

DELEGATION OF THE EUROPEAN UNION TO ARMENIA

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Subject: Armenia – Economic Report for May 2023

Summary

Armenia's economic activity index grew by 12.2% in January- April 2023. The Foreign trade turnover increased by 99.4%. The exports increased by 210% and the imports grew by 93.9%. The Consumer price index grew by 6.2%, and the industrial product index deflated by 1.1% in the mentioned period. The EU sanctions Envoy David O'Sullivan visited Armenia on 24 and 25 May 2023. During the visit, he discussed issues related to trade flows, re-exports, and circumvention of sanctions. The National Assembly adopted substantial amendments to the Labour Code on 03 May 2023. On 22 May 2023, the Ministry of Economy of Armenia announced the launch of shipments between Georgian and Russian ports. It is an alternative route to the existing main land trade route from Armenia to Russia and other Eurasian Economic Union countries, passing Georgian - the Russian Upper Lars checkpoint. Armenia is taking action to build a new nuclear power unit.

Main developments - Armenia's economic activity index¹ grew by 12.2% in January - April 2023² compared to the same period of 2022. It increased by 12.1% in April alone, compared to April 2022, and surged by 3.4% juxtaposed to March 2023. All the sectors of the economy have shown an increase, except for electricity production, which recorded a decline of 3.3%. **Foreign trade turnover increased by 99.4% in January - April 2023.** The exports increased by 210% and the imports grew by 93.9%. The trade balance remains negative at USD 1.5 billion. Exports make up 59.2% of imports. **The Consumer price index grew by 6.2%, and the industrial product index deflated by 1.1%** in the mentioned period. The European Bank for Reconstruction and Development forecasted 5% growth for Armenia's economy in 2023, in its latest Regional Economic Prospects report for May 2023.

Sanctions - The EU International Special Envoy for the Implementation of EU sanctions David O'Sullivan visited Armenia on 24 and 25 May 2023. In the scope of his visit, he met with Tigran Khachatryan, Deputy Prime Minister. Mr. Khachatryan insisted that Armenia wants to cooperate with the EU on any sanctions-related issue and does not wish to become a platform for circumvention. He is chairing weekly meetings with all relevant services to monitor the situation and take appropriate actions. Mr. O'Sullivan also met with Mnatsakan Safaryan, Deputy Foreign Minister, Vahan Kerobyan, Minister of Economy, Eduard Hakobyan, Deputy Minister of Finance, Rustam Badasyan, Chairman of the State Revenue Committee, Armen Nourbekyan, Deputy Governor of the Central Bank, Andranik Aleksanyan, Executive Director of the Chamber of Commerce. Besides, there were meetings also with the Ambassadors of G7, representatives of International Financial Institutions, European businesses, and media. During the visit, he discussed issues related to trade flows, re-exports and circumvention of sanctions.

Armenian Prime Minister Nikol Pashinyan, during his recent visit to the Czech Republic in an interview with the Czech magazine 'Respect,' said, "**The sanctions are Armenia's red lines,**

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/99537783.pdf>

and we are clearly telling this to the Russians. In terms of goods that are under sanctions we try to be as transparent as possible, and in this sense we cooperate with the EU, US, even with Russia itself.'

Labour code amendments - The National Assembly adopted the substantial amendments to the Labour Code on 03 May 2023. Except for a few articles, all regulations will come into force within 2 months. The amendments, among others, covered provisions on retirement age, working hours of persons under 18, rights of employees with children, vacation regulation, internship institute, concluding and terminating employment contracts, overtime, right to strike, and workers' representatives. The Government presented this amendments as major improvement of labour relations and reform of the Labour code.

Upper Lars - On 22 May 2023, the Ministry of Economy of Armenia announced the launch of shipments between Georgian and Russian ports. It is an alternative route to the existing main land trade route from Armenia to Russia and other Eurasian Economic Union countries, passing Georgian - the Russian Upper Lars checkpoint. A cargo transportation by sea has been launched from Georgian Batumi port to Russian Novorossiysk port. The route was successfully tested and ready for regular shipments. The Government plans to subsidize the sea part of cargo transportation. The operator of sea shipments authorised by the Armenian Government is C&M International LLC. Local media claims that the latter has a connection with Russian Railways.

The only land route from Armenia to Russia passes through Georgia on the Stepantsminda-Lars highway. Unfavourable weather conditions, tightening of inspections, political and economic reasons regularly become the reason why the road to Lars is often closed. Traffic jams occur, drivers are forced to stay on the roads for weeks with loaded trucks, goods spoil, and businesses have losses.

The Armenian Government sees an alternative to this problem that has been going on for years: export of goods by sea, by ferry. Therefore, on 24 March 2022, Minister of Economy Vahan Kerobyan said, "From 15 June 2022, a two-way ferry service will be launched between the ports of Poti and Kavkaz on the Black Sea." The new deal will not have a different sanctioned trade monitoring mechanism by the Georgian authorities than land route shipments.

Due to sanctions imposed against Russia, the Dutch operator of the Georgian Poti port was reluctant to grant permission for the ferry operation between Georgian and Russian ports for the ferry operated by the authorised Armenian operator. After multiple attempts by the Armenian Government to solve the issue, it finally decided to change the ports and fulfil its year ago given promise to the traders.

Nuclear - Prime Minister Nikol Pashinyan established an interdepartmental working group for building a new nuclear power unit in Armenia. In particular, working group tasks include identifying necessary technologies for the small modular reactors. The Armenian Government wants to replace the existing nuclear power unit, the life of which was first extended until 2026. Later the Government announced plans for further extension up to 2036. Irrespective of an agreement signed with Rosatom to study the possibility of building of new Russia-designed unit, Armenia sent a delegation to the United States to explore other possibilities. In addition, Armenia is planning to sign a new agreement on nuclear energy cooperation with the U.S.

Sign-off: Andrea WIKTORIN, Head of Delegation