Country Snapshot

At a Glance

- In the December 2018 snap parliamentary elections, Prime Minister Nikol Pashinian’s My Step Alliance won 70.4 percent of the vote, securing a comfortable 88-seat majority in the 132-seat parliament.

- The Government’s five-year program is focused on fighting corruption, strengthening the rule of law, and enhancing human capital.

- Armenia’s economy moderated in late 2018 but still grew by 5.2 percent for the year, reflecting higher private investment and consumption. Two years of pro-poor growth lowered the poverty rate to its lowest level since the 2008–09 crisis.

- GDP growth is expected to moderate slightly in 2019 and accelerate in the medium-term, subject to reforms. An increasingly uncertain external environment is a major challenge.

Country Context

Following an initial spike in early 2018, Armenia’s economic performance slowed during the rest of the year, mostly due to weakening external conditions, the lower execution of public capital expenditures, and slowing investment. Still, the economy expanded at a robust 5.2 percent for the year. Although larger economic disturbances were avoided during the political transition after the December 2018 parliamentary elections, the associated uncertainty may have weighed on economic sentiments.

Inflationary pressures remained low at 2.5 percent, just on the lower band of the Central Bank’s inflation target range. The external balances deteriorated as growing exports—particularly textiles, tourism, and IT services—were insufficient to offset strong import growth, weaker mining export earnings, and flattening remittances. The overperformance of the fiscal accounts reflected strong revenue collection, sound control over current spending, and an underperformance in capital expenditure.

Two consecutive years of solid growth and low inflation contributed to an improvement in living conditions. The national poverty rate declined from 29.4 percent in 2016 to 25.7 percent in 2017. The economic growth in 2017 translated into higher consumption levels for those at the bottom 40 percent of the distribution, breaking the pattern observed in 2011–2016, when growth largely benefited the upper deciles only.
The World Bank and Armenia

For over 25 years, the World Bank Group has been a key partner for Armenia, with a sustained history of successful investments in various sectors of the country’s economy and an equally deep history of policy reform dialogue.

The new Country Partnership Framework (CPF) for FY19–23 will support the rebalancing of Armenia’s economy toward a new growth model focused on boosting exports, enhancing human capital, and sustainably managing natural resources and the environment.

The World Bank and International Finance Corporation (IFC) have a rich and diversified portfolio in Armenia, with finance mobilized from a range of concessional sources using various instruments.

The World Bank Group is increasingly focused on sharing country knowledge and operational experience to leverage other development partners’ resources for effective public investment.

Key Engagement

Armenia has a history of natural disasters that include the devastating Spitak earthquake of 1988 as well other hazards, such as floods, droughts, rock falls, and flash floods. It is one of the most disaster-prone countries in the South Caucasus.

One of the country’s most vulnerable sectors is education. As part of the World Bank Armenia National Disaster Risk Management Program (NDRMP), technical guidelines for the retrofitting and reconstruction of schools were developed and trainings for government officials, engineers, and private contractors were conducted.

The program also developed an educational e-Learning module aimed at strengthening disaster risk preparedness for younger generations. The innovative experiential module was launched in October 2017 and has been played more than 1.1 million times by 78,626 unique players.

In May 2018, the mobile version, on both iOS and Android platforms, was launched and is now accessible for English and Russian speakers worldwide.

A national-level Probabilistic Seismic Hazard Assessment aimed at enhancing Armenia’s seismic hazard information and updating its national seismic zoning maps was prepared and adopted by the Ministry of Emergency Situations.

To better understand the fiscal impacts of disasters and provide policy options for disaster risk financing and insurance, a Disaster Risk Fiscal Diagnostic Report was prepared, followed by a methodology to improve post-disaster damage data collection to ensure better-informed decision making.

In addition, a strategic roadmap for the modernization of weather, water, and climate services in Armenia was developed with three different scenarios.

Currently the NDRMP supports a short-term scenario that will improve the weather and hydrological forecasting capability of Armenia’s hydromet services.
Recent Economic Developments

After growing by 8.3 percent in the first half of 2018, Armenia’s growth moderated, but still recorded a healthy 5.2 percent level for the year, primarily reflecting higher private consumption and a strong buildup of investment inventories.

On the production side, the main driver was the 9 percent growth in services. Industry grew by 3.4 percent, with a significant shift from mining to manufacturing.

Mining output contracted, due mostly to the suspension of operations at one large copper mine since February 2018. Manufacturing output expanded by 10 percent, while the agriculture sector contracted.

The budget overperformed in 2018 by registering a deficit of 1.6 percent of GDP compared to the planned 2.6 percent. As a result, the government debt-to-GDP ratio fell from 53.7 percent of GDP in 2017 to 51.4 percent in 2018, the first reduction since 2013.

The current account deficit is estimated to have deteriorated to above 8 percent of GDP, mostly as the import of goods grew almost three times faster than exports. Foreign direct investment, predominantly in the mining and energy sectors, remained low at 2.3 percent of GDP.

Economic Outlook

Armenia’s outlook envisages slower but still robust growth amid a supportive macroeconomic environment of low inflation and sustainable public finances. Growth is projected to moderate at 4.2 percent in 2019 and gradually accelerate to around 5 percent in the medium term.

In line with the fiscal rule, the budget deficit is projected to stay at around 2 percent of GDP over the medium term, further lowering the public debt-to-GDP ratio to below 50 percent in 2021.

The current account deficit is expected to decline gradually, subject to structural reforms that will stimulate additional exports of goods and tourism.

As the economy continues to grow, income from labor markets rises, and social transfers are sustained, it is expected that the poverty rate will continue to decline.

The downside risks for Armenia’s outlook are increasing, due primarily to the more uncertain external environment and moderating global and regional growth rates.

Domestically, reforming Armenia’s economy will require bold efforts in many areas that could still face opposition because of vested interests or the perceived high costs.

At the same time, tangible results are unlikely without comprehensive reforms, and the failure to produce any significant changes could re-ignite social and political tensions and thereby heighten economic uncertainty.
Project Spotlight

Community Agricultural Resources Management and Competitiveness Project

The Community Agricultural Resources Management and Competitiveness (CARMAC 2) project builds on the World Bank’s experience and successes in agriculture, rural development, pasture and livestock management, and participatory community development that were promoted under the first CARMAC project.

In addition to the 81 communities engaged under CARMAC-1, 109 mountainous communities in eight provinces have received support in establishing pasture users consumer cooperatives (PUCCs) to assume management and control of community pasture areas with the objective of improving the productivity and sustainability of pasture and livestock systems. Results attributed to CARMAC 2 include:

- Roughly 2,800 persons belonging to 109 PUCCs were trained in the rights and duties of cooperative members, legal requirements, pasture management and livestock management activities, and the mitigation of environmental risks.
- 207,000 hectares, about 19 percent of the area of previously unused or underused pastures, have been equipped with watering points (147 km waterline, 133 stock watering points) that have reduced the pressures from animal grazing on more degraded nearby pastures.
- 477 units of agricultural machinery, including 89 wheel tractors, 50 baling machines, and 338 units of other agricultural tools, were provided to the PUCCs.
- More than 110,000 conventional head of livestock, which makes about 17 percent of the total head of livestock in the country, are covered by the project.