



## ARMENIA

### Highlights

- **The twin shocks of the Covid-19 pandemic and the conflict in Nagorno-Karabakh caused a strong fall in economic activity in 2020.** Gross domestic product (GDP) declined by 7.4 per cent in 2020 before recovering by 4.4 per cent from January to September 2021.
- **Access to external financing helped fund the Covid-19 policy response.** The Economic Response Programme, aimed at supporting economic recovery, is benefiting from funds received under the International Monetary Fund (IMF) programme and the issue of a US\$ 750 million Eurobond in early 2021.
- **Anti-corruption reforms are continuing.** Parliament approved the formation of an Anti-Corruption Committee and an Anti-Corruption Court in 2021.

### Key priorities for 2022

- **Structural reforms to support economic recovery and strengthen Armenia's resilience are needed.** They should focus on: strengthening governance and institutions; enabling the independence and competence of the judiciary; improving the insolvency resolution framework; improving corporate governance standards; and making continued progress on improving the competition framework.
- **Further efforts should be made to use the natural potential for renewables to tilt the economic recovery to green.** Favourable natural conditions for renewables, paired with a conducive regulatory environment, could attract foreign direct investment (FDI) in this area. This is even more important, bearing in mind the country's high import dependence on fossil fuels and its need to maintain competitiveness.
- **The right balance is needed between the increased public debt level and large infrastructure investment needs.** The authorities should prioritise and implement efficiency-enhancing infrastructure investment, while ensuring fiscal discipline and keeping public debt within manageable levels.

#### Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	7.5	5.2	7.6	-7.4	5.0
Inflation (average)	1.0	2.5	1.4	1.2	6.9
Government balance/GDP	-4.8	-1.8	-1.0	-5.4	-4.0
Current account balance/GDP	-1.5	-7.0	-7.4	-3.8	-2.9
Net FDI/GDP [neg. sign = inflows]	-1.9	-2.1	-1.7	-0.6	-1.6
External debt/GDP	91.3	87.7	90.9	102.1	n.a.
Gross reserves/GDP	20.1	18.1	20.9	20.7	n.a.
Credit to private sector/GDP	53.0	57.1	62.6	73.3	n.a.

## **Covid-19: macroeconomic implications**

**The Armenian economy was hit by twin shocks in 2020.** Economic activity contracted by 7.4 per cent in 2020 as the flare-up of the conflict in Nagorno-Karabakh in the second half of the year hit an economy already affected by the Covid-19 pandemic. The decline was broad-based as household consumption, investments and exports plummeted. Nevertheless, macroeconomic stability was preserved throughout 2020, as a strong import contraction outweighed the decline in export revenues, which helped to contain currency pressures and supported exchange rate stability throughout most of the year. Depreciation reappeared from November 2020 on the back of rising uncertainties but the exchange rate stabilised at the beginning of 2021. Inflation rose from 1.2 per cent in 2020 to 8.9 per cent year-on-year in September 2021 as a result of higher international food prices and a pass-through of Armenian dram depreciation. This prompted the Central Bank of Armenia to raise the re-financing rate five consecutive times, by 3 percentage points in total, to 7.25 per cent in September 2021.

**The external sector remained stable.** The authorities concluded the third review under the IMF programme in December 2020 and tapped external markets by issuing a US\$ 750 million Eurobond in early 2021 to help finance the projected fiscal deficit. Armenia's public debt increased from 50.1 per cent of GDP in 2019 to 63.5 per cent in 2020 on the back of spending pressures to support the economy. The current account deficit narrowed from 7.4 per cent of GDP in 2019 to 3.8 per cent in 2020 mainly on the back of import contraction. Money transfers increased by 32.5 per cent year-on-year in the first half of 2021, versus a 17.4 per cent contraction in 2020, largely driven by a strong growth of transfers from the United States of America. This trend mostly reflects the increased share of remittances sent through formal channels, as long-distance travel remains constrained. International reserves remain at prudent levels, close to US\$ 3.2 billion in September 2021 and cover approximately eight months of imports.

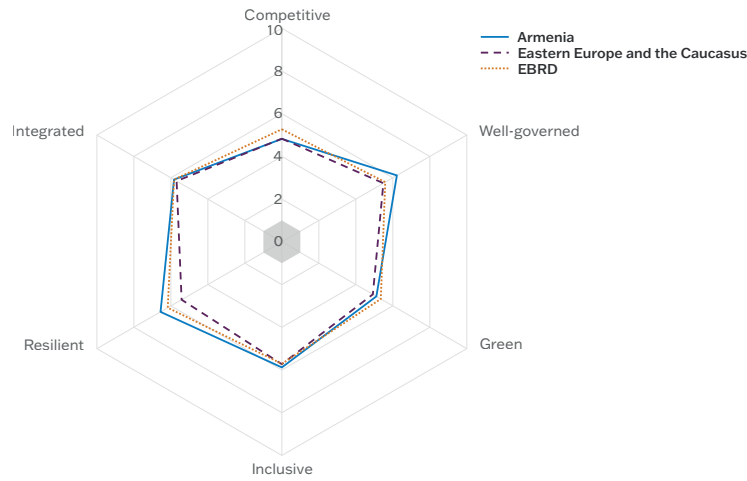
**The economic recovery is accelerating.** After a decrease of 3.3 per cent (year-on-year) in the first quarter of 2021, the economy achieved a growth of 5.0 per cent overall in the first six months as nearly all sectors of the economy posted strong growth in the second quarter. We expect GDP growth of 5.0 per cent in 2021, rising to 5.3 per cent in 2022. However, the economic recovery is faced with downside risks from the slow speed of vaccinations, especially in light of new and potentially more infectious virus strains. Risks also stem from geopolitical instability.

## **Policy response to Covid-19**

**The aim of immediate relief measures in 2020 was to support those most affected by the Covid-19 pandemic.** The authorities, together with banks' support, allocated US\$ 367 million (2.9 per cent of GDP) to support the economy in 2020. Measures included subsidised loans to the most affected sectors and businesses, in particular tourism and agriculture, grants to the private sector, direct wage subsidies to micro, small and medium-sized enterprises (MSMEs), and a strengthened social assistance programme with additional lump sum transfers. The main aim was to preserve jobs and thus protect the most vulnerable. Banks were advised to undertake voluntary loan restructuring and offer limited payment holidays to ease the liquidity pressures facing borrowers.

**The government approved the Economic Response Programme and relevant action plan in February 2021 to support the economic recovery in 2021.** Through 12 targeted actions and 14 assistance programmes, the government aims to restore economic activity, maintain viable and reliable business and consumer environments, and develop a medium-term economic policy agenda.

**Assessment of transition qualities (1-10)**



**Structural reform developments**

**A centralised register of bank accounts of individuals was introduced in the regulatory framework.** In June 2021 parliament approved an initiative of the Central Bank of Armenia to create a centralised register of bank accounts of individuals. By doing this, the legislature is aligned to global standards for combating money laundering and the financing of terrorism, and meets one of the obligations within the European Union (EU)-Armenia Partnership Agreement (CEPA). In future, this will be the foundation for innovative ideas related to the automation of bank accounts of citizens and it forms the appropriate infrastructure for advancing the online services sector. At the moment, the main purpose is to reduce operating costs when authorised bodies from law enforcement agencies apply for data.

**Armenia is advancing its digitalisation efforts.** A new digitalisation strategy, approved in February 2021, aims to advance the digital transformation of state institutions, individual economic sectors and society, through innovative technologies, cyber security and a data processing policy within the public administration. The goal of the strategy is to ensure system interoperability, introduce common standards, and implement educational programmes and various digital tools. This is expected to improve the quality of public services, increase public governance efficiency, promote institutional digitisation and infrastructure development, encourage data-driven decision-making and help develop a highly skilled workforce.

**Anti-corruption reforms continued.** In March 2021 parliament voted in favour of replacing the Special Investigative Service with an Anti-Corruption Committee with enhanced detection and investigative powers to examine corruption cases. A law on the creation of the Anti-Corruption Court, which will specialise in corruption crimes and anti-corruption civil cases and will have the right to examine the lawsuits for confiscation of property of illegal origin, was adopted in April 2021. Both laws are part of the government's anti-corruption strategy adopted in 2019, aiming to curb corruption and strengthen the rule of law in Armenia.

**Armenia is increasing its efforts to tackle climate change.** In April 2021 the government approved Armenia's updated nationally determined contributions (NDCs) under the Paris Agreement for 2021 to 2030. The new NDCs are more ambitious and now include the goal to reduce greenhouse gas emissions by 40 per cent by 2030 from 1990 levels. Furthermore, Armenia has the ambition to double the share of renewable energy in its energy production by 2030, as well as to increase the forest cover by 12.9 per cent of the territory of Armenia in the same period.

**Amended legislation on the rights of people with disabilities will help to reduce discrimination.** In May 2021 the government amended the law on the rights of people with disabilities. The aim of the new law is to end discriminatory practices and to improve the disability assessment so that it is based on the extent of limited functionality and personal needs rather than on the degree of disability only. Thus, the new law creates opportunities for a more inclusive society.

