At a Glance

- Twenty-six years after independence, Armenia is in the final stages of a political transition to a parliamentary system.

- A combination of low commodity prices, declining remittances, and increased political uncertainty undermined Armenia’s growth and fiscal position in 2016 and reversed the trend in poverty reduction. However, the resurgence in base metal prices and the recovery of both private investment and consumption have contributed to a recent economic recovery.

- The outlook has been revised slightly upward from the previous 3.0–3.4% to 4.0% average growth for 2018–19. The key economic challenge for Armenia is to reinforce macroeconomic stability and uncover new sources of steady and shared growth.

- The World Bank Group is initiating a performance review for the just-completed Country Partnership Strategy for 2013–17, which supported key investments to help strengthen competitiveness and job creation, and improve efficiency and equity in social services.

Country Context

Armenia’s transition from a semi-presidential system to a parliamentary republic is close to complete. A new parliament was elected in April 2017 under the revised constitution, and in spring 2018, the president will be elected by parliament rather than by popular vote.

Armenia’s national and regional contexts show that the country is at an inflection point. Since 2014, growth has slowed and with it, the rate of poverty reduction. Some deceleration is due to a weaker performance in the country’s main trading partners and a slowdown in remittance-providing countries. Reform momentum needs to be re-energized, as the initial boost to GDP from first-generation reforms has run its course.

This requires action to both raise the pace at which Armenia grows and ensure that the new pattern of growth is shared and alleviates poverty. Growing without trade will have its limits, particularly if transfers from abroad fall; growing with more trade requires structural changes. Armenia will need to think about ways to strengthen its resilience, that is, its ability to successfully cope with and manage changes in or shocks to the economy and its people.

Although poverty reduction has been impressive, a large proportion of people in Armenia are still vulnerable. Persistent spatial disparities indicate that a deeper understanding of the causes and possible solutions is needed. With an economy still heavily dependent on mineral resources and agriculture, Armenia needs a long-term plan for sustainable and effective use of natural resources.
The World Bank and Armenia

For 25 years, the World Bank 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 current Country Partnership Strategy for 2014–17 supports improved outcomes in competitiveness and job creation and efficiency and equity in social services, with a cross-cutting focus on improving governance.

Both the World Bank and International Finance Corporation (IFC) portfolios are at a historic high 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. Due to Armenia’s aging infrastructure, the country remains highly vulnerable, as a large-scale disaster is likely to result in a high number of casualties and significant damage to public and private assets.

One of the most vulnerable sectors is education, as 90% of schools were built prior to the first Seismic Code that was adopted in 1994. To address this issue, Armenia has made the seismic safety of schools a national priority. 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. This is Armenia’s first effort to address the seismic vulnerability of school buildings at scale.

The current target of SSIP is to improve the safety of 426 schools—31% of the country’s schools. 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. The Government has committed to using these new guidelines to update Armenia’s normative documents.

In addition to supporting improvements in the physical resilience of schools in Armenia, the program is also leveraging the country’s existing information technology platforms to promote awareness of vulnerabilities across society. Through the Dasaran.am platform, the program is developing an educational e-Learning module aimed at strengthening disaster risk preparedness, particularly among the younger generations, through innovative experiential learning. The educational module will be launched in fall 2017 and has the potential to reach over 300,000 children and parents across the country during the first year of deployment.

The program is currently preparing a national-level Probabilistic Seismic Hazard Assessment aimed at enhancing Armenia’s seismic hazard information and updating the national seismic zoning maps. The Bank has submitted a Disaster Risk Fiscal Diagnostic Report to help the Government better understand the fiscal impacts of disasters and provide policy options for disaster risk financing and insurance.

Finally, with growing threats from climate-related hazards such as droughts, floods, and hail, the NDRMP is undertaking a technical assessment of the Government’s hydro-meteorological and forecasting needs to facilitate better disaster preparedness and decision making.
Recent Economic Developments

After stagnating in 2016 with only 0.2% growth, the Armenian economy showed renewed strength during the first half of 2017, as real GDP grew by 6% above the same period in 2016. Growth was driven by industry, services, and retail trade, which were 12, 11, and 13% above their 2016 levels, respectively. Agriculture remained weak while construction continued its decline, coming in 10% below 2016 levels.

Growth was supported by exports of extractives (copper, molybdenum), processed food, beverages, jewelry, polished diamonds, tobacco, and textile products, which together contributed to a 21% growth in exports, year on year (y-o-y). Terms of trade remained stable, as export prices increased by only 2.4% over 2016. Although exports experienced a strong boost of over 20% (y-o-y), net exports put a brake on growth, as imports spiked on the back of rising recovering investment and consumption.

Having registered high fiscal deficits of 4.5 and 6.0% of GDP in 2015 and 2016, respectively, the authorities initiated fiscal consolidation through the 2017 state budget with a deficit target of only 2.7%. The fiscal situation was stable during the first half of 2017, supported by improved tax collection and more disciplined public spending, which has helped contain the budget deficit at a lower-than-projected level.

With the public debt-to-GDP ratio still close to 60% (well above the mandated 50% threshold), the Government will need to maintain tight fiscal policy for the next few years and comply with the agreed fiscal rule of limiting the deficit to 3% of the average GDP of the previous three years.

The banking sector began the year in a stronger capital position and in compliance with the new capital requirements set by the Central Bank (in line with Basel III). The average capital adequacy ratio for Armenia’s 17 banks was 20%, well above the minimum of 12%. Dollarization rates for bank deposits and loans declined from over 70 and 66% at the beginning of 2016 to about 63 and 62% by June 2017, respectively. Banking sector lending to the economy, almost stagnant in 2015, grew by 15% in 2016 and expanded a further 13% during the first half of 2017.

After registering a historically low deficit of 2.4% of GDP in 2016, the current account deficit widened in the first half of 2017 as imports grew faster than exports. The 26% (y-o-y) expansion in imports was partly the result of recent improvements in the transparency of customs administration.

Trade data show greater penetration into Asian and Middle Eastern markets (a roughly 30% increase, y-o-y) and the Commonwealth of Independent States (CIS)/Russia (22%), followed by the European Union (EU) (18%). After a cumulative 35% decline during 2015–16, remittances have grown 11% compared to the first half of 2016, while private transfers from Russia grew at a much faster 24%.

Economic Outlook

Growth and poverty reduction prospects for the remainder of 2017 and over the medium term are positive but subject to significant uncertainties, as risks on both external and domestic political fronts remain high. The presidential elections in April 2018 (and formation of a new government), new western sanctions on Russia, and the still unclear situation with Iran justify a cautious forecast of 4.5% growth in 2017 overall, with average growth over 2018–19 projected to be about 4%.

The most recent period shows strong growth in the industry and service sectors but only minor improvements in agricultural output and a continued decline in construction. These growth trends reflect a rebalancing of the structure of the economy that may widen disparities between the capital city, secondary towns, and rural areas if labor mobility remains low. As the structural transformation of the economy continues, secondary towns will play an important role in creating job opportunities for people leaving the agriculture sector.
Project Spotlight

Armenia’s Development Strategy 2014–2025 sees competitiveness and innovation as key to transforming the country into a knowledge-based economy.

The E-Society and Innovation for Competitiveness (EIC) Project has helped to expand and deepen Internet penetration and access to computers/IT devices among Armenia’s population and to foster enterprise innovation and the establishment of IT/knowledge-intensive industry in the country. In 2010, only 15% of Armenia’s population had Internet access. By 2015, close to Project completion, this indicator had reached 58.2% and continues to grow. More specifically, project results included:

- 344 remote villages across the country benefited from increased access to Internet through Wi-Fi. Broadband penetration was provided to 41% of residential rural households. 37,171 people received credits to purchase PCs/ITC devices through the “Computer for All” Program.
- Through the “Digital Citizen” program, the Government strengthened procedures/mechanisms to ensure Internet security by establishing a Certification Authority that by 2016 had issued over 1 million user ID certificates, i.e., to one third of Armenia’s population.
- The Gyumri Technology Center (GTC) and Vanadzor Technology Center (VTC) were established and are providing training to businesses. GTC has provided know-how and advisory services to 102 multinational and local start-ups, firms, and entrepreneurs, trained over 2,000 persons, and supported the incubation of young firms. 50% of trainees/supported entrepreneurs were women.
- An Armenia Silicon Valley Representation Office was established, which helped to facilitate US$3 million in sales and investments to Armenian tech companies and to send 38 Armenian IT companies to Silicon Valley for study tours.

The E-Society project also provided financial, advisory, and promotional services to support innovation: 31 grants totaling US$1.2 million were awarded to technology start-ups in Yerevan, Gyumri, and Vanadzor. 11 projects received financing totaling US$1.6 million from the Early-Stage Venture Fund.