

DELEGATION OF THE EUROPEAN UNION TO ARMENIA

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Summary

Armenia's economic activity index grew by 12.2% in January- March 2023. The foreign trade turnover has grown by two times in the first three months of 2023. The exports increased by 2.3 times and the imports grew by 89.1%. The Consumer price index grew by 7.2%, and the industrial product index deflated by 0.4%. Armenia's Tax authorities collected 15.2% more in taxes and state duties in the given period.

Foreign direct investments (FDIs) in the Armenian economy stood at USD 998.1 million in 2022. The EU 27 is the second after Russia source of FDIs in terms of Gross flow, with a 25.46% share and Net stocks, with a 22.97% share.

Armenia's Prime Minister Nikol Pashinyan chaired a session of the Economic Policy Council. Armenia's Minister of Economy Vahan Kerobyan rejects accusations of Armenia's involvement in circumventions of sanctions against Russia. At the same time, he did not rule out the possibility of the involvement of Armenian companies. The Armenian producers have been sending alarming signals when it comes to the reduction of their production, because of the decrease in exports of their products.

Main developments

Armenia's economic activity index¹ grew by 12.2% in January- March 2023² compared to the same period of 2022. It increased by 14.0% in March alone, compared to March 2022, and surged by 10.9% juxtaposed to February 2023. All the sectors of the economy have shown an increase, except for electricity production, which recorded a decline of 2%. **Foreign trade turnover has grown by two times in the first three months of 2023.** The exports increased by 2.3 times and the imports grew by 89.1%. Nevertheless, the trade balance remains negative. Exports make up 64.4% of imports. **The Consumer price index grew by 7.2%, and the industrial product index deflated by 0.4%** in the mentioned period. Armenia's Tax authorities collected 15.2% more in taxes and state duties in January-March 2023 than in the respective period of 2022.

Armenia's Prime Minister Nikol Pashinyan chaired the two-day session of the Economic Policy Council. Participants discussed issues related to exchange rate fluctuations on economic activity, investment climate, exports, low labour productivity, and economic trends. Mr. Pashinyan, in his speech, said: "The key goal of our economic policy is to have such an economy that will be able to generate the necessary resources to have an independent,

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

² **Armstat report EAI** - <https://armstat.am/file/doc/99537068.pdf>

sovereign, competitive state. Such an economy can and should be geared towards a higher degree of complexity."

Foreign direct investments (FDIs) in the Armenian economy stood at USD 998.1 million in 2022³, which is 2.7 times more than in the previous year. The share of FDIs in the country's GDP increased from 2.5% in 2021 to 5.12% in 2022. The Government aims to increase the FDI to GDP ratio to 6% in 2026. The EU 27 is the second after Russia as a source of FDIs in terms of Gross flow with a 25.46% share and Net stocks with a 22.97% share. Russian share is 53.26% and 43.55% correspondingly. **More details are in Annex 1.**

Sanctions

Armenia's Minister of Economy Vahan Kerobyan, when asked about whether Armenia is helping Russia to circumvent Western sanctions, referred to Armenia's membership in the Eurasian Economic Union (EAEU) to explain the grounds for the movement of certain goods from Armenia to Russia. "The actions of Armenian companies are not aimed at bringing Armenia under secondary sanctions, but simply proceed from the economic essence and their interests," Kerobyan said. At the same time, he did not rule out possibility of involvement of Armenian companies in the Western sanction circumvention.

Two Armenian companies are designated by the U.S. authorities. Namely, "Tako" LLC, an Armenia-registered company, is included in the U.S. Department of Commerce sanctions list. The same company is in the sanctions list of the U.S. Department of the Treasury since September 2022. Another Armenian company Milur Electronics LLC designated by the U.S. Department of the Treasury as an affiliate of Russian Milandr in November 2022. Armenian Deputy Prime Minister Mher Grigoryan met with the U.S. Deputy Treasury Secretary Adevale Adeyemo in Washington on 11 April 2023. Adeyemo mentioned the measures taken by the U.S. to curb the circumvention of anti-Russian sanctions.

The Armenian producers, which also export their products, have been sending alarming signals when it comes to the reduction of their production, which is linked to issues related to selling of their products in foreign markets. After the launch of Russian aggression in Ukraine, the Russian rouble devaluated, and the purchasing power of Russia's population has been continuously decreasing. Which means they can purchase fewer goods and services with the same amount of money. This is the reason for reducing exports of goods produced in Armenia to the Russian market. On the contrary, the figures for re-export keep growing. In the same time, Armenian currency (dram) has significantly appreciated to Euro and US dollar, and maintained roughly same exchange rate to rouble. Therefore any currency exchange rate advantage that Armenian producers benefited from, when dram was weak during COVID pandemics, has not only vanished, but has reversed and made Armenian products expensive worldwide. Even though many Western companies left Russia, Armenian products are less competitive in the Russian market.

Sign-off: Andrea WIKTORIN, Head of Delegation

³ FDI in 2022 - https://armstat.am/file/article/sv_02_23r_420.pdf

Annex 1 The EU investments in Armenia as of 31 December 2022 in million Euros⁴

No		Gross flow				Net stock				Sector
		Total investments	Of which FDI	Share %		Total investments	Of which FDI	Share %		
				Total investments	Of which FDI			Total investments	Of which FDI	
	EU Total/ Country	11811.5	3356.7	36.27	25.46	1439.6	1034.6	22.89	22.97	EU is the second, after Russia, source of FDI Gross flow and second in terms of Net stocks in 2022
1.	Austria	5.2	5.2	0.02	0.04	14.0	6.9	0.22	0.15	Wholesale other than vehicles, Health
2.	Belgium	32.8	26.2	0.10	0.20	3.5	3.3	0.06	0.07	Other production
3.	Bulgaria	2.7	0.2	0.01	0.00	0.0	0.0	0.00	0.00	No data
4.	Croatia	2.3	0.8	0.00	0.00	-0.2	-0.2	0.00	0.00	Mining

⁴ Source: National Statistical Service of Armenia https://armstat.am/file/article/sv_02_23r_420.pdf

The exchange rate according to Armstat 1 euro = 417.71 AMD.

No data or share is less than 0.01% for Estonia, Lithuania, Malta, Portugal, Sweden and Romania.

No		Gross flow				Net stock				Sector
		Total investments	Of which FDI	Share %		Total investments	Of which FDI	Share %		
				Total investments	Of which FDI			Total investments	Of which FDI	
5.	Cyprus	1848.3	405.5	5.68	3.08	385.8	315.6	6.14	7.01	Utility supply, Mining, Wholesale other than vehicles, Retail other than vehicles, Telecommunication, Legal and accounting services, Hospitality, Base metals, Retail other than vehicles, Real estate and Beverage production,
6.	Czech	-0.2	-0.3	0.00	0.00	4.7	4.7	0.07	0.10	Utility supply, Leasing and renting
7.	Denmark	3.8	0.8	0.01	0.01	1.4	0.4	0.02	0.01	No data
8.	Finland	88.8	20.6	0.27	0.16	-	-	-	-	No data
9.	France	1380.5	1170.6	4.24	8.88	237.2	235.7	3.77	5.24	Water collection, processing and distribution, Hospitality, Beverage production, and Tourism
10.	Germany	4814.7	706.5	14.79	5.36	171.5	109.1	2.73	2.42	Mining industry, Base metals, Utility supply, Professional, scientific and technological

No		Gross flow				Net stock				Sector
		Total investments	Of which FDI	Share %		Total investments	Of which FDI	Share %		
				Total investments	Of which FDI			Total investments	Of which FDI	
11.	Greece	469.5	295.9	1.44	2.24	0.3	0.3	0.00	0.01	No data
12.	Hungary	257.1	5.4	0.79	0.04	10.7	5.7	0.17	0.13	Wholesale other than vehicles
13.	Ireland	63.4	52.3	0.19	0.40	25.9	24.4	0.41	0.54	IT, Information consulting
14.	Italy	364.6	191.1	1.12	1.45	219.8	123.5	3.50	2.74	Hospitality, Chemicals, Construction, Utility supply, Real estate and Leasing and renting
15.	Latvia	0.0	0.0	0.00	0.00	0.0	0.0	0.00	0.00	No data
16.	Luxemburg	862.3	359.2	2.65	2.72	275.1	94.5	4.38	2.10	Beverage production, Utility supply, Storage and logistics
17.	Netherlands	1602.2	104.1	4.92	0.79	88.8	109.7	1.41	2.44	Mining industry, Telecommunication, IT, Information consulting, Legal and accounting services
18.	Poland	1.0	1.0	0.00	0.01	1.0	1.0	0.01	0.01	No data
19.	Slovakia	0.1	0.1	0.00	0.00	0.0	0.0	0.00	0.00	No data
20.	Slovenia	8.3	8.3	0.03	0.06	0.0	0.0	0.00	0.00	Management consultancy

No		Gross flow				Net stock				Sector
		Total investme nts	Of which FDI	Share %		Total invest ments	Of which FDI	Share %		
				Total invest ments	Of which FDI			Total invest ments	Of which FDI	
21.	Spain	4.1	3.2	0.01	0.02	0.1	-	0.00	-	No data