

# ARMENIA

**Table 1** **2022**

Population, million	3.0
GDP, current US\$ billion	19.5
GDP per capita, current US\$	6572.2
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>	72.0
Total GHG emissions (mtCO2e)	13.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2021), 2017 PPPs.

b/ Most recent WDI value (2021).

*Economic growth reached 10.5 percent (yoy) in H1 2023, driven by services and continued inflows of citizens and money transfers from Russia, and is projected at 6.6 percent in 2023 as a whole. This was accompanied by a sharp reduction in inflation to 3.6 percent (yoy) on average through July 2023. Unresolved issues at the Armenian border, a reversal of recent inflows, potential sanctions, and a slowdown in trade partner economies are the main risks to the outlook.*

## Key conditions and challenges

Following Russia's invasion of Ukraine, Armenia absorbed a significant inflow of migrants, businesses, and capital. Armenia also benefited from rerouted trade and money flows. These developments fueled domestic demand and supported the appreciation of the currency. While there are signs these flows are easing somewhat, Armenia continues to benefit from them, and the risk of reversal has so far not materialized. Overall, the economic environment enjoys sound macroeconomic policies, including active inflation targeting, adherence to a fiscal rule, and sound financial sector oversight. In recent years, the authorities have aimed at reducing corruption and increasing transparency, particularly in the tax and customs administrations. However, important structural challenges persist, resulting in an undiversified economic structure with limited manufacturing and a narrow export basis, subdued growth in the agriculture sector, insufficient investment, and challenges to attract FDI, limited human capital and skills mismatch.

## Recent developments

Armenia maintained double-digit GDP growth in H1 2023, at 10.5 percent (yoy) in real terms. As in 2022, growth was driven by a 14 percent (yoy) increase in services,

particularly in IT, trade, and transport sectors. Growth in industry slowed to 1 percent (yoy) in H1 2023 due to contraction in the mining sector. However, construction continued to grow at the exceptional rate of 19 percent (yoy). Agricultural growth was flat, reflecting longstanding challenges in this sector (both statistical and structural).

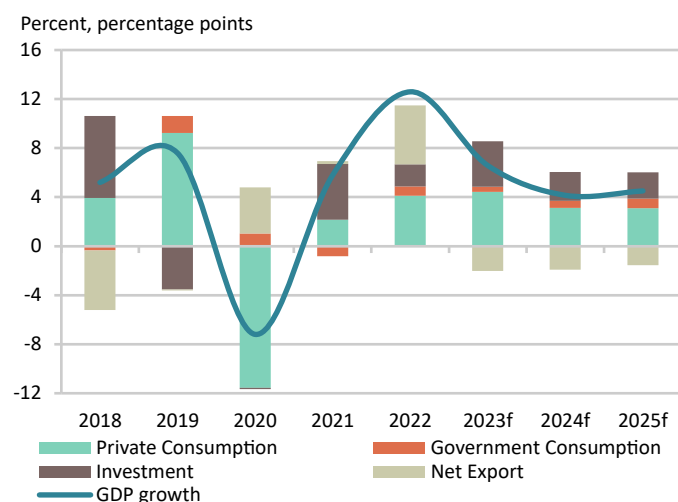
The unemployment rate fell from 14.8 percent in Q1 2022 to 13.7 percent in Q1 2023, reflecting the strong economic activity.

Average inflation dropped sharply, from 8.6 percent in 2022 to 3.6 percent during January-July 2023, largely driven by a slowdown in food and transport inflation. In response to this trend, the Central Bank of Armenia reduced the policy rate by 50 bps, to 10.25 percent in August.

Credit to the economy increased by 14.6 percent in nominal terms (yoy) as of the end of June 2023, mostly driven by an increase in dram-denominated loans. This lowered loan dollarization to 35 percent as of the end of June 2023. Financial stability indicators remained sound, with the Capital Adequacy Ratio (CAR) above 20 percent and the Non-Performing Loans (NPLs) ratio below 3 percent.

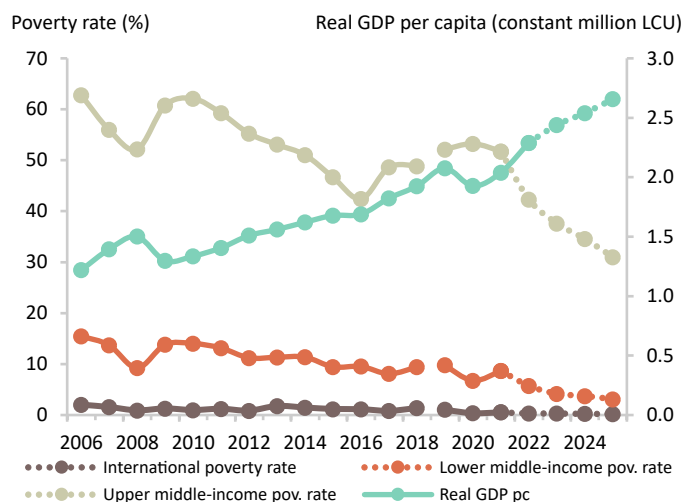
The fiscal budget recorded a surplus of 1.4 percent of projected GDP in H1 2023, compared to the planned deficit of 1 percent of GDP. This was primarily due to a 6 percent overperformance in tax revenue collection, which rose by 19 percent (yoy) in nominal terms. This was mostly driven by increased profits tax and VAT tax collection of 45 percent and 20 percent (yoy, in nominal terms), respectively, explained by strong economic performance and higher

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



Sources: Statistical Committee of Armenia, CBA, 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.

consumption, and 20 percent greater income tax collection in nominal terms due to increased employment and salary levels. Current and capital expenditures were also higher by 12 percent and 16 percent (yoy, in nominal terms), respectively; however, capital expenditures fell short by 46 percent in nominal terms compared to the ambitious public investment plan approved in the budget. Driven by robust economic and fiscal performance, government debt to GDP continued to decline to about 44 percent of projected annual GDP at the end of July 2023.

Growth of exports and imports of goods continued to be strong in H1 2023, both at 73 percent (yoy, in USD value), due to re-routing of exports to Russia. The trade balance in nominal terms deteriorated by 73 percent (yoy), due to a 1.5 times larger import base compared to exports. This was partly compensated by higher service exports, including a 70 percent (yoy) increase in the number of tourist arrivals in H1 2023. While gross money transfers from Russia increased by 88 percent (yoy) in H1

2023, large outflows to third countries resulted in a 10 percent decline (yoy) in net terms. This contributed as well to the deterioration of the current account balance. Nevertheless, appreciation pressures on the AMD continued in 2023, resulting in a 2 percent stronger AMD against USD at the end of July 2023 compared to the end of 2022. International reserves declined in Q1 but rebounded to a record USD 4.1 billion at the end of July 2023.

## Outlook

Growth is expected to moderate in H2 2023 as consumption slows due to the high base effect in H2 2022 and as import growth outpaces export growth. However, moderation will be milder than initially projected at the beginning of 2023, with growth revised up to 6.6 percent (yoy) in 2023. Growth in the medium-term will moderate further to an average of 4.3 percent in 2024-2025.

Average inflation is forecast to reach 3.7 percent in 2023 and to remain close to the target of 4 percent in the medium term. The deficit is expected to reach 2.4 percent of GDP in 2023, which is lower than budgeted due to tax revenue overperformance. The CAD is projected to widen in 2023, impacted by a pick-up in goods imports, a slowdown in exports from a very high base in 2022, and a deterioration in income accounts, while still being mostly financed by FDI inflows.

Due to continued and strong economic growth in 2022-2023, poverty is projected to fall from 51.7 percent in 2021 to 37.6 percent in 2023, as measured by the UMIC poverty line of USD 6.85/day (2017 PPP). This will be supported by the reduction in inflation, especially in food prices.

The outlook is subject to significant uncertainty, due to the risk of reversal of inflows; potential sanctions related to the re-exports of double-use goods; a possible slowdown in trading partner economies; and unresolved issues at the Armenian border.

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

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-7.2	5.8	12.6	6.6	4.1	4.5
Private consumption	-13.9	2.8	5.5	6.3	4.5	4.4
Government consumption	9.2	-6.2	6.3	3.7	5.3	7.1
Gross fixed capital investment	-1.5	23.6	9.0	16.7	9.6	8.3
Exports, goods and services	-33.5	18.6	59.3	21.6	9.9	8.7
Imports, goods and services	-31.5	12.9	34.5	23.2	11.8	9.9
<b>Real GDP growth, at constant factor prices</b>	-6.8	5.6	13.2	6.6	4.1	4.5
Agriculture	-3.7	-0.8	-0.7	0.6	0.9	1.2
Industry	-2.5	2.6	9.2	6.0	5.3	4.7
Services	-9.6	8.7	18.2	7.9	4.1	4.9
<b>Inflation (consumer price index)</b>	1.2	7.2	8.6	3.7	4.0	4.0
<b>Current account balance (% of GDP)</b>	-4.0	-3.5	0.8	-2.1	-3.0	-3.4
<b>Net foreign direct investment inflow (% of GDP)</b>	0.7	2.5	4.9	2.5	2.7	2.9
<b>Fiscal balance (% of GDP)</b>	-5.1	-4.5	-2.2	-2.4	-2.8	-2.6
<b>Revenues (% of GDP)</b>	26.0	24.9	25.1	25.6	25.4	25.9
<b>Debt (% of GDP)<sup>a</sup></b>	63.5	60.2	46.7	48.6	49.2	49.5
<b>Primary balance (% of GDP)</b>	-2.4	-2.0	0.1	0.4	0.4	0.5
<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	5.7	4.2	3.7	3.1
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>b,c</sup></b>	53.2	51.7	42.3	37.6	34.5	31.0
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-1.8	15.4	18.7	9.1	8.2	9.4
<b>Energy related GHG emissions (% of total)</b>	60.3	66.5	72.2	74.8	76.8	78.8

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

Notes: e = estimate, f = forecast.

a/ Excludes 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.