ARMENIA | Country Economic Update Fall/Winter 2017-18

A WINDOW OF OPPORTUNITY TO TACKLE CHALLENGING REFORMS

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ARMENIA:

A Window of Opportunity to Tackle Challenging Reforms

Country Economic Update

Fall/Winter 2017-18

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Government Fiscal Year:	January 1 – December 31
Currency Equivalents:	Exchange Rate Effective as of January 5, 2018
	Currency Unit = Armenian Dram (AMD)
	US$1=484.9
Weights and Measures:	Metric System

Abbreviations and Acronyms

AMD	Armenian Dram
CBA	Central Bank of Armenia
ARF	Armenian Revolutionary Federation
RPA	Republican Party of Armenia
CEPA	Comprehensive and Enhanced Partnership Agreement
CIS	Commonwealth of Independent States
CEU	Country Economic Update
EAI	Economic Activity Index
EEU	Eurasian Economic Union
EU	European Union
IMF	International Monetary Fund
FDI	Foreign direct investment
GoA	Government of Armenia
LPI	Logistics Performance Index
GDP	Gross Domestic Product
NPL	Non-performing loan
NSS	National Statistics Service
SCD	Systematic Country Diagnostics
VAT	Value-added tax
US$	United States Dollar
WBG	World Bank Group

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Foreword

This edition of Armenia's Country Economic Update (CEU) is part of a semi-annual series designed to monitor socio-economic developments in Armenia. It presents a concise analysis of political, economic, and social developments as well as of progress achieved in the implementation of structural reforms since the Spring 2017 edition of the CEU. This edition's authors are Jeff Chelsky (Lead Economist) and Armineh Manookian (Country Economist for Armenia), with data support from Artsvi Khachatryan (Consultant). The authors are grateful for the support of, and input from, Mercy Miyang Tembon (Regional Director, ECCSC), Sylvie Bossoutrot (Country Manager for Armenia), Moritz Meyer (Economist), and Genevieve Boyreau (EFI Program Leader for South Caucasus). Sarah Nankya Babirye (Program Assistant in Washington, D.C.) and Gayane Davtyan (Program Assistant in Yerevan) provided administrative support. Vigen Sargsyan (Senior Communications Officer, ECAEC) helped with report dissemination.

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Key Messages

Economic performance was better than expected in 2017, with fiscal consolidation underway

The main risk to growth comes from continued slow implementation of critical structural reforms

- The World Bank expects the Armenian economy to grow about 4 percent in 2017 with a modest but sustained recovery envisaged over the medium term. After stagnating in 2016, the economy showed renewed and greater-than-expected strength in the first half of 2017, which has continued into the third quarter but at a moderated pace. Growth was concentrated in industry and services (particularly trade), with construction activity continuing to be a drag on growth. The 2016 period of deflation appears to have come to an end.
- Higher GDP, along with improvements in tax administration, have contributed to an improvement in tax collection, which has permitted some loosening of the earlier compression of capital expenditures. Having exceeded the fiscal rule's lower debt-to-GDP threshold (50 percent), the deficit has been constrained to below 3 percent of GDP this year. Based on the draft 2018 state budget, fiscal consolidation is expected to continue.
- In June, the Government approved a reform program for 2017-2022 including measures to boost growth and attract private investment. Reforms are planned to public administration, the business and investment climate, and the social welfare system.
- Looking forward, the greatest risk to the outlook would come from not seizing the opportunity presented by the current resumption of growth to accelerate the implementation of major (and needed) structural reforms to: (i) help open markets, seize export opportunities and overcome connectivity constraints; (ii) develop the private sector, including by removing barriers to entry; (iii) remove disincentives to labor force participation and improve labor productivity; and (iv) build national resilience on multiple fronts, including on the macro-fiscal area.[1]
- This issue of the Armenia Country Economic Update includes a special section on Population, Migration and Growth. It highlights the extent to which net out migration has driven Armenia's population dynamics, how it may affect longer term growth, and the types of policies that can stem the outflow of Armenia's best and brightest young people.

[1] As identified in the forthcoming *Future Armenia: Connect, Compete, Prosper – A Systematic Country Diagnostic*, November 2017. http://pubdocs.worldbank.org/en/528851497370212043/Armenia-SCD-External-170613-with-full-pics-Nistha-update.pdf

A. Recent Developments

Political Developments

The ruling Republican Party of Armenia (RPA), won a commanding victory in the parliamentary election last April

The RPA took 58 of 105 seats, enabling it to form a stable majority government. The RPA also renewed its power-sharing agreement with the Armenian Revolutionary Federation (ARF), giving it the three-fifths majority needed to enact fundamental laws (i.e., those that are constitutionally important and require a two thirds majority to pass). The incumbent Premier, Karen Karapetyan, was re-appointed with the composition of the Cabinet mostly unchanged. In June, the Government approved an economic reform program for 2017-22, targeting an expansion of exports and foreign direct investment, average annual growth of 5 percent, and a reduction in the poverty rate of 12 percentage points from the 2016 rate of 29.4 percent. Armenia, while remaining part of the Eurasian Economic Union (EEU), recently concluded a Comprehensive and Enhanced Partnership Agreement with the EU to replace the association agreement that was abandoned in late 2013. It is expected that the resulting harmonization of production and regulatory standards will help boost exports.

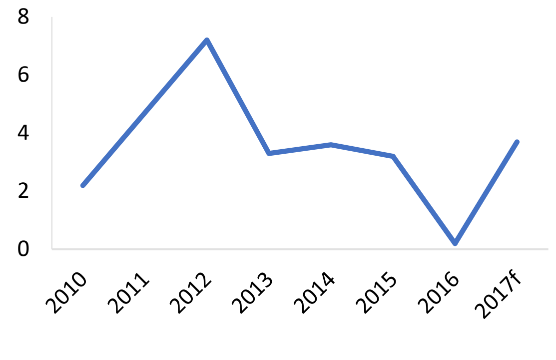
In line with constitutional amendments approved in 2015, after President Serzh Sargsyan's second term ends in April 2018, Armenia will have a largely ceremonial president, elected by parliament rather than by popular vote, with increased powers for the prime minister. The status of the Government’s 5-year program will be confirmed when Armenia takes its final step towards full Parliamentary rule in the Spring.

Growth and Inflation

After stagnating in 2016, the Armenian economy regained lost ground, showing greater-than-expected strength in the first half of 2017, which has continued into the third quarter but at a moderated pace

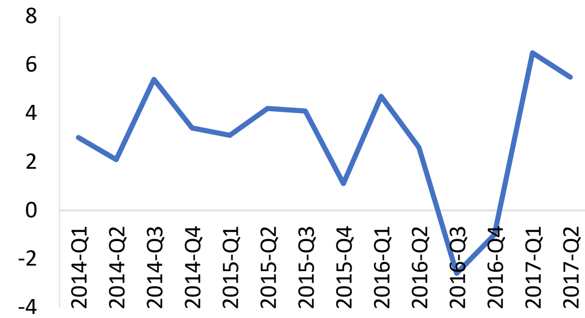
Real GDP in the first half of the year was 6 percent above its year-ago level. High frequency data point to year-over-year growth slowing in August and September, but picking up in October, with cumulative 2017 growth to October about 7 percent above the same period last year. Growth was concentrated in industry and services (particularly trade). Agriculture sector performance between January and October, was 4 percent below the same period last year due to bad weather. Construction activity in the first ten months of 2017 remained weak, coming in around its year-ago level. The World Bank expects the Armenian economy to grow about 4 percent in 2017 (Figure 1). If realized, this would be the fastest growth since 2013 and close to Armenia’s potential rate of growth. The Ministry of Finance and the Central Bank of Armenia (CBA) have both revised upward their 2017 growth forecasts, projecting 4.3 and between 3.9 and 4.8 percent growth, respectively.

Figure 1: Real GDP Growth, 2010-17
(percent)



Source: NSS, World Bank staff calculations.

Figure 2: Quarterly Real GDP Growth
(y-o-y growth, percent)

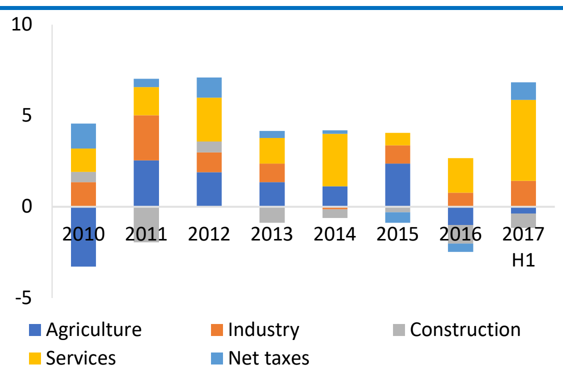


Source: NSS, World Bank staff calculations.

Manufacturing, trade, and financial services were the main economic drivers in the first half of 2017; private consumption rebounded, imports recovered, and gross investment strengthened moderately

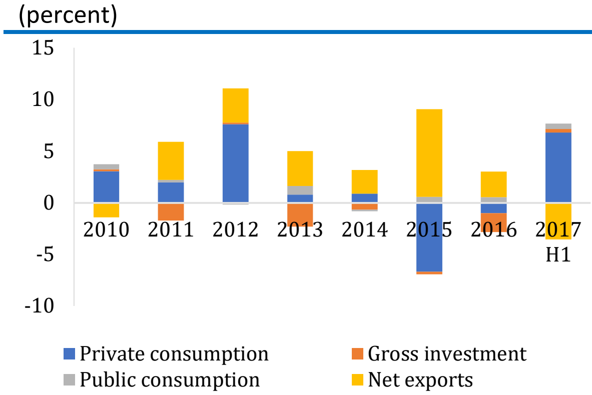
Wholesale and retail trade grew by 12 percent on a year-on-year basis in the first half of 2017, following 1 percent growth in 2016 (Figure 3). Production of beverages grew significantly over the January to September period, coming in 36 percent above its year-ago level, compared with only by 7 percent in 2016. Financial services and insurance came in 20 percent above their year-ago level, strengthening significantly from their 2016 performance. Mining and quarrying was 11 percent higher than in the first half of 2016 due to favorable international copper prices, however their share of the economy is small (less than 3 percent of GDP). On the demand side, growth was mostly supported by private consumption, in part as a result of an improvement in remittances (Figure 4, Table 1). While exports continued to grow in the first half of 2017 (at a double-digit rate), a revival in imports meant that net exports contributed negatively in total GDP growth. Gross investment expanded moderately by 3 percent after contracting in both 2015 and 2016.

Figure 3: Economic Growth by Sector, 2010 –17
(percent)



Source: NSS, World Bank staff calculations.

Figure 4: Economic Growth by Source of Demand, 2010 - 17
(percent)



Source: NSS, World Bank staff calculations.

Table 1. Contribution to Real GDP Growth
(percentage points)

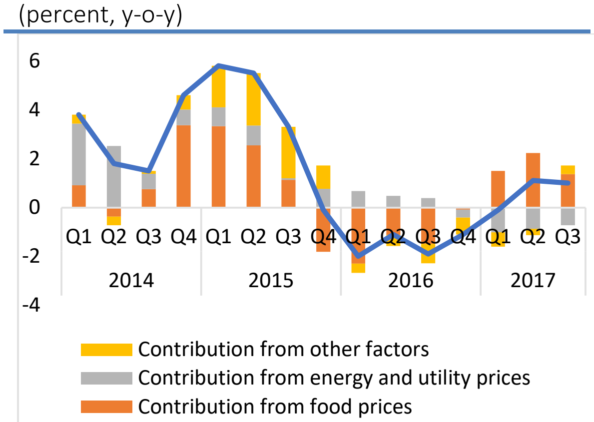
	2013	2014	2015	2016
Real GDP growth	**3.3**	**3.6**	**3.2**	**0.2**
Domestic demand	-0.7	0.0	-6.3	-2.3
Consumption	1.6	0.7	-6.1	-0.5
Gross capital formation	-2.3	-0.7	-0.3	-1.8
Net exports	3.4	2.3	8.5	2.5
Exports of goods and services	2.4	1.8	1.4	5.7
Imports of goods and services	-1.0	-0.5	-7.1	3.2
Statistical discrepancy	0.6	1.3	1.0	0.0

Source: World Bank staff calculations based on data published by NSS.
Note: Sums may not add up due to rounding.

Deflation came to an end in 2016, with consumer prices increasing in 2017; inflation remains well below the 4 percent CBA target

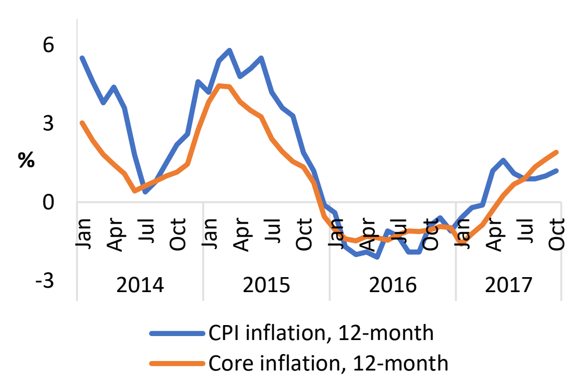
After falling during 2016, consumer prices started to increase in 2017, with inflation in May of 1.6 percent (year on year), mainly driven by increases in food prices (Figure 5). By October, the 12-month inflation rate had fallen to 1.2 percent. Food prices (particularly meat and vegetables) remain the main factor underlying positive inflation, while energy and utility prices contributed negatively, falling as administered gas and electricity tariffs were reduced at the start of the year by 5 and 3 percent, respectively. Non-food prices (excluding energy) relative to their year-ago level started to increase only in the third quarter of the year, promising higher inflation by year end. Core inflation, which excludes the prices of seasonal products and administrative regulated services, was up 2.4 percent year-on-year in October. (Figure 6)

Figure 5: Inflation by Component– 2014Q1-17Q3
(percent, y-o-y)



Source: NSS, World Bank staff calculations.

Figure 6: Headline and Core Inflation – 12-Month Rate



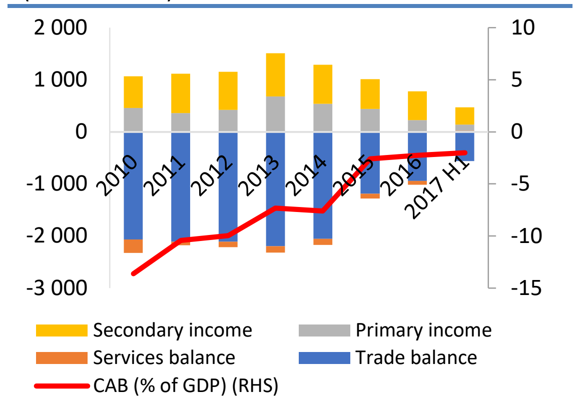
Source: CBA, World Bank staff calculations.

External Sector

Export of goods showed considerable strength but with buoyant import growth, the trade balance deteriorated in the first half of 2017

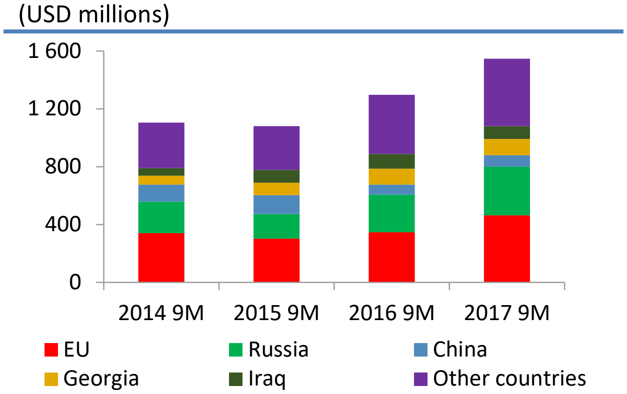
Exports and imports of goods both grew significantly, but the larger base for imports meant a deterioration in the trade balance (Figure 7). There was an increase in tourist arrivals relative to last year and an increase in the export of telecommunication, computer and information services, which contributed to an increase in total services exports of 21 percent. Along with an increase in investment income and remittances, this more than compensated for the deterioration in the trade balance, resulting in an improvement in the current account deficit in the first half of the year relative to the same period in 2016. With continuing strong import performance and a moderating increase in remittances in the second half of 2017, a deterioration in the current account balance is expected for the year as a whole, compared to a 2.3 percent deficit in 2016.

Figure 7: Current Account Deficit, 2010 –17 H1
(USD millions)



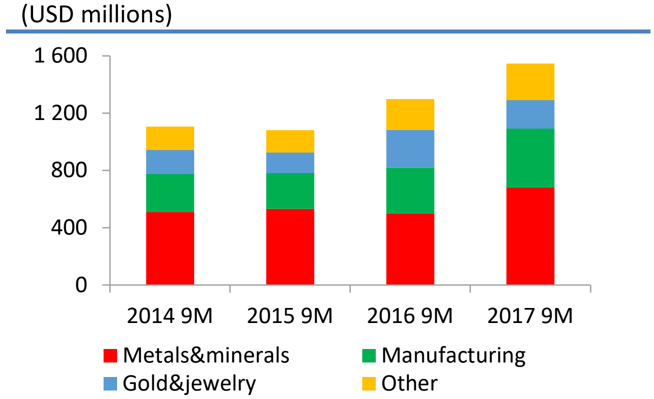
Source: CBA, NSS, World Bank staff calculations.

Figure 8: Exports by Country of Destination – January to September -2014-17
(USD millions)



Source: NSS, World Bank staff calculations.

Figure 9: Exports by Commodity Group, January to September, 2014-17
(USD millions)

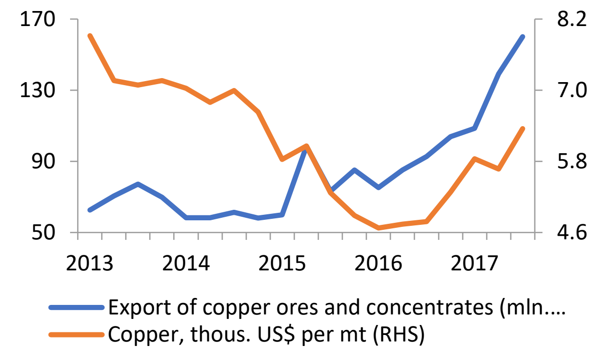


Source: NSS, World Bank staff calculations.

Higher metal prices and a resumption of growth in Russia pushed exports up about 20 percent year-on-year in the first nine months of 2017

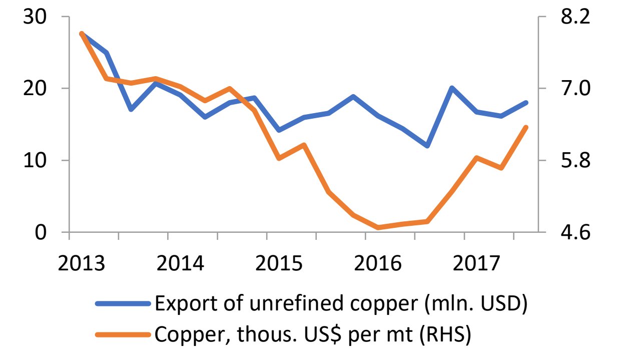
Within manufacturing, the value of exports of ready food products increased 28 percent, increasing their share in exports from 21 to 23 in the first nine months of 2017. Growth in commodity exports was concentrated in metal and minerals which, in the first nine months of this year, were 36 percent above the same period in 2016, explaining half the increase in total exports (Figures 8 and 9). Their collective share in total exports increased to 44 percent from 38 in 2016. Copper (which accounts for about one third of total exports), gold and aluminum all experienced favorable price movements in 2016 and 2017 (Figures 10 to 13). Imports, which had been almost flat during 2016, started to increase at the end of 2016 and by September, were 23 percent above their year-ago level. Increases in imports of capital goods was also significant, with imports of machinery equipment up 30 percent, contributing four percentage points to total import growth.

Figure 10: Exports of Copper Ore ((USD millions) and World Prices ('000s. USD per Metric Tonne)



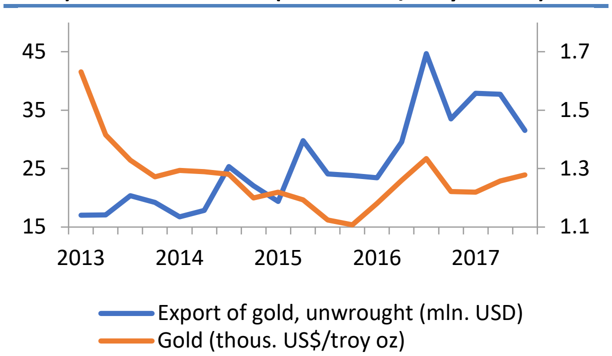
Source: NSS, World Bank Commodity Price Data, staff calculations.

Figure 11: Exports of Unrefined Copper (USD millions) and World Prices ('000s. USD Per Metric Tonne)



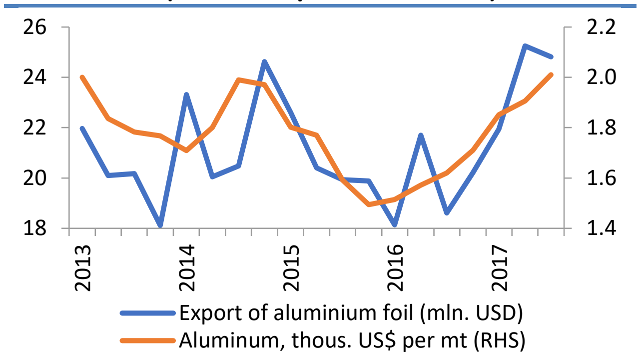
Source: NSS, World Bank Commodity Price Data, staff calculations.

Figure 12: Exports of Gold, Unwrought (Million USD) and World Prices ('000s. USD/Troy Ounce)



Source: NSS, World Bank Commodity Price Data, staff calculations.

Figure 13: Exports of Aluminum Foil (Million USD) and World Prices ('000s. USD per Metric Tonne)



Source: NSS, World Bank Commodity Price Data, staff calculations.

Tourism outperformed, with 21 percent more visitors in the first nine months of 2017 than during the same period last year

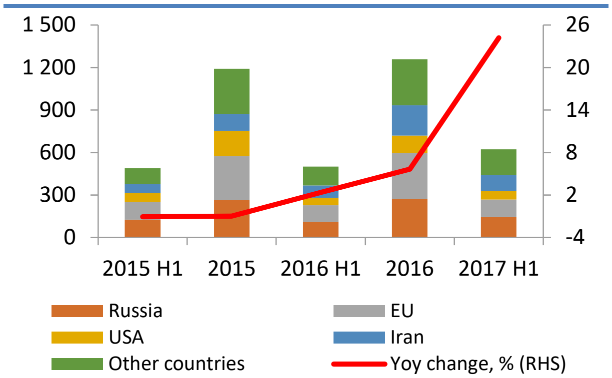
Data for the first half of the year suggest that the increase was mostly due to tourist arrivals from Russia and Iran. European tourists accounted for about 20 percent of total arrivals, up about 5 percent from the same period last year (Figure 14). Despite this increase, Armenia's tourism sector has considerable scope to grow. A recent World Bank study[2] suggests that the tourist sector potential would be enhanced with investment and improvements in infrastructure, and an increase in marketing and better promotion and training.

[2] Armenia: South Corridor Tourism Development Strategy, March 2015. http://documents.worldbank.org/curated/en/528101467988937597/Armenia-South-corridor-tourism-development-strategy.

Remittances started to rise in 2017, after reaching a floor in 2016

Remittances in USDs collapsed after the 2014 exchange rate crisis, due both to a reduced volume and a devalued Russian Ruble, the currency in which most recent Armenian emigrants receive compensation. Weak remittances continued into 2015 and 2016. Remittances began to rise only in 2017; in the first half of the year registered 12 percent year-on year growth (Figure 15). Remittances from Russia account for about four fifths of total transfers with 10 percent received from the USA.

Figure 14: Tourist Arrivals by Country of Origin 2015-17
('000 persons)



Source: NSS, World Bank staff calculations.

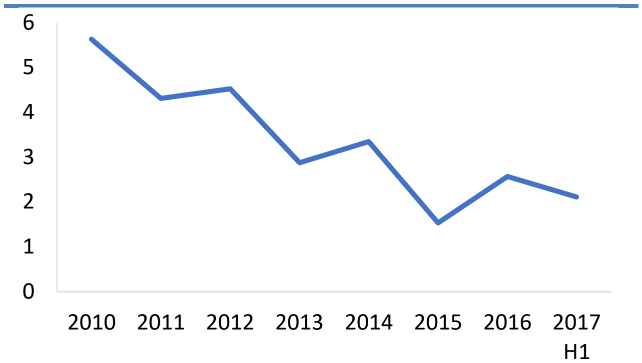
Figure 15: Remittances, 2010 – 17 H1
(y-o-y change, percent)

Source: CBA, World Bank staff calculations.

Foreign Direct Investment remains low and undiversified; increasing its level is a major policy challenge

Foreign Direct Investment (FDI) in the first half of 2017 was 30 percent higher than in the first half of 2016, up from a very low base. Nevertheless, it fell as a share of GDP (Figure 16). FDI went mainly to the mining sector. The GoA took steps to improve the investment climate, including by amending the FDI law to improve investor protection in line with international best practice. The draft law benefitted from World Bank Group technical assistance and advice. The draft was approved by the Government and is ready to be sent to Parliament.

Figure 16: Net Foreign Direct Investment, 2010-17 H1
(percent of GDP)



Source: CBA, NSS, World Bank staff calculations.

Debt and Fiscal Policy

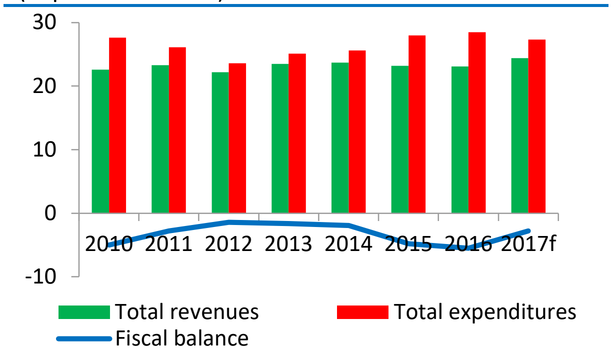
The Government is making efforts to

After registering deficits of 4.8 and 5.5 percent of GDP in 2015 and 2016, respectively, and with public debt exceeding the 50 percent of GDP threshold

consolidate the fiscal position, with the 2017 budget deficit expected to come in around 2.8 percent of GDP

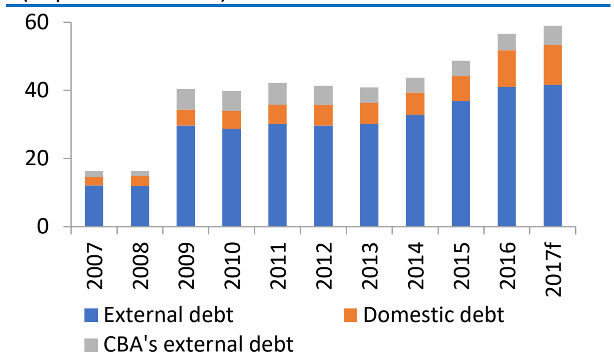
established in Armenia's fiscal rule,[3] the Government began fiscal consolidation in the 2017 budget, with a deficit target below 3 percent (Figures 17 and 18). In the first quarter of 2017, tax collections over-performed the original budget plan due to higher-than-expected GDP growth. In response, in April, the Government revised the budget plan, increasing targets for both revenue and expenditures, allowing greater funding for capital expenditure, which had been compressed in the original budget. The budget deficit in the first nine months of 2017 is expected to come in much lower than expected (i.e., relative to the revised plan), largely because of lower-than-projected expenditures, both current and capital.

Figure 17: Fiscal Developments in 2010-17
(in percent of GDP)



Source: MoF, NSS, World Bank staff calculations.

Figure 18: Armenia's Debt Dynamics, 2007-17
(in percent of GDP)

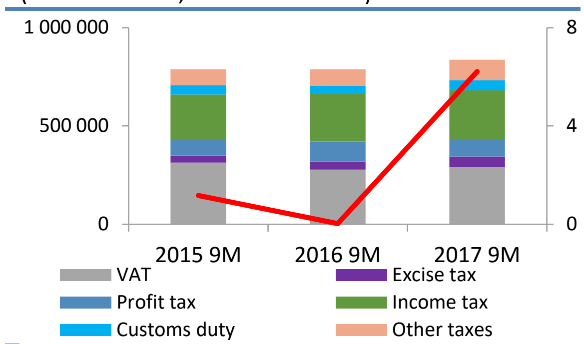


Source: MoF, NSS, World Bank staff calculations.

While tax collections increased in 2017, they underperformed compared to the ambitious revised budget plan

Tax revenue grew by 6 percent in the first nine months of 2017 (y-o-y), but were 7 percent below their revised projection for the period (Figure 19). Most of the y-o-y increase came from VAT, excise, customs duty and environmental taxes[4]. The latter increased by a 61 percent. While collections slowed in the third quarter, the tax-to-GDP ratio is still expected to increase by end 2017. Current expenditures were

Figure 19: Tax Revenue, 2015-17
(first 9 months, millions of AMD)



Source: MoF, World Bank staff calculations.

[3] Armenia's Law on Public Debt includes a strict debt ceiling of 60 percent of the previous year's GDP, and a "debt brake" of 50 percent of the previous year's GDP which triggers a requirement that the budget deficit be below 3 percent of the average GDP of the past three years. The rule has a hard ceiling; if debt exceeds the ceiling of 60 percent of GDP, no further debt can be issued.

[4] Environmental taxes include natural protection and natural resource use fees, such as royalties, fees for emission of harmful substances into the environment and fees for use of water, biological resources, or for exhausted deposits of solid mineral resources.

lower than in the same period last year, particularly for subsidies, while social spending increased by a modest 2 percent. Capital expenditure, in contrast, was up 7 percent in the first nine months, but only 60 percent of the revised budget provision for the period. Long-standing implementation difficulties with capital projects, such as the North-South road construction, are still unresolved and continue to constrain public investment.

The draft 2018 state budget continues the path of fiscal consolidation, projecting a deficit of 2.7 percent of GDP

Half of the 2018 deficit will be financed domestically, with foreign financing declining as a share of GDP. Current spending as percent of GDP is projected to decline by two percentage points compared with the revised 2017 budget plan. Capital spending was also reduced to below 3 percent of GDP, partly due to a decline in project-linked foreign financing.

Table 2: State Budget
(as percent of GDP)

	2016 Actual	2017 Revised Plan	2018 Draft Budget
Total Revenues and Grants	23.1	24.4	22.3
Tax Revenue and state duties 1/	21.3	22.2	21.3
Official transfers/grants	0.6	0.7	0.6
Other Revenues	1.2	1.6	0.4
Total expense	28.5	27.3	25.0
Current expenditures	25.2	24.0	22.1
Transaction with non-financial assets	3.3	3.3	2.9
Deficit	-5.5	-2.8	-2.7
Domestic financing	2.1	1.2	1.3
Foreign financing	3.4	1.6	1.4

Source: MoF.
1/ Coverage of tax revenue changed in 2018 draft budget, by excluding the VAT refund, thus not comparable with previous years.

With public debt above 50 percent of GDP, the fiscal rule requires fiscal consolidation. The GoA is adjusting the rule to make it more flexible and supportive of growth

Government debt reached 52 percent of GDP at end 2016, of which 80 percent consisted of external debt, only part of which was on concessional terms. The current fiscal rule requires that the deficit be kept below 3 percent of GDP. To meet this requirement, the Government has delayed some foreign-financed capital expenditures. The Ministry of Finance is in the process of amending the current public debt law to make the fiscal rule more flexible and countercyclical by prioritizing capital expenditures and introducing an expenditure rule, which will contain current spending, while leaving the current debt threshold unchanged.

Social Sector and Labor Markets

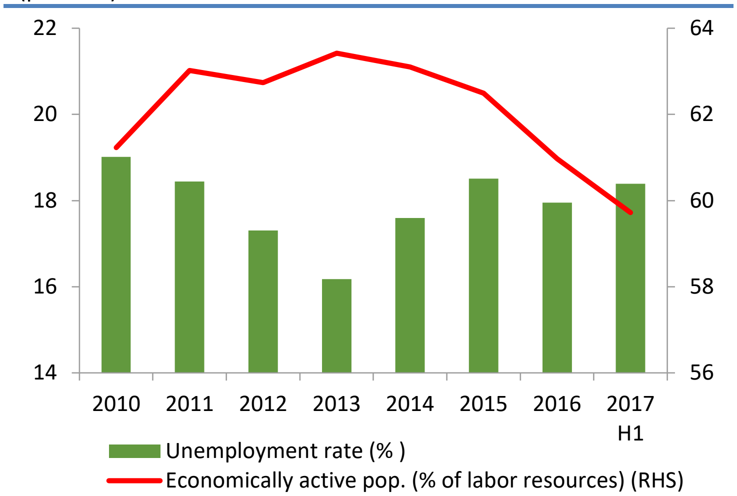
Armenia continues to have a low employment rate and high unemployment

The employment rate has remained close to 50 percent of the working-age population, among the lowest in the region and down from its peak of 53.2 percent in 2013. Forty-three percent of women and just over 58 percent of men were employed in 2016. The unemployment rate remained stubbornly

rate

high at 17.8 percent in the second quarter of 2017, only 1.2 pps below it crisis peak of 19 percent in 2010. The capital city, Yerevan, had the highest unemployment rate at an estimated 29.1 percent in 2016. In contrast, the unemployment rate in rural areas is low due to high rates of self-employment in agriculture (largely subsistence farming and unpaid farm work).

Figure 20: Unemployment and Labor Force Participation Rates, 2010-17
(percent)



Source: NSS, World Bank staff calculations.

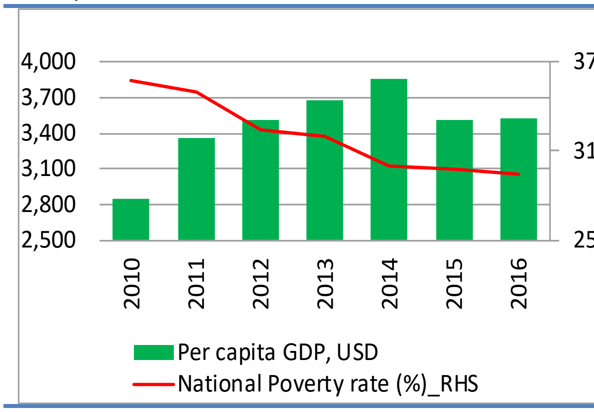
Between 2014 and 2016, the share of the population living below the national poverty line fell modestly, from 30.0 percent to 29.4 percent

The share of the population living below the poverty line declined slightly between 2014 and 2016. This performance stands in stark contrast to the pre-crisis period when strong economic growth supported significant improvements in living standards and poverty almost halved between 2001 and 2007. Limited poverty reduction reflects modest growth of agricultural output in rural areas, and limited growth of the manufacturing and service sector in urban areas which was insufficient to contribute to further job creation. In addition, declines in remittances from Russia reduced consumption growth for all households in the country. Regional disparities remain, with the highest poverty rates in urban areas outside Yerevan where high levels of unemployment and continued emigration create challenges for sustainable economic growth.

Between 2010 and 2015, average annual consumption growth for the bottom 40 percent was 3.4 percent versus 4.3 percent for the total population

Even though economic growth between 2010 and 2015 raised incomes and consumption for all segments of the population and contributed to a growing middle class, consumption growth among poor households was lower which translated into greater disparities and higher inequality. Poor households continue to experience multiple and overlapping deprivations, and non-monetary measures of welfare (including access to adequate housing and public services) point to development gaps, often related to regional disparities.

Figure 21: Per Capita Income and National Poverty Rate , 2010-16



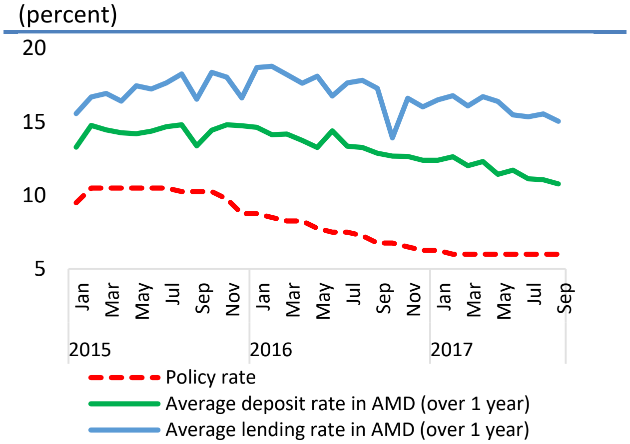
Source: NSS.

Monetary and Exchange Rate Policies

Easing of monetary policy during 2015-2016 began to have an impact in 2017, with increased economic activity accompanied by a slight increase in inflation

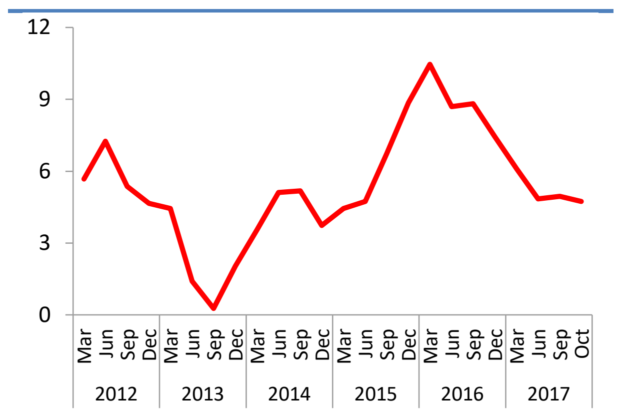
Monetary policy tightened in late 2014 and into early 2015, with the CBA raising the policy rate to 10.5 percent by August 2015. Policy loosened thereafter, with the rate declining over the subsequent one and half years by 450 basis points, to reach 6 percent in February of this year; since then, it has remained unchanged (Figure 22). Economic growth strengthened beginning early 2017, with a slight rise in the still low inflation rate. Nevertheless, real interest rates remain high at about 5 percent (Figure 23).

Figure 22: Policy, Deposit, and Lending Rates in 2015-17
(percent)



Source: CBA, World Bank staff calculations.

Figure 23: Real Policy Rate, 2012-17
(percent)

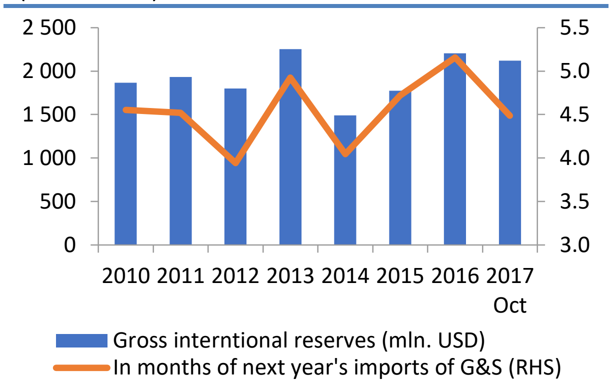


Source: CBA, World Bank staff calculations.

The dram-USD exchange rate was relatively stable during 2017 supported by, among other things, higher remittances and a recovery in tourism

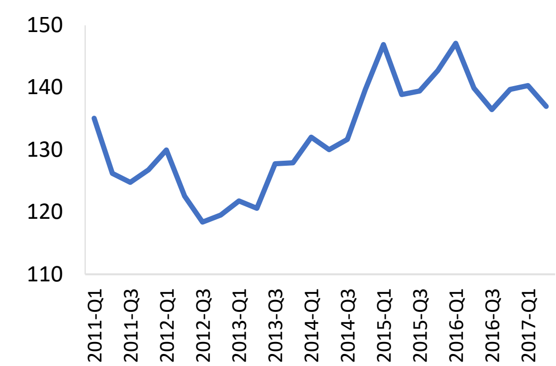
The CBA continue to adhere to a managed flexible exchange rate policy and intervenes only to prevent large fluctuations. International reserves reached 5.2 months of imports at the end of 2016 and remained at a comfortable level into October 2017 at 4.5 months of imports (Figure 24). The CBA estimates that the real effective exchange rate depreciated 8 percent between January and end-August, due to nominal effective exchange rate depreciation (by about 5 percent) and inflation in the EU, Iran, Turkey, Armenia's main trading partners (Figure 25).

Figure 24: Gross International Reserves, 2010 – 17
(USD million)



Source: CBA, World Bank staff calculations.

Figure 25: Real Effective Exchange Rate, 2011 – 17
(1997 = 100)



Source: CBA.

Financial Sector

Banks began 2017 in a stronger capital position

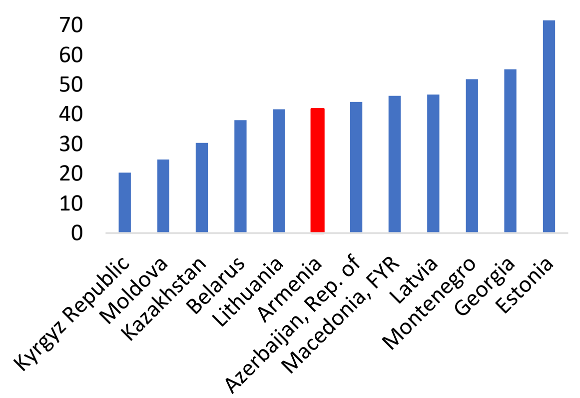
Banks began 2017 in a stronger capital position following a six-fold increase in the minimum capital requirement at the beginning of the year. Following several mergers and acquisitions, the number of foreign and domestic banks operating in Armenia fell to 17 in 2017. The average capital adequacy ratio reached 20 percent, well above the minimum requirement of 12 percent. The non-performing loan ratio was 6 percent at end June 2017. Banking sector profits in the first half of 2017 increased and the return on assets (ROA) reached 10.5 percent.

The current challenge is to expand credit to the private sector, which at 48 percent of GDP has room to improve

Lending to the private sector was up 13 percent in the first nine months of 2017 (y-o-y). Credit denominated in dram increased by 23 percent in the first nine months over the same period last year placing it in the middle of comparator countries as a share of GDP (Figure 26). Based on the latest data, consumer loans and mortgages accounted for about one third of total outstanding bank lending, down from 42 percent in 2008. The industry and trade sectors held 20 and 17 percent of outstanding commercial loans, respectively (Figure 27). Deposits at commercial banks at end September were 17 percent above their level last year. Dram deposits (and loans) grew faster than FX deposits (and loans). Financial dollarization declined somewhat due to a more stable exchange rate but remains significant. Both credit and deposit dollarization rates fell to about 62 percent at the end of September

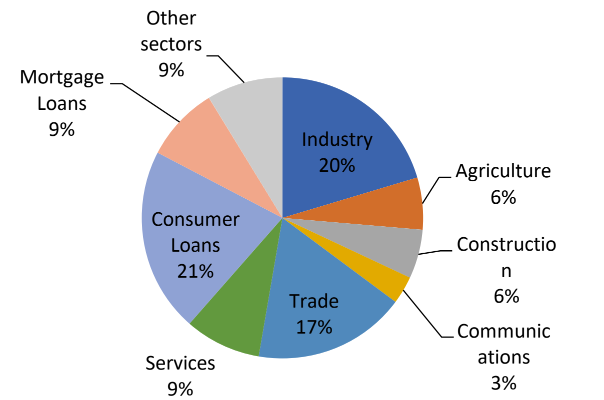
2017, from 66 and 67 percent, respectively, one year ago.

Figure 26: Outstanding Commercial Bank Loans
(percent of GDP)



Source: IMF, Financial Access Survey (FAS).

Figure 27: Total Commercial Bank Lending to Residents by Sector
(end September 2017, percent)



Source: CBA,

B. Structural Reform Agenda

While the new government has made clear its commitment to structural reform, implementation has been slow

The 5-year program has a focus on large scale reform, including in public administration, economic management, the business environment, and social welfare. Investment remains weak which the Government has acknowledged as a major problem for Armenia. The Government has launched several initiatives, including the formation of the Center for Strategic Initiatives and the Investors Club of Armenia to attract domestic and foreign private investment. Their mandates are to channel domestic and foreign private funds to promote important sectors, such as energy, tourism, infrastructure, mining, and food and light industry.

The new tax code approved one year ago will be fully effective starting 2018

The main objectives of the new tax code are to increase the transparency and fairness of the tax system by closing loopholes and to improve tax administration to increase the tax to GDP ratio, which is relatively low compared with peers. Following approval of the new tax code in October 2016, there have been attempts by political and business interests to slow implementation of some of elements of the reform. The Government agreed, among other things, to exempt those services provided to tourists from VAT. These changes are now before the National Assembly.

While Armenia's ranking in World Bank's 2018 Doing Business indicators slipped, it improved its score on regulatory

In the recently-updated World Bank's Doing Business report[5], Armenia ranked 47th among 190 countries in the ease of doing business, down from 38th place last year. The lower ranking reflects more rapid progress by other countries in improving their business and investment climates rather than a deterioration in Armenia's business and investment climate per se. In fact, regulatory changes introduced in 2016 and 2017 did lead to improvements in the ability of businesses in Armenia to get electricity and register property. There has

[5] http://www.doingbusiness.org/data/exploreeconomies/armenia

performance

been some progress on the investment policy and business climate front. Revisions to the Law on Domestic Competition are expected to come into effect soon and will impose higher penalties and stricter rules for anticompetitive behavior. Proposed amendments to the FDI law, which focuses on investor protection and investment incentives, are with the National Assembly awaiting consideration. The Government is in the process of drafting a new Public Private Partnership (PPP) law to facilitate private-sector involvement in public investment. The proposed law should be ready for Parliamentary consideration by February 2018.

Armenia continues to strengthen ties with the EU and countries in the region

After joining the Eurasian Economic Union (EEU) in 2013, negotiations on the Armenia-EU Eastern Partnership Agreement were put on hold. Nevertheless, Armenia remains committed to continuing to strengthen its ties with the European Union. On November 24th, the EU and Armenia signed the Comprehensive and Enhanced Partnership Agreement (CEPA) aimed at significantly deepening relations. The Agreement establishes a solid legal basis for strengthening political dialogue, broadening the scope of economic and sectoral cooperation, creating a framework for new opportunities in trade and investment, as well as bringing Armenian economic laws and regulations closer to those of the EU. Harmonization will cover business regulation, and agriculture, transport, environment, consumer protection and energy sector regulation. The CEPA does not contain far-reaching free trade-related provisions, unlike the Association Agreement that had been negotiated between Armenia and the EU in the summer of 2013. Armenia is also strengthening ties to its southern neighbor, Iran, having signed a memorandum of understanding in August this year to help promote cooperation between free trade zones on either side of the Iran-Armenia border.

A WBG Systematic Country Diagnostic for Armenia identifies the main challenges and constraints to development in Armenia

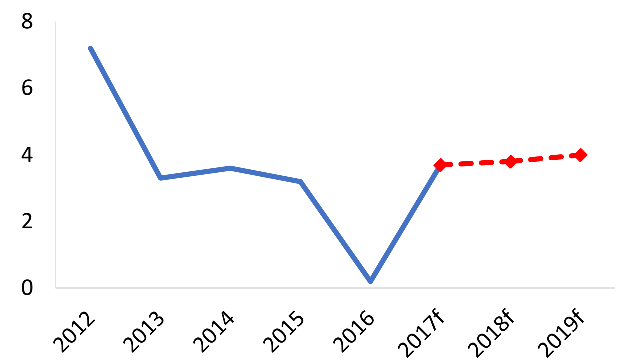
In 2017, the WBG produced a Systematic Country Diagnostic (SCD) for Armenia to identify the main challenges and constraints to development in Armenia. The SCD specifies four main pathways to address these challenges: (i) to rebalance growth, Armenia should open markets, seize export opportunities and overcome connectivity constraints; (ii) to develop a vibrant productive private sector and create more jobs, Armenia should remove barriers to entry; (iii) to foster more inclusive growth, Armenia should remove disincentives to labor force participation and improve labor productivity; and (iv) to achieve sustainability, Armenia should build national resilience on multiple fronts.

C. Economic Outlook

Over the medium term, growth is expected to edge up, reaching 4 percent by 2019

The medium-term economic outlook is improved from a few months ago, reflecting progress on the structural reform agenda (particularly with respect to the business and investment climate) and given a somewhat more robust but still modest turnaround in the Russian economy (Figure 28 and Table 2). Partly because of stronger remittances, and following seven consecutive years of decline, the construction sector is expected to turn around modestly next year. Agriculture is beginning a slow recovery and higher copper prices should contribute to a turnaround in net exports. While the fiscal situation is expected to improve markedly, and conditional on GDP growth reaching at least 4 percent in 2019, the debt to GDP ratio is not expected to begin declining until 2019. Consumer prices are expected to return to positive growth, partly due to increases in food prices. However, inflation is expected to remain below the CBA's 4 percent target at least until end 2019.

Figure 28: Medium-Term Growth, 2017-19
(percent)



Source: NSS, World Bank staff projections.

Table 3. Baseline Scenario: Selected Macro-Fiscal Indicators
(in percent, unless otherwise indicated)

	2013	2014	2015	2016	2017f	2018f	2019f
Real GDP growth	3.3	3.6	3.2	0.2	3.7	3.8	4.0
Agriculture	7.6	6.1	13.2	-5.8	0.8	1.9	2.3
Industry	6.3	-0.9	6.2	4.8	12.5	8.9	7.7
Construction	-7.4	-4.5	-3.1	-10.8	-1.5	3.2	3.5
Services	2.9	6.6	0.9	4.0	2.4	2.1	3.0
Consumer price inflation, period average	5.8	3.0	3.7	-1.4	1.0	3.5	3.2
Current account balance (percent of GDP)	-7.3	-7.6	-2.6	-2.3	-4.0	-3.8	-3.6
Overall/primary fiscal deficit (percent of GDP)	-1.5	-1.9	-4.8	-5.5	-2.8	-2.7	-2.6
Government debt (percent of GDP)	40.9	43.7	48.7	56.6	58.9	59.6	59.3
Memorandum Item							
Real GDP Growth (Russia)	1.3	0.7	-2.8	-0.2	1.7	1.7	1.8

Source: World Bank staff calculations based on data published by NSS.CBA and GEP.
Note: Some sums may not add up exactly due to rounding.

Risks

Risks to the outlook relate to Armenia missing the opportunity to accelerate major structural reforms,

While an even more modest recovery in Russia and in global commodity prices are possible, the biggest risk to the outlook for the economy and the sustainability of the recovery, would come from missing the opportunity to accelerate the implementation of major structural reforms, including with respect to public administration, competition policy, and the business environment.[6] If the opportunity presented by the modest recovery is not

[6] For more detail, see *Armenia: Systemic Country Diagnostic – Future Armenia*, World Bank Group, 2017 available at http://pubdocs.worldbank.org/en/528851497370212043/Armenia-SCD-External-170613-with-full-pics-Nistha-update.pdf

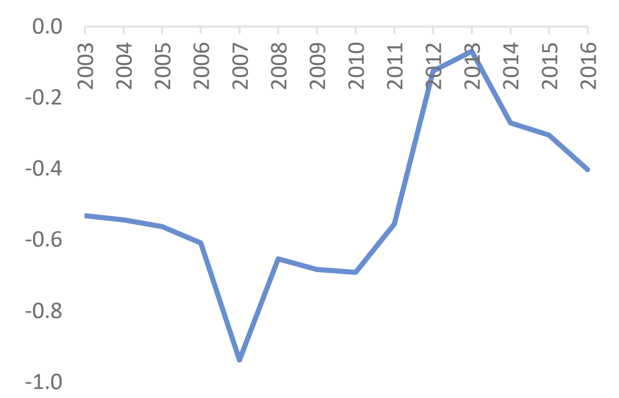
including with respect to public administration, competition policy, and the business environment

harnessed, private investment and productivity growth will remain weak with negative implications for employment, poverty reduction, shared prosperity and debt sustainability. With employment opportunities failing to emerge, net outmigration of young and educated workers will continue, further eroding productivity growth.

Special Topic: Armenia: Population, Migration and Growth

Since 2003, Armenia's population has contracted every year by, on average, -0.5 percent, with substantial net outmigration more than offsetting relatively modest net natural increase

Figure 29: Total Population Growth
(percent)



Source: National Statistics Office, Armenia.

Net natural increase (births minus deaths) has been relatively stable adding, on average, just over 0.4 percentage points per year to population growth since 2003. The positive yearly contribution to total population growth from births peaked in 2010 at about 1.46 percentage points, and has been on a modest decline since, adding about 1.35 percentage points to annual population growth in 2016. At the same time, there has been a marginal increase in the impact of deaths on annual population growth (Table 3 and Figures 29 and 30). Taken together, and compounded by the net out migration of young educated Armenians, this has raised the average age of the population by more than three years.

Table 3: Armenia -- Contributions to Population Growth

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Births	1.33	1.44	1.46	1.42	1.40	1.38	1.42	1.39	1.35
Deaths	-0.88	-0.89	-0.91	-0.92	-0.91	-0.90	-0.92	-0.93	-0.94
Net Natural Increase	0.44	0.55	0.55	0.51	0.49	0.48	0.51	0.46	0.41
Net migration	-1.10	-1.23	-1.24	-1.06	-0.62	-0.55	-0.78	-0.77	-0.81
Population Growth Rate	**-0.65**	**-0.68**	**-0.69**	**-0.56**	**-0.13**	**-0.07**	**-0.27**	**-0.31**	**-0.40**

Source: Armenia National Statistics Office and World Bank staff calculations.

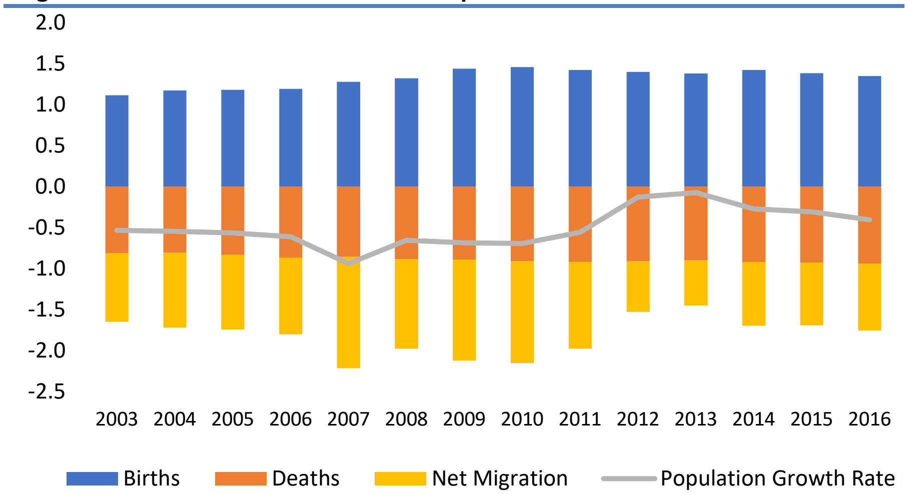
Dynamics of Armenia's population growth are driven largely by emigration

Dynamics of Armenia's population growth are driven largely by negative net migration which subtracted between 0.6 and 1.4 percentage points from annual population growth in recent years. A lack of employment tends to dominate the motivation for emigration[7]. Relative to emigration, immigration to Armenia has not been a significant phenomenon.[8] However, Armenia has taken in about 25,000 Syrian Armenians in the wake of the Syrian conflict (less than 1 percent of Armenia's population), many of which may choose to stay in Armenia.

A large majority of Armenia's emigrants are male and leave the country to work permanently or temporarily in Russia

Prior to the global financial crisis, migration originated in Armenia's rural areas to Yerevan and then on to Russia. But with the deterioration in labor market conditions in Armenia (high unemployment rates in Yerevan and little job creation in secondary cities), emigrants are now leaving from rural areas directly to Russia (particularly during periods of downturn in the agricultural sector). This trend also reflects difficulty in obtaining affordable housing in Yerevan. According to the Russia Federal Statistics Service, the number of international migrants from Armenia reached 45,670 persons in 2015 (over 1.5 percent of the Armenian population).

Figure 30: Armenia--Contributions to Population Growth



Source: National Statistics Office and Bank staff calculations.

Almost one in ten households contained

The 2014 *Report on the Household Survey on Migration in Armenia* collected information on the intentions of Armenians to leave for abroad for three or

[7] *Report on the Household Survey on Migration in Armenia (*2014, International Organization for Migration and the National Statistics Service of the Republic of Armenia, http://www.un.am/up/library/Household_survey_eng.pdf) found that 62.8 percent of emigrants reported being unemployed before leaving Armenia.

[8] The 2014 *Report on the Household Survey on Migration in Armenia* found that only a very small number of respondents had arrived from abroad (specifically, immigrants and Armenian descendants born abroad) totaling 129 individuals. This corresponded in a weighted sample to 14,312 individuals (less than half a percent of the total population). Among immigrants, the predominant rationale was "emotional reasons" or family (58.2 percent of the total).

a member intending to emigrate in the coming year

more months. It found that about 7.4 percent of households contained a member intending to move abroad for three or more months. Unlike the stock of emigrants which is heavily weighted toward men (more than four fifths are male), women accounted for 44.3 percent of potential emigrants. Of those intending to leave, more than half (56 percent) planned to move in the coming year; more than a quarter of this group had already arranged to leave.

Better educated Armenians, particularly women, are disproportionately represented among those considering emigration

By level of education, the survey showed that the most highly-educated individuals (i.e., those with tertiary or higher levels of education) were disproportionately represented among potential emigrants. Interestingly, the intention to migrate was more significant at lower levels of education for men but at higher levels for women, reflecting a tendency for men to move to Russia to work in the construction sector. Recent analysis[9] presents a more granular picture of the most recent wave of emigration from Armenia, noting two distinct trends – sustained migration of low-skilled temporary workers from Armenia's rural areas (to Russia and former Soviet countries) which predominated until the early 2010s and subsequently high-skilled migration to Russia's urban centers or through inter-company transfers to U.S. or EU based firms.

The main motivations for emigration from Armenia have been absence of jobs, unsatisfactory remuneration, earning money for the household; and uncertainty towards the future[10]

Among those intending to emigrate in the next 12 months, only 1.3 percent of men and 3.8 percent of women cited education reasons (i.e., to study abroad). There is some evidence that historically, the economic motivation to emigrate from Armenia is more of a "push" factor relative to comparator countries. For example, Mikaelyan (2015)[11] found that emigration from Lithuania is more sensitive to changes in destination country economic conditions whereas Armenian emigration is more sensitive to changes in domestic economic conditions. However, this may also reflect the relative ease with which citizens of the two countries can enter destination countries to work, with EU countries having generally tougher immigration laws. It may not, however, reflect the more recent phenomenon of significant return migration to Armenia of migrants to Russia as the Russian economy slowed down.

Emigration and Growth

Large-scale emigration of skilled and educated

Economic theory suggests that, if emigration contributes to a shortage of critical skills, nominal wages increase (with limited offsetting gains in

[9] Gevorkyan, A., "Development through Diversity: Engaging Armenia's New and Old Diaspora", Migration Information Source, March 23, 2016

[10] These results were similar to those of the *2007 Sample Survey on External and Internal Migration in RA*, conducted by the National Statistical Service of Armenia and the Ministry of Labor and Social Issues in June-November 2007. That survey found that motivations for emigration were predominantly employment related. A lack of employment was the key motivation for 43.3 percent of emigrants, 32.5 percent left due to a perceived impossibility of sufficient earnings to ensure adequate living standards and 7.3 percent cited the absence of any prospects for the development of the country/settlement area as the reason for leaving the country.

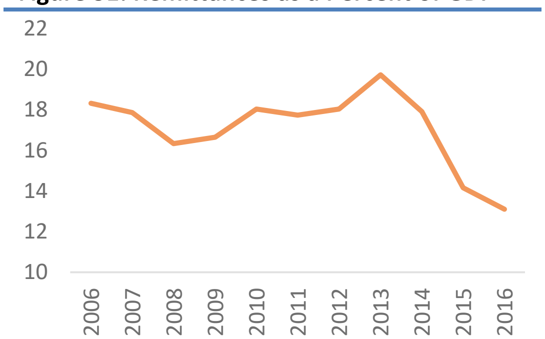
[11] Mikaelyan, H., "Migration of population of Armenia: Economic Factors", Caucasus Institute, March 2015.

workers reduces domestic competitiveness and productivity, and slows growth and income convergence[12]

productivity). This can increase the reservation wage (as can remittance flows) and reduce the level of economic activity. The loss of young and skilled workers, such as being experienced by Armenia, also has implications for the budget with a smaller employment base having to support a rising old age dependency ratio and the associated expenditure on social protection and health services. Where weak institutions and governance contribute to the emigration motivation of the young and educated, the loss of "agents of change" can slow the pace of reform. If large enough, the inflow of remittances can weaken competitiveness through shifts in the exchange rate (Dutch disease),[13] particularly if they are channeled into consumption (as is generally the case in Armenia).[14] One way to offset this is for remittances to be used to finance productivity-enhancing investment. Following the macroeconomic stabilization in the late 1990s, the Armenian diaspora began to channel resources into business ventures, partly attracted by the government's privatization initiative.[15] However, Armenia's weak business climate likely reduced the productivity enhancing impact of diaspora investment, much of which was concentrated in real estate.[16]

Economically-motivated emigration can help mitigate shocks to the domestic economy by diversifying sources of household income

Figure 31: Remittances as a Percent of GDP



Source: CBA, NSS, World Bank staff calculations.

With remittances having contributed between one tenth and one fifth to Armenia's GDP each year over the last decade, the potential for diversification of income sources exists. In fact, following the global economic crisis in 2009, when the number of permanent and temporary migrants increased substantially, remittances trended up, increasing 3.5 percent of GDP to peak at 19.7 percent in 2013 (Figure 31).[17] But the heavy concentration of Armenian immigrants in Russia (where the large majority of Armenian emigrants reside) has also exacerbated Armenia's existing vulnerability to economic conditions in Russia which have

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12 See, for example, Atoyan, R., et al., "Emigration and Its Economic Impact on Eastern Europe", IMF Staff Discussion Note, SDN/16/07, July 2016

13 Relative to GDP, remittances received by Armenia are among the highest in Eastern Europe and Central Asia.

14 One notable exception is the use of remittances to finance education spending (see, for example, OECD/Caucasus Research Resource Center - Armenia (2017), *Interrelations between Public Policies, Migration and Development in Armenia*, Paris. http://dx.doi.org/10.1787/9789264273603-en).

15 See Gevorkyan (2016)

16 A GIZ study (*Current Situation of Diaspora Connected FDI in Armenia*, German Agency for International Cooperation, 2011) found that two thirds of diaspora Armenians who had invested in Armenian business opportunities found the business climate unfavorable due to inefficient state administration, tax policy and corruption.

17 By comparison, remittances to GDP in 2016 were 10.6 percent of GDP in Georgia and 30.4 percent in the Kyrgyz Republic.

been weak for several years in the face of low world oil prices. In 2015 alone, remittances from Russia to Armenia declined by 35.8 percent.

Reflecting the modest global recovery, remittances to Armenia are expected to stay about 14 percent of GDP in 2017

But while remittance flows to Europe and Central Asia are expected to register a growth rate of 8.6 percent in U.S. dollar terms in 2017,[18] appreciation of the ruble against the U.S. dollar means that remittances from Russia, the main source of remittances to Central Asian countries, are expected to decrease in ruble terms. Going forward, economic recovery in Russia after two years of recession, and rising employment in the euro area imply a positive outlook for remittances to Armenia during 2018–19.

Policies to Address the Negative Effects of Emigration

Surveys of emigrants from Armenia and economic theory point to several ways in which Armenia can reduce, and potentially reverse, the outflow of young and skilled labor

- In the face of high emigration, Armenia could adopt policies to increase labor force participation, bringing more of the remaining population into the work force to support the increased costs associated with an aging population. For example, given Armenia's relatively low labor force participation rate for women, policy makers may want to identify and address gender-specific impediments to women entering and staying in the labor market.
- Better institutions (and improved governance) can motivate people to remain in their home country, persuade past emigrants to return, and attract skilled labor from other countries. For example, improving the efficiency of public administration and the climate for private sector activity (including by addressing impediments to competition), can enhance productivity and raise standard of living. The resulting increase in investment (including through remittances) will help improve productivity, creating a virtuous circle of growth, poverty reduction and shared prosperity.

[18] See *Migration and Development: Recent Developments and Outlook*, Brief 28, October 2017, World Bank, http://www.knomad.org/sites/default/files/2017-10/Migration%20and%20Development%20Brief%2028.pdf

Annexes

Table A 1: Selected Macroeconomic and Social Indicators

	2013	2014	2015	2016	2017f	2018f	2019f
					Projections		
National Income and Prices			(Percent, unless otherwise indicated)				
Nominal GDP (LCU bln)	4555.6	4828.6	5043.6	5079.9	5154.7	5400.1	5682.1
Nominal GDP per capita (US$)	3686	3856	3519	3540	3506	3586	3693
Real GDP growth	3.3	3.6	3.2	0.2	3.7	3.8	4.0
Private consumption growth	0.9	1.0	-7.8	-1.3	3.6	3.7	3.9
Gross investment growth	-9.1	-3.0	-1.2	-8.7	3.9	4.2	4.3
Exports of goods and services growth	8.6	6.4	4.9	19.1	13.2	9.2	9.7
Imports of goods and services growth	-2.1	-1.0	-15.1	7.6	14.2	10.3	10.6
Gross investment (percent of GDP)	22.3	20.9	20.7	18.4	18.7	19.1	19.5
Consumer price inflation, year-end	5.6	4.6	-0.1	-1.1	1.2	3.0	3.0
Consumer price inflation, period average	5.8	3.0	3.7	-1.4	1.0	3.5	3.2
GDP deflator	3.4	2.3	1.2	0.5	-2.1	1.0	1.2
Real exchange rate change	1.5	7.1	6.5	-0.7	...	...	...
External Accounts			(Current US$ millions, unless otherwise indicated)				
Merchandise exports, *of which:*	1478.7	1547.3	1485.3	1782.9	1906.4	2013.8	2122.9
Key commodity exports	1214.5	1256.7	1224.1	1447.1	1601.1	1698.1	...
Metals and minerals	716.2	688.3	704.8	691.6	761.8	807.2	...
Products of prepared food	310.2	338.1	325.3	418.2	465.6	495.7	...
Precious stones and metals	188.1	230.3	194.0	337.3	373.7	395.3	...
Merchandise imports	4385.9	4424.4	3239.2	3292.4	3516.9	3747.2	3942.1
Current-account balance	-813.0	-882.9	-272.4	-238.1	-415.2	-410.7	-397.9
as percent of GDP	-7.3	-7.6	-2.6	-2.3	-4.0	-3.8	-3.6
Foreign direct investment, net	319.5	387.9	161.5	271.9	475.0	510.0	545.0
Total official international reserves	2251.6	1489.3	1775.3	2200.3	2060.0	2180.0	...
Public external debt, total	3899.1	3785.3	4316.2	4805.6	5015.4	5184.6	5295.9
as percent of GDP	35.1	32.6	40.9	45.5	47.9	48.4	48.0
Consolidated Fiscal Accounts			(Percent of GDP, unless otherwise indicated)				
Revenues	24.2	24.4	23.9	23.6	24.9	25.7	26.3
Expenditures	25.7	26.3	28.7	29.0	27.7	28.4	28.9
Overall fiscal balance	-1.5	-1.9	-4.8	-5.5	-2.8	-2.7	-2.6
Primary fiscal balance	-0.5	-0.6	-3.3	-3.5	-0.6	-0.5	-0.3
Non-commodity fiscal deficit	-1.5	-1.9	-4.8	-5.5	-2.8	-2.7	-2.6
Government debt and fiscal savings, net	40.9	43.7	48.7	56.6	58.9	59.6	59.3
Monetary Accounts			(Percent, unless otherwise indicated)				
Base money growth	6.9	-8.9	4.6	18.0	...	...	...
Real growth of credit to the private sector	6.1	16.3	-3.0	16.2	...	...	...
Policy rate (eop)	7.75	8.50	8.75	6.25	...	...	...
Social Indicators							
Population, total (millions)	3.027	3.01	3.00	2.99	2.99	2.99	2.99
Population growth (percent)	-0.32	-0.22	-0.40	-0.42	0.00	0.02	0.02
Unemployment rate (percent of labor force)	16.2	17.6	18.5	18.0	18.5	18.1	...

Table A 1: Selected Macroeconomic and Social Indicators

	2013	2014	2015	2016	2017f	2018f	2019f
					Projections		
Poverty rate, national (percent of population)	32.0	30.0	29.8	29.4	…	…	…
International Poverty rate ($1.9 in 2011 PPP, percent of population)	2.4	2.3	1.9				
Lower middle-income poverty rate ($3.2 in 2011 PPP, percent of population)	18.9	16.4	13.5				…
Inequality – Gini coefficient, (income), national	0.372	0.373	0.374	0.375	…	…	…
Life expectancy (years)	74.8	75.0	75.0	75.0	…	…	…

Sources: World Bank staff calculations and estimates based on official data published and provided by the authorities.

Table A 2: Balance of Payments and Official Reserves, (2013-16)
(USD millions)

	2013	2014	2015	2016
Current account balance	**-813.0**	**-882.9**	**-272.4**	**-238.1**
Merchandise trade	-2196.2	-2055.4	-1186.4	-944.4
Exports f.o.b.	1635.9	1698.1	1623.9	1890.7
Metals and minerals	716.2	688.3	704.8	691.6
Products of prepared food	310.2	338.1	325.3	418.2
Precious stones and metals	188.1	230.3	194.0	337.3
Imports f.o.b.	3832.0	3753.6	2810.3	2835.1
Services	-125.0	-113.5	-95.4	-71.4
Primary income	682.5	541.1	442.9	224.2
Secondary income	825.6	744.9	566.5	553.4
Capital and financial account balance	**1,582.8**	**259.7**	**754.7**	**921.1**
Foreign direct investment	319.5	387.9	161.5	271.9
Portfolio investment	689.4	- 38.4	235.0	33.9
Other investment	489.5	- 160.2	292.9	580.4
Capital transfers	84.4	70.4	65.3	34.9
Errors and omissions	**-299.2**	**-36.5**	**-149.3**	**-232.1**
Overall external balance	**470.6**	**-659.6**	**332.9**	**450.8**
Change in FX reserves at Central Bank	-470.6	659.6	-332.9	-450.8
Memorandum items (USD millions):				
Official reserves, eop	2251.6	1489.3	1775.3	2204.1
SDR holdings	1.9	6.2	2.9	3.5
Foreign Exchange	2249.7	1483.2	1772.4	2200.6
GDP	11121	11610	10553	10572
Consumption	11022	11335	9624	9603
Gross capital formation	2476	2423	2188	1950
Exports of goods and services	3154	3316	3137	3496
Imports of goods and services	5360	5462	4418	4511

Source: World Bank staff calculations based on data published by CBA and NSS.
Note: Some sums may not add up exactly due to rounding.

Table A 3: Consolidated Fiscal Accounts, (2013-16)
(percent of GDP)

	2013	2014	2015	2016
Revenue and grants	**24.2**	**24.4**	**23.9**	**23.7**
Tax revenue, of which	22.4	22.5	21.7	21.7
VAT	8.8	9.1	8.4	7.7
Profit tax	2.7	2.1	2.1	2.5
Income tax	5.6	6.0	6.2	6.5
Excise tax	1.1	1.0	1.0	1.2
Non-tax revenue	1.5	1.5	1.6	1.4
Capital revenue				
Grants	0.3	0.4	0.6	0.6
Expenditure and net lending	**25.7**	**26.3**	**28.7**	**29.2**
General government expenditures	**25.7**	**26.3**	**28.7**	**29.2**
Current expenses	22.7	23.4	25.4	26.1
Capital expenses and net lending	3.0	2.9	3.3	3.1
Overall fiscal deficit	**-1.5**	**-1.9**	**-4.8**	**-5.5**
Primary fiscal deficit	-0.5	-0.6	-3.3	-3.6
Deficit financing	1.5	1.9	4.8	5.5
Domestic borrowing, net	-0.3	1.5	0.2	2.1
Foreign borrowing, net	1.8	0.4	4.6	3.4
Privatization				

Source: World Bank staff calculations based on data published NSS and MoF.
Note: Some sums may not add up exactly due to rounding.

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