

DELEGATION OF THE EUROPEAN UNION TO ARMENIA

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Summary

Armenia's economic activity index grew by 10.9% in the first two months of 2023. The foreign trade turnover increased by 77.7%. The Consumer price index rose by 8.1%, and the industrial product index surged by 0.8%. The third EU-Armenia Sub-Committee on Economic Cooperation and related sectors took place on 14 March 2023, and the third Sub-committee on Customs Cooperation on 28 March 2023. The issue of sanction circumvention was discussed during the latter. Armenia and Russia stopped calculations in U.S. dollars and euros in favour of national currencies. Armenia decided to prolong the life of its Nuclear Power Plant for another ten years. Armenia ranks 50th out of 176 countries considered "moderately free" in the Index of Economic Freedom 2023. In the Global Innovation Index 2022, Armenia ranks 80th out of 132 countries. The first case to seize the property of illegal origin passed Anti-Corruption Court in Armenia. Russian Rosselkhoznadzor banned imports of dairy products from Armenia.

Main developments

Armenia's economic activity index¹ grew by 10.9% in the first two months of 2023² compared to the same period of 2022. It increased by 11.3% in February alone, juxtaposed February 2022, and surged by 6.5% compared to January 2023. All the sectors of the economy have shown an increase, except electricity production. **The foreign trade turnover increased by 77.7% in January-February 2023.** The exports soared by 96.4%, and the imports grew by 67.4%. The trade balance remains negative. Exports make up 67.8% of imports. **The Consumer price index grew by 8.1%, and the industrial product index surged by 0.8%** in the mentioned period. The Armenian Central Bank, due to “increased potential” upgraded its forecast for GDP growth from 4.5% to 5.8% in 2023.

Two bilateral meetings between the EU and Armenia took place in March 2023. Namely, the third EU-Armenia **Sub-Committee on Economic Cooperation and related sectors** on 14 March. The parties discussed macroeconomic and financial cooperation, public finances, statistics, anti-fraud, and control provisions. The third **Sub-committee on Customs Cooperation** took place on 28 March. Among others, the issue of sanction circumvention was discussed during the latter. The EU side mentioned that a big emphasis is currently given to implementing sanctions and preventing sanctions circumventions. Armenia expressed readiness to cooperate to prevent circumvention via its territory.

Armenian Minister of Economy Vahan Kerobyan said **Armenia and Russia stopped calculations in U.S. dollars and euros in favour of national currencies.** The leaders of Armenia and Russia agreed to shift to calculations in national currencies in mutual trade in

¹ **Economic Activity Index** is a monthly aggregate indicator of change in output real volume in economy

² **Armstat report EAI** - <https://www.armstat.am/file/doc/99536733.pdf>

April 2022. The Armenian exporters prefer to avoid having trade with Russia in national currencies, as the Russian ruble is volatile and losing its value. In contrast, after its valuation last year, the Armenian national currency is more or less stable. Mr. Kerobyan is happy with increased exports to Russia. He explained the four-fold increase in exports from Armenia to Russia during 2022. The Minister said, "The reason is the departure of Western companies from the Russian market, which enabled Armenian suppliers to expand their business in Russia."

The Government of Armenia decided to look into **possibilities of prolonging the life of the Armenian Nuclear Power Plant (ANPP)** during its session on 23 March 2023. The life of ANPP's second power unit was already extended until September 2026. The initial operation period expired in 2016, and after the large-scale modernization works, the operation period of the power unit was extended by ten years. The Government is looking for a potential investor to build a new power unit, but there are no tangible developments yet.

Armenia ranks 50th out of 176 countries and considered "moderately free" in the Heritage Foundation's Index of Economic Freedom 2023³ published by Heritage Foundation. Armenia scored 65.1, which is less than last year's 65.3. Armenia ranks 28th among 45 countries in the European region. Among neighbouring countries, Armenia is second after Georgia, which is 35th with a "mostly free" economy, Azerbaijan is 75th with "moderately free," Turkey is 104th with "mostly not free," and Iran is 169th with a "repressed" economy.

In the **World Intellectual Property Organization Global Innovation Index 2022⁴**, Armenia has considerably declined during the last few years. Armenia fell gradually from a score of 37.59 in 2013 to 26.6 in 2022. Overall, country ranks 80th out of 132 countries, having lost 19 points over the previous two years. It performed better in innovation outputs than innovation inputs in 2022. It ranks 82nd in innovation inputs in 2022, higher than both 2021 and 2020. Whereas for innovation outputs, Armenia ranks 73rd, lower than 2021 and 2020. According to the World Bank's recent report, Armenia has a 99% literacy rate, and around 60% of adults have completed at least secondary education. Nevertheless, the country's education system does not produce the required outcomes.

Russia's agriculture watchdog **Rosselkhoznadzor banned imports of dairy products from Armenia from 5 April 2023**. One of the reasons mentioned is the use of Iranian milk and other raw materials, which are banned in Russia by some Armenian dairy companies. Another ground for the decision is the lack of oversight by the Armenian Food Safety Agency. In an official statement, the latter objected to the accusations, referring to the fact that the agency conducts proper oversight and only a few producers used Iranian milk in their production. According to the State Revenue Committee of Armenia, Armenian producers exported less than EUR 10 million worth of different dairy products to Russia in the first half of 2022. More than half in value are butter and condensed milk produced from a product of Iranian origin.

The first case to seize the property of illegal origin passed in a court in Armenia. The Anti-Corruption court endorsed an amicable agreement. The Prosecutor General's office and a citizen signed an amicable agreement. Under the agreement, AMD 81 million or EUR 196 thousand worth property will be handed over to the state. This became possible after adopting a new law in 2020, which allows prosecutors to seek asset forfeiture for "illegal income" cases.

³ **Index of Economic Freedom** - <https://www.heritage.org/index/country/armenia>

⁴ https://www.wipo.int/edocs/pubdocs/en/wipo_pub_2000_2022/am.pdf

Nevertheless, the "Euasianet" in its article⁵ "Armenia's drive to recover stolen assets benefits elite businesspeople, not the state" argues the true fight against illicit enrichment. In the interpretation of the law, the latter is when value of an individual's property exceeds their "legal income" by around EUR100 thousand.

Sign-off: Andrea WIKTORIN, Head of Delegation

⁵ <https://eurasianet.org/armenias-drive-to-recover-stolen-assets-benefits-elite-businesspeople-not-the-state>