



Armenia

Highlights

- **A strong post-Covid-19 recovery has continued in 2022.** Broad-based growth of 13.9 per cent year on year in the period from January to August 2022 was driven by a large rise in money transfers and growing demand for services associated with the arrival of many Russians finding temporary refuge in Armenia.
- **Reforms in the energy sector have advanced.** The authorities have announced plans for renewable energy production up to 2030 and for a more competitive domestic electricity market, with free and open electricity trading.
- **The digitalisation of government services has accelerated.** The single window e-system reduces interaction with public authorities and simplifies the process of issuing permits and customs clearance. The new system should be fully implemented by the end of 2022.

Key priorities for 2023

- **Governance standards need to be improved.** Key challenges in the short term include strengthening the quality of public institutions and enabling the independence and competence of the judiciary, along with a renewed focus on improving corporate governance standards and making further progress in implementing the competition framework.
- **Momentum towards an open and competitive electricity market should be stepped up.** As the domestic electricity market becomes more liberalised in 2022, the authorities should take advantage of the ongoing initiative to enhance the competitiveness of the electricity industry and attract further investment in renewable energy.
- **Anti-corruption institutions need to be strengthened.** The establishment of the Anti-Corruption Committee (ACC) in 2021 was welcome, but implementing anti-corruption measures has been limited so far.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	5.2	7.6	-7.4	5.7	8.0
Inflation (average)	2.5	1.4	1.2	7.2	8.5
Government balance/GDP	-1.8	-1.0	-5.4	-4.6	-2.3
Current account balance/GDP	-7.4	-7.3	-3.8	-3.7	-5.5
Net FDI/GDP [neg. sign = inflows]	-2.1	-1.7	-0.7	-2.5	-1.5
External debt/GDP	87.7	90.9	102.1	99.9	n.a.
Gross reserves/GDP	18.1	20.9	20.7	23.3	n.a.
Credit to private sector/GDP	57.1	62.6	73.3	61.5	n.a.

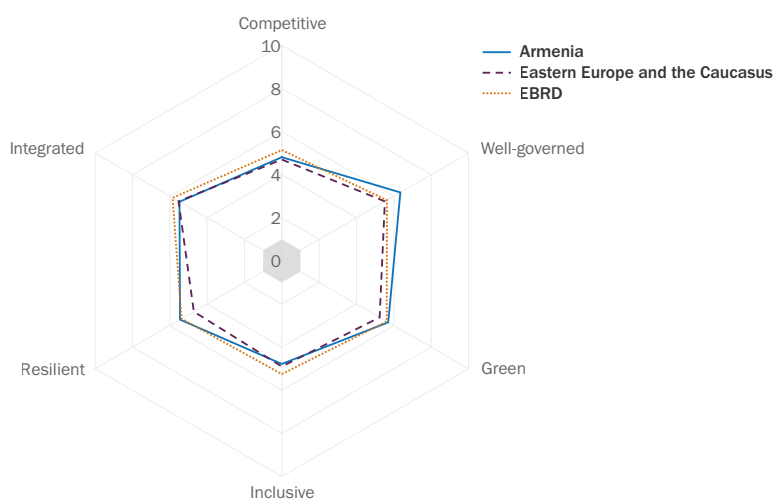
Macroeconomic developments and policy response

A strong economic recovery has continued into 2022. The rapid upturn in the economy experienced in the last quarter of 2021 further accelerated to gross domestic product (GDP) growth of 13.9 per cent year on year in the period from January to August 2022. Manufacturing recorded growth of 9.2 per cent, construction and trade growth was in double digits, and services increased by 27.1 per cent. Armenia has high exposure through trade, remittances and foreign direct investment to the recession-hit Russian, Ukrainian and Belarusian economies, but negative spillovers have been outweighed by the inflow of a significant number of people and businesses from Russia, which has boosted demand in the real estate and services sectors. The net inflow of money transfers between March and July 2022 increased by 109.0 per cent year on year due to a five-fold increase from Russia. This helped to finance the widening trade deficit, as imports rose by 58.2 per cent (and exports by 52.9 per cent) year on year from January to August 2022. As a consequence, foreign reserves increased by almost US\$ 600 million since the start of the war on Ukraine, reaching US\$ 3.6 billion at the end of August and covering five months of imports.

Inflationary pressures have prompted rises in the central bank’s policy rate. The war on Ukraine and the associated disruption to food and energy markets have led to annual inflation rising from 6.5 per cent year on year in February 2022 to 9.1 per cent in August. Initially, inflation pressure came from rising prices of imported food, but the large foreign inflows supported an appreciation of the domestic currency by 18 per cent versus the US dollar between the start of 2022 and the end of August, thus alleviating the pressure from imported prices. More recently inflation has been driven by demand pressures, alongside supply disruptions caused by sanctions on Russia. These developments prompted the Central Bank of Armenia (CBA) to raise the policy rate by 225 basis points at the beginning of the year, to 10.0 per cent as of the middle of September. Meanwhile, the government has announced an increase in the minimum wage of 10.0 per cent from January 2023 and an increment to the minimum pension from 28,600 dram (US\$ 71) to 30,500 dram (US\$ 76) from September 2022.

Strong growth will continue in the short term, but significant risks remain. We expect GDP growth in 2022 to reach 8.0 per cent, followed by a moderation to 4.0 per cent in 2023. The current level of economic activity is driven by temporary factors that could easily be reversed. Also, the isolation of the Russian economy from western markets, if it persists, could have negative long-term consequences for the Armenian economy.

CHART Assessment of transition qualities (1-10)



NOTE: Belarus is not included in the EBRD region and respective regional averages.

Structural reform developments

Armenia has started to liberalise the domestic electricity market. In February 2022 an electronic electricity trading platform was introduced to facilitate free and open trading under the auspices of Armenia's Public Services Regulatory Commission. Previously, the domestic electricity market had a single supplier, the Electric Network of Armenia. This shift to a more competitive and open power market enables open access to other suppliers and cooperation among all energy market participants. Full liberalisation, including direct contracts on the wholesale market, is planned for February 2023.

Transition to a green economy has accelerated. In March 2022 the government adopted the Programme on Energy Saving and Renewable Energy for 2022-30. It is based on commitments undertaken by the authorities under various international agreements and treaties on sustainable development, renewable energy, energy saving and climate change, and it defines the country's main goals and targets. It will be implemented in three stages: 2022-24; 2025-27; and 2028-30. The programme sets out the main actions and measures needed to achieve the targets. In April 2022 for example, the authorities granted an exemption on customs duty for 7,000 imported electric vehicles. This reflects a gradual movement towards one of the set targets, which is to increase the share of electric vehicles to 10 per cent of all light vehicles in Armenia by 2030. The programme aligns with the goals of the Energy Strategy of Armenia, adopted in January 2021, which aims for solar photovoltaic capacity reaching 100 MW by 2024 and 1,000 MW by 2030.

The digitalisation of government services has advanced. In October 2021 the State Revenue Committee launched a new electronic government service of a single window, one-stop shop. A total of 17 public administration organisations have been gradually joining this platform, which simplifies the process of issuing permits and customs clearance. Full implementation of the new system should be completed by the end of 2022. The CBA is also cooperating with the public administration and private sector to establish a national electronic identity system to enable safer digital payments.

The social protection scheme has been expanded to support the most vulnerable. Since January 2022 the minimum pension and other social benefits have increased. The minimum pension was raised from 26,500 dram (US\$ 65) to 28,600 dram (US\$ 70), while disability pensions for the military will rise by 3,000 dram (US\$ 7). For those bereaved due to military engagement, the bereavement support payment has also increased from 27,000 dram (US\$ 66) to 30,000 dram (US\$ 73). Furthermore, the child disability pension and childcare benefits have increased, by 10,500 dram (US\$ 26) and 1,100 dram (US\$ 2.7), respectively.

An implementation plan for public-sector governance reform has been confirmed. To improve the efficiency of public services the authorities adopted a new public administration reform strategy in May 2022. The authorities aim to tackle the longstanding issue of inefficient governance across all levels of government through comprehensive reforms between 2022 and 2030. Reforms will focus on three areas: allocating human resources, improving the public-service database, and strengthening digital public service delivery.

The institutional capacity to tackle corruption in government has improved. The ACC, established in 2021, was overloaded with administration and investigative proceedings, and implementation was limited. In May 2022 the authorities proposed a legal amendment that enables staff at the ACC to focus fully on corruption crime cases. The adoption of a new code of conduct in July 2022 provided a strong impetus for anti-corruption reform. The code of conduct followed extensive consultation among social actors, including civil society, and requires all public servants to reduce corruption and bribery across the government.