

Armenia

Economic Update
No.1 | Spring 2015



Accelerating Reforms, Increased Uncertainty



WORLD BANK GROUP

**Macroeconomics
& Fiscal Management**
Global Practice



Armenia

Accelerating Reforms, Increased Uncertainty

Armenia Economic Update No. 1

Spring 2015

Government Fiscal Year:	January 1 – December 31
Currency Equivalents:	Exchange rate as of April 13, 2015 Currency unit = Armenian Dram (AMD) US\$1 = AMD 475.30
Weights and Measures:	Metric system

Abbreviations and Acronyms

AMD	Armenian dram
CBA	Central Bank of Armenia
CPI	Consumer Price Index
DCFTA	Deep and Comprehensive Free Trade Agreement
ECA	Europe and Central Asia
EEU	Eurasian Economic Union
EU	European Union
FDI	Foreign direct investment
FX	Foreign exchange
GEP	Global Economic Prospects
GDP	Gross domestic product
IEA	Index of economic activity
IMF	International Monetary Fund
MOF	Ministry of Finance
m-o-m	Month-on-month
MTEF	Medium-Term Expenditure Framework
NPL	Nonperforming loans
NSS	National Statistics Service
SES	State Employment Service
y-o-y	Year-on-year

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Foreword

This report is part of series aimed at monitoring developments in Armenia. It presents a broad overview of macroeconomic, political and structural developments in the country in 2014 and early 2015. The authors are Donato De Rosa (Senior Economist) and Tigran Kostanyan (Economist). Moritz Meyer (Economist) provided valuable contributions on poverty developments, while Ulrich Bartsch (Lead Economist) contributed to the special focus section. The report benefited from the guidance received from Laura Bailey (Country Manager for Armenia) and Henry Kerali (Country Director for the South Caucasus). Vigen Sargsyan (Senior External Affairs Officer) and Nvard Manasian have also assisted the team. Sarah Nankya Babirye and Zakia Nekaiien-Nowrouz provided excellent support in the preparation of the report.

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Overview

Armenia's economic growth remained resilient in 2014. Output expansion slowed to 3.4 percent in 2014, relative to 3.5 percent in the previous year. On the supply side, while services (particularly transport and telecoms), agriculture, and manufacturing performed well, construction, mining, and energy made negative contributions to output growth. On the demand side, net exports were the main contributor to growth, offsetting weak private consumption and negative private investment. However, by the last quarter, Russia's economic slowdown and the steep depreciation of the ruble began to depress remittances, FDI inflows, and exports. Few jobs were created during the year, and the unemployment rate reached to 17.6 percent in 2014. A weak labor market, combined with slower emigration and return migration from Russia, are likely to have undermined growth in the incomes of the poor. Declining remittances and higher inflation in the last few months of 2014 reinforced these trends. Poverty at US\$2.5/day was 30.2 percent in 2014, still above the levels recorded in the period leading up to the 2008 financial crisis.

Fiscal policy continued to be prudent throughout the year, and monetary tightening responded to the currency depreciation. The budget deficit of 2.0 percent of GDP (up from 1.7 percent in 2013) was lower than expected because of revenue mobilization efforts and under-executed capital spending. Developments in currency markets marked the end of 2014. After holding steady for most of the year, the dram became highly volatile in November and December; for 2014 as a whole, it depreciated by 17 percent, stabilizing at about 480 drams per U.S. dollar. The authorities responded with net foreign exchange (FX) sales amounting to US\$145 million and they pushed the policy rate up to a 13-year high of 10.5 percent. With depreciation of the dram, prices of imported goods began to rise, bringing inflation up to 5.4 percent in February 2015 (year-on-year [y-o-y]).

Developments in Russia will adversely affect economic growth in 2015, underscoring the need for Armenia to press ahead with structural reforms. GDP growth is projected to be barely positive in 2015 because of the serious contraction of the Russian economy. Armenia's accession to the Eurasian Economic Union (EEU) in January 2015 suggests that the economic impact of developments in Russia may deepen in the medium term. Currently, the 80 percent depreciation of the Russian ruble in the second half of 2014 has had a severe effect on the US dollar value of remittances to Armenia, with likely negative effects on private consumption in 2015. Exports to Russia are also likely to suffer, and declining prices and subdued global demand for metals, the most important export, are expected to further repress aggregate demand. Subdued growth in the economy and in employment, combined with higher prices for basic items and a projected decline in remittances may increase poverty somewhat in 2015 and 2016. On the fiscal front, the budget deficit is projected to fluctuate around 2.0 percent of GDP in the medium term; the main challenge will be to maintain a sustainable fiscal framework against a background of surging current spending, falling capital investment, and slowing economic growth. With the uncertain outlook through the medium term, Armenia will need sound macroeconomic management and sustained implementation of structural reforms to sustain growth, and protect the poor and vulnerable.

A. Recent Political Developments

Armenia joined the EEU in January 2015 as constitutional reform animates the domestic political debate. Armenia's EEU obligations imply renegotiation of its relationship with the European Union (EU), which had been guided in recent years by discussion of a Deep and Comprehensive Free Trade Agreement (DCFTA). On the domestic front, tycoon Gagik Tsarukyan resigned from leadership of the Prosperous Armenia Party and the party abandoned its neutral stance and officially announced that it was joining the opposition in parliament. Prosperous Armenia has been at odds with the ruling coalition in particular over the president's initiative to reform the constitution and turn Armenia into a parliamentary republic.

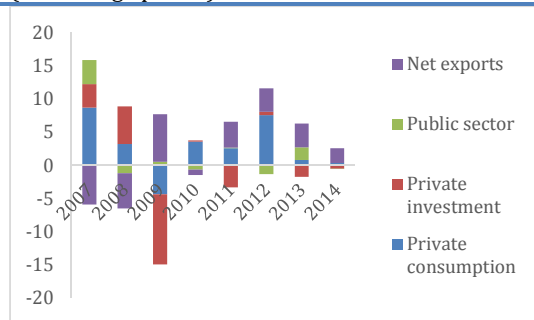
B. Recent Economic Developments

Economic developments in Russia and the steep depreciation of the ruble are beginning to hit the Armenian economy hard through remittances, trade, and foreign direct investment (FDI) channels. The recent oil price shock and Western sanctions have battered the Russian economy and undermined growth prospects. The slowdown in Russia affects Armenia through foreign trade, remittances, and FDI linkages. Russia is the destination for close to 25 percent of Armenia's exports and the source of 40 percent of its FDI and 80–90 percent of its remittances. Depreciation of the Russian ruble by more than 80 percent against the US dollar in the second half of 2014 contributed to a decline in US\$-denominated remittance inflows and is jeopardizing the competitiveness of Armenian exports. Global demand and prices for base metals, which account for 45 percent of Armenia's exports, are also declining, which pushes down export proceeds.

GDP growth slowed slightly to 3.4 percent in 2014 and there was visible deterioration in the last quarter. In 2014, private consumption grew by only 0.4 percent, compared to 0.8 percent in 2013; it contributed a mere 0.4 percent to GDP growth. The main cause is a 10 percent decline in remittances, mainly from Russia, which accounted for 14.9 percent of 2014 GDP. As business sentiment deteriorated, private investments fell by 5.9 percent in 2014, dragging GDP growth down by 0.5 percentage points. External demand, however, was a robust contributor to growth the first three quarters of 2014. Exports grew by 22.6 against a modest 7.7 percent growth in imports, reflecting slack domestic demand and lower bills for energy products and unpolished diamonds. The signs of economic slowdown were quite visible in the last quarter, when real GDP grew by only 2.6 percent as private investment fell.

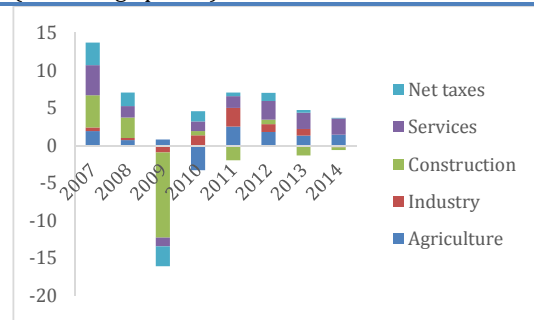
Resilient performance from agriculture, manufacturing, and services largely compensated for significant contractions in construction, mining, and energy. Services grew by 4.3 percent and contributed 2.2 percentage points to overall GDP growth. The agricultural sector was the second largest contributor with 1.4 percentage points as a favorable autumn harvest more than offset the negative impact of late March frosts, culminating in the 7.8 percent growth for agriculture in 2014. However, a protracted decline in construction and a stagnant industrial sector acted as counterweights. Industry as a whole stagnated in 2014; the mining sector shrank by 5.8 percent due to low demand for metallic commodities; and the energy sector contracted by 15.1 percent, which together offset the positive performance of manufacturing (7.7 percent).

Figure 1. Economic Growth by Source of Demand, 2007–14
(Percentage points)



Source: NSS data.

Figure 2. Economic Growth by Source of Origin, 2007 – 14
(Percentage points)



Source: NSS.

In the first two months of 2015 there were signs that the economy is slowing further. The Index of Economic Activity (IEA)—the weighted average of the growth rates (in volume terms) of major sectors and a proxy for economic growth—was a modest 2.5 percent in January-February 2015 (y-o-y).¹ Services (without trade) posted the highest growth rate (4.6 percent), followed by agriculture (3.6 percent). Still performing poorly, industry declined by 1.8 percent, and energy generation sank by 16.6 percent.

Unemployment kept increasing in 2014 in part because emigration fell and Armenian emigrants began to return from Russia. The unemployment rate reached 17.6 percent in 2014, compared to 16.2 percent in 2013, after having fallen by about 2.5 percentage points overall in 2009–13. Emigration mitigated pressures on the labor market during and after the financial crisis of 2008, but in 2014 deceleration of the Russian economy curtailed this external support. Gender disparities declined: the share of women in the total number of unemployed went down from 51.6 percent in 2013 to 49.8 percent in 2014.

Although the poverty rate stabilized in 2014, it is still higher than it was before the crisis. After declining steadily in recent years, poverty, measured at the US\$2.5/day poverty line, stabilized at 30.2 percent in 2013 and 2014, still above pre-crisis levels. Poverty measured at US\$5/day is estimated to have declined marginally, to 78.1 percent in 2014 from 78.4 percent in 2013. The stability of the poverty rate has been driven primarily by higher agricultural employment and earnings, which is good for the rural poor. Remittances and public transfers from safety net programs have also been supporting consumption and income growth among the poor and vulnerable. However, minimal job creation and increased labor market pressures in 2014—associated with slower emigration and potential return of migrants from Russia—are likely to have suppressed income growth, and remittances declining and inflation rising in late 2014 and early 2015 are likely to have reinforced these trends.

¹ GDP for the first quarter of 2015 will be available in May. GDP growth and the IEA for January-February cannot be directly compared because GDP is estimated quarterly and annually basis and the IEA is estimated monthly.

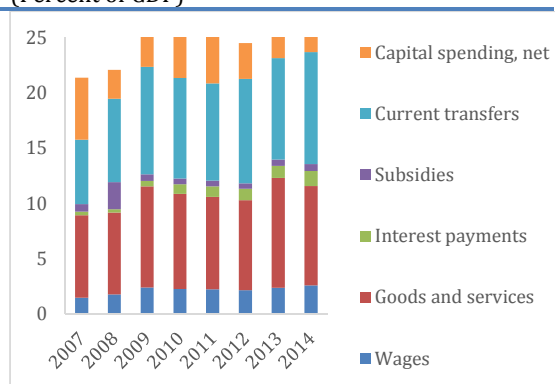
C. Economic and Structural Policies

Fiscal and Debt Developments

The fiscal deficit remained below the 2014 target because of extra effort to mobilize revenue and inability to fully execute the capital budget. The deficit went up from 1.7 percent of GDP in 2013 to 2 percent in 2014, below the 2.3 percent 2014 budget deficit target. Despite the slowdown in economic activity, tax revenues were generally in line with the budget approved for 2014 (just 3.3 percent lower than the revised target) as authorities adhered to nominal targets and strong tax collection more than offset shortfalls in grants. Taxes grew by 6.2 percent, with 72.1 percent of the increase attributable to higher direct taxes. Since January 2015 Armenia has begun to receive customs duties from the EEU distribution scheme—1.13 percent of the total pool—which contributed to the 6.2 percent growth of revenues from customs duties for the first quarter of 2015 (y-o-y). On the spending side, under-execution of the capital budget continued but the difference between planned and actual execution shrank substantially in the last quarter of 2014, leading to a gap of less than 18 percent for all of 2014, compared to a gap of almost 50 percent in the first three quarters.

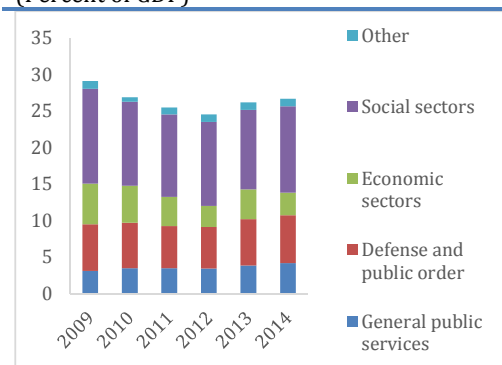
Decomposition of government spending illustrates the growing importance of social transfers. Even during the fiscal consolidation, social transfers grew by 16.9 percent in 2014 to reach 10.1 percent of GDP, up from 9 percent in recent years. Interest payments increased by one-third, to 1.4 percent of GDP, reflecting higher debt and soaring debt servicing obligations, mainly higher interest payments on Eurobonds, and the increased cost of domestic financing (medium-term bond yields reached 12.5 percent in December, after averaging 9.6 percent in the first 11 months). The share of current transfers increased to 10.1 percent of GDP from 9.2 percent in 2013; the share of wages went up to 2.6 percent of GDP (2.4 percent in 2013); and the share of capital spending stagnated at 3 percent of GDP.

Figure 3. Economic decomposition of public spending, 2007–14
(Percent of GDP)



Source: NSS and Ministry of Finance of Armenia (MoF) data.

Figure 4. Functional decomposition of public spending, 2007–14
(Percent of GDP)



Source: NSS and MoF data.

A new Eurobond issue is intended to mitigate debt service pressures and extend debt maturity. On March 19, 2015, the government issued Eurobonds amounting to US\$500 million, with a 10-year maturity and a coupon rate of 7.15 percent p.a. (7.5 percent yield). Bond proceeds (netting out the difference between yield and coupon) were US\$487.8 million. About US\$200 million was used

to redeem some of the Eurobonds issued in September 2013, which though yielding only 6.25 percent p. a. had a maturity of 7 years, which put additional pressure on debt servicing in 2020, and US\$85 million was used to compensate for shortfalls from domestic financing, since constraints in the banking sector limit ability to place treasury bills domestically. The remaining US\$202.9 million was deposited in the stabilization account to buffer against possible revenue shortfalls.

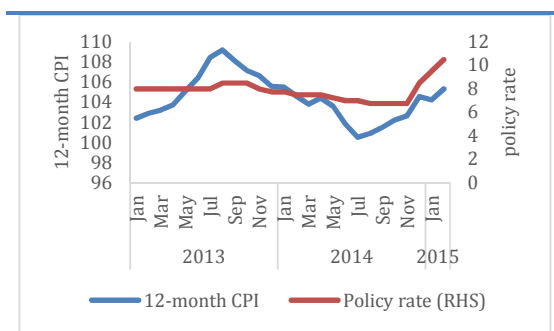
External public debt declined by 2.3 percent in 2014, reaching US\$3.9 billion (35.2 percent of GDP). The Central Bank of Armenia (CBA) repaid US\$59 million of the Stand-by Arrangement with the International Monetary Fund (IMF), which accounted for most of the 11.9 percent decrease in CBA obligations to multilaterals and subtracted 1.5 percentage points from external public debt.

Prices and Monetary Conditions

The Armenian dram was stable through most of 2014 but fluctuated dramatically in November and December after the depreciation of the Russian ruble. To support the dram and limit pass-through impacts on inflation, between November 2014 and January 2015 the CBA intervened heavily, selling foreign exchange worth US\$145.0 million (net) and pushing up the policy rate sharply in February. These measures succeeded in stabilizing the dram at about 480 per U.S. dollar. In 2014 as a whole, the dram depreciated by 17 percent against the US dollar. Pressures on the dram continued into March and April 2015 but have been accommodated by the CBA.

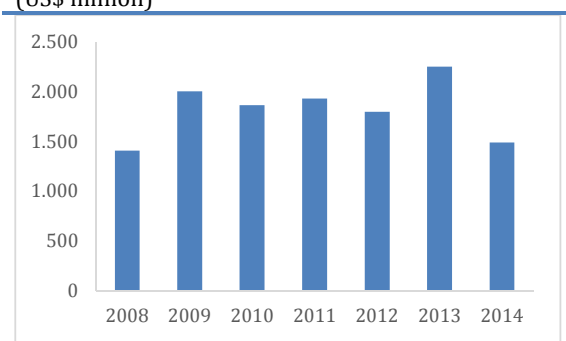
Inflation declined from an annual average of 5.8 percent in 2013 to 3 percent in 2014 but is now showing signs of reviving. When the dram was depreciated, prices of imported goods began to rise, bringing inflation up to 5.4 percent (y-o-y) in February 2015—close to the upper bound of the CBA target of 4 +/- 1.5 percent. The major driver of inflation was food prices, which grew by 7.0 percent in February 2015 (y-o-y) and contributed 3.4 percentage points to 12-month inflation. The second largest contributor, with 1.2 percent, was services, reflecting increased electricity tariffs in August 2014. Non-food products grew more modestly for the month, at 3.4 percent, leading to core inflation of 4.2 percent in February 2015 (y-o-y).

Figure 5. Inflation and the Policy Rate, 2013–15
(Percent)



Source: Central Bank of Armenia (CBA) data.

Figure 6. Gross International Reserves, 2008 – 14
(US\$ million)



Source: CBA data.

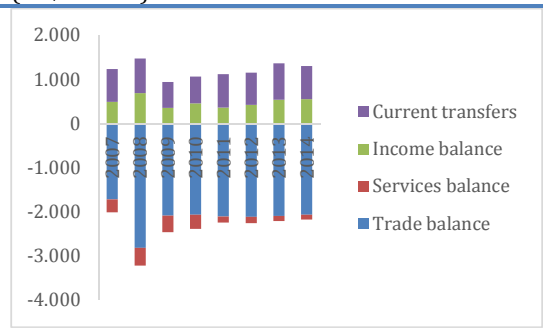
The CBA continues to tighten monetary policy as inflationary pressures grow. After 16 months of accommodative policy, on December 23 it raised the policy rate by 175 basis points to stem the inflationary pressures arising from a depreciated exchange rate. This was followed by increases of 100 basis points each in January and February of 2015, bringing the policy rate to a 13-year high of

10.5 percent. Between November 2014 and January 2015, because of depreciation of the exchange rate and accelerating inflation, dollarization of loans went up by 3.2 percentage points and of deposits by 3.8 percentage points to reach over 70 percent of deposits and 66 percent of loans. Although the foreign exchange positions of commercial banks are closed, borrowers are exposed to possible currency mismatches, which may trigger increases in nonperforming loans.

Balance of Payments Developments

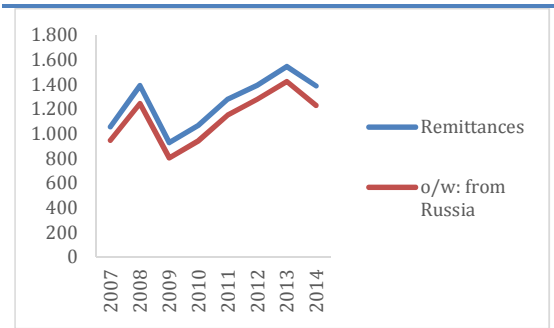
The current account deficit was 7.9 percent of GDP in 2014, a marginal improvement since 2013, as stagnating private consumption limited import demand. The trade deficit improved by 1.1 percent, mainly because jewelry exports grew by 22.5 percent, benefitting from Russia's waiver of export duties on unpolished diamonds, which Armenia processes for re-export. The share of EEU countries in Armenia's total merchandise exports declined from 23.7 percent in 2013 to 21.4 percent in 2014 as those going to Russia fell by 7.7 percent. Net remittances, 90 percent of which originate in Russia, posted impressive growth of 18.2 percent in the first quarter of 2014 (y-o-y) but ended the year down 7.9 percent from 14 percent growth in 2013 because of the slowdown in the Russian economy and depreciation of the ruble in the second half of 2014. In total, net inflows of remittances and FDI—most of the latter being reinvested earnings accruing to Russian investors in Armenia's energy sector—reached US\$1.9 billion, 18.2 percent of GDP.

Figure 7. Current Account Deficit by Source, 2007–14, (US\$ million)



Source: CBA data.

Figure 8. Remittances, 2007–14, (US\$ million)



Source: CBA data.

In January 2015, even in the face of shrinking exports, the trade deficit declined by 38.7 percent as demand for imports also lessened. Merchandise exports were down by 21.9 percent (y-o-y), because of appreciation of the real exchange rate (relative to Russia), unsettled issues in customs clearance procedures with EEU member countries, subdued demand from major trading partners, and a protracted decline in international copper prices. In January 2015 merchandise exports to the EEU were a negligible 1 percent of the level recorded a year earlier and accounted for 17.2 percent of the contraction in exports. The fall in merchandise imports was much steeper (33.2 percent, y-o-y) as remittances from Russia were reduced by almost half and severely constrained demand for imported consumer goods. The lower import bill also reflects other developments, such as Russia's unilateral waiver of export duties on natural gas, oil products, and unpolished diamonds.

Structural Reforms

Structural reforms are being rolled out to raise the economy's growth potential and protect the poor and vulnerable; how well they are implemented matters crucially. Small and landlocked Armenia has open borders only with Georgia and Iran. Governments over the years have embarked on structural reforms to increase connectivity, improve the business environment, and make social assistance programs more effective. This time implementation could be derailed by both inadequate capacity within government and the active resistance of vested interests who stand to lose if policy becomes more transparent. A major recent success, however, is aviation reform, which overcame the resistance of vested interests to improve air connectivity by adopting an open skies policy and improving institutional arrangements. Major reforms have also been effective in customs with the streamlining of controls and processes. To improve the business environment, the authorities have moved to lessen the burden of inspections of businesses in order to limit rent-seeking and political interference. Today, the planned introduction of a unified tax code would help expand and rationalize the tax base and taxation rates and close loopholes. Of particular prominence given the likely impact on poverty of current economic developments are initiatives to improve the efficiency of social assistance and harmonize criteria for the provision of social assistance programs.

D. Outlook

Given the unfavorable external environment, global growth is likely to continue to be sluggish in 2015 and beyond. According to the latest Global Economic Prospects projections, global growth is expected to rise moderately, to 3.0 percent in 2015, and average about 3.3 percent through 2017.² The United States is the only major economy for which growth projections have been raised. In the baseline scenario (which is subject to major downside risks) the Armenian economy is expected to grow by 0.8 percent in 2015 before gradually recovering to 3.0 percent growth in 2017. The revisions reflect a reassessment of prospects in Russia, the EU, and China, which is the ultimate consumer of Armenian metallic mining exports.

The expected slowdown in Russia will negatively affect GDP growth in Armenia. Not only will lower remittances from Russia bring down private consumption, but Russian companies are major investors in Armenia and a significant slowdown at home may affect their foreign investment plans. Furthermore, Russia accounts for close to a quarter of Armenia's merchandise exports, which are concentrated in labor-intensive sectors like agriculture, light industry, and transportation, and the relative appreciation of the Armenian dram against the Russian ruble (30 percent in nominal terms since January 2014) is likely to make exports less competitive. On the positive side, tourism arrivals and receipts, which have shot up since 2013, may contribute to GDP growth in 2015 owing to the centennial of the events of 1915.

The government is confronted by the necessity to maintain a sustainable fiscal framework against a background of surging current spending, falling capital investment, and slowing economic growth. In the medium term the budget deficit is projected to fluctuate at about 2 percent of GDP. It is likely that in 2015–17 fiscal consolidation will remain a priority, with total public spending likely to remain stable but with current expenditures and social transfers constituting increasing shares. Complicating the fiscal outlook, the March US\$500 million Eurobonds issue brought debt closer to the legal threshold of 50 percent of GDP.

² Source: http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP15a_web_full.pdf.

There is a possibility that poverty outcomes may worsen somewhat. Slower economic and employment growth, higher food prices, and the projected decline in remittances will continue to negatively affect income and consumption growth among the poor and vulnerable. This may not only curtail the poverty gains recorded in recent years but may even lead to moderate increases in poverty rates in 2015 and 2016. If there are no mitigating policy responses, poverty as measured at US\$2.5/day is projected to increase slightly to 30.3 by 2016. The replacement of unemployment benefits with active labor market policies implies that there will be no direct support to the transitory poor. The support offered by existing safety nets, which have limited coverage, is inadequate—most likely not enough to compensate for projected income losses, especially if the trends described persist through the medium term.

E. In Focus: Armenia's EEU Accession

In January 2015 Armenia formally became a member of the EEU. The announcement, made in September 2013, launched a number of reforms to harmonize Armenia's tax and customs regime with that of the EEU. Armenia can expect economic gains because customs-free access opens wide opportunities to a market of 170 million consumers. Armenia should thus be able to benefit from the EEU's relatively more liberal trade regime and better business climate.

The extent to which EEU accession will promote domestic structural reforms is not clear. Until the announcement in September 2013, which started the EEU accession negotiations, the Armenian government's development strategy for much of the 2000s was guided by the planned Association Agreement with the EU, including the DCFTA. The prospect of closer ties with the EU provided the anchor for a program of reforms to build up both institutions and regulation. At this point it is not clear to what extent the EEU will provide similar support for structural reforms, or to what extent the Armenian government will be able to pursue its stated intention to continue to work to strengthen its ties with European partners.

Armenia's manufacturing sector is oriented northward. The country's single most important import partner is Russia, with about as many goods arriving from Russia as from all the countries in the EU. On the export side, Russia dominates the country table, but as a group EU members buy about 30 percent more from Armenia than Russia does. The composition of trade, however, is not the same: Armenia imports more technologically advanced goods from the EU and more energy and basic goods from Russia. While exports to the EU consist mostly of metals and minerals, Russia is the destination for higher-value-added goods, such as processed food and manufactures. However, there is a still small but rapidly growing niche of high-tech exports of both goods and services to Europe and the U.S. from Armenia's budding information technology sector.

Trading partners matter for technology transfer. The dynamic effects of trade come from the technology embedded in both exports and imports. Exporting to frontier markets requires that companies continually improve technology to stay competitive; importing from sophisticated markets transfers embedded technology. Both have spill-over effects on the economy beyond the specific firms involved. The dynamic effects of EEU accession could lower Armenia's ability to upgrade products and move up the value chain because of the diversion of trade from the sophisticated EU markets to the less sophisticated members of the EEU. On the other hand, Armenia could attract considerable interest for market-seeking FDI because its investment climate is more attractive than those of other EEU members: Investors could see Armenia as a base to access the wider EEU market. If these investors could bring technology and know-how to Armenia, that would compensate for the disadvantages of the trade diversion.

Armenia's trade policy is relatively liberal compared to the EEU, while the free-trade agreements already in place with EEU partners mean that the impact on exports from Armenia's accession will not come from tariff changes. Before accession, Armenia's average import tariff rate was 3.1 percent within a range of 0–10 percent. The EEU's common external tariff averages 9.18 percent within a range for most tariffs of 0–30 percent, although the ad valorem equivalent of some duties is as high as 80 percent. Armenia's commitment to the WTO is an average bound tariff rate of 8.5 percent. Agreements between Armenia and EEU members Belarus, Kazakhstan, and Russia effectively apply duty-free treatment to all trade in merchandise with these countries but do not cover trade in services, investment, or government procurement.

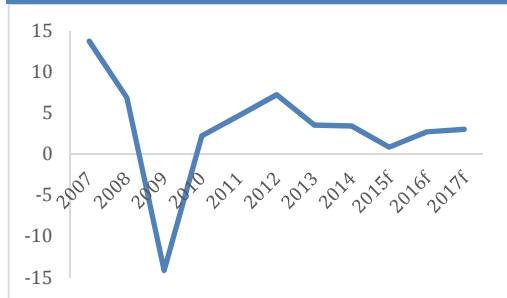
Armenia negotiated a number of concessions related to EEU accession: (1) Russia granted a unilateral waiver of export duties on natural gas, oil products, and unpolished diamonds. This had an immediate positive impact on external trade and mitigated poverty pressures stemming from higher gas prices; (2) Armenia started benefitting from higher proceeds from customs duties, as it receives 1.13 percent of the total pool of EEU customs revenues; (3) Armenia obtained transition periods for harmonizing its tariffs to higher EEU levels for over 800 types of goods, which allows for smoother adjustment to the new trade regime for Armenian businesses.

Transition periods for tariff adjustments of five to seven years, to 2020–22, would allow for mitigation of the trade divergence effects associated with immediate adoption of EEU tariffs. According to a simulation exercise, adopting the current common external tariffs would imply a welfare loss of 0.14 percent of GDP (US\$14.18 million), but adoption at the end of the transition period—when EEU tariffs have come down—would have a lower welfare impact of 0.09 percent of GDP (US\$9.31 million). The decrease in imports of products facing tariff increases is estimated to be US\$215.4 million at current EEU tariffs (2.3 percent of GDP), falling to US\$117.8 million (1.2 percent of GDP) by 2020. The increase in imports of products the tariffs of which would be cut under the EEU is estimated to be US\$15.3 million initially (0.15 percent of GDP), increasing to US\$21.2 million by 2020 (0.21 percent of GDP).

Higher tariffs will likely lead to fewer imports of certain goods. For some products that are imported in large quantities and would be exposed to large tariff changes, declines in imports by 2020 would be dramatic: 32–33 percent for chicken, 20 percent for certain cuts of pork, and 9–12 percent for motor vehicles and buses. These likely shifts in trade are confirmed by the actual experience of Kazakhstan since its 2010 accession to the EEU. Kazakhstan's imports of small cars from outside the EEU plunged from US\$1.30 billion in 2007 to US\$390 million in 2012. Though imports from within the EEU shot up from US\$130 million in 2007 to US\$360 million in 2012 that was not nearly enough to compensate for the falling supply from the EU and Japan.

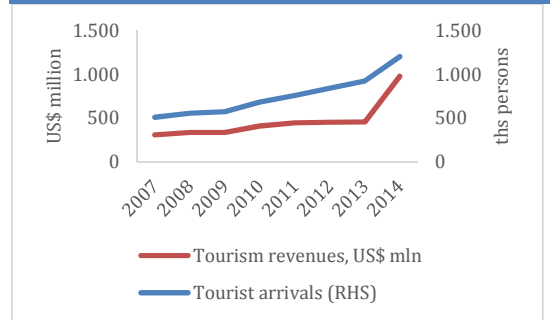
Annex 1. Economic Growth and Labor

Figure 9. Real GDP growth, 2007 – 17
(Percent)



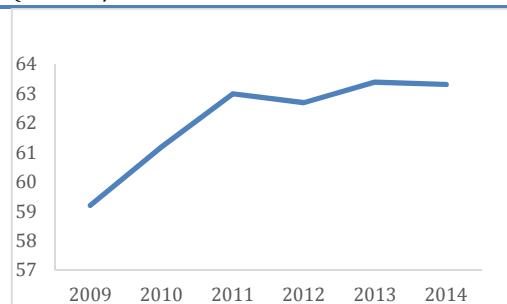
Source: National Statistical Service of Armenia (NSS) data.

Figure 10. Tourism, 2007-14
(US\$ Million, Ths Persons)



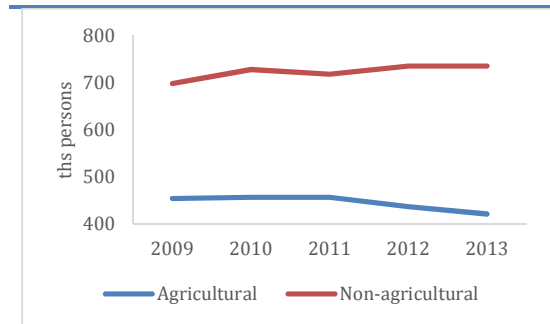
Source: NSS.

Figure 11. Labor Force Participation, 2009 – 13
(Percent)



Source: NSS.

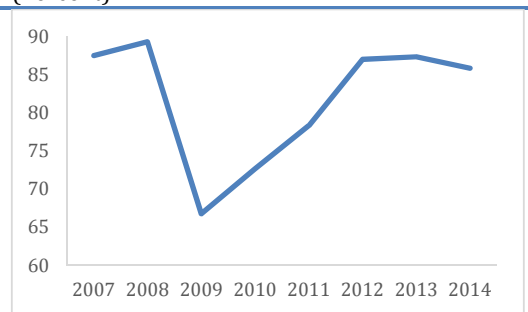
Figure 12. Growth in Employment by Sector, 2009 – 13
(Ths Persons)



Source: NSS.

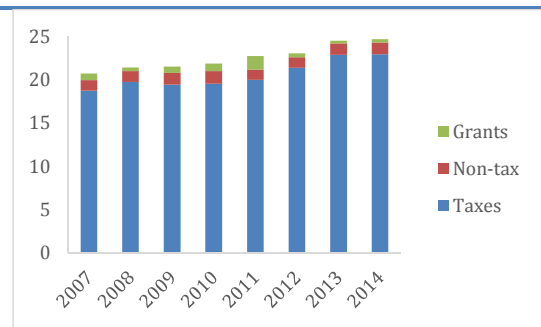
Annex 2. Fiscal Policy and Public Debt

Figure 13. Tax Revenue as a Share of Public Spending, 2007-14
(Percent)



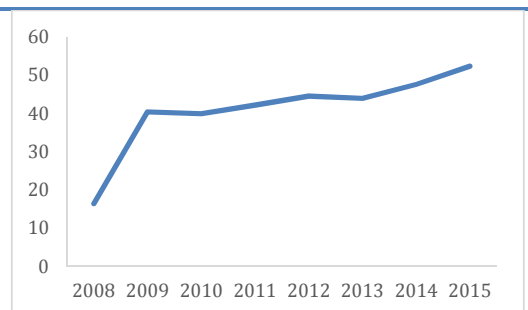
Source: MoF, World Bank staff calculations.

Figure 14. Revenues by Source, 2007-14
(Percent of GDP)



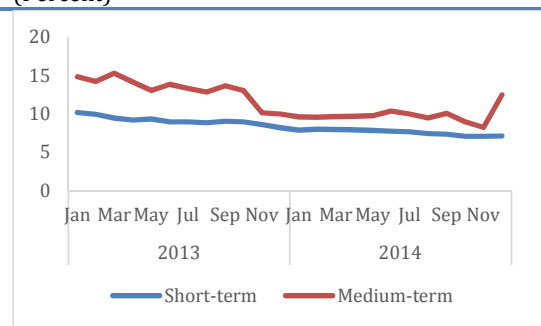
Source: NSS, MoF.

Figure 15. Public Debt, 2008 - 15
(Percent of GDP)



Source: NSS, MoF.

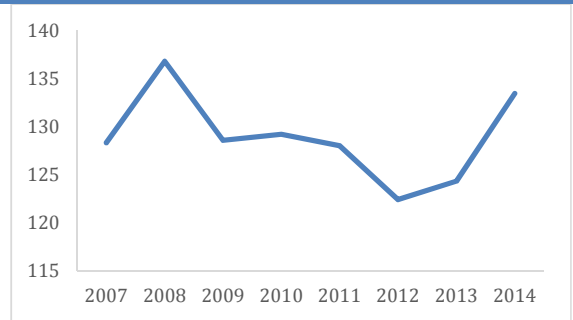
Figure 16. Yield of Government Securities (Cost of Borrowing), 2013-14
(Percent)



Source: NSS, MoF.

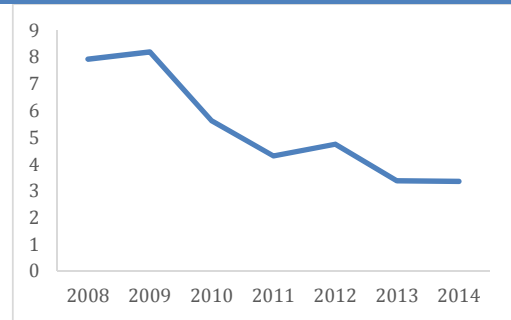
Annex 3. Monetary Policy and External Sector

Figure 17. Real Effective Exchange Rate, 2007 – 14
(1997 = 100)



Source: CBA.

Figure 18. Net FDI, 2008 – 14
(Percent of GDP)



Source: CBA.

Annex 4. Selected Indicators for 2009 – 17

	2009	2010	2011	2012	2013	2014	Projections		
							2015	2016	2017
Income and Economic Growth									
GDP Growth (% change, y-o-y)	-14.1	2.2	4.7	7.2	3.5	3.4	0.8	2.7	3.0
GDP Per Capita Growth (% change, y-o-y)	-25.6	7.3	9.5	-2.0	4.5	3.9	-11.2	3.9	7.0
GDP Per Capita (US\$)	2914	3125	3422	3354	3505	3642	3235	3361	3597
GDP Per Capita, PPP (current international \$)	3240	3370	3430	3710	3830	3860	3650	3620	3600
Private Consumption Growth (% change, y-o-y)	-4.4	3.8	2.9	9.1	0.9	0.4	3.6	2.5	1.6
Gross Investment (% of GDP)	34.7	32.9	27.3	25.4	21.7	19.8	19.2	19.9	20.5
Public (% of GDP)	7.0	5.5	4.7	3.3	3.0	3.0	2.1	2.4	2.6
Private (% of GDP)	27.6	27.3	22.6	22.1	18.7	16.8	17.1	17.5	17.9
Money and Prices									
Inflation, Consumer Prices (% change, y-o-y, end of year)	6.5	9.3	4.7	3.1	5.6	4.6	4.0	4.0	4.0
Inflation, Consumer Prices (% change, y-o-y, period average)	3.4	8.1	7.5	2.5	5.8	3.0	4.5	4.0	4.0
Treasury Bill Rate (91-day, annual average)	12.1	14.0	13.8	14.4	13.1	..	..	..	..
Nominal Exchange Rate (LCU/US\$, end of period)	377.9	363.4	385.8	403.6	405.6	475.0	498.7	501.2	503.7
Real Effective Exchange Rate Index (1997=100)	128.6	129.3	128.1	122.5	124.4	126.3	128.2	130.1	132.1
M0 (% GDP)	9.0	8.8	9.2	9.6	9.0	7.7	11.5	12.9	14.3
M2 (% GDP)	14.4	15.1	17.5	18.4	19.8	18.1	20.6	21.5	22.5
Fiscal (% of GDP, unless otherwise indicated)									
Revenues	21.5	21.9	22.7	23.0	24.5	24.7	24.7	24.7	25.0
Expenditures	29.1	26.9	25.5	24.5	26.2	26.7	27.1	26.7	26.9
Current	15.9	16.8	16.0	15.8	19.5	22.4	21.4	20.9	21.3
Capital	7.0	5.5	4.7	3.3	3.0	3.0	2.1	2.4	2.6
Overall Fiscal Balance Before Grants	-8.3	-5.9	-4.4	-2.0	-2.0	-2.4	-3.0	-2.3	-2.1
Overall Fiscal Balance After Grants	-7.6	-5.0	-2.8	-1.5	-1.7	-2.0	-2.4	-2.1	-1.9
Primary Fiscal Balance	-7.1	-4.1	-1.9	-0.5	-0.6	-0.6	-0.8	-0.5	-0.3
Total Public Debt	38.9	41.1	40.8	44.4	44.4	41.7	51.1	52.4	53.4
Debt Service Ratio (% of revenues)	5.3	6.5	7.0	13.0	36.2	14.3	19.8	12.6	13.2
External Public Debt	34.3	35.6	35.2	37.5	37.4	35.2	43.2	44.3	43.6
External Accounts (current US\$ millions, unless otherwise indicated)									
Export Growth (% change, y-o-y)	-22.4	44.6	24.9	3.5	7.0	20.6	6.2	4.2	7.5
Import Growth (% change, y-o-y)	-23.1	13.9	8.0	2.2	2.6	10.7	0.1	3.5	4.4
Real Export Growth (% change, y-o-y)	-10.4	26.5	14.7	8.4	16.3	22.6	3.5	2.7	5.9
Real Import Growth (% change, y-o-y)	-19.2	12.8	-1.4	-2.8	0.7	7.7	-1.3	2.8	4.0
Merchandise Exports	774	1197	1432	1516	1636	1665	1939	2124	2431
Merchandise Imports	2864	3263	3541	3628	3728	3734	3724	3865	4059
Services, Net	-371	-317	-130	-148	-112	-103	-186	-271	-358
Workers' Remittances, Net	1258	1422	1440	1540	1755	1616	1404	1494	1473
Current Account Balance	-1520	-1318	-1124	-1104	-839	-863	-1008	-959	-953
as percent of GDP	-17.6	-14.2	-11.1	-11.1	-8.0	-7.9	-10.4	-9.5	-8.8
Foreign Direct Investment	710	521	437	473	352	365	417	447	481
External Debt, Total	4664	5659	6503	6693	7799	6816	6921	6949	6954
as percent of GDP	53.9	61.1	64.1	67.2	74.8	62.6	71.4	68.8	64.2
Multilateral Debt (% of total external debt)	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Debt Service Ratio (% of exports goods and nfs)	7.0	6.8	6.3	11.6	34.2	10.2	13.2	8.6	9.1
Population, Employment and Poverty									
Population, Total (millions)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Population Growth (% change, y-o-y)	-0.3	-0.2	0.0	0.2	0.3	0.4	0.3	0.3	0.3
Unemployment Rate (% of labor force)	18.7	19.0	18.4	17.3	16.2	17.6	..	..	..
Poverty Headcount Ratio at National Poverty Line (% of population)	34.1	35.8	35.0	32.4	32.0	..	..	..	..
Poverty Headcount Ratio at US\$1.25 a day (PPP) (% of population)	1.6	2.5	2.5	1.7	2.4	2.6	2.8	3.1	..
Poverty Headcount Ratio at US\$2.5 a day (PPP) (% of population)	29.9	35.9	32.6	30.1	30.2	30.2	30.3	30.3	..
Poverty Headcount Ratio at US\$5.0 a day (PPP) (% of population)	80.6	84.5	82.1	79.6	78.4	78.1	77.8	77.3	..
Life Expectancy	73.9	74.1	71.0	74.3	74.8	..	..	..	..
Other									
GDP (current LCU, billions)	3568	3142	3460	3778	4001	4273	4526	4717	5046
GDP (current US\$, billions)	8.6	9.3	10.1	10.0	10.4	10.9	9.7	10.1	10.8
Doing Business Ranking	..	..	..	50.0	40.0	37.0	..	..	..
HDI (Human Development Index)	..	0.720	0.724	0.7	0.7	..	..	..	..
CPPIA (overall rating)	4.2	4.1	4.1	4.1	4.1	..	..	..	..
Economic Management	5.0	4.7	4.7	4.7	4.5	..	..	..	..
Structural Policies	4.2	4.0	4.0	4.2	4.3	..	..	..	..
Social Inclusion and Equity Policies	4.1	4.1	4.0	4.0	4.0
Public Sector Management and Institutions	3.7	3.7	3.6	3.7	3.7



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