

The World Bank in Armenia Country Snapshot



An overview of the World Bank's work in Armenia

October 2018

ARMENIA	2017
Population, million	3.0
GDP, current US\$ billion	11.6
GDP per capita, current US\$	3,813
Poverty rate (\$5.5/day 2011 PPP terms) (2016)	43.5
Life Expectancy at birth, years (2015)	74.2

At a Glance

- Armenia has completed its transition from a semi-presidential system to a parliamentary republic. In March 2018, a new president was elected by the Parliament rather than by popular vote. Armenia's "velvet revolution" secured a victory on May 8 when the Parliament elected protest leader and opposition member of parliament Nikol Pashinyan as prime minister, representing a dramatic break with the ruling elite.
- Armenia's economy continued to grow soundly in 2018, reflecting robust external demand, favorable metal prices, higher investment, and strengthened private consumption. Improvements in labor markets and remittance inflows are estimated to have lowered poverty to pre-financial crisis levels. Subject to strong structural reforms, real GDP growth in the medium term is projected to average 4.5%, helping to improve living conditions further.
- Although Armenia's economic outlook is positive, growing regional and global risks could create certain challenges for the country's sustainable economic development in the medium term.

Country Context

Armenia's economy in 2017 experienced its highest growth rate in a decade. The "velvet revolution" and power transition do not appear to have disrupted the favorable macroeconomic trends that began in 2017, as GDP registered 8.3% growth year-on-year (y-o-y) in the first half of 2018. Investment, which has been depressed in recent years, made a higher contribution to total economic growth.

Inflation remains low, below the inflation target range of the Central Bank of Armenia (CBA). The new Government has shown a strong commitment to fiscal prudence and to a lower public debt. Although the export of goods increased significantly, accompanied by an increase in the number of tourists and higher transfers, it was more than offset by much higher import growth; as the result, the current account deficit widened.

The recent economic growth and positive labor market trends—together with low inflation and rising remittance inflows—contributed to declining poverty rates. A continuation of these trends in 2018 should provide additional income generation opportunities for those at the bottom of the distribution.

The World Bank and Armenia

For 25 years, the World Bank Group has been a key partner for Armenia, with a sustained history of successful sectoral investments and an equally deep history of policy reform dialogue. The new Country Partnership Framework (CPF) for FY19–22, soon to be discussed by the Board, will support the rebalancing of Armenia’s economy toward a new growth model over the 2019–22 period.

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 diverse 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

Events such as the 1988 Spitak earthquake illustrate the devastation, economic damage, and loss of human life that can result from natural disasters. One of the most vulnerable sectors is education, as 90% of Armenia’s schools were built prior to the first Seismic Code adopted in 1994.

Using data and analysis provided by the World Bank and the United Nations Children’s Fund (UNICEF) and the seismic retrofitting experience of high schools financed by the Bank’s Education Improvement Project, the Government launched the national Safe School Improvement Program (SSIP) in 2015.

The current target of the SSIP is to improve the safety of 426 schools—31% of all schools in the country. As part of the Armenia National Disaster Risk Management Program (NDRMP), the World Bank has supported this effort by developing technical guidelines for the retrofitting and reconstruction of schools and by providing training to government officials, engineers, and private contractors.

WORLD BANK PORTFOLIO

No. of Projects: 15

Lending: \$569.42 Million

IBRD: 11 Loans (\$468 Million)

IDA: 5 Credits (\$92.9 Million) (3 stand-alone credits and 2 blend with IBRD)

SREP: 1 Grant (\$8.55 Million)

The Government has committed to using these new guidelines to update Armenia’s normative documents. In parallel, the program will provide technical assistance to develop a road map for upgrading Armenia’s seismic building codes following the adoption of new zoning maps developed under the NDRMP.

In addition to supporting improvements in the physical resilience of schools, the NDRMP has developed an educational e-Learning module through the Dasaran.am platform to strengthen disaster risk preparedness, particularly among younger generations.

The module was launched in October 2017 and within six months had been played almost 953,300 times by 62,563 unique players. In May 2018, the mobile version on iOS and Android platforms was launched and is now accessible for English- and Russian-speaking users. The program has also prepared a national-level Probabilistic Seismic Hazard Assessment aimed at enhancing Armenia’s seismic hazard information. It has also updated the national seismic zoning maps adopted by the Ministry of Emergency in summer 2018, blending modern analysis methods with cutting-edge scientific research.

Finally, given that 90% of losses from natural disasters are linked to severe weather events, the NDRMP has undertaken a technical assessment of Armenia’s hydro-meteorological and forecasting needs to facilitate better disaster preparedness and decision making.

Recent Economic Developments

Growth remains strong in 2018, benefiting from continued robust external and domestic demand and elevated copper prices. Investment supported growth, though largely due to a buildup of inventories that most likely reflected developments in the mining sector rather than a more general pickup in investment.

Private consumption benefited from growing wages, a reduction in the unemployment rate, and growing remittances. On the production side, growth was driven by a 10% (y-o-y) expansion in services and an 8% growth in industry, one quarter of it due to the recovery of the construction sector.

Inflation was 2.4% as of July 2018, below the CBA inflation target range (4 +/- 1.5%), with food and transport prices showing the largest increases at 2 and 9%, respectively. Revenues overperformed in the first half of 2018, in part due to stepped-up efforts to fight tax evasion.

The current account deficit widened as the strong performance of exports and remittances was more than offset by increased imports. Goods exports increased by 20%, reflecting stronger external demand and higher metal prices. Tourism proceeds also grew, as the number of arrivals increased by 10%.

Economic Outlook

Armenia's growth outlook generally remains positive. Prudent macroeconomic policies, the low inflation environment, and favorable terms of trade will continue to support growth.

Growth is expected to moderate to around 4.9% in 2018, reflecting the base effect and growing headwinds in major trading partners. Inflation is expected to edge up but stay in the CBA's target range, while the current account balance will deteriorate due to the significant increase in imports.

The new Government is committed to unlocking Armenia's potential and creating a fair and competitive business environment. Growth in the medium term is projected to be around 4.5%, with investment making a major contribution. A strong commitment to the fiscal rule will lower the fiscal deficit, with public debt (including CBA debt) as a percent of GDP falling from the current 59% to 55% in 2020.

As the economy continues to expand and create opportunities for income generation, especially in sectors that employ the low-skilled such as agriculture, poverty is expected to continue to decline.

Although Armenia's economic outlook is positive, growing regional and global risks, particularly the new wave of sanctions on Russia and the recent ruble depreciation, could create challenges for the country's sustainable economic development in the medium term.

Project Spotlight

Community Agricultural Resources Management and Competitiveness (CARMAC 2) Project



Children in livestock communities begin to engage with animals at a young age.

The second **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 consumer cooperatives that provide a wide range of services: ploughing, sowing, spraying, harvesting, and transporting. The results attributed to CARMAC 2 include:

- All members of 109 Community Pasture Management and Livestock Development Committees 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% 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 pastures elsewhere.
- 477 units of agricultural machinery, including 89 wheel tractors, 50 baling machines, and 338 units of other agricultural tools, were provided to the project communities.
- More than 110,000 conventional head of livestock, which makes about 17% of the total head of livestock in the country, is covered by the project.



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