

The World Bank in Armenia Country Snapshot



An overview of the World Bank's work in Armenia

October 2019

ARMENIA	2018
Population, million	2.9
GDP, current US\$ billion	12.4
GDP per capita, current US\$	4,238
Poverty rate (\$5.5/day 2011 PPP terms) (2016)	50.0
Life Expectancy at birth, years (2015)	74.6

At a Glance

- Continuing with the robust expansion of the past two years, annual economic growth remained strong in the first half of 2019, expanding by 6.8 percent, driven mostly by private consumption.
- The two consecutive years of solid economic growth, accompanied by a low level of inflation, were able to reduce the poverty rate further.
- GDP growth is expected to stay strong at 5.5 percent in 2019, and with continued structural reform, sound macroeconomic policy in a low inflationary environment will be able to support healthy GDP growth rates of over 5 percent for the medium term.
- The risks related to the global growth outlook remain firmly in the downside, and domestically, concerted efforts to restructure the economy toward a sustainable export-led growth path will continue to be a major challenge.
- In September 2019, the authorities successfully issued a US\$500 million Eurobond that will be used to refinance the maturing Eurobond of the same amount that is due next year.

Country Context

Following parliamentary elections at end-2018, a new government was formed and a new five-year government program endorsed by parliament in February 2019. The Government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability.

Continuing with the robust expansion in 2017 and 2018 (of 7.5 and 5.2 percent, respectively), annual economic growth remained strong in the first half of 2019, expanding by 6.8 percent.

With external and internal inflationary pressures low, average annual inflation fell from 2.5 percent in 2018 to 1.8 percent in August 2019, below the Central Bank of Armenia's target range (4 +/- 1.5 percent).

Together with low inflation, the recent steady economic expansion has resulted in a reduction in poverty levels. The poverty rate, measured at the lower-middle-income poverty line of US\$3.2/day (2011 purchasing power parity [PPP]), is estimated to have fallen to 10.8 percent in 2018, its lowest rate since it peaked in 2010 due to the global economic crisis.

Real wages grew by 1.5 percent in 2018 and are continuing to grow in 2019. However, the unemployment rate remained high at 21.9 percent in the first quarter of 2019.

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, facilitating high-impact investments in improving the quality of care, optimizing the health facility network, and introducing 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 from the purchasing of health care, ii) introducing results-based payments, and iii) implementing an integrated health information system to facilitate accountability.

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

WORLD BANK PORTFOLIO

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

Lending: \$563.6 million

IBRD: 11 Loans (\$482.7 Million)

IDA: 4 Credits (\$80.87 million)

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) extends support for results-based financing of service delivery while continuing to invest 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.

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). Integrated care has been introduced to increase efficiency, while health care has been improved and financing mechanisms aligned with UHC via improved public financial management, enhanced capacity building for strategic purchasing, and the expansion of prepaid and pooled resources for health care.

In addition to the efforts in health care, a learning module aimed at strengthening disaster risk preparedness for younger generations has been developed. The innovative experiential module was launched in October 2017 and has been played more than 1.1 million times by 78,626 unique players.

Recent Economic Developments

Economic growth continued to be strong in the first half of 2019, expanding by 6.8 percent. Growth was supported mainly by private consumption that was fueled by rising real wages (up 3.5 percent) and consumer lending (up 40 percent), in contrast to 2018 when a substantial buildup of inventories (investment) accompanied growth.

On the production side, the main driver was the 10 percent growth in services. In the industry sector, manufacturing had the highest growth in the first half of 2019 (7 percent), with mining growth emerging in the second quarter. Agricultural output fell by 7 percent year-on-year (y-o-y) in the first half of the year, extending a three-year contraction in sectoral output. Construction growth remained modest at 4 percent y-o-y.

The external balance deteriorated in the first quarter of 2019 due to a larger trade deficit and lower remittances. The export of goods has started to improve since the second quarter of the year, as the base effect of the closure of a large mine (Teghut) in early 2018 dissipated.

The fiscal accounts over-performed in the first half of 2019, recording a surplus, in stark contrast to the budgeted deficit for this period. The surplus was due mainly to the under-execution of expenditure (in particular, capital expenditures) but also a 10 percent over-performance of tax revenue.



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Economic Outlook

The baseline scenario for Armenia's growth envisages a continuation of recent trends, with GDP expected to expand by 5.5 percent in 2019. Private consumption will remain strong, with an additional stimulus from higher government spending that offsets the weakening external environment.

Continued structural reforms and sound macroeconomic policy will keep inflation low and attract investment, supporting healthy GDP growth rates of over 5 percent for the medium term.

Due to the over-performance of tax collections, the budget deficit is expected to stay below 0.5 percent of GDP in 2019 and will accelerate to around 2 percent in the medium term. Strong commitment to fiscal consolidation will contribute to a reduction of the debt-to-GDP ratio to around 50 percent in 2021. Supported by the higher export of goods and tourism, the external balance will improve.

As the economy continues to grow and with sustained social transfers, poverty will continue its decline, with the poverty rate, measured at the lower-middle-income poverty line of US\$3.2/day (2011 PPP), reaching roughly 7 percent by 2021.

The risks related to the global growth outlook remain firmly in the downside, including the possibility of escalating trade tensions as well as rising debt and its subsequent risk to emerging markets.

Domestically, the concerted effort to restructure the economy toward a sustainable export-led growth path remains a challenge that will require an efficient government, better connectivity, a more reliable infrastructure, and higher investment in human capital.

The Government's strong commitment to reducing corruption and improving the business environment, along with prudent macro-fiscal policies, provides an opportunity for a vibrant response from the private sector.

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 to road quality, journey times, and local employment opportunities.

However, half of the LRNs are still deteriorating because of budget constraints and deferred maintenance that, in turn, are creating high transport costs and journey times for road users.

- Fully 310 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 818,809.
- 66 "Safe Village" projects have been completed, representing a combination of road safety engineering improvements near the village school (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 marking) and an education program in the school to inform local people of road safety risks, how to manage those risks, and how best to make use of the facilities provided.
- The project will also screen the road infrastructure for climate risks in areas prone to natural hazards, including landslides, rock falls, floods, etc.
- The project will help Armenia to improve road safety and 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, as well as improving capacity building in road safety management.



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