

# 2016 Armenia Economic Report



## **ECONOMIC INTEGRATION OF SYRIAN REFUGEES IN ARMENIA**



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# ARMENIA ECONOMIC REPORT 2016

## ECONOMIC INTEGRATION OF SYRIAN REFUGEES IN ARMENIA



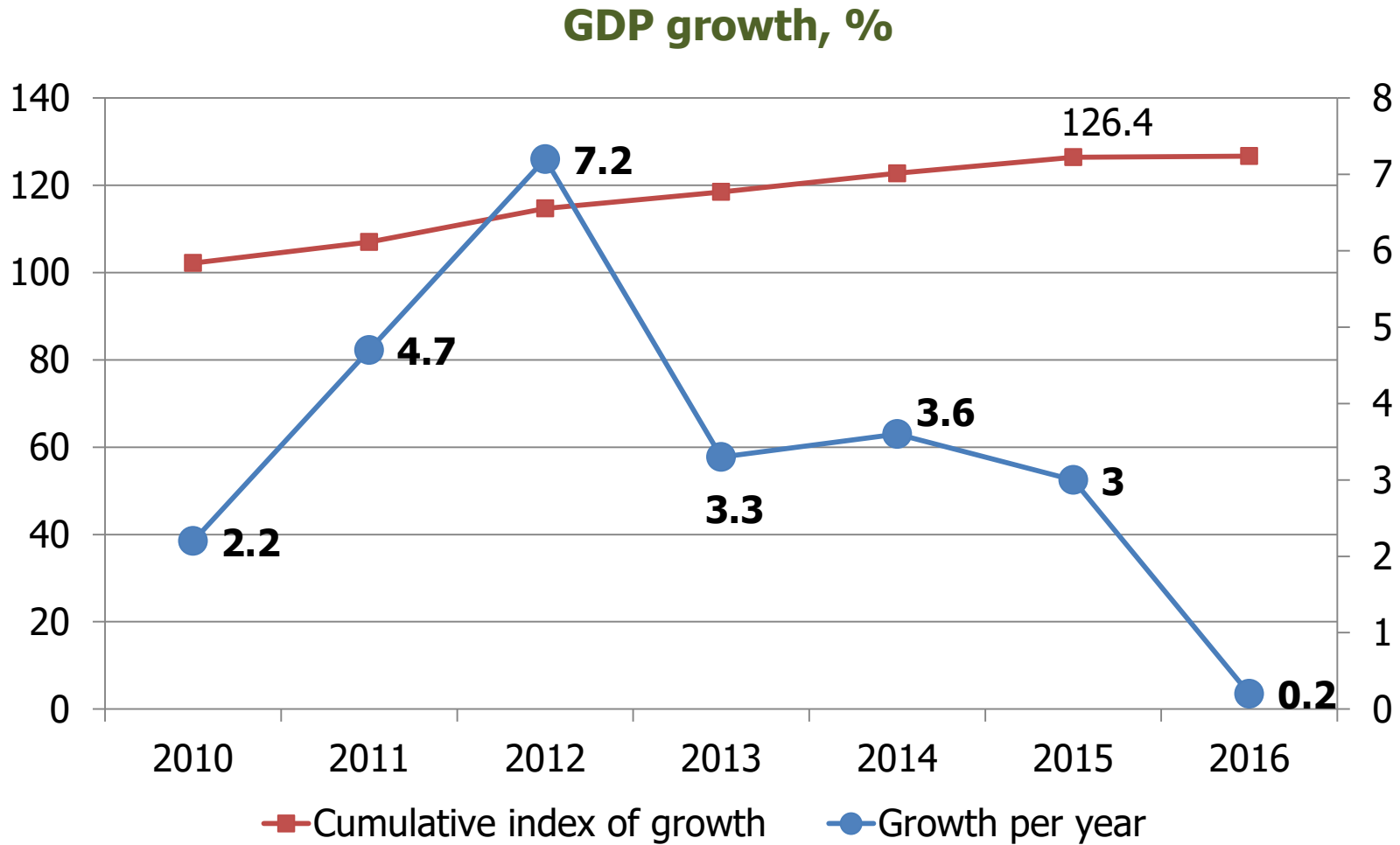
ECONOMIC DEVELOPMENT AND RESEARCH CENTER (EDRC)

MARCH 9, 2016

# **ECONOMIC DEVELOPMENT TRENDS IN ARMENIA**

- **ARMENIAN ECONOMY**
  - **ECONOMIC GROWTH AND OTHER SECTORS OF THE ECONOMY**
  - **MAIN INDICATORS**
  - **LABOUR MARKET AND UNEMPLOYMENT**
- **MEDIUM-TERM ECONOMIC OUTLOOK**

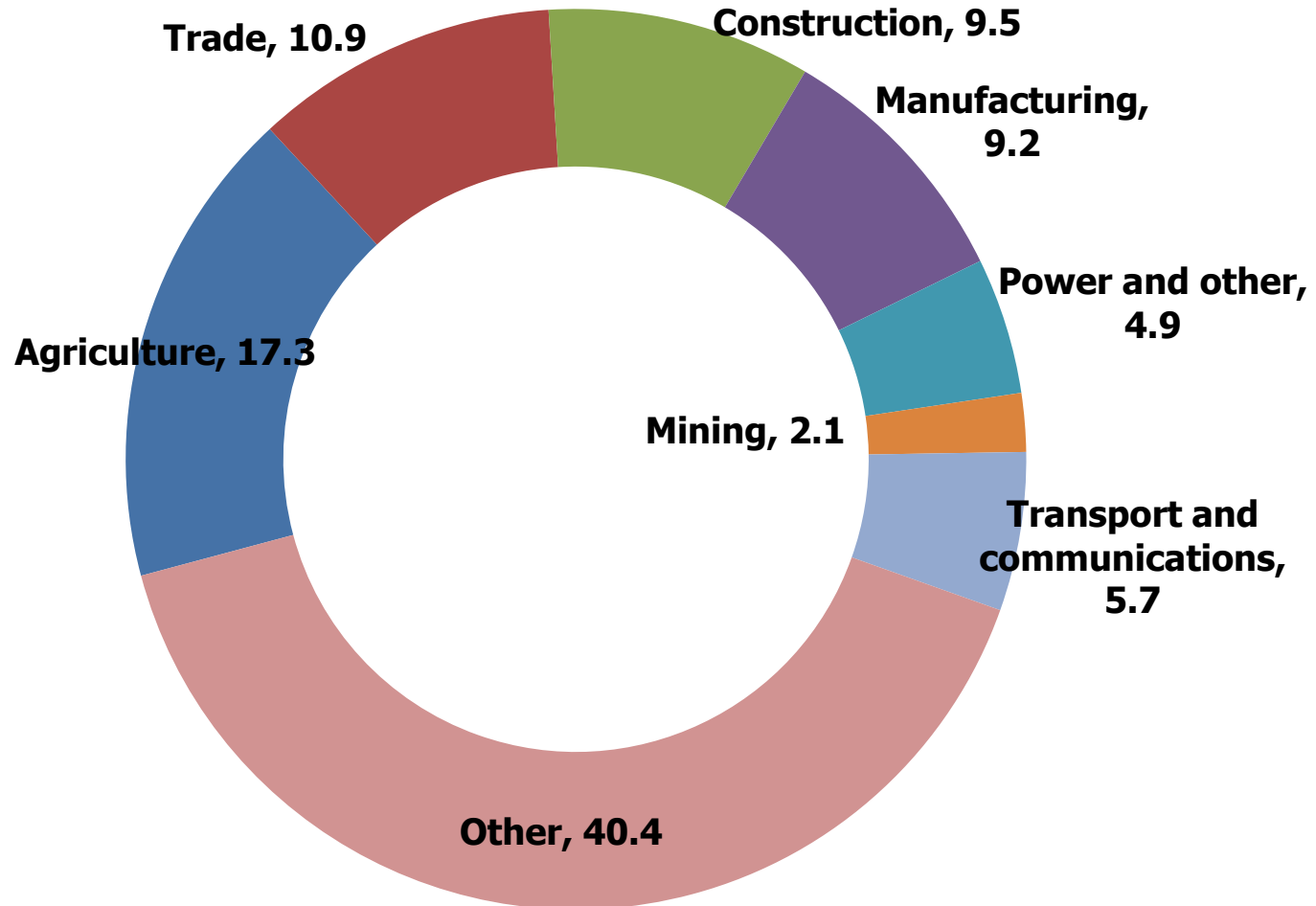
# *Economic growth rates tend to decrease*



Source: EDRC calculations based on data of the NSS of RA

# *Agriculture constitutes 17% of the economy*

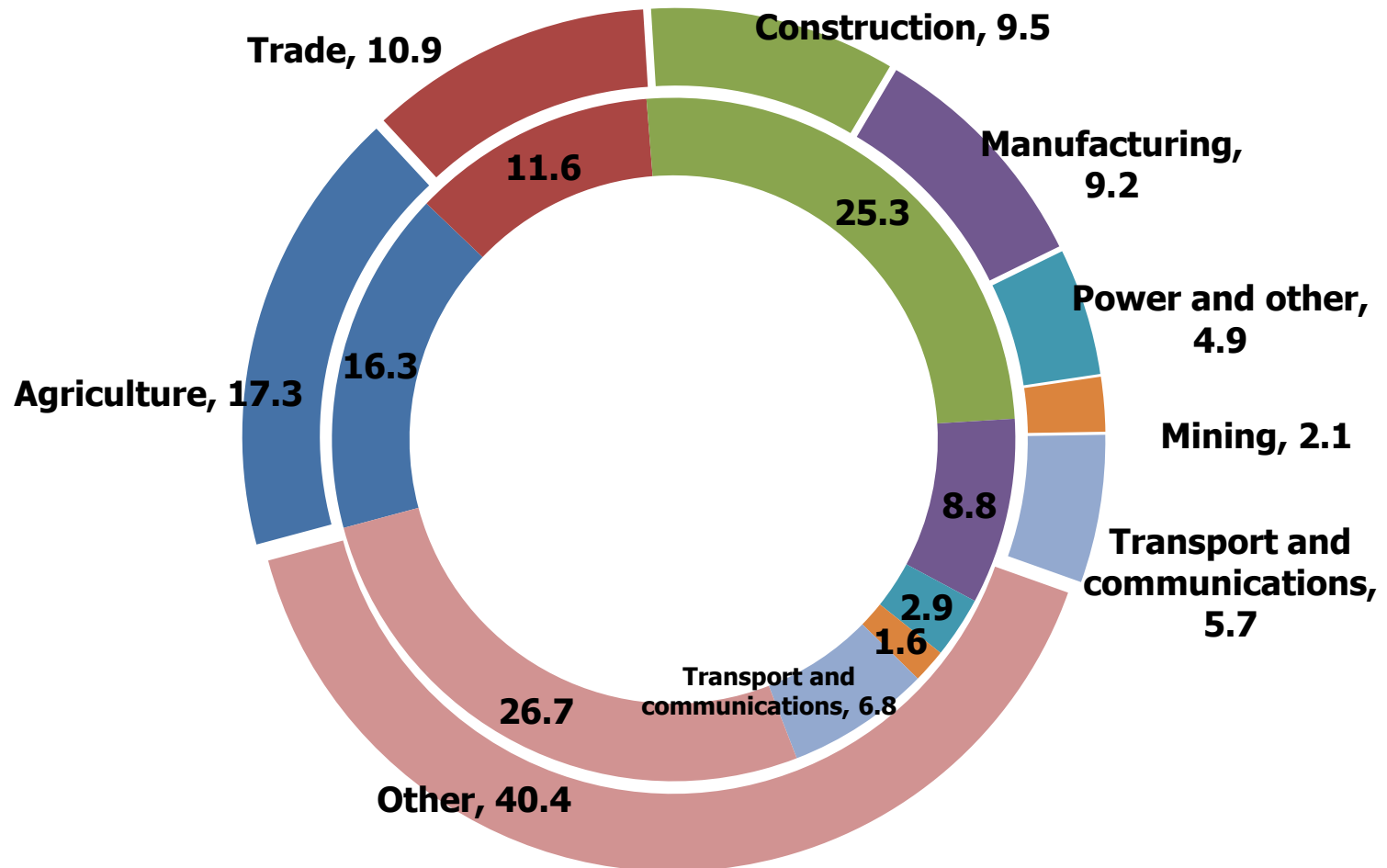
**Nominal GDP structure in 2015, %**



Source: EDRC calculations based on data of the NSS of RA

# Structural shifts are visible

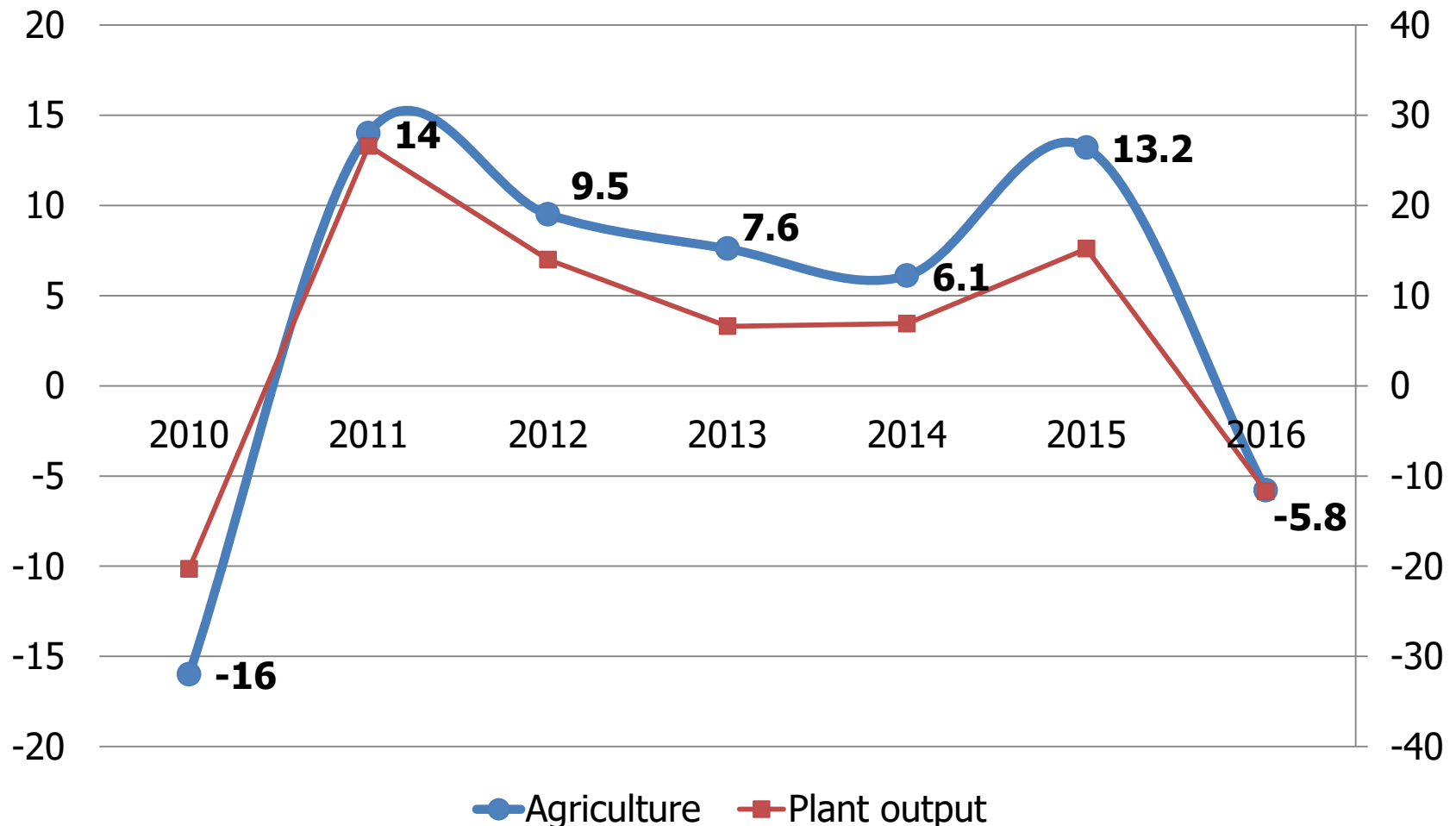
Nominal GDP structure in 2008-2015, %



Source: EDRC calculations based on data of the NSS of RA

# *Agriculture depends on plant-growing subsector*

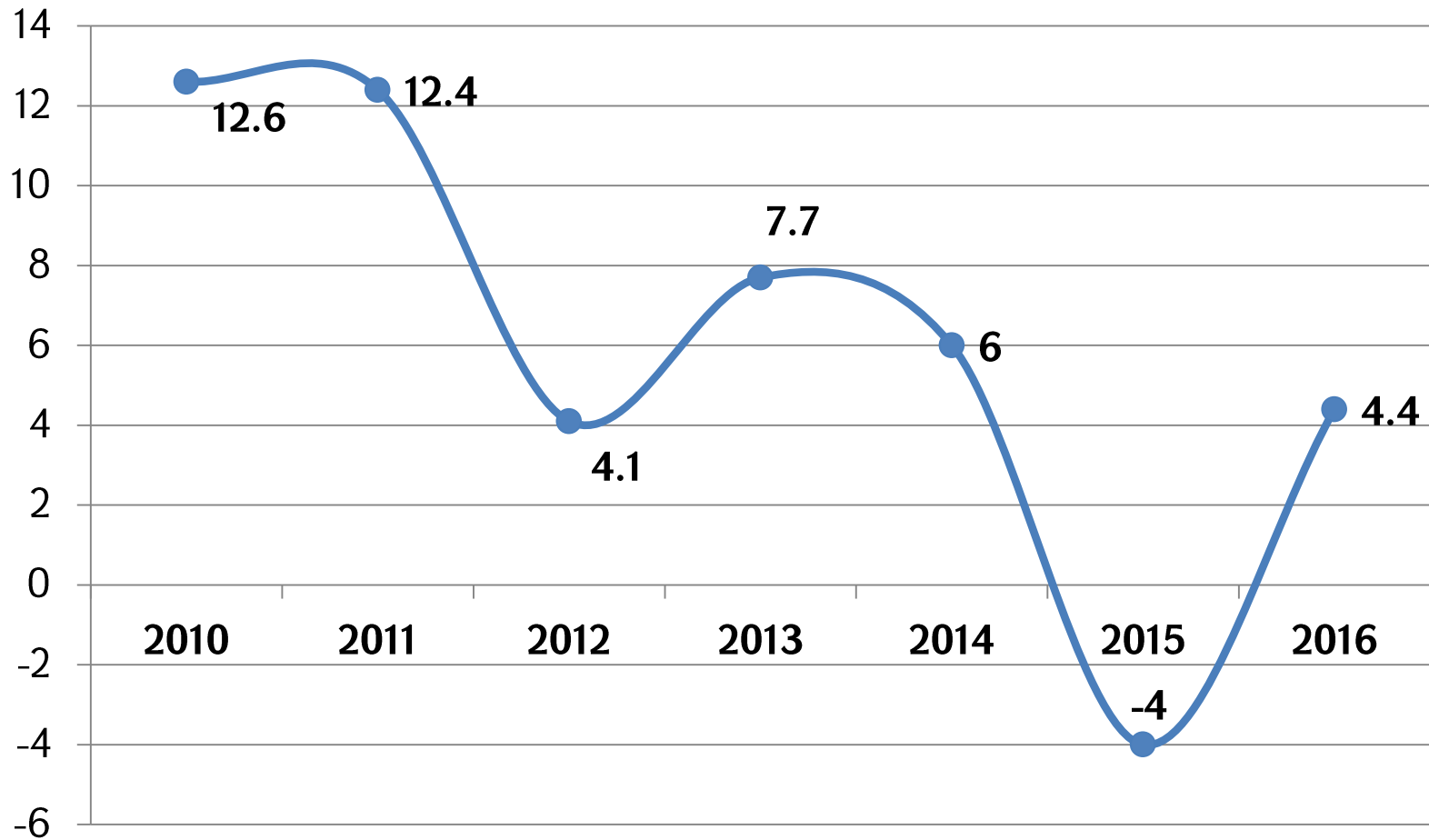
**Agricultural: Economic growth in 2010-2016, %**



Source: EDRC calculations based on data of the NSS of RA

# *Manufacturing declined in 2015*

**Manufacturing. Economic growth in 2010-2016, %**

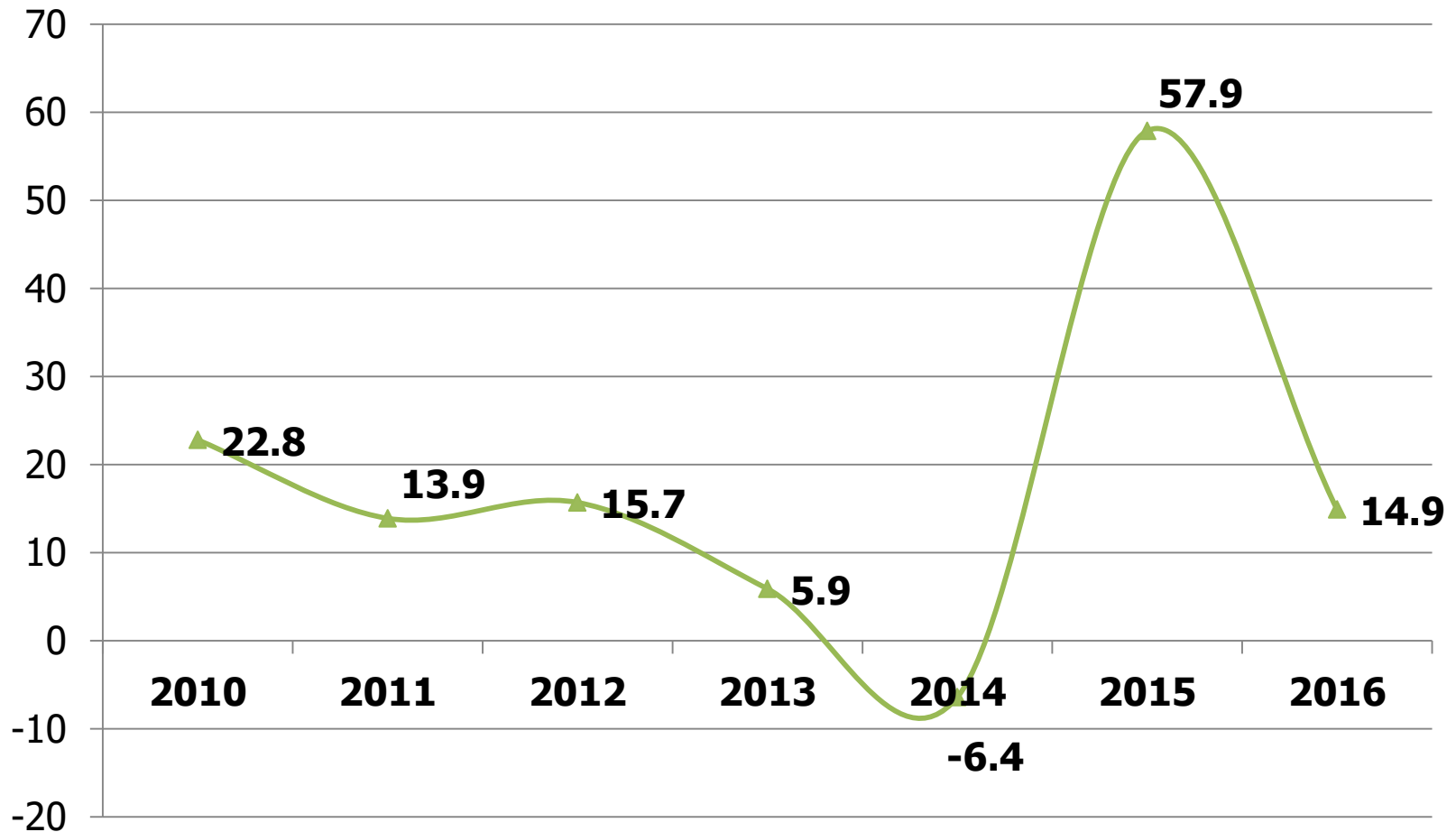


Source: EDRC calculations based on data of the NSS of RA



# *Mining grows drastically*

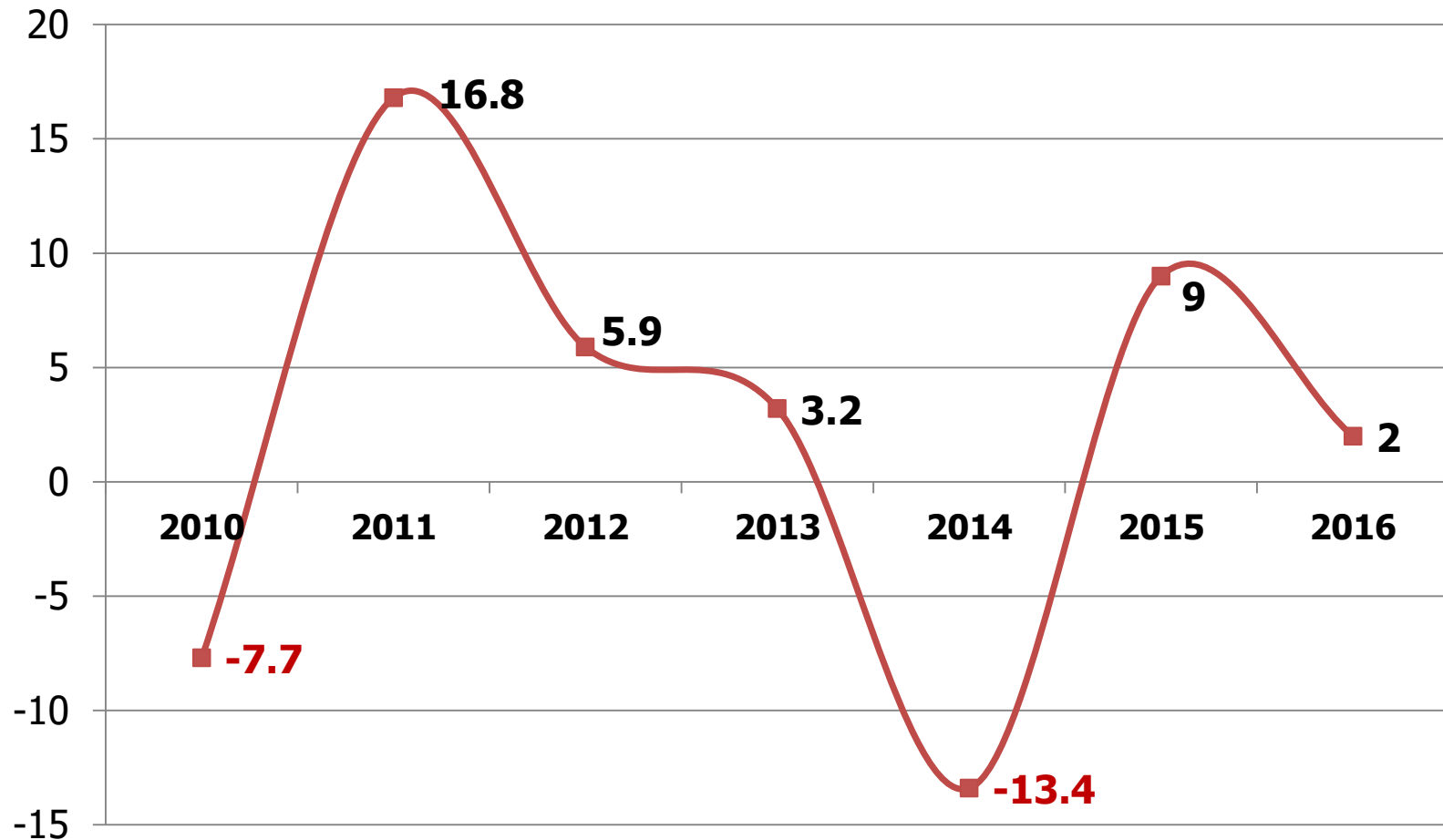
**Mining: Economic growth in 2010-2016, %**



Source: EDRC calculations based on data of the NSS of RA

# *Energy and water supply recovered since the 2014 decline*

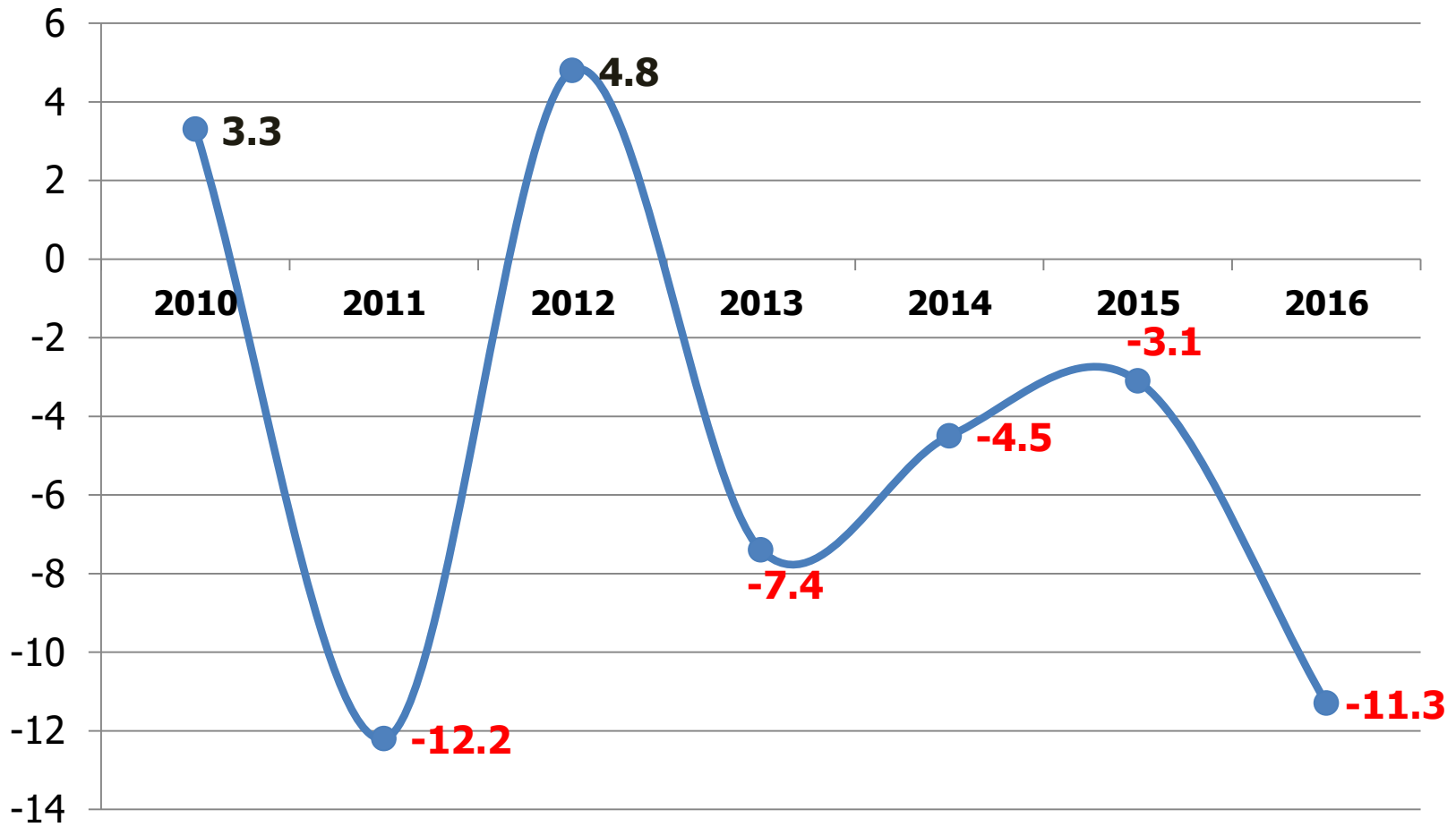
**Power, water supply and other: Economic growth in 2010-2016, %**



Source: EDRC calculations based on data of the NSS of RA

# *Continuous decline in construction deepened*

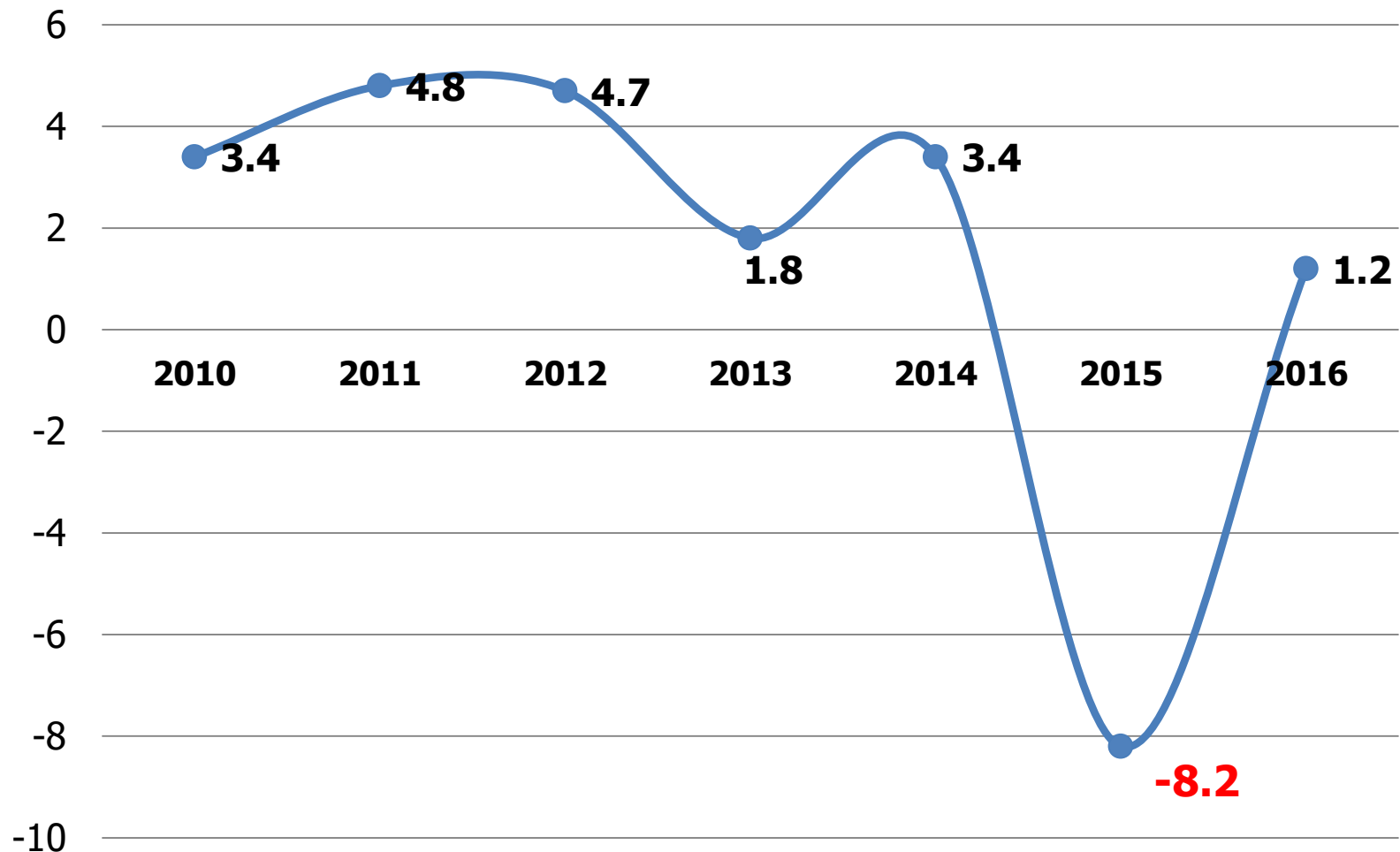
**Construction: Economic growth in 2010-2016, %**



Source: EDRC calculations based on data of the NSS of RA

# *Trade also declined in 2015*

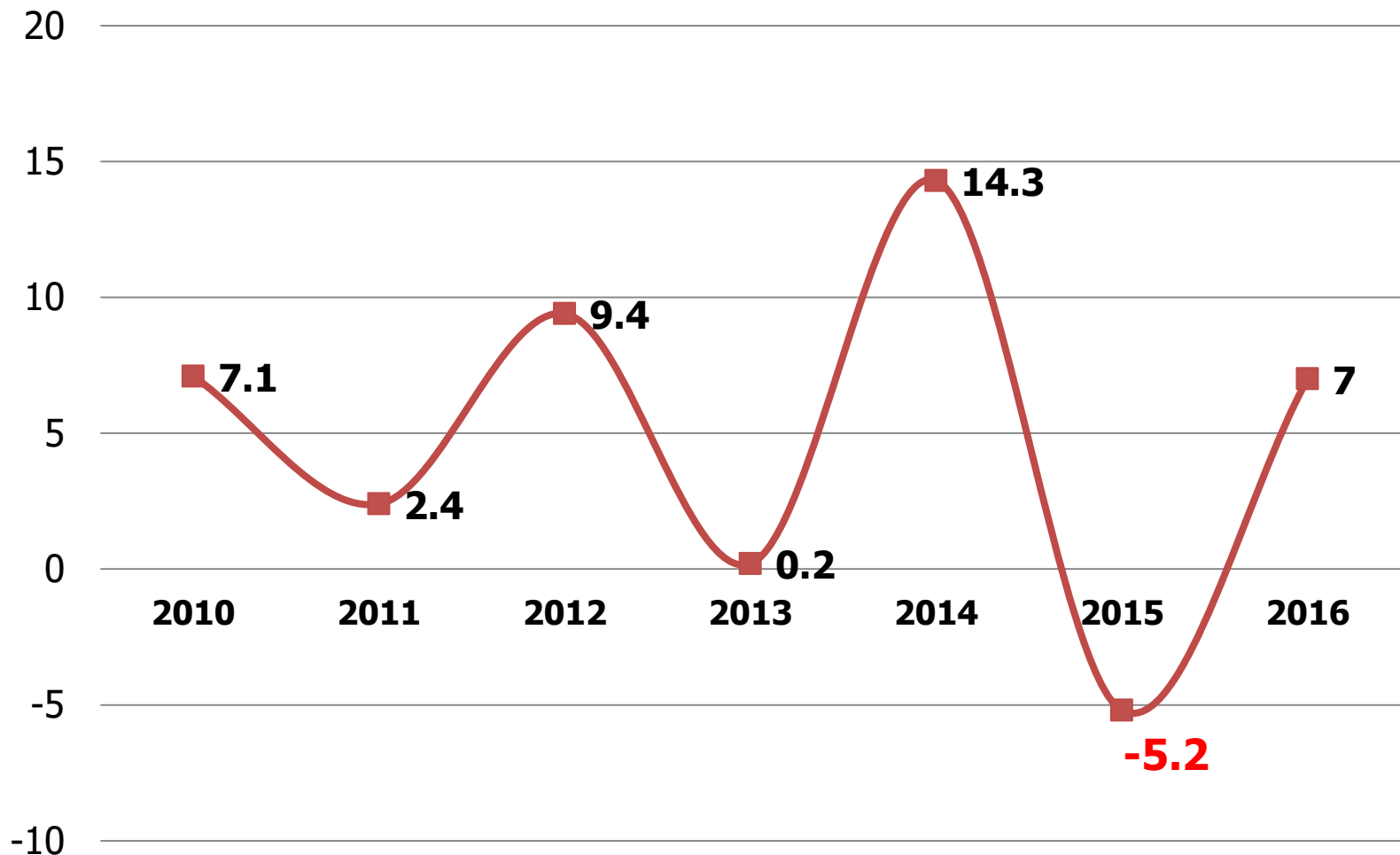
**Wholesale and retail trade: Economic growth in 2010-2016, %**



Source: EDRC calculations based on data of the NSS of RA

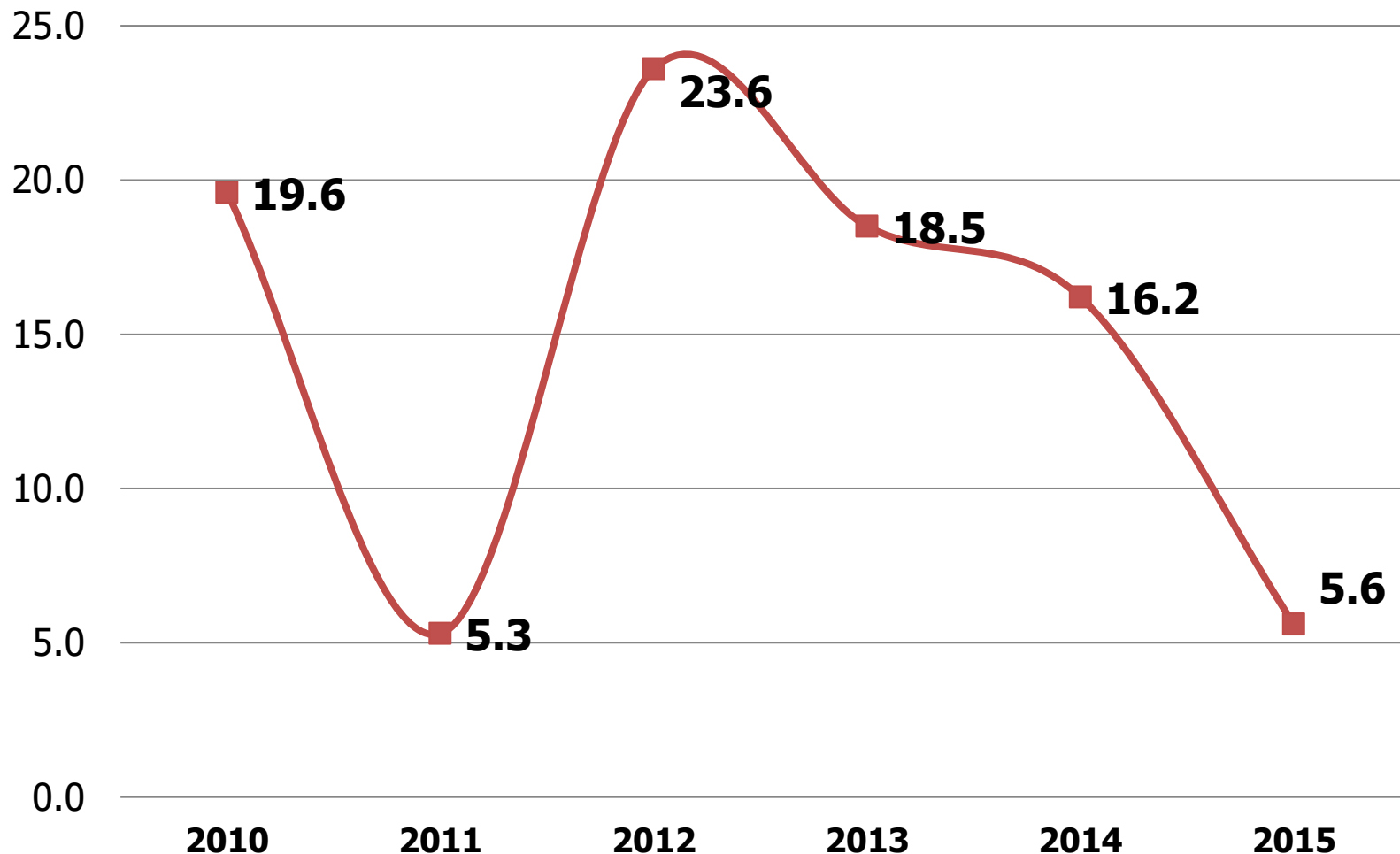
# *Transport and communications sector also declined*

**Transport and communications: Economic growth in 2010-2016, %**



# *Hotels and catering are the growing sectors of the economy*

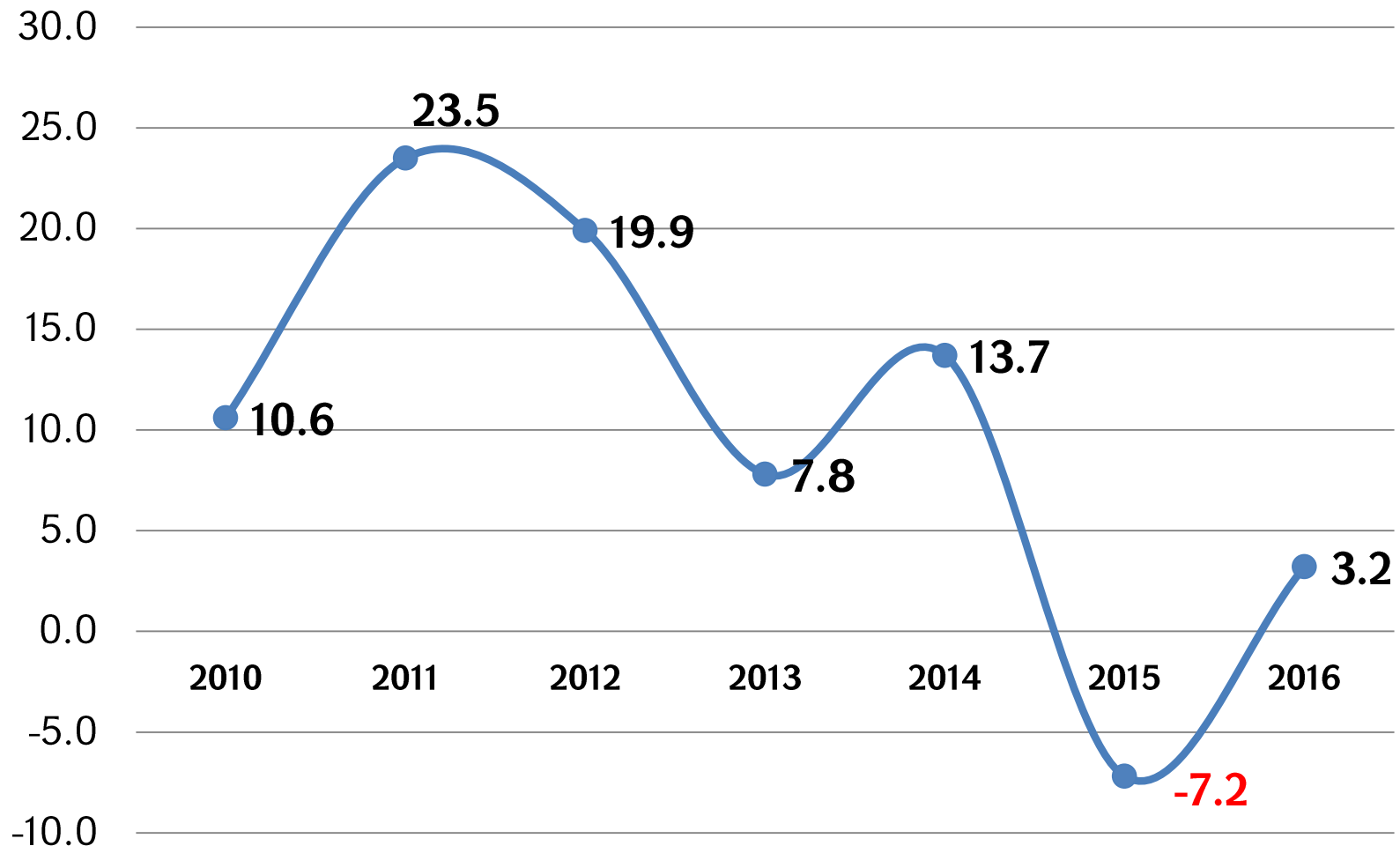
**Hotel and catering: Economic growth in 2010-2016, %**



Source: EDRC calculations based on data of the NSS of RA

# *Financial activities also grew, however they shrank in 2015*

**Financial services: Economic growth in 2010-2016, %**



# *Despite the overall economic growth, non-agricultural sectors declined in 2015*

## Comparative indicators of economic growth in 2015-2016

	2016 %	2015 %	2015 contribution	2008-2015 cumulative
<b>GDP</b>	<b>0.2</b>	<b>3</b>	<b>3</b>	<b>8.6</b>
<b>Agriculture</b>	<b>-5.8</b>	<b>13.2</b>	<b>2.4</b>	43.5
<b>Manufacturing</b>	4.4	-4	-0.4	37.2
<b>Mining</b>	<b>14.9</b>	<b>57.9</b>	<b>1.2</b>	2.7 times
<b>Power and water supply</b>	+	9	0.4	-1.9
<b>Construction</b>	<b>-11.3</b>	-3.1	-0.3	-52.4
<b>Trade</b>	1.2	-8.2	-1	3.8
<b>Transport and communications</b>	+	-5.2	-0.3	19.6
<b>Financial services</b>	3.2	-7.2	-0.3	83.3
<b>Healthcare, social services</b>	-3.9	-2.2	-0.1	4
<b>Education</b>	-1.4	-2.9	-0.1	5.7
<b>Hotel and catering</b>	+	5.6	0.1	2.8 times



# *Both consumption and investments shrank in 2015*

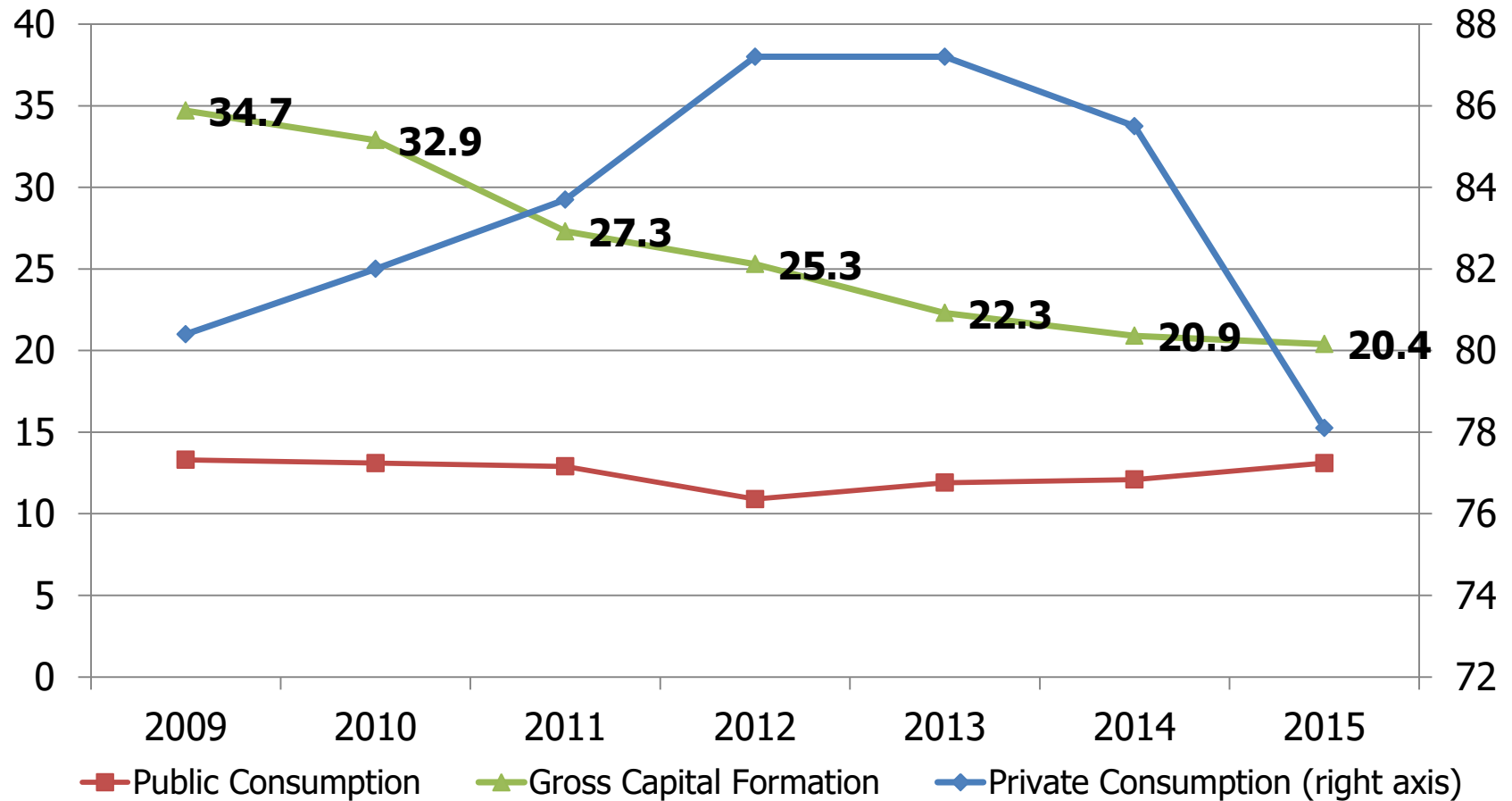
## GDP growth structure per expenditure components, %

	2010	2011	2012	2013	2014	2015	2015 contribution*
<b>GDP</b>	<b>2.2</b>	<b>4.7</b>	<b>7.2</b>	<b>3.3</b>	<b>3.6</b>	<b>3.0</b>	<b>3.0</b>
<b>Consumption</b>	<b>3.9</b>	<b>2.6</b>	<b>7.7</b>	<b>1.6</b>	<b>0.7</b>	<b>-6.4</b>	<b>-6.2</b>
Private Consumption	3.8	2.7	9.1	0.9	1.0	-7.9	-6.8
Public Consumption	3.9	1.9	-1.4	7.6	-1.2	4.5	0.5
<b>Gross Capital Formation</b>	<b>0.5</b>	<b>-5.2</b>	<b>0.5</b>	<b>-9.1</b>	<b>-3.0</b>	<b>-2.9</b>	<b>-0.6</b>
<b>Net Exports (G&amp;S)</b>	<b>5.1</b>	<b>-15.1</b>	<b>-14.1</b>	<b>-16.2</b>	<b>-11.7</b>	<b>-48.9</b>	<b>9.0</b>
Exports	26.5	14.7	8.4	8.6	6.4	4.9	1.4
Imports	12.8	-1.4	-2.8	-2.1	-1.0	-16.3	7.7

\* Contribution to the economic growth, percentage points. Statistical deviation not included.

# *Investments continued to decline in post-crisis period*

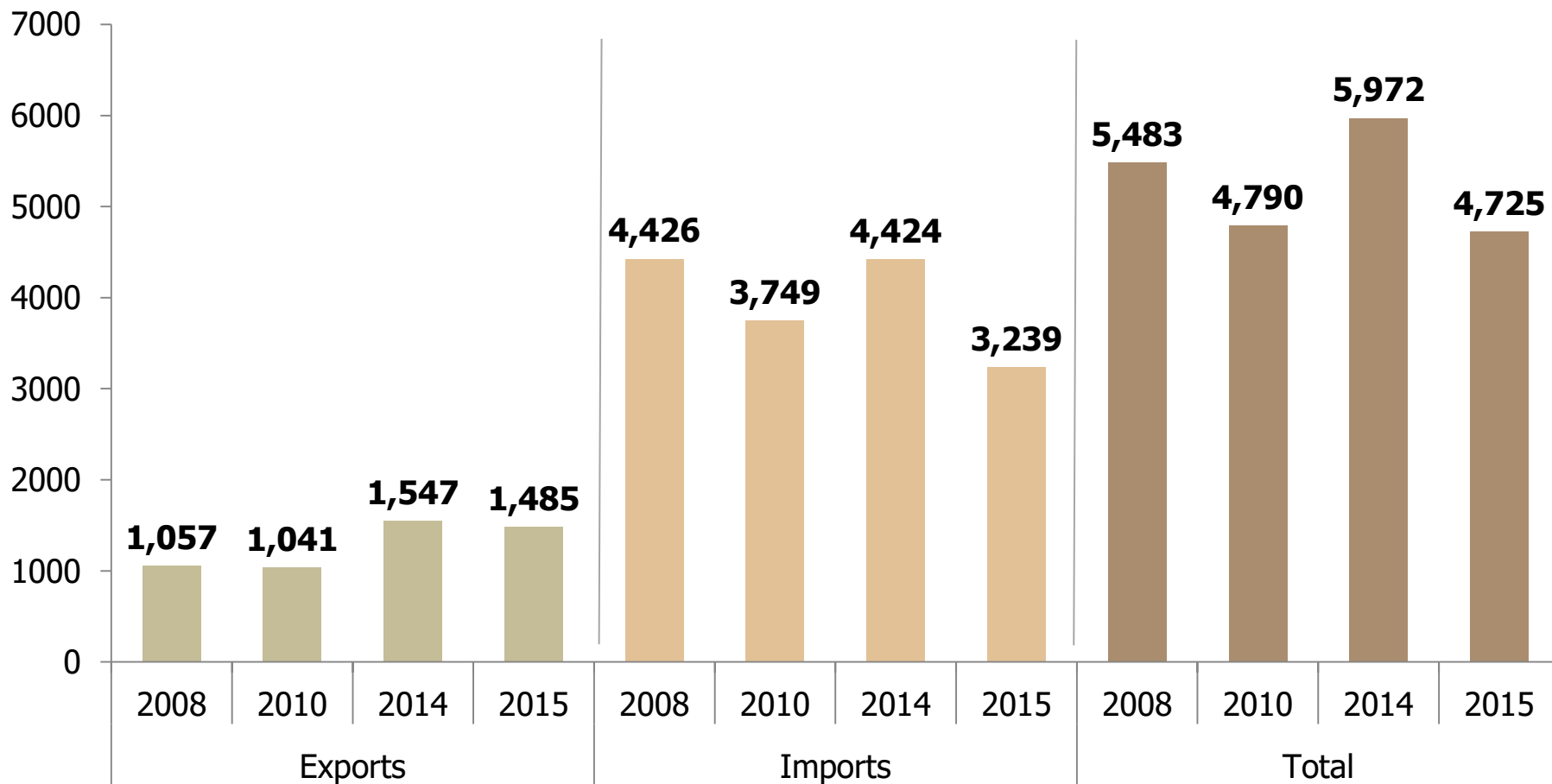
## The share of consumption and investments in GDP



Source: EDRC calculations based on data of the NSS of RA

# *Foreign Trade of Armenia declined*

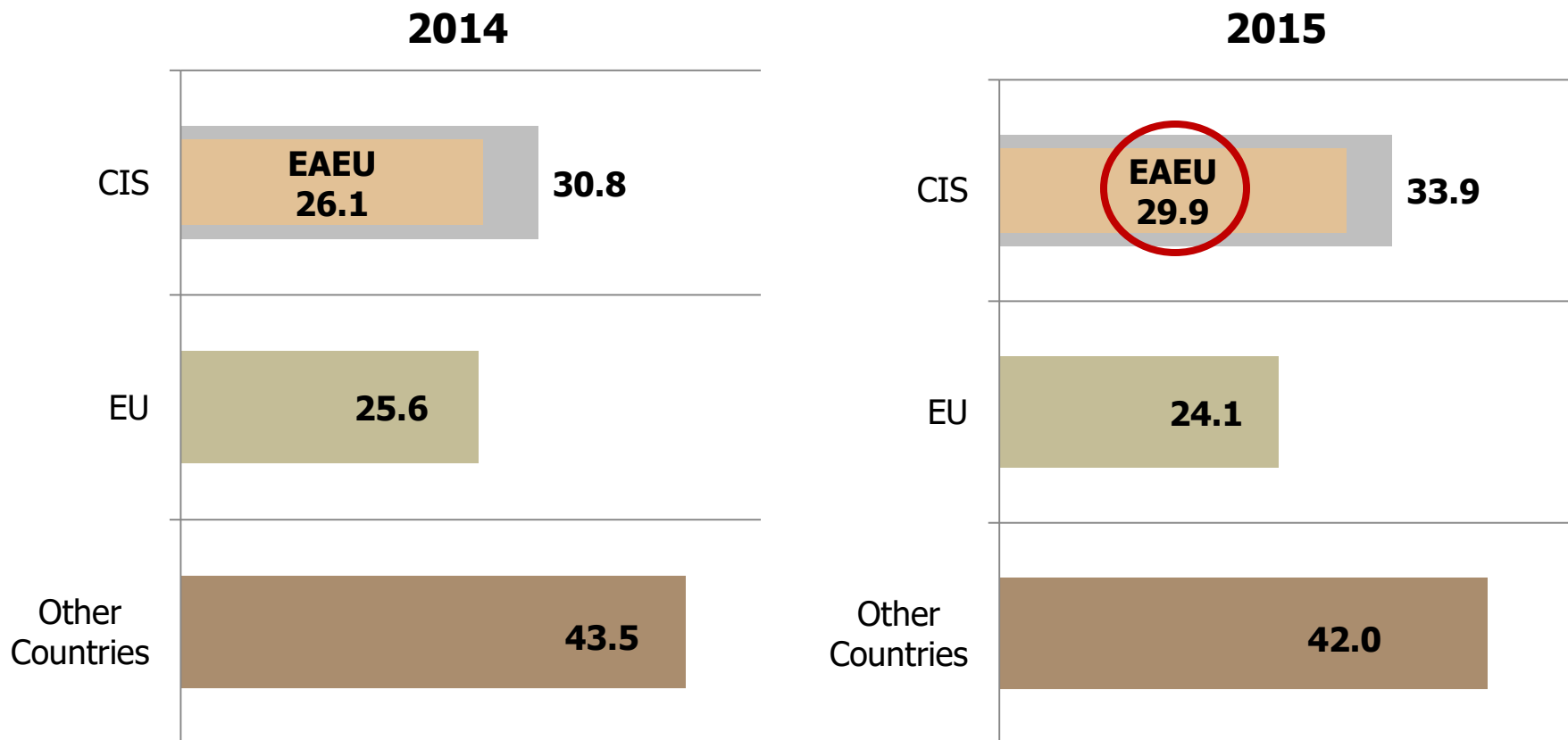
**Foreign Trade of Armenia, 2008-2015, USD mln**



Source: EDRC calculations based on data of the NSS of RA

# The role of imports from EAEU countries grows

## Breakdown of Armenian imports per country groups, %



Source: EDRC calculations based on data of the NSS of RA

# *Imports from almost all major partner countries decreased*

	2015, share in total, %	2014/2010 average growth, %	2015/2014 annual growth, %
<b>Russia</b>	30.4	6.6	-7.3
<b>China</b>	9.7	0.8	-23.9
<b>Iran</b>	6.1	-1.3	-3.9
<b>Germany</b>	5.6	3.0	3.6
<b>Italy</b>	4.5	10.2	-17.1
<b>Turkey</b>	4.2	2.3	-40.9
<b>Ukraine</b>	3.8	-3.2	-38.2
<b>USA</b>	3.2	2.6	-6.7
<b>Georgia</b>	2.0	9.4	-6.4
<b>France</b>	2.0	0.8	-17.5
<b>Brazil</b>	1.9	15.5	-32.8
<b>India</b>	1.6	8.4	-17.5
<b>Switzerland</b>	1.6	20.4	-64.6
<b>Belgium</b>	1.5	5.7	-44.5
<b>Japan</b>	1.4	-5.8	4.2
<b>Total for selected countries</b>	<b>79.5</b>	<b>4.2</b>	<b>-18.3</b>

Source: International Trade Center, EDRC calculations

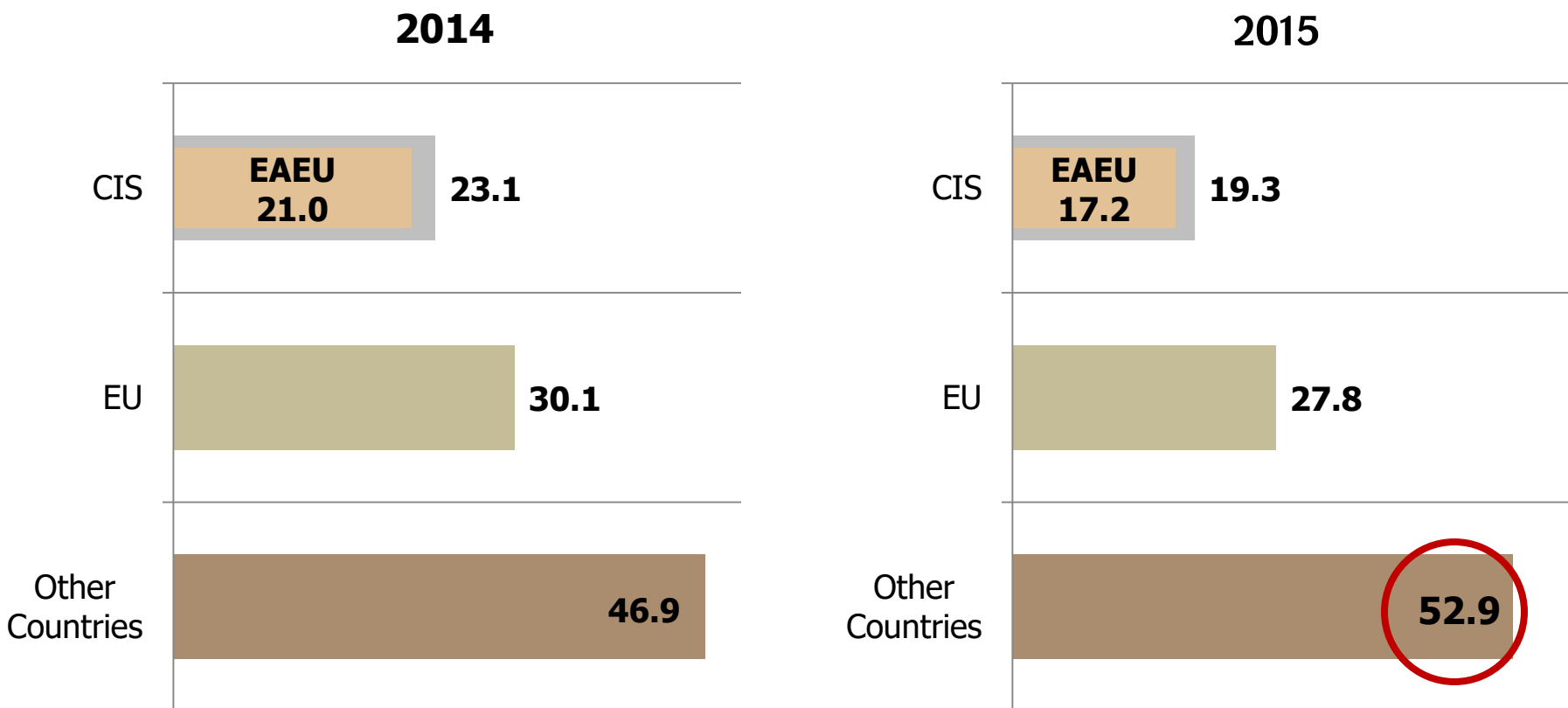
# Armenia: Main imports items

Code	Product Label	2015 Share, %	2014/2010 average growth, %	2015/2014 Annual growth, %
2711	Natural and liquid gas	13.3	8.3	-7.4
2710	Oil and oil products	6.7	1.4	-32.3
3004	Medicine (weighted and packed)	2.9	5.9	-7.1
8703	Motor cars	2.7	0.7	44.6
7102	Diamonds	2.7	12.1	-41.1
1001	Wheat and muesli	2.2	3.5	-30.0
7601	Aluminium	1.8	-11.2	3.2
8517	Telephone (mobile) devices and other transmitting devices	1.4	-7.6	-22.2
2402	Cigars, cigarillos, cigarettes	1.3	-9.3	-0.9
2401	Tobacco leave, waste	1.3	24.2	11.1
1806	Chocolate and other cocoa containing food	1.2	1.9	-2.7
0207	Poultry and meat	1.1	3.3	-23.2
2208	Ethyl spirit and alcoholic beverages	1.0	7.1	-13.4
1701	Sugar	1.0	10.3	-27.6
5502	Artificial filament tow	1.0	82.0	54.0
9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences	0.9	5.0	31.9
4011	Tires	0.9	9.6	-29.2
0901	Coffee	0.8	-0.9	0.8
8471	Automatic data processing machines and units thereof	0.7	-5.1	-36.3
7108	Gold	0.7	24.7	-84.0
	<b>Total for Selected</b>	<b>45.5</b>	<b>4.9</b>	<b>-20.2</b>

Source: International Trade Center, EDRC calculations

# Exports geography also visibly changes

Breakdown of Armenian exports per country groups, %



Source: EDRC calculations based on data of the NSS of RA

***China is already the 2<sup>nd</sup> largest partner in exports;  
increase was recorded in exports to Iraq, Georgia, Canada  
and other countries***

**Armenian exports to 15 largest partner countries**

		<b>Position in 2010</b>	<b>Exports, USD mln</b>	<b>Share, %</b>	<b>2014/2010 Average growth, %</b>	<b>2015/2014 Annual growth, %</b>
<b>1</b>	<b>Russia</b>	1	225.9	15.2	17.5	-25.8
<b>2</b>	<b>China</b>	10	165.2	11.1	53.4	-3.4
<b>3</b>	<b>Germany</b>	3	145.0	9.8	4.6	-8.5
<b>4</b>	<b>Iraq</b>	43	130.7	8.8	268.5	62.2
<b>5</b>	<b>Georgia</b>	7	114.0	7.7	8.1	72.9
<b>6</b>	<b>Canada</b>	11	112.1	7.6	33.3	20.2
<b>7</b>	<b>Bulgaria</b>	2	78.9	5.3	-14.0	-7.8
<b>8</b>	<b>Iran</b>	8	77.9	5.3	20.6	-6.9
<b>9</b>	<b>USA</b>	5	54.0	3.6	1.4	-38.0
<b>10</b>	<b>Italy</b>	19	49.0	3.3	64.0	41.8
<b>11</b>	<b>Belgium</b>	6	47.5	3.2	-3.7	-23.8
<b>12</b>	<b>Netherlands</b>	4	47.3	3.2	-6.9	-36.3
<b>13</b>	<b>Switzerland</b>	12	40.8	2.8	-4.6	192.0
<b>14</b>	<b>Romania</b>	48	38.4	2.6	-34.5	72269.8
<b>15</b>	<b>Syria</b>	57	25.4	1.7	269.6	37.6
<b>Total for selected</b>			<b>1352.2</b>	<b>91.2</b>	<b>11.2</b>	<b>1.4</b>

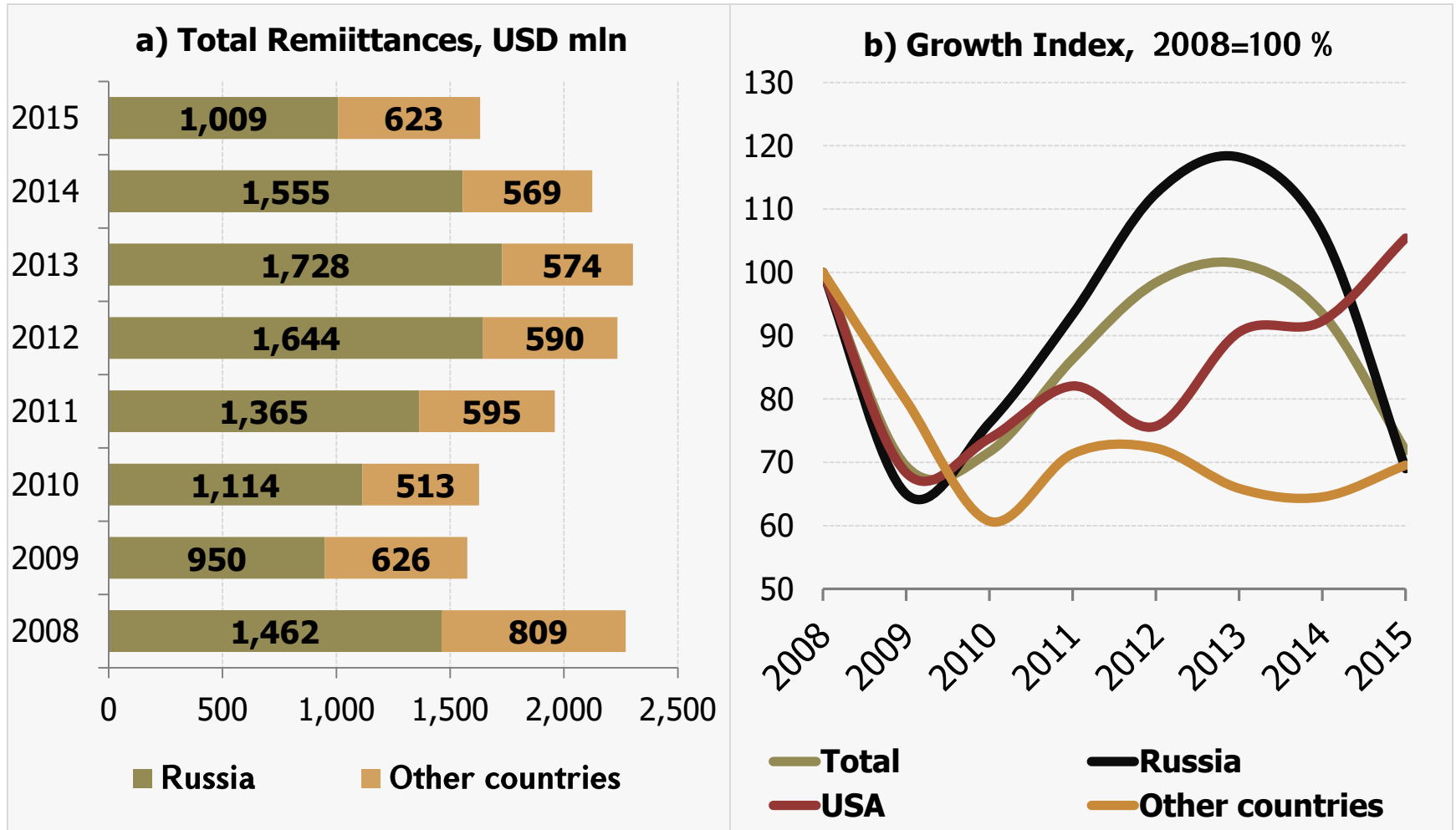
Source: International Trade Center, EDRC calculations



# *Armenia: Main export items. Exports of cigarettes continue to grow sharply*

Product Label		Position in 2010	Exports, USD mln	Share, %	2014/2010 Average growth, %	2015/2014 Annual growth, %
2603	Copper ore and concentrate	1	316.6	21.4	29	34.2
2402	Cigar, Cigarillo, Cigarettes	18	170.5	11.5	93.8	47.2
7108	Gold	7	98.9	6.7	30.1	20.7
2208	Ethyl spirit, spirit tincture, liqueur and other alcoholic drinks	3	92.5	6.2	14.4	-43.5
7607	Aluminium foil	6	82.9	5.6	3.0	-6.3
2716	Electricity	8	77.5	5.2	32.7	-4.7
7102	Diamonds	5	77.3	5.2	6.9	-34.5
7402	Non-refined copper, copper anode for electrolytic process	4	65.5	4.4	-6.2	-8.7
7202	Ferro-alloys	2	55.5	3.7	-2.1	-49.4
2616	Precious metal ores and concentrates	77	31.6	2.1	-	-3.5
0406	Cheese and curd	45	21.9	1.5	30.5	347.4
6202	Women's or girls' overcoats etc., not knitted or crocheted	87	19.6	1.3	152.1	5.3
6201	Men's or boys' overcoats, cloaks etc., not knitted or crocheted	69	18.5	1.2	119.2	28.0
7113	Articles of jewellery & parts	13	18.1	1.2	13.0	-15.7
6203	Men's or boys' suits, ensembles etc., not knitted or crocheted	52	16.3	1.1	74.9	38.4
2608	Zinc ores and concentrates	12	12.0	0.8	0.1	-13.0
0302	Fish; fresh or chilled	37	8.9	0.6	71.1	-46.2

# *Inflow of remittances decreases*



Source: EDRG calculations based on data of the CBA

# *Fiscal indicators deteriorated; deficit increased*

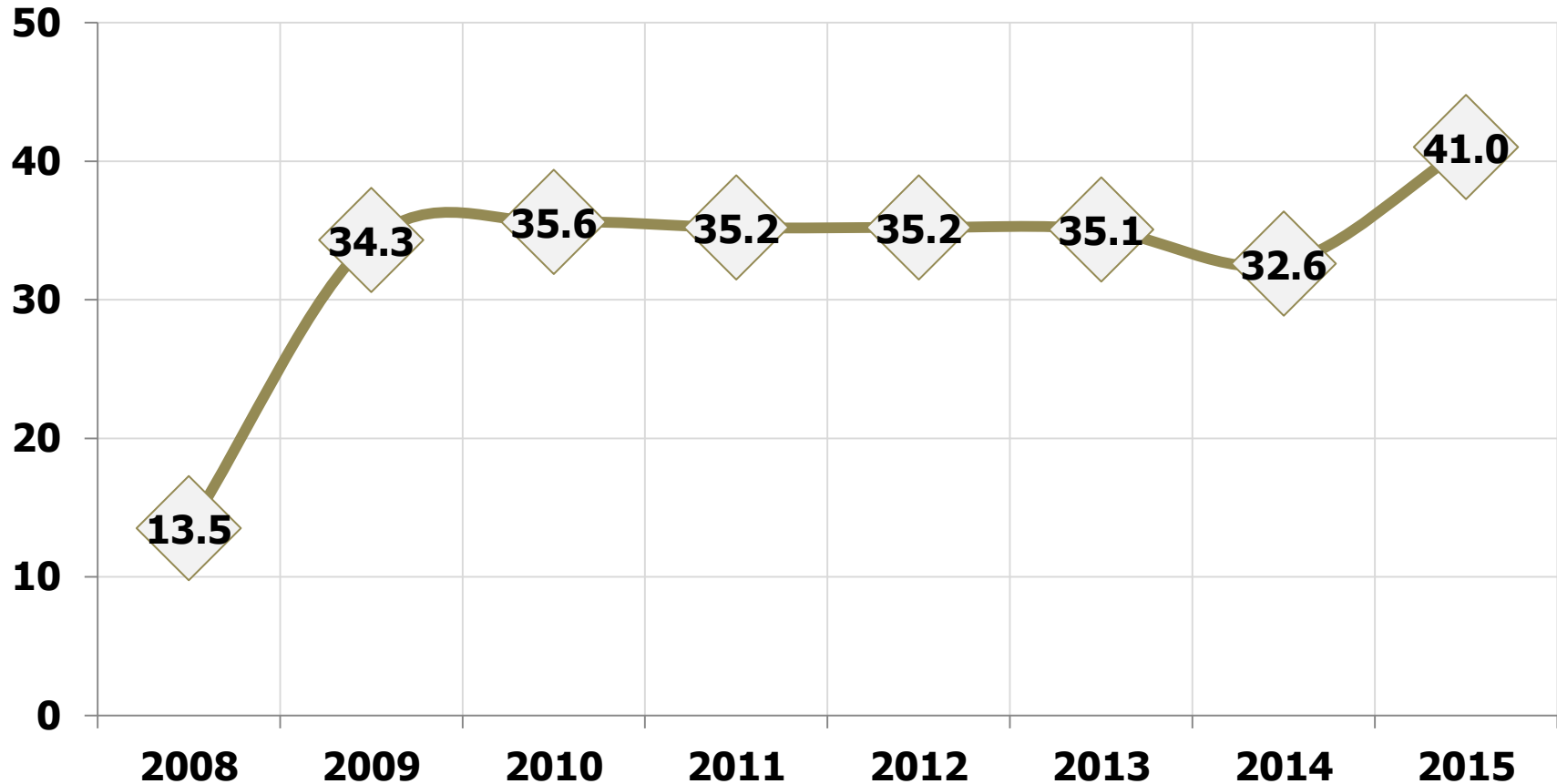
## State budget of Armenia, selected indicators

	2014	2015		
	% of GDP	AMD bln	Change, %	% of GDP
<b>Total Revenues</b>	<b>23.6</b>	<b>1,167.7</b>	<b>2.0</b>	<b>23.2</b>
Tax Revenues and State Duties	22.0	1,067.9	0.4	21.2
Taxes and Duties	21.7	1,059.2	0.7	21.0
Mandatory Social Security Payments	0.2	8.7	-28.8	0.2
Official Transfers	0.4	29.9	73.3	0.6
Other Revenues	1.3	70.0	10.4	1.4
<b>Total Expenditures</b>	<b>25.5</b>	<b>1,409.0</b>	<b>14.1</b>	<b>28.0</b>
Current Expenditures	22.7	1,238.9	12.5	24.6
Transactions with Non-financial Assets	2.8	170.1	27.2	3.4
<b>Deficit (-)</b>	<b>1.9</b>	<b>-241.3</b>	<b>167.2</b>	<b>-4.8</b>

Source: EDRC calculations based on data of the NSS of RA

# *Large public debt and fiscal stability are a matter of concern*

## External Public Debt of Armenia as share of GDP, %



Source: EDRC calculations based on data of the NSS of RA

# Decreases in consumer market prices recorded

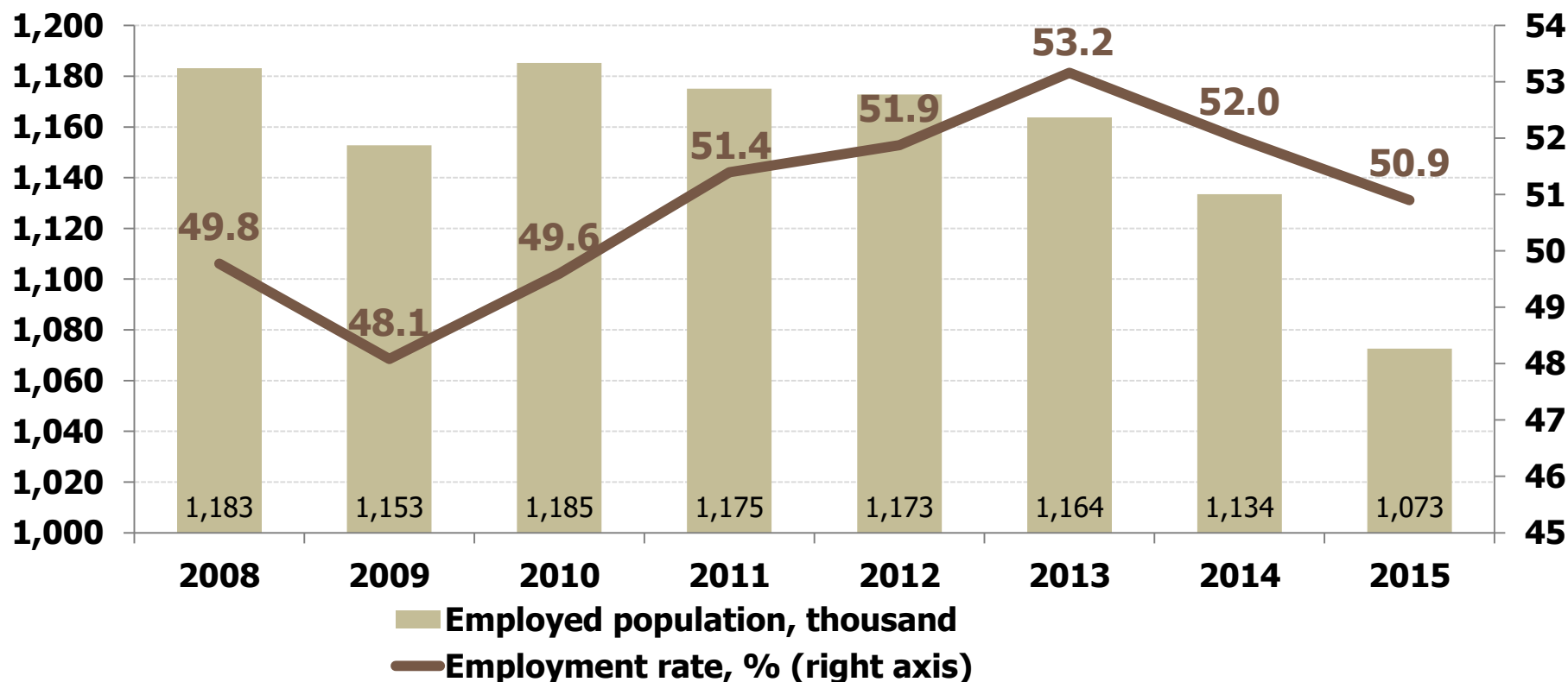
## Consumer price trends, %

	2013	2014	2015	2016	2015/ 2008
<b>Consumer Price Index (period average)</b>	<b>5.8</b>	<b>3</b>	<b>3.7</b>	<b>-1.4</b>	<b>39.7</b>
Food Products	5.8	1.7	3.1	-3.0	37.8
Alcoholic beverages and tobacco	5.9	7.1	1.6	-	26
Non-food products	4.6	1.7	5.6	-2.5	39.4
Services	6.4	5.1	3	1.8	43.7
<b>Consumer Price Index (end of period)</b>	<b>5.6</b>	<b>4.6</b>	<b>-0.1</b>	<b>-1.1</b>	<b>38.9</b>
Food products	3.7	6.2	-4.1	-0.2	36
Alcoholic beverages and tobacco	6.7	7.1	-0.1	-	25.5
Non-food products	3.5	1.6	3.4	-3.4	43.7
Services	9.7	3	3.2	-0.7	40.8

Source: EDRC calculations based on data of the NSS of RA

# *Small portion of labour resources are employed; while the share of economically inactive population is very high*

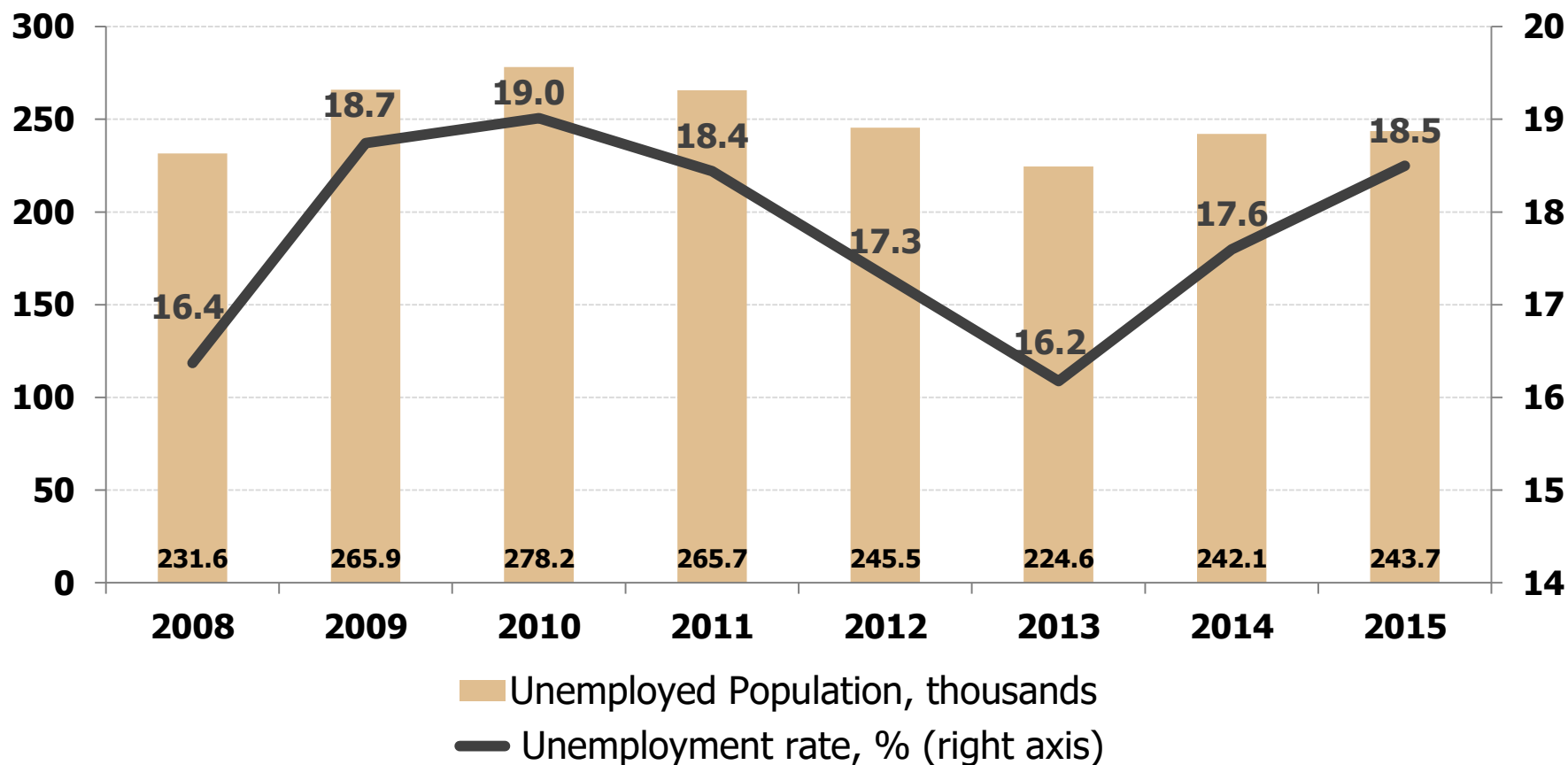
## Employment rate and number of employed in Armenia, 2008-2015



Source: EDRC calculations based on data of the NSS of RA

# *Unemployment rate is very high in Armenia: 17-19%*

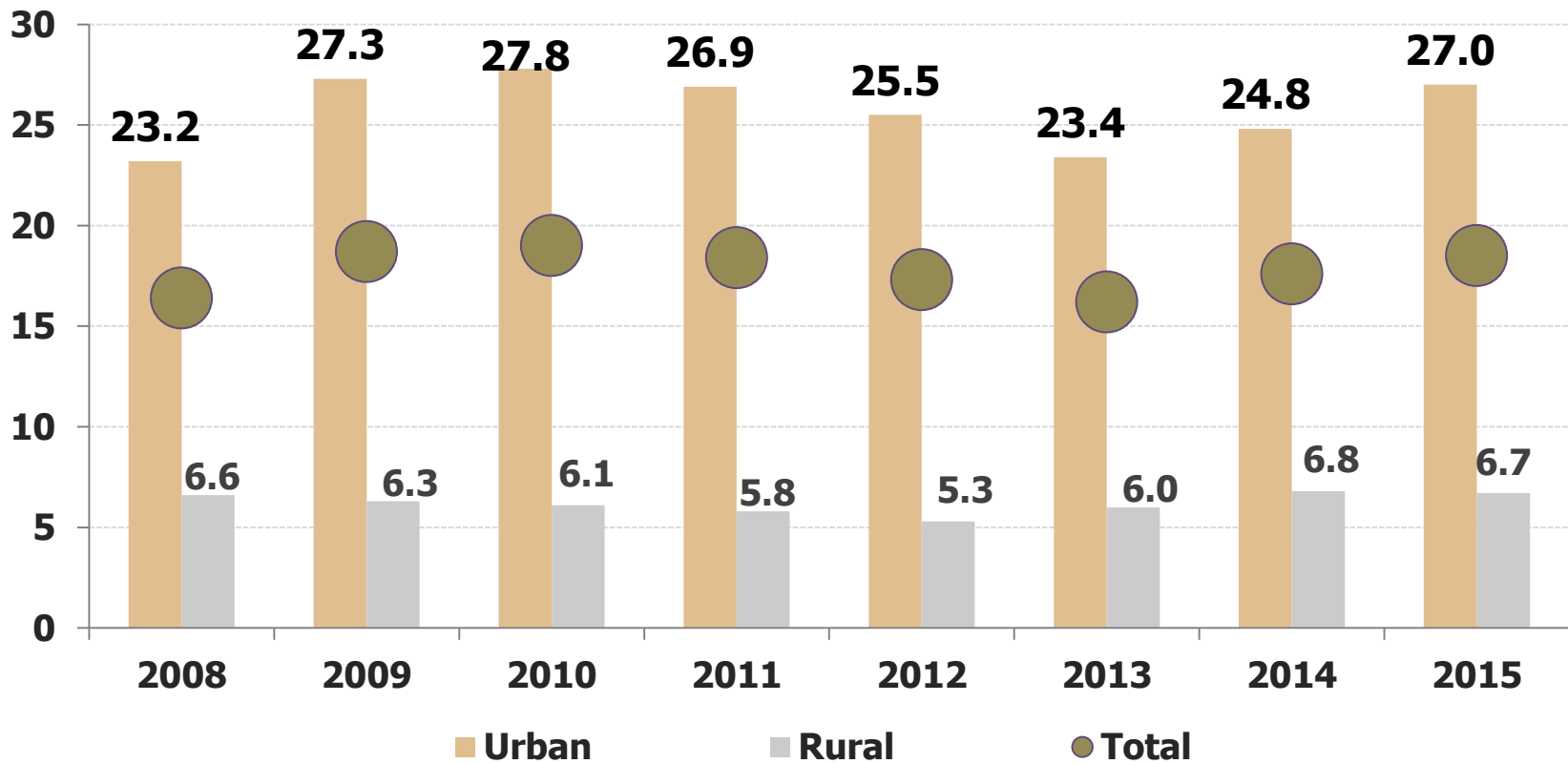
## Unemployment trends in Armenia in 2008-2015



Source: EDRC calculations based on data of the NSS of RA

# *Unemployment rates are extremely high in towns and cities: 27%*

**Unemployment in rural and urban areas in 2008-2015, %**

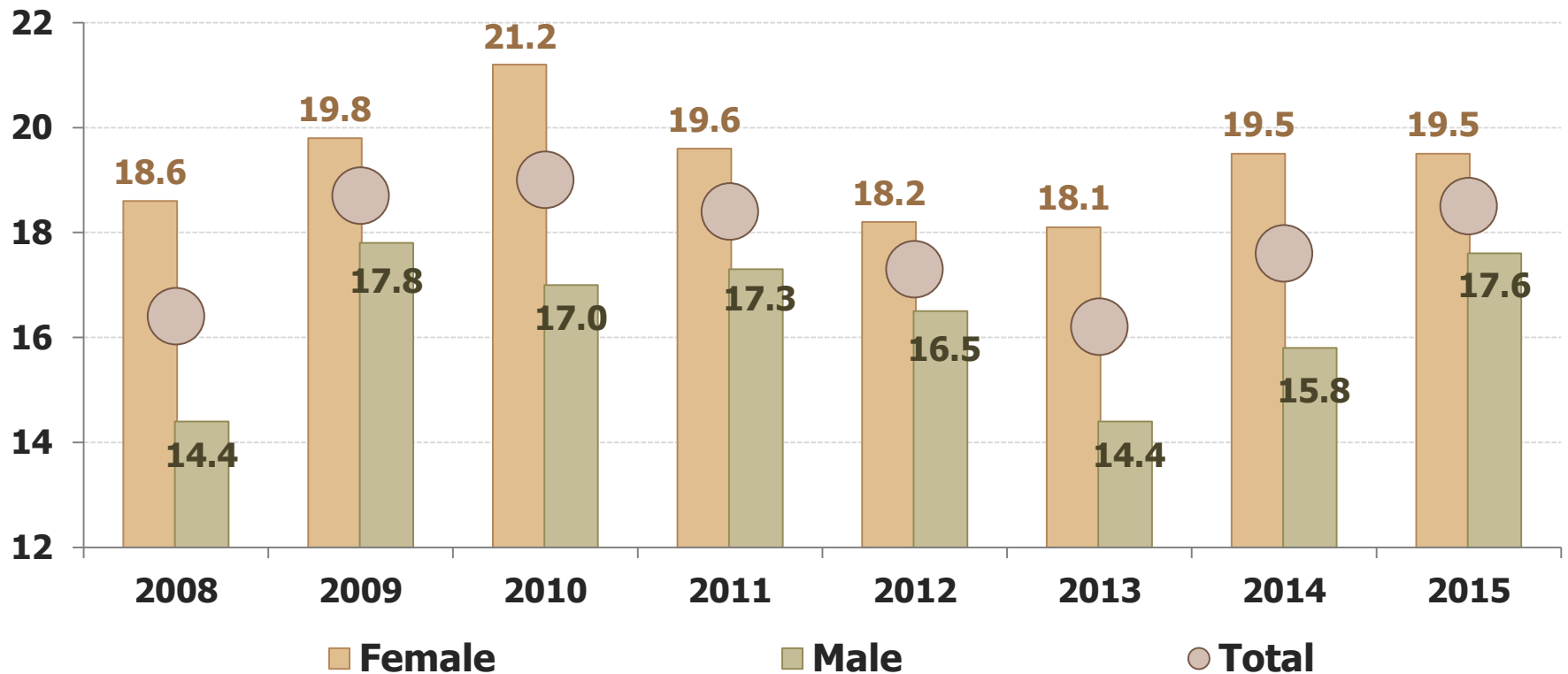


Source: EDRC calculations based on data of the NSS of RA



# *Unemployment is higher among women*

**Unemployment rate by gender in 2008- 2015, %**

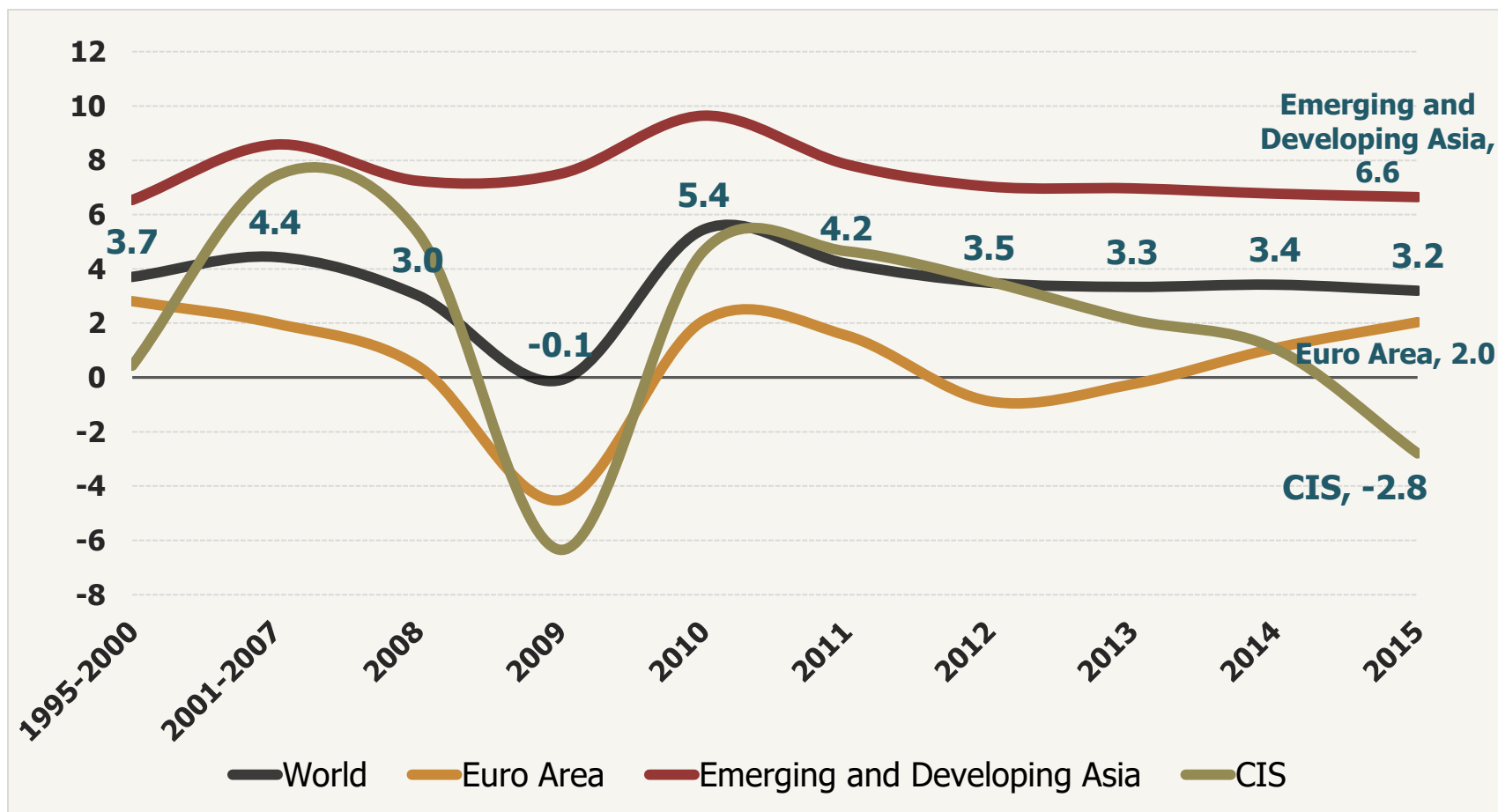


Source: EDRC calculations based on data of the NSS of RA

# MEDIUM-TERM OUTLOOK

# Low and stable growth rates continue globally

## Global Economic Growth Trends

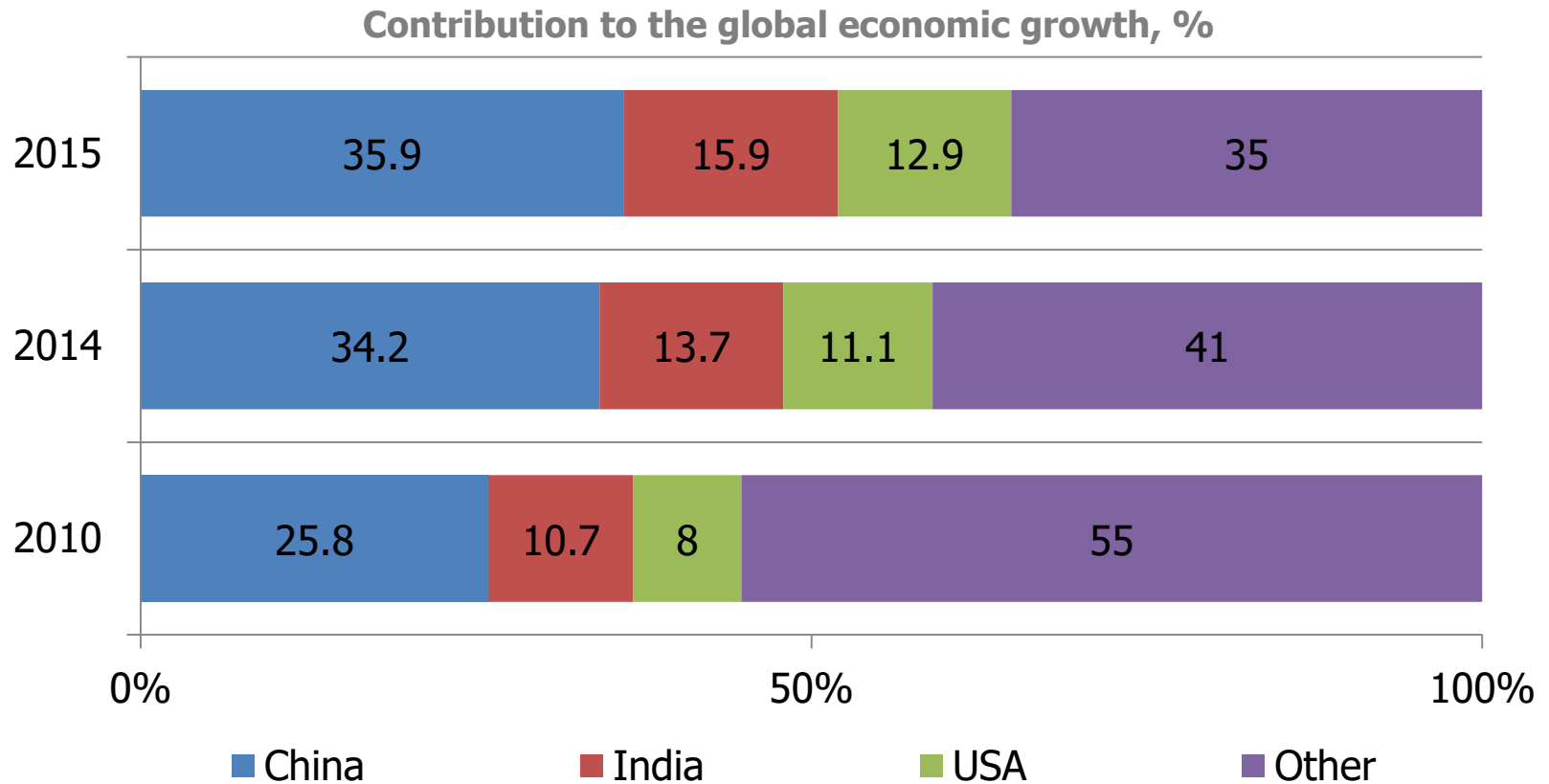


*\*For 1995-2000 and 2001-2007, average annual growth indices are presented.*

Sources: WEO, IMF, October 2016 and EDRG calculations

# *36% of global growth is attributable to China*

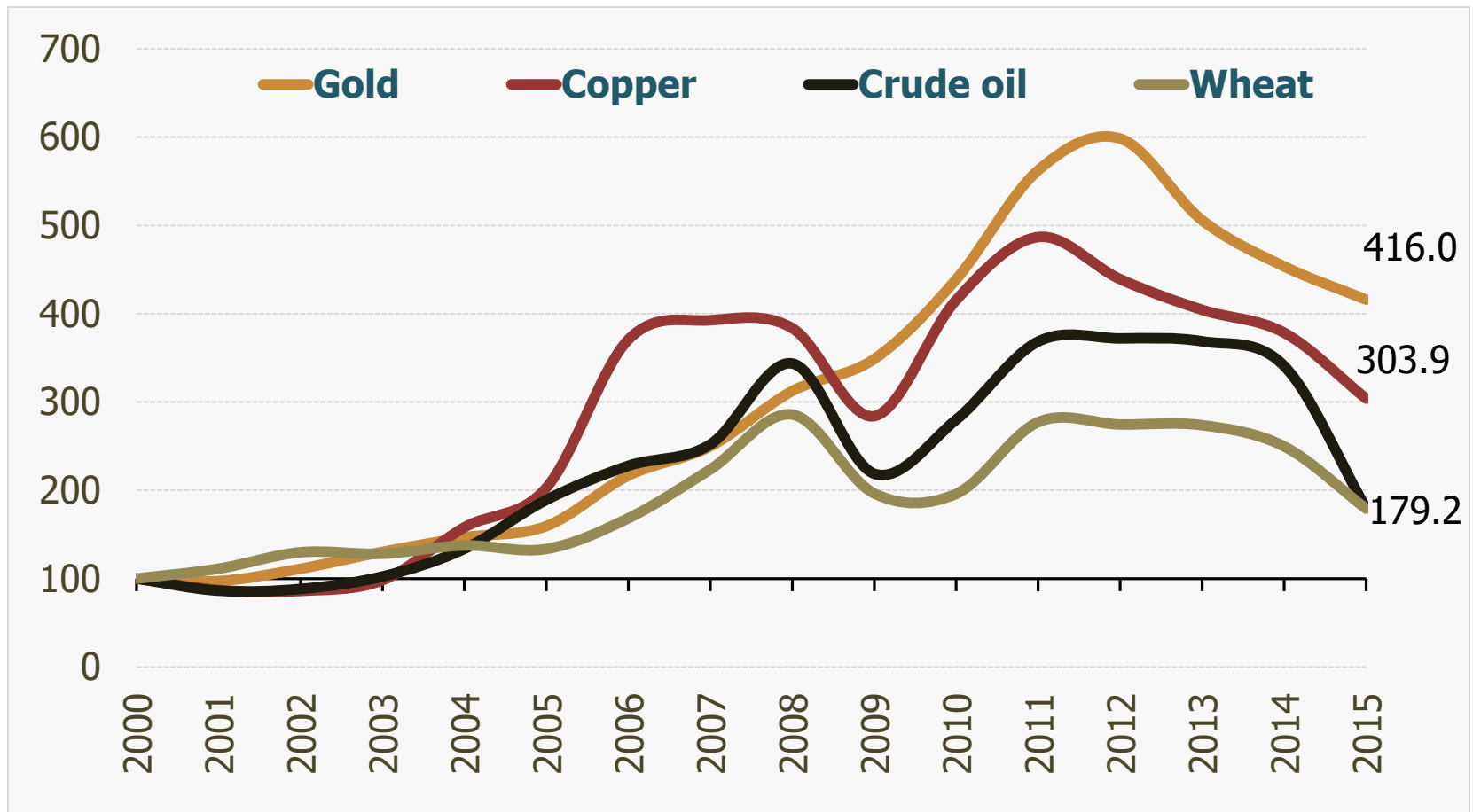
## Countries with highest contribution to the global economic growth



Source: IMF, (WEO, October 2016) and EDRG calculations

# Commodity prices decline in recent years

## Price indices for major commodities, 2000=100%



Source: IMF, (WEO, October 2016) and EDRG calculations

# Recovery of commodity prices and growth is projected

## Projections of Global Economic Development Indicators in 2016-2018, %

	2016	2017	2018
<b>Consumer Price Inflation (average)</b>	<b>2.9</b>	<b>3.3</b>	<b>3.3</b>
Advanced Economies	0.8	1.7	1.9
Emerging Market and Developing Economies	4.5	4.4	4.2
<b>Fuel (includes crude oil, natural gas and coal prices)</b>	<b>-16.8</b>	<b>15.6</b>	<b>4.0</b>
Crude Oil (includes U.K. Brent, Dubai Fateh and WTI )	-15.4	17.9	4.8
Natural Gas (includes Russian, Indonesian and US natural gas prices)	-35.5	1.2	-0.4
<b>Metals</b> (including copper, aluminium, tin, nickel, zinc, iron ore, lead and uranium prices)	<b>-7.5</b>	<b>1.7</b>	<b>-1.0</b>
<b>Food</b> (including beverages)	1.3	0.2	-0.7

# *Global growth rate are projected to slightly accelerate*

## Economic Growth Projections in several groups of countries for 2016-2018,%

	2015	2016			2017		2018
	Actual	IMF, Apr 2016	IMF, Oct 2016	ADB	IMF, Oct 2016	ADB	IMF, Oct 2016
<b>World</b>	<b>3.2</b>	<b>3.2</b>	<b>3.1</b>	-	<b>3.4</b>	-	<b>3.6</b>
<b>Advanced Economies</b>	<b>2.1</b>	<b>1.9</b>	<b>1.6</b>	-	<b>1.8</b>	-	<b>1.8</b>
USA	2.6	2.4	1.6	1.5	2.2	2.4	2.1
Japan	0.5	0.5	0.5	0.6	0.6	0.8	0.5
UK	2.2	1.9	1.8	-	1.1	-	1.7
Canada	1.1	1.5	1.2	-	1.9	-	1.9
<b>Euro Area</b>	<b>2.0</b>	<b>1.5</b>	<b>1.7</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.6</b>
Germany	1.5	1.5	1.7	-	1.4	-	1.4
France	1.3	1.1	1.3	-	1.3	-	1.6
Italy	0.8	1.0	0.8	-	0.9	-	1.1
<b>Emerging Market and Developing Countries</b>	<b>4.0</b>	<b>4.1</b>	<b>4.2</b>	-	<b>4.6</b>	-	<b>4.8</b>
<b>Emerging and Developing Asia</b>	<b>6.6</b>	<b>6.4</b>	<b>6.5</b>	<b>5.7</b>	<b>6.3</b>	<b>5.7</b>	<b>6.3</b>
China	6.9	6.5	6.6	6.6	6.2	6.4	6.0
India	7.6	7.5	7.6	7.4	7.6	7.8	7.7
<b>CIS Countries</b>	<b>-2.8</b>	<b>-1.1</b>	<b>-0.3</b>	-	<b>1.4</b>	-	<b>1.7</b>

Sources: IMF (WEO, April and October 2016), ADB (ADO, april 2016) and EDRC

# *Economic growth is projected in Russia in 2017*

## Economic Growth Projections in several groups of countries for 2016-2018,%

	2015	2016			2017		2018
	Actual	IMF, Apr 2016	IMF, Oct 2016	ADB	IMF, Oct 2016	ADB	IMF, Oct 2016
<b>CIS Countries</b>	<b>-2.8</b>	<b>-1.1</b>	<b>-0.3</b>	-	<b>1.4</b>	-	<b>1.7</b>
<b>EAEU Countries</b>							
Russia	-3.7	-1.8	<b>-0.8</b>	-	<b>1.1</b>	-	<b>1.2</b>
Belarus	-3.9	-2.7	-3.0	-	-0.5	-	0.5
Kazakhstan	1.2	0.1	-0.8	0.1	0.6	1.0	1.3
<b>Neighbouring Countries</b>							
Azerbaijan	1.1	-3.0	-2.4	-2.5	<b>1.4</b>	1.0	2.3
Georgia	2.8	2.5	3.4	3.0	<b>5.2</b>	4.0	5.3
Turkey	4.0	3.8	3.3	-	<b>3.0</b>	-	3.2
Iran	0.4	4.0	4.5	-	<b>4.1</b>	-	4.1
<b>Armenia</b>	<b>3.0</b>	<b>1.9</b>	<b>3.2</b>	<b>2.0</b>	<b>3.4</b>	<b>2.3</b>	<b>3.7</b>

Sources: IMF (WEO, April and October 2016), ADB (ADO, april 2016) and EDRC



# *Sit is also feasible that economic growth in Armenia recovers*

## Projections of economic growth in Armenia for coming years, %

	2015	2016	2017	2018
2017 Draft Annual Budget		2.4	3.2	-
GoA (MTEF 2017-2019)	3.0	3.7	3.9	4.0
IMF	(actual)	3.2	<b>3.4</b>	<b>3.7</b>
ADB		2.0	2.3	-

# **SUMMARY: ECONOMIC GROWTH IN 2016**

- **3% growth was recorded in 2015: 0.6% percentage points lower than in 2014,**
- **Due to 13.2% growth in agriculture (contribution to the 2.4 percentage points of growth) and 60% growth in mining (contribution to 1.2 percentage points of growth),**
- **Almost all other sectors declined,**
- **Private consumption demand and investments shrank,**
- **Reduction in import volumes was even higher,**
- **Growth in was provided for by increased exports and import substitution.**

# SUMMARY: ECONOMIC GROWTH IN 2016

- **0% growth was recorded in 2016,**
- **The decline took place due to 5.8% decline in agriculture and 11% decline in construction,**
- **Mining grew by 15%,**
- **Remittances from abroad continued to decrease – by 6%,**
- **The growth in 2016 can be considered as more favorable than in 2015,**
- **Decline in non-agricultural sectors was larger and more widespread in 2015.**

# SUMMARY

- **External factors have more impact than domestic factors,**
- **Agriculture depends on plant-growing which, in turn, is dependent upon climate,**
- **International prices affect export revenues,**
- **Changes in welfare in Russia affect exports of cognac and other goods,**
- **Reduction in remittances result in reduction of demand and social consequences.**

# ***THE ECONOMY OF ARMENIA IS VULNERABLE***

- **International commodity prices,**
- **Economic growth in Russia,**
- **Natural and climate conditions in Armenia,**
- **Fiscal stability and high indebtedness levels,**
- **Limited actual impact of domestic factors and policies,**
- **Uncertainties in future development and growth policies,**
- **Low level of trust.**

# THANK YOU



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