ARMENIA

Table 1   **2023**

Population, million	2.8
GDP, current US$ billion	24.2
GDP per capita, current US$	8715.8
International poverty rate ($2.15)[a]	0.8
Lower middle-income poverty rate ($3.65)[a]	10.0
Upper middle-income poverty rate ($6.85)[a]	51.3
Gini index[a]	27.9
School enrollment, primary (% gross)[b]	92.9
Life expectancy at birth, years[b]	72.0
Total GHG emissions (mtCO2e)	13.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2021).

Growth exceeded expectations by reaching 8.7 percent in 2023, fueled by consumption and investment. Average inflation dropped from 8.6 percent in 2022 to 2 percent in 2023. Poverty and unemployment continued to decline. The economic outlook is subject to significant uncertainty due to ongoing border tensions with Azerbaijan, geopolitical turmoil, integration of refugees, and a possible slowdown in trading partner economies.

Key conditions and challenges

Armenia has weathered multiple crises since 2020. Thanks to sound macroeconomic management (inflation targeting, adherence to a fiscal rule, and sound financial sector oversight) and government mitigation measures, Armenia was able to recover from the significant contraction in 2020 resulting from the Covid-19 pandemic and the military conflict with Azerbaijan, while maintaining macroeconomic stability. Meanwhile, large money transfers from Russia contributed to high average annual growth of 10.7 percent in 2022-2023.

In recent years, the authorities aimed at reducing corruption and improving the business environment, in particular through improvement in tax and customs administration; however, important structural challenges persist, resulting in an undiversified economic structure, a narrow export base, insufficient private investment, low productivity, challenges to attracting FDI, and limited human capital. Armenia also faces significant geopolitical tensions and is highly vulnerable to climate related hazards.

Recent developments

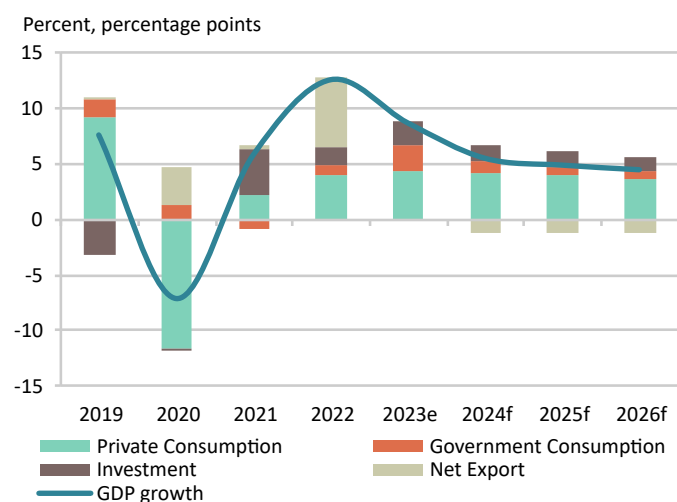Growth reached 8.7 percent in 2023, exceeding expectations. On the demand side, private consumption grew by 6.3 percent (yoy), contributing to half of total growth. Public consumption and investment (up by 18 and 10 percent, respectively) had a similar combined contribution. Private consumption was fueled by a 12.5 percent increase in real average wages, improvements in employment, and cash transfers provided by the government to refugees in Q4 2023. On the supply side, growth was driven by an 11 percent (yoy) increase in services, primarily due to growth in trade and ICT services. Growth in industry slowed to 5.5 percent (yoy) due to a 6.6 percent contraction in the mining sector and a slowdown in manufacturing growth. Construction grew by 16 percent, (yoy), while agricultural growth remained flat.

The unemployment rate decreased from 13.7 percent in 2022 to an average of 12.5 percent in the first three quarters of 2023, benefitting from strong economic activity. The poverty rate, measured by Upper-Middle-Income poverty line (UMIC), decreased by 0.4 percentage points, to 51.3 percent in 2022.

Average inflation dropped from 8.6 percent in 2022 to 2 percent in 2023, largely driven by declines in food and transport prices. The Central Bank of Armenia has gradually cut the policy rate by 200 basis points since January 2023, to 8.75 percent by the end of January 2024.
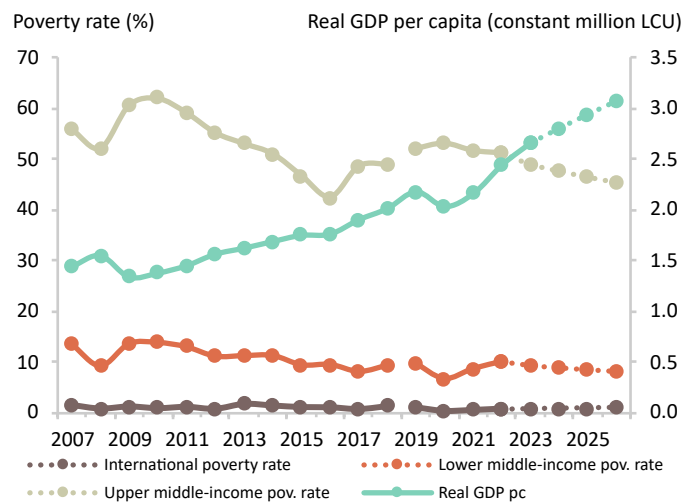
Credit to the economy in 2023 increased by 22 percent in nominal terms (yoy), driven mostly by an increase in dram-denominated loans. This lowered loan dollarization to 36 percent as of end-2023. Financial stability indicators remain sound, with the

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

Percent, percentage points

Legend: Private Consumption, Government Consumption, Investment, Net Export, 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

Poverty rate (%)   Real GDP per capita (constant million LCU)

Legend: International poverty rate, Lower middle-income pov. rate, Upper middle-income pov. rate, Real GDP pc

Source: World Bank. Notes: see Table 2.

Capital Adequacy Ratio at 20 percent and the Non-Performing Loans ratio below 2.5 percent. However, the profitability of the banking system declined in 2023.

The budget registered a 4.1 percent of GDP deficit in 2023, all financed by domestic sources on a net basis. Total revenues over-performed by 3 percent compared to the original plan, supported by a 17 percent (yoy) nominal increase in tax collection, fueled by strong economic growth. Current expenditures (including social transfers to refugees) and capital expenditures increased by 22 and 27 percent (yoy) in nominal terms, respectively. The government debt increased from 46.7 percent at end-2022 to 48.1 percent end-2023.

In the first nine months of 2023, the export and import of goods remained robust, increasing by 34 and 43 percent (yoy in nominal USD), respectively, largely driven by re-exports. However, in this period the trade deficit increased to 8.8 percent of annual GDP, from 6.3 percent in the same period of 2022. Remittances dropped to 4.6 percent of annual GDP, from 7.7 percent in the same period of 2022 (affected by a 44 percent rise in the net outflow of non-commercial money transfers). Tourism-related service inflows increased by 47 percent (yoy) in the nine months of 2023 and partly mitigated the deterioration of the current account deficit, estimated at 2.8 percent of GDP in this period. The Armenian dram started to gradually depreciate in late 2023 and by end-2023 was 2.9 percent weaker against the USD (yoy). Gross international reserves decreased by USD 510 million in 2023 and reached USD 3.6 billion, covering 3 months of import.

Outlook

Growth is expected to ease to 5.5 percent in 2024 as the surge in investment moderates and net exports remain negative. Growth in the medium-term is projected to gradually converge towards the 4.5 percent potential growth rate. Average inflation is forecasted to gradually rise toward the inflation target of 4 percent in the medium term.

The budget deficit is projected to deteriorate to 4.7 percent in 2024 (owing to support to refugees amounting about 2 percent of GDP), followed by fiscal consolidation in the medium term. Capital expenditures are expected to increase over the medium term as a percent of GDP to address the infrastructure gap. The current account deficit is projected to deteriorate to 3.2 percent of GDP in 2024 but to remain manageable at around 3.5 percent in the medium term.

Due to robust economic performance and low inflation, the UMIC poverty rate is projected to decline gradually to 47.7 percent in 2024.

Downside risks are related to ongoing tensions with Azerbaijan, geopolitical turmoil, integration of refugees, and a possible slowdown in trading partner economies.

TABLE 2 **Armenia** / Macro poverty outlook indicators   (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.8	12.6	8.7	5.5	4.9	4.5
Private consumption	2.8	5.5	6.3	6.0	5.8	5.1
Government consumption	-6.2	6.3	17.9	9.2	5.8	5.5
Gross fixed capital investment	23.6	9.0	14.4	6.2	6.0	5.9
Exports, goods and services	18.6	59.3	28.7	5.2	5.6	6.6
Imports, goods and services	12.9	34.5	28.3	6.7	7.0	7.8
Real GDP growth, at constant factor prices	5.6	13.2	8.4	5.5	4.9	4.5
Agriculture	-0.8	-0.7	0.2	0.9	1.2	1.4
Industry	2.6	9.2	5.5	5.3	4.7	5.0
Services	8.7	18.2	11.1	6.3	5.5	4.7
Inflation (consumer price index)	7.2	8.6	2.0	3.0	3.5	4.0
Current account balance (% of GDP)	-3.5	0.8	-2.3	-3.2	-3.4	-3.5
Net foreign direct investment inflow (% of GDP)	2.5	4.9	2.0	2.0	2.1	2.2
Fiscal balance (% of GDP)	-4.5	-2.2	-4.1	-4.7	-3.5	-3.1
Revenues (% of GDP)	24.9	25.1	25.8	26.0	26.2	26.6
Debt (% of GDP)[a]	60.2	46.7	48.1	49.0	48.6	48.2
Primary balance (% of GDP)	-2.0	0.1	-1.2	-1.4	-0.3	-0.2
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.5	0.8	0.8	0.9	0.9	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	8.7	10.0	9.3	8.9	8.6	8.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	51.7	51.3	49.1	47.7	46.6	45.6
GHG emissions growth (mtCO2e)	2.4	6.4	14.7	14.5	12.8	11.2
Energy related GHG emissions (% of total)	63.2	65.7	70.0	73.5	76.1	78.1

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 2010-ILCS, 2018-ILCS, and 2022-ILCS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
c/ Projection using annualized elasticity (2010-2018) with pass-through = 0.8 based on GDP per capita in constant LCU.