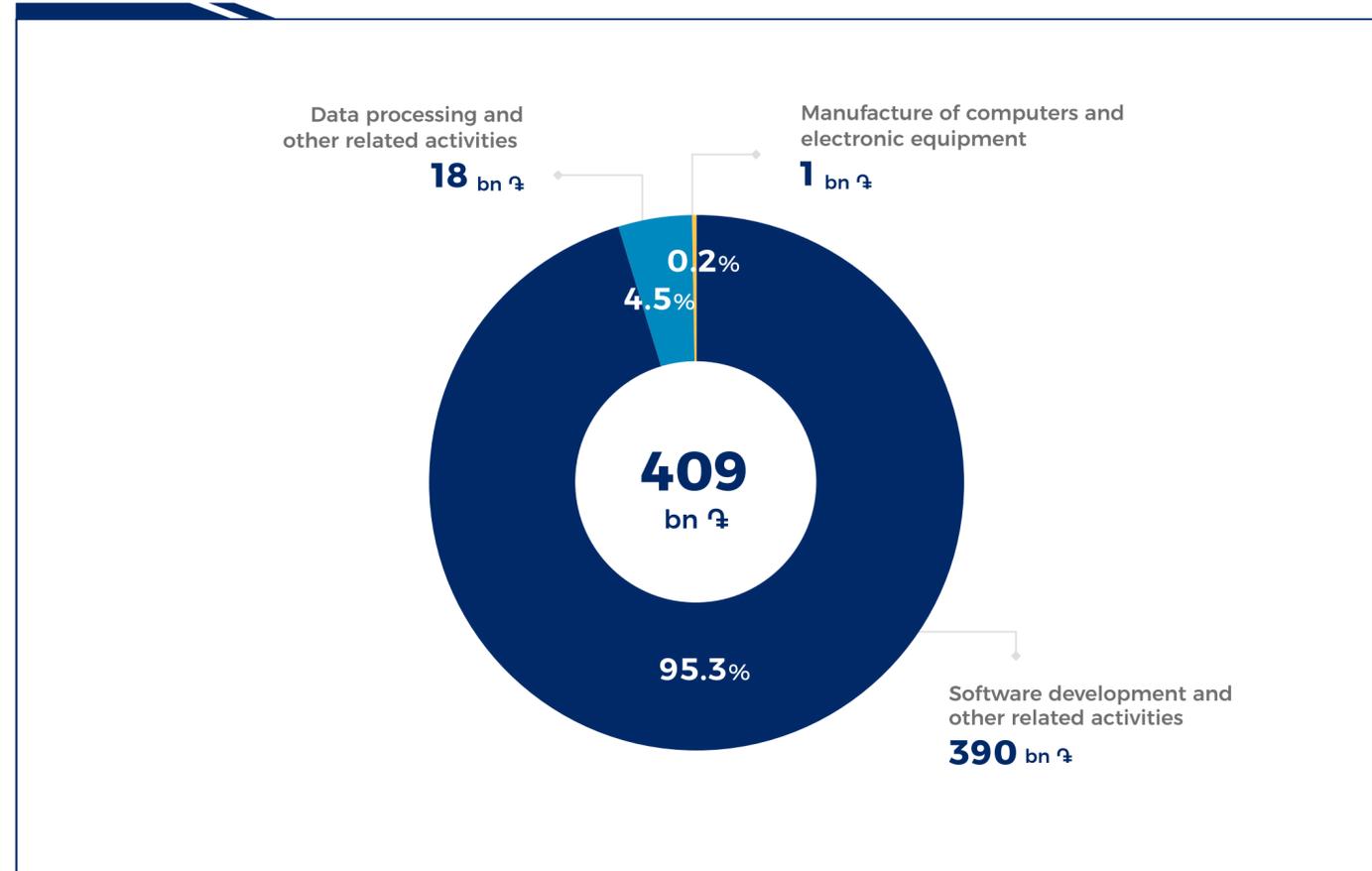
# Salaries in the IT Sector, 2022-2023

IT Sector Salaries and Other Compensations, 2022-2023



In 2023, economic entities operating in the IT sector paid salaries and other compensations in the amount of **AMD 410 billion**, which is 36%, or AMD 107 billion more than in the previous year.

IT Salaries and Other Compensations by Sub-sector, 2023



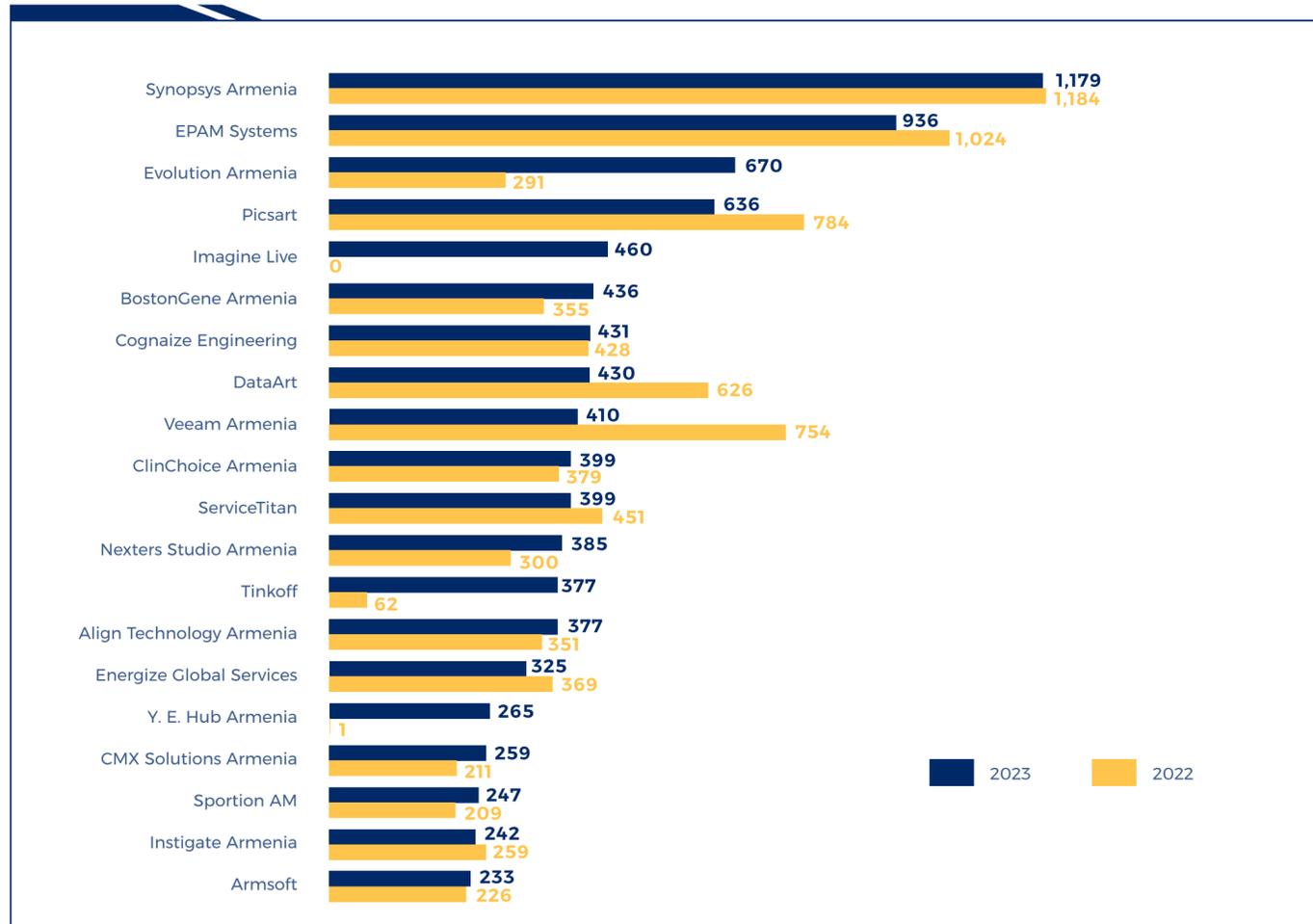
**95%** of salaries paid in the IT sector or AMD 390 billion, are in the software development and related activities sub-sector.

Note: Presented are the economic entities where activities categorized under the following classification codes—J58.2, J62, J63.1, and C26—had the largest shares in the total turnover of the enterprises.

Source: SRC

# Major IT Employers 2023

The Top 20 Largest IT Employers by Number of Employees, 2022-2023

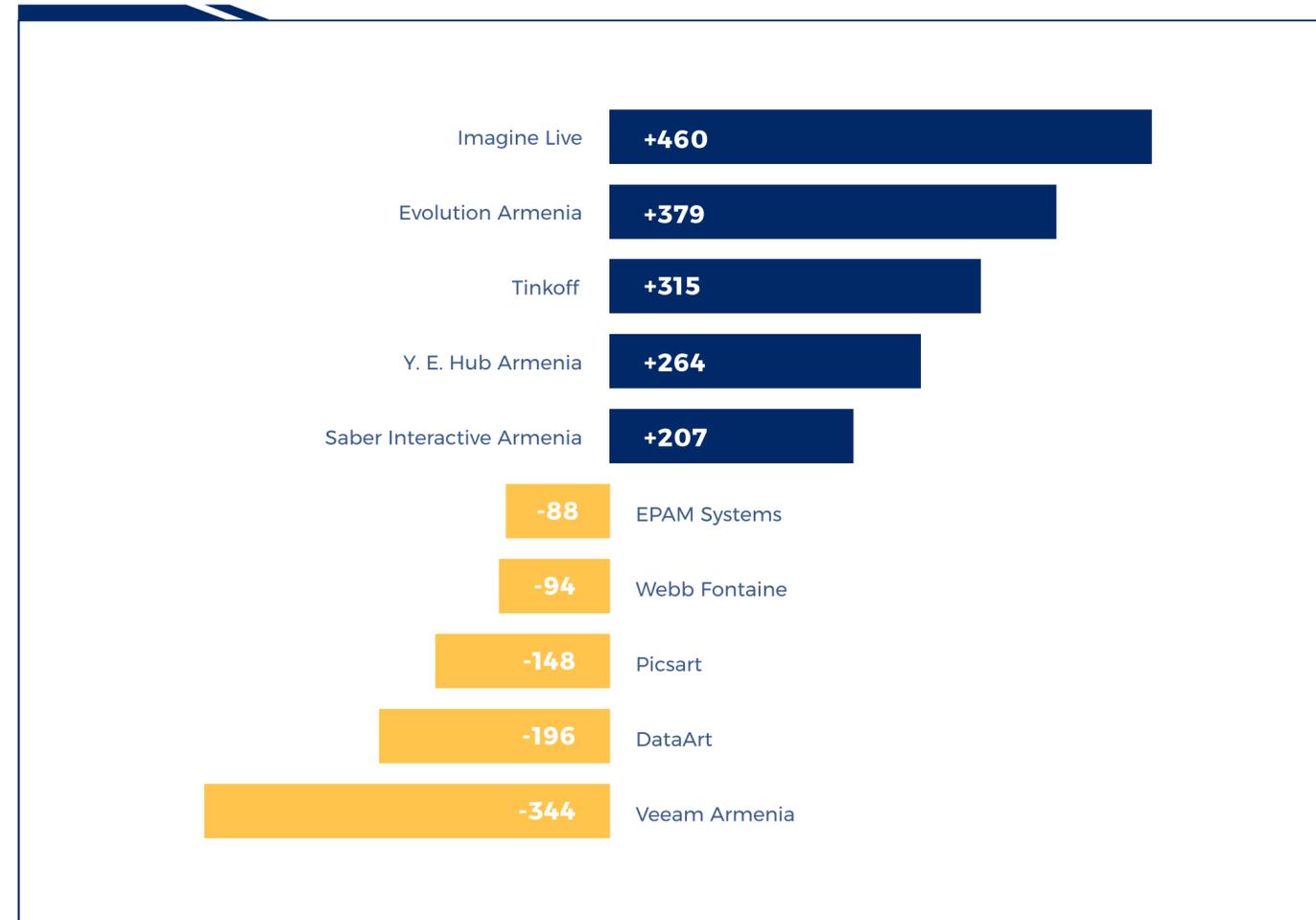


As of the end of 2023, **Synopsis Armenia** was the leader in terms of the number of employees with 1,179 employees.

Together, 20 large companies provided about **27%** of employment in the IT sector.

Source: SRC

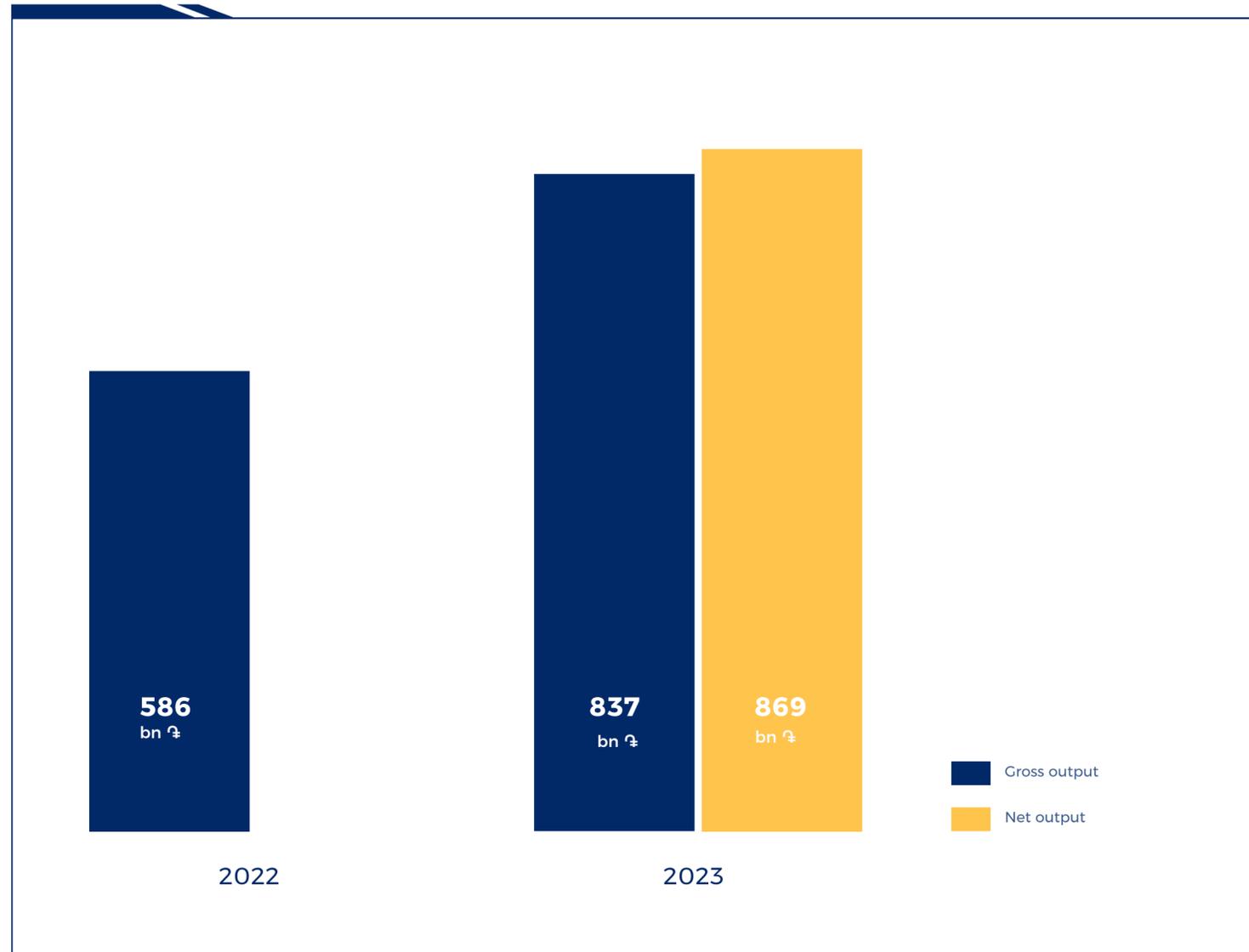
Companies With the Largest increase/decline in the Number of Employees at the end of 2023 Compared to the end of 2022



In 3 of the 5 companies where the largest increase in the number of employees was registered (Tinkoff, Y. E. Hub Armenia and Saber Interactive Armenia) most employees were **Russian** citizens.

# IT Turnover 2022-2023

## Turnover in the IT Sector at Current Prices, 2022-2023



Note: Gross output- all those enterprises are considered whose main areas of activity were under J58.2, J62, J63.1, C26. Net output-all those enterprises are considered that carried out activities in any of the following areas: J58.2, J62, J63.1, C26, regardless of what was the share of these areas in the total turnover.

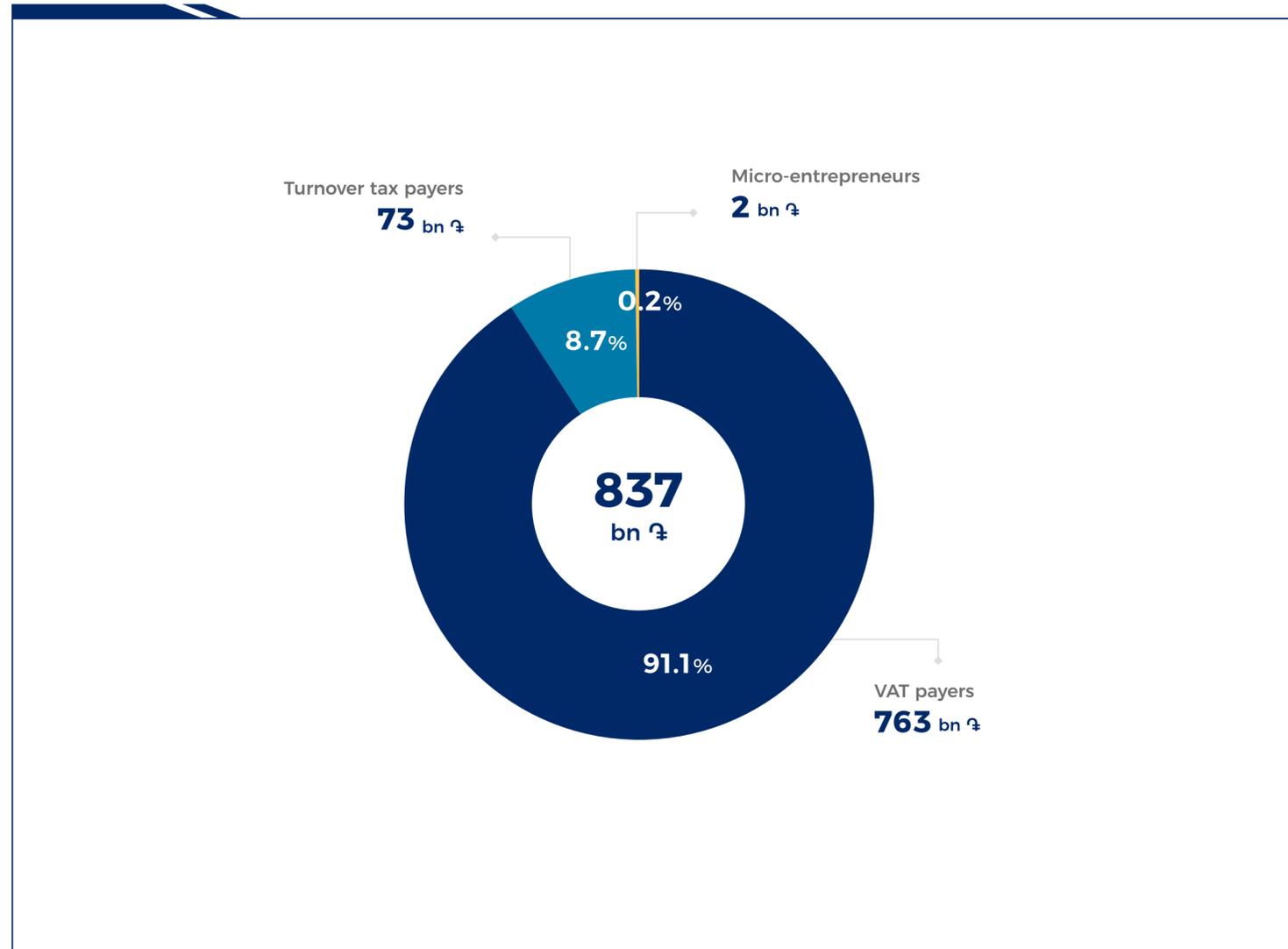
In 2023, **the gross output of the IT sector** at current prices amounted to about AMD 837 billion which is AMD 252 billion more than in the previous year. **The net output of the IT sector** was about AMD 32 billion more than the gross output.

At the same time, in 2023, just **71 companies** accounted for half of the gross output of IT sector.

In 2023, **78.5% or AMD 657 billion of gross output came from enterprises engaged in software development** (J62.01. 0). At the same time, turnover in this activity increased by 44.4% or AMD 202 billion compared to the previous year.

# Turnover in IT by the Tax Regimes of Operating Entities

## Turnover of IT Companies by the Tax Regimes in 2023



In 2023, **91.1%** of turnover in the IT sector, or AMD 763 billion, was generated by **VAT payers**, while **about half of the turnover generated by VAT payers came to only 53 companies**, most of which were engaged in software development. It should be noted that more than 4 thousand companies operated under the VAT tax regime.

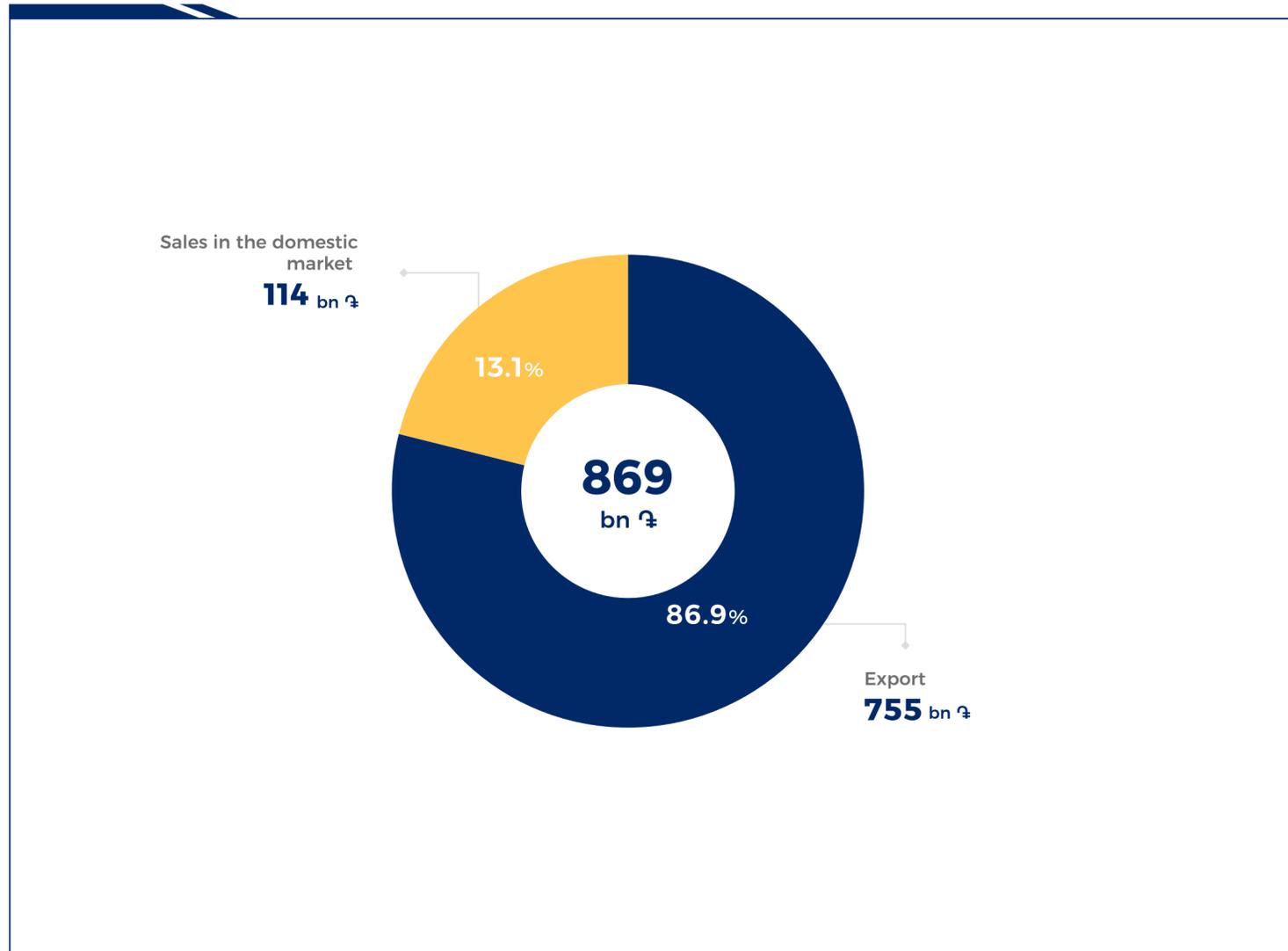
The share of **turnover tax taxpayers** accounted for **8.7%** or AMD 73 billion. **5,731 enterprises** operated under this tax regime in 2023, which is 1,123, or 24.4% more than in 2022.

In 2023, the sales turnover of **micro-enterprises** in the IT sector amounted to AMD 1 billion 531 million, or 0.2% of the overall turnover in the sector. In 2023, **375** micro-enterprises operated in the IT sector.

Note: Presented are the economic entities where activities categorized under the following classification codes—J58.2, J62, J63.1, and C26—had the largest shares in the total turnover of the enterprises.

# IT Sector Exports 2023

## Turnover of Economic Entities in IT in the Domestic and Foreign Markets, 2023



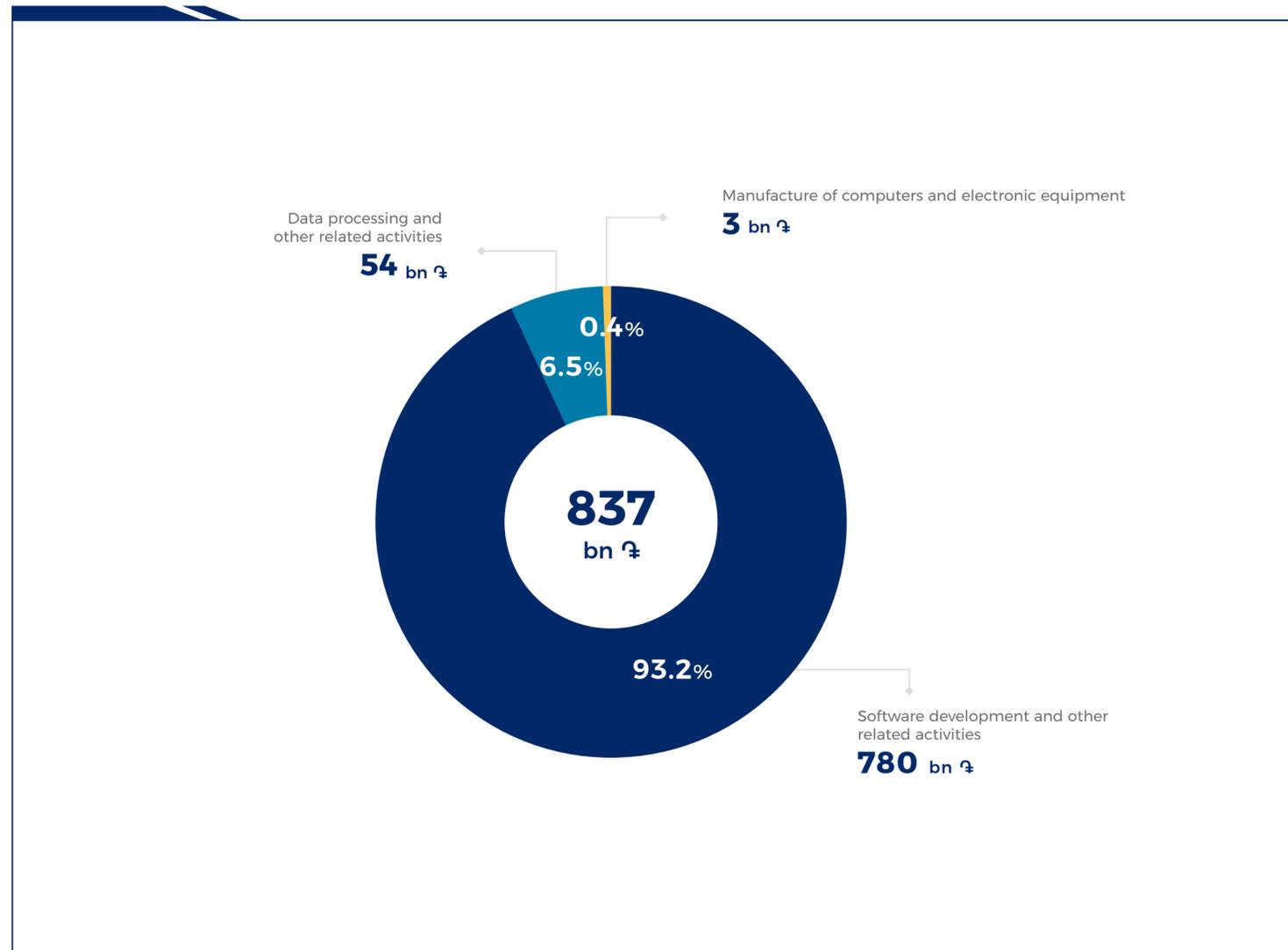
In 2023, **87%** of the turnover of the IT sector or AMD 755 billion, **was realized in foreign markets**, and 13% or AMD 114 billion in the domestic market.

A total of **3,210 enterprises** paying VAT exported IT products or services during 2023, in the case of 56 of which the IT sector was a secondary activity (in total turnover, the turnover of the IT sector was 50% or less).

Note: Presented are the economic entities that operated under the following classification codes—J58.2, J62, J63.1, and C26—regardless of the share of these activities in the total turnover of the enterprises.

# Turnover in IT by Sub-sectors

## Turnover of IT Companies by Sub-sectors, 2023



In 2023, software development, consulting and publishing of computer software accounted for **93.2% of the gross turnover of the IT sector or AMD 780 billion**, with only **60 companies generating about half of the sales turnover in this sub-sector**.

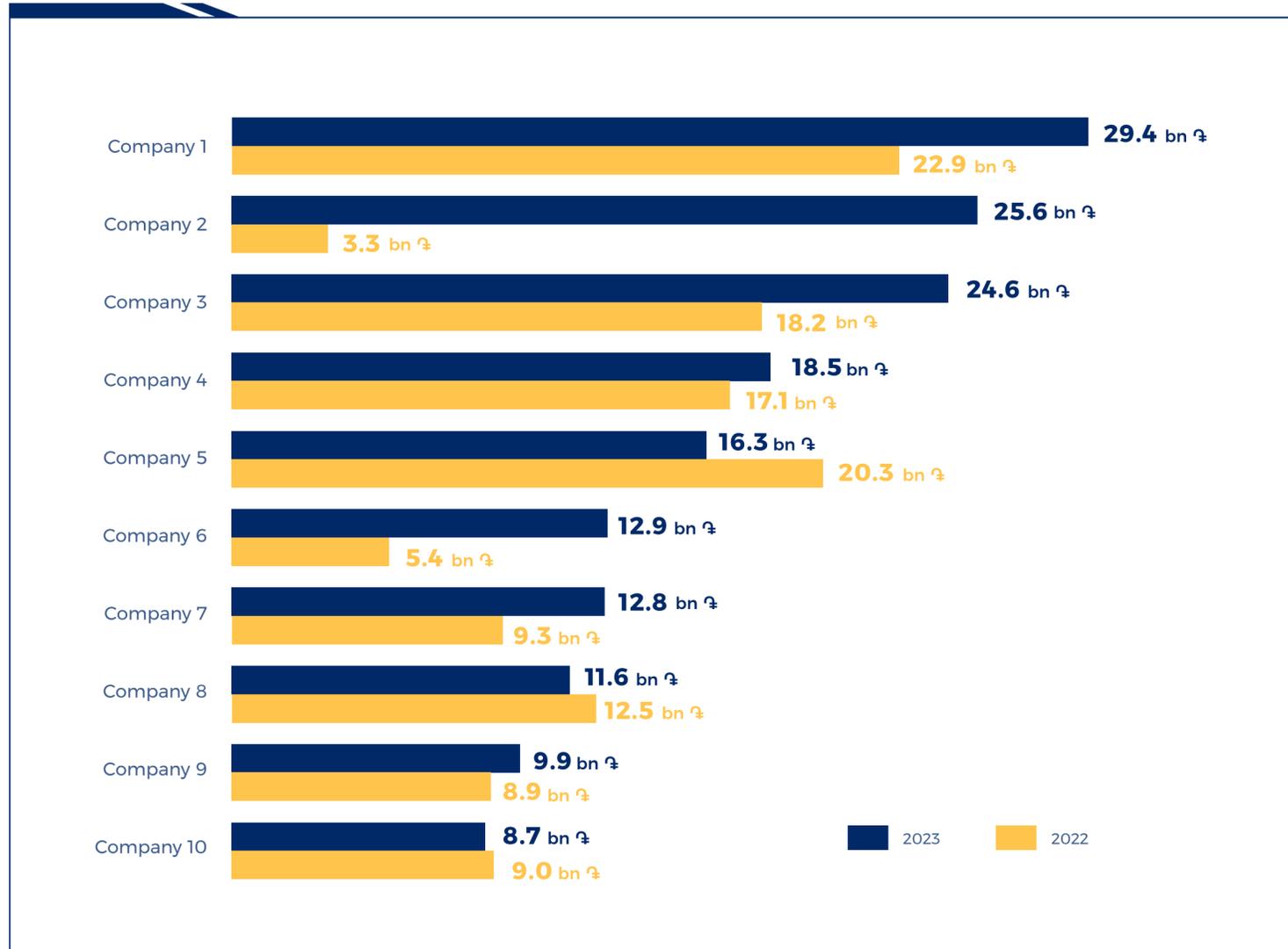
It should be noted that, according to the RA National Statistical Committee, the gross turnover in the IT sector in 2023 amounted to AMD 450 billion, which is about AMD 387 billion less than according to the State Revenue Committee. This difference indicates that many IT companies are not included in the administrative register of the Ministry of High-Tech Industry, from which the statistical committee receives data.

6.5% of the gross turnover of the IT sector or AMD 54 billion comes to the area of Data processing, hosting; web portals and related activities, and 0.4% comes to production of computers and electronic equipment.

Note: Presented are the economic entities where activities categorized under the following classification codes—J58.2, J62, J63.1, and C26—had the largest shares in the total turnover of the enterprises.

# Major IT Companies by Turnover

## Top 10 Companies by Sales Turnover at Current Prices, 2022-2023



In 2023, the turnover of the largest IT company operating in Armenia was around **AMD 29.4 billion**, up by 28.6% from the previous year.

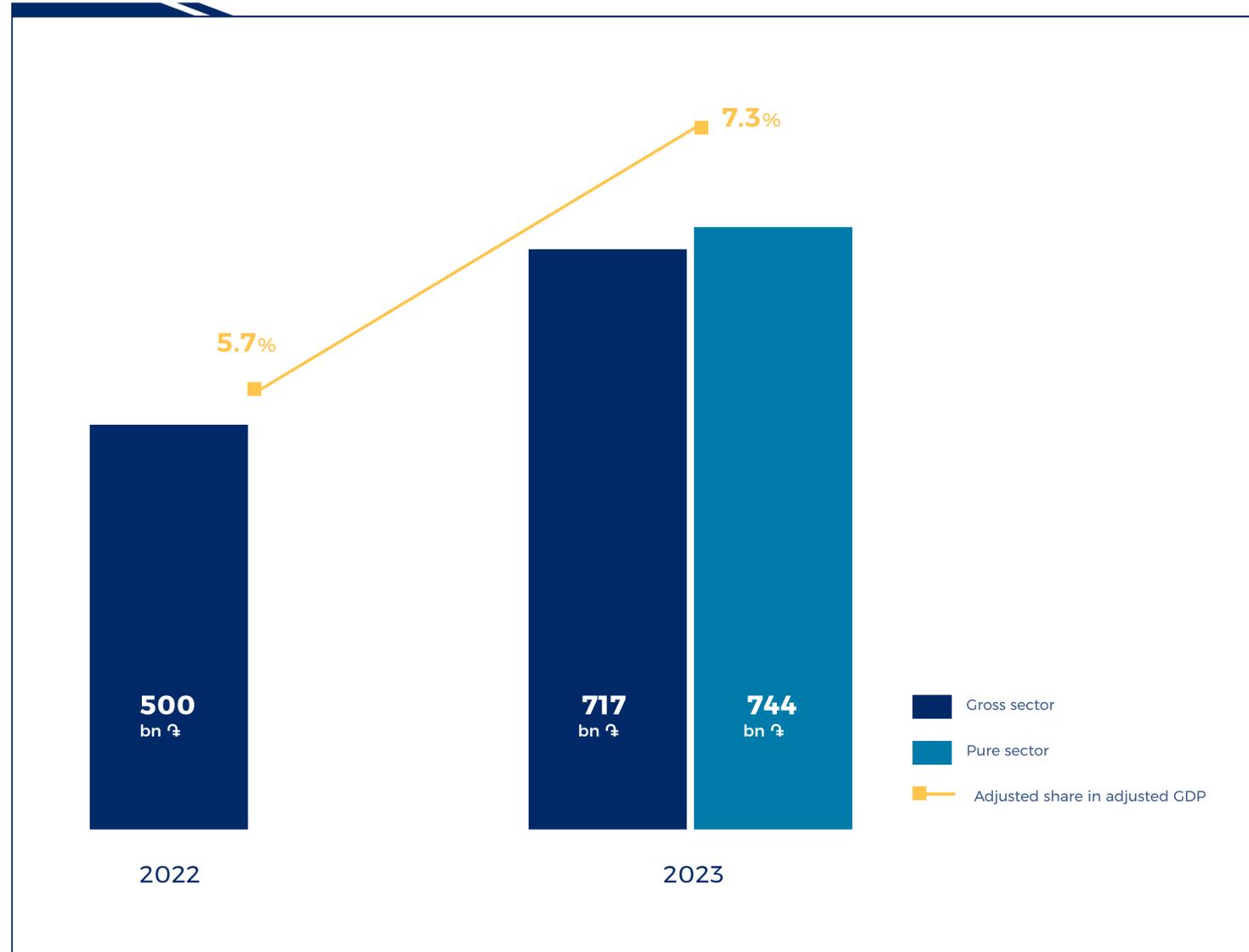
In general, in 2023, the sales turnover of the companies in the top 10 increased **by 34%** compared to the previous year, moreover in the case of two, a three-digit increase was recorded: 682% and 158%.

The sales turnover of **more than 66%** of IT enterprises operating in 2022 and declaring sales turnover in 2023 increased in 2023, which also indirectly indicates positive developments in the sector.

Note: Presented are the economic entities where activities categorized under the following classification codes—J58.2, J62, J63.1, and C26—had the largest shares in the total turnover of the enterprises.

# Value Added in the IT Sector

## Value Added Generated in the IT Sector, 2022-2023



In 2023, **the gross value added of the IT sector** at current prices was around AMD 717 billion, which is AMD 217 billion more than last year, and the real growth of the sector was around 43.8%. It should be noted that **the value added of the pure IT sector** was about AMD 37 billion more than that of the gross IT sector.

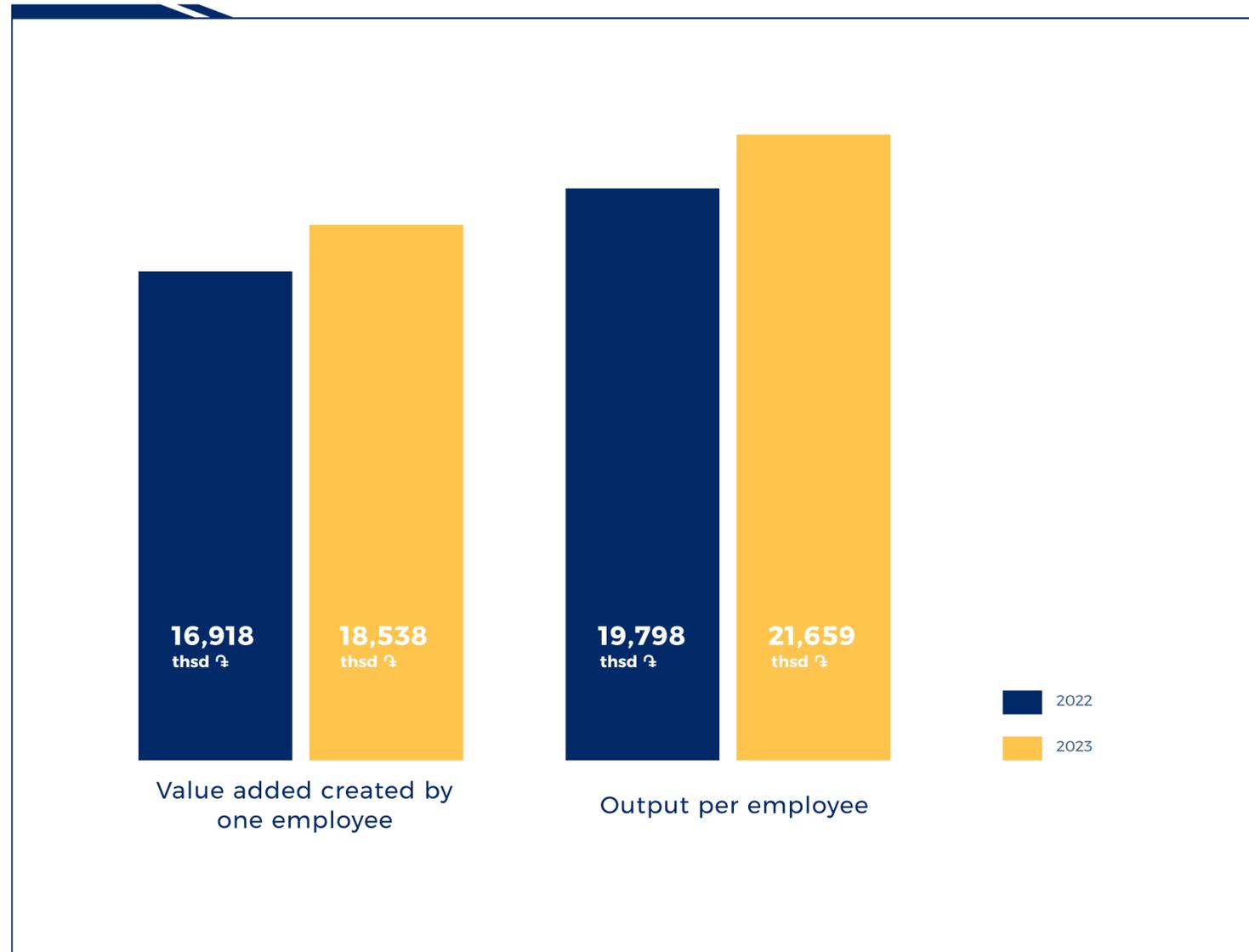
As of 2023, 99.9% of the value added in the IT sector was generated by IT services, and 0.1% by IT production. Since many companies were founded in the IT sector in 2022-2023, but for technical reasons were not included in the administrative register in the reporting year, the output of the sector, as well as **the value added, was significantly miscalculated**. According to our estimates, **the share of adjusted value added of the IT sector in the structure of adjusted GDP in 2022 was around 5.7%, and in 2023 around 7.3%**.

Note: Gross sector-all those enterprises whose main areas of activity fall under J58.2, J62, J63.1, C26. Pure sector-all those enterprises that carried out activities in any of the following areas - J58.2, J62, J63.1, C26- regardless of the shares of these activities in the turnover.

Source: Own calculation based on SRC and Armstat data

# Productivity in the IT Sector

## Productivity in IT at Current Prices, 2023



In 2023, the IT output per employee in the country amounted to **AMD 21 million 659 thousand**, which is 9.4% more than in 2022.

According to our calculations, on average, one employee of the industry in 2023 created added value in the amount of **AMD 18 million 538 thousand**.

Note: Presented are the economic entities where activities categorized under the following classification codes—J58.2, J62, J63.1, and C26—had the largest shares in the total turnover of the enterprises.

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# Methodology

## The data:

This study was carried out based on the data of the SRC and the National Statistical Committee of Armenia. The data on taxpayers' turnover and paid salaries were provided in an anonymized version.

## Definition of the sector:

In the framework of this study, IT sector is referred to the following activities under the NACE Rev. 2 5-digit classification codes: C26.11.0, C26.12.0, C26.20.0, C26.30.0, C26.40.0, C26.80.0, J58.21.0, J58.29.0, J62.01.0, J62.02.1, J62.02.9, J62.03.0, J62.09.0, J63.11.1, J63.11.2, J63.11.3, J63.12.0. In order to provide the summary of the data, the activity types were grouped as follows: Software development and related activities (J62, J58), Data processing and related activities (J63), and Computer, electronic equipment manufacturing (C26).

## Other definitions:

By economic entity we mean individual entrepreneurs and companies operating in the field. In addition, the IT sector was considered the main area of activity for the entities where activities categorized under the following classification codes—J58.2, J62, J63.1, and C26—had the largest shares in the total turnover.

## Gross output:

By this, we refer to the sales turnover of all enterprises whose main activity falls under the following classification code- J58.2, J62, J63.1, C26.

## Clean output:

By this, we refer to the sales turnover of all economic entities, which is attributable to any of the following activities- J58.2, J62, J63.1, C26- regardless of the share of the given activity in the turnover of the given economic entity.

## Approaches to calculations:

To calculate the value added of the sector, the data on the turnover of enterprises operating in the IT sector and the output/intermediate consumption coefficients were used.

To calculate the export, based on the SRC data the export/sales turnover ratio of VAT taxpayers was estimated and was also applied to the enterprises operating under other tax regimes, moreover the net output was considered.



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