

# ARMENIA

**Table 1** 2022

|  |        |
|--|--------|
| Population, million                                    | 2.8    |
| GDP, current US\$ billion                              | 19.5   |
| GDP per capita, current US\$                           | 7014.2 |
| International poverty rate (\$2.15) <sup>a</sup>       | 0.5    |
| Lower middle-income poverty rate (\$3.65) <sup>a</sup> | 8.7    |
| Upper middle-income poverty rate (\$6.85) <sup>a</sup> | 51.7   |
| Gini index <sup>a</sup>                                | 27.9   |
| School enrollment, primary (% gross) <sup>b</sup>      | 91.1   |
| Life expectancy at birth, years <sup>b</sup>           | 72.2   |
| Total GHG emissions (mtCO <sub>2</sub> e)              | 13.5   |

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2021), 2017 PPPs.  
 b/ WDI for School enrollment (2021); Life expectancy (2020).

*Economic growth was 12.6 percent in 2022, much higher than initially expected, mainly due to significant increases in services and private consumption, fueled by strong inflows of migrants and capital from Russia. The outlook is subject to significant uncertainty, due to the risk of reversal of inflows, continued geopolitical tensions, and unresolved issues at the Armenian border.*

## Key conditions and challenges

In 2022, Armenia absorbed a significant inflow of migrants, businesses, and capital following Russia's invasion of Ukraine. The country also benefited from the re-routing of some trade and financial flows through Armenia. These developments fueled domestic demand and supported the appreciation of the currency; they increased reserve levels and reduced credit dollarization.

Armenia's sound macroeconomic policies (active inflation targeting, adherence to prudent fiscal policy, and sound financial sector oversight) have supported generally positive economic performance in the last few years despite several significant shocks. Armenia has also pursued significant reforms, particularly aimed at reducing corruption and increasing transparency. However, significant structural challenges persist, which result in weak productivity, low investment and inability to attract FDI, limited human capital, an undiversified economic structure, and a narrow export base and export destinations.

## Recent developments

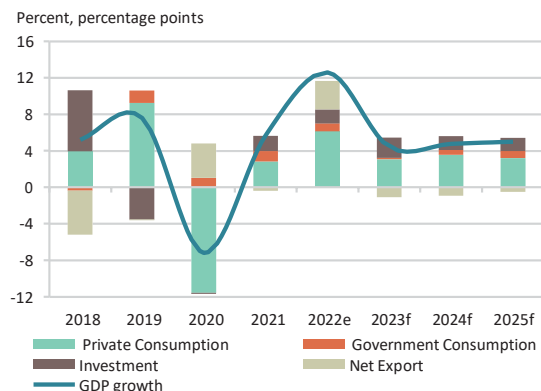
Economic performance in 2022 was unexpectedly strong, with real GDP growth reaching 12.6 percent. Robust growth in services (up 17.7 percent, yoy) contributed

to approximately three-quarters of total growth. This was mainly driven by the finance, IT, transport, accommodation, and public catering sub-sectors. Industry and construction grew by 6 percent and 19 percent (yoy), respectively. While mining contracted by 3.2 percent in real term (yoy), manufactured base metal products show 16 percent growth (yoy). Agriculture contracted by 0.7 percent (yoy), reflecting challenges in the sector and possible limitations in actual data collection. On the demand side, growth was driven largely by private consumption (up 8.1 percent, yoy) fueled by exceptionally high inflows of people and funds from Russia, and by a 10 percent increase in real wages, driven by strong growth in wages in IT and finance.

The unemployment rate fell to 11.6 percent in Q3 2022, down from 15.5 percent at end-2021, and this is expected to drive substantial poverty reduction in 2022.

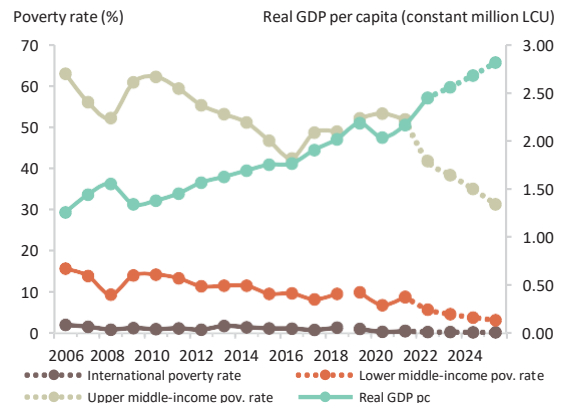
Inflation averaged 8.6 percent in 2022 compared to 7.2 percent in 2021. Inflation eased from a peak of 10.3 percent (yoy) in mid-2022 to 8.1 percent (yoy) in January 2023, as the Central Bank of Armenia (CBA) increased the policy rate by 300 bps in 2022, and international food and energy prices eased in recent months. The unprecedented appreciation of the AMD has also helped contain inflationary pressures. Fiscal performance was robust in 2022, with the budget deficit narrowing from 4.6 percent of GDP in 2021 to 2.2 percent in 2022 due to strong revenue collection. Tax revenues rose by 21 percent (yoy) in nominal terms, mostly driven by VAT and by increases in income and profit tax

**FIGURE 1 Armenia / Real GDP growth and contributions to real GDP growth**



Sources: Statistical Committee of Armenia and World Bank staff projections.

**FIGURE 2 Armenia / Actual and projected poverty rates and real GDP per capita**



Source: World Bank. Notes: see Table 2.

collection. While current spending grew only by 4 percent, capital expenditures increased by 193 percent (yoy), accounting for 4.6 percent of GDP, the highest level in the last decade. This was partly due to higher defense spending.

Driven by robust economic and fiscal performance and the appreciation of the AMD, government debt to GDP declined sharply, down 13.6 percentage points in 2022, bringing the debt to GDP ratio to 46.7 percent by end-2022.

The external balance improved significantly in 2022 with an unprecedented increase in exports of goods and services. Merchandise exports increased by 77.7 percent in 2022 in nominal terms, as the exports of machines and instruments, transport vehicles, and precious stones, surged, partly driven by re-exports to Russia. In turn, merchandise imports increased by 63.5 percent in 2022. Receipts both from tourism-related services and money transfers tripled (yoy) in 2022, mostly due to a significant increase in inflows from Russia. FDI more than doubled, mostly driven by investment in the financial sector and Russian investment

in the real sector (particularly in mining, energy, and real estate). International reserves were boosted to the historically high level of USD 3.7 billion, or 4.4 months of import cover, at end-January 2023. As a result of high financial inflows and the switch to the RUB for gas import payments, the AMD strengthened significantly, with the average exchange rate against the USD appreciating by 14 percent in nominal terms and by 34 percent in real effective terms (yoy) in 2022.

## Outlook

Growth is expected to ease to about 4.5 percent in 2023, due to the high base of 2022 and a slowdown among trading partners. Some pick-ups in growth in the medium-term will be supported by consumption and higher private investment. On the production side, services are expected to remain the main driver of growth, followed by industry. Inflation is forecast to decline gradually to its target level of 4 percent by 2025. In line with the

Government's medium-term expenditure framework, the fiscal deficit is expected to decrease from a planned 3.1 percent in 2023 to 2.5 percent in 2025. The current account deficit is forecast to deteriorate in 2023, after the sharp improvement in 2022, and to stabilize at around 3 percent of GDP over the medium-term.

Macroeconomic projections suggest that the population below the UMIC poverty line (USD 6.85/day, 2017 PPP) will have decreased from 51.7 percent in 2021 to 41.8 percent in 2022, and to a projected 38.4 percent in 2023. However, high inflation, particularly affecting food and real estate, may have a negative impact on the poorest households.

A reversal in inflows coupled with persistent inflation and further monetary tightening in advanced economies would put pressure on the currency, potentially resulting in balance sheet pressures and re-financing challenges. A possible extension of sanctions to Russia's main trade partners as well as geopolitical developments are another source of downside risks. On the upside, stronger inflows from Russia could lift growth above the forecast.

**TABLE 2 Armenia /** Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

|  | 2020  | 2021 | 2022e | 2023f | 2024f | 2025f |
|--|-------|------|-------|-------|-------|-------|
| <b>Real GDP growth, at constant market prices</b>                          | -7.2  | 5.7  | 12.6  | 4.4   | 4.8   | 5.0   |
| Private Consumption  | -13.9 | 3.7  | 8.1   | 4.2   | 4.9   | 4.4   |
| Government Consumption   | 9.2   | 8.4  | 6.5   | 1.3   | 4.3   | 6.2   |
| Gross Fixed Capital Investment   | -1.5  | 6.3  | 9.5   | 11.4  | 7.3   | 6.7   |
| Exports, Goods and Services  | -33.5 | 16.6 | 54.4  | 9.8   | 9.2   | 8.5   |
| Imports, Goods and Services  | -31.5 | 12.9 | 33.8  | 10.5  | 9.5   | 8.1   |
| <b>Real GDP growth, at constant factor prices</b>                          | -6.8  | 5.5  | 13.2  | 4.4   | 4.8   | 5.0   |
| Agriculture  | -3.7  | -0.6 | -0.7  | 1.2   | 2.0   | 2.7   |
| Industry   | -2.5  | 3.4  | 9.4   | 4.9   | 4.2   | 3.9   |
| Services   | -9.6  | 8.0  | 18.1  | 4.7   | 5.5   | 5.9   |
| <b>Inflation (Consumer Price Index)</b>                                    | 1.2   | 7.2  | 8.6   | 6.5   | 4.5   | 4.0   |
| <b>Current Account Balance (% of GDP)</b>                                  | -3.8  | -3.7 | -0.4  | -2.2  | -2.7  | -3.0  |
| <b>Net Foreign Direct Investment Inflow (% of GDP)</b>                     | 0.7   | 2.5  | 4.1   | 2.1   | 2.2   | 2.5   |
| <b>Fiscal Balance (% of GDP)</b>   | -5.1  | -4.6 | -2.2  | -3.1  | -2.8  | -2.5  |
| <b>Revenues (% of GDP)</b>   | 26.0  | 25.0 | 25.1  | 25.0  | 25.2  | 25.6  |
| <b>Debt (% of GDP)<sup>a</sup></b>   | 63.5  | 60.3 | 46.7  | 49.2  | 48.6  | 48.0  |
| <b>Primary Balance (% of GDP)</b>  | -2.4  | -2.0 | 0.2   | -0.2  | 0.2   | 0.4   |
| <b>International poverty rate (\$2.15 in 2017 PPP)<sup>b,c</sup></b>       | 0.4   | 0.5  | 0.3   | 0.3   | 0.2   | 0.2   |
| <b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>b,c</sup></b> | 6.7   | 8.7  | 5.6   | 4.5   | 3.8   | 3.1   |
| <b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>b,c</sup></b> | 53.2  | 51.7 | 41.8  | 38.4  | 35.0  | 31.4  |
| <b>GHG emissions growth (mtCO<sub>2</sub>e)</b>                            | -1.8  | 15.4 | 19.5  | 7.1   | 8.3   | 9.7   |
| <b>Energy related GHG emissions (% of total)</b>                           | 60.3  | 66.5 | 72.4  | 74.5  | 76.6  | 78.7  |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Includes Government and CBA debt.

b/ Calculations based on ECAPOV harmonization, using 2021-ILCS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

c/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.