

The World Bank in Armenia Country Snapshot



An overview of the World Bank's work in Armenia

October 2016

ARMENIA	2015
Population, million	3.0
GDP, current US\$ billion	10.5
GDP per capita, current US\$	3,489
Poverty rate (\$5/day 2005PPP terms) (2014)	75.9
Life Expectancy at birth, years (2014)	74.5

At a Glance

- Twenty-five years after independence, Armenia is undergoing a political transition from a semi-presidential system to a parliamentary republic.
- Armenia's economic activity accelerated in the first half of 2016, but fiscal pressures remain elevated due to weak revenue performance. The economy is expected to remain sensitive to external conditions and to recover slowly. The past three years have seen a marked slowdown in the pace of poverty reduction.
- The key economic challenge for Armenia is to reinforce macroeconomic stability and uncover new sources of steady and shared growth, anchored in a well-integrated and competitive economy.
- The World Bank supports the Government in key investments focused on strengthening competitiveness and job creation and improving efficiency and equity in social services.

Country Context

Armenia is on its way to moving from a semi-presidential system to a parliamentary republic through amendments to the constitution. Revisions to the electoral law will be made operational during the mid-2017 parliamentary elections, and the president will be elected by parliament rather than by popular vote in spring 2018.

The country and regional context require a rebalancing toward policies that build resilience to external shocks. The fiscal stimulus in recent years has been marked by large increases in current spending and falling public investment.

The priority for strengthening public finances and fiscal consolidation is now broad-based and sustainable revenue mobilization through tax reform. Public debt has increased, limiting options in terms of external borrowing for financing growth. Remittances and foreign direct investments have also dried up, giving them a limited role in ensuring growth.

Financial sector dollarization remains high, with an adverse impact on the banking sector. Pressures on the Armenian dram have subsided in the background of double-digit export growth and subdued imports, which helped to significantly reduce the country's external imbalance.

Armenia has secured better market access to Russia and other large countries (such as Kazakhstan) through its Eurasian Economic Union membership, which needs to be supported by structural reforms to scale up dynamic industries of the economy and remove barriers to exports.

The World Bank and Armenia

Since the country's independence, the World Bank has been a key partner for Armenia, with a sustained history of successful programs covering a broad range of sectoral investments and an equally deep history of policy reform dialogue.

The current World Bank Group 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 emphasis on improving governance and anti-corruption measures in the public service.

In addition to International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), and trust fund resources, significant International Finance Corporation (IFC) investment and advisory resources are deployed in Armenia; indeed, both World Bank and IFC portfolios are at a historic high. As other development partners seek to support Armenia in key sectors, 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's post-Soviet transition efforts to reform its health system have been more successful than in many countries of the Europe and Central Asia (ECA) region, even though the strategic optimization of the health infrastructure has been challenging in political, economic, and technical terms. These efforts started in 1997 with the approval of the Health Financing and Primary Health Care Development Project; during this first phase of World Bank support (1997–2006), primary health care reforms made the services of family physicians universally accessible for rural residents by renovating or constructing 76 medical facilities and 97 ambulatories in rural communities. The ambulatories alone provided improved coverage for over 600,000 residents, or one-fifth of the population.

WORLD BANK PORTFOLIO

No. of Projects: 18

Lending: \$646.4 Million

IBRD: 13 Loans (\$529.0 Million)

IDA: 6 Credits (\$108.9 Million)

SREP: 1 Grant (\$8.55 Million)

The transformation continued from 2007 through 2016 with a second series of Bank-financed projects supporting the rationalization of health facilities and the introduction of family medicine as an organizational model for primary health care.

Fourteen regional medical centers were rehabilitated and fitted with upgraded amenities, technology, and equipment and highly qualified retrained medical staff. The approach adopted by the Government of Armenia and the World Bank was to optimize the resources without reducing access to specialists, with the goal of providing a full package of high-quality medical services to people living outside the capital Yerevan.

Results have been impressive. Usage of regional hospitals across the country has increased, even in provinces that are heavily impacted by outmigration, and regional medical centers are now, on average, reaching about 50,000 people each year, up from the previous 30,000.

The network of upgraded and optimized medical centers now benefits around 2 million people in nine regions of Armenia. All medical centers throughout the country have seen a shift to patients seeking care locally instead of in Yerevan. On average, over the eight years of this initiative, the number of patients looking for surgical treatment in regions has increased by about 2.5 times.

Recent Economic Developments

Armenia's economy performed better than expected in the first half of 2016, with 3% growth y-o-y, driven by increased exports of agri-products to Russia. Domestic demand remained weak, however, reflecting decreasing remittances, and monetary policy conditions remained soft, as deflationary trends continued. Fiscal policy is under pressure; revenue performance has been disappointing due to a continued decline in VAT collection, driven by sluggish domestic demand and imports, as well as deflation, which led to 4% under-execution. In 2015, public debt amounted to 45% of GDP but is highly concessional and denominated in foreign currency.

In the first half of 2016, the current account deficit remained below 3% of GDP, due to higher exports and subdued imports. The continued improvement of external accounts has eased pressures on the currency, and the Central Bank reduced foreign exchange interventions, maintaining official reserves at five months of import coverage.

The banking sector is undergoing a major recapitalization, and most banks have already met the new capital requirement that comes into effect in January 2017. Dollarization rates for bank deposits and loans have remained broadly unchanged. The nonperforming loan ratio steadily increased from 10.6% in December 2014 to 17% in March 2016.

In contrast to 2010–14, when poverty reduction was driven by a combination of strong income growth in agriculture, employment and wage growth in manufacturing and services, and sustained increases in remittances and public transfers, the 2014–16 period has seen a slowdown in the pace of poverty reduction. The combination of lower labor income and employment growth, resulting from slower economic growth and increased pressures in labor markets from returning migrants and a marked decline in remittances, resulted in a drop in the poverty rate (measured at 2005 PPP US\$2.5/

day) of only 1 percentage point between 2014 and 2016 (from 26.3 to 25.2%).

Economic Outlook

With the expected recovery of the global economy and bottoming out of Russia's recession, Armenia's growth is expected to pick up over the medium term, reaching approximately 3% in 2016 and staying at similarly modest levels for several years. Growth will be hampered by structural weaknesses and the slow recovery of domestic demand because of the diminishing role of remittances.

The lifting of sanctions against Iran creates a window of opportunity for Armenia. Access to new markets, including a transit corridor for goods and services between Iran and Russia/Europe, raises expectations for further growth. At the same time, access to additional energy resources from Iran may increase competition.

The relatively weak revenue collection, sluggish growth projection, and increased demand for social spending will keep fiscal pressures elevated for the rest of 2016. The fiscal deficit is projected at 4.3% of GDP in 2016. Over the medium term, however, the fiscal position is expected to improve to a sustainable level of about 2% of GDP, as an economic recovery boosts revenues.

Public debt is expected to increase above 50% of GDP in 2016. The Tax Code, which is expected to be approved by mid-October 2016, will facilitate the medium-term fiscal consolidation through domestic revenue mobilization at about 3% of GDP over 2017–19. The code aims to expand the tax base, rationalize tax rates, and close major loopholes.

Modest but positive projected growth in agriculture and industry, combined with an increase in real wages in the public and private sectors and a recovery in remittances, is likely to support continued poverty reduction in 2017–18. Specifically, poverty is projected to decline to 23.8% in 2018 from 25.2% in 2016.

Project Spotlight



Drinking water in Yerevan and outside the capital is now fully safe

For many years after Armenia's independence, water supply and sanitation systems in the country were in a serious state of disrepair. Despite an abundance of resources, water was available for only a few hours a day in most cities and villages and at low pressure.

State-owned companies faced poor revenue collection, inefficient systems

with high energy consumption, deteriorated infrastructure, and outdated management. Supply was particularly poor in small towns and rural areas, which are less affluent than the capital city Yerevan and have higher rates of poverty.

Today, Armenia is the only country in the former Soviet Union that has opened its water and sanitation service sector to substantial private sector participation. The success story began with World Bank support for a performance-based contract issued for the water utility that became a pioneering example of a successful water public-private partnership in the ECA region, and was then replicated for a larger utility covering around 45% of the population in 300 cities and towns.

Over the past decade, a series of five World Bank investment projects with US\$108 million in credits and loans has helped the Government to improve the access, reliability, and quality of the drinking water:

- 96% of Yerevan residents have a round-the-clock water supply
- Outside Yerevan, water supply is available for an average of 17 hours per day (up from six hours)
- 93% of water interruptions in Yerevan are restored within a day
- 99% of consumers in the capital make monthly payments, compared to about 47% before the reforms
- 99% of drinking water across the country is now fully safe
- 74% of users outside Yerevan and 65% in Yerevan believe the management of water resources has improved
- 70% of water users in the country are satisfied with the public-private arrangement of water resource management

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/armenia>



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