

Ministry of Economy of the Republic of Armenia

# 2010 Armenia Economic Report

The Necessity for Economic  
Diversification and Export Expansion

Armenia Economic Report 2010



**Ministry of Economy of the Republic of Armenia**



# **Armenia Economic Report 2010**

## **The Necessity for Economic Diversification and Export Expansion**

**Yerevan, October 2010**

## About AER

Armenia Economic Report (AER) is the official annual periodical of the Ministry of Economy of the Republic of Armenia. Each year it focuses on a certain urgent topic or problem, thus varying in topics for each year.

The Report aims at providing information on Armenian economic life, interpreting possible developments, as well as guiding decision-making at micro levels. At the same time, the Report will serve as an information basis for the expansion of economic policy discussions, revision and improvement of public policies.

The first Armenia Economic Report in 2009 was entitled “From Crisis to New Development”, thus presenting the general development trends of the economy, the directions in which the crisis affected Armenian economy, as well as the possible policy approaches to the way out of the crisis. The present (second) Report is dedicated to the lessons learned from the crisis, suggests the ideology of economic transformation and emphasizes the development of the tradable sector of the economy through diversification. Therefore, AER 2010 is entitled as “The Necessity in Economy Diversification and Export Expansion”.

The first section of the Report presents the description of the Armenian economy in 2009 and first half of 2010, as well as projections of economic development trends for the coming years. The second section presents brief analyses of implemented policies and discussion of development policy direction. Essence and principles of industrial policy is discussed. Annexes to the Report describe the findings of Export Monitoring Survey and Export Trust Index, as well as the summary of programs and projects implemented by the Ministry of Economy of Armenia.

The Ministry of Economy collaborated with the German Technical Cooperation Association (GTZ) which covered consulting assistance provided by the Economic Development and Research Center (EDRC). The activities were coordinated by the Deputy Minister of Economy – Mr. Mushegh Tumasyan.

Armenian and English versions of AER 2009 and AER 2010 can be downloaded from the official website of the Ministry of Economy of Armenia.

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## List of Abbreviations

|       |   |
|-------|---|
| VAT   | Value added tax                                       |
| WTO   | World Trade Organization                              |
| IMF   | International Monetary Fund                           |
| USA   | United States of America                              |
| CIS   | Commonwealth of Independent States                    |
| FEZ   | Free Economic Zone                                    |
| NSS   | National Statistical Service                          |
| EU    | European Union  |
| DCFTA | Deep and Comprehensive Free Trade Agreement           |
| CBA   | Central Bank of Armenia                               |
| WB    | World Bank  |
| RA    | Republic of Armenia                                   |
| GDP   | Gross Domestic Product                                |
| AER   | Armenian Economic Report                              |
| UNO   | United Nations Organization                           |
| MTEF  | Medium-Term Expenditure Framework                     |
| mIn   | Million   |
| bln   | Billion   |
| PPP   | Public-Private Partnership                            |
| HES   | Heat Electropower Station                             |
| RF    | Russian Federation                                    |
| EDRC  | Economic Development and Research Center              |
| OECD  | Organization for Economic Cooperation and Development |
| FDI   | Foreign Direct Investments                            |
| FISIM | Financial Intermediation Services Indirectly Measured |

## Executive Summary

- For the first time in 60 years, in 2009, the world economy experienced a steep downturn, which was mainly caused by the economic decline in developed countries. More than 89 countries recorded a decline, including various CIS countries.
- The global financial and economic crisis in 2008-2009 made the world face the danger of a great economic depression. In 2009, Global production and per capita income indicators declined for the first time since World War II, the global production which had recorded an average growth of 3.5% since 1946, decreased by about 1% and per capita income decreased by about 2%.
- The crisis had a considerable impact on the economy of Armenia as well. In 2009, Armenia recorded a 14.2% economic decline which contrasted the continuous high growth rates of the previous 16 years.
- The economic decline was particularly sensed in the mining and manufacturing industries. Loss of jobs and incomes abroad directly influenced the flow of remittances towards Armenia. In 2009, Armenia's export and import volumes also decreased significantly, experiencing a decline of 32.8% and 25% respectively.
- During the global financial and economic crisis, foreign credit investment almost doubled, though foreign direct investment decreased by about 25.6%. As a result, in 2009, compared to the previous year the foreign debt of Armenia increased by about 2.5 times reaching 34.7% of the GDP.
- Increase in aggregate demand and international prices of energy sources and metals are expected to positively affect the economy of Armenia in the future. Recovery of economic growth in the main partner countries, particularly in Russia, is expected to lead to increased remittances, revenues generated by labor migrants and investment flows.
- Preliminary forecasts, in 2010, point towards an economic growth of 2.7% in Armenia. The latest forecasts of IMF, are pointing towards an economic growth 4.6% in 2010. In 2011, Armenia is expected to have 4.6% growth, and in 2012-2013, 4.2% growth in average. The pre-crisis level of production can again be reached starting from 2013.
- Considerable changes are predicted in GDP structure. The construction sector, which was considered to be a leading force of the economy before the crisis was paralyzed due to the crisis; in the near future, economic recovery and development will mainly be based on leading and effective sectors, in particular, on the industry and services sectors.
- The Armenian economy and market are very small, this creates a number of serious barriers for both economic policies efficiency and trade and economic development. In particular cases, external factors or economic transactions can have much more influence on the economy and domestic markets of Armenia, rather than separate economic policy tools.
- Armenia's economic safety and long-run development objectives, poverty reduction and continuous growth of welfare can only be achieved through gradual creation of industrial systems similar to those in developed countries and increasing the global competitiveness of the country. Transfer of economic growth to the social sector will only be possible with economic development.
- Analysis of Armenia's current situation points that Armenia needs a new model of economic growth. This should be based on promotion of economic and export diversification, in addition to developing exports to become the main source of economic growth.
- A new industrial policy should be applied, which will ensure economic restructuring and transformation, shift from traditional non-competitive activities towards a sophisticated, innovative and competitive production system which will ensure high added value.
- Private initiatives towards economic restructuring and transformation, which ensure diversification, technological advancement and the resulting export growth, should receive government support. Nevertheless, taking into account the problem of scarcity of resources and capabilities, major barriers towards growth should be eliminated first.

# **Section A. Economic Development Trends**

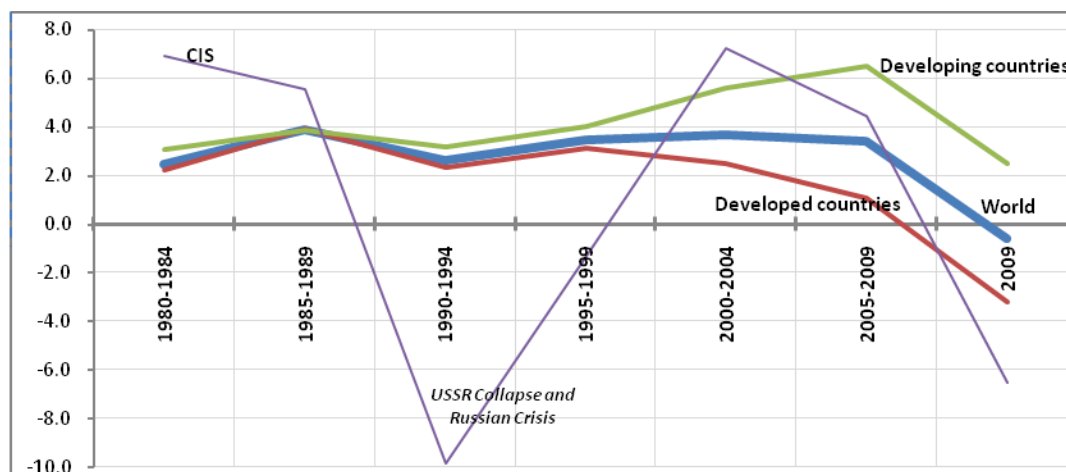
- **Review of Economic Situation: 2009-2010**
- **Economic Recovery: 2010-2013 Projections**

## A.1. Review of Economic Situation: 2009-2010

### Global Crisis

In 2009, for the first time in the past 60 years, the global economy experienced a recession. GDP globally fell by 0.6% which was mostly caused by the reduction of GDP in developed countries. GDP fell in 89 countries of the world; economic downturn was significant in CIS countries, as well.

Figure 1: Global economic growth rates in 1980-2009, average GDP growth rates in %



Source: IMF World Economic Outlook, AER 2010 calculations

The largest economic decline took place in Russia (7.9%), Mexico (6.5%), Japan (5.2%), UK (4.9%) and Germany (4.7%). At the same time, the largest developing economies of the world, such as China and India experienced significantly high growth: 6% and 9% respectively. High economic growth rates were also recorded in CIS member countries - Azerbaijan (9.3%), Uzbekistan (8.1%) and Turkmenistan (6.1%).

Table 1: 20 countries with highest growth and decline rates in 2009

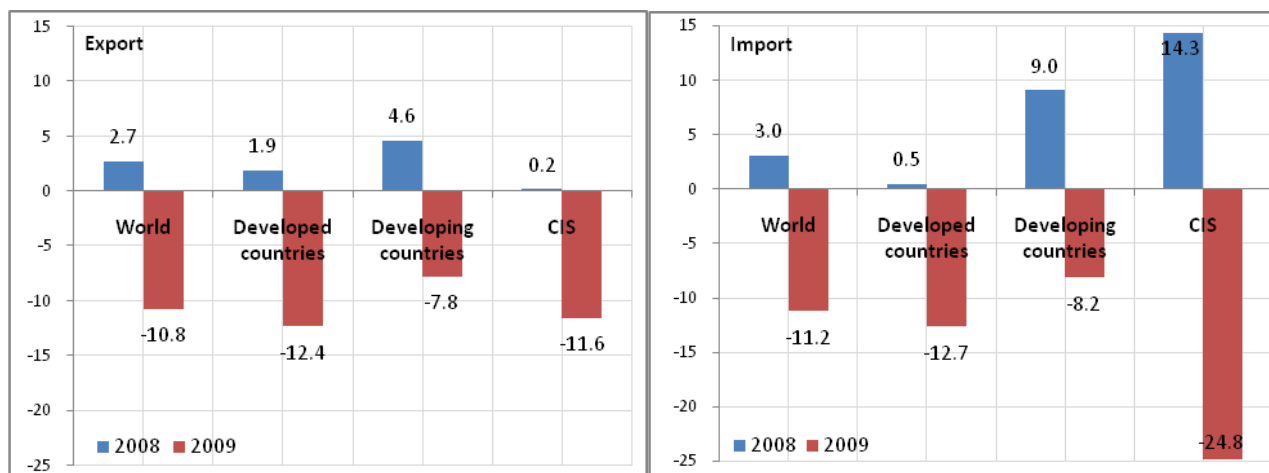
| Countries with decline |            | Rate  | Countries with growth |  | Rate |
|------------------------|------------|-------|-----------------------|--|------|
| 1                      | Latvia     | -18.0 | Afghanistan           |  | 22.5 |
| 2                      | Ukraine    | -15.1 | Ethiopia              |  | 9.9  |
| 3                      | Lithuania  | -14.8 | Azerbaijan            |  | 9.3  |
| 4                      | Armenia    | -14.2 | China                 |  | 9.1  |
| 5                      | Estonia    | -13.9 | Lebanon               |  | 9.0  |
| 6                      | Finland    | -8.0  | Qatar                 |  | 8.6  |
| 7                      | Russia     | -7.9  | Uzbekistan            |  | 8.1  |
| 8                      | Slovenia   | -7.8  | Congo                 |  | 7.5  |
| 9                      | Ireland    | -7.6  | Uganda                |  | 7.2  |
| 10                     | Romania    | -7.1  | Nigeria               |  | 7.0  |
| 11                     | Iceland    | -6.8  | Mozambique            |  | 6.3  |
| 12                     | Mexico     | -6.5  | Zambia                |  | 6.3  |
| 13                     | Moldova    | -6.5  | Turkmenistan          |  | 6.1  |
| 14                     | Hungary    | -6.3  | Tanzania              |  | 6.0  |
| 15                     | Croatia    | -5.8  | Zimbabwe              |  | 5.7  |
| 16                     | Montenegro | -5.7  | India                 |  | 5.7  |
| 17                     | Japan      | -5.2  | Bangladesh            |  | 5.6  |
| 18                     | Sweden     | -5.1  | Vietnam               |  | 5.3  |
| 19                     | Italy      | -5.0  | Morocco               |  | 4.9  |
| 20                     | Bulgaria   | -5.0  | Egypt                 |  | 4.7  |

Source: IMF World Economic Outlook, October 2010, IMF

Economic decline was prominent especially in the mining and processing sectors due to by a number of negative reasons, such as drop in prices for goods and raw materials in the international market, lack of lending, instability of the financial system, decreased consumer confidence and finally, overall reduction in aggregate demand.

The global crises resulted in decrease of investments and gross national savings; the global trade volumes reduced as well.

**Figure 2: Reduction in exports and imports in the world, 2008-2009, % from previous year**



Source: IMF World Economic Outlook, October 2010, IMF

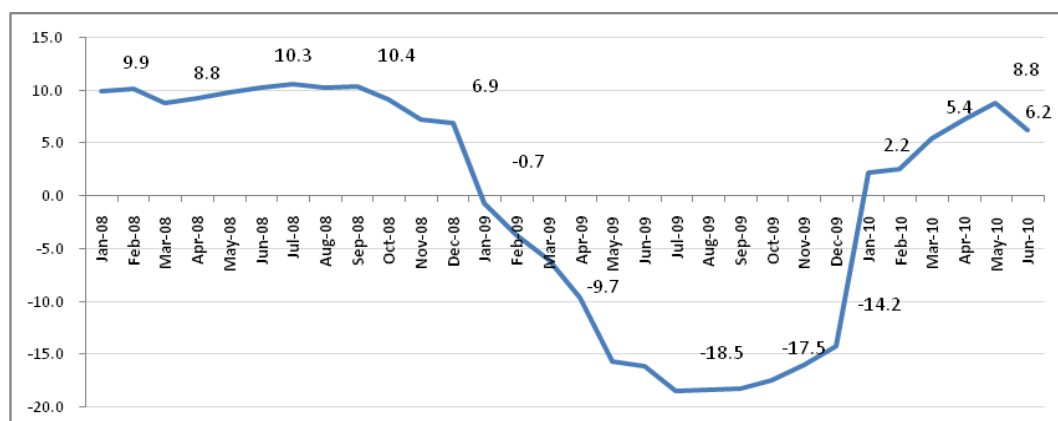
During the first six month of 2010, the world economy showed certain recovery which started in late 2009. In January-June 2010, the global GDP grew by 3.5%, significantly contributed by 15% growth in industry and 40% growth in international trade.

Based on the data for the first six months of 2009, recovery took place at a much faster pace especially in Developing Asia (more than 9%) and Latin America (about 7%). In contrast to developing countries, developed countries, and especially Western European countries, recover at much slower rates. Recovery in many countries is accompanied by high budget deficits and fiscal savings regime which, in turn, may restrain the further recovery of economies.

### *Economic Growth in Armenia*

The global financial and economic crisis heavily affected the Armenian economy. After continuing high growth rates for the past 16 years, Armenia experienced economic decline in 2009. The decline, in effect, started in late 2008, with further deepening in the beginning of 2009 and came to end by the end of the year. As a consequence, Armenia recorded 6.9% growth rate in 2008 in contrast to expected much higher rate, while in 2009, the economy declined by 14.2%.

**Figure 3: Economic growth in Armenia, 2008-2010, monthly, % as compared to the previous year (cumulative)**



Source: NSS of RA

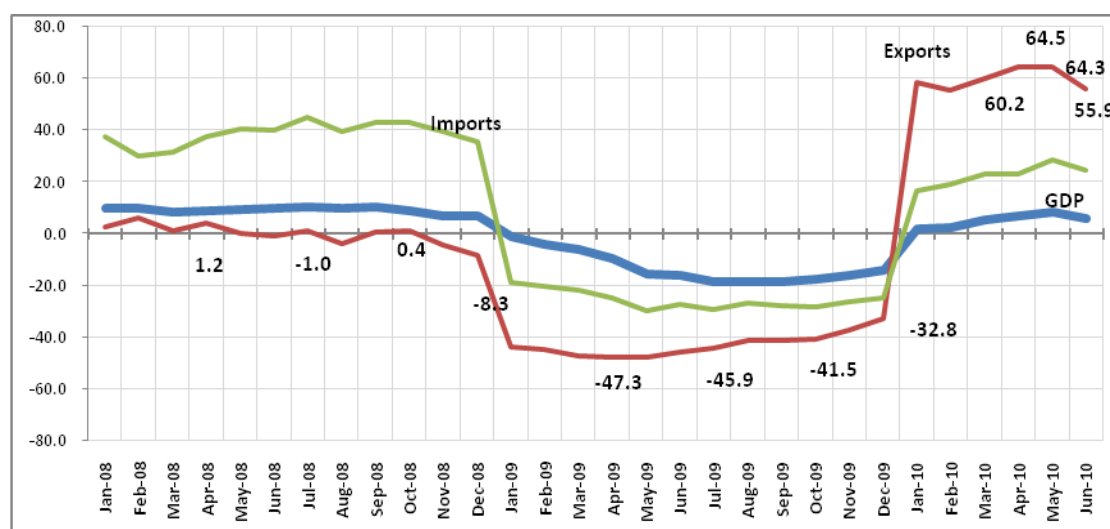
The first wave of the crisis hit the financial system of Armenia, as well as threatened macroeconomic stability, which could have led to consequences that would be difficult to manage and overcome. However, the Government of Armenia was successful in avoiding a financial crisis and protecting the financial system. The crisis in the real (non-financial) sector of the economy was inevitable, while neutralization of the consequences thereof was an even more difficult task. The Government developed and applied a comprehensive package of anti-crisis measures which reduced the social impact and restrained the economic decline starting from the second half of the year.

Starting from early 2010, signs of economic recovery became obvious: economic growth rate during the first half of the year reached 6.2%.

The global crisis penetrated into the Armenian economy, first, as a result of the reduction in the exports of mining production and other goods, as well as a decrease in money transfers and factor income from abroad. Decline in the real estate markets worldwide decreased the interest in the Armenian real estate market which, coupled with or interconnected to a reduction in investments, eventually, led to the suspension of construction works in the country. Reduced incomes of the population and change in consumption behaviour on one hand and decline in the foreign demand, on the other hand, led to decline in activities in a number of sectors of the economy.

In late 2008, exports and overall external trade volumes started to decrease. The deepest decline in exports and imports were recorded in May 2009 - by 48% and 30% respectively. Starting from the second half of the year, recovery trends became visible. However, the annual numbers showed a considerable reduction: exports decreased by 32.8%, while imports – by 25.0%. Nonetheless, starting from early 2010, significant recovery was seen in export and import volumes: exports grew by 56% and imports – by 24% during the first half of the year.

Figure 4: Export and Import growth rates, 2008-2010, monthly, % as compared to the previous year (cumulative)

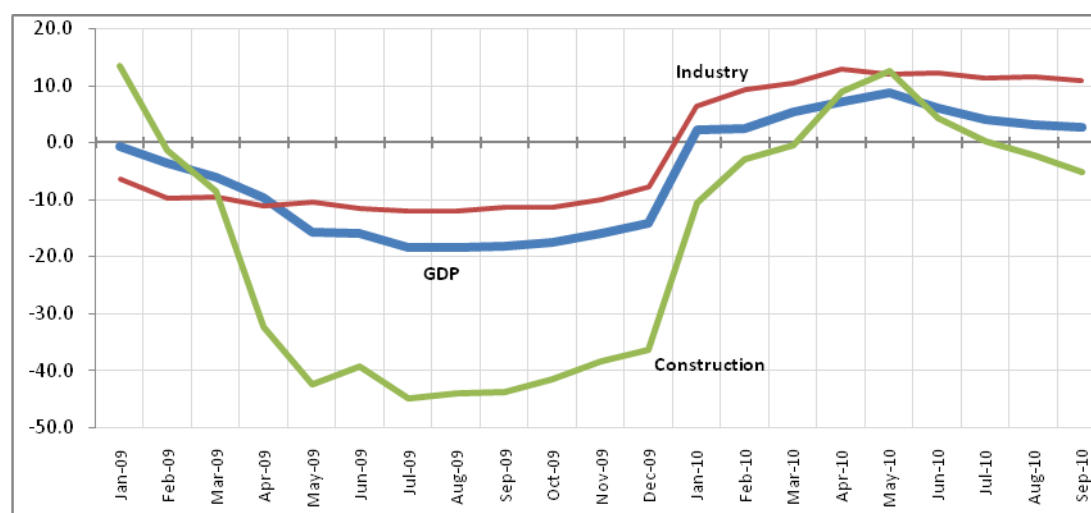


Source: NSS of RA

The crisis affected almost all the largest sectors of the economy. Such a deep decline in GDP was mostly conditioned by an unprecedented recession in the construction sector – by 42%. The decline was significant also in the processing industry (8.8%) and power sector (13.3%).

Calculations showed that, if construction sector remained at the same level as in 2008, the overall decline in GDP would reach utmost 3.1-4%. The Figure below depicts the role of the construction section with regard to the GDP decline.

Figure 5: Growth rates of main sectors of economy, monthly, % from previous year (cumulative)



Source: NSS of RA

Other sectors of the economy avoided large decline: trade sector decreased only by 4%, while agriculture – by 0.1%. Overall, smaller sectors (see the sector classification in Table 2) grew by 3.9%. Nevertheless, the net indirect taxes showed a huge decline.

Table 2: Gross Domestic Product in Armenia, 2008-2010

|   | 2008         |            | 2009          |              | 1 <sup>st</sup> half of 2010 |            |
|---|--------------|------------|---------------|--------------|------------------------------|------------|
|   | % in GDP     | Growth, %  | % in GDP      | Growth, %    | % in GDP                     | Growth, %  |
| <b>Large sectors</b>  | <b>75.3</b>  | <b>6.4</b> | <b>74.7</b>   | <b>-16.4</b> | <b>64.3</b>                  | <b>4.8</b> |
| F Construction  | 25.3         | 18.8       | 18.8          | -42.3        | 12.0                         | 7.6        |
| A Agriculture, hunting and forestry                                 | 16.1         | 15.8       | 15.8          | -0.1         | 8.9                          | -15.7      |
| G Trade, repair of vehicles, home appliances and personal use goods | 11.6         | 13.6       | 13.6          | -4.0         | 13.4                         | 9.7        |
| D Processing industry   | 8.8          | 10.4       | 10.4          | -8.8         | 11.3                         | 10.8       |
| I Transport and communications                                      | 6.8          | 6.5        | 6.5           | -1.5         | 8.9                          | 13.1       |
| K Transactions and services in real estate                          | 3.7          | 6.6        | 6.6           | 2.9          | 5.9                          | 2.3        |
| E Production and distribution of electricity, natural gas and water | 2.9          | 3          | 3             | -13.3        | 3.9                          | -2.7       |
| <b>Small sectors</b>  | <b>14.9</b>  | <b>2.9</b> | <b>17.015</b> | <b>3.9</b>   | <b>23.9</b>                  | <b>3.2</b> |
| M Education   | 2.7          | 3.6        | 3.6           | 2.6          | 4.2                          | 2.0        |
| N Healthcare and social services                                    | 2.7          | 3.1        | 3.1           | 5.2          | 3.6                          | -11.6      |
| L Public management   | 2.7          | 2.6        | 2.6           | 0.5          | 4.3                          | 3.6        |
| J Financial activities  | 3.4          | 2.4        | 2.4           | 0.5          | 4.9                          | 13.3       |
| C Mining industry   | 1.6          | 2          | 2             | 7.6          | 3.4                          | 18.2       |
| O Communal, social and individual services                          | 1.2          | 2.8        | 2.8           | 14.2         | 2.3                          | -2.4       |
| H Hotels and restaurants  | 0.4          | 0.4        | 0.4           | 9.2          | 0.8                          | 21.9       |
| B Fishing and fish-breeding   | 0.2          | 0.1        | 0.1           | 3.5          | 0.4                          | -6.5       |
| P Housekeeping services   | 0            | 0          | 0.015         | 6.4          | 0.0                          | 5.9        |
| FISIM   | -1.5         | -1.4       | -1.4          | 0.4          | -2.5                         | 12.7       |
| Net taxes on production   | 11.4         | 9.7        | 9.685         | -20.7        | 14.4                         | 20.7       |
| <b>Gross Domestic Product</b>                                       | <b>100.0</b> | <b>6.9</b> | <b>100.0</b>  | <b>-14.2</b> | <b>100.0</b>                 | <b>6.2</b> |

Source: NSS of RA and AER 2010 calculations

Table 3 shows the role of individual sectors in the GDP growth. As noted previously, the impact of construction decline in 2009 is evident: 10.7 percentage points out of total 14.2 were contributed by this sector. Meanwhile, the growth in 2010 took place mostly due to an increase in the services and industry sector (see Table 2 and Table 3). Unfortunately, in 2010 the agriculture sector significantly declined due to unfavorable weather conditions, which neutralizes quite a significant portion of recovery.

**Table 3: Contribution of economic sectors to the growth, 2008-2010, %**

|                            | 2008         |             |              | 2009         |              |              | 1 <sup>st</sup> half of 2010 |              |              |
|----------------------------|--------------|-------------|--------------|--------------|--------------|--------------|------------------------------|--------------|--------------|
|                            | % in GDP     | Growth rate | Contribution | % in GDP     | Growth rate  | Contribution | % in GDP                     | Growth rate  | Contribution |
| <b>Industry</b>            | <b>13.3</b>  | <b>2.1</b>  | <b>0.3</b>   | <b>13.8</b>  | <b>-7.9</b>  | <b>-1.0</b>  | <b>18.5</b>                  | <b>7.9</b>   | <b>1.3</b>   |
| <i>Processing industry</i> | 8.8          | 0.9         | 0.1          | 8.8          | -8.8         | -0.8         | 11.3                         | 10.8         | 1.1          |
| <i>Mining</i>              | 1.6          | 3.8         | 0.1          | 1.8          | 7.6          | 0.1          | 3.4                          | 18.2         | 0.3          |
| <i>Electricity</i>         | 2.9          | 4.6         | 0.2          | 3.3          | -6.5         | -0.4         | 3.9                          | -2.7         | -0.1         |
| <b>Agriculture</b>         | <b>16.3</b>  | <b>3.3</b>  | <b>0.6</b>   | <b>16.6</b>  | <b>-0.1</b>  | <b>0.0</b>   | <b>9.3</b>                   | <b>-15.4</b> | <b>-1.6</b>  |
| <b>Construction</b>        | <b>25.3</b>  | <b>11.3</b> | <b>2.8</b>   | <b>17.7</b>  | <b>-42.3</b> | <b>-10.7</b> | <b>12.0</b>                  | <b>7.6</b>   | <b>1.0</b>   |
| <b>Services</b>            | <b>35.3</b>  | <b>5.0</b>  | <b>1.7</b>   | <b>43.1</b>  | <b>0.0</b>   | <b>0.0</b>   | <b>48.4</b>                  | <b>6.4</b>   | <b>3.2</b>   |
| <b>Net taxes</b>           | <b>11.4</b>  | <b>17.1</b> | <b>1.7</b>   | <b>10.7</b>  | <b>-20.7</b> | <b>-2.4</b>  | <b>14.4</b>                  | <b>20.7</b>  | <b>2.5</b>   |
| <b>GDP</b>                 | <b>100.0</b> | <b>6.9</b>  | <b>6.9</b>   | <b>100.0</b> | <b>-14.2</b> | <b>-14.2</b> | <b>100.0</b>                 | <b>6.2</b>   | <b>6.2</b>   |

Source: NSS of RA and AER 2010 calculations

Due to the economic decline in 2009, gross domestic Investments decreased by 34.4%, resulting in decline in real GDP by about 14 percentage points. The reduction of the non-priority expenditures of the state budget by the Government led to a decrease in the overall public consumption by 4.9%. Despite the high economic decline rates, the reduction in households' consumption was quite modest – only 2.3%.

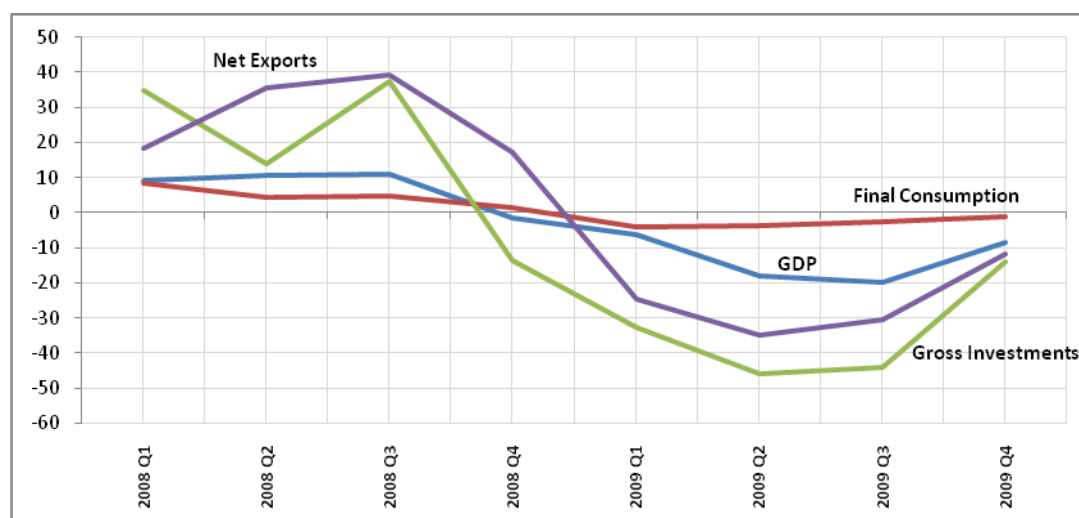
Starting 2010, recovery trends in investments and private consumption have become more obvious.

**Table 4: Contribution of GDP expenditure components to economic growth, 2008-2010, %<sup>1</sup>**

|                            | 2008         |             |                        | 2009         |              |                        | 1 <sup>st</sup> half of 2010 |             |                        |
|----------------------------|--------------|-------------|------------------------|--------------|--------------|------------------------|------------------------------|-------------|------------------------|
|                            | % in GDP     | Growth rate | Contribution to growth | % in GDP     | Growth rate  | Contribution to growth | % in GDP                     | Growth rate | Contribution to growth |
| <b>Private Consumption</b> | <b>71.6</b>  | <b>5.4</b>  | <b>3.9</b>             | <b>81.3</b>  | <b>-2.3</b>  | <b>-1.6</b>            | <b>90.6</b>                  | <b>4.6</b>  | <b>4.2</b>             |
| <b>Public Consumption</b>  | <b>10.2</b>  | <b>-1.9</b> | <b>-0.2</b>            | <b>12.6</b>  | <b>-4.9</b>  | <b>-0.5</b>            | <b>15.7</b>                  | <b>9.9</b>  | <b>1.5</b>             |
| <b>Gross Investments</b>   | <b>40.9</b>  | <b>12.6</b> | <b>4.8</b>             | <b>33.8</b>  | <b>-34.4</b> | <b>-14.1</b>           | <b>23.6</b>                  | <b>10.2</b> | <b>2.3</b>             |
| <b>Net Exports</b>         | <b>-25.6</b> | <b>26.8</b> | <b>-5.4</b>            | <b>-27.9</b> | <b>-24.3</b> | <b>6.2</b>             | <b>-33.6</b>                 | <b>26.1</b> | <b>-7.7</b>            |
| <i>Statistical error</i>   | 2.9          | 1021.3      | 3.9                    | 0.2          | -142.5       | -4.2                   | 3.6                          | -2089.8     | 5.9                    |
| <b>GDP</b>                 | <b>100.0</b> | <b>6.9</b>  | <b>6.9</b>             | <b>100.0</b> | <b>-14.2</b> | <b>-14.2</b>           | <b>100.0</b>                 | <b>6.2</b>  | <b>6.2</b>             |

Source: NSS of RA and AER 2010 calculations

Figure 6 depicts quarterly growth rates of gross expenditures which prove that the impact of economic decline in Armenia did not have a huge impact on the consumption behavior of Armenian households.

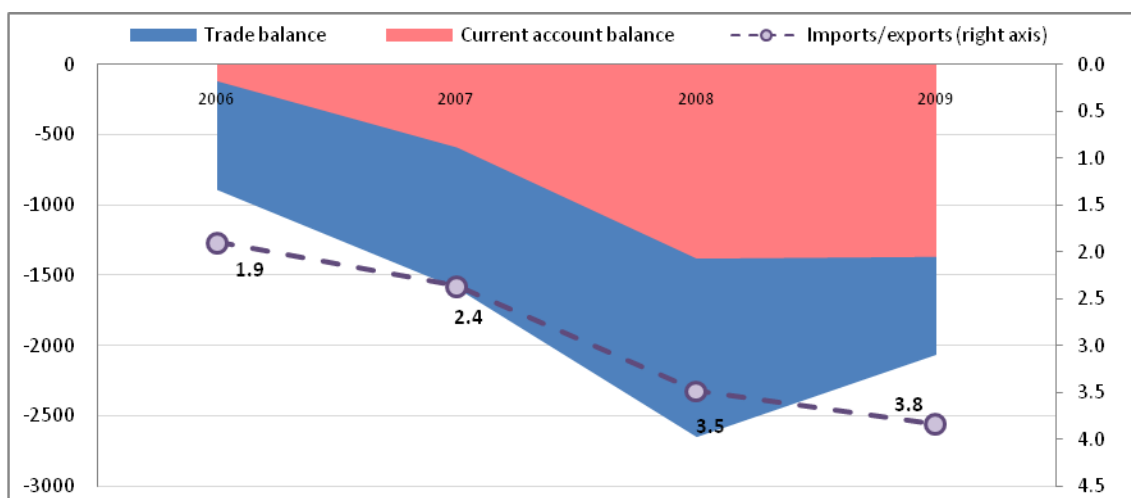
**Figure 6: Quarterly GDP growth per expenditure components, %**

Source: NSS of RA and AER 2010 calculations

<sup>1</sup> Reduction of a negative trade balance by 24% had a positive impact on the real GDP dynamics.

Despite the faster rates of decrease in exports as compared to those of imports, the trade deficit in 2009 reduced by 22% against 2008 indicator and totaled USD 2.1 billions. However, the current account balance did not change in absolute terms – to a certain extent due to increased inflow of public transfers in 2009 (see Figure 7). Meanwhile, current account balance as share of GDP decreased considerably (see Figure 9).

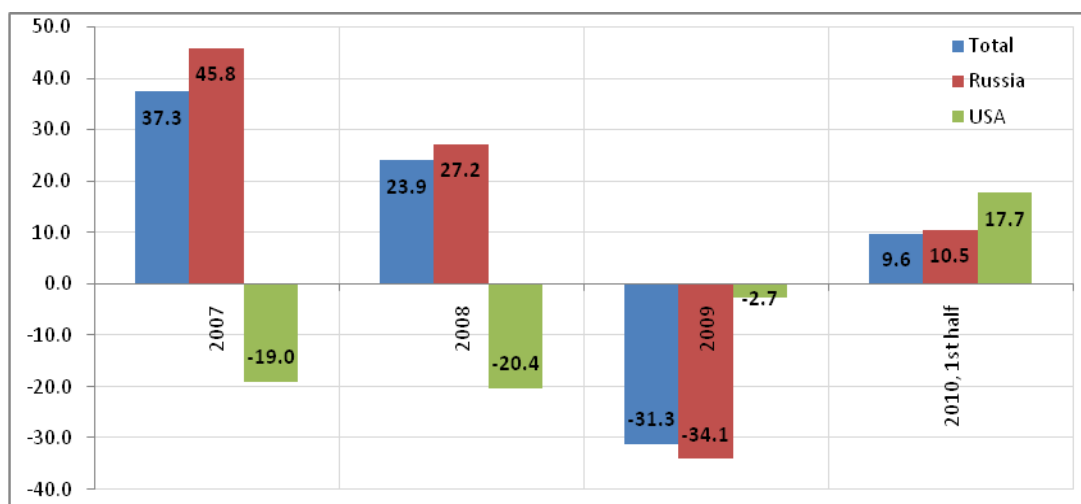
Figure 7: External balances of Armenian economy, 2006-2009



Source: NSS of RA and AER 2010 calculations

Reduced population incomes and constrained employment abroad due to the crisis directly affected the volumes of remittances to Armenia. Analysing the data on remittances shows that they have been mostly received from the Russian Federation, which explains the overall trends in remittances. The total remittances in 2009 decreased by 31%: of which remittances from Russia - by 34%. Nevertheless, since the beginning of 2010, remittances have started to resume during the first six months: inflow of remittances to Armenia during the first half of 2010 have increased by 9.6% as compared to the same period of the previous year: the fastest increase recorded for remittances coming from the USA.

Figure 8: Inflow of non-commercial money transfers to Armenia, 2007-2010, growth from previous year, %<sup>2</sup>



Source: Central Bank of RA and AER 2010 calculations

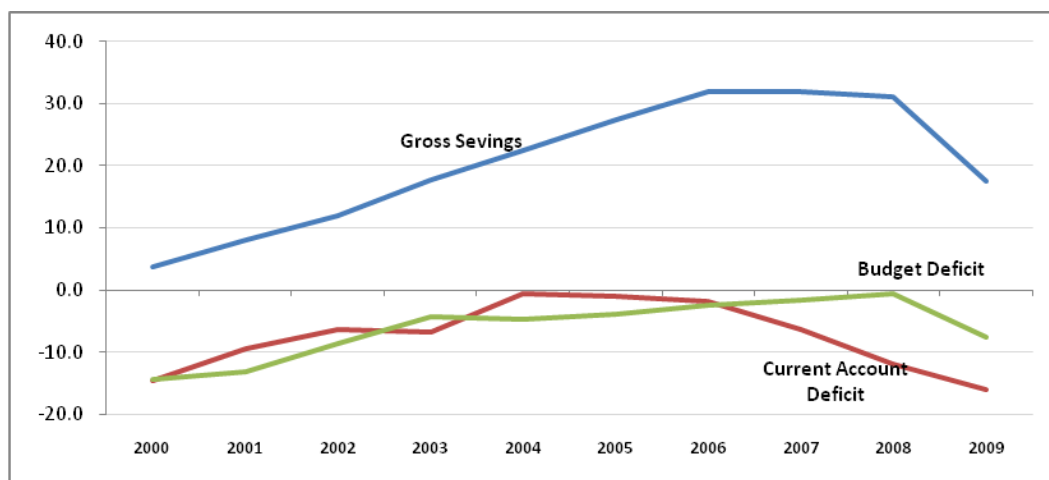
Unlike remittances from Russia, from where transfers increased drastically in 2007 and 2008, transfers from the US (through the banking sector) decreased since 2007.

Thus, this situation resulted in a decline in gross savings in Armenia, which showed almost continuous increase during the past 10 years. Gross savings decreased by half as share in GDP and reached their levels in 2003-2004 (slightly more than 17% of GDP).

<sup>2</sup> Include also non-refundable transfers from physical persons that are used for current needs, as well as wages received abroad.

As a result of the Government's active policy to stimulate the economy and take anti-crisis measures, the deficit, as a share of GDP, increased significantly in 2009 reaching 7.7% in contrast to 0.7% in 2008 (see Figure 9).

**Figure 9: Budget and current account deficits and gross savings, 2000-2009, % in GDP**



Source: NSS of RA and AER 2010 calculations

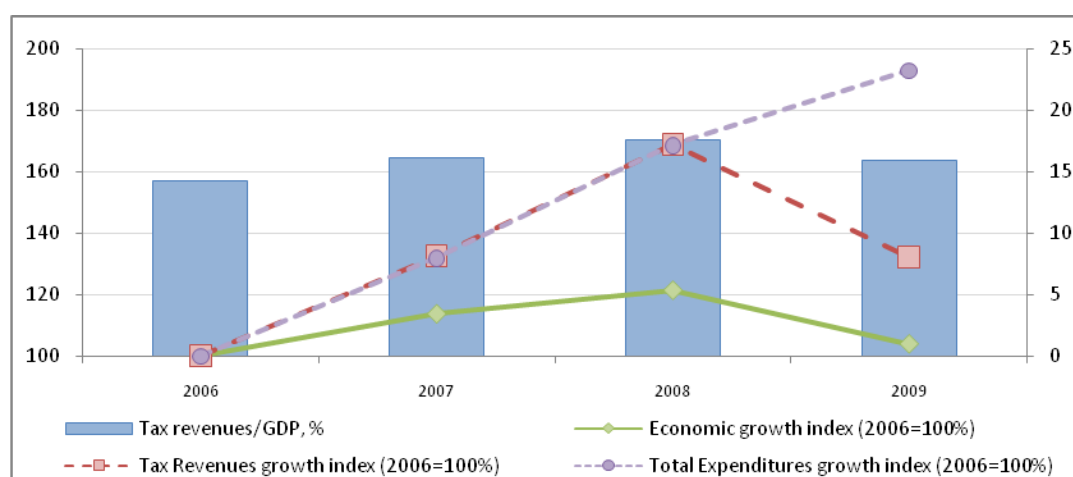
Overall, significant efforts were required in order to ensure fiscal stability. Drastic and rapid decline in tax revenues, coupled with potential threats of an increase in poverty and social tensions constrained the flexibility of the Government in reducing expenditures; meanwhile, on the other hand, additional budgetary expenditures became necessary.

The Government decreased non-priority expenditures and switched to a savings regime. However no reductions were made in budgetary allocations to the social protection sector. As in 2008, 26.2% of budgetary expenditures in 2009 were allocated to the social protection sector with an actual execution rate of 97.2% of the annual plan.

Respectively 6.0% and 11.6% of Annual Budget expenditures were directed to the healthcare and education sectors with actual performance of 87.7% and 85.5% as compared to the initial plan.

As a result, the budget deficit increased drastically: to finance the deficit, the Government was able to mobilize necessary funds from external sources. The latter resulted in a sharp increase in the public debt.

**Figure 10: Indices of real GDP growth, budgetary tax revenues and total expenditures and shares of tax revenues in GDP, 2006-2008, %**



Source: NSS of RA, Central Bank of RA and AER 2010 calculations

As a consequence, the external public debt of Armenia as of end-2009 reached AMD 1,121.1 billion or USD 2,967 millions (of which 16.9% or USD 500.8 millions is the stock of Central Bank liabilities to multilateral and bilateral donors for various credit projects).

Table 5: External public debt of Armenia, 2007-2010, breakdown per donors

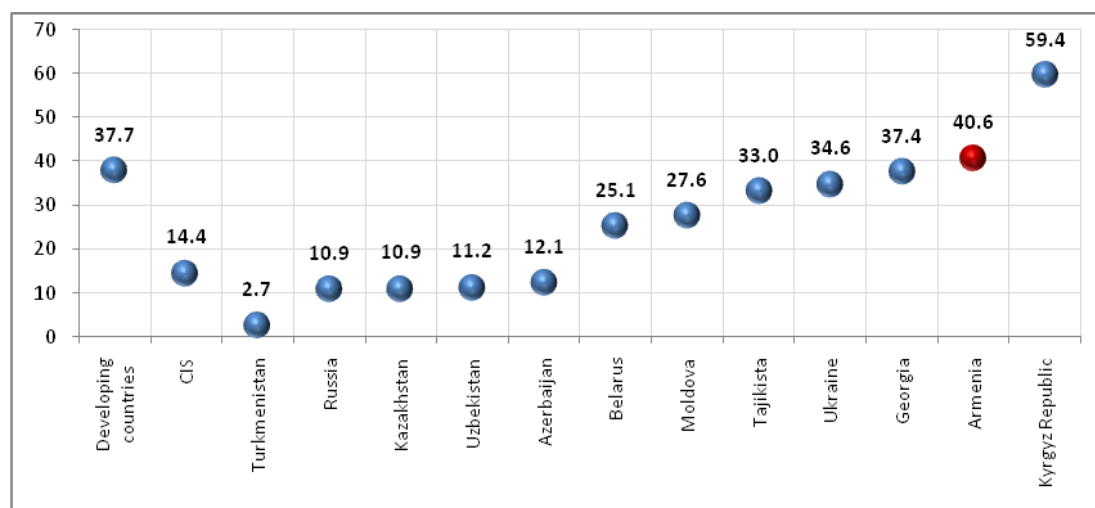
|          |   | 2007           |             | 2008           |             | 2009           |             | 1 <sup>st</sup> half of 2010 |             |
|----------|---|----------------|-------------|----------------|-------------|----------------|-------------|------------------------------|-------------|
|          |   | USD mln        | Share, %    | USD mln        | Share, %    | USD mln        | Share, %    | USD mln                      | Share, %    |
|          | <b>Total External Public Debt</b>                         | <b>1448.91</b> | <b>100</b>  | <b>1577.11</b> | <b>100</b>  | <b>2966.68</b> | <b>100</b>  | <b>3027.41</b>               | <b>100</b>  |
| <b>1</b> | <b>Multilateral Donors</b>                                | <b>1203.66</b> | <b>83.1</b> | <b>1234.72</b> | <b>78.3</b> | <b>2013.91</b> | <b>67.9</b> | <b>2037.18</b>               | <b>67.3</b> |
| 1.1      | WB  | 978.47         | 67.5        | 1019.10        | 64.6        | 1213.93        | 40.9        | 1176.23                      | 38.9        |
| 1.2      | EBRD  | 0.00           | 0           | 0.00           | 0           | 1.32           | 0           | 3.18                         | 0.1         |
| 1.3      | International Fund for Agricultural Development (IFAD)    | 55.89          | 3.9         | 57.80          | 3.7         | 60.37          | 2           | 58.45                        | 1.9         |
| 1.4      | Organization of Petroleum Exporting Countries (OPEC) Fund | 11.40          | 0.8         | 15.00          | 1           | 25.04          | 0.8         | 28.02                        | 0.9         |
| 1.5      | Asian Development Bank                                    | -              | -           | 8.06           | 0.5         | 126.54         | 4.3         | 130.43                       | 4.3         |
| 1.6      | International Monetary Fund                               | 157.90         | 10.9        | 134.77         | 8.5         | 586.71         | 19.8        | 640.86                       | 21.2        |
| <b>2</b> | <b>Bilateral Donors</b>                                   | <b>245.24</b>  | <b>16.9</b> | <b>342.39</b>  | <b>21.7</b> | <b>952.77</b>  | <b>32.1</b> | <b>990.23</b>                | <b>32.7</b> |
| 2.1      | USA   | 39.26          | 2.7         | 37.25          | 2.4         | 34.68          | 1.2         | 33.63                        | 1.1         |
| 2.2      | Germany   | 110.41         | 7.6         | 125.26         | 7.9         | 142.66         | 4.8         | 121.11                       | 4.0         |
| 2.3      | France  | 5.17           | 0.4         | 4.97           | 0.3         | 4.83           | 0.2         | 4.06                         | 0.1         |
| 2.4      | Japan   | 90.40          | 6.2         | 174.92         | 11.1        | 270.57         | 9.1         | 331.38                       | 10.9        |
| 2.5      | Russian Federation  | 0.00           | 0.0         | 0.00           | 0.0         | 500.00         | 16.9        | 500.00                       | 16.5        |
| 2.6      | Abu-Dhabi Development Bank                                | 0.00           | 0.0         | 0.00           | 0.0         | 0.03           | 0.0         | 0.05                         | 0.0         |

Source: NSS of RA and AER 2010 calculations

Notably, part of the attracted resources was not spent but saved for emergencies and funding of priority programs. Currently, 83% of public external debt represent liabilities of the Government of Armenia, while the remaining 17% - those of the Central Bank of Armenia.

In 2009, the outstanding stock of external public debt grew by 88% from the previous year, while the domestic debt – by 48%. Consequently, the public external debt reached 34.7% of the GDP which is 2.5 times higher the same ratio in 2008.

Figure 11: General Government gross debt (domestic and external) as percent in GDP in CIS countries, %

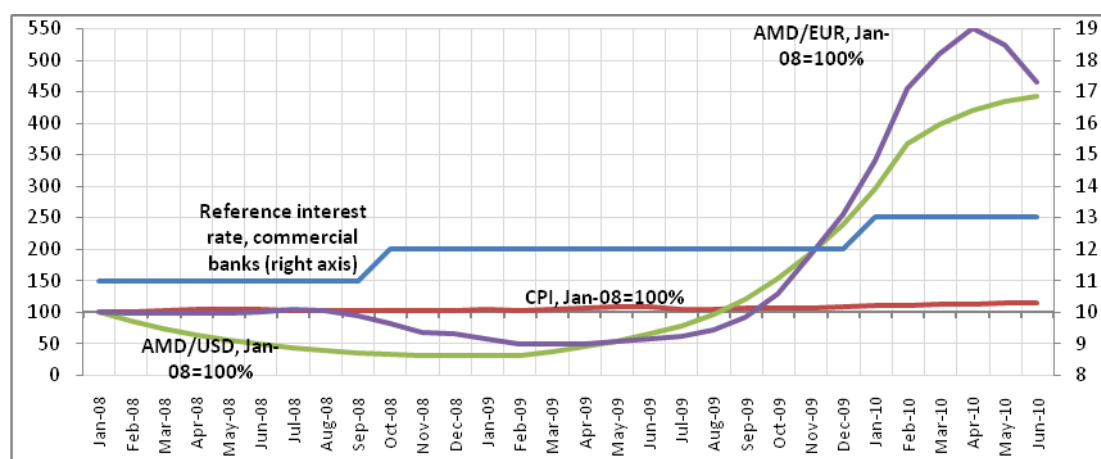


Source: IMF World Economic Outlook, October 2010, IMF

In the early stage of the crisis, Armenia temporarily switched to a managed exchange rate policy that allowed it to maintain financial stability and avoid possible panic (which occurred in many countries). The managed exchange rate policy allowed for adjusting expectations and smooth transition to the crisis situation, however, it resulted in a significant reduction of external reserves of the country.

Starting March 2009, the Central Bank announced switching back to a floating exchange rate regime, as a result of which, the exchange rate, after a sharp depreciation, finally stabilized around the free market level. Thus, Armenian Dram depreciated against the major currencies by the end of the year by around 28%.

Figure 12: Consumer prices, bank interest rates and exchange rates in 2008-2009, monthly



Source: NSS of RA, Central Bank of RA and AER 2010 calculations

Starting in the fourth quarter of 2008, interest rates in Armenia increased: the reference rate reached 12% per annum. As a result, the average lending rates by commercial banks increased by 2 percentage points: reaching 18.8% in 2009 in comparison to 16.5% in 2008.

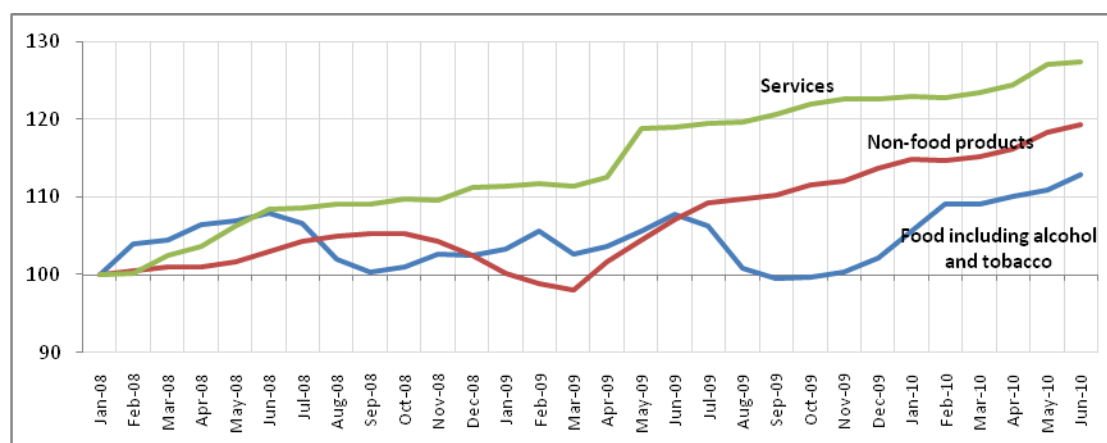
Table 6: Prices in 2007-2009, annually, %

|   |                | 2007 | 2008 | 2009 |
|---|----------------|------|------|------|
| <b>Inflation</b>                                    | End-of-period  | 6.6  | 5.2  | 6.5  |
|   | Period average | 4.4  | 9.0  | 3.4  |
| <b>Food price inflation</b>                         | End-of-period  | 10.9 | 3.6  | 2.3  |
|   | Period average | 6.7  | 11.1 | -0.9 |
| <b>Inflation of alcoholic beverages and tobacco</b> | End-of-period  | -0.1 | 0.3  | 1.5  |
|   | Period average | 0.1  | 0.0  | 1.4  |
| <b>Non-food price inflation</b>                     | End-of-period  | 2.5  | 0.2  | 14.6 |
|   | Period average | -0.5 | 5.1  | 4.7  |
| <b>Inflation of Service Prices</b>                  | End-of-period  | 3.2  | 11.4 | 10.3 |
|   | Period average | 4.2  | 9.0  | 10.4 |

Source: NSS of RA

Despite the economic crisis, price levels in Armenia remained stable and manageable. During 2009, consumer prices on average increased by 3.4%. Notably, except for prices for agricultural production, all other prices increased.

Figure 13: Consumer price index dynamics in 2008-2010, monthly

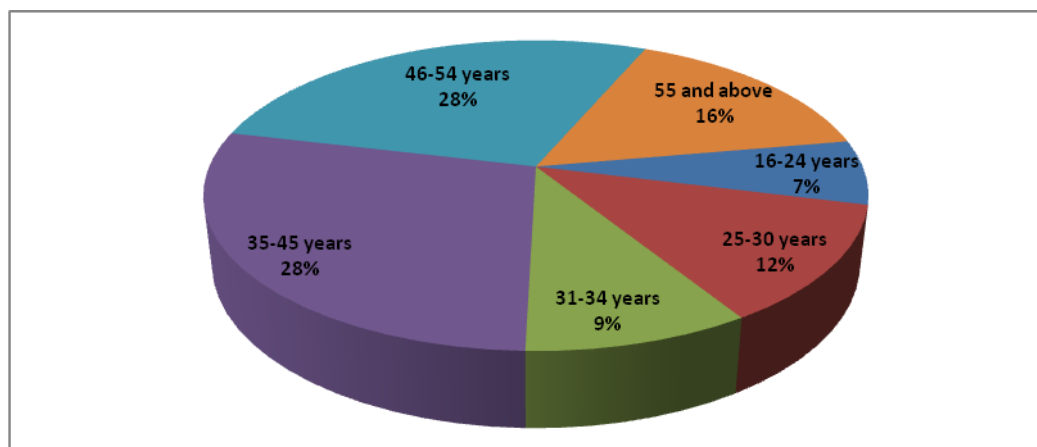


Source: NSS of RA and AER 2010 calculations

Because of the economic crisis, the number of officially registered unemployed in Armenia increased by about 9%. Unemployment, thus, reached 7%, increasing by 0.6 percentage points from the previous year.

As of end-2009, 6.7% of total unemployed fell in the age group of 16-24 years (youth unemployment): this share did not change significantly since 2008 - 7.1%.

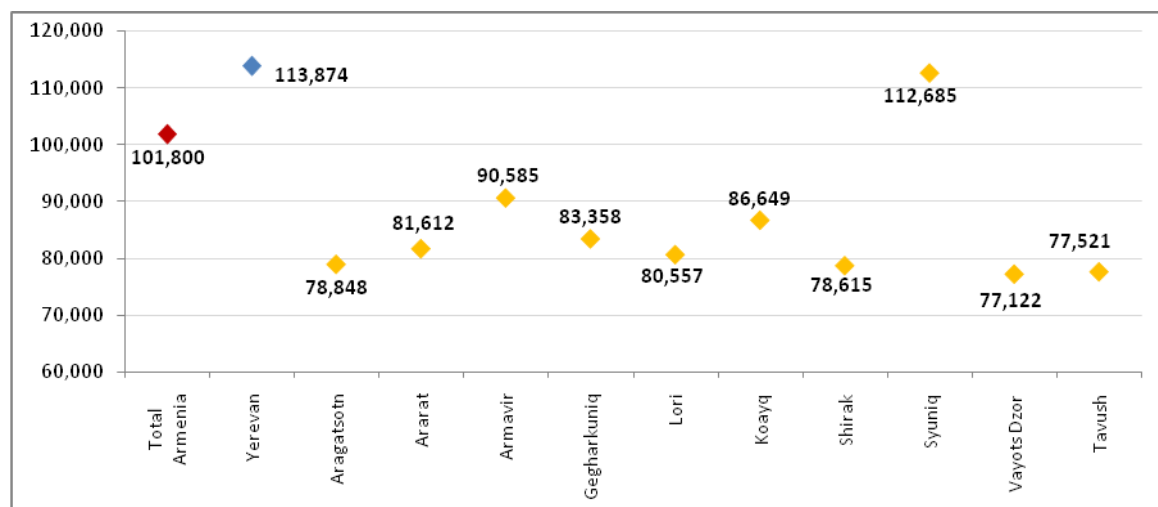
Figure 14: Age structure of unemployment in 2009, %



Source: NSS of RA and AER 2010 calculations

Average wages in the country in 2009 increased by 9.7% and totaled to AMD 101,800. Average wages in Yerevan were higher than the country average, as well as wages in Marzes. Average wages in Yerevan equaled AMD 113,874.

Figure 15: Wages of employees per Marzes, 2009, AMD



Source: NSS of RA

## Industrial Output

Economic decline of 7.9% was recorded in the industrial sector of Armenia in 2009, including 8.8% decline in processing industry. This took place under aggregate outputs in overall industry and processing industry falling by 9% and 12% respectively. As a result, the overall productivity of the industry fell by 2.6%. Furthermore, the number of employees in this sector decreased, especially in mining and processing industries – by respectively 11.3% and 6.9% (see Figures 16a and 16b).

Figure 16a: Change in productivity in industry in 2007-2010

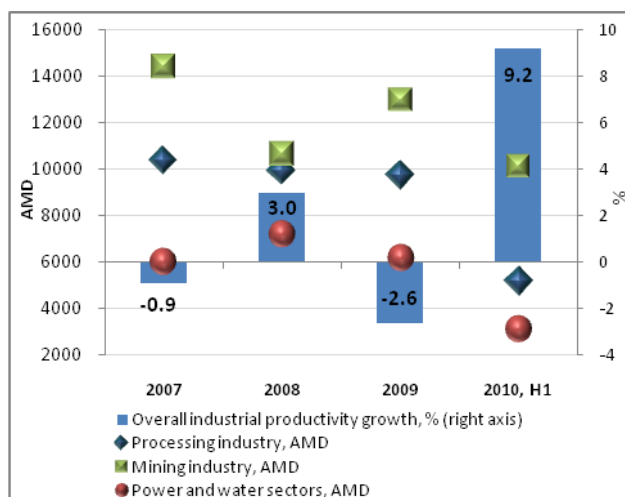
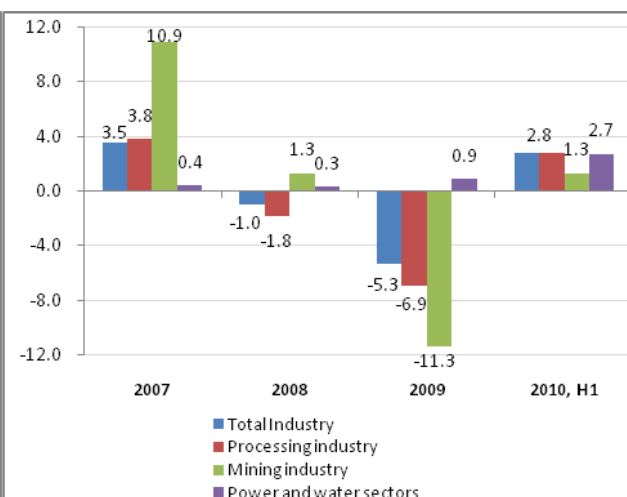


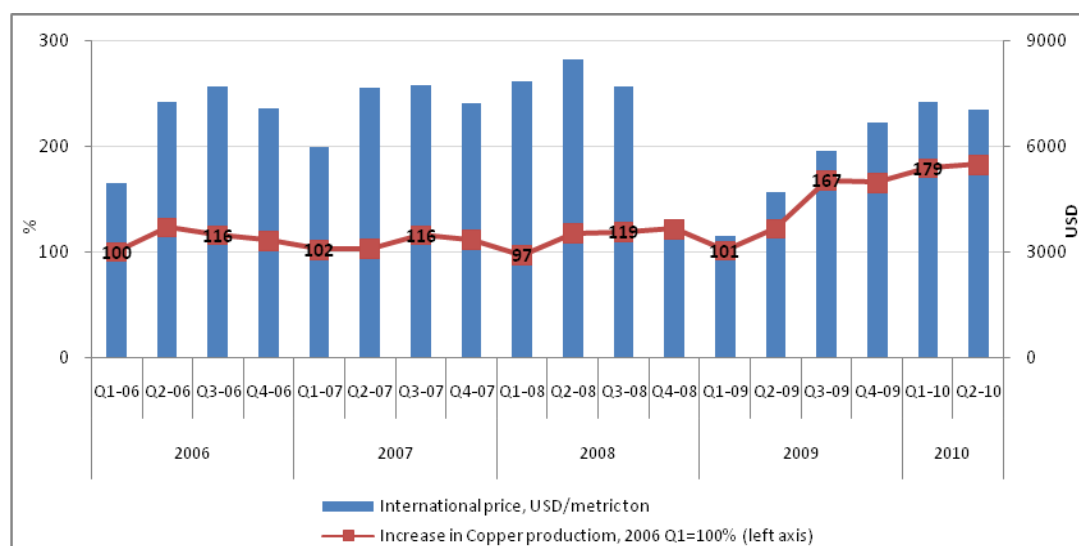
Figure 16b: Change in the average number of employees in production in 2007-2010, %



Source: NSS of RA and AER 2010 calculations

Nevertheless, due to developments in early 2010, both productivity and employment in the sector increased. According to data for the first half of 2010, productivity in the sector improved by more than 9% which resulted mostly due to the increase in output of the mining industry more than 2.4 times (which took place as a result of the increase in prices for copper and molybdenum in the international market) and 24.4% increase – in the processing industry.

Figure 17: Dynamics of copper mining output and international prices during 2006-2010



Source: NSS of RA and AER 2010 calculations

Processing industries represents the largest portion of the overall industry sector (the latter also includes the mining industry and power sub-sectors). In the industry in 2009, the decline of 12% resulted from the declines in almost all sub-sectors. Nonetheless, the trends in the processing industry were conditioned by the trends in the output of its largest component – food processing (including beverages) which declined by 5% in 2009. Metal processing is the next significant sub-sector of Processing industry, which fell by about 17% in 2009 (Table 7).

Table 7: Dynamics of outputs and sales in the main sub-sectors of processing industry in 2007-2010

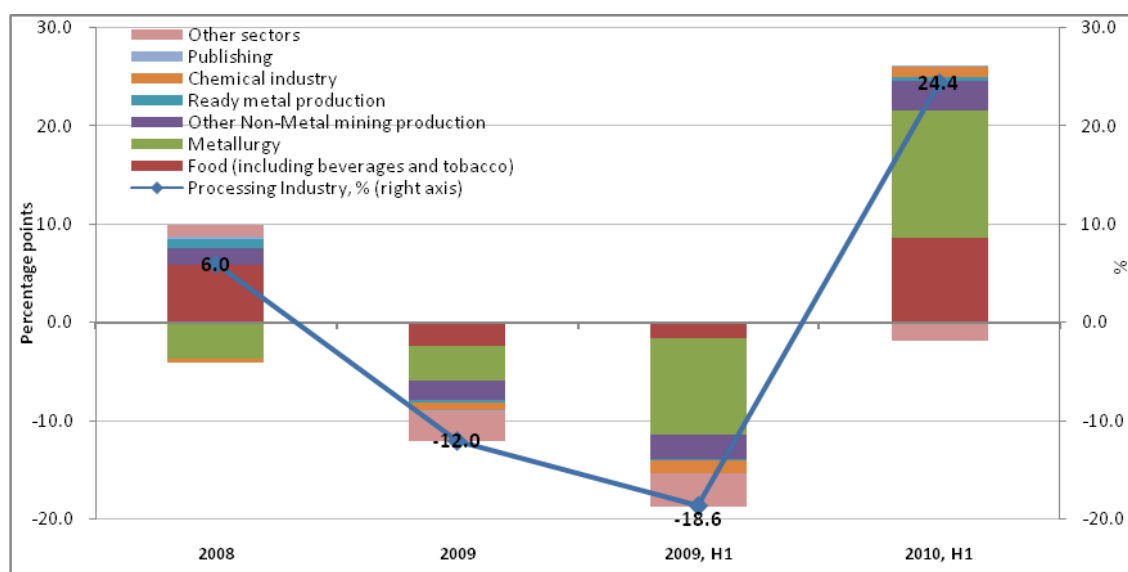
|                                   | 2007           | 2008  | 2009  | 2008,<br>1 <sup>st</sup> half | 2009,<br>1 <sup>st</sup> half | 2010,<br>1 <sup>st</sup> half | 2007             | 2008  | 2009  | 2008,<br>1 <sup>st</sup> half | 2009,<br>1 <sup>st</sup> half | 2010,<br>1 <sup>st</sup> half |
|-----------------------------------|----------------|-------|-------|-------------------------------|-------------------------------|-------------------------------|------------------|-------|-------|-------------------------------|-------------------------------|-------------------------------|
| <b>Output</b>                     | <i>AMD bln</i> |       |       |                               |                               |                               | <i>Growth, %</i> |       |       |                               |                               |                               |
| <b>Total Industry</b>             | 725.7          | 730.0 | 663.9 | 356.3                         | 282.3                         | 370.8                         | 9.6              | 3.5   | -9.0  | 7.0                           | -21.0                         | 31.4                          |
| <b>Processing Industry</b>        | 479.9          | 499.4 | 439.7 | 232.7                         | 188.3                         | 234.2                         | 12.7             | 6.0   | -12.0 | 7.6                           | -18.6                         | 24.4                          |
| Food (including beverages)        | 209.3          | 230.2 | 219.1 | 103.6                         | 99.1                          | 108.5                         | 8.0              | 13.1  | -4.8  | 9.2                           | -3.7                          | 15.9                          |
| Metallurgy                        | 122.4          | 104.7 | 87.1  | 57.9                          | 36.7                          | 61.3                          | 12.0             | -14.4 | -16.8 | -2.7                          | -39.6                         | 67.0                          |
| Other Non-Metal mining production | 40.7           | 49.0  | 38.9  | 20.9                          | 15.7                          | 21.2                          | 21.2             | 19.3  | -20.6 | 30.5                          | -28.4                         | 35.1                          |
| Ready metal production            | 43.8           | 19.3  | 18.2  | 6.9                           | 5.8                           | 6.7                           | 43.8             | 29.9  | -5.8  | 27.1                          | -5.5                          | 14.6                          |
| Chemical industry                 | 16.9           | 15.3  | 11.6  | 7.4                           | 4.5                           | 6.5                           | 14.8             | -9.0  | -24.1 | 2.8                           | -40.1                         | 43.5                          |
| Tobacco products                  | 13.7           | 14.9  | 14.3  | 6.7                           | 7.1                           | 7.6                           | -7.1             | 8.3   | -4.0  | -2.0                          | 5.7                           | 7.4                           |
| Publishing                        | 12.9           | 13.7  | 12.6  | 4.9                           | 3.8                           | 3.9                           | 36.0             | 9.0   | -8.2  | -11.0                         | 2.5                           | 2.1                           |
| <b>Sales</b>                      | <i>AMD bln</i> |       |       |                               |                               |                               | <i>Growth, %</i> |       |       |                               |                               |                               |
| <b>Total Industry</b>             | 728.7          | 721.0 | 667.2 | 351.6                         | 279.4                         | 375.0                         | 8.1              | 1.8   | -7.5  | 4.5                           | -20.5                         | 34.3                          |
| <b>Processing Industry</b>        | 485.7          | 494.6 | 451.4 | 230.6                         | 187.5                         | 240.2                         | 10.8             | 3.7   | -8.7  | 3.8                           | -17.7                         | 28.1                          |
| Food (including beverages)        | 210.1          | 231.7 | 222.0 | 102.1                         | 99.7                          | 107.7                         | 9.3              | 13.0  | -4.2  | 4.3                           | -1.5                          | 13.9                          |
| Metallurgy                        | 124.6          | 98.2  | 92.8  | 58.0                          | 34.1                          | 65.8                          | 8.5              | -21.2 | -5.4  | -4.6                          | -42.7                         | 93.0                          |
| Other Non-Metal mining production | 40.5           | 48.3  | 39.8  | 20.7                          | 16.0                          | 21.1                          | 25.1             | 18.8  | -17.6 | 32.7                          | -26.0                         | 31.8                          |
| Ready metal production            | 14.6           | 19.4  | 18.0  | 6.8                           | 5.9                           | 6.6                           | 40.6             | 31.6  | -6.9  | 25.1                          | -5.9                          | 12.2                          |
| Chemical industry                 | 17.6           | 15.0  | 11.2  | 6.9                           | 4.4                           | 8.0                           | -4.1             | -14.5 | -25.2 | -10.2                         | -37.5                         | 64.9                          |
| Tobacco products                  | 15.0           | 16.2  | 16.0  | 7.3                           | 7.8                           | 8.1                           | -12.3            | 8.1   | -0.7  | -5.7                          | 7.1                           | 3.3                           |
| Publishing                        | 12.6           | 13.5  | 12.6  | 4.7                           | 3.7                           | 3.8                           | 40.1             | 9.5   | -6.9  | -9.3                          | -2.8                          | 4.2                           |

Source: NSS of RA

As it is seen from the Table, huge decline in 2009 was recorded also in the sub-sector of Non-Metal mining and Chemical Industries. Notably, the decline in production of processing industry was much deeper during the first half of 2009, followed by recovery thereafter.

Analyses of data for the first half of 2010 showed that sharp growth took place as compared to the decline that occurred during the same period of 2009. Thus, production of processing industries during the first half of 2010 increased by 24.4%, including that of food processing – by 16%, metallurgy – by 67%, non-metal mining – 35% and chemical industry – by 43.5%. It is worth noting that the sales of this production grew at much higher rates than the production during that period, mostly determined by the increased demand – both domestic and external – of these goods.

Figure 18: Growth in processing industry (%) and contribution of sub-sectors to that growth (percentage points) during 2008-2010



Source: NSS of RA and AER 2010 calculations

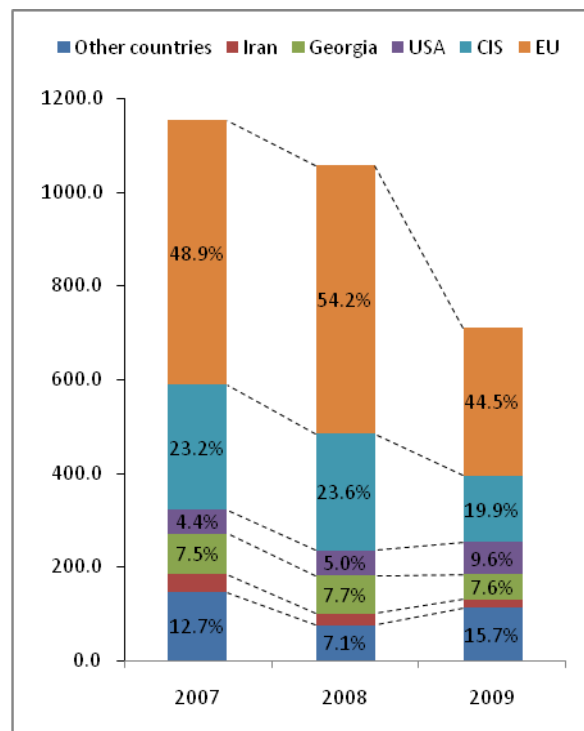
### Main Directions of Exports and Imports

In 2009, both exports from and imports to Armenia declined sharply – by 32.8% and 25% respectively. 89% of exports went to 15 countries, with a visible geographic orientation to north-east - more than 90% of total exports.

**Table 8: Armenian exports and breakdown per destination countries, USD mln**

| Country                               | 2001         | 2007          | 2008          | 2009         | Change from 2008, % |
|---------------------------------------|--------------|---------------|---------------|--------------|---------------------|
| Germany                               | 10.9         | 168.5         | 184.0         | 117.2        | -36.3               |
| Russia                                | 57.7         | 198.8         | 214.6         | 98.7         | -54.0               |
| USA                                   | 51.5         | 49.1          | 52.9          | 68.2         | 28.9                |
| Bulgaria                              | 0.3          | 46.9          | 59.2          | 61.1         | 3.2                 |
| The Netherlands                       | 1.2          | 156.0         | 131.1         | 53.3         | -59.3               |
| Georgia                               | 11.9         | 69.1          | 81.4          | 54.0         | -33.7               |
| Belgium                               | 46.5         | 100.1         | 89.9          | 47.6         | -47.1               |
| Canada                                | 0.9          | 5.9           | 15.9          | 34.8         | 118.9               |
| Switzerland                           | 23.0         | 49.2          | 11.6          | 25.6         | 120.7               |
| China                                 | 0.1          | 7.9           | 2.1           | 18.5         | 781.0               |
| Iran                                  | 31.5         | 37.4          | 25.4          | 19.2         | -24.4               |
| Ukraine                               | 10.9         | 46.2          | 22.2          | 12.8         | -42.3               |
| Austria                               | 0.0          | 5.5           | 5.3           | 8.5          | 60.4                |
| Spain                                 | 0.1          | 15.4          | 11.6          | 7.8          | -32.8               |
| Italy                                 | 6.0          | 29.8          | 27.5          | 7.1          | -74.2               |
| <b>Total for the listed countries</b> | <b>252.5</b> | <b>985.8</b>  | <b>934.6</b>  | <b>634.2</b> | <b>-32.1</b>        |
| <b>Total Exports</b>                  | <b>300.5</b> | <b>1152.3</b> | <b>1057.2</b> | <b>710.2</b> | <b>-32.8</b>        |

**Figure 19: Structure of Armenian exports per countries, USD mln**



Source: NSS of RA and AER 2010 calculations

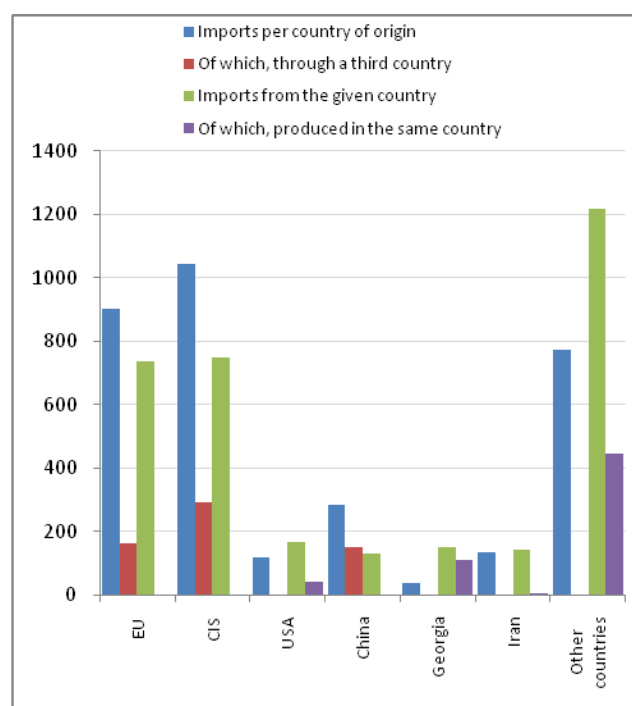
Despite the overall decline in export volumes in 2009, export volumes to a number of countries increased. The most prominent were exports to the USA, Canada, Switzerland, China and Austria. It is worth noting that the increase in exports to the listed countries was determined by the exports of metals (gold, copper, molybdenum, aluminum – mostly unprocessed or processed through a simple technology or waste of such metals from other production), while exports of other goods to these countries decreased.

In contrast to exports, imports to Armenia in 2009 decreased from almost all partner countries – on average by 30%. The only exception is imports from Switzerland, which recorded a drastic increase mostly due to a single transaction of importing a new turbine for the Yerevan Thermal Power Plant.

In addition, imports from Korea increased in 2009 by 12.6%: this was determined by increased volumes of metal details from ferrous metals which increased by 13% and constituted 25% of imports from Korea.

**Table 9: Imports to Armenia and breakdown thereof per countries, USD mln**

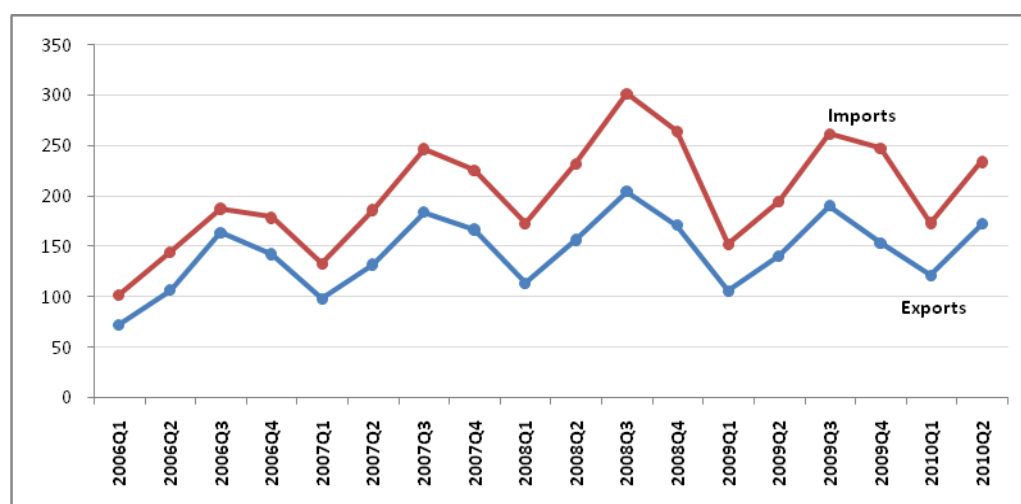
| Country                           | 2007          | 2008          | 2009          | Growth from 2008, % | Share in imports, % |              |
|-----------------------------------|---------------|---------------|---------------|---------------------|---------------------|--------------|
|                                   |               |               |               |                     | 2008                | 2009         |
| Russia                            | 482.7         | 849.8         | 797.1         | -6.2                | 19.2                | 24           |
| China                             | 192.4         | 380.6         | 288.9         | -24.1               | 8.6                 | 8.7          |
| Ukraine                           | 251.5         | 314.3         | 202.6         | -35.5               | 7.1                 | 6.1          |
| Turkey                            | 130.4         | 270.0         | 179.3         | -33.6               | 6.1                 | 5.4          |
| Iran                              | 141.0         | 203.6         | 136.2         | -33.1               | 4.6                 | 4.1          |
| Germany                           | 112.8         | 256.7         | 179.3         | -30.1               | 5.8                 | 5.4          |
| Switzerland                       | 22.3          | 17.7          | 122.9         | 594.1               | 0.4                 | 3.7          |
| Italy                             | 112.6         | 159.3         | 112.9         | -29.1               | 3.6                 | 3.4          |
| USA                               | 129.3         | 216.9         | 122.9         | -43.3               | 4.9                 | 3.7          |
| Korea                             | 56.5          | 79.7          | 89.7          | 12.6                | 1.8                 | 2.7          |
| Bulgaria                          | 87.5          | 119.5         | 86.3          | -27.7               | 2.7                 | 2.6          |
| France                            | 148.5         | 128.4         | 73.1          | -43.1               | 2.9                 | 2.2          |
| Romania                           | 68.4          | 101.8         | 73.1          | -28.2               | 2.3                 | 2.2          |
| Belgium                           | 116.4         | 92.9          | 59.8          | -35.7               | 2.1                 | 1.8          |
| Brazil                            | 26.2          | 57.5          | 56.5          | -1.9                | 1.3                 | 1.7          |
| <b>Total for listed countries</b> | <b>2078.5</b> | <b>3248.8</b> | <b>2580.5</b> | <b>-20.6</b>        | <b>73.4</b>         | <b>77.7</b>  |
| <b>Total Imports</b>              | <b>3267.8</b> | <b>4426.1</b> | <b>3321.1</b> | <b>-25.0</b>        | <b>100.0</b>        | <b>100.0</b> |

**Figure 20: Imports to Armenia per countries of origin and trading countries, 2009, USD mln**

Source: NSS of RA and AER 2010 calculations

Relatively low decline in imports were recorded from Russia and Brazil. In the case of Russia, low rate of decline in imports was determined by the fact that Armenia imports such strategic goods as wheat and natural gas that constitute 40% of total imports from Russia. Moreover, imports of non-processed aluminum – which constitutes 12% of imports from Russia compared to 5.5% in 2008. Concerning imports from Brazil, 35% of imports from this country is sugar, which consists 90% of total sugar imported to Armenia. The next largest shares in imports from Brazil belong to pork and poultry which together make up for 35% of imports from that country.

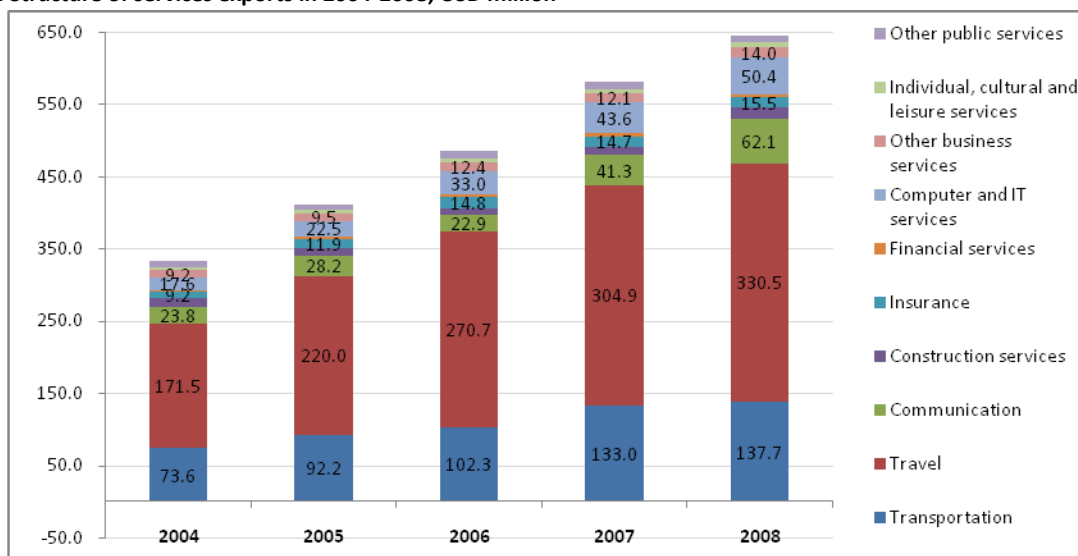
Import through intermediary countries represents a large share in total imports to Armenia. As is seen in Figure 20, goods manufactured in EU and CIS countries with total worth of about USD 1.9 billion were imported to Armenia, however only 74% of those goods were directly imported to Armenia. In turn, 75% of total imports from Georgia are not produced in that country. Exports and imports of services showed relatively stable trends, although decline was visible during 2009.

**Figure 21: Dynamics of exports and imports of services per quarters, USD millions**

Source: NSS of RA and AER 2010 calculations

During 2007-2009, the largest share of exports of services belonged to Travel, Transportation, Communication, Computer and Information technology services.

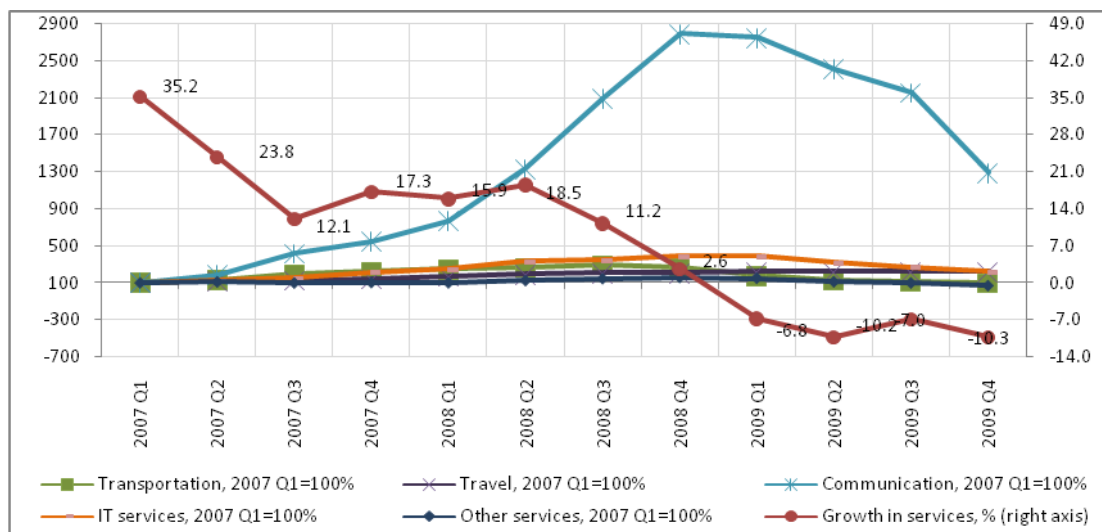
Figure 22: Structure of services exports in 2004-2008, USD million



Source: NSS of RA and AER 2010 calculations

Among the listed services, the most rapid growth was recorded in exports of communication services despite the fact that exports thereof fell in the fourth quarter of 2009 reaching the level of the first quarter of 2008.

Figure 23: Growth in exports of services in 2007-2009, quarterly, %



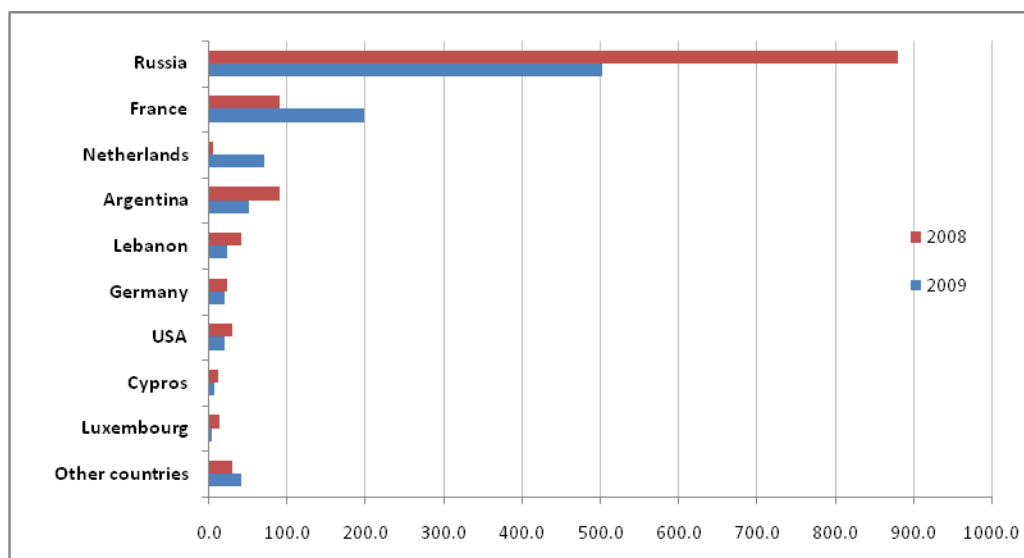
Source: NSS of RA and AER 2010 calculations

### Foreign Investments

During 2009, under the financial and economic crisis, foreign credits to Armenia increased about 2 times, reaching USD 1,623 millions. Meanwhile, foreign direct investments decreased by 25.6%, reaching USD 840.7 millions.

Increase was recorded in Armenian investments in foreign countries during 2009: overall USD 172 millions was invested which grew 2.4 times as compared to the previous year.

Figure 24: Foreign investments in the Armenian real sector per major investing countries, 2008-2009, USD million



Source: NSS of RA

Despite the crisis, countries that invested in the Armenian economy most in 2008, i.e. Russia and France, continued investing during 2009.

However, Russian investments decreased by 42.9% in 2009 compared to the previous year and totaled to USD 502.9 millions. These investments were mostly directed to electricity, gas, heat and hot water production and distribution, communications, inland transportation, non-metal production, wholesale and some other sectors. Among those, foreign direct investments from Russia represented 76.5% decreasing from 81.2% in 2008.

In contrast to Russian investments, French investors made only foreign direct investments in the Armenian economy. French investments grew about 2.2 times, totaling to USD 197.4 millions. These investments were targeted towards communications, water distribution, collection and treatment, as well as food and beverage production sectors. The substantial increase in French investments in the Armenian economy during 2009 was mostly determined by the investments in the communications sector – namely launch of the third operator – Orange: thus, most of the investments went into that sector.

Apart from those two countries, Germany also invested in the Armenian economy during 2009 (mining), so did Argentina (air communication), Italy (chemical industry and real estate), the Netherlands (production and distribution of electricity, gas, hot water and heat), Lebanon (telecom), the US (IT and computers) etc.

In 2009, countries that invested in the Armenian economy for the first time were Austria, Slovenia, Virgin Islands, China and Georgia (although with very small investments,) that invested in hotel and restaurant business and other services.

A large share of foreign investments in 2009 – 60% - were directed towards the telecom sector as well as production and distribution of electricity, gas, hot water and heat. Large investments went to transportation and mining.

Table 10: Foreign investments in the Armenian real sector in 2008-2009, broken down per sector/business<sup>3</sup>, USD thou.

| Sectors   | 2008               | 2009             |
|---|--------------------|------------------|
| Communication   | 301,592.2          | 296,604.8        |
| Production and distribution of electricity, gas, hot water and heat | 476,278.9          | 253,298.4        |
| Land transportation   | 136,330.0          | 185,807.9        |
| Real estate transactions  | 29,645.9           | 34,628.0         |
| Air transportation  | 55,310.7           | 32,393.1         |
| Food and beverage production  | 39,401.8           | 30,757.0         |
| Mining industry   | 33,814.4           | 20,901.4         |
| Other sectors   | 32,173.4           | 10,868.1         |
| Auxiliary and supporting transportation activities                  | 11,096.8           | 10,374.6         |
| Non-metal production industry                                       | 839.2              | 9,663.7          |
| Other services to consumers   | 27,208.0           | 8,476.6          |
| Agriculture, hunting and services in these sectors                  | 23,847.3           | 8,257.5          |
| Hotel and restaurant services                                       | 6,056.6            | 6,974.2          |
| Computers-related activities  | 13,531.2           | 6,810.6          |
| Wholesale and distributor channels, excluding cars and motorbikes   | 2,385.3            | 6,001.5          |
| Chemical industry   | -                  | 4,574.7          |
| Research and Development  | 11,106.3           | 4,470.1          |
| Metallurgy  | 53,200.3           | 4,165.5          |
| Construction  | 3,824.8            | 457.6            |
| <b>Total</b>  | <b>1,257,643.1</b> | <b>935,485.3</b> |

Source: NSS of RA

As compared to the previous year, investments in non-metal production, transportation, wholesale trade, real estate and hotels increased in 2009. Moreover, investments were made in the chemical industry where no investments were made in the previous year. Investments in all other sectors fell. The largest decline in investments took place in the construction and agriculture sectors: 8.3 and 3 times respectively.

<sup>3</sup> Excluding public governance and banking sector flows.

## A.2. Economic Recovery: 2010-2013 Projections

### *Global Economy*

The global financial and economic crisis in 2008-2009 put the world at risk of a second “Great Depression”. After WWII, global output and per capita income indicators decreased for the first time: global output in 2009 fell by about 1% in contrast to the average annual growth by about 3.5% since 1946. Meanwhile, per capita income fell by 2%.

In order to avoid a second “Great Depression” countries developed and implemented a number of anti-crisis programs. Because of active public policies implemented in developed and developing countries, starting from the second half of 2009 (mostly due to Asian countries), the global economic situation started to improve.

One of the evidences of global economic recovery is the increase in international trade volumes in the second quarter of 2009 (representing 8% growth from the previous quarter) mostly contributed to by developing countries.

Nevertheless, along with positive developments, a number of negative phenomena continue to take place. To date, deepened budget deficits continue to be an urgent problem, along with public debt accumulation. In 2009, the total sum of external debt of all countries (globally) increased by USD 4 as billions to the previous year. None of the Euro-zone countries was successful in maintaining the Stability and Growth Treaty threshold (budget deficit less than 3% of GDP). Many countries faced the following choices: on one hand, budget deficits need to be reduced, while on the other – economic growth should not be restrained. Some countries continue expansionary budget spending policies, however, already in 2011, all countries are likely to introduce saving practices.

Despite the above mentioned, the projections for the coming years are quite optimistic. According to the IMF<sup>4</sup>, the global economy is expected to grow by 4.8% in 2010 or USD 4,100.0 billion which will allow for exceeding the pre-crisis output levels (2008) by 4.2%. The global growth rates will stabilize during 2011-2013 on average reaching 4.5% annually.

Both savings and investments are expected to increase in 2010 (in comparison to 2009). Their shares in output will grow by 1.2 and 1.0 percentage points respectively and reach approximately 23%. Nevertheless, the pre-crisis levels will be regained only in 2012.

In 2010, the world trade turnover will also grow. An unprecedented growth rate for the past 10 years is projected for both exports and imports of goods and services – 11.4%. Such high growth rates are a reflection of a drastic decline in world trade in 2009. Pre-crisis levels will be reached only in 2011.

According to the “World Investment Prospects to 2011” published by the Economists Intelligence Unit, global FDI are expected to grow by 4.5% in 2010 and by 4.4% - in 2011. More than 63% of those FDI will flow to developed countries, while the remaining – to the developing countries.

Economic recovery will be accompanied by an increase in consumer prices. In 2010, consumer prices are estimated to grow on average by 3.7%, while as of end-2010, they are expected to increase by 3.3%. According to projections, average price increase in consumer goods and service market during 201-2013 will reach 3%.

In 2010, demand for fossil fuel, including non-processed oil, natural gas and coal is expected to rise resulting from overall global recovery: this will result in 22% increase in prices (in contrast to 36.9% decline in 2009). Sharp increase in prices is also expected in metals’ markets – by 32% (calculated based on copper, aluminum, and iron ore, tin, and nickel, zinc, lead and uranium price indices). It is worth noting that the global prices for metals fell by 28.6% in 2009.

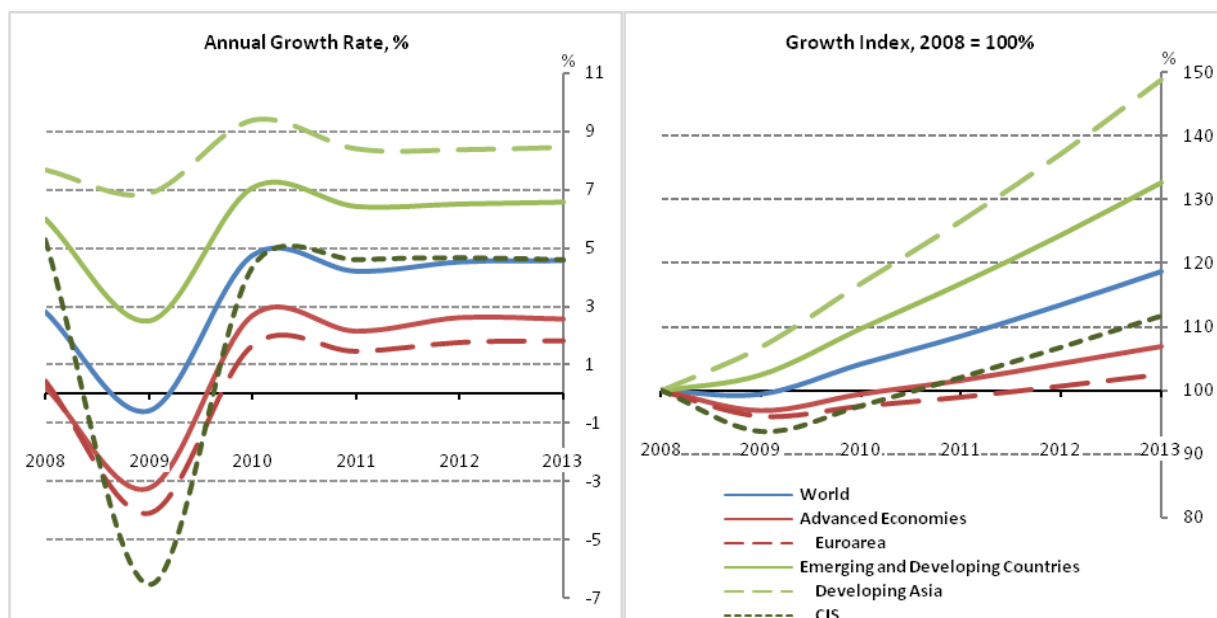
<sup>4</sup> Source: “World Economic Outlook Database”, October 2010, IMF. <http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx>:

### Recovery Trends in Developed and Developing Countries

Developments in 2009 showed that the global economic recovery takes place disproportionately. As compared to developed countries, developing economies grow almost two times faster. According to experts, disproportionate growth of the global economy will continue during the coming years (see Figure 25).

In 2010, economies in developed countries are projected to grow by 2.7%. During 2011-2013, the growth rates are projected to equal to 2.4% on average. Pre-crisis output levels will be reached in 2011.

Figure 25: Global economic growth in 2008-2013



Source: IMF World Economic Outlook, October 2010, IMF and AER 2010 calculations

In developing countries, economic growth is expected to reach 7.1% in 2010, which will slow down thereafter and remain at 6.5% levels during 2011-2013. Developing Asia will grow at a much faster pace, where 9.4% growth is considered possible in 2010. For the next years, growth rate will still remain higher than elsewhere – 8.4% on average. Favorable developments in CIS will allow reaching pre-crisis levels in 2011 and ensure on average 4.5% growth rates in 2010-2013.

Overcoming the consequences of the crisis will take place much slower in the Euro-zone<sup>5</sup> countries where the average growth rates during 2010-2013 are not expected to exceed 2%, while the pre-crisis output levels will be reached only in 2012. The reason is the considerable accumulation of public debt and deepening of budget deficits due to anti-crisis measures.

In all G7 countries, economic growth will be recorded in 2010 (on average 2.5%), however, pre-crisis output levels will be reached in 2011. Recovery of the German economy – which is the driver of the overall EU economy, is possible in 2011. In 2010, 3.3% growth is projected, while in 2011-2013 – 2% on average.

Widespread wildfires and drought negatively affected the economic outlook of Russia in 2010. Consequently, 4% growth is expected in Russia in 2010, followed by average 4.3% growth rates in 2011-2013. Acceleration of growth rates is based on the assumption that the price for Russian “Urals” oil will reach USD 75-79 per barrel.

<sup>5</sup> Euro-zone included 16 countries: Austria, Belgium, Germany, Ireland, Spain, Italy, Luxembourg, Cyprus, Greece, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Finland and France.

Table 11: Development trends of the global economy in 2008-2011

|   | 2008  |      | 2009  |       | 2010 (proj.) |      | 2011 (proj.) |      |
|---|-------|------|-------|-------|--------------|------|--------------|------|
|   | IMF   | WB   | IMF   | WB    | IMF          | WB   | IMF          | WB   |
| <b>World Output (growth, %)</b>   | 2.8   | 1.7  | -0.6  | -2.1  | 4.8          | 3.3  | 4.2          | 3.3  |
| <i>Developed countries</i>  | 0.2   | 0.4  | -3.2  | -3.3  | 2.7          | 2.3  | 2.2          | 2.4  |
| <i>Developing countries</i>   | 6.0   | 5.7  | 2.5   | 1.7   | 7.1          | 6.2  | 6.4          | 6.0  |
| <b>Global Turnover (growth, %)</b>  | 2.9   | 3.2  | -11.0 | -11.6 | 11.4         | 11.2 | 7.0          | 6.8  |
| <b>Imports</b>  |       |      |       |       |              |      |              |      |
| <i>Developed countries</i>  | 0.5   |      | -12.7 |       | 10.1         |      | 5.2          |      |
| <i>Developing countries</i>   | 9.0   |      | -8.2  |       | 14.3         |      | 9.9          |      |
| <b>Exports</b>  |       |      |       |       |              |      |              |      |
| <i>Developed countries</i>  | 1.9   |      | -12.4 |       | 11.0         |      | 6.0          |      |
| <i>Developing countries</i>   | 4.6   |      | -7.8  |       | 11.9         |      | 9.1          |      |
| <b>Investments (% in GDP)</b>   | 23.7  |      | 21.6  |       | 22.6         |      | 23.2         |      |
| <b>Savings (% in GDP)</b>   | 23.8  |      | 21.6  |       | 22.7         |      | 23.5         |      |
| <b>Inflation (average, %)</b>   | 6.0   |      | 2.5   |       | 3.7          |      | 3.1          |      |
| <b>Current Account Balance (USD bln)</b>  | 210.7 |      | 216.6 |       | 202.3        |      | 296.6        |      |
| <b>Commodity prices (growth, %)</b>   |       |      |       |       |              |      |              |      |
| <b>Oil</b>  | 36.4  | 36.4 | -36.3 | -36.3 | 23.3         | 26.4 | 3.3          | -4.5 |
| <b>Other Commodities</b>  | 7.5   | 0.0  | -18.7 | -21.6 | 16.8         | 16.8 | -2.0         | -4.0 |
| <b>Consumer price increase (average, %)</b>   |       |      |       |       |              |      |              |      |
| <b>Developed Countries</b>  | 3.4   |      | 0.1   |       | 1.4          |      | 1.3          |      |
| <b>Developing Countries</b>   | 9.2   |      | 5.2   |       | 6.3          |      | 5.2          |      |
| <b>Fuel Price Index</b> (includes unprocessed oil and natural gas prices, 2005=100%)                                  | 184.5 |      | 116.5 |       | 142.0        |      | 146.4        |      |
| <b>Metal Price Index</b> (includes copper, aluminum, tin, nickel, zinc, iron ore, lead and uranium prices, 2005=100%) | 168.7 |      | 120.4 |       | 158.2        |      | 161.2        |      |

Source: IMF World Economic Outlook, October 2010, IMF, and WB "Prospects for the Global Economy", June 2010

Table 12: Economic growth in a number of countries, 2009-2013, %

|                             | 2009          | 2010         | 2011         | 2012         | 2013         |
|-----------------------------|---------------|--------------|--------------|--------------|--------------|
|                             | <i>Actual</i> | <i>Proj.</i> | <i>Proj.</i> | <i>Proj.</i> | <i>Proj.</i> |
| <b>Worlds</b>               | -0.6          | 4.8          | 4.2          | 4.5          | 4.6          |
| <b>Developed countries</b>  | -3.2          | 2.7          | 2.2          | 2.6          | 2.6          |
| <b>Developing countries</b> | 2.5           | 7.1          | 6.4          | 6.5          | 6.6          |
| <b>EU countries</b>         | -4.1          | 1.7          | 1.7          | 2.1          | 2.2          |
| <b>CIS</b>                  | -6.5          | 4.3          | 4.6          | 4.7          | 4.6          |
| <b>USA</b>                  | -2.6          | 2.6          | 2.3          | 3.0          | 2.9          |
| <b>Japan</b>                | -5.2          | 2.8          | 1.5          | 2.0          | 1.9          |
| <b>China</b>                | 9.1           | 10.5         | 9.6          | 9.5          | 9.5          |
| <b>India</b>                | 5.7           | 9.7          | 8.4          | 8.0          | 8.2          |
| <b>United Kingdom</b>       | -4.9          | 1.7          | 2.0          | 2.3          | 2.4          |
| <b>Germany</b>              | -4.7          | 3.3          | 2.0          | 2.0          | 1.8          |
| <b>France</b>               | -2.5          | 1.6          | 1.6          | 1.8          | 2.0          |
| <b>Italy</b>                | -5.0          | 1.0          | 1.0          | 1.4          | 1.4          |
| <b>Turkey</b>               | -4.7          | 7.8          | 3.6          | 3.7          | 3.8          |
| <b>Russia</b>               | -7.9          | 4.0          | 4.3          | 4.4          | 4.2          |
| <b>Ukraine</b>              | -15.1         | 3.7          | 4.5          | 4.8          | 4.5          |
| <b>Georgia</b>              | -3.9          | 5.5          | 4.0          | 5.0          | 5.0          |
| <b>Armenia</b>              | -14.2         | 4.0          | 4.6          | 4.3          | 4.2          |

Source: IMF World Economic Outlook, October 2010, IMF

### *Projection of the Developments in the Armenian Economy*

According to preliminary estimates, 2.7% economic growth was expected in Armenia in 2010<sup>6</sup>. According to recent IMF estimates, 4.0% economic growth will be recorded in Armenia.

Projected increase in aggregate demand in international markets, as well as increase in prices for fossil fuel and metals will affect the Armenian economy positively. Recovery of growth rates in major partner countries, such as Russia, will result in gradual increases and recovery in remittances, labor income and investments.

Therefore, 4.6% growth is expected in Armenia in 2011, followed by on average 4.2% growth during 2012-2013. Pre-crisis output levels can be reached in 2013. The industry and services should gradually become the drivers of the economy.

Significant shifts are projected to take place in the structure of the GDP. If construction was the major driving factor of the economy before the crisis, which was paralyzed due to the drop in the aggregate demand as a result of the crisis, economic recovery and development should base and rely on more progressive and efficient sectors.

Due to expected investments in the industry, as well as the acceleration of improvement in productivity indices, 6.6% growth is expected in this sector in 2010. Economic growth in 2010 is restrained by the drop in agriculture by 14% which is explained by unfavorable weather conditions. Nevertheless, immediate recovery is expected in 2011. Growth rates in constructions will be similar to GDP growth rate.

Along with economic recovery, unemployment is also expected to decrease: it expected to reach 6.5% in 2011.

Consumer price level will be in the focus of the Central Bank of Armenia during the entire projection period: the target for inflation is 4%±1.5% as of end-of period. The only exception is expected in 2010 when inflation is expected to reach 6.1% as a result of the stabilization of the economy.

The share of investments is expected to decline in the coming years: from 31.2% in 2010 to 30.4% in 2013 determined by the sharp decline in construction. Private investments will gradually increase, while public investments decrease proportionately. In the medium-term perspective, investments will prevail in services and industry, reflecting the projected sector developments in the GDP structure.

Fiscal policy will target increasing tax revenues as a result of improved tax administration. Maintaining the levels of social expenditures will remain a priority in public spending policy. Budget revenues as share of GDP is expected to be in the range of 23.3%-23.4% in 2011-2013, while the expenditures as share of GDP are projected to in the range of 27.3%-28.3%. Budget deficit/GDP ratio is expected to improve from about 6% in 2010 to about 2% in 2011 which will not risk public debt sustainability indicators.

External public debt will remain quite high as share of GDP: in 2010 it is expected to reach about 40%, while in 2011 it will grow further to 42%. Public debt will start to decrease in 2013 with an estimate of 38% of GDP.

Exports are expected to grow about 2 times faster than imports which, under favorable external environment, will allow for improving the current account deficit as share of GDP. It is estimated to equal to 14.8% of GDP in 2010 (16% - excluding official grants). The trade balance will also improve: the goods and services deficit is expected to reach 25.6% of GDP in 2013, improving by 2 percentage points from 2010. Meanwhile, the trade deficit will improve by 1.2 percentage points reaching 23.6% of GDP in 2013.

**Table 13: Main macroeconomic indicators of Armenia, 2008-2011**

|                                  | 2008   | 2009  | 2010     | 2011       |
|----------------------------------|--------|-------|----------|------------|
|                                  | Actual |       | Estimate | Projection |
| <b>Real Sector</b>               |        |       |          |            |
| Real GDP growth (%)              |        |       |          |            |
| Draft 2011-13 MTEF               |        |       | 1.8      | 3.4        |
| 2011 Draft Annual Budget Message | 6.9    | -14.2 | 2.7      | 4.6        |
| IMF, WEO, October 2010           |        |       | 4.0      | 4.6        |
| GDP Deflator (%)                 | 5.9    | 1.3   | 8.9      | 3.6        |

<sup>6</sup> Budget Message of the Government of Armenia to the 2011 Draft Annual Budget.

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Inflation (period average, %)  | 9.0   | 3.4   | 7.6   | 5.7   |
| Inflation (end-of-period, %)   | 5.2   | 6.5   | 6.1   | 5.3   |
| Unemployment (period average, %)   | 6.3   | 6.9   | 6.8   | 6.5   |
| <b>Main Sectors of the Economy (real growth rate, %)</b>                 |       |       |       |       |
| Agriculture (A+B)  | 3.3   | -0.1  | -14.0 | 10.0  |
| Industry (C+D+E)   | 2.1   | -7.9  | 6.6   | 4.6   |
| Construction (F)   | 11.3  | -42.3 | 1.7   | 2.0   |
| Services   | 4.8   | -0.1  | 4.0   | 3.9   |
| <b>Economic Growth per Expenditure Components (real growth rates, %)</b> |       |       |       |       |
| Final consumption  | 4.5   | -2.6  | 4.0   | 3.5   |
| Gross accumulation of capital  | 12.6  | -34.4 | -4.8  | 4.2   |
| Exports of Goods and services  | -13.1 | -11.5 | 13.9  | 13.9  |
| Imports of Goods and services  | 7.3   | -19.5 | 3.7   | 4.4   |
| <b>Government Budget (as share of GDP, %) *</b>                          |       |       |       |       |
| Revenues and Grants  | 22.2  | 21.7  | 23.1  | 22.6  |
| Taxes, duties, mandatory social insurance payments                       | 20.3  | 20.1  | 21.0  | 20.6  |
| Expenditures   | 22.7  | 29.4  | 29.1  | 26.5  |
| Deficit  | 0.7   | 7.7   | 6.0   | 3.9   |
| <b>External Sector (as share of GDP, %)</b>                              |       |       |       |       |
| Goods and Services Balance   | -25.6 | -27.5 | -27.4 | -27.3 |
| Exports of Goods and services  | 15.1  | 15.7  | 18.1  | 20.4  |
| Imports of Goods and services  | 40.7  | 43.2  | 45.5  | 47.6  |
| Trade Balance  | -22.8 | -24.4 | -24.8 | -24.8 |
| Current Account Balance  | -11.8 | -16.0 | -14.8 | -13.1 |
| Current Account Balance (excluding official transfers)                   | -12.5 | -17.0 | -16.0 | -14.6 |
| Exchange rate (AMD/USD, period average)                                  | 306.0 | 363.3 | 386.4 | 363.7 |
| External Debt  | 13.5  | 34.7  | 40.0  | 42.0  |

Source: 2011 Draft Annual Budget Message

\* In order to ensure consistency with 2009-2011 data, 2009 figures do not include actual expenditures and revenues calculated according to the principle of revenue generated expenditures, as well as actual expenditures and revenues collected under the accounts considered as an extra-budgetary for the 2010 and 2011.

# **Section B. Discussion of New Policy Directions**

- **Self-Assessment of Situation**
- **Need for a New Growth Model**
- **Industrial Policy Formulation**

## B.1. Assessment of Situation

### *Development Philosophy*

Sustainable growth and development issues have remained the most urgent topics on the scientific and policy agenda of the 21<sup>st</sup> century. Pre-crisis level of global per capita GDP was at its highest point ever, nevertheless, about 2/3 of the world's population continues to live in poverty (below USD 2 per day). In developing and poor countries, continuous efforts aimed at improving welfare do not result in substantial progress. During the UN Millennium Summit in 2000, 189 countries agreed on setting eight Millennium Development Goals targeting poverty reduction. Nonetheless, monitoring results witness that high material and human poverty rates will continue to remain a serious problem in the second decade of 21<sup>st</sup> century.

On the other hand, some countries manage to record high welfare levels, long-term sustainable and continuous growth, that have brought their economic systems into conformity with the contemporary achievements and discoveries of human development. Today, the characteristics of high quality human life are specific to knowledge- and modern technology-based economies.

Overall, contemporary social science notices changes in the fundamental processes of economies which, consequently, result in changes in economic relations. Studies by some scientists identify and describe today's phenomenon of post-industrial societies' formation and development. The main characteristic of a post-industrial society is that the most important and major production factor is knowledge, while the main human activity type is mental activity.

The recent global financial and economic crisis revealed deep-hidden problems both in the global and our domestic economy. The crisis was so immense in terms of its span and depth that the world was speaking about possible a Second Great Depression. Although certain projections promised fast recovery, the political economy of development has become an object of reassessment and revision today.

Although Armenia is a very small part of the world, it feels all consequences of global developments. Moreover, small countries become much more vulnerable in the modern fast changing world. It is necessary to fully understand the global environment, as well as to assess potential challenges and ways to face them, in order to carry out development planning and policy-making.

Those countries can be successful which will be able to unify the international and national potential, will set ambitious requirements towards development and will ensure joint and persistent efforts in implementation thereof. Possession of natural resources has lost its prior importance to management and behavior efficiency. International development assistance in its turn can be very efficient if the nation is committed to implementing reforms and their own development strategies.

Thus, for any developing country, including Armenia, the guarantees of economic growth and development are ensuring restructuring or transformation from traditional non-competitive activities towards a knowledge- intensive, complex and competitive production system with high value yields. Armenia will become wealthy if it achieves economic behavior of rich countries and is able to produce the goods that are produced by rich countries.

### *Economic Policy*

In order to neutralize the constraints and threats determined by the global crisis, the Government of Armenia initiated a targeted anti-crisis policy implementation in 2009 focusing on neutralization of social risks and promotion of economic activities. In the new situation, reforms did not lose their urgency, moreover, in certain cases they became imperative for overcoming the crisis and favorable positioning in the post-crisis period.

Anti-crisis policies of the Government of Armenia aimed at not only stopping the economic crisis and reduction in employment, but also establish bases for the growth in the post-crisis period and long-term efficient development. The package of anti-crisis policies consisted of the following main elements<sup>7</sup>:

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<sup>7</sup> Described in details in AER (2009).

1. implementation of balanced macro-economic policies,
2. support to investment projects that will contribute to economic development,
3. improvement of business environment and business support,
4. implementation of large scale infrastructure construction and development projects,
5. social risk management,
6. Implementation of reforms aimed at growth and development in post-crisis period.

Anti-crisis measures in Armenia proved to be quite efficient. Financial stability was ensured in the country, along with reduction of social tensions. Nevertheless, due to the sub-optimal efficiency of the Armenian economy, economic decline was recorded in the country in 2009. The Government of Armenia managed to overcome the crisis; however, it faces the difficult task of overcoming the consequences thereof and transition to the development phase.

The crisis showed clearly and evidently the structural and behavioral problems in the economy which, continuously accumulated (sometimes in hidden form) turn into development constraints. Economic decline in 2009 in Armenia was mostly explained by the decline in one single sector – construction. This shows that the structure of the Armenian economy prior to the crisis was inefficient was not providing for sustainable growth. The economy and growth were based on several non-tradable sectors and production. On the other hand, export was mainly focused on several products. As a result, problems in separate sectors or volatilities in some markets triggered significant macroeconomic consequences and overall economic decline.

Prior to the crisis, economic policy mostly focused on macroeconomic policy and structural reforms. Those are extremely necessary; however, microeconomic regulation should also gain certain importance. Efforts on export and investment promotion, development of economic relations, in addition to development of the legal and regulatory framework, shall become more targeted. The current Government Activity Program addresses those issues by proposing revision of policy directions and program measures, however, it has become more important to better target economic policies and measures towards export expansion and ensuring competitiveness.

### ***Significance of Size***

The existing situation and implemented policies in Armenia have their reasons and justification. It is apparent that the main objective constraint is the geo-political position and relations of Armenia. Nevertheless, the size of the country and domestic market has obvious significance. Therefore, they should become the main criteria and directives of economic policy elaboration and direction thereof. I. e. one should assess those and take them into account those specifics and constraints in policy-making.

The Armenian economy and market are very small which creates serious constraints for the efficiency of economic policy and trade and economic development. In certain cases, some economic transactions or external factors may have much stronger impact on the domestic economy and market than certain economic policy tools. An example of the latter is regulation of the foreign exchange market.

Small economy (scale) in certain cases is limited to participating in international commercial transactions. I.e. potential domestic production volumes for existing potential and capacity, especially in agriculture and certain processing industries, often even do not meet the minimum quantity requirements of large foreign chains: thus, no transaction takes place.

A very small domestic market size is an objective constraint to the economic competition with regard to economic efficiency. It is worth noting that the country pursues free external trade policy without striving to become an autarky, which is logical. Therefore, part of the small domestic market belongs to imported products by restraining domestic production promotion. This is inevitable; therefore the main market for the expansion of Armenian production and companies should be external markets and not domestic markets.

On the other hand, special knowledge and capacities are necessary for the production of competitive products and export to foreign markets. Capacities and infrastructure for ensuring conformity with required standards, certification of conformity, testing, promotion of products in new markets, establishment of links and relations, marketing and

management are weak and underdeveloped which, in the end, are again predetermined with the small size of our economy.

Thus, small economies have certain specific characteristics that represent constraints to the development and growth. Therefore, economic policy objectives and principles should base on or be derived from, those specifics.

Ensuring minimum production and supply quantities or benefiting from economies of scale requires high level of cooperation in the domestic economy. Foreign markets, being infinitely large as compared to our economy, can serve as a large and sustainable source for development and growth. Production and export of diversified goods range into various and diversified markets reduces dependency of the country and potential macroeconomic impact risks.

The lack of certain capacities in the domestic economy can be complemented by external integration, foreign relations and cooperation, thus creating basis for infrastructure and institutional development.

### ***Business and Private Planning***

Economic growth and employment (and eventually, welfare) are provided for as a result of economic activities which are performed by enterprises and companies. In the market economy, those are private entities. The overwhelming majority of economic output in Armenia is currently produced by the private sector. Thus, if we speak about economic growth in Armenia, it implies growth in private companies. In countries with transition democracies, such as Armenia, where public institutional structures need strengthening and improvement of public management, there are certain distortion and corruption risks. Therefore, state involvement in businesses, unless those are in strategic sectors and products, is not considered justified.

In summary, economic growth and development in Armenia is about private companies and private planning. Therefore, economic policies should be developed such as to ensure economic growth, employment and, consequently, welfare. Notable, this is true about both existing and new companies and production.

It is known that business environment reforms are in the focus of the Government reform agenda. To that end, certain efforts were put and measure taken, some notable initiatives and achievements are visible. Regulatory framework, tax and customs policies and practices, various other formal and informal regulations, potential corruption, are substantial obstacles and constraints to the implementation of business initiatives. In some cases they represent increased transaction costs or, otherwise, entry barriers. Reforms of business environment and removal of obstacles are very urgent and important. However, do they represent the main constraints on Armenia's growth that, once removed, will ensure continuous and sustainable growth?

It is worth noting that private companies in Armenia are a relatively new phenomenon. Production capacities, as a rule, are old, insufficient and do not provide for production of competitive goods. Various institutions, systems and infrastructure that provide financial and non-financial services necessary for business and trade are also in their early development stage. R&D and technology normally drag behind the modern business requirements. Business plans and initiatives usually are traditional and inert, in some cases duplicate each other; production is usually exported to the known traditional markets, thus identification of new markets and products is limited.

Overall, it is necessary to study the following four major levels of relations that contain also the main constraints to growth:

- Company-state regulation,
- Financial and non-financial infrastructure that provides services to businesses,
- Internal production planning and organization (management capability and exporting skills),
- Relations with partners and counterparts.

Detailed study of these relations and identification of main constraints to growth shall become the major direction of economic policies.

Studies to date show that improved capacities in production organization, planning and overall company management in Armenia have a potentially decisive role in achieving growth. Business growth is constrained by lack of access to information, insufficient capacities to process and analyze information, as well as lack of cooperation. Business is

often based on old technologies and traditional behavior. There is a need for long-term planning, diversification of production and markets. These are serious constraints that have not been viewed so far as primary subject of policies.

### ***Foreign Investments***

Production of competitive goods for modern markets and, in general, development of business culture is a very difficult task. In this regard, import and transfer of expertise, knowledge and technology becomes imperative. Foreign direct investments are usually viewed as a driving force, especially taking into account their role in transfer of contemporary business culture, expertise, knowledge and innovation.

Efforts to attract foreign direct investments in Armenia has not yet brought in any substantial results despite numerous efforts of all governments. Reasons for failure are various; however, the major ones are explained by the high country and region risk ratings. At the same time, attracted foreign investments have already proven their huge positive impact on business development and modernization of economy.

From the perspective of attraction of foreign investments coordination (mutually complementing investments and business cooperation) and development of necessary infrastructure are crucial factors.

The Investment situation is determined also by inconsistent levels of benefits to the public and private sectors resulting from new initiatives and protection thereof. I. e. investors should be sure that full reward of investments necessary for new products, production or a sector in the market is possible and no direct benefits can be borne by third parties due to unfair competition, thus reducing profits.

From the perspective of investment attraction, a highly qualified and relatively cheap workforce is also very important. Armenia, until very recently, had plentiful such resources; however the situation has deteriorated during the past decade due to a number of factors, including emigration.

Standard measures to improve the business and investment climate are in the agenda of almost all countries nowadays. Although in the modern world, capital searches for a favorable place for investment, as the experience of Armenia and some other countries shows, investment attraction is not an easy task. To that end, apart from ensuring equal and reliable conditions, it is necessary to go further by offering special and extra conditions. Especially for small towns further from the capital of Armenia and poor communities, it is necessary to offer exclusive privileges and pro-business schemes.

## B.2. Need for a New Growth Model

Armenia needs to introduce a new growth model. It should be based on the diversification of economy and expansion of tradable sectors, while exports shall become the main source of economic growth. Implemented economic policy shall ensure transformation from traditional low-productivity sectors to new and competitive industries. Targets of long-term development and economic safety of Armenia, poverty reduction and continuous growth can be achieved only through gradual establishment of an industrial system compatible with those of developed countries and an increase in the country's competitiveness.

Armenian history of double-digit economic growth mostly took place due to several non-tradable sectors and remittances from abroad. Therefore, the main problems of the economy today are due to decline in non-competitive and low-productivity sectors, as well as low capacities and barriers to expansion of production and penetration to international markets. The structure of the Armenian economy prior to the crisis was inefficient; it did not provide for sustainable growth, transfer of growth into social sector and sustainable economic development. As a result, sector-specific problems and volatilities in certain markets may result in large macroeconomic consequences.

The crisis in effect put an end to the inefficient and non-sustainable development stage that lasted years, thus throwing away the raincoat that allowed not seeing the flooding rain. Today, taking into account the global developments, a new development paradigm is necessary.

A country like Armenia – small, open, poor in resources, lacking transport and communication infrastructure, whose main development resource traditionally was human capital, cannot have a more important and large source than export. Foreign markets that are infinitely large as compared to the small domestic market shall become the main source of development. Nevertheless, exports first require organization of modern production of competitive goods with efficient and high value chains.

It is apparent from successful development cases that without competitive and contemporary production organization it is not possible to achieve sustainable growth and development. However, this is not an easy task and not all countries succeed. There are several success factors, with the first priority of proper policy targeting and persistent and efficient implementation thereof with proper tools.

A number of scientists currently state that the world develops through diversification and not specialization<sup>8</sup>.

According to a cross-country study based on 2003 data (Jean Imbs, Romain Wacziarg), the following rule was identified: in parallel to poor countries becoming richer, the structure of their economy in terms of sector production and employment becomes less concentrated and more diversified. This phenomenon endures until a relatively late development stage. Only after reaching a relatively high level of development and income (approximately at the level of Ireland's per capita GDP) centralization and specialization start or, in fact, restart.

Graphically, per capita income and sector concentration (share of a sector's value added or employment in the GDP) curve is U-shaped. I. e. high specialization level is specific to high-income countries, which developing economies, in the large part of their development path, diversify.

In other words, the secret is in acquiring skills in large number of activities and gaining significant volumes and not mere concentration in already successful sector or several sectors.

A positive relationship exists between export diversification and per capita GDP. This was found also by Funke and Ruhwedel (2001) and Klinger and Lederman (2004). The latter state that the relation between the number of export items and income has a reverse U-shape. I. e. along with the income growth, the number of export items increases, and only after a certain income level – it starts to decline.

Hesse (2008) also identified that the developing countries with highly diversified exports record higher income growth rates. This is based on the arguments of relative advantages which points out the benefits from specialization regardless of product complexity or their development.

Today, several international development organizations (World Bank, UN and OECD) confirm the benefits of export diversification. This approach is justified by two benefits with respect to economic growth as a result of export diversification. First, portfolio effect, which implies that along with increase in diversification, the fluctuations in a

<sup>8</sup> Dani Rodrik, Ricardo Hausmann et al.

country's export volumes decrease which, in the end, implies reduction of GDP volatilities. The second benefit is the "dynamic effect" from export diversification. This implies that, in the long run, a tradition of producing a wider range of goods results in economic growth. According to this viewpoint, economic growth is seen as a result of adding new products to the production and exports basket (Agosian M. R. 2009).

Hausmann et al proved going even further, that the basket of goods produced by a country may have serious impact on economic growth. These authors point that economic growth is reflected not only in the magnitude of per capita GDP, but also complexity and diversity of produced and exported goods. Therefore, the general process of economic development shall move from the simple "poor-country" combination to a more complex "rich-country" group of production. This process is often called structural transformation (2005).

Hausmann (et al) states that production of new types of products is a different process from expansion in production volumes of existing goods. Production of each product requires a unique combination of resources, such as knowledge, physical assets, intermediate products, labor force training or re-qualification, infrastructure, property rights etc. Skills required for the production of one product may not be fully useful or compatible for the skills necessary for the production of another product: in all cases, there may be various specifics.

Hidalgo et al (2007) suggested network theory and developed the Product space approach which is based on the relative similarities of skills and qualifications required for the production of those products. These authors state that structural transformation towards "closer" products is preferable since they may require similar skills and capacities for production which the country has already developed for the production of the current export basket.

To explain the process of structural transformation, Hausmann and Klinger (2006) used the metaphor of "monkeys and trees". This is a new approach in explaining the details and specifics in countries' production specialization and development trends and has already achieved wide acceptance.

Thus, policies formulated on the basis of previous approaches did not provide the desired results (Hidalgo and Hausmann, 2008). It was believed previously that economic development mostly depends on several major factors, such as education, healthcare, rule of law and, overall, infrastructure (Washington consensus). The main idea is that improvement in general areas shall naturally result in increased volumes of goods production and, therefore, higher incomes.

The new approach to economic development states that countries should pursue such policies that will contribute to the expansion of the range of production and export, especially in sectors with higher added value. All possible reforms targeted towards improving productivity and economic development work in a certain context – based on the current position of the country in the products' network (Hidalgo et al, 2007). In other words, a successful structural transformation is a must, however an effective policy targeted to that transformation in a given country shall have specific characteristics. Experience proves that economic transformation and production diversification can be successful in case of targeted activities of the Government.

Today very few people would dare to underestimate the role of private initiatives and market forces. At the same time, it is known that import substitution, public planning and public ownership can bring in certain short-term success, nonetheless, result in major failures and decline eventually. Nevertheless, the need for a new role of the government in the developing economy becomes more and more acknowledged in the world.

The government, within its economic policies, shall direct and support the private initiatives of transformation, diversification and technological development, as long as the private sector is not capable of performing that in full. This understanding becomes widespread in those parts of the world where implemented reforms did not result in desired outcomes (for example in Latin America).

Diversification and modernization of the economy in developing countries is a natural process and there are a number of reasons and external effects due to which the market cannot transform on its own and ensure faster development of tradable sectors.

The private sector shall be the main bearer of the development agenda and the leader; however the government shall play the role of a strategic coordinator.

Thus, economic policy in Armenia shall be directed at transformation from traditional non-competitive sectors to new and competitive ones through diversification which can be a basis for the introduction of a growth model determined by export. It should be ensured by the implementation of a new industrial policy. Only as a result of economic development it will be possible to ensure transfer of economic growth into the social sector.

## B.3. Industrial Policy Formulation

### *Policy Bases*

The mission of the Armenia Economic Report, as the official publication of the Ministry of Economy of Armenia, is to regularly (whenever necessary) present the economic policy revision initiatives and new approaches for public discussion thereof and reaching consensus thereon. The present Section presents the general approaches to the elaboration of the industrial policy for its further finalization and development and introduction of the industrial policy strategy.

The political basis for the new industrial policy development and implementation is the existing political environment of Armenia and the targets set in the Election program of the President and Activity Program of the Government of Armenia.

The economic basis for the new industrial policy development comes from various analyses and assessments of the Armenian economy and implemented policy outcomes, studies of other countries' economic development, policies and best experience, as well as from consulting of various experts, scientists and political leaders<sup>9</sup>.

In particular, the following assumptions, beliefs and principles lay the basis for the new policy:

- It is not possible to achieve a solution to Armenia's economic problems without building a competitive economy at the global level,
- Modernization of the economy and transformation thereof towards tradable, high-yield sectors is a precondition for long-term growth and welfare,
- The long-term and sustainable source for Armenia's economic growth is export, while economic development and export expansion is possible through diversification of economy,
- Countries first develop through diversification and then through specialization,
- Economy diversification and modernization in developing countries does not take place in accordance with market forces; there are a number of reasons or externalities that do not allow the markets ensuring transformation of economy on its own and fast development of exportable sectors,
- The process of technological and innovation development necessary for development is constrained first by demand and not by supply: demand for innovation among businesses is low or does not exist at all, since new types of businesses are often viewed as not profitable enough, risky and containing additional costs,
- Macroeconomic regulation, institutional development and business environment reforms have primary importance for growth; however it is not possible to achieve sustainable economic development and stable growth without investments and enterprise development support,
- Public intervention and economic policies shall be adjusted to target enterprise development and support to private plans and eventually, diversification of the economy and development of exportable sector,
- The government should reduce market imperfections through industrial policy or restrain distribution effects (that otherwise could have risen), fill the technological gaps and in particular, support new initiatives, so that the latter are effectively implemented,
- Market distortions or imperfections (distribution effects) that constrain private initiatives appear in various sectors of the economy; therefore, industrial policy should refer to the development of any new and exportable sector,
- Industrialization of agriculture, export of agricultural products and processed food are subject to industrial policy,
- Support for the production of new exportable goods can result in inter-sectoral development effect of the economy,

<sup>9</sup> In September, 2010 the conferences on "Armenia after the crisis: challenges and opportunities" with participation of higher officials took place in Dilijan, and findings of the conference were taken into account as well.

- Import substitution policy may seem desired for the short term; however it does not have a long-term potential and therefore it should not become an objective or target for the industrial policy,
- Introduction of tariff regulation mechanisms for the protection of domestic economy is not acceptable; while implementation of commitments and agreements with WTO and other multilateral trade rules is a necessity,
- The private sector should be adequately prepared for export expansion, it needs to gain adequate experience, knowledge and skills, technologies, production capacities, resources and eventually, aspirations towards which the industrial policy tools should be targeted,
- Modernization of the economy and expansion of exportable sector is of higher priority as compared to other targets and objectives of economic policy: overcoming social and employment problems, poverty reduction is possible as a result of an efficient economic development policy.

Thus, industrial policy of Armenia should aim at diversification of the economy. It is one of the forms of the Government's policies aimed at Armenia's economic growth and overall competitiveness. In particular, those policies are:

- Macroeconomic policy,
- Business environment reforms,
- Quality infrastructure reforms strategy,
- Regulation of foreign trade and investment regimes,
- Special targeted sector strategies,
- Special programs in R&D, information, production, telecom and other infrastructure development.

Thus, industrial policy that can be called transformation or restructuring policy shall be implemented in addition to other policies directed to economic growth and development. Industrial policy shall in particular target new companies and investors that have development perspectives representing an entire state program of enterprise development, production of competitive products and expansion of sales, technological upgrading and investment expansion.

The private sector shall become the bearer and leader of Armenia's economic development, while the public sector shall support by playing the role of a strategic coordinator.

### ***Strategic Process and Mentality***

For the implementation of the industrial policy it is necessary to develop and introduce the industrial policy strategy of the Government of Armenia.

Private initiatives aimed at economic restructuring and transformation that result in diversification, technological dynamism and, as a result, increase in export, shall get state support in the framework of the industrial policy strategy. Nevertheless, taking into account that resources and capacities are limited, the strategy first of all shall address the more important issue of overcoming constraints.

The main goal of the industrial policy strategy shall be economic diversification and growth of the tradable and exportable sector, which the operational goal – increase in exports.

Achievement of the goals can be measured by the following two major indicators:

1. Increase in number and variety of productions in tradable sectors,
2. Expansion of export volumes, geography and variety.

For the achievement of the mentioned goals it is necessary:

- a) New companies directed towards export to be established,
- b) Existing companies shall be transformed into export-oriented and tradable sectors, and to ensure production and export of new products,

c) Existing export volumes and markets continuously should be expanded.

The abovementioned three tasks shall become strategic objectives to which state programs and support shall be directed. Below we present the potential targets under each strategic objective:

Objective A. Creation of new export-oriented companies:

1. Armenian businessmen in foreign countries,
2. Foreign investors and transnational companies
3. New businesses (start-ups)

Objective B. Transformation of existing companies, production and export of new goods

4. Companies in various sectors of the economy that have transformation potential

Objective C. Expansion of export markets

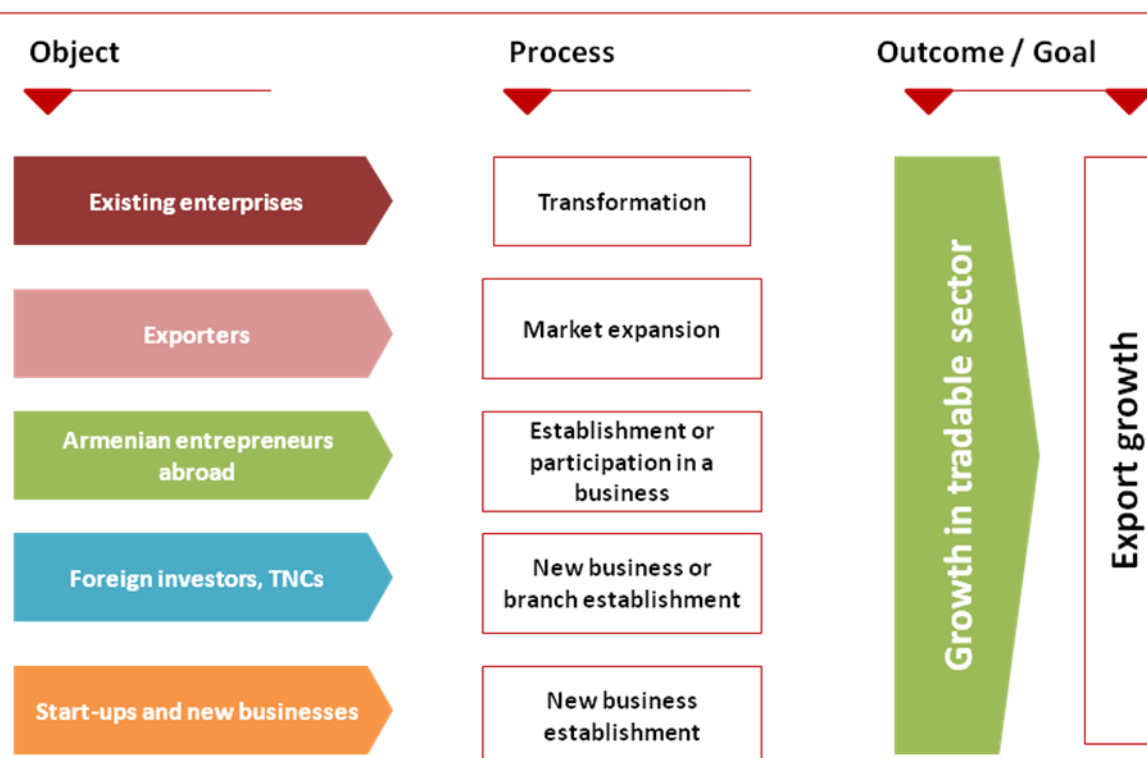
5. Exporting companies

Thus, based on the proposed economic and political fundamentals of industrial policy, the objectives were derived from strategic goals and, respectively, five target entities that the strategy shall be directed to (in that sense, they become strategy objects).

The Strategic process shall include study, identification and introduction of such tools that will trigger the desired process for each goal which will result in the achievement of strategy objectives and outcomes: expansion of tradable sector and increase in exports.

In other words, industrial (transformation or restructuring) strategy implies creation of such conditions for strategy objects that trigger the desired processes and targets. Below the visual picture of the strategic process is presented.

#### Strategic Process



It is necessary to study and identify the answers to specific questions for each of strategy objects in order to ensure the strategic process: those questions in general have the following standard structure:

- What to produce?
- Who can produce?
- How to produce and sell (technology and resources)?

- What are the obstacles?
- How to support?

Eventually, by determining the needs or requirements for each specific case, ways to overcome or solve problems and selecting the most efficient tools of state support and implementation plan thereof, we will obtain the variety of tools of the strategy or the program.

The target for the strategy shall be any type of activity or production that is competitive and can ensure long term and stable export. The strategy should not be biased or targeted towards certain sectors or industries, but should be directed towards all potentially tradable sectors of the economy. Nevertheless, there can be sectoral, regional or other criteria and constraints for specific tools.

List of strategy tools broken down per each strategy objects can be summarized in the following 5 directions:

- 1. Identification of potential and new opportunities**
- 2. Technological modernization and development**
- 3. Enterprise capacity development and support**
- 4. Investment promotion, coordination, infrastructure development**
- 5. Reduction of high risk and provision of financing mechanisms**

Thus, specific tools can be selected for each strategy objects with various effectiveness periods. Below the demo list of industrial policy strategic tools is presented per directions:

- 1. Identification of potential and new opportunities**
  - 1.1. Regular studies of foreign markets and production,
  - 1.2. Regular studies of companies' potential,
  - 1.3. Grants and incentives to promote enterprise transformation and modernization,
  - 1.4. Development of investment and business ideas and concepts.
- 2. Technological modernization and development**
  - 2.1. Regular forums and researches on new technologies,
  - 2.2. VAT and other tax holidays in case of importing new technologies,
  - 2.3. Financing of R&D,
  - 2.4. Creation of laboratories (quality testing, certification, research and development).
- 3. Enterprise capacity development and support**
  - 3.1. Education and training of workforce abroad,
  - 3.2. Organization of business forums and fairs; participation support,
  - 3.3. Advertising of Armenian brands,
  - 3.4. Incentives and grants,
  - 3.5. Targeted consulting.
- 4. Investment promotion, coordination, infrastructure development**
  - 4.1. Gyumri, Zvartnots and other free economic zones,
  - 4.2. Tax holidays,
  - 4.3. Deferral of tax and other inspections,
  - 4.4. Logistic centers.
- 5. Reduction of high risk and provision of financing mechanisms**
  - 5.1. Long-term crediting through Pan-Armenian Bank,
  - 5.2. Establishment of a venture fund,
  - 5.3. Capital contribution projects,

5.4. Public guarantees,

5.5. Public grants.

The efficiency of the industrial policy strategy in the end depends on the choice of proper and efficient tools and formulation of adequate implementation capacities.

For the selection and use of certain tools and programs of industrial policy strategy implementation action plan, it is necessary that those conform to the following principles:

- Provision of direct support and incentives only to “new” activities,
- Use of clear criteria of success and failure,
- Setting a deadline for support programs,
- Support programs should result in multiplication and adjacent effects,
- Transparency, public monitoring and awareness-raising.

The Ministry of Economy shall be responsible for the implementation of industrial policy strategy, although the main decisions shall be taken by a relevant council headed by the Prime-Minister. In certain cases, responsible entities can also be “Enterprise-Armenia” Foundation, Pan-Armenian Bank, respective structures of the Ministry of Economy, private consulting companies, international development agencies etc.

The strategy shall be implemented in strong collaboration with the private sector. Although the strategy is not limited in time, it shall be implemented on the basis of specific three-year action and financing plan. The strategy shall imply regular revision of action plans and possibility of introducing or adjusting the tools envisaged by the strategy.

At last, as a summary, efficient industrial policy implementation implies successful implementation of the following tasks:

- a) Identify those goods and service that are already well-positioned in foreign markets that can be easily produced domestically with sufficiently low cost, thus providing for higher profitability,
- b) Ensure investments in those newly-identifies sectors ensuring technological adaptation and conformity,
- c) Ensure efficient development programs for companies,
- d) Ensure efficient structures and capacities for strategy implementation,
- e) Ensure implementation and coordination with other programs and reforms of economic policy.

# **Annexes**

**Annex 1. Main Findings of Export Monitoring Survey**

**Annex 2. Export Trust Index (ETI)**

**Annex 3. Evaluation of Armenian's Export Sophistication**

**Annex 4. Main Programs of the Ministry of Economy of Armenia**

## Annex 1. Main Findings of Export Monitoring Survey

The Export Monitoring Survey aimed at identifying the economic development trends, namely the development of export oriented enterprises or enterprises with export potential. The Survey is intended to be conducted regularly in future, which will allow for monitoring the changes in the situation and use the collected information for the assessment of policy impact and continuous improvement.

The Survey was conducted in July-August 2010 through interviews with enterprises and companies based on a questionnaire which was developed beforehand. 79 companies that produce 40 different goods in 9 sectors of the economy participated in the Survey. Collected data refers to the first half of 2010. The sampling plan was developed based on the shares of sectors and products in export and production statistics. The initial list of companies was compiled randomly which was later on adjusted for their respective shares in the sector and data for the level of activity. The Survey also allowed for calculating the Export Trust Index.

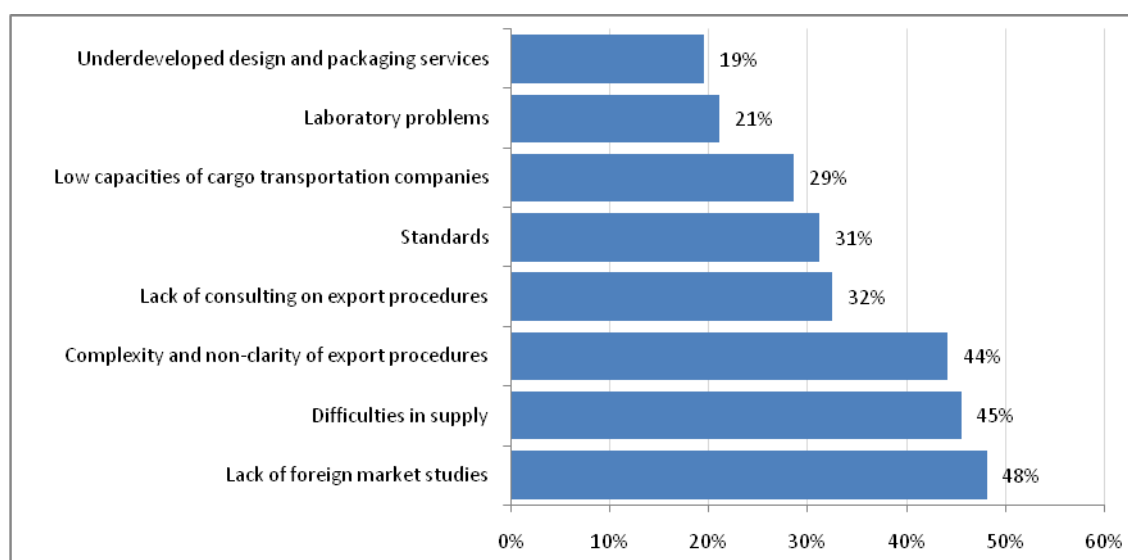
### Main Findings

According to data collected from the companies through the Survey the main export markets for Armenia are EU countries, Russia and Georgia. The overwhelming majority of exporting companies do their trading through direct sales.

During the first half of 2010, 51% of interviewed companies recorded increases in production and export volumes. Those increases were largely contributed by the additional investments in the human and production capital, as well as marketing studies of domestic and external markets. Despite the increases in production and export volumes, the number of exported products did not increase; neither did the number of countries to which the goods were exported.

Although a majority of companies consider their products competitive in both domestic and external markets, more than half of them mentioned they experienced certain problems and faced obstacles to expanding their production and exports that affect the entry into foreign markets negatively. The problems and obstacles were named as follows: lack of comprehensive market studies, difficulties in supplies, complicated export procedures and the least obstacle being considered the lack or absence of design and packaging companies to help promote products in new markets.

**Figure 1.1: Obstacles to expansion of production and exports, % in total interviewed companies, multiple options allowed**



Source: Export Monitoring Survey

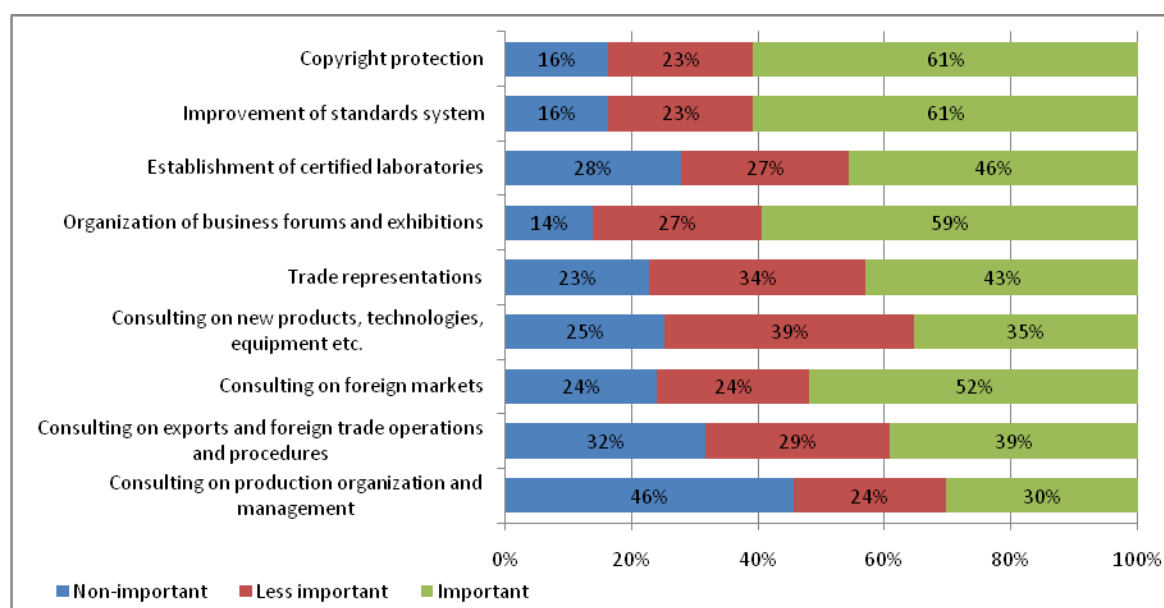
Despite various reforms aiming at improving the business environment in Armenia, 57% of interviewed companies mentioned that the conditions of entering into business became more complicated as compared to the previous year and only 13% mentioned that they became easier.

All interviewed companies considered it important and much desired that the government implements specific actions which would contribute to the exports of their products.

From that perspective, measures of intellectual property protection and improvement in standards system were considered very important and were mentioned by 61% of respondents.

At the same time, 52% of respondents would prefer to receive consulting services or analytical materials on external markets from the government. Relatively less desired were consulting services on production organization and management.

**Figure 1.2: Priorities in government initiatives to support exports by respondent companies**



Source: Export Monitoring Survey

Expectations towards future trends of interviewed companies were mostly positive and optimistic. Only 18% of them believe that export volumes in 2011 will not increase from 2010 level, while 68% believe that export volume will grow. Certain reservations were expressed regarding export expectations by the end of 2010. Only 51% of companies believe that positive changes will take place in 2010 as compared to 2009, while 36% believe that those changes will not be positive.

Projections of those companies that had or planned increase in investments were especially optimistic. 61% of such companies expected increase in 2010 exports, while 75% - in 2011 exports. In particular, 72% of such companies planned exports to new countries, while 64% expected increase in export volumes to old markets.

A majority of companies used various methods and tools to expand exports of their products. The majority of them – more than 70% - participated in various business forums in other countries, send their representatives to foreign markets, disseminated advertising and information materials, and took part in international fairs during the last 2-3 years. Nonetheless, many companies said that due to financial constraints, they experienced difficulties or could not afford participating or implementing certain measures that would support export expansion.

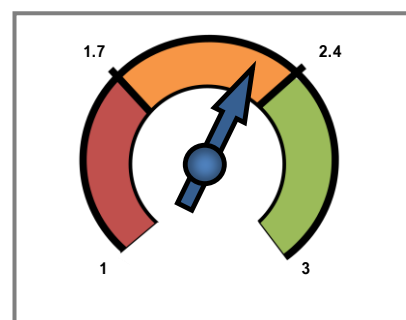
## Annex 2. Export Trust Index (ETI)

Data collected through the Export Monitoring Survey allow for calculating the index reflecting the perception of business environment among producers and exporters for the first time in Armenia. This index is called Export Trust Index (ETI)<sup>10</sup>. A similar Index – Trade Confidence Index - is calculated by Export Development Canada and HSBC bank.

If The Export Monitoring Survey is conducted regularly ETI can be calculated for different periods, thus allowing monitoring the trends in expectations of exporters and producers over a period of years.

ETI values fall within the range of 1 to 3, where 1 implies absolute distrust, while 3 – absolute trust.

According to the 2010 Survey data, ETI equaled 2.27 in Armenia which is considered a medium positive value and shows that overall exporters believe the situation is positive and have optimistic expectations.



ETI consists of 6 components each of which include the actual and expected changes from the previous year.

| ETI components   | Index       | Index (%)   |
|--|-------------|-------------|
| Export contracts   | 2.29        | 76.3        |
| New markets  | 2.27        | 75.8        |
| Investments  | 2.31        | 76.9        |
| Staff  | 2.15        | 71.8        |
| Expenses on promotion of goods in external markets       | 2.32        | 77.5        |
| Obstacles  | 2.26        | 75.4        |
| Standards  | 2.32        | 77.2        |
| Laboratory   | 2.48        | 82.7        |
| Complicated or unclear export procedures                 | 2.06        | 68.8        |
| Low capacities or transport companies                    | 2.37        | 78.9        |
| Lack of advice on export procedures                      | 2.29        | 76.4        |
| Underdeveloped design and packaging companies in Armenia | 2.54        | 84.8        |
| Lack or absences of market studies for external markets  | 1.99        | 66.2        |
| Supply problems  | 2.04        | 67.9        |
| <b>Total ETI</b>   | <b>2.27</b> | <b>75.6</b> |

All question-components (except for Obstacles component) can be answered “increased/yes”, “did not change/don’t know” or “decreased/no” which were assigned 3, 2 and 1 scores respectively. Since a positive response to Obstacles means presence of obstacles, option “yes” is assigned 1, while option “no” – 3. Each component is calculated through weighted average formula:  $TTI = x1/x*1 + x2/x*2 + x3/x*3$ ,

where  $x1$ - the number of answers “decreased” (“no”),

$x2$  - the number of answers “did not change” (“do not know”),

$x3$  - the number of answers “increased” (“yes”),

$x$  - total number of answers.

<sup>10</sup> Export Trust Index is calculated based on the methodology developed by the Economic Development and Research Center (EDRC) using data collected through Export Monitoring Survey.

### Annex 3. Evaluation of Armenian's Export Sophistication

Various studies examined the relations between export diversification and particular economic outcomes. Research results also showed that as incomes increase, economies first become less specialized and more diversified and then, at high income levels, they tend to specialize (see Section 2). Hausmann and his colleagues went a step further and showed that the mix of goods that a country produces may have important implications for economic growth. The authors pointed that economic growth is reflected not only through per capita income levels of a country but also through the sophistication of products that are produced and exported. Consequently, the general process of economic development of developing countries involves moving from production of simple "poor-country goods" to more complex "rich-country" goods. This process is often referred to as Structural Transformation (Hausmann et.al 2005).

Applying the methodology suggested by Hausmann, Hwang and Rodrik (2005) we evaluated the level Armenia's export sophistication and the (future) pattern of production specialization and development. This will allow assessing which share of Armenia's export has high sophistication level and which does not.

In order to measure the level of sophistication of a country's export basket (EXPY), first, for each product the weighted average of the real per capita incomes of the countries exporting a certain product with comparative advantage is computed. This index is called PRODY and is calculated using the following equation.

$$PRODY_{i,t} = \sum_c \left[ \frac{\left( \frac{xval_{c,i,t}}{\sum_i xval_{c,i,t}} \right)}{\sum_c \left( \frac{xval_{c,i,t}}{\sum_i xval_{c,i,t}} \right)} xGDPpercapita_{c,t} \right]$$

Where the numerator comprises the share of product *i* in exports of country *c* in period *t*, the denominator represents the sum of product *i* shares in exports of each country *c*, GDP per capita *c,t* is per capita GDP of country *c* based on purchasing power parity (PPP) in period.

In contrast to PRODY, EXPY is a country level measure of the level of sophistication of a country's export basket. Countries with a high level of EXPY have a more sophisticated export basket (consisting of more sophisticated products) in comparison to countries with a lower level of EXPY.

To compute the degree of export structural sophistication of a country, EXPY<sub>c,t</sub>, PRODY<sub>i,t</sub> of each export good is multiplied with its share in export structure of country *c*:

$$EXPY_{c,t} = \sum_c \left( \frac{xval_{c,i,t}}{\sum_i xval_{c,i,t}} xPRODY_{i,t} \right)$$

Using the above described methodology the level of Armenia's export sophistication was evaluated for the period of 1999-2008, incorporating 132 countries and data for 1031 products. According to the results, the sophistication level of Armenia's exports has decreased during the previous decade. Although the share of the most sophisticated product group was already small in 1999, nevertheless, products with a very high PRODY level that did exist in Armenia's exports disappeared in 2006. Also the share of the products with a high level of PRODY has decreased compared to 1999. Instead, the share of products with a low and very low level of PRODY increased significantly (see Table 3.1).

**Table 3.1 Share of Armenia's Exports by PRODY Classification**

| PRODY Level           | 1999       | 2003       | 2006       | 2008       |
|-----------------------|------------|------------|------------|------------|
| Very High (top 20%)   | 0.6%       | 0.4%       | 0.0%       | 0.0%       |
| High                  | 3.8%       | 3.0%       | 4.4%       | 0.7%       |
| Average               | 39.3%      | 34.4%      | 36.8%      | 20.1%      |
| Low                   | 41.2%      | 45.4%      | 44.1%      | 57.8%      |
| Very Low (lowest 20%) | 15.2%      | 16.8%      | 14.7%      | 21.4%      |
| <b>Total</b>          | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |

Source: EDRC 2010 Calculations, based on the UN-COMTRADE database

Table 3.2 provides an illustration of the EXPY trend of Armenia during the last decade. In general, the sophistication of Armenia's export structure in 2008 compared with 1999 increased by 66.5 %. In the same period the real GDP and the GDP per capita of Armenia increased by 259% and 269% respectively. Taking into account the large GDP growth, we

can conclude that the influence of more sophisticated exports to the GDP growth in this period has been rather moderate.

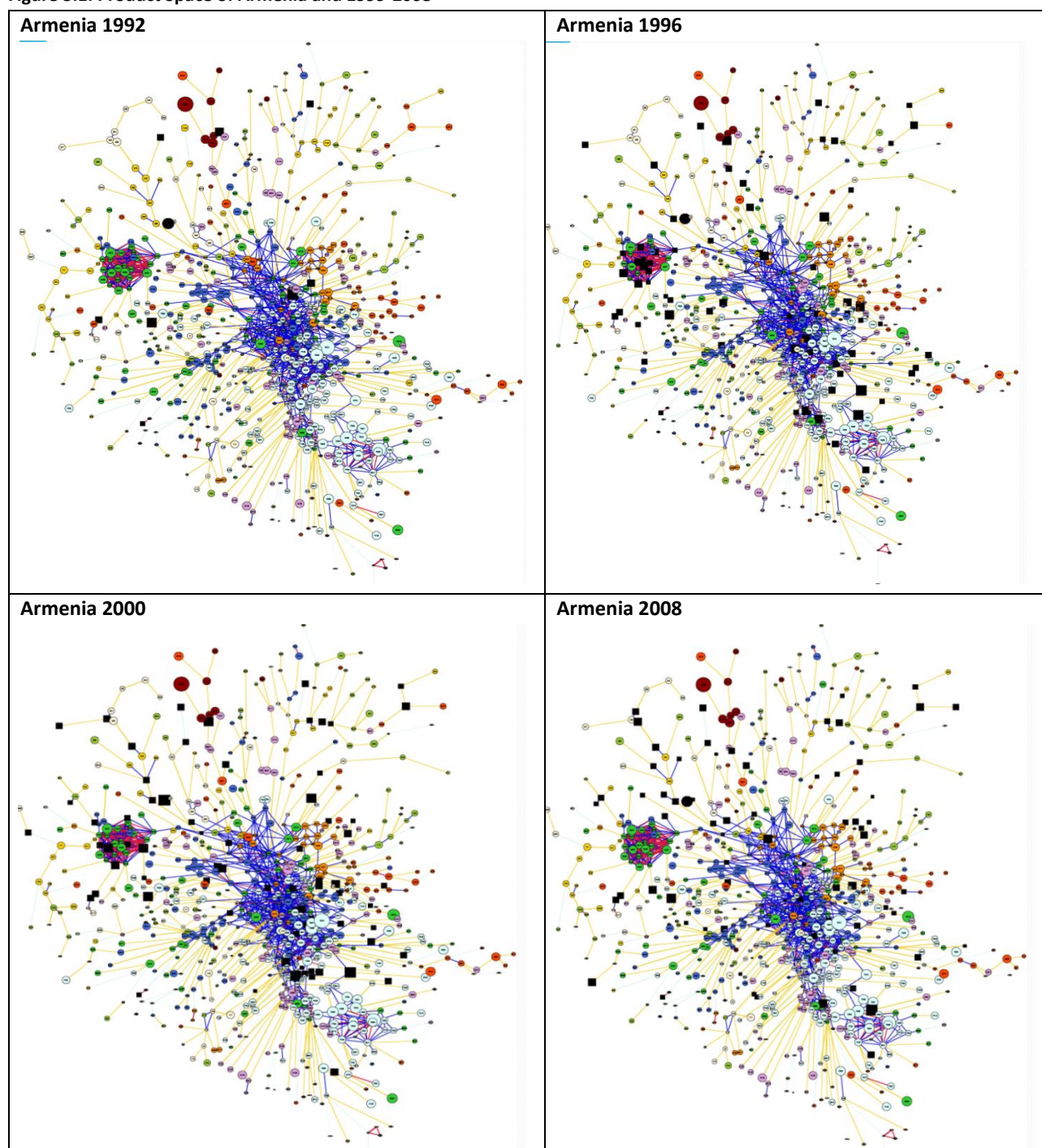
**Table 3.2 EXPY Developments of Armenia**

|      | 1999   | 2003    | 2006    | 2008    | EXPY changes<br>1999 – 2008 (%) |
|------|--------|---------|---------|---------|---------------------------------|
| EXPY | 9249.4 | 10733.0 | 12413.4 | 13917.2 | 66.5 %                          |

Source: EDRC 2010 Calculations, based on the UN-COMTRADE database

Based on these results, one can state that obviously Armenia needs to restructure its economy. Transformation however depends on the ease with which companies in Armenia can move their production towards products with higher sophistication, a process which is often referred to as the process of self-discovery. For evaluation the structural transformation of Armenia, the distance between the produced products in Armenia was evaluated.

**Figure 3.1: Product Space of Armenia and 1999-2008**



Source: Ricardo Hausmann (2010)

The distance between products reflects similarities of the capabilities needed for producing two products which is determined by proximity between a pair of goods. If the process of production requires very similar inputs (resources and skills), the products are "closer" to each other; if, by contrast, capabilities differ cardinally, they are 'farther' apart.

As we study Armenia's Product Space for 1992-2008 (see Figure 3.1) which illustrates the distance between various products, we observe that the products in which Armenia had comparative advantages (highlighted using black squares) between 1992-1996 started moving away from the center and by 2008 they are already scattered throughout the periphery of the product space, or in other words in the less dense part of the product forest, which implies that there is no easy way for Armenian companies to redeploy their existing capabilities into production of new, more sophisticated products.

If we discuss structural transformation and growth from Armenia's current position in the product space we again need to take into consideration that the probability to develop comparative advantage for a product in the future depends on the ease with which existing capabilities in Armenia can be adjusted to capabilities needed of producing the new product. In line with this, Hausmann developed a measure called "density" which shows how densely the respective product is surrounded by the country's current exports. Density captures the relative proximity of the given product (without comparative advantage) to the goods with comparative advantage in the overall export structure.

Companies find it easier and are therefore more likely to launch new products if the distance indicator is low or, in other words, the density is high. Density values can range from 0 to 1, with the highest margin corresponding to the closest products and hence pointing to a larger probability that respective products will be exported by the country in the future. Table 3.3 presents the 10 product groups with the highest density in Armenia's export basket. The Table also provides the PRODY and EXPY differentials (Potential) in 2008, which points towards the potential of these commodity groups to generate an income enhancing export diversification (potential to impact the GDP).

**Table 3.3: Product Groups with the Highest Density in Armenia's Export Structure in 2008**

| Classification Code | Product groups  | Density | Potential |
|---------------------|---|---------|-----------|
| 11                  | Beverages   | 0.1259  | 191.72    |
| 97                  | Gold, non-monetary  | 0.1251  | -5394.84  |
| 84                  | Articles of apparel and clothing accessories                                    | 0.1243  | -1588.77  |
| 12                  | Tobacco and tobacco manufactures  | 0.1236  | -1015.02  |
| 06                  | Sugars, sugar preparations and honey  | 0.1202  | -1619.18  |
| 05                  | Vegetables and fruit  | 0.1197  | -498.45   |
| 03                  | Fish, crustaceans, mollusks and aquatic invertebrates, and preparations thereof | 0.1175  | 3524.58   |
| 29                  | Crude animal and vegetable materials, n.e.s.                                    | 0.1163  | -3353.17  |
| 09                  | Miscellaneous edible products and preparations                                  | 0.1151  | 813.63    |
| 65                  | Textile yarn, fabrics, made-up articles, n.e.s.,                                | 0.1149  | 1121.80   |

Source: EDRC 2010 Calculations

As the table illustrates, the product group Beverages have the highest densities in Armenia's export structure. In other words, it will be relatively easy for Armenia companies to start producing other goods in this group (there are "unexploited" goods in this group, such as balsam, liqueur, etc). The potential of these products, however, to increase the level of income of Armenia's export package is not high.

## Annex 4. Main Programs of the Ministry of Economy of Armenia

The present Annex summarizes in brief the main programs implemented by the Ministry of Economy as of October 2010 which started either in 2010 or earlier.

1. **Armenia – EU Deep and Comprehensive Free Trade Agreement**
2. **National Quality Infrastructure reform program**
3. **Creation of Free economic zone at Zvartnots airport**
4. **Tatev Revival Project**
5. **Jermuk Development project**
6. **Gyumri Techno-City reconstruction project**
7. **Transformation of Yerevan Physics Institute into a National scientific laboratory**
8. **Armenia Nuclear medicine center project**
9. **Computer for All project**
10. **Educational labs**
11. **National Broadband Telecom Infrastructure Project**
12. **Public-Private Partnerships (PPP)**
13. **Inspectorate reforms**
14. **Computable General Equilibrium Model (CGE)**
15. **North-South Road Corridor**
16. **Municipal Solid Waste Management System Improvement project**

### **Armenia-EU Deep and Comprehensive Free Trade Agreement (DCFTA)**

In the constantly globalizing world, Free Trade Agreements are one of the widely used economic tools. Those are bilateral or multilateral negotiated agreements on establishing preferential trade relations.

In that regard, signing the Deep and Comprehensive Free Trade Agreement (DCFTA) between Armenia and the EU is of high importance. The Ministry of Economy of Armenia, acting as the coordinator of activities under the Partnership and Cooperation Agreement and Armenia-EU European Neighborhood Program, as well as programs under the European Neighborhood and Cooperation tool, initiated the implementation of tasks towards the Armenia-EU DCFTA signing.

Having the DCFTA signed, Armenian goods will have free entrance to the EU market, resulting in the increases in foreign trade and investments, thus contributing to the sustainable economic development of the country. That will create a real basis for the export expansion, by simultaneously improving the business procedures and consumer rights' protection.

DCFTA negotiations with the EU imply profound and persistent institutional reforms in a number of areas, such as non-tariff regulation procedures, standardization and certification systems, accreditation, copyright, protection of intellectual rights, trade facilitation, competition, public procurement, phyto-sanitary systems etc.

First steps towards establishing a free trade regime between Armenia and the EU started in 2006 in accordance with the European Neighborhood Policy Action Plan. In 2008, the European Commission took a decision on possibility of signing an agreement with Armenia, Georgia, Moldova and the Ukraine. In 2009, a fact-finding mission of the European Commission visited Armenia and prepared a Country Report outlining the potential preconditions for the Deep and Comprehensive Free Trade Agreement negotiations.

In 2010, important measures were taken towards initiating the negotiations process: the structure and regulations of the body in charge for ensuring the negotiating process was approved, an inter-agency commission was established to ensure the Armenia-EU Agreement negotiations with the Minister of Economy appointed as its coordinator. The Deputy Minister of Economy is appointed as principal negotiator for DCFTA negotiations, while the Head of Department for Trade and Quality Infrastructure is appointed as the Technical Coordinator. The above mentioned inter-agency commission has established working groups that have developed respective sector development draft strategies.

### ***National Quality Infrastructure Reforms***

In the context of initiating the possible DCFTA negotiations Technical Barriers to Trade and Sanitary and Phyto-sanitary norms were identified as the issues demanding urgent improvement. To that end, the Ministry of Economy initiated the implementation of the National Quality Infrastructure Reform project which aims at approximation of the national quality systems to the European and international standards.

A 10-year strategy on reforming the Quality Infrastructure was developed aiming at reducing the administrative burden on economic agents by current technical regulations, obsolete standards and mandatory certification requirements. At the same time, it intended to increase the level of consumer rights' protection as a result of reforms through introduction of successful international experience and approximation of the Armenian legislation on goods' safety and consumer protection to the EU legislation. Reforms will be implemented in 5 main directions; metrology, standardization, conformity assessment, technical regulation, market surveillance.

In order to increase efficiency of the strategy it is widely discussed with target audiences: private sector and civil society institutions, local and international experts. Findings of these open discussions were summarized and the Strategy was submitted to the approval of the Government of Armenia.

### ***Creation of a Free Economic Zone at Zvartnots International Airport***

The Government of Armenia, with the objective of sustainable economic development, introduction of new technologies into Armenia, proportional regional development and creation of new jobs, specifically emphasizes the policy of creating Free Economic Zones (FEZ). Along with the policy formulation, the Ministry of Economy carries out certain projects, among which is the program of creating a Free Economic Zone at Zvartnots International Airport.

The project started in 2008; the FEZ aims at ensuring access to new and efficient markets, increase in export volumes, creation of new jobs, and attraction of foreign investments, introduction of new technologies, and worldwide recognition of Armenian brands and development of business culture.

According to the project, the FEZ will be granted tax and customs privileges. It is intended to use "one stop handling" principle for all procedures: registration of an organization, import-export, crediting, report submission, tax inspections.

The FEZ will have a logistics center that will provide sorting, packing, freezing and informational-consulting services, as well as will include a certification laboratory conforming to European standards and a network of collection points for agricultural products that will work with individual farmers by providing storage services. Regional collection points will be established around the country.

It is projected that the export volumes of agricultural goods will increase by 20% as a result of the project implementation which implies that the incomes of agricultural producers/farmers will increase, as well.

It is planned that the Law on Free Economic Zones will be soon adopted by the National Assembly. On the other hand, negotiations with the immediate organizer of the FEZ - Corporation America SA – will be completed and an agreement will be signed.

Under this project, negotiations continue with the Armenian Association of Producers of Jewelry and Diamond to establish diamond and jewelry exchange/auction in the premises of Zvartnots Airport.

### ***Tatev Revival Project***

In the tourism sector, the public policy of the Government is developed and implemented by the Ministry of Economy led by the goals stated in the Tourism Development concept: increase the share of tourism in the growth of national income, support proportional development of Armenian regions, increase of the welfare and poverty reduction.

The Ministry of Economy of Armenia, together with the National Competitiveness Foundation, initiated implementation of the Southern Axis project which intends to revive the Tatev Monastery and surrounding areas.

The historical and cultural monument of Tatev Monastery, with its past educational and religious traditions, being surrounded by beautiful nature and based on the authentic cultural values of Armenian villages, is a destination that promises touristic success.

Tatev Revival project consists of the following components: restoring the monastery, developing of new touristic products and tourism infrastructure, development of ecological tourism and culinary tourism in nearby villages, building a hotel and aerial tramway. One of the main objectives of the project is to revitalize the educational and religious traditions of the Monastery by creating necessary conditions for organization of seminars, trainings, conferences and scientific activities in Tatev and surroundings.

In October 2010, an aerial tramway was commissioned between Halidzor and Tatev villages, which is the longest reversible aerial tramway in the world (5.7 km). Due to the tramway, the monastery can be accessible also in winter months which will contribute to the economic development of the region and allow prolonging the tourism season in the country.

### ***Jermuk Development Project***

In September 2008, development of Jermuk was set as priority by the Government Decree and Jermuk was declared to become a tourism center. The Government decree sets out a number of priorities including improvement of infrastructure, transport and communications, as well as integration of Jermuk into the European health resort network.

By a Government Decree from 2009, funding was allocated from the Government budget to develop engineering solutions, preparation of the topographical map and model of Jermuk resulting from the development strategy. In order to improve and finalize the Master plan of Jermuk, a contract is signed between the Ministry of Economy, Municipality of Jermuk and TigerDEV Swiss Company.

In September 2010, a 3D model of Jermuk was presented together with a model in the scale of 1:2000. Upon the implementation and completion of Jermuk Development project, Armenia will have not only a tourism center conforming with the international standards in the south of the country, but also developed infrastructure, which is vital for the development of the region and economic life.

### ***Gyumri Techno-City Project***

In the process of establishing a developed and competitive economy in Armenia, viewing the regional economic development reduction of regional disparities as main objectives, the Ministry of Economy developed and submitted to the approval of the Government the Project on Re-organizing Gyumri into a Techno-City, which was approved in 2008.

The choice of Gyumri is not a mere coincidence. It is the second largest city of Armenia and holds a unique and rich cultural and historic heritage. Taking into account rich traditions in education and industry in this city, its beneficial location (operating airport, junction of inter-state roads), as well as presence of unoccupied industrial and commercial areas, the Ministry of Economy decided to start the proportional development projects from Gyumri by transforming it into a center with modern knowledge-based and innovative infrastructure, where high-tech enterprises, major educational institutions and R&D entities will be presented.

The Ministry of Economy announced a tender, as a result of which a team of international and local experts have drafted the Strategic Road Map, Business plan, implementation timetable, as well as further development steps for Gyumri Techno-City.

It is planned that an educational and innovation center will be established on the basis of existing scientific and universities, along with a business center in the premises of the Kumayri historic-cultural preserve and a free economic zone at Shirak Airport. Combination thereof will allow for creating such a material and intellectual environment that will unify all links starting from education to production.

Gyumri Economic Development Foundation was established to carry out all activities for the creation of Techno-City. Architectural outline and perspective development vision for Gyumri Techno-City is prepared.

In order to establish R&D and educational labs within Techno-City agreements were reached with such well-known companies as Microsoft, National Instruments, SUN Microsystems.

Equipment for the establishment of SUN technological lab is purchased and installed in Gyumri.

Innovation and modern technology support project is implemented with National Instruments: it will fund two venture projects of start-ups with the Government's participation in engineering and/or IT sector the two business projects that will be selected through a competition.

In order to prepare highly qualified experts in industrial design and 3D modeling the Armenian Association of 3D modelers organized trainings on 3D modeling in jewelry. As a result, there are several dozens of specialists in modern computer modeling techniques in Gyumri.

The Ministry is engaged in the negotiations with the European Institute of Design of Rome to establish a joint education laboratory in fashion, jewelry and design.

#### ***Creation of a National Scientific Laboratory on the Basis of Yerevan Physics Institute***

According to the strategy of the Ministry of Economy, development of infrastructure for a knowledge-based economy is an important prerequisite for overall productivity growth and economic development. To that end, the Ministry embarked on a program of revitalizing the Yerevan Physics Institute into a National Scientific laboratory.

Yerevan Physics Institute after A. I. Alikhanyan, which operates within the structure of the Ministry of Economy, is one of the largest scientific centers in the country with its international recognition, scientific potential, as well as scale and quality of research activities. However, in order to remain up-to-date with global developments, the Institute needs certain improvements and upgrading. It is necessary to study the potential of the Institute, identify the ways that the Institute can use when integrating into the international scientific value chain.

In accordance with the Prime-Minister Decree from May 20, 2009, an international expert commission was created consisting of 10 worldwide renowned physicists (from Russia, Germany, USA, UK and France). In June, the commission carried out the scientific expertise of the Institute. As a result, a report on the perspective development directions for the Yerevan Physics Institute was submitted to the Ministry.

Based on the studies and analyses carried out, the Ministry of Economy initiated a restructuring process in the Institute. In 2010, the Institute was renamed by a Government Decree into National Scientific Laboratory after A. I. Alikhanyan.

Currently, an organizational chart and charter of the National laboratory are being drafted, together with its management bodies being formed.

As a result of those steps, the Institute will become a center that will link industry, education system and fundamental science. At the same time, it can serve as a link between Armenia and international scientific society, thus allowing Armenian scientists participating in progressive international projects.

#### ***Armenia Nuclear Medicine Project***

One of the overarching objectives according to the strategy of the Ministry is increasing the share of knowledge-intensive products, technologies and services in the economy.

In the modern world, diagnoses with radioactive nuclides becomes more and more popular, in some cases they have become irreplaceable. In order to support and establish the local production of radioactive nuclides that are widely used in Armenian medical centers (that can also target meeting both local and external demand in future), the

Ministry of Economy drafted and submitted to the Government the program on supporting the development oncology and nuclear medicine subsectors through creation of a nuclear isotope production complex in the premises of Yerevan Physics Institute after A. I. Alikhanyan.

The program was approved by the Government of Armenia and measures to create a nuclear medicine center in Armenia have already started. Currently, coordination of those activities is delegated to the National Competitiveness Foundation. Application of this technology will allow generating various radioactive nuclides, including with short life duration, be capable of applying modern methods of diagnosis and treatment, and radically improve the medical services. Armenia, then, can become a country exporting radioactive nuclides for medical purposes.

In 2009, a Memorandum of Understanding was signed in Brussels between the Ministry of Economy and IBA S.A., as well as necessary information was compiled for the improvement and finalization of the business plan for the purchase of cyclotron to produce radioactive nuclides. Agreement was reached with the Government of Belgium of provision of funding for that purpose.

Comparative calculations for cyclotrons were conducted by representatives of IBA S.A. and Advanced Cyclotron Systems (ACS, Canada) jointly with the Nuclear Medicine project working group members.

6 possible project scenarios of the business plan were calculated by the Manager of the Nuclear Medicine project. The package containing all 6 scenarios was submitted to the international counterparts of the project and the working group in order to receive professional feedback and opinions on all 6 scenarios.

### ***Computer For All Project***

The Ministry of Economy has stated the need for the creation of an IT society in its three-year strategy as a warrant for the country's development. To that end, a number of projects are being implemented, one which is the Computer For All launched in 2009.

The objective of this project is to expand computer penetration of the Armenian population by offering up-to-date PCs and licensed software at affordable prices. It also strives to address the problems related to the intellectual property rights, i.e. decrease the software piracy rates in Armenia. At the same time, it supports the increase of Internet penetration that will contribute to the development of online services.

Starting September 2009 in Yerevan, and subsequently, starting November, in Gyumri and Vanadzor, altogether 7 shops were included in the pilot phase of this project aiming at identifying potential problems that may arise during the large project, as well as assist in its final design. PC models were selected based on the findings of a survey conducted among the population by the Enterprise Incubator Foundation and Hewlett Packard. In order to ensure information on the project, a project website ([www.computerforall.am](http://www.computerforall.am)) was launched, where the list of eligible PCs, as well as terms and conditions of purchase and payment are provided. In the pilot phase, 4000 PCs were sold instead of initially planned 500.

The main project will start in end-2010. The staff of the Ministry of Economy has already adjusted the target groups. According to the developed social packages, school teachers and university lecturers can purchase computers with various teaching software at much softer terms of crediting. At the same time, new shops will join the project together with increasing the regions of Armenia joining the project.

### ***Training Labs***

In order to create and develop an electronic society and become IT and high-tech country, the focal importance is given to the technical education compatible with international standards, as well as development of the communication technology infrastructure. In this regard, training centers and innovation laboratories in information and communication technologies become crucial elements.

To that end, the Ministry initiated measures to introduce the experience and knowledge of main players in international high-tech sector in Armenia.

In particular, Armenian-Indian Center of Excellence for trainings on ICT was established, together with an educational and research laboratory which was created jointly by Microsoft Innovative Center and National Instruments.

Establishment of the **Indian-Armenian Center of Excellence** was discussed and agreed between the Governments of India and Armenia and set forth in the respective Memorandum of Understanding signed on June 26, 2009. In December 2009, an Indian delegation visited Armenia to discuss the details of the project. On December 21, 2009, Memorandum of Understanding was signed between the Yerevan State University and the Ministry of Economy on allocating 300 sq. m to the Center and cooperation within the project framework.

A design company is contracted to prepare the design of the Center premises in order to subsequently refurbish it. The final design will be ready by the end of 2010 in order to tender out the refurbishment works.

Training materials will be provided by the Indian counterpart. Delivery and installation of computers and network will take place after the refurbishment of the Center premises.

Lecturers of the Center passed 6-months' trainings in India to prepare them to the new program. The first phase of trainings started in February, 2010 with the participation of 3 Armenian experts, 5 more experts were selected for the second phase which will take place from August, 2010 to February, 2011.

For the establishment of the **Microsoft Innovation Center**, a Memorandum of Understanding was signed on December 28, 2009 with Yerevan State Engineering University to provide 600 sq. m in Building # 10 to the Innovation Center. Design of the Center and cost estimates are ready, website is developed ([www.micarmenia.am](http://www.micarmenia.am)). Competition to select the Director of the Center is finalized.

Although the premises of the Center are not yet ready, it operates in premises of the Enterprise Incubator Fund. The Innovative grant project is already implemented, together with Armenia Imagination Cup, Microsoft Innovation Day 2010 was organized, and Electronic Medicine Concept and technological solutions thereof were developed. Furthermore, various training on Microsoft software was held in Yerevan and other cities of the country.

Negotiations were held with the Director Armenian branch of National Instruments to establish engineering education and research laboratory which ended up with agreement on the implementation of the project. National Instruments signed a contract with "Economy and Values" company to develop a business plan which will allow implementing the project.

### ***National Broadband Telecommunication Infrastructure Project***

In the process of Armenia transforming into a regional and international center of developed ICT sector, the Ministry of Economy set its target to establish a developed electronic society. Arising from that need, the Ministry initiated the development of an E-society Concept and implementation of measures to support that end.

To that end, central importance is given to the creation of Next generation broadband infrastructure of 100 Mb/s in all the territory of Armenia, including rural areas. The Broadband backbone is aimed at increasing the information safety of Armenia and creating preconditions to integrate systems, software and data centers of public and local government bodies. I.e., any company currently operating in Armenia will be able to organize the same activities as it would be able when being located in Yerevan: there will be need no longer to come to cities for business registration, tax report submission or business management issues.

For the exploration of possibilities to establish a national broadband backbone and a virtual private network for the Government (Intranet), the Ministry of Economy has selected the German Detecon International GmbH consulting company, which has already submitted a report on technical specifications of the national broadband backbone and a virtual private network for the Government, recommendations of relevant legal and regulatory framework, potential options for public-private partnership in building, operation and ownership of networks.

The Broadband Telecommunication Network Concept developed by the Ministry of Economy is currently being discussed with various stakeholders in order to agree on certain strategic directions of the project implementation.

### ***Public-Private Partnerships (PPP)***

One of the preconditions for the country's economic development and growth is infrastructure development for which additional resources are often attracted through public-private partnerships (PPP).

In order to ensure wider application of PPP models in the Armenian economy, the Ministry of Economy has developed the PPP Development Concept which was approved by the Government of Armenia in January 2009. A draft Law on PPP is prepared and is being discussed currently.

Within the framework of the EU SIGMA project, experts were invited to assist in the development of legislation, establishment of a unit and capacity development. Several international organizations (World Bank, EBRD, ADB etc.) have expressed their interest to assist in the establishment and development of the PPP system.

Parallel to the activities in introducing PPP system and development thereof, a number of PPP projects are being implemented, such as creation of a Free Economic Zone/Logistic Center at Zvartnots Airport, Improvement of Municipal Solid Waste Management project, Gyumri Techno-City, Jermuk Development projects etc.

### ***Inspectorate Reforms***

According to the vision stated in the Ministry of Economy Strategy, improvement in the country's business environment is an important pre-condition for economic development.

Business promotion and foreign direct investment attraction policy is targeted towards creation of a favorable business environment, further liberalization of the economy, maximum simplification of administrative procedures, promotion of free competition and protection of consumer rights.

In this regard, one of the fundamental elements of business environment is the reformation of inspections' function which is initiated by the Ministry of Economy in 2009 which is planned to complete in 2013.

It is intended to achieve an efficient model of inspection system upon the completion of these reforms, remove duplications, optimize public expenditures, reduce number of inspections, ensure a safe and reliable environment for consumers, as well as increase participation of the latter in inspection process etc.

A Coordination Board has been created for the Inspections reforms, chaired by the Prime Minister Tigran Sargsyan with a secretariat of a team in charge for reforms.

On September 17, 2009, the Government approved the Concept of Inspections' Reforms in Armenia prepared by the Ministry of Economy. A Law on State Inspections is drafted and submitted to the Coordination Board.

Currently, pilot projects are being implemented in three inspectorates: Fire, Hygiene and Anti-Epidemic and Market and Consumer Rights' Protection.

In order to ensure efficiency and transparency of reforms, the team in charge of inspections' reforms of the staff of the Ministry of Economy regularly organizes public discussions with stakeholders: the objective is to give opportunity to businessmen and consumers to immediately be involved in the process.

### ***Computable General Equilibrium (CGE) Models***

The Ministry of Economy initiated development of general equilibrium models for the efficient economic policy-making and impact assessment.

Computable general equilibrium models are simulation tools that, based on the Arrow's and Debreu's abstract structure of Walrasian general equilibrium, for given levels of prices, supply and demand in selected sectors of the economy, quantitatively determine the volumes at which economy will reach its equilibrium point. These models are standard models for empiric research and are widely used for assessing the policy impact that can be transferred through interconnected markets containing tax, subsidy and other tools.

For the quantitative assessment of suggested changes in the economic policy, the Ministry developed a base model of general equilibrium which was later used as a basis for the tax model. Models were developed with the assistance of

the Professor Miles Light from University of Colorado. The main source for the tax model is the official statistical data of the National Statistical Service, while the rest of data is collected through a survey covering 100 largest taxpayers.

Professor Miles Light also held two-week trainings for the staff of the Ministry of Economy for knowledge transfer and in-house capacity development. At this stage, tax model development is underway. Development of another – trade – model has also started.

### ***North-South Road Corridor***

Acknowledging the necessity of large scale infrastructure projects for the economic development of Armenia, the Ministry developed a North-South Road Corridor investment project which will support proportional development of the economy and enhancement of economic relations in the region. The main principles and rules of the project are already developed. Total project cost is estimated to reach USD 1.5 bln during the period of 2009-2017.

North-South Road investment project includes Agarak-Kapan-Yerevan-Gyumri-Bavra highways and transport infrastructure. As a result of project implementation, it is expected that the transport link with Armenia's two neighbors – Iran and Georgia – will improve, ensuring efficient and safe link to international trade roads and markets. At the same time, this will contribute to the increase in internal transportation within Armenia.

Such a large-scale infrastructure project has a special importance also in the context of other project implemented and planned by the Ministry of Economy: Gyumri Techno-City, Tatev Revival, Jermuk Development, and Zvartnots Free Economic Zone etc.

After negotiations with the Asian Development Bank, North-South Road Corridor Investment project (Project 1 – Special Activities) credit agreement was signed on October 12, 2009. Currently, the second tranche agreement is being negotiated for the construction of Ashtarak-Talin four-lanehighway.

The North-South project is currently implemented by the Ministry of Transport and Communication, while a Ministry of Economy representative is included in the Project Management Board.

### ***Improvement of Municipal Solid Waste Management Project***

In the overall context of the country's development, the Ministry of Economy implements Yerevan Municipal Solid Waste Management project with the purpose of life quality improvement, management system and infrastructure development: the project aims at improving the waste collection and sanitary cleaning system.

In order to study the international best practice in this field and its adaptation in Armenia, as well as to draft the relevant documentation and increase efficiency of services, an international consultant company was hired to support the project process. In particular, Fichtner GmbH (Germany) conducted the Yerevan Municipal Solid Waste Management through Public-Private Partnership Study.

On December 2, 2009, the first meeting of the management board of the World Bank grant project which approved the Invitation to Bid for the selection of 2 waste collection operators and Nubarashen Landfill operator for Yerevan Municipal Waste Management project.

Integrated Skills (UK) was contracted under the WB grant project and presented its first report on performed activities in June 2010.

In January 2010, the Government approved the Yerevan Municipal Solid Waste (Collection) Management Concept. Draft Law on Waste Collection and Sanitary Cleaning is being discussed.

Currently, working discussions are being held by the Ministry of Economy, State Cadastre of Real Estate and Yerevan Municipality in order to measure the surface of streets and squares in Yerevan City.

As a result of this project implementation, waste collection and sanitary cleaning services in Yerevan will improve significantly.

# Statistical Annexes

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**Table 1: Gross National Disposable Income**

|   | 1995    | 1996    | 1997    | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006     | 2007     | 2008     | 2009     |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|----------|----------|
| <b>Gross National Disposable Income, mln USD</b>    | 1,495.0 | 1,828.6 | 1,954.7 | 2,130.1 | 2,074.5 | 2,152.5 | 2,391.8 | 2,637.9 | 3,120.0 | 4,113.9 | 5,556.6 | 7,293.6  | 10,428.1 | 13,270.7 | 9,521.1  |
| <b>Gross National Disposable Income, bln AMD</b>    | 606.8   | 756.0   | 959.3   | 1,075.4 | 1,110.0 | 1,161.3 | 1,327.6 | 1,512.4 | 1,805.8 | 2,194.5 | 2,543.2 | 3,034.4  | 3,567.8  | 4,060.5  | 3,459.0  |
| <b>Gross Domestic Product, mln USD</b>              | 1,286.7 | 1,599.3 | 1,638.9 | 1,892.3 | 1,845.5 | 1,911.6 | 2,153.3 | 2,376.3 | 2,807.1 | 3,576.6 | 4,900.4 | 6,384.5  | 9,204.5  | 11,661.9 | 8,540.6  |
| <b>Gross Domestic Product, bln AMD</b>              | 522.3   | 661.2   | 804.3   | 955.4   | 987.4   | 1,031.3 | 1,195.2 | 1,362.5 | 1,624.6 | 1,907.9 | 2,242.9 | 2,656.2  | 3,149.3  | 3,568.2  | 3,102.8  |
| <b>Final Consumption, mln USD</b>                   | 1,511.3 | 1,785.7 | 1,880.4 | 2,103.3 | 1,998.2 | 2,082.4 | 2,219.5 | 2,354.3 | 2,624.4 | 3,313.7 | 4,216.8 | 5,257.0  | 7,486.8  | 9,539.4  | 8,022.9  |
| <b>Final Consumption, bln AMD</b>                   | 613.4   | 738.3   | 922.9   | 1,061.9 | 1,069.2 | 1,123.5 | 1,232.0 | 1,349.8 | 1,518.9 | 1,767.7 | 1,930.0 | 2,187.1  | 2,576.2  | 2,918.8  | 2,914.7  |
| Households, mln USD                                 | 1,365.6 | 1,604.3 | 1,692.3 | 1,889.6 | 1,772.5 | 1,849.1 | 1,970.7 | 2,105.4 | 2,332.2 | 2,943.8 | 3,693.1 | 4,606.5  | 6,503.2  | 8,332.2  | 6,935.9  |
| Households, bln AMD                                 | 554.3   | 663.3   | 830.5   | 954.0   | 948.4   | 997.6   | 1,093.9 | 1,207.2 | 1,349.8 | 1,570.4 | 1,690.3 | 1,916.5  | 2,252.3  | 2,549.4  | 2,519.8  |
| General Government, mln USD                         | 143.7   | 179.6   | 183.8   | 209.1   | 219.8   | 225.7   | 239.1   | 237.3   | 286.5   | 363.8   | 517.0   | 644.2    | 973.2    | 1,192.9  | 1,076.7  |
| General Government, bln AMD                         | 58.3    | 74.3    | 90.2    | 105.6   | 117.6   | 121.8   | 132.7   | 136.1   | 165.8   | 194.1   | 236.6   | 268.0    | 320.4    | 365.0    | 391.2    |
| Non-Profit Institutions Serving Households, mln USD | 2.0     | 1.8     | 4.3     | 4.5     | 5.9     | 7.5     | 9.7     | 11.5    | 5.7     | 6.1     | 6.7     | 6.4      | 10.4     | 14.2     | 10.3     |
| Non-Profit Institutions Serving Households, bln AMD | 0.8     | 0.7     | 2.1     | 2.3     | 3.2     | 4.1     | 5.4     | 6.6     | 3.3     | 3.2     | 3.0     | 2.6      | 3.5      | 4.3      | 3.7      |
| <b>Gross Capital Formation, mln USD</b>             | 237.1   | 320.0   | 312.5   | 362.1   | 338.7   | 356.4   | 418.6   | 514.9   | 680.9   | 889.8   | 1,493.0 | 2,292.4  | 3,426.6  | 4,766.4  | 2,885.0  |
| <b>Gross Capital Formation, bln AMD</b>             | 96.2    | 132.3   | 153.4   | 182.8   | 181.2   | 192.3   | 232.3   | 295.2   | 394.1   | 474.7   | 683.3   | 953.7    | 1,189.9  | 1,458.4  | 1,048.1  |
| Gross Fixed Capital Formation, mln USD              | 207.9   | 286.0   | 265.6   | 306.9   | 303.0   | 352.4   | 374.8   | 501.2   | 645.5   | 853.5   | 1,460.1 | 2,268.5  | 3,347.2  | 4,637.0  | 2,792.2  |
| Gross Fixed Capital Formation, bln AMD              | 84.4    | 118.3   | 130.3   | 154.9   | 162.1   | 190.1   | 208.0   | 287.4   | 373.6   | 455.3   | 668.3   | 943.8    | 1,163.2  | 1,418.8  | 1,014.4  |
| Changes in Inventories, mln USD                     | 29.2    | 33.9    | 46.9    | 55.3    | 35.7    | 4.0     | 43.8    | 13.7    | 35.4    | 36.3    | 32.9    | 23.9     | 79.5     | 129.4    | 92.8     |
| Changes in Inventories, bln AMD                     | 11.9    | 14.0    | 23.0    | 27.9    | 19.1    | 2.1     | 24.3    | 7.8     | 20.5    | 19.4    | 15.1    | 10.0     | 26.7     | 39.6     | 33.7     |
| <b>Net Export of Goods and Services, mln USD</b>    | -492.3  | -523.8  | -622.8  | -640.3  | -536.0  | -519.3  | -438.1  | -409.4  | -502.0  | -556.8  | -706.7  | -1,014.6 | -1,838.1 | -2,986.5 | -2,379.7 |
| <b>Net Export of Goods and Services, bln AMD</b>    | -199.8  | -216.5  | -305.7  | -323.3  | -286.8  | -280.2  | -243.2  | -234.8  | -290.5  | -297.0  | -323.4  | -422.1   | -628.8   | -913.8   | -864.6   |
| Export, mln USD                                     | 307.9   | 371.7   | 332.3   | 359.6   | 383.1   | 446.8   | 539.5   | 697.6   | 902.5   | 1,063.5 | 1,411.8 | 1,491.3  | 1,766.3  | 1,754.8  | 1,323.2  |
| Export, bln AMD                                     | 125.0   | 153.7   | 163.1   | 181.6   | 205.0   | 241.1   | 299.5   | 400.0   | 522.4   | 567.3   | 646.2   | 620.5    | 604.2    | 536.9    | 480.7    |
| Import, mln USD                                     | 800.2   | 895.4   | 955.1   | 999.9   | 919.1   | 966.2   | 977.6   | 1,107.1 | 1,404.5 | 1,620.3 | 2,118.4 | 2,505.9  | 3,604.4  | 4,741.3  | 3,702.9  |
| Import, bln AMD                                     | 324.8   | 370.2   | 468.7   | 504.8   | 491.8   | 521.3   | 542.7   | 634.7   | 812.9   | 864.3   | 969.6   | 1,042.6  | 1,233.0  | 1,450.7  | 1,345.3  |
| <b>Statistical Discrepancy, mln USD</b>             | 30.7    | 17.4    | 68.8    | 67.2    | 44.6    | -7.9    | -46.6   | -83.4   | 3.8     | -70.1   | -102.7  | -150.4   | 129.2    | 342.7    | 12.5     |
| <b>Statistical Discrepancy, bln AMD</b>             | 12.5    | 7.2     | 33.8    | 33.9    | 23.9    | -4.2    | -25.9   | -47.8   | 2.2     | -37.4   | -47.0   | -62.6    | 11.9     | 104.8    | 4.5      |
| <b>Net Factor Incomes, mln USD</b>                  | 40.0    | 44.7    | 98.5    | 60.4    | 54.9    | 52.9    | 64.5    | 88.2    | 94.5    | 107.4   | 132.5   | 215.2    | 278.8    | 471.2    | 166.6    |
| <b>Net Factor Incomes, bln AMD</b>                  | 16.2    | 18.5    | 48.3    | 30.5    | 29.4    | 28.5    | 35.8    | 50.6    | 54.7    | 57.3    | 60.7    | 89.5     | 95.4     | 144.2    | 60.5     |
| <b>Net Current Transfers, mln USD</b>               | 168.3   | 184.6   | 217.2   | 177.4   | 174.1   | 188.1   | 174.0   | 173.4   | 218.5   | 429.8   | 523.7   | 694.0    | 944.8    | 1,137.6  | 813.9    |
| <b>Net Current Transfers, bln AMD</b>               | 68.3    | 76.3    | 106.6   | 89.6    | 93.2    | 101.5   | 96.6    | 99.4    | 126.4   | 229.3   | 239.7   | 288.7    | 323.2    | 348.1    | 295.7    |
| <b>Exchange Rate AMD/USD (period average)</b>       | 405.9   | 413.4   | 490.8   | 504.9   | 535.1   | 539.5   | 555.1   | 573.4   | 578.8   | 533.5   | 457.7   | 416.0    | 342.1    | 306.0    | 363.3    |



**Table 4: Nominal GDP, bln AMD**

|  | 2006         | 2006          | 2006          | 2006          | 2007          | 2007          | 2007           | 2007           | 2008          | 2008          | 2008           | 2008           | 2009          | 2009          | 2009          | 2009          | 2010          | 2010          |
|--|--------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|---------------|---------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  | Q1           | Q2            | Q3            | Q4            | Q1            | Q2            | Q3             | Q4             | Q1            | Q2            | Q3             | Q4             | Q1            | Q2            | Q3            | Q4            | Q1            | Q2            |
| <b>Gross Domestic Product</b>              | <b>357.2</b> | <b>590.2</b>  | <b>859.2</b>  | <b>849.6</b>  | <b>422.2</b>  | <b>682.5</b>  | <b>1,028.9</b> | <b>1,015.7</b> | <b>509.6</b>  | <b>784.6</b>  | <b>1,249.4</b> | <b>1,024.6</b> | <b>488.8</b>  | <b>655.7</b>  | <b>971.6</b>  | <b>986.8</b>  | <b>555.5</b>  | <b>724.9</b>  |
| <b>Final Consumption</b>                   | <b>399.3</b> | <b>505.0</b>  | <b>648.1</b>  | <b>634.7</b>  | <b>477.7</b>  | <b>596.2</b>  | <b>751.9</b>   | <b>750.5</b>   | <b>556.5</b>  | <b>673.7</b>  | <b>855.1</b>   | <b>833.4</b>   | <b>550.1</b>  | <b>674.8</b>  | <b>821.7</b>  | <b>868.2</b>  | <b>634.7</b>  | <b>727.3</b>  |
| Households                                 | 354.1        | 437.1         | 574.4         | 550.9         | 421.7         | 517.0         | 657.1          | 656.6          | 490.0         | 579.4         | 754.0          | 726.0          | 476.2         | 574.5         | 718.1         | 750.9         | 551.1         | 607.9         |
| General Government                         | 44.9         | 67.2          | 72.9          | 83.0          | 55.6          | 78.3          | 93.6           | 92.9           | 65.9          | 93.4          | 99.6           | 106.1          | 73.3          | 99.4          | 102.3         | 116.2         | 83.1          | 118.4         |
| For Individual Goods and Services          | 18.3         | 26.8          | 28.4          | 27.6          | 24.1          | 34.3          | 40.6           | 35.2           | 22.2          | 36.7          | 38.7           | 40.8           | 25.9          | 39.2          | 37.9          | 42.0          | 28.0          | 39.3          |
| For Collective Services                    | 26.6         | 40.4          | 44.5          | 55.4          | 31.4          | 43.9          | 53.0           | 57.6           | 43.8          | 56.6          | 60.9           | 65.4           | 47.4          | 60.1          | 64.4          | 74.1          | 55.1          | 79.1          |
| Non-Profit Institutions Serving Households | 0.3          | 0.7           | 0.9           | 0.8           | 0.4           | 0.9           | 1.2            | 1.0            | 0.6           | 1.0           | 1.5            | 1.2            | 0.5           | 0.9           | 1.2           | 1.1           | 0.6           | 1.0           |
| <b>Gross Capital Formation</b>             | <b>46.5</b>  | <b>204.5</b>  | <b>328.8</b>  | <b>373.9</b>  | <b>68.9</b>   | <b>242.4</b>  | <b>414.5</b>   | <b>464.0</b>   | <b>101.0</b>  | <b>293.4</b>  | <b>621.5</b>   | <b>442.5</b>   | <b>87.9</b>   | <b>174.7</b>  | <b>361.3</b>  | <b>424.1</b>  | <b>102.2</b>  | <b>200.4</b>  |
| Gross Fixed Capital Formation              | 54.2         | 199.1         | 323.1         | 367.4         | 66.1          | 236.1         | 404.1          | 456.8          | 97.0          | 283.8         | 604.9          | 433.1          | 84.0          | 167.0         | 348.6         | 414.8         | 97.8          | 189.4         |
| Changes in Inventories                     | -7.7         | 5.4           | 5.8           | 6.5           | 2.8           | 6.3           | 10.4           | 7.2            | 4.1           | 9.7           | 16.5           | 9.3            | 3.9           | 7.7           | 12.8          | 9.3           | 4.4           | 11.1          |
| <b>Net Export of Goods and Services</b>    | <b>-93.0</b> | <b>-104.0</b> | <b>-105.7</b> | <b>-119.4</b> | <b>-125.7</b> | <b>-130.9</b> | <b>-159.5</b>  | <b>-212.7</b>  | <b>-164.3</b> | <b>-205.7</b> | <b>-252.0</b>  | <b>-291.7</b>  | <b>-153.6</b> | <b>-182.3</b> | <b>-227.5</b> | <b>-301.1</b> | <b>-208.8</b> | <b>-221.7</b> |
| Export of Goods and Services               | 120.7        | 161.3         | 167.8         | 170.6         | 121.0         | 153.9         | 169.3          | 160.0          | 111.4         | 139.4         | 157.8          | 128.3          | 76.8          | 113.4         | 149.4         | 141.2         | 127.8         | 166.1         |
| Import of Goods and Services               | 213.7        | 265.4         | 273.5         | 290.0         | 246.7         | 284.8         | 328.8          | 372.7          | 275.7         | 345.1         | 409.8          | 420.1          | 230.4         | 295.7         | 376.9         | 442.3         | 336.6         | 387.8         |
| <b>Statistical Discrepancy</b>             | <b>4.3</b>   | <b>-15.2</b>  | <b>-12.1</b>  | <b>-39.5</b>  | <b>1.3</b>    | <b>-25.2</b>  | <b>22.0</b>    | <b>13.9</b>    | <b>16.4</b>   | <b>23.1</b>   | <b>24.9</b>    | <b>40.5</b>    | <b>4.4</b>    | <b>-11.5</b>  | <b>16.1</b>   | <b>-4.4</b>   | <b>27.4</b>   | <b>18.8</b>   |

**Table 5: Real GDP Growth, %**

|                       |   | 2001       | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        | 2008         | 2009         |
|-----------------------|---|------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| <b>Major Branches</b> |   | <b>9.5</b> | <b>12.9</b> | <b>14.9</b> | <b>10.4</b> | <b>14.4</b> | <b>13.5</b> | <b>12.3</b> | <b>106.4</b> | <b>-16.4</b> |
| F                     | Construction  | 5.4        | 41.7        | 45.4        | 15.4        | 27.9        | 37.7        | 18.2        | 11.3         | -42.3        |
| A                     | Agriculture, hunting and forestry                             | 12.1       | 3.9         | 4.2         | 14.5        | 11.3        | 0.5         | 10.3        | 3.0          | -0.1         |
| G                     | Trade, repair of motor vehicles, household and personal goods | 17.3       | 21.1        | 12.7        | 9.8         | 13.4        | 12.4        | 8.8         | 8.0          | -4.0         |
| D                     | Manufacturing   | 9.8        | 17.2        | 17.0        | -2.5        | 8.8         | 0.5         | 1.6         | 0.9          | -8.8         |
| I                     | Transport and communication                                   | 15.8       | -1.7        | 8.3         | 19.5        | 18.0        | 17.0        | 22.0        | 8.4          | -1.5         |
| K                     | Real estate, renting and business activities                  | 5.2        | 6.3         | 6.5         | 10.3        | 6.0         | 32.9        | 16.1        | -1.4         | 2.9          |
| E                     | Electricity, gas and water supply                             | -7.0       | 1.7         | 4.0         | 7.2         | 6.5         | -10.4       | 5.8         | 4.6          | -13.3        |

**Table 5: continuation**

|                               |  | 2001       | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        | 2008       | 2009         |
|-------------------------------|--|------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|--------------|
| <b>Small Branches</b>         |  | <b>4.3</b> | <b>10.1</b> | <b>13.7</b> | <b>18.3</b> | <b>11.1</b> | <b>10.4</b> | <b>11.7</b> | <b>2.9</b> | <b>3.8</b>   |
| M                             | Education                                | 5.4        | 9.9         | 10.0        | 17.8        | 8.9         | 6.1         | 2.9         | -5.3       | 2.6          |
| N                             | Health and social work                   | 20.5       | 44.4        | 12.8        | 0.0         | 31.8        | 12.3        | 5.7         | -7.0       | 5.2          |
| L                             | Public Administration                    | 4.3        | 6.4         | 18.3        | 26.5        | 18.9        | 11.7        | 4.6         | -6.6       | 0.5          |
| J                             | Financial intermediation                 | 11.6       | -8.2        | 6.9         | 28.6        | 24.1        | 31.5        | 42.6        | 32.6       | 0.5          |
| C                             | Mining and quarrying                     | 19.9       | 19.5        | 13.1        | 27.6        | -9.3        | 1.2         | 3.6         | 3.8        | 7.6          |
| O                             | Community, social and personal service   | -25.4      | 8.4         | 21.4        | 15.3        | -1.8        | 12.5        | 12.0        | -9.3       | 14.2         |
| H                             | Hotels and restaurants                   | 42.3       | 6.4         | 14.5        | 9.7         | 25.1        | -8.1        | 58.1        | 9.6        | 9.2          |
| B                             | Fishing                                  | 116.2      | -22.6       | 32.4        | 72.1        | -12.9       | 19.5        | 27.5        | 112.9      | 3.5          |
| P                             | Private households with employed persons | -          | -           | -           | -           | 21.4        | na          | 30.3        | 192.7      | 6.4          |
| FISIM                         |  | 7.1        | -13.1       | 17.3        | 26.8        | 6.5         | 1.7         | 53.4        | 9.1        | 0.4          |
| Net taxes on products         |  | 16.9       | 14.3        | 7.9         | 2.4         | 12.4        | 14.9        | 35.9        | 17.1       | -20.7        |
| <b>Gross Domestic Product</b> |  | <b>9.6</b> | <b>13.2</b> | <b>14.0</b> | <b>10.5</b> | <b>13.9</b> | <b>13.2</b> | <b>13.7</b> | <b>6.9</b> | <b>-14.2</b> |

**Table 6: Nominal GDP, bln AMD**

|                       |   | 2001         | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|-----------------------|---|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Major Branches</b> |   | <b>935.5</b> | <b>1,072.1</b> | <b>1,286.3</b> | <b>1,489.5</b> | <b>1,745.6</b> | <b>2,080.9</b> | <b>2,425.9</b> | <b>2,685.7</b> | <b>2,225.7</b> |
| F                     | Construction  | 113.9        | 171.9          | 254.8          | 296.6          | 440.3          | 628.6          | 772.8          | 903.0          | 547.7          |
| A                     | Agriculture, hunting and forestry                             | 300.9        | 319.6          | 349.5          | 430.8          | 427.3          | 495.5          | 573.2          | 574.8          | 508.0          |
| G                     | Trade, repair of motor vehicles, household and personal goods | 125.0        | 151.5          | 184.7          | 220.9          | 255.2          | 302.0          | 342.7          | 413.1          | 397.9          |
| D                     | Manufacturing   | 184.4        | 206.0          | 248.7          | 258.8          | 303.8          | 288.1          | 295.1          | 315.5          | 273.1          |
| I                     | Transport and communication                                   | 82.5         | 83.6           | 95.7           | 113.8          | 133.9          | 168.2          | 218.3          | 242.3          | 247.2          |
| K                     | Real estate, renting and business activities                  | 50.1         | 53.3           | 58.6           | 67.2           | 72.0           | 98.2           | 118.4          | 133.5          | 152.8          |
| E                     | Electricity, gas and water supply                             | 78.7         | 86.2           | 94.3           | 101.4          | <b>113.1</b>   | <b>100.3</b>   | 105.4          | 103.3          | 99.1           |

**Table 6:** continuation

|                               |  | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|-------------------------------|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Small Branches</b>         |  | <b>143.8</b>   | <b>173.5</b>   | <b>208.8</b>   | <b>282.6</b>   | <b>330.8</b>   | <b>378.0</b>   | <b>452.0</b>   | <b>532.3</b>   | <b>601.6</b>   |
| M                             | Education                                | 38.5           | 43.3           | 49.4           | 57.6           | 63.6           | 74.7           | 89.1           | 96.9           | 114.8          |
| N                             | Health and social work                   | 15.0           | 31.9           | 37.0           | 41.7           | 55.0           | 66.9           | 77.8           | 95.6           | 113.8          |
| L                             | Public Administration                    | 35.1           | 35.8           | 43.4           | 53.7           | 61.8           | 68.5           | 79.6           | 95.6           | 109.3          |
| J                             | Financial intermediation                 | 22.1           | 20.7           | 23.5           | 31.4           | 39.3           | 55.2           | 80.1           | 122.4          | 126.9          |
| C                             | Mining and quarrying                     | 9.9            | 15.6           | 22.3           | 61.9           | 71.5           | 68.5           | 70.9           | 55.5           | 55.1           |
| O                             | Community, social and personal service   | 17.9           | 20.7           | 26.8           | 28.3           | 29.9           | 34.7           | 40.4           | 43.4           | 57.1           |
| H                             | Hotels and restaurants                   | 4.8            | 5.1            | 5.9            | 6.9            | 8.7            | 7.6            | 12.4           | 15.0           | 17.1           |
| B                             | Fishing                                  | 0.5            | 0.4            | 0.5            | 1.1            | 1.0            | 1.7            | 1.5            | 7.1            | 6.6            |
| P                             | Private households with employed persons | -              | -              | -              | 0.0            | 0.0            | 0.2            | 0.2            | 0.7            | 0.9            |
| FISIM                         |  | -16.9          | -14.9          | -18.3          | -24.2          | -26.2          | -28.0          | -44.4          | -55.0          | -57.0          |
| Net taxes on products         |  | 113.7          | 131.9          | 147.7          | 159.9          | 192.9          | 225.4          | 315.5          | 405.3          | 332.5          |
| <b>Gross Domestic Product</b> |  | <b>1,175.9</b> | <b>1,362.5</b> | <b>1,624.6</b> | <b>1,907.9</b> | <b>2,242.9</b> | <b>2,656.2</b> | <b>3,149.3</b> | <b>3,568.2</b> | <b>3,102.8</b> |

**Table 7: Real GDP Growth, %**

|                       |   | 2006        | 2006        | 2006        | 2006        | 2007        | 2007       | 2007        | 2007        | 2008       | 2008       | 2008        | 2008        | 2009        | 2009         | 2009         | 2009         | 2010       | 2010       |
|-----------------------|---|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|------------|------------|-------------|-------------|-------------|--------------|--------------|--------------|------------|------------|
|                       |   | Q1          | Q2          | Q3          | Q4          | Q1          | Q2         | Q3          | Q4          | Q1         | Q2         | Q3          | Q4          | Q1          | Q2           | Q3           | Q4           | Q1         | Q2         |
| <b>Major Branches</b> |   | <b>12.8</b> | <b>20.6</b> | <b>11.6</b> | <b>11.0</b> | <b>10.0</b> | <b>9.5</b> | <b>14.6</b> | <b>12.4</b> | <b>8.4</b> | <b>9.3</b> | <b>17.6</b> | <b>-8.0</b> | <b>-3.8</b> | <b>-20.7</b> | <b>-22.1</b> | <b>-11.4</b> | <b>5.5</b> | <b>4.2</b> |
| F                     | Construction  | 25.9        | 38.2        | 47.4        | 30.0        | 18.0        | 20.4       | 17.7        | 17.1        | 17.8       | 12.5       | 33.1        | -14.5       | -18.8       | -49.4        | -51.6        | -26.5        | 8.3        | 7.2        |
| A                     | Agriculture, hunting and forestry                             | 2.4         | 10.5        | -4.7        | 2.7         | 2.1         | -3.1       | 14.0        | 12.9        | -1.9       | 15.3       | 13.3        | -14.9       | -3.0        | 2.0          | 0.7          | -1.9         | -5.0       | -20.8      |
| G                     | Trade, repair of motor vehicles, household and personal goods | 27.1        | 39.1        | -4.2        | 5.6         | 3.9         | 8.0        | 11.7        | 9.8         | 1.5        | 1.0        | 15.2        | 10.4        | 3.8         | -10.9        | -6.5         | -1.4         | 10.9       | 8.6        |
| D                     | Manufacturing   | 7.9         | -4.9        | -1.7        | -0.6        | 2.1         | -0.6       | 2.5         | 2.4         | 3.9        | -3.4       | -1.9        | 5.3         | -7.2        | -13.5        | -12.3        | -2.3         | 8.3        | 12.8       |
| I                     | Transport and communication                                   | 12.7        | 13.2        | 18.7        | 20.4        | 28.4        | 16.6       | 27.4        | 17.5        | 30.3       | 29.5       | 5.2         | -13.8       | -1.7        | 8.1          | 5.6          | -17.3        | 7.0        | 18.7       |
| K                     | Real estate, renting and business activities                  | 36.0        | 67.1        | 30.1        | 15.1        | 31.0        | 10.7       | 25.9        | 5.6         | -0.7       | 10.2       | -7.6        | -5.2        | 14.8        | 5.2          | 0.4          | -4.3         | 5.6        | -0.4       |
| E                     | Electricity, gas and water supply                             | -7.0        | -2.9        | -14.0       | -15.7       | 6.8         | 4.4        | 1.8         | 9.0         | 9.8        | -3.6       | 17.2        | -2.8        | -12.6       | -5.0         | -30.0        | -5.2         | -7.4       | 3.9        |

**Table 7:** continuation

|                               |  | 2006        | 2006        | 2006        | 2006        | 2007        | 2007        | 2007        | 2007        | 2008         | 2008        | 2008         | 2008        | 2009        | 2009         | 2009         | 2009        | 2010       | 2010       |
|-------------------------------|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|--------------|-------------|-------------|--------------|--------------|-------------|------------|------------|
|                               |  | Q1          | Q2          | Q3          | Q4          | Q1          | Q2          | Q3          | Q4          | Q1           | Q2          | Q3           | Q4          | Q1          | Q2           | Q3           | Q4          | Q1         | Q2         |
| <b>Small Branches</b>         |  | <b>13.8</b> | <b>8.9</b>  | <b>12.5</b> | <b>7.7</b>  | <b>10.8</b> | <b>9.6</b>  | <b>12.1</b> | <b>13.8</b> | <b>16.7</b>  | <b>-1.2</b> | <b>1.1</b>   | <b>-0.5</b> | <b>-3.6</b> | <b>1.8</b>   | <b>-5.0</b>  | <b>21.2</b> | <b>5.4</b> | <b>1.4</b> |
| M                             | Education                                | 6.2         | 6.3         | 5.6         | 6.3         | 6.6         | 1.4         | -0.6        | 5.6         | -14.9        | -8.8        | -0.7         | 2.2         | 18.4        | -11.7        | -1.1         | 10.4        | -0.2       | 3.8        |
| N                             | Health and social work                   | 41.8        | 17.0        | 8.9         | -1.0        | -6.3        | 0.5         | 18.5        | 6.7         | 25.0         | -15.8       | 8.3          | -26.8       | 4.2         | 9.7          | 3.7          | 3.5         | -14.0      | -9.9       |
| L                             | Public Administration                    | 22.7        | 9.3         | 10.2        | 9.5         | 7.4         | 20.6        | -2.5        | -3.2        | -4.5         | -1.1        | -16.2        | -5.7        | -15.2       | -13.2        | 3.1          | 24.8        | 4.5        | 2.9        |
| J                             | Financial intermediation                 | 56.1        | 22.0        | 24.8        | 30.2        | 31.7        | 28.1        | 33.0        | 69.8        | 92.9         | 29.8        | 41.7         | -4.9        | -27.1       | 12.5         | -23.8        | 44.2        | 20.2       | 7.2        |
| C                             | Mining and quarrying                     | -13.2       | -8.0        | 21.0        | 5.9         | 7.0         | -2.7        | 6.0         | 4.7         | -12.2        | 10.6        | -14.4        | 27.7        | -7.1        | 1.2          | 8.6          | 41.3        | 37.0       | 6.9        |
| O                             | Community, social and personal service   | 10.4        | 33.6        | 8.7         | 1.9         | 18.0        | 15.7        | 17.1        | 0.1         | 20.6         | -32.2       | -26.2        | 20.9        | 43.3        | 32.5         | -16.2        | 13.2        | -1.2       | -3.3       |
| H                             | Hotels and restaurants                   | 19.4        | -23.8       | -5.3        | -10.9       | 48.4        | 56.8        | 83.6        | 37.4        | -0.6         | 28.8        | 7.9          | 1.9         | 18.2        | 11.8         | 1.6          | 11.3        | 25.3       | 19.8       |
| B                             | Fishing                                  | -11.6       | -7.9        | 26.2        | 46.8        | 96.2        | 27.8        | -30.6       | 59.5        | 214.6        | 85.7        | 114.1        | 59.2        | 36.1        | -0.9         | -21.8        | -11.0       | 0.7        | -18.5      |
| P                             | Private households with employed persons | 1925.0      | 5922.2      | 8266.7      | 2000.0      | 32.2        | 25.0        | 39.2        | 5.7         | 348.4        | 173.2       | 109.5        | 482.2       | 29.9        | 3.4          | -3.8         | 10.0        | 6.5        | 5.5        |
| FISIM                         |  | -12.1       | 4.0         | -0.4        | 16.6        | 20.5        | 154.1       | 32.1        | 57.0        | -19.8        | -0.8        | -15.2        | -0.9        | 10.7        | -9.2         | -30.3        | 39.2        | 19.0       | 5.6        |
| Net taxes on products         |  | 9.6         | 25.8        | 16.6        | 10.1        | 27.3        | 28.6        | 37.2        | 45.6        | -31.6        | -29.7       | -13.1        | -4.1        | -16.0       | -27.9        | -20.0        | -18.5       | 8.0        | 33.0       |
| <b>Gross Domestic Product</b> |  | <b>13.1</b> | <b>19.1</b> | <b>12.2</b> | <b>10.4</b> | <b>12.1</b> | <b>10.1</b> | <b>15.7</b> | <b>15.0</b> | <b>-13.0</b> | <b>-9.6</b> | <b>-15.4</b> | <b>5.9</b>  | <b>-6.1</b> | <b>-17.9</b> | <b>-19.8</b> | <b>-8.4</b> | <b>5.4</b> | <b>6.7</b> |

**Table 8: Nominal GDP, bln AMD**

|                       |   | 2006         | 2006         | 2006         | 2006         | 2007         | 2007         | 2007         | 2007         | 2008         | 2008         | 2008           | 2008         | 2009         | 2009         | 2009         | 2009         | 2010         | 2010         |
|-----------------------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                       |   | Q1           | Q2           | Q3           | Q4           | Q1           | Q2           | Q3           | Q4           | Q1           | Q2           | Q3             | Q4           | Q1           | Q2           | Q3           | Q4           | Q1           | Q2           |
| <b>Major Branches</b> |   | <b>251.7</b> | <b>444.5</b> | <b>708.3</b> | <b>676.2</b> | <b>290.6</b> | <b>507.7</b> | <b>838.4</b> | <b>789.2</b> | <b>330.3</b> | <b>565.1</b> | <b>1,006.6</b> | <b>783.7</b> | <b>320.9</b> | <b>451.4</b> | <b>742.9</b> | <b>710.6</b> | <b>354.1</b> | <b>468.9</b> |
| F                     | Construction  | 29.4         | 148.7        | 234.5        | 215.9        | 36.6         | 187.3        | 287.5        | 261.4        | 43.9         | 208.6        | 393.0          | 257.6        | 44.9         | 111.8        | 188.8        | 202.2        | 42.3         | 111.3        |
| A                     | Agriculture, hunting and forestry                             | 36.7         | 71.3         | 224.1        | 163.4        | 40.5         | 75.1         | 264.5        | 193.1        | 39.8         | 80.1         | 282.3          | 172.6        | 36.1         | 76.7         | 240.2        | 155.0        | 38.7         | 75.3         |
| G                     | Trade, repair of motor vehicles, household and personal goods | 56.5         | 68.2         | 81.6         | 95.6         | 61.6         | 76.5         | 93.4         | 111.2        | 69.5         | 87.8         | 121.6          | 134.2        | 71.2         | 78.4         | 113.7        | 134.6        | 82.5         | 88.6         |
| D                     | Manufacturing   | 55.0         | 77.0         | 75.7         | 80.5         | 56.7         | 77.3         | 77.6         | 83.5         | 63.3         | 80.8         | 83.9           | 87.5         | 52.7         | 64.3         | 68.8         | 87.3         | 65.8         | 78.4         |
| I                     | Transport and communication                                   | 30.1         | 33.2         | 47.2         | 57.7         | 42.6         | 40.8         | 63.5         | 71.4         | 56.2         | 54.2         | 68.7           | 63.2         | 56.0         | 61.1         | 74.9         | 55.1         | 61.8         | 52.7         |
| K                     | Real estate, renting and business activities                  | 17.5         | 23.4         | 23.0         | 34.2         | 23.9         | 27.0         | 30.0         | 37.4         | 25.2         | 33.5         | 32.8           | 42.0         | 31.8         | 38.5         | 36.6         | 45.9         | 36.1         | 39.9         |
| E                     | Electricity, gas and water supply                             | 26.5         | 22.8         | 22.1         | 28.9         | 28.6         | 23.7         | 21.9         | 31.2         | 32.4         | 20.1         | 24.3           | 26.6         | 28.1         | 20.5         | 20.0         | 30.5         | 26.9         | 22.8         |

**Table 8:** continuation

|                               |  | 2006         | 2006         | 2006         | 2006         | 2007         | 2007         | 2007           | 2007           | 2008         | 2008         | 2008           | 2008           | 2009         | 2009         | 2009         | 2009         | 2010         | 2010         |
|-------------------------------|--|--------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|--------------|----------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                               |  | Q1           | Q2           | Q3           | Q4           | Q1           | Q2           | Q3             | Q4             | Q1           | Q2           | Q3             | Q4             | Q1           | Q2           | Q3           | Q4           | Q1           | Q2           |
| <b>Small Branches</b>         |  | <b>68.8</b>  | <b>98.7</b>  | <b>100.9</b> | <b>109.6</b> | <b>82.9</b>  | <b>118.4</b> | <b>120.2</b>   | <b>130.6</b>   | <b>111.1</b> | <b>135.1</b> | <b>146.8</b>   | <b>139.3</b>   | <b>114.2</b> | <b>146.0</b> | <b>148.8</b> | <b>192.6</b> | <b>137.5</b> | <b>168.3</b> |
| M                             | Education                                | 15.3         | 21.3         | 20.6         | 17.5         | 18.5         | 25.6         | 23.3           | 21.7           | 17.8         | 27.3         | 25.9           | 26.0           | 23.4         | 28.3         | 29.8         | 33.2         | 23.5         | 30.6         |
| N                             | Health and social work                   | 11.2         | 18.7         | 16.6         | 20.3         | 11.6         | 21.1         | 20.2           | 24.9           | 16.6         | 22.8         | 27.8           | 28.4           | 20.9         | 29.2         | 30.2         | 33.5         | 18.4         | 28.2         |
| L                             | Public Administration                    | 11.2         | 17.0         | 16.1         | 24.2         | 14.6         | 24.0         | 19.0           | 22.1           | 19.3         | 27.3         | 23.8           | 25.3           | 20.3         | 27.3         | 27.3         | 34.4         | 24.0         | 30.9         |
| J                             | Financial intermediation                 | 11.4         | 12.7         | 14.7         | 16.5         | 15.3         | 16.6         | 19.9           | 28.2           | 31.8         | 25.5         | 33.4           | 31.7           | 25.8         | 29.2         | 25.7         | 46.2         | 31.0         | 31.5         |
| C                             | Mining and quarrying                     | 13.4         | 17.7         | 19.1         | 18.3         | 14.6         | 16.7         | 19.7           | 20.0           | 13.4         | 17.1         | 16.4           | 8.6            | 6.6          | 10.9         | 16.6         | 21.0         | 21.0         | 22.1         |
| O                             | Community, social and personal service   | 4.6          | 9.3          | 10.8         | 10.0         | 5.6          | 11.2         | 13.3           | 10.4           | 7.5          | 9.5          | 12.5           | 13.8           | 11.8         | 14.8         | 12.3         | 18.3         | 13.3         | 16.4         |
| H                             | Hotels and restaurants                   | 1.5          | 1.7          | 2.3          | 2.0          | 2.4          | 2.8          | 4.4            | 2.9            | 2.3          | 4.0          | 5.1            | 3.6            | 3.0          | 4.6          | 5.4          | 4.0          | 3.9          | 6.1          |
| B                             | Fishing                                  | 0.2          | 0.2          | 0.6          | 0.7          | 0.3          | 0.4          | 0.4            | 0.4            | 2.2          | 1.5          | 1.6            | 1.8            | 2.3          | 1.4          | 1.2          | 1.7          | 2.3          | 2.2          |
| P                             | Private households with employed persons | 0.0          | 0.1          | 0.1          | 0.0          | 0.0          | 0.1          | 0.1            | 0.0            | 0.1          | 0.2          | 0.3            | 0.2            | 0.2          | 0.3          | 0.3          | 0.2          | 0.2          | 0.3          |
| FISIM                         |  | -8.1         | -4.3         | -9.0         | -6.6         | -10.2        | -11.4        | -12.0          | -10.8          | -12.9        | -13.3        | -16.2          | -12.6          | -15.2        | -13.3        | -11.1        | -17.4        | -18.2        | -14.2        |
| Net taxes on products         |  | 44.8         | 51.3         | 58.9         | 70.4         | 58.9         | 67.8         | 82.3           | 106.6          | 81.1         | 97.7         | 112.3          | 114.2          | 68.9         | 71.7         | 90.9         | 101.0        | 82.1         | 101.9        |
| <b>Gross Domestic Product</b> |  | <b>357.2</b> | <b>590.2</b> | <b>859.2</b> | <b>849.6</b> | <b>422.2</b> | <b>682.5</b> | <b>1,028.9</b> | <b>1,015.7</b> | <b>509.6</b> | <b>784.6</b> | <b>1,249.4</b> | <b>1,024.6</b> | <b>488.8</b> | <b>655.7</b> | <b>971.6</b> | <b>986.8</b> | <b>555.5</b> | <b>724.9</b> |

**Table 9: Consumption Price Indexes, %**

|  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Inflation (period average)   | 32.2  | 5.7   | 21.9  | -1.3  | 2.0   | 0.4   | 2.9   | 2.0   | 8.6   | 2.0   | -0.2  | 5.2   | 6.6   | 5.2   | 6.5   |
| Inflation (end of period)  | 176.0 | 18.7  | 13.9  | 8.7   | 0.6   | -0.8  | 3.1   | 1.1   | 4.7   | 7.0   | 0.6   | 2.9   | 4.4   | 9.0   | 3.4   |
| Consumption Price Index (1994=100%)  | 132.2 | 139.6 | 170.2 | 168.0 | 171.4 | 172.1 | 177.0 | 180.5 | 196.0 | 199.9 | 199.6 | 210.0 | 223.9 | 235.5 | 243.5 |
| Food (including alcohol beverages and tobacco) product prices (end of period)  | 25.8  | 2.3   | 20.6  | -4.3  | -1.6  | -0.2  | 4.1   | 1.9   | 12.4  | 2.8   | -1.2  | 6.6   | 9.7   | 3.3   | 2.2   |
| Food (including alcohol beverages and tobacco) product prices (period average) | 181.8 | 14.7  | 10.2  | 6.8   | -3.9  | -2.2  | 4.2   | 1.2   | 6.1   | 9.9   | 0.7   | 3.0   | 6.0   | 10.0  | -0.7  |
| Food product prices (end of period)  | 26.0  | 1.7   | 18.3  | -4.0  | -6.0  | -0.6  | 4.2   | 3.2   | 13.5  | 3.3   | -1.4  | 7.3   | 10.9  | 3.6   | 2.3   |
| Food product prices (period average)   | 190.5 | 14.9  | 8.4   | 6.2   | -5.6  | -5.9  | 4.7   | 2.2   | 6.9   | 10.9  | 0.8   | 3.3   | 6.7   | 11.1  | -0.9  |
| Alcohol beverages and tobacco product prices (end of period)                   | 24.0  | 13.1  | 61.5  | -7.1  | 42.7  | 2.1   | 3.5   | -8.1  | 2.9   | -1.4  | 0.5   | 0.3   | -0.1  | 0.3   | 1.5   |
| Alcohol beverages and tobacco product prices (period average)                  | 33.9  | 13.2  | 44.1  | 15.5  | 14.9  | 28.0  | 1.5   | -6.1  | 0.0   | 1.2   | -0.3  | 0.4   | 0.1   | 0.0   | 1.4   |
| Non-food product prices (end of period)  | 8.9   | 1.9   | 6.9   | 0.9   | 2.9   | 1.6   | -0.7  | 2.7   | 0.4   | 0.0   | 2.1   | 0.5   | 2.5   | 0.2   | 14.6  |
| Non-food product prices (period average)                                       | 74.5  | 5.7   | 6.8   | 3.7   | 1.4   | 3.0   | 0.2   | 0.2   | 1.9   | 0.6   | 0.5   | 2.9   | -0.5  | 5.1   | 4.7   |
| Services (end of period)   | 129.9 | 30.3  | 48.3  | 6.5   | 15.2  | 1.9   | 0.6   | 1.5   | 2.1   | 0.5   | 1.9   | 5.3   | 3.2   | 11.4  | 10.3  |
| Services (period average)  | 311.2 | 63.9  | 44.2  | 21.8  | 16.4  | 1.5   | 1.3   | 1.1   | 1.9   | 1.5   | 0.5   | 4.0   | 4.2   | 9.0   | 10.4  |

**Table 10: Inflation, %**

|   | 1996        | 1997        | 1998        | 1999       | 2000        | 2001       | 2002       | 2003       | 2004       | 2005        | 2006       | 2007       | 2008       | 2009       | 2010 |
|---|-------------|-------------|-------------|------------|-------------|------------|------------|------------|------------|-------------|------------|------------|------------|------------|------|
| 1st Quarter (average)                   | 33.6        | 4.2         | 24.3        | -3.9       | 0.1         | 2.5        | 0.4        | 3.4        | 7.9        | 4.4         | -2.0       | 3.8        | 7.9        | 2.0        | 8.4  |
| 1st Quarter (end of period)             | 12.2        | 6.7         | 8.6         | 6.3        | 2.6         | 5.9        | 3.5        | 6.1        | 6.4        | 6.5         | 4.6        | 4.8        | 5.2        | 0.5        | 3.9  |
| 2nd Quarter (average)                   | 17.6        | 10.3        | 13.7        | -0.9       | -1.6        | 4.1        | 3.0        | 3.0        | 7.3        | 0.2         | 1.7        | 1.1        | 10.1       | 3.3        | 6.3  |
| 2nd Quarter (end of period)             | 0.5         | 6.3         | -2.8        | 0.3        | -1.3        | 0.2        | 2.8        | 2.5        | 2.0        | -2.1        | 1.6        | 4.3        | 3.1        | 4.5        | 2.4  |
| 3rd Quarter (average)                   | 16.3        | 19.5        | 0.5         | 4.2        | -1.0        | 3.2        | -0.2       | 5.1        | 8.4        | -1.8        | 6.6        | -0.4       | 11.2       | 3.4        |      |
| 3rd Quarter (end of period)             | -4.3        | 3.8         | -8.3        | -3.6       | -3.0        | -3.9       | -6.9       | -5.0       | -4.0       | -6.0        | -1.4       | 2.2        | -2.5       | -2.4       |      |
| 4th Quarter (average)                   | 9.5         | 22.3        | -1.9        | 3.8        | -0.7        | 2.1        | 0.9        | 7.5        | 4.3        | -0.3        | 5.7        | 5.0        | 6.8        | 4.9        |      |
| 4th Quarter (end of period)             | 1.5         | 22.3        | 1.3         | 0.9        | 1.1         | 0.7        | 1.7        | 4.1        | 0.1        | 1.8         | 0.8        | 6.4        | 0.9        | 2.3        |      |
| <b>Annual End of Period (Dec./Dec.)</b> | <b>5.7</b>  | <b>21.9</b> | <b>-1.3</b> | <b>2.0</b> | <b>0.4</b>  | <b>2.9</b> | <b>2.0</b> | <b>8.6</b> | <b>2.0</b> | <b>-0.2</b> | <b>5.2</b> | <b>6.6</b> | <b>5.2</b> | <b>6.5</b> |      |
| <b>Annual Average</b>                   | <b>18.7</b> | <b>13.9</b> | <b>8.7</b>  | <b>0.6</b> | <b>-0.8</b> | <b>3.1</b> | <b>1.1</b> | <b>4.7</b> | <b>7.0</b> | <b>0.6</b>  | <b>2.9</b> | <b>4.4</b> | <b>9.0</b> | <b>3.4</b> |      |
| <b>Monthly Average</b>                  | <b>0.5</b>  | <b>1.7</b>  | <b>-0.1</b> | <b>0.2</b> | <b>0.0</b>  | <b>0.2</b> | <b>0.2</b> | <b>0.7</b> | <b>0.2</b> | <b>0.0</b>  | <b>0.4</b> | <b>0.5</b> | <b>0.4</b> | <b>0.5</b> |      |

**Table 11: Exchange Rate AMD/USD**

|                             | 1996         | 1997         | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         | 2010  |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------|
| 1st Quarter (average)       | 402.7        | 465.5        | 499.4        | 538.7        | 527.5        | 550.5        | 567.2        | 586.6        | 565.2        | 477.0        | 450.9        | 359.4        | 308.0        | 325.6        | 384.1 |
| 1st Quarter (end of period) | 404.2        | 477.5        | 502.4        | 535.3        | 527.6        | 544.7        | 576.0        | 589.5        | 561.6        | 458.1        | 450.9        | 362.1        | 307.3        | 367.8        | 400.5 |
| 2nd Quarter (average)       | 407.1        | 495.3        | 502.9        | 539.9        | 536.2        | 552.2        | 579.9        | 586.4        | 551.2        | 448.7        | 436.8        | 354.0        | 307.1        | 370.5        | 384.3 |
| 2nd Quarter (end of period) | 409.8        | 509.8        | 501.9        | 543.8        | 547.9        | 554.1        | 577.1        | 584.8        | 534.5        | 442.3        | 418.8        | 341.0        | 302.7        | 360.1        | 367.5 |
| 3rd Quarter (average)       | 415.3        | 502.5        | 503.3        | 539.1        | 542.8        | 554.3        | 562.9        | 577.5        | 519.0        | 452.4        | 402.4        | 337.8        | 302.3        | 372.6        |       |
| 3rd Quarter (end of period) | 412.3        | 501.1        | 507.9        | 515.1        | 536.4        | 554.1        | 580.2        | 570.1        | 508.2        | 444.2        | 381.5        | 335.8        | 302.1        | 384.3        |       |
| 4th Quarter (average)       | 428.7        | 499.8        | 513.9        | 522.6        | 551.7        | 563.4        | 583.5        | 564.6        | 498.5        | 452.4        | 374.0        | 317.1        | 306.4        | 384.4        |       |
| 4th Quarter (end of period) | 435.1        | 495.0        | 522.0        | 523.8        | 552.2        | 561.8        | 584.9        | 566.0        | 485.8        | 450.2        | 363.5        | 304.2        | 306.7        | 377.9        |       |
| <b>Annual Average</b>       | <b>413.4</b> | <b>490.8</b> | <b>504.9</b> | <b>535.1</b> | <b>539.5</b> | <b>555.1</b> | <b>573.4</b> | <b>578.8</b> | <b>533.5</b> | <b>457.7</b> | <b>416.0</b> | <b>342.1</b> | <b>306.0</b> | <b>363.3</b> |       |

**Table 12: Exchange Rate AMD/EURO**

|                             | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         | 2010  |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------|
| 1st Quarter (average)       | 606.3        | 521.2        | 508.5        | 497.0        | 629.6        | 706.7        | 625.5        | 542.3        | 470.7        | 461.9        | 423.5        | 531.3 |
| 1st Quarter (end of period) | 573.9        | 504.8        | 482.6        | 503.3        | 632.6        | 684.4        | 593.0        | 545.4        | 483.5        | 486.3        | 488.0        | 538.9 |
| 2nd Quarter (average)       | 571.4        | 500.8        | 482.5        | 532.5        | 665.5        | 663.7        | 565.7        | 547.8        | 477.0        | 479.9        | 504.6        | 489.9 |
| 2nd Quarter (end of period) | 564.9        | 515.8        | 471.6        | 567.0        | 667.4        | 650.4        | 533.2        | 524.7        | 459.2        | 476.6        | 507.6        | 448.7 |
| 3rd Quarter (average)       | 565.5        | 492.9        | 493.1        | 553.9        | 648.8        | 633.8        | 552.5        | 511.6        | 464.3        | 454.5        | 533.1        | 471.5 |
| 3rd Quarter (end of period) | 558.7        | 476.0        | 510.9        | 567.4        | 650.7        | 626.3        | 535.9        | 485.0        | 476.2        | 434.3        | 562.2        | 492.4 |
| 4th Quarter (average)       | 543.4        | 480.0        | 504.7        | 583.2        | 671.2        | 644.9        | 537.8        | 482.1        | 459.3        | 404.7        | 568.2        |       |
| 4th Quarter (end of period) | 527.4        | 513.8        | 495.1        | 606.9        | 702.2        | 661.1        | 532.4        | 478.7        | 447.0        | 435.0        | 542.2        |       |
| <b>Annual Average</b>       | <b>571.7</b> | <b>498.7</b> | <b>497.2</b> | <b>541.6</b> | <b>653.8</b> | <b>662.3</b> | <b>570.4</b> | <b>521.2</b> | <b>467.8</b> | <b>450.2</b> | <b>507.4</b> |       |

**Table 13: State Budget Revenues, bln AMD**

|  | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total Revenues and Official Transfers</b>                                 | <b>168.7</b> | <b>190.9</b> | <b>172.1</b> | <b>193.6</b> | <b>228.3</b> | <b>292.0</b> | <b>302.2</b> | <b>374.7</b> | <b>441.5</b> | <b>588.0</b> |
| <b>Total Revenues</b>  | <b>152.6</b> | <b>175.8</b> | <b>163.6</b> | <b>184.3</b> | <b>211.3</b> | <b>241.6</b> | <b>288.5</b> | <b>363.1</b> | <b>426.3</b> | <b>563.5</b> |
| <b>Current Revenues</b>  | <b>152.1</b> | <b>175.1</b> | <b>163.6</b> | <b>182.7</b> | <b>209.5</b> | <b>238.3</b> | <b>279.4</b> | <b>350.8</b> | <b>410.3</b> | <b>544.4</b> |
| <b>Tax Revenues</b>  | <b>120.5</b> | <b>149.1</b> | <b>143.7</b> | <b>154.9</b> | <b>185.4</b> | <b>212.2</b> | <b>250.1</b> | <b>304.3</b> | <b>366.2</b> | <b>483.7</b> |
| VAT  | 59.5         | 68.3         | 66.8         | 79.5         | 95.0         | 107.8        | 117.9        | 146.8        | 165.9        | 248.0        |
| Enterprise Profit Tax  | 12.3         | 21.5         | 20.4         | 16.3         | 17.4         | 17.6         | 32.0         | 46.6         | 65.3         | 75.5         |
| Personal Income Tax  | 13.5         | 17.5         | 13.4         | 11.2         | 12.5         | 16.8         | 20.4         | 26.6         | 35.5         | 46.8         |
| Excise Tax   | 19.9         | 21.7         | 26.1         | 31.0         | 35.3         | 39.1         | 40.7         | 38.6         | 39.9         | 41.5         |
| Property Tax   | 0.2          | 0.3          | 0.1          | 0.2          | 0.1          | 0.1          | -0.1         | 0.0          | 0.0          | 0.0          |
| Land Tax   | 0.1          | 0.1          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Custom Duty  | 10.5         | 8.1          | 8.7          | 9.8          | 9.7          | 10.7         | 12.5         | 16.5         | 18.3         | 24.0         |
| Fixed Payments   | 3.9          | 5.0          | 4.0          | 4.4          | 6.4          | 8.0          | 11.7         | 13.0         | 15.1         | 17.9         |
| Payments for The Utilization of Natural Resources and Environment Protection | 0.6          | 6.7          | 4.1          | 2.3          | 3.9          | 5.6          | 3.5          | 4.8          | 11.7         | 9.2          |
| Simplified Tax   | -            | -            | -            | -            | 3.7          | 5.0          | 7.2          | 6.7          | 7.7          | 10.0         |
| Other Tax Incomes  | -            | -            | -            | 0.1          | 1.5          | 1.6          | 4.3          | 4.6          | 6.8          | 10.7         |
| <b>State Duty</b>  | <b>9.9</b>   | <b>9.7</b>   | <b>8.9</b>   | <b>13.9</b>  | <b>13.2</b>  | <b>15.2</b>  | <b>16.9</b>  | <b>17.3</b>  | <b>18.9</b>  | <b>21.9</b>  |
| <b>Non-tax Revenues</b>  | <b>21.7</b>  | <b>16.3</b>  | <b>11.1</b>  | <b>13.9</b>  | <b>10.9</b>  | <b>10.9</b>  | <b>12.4</b>  | <b>29.2</b>  | <b>25.2</b>  | <b>38.9</b>  |
| <b>Incomes from Capital Transactions</b>                                     | <b>0.4</b>   | <b>0.8</b>   | <b>0.01</b>  | <b>1.6</b>   | <b>1.8</b>   | <b>3.2</b>   | <b>9.1</b>   | <b>12.4</b>  | <b>16.0</b>  | <b>19.1</b>  |
| <b>Official Transfers</b>  | <b>16.1</b>  | <b>15.1</b>  | <b>8.5</b>   | <b>9.3</b>   | <b>17.0</b>  | <b>50.5</b>  | <b>13.7</b>  | <b>11.6</b>  | <b>15.2</b>  | <b>24.5</b>  |

**Table 14: State Budget Revenues in GDP, as % to GDP**

|  | 1998        | 1999        | 2000        | 2001        | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Total Revenues and Official Transfers</b> | <b>17.7</b> | <b>19.3</b> | <b>16.7</b> | <b>16.2</b> | <b>16.8</b> | <b>18.0</b> | <b>15.8</b> | <b>16.7</b> | <b>16.6</b> | <b>18.7</b> |
| <b>Total Revenues</b>                        | <b>16.0</b> | <b>17.8</b> | <b>15.9</b> | <b>15.4</b> | <b>15.5</b> | <b>14.9</b> | <b>15.1</b> | <b>16.2</b> | <b>16.0</b> | <b>17.9</b> |
| <b>Current Revenues</b>                      | <b>15.9</b> | <b>17.7</b> | <b>15.9</b> | <b>15.3</b> | <b>15.4</b> | <b>14.7</b> | <b>14.6</b> | <b>15.6</b> | <b>15.4</b> | <b>17.3</b> |
| <b>Tax Revenues</b>                          | <b>12.6</b> | <b>15.1</b> | <b>13.9</b> | <b>13.0</b> | <b>13.6</b> | <b>13.1</b> | <b>13.1</b> | <b>13.6</b> | <b>13.8</b> | <b>15.4</b> |
| VAT  | 6.2         | 6.9         | 6.5         | 6.7         | 7.0         | 6.6         | 6.2         | 6.5         | 6.2         | 7.9         |
| Enterprise Profit Tax                        | 1.3         | 2.2         | 2.0         | 1.4         | 1.3         | 1.1         | 1.7         | 2.1         | 2.5         | 2.4         |
| Personal Income Tax                          | 1.4         | 1.8         | 1.3         | 0.9         | 0.9         | 1.0         | 1.1         | 1.2         | 1.3         | 1.5         |
| Excise Tax                                   | 2.1         | 2.2         | 2.5         | 2.6         | 2.6         | 2.4         | 2.1         | 1.7         | 1.5         | 1.3         |
| Property Tax                                 | 1.1         | 0.8         | 0.8         | 0.8         | 0.7         | 0.7         | 0.7         | 0.7         | 0.7         | 0.8         |
| Land Tax                                     | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Custom Duty                                  | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Fixed Payments                               | 0.4         | 0.5         | 0.4         | 0.4         | 0.5         | 0.5         | 0.6         | 0.6         | 0.6         | 0.6         |



**Table 16: State Budget Expenditures in GDP by Economic Classification, as % to GDP**

|   | 1998        | 1999        | 2000        | 2001        | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Total Expenditures</b>               | <b>21.4</b> | <b>24.6</b> | <b>21.6</b> | <b>20.4</b> | <b>19.4</b> | <b>19.2</b> | <b>17.5</b> | <b>18.6</b> | <b>18.1</b> | <b>20.2</b> |
| <b>Current Expenditures</b>             | <b>15.3</b> | <b>17.6</b> | <b>16.3</b> | <b>15.8</b> | <b>16.1</b> | <b>13.7</b> | <b>13.8</b> | <b>14.7</b> | <b>13.4</b> | <b>13.2</b> |
| Salaries                                | 2.7         | 1.7         | 1.9         | 1.7         | 1.5         | 0.8         | 1.3         | 1.5         | 1.5         | 1.5         |
| Interest payments                       | 1.9         | 2.0         | 1.3         | 1.2         | 1.2         | 0.7         | 0.5         | 0.4         | 0.3         | 0.3         |
| Domestic Debt                           | 1.1         | 1.3         | 0.9         | 0.5         | 0.4         | 0.3         | 0.3         | 0.2         | 0.2         | 0.2         |
| Foreign Debt                            | 0.8         | 0.7         | 0.4         | 0.7         | 0.7         | 0.4         | 0.2         | 0.2         | 0.1         | 0.1         |
| Subsidies                               | 0.1         | 1.4         | 0.7         | 0.5         | 0.6         | 0.9         | 0.9         | 0.7         | 0.7         | 0.7         |
| Current Transfers                       | 3.6         | 4.3         | 3.5         | 3.5         | 3.5         | 2.6         | 2.6         | 3.2         | 3.3         | 3.2         |
| Purchase of Goods and Services          | 7.0         | 8.2         | 8.9         | 8.8         | 9.4         | 8.7         | 8.4         | 8.9         | 7.5         | 7.5         |
| <b>Capital Expenditures</b>             | <b>4.6</b>  | <b>4.3</b>  | <b>3.8</b>  | <b>3.3</b>  | <b>2.5</b>  | <b>5.2</b>  | <b>3.2</b>  | <b>3.4</b>  | <b>4.0</b>  | <b>6.2</b>  |
| Capital Investment                      | 4.1         | 3.9         | 3.1         | 3.2         | 2.3         | 4.7         | 2.0         | 2.0         | 2.2         | 3.7         |
| Capital Repairs                         | 0.6         | 0.3         | 0.7         | 0.1         | 0.2         | 0.5         | 1.2         | 1.4         | 1.8         | 2.5         |
| <b>Net Lending</b>                      | <b>1.5</b>  | <b>2.6</b>  | <b>1.5</b>  | <b>1.3</b>  | <b>0.8</b>  | <b>0.4</b>  | <b>0.6</b>  | <b>0.6</b>  | <b>0.7</b>  | <b>0.7</b>  |
| Internal Net Lending                    | 0.6         | 1.8         | 0.6         | 0.6         | 0.1         | -0.2        | 0.0         | 0.0         | 0.1         | 0.1         |
| External Net Lending                    | 0.8         | 0.8         | 0.9         | 0.8         | 0.7         | 0.6         | 0.6         | 0.6         | 0.6         | 0.7         |
| <b>Debt Repayment for Previous Year</b> | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>-</b>    |

**Table 17: Public Expenditures by Functional Classification, bln AMD**

|   | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total Expenditures</b>                                       | <b>204.6</b> | <b>242.6</b> | <b>222.9</b> | <b>244.4</b> | <b>263.9</b> | <b>312.7</b> | <b>334.0</b> | <b>417.5</b> | <b>481.2</b> | <b>634.7</b> |
| General public services   | 21.8         | 20.3         | 21.2         | 23.6         | 24.2         | 30.0         | 36.6         | 44.2         | 49.9         | 62.2         |
| Defense   | 33.7         | 36.5         | 36.7         | 36.8         | 36.8         | 44.3         | 52.3         | 64.4         | 78.3         | 95.8         |
| Public order and security                                       | 13.1         | 14.5         | 15.0         | 15.3         | 16.2         | 20.8         | 24.6         | 35.0         | 41.1         | 52.0         |
| Education and Science   | 19.7         | 22.1         | 28.6         | 29.0         | 29.1         | 34.8         | 47.4         | 60.8         | 72.1         | 95.1         |
| Healthcare  | 13.7         | 13.6         | 9.8          | 15.7         | 16.0         | 19.6         | 24.7         | 31.1         | 39.4         | 46.9         |
| Social Insurance and Social Security                            | 20.0         | 26.1         | 22.0         | 26.1         | 23.8         | 29.3         | 35.0         | 44.1         | 52.3         | 63.1         |
| Culture, Information, Sports and Religion                       | 4.1          | 3.7          | 3.7          | 5.5          | 6.5          | 14.1         | 8.5          | 10.4         | 13.6         | 16.7         |
| Housing Sector  | 9.3          | 13.4         | 12.8         | 7.1          | 8.4          | 37.8         | 12.0         | 22.7         | 22.2         | 21.9         |
| Fuel and Energy Sector  | 8.1          | 4.7          | 3.1          | 6.9          | 8.4          | 7.0          | 9.6          | 3.6          | 5.1          | 29.4         |
| Agriculture, Forestry and Water Sector, Fishery                 | 12.2         | 26.8         | 16.8         | 17.0         | 14.5         | 19.9         | 16.4         | 13.2         | 18.3         | 27.6         |
| Industry, Mining (excluding fuel), Construction and Environment | 1.4          | 5.6          | 0.4          | 0.6          | 0.7          | -6.3         | 3.1          | 4.8          | 7.3          | 7.8          |
| Transport, Roads and Communications                             | 10.0         | 9.6          | 6.1          | 7.0          | 7.8          | 30.4         | 18.5         | 21.1         | 31.4         | 48.0         |
| Other Economic Services   | 2.9          | 3.8          | 0.1          | 0.6          | 0.6          | 1.6          | 2.8          | 3.0          | 3.6          | 3.5          |
| Other Expenditures  | 34.7         | 41.9         | 46.7         | 53.1         | 71.1         | 29.4         | 42.5         | 59.1         | 46.5         | 64.7         |

**Table 18: State Budget Expenditures by Functional Classification, as % to GDP**

|   | 1998        | 1999        | 2000        | 2001        | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Total Expenditures</b>                                       | <b>21.4</b> | <b>24.6</b> | <b>21.6</b> | <b>20.4</b> | <b>19.4</b> | <b>19.2</b> | <b>17.5</b> | <b>18.6</b> | <b>18.1</b> | <b>20.2</b> |
| General public services   | 2.3         | 2.1         | 2.1         | 2.0         | 1.8         | 1.8         | 1.9         | 2.0         | 1.9         | 2.0         |
| Defense   | 3.5         | 3.7         | 3.6         | 3.1         | 2.7         | 2.7         | 2.7         | 2.9         | 2.9         | 3.0         |
| Public order and security                                       | 1.4         | 1.5         | 1.5         | 1.3         | 1.2         | 1.3         | 1.3         | 1.6         | 1.5         | 1.7         |
| Education and Science   | 2.1         | 2.2         | 2.8         | 2.4         | 2.1         | 2.1         | 2.5         | 2.7         | 2.7         | 3.0         |
| Healthcare  | 1.4         | 1.4         | 1.0         | 1.3         | 1.2         | 1.2         | 1.3         | 1.4         | 1.5         | 1.5         |
| Social Insurance and Social Security                            | 2.1         | 2.6         | 2.1         | 2.2         | 1.7         | 1.8         | 1.8         | 2.0         | 2.0         | 2.0         |
| Culture, Information, Sports and Religion                       | 0.4         | 0.4         | 0.4         | 0.5         | 0.5         | 0.9         | 0.4         | 0.5         | 0.5         | 0.5         |
| Housing Sector  | 1.0         | 1.4         | 1.2         | 0.6         | 0.6         | 2.3         | 0.6         | 1.0         | 0.8         | 0.7         |
| Fuel and Energy Sector  | 0.8         | 0.5         | 0.3         | 0.6         | 0.6         | 0.4         | 0.5         | 0.2         | 0.2         | 0.9         |
| Agriculture, Forestry and Water Sector, Fishery                 | 1.3         | 2.7         | 1.6         | 1.4         | 1.1         | 1.2         | 0.9         | 0.6         | 0.7         | 0.9         |
| Industry, Mining (excluding fuel), Construction and Environment | 0.1         | 0.6         | 0.0         | 0.1         | 0.1         | -0.4        | 0.2         | 0.2         | 0.3         | 0.2         |
| Transport, Roads and Communications                             | 1.0         | 1.0         | 0.6         | 0.6         | 0.6         | 1.9         | 1.0         | 0.9         | 1.2         | 1.5         |
| Other Economic Services   | 0.3         | 0.4         | 0.0         | 0.0         | 0.0         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         |
| Other Expenditures  | 3.6         | 4.2         | 4.5         | 4.4         | 5.2         | 1.8         | 2.2         | 2.6         | 1.8         | 2.1         |

**Table 19: Financing of State Budget Deficit, bln AMD**

|   | 1998        | 1999        | 2000        | 2001        | 2002        | 2003         | 2004        | 2005        | 2006        | 2007        |
|---|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|
| <b>Deficit Financing</b>  | <b>35.9</b> | <b>51.7</b> | <b>50.8</b> | <b>50.8</b> | <b>35.6</b> | <b>20.7</b>  | <b>31.7</b> | <b>42.8</b> | <b>39.7</b> | <b>46.7</b> |
| <b>Internal Sources</b>   | <b>21.0</b> | <b>5.4</b>  | <b>28.2</b> | <b>18.7</b> | <b>-1.2</b> | <b>-17.8</b> | <b>-3.1</b> | <b>29.5</b> | <b>13.6</b> | <b>-9.7</b> |
| State Securities (T- bills)   | -2.0        | 1.0         | 1.8         | 6.0         | 3.9         | 2.3          | 5.6         | 6.4         | 7.1         | 9.2         |
| Repayment of Notes  | -           | -           | -           | -0.1        | -0.4        | -0.6         | -0.01       | -0.02       | -0.1        | -1.0        |
| Repayment of internal Premium (lottery) State bonds                           | -0.1        | -0.1        | -           | -           | -0.01       | -            | -0.01       | -0.02       | -0.003      | -0.002      |
| Receipts from Privatization of State Enterprises and Uncompleted Construction | 20.6        | 10.9        | 21.5        | 7.6         | 0.9         | 0.2          | 0.03        | -           | 29.3        | 19.1        |
| Repayment of Loans Receipt from "Hayastan" All Armenian Fund                  | -0.5        | -0.6        | -           | -           | -           | -            | -           | -           | -           | -           |
| Net Bank Financing  | 3.0         | -5.8        | -           | -           | -           | -            | -           | -           | -           | -           |
| Other Internal Sources  | -           | -           | -0.1        | -           | -           | -0.002       | -           | -           | -           | -           |
| Other Sources of Financing  | -           | -           | 5.0         | 5.3         | -5.6        | -            | -           | -           | -           | -           |
| Extra Budget Resources  | -           | -           | -           | -           | -           | -19.7        | -8.7        | 23.2        | -22.7       | -37.1       |

**Table 19:** continuation

|                               | 1998         | 1999         | 2000        | 2001         | 2002         | 2003        | 2004         | 2005        | 2006        | 2007        |
|-------------------------------|--------------|--------------|-------------|--------------|--------------|-------------|--------------|-------------|-------------|-------------|
| <b>External Sources</b>       | <b>15.0</b>  | <b>46.3</b>  | <b>22.5</b> | <b>32.1</b>  | <b>36.7</b>  | <b>38.4</b> | <b>34.9</b>  | <b>13.3</b> | <b>26.1</b> | <b>56.4</b> |
| <b>Receipt of loans</b>       | <b>51.4</b>  | <b>53.6</b>  | <b>22.6</b> | <b>40.5</b>  | <b>48.0</b>  | <b>53.1</b> | <b>45.6</b>  | <b>22.7</b> | <b>34.9</b> | <b>64.5</b> |
| <b>Repayment of loans</b>     | <b>-36.4</b> | <b>-10.5</b> | <b>-4.1</b> | <b>-12.2</b> | <b>-12.2</b> | <b>-8.4</b> | <b>-11.1</b> | <b>-7.2</b> | <b>-7.1</b> | <b>-6.0</b> |
| <b>Other external sources</b> | <b>-</b>     | <b>3.2</b>   | <b>4.0</b>  | <b>3.8</b>   | <b>1.0</b>   | <b>-6.3</b> | <b>0.4</b>   | <b>-2.3</b> | <b>-1.7</b> | <b>-2.0</b> |
| Multilateral creditors        | 9.2          | 47.4         | 17.7        | 30.6         | 30.6         | 44.5        | na           | na          | na          | na          |
| Receipt of loans              | 41.5         | 52.6         | 20.4        | 33.7         | 41.6         | 49.4        | na           | na          | na          | na          |
| Repayment of loans            | -32.3        | -5.3         | -2.8        | -3.1         | -11.0        | -4.8        | na           | na          | na          | na          |
| Bilateral creditors           | 5.8          | -4.3         | 0.9         | -2.3         | 5.2          | 0.2         | na           | na          | na          | na          |
| Receipt of loans              | 9.9          | 0.9          | 2.2         | 6.8          | 6.4          | 3.7         | na           | na          | na          | na          |
| Repayment of loans            | -4.1         | -5.2         | -1.3        | -9.1         | -1.2         | -3.5        | na           | na          | na          | na          |
| Other external sources        | -            | 3.2          | 4.0         | 3.8          | 0.5          | -8.6        | na           | na          | na          | na          |
| Other                         | -            | -            | -           | -            | 0.5          | 2.3         | na           | na          | na          | na          |

**Table 20: Financing of State Budget Deficit, as % to GDP**

|   | 1998       | 1999        | 2000        | 2001        | 2002        | 2003        | 2004        | 2005       | 2006       | 2007        |
|---|------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|-------------|
| <b>Deficit Financing</b>  | <b>9.6</b> | <b>15.0</b> | <b>14.3</b> | <b>13.1</b> | <b>8.6</b>  | <b>4.3</b>  | <b>4.7</b>  | <b>4.0</b> | <b>2.6</b> | <b>1.7</b>  |
| <b>Internal Sources</b>   | <b>5.6</b> | <b>1.6</b>  | <b>8.0</b>  | <b>4.8</b>  | <b>-0.3</b> | <b>-3.7</b> | <b>-0.5</b> | <b>2.8</b> | <b>0.9</b> | <b>-0.4</b> |
| State Securities (T- bills)   | -0.5       | 0.3         | 0.5         | 1.5         | 1.0         | 0.5         | 0.8         | 0.6        | 0.5        | 0.3         |
| Repayment of Notes  | 0.0        | 0.0         | 0.0         | 0.0         | -0.1        | -0.1        | 0.0         | 0.0        | 0.0        | 0.0         |
| Repayment of internal Premium (lottery) State bonds                           | 0.0        | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0        | 0.0        | 0.0         |
| Receipts from Privatization of State Enterprises and Uncompleted Construction | 5.5        | 3.2         | 6.1         | 1.9         | 0.2         | 0.0         | 0.00        | -          | 1.9        | 0.7         |
| Repayment of Loans Receipt from "Hayastan" All Armenian Fund                  | -0.1       | -0.2        | -           | -           | -           | -           | -           | -          | -          | -           |
| Net Bank Financing  | 0.8        | -1.7        | -           | -           | -           | -           | -           | -          | -          | -           |
| Other Internal Sources  | -          | -           | 0.0         | -           | -           | 0.0         | -           | -          | -          | -           |
| Other Sources of Financing  | -          | -           | 1.4         | 1.4         | -1.4        | -           | -           | -          | -          | -           |
| Extra Budget Resources  | -          | -           | -           | -           | -           | -4.1        | -1.3        | 2.2        | -1.5       | -1.4        |

**Table 20:** continuation

|                               | 1998        | 1999        | 2000        | 2001        | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>External Sources</b>       | <b>4.0</b>  | <b>13.4</b> | <b>6.4</b>  | <b>8.3</b>  | <b>8.9</b>  | <b>7.9</b>  | <b>5.2</b>  | <b>1.2</b>  | <b>1.7</b>  | <b>2.1</b>  |
| <b>Receipt of loans</b>       | <b>13.7</b> | <b>15.5</b> | <b>6.4</b>  | <b>10.4</b> | <b>11.6</b> | <b>10.9</b> | <b>6.8</b>  | <b>2.1</b>  | <b>2.3</b>  | <b>2.4</b>  |
| <b>Repayment of loans</b>     | <b>-9.7</b> | <b>-3.0</b> | <b>-1.2</b> | <b>-3.1</b> | <b>-2.9</b> | <b>-1.7</b> | <b>-1.7</b> | <b>-0.7</b> | <b>-0.5</b> | <b>-0.2</b> |
| <b>Other external sources</b> | <b>-</b>    | <b>0.9</b>  | <b>1.1</b>  | <b>1.0</b>  | <b>0.2</b>  | <b>-1.3</b> | <b>0.1</b>  | <b>-0.2</b> | <b>-0.1</b> | <b>-0.1</b> |
| Multilateral creditors        | 2.4         | 13.7        | 5.0         | 7.9         | 7.4         | 9.2         | na          | na          | na          | na          |
| Receipt of loans              | 11.1        | 15.3        | 5.8         | 8.7         | 10.0        | 10.2        | na          | na          | na          | na          |
| Repayment of loans            | -8.6        | -1.5        | -0.8        | -0.8        | -2.7        | -1.0        | na          | na          | na          | na          |
| Bilateral creditors           | 1.5         | -1.2        | 0.2         | -0.6        | 1.2         | 0.0         | na          | na          | na          | na          |
| Receipt of loans              | 2.7         | 0.3         | 0.6         | 1.7         | 1.5         | 0.8         | na          | na          | na          | na          |
| Repayment of loans            | -1.1        | -1.5        | -0.4        | -2.3        | -0.3        | -0.7        | na          | na          | na          | na          |
| Other external sources        | -           | 0.9         | 1.1         | 1.0         | 0.1         | -1.8        | na          | na          | na          | na          |
| Other                         | -           | -           | -           | -           | 0.1         | 0.5         | na          | na          | na          | na          |

**Table 21: State Budget 2008-2009\***

|   | 2008         |             | 2009          |             |
|---|--------------|-------------|---------------|-------------|
|   | bln AMD      | as % to GDP | bln AMD       | as % to GDP |
| <b>State budget incomes</b>   | <b>785.4</b> | <b>22.0</b> | <b>690.0</b>  | <b>22.2</b> |
| Tax incomes   | 598.8        | 16.8        | 503.3         | 16.2        |
| Government duty   | 22.3         | 0.6         | 19.1          | 0.6         |
| Social insurance obligatory payments  | 105.0        | 2.9         | 102.9         | 3.3         |
| Official transfers  | 15.0         | 0.4         | 21.7          | 0.7         |
| Other incomes   | 44.3         | 1.2         | 43.0          | 1.4         |
| <b>Economic classification</b>  |              |             |               |             |
| <b>Total Expenditures</b>   | <b>810.6</b> | <b>22.7</b> | <b>929.1</b>  | <b>29.9</b> |
| <b>Current Expenditures</b>   | <b>717.5</b> | <b>20.1</b> | <b>718.3</b>  | <b>23.2</b> |
| Expenditures of payment for work  | 64.1         | 1.8         | 75.6          | 2.4         |
| Goods and services  | 135.3        | 3.8         | 152.3         | 4.9         |
| Interest Payments   | 11.1         | 0.3         | 16.3          | 0.5         |
| Subsidies   | 87.7         | 2.5         | 19.0          | 0.6         |
| Transfers   | 83.2         | 2.3         | 80.1          | 2.6         |
| Social benefits and pensions  | 207.9        | 5.8         | 240.2         | 7.7         |
| Other expenditures  | 128.2        | 3.6         | 134.9         | 4.3         |
| <b>Transaction in non-financial assets</b>  | <b>93.1</b>  | <b>2.6</b>  | <b>210.8</b>  | <b>6.8</b>  |
| <b>Non-financial assets expenditures</b>  | <b>181.7</b> | <b>5.1</b>  | <b>221.4</b>  | <b>7.1</b>  |
| Fixed assets  | 168.5        | 4.7         | 215.7         | 7.0         |
| Buildings   | 133.4        | 3.7         | 188.6         | 6.1         |
| Acquisition, Maintenance and Repair of Equipment and Machinery                        | 30.7         | 0.9         | 22.4          | 0.7         |
| Other Fixed Assets  | 4.5          | 0.1         | 4.7           | 0.2         |
| Resourses   | 13.1         | 0.4         | 5.5           | 0.2         |
| Non Produced Assets from Realization of Non-Financial Assets                          | 0.0          | 0.0         | 0.2           | 0.0         |
| <b>Drawings</b>   | <b>-88.6</b> | <b>-2.5</b> | <b>-10.7</b>  | <b>-0.3</b> |
| <b>Functional classification</b>  |              |             |               |             |
| <b>Total Expenditures</b>   | <b>810.6</b> | <b>22.7</b> | <b>929.1</b>  | <b>29.9</b> |
| General Public Services   | 104.8        | 2.9         | 113.0         | 3.6         |
| Defense   | 121.2        | 3.4         | 130.2         | 4.2         |
| Maintenance of Public Order and Security  | 61.7         | 1.7         | 69.5          | 2.2         |
| Economic Relations  | 89.4         | 2.5         | 133.8         | 4.3         |
| Environment Protection  | 3.0          | 0.1         | 3.9           | 0.1         |
| Housing Construction and Communal Facilities  | 14.0         | 0.4         | 21.1          | 0.7         |
| Public health   | 50.0         | 1.4         | 56.2          | 1.8         |
| Recreation, Culture and Religion  | 16.0         | 0.4         | 16.3          | 0.5         |
| Education   | 103.5        | 2.9         | 107.5         | 3.5         |
| Social Security   | 212.6        | 6.0         | 243.6         | 7.9         |
| Reserve Funds Not Classified in Main Groups   | 34.3         | 1.0         | 33.9          | 1.1         |
| <b>Deficit Financing</b>  | <b>25.2</b>  | <b>0.7</b>  | <b>239.1</b>  | <b>7.7</b>  |
| <b>A. Internal Sources of Financing</b>   | <b>7.8</b>   | <b>0.2</b>  | <b>-115.1</b> | <b>-3.7</b> |
| 1. Borrowings   | 24.3         | 0.7         | 42.2          | 1.4         |
| 1.1. Net Drawings (Revenues) From Issue and Placement of Securiries(Excluding Stocks) | 25.0         | 0.7         | 43.4          | 1.4         |
| 1.2. Repayment of Receipt Credits and Loans   | -0.6         | 0.0         | -1.2          | 0.0         |
| 2. Financial Assets   | -16.6        | -0.5        | -157.4        | -5.1        |
| 2.1. Revenues from Realization of Stocks and Other Participating Interest             | 13.4         | 0.4         | 0.4           | 0.0         |
| 2.2. Stock and Interest Participation   | -0.3         | 0.0         | -0.3          | 0.0         |
| 2.3. Result Focusing of Free Budget Resources 2008                                    | -            | -           | 8.1           | 0.3         |
| 2.4. Credit and Loans   | -7.3         | -0.2        | -112.2        | -3.6        |
| 2.5. Receipts from Repayment of Budgetary Credits and Loans                           | 1.1          | 0.0         | 15.1          | 0.5         |
| 2.6. Other Sources  | -23.4        | -0.7        | -68.4         | -2.2        |
| <b>B. External Sources of Financing</b>   | <b>17.4</b>  | <b>0.5</b>  | <b>354.3</b>  | <b>11.4</b> |
| 1. Borrowings   | 44.4         | 1.2         | 389.3         | 12.5        |
| 1.1. Receipts of Credits and Loans  | 49.3         | 1.4         | 395.7         | 12.8        |
| 1.2. Repayment of Credits and Loans   | -4.9         | -0.1        | -6.3          | -0.2        |
| 2. Financial Assets   | -26.0        | -0.7        | -33.3         | -1.1        |
| 2.1. Credit and Loans   | -26.0        | -0.7        | -33.1         | -1.1        |
| 2.2. Receipts from Repayment of Budgetary Credits and Loans                           | 0.0          | 0.0         | 0.1           | 0.0         |
| 3. Other Sources  | -1.0         | 0.0         | -1.8          | -0.1        |

\*From 2008 revenue and expenditure classification of state budget has been changed according to requirements of GFS 2001

**Table 22: Broad Money, end of period, bln AMD**

|   | 1995        | 1996        | 1997        | 1998        | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         |
|---|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Broad Money</b>                                    | <b>40.3</b> | <b>54.4</b> | <b>70.2</b> | <b>97.1</b> | <b>111.1</b> | <b>151.7</b> | <b>172.2</b> | <b>203.1</b> | <b>233.8</b> | <b>285.9</b> | <b>365.6</b> | <b>485.7</b> | <b>691.3</b> | <b>707.8</b> | <b>815.0</b> |
| <b>NFA of Banking System</b>                          | <b>15.5</b> | <b>5.6</b>  | <b>27.6</b> | <b>16.4</b> | <b>30.0</b>  | <b>56.2</b>  | <b>73.2</b>  | <b>148.9</b> | <b>197.1</b> | <b>225.2</b> | <b>256.2</b> | <b>398.2</b> | <b>449.1</b> | <b>201.4</b> | <b>356.5</b> |
| <b>NDA of Banking System</b>                          | <b>24.7</b> | <b>48.8</b> | <b>42.7</b> | <b>80.7</b> | <b>81.1</b>  | <b>95.4</b>  | <b>99.0</b>  | <b>54.2</b>  | <b>36.7</b>  | <b>60.8</b>  | <b>109.3</b> | <b>87.5</b>  | <b>242.2</b> | <b>506.4</b> | <b>458.5</b> |
| Net Claims to Government                              | 8.8         | 23.4        | 16.7        | 21.0        | 17.0         | 9.3          | 8.4          | 1.0          | -14.6        | -17.2        | 5.2          | -31.8        | -54.0        | -38.2        | -126.3       |
| Credit to Economy                                     | 37.9        | 37.2        | 48.5        | 81.6        | 90.1         | 109.3        | 102.7        | 94.0         | 103.2        | 142.5        | 188.3        | 241.5        | 429.8        | 692.8        | 774.2        |
| Other Net Assets                                      | -22.1       | -11.7       | -22.6       | -22.0       | -26.0        | -23.2        | -12.1        | -40.7        | -51.9        | -64.5        | -84.2        | -122.1       | -133.6       | -148.3       | -189.4       |
| <b>Broad Money (excluding accrued interests)</b>      | <b>40.3</b> | <b>54.4</b> | <b>70.2</b> | <b>96.6</b> | <b>110.2</b> | <b>150.6</b> | <b>171.0</b> | <b>202.6</b> | <b>233.2</b> | <b>285.2</b> | <b>364.6</b> | <b>484.5</b> | <b>688.9</b> | <b>704.1</b> | <b>809.5</b> |
| <b>Currency in Circulation</b>                        | <b>24.6</b> | <b>34.8</b> | <b>37.6</b> | <b>41.4</b> | <b>42.6</b>  | <b>59.5</b>  | <b>65.0</b>  | <b>88.6</b>  | <b>92.0</b>  | <b>98.6</b>  | <b>144.3</b> | <b>211.5</b> | <b>326.0</b> | <b>315.9</b> | <b>282.4</b> |
| <b>Total Deposits of Banking System</b>               | <b>15.7</b> | <b>19.6</b> | <b>32.7</b> | <b>55.2</b> | <b>67.6</b>  | <b>91.1</b>  | <b>106.0</b> | <b>114.0</b> | <b>141.8</b> | <b>187.4</b> | <b>221.2</b> | <b>274.3</b> | <b>365.3</b> | <b>391.8</b> | <b>532.5</b> |
| Deposits in AMD                                       | 7.4         | 8.2         | 9.1         | 16.2        | 13.7         | 17.2         | 20.0         | 35.3         | 41.4         | 47.1         | 80.5         | 130.9        | 235.0        | 222.0        | 168.4        |
| Demand Deposits                                       | 5.5         | 5.0         | 6.5         | 11.2        | 9.5          | 11.8         | 13.4         | 25.9         | 31.3         | 33.8         | 57.7         | 83.9         | 132.5        | 99.7         | 104.4        |
| Time Deposits   | 2.0         | 3.1         | 2.6         | 5.0         | 4.2          | 5.5          | 6.6          | 9.4          | 10.1         | 13.3         | 22.7         | 47.0         | 102.5        | 122.3        | 64.1         |
| Deposits in FX  | 8.2         | 11.4        | 23.6        | 39.0        | 53.9         | 73.9         | 86.0         | 78.7         | 100.4        | 140.2        | 140.8        | 143.4        | 130.3        | 169.8        | 364.1        |
| <b>Accrued Interests</b>                              | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.5</b>  | <b>0.9</b>   | <b>1.1</b>   | <b>1.2</b>   | <b>0.6</b>   | <b>0.6</b>   | <b>0.8</b>   | <b>0.9</b>   | <b>1.2</b>   | <b>2.4</b>   | <b>3.7</b>   | <b>5.5</b>   |
| Accrued Interests (in drams)                          | 0.0         | 0.0         | 0.0         | 0.1         | 0.1          | 0.2          | 0.2          | 0.2          | 0.2          | 0.2          | 0.3          | 0.5          | 1.5          | 2.0          | 1.4          |
| Accrued Interests (in FX)                             | 0.0         | 0.0         | 0.0         | 0.4         | 0.8          | 0.9          | 0.9          | 0.3          | 0.4          | 0.6          | 0.6          | 0.8          | 0.9          | 1.7          | 4.1          |
| <b>Dram Broad Money (excluding accrued interests)</b> | <b>32.0</b> | <b>42.9</b> | <b>46.7</b> | <b>57.5</b> | <b>56.3</b>  | <b>76.7</b>  | <b>85.0</b>  | <b>123.9</b> | <b>133.2</b> | <b>145.5</b> | <b>224.5</b> | <b>341.8</b> | <b>559.6</b> | <b>535.9</b> | <b>449.4</b> |
| <b>Multiplier</b>                                     | <b>1.4</b>  | <b>1.3</b>  | <b>1.4</b>  | <b>1.8</b>  | <b>2.0</b>   | <b>2.1</b>   | <b>2.0</b>   | <b>2.0</b>   | <b>2.0</b>   | <b>2.2</b>   | <b>1.8</b>   | <b>1.7</b>   | <b>1.6</b>   | <b>1.6</b>   | <b>1.6</b>   |



**Table 24: Balance of Payment, mln USD**

|                                      | 1993         | 1994          | 1995          | 1996          | 1997          | 1998          | 1999          | 2000          | 2001          | 2002          | 2003          | 2004          | 2005          | 2006          | 2007            | 2008            | 2009            |
|--------------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|
| <b>Current account</b>               | <b>-66.8</b> | <b>-103.8</b> | <b>-218.4</b> | <b>-290.7</b> | <b>-306.5</b> | <b>-402.9</b> | <b>-306.9</b> | <b>-278.4</b> | <b>-199.6</b> | <b>-147.9</b> | <b>-189.4</b> | <b>-19.6</b>  | <b>-51.7</b>  | <b>-117.1</b> | <b>-589.3</b>   | <b>-1,381.8</b> | <b>-1,368.9</b> |
| <b>Goods</b>                         | <b>-98.0</b> | <b>-178.3</b> | <b>-403.0</b> | <b>-469.2</b> | <b>-559.5</b> | <b>-577.5</b> | <b>-474.0</b> | <b>-463.5</b> | <b>-420.2</b> | <b>-368.8</b> | <b>-434.1</b> | <b>-458.0</b> | <b>-587.9</b> | <b>-895.9</b> | <b>-1,600.3</b> | <b>-2,663.5</b> | <b>-2,081.3</b> |
| Exports F.O.B.                       | 156.2        | 215.4         | 270.9         | 290.3         | 232.5         | 220.5         | 231.7         | 300.5         | 341.8         | 505.2         | 685.6         | 722.9         | 973.9         | 992.0         | 1,162.6         | 1,065.9         | 726.9           |
| Imports F.O.B.                       | -254.2       | -393.6        | -673.9        | -757.4        | -779.4        | -794.7        | -697.3        | -759.5        | -753.9        | -863.6        | -1,115.9      | -1,173.1      | -1,556.1      | -1,883.7      | -2,756.0        | -3,719.7        | -2,793.7        |
| <b>Services</b>                      | <b>-22.8</b> | <b>-27.0</b>  | <b>-23.7</b>  | <b>-50.8</b>  | <b>-62.8</b>  | <b>-63.2</b>  | <b>-62.0</b>  | <b>-55.8</b>  | <b>-17.8</b>  | <b>-40.7</b>  | <b>-68.3</b>  | <b>-98.9</b>  | <b>-120.0</b> | <b>-130.4</b> | <b>-212.5</b>   | <b>-327.1</b>   | <b>-268.1</b>   |
| Transportation                       | -18.5        | -28.7         | -28.9         | -55.9         | -41.2         | -57.2         | -54.0         | -52.0         | -49.4         | -65.6         | -78.3         | -105.1        | -119.4        | -129.6        | -228.3          | -331.1          | -273.8          |
| Other Services                       | -4.3         | 1.6           | 5.3           | 5.1           | -21.6         | -6.1          | -8.0          | -3.8          | 31.6          | 24.9          | 10.0          | 6.2           | -0.6          | -0.8          | 15.8            | 4.0             | 5.6             |
| <b>Net Income</b>                    | <b>-1.3</b>  | <b>-4.0</b>   | <b>40.0</b>   | <b>44.7</b>   | <b>98.5</b>   | <b>60.4</b>   | <b>54.9</b>   | <b>52.9</b>   | <b>64.5</b>   | <b>88.2</b>   | <b>94.5</b>   | <b>107.4</b>  | <b>132.5</b>  | <b>215.2</b>  | <b>278.8</b>    | <b>471.2</b>    | <b>166.6</b>    |
| Compensation of Employees            | 0.0          | 0.0           | 53.0          | 55.7          | 124.0         | 82.3          | 78.8          | 77.0          | 72.5          | 105.4         | 133.7         | 259.5         | 295.8         | 446.3         | 576.6           | 761.2           | 546.8           |
| Investment Income                    | -1.3         | -4.0          | -13.0         | -11.0         | -25.5         | -21.9         | -23.9         | -24.1         | -8.1          | -17.2         | -39.3         | -152.1        | -163.2        | -231.2        | -297.8          | -289.0          | -380.2          |
| <b>Net current transfers</b>         | <b>55.2</b>  | <b>105.6</b>  | <b>168.3</b>  | <b>184.6</b>  | <b>217.2</b>  | <b>177.4</b>  | <b>174.1</b>  | <b>188.1</b>  | <b>174.0</b>  | <b>173.4</b>  | <b>218.5</b>  | <b>429.8</b>  | <b>523.7</b>  | <b>694.0</b>  | <b>944.8</b>    | <b>1,137.6</b>  | <b>813.9</b>    |
| Official Transfers                   | 55.0         | 94.4          | 149.9         | 117.1         | 149.4         | 112.7         | 93.8          | 102.5         | 71.9          | 54.7          | 60.2          | 61.0          | 66.1          | 80.0          | 94.5            | 75.2            | 80.7            |
| Private Transfers                    | 0.2          | 11.1          | 18.4          | 67.5          | 67.8          | 64.7          | 80.3          | 85.6          | 102.1         | 118.7         | 158.3         | 368.9         | 457.6         | 614.0         | 850.3           | 1,062.4         | 733.2           |
| <b>Capital and Financial Account</b> | <b>51.8</b>  | <b>99.1</b>   | <b>207.2</b>  | <b>277.2</b>  | <b>298.3</b>  | <b>399.4</b>  | <b>294.5</b>  | <b>261.3</b>  | <b>189.1</b>  | <b>152.7</b>  | <b>190.8</b>  | <b>25.2</b>   | <b>47.9</b>   | <b>132.9</b>  | <b>591.5</b>    | <b>1,369.3</b>  | <b>1,349.5</b>  |
| <b>Capital account</b>               | <b>5.1</b>   | <b>5.7</b>    | <b>8.1</b>    | <b>13.4</b>   | <b>10.9</b>   | <b>9.7</b>    | <b>12.6</b>   | <b>28.3</b>   | <b>30.1</b>   | <b>68.1</b>   | <b>89.9</b>   | <b>41.3</b>   | <b>73.3</b>   | <b>86.4</b>   | <b>142.8</b>    | <b>148.9</b>    | <b>89.1</b>     |
| Capital transfers                    | 5.1          | 5.7           | 8.1           | 13.4          | 10.9          | 9.7           | 12.6          | 28.3          | 30.1          | 68.1          | 89.9          | 41.3          | 73.3          | 86.4          | 142.8           | 148.9           | 89.1            |
| Including Central Government         | 5.1          | 5.7           | 8.1           | 13.4          | 10.9          | 9.7           | 16.9          | 29.5          | 32.6          | 70.2          | 86.6          | 13.1          | 18.0          | 24.5          | 62.4            | 52.8            | 25.5            |
| <b>Financial account</b>             | <b>46.7</b>  | <b>93.3</b>   | <b>199.2</b>  | <b>263.8</b>  | <b>287.4</b>  | <b>389.6</b>  | <b>281.9</b>  | <b>233.0</b>  | <b>158.9</b>  | <b>84.7</b>   | <b>100.9</b>  | <b>-16.1</b>  | <b>-25.3</b>  | <b>46.5</b>   | <b>448.7</b>    | <b>1,220.4</b>  | <b>1,260.4</b>  |
| <b>Direct Investment</b>             | <b>0.8</b>   | <b>8.0</b>    | <b>25.3</b>   | <b>17.6</b>   | <b>51.9</b>   | <b>220.8</b>  | <b>122.0</b>  | <b>104.2</b>  | <b>69.9</b>   | <b>110.7</b>  | <b>120.5</b>  | <b>245.6</b>  | <b>232.7</b>  | <b>450.1</b>  | <b>701.0</b>    | <b>925.2</b>    | <b>724.8</b>    |
| <b>Portfolio Investments</b>         | <b>0.0</b>   | <b>0.0</b>    | <b>0.0</b>    | <b>7.2</b>    | <b>15.8</b>   | <b>-15.9</b>  | <b>1.6</b>    | <b>-18.9</b>  | <b>-5.7</b>   | <b>1.5</b>    | <b>0.3</b>    | <b>-2.9</b>   | <b>-1.6</b>   | <b>9.2</b>    | <b>-9.2</b>     | <b>8.4</b>      | <b>-3.9</b>     |
| <b>Other Investments</b>             | <b>90.4</b>  | <b>106.6</b>  | <b>248.6</b>  | <b>297.8</b>  | <b>290.6</b>  | <b>237.2</b>  | <b>178.8</b>  | <b>166.9</b>  | <b>114.4</b>  | <b>53.5</b>   | <b>27.4</b>   | <b>-232.5</b> | <b>-94.3</b>  | <b>-46.8</b>  | <b>303.1</b>    | <b>53.3</b>     | <b>1,139.8</b>  |
| Trade credits                        | 0.0          | 42.1          | 59.0          | 53.0          | 52.5          | 91.7          | 41.7          | 70.4          | 25.6          | -15.1         | 22.8          | 1.7           | -35.0         | -62.7         | -102.5          | -15.3           | 41.1            |
| Loans                                | 99.0         | 79.9          | 197.6         | 202.8         | 178.7         | 106.3         | 95.4          | 54.7          | 83.6          | 46.1          | 61.4          | 23.8          | 93.4          | 175.3         | 547.6           | 451.7           | 1,257.2         |
| Currency and deposits                | 0.0          | -8.2          | 0.1           | 55.3          | 56.9          | 30.3          | 41.9          | 23.3          | 6.2           | -29.6         | -33.7         | -252.9        | -133.0        | -150.8        | -152.4          | -396.4          | -255.21         |
| Other                                | -8.6         | -7.3          | -8.2          | -13.3         | 2.6           | 8.9           | -0.1          | 18.5          | -0.9          | 52.1          | -23.0         | -5.1          | -19.8         | -8.6          | 10.5            | 13.3            | 96.25           |
| <b>Change of Reserve Assets</b>      | <b>-44.6</b> | <b>-21.2</b>  | <b>-74.7</b>  | <b>-58.9</b>  | <b>-71.0</b>  | <b>-52.5</b>  | <b>-20.6</b>  | <b>-19.2</b>  | <b>-19.6</b>  | <b>-81.1</b>  | <b>-47.3</b>  | <b>-26.3</b>  | <b>-162.1</b> | <b>-366.0</b> | <b>-146.2</b>   | <b>233.5</b>    | <b>-600.3</b>   |
| <b>Net Errors and Omissions</b>      | <b>15.1</b>  | <b>4.7</b>    | <b>11.2</b>   | <b>13.5</b>   | <b>8.3</b>    | <b>3.6</b>    | <b>12.5</b>   | <b>17.0</b>   | <b>10.5</b>   | <b>-4.9</b>   | <b>-1.4</b>   | <b>-5.6</b>   | <b>3.8</b>    | <b>-15.8</b>  | <b>-2.2</b>     | <b>12.5</b>     | <b>19.4</b>     |
| Foreign Exchange (AMD/USD, average)  | 83.0         | 297.7         | 405.9         | 413.4         | 490.8         | 504.9         | 535.1         | 539.5         | 555.1         | 573.4         | 578.8         | 533.5         | 457.7         | 416.0         | 342.1           | 305.9           | 363.3           |

**Table 25: Balance of Payment, mln USD**

|                                      | 2006<br>Q1    | 2006<br>Q2    | 2006<br>Q3    | 2006<br>Q4    | 2007<br>Q1    | 2007<br>Q2    | 2007<br>Q3    | 2007<br>Q4    | 2008<br>Q1    | 2008<br>Q2    | 2008<br>Q3    | 2008<br>Q4    | 2009<br>Q1    | 2009<br>Q2    | 2009<br>Q3    | 2009<br>Q4    | 2010<br>Q1    | 2010<br>Q2    |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Current account</b>               | <b>-59.8</b>  | <b>0.7</b>    | <b>-18.6</b>  | <b>-39.3</b>  | <b>-191.2</b> | <b>-53.4</b>  | <b>-103.1</b> | <b>-241.5</b> | <b>-303.8</b> | <b>-219.2</b> | <b>-346.2</b> | <b>-512.7</b> | <b>-267.6</b> | <b>-268.7</b> | <b>-283.9</b> | <b>-548.6</b> | <b>-349.2</b> | <b>-346.3</b> |
| <b>Goods</b>                         | <b>-176.0</b> | <b>-199.3</b> | <b>-238.4</b> | <b>-282.2</b> | <b>-314.2</b> | <b>-311.3</b> | <b>-392.0</b> | <b>-582.7</b> | <b>-474.0</b> | <b>-592.1</b> | <b>-735.9</b> | <b>-861.5</b> | <b>-433.9</b> | <b>-437.2</b> | <b>-521.0</b> | <b>-689.2</b> | <b>-492.3</b> | <b>-514.3</b> |
| Exports F.O.B.                       | 186.3         | 254.2         | 244.6         | 306.9         | 232.6         | 295.8         | 307.1         | 327.1         | 235.4         | 287.7         | 304.5         | 238.3         | 126.2         | 163.5         | 210.7         | 226.5         | 205.5         | 252.3         |
| Imports F.O.B.                       | -363.3        | -453.4        | -480.0        | -587.1        | -544.7        | -603.7        | -697.4        | -910.2        | -713.2        | -877.9        | -1,031.8      | -1,096.8      | -557.5        | -596.9        | -728.0        | -911.3        | -695.6        | -760.5        |
| <b>Services</b>                      | <b>-30.2</b>  | <b>-38.9</b>  | <b>-24.2</b>  | <b>-37.1</b>  | <b>-35.0</b>  | <b>-54.9</b>  | <b>-63.6</b>  | <b>-59.0</b>  | <b>-59.6</b>  | <b>-76.5</b>  | <b>-97.6</b>  | <b>-93.4</b>  | <b>-46.5</b>  | <b>-55.3</b>  | <b>-72.0</b>  | <b>-94.4</b>  | <b>-52.9</b>  | <b>-62.4</b>  |
| Transportation                       | -22.0         | -31.2         | -33.8         | -42.6         | -41.3         | -53.7         | -55.4         | -77.9         | -58.7         | -76.6         | -91.4         | -104.4        | -52.0         | -59.7         | -72.1         | -90.0         | -66.3         | -69.2         |
| Other Services                       | -8.3          | -7.7          | 9.6           | 5.5           | 6.3           | -1.2          | -8.2          | 18.9          | -0.9          | 0.0           | -6.2          | 11.0          | 5.5           | 4.4           | 0.1           | -4.4          | 13.4          | 6.8           |
| <b>Net Income</b>                    | <b>64.0</b>   | <b>64.7</b>   | <b>53.0</b>   | <b>33.5</b>   | <b>6.4</b>    | <b>88.7</b>   | <b>86.4</b>   | <b>97.3</b>   | <b>41.2</b>   | <b>177.2</b>  | <b>128.7</b>  | <b>124.1</b>  | <b>68.3</b>   | <b>43.1</b>   | <b>71.5</b>   | <b>-16.3</b>  | <b>24.2</b>   | <b>24.9</b>   |
| Compensation of Employees            | 106.9         | 113.9         | 125.8         | 99.7          | 82.8          | 128.7         | 175.6         | 189.4         | 123.3         | 189.1         | 242.1         | 206.7         | 94.2          | 134.4         | 158.9         | 159.4         | 97.8          | 132.3         |
| Investment Income                    | -42.9         | -49.2         | -72.9         | -66.2         | -76.4         | -40.0         | -89.3         | -92.2         | -81.1         | -11.8         | -113.4        | -82.7         | -25.9         | -91.3         | -87.4         | -175.6        | -73.6         | -107.4        |
| <b>Net current transfers</b>         | <b>82.4</b>   | <b>174.1</b>  | <b>191.0</b>  | <b>246.5</b>  | <b>151.6</b>  | <b>224.1</b>  | <b>266.2</b>  | <b>302.9</b>  | <b>188.6</b>  | <b>272.3</b>  | <b>358.7</b>  | <b>318.1</b>  | <b>144.5</b>  | <b>180.7</b>  | <b>237.6</b>  | <b>251.2</b>  | <b>171.7</b>  | <b>205.5</b>  |
| Official Transfers                   | 9.4           | 25.1          | 8.0           | 37.4          | 16.8          | 34.5          | 11.1          | 32.1          | 14.8          | 13.3          | 26.3          | 20.8          | 21.7          | 7.4           | 23.9          | 27.7          | 15.4          | 16.0          |
| Private Transfers                    | 73.0          | 148.9         | 183.0         | 209.1         | 134.8         | 189.6         | 255.1         | 270.8         | 173.8         | 258.9         | 332.4         | 297.3         | 122.8         | 173.3         | 213.7         | 223.5         | 156.3         | 189.5         |
| <b>Capital and Financial Account</b> | <b>60.9</b>   | <b>1.6</b>    | <b>24.7</b>   | <b>45.7</b>   | <b>196.3</b>  | <b>40.3</b>   | <b>108.3</b>  | <b>246.6</b>  | <b>297.6</b>  | <b>225.2</b>  | <b>345.2</b>  | <b>501.3</b>  | <b>256.8</b>  | <b>265.9</b>  | <b>284.8</b>  | <b>542.2</b>  | <b>331.1</b>  | <b>336.6</b>  |
| <b>Capital account</b>               | <b>15.7</b>   | <b>20.8</b>   | <b>22.0</b>   | <b>27.8</b>   | <b>24.7</b>   | <b>32.9</b>   | <b>41.0</b>   | <b>44.2</b>   | <b>27.9</b>   | <b>41.4</b>   | <b>34.2</b>   | <b>45.5</b>   | <b>16.5</b>   | <b>19.4</b>   | <b>24.6</b>   | <b>28.6</b>   | <b>21.3</b>   | <b>26.9</b>   |
| Capital transfers                    | 15.7          | 20.8          | 22.0          | 27.8          | 24.7          | 32.9          | 41.0          | 44.2          | 27.9          | 41.4          | 34.2          | 45.5          | 16.5          | 19.4          | 24.6          | 28.6          | 21.3          | 26.9          |
| Including Central Government         | 5.8           | 5.5           | 5.0           | 8.2           | 13.3          | 13.4          | 16.4          | 19.3          | 12.6          | 13.8          | 6.6           | 19.9          | 5.6           | 2.2           | 8.8           | 8.9           | 9.3           | 10.4          |
| <b>Financial account</b>             | <b>45.2</b>   | <b>-19.3</b>  | <b>2.7</b>    | <b>17.9</b>   | <b>171.5</b>  | <b>7.4</b>    | <b>67.3</b>   | <b>202.5</b>  | <b>269.7</b>  | <b>183.9</b>  | <b>311.0</b>  | <b>455.8</b>  | <b>240.3</b>  | <b>246.5</b>  | <b>260.1</b>  | <b>513.6</b>  | <b>309.8</b>  | <b>309.8</b>  |
| <b>Direct Investment</b>             | <b>47.2</b>   | <b>52.5</b>   | <b>100.2</b>  | <b>250.2</b>  | <b>119.1</b>  | <b>103.0</b>  | <b>152.1</b>  | <b>326.7</b>  | <b>116.5</b>  | <b>137.7</b>  | <b>244.5</b>  | <b>426.5</b>  | <b>32.5</b>   | <b>151.2</b>  | <b>171.2</b>  | <b>369.9</b>  | <b>126.6</b>  | <b>117.8</b>  |
| <b>Portfolio Investments</b>         | <b>-0.7</b>   | <b>8.8</b>    | <b>-0.2</b>   | <b>1.3</b>    | <b>0.9</b>    | <b>0.9</b>    | <b>-0.2</b>   | <b>-10.8</b>  | <b>0.0</b>    | <b>3.7</b>    | <b>2.8</b>    | <b>1.9</b>    | <b>0.2</b>    | <b>10.0</b>   | <b>-4.4</b>   | <b>-9.7</b>   | <b>6.1</b>    | <b>3.2</b>    |
| <b>Other Investments</b>             | <b>-6.4</b>   | <b>-3.7</b>   | <b>-47.4</b>  | <b>10.8</b>   | <b>39.3</b>   | <b>53.7</b>   | <b>11.5</b>   | <b>198.7</b>  | <b>65.3</b>   | <b>31.7</b>   | <b>104.9</b>  | <b>-148.6</b> | <b>164.5</b>  | <b>694.8</b>  | <b>141.5</b>  | <b>139.0</b>  | <b>125.6</b>  | <b>112.8</b>  |
| Trade credits                        | -3.8          | -13.8         | -5.7          | -39.4         | -1.3          | 17.1          | -61.4         | -57.0         | -7.4          | 3.9           | 1.9           | -13.7         | 13.1          | 37.6          | 0.5           | -10.1         | -2.5          | -0.2          |
| Loans                                | 0.0           | 55.2          | 67.0          | 53.1          | 43.6          | 72.4          | 90.9          | 340.6         | 92.9          | 95.3          | 116.6         | 146.9         | 240.8         | 707.3         | -22.1         | 331.3         | 166.4         | 102.1         |
| Currency and deposits                | -5.1          | -41.7         | -116.9        | 13.0          | -6.0          | -38.5         | -16.5         | -91.4         | -37.0         | -69.1         | -0.6          | -289.7        | -80.0         | -44.1         | 56.5          | -187.6        | -41.5         | 15.6          |
| Other                                | 2.5           | -3.4          | 8.2           | -16.0         | 3.0           | 2.7           | -1.6          | 6.4           | 16.8          | 1.6           | -13.0         | 7.9           | -9.4          | -5.9          | 106.6         | 5.0           | 3.2           | -4.6          |
| <b>Change of Reserve Assets</b>      | <b>5.1</b>    | <b>-76.9</b>  | <b>-49.8</b>  | <b>-244.4</b> | <b>12.1</b>   | <b>-150.2</b> | <b>-96.0</b>  | <b>87.9</b>   | <b>10.8</b>   | <b>-41.2</b>  | <b>175.9</b>  | <b>87.9</b>   | <b>43.0</b>   | <b>-609.5</b> | <b>-48.1</b>  | <b>14.3</b>   | <b>51.5</b>   | <b>76.0</b>   |
| <b>Net Errors and Omissions</b>      | <b>-1.0</b>   | <b>-2.2</b>   | <b>-6.1</b>   | <b>-6.4</b>   | <b>-5.0</b>   | <b>13.1</b>   | <b>-5.3</b>   | <b>-5.1</b>   | <b>6.2</b>    | <b>-6.1</b>   | <b>1.0</b>    | <b>11.4</b>   | <b>10.9</b>   | <b>2.9</b>    | <b>-0.9</b>   | <b>6.5</b>    | <b>18.2</b>   | <b>9.7</b>    |
| Foreign Exchange (AMD/USD, average)  | 451.0         | 420.6         | 387.9         | 364.6         | 362.1         | 341.0         | 335.8         | 304.2         | 308.1         | 307.1         | 302.3         | 306.4         | 325.6         | 370.5         | 372.6         | 384.4         | 384.1         | 384.3         |

**Table 26: Exports by Main Commodity Groups, mln USD**

|   | 1993         | 1994         | 1995         | 1996         | 1997         | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007           | 2008           | 2009         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|
| <b>Exports</b>                          | <b>156.2</b> | <b>215.5</b> | <b>270.9</b> | <b>290.3</b> | <b>232.5</b> | <b>220.5</b> | <b>231.7</b> | <b>300.5</b> | <b>341.8</b> | <b>505.2</b> | <b>685.6</b> | <b>722.9</b> | <b>973.9</b> | <b>985.1</b> | <b>1,152.3</b> | <b>1,057.2</b> | <b>710.2</b> |
| Ready food Products                     | 10.4         | 12.9         | 12.6         | 11.8         | 24.6         | 16.8         | 15.9         | 27.3         | 48.0         | 54.8         | 72.2         | 69.2         | 96.9         | 95.1         | 144.5          | 167.9          | 99.8         |
| Mineral products                        | 2.3          | 17.8         | 28.8         | 19.1         | 17.9         | 22.2         | 31.0         | 37.2         | 37.9         | 42.1         | 50.3         | 99.6         | 93.5         | 136.6        | 173.5          | 172.5          | 132.1        |
| Plastics, rubber and goods made of them | 4.3          | 7.9          | 10.8         | 8.2          | 9.2          | 8.1          | 9.1          | 9.0          | 13.1         | 6.3          | 4.8          | 10.1         | 8.7          | 28.1         | 31.1           | 19.2           | 10.2         |
| Textile                                 | 14.8         | 15.8         | 15.2         | 9.7          | 10.6         | 13.6         | 13.6         | 13.2         | 24.3         | 28.6         | 31.2         | 44.0         | 37.0         | 35.5         | 35.3           | 40.2           | 14.8         |
| Precious stones and metals              | 41.0         | 75.2         | 89.6         | 140.3        | 55.2         | 53.1         | 99.9         | 121.5        | 122.8        | 258.3        | 350.7        | 299.3        | 336.3        | 301.0        | 208.7          | 173.1          | 105.0        |
| Non-precious metals and things of them  | 5.3          | 9.4          | 30.5         | 47.3         | 57.7         | 40.3         | 25.0         | 44.2         | 43.4         | 44.8         | 90.4         | 137.6        | 322.0        | 280.9        | 390.2          | 346.8          | 231.2        |
| Machinery and equipment                 | 25.3         | 30.9         | 39.1         | 34.3         | 32.2         | 40.8         | 17.5         | 31.0         | 28.5         | 21.4         | 20.1         | 21.9         | 28.0         | 20.8         | 39.6           | 40.3           | 21.0         |
| Vehicles                                | 4.7          | 1.7          | 11.4         | 2.7          | 2.0          | 3.3          | 2.7          | 1.8          | 2.4          | 15.0         | 14.5         | 9.4          | 11.2         | 14.3         | 26.4           | 6.5            | 13.1         |
| Instruments and apparatus               | 2.5          | 4.0          | 3.9          | 2.5          | 4.8          | 3.7          | 1.6          | 2.3          | 8.8          | 19.2         | 31.5         | 7.1          | 4.9          | 22.7         | 31.2           | 17.7           | 8.4          |
| Other                                   | 45.5         | 39.9         | 29.1         | 14.4         | 18.3         | 18.7         | 15.5         | 13.0         | 12.7         | 14.5         | 19.8         | 24.7         | 35.5         | 50.2         | 71.7           | 73.0           | 74.6         |

**Table 27: Exports by Main Trade Partner Countries, mln USD**

|                          | 1993         | 1994         | 1995         | 1996          | 1997         | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007           | 2008           | 2009         |
|--------------------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|
| <b>Exports</b>           | <b>156.2</b> | <b>215.5</b> | <b>270.9</b> | <b>290.3</b>  | <b>232.5</b> | <b>220.5</b> | <b>231.7</b> | <b>300.5</b> | <b>341.8</b> | <b>505.2</b> | <b>685.6</b> | <b>722.9</b> | <b>973.9</b> | <b>985.1</b> | <b>1,152.3</b> | <b>1,057.2</b> | <b>710.2</b> |
| <b>CIS countries</b>     | <b>126.6</b> | <b>157.9</b> | <b>169.6</b> | <b>133.7*</b> | <b>94.7</b>  | <b>80.5</b>  | <b>56.4</b>  | <b>73.4</b>  | <b>89.1</b>  | <b>96.3</b>  | <b>129.1</b> | <b>125.1</b> | <b>187.9</b> | <b>212.5</b> | <b>355.3</b>   | <b>331.1</b>   | <b>192.0</b> |
| Russia                   | 58.5         | 83.9         | 90.8         | 96.1          | 62.9         | 40.0         | 33.9         | 44.6         | 60.5         | 64.6         | 94.4         | 77.9         | 119.0        | 121.2        | 201.5          | 208.2          | 107.8        |
| Turkmenistan             | 57.0         | 65.6         | 68.7         | 17.5          | 13.8         | 22.7         | 6.1          | 5.5          | 0.8          | 2.8          | 3.6          | 0.6          | 1.0          | 1.8          | 2.5            | 4.5            | 3.0          |
| Georgia                  | 3.2          | 2.9          | 2.7          | 6.9           | 10.7         | 9.6          | 11.1         | 16.0         | 12.4         | 16.6         | 18.7         | 29.1         | 46.8         | 54.6         | 87.9           | 81.8           | 52.8         |
| Other countries          | 8.0          | 5.4          | 7.4          | 7.6           | 7.3          | 8.3          | 5.3          | 7.3          | 15.3         | 12.3         | 12.4         | 17.5         | 21.0         | 34.9         | 63.4           | 36.6           | 28.4         |
| <b>Non CIS countries</b> | <b>29.6</b>  | <b>57.6</b>  | <b>101.3</b> | <b>156.6</b>  | <b>137.8</b> | <b>140.0</b> | <b>175.3</b> | <b>227.1</b> | <b>252.8</b> | <b>408.8</b> | <b>556.5</b> | <b>597.8</b> | <b>786.1</b> | <b>772.6</b> | <b>797.0</b>   | <b>726.1</b>   | <b>505.8</b> |
| Belgium                  | 14.9         | 26.0         | 30.8         | 14.7          | 47.0         | 49.8         | 84.2         | 75.1         | 46.5         | 92.3         | 123.8        | 107.9        | 124.6        | 108.8        | 100.2          | 89.6           | 46.8         |
| Iran                     | 5.5          | 14.6         | 35.0         | 43.9          | 42.6         | 31.4         | 34.2         | 30.1         | 31.9         | 31.5         | 22.5         | 30.6         | 28.5         | 29.6         | 38.5           | 25.1           | 19.1         |
| USA                      | 0.2          | 0.4          | 0.6          | 4.4           | 7.1          | 11.6         | 16.0         | 37.9         | 52.3         | 46.2         | 56.1         | 70.6         | 62.2         | 65.1         | 51.4           | 52.8           | 67.3         |
| Germany                  | 0.3          | 6.6          | 10.1         | 3.7           | 9.3          | 9.3          | 10.2         | 12.9         | 11.1         | 28.2         | 44.4         | 83.2         | 152.1        | 148.0        | 169.7          | 183.7          | 114.9        |
| Great Britain            | 0.0          | 0.5          | 1.3          | 3.2           | 1.2          | 8.1          | 9.4          | 10.1         | 20.1         | 51.1         | 42.6         | 1.2          | 0.4          | 7.6          | 2.8            | 40.8           | 1.2          |
| Turkey                   | 0.3          | 0.2          | 2.6          | 6.0           | 7.2          | 3.0          | 1.1          | 1.5          | 1.1          | 1.4          | 1.2          | 2.0          | 2.5          | 2.4          | 3.0            | 1.9            | 1.2          |
| Other countries          | 8.4          | 9.5          | 20.9         | 80.6          | 23.6         | 26.8         | 20.1         | 59.6         | 89.8         | 158.2        | 265.9        | 302.3        | 415.7        | 411.1        | 431.3          | 332.3          | 255.3        |

\* Including data on exports by individuals which can not be differentiated by countries for data of 1996.

**Table 28: Imports by Main Commodity Groups, mln USD**

|  | 1993         | 1994         | 1995         | 1996         | 1997         | 1998         | 1999         | 2000         | 2001         | 2002         | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Imports</b>                         | <b>254.2</b> | <b>393.8</b> | <b>673.9</b> | <b>855.8</b> | <b>892.3</b> | <b>902.4</b> | <b>811.3</b> | <b>884.7</b> | <b>877.4</b> | <b>987.2</b> | <b>1,279.5</b> | <b>1,350.7</b> | <b>1,801.7</b> | <b>2,191.6</b> | <b>3,267.8</b> | <b>4,426.1</b> | <b>3,304.2</b> |
| Animals and products of animal origin  | 23.0         | 46.1         | 63.3         | 67.4         | 58.5         | 47.0         | 41.5         | 33.6         | 30.8         | 27.7         | 32.8           | 40.3           | 45.4           | 40.4           | 62.5           | 125.7          | 97.8           |
| Products of vegetable origin           | 45.5         | 64.3         | 85.6         | 112.8        | 105.3        | 117.8        | 75.7         | 99.1         | 85.2         | 74.4         | 75.0           | 109.0          | 98.3           | 112.1          | 185.8          | 233.3          | 198.6          |
| Ready food products                    | 16.8         | 32.5         | 51.5         | 85.1         | 86.1         | 110.0        | 77.0         | 69.8         | 76.9         | 79.3         | 93.3           | 112.6          | 145.9          | 163.8          | 256.4          | 348.7          | 265.1          |
| Mineral products                       | 105.1        | 161.0        | 224.7        | 186.5        | 209.8        | 204.6        | 176.0        | 179.3        | 188.2        | 171.4        | 179.5          | 209.4          | 297.4          | 366.0          | 516.4          | 664.5          | 512.0          |
| Chemical products                      | 4.2          | 9.1          | 55.4         | 56.2         | 85.2         | 73.7         | 71.4         | 82.4         | 65.1         | 62.8         | 78.4           | 85.2           | 118.4          | 150.4          | 220.0          | 270.4          | 253.3          |
| Textile                                | 4.5          | 8.7          | 7.8          | 21.0         | 33.7         | 31.7         | 30.0         | 32.1         | 36.0         | 36.1         | 39.8           | 47.1           | 46.0           | 59.3           | 66.2           | 152.7          | 92.6           |
| Precious stones and metals             | 26.8         | 31.8         | 62.4         | 129.8        | 47.5         | 45.5         | 86.7         | 113.2        | 106.8        | 213.5        | 333.1          | 291.5          | 347.6          | 312.5          | 296.7          | 304.6          | 107.4          |
| Non-precious metals and things of them | 11.1         | 3.6          | 16.0         | 10.2         | 24.6         | 20.1         | 23.8         | 24.4         | 36.1         | 55.7         | 76.7           | 60.8           | 94.1           | 163.7          | 341.3          | 418.6          | 375.7          |
| Machinery and equipment                | 4.0          | 8.0          | 49.6         | 80.5         | 102.2        | 65.8         | 81.4         | 117.2        | 88.4         | 103.4        | 133.8          | 135.5          | 232.5          | 304.4          | 427.3          | 645.0          | 635.4          |
| Vehicles                               | 1.9          | 2.0          | 6.4          | 12.0         | 15.8         | 47.3         | 33.1         | 23.2         | 25.9         | 39.9         | 78.5           | 92.5           | 151.8          | 196.6          | 422.8          | 574.4          | 242.3          |
| Other                                  | 11.3         | 27.0         | 51.3         | 94.4         | 123.7        | 138.8        | 114.6        | 110.4        | 138.2        | 123.0        | 158.7          | 166.6          | 224.3          | 322.4          | 472.4          | 688.1          | 523.9          |

**Table 29: Imports by Main Trade Partners, mln USD**

|                          | 1993         | 1994         | 1995         | 1996          | 1997         | 1998         | 1999         | 2000         | 2001         | 2002         | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           |
|--------------------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Imports</b>           | <b>254.2</b> | <b>393.8</b> | <b>673.9</b> | <b>855.8</b>  | <b>892.3</b> | <b>902.4</b> | <b>811.3</b> | <b>884.7</b> | <b>877.4</b> | <b>987.2</b> | <b>1,279.5</b> | <b>1,350.7</b> | <b>1,801.7</b> | <b>2,191.6</b> | <b>3,267.8</b> | <b>4,426.1</b> | <b>3,304.2</b> |
| <b>CIS countries</b>     | <b>168.2</b> | <b>205.6</b> | <b>334.0</b> | <b>332.6*</b> | <b>299.1</b> | <b>230.2</b> | <b>187.2</b> | <b>173.6</b> | <b>218.5</b> | <b>302.2</b> | <b>281.3</b>   | <b>290.0</b>   | <b>406.6</b>   | <b>571.5</b>   | <b>909.1</b>   | <b>1,137.7</b> | <b>900.5</b>   |
| Russia                   | 77.9         | 112.2        | 135.1        | 125.5         | 215.9        | 191.4        | 149.9        | 137.2        | 173.6        | 193.3        | 203.4          | 179.7          | 268.5          | 364.8          | 570.1          | 649.4          | 529.7          |
| Georgia                  | 19.5         | 17.8         | 61.8         | 51.2          | 38.2         | 26.8         | 26.9         | 19.8         | 18.5         | 31.5         | 33.0           | 48.5           | 50.8           | 75.6           | 133.6          | 181.3          | 151.2          |
| Turkmenistan             | 64.1         | 69.6         | 129.3        | 86.4          | 27.7         | 0.6          | 0.8          | 1.1          | 0.8          | 25.0         | 0.1            | 0.1            | 1.2            | 0.4            | 1.0            | 2.1            | 0.9            |
| Other countries          | 6.7          | 5.9          | 7.7          | 14.6          | 17.4         | 11.4         | 9.6          | 15.5         | 25.5         | 52.5         | 44.9           | 61.7           | 86.2           | 130.7          | 204.5          | 304.9          | 218.7          |
| <b>Non CIS countries</b> | <b>86.0</b>  | <b>188.3</b> | <b>339.9</b> | <b>523.2</b>  | <b>593.2</b> | <b>672.2</b> | <b>624.1</b> | <b>711.1</b> | <b>658.9</b> | <b>684.9</b> | <b>998.2</b>   | <b>1,060.7</b> | <b>1,395.1</b> | <b>1,620.1</b> | <b>2,358.7</b> | <b>3,288.4</b> | <b>2,403.6</b> |
| USA                      | 26.9         | 96.1         | 114.4        | 103.6         | 116.1        | 96.3         | 85.7         | 102.7        | 84.2         | 52.7         | 111.2          | 104.8          | 116.3          | 136.7          | 199.4          | 302.8          | 168.8          |
| Belgium                  | 2.9          | 1.4          | 15.6         | 49.3          | 49.7         | 54.6         | 85.2         | 84.4         | 41.8         | 91.1         | 129.1          | 109.0          | 162.6          | 157.1          | 157.4          | 125.9          | 74.4           |
| Iran                     | 15.8         | 42.5         | 89.8         | 149.8         | 88.7         | 63.9         | 78.5         | 82.3         | 78.1         | 62.6         | 70.2           | 76.3           | 108.1          | 132.7          | 154.5          | 238.1          | 144.9          |
| Great Britain            | 0.2          | 0.5          | 2.2          | 7.1           | 10.5         | 69.1         | 67.0         | 59.5         | 91.2         | 28.1         | 83.3           | 106.8          | 91.2           | 79.3           | 118.0          | 140.2          | 70.6           |
| United Arab Emirates     | 2.7          | 1.1          | 13.8         | 33.4          | 71.7         | 54.5         | 40.2         | 41.7         | 47.4         | 42.9         | 60.5           | 65.2           | 107.3          | 145.2          | 306.6          | 518.3          | 291.9          |
| Turkey                   | 0.0          | 0.5          | 2.6          | 6.3           | 38.4         | 56.8         | 40.2         | 40.5         | 33.8         | 38.2         | 36.7           | 39.8           | 61.2           | 88.5           | 125.4          | 221.6          | 158.4          |
| Germany                  | 0.3          | 6.9          | 11.3         | 17.4          | 26.2         | 34.0         | 34.2         | 36.5         | 34.0         | 42.9         | 43.8           | 73.9           | 114.6          | 85.0           | 116.1          | 156.9          | 109.6          |
| Italy                    | 31.1         | 8.9          | 22.4         | 26.2          | 36.2         | 34.6         | 23.7         | 25.7         | 29.6         | 36.6         | 36.2           | 38.3           | 45.5           | 76.5           | 95.1           | 118.6          | 87.5           |
| Other countries          | 6.1          | 30.3         | 67.8         | 130.2         | 155.7        | 208.3        | 169.5        | 237.8        | 218.9        | 289.7        | 427.2          | 446.6          | 588.4          | 719.1          | 1,086.3        | 1,465.9        | 1,297.6        |

\* Including data on imports by individuals which can not be differentiated by countries for data of 1996.

**Table 30: Main Poverty Indicators in Armenia**

|  | 1998/99 | 2004    | 2005    | 2006    | 2007    | 2008    |
|--|---------|---------|---------|---------|---------|---------|
| GDP per capita (USD)                                 | 571.9   | 1,112.2 | 1,522.3 | 1,981.0 | 2,849.6 | 3,689.0 |
| GDP per capita (PPP adjusted)*                       | 1,793.2 | 3,327.2 | 3,901.4 | 4,557.8 | 5,327.8 | 5,808.6 |
| Economic Growth (cumulative, 1998=100%)              | 100.0   | 170.8   | 194.5   | 220.2   | 250.6   | 267.7   |
| <b>Poverty Incidence, %</b>                          | 56.1    | 34.6    | 29.8    | 26.5    | 25.0    | 23.5    |
| Capital City (Yerevan)                               | 58.4    | 29.2    | 23.9    | 21.0    | 20.0    | 19.7    |
| Urban Areas  | 62.1    | 36.4    | 30.7    | 28.2    | 24.7    | 23.8    |
| Urban Areas (excluding Yerevan)                      | 65.5    | 43.9    | 37.8    | 35.8    | 29.8    | 28.3    |
| Rural Areas  | 48.2    | 31.7    | 28.3    | 23.4    | 25.5    | 22.9    |
| <b>Extreme Poverty, %</b>                            | 21.0    | 6.4     | 4.6     | 4.1     | 3.8     | 3.1     |
| Capital City (Yerevan)                               | 24.8    | 6.1     | 3.6     | 3.5     | 3.2     | 3.2     |
| Urban Areas  | 26.2    | 7.5     | 5.3     | 5.0     | 4.6     | 3.9     |
| Urban Areas (excluding Yerevan)                      | 27.4    | 9.2     | 7.2     | 6.6     | 6.1     | 4.6     |
| Rural Areas  | 14.1    | 4.4     | 3.2     | 2.4     | 2.3     | 1.7     |
| Poverty Gap, %                                       | 17.2    | 7.4     | 5.4     | 3.8     | 4.9     | 3.1     |
| Poverty Severity, %                                  | 7.2     | 2.4     | 1.6     | 1.1     | 1.5     | 0.8     |
| Gini Coefficient by Income Inequality                | 0.60    | 0.40    | 0.36    | 0.37    | 0.37    | 0.39    |
| Gini Coefficient by Consumption Inequality           | 0.30    | 0.26    | 0.26    | 0.26    | 0.29    | 0.27    |
| <b>General Poverty Line (monthly average)</b>        |         |         |         |         |         |         |
| AMD  | 17,663  | 19,373  | 20,289  | 21,555  | 23,168  | 25,188  |
| USD**  | 33.8    | 38.9    | 44.9    | 57.6    | 73.1    | 82.2    |
| <b>Extreme Poverty (food) Line (monthly average)</b> |         |         |         |         |         |         |
| AMD  | 11,210  | 12,467  | 13,266  | 14,300  | 15,753  | 17,232  |
| USD**  | 21.5    | 25.0    | 29.3    | 38.2    | 49.7    | 56.2    |

\* PPP is presented according to data of World Economic Outlook Database, October 2008, <http://www.imf.org/external/pubs/ft/weo/2008/02/weodata/index.aspx>

\*\* Calculations are based on data of average exchange rates for the IV quarters of 1999, 2004, 2005, 2006 and 2007 – that is respectively 522.6, 498.5, 452.3, 374.0 and 317.1 AMD.

**Table 31: Poverty by Marzes, %**

|                | Poverty Incidence |             |             |             |             |             | Extreme Poverty |            |            |            |            |            |
|----------------|-------------------|-------------|-------------|-------------|-------------|-------------|-----------------|------------|------------|------------|------------|------------|
|                | 1998/99           | 2004        | 2005        | 2006        | 2007        | 2008        | 1998/99         | 2004       | 2005       | 2006       | 2007       | 2008       |
| <b>Armenia</b> | <b>56.1</b>       | <b>34.6</b> | <b>29.8</b> | <b>26.5</b> | <b>25.0</b> | <b>23.5</b> | <b>21.0</b>     | <b>6.4</b> | <b>4.6</b> | <b>4.1</b> | <b>3.8</b> | <b>3.1</b> |
| Yerevan        | 58.4              | 29.2        | 23.9        | 21.0        | 20.0        | 19.7        | 24.8            | 6.1        | 3.6        | 3.5        | 3.2        | 3.2        |
| Aragatsotn     | 60.5              | 35.4        | 32.3        | 27.5        | 22.2        | 20.7        | 22.8            | 5.6        | 3.1        | 2.6        | 3.0        | 1.5        |
| Ararat         | 52.3              | 32.7        | 30.9        | 27.0        | 25.5        | 24.9        | 13.3            | 6.4        | 7.4        | 5.5        | 3.5        | 2.8        |
| Armavir        | 41.7              | 36.0        | 31.6        | 30.8        | 30.7        | 26.7        | 10.2            | 6.6        | 3.8        | 3.4        | 3.8        | 2.7        |
| Gegharquniq    | 49.9              | 41.9        | 36.8        | 29.8        | 29.6        | 24.8        | 11.3            | 4.5        | 2.9        | 2.6        | 2.5        | 7.2        |
| Lori           | 62.6              | 31.3        | 28.8        | 27.0        | 26.8        | 25.1        | 30.0            | 4.5        | 5.8        | 5.5        | 3.6        | 4.1        |
| Kotayq         | 61.7              | 39.3        | 34.5        | 32.0        | 30.0        | 29.5        | 24.5            | 9.2        | 8.7        | 8.1        | 6.1        | 3.2        |
| Shirak         | 75.8              | 48.8        | 42.5        | 37.3        | 32.1        | 30.6        | 33.0            | 10.4       | 4.3        | 3.7        | 6.0        | 6.4        |
| Syuniq         | 53.1              | 36.5        | 28.9        | 25.3        | 24.0        | 19.6        | 18.7            | 5.9        | 2.3        | 2.1        | 3.7        | 1.7        |
| Vayots Dzor    | 34.7              | 28.9        | 19.2        | 11.4        | 13.7        | 16.6        | 12.9            | 4.1        | 1.8        | 1.3        | 2.3        | 1.1        |
| Tavush         | 29.3              | 30.5        | 25.8        | 23.5        | 21.6        | 19.8        | 9.3             | 3.3        | 3.8        | 3.3        | 3.3        | 0.4        |

**Table 32: Poverty by Gender, %**

|                | 1998/99 | 2004 | 2005 | 2006 | 2007 | 2008 | 1998/99 | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------|---------|------|------|------|------|------|---------|------|------|------|------|------|
|                | Male    |      |      |      |      |      | Female  |      |      |      |      |      |
| Non Poor       | 44.1    | 65.0 | 69.9 | 73.7 | 75.3 | 76.9 | 43.7    | 65.7 | 70.3 | 73.4 | 74.8 | 76.2 |
| Poor           | 55.9    | 35.0 | 30.1 | 26.3 | 24.7 | 23.1 | 56.3    | 34.3 | 29.7 | 26.6 | 25.2 | 23.8 |
| Extremely Poor | 20.9    | 6.4  | 4.5  | 4.0  | 3.8  | 3.1  | 21.1    | 6.4  | 4.6  | 4.2  | 3.8  | 3.2  |

**Table 33: Poverty by Level of Education, for 16 years old and above, %**

|                              | Non Poor | Poor | Extremely Poor |
|------------------------------|----------|------|----------------|
| <b>Primary or less</b>       |          |      |                |
| 1998/99                      | 37.7     | 62.3 | 23.7           |
| 2004                         | 62.6     | 37.4 | 7.2            |
| 2005                         | 70.1     | 29.9 | 4.6            |
| 2006                         | 62.7     | 37.3 | 8.6            |
| 2007                         | 68.6     | 31.4 | 2.9            |
| 2008                         | 69.9     | 30.1 | 5.6            |
| <b>Lower Secondary</b>       |          |      |                |
| 1998/99                      | 36.7     | 63.3 | 27.8           |
| 2004                         | 60.8     | 39.2 | 8.1            |
| 2005                         | 63.0     | 37.0 | 6.7            |
| 2006                         | 63.6     | 36.4 | 8.3            |
| 2007                         | 70.3     | 29.7 | 5.3            |
| 2008                         | 65.5     | 34.5 | 4.9            |
| <b>Secondary</b>             |          |      |                |
| 1998/99                      | 41.1     | 58.9 | 24.0           |
| 2004                         | 60.8     | 39.2 | 7.4            |
| 2005                         | 65.6     | 34.4 | 5.3            |
| 2006                         | 70.1     | 29.9 | 4.4            |
| 2007                         | 72.0     | 28.0 | 4.0            |
| 2008                         | 74.6     | 25.4 | 3.3            |
| <b>Specialized Secondary</b> |          |      |                |
| 1998/99                      | 44.4     | 55.6 | 19.4           |
| 2004                         | 68.1     | 31.9 | 5.6            |
| 2005                         | 73.9     | 26.1 | 3.8            |
| 2006                         | 77.7     | 22.3 | 2.4            |
| 2007                         | 77.5     | 22.5 | 3.1            |
| 2008                         | 81.2     | 18.8 | 2.6            |
| <b>Tertiary Education</b>    |          |      |                |
| 1998/99                      | 55.1     | 44.9 | 13.4           |
| 2004                         | 80.5     | 19.5 | 2.6            |
| 2005                         | 84.6     | 15.4 | 1.9            |
| 2006                         | 85.7     | 14.3 | 1.9            |
| 2007                         | 88.1     | 11.9 | 1.1            |
| 2008                         | 87.5     | 12.5 | 1.4            |

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