

## CONTENTS

<b>4.13 ECONOMIC SITUATION</b> .....	<b>4.13.1</b>
4.13.1 Macroeconomic Setting.....	4.13.1
4.13.2 Inflation.....	4.13.3
4.13.3 Sectoral Contributions.....	4.13.4
4.13.4 Poverty Levels.....	4.13.5

## TABLES

Table 4.13.1: Sectoral Contribution from Syunik and Vayots Dzor Marzer .....	4.13.5
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## FIGURES

Figure 4.13.1: Economic Growth before, during and after the Global Recession .....	4.13.2
Figure 4.13.2 GDP Forecasts for Armenia and the Region (World Bank) .....	4.13.3
Figure 4.13.3: Armenian Inflation Trends (1991-2010) <sup>6</sup> .....	4.13.3
Figure 4.13.4: Economic Growth and Sectoral Contributions <sup>5</sup> .....	4.13.4



### **4.13 Economic Situation**

Armenia's economy has grown significantly since independence in 1991. It is considered a lower middle income country, with a GDP of USD 9.95 billion recorded in 2012<sup>1</sup>. Prior to the global financial crisis of 2009, Armenia recorded a growth rate of close to 13%. The global financial crisis had a major impact on Armenia, with growth only reaching 2.1% in 2010 and 4.6% in 2011<sup>2</sup>. The trend improved significantly in 2012, with recorded growth of 7.2%<sup>3</sup>.

#### **4.13.1 Macroeconomic Setting**

Since independence, Armenia's economy has experienced extreme variations, including a GDP contraction of 42% in 1992 through to growth of 14% in 2007. Government has led a reform agenda focussing on price liberalisation, land privatization and titling, enterprise privatization and trade and investment liberalisation, resulting in strong economic growth between 2001 and 2007. During this time GDP per capita tripled and the poverty headcount fell from 56% to 28%<sup>1</sup>.

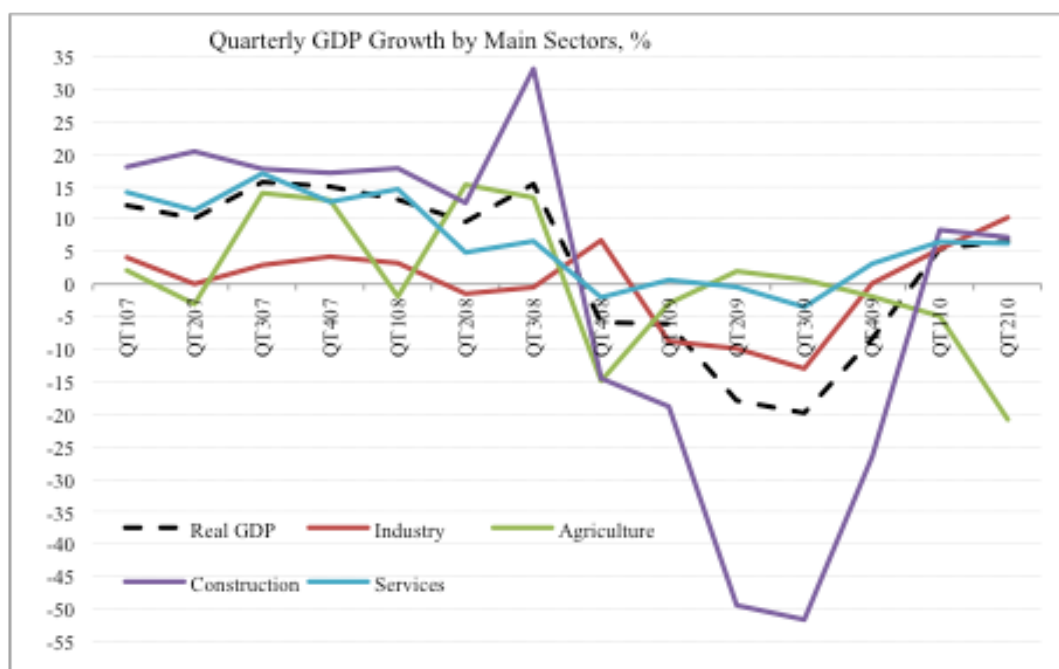
The situation changed drastically when Armenia became one of the hardest hit countries in the East and Central Asian region from the global financial crisis. Figure 4.13.1 indicates the decline in growth during that period across all sections of the economy.

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<sup>1</sup> <http://data.worldbank.org/country/armenia> accessed 2 May 2014

<sup>2</sup> World Bank, (2012), World Bank – Armenia Partnership: Country Program Snapshot, [www.worldbank.org](http://www.worldbank.org) (accessed August 28<sup>th</sup>, 2012)

<sup>3</sup> <http://search.worldbank.org/all?qterm=Armenia+growth+statistics&op=> accessed 2 May 2014



Source: Ministry of Finance, Republic of Armenia.

**Figure 4.13.1: Economic Growth before, during and after the Global Recession<sup>4</sup>**

During this time, exports reduced by 33% and remittances (an important element of the Armenian economy) dropped by 35%<sup>5</sup>. The economic decline in this period was further influenced by the August 2008 conflict between Georgia and Russia, limiting Armenia’s use of the transport route for goods through Georgia<sup>6</sup>.

Positive growth was recorded in 2010-2011, with the expectation that Armenia should attain 4-5 % growth in the medium term<sup>1</sup>, as shown in Figure 4.13.2.

<sup>4</sup> World Bank, (2011), Armenia, Poverty Update Using Revised Poverty Lines, Europe and Central Asia Unit, World Bank  
<sup>5</sup> World Bank, (2012a), Fiscal Consolidation and Recovery in Armenia, Europe and Central Asia Knowledge Brief, February 2012, Volume, 45, [www.worldbank.org](http://www.worldbank.org) (accessed 28<sup>th</sup> August 2012)  
<sup>6</sup> *ibid*

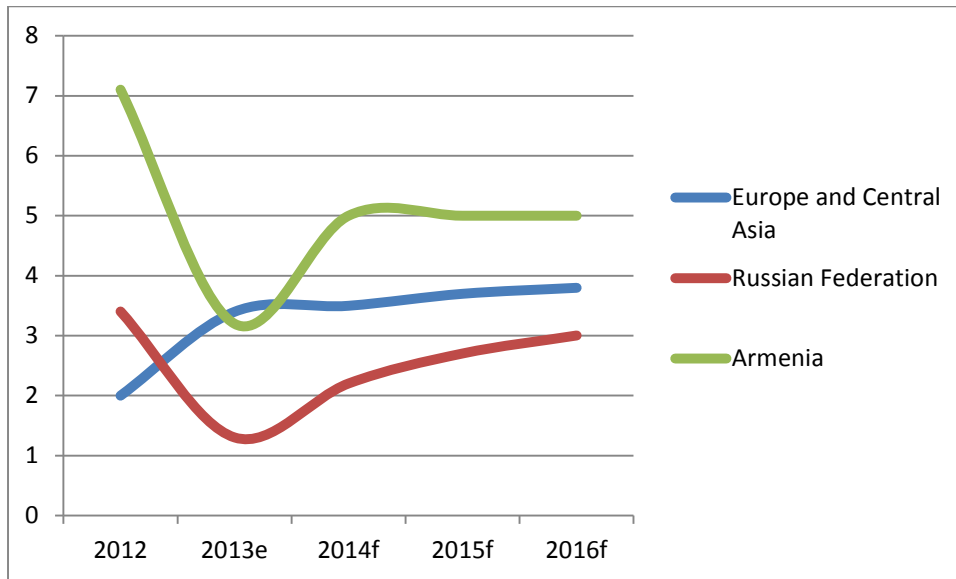


Figure 4.13.2 GDP Forecasts for Armenia and the Region (World Bank)

#### 4.13.2 Inflation

In the post-independence period, Armenia has experienced both periods of modest inflation and periods of hyperinflation, as can be seen in Figure 4.13.3. Food prices have been the key driver behind inflationary pressure in recent years; however, their slow-down in 2011 has allowed inflation to decline to levels within the band (4% ± 1.5) targeted by the Armenian Central Bank<sup>5</sup>. Inflation of 2.6% was recorded for 2012<sup>1</sup>.

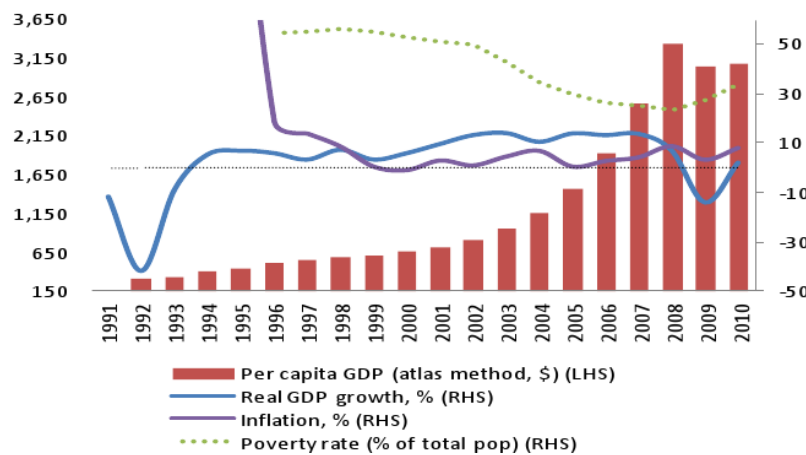


Figure 4.13.3: Armenian Inflation Trends (1991-2010)<sup>6</sup>

### 4.13.3 Sectoral Contributions

Armenia’s economy is dominated by agri-business and increasingly by mining. Industry (combining both agri-business and mining) contributed more than half of the economic growth seen in 2011 and mining contributes over 60% of the export earnings (see Figure 4.13.4).

The World Bank Armenia has been working with the Government of Armenia to develop a new mining code over recent years. Since the development and implementation of the new mining code (in 2012), revenues received by the Government of Armenia from mining have more than doubled (from USD 17.9 million in 2011 to USD 45.3 million in 2013)<sup>7</sup>.

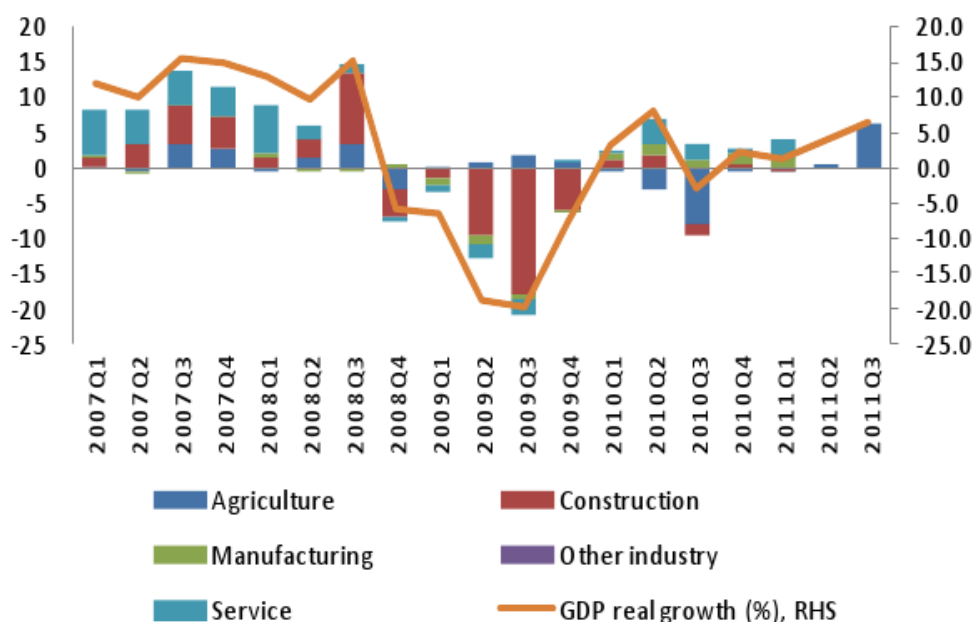


Figure 4.13.4: Economic Growth and Sectoral Contributions<sup>5</sup>

Syunik is the richest Marz in the country, due to the mineral production which is being undertaken in the Kapan District. The importance of this mineral production to the national economy is evident in Table 4.13.1. By comparison, the importance of Vayots Dzor to the national economy is limited at present, with the bulk of the “industry” contribution stemming from mineral water bottling plants in Jermuk.

<sup>7</sup> <http://www.worldbank.org/en/news/feature/2014/04/15/infographic-responsible-mining-in-armenia>

<b>Sector</b>	<b>Contribution from Marz to Republic Economy</b>
<b>Syunik</b>	
Industry (mining and energy)	18.3%
Agriculture (crops and animal husbandry)	5.7%
Construction	7.2%
Retail Trade	0.9%
Services	1.1%
<b>Vayots Dzor</b>	
Industry	0.8%
Agriculture	2.2%
Construction	0.9%
Retail Trade	0.4%
Services	0.4%

#### **4.13.4 Poverty Levels**

Poverty levels reduced significantly between 1999 and 2007, with over a million Armenians lifted out of poverty during that time. This situation reversed, however, with the advent of the global recession, seeing approximately 30% of these people retreat back into poverty, and the poverty headcount rise to approximately 1.2 million Armenians in 2010<sup>5</sup>. Rural and urban areas experienced similar increases in poverty levels during this time, with an average increase in poverty headcount of 8%. This headcount is expected to decrease as GDP growth accelerates.

<sup>8</sup> Armstat, (2011), Marzes of the Republic of Armenia, [www.armstat.am/en](http://www.armstat.am/en) (accessed 4th September 2012)