

## The Main Characteristics of Economic Developments in Armenia in 1990-2001

1. Following the first steps of independence and liberalization, Armenian economy experienced a deep decline resulting in a sharp reduction of production and household income. Interconnected factors such as initial macroeconomic imbalance, lack of knowledge of institutions and individuals about market mechanisms, the inherited economic structure and reforms in the political system also contributed greatly to the intensification of the economic depression.
2. According to “World Development Indicators” (1999) issued by the World Bank (WB), Armenia is classified in the group of countries with low income<sup>1</sup>. Gross National Product (GNP) per capita was 724 USD<sup>2</sup> in 2001 and was distributed very unequally. Armenia is one of the transition countries with the highest Gini index (0.59), which also reflects the extreme polarization in distribution of household income and wealth. Hence, the poverty level of 55 percent, estimated in 1998-99 survey carried out by the National Statistical Service (NSS) with the WB support, is quite high. Share of the very poor in the population is estimated 23 percent<sup>3</sup>.
3. Gross Domestic Product (GDP) fell by 53 percent in 1990-1993 as compared to the average indicator of 26.9 percent for the CIS countries in the same period. Economic recovery began from 1994 and for the first time, of CIS countries, an economic growth was recorded in Armenia. Average annual economic growth was 5.9 percent in 1994-2001. In spite of the economic growth, the level of the gross income produced in 2001 (as GDP) was significantly low, at 74.4 percent, as compared to the level in 1990. Even under unchanged income distribution and other things begin equal, decline of living standards of the population by about 25 percent would definitely have led to an increase in poverty.
4. According to Interstate Statistical Committee of CIS, the key economic indicators for Armenia for 1999-2000 are close to the levels of 1970s; GDP and industrial production are on the same levels of 1977 and 1973 respectively. The situation is much worse in terms of construction; according to the same source the housing is on the level of 1946.
5. Before transition the industry was the biggest sector of economy. However, a decline of 57.9 percent was recorded in 1991-1993. Although 30 percent cumulative real growth during 1994 - 2001 is recorded, industry currently comprises only 55 percent of the level of 1990. Sub-branches of industry experienced big structural changes. In 1990 machinery and metal processing had the biggest share (32.8 percent) in industry. The shares of light and food industries were 24.6 percent and 13.2 percent. As a result of structural changes, machine and equipment production and metal processing have only 2.8 percent. As for food industry it has 38.3 percent share of the total industry in 2001. Nowadays, energy sector is one of the biggest sectors in the industry, which in spite of the decline in the previous years, produced 28.6 percent of the industrial output in 2001, compared to 3.4 percent in 1990.

The deepest contraction at 91 percent was recorded in construction in 1991-1993. This was due primarily to the sharp reduction of expenditures on financing of the capital construction from the state budget. Partly recovery in construction began only in 1996; however, the value added of the construction in 2001 totaled only 20 percent of the level of 1990.

The least economic decline was recorded in agriculture. In 1994, agricultural production totaled 89.7 percent of 1990 levels, which was mainly due to a decrease of imported agricultural goods under blockade, as well as increase in domestic demand for agricultural goods, under depletion of the quality of consumption. Privatization of land also facilitated the stabilization in agricultural output. As a result, currently agriculture is the only sector, which is above 1990 level.

<sup>1</sup> According to the classification, countries with low income are those countries where GNP per capita is less than 758 USD in 1997.

<sup>2</sup> Estimated by the EDRC assuming a population of 3 million.

<sup>3</sup> Households with current average monthly expenses per capita below the value of estimated minimum construction basket or food basket are considered as poor or very poor households, respectively.

Particularly, the value added of this sector in 2001 exceeds the level of 1990 by approximately 13 percent.

6. During the recent eight years real growth of 58.8 percent was recorded in Armenia, of which 23 percent was due to agriculture; 15 percent – industry and 14 percent – construction. More than 25 percent of the economic growth was due to the services, which was mainly connected with trade development.
7. The absolute value of real private consumption in 2000 fell by 11.9 percent against 1990. It should be noted that in 1990 the private consumption comprised about 50 percent of GDP, while consumption expenditures in 1995-1998 exceeded the GDP level and in 2000 comprised 95.4 percent of GDP. Thus, nowadays all households mainly direct the income produced in economy at consumption. Obviously, savings are more affected by income reduction, than consumption.
8. Despite the significant decline in savings beginning from 1995 gross investment have been quite stable within a range of 18-20 percent of GDP. The negative balance of investments and savings, which is equal to the foreign current account deficit, amounted to 16 percent in 1994, 21.3 percent in 1998, about 14.5 percent in 2000 against GDP.
9. According to the 2001 data, foreign trade turnover totaled 1217 mln. USD or 57.4 percent of GDP. 17.6 percent of the exports volume went to Russian Federation, 15.2 percent – USA, 13.6 percent – Belgium, 9.5 percent – Iran, 5.9 percent – Great Britain. At the same time 19.5 percent, 10.4 percent, 9.6 percent and 8.9 percent of imports, respectively from Russian Federation, Great Britain, USA and Iran.

Of the total volume of exported goods, cut and rough diamond, scrap of precious metals, jewelry make up 35.8 percent; non-precious metals and articles thereof – 12.7 percent, mining and mineral production – 11.2 percent, food products – 14 percent and machinery, equipment and mechanisms – 8.3 percent. The following have the biggest shares in imports: mining and mineral products – 21.1 percent; cut and rough diamond, scrap of precious metals, jewelry – 12.2 percent, machinery, equipment and mechanisms – 10.1 percent, products of plant origin – 9.7 percent, food products – 8.8 percent, products of chemistry and related industry branches – 7.4 percent.

10. Instability of markets is characteristic to the transitional period. This primarily is reflected in high rates of inflation and national currency depreciation, high level of unemployment and interest rates. Following the price liberalization and monetary reform in Russia, Armenia experienced “import” of inflation, causing four digit inflation in 1993 and 1994. By implementation of stabilization policy, supported by international financial organization, inflation came down to nearly 30 percent in 1995. 1998 - 2001 was a period of low inflation with volatility of prices from – 1.3 percent (deflation) to 2.9 percent annually.
11. As to the financial sector, an insufficient level of “financial dept”, which is reflected in the low monetization indicator (14.6 percent in 2001), is recorded in the economy of Armenia. High level of dollarization and cash operations in prevailing in the economy. As of the end of 2001, the share of foreign currency deposits in the residents’ total deposits structure was 81.3 percent. Positive patterns of deposit growth were observed in the banking system; in 1995-2001, broad money grew by more than four times, whereas the volumes of deposits grew by approximately seven times, resulting in a significant growth of the money multiplier. Commercial banks (the number of which at the end of 2001 was 30, of which seven currently are under conservatorship) are remarkable for the level of their development in the set of financial institutions. Activity of non-banking financial institutions is negligible.
12. Financial markets are still underdevelopment, in spite of adoption of a new law on securities market and implementation of reforms in the area. T-bills market is relatively active and includes developed secondary market. By the end of 2001 the total volume of T-bills in circulation is around 3 percent of GDP and the yield is 15 -18 percent annually.