

The World Bank in Armenia Country Snapshot



An overview of the World Bank's work in Armenia

April 2020

ARMENIA	2019
Population, million	2.9
GDP, current US\$ billion	12.4
GDP per capita, current US\$	4,643
Poverty rate (\$5.5/day 2011 PPP terms) (2018)	50.4
Life Expectancy at birth, years (2018)	74.6

At a Glance

- For the third year in a row, Armenia's economy expanded strongly, as growth reached 7.6 percent in 2019, driven mostly by private consumption.
- Aided by income growth and low inflation, the national poverty rate declined by 2.2 percentage points in 2018 and reached 23.5 percent.
- Government debt fell to 50 percent of GDP at the end of 2019, one year earlier than envisaged in the Government's medium-term plan.
- The 2020 outlook has been strongly affected by the COVID-19 pandemic and the slump in commodity prices, which will likely lead to a sharp deviation in the positive economic perspective previously foreseen.
- Armenia's immediate challenge is to deal with the implications of COVID-19 in various sectors.

Country Context

The Government continues to enjoy strong public support. Along with a parliamentary majority, it has a firm platform to advance its reform agenda, including far-reaching changes to Armenia's political and judicial systems.

On the foreign policy front, Armenia has strengthened its ties with the European Union while maintaining a strong partnership with the countries of the Eurasian Economic Union.

Following robust real GDP growth of 7.5 percent in 2017 and 5.2 percent in 2018, economic performance remained strong in 2019, expanding by 7.6 percent.

Among the sectors, services drove growth following an acceleration in tourism output and continued dynamism in trade. Industry also expanded strongly, driven by a rebound in mining production.

Inflationary pressures remained low, with an average annual inflation rate of 1.4 percent in 2019 (down from 2.5 percent in 2018), well below the lower band of the Central Bank of Armenia's inflation target range.

The labor market has improved, but the unemployment rate remains exceptionally high at 18 percent. Real wages also continue to grow and were higher by 4.5 percent in 2019, though this may not have had an impact on the large segment of the population that remains employed in agriculture and the informal sector.

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

The World Bank has supported health reforms in Armenia since the late 1990s, investing in high-impact interventions to improve the quality of care, optimize the health facility network, and introduce health financing mechanisms to boost service access and efficiency.

Through the **Health Financing and Primary Health Care Development Project** (1997–2004), Armenia has shifted from financing inputs to promoting results by

- (i) establishing the State Health Agency to separate the provision and purchasing of health care,
- (ii) introducing output-based payments, and
- (iii) implementing an integrated health information system to facilitate accountability.

WORLD BANK PORTFOLIO

No. of Projects: 13 (2 IDA/IBRD blend projects are dual quantified)

Lending: \$586.23 million

IBRD: 11 Loans (\$505.36 million)

IDA: 4 Credits

To improve the quality of care, the project financed the introduction of family medicine, rehabilitation of infrastructure, and provision of medical equipment.

Building on these successes, the **Health System Modernization Project** (2004–2016) invested in optimizing the facility network further, reducing the oversized marz bed capacity by 40 percent, renovating or constructing almost 180 clinics and 14 hospitals, and training 1,655 family doctors, 1,770 family nurses, and 730 health managers.

The ongoing **Disease Prevention and Control Project** (2013–22) extends support for results-based financing of service delivery and invests in improving the quality of care by renovating and constructing regional hospitals, training medical professionals in evidence-based guidelines, and providing essential supplies to feldsher-akusher punkts (feldsher midwife posts).

To redesign the country's health services to ensure value for money by addressing prevailing conditions in a cost-effective manner, the Government is currently preparing to undertake a Universal Health Coverage (UHC) reform. The World Bank team is providing support in the appropriate design and implementation of this endeavor.

Recent Economic Developments

Armenia's economic expansion of 7.6 percent was driven by private consumption that was fueled by year-on-year (y-o-y) increases in real wages and consumer loans of 4.4 and 35 percent, respectively.

Exports of goods and services grew by more than 10 percent y-o-y in real terms, but this was offset by a 9 percent growth in real imports, due primarily to a threefold increase in vehicle imports in advance of a hike in import duties starting in 2020. Investment made a positive but small contribution to growth.

On the supply side, services accounted for roughly 70 percent of total growth, and a broad range of manufacturing activity accounted for approximately 18 percent. Mining grew by 21 percent in real terms, though this was due mainly to a low base from the previous year. The construction sector expanded by 4.2 percent, its fastest pace in the past decade. The agriculture sector continued to contract, though at a slower pace.

The officially reported current account deficit narrowed marginally in 2019. Tourism receipts improved as the number of international tourist arrivals (about 1.9 million) increased by 14.7 percent, y-o-y.

Foreign direct investment inflows remain low, but portfolio inflows and loans were robust. This kept the dram stable and allowed for significant reserve accumulation, with reserves reaching US\$2.7 billion at end-February 2020.

Economic Outlook

The 2020 outlook has been strongly affected by the COVID-19 pandemic and the slump in commodity prices. Under the baseline scenario, envisaging the start of a gradual recovery in mid-summer 2020, the real GDP growth rate in 2020 is expected to moderate to 1.7 percent, a quarter of the average

growth rate of the past three years as exports and domestic demand are affected.

This is expected to be cushioned by fiscal expansion, including the Government's fiscal stimulus package in response to the pandemic.

With the slowdown affecting more labor-intensive sectors, poverty reduction is expected to be modest. At the same time, a scenario in which the pandemic is prolonged, the recovery is delayed, and the country's GDP growth declines further is increasingly likely.

Inflation pressures are expected to remain low, reflecting low global commodity prices and moderating demand. However, pressures on the exchange rate could easily push inflation up.

A dollarized economy and undiversified exports add to the challenges of managing the shock. However, a relatively healthy banking sector, as well as some fiscal buffers, partly mitigate the risks.

GDP growth is forecast to recover over the medium term to around 4.5 percent in 2021–22, supported by stabilizing external conditions and a resumption of delayed activities.



The World Bank is committed to supporting the next generation of health financing and service delivery reforms in Armenia to facilitate the move toward Universal Health Coverage (UHC).

Project Spotlight

Lifeline Roads Network Improvement Project (LRNIP)



Since the launch of this project, there have been tangible improvements to road quality, journey times, and local employment opportunities.

Armenia's road network stretches for 7,750 kilometers (km), of which 4,000 km are categorized as a community or lifeline road network (LRN).

Since the launch of the World Bank's Lifeline Road Improvement Project (LRIP) in 2009, there have been tangible improvements in road quality, journey times, and local employment opportunities.

In addition, as a result of the project:

- 369 km of LRNs have already been rehabilitated under the ongoing LRNIP, the average speed on those roads has improved from 20 to 41.10 km per hour, and the number of rural inhabitants with access to the roads has increased from 600,000 to 851,485.
- 78 "Safe Village" projects have been completed, representing a combination of road safety engineering improvements near the village schools (minor civil works for the implementation of safety measures, such as road humps and raised pedestrian crossings, footways, railings/fences, bus bays, and the installation of appropriate traffic signs and markings) and an education program in the schools to instruct students on road safety risks and how best to make use of the facilities provided.
- Road infrastructure has been screened for climate risks in areas prone to natural hazards, including landslides, rock falls, floods, etc.
- Armenia has improved its road safety and ability to assess the real cost of road crashes on people's lives and the economy by connecting all key road safety stakeholders with a consolidated and modern crash data collection and management system.



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