

ARMENIA

Key conditions and challenges

Recent developments

Table 1 2023

Population, million	3.0
GDP, current US\$ billion	24.1
GDP per capita, current US\$	8053.0
International poverty rate (\$2.15) ^a	0.8
Lower middle-income poverty rate (\$3.65) ^a	10.0
Upper middle-income poverty rate (\$6.85) ^a	51.3
Gini index ^a	27.9
School enrollment, primary (% gross) ^b	92.9
Life expectancy at birth, years ^b	73.4
Total GHG emissions (mtCO2e)	13.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

Armenia's economy expanded by 6.5 percent in H1 2024, driven by private consumption and investment. During January-July, an average 0.3 percent deflation was recorded, largely due to falling food and non-alcoholic beverage prices. Meanwhile, unemployment rose in Q1. Growth is expected to moderate at around 4.5 percent in the medium term, with exports and money transfer inflows easing.

Armenia has weathered multiple shocks since 2020, including the refugee crisis at the end of 2023. This has been possible due to targeted government interventions and effective macroeconomic management. Following Russia's invasion of Ukraine in 2022, the Armenian economy benefited from significant inflows of funds, migrants, and re-routed exports. This led to an impressive 10.5 percent average annual growth rate in 2022–2023. Recently this growth momentum has begun to slow down due to a gradual outflow of funds and migrants, and a reduction in net exports.

Although notable progress has been made in recent years in reducing corruption and improving the business environment—particularly through more effective tax and customs administration—other key structural challenges persist. There continues to be low private sector investment and constraints such as low labor force participation rates and a shortage of skilled workers. To address these challenges, the government is pursuing an ambitious plan to boost human capital through reforms in the education and health sectors.

Positive progress on resolving Armenia's peace negotiations and reopening of borders with neighbors would expand Armenia's economic potential and potentially boost growth.

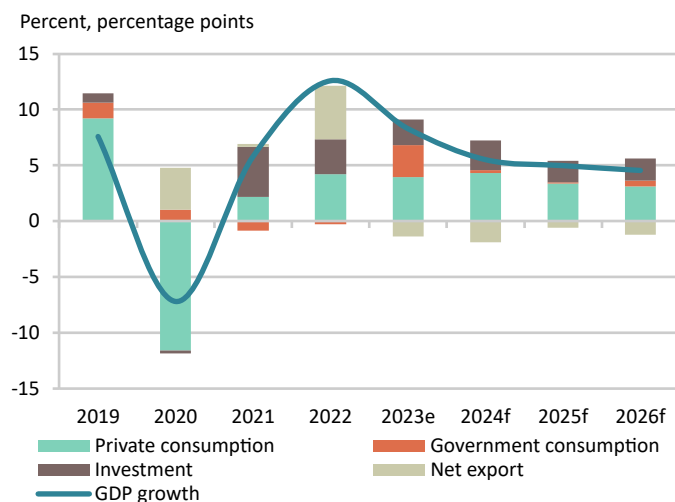
In H1 2024, real GDP growth reached 6.5 percent (yoy), down from 10.4 percent in H1 2023. Private consumption and investment grew 7.6 and 13.1 percent, respectively. On the supply side, trade, financial, and real estate services grew 22 percent (yoy), 15 percent (yoy), and 13 percent (yoy), respectively. In the industrial sector, construction and manufacturing were positive contributors, whereas mining contracted 11 percent (yoy), due to lower ore extraction (following the closure of the Sotk mine at the border with Azerbaijan). Meanwhile, agriculture showed signs of recovery, expanding 5 percent (yoy) in the same period.

Armenia's unemployment rate rose to 15.5 percent in Q1 2024, up from 13.7 percent in Q1 2023. The rise can be partly attributed to the inflow of refugees not yet integrated into the labor market, and to a decline in employment levels, particularly female workers in urban areas.

Average inflation fell from 2 percent in 2023 to 0.3 percent deflation during January-July 2024, largely due to a 3.7 percent fall in food and non-alcoholic beverage prices. This is influenced by a high base effect in 2023, which is expected to weaken in H2 2024. In response, the Central Bank reduced the policy rate cumulatively through September by 175 bsp, to 7.5 percent.

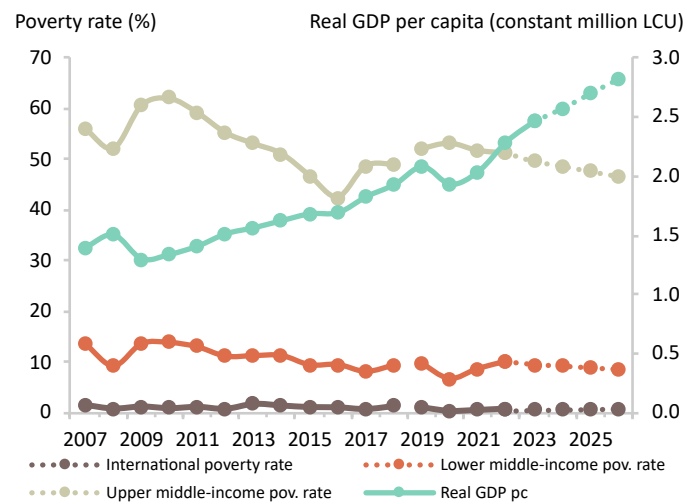
In H1 2024, the budget posted a surplus of 0.1 percent of projected GDP, driven by an 11 percent under-execution of current expenditure. Although tax revenues increased 7.6 percent in nominal terms,

FIGURE 1 Armenia / Real GDP growth and contributions to real GDP growth



Sources: Statistical Committee of Armenia, Central Bank of Armenia (CBA), and World Bank staff projections.

FIGURE 2 Armenia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

they were still 9 percent below the planned budget. Capital expenditure was in line with the budget, and at end-July government debt was at 44.6 percent of the annual GDP forecast.

Armenia's trade turnover doubled in H1 2024, driven by a 134 percent leap in exports and an 87 percent rise in imports (both in nominal terms), primarily due to the re-export of precious stones and metals (70 percent of total exports). The number of tourists declined 6.1 percent, largely due to a 24 percent fall in Russian visitors. Meanwhile, net non-commercial money transfers were 48 percent lower than in H1 2023, mainly due to reduced inflows from Russia. By mid-August, the AMD had appreciated 4 percent against the USD, compared with the end of 2023.

Armenia's financial stability indicators remained robust as of June 2024, with a 20.2 percent Capital Adequacy Ratio and a low Non-Performing Loans ratio at 1.2 percent. Banking sector profitability improved, and credit and deposits by commercial

banks increased 8 percent and 4 percent, respectively, through July 2024. This growth was primarily driven by AMD-denominated funds, which helped lower the credit dollarization ratio to 33.2 percent by end-July 2024.

The national absolute poverty rate continued to fall, reaching 23.7 percent in 2023, although the decline was slower than in previous years and less than proportionate to economic growth.

Outlook

Supported by domestic demand, growth in 2024 is expected to slow to 5.5 percent before gradually converging to a potential growth rate of 4.5 percent in the medium term. Average inflation is expected to rise gradually toward 4 percent target in the medium term.

The fiscal deficit is projected to rise to 4.7 percent of GDP in 2024, driven by

continued support for refugees, elevated domestic interest payments, and substantial capital expenditure plans. Further deterioration is likely in 2025, to be followed by a period of fiscal consolidation. As a result, the public debt stock is expected to increase over the next two years.

The current account deficit (CAD) is expected to widen to 3.3 percent of GDP in 2024, and potentially deteriorate further in the medium term, mainly due to the positive impact of re-exports phasing out. The CAD is expected to remain below 4.5 percent of GDP in the medium term.

Poverty, as measured by the upper middle-income poverty line of USD 6.85, is expected to remain about 49 percent in 2024. Rising unemployment and slower GDP growth may suppress real wages, affecting the trend in poverty reduction.

Downside risks to this outlook include geopolitical instability, challenges in refugee integration, and potential slowdowns in the economies of key trading partners.

TABLE 2 Armenia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.8	12.6	8.3	5.5	5.0	4.6
Private consumption	2.8	5.6	5.6	6.3	4.9	4.5
Government consumption	-6.2	-2.2	28.3	2.1	1.0	4.6
Gross fixed capital investment	23.6	14.0	10.1	11.6	8.0	8.1
Exports, goods and services	18.6	59.9	30.7	29.2	-15.3	1.6
Imports, goods and services	12.9	35.0	30.2	29.3	-13.1	3.2
Real GDP growth, at constant factor prices	5.6	13.1	8.0	5.5	5.0	4.6
Agriculture	-0.8	-2.8	2.9	4.1	3.5	3.0
Industry	2.6	9.8	2.7	6.5	5.8	4.5
Services	8.7	18.1	11.4	5.3	4.9	4.8
Inflation (consumer price index)	7.2	8.6	2.0	0.6	3.2	4.0
Current account balance (% of GDP)	-3.5	0.3	-2.3	-3.3	-3.8	-4.3
Net foreign direct investment inflow (% of GDP)	2.5	4.9	2.2	2.0	2.0	2.1
Fiscal balance (% of GDP)^a	-4.5	-2.2	-1.9	-4.7	-5.5	-4.6
Revenues (% of GDP)	24.9	25.1	26.0	26.1	26.2	26.5
Debt (% of GDP)^b	60.2	46.7	48.4	50.3	53.8	55.4
Primary balance (% of GDP)	-2.0	0.1	0.7	-1.5	-2.1	-1.1
International poverty rate (\$2.15 in 2017 PPP)^{c,d}	0.5	0.8	0.8	0.8	0.9	0.9
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{c,d}	8.7	10.0	9.5	9.2	8.9	8.6
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{c,d}	51.7	51.3	49.6	48.6	47.6	46.6
GHG emissions growth (mtCO₂e)	5.9	6.6	11.5	7.9	6.4	4.8
Energy related GHG emissions (% of total)	63.1	65.3	68.7	67.8	68.7	70.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ The 2023 fiscal balance registered a deficit of -4.1 percent of GDP, including realized liabilities to Karabakh.

b/ Excludes CBA debt.

c/ Calculations based on ECAPOV harmonization, using 2010-ILCS, 2018-ILCS, and 2022-ILCS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.

d/ Projection using annualized elasticity (2010-2018) with pass-through = 0.69 based on GDP per capita in constant LCU.