

ARMENIA

Table 1 **2021**

Population, million	3.0
GDP, current US\$ billion	13.9
GDP per capita, current US\$	4670.2
International poverty rate (\$1.9) ^a	0.4
Lower middle-income poverty rate (\$3.2) ^a	6.9
Upper middle-income poverty rate (\$5.5) ^a	44.7
Gini index ^a	25.2
School enrollment, primary (% gross) ^b	91.2
Life expectancy at birth, years ^b	75.1
Total GHG Emissions (mtCO2e)	9.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The impact of the war in Ukraine and sanctions on Russia is likely to be significant given Armenia's strong economic links with Russia. The economy rebounded by 5.7 percent year on year (yoy) in 2021 but is forecast to grow at only 1.2 percent yoy in 2022, with an uncertain outlook subject to high downside risks. Lower growth and remittances are likely to slow poverty reduction and increase vulnerability.

Key conditions and challenges

Prudent macroeconomic policies, including a more-effective inflation targeting regime, a robust fiscal rule, sound financial sector oversight, and pro-competition reforms helped Armenia weather the twin crises in 2020 with a lower-than expected increase in poverty rates.

While domestic political uncertainty has subsided since snap elections in mid-2021, Armenia still faces significant structural constraints, such as weak connectivity, closed borders and no economic relations with two of its four neighbors and challenges related to high unemployment, skills mismatches and firm competitiveness.

Recent developments

After contracting in 2020 by 7.4 percent yoy, the Armenian economy started to recover in 2021, growing at 5.7 percent yoy. Growth was driven by private and public consumption with smaller contributions from investment and net exports.

On the production side, services rebounded from a sharp slump in 2020, and industry and construction contributed modestly to growth. Agriculture contracted for the sixth straight year, reflecting unreformed land markets, uneven access to irrigation and low resilience to changing weather patterns.

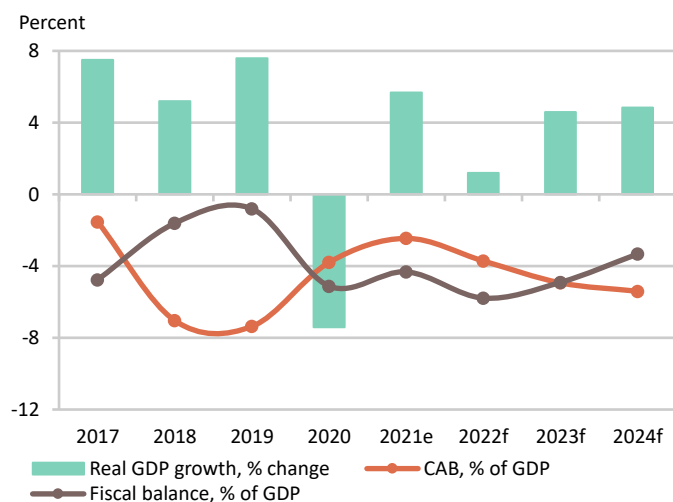
The fifth wave of COVID-19 infections abated in Armenia by end-February. After a slow start, the pace of vaccination picked up in late 2021, after mandatory requirements were introduced for workers to produce proof of vaccination or to submit to weekly testing. Still, only 43 percent of the adult population was fully vaccinated as of March 13, 2022.

After a prolonged period of low inflation, price levels picked up in late 2020 and remained elevated in 2021. Inflation peaked at 9.6 percent yoy in November before moderating to 6.5 percent yoy in February 2022. Food inflation peaked at 17 percent in November 2021, driving two-thirds of overall inflation. In response, the Central Bank of Armenia (CBA) increased the policy rate nine times by a cumulative 500 basis points between December 2020 and March 2022.

The budget deficit declined from 5.1 percent of GDP in 2020 to 4.3 percent in 2021. Revenues were up 8 percent yoy due to higher VAT and state duties, following the introduction of a new export duty for minerals. Expenditure was up 5 percent yoy driven by current expenditures. Public debt to GDP declined to 63.4 percent as at end-2021 from 67.4 percent a year earlier.

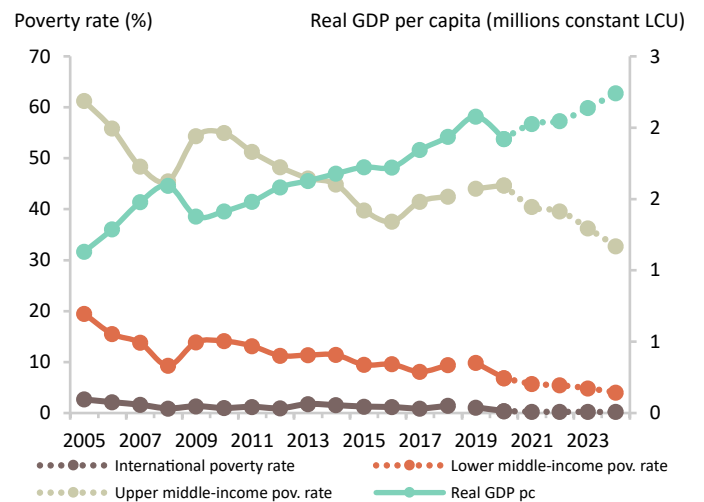
The external balance improved due to a quicker rebound in exports than imports, and a sharp increase in remittances. FDI also rebounded, albeit from a low base. The exchange rate stabilized following the decline in political uncertainty in mid-2021 and reached pre-COVID levels in February 2022. However, the onset of the war in Ukraine brought fresh volatility.

FIGURE 1 Armenia / GDP growth, fiscal and current account balances



Sources: Statistical Committee of Armenia; Central Bank of Armenia; World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

The national absolute poverty rate rose to 27 percent in 2020 from 26.4 percent in 2019. Existing social protection and social assistance mechanisms (pensions and the Family Benefits Program) provided a critical buffer preventing a further increase in poverty.

Outlook

The impact of Russia's invasion of Ukraine on Armenia's economy is likely to be significantly negative, although the magnitude remains uncertain.

Armenia has strong economic links with Russia, which accounted for 28 percent of Armenia's exports and 30 percent of its imports on average from 2018-2021 and is the source of all of Armenia's wheat and gas imports. In 2021, remittances from Russia amounted to 5 percent of GDP, 41 percent of net FDI stock was associated with Russian entities, and Russian tourists accounted for 40 percent of all tourist arrivals. In addition, Armenia will also be impacted by elevated global food and fuel prices,

with fuel imports accounting for 9 percent of imports in 2021.

The growth forecast has been downgraded for 2022 from 5.3 percent pre-war to 1.2 percent, with lower remittances and real wages impacting consumption; heightened uncertainty impacting investment; and exports contracting due to the projected contraction in Russia and slowing global and regional growth. On the production side, agriculture will continue to be weighed down by structural challenges; industry will be impacted severely by uncertainty; and services will slow along with consumption. In the medium-term, growth is expected to pick up in 2023 and 2024, but at a slower pace than projected pre-war.

In line with slower growth, revenue collection is expected to decline, and spending pressures are expected to rise, particularly through increased social assistance, leading to a delay in fiscal consolidation. This will push up the debt to GDP to about 67 percent of GDP at the end of 2022, further away from statutory limits.

The current account deficit is projected to widen due to lower exports and net remittances. Exports may be boosted by

an increased tourism revenues associated with an inflow of Russian citizens following the onset of the war.

Higher commodity prices will keep inflationary pressures elevated in 2022, but CBA's inflation targeting is expected to anchor inflation in the medium-term as external price pressures subside.

Based on the forecasted macroeconomic impact, poverty (using the upper middle income poverty line) could reach 39.6 percent of the population in 2022, which represents a 3 percentage points increase relative to a counter-factual scenario in the absence of the war. Vulnerability may increase due to decreased remittances, increased utility bills and increased food prices.

The forecast is uncertain, with possible downgrades, given the evolving global and regional environment. Risks include protracted conflict in Ukraine, a prolonged and more significant slowdown in Russia, further disruption in global commodity markets, and still unresolved geopolitical issues around Armenian borders. On the upside, the inflow of persons from Russia, if sustained, may have a positive impact of the economy.

TABLE 2 Armenia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.6	-7.4	5.7	1.2	4.6	4.9
Private Consumption	11.5	-13.8	3.4	-1.3	5.4	5.7
Government Consumption	12.9	15.2	5.0	-1.2	1.7	1.0
Gross Fixed Capital Investment	4.4	-8.6	7.7	-0.9	7.5	9.1
Exports, Goods and Services	16.0	-33.4	16.5	-8.5	6.5	7.7
Imports, Goods and Services	11.6	-31.4	10.9	-12.0	8.0	9.3
Real GDP growth, at constant factor prices	7.7	-7.1	5.4	1.2	4.6	4.9
Agriculture	-5.8	-4.1	-1.4	0.2	0.8	1.0
Industry	10.5	-3.0	3.8	-1.1	2.9	3.1
Services	9.7	-9.8	7.9	2.6	6.3	6.5
Inflation (Consumer Price Index)	1.4	1.2	7.2	9.8	7.5	6.8
Current Account Balance (% of GDP)	-7.4	-3.8	-3.3	-3.7	-4.9	-5.4
Net Foreign Direct Investment (% of GDP)	1.7	0.6	2.6	1.6	1.8	2.3
Fiscal Balance (% of GDP)	-0.8	-5.1	-4.3	-5.8	-4.9	-3.3
Debt (% of GDP)	53.7	67.4	63.4	66.9	67.6	66.6
Primary Balance (% of GDP)	1.6	-2.4	-1.7	-3.0	-2.0	-0.4
International poverty rate (\$1.9 in 2011 PPP)^{a,b,c}	1.1	0.4	0.3	0.2	0.2	0.2
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b,c}	9.8	6.9	5.7	5.4	4.8	4.0
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b,c}	44.0	44.7	40.4	39.6	36.2	32.7
GHG emissions growth (mtCO2e)	6.4	-10.9	9.5	5.2	7.8	7.2
Energy related GHG emissions (% of total)	62.9	61.1	64.8	65.4	66.5	67.4

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

a/ Calculations based on ECAPOV harmonization, using 2020-ILCS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2020) with pass-through = 0.87 based on GDP per capita in constant LCU.

c/ The poverty rates for 2019 are not strictly comparable with 2018 due to revisions on the ILCS starting in 2019.