

Pre- and Post-Crisis Economic Trends in Armenia

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After the declaration of Independence in 1991, Armenia stepped into a process of structural reforms and transition to the market economy. Peculiarities and trends of socio-economic development during the early transition period resulted in deep decline of GDP, massive unemployment, widespread impoverishment of population, polarization of the society and massive migration. After the first difficult decade of transition the country's economic growth allowed the economy to recover the 1990 level in 2004. However, in 2004, Armenia was a country with per capita GDP of 3,998 PPP dollars, 32% of unemployment rate and 53.4% of poverty headcount ratio (at national poverty line).¹⁾

Between 2002 and 2007, Armenia's economy has been consistently growing by double-digit annual rates- the average annual economic growth rate comprised 13.1%.²⁾ As a result of rapid economic growth, the per capita GDP increased up to 6,484 PPP dollars, the unemployment rate and the poverty ratio decreased and comprised respectively 28% and 26.4% in 2007.¹⁾

Among the 26 transition countries of the Former Soviet Union (FSU) and Central and Eastern Europe (CEE), only Azerbaijan and Turkmenistan had average annual economic growth rates exceeding those of Armenia during the mentioned period (19.1% and 13.8% respectively).³⁾ Taking into account the high rates of economic growth, the World Bank compared Armenia's economic growth trends for this period to the Asian tiger economies (calling it the "Caucasian Tiger") and linked its successful macroeconomic performance to "steady pursuit of first-generation structural reforms, assisted by large external inflows" (Mitra et al., 2007, p. 3).

¹⁾ According to the World Bank's World Development Indicators Database, 2015: <http://data.worldbank.org/data-catalog/world-development-indicators>

²⁾ Calculated based on "Statistical Yearbook of Republic of Armenia" 2004, 2006, 2008, National Statistical Service of RA.

³⁾ Calculated based on "Statistical Yearbook of Republic of Armenia" 2004, 2006, 2008, National Statistical Service of RA and the IMF World Economic Outlook Database, 2015: <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/download.aspx>.

The considerable worsening of the global economy due to the economic crisis in 2008 had a negative impact on Armenia's economic and social situation. The impact of the world financial and economic crisis started to appear since the fourth quarter of 2008. As a result, economic growth rates slowed down to 6.9% in 2008. Moreover, in 2009, a 14.2% economic decline was recorded. In 2010, the economy started to recover with 2.1% of annual economic growth rate. After 2010, very moderate growth rates were recorded in Armenia, mounted up to an average annual growth rate of 4.3% between 2011 and 2015.⁴⁾ In 2014, the per capita GDP comprised 8,068 PPP dollars, unemployment rate - 17% and poverty ratio - 30%.¹⁾

Thus, the economy and living standards of population in Armenia appeared to be very sensitive to external influences and shocks. Moreover, according to the IMF data, among the FSU and CEE transition countries the economy of Armenia was one of the most sensitive ones to external impacts and shocks. The sharpest economic downturn in 2009 among these countries was observed in Latvia, Lithuania, Ukraine, Armenia and Estonia (respectively: -18.0, -14.7, -14.5, -14.2, and 13.7 percent).⁵⁾

The sharp economic downturn in Armenia was due to the following factors: the very structure of the economy and its growth and dependence of the economy on external financing, particularly - on remittances from working migrants.

The pre-crisis rapid economic growth was mainly related to the growth in non-tradable sectors: construction (mainly housing) and services. While the GDP increased 3 times during 2001-2008, the construction sector value added increased 8 times and comprised 25.3% of the total GDP in 2008. At the same time, services value added increased 3.2 times and comprised 33.7% of GDP in 2008. On the other hand, the value added in the tradable sectors: agriculture and industry, increased only 1.8 times during the mentioned period. As of 2008, the agricultural and industry value added comprised 16.3% and 13.2% of the GDP respectively.

In its turn, growth in the non-tradable sectors was ensured mainly through the huge amounts of foreign investments and foreign private transfers/personal remittances (from working migrants), which were the actual generators of the domestic demand. Remittance inflows have had a positive influence on GDP growth though its multiplicative effect on consumption and investment (Karapetyan, Harutyunyan, 2013).

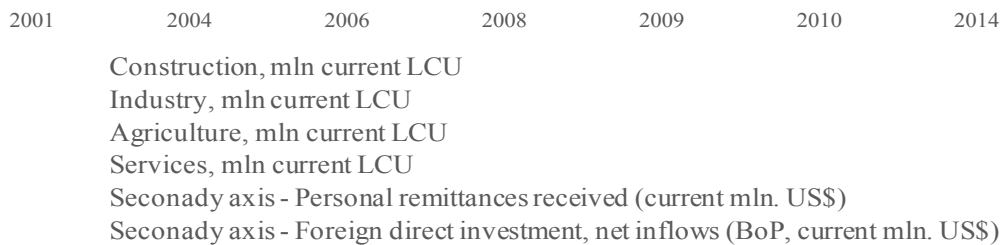
According to the World Bank data, in 2001-2008 the volume of personal remittances to

4) The GDP growth rates are calculated based on "Statistical Yearbook of Republic of Armenia" 2014, National Statistical Service of RA. Particularly, the GDP growth rate comprised 4.7% - in 2011, 7.2 - in 2012, 3.5% - in 2014 and 3% - in 2015.

5) Source: World Economic Outlook Database, IMF: <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/download.aspx>.

Armenia amounted to 6.4 billion USD, and the volume of direct foreign investments - 2.9 billion USD.⁶⁾ It comprises about 20% of the total GDP created in the country over this entire period. As a result of the crisis, in 2009-2010, the volumes of foreign investments and foreign private transfers from migrants fell sharply, leading to a decline in the construction sector and the overall economy. By 2014, the construction sector value added decreased 2 times compared to 2008, while the value added in the tradable sectors increased 1.6 times. However, the growth in services sector apparently was the main component of the double-digit pre crisis and moderate post-crisis growth in Armenia. In 2014, the value added in services increased 1.6 times compared to 2008 and comprised 41.3% of the GDP.

2001-2014 trends in value added in tradable and non-tradable sectors vs. foreign direct investments and inflow of personal remittances in Armenia



Source: Statistical Yearbooks of Armenia, 2004-2014, WDI Database, WB: <http://databank.worldbank.org/data/>

According to different studies, the inflow of remittances from labor migrants has some positive and negative impacts on the economy and society in Armenia. The inflow of remittances boosts the economy through the increase in consumption and investments and contributes largely to the poverty reduction. In 2013-2014, the private remittances from abroad contributed to poverty reduction by 7.7 percentage points, while state social transfers (social assistance, benefits and pensions) - only by 5.8 percentage points.⁷⁾

On the other hand, the inflow of remittances decreases the domestic motivation in employment and productive investments in the tradable sectors, as well as leads to the strengthening of the national currency (Karapetyan, Harutyunyan, 2013). The latter resulted at

⁶⁾ The World Development Indicators Database, 2015, WB. <http://databank.worldbank.org/data/>

⁷⁾ Calculated based on "Household Integrated Living Standard Survey" databases, provided by National Statistical Service of RA. <http://armstat.am/en/?nid=271>

decrease in net exports (due to increase in imports) and to the rapid growth of the service sector at the expense of tradable sectors. As follows from Aivazian, Berezhnyatskiy & Brodsky (2014), this situation results in outflow of labor force abroad - instead of its reallocation between sectors inside the country, as well as in possible presence of Dutch disease in Armenia.

The main part of remittances to Armenia (approximately 65-70%) comes from Russia. Seasonal migrants mostly leave the country for a job in Russia. At the same time, in Russia there is a large Diaspora of Armenians migrated to Russia during the transition period and living there for many years. Currently, the fall of the Russian ruble due to the fall in oil prices has led to a significant reduction in labor migration from Armenia to Russia, as well as to a reduction in transfers from Diaspora in Russia. It already resulted to a decrease of volume of remittances abroad: in 2015, the remittances from abroad decreased by 40% compared to 2013. If the Government does not adjust its social and economic policies in line with the new developments, it could lead to further impoverishment of the population and to the economic downturn.

[Reference]

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