

THE REPUBLIC OF ARMENIA – MACROECONOMIC REVIEW

1 GENERAL INFORMATION ABOUT ARMENIA

1.1 Geography

The Republic of Armenia (RA) is located in the south-west of Asia and occupies 29,8 th. km². The longest extent from north-west to south-east is 360 km, from west to east - 200 km.

12.7 per cent of the territory is covered by forests, 5.6 per cent belongs to water bodies, 46.8 per cent- agricultural lands and 34.9 per cent - other types of lands. The longest rivers are the Araks (1072 km), the Vorotan (179 km), the Debet (178 km), the Razdan (146 km), the Agstev (133 km) and the Arpa (126 km). The biggest lake in Armenia is the Sevan Lake (1240 km²).

1.2 The administrative and territorial division

The reform of administrative-territorial system of Armenia which followed the dissolution of the USSR took place in 1995. According to the Law of RA No. H-062-1-ГО-18 dated December 4, 1995, the territorial entities are oblasts/provinces (marzes), communities and Yerevan City (having a status of oblast) and its municipal communities. According to the above Law the former 36 regional districts had constituted **10 oblasts** (Aragatsotn, Armavir, Ararat, Gegarkunic, Lory, Kotike, Shirak, Syunik, Vayots, Dzor and Tavush) **and the City of Yerevan** with oblast status, e.g. there are **11 oblasts** in total.

1.3 Demographic dynamics

According to the preliminary data of population census for October 2001, the population of Armenian has considerably changed compared to the previous data. In particular, as per news releases of the National statistical Service of RA, the population was equal to 3212.6 thousand people, including 3000.8 thousand (th.) residents.

Table 1 Permanently living population and some demographic indicators in Armenia for 1992-1995 and 1999-2002

	1992	1993	1994	1995	...	1999	2000	2001	2002	2003
Population (by the end of the year), thousand people ¹	3722,3	3740,2	3753,5	3766,4	...	3803.4	3802.4	3800.0	3213	3210
The born	70,5	59,0	51,1	48,9	...	36,5	34,3	32,1	-	-
The deceased	25,8	27,5	24,6	24,8	...	24,0	24,0	24,0	-	-
Natural increase	44,7	31,5	26,4	24,1	...	12,5	10,3	8,1	-	-

Source: The National Statistical Service of Armenia

Yerevan is the city with the biggest population – almost 1250 th. people. The second major city in Republic is Gyumri with population of 211 th. people, and 171.6 th. people live in the third largest city - Vanadzor. Population in specific Marzes is presented in Table 2.

Table 2 Population in Armenia's oblasts

	Oblast	Area km ²	Population Th. people	Including		Population density, persons/km ²
				Town-dwellers	Villagers	
	Armenia	29743	3800.0	2529.0	1271.0	128
1	Yerevan	227	1246.1	1246.1	-	5489
2	Aragatsotn	2753	168.1	47.0	121.1	61
3	Ararat	2096	311.4	99.1	212.3	148
4	Armavir	1242	323.3	123.2	200.1	260
5	Gegarkunik ²	5348	278.6	102.4	176.2	52
6	Lorn	3789	329.2	262.7	129.6	104
7	Kotike	2089	328.9	200.3	128.6	157
8	Shirak	2681	361.4	242.1	119.3	135
9	Syunik	4506	164.0	115.1	48.9	36
10	Vayots Dzor	2308	69.4	28.4	41.0	30
11	Tavush	2704	156.5	62.6	93.9	58

Source: The National Statistical Service of Armenia

Data on population in 2001 by settlements has the following structure (see Table 3). Please, note that the statistical data differs considerably from Vodocanals' information that was obtained in a process of agreement conclusion with each household in 2003. Data of Vodocanals on actual population for specific settlements, including temporary absent people (labour migration) are presented in a right column of the Table 3 for comparison.

Table 3 Discrepancy in data on population in Armenia, th. people

Settlement	2001	Vodocanals' data 2003
Abouvyan	60.7	-
Alaverdi	24.6	13.4
Ashtarak	29.8	20.7
Ararat	22.4	11.9
Artik	24.1	-
Aparan	10.3	6.6
Byuregavan	12.1	-
Vanadzor	171.6	84.2
Verdenis	17.6	8.7
Gyumri	210.9	135.5
Gorns	29.4	-
Dilijan	30.8	9.0
Jermuk	10.3	-
Yerevan	1247.2	986.0
Yegegnadzor	11.7	-
Idjevan	20.7	-
Echmiadzin	65.7	35.1
Gavar	34.2	20.1
Kapan	46.6	-
Masis	27.0	15.8
Metsamor	12.5	-
Razdan	63.5	51.8
Sisian	19.1	11.5
Spitak	21.7	-
Stepanavan	24.9	-
Sevan	31.1	17.9
Charentsavan	36.2	-

Source: The National Statistical Service of Armenia, data from ArmVodocanal and ErVodocanal

The interstate migration growth in RA was negative and amounted to: 7.4 thousands in 1997, 7.2 thousands in 1998, 6.9 thousands in 1999, 10.4 thousands in 2000 and 10.3 thousands in 2001. The considerable part of Armenian citizens leaves the Republic for NIS countries. 33-39 per cent of total number of entrants and outgoing people are in 0-19 and 20-49 age groups. As regards to domestic migration, it is quite minor.

2 THE GROSS DOMESTIC PRODUCT AND INDUSTRIAL PRODUCTION

2.1 The Gross Domestic Product dynamics and industrial production volumes

After declaration of independence, Armenia encountered many barriers both political and economic, in particular, energy crisis at the beginning of 90-ies and sharp increase of electricity prices. This had led to unfavourable conditions, and Armenia experienced the worst economic recession compared to other NIS countries. The production output volumes decreased by more than 60 per cent in 1992-93. During the worst recession period, the life-supporting infrastructure and industries were the only ones operating, and the remainder of industrial enterprises performed just at 10-15 per cent of their capacities.

The economic development in 1991-2003 can be divided into three phases: (1) economic decline (1991-93), (2) economic stabilisation (in 1994 Armenia had notable economic growth) and (3) long-term economic growth (since 1996). Rates of rehabilitation process and economic growth in Armenia were high as against other NIS countries. The average year GDP growth rate during 2001-2003 speeded up and exceeded 12 per cent. In 1998 GDP of RA was equal to 61 per cent of 1990 level; 75 per cent - in 2001 and more than 90 per cent - in 2003 by estimation.

The data on GDP trend during 1992-2002 are presented below.

Table 4 GDP dynamics in Armenia

	RUR		Dram							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(GDP) in actual prices:										
Billion Dram	62.5	853.1	187.1	522.3	660.3	804.3	951.9	987.4	1031.3	1175.5
million USD	(323.7)	(492.2)	(643.3)	(1286.5)	(1597.0)	(1600.8)	(1885.4)	(1885.4)	(1860.2)	(2082.4)
GDP growth, %	58.2	91.2	105.4	106.9	105.8	103.1	107.2	103.1	105.8	109.6
GDP per capita										
th. dram	17.0	228.6	49.9	138.9	175.0	210.9	250.9	259.8	271.2	309.2
USD	(87.8)	(131.9)	(171.7)	(342.2)	(423.2)	(422.8)	(496.9)	(496.1)	(489.1)	(547.7)

Source: The National Statistical Service of Armenia

In 2002, GDP per capita was equal to 357.1 th. Dram (USD 633.2), whereas it made just \$171.7 in 1994.

2.1.1. Economic sectors in GDP

GDP growth in Armenia was promoted mainly by 5 basic sectors of economy (industry, agriculture, construction, transport and trade) due to the change of production and services volumes.

Table 5 GDP by basic sectors of economy, 1997-2003³

Gross domestic product (GDP) in current prices							
(total)	1997	1998	1999	2000	2001	2002	2003 6 months
Bil. Dram	804.3	955.4	987.4	1031.3	1175.5	1357.0	518.2
mil. USD	(1600.8)	(1885.4)	(1885.4)	(1860.2)	(2082.4)	2406.0	918.7
Including (billion Dram)							
Industry	180.7	190.0	208.9	225.6	237.7	276.7	142.1
Agriculture	237.0	295.1	266.6	239.9	294.2	320.1	79.8
Construction	65.0	76.6	82.0	106.3	125.8	174.2	56.7
Net taxes on products and on import	64.3	88.5	83.9	94.2	113.8	131.8	65.2
Services	257.4	305.2	346.0	365.3	404.1	454.1	174.3

Source: The National Statistical Service of Armenia

Table 6 GDP volume and structure 4, bil. Dram

	1997	1998	1999	2000	2001	2002	2003 (6 months)
GDP (current prices)	804,3	955,4	987,4	1031,3	1175,5	1357.0	518.2
Including:							
Goods	484,0	563,2	559,1	573,4	657,0	773.8	279.8
Services	276,2	321,3	362,3	379,7	404,7	451.4	173.2
Net of taxes (taxes minus subsidies) on products	64,3	88,5	83,9	94,2	113,8	131.8	65.2

Source: The National Statistical Service of Armenia

Table 7 GDP growth rates by basic economy sectors 5

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 6 months
GDP (total)	58.2	91.2	105.4	106.9	105.9	103.3	107.3	103.3	105.9	109.6	112.9	116.9
Including:												
Industry	40.3	108.8	115.2	102.6	101.2	101.1	97.4	105.4	106.6	103.9	114.2	124.0
Agriculture	91.3	94.2	105.8	104.0	102.0	96.1	113.1	101.4	98.9	111.7	104.4	101.9
Construction	14.7	79.7	91.6	94.2	130.6	101.4	111.0	107.7	128.9	104.8	147.0	161.5
Trade	31.4	86.7	111.2	173.0	112.5	105.2	106.1	111.2	108.8	117.2	115.6	114.6
Transport	42.0	30.2	94.3	109.6	102.8	110.2	108.0	101.7	100.4	115.8	106.0	116.1

Source: The National Statistical Service of Armenia

Table 5 above mentioned sectors provided more than 82 per cent GDP in 1998-2001 (in basis prices, not including net taxes). According to the data for 2000, a setback caused by the drought was noted in agriculture. At the same time, the growth in industry, trade and construction was observed.

There are positive changes in GDP structure; this includes the services production ratio growth in particular.

³ Statistical Yearbook of Armenia, 2002, page 15, 218

⁴ Statistical Yearbook of Armenia, 2002, page 218

⁵ Statistical Yearbook of Armenia, 2002, page 218

Table 8 Produced GDP structure, in per cent

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 6 months
GDP (current prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Including											
Goods	74.5	79.4	71.6	66.4	62.8	61.3	56.6	55.6	55,6	57	54
Services	20.5	17.5	24.7	28.4	29.1	29.4	36.7	35,3	34,8	33,3	33,4
Net of taxes (taxes minus subsidies) for products	5.0	3.1	3.7	5.2	8.1	9.3	8.5	9.1	9,7	9,7	12,6

Source: The National Statistical Service of Armenia

Slow rate of privatisation and re-equipment of capacities in chemical, metallurgical, machine-building and metal processing industries decreased growth rates. Production volume was constantly decreasing during 1994-97, and recession in these sectors in 1994-97 posed problems which also had been caused by economic recession in Russia.

Analysis of the services structure change within 1995-2001 showed no drastic changes: communal service volume decreased by almost 20 times, however, shares of public transport and communication has doubled.

After 1998 the export notably increased in parallel with the industrial growth.

Table 9 Export and import in RA in 1997-20036, mil. USD

	1997	1998	1999	2000	2001	2002	2003 6 months
Export (FOR)	232,5	220,5	231,7	300,5	341,8	507.2	312.4
Import (FOR)	779,4	794,7	697,3	759,5	753,9	863.6	530.8

Source: The National Statistical Service of Armenia

Structure of GDP distribution in RA include considerable share of households, whereas public expenses constitute quite decent share in GDP. In general, the share of households and gross accumulation has considerably increased during 1997-2003.

Table 10 Distribution of GDP in Armenia 7, mil. Dram

	1997	1998	1999	2000	2001	2002	2003 6 months
End use expenses	922859	1061911	1069156	1123459	1233375	1356983.1	725883.5
Including:							
Households	830544	954028	948387	997641	1102367	1212603.8	468207
Public institutions, total	90220	105590	117591	121791	125777	137575.2	72491,4
Serving the individual demand of population	30482	35794	42474	42539	49117	52709.2	24783,6
Serving the collective demand	59738	69796	75117	79432	76660	84866.0	47707,8
Non-commercial organisations serving households	2059	2293	3178	4063	5231	3230.9	451,2
Gross saving	153351	182825	181219	192279	219016	284408.0	112242.5

Source: The National Statistical Service of Armenia

⁶ RA Balance of Payment

⁷ Statistical Yearbook of Armenia, 2002, page 257

Table 11 GDP dynamics⁸, as % of previous year level

	1997	1998	1999	2000	2001	2002	2003 6 months
End use expenses	106.3	104.6	101.4	107.7	109,8	110,0	110,8
Including:							
Households	107.3	105.3	101.4	108.3	110,5	110,0	108,7
Public institutions, total	97.7	97.8	101.3	102.8	103,3	109,4	126,8
Serving the individual demand of population	93.2	94.6	102.8	100.1	115,5	107,3	125,9
Serving the collective demand	99.9	99.4	100.5	104.3	96,5	110,7	127,3
Non-commercial organisations serving households	106.7	102.6	119.0	108.4	198,7	61,8	101,5
Gross saving	102.1	112.0	100.6	116.2	113,9	129,9	141,1

Source: The National Statistical Service of Armenia

2.2 Investment climate

Considerable changes have been taking place during the last decade. The global transformation of the economy resulted in an abrupt decrease of income, and the financial instability was followed by decline of national production of goods and services. Given the all above, the decline in the consumption were the lowest compared to the decline in investments. This resulted in sharp decrease of the share of investments in GDP which amounted to only 1.6 per cent in 1991 as against 47.2 per cent in 1990⁹.

During 1995-2001 the national savings had notably grown. In 1995 the national savings made -12.5 per cent, during next four years their share was -9.35 per cent, -8.1 per cent, -2.9 per cent and 1.0 per cent respectively. In 1998 the growth of national savings was positive. In spite of the limited capacity of internal investing, the investments were activated by citizens' savings in the latest years.

In 1995-1998 the capital investments growth was noted equal to 6.3 per cent, 7.3 per cent, 8.0 per cent and 9.2 per cent of GDP respectively. The real growth of capital investments for the same period amounted to 6.2 per cent, 23.9 per cent, 8.5 per cent and 9.5 per cent respectively.

During the latest years, the main part of capital investments was financed by loans provided by foreign companies (39-41 per cent) and targeted for specific sectors of economy. First foreign investments were allocated in trade, hotels, light and food industries.

Investments growth rate in 1998 has increased GDP growth rate by 3.5 per cent. The sources of capital investments have been also changed to some extent. In 1997 capital investments constituted 3.6 per cent of the state budget receipts and in 1998 budget allocations more than three times increased the previous year level and amounted to 8.9 per cent of the state budget receipts. It should be mentioned that the share of foreign investments in capital investments has considerably decreased. In 1997 and 1998 it was equal to 25.9 per cent and 55.3 per cent respectively. The decrease of foreign capital investments' share in capital investment was connected with more than treble reduction of loans obtained through governmental bodies.

⁸ Statistical Yearbook of Armenia, 2002, page 260

⁹ 47.2 per cent of GDP in 1990 is connected with large investments in the Disaster Area (the earthquake in 1988)

3 THE STATE BUDGET OF RA

3.1 Budget receipts

Privatisation of the state enterprises and introduction of new taxes were followed by general change of the state budget receipts' structure. Formerly the state budget receipts basically constituted of assignments from the profits of the state enterprises. Now the budget receipts are mainly the revenues derived from taxes.

During the latest decade the tax and budget policy of RA Government have been mainly focused on the budget performance, the budget methodology and tax legislation improvement, and taxes collection level increase. Reduction of tax rates, taxation mechanisms improvement, and strengthened control promoted additional replenishment of the state budget. The revenues derived from taxes constituted 60.7 per cent of total budget receipts in 1994. In 1996 and 1997 revenues from taxes amounted to 70.4 per cent and 81.6 per cent, and in 2001 – 87.2 per cent of total budget receipts.

The consecutive measures resulted in 4.5 per cent increase of the state budget receipts in 1996, 34.7 per cent in 1997 compared to 1995, and in 1998 - by 33.6 per cent against the previous year. Such dynamics of revenues collection from taxes relates to the tax policy improving. The improvement measures resulted in replenishment of the state budget from the internal resources. In 1997 internal assignments to the state budget made up 88.7 per cent, in 1998 and 2001 - 90.4 per cent and 92.3 per cent respectively.

In 2001 the total receipts of the consolidated budget of RA amounted to 228.7 bil. Dram, which is equal to 19.5 per cent of GDP, including 193.6 bil. Dram of the national budget receipts or 16.5 per cent of GDP. The share of revenues from taxes in the republican budget structure made up 184.0 bil. Dram or 14.8 per cent of GDP. In 2002 the revenues of the national budget amounted to 228.3 bil. Dram or 16.8 per cent of GDP.

Structure of the RA public revenues is presented in the Table 12. The structures of revenues from taxes have been changed in favour of indirect taxes, which are related to enactment of the new RA Law on the value added tax in July 1997.

Table 12 RA budget receipts structure, in percents

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 6 months
TOTAL receipts	100	100	100	100	100	100	100	100	100	100	100	100
Value added tax	32.5	19.8	17.7	18.3	21.6	28.5	35.3	35.8	38.8	41.1	41.6	40.8
Excise tax	7.0	4.6	3.0	2.6	11.4	13.8	11.8	11.4	15.2	16.0	15.5	13.9
Profit tax	32.4	18.4	36.7	25.7	16.8	12.7	7.3	11.3	11.8	8.4	7.6	6.4
Customs fees	11.4	6.3	8.3	2.9	5.6	8.0	6.2	4.2	5.0	5.1	4.2	3.8
Non-tax revenues	11.1	48.4	23.3	19.4	19.7	7.9	13.1	8.9	6.4	8.0	4.8	3.2
Grants	-	-	2.7	20.5	9.7	10.6	9.5	7.9	4.9	4.8	7.5	11.8
Other revenues	5.6	2.5	6.3	10.6	14.9	18.5	16.7	20.6	17.8	16.6	18.8	20.1

Source: The Ministry of Finances and Economy of RA

3.2 Budget expenditures

Since 1996 the specific growth of expenditures against GDP has increased. Compared to 1996, it increased by 0.9 per cent, 0.8 per cent and 0.8 per cent in 1997, 1998 and 2000 respectively. The budget expenditures constitute considerable share of purchase of goods and services.

Table 13 The state budget of the Republic of Armenia

	RUR mln.		Dram mln.									
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 6 months
Receipts, total	12698,8	197953,0	27755.8	94024.9	98214,9	132322.6	176776.9	190917.8	172132.8	193577.8	228300.0	119600.0
In % of GDP	20,3	23,2	14,8	18,0	14,9	16.6	18.6	19.3	16.7	16.5	16.8	23.1
Expenditures, total	22655,9	298017,1	40717.2	125167.4	127065,1	152680.4	204600.1	231656.6	222900.0	244377.8	263900.0	125600.0
In % of GDP	36,2	34,9	21,8	24,0	19,2	19.1	20.0	23.4	21.6	20.8	19.4	24.2
Deficit	-9957,1	-100064,1	-12961.4	-31142.5	-28850.2	-20357.8	-35944.3	-40700.0	-50667.2	-50800.0	-35600.0	-6000.0
Profit	15,9	11,7	6,9	6,0	4,4	2,5	3,8	4,1	4,9	4,3	2,6	0,4
In % of GDP	15,9	11,7	6,9	6,0	4,4	2,5	3,8	4,1	4,9	4,3		
Sources of budget deficit financing												
External	-	38667,6	3535.8	29911,0	15572,7	23431,4	14953.0	46308.9	22520.3	32125.2	-1200.0	-13100.0
Internal	9957,1	61396,5	9425.6	1231.5	13277.5	-3073.6	20991.3	-5570.1	28233.3	18678.4	36700.0	19100.0

Source: The Ministry of Finances and Economy of RA

The expenditures related, in whole, to the housing-communal services and, in particular, for W&WW services increased in line with economic growth (Table 14).

Table 14 Financing of expenditure in housing and communal sector (HCS) from the RA budget in 2000-2002 (including subsidies)¹⁰

Indicators of HCS financing from RA budget in 2000-2002, mil. Dram	The republican budget			
	2000 factual	2001 factual	2002 factual	2003 approved budget
5. HCS financing, total:	8129,2	8228,9	12240,3	13256,2
Including:				
3.1 Subsidies to cover current losses and finance current expenditure of water utilities	1277	787	1499	2745
Armvodocanal CJSC	721	560	1229	810
Yervodocanal CJSC	556	227	270	1935
3.2 Capital expenditure financing in HCS, including target programs, total:	6852,2	7441,9	10741,3	10511,2

Source: The Ministry of Finances and Economy of RA

Actual allocations from the republican budget into the HCS in 2000-2002 amounted to 12764.5, 4978.1 and 7823.7 mln. Dram respectively.

Budget allocations for the environmental protection activities are very scarce. In 1998 budget environmental expenditures made up 0.21 per cent of GDP, or 0.92 per cent of the national taxes. For today this figure hasn't been notably changed.

3.3 Assessment of RA debt and creditworthiness

RA external debt has the following structure:

¹⁰ RA State budget 2000-2003

Table 15 RA external debt structure

Item	1999		2000		2001		2002	
	Mil. USD	Bil. Dram	Mil. USD	Bil. Dram	Mil. USD	Bil. Dram	Mil. USD	Bil. Dram
External debt	870.8	456,1	859.5	474.6	905.6	508.7	1025,5	587,97
Including:								
RA Government debt	632.9	331.5	651.0	359.5	684,4	384.4	793,2	454,78
RA Central Bank (CB) debt	201.2	105.4	175.5	96.9	172.5	96.9	194,8	111,69
Guaranteed loans for RA Government and CB	30,2	15.8	19.1	10.5	27.9	15.7	19,4	11,12
Special programs	6.5	3.4	13.9	7.7	20.9	11.7	18,1	10,38

Source: The Ministry of Finances and Economy of RA

The weighted average interest rates of loan liabilities in 1995 amounted to about 2.15 per cent, which indicates very low level (e.g. it is equal to 10 per cent in Central and Eastern Europe). It relates to the fact that 70 per cent of loan liabilities of RA Government have privileged conditions. **In 2003 the weighted average interest rate for the external debt amounted to some 2.2 per cent.** The current objective of RA external debt management is to provide a low level of liabilities.

Table 16 RA external debt dynamics (by the end of the year)¹¹

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
The external debt, mil. USD	130.3	202.0	373.0	522.0	640.4	738.8	870.8	859.5	905.6	1025,5
In relation to GDP, %	29.0	31.0	29.0	32.6	39.4	39.2	47.0	45.0	42.7	43,3
Debt to export ratio, %	-	93.7	137.6	180.0	275.4	335.0	227.3	192.3	167,2	146,7
Debt service to export ratio, %	-	4.0	4.8	6.2	14.4	41.8	16	11	10	10
Debt per capita, USD	35.2	54.2	100.2	141.1	173.0	199.7	229.0	226.2	238.3	269,7

Source: The Ministry of Finances and Economy of RA

Now, RA policy is directed at gradual reduction of the state budget deficit. Such approach also envisages reduction of the external financing deficit. The transition objective of the country with low liabilities implicates conservation of the below indicators level showed in the table below.

Table 17 Debt indicators

Item	Maximum allowable value for debt indicators
(outstanding) External debt/GDP (EDT/GDP)	50 %
NPV (of the outstanding external debt) /GDP	Less than 48 %
NPV/Export (NPV/XGS)	Less than 132 %
Debt service/Export (TDS/XGS)	7,8 %
Interest payments/Export (INT/XGS)	3,6 %
External debt/Export (EDT/XGS)	64,0 %
Debt service(TDS) / budget receipts	22.5 %

Source: International Monetary Fund

The actual Armenia debt level indicators in 2002 were the following: NPV/GDP – 28.4%, NPV/XGS – 96%, TDS/XGS – 10%, INT/XGS-2.9%, EDT/XGS -146.7%, EDT/NPV –43.3% and TDS/budget receipts –17.0%, i.e. all these indicators are within established limits.

Considering the 2000-2008 period as the “hardest” in relation to the external debt service, new credit liabilities should be undertaken only under strictly privileged conditions, e.g. under conditions of the International Development Association (IDA/World bank group).

¹¹ UN, Demographic Development Report, Armenia, 1999, page 26

4 HOUSEHOLD INCOME, POVERTY LEVEL AND THE SHARE OF THE POOR IN TOTAL POPULATION

4.1 Working population, unemployment level, salaries, average income and distribution per capita

The number of the economic active population (employed and unemployed) in RA in 2002 was equal to 1416 th. people or 44 per cent of population and approximately 60 per cent of labour resources. Among them 1282 th. people are employed in economic sectors, including 577.7 th. people in agriculture, 55.0 th. is self employed. **The unemployed amounted to 127 th. people (9 per cent).**

The officially registered unemployment level in 1992-1997 had increased from 1.8 per cent to 10.8 per cent, in 1998 it amounted to 9.3 per cent, and further **decreased to 9 per cent**. 12.2 per cent of the unemployed are people with higher education. The average unemployment duration in 1998 was equal to 14.3 months.

The unemployed distribution indicates large specific weigh of women against 73 per cent in 1996 and 67 per cent - in 2002. Data on the age structure shows continuous increase of **35-50 years old group of unemployed**, from 39.4 per cent to 54.7 per cent in 1994. The specific weight of the other age groups remained almost unchanged.

4.2 Dynamics and structure of monetary income and expenditures of households

Real and average incomes per capita decreased by 4-5 times compared to the 1990 level. Based on the available data incomes of about 45 per cent of population are below the minimal life-supporting level. Incomes of 5-6 per cent of rich people constitutes about 1/3 of total amount of incomes. The salaries share in cash incomes structure during 1991-1995 has been decreasing from 55.1 per cent in 1991 to 31.9 per cent in 1995.

Since 1995 the advanced growth of population incomes in relation to consumers' prices index is observed in the Republic. The purchasing power of population in 1997 against 1990 dropped more than 10 times. However, since 1995, a considerable price stabilisation resulted in 1.6 creditworthiness increase. The RA Law on Income Tax dated 1997 provided four time increase of the untaxed incomes level.

Great changes had occurred in social sphere resulting in decrease of real incomes of population by approximately 60 per cent.

As it can be seen in the table 18, nominal incomes of households in Armenia are growing notably after 1999. The key sources of income are labour income, pensions, and allowances, income from agri-products sale and money transfers from relations working abroad.

Table 18 The amount and structure of average monthly income and expenditures of a household in 1999 and 2001-2002

Income	1999	2001	2002
Total cash income, Bln. Dram	640.0	742.1	853.4
Per capita, Dram/year	200000	231000	266000
Per capita, USD/year	372	395	465
Structure of cash income, in%:			
Total income, %:	100	100	100
Including:			
Labour paid for	39.7%	42.3%	-
Pension, allowances	10.6%	9.5%	-
Agricultural production sale	11.8%	15.6%	-
Cash expenditures, Billion Dram	614.4	731.9	840.5
Including, consumers' expenditures, billion Dram:	539.1	650.2	748.9
Structure of consumers' expenditures:			
Total consumers' expenditures, %:	100%	100%	100%
Including			
Food	61.9%	64.6%	-
Consumers' goods	14.2%	19.8%	-
Alcohol	1.5%	0.9%	-
Payment for municipal services	22.5%	14.7%	-

Source: CIS Yearly Statistical Book for 2002 and own calculation. The number of population is taken as for the latest population census. The average annual USD exchange rate is used; the results of calculations are rounded

The investigations show that the ratio of average incomes of 20 per cent of the most rich to the average income of 20 per cent of the least well-doing people is equal to **6.22**, while the same ratio of expenditures is equal to 6.6. Jinni coefficient defining degree of inequality of household incomes and expenditures distribution was equal to **0.593** for incomes and to **0.372** for expenditures.

In average 60 per cent of the household budget is spent for foodstuffs buying, meaning that the biggest part of households can be ascribed to the poor following to the World Bank criteria.

4.3 Consumers Basket, poverty criteria and share of poor households

Content and cost of a minimal "basket of consumer goods" in RA in August 2001 is presented in the Table 19. In average 60 per cent of the household budget is presumably spent for minimal consumption in accordance with "the basket of goods", and 40 per cent goes to the rest expenses (data of the National Statistical Service).

Table 19 The minimal "basket of goods" in RA, 01.08.2001

No.	Item	Monthly minimal consumption norm per capita (kg)	Market price per unit of product (kg/Dram)	Monthly consumption (Dram) quan.1 * quan. 2	Rational monthly consumption norm (kg)	Rational consumption budget (Dram) quan.2 * quan. 4
1	Bread and bakery products	12.5	150	1875	11	1650
2	Milk and dairy products	18.6	200	3720	32	6400
3	Animal oil	0.75	1400	1050	0.75	1050
4	Cheese	0.4	1000	400	0.42	420
5	Meat and meat products	2.9	1150	3335	6	6900
6	Vegetables	8.5	100	850	11.3	1130
7	Potato	7.5	130	975	4.75	617.5
8	Sugar and confectionery	2.6	250	650	2.9	725
9	Fruit and berries	3.5	200	700	7.2	1440
10	Eggs (units)	14	50	700	20	1000
11	Fish, fish products	2	300	600	1.07	321
12	Vegetable oil (l)	1.25	480	600	0.64	307.2
Total		X	X	15455	x	21960.7

Source: The National Statistical Service of Armenia

The above table shows that monthly consumption of foodstuffs in average per capita in Armenia requires minimum 15 455 Dram\month or about USD 28. The price of total “basket of goods” of RA population is equal to 25 810 Dram or about USD 46.5.

Monthly expenditure only for food makes up 21960.7 Dram or about USD40. For comparison it should be noted that **minimal monthly salary in RA is 5 th. Dram or just 19.37 per cent of “basket of goods” value.**

The value of “basket of food” in RA, i.e. **absolute poverty line** in 1998-99 was equal to 7194 Dram, and value of minimal factual “basket of consumer goods”, i.e. **poverty line** - 11735 Dram¹². The shares of households and population living beyond the poverty lines in 2000 is presented below:

Table 20 The households and population in RA living beyond the poverty line in 2000 (%)

	Households			Population		
	Total	Urban	Rural	Total	Urban	Rural
Not poor	50.33	47.39	54.86	44.95	41.73	49.24
Poor	30.53	33.03	26.69	32.14	35.10	28.21
Very poor	19.14	19.59	18.45	22.91	23.17	22.55

Source: The National Statistical Service of Armenia

The poverty level is 15 per cent of the total population, including 20 per cent of urban population, 18 per cent of rural population. The average ratio between poor and very poor people has also changed. The specific share of very poor population decreased down to 4.8 per cent. This has been obviously impacted by application of “households' allowances” system (PAROS) aimed at the assistance to very poor households.

The specific share of persons being on the verge of poverty amounts to 13.5 per cent. The specific weight of persons living under the mentioned limits is 16.9 per cent.

Actual potential area of specific share subjected to social protection constitutes 68.5 per cent (**55.05 per cent of people living under the poverty line** is added with 13.48 per cent of people being a little above the poverty level).

According to the poverty assessment method applied by the World Bank¹³, given the consumers expenditures level criterion as not more than \$1 a day, the specific weight of the poor in Armenia is equal to 7.54 per cent, and given the consumers expenditures level criterion as not more than \$ 2 a day - 43.5 per cent, and \$ 4.0 a day – 86.3 per cent of population.

4.3 Assessment of HCS tariffs affordability for population (including water and wastewater tariffs)

As one can see from the Table 18, the share of households' income spent for communal services payment in per cent of total households income has decreased in 1999-2001. That is explained by stabilisation of prices and tariffs for services, including housing-communal services on the background of considerable growth of households' income

The households' expenses for WSS services in 2002-2003 per capita in average amounted approximately 3 per cent of average income per capita which is quite acceptable by international criteria.

¹² The Social and Economic Situation by January - February 2000, the Statistical Digest, Yerevan, 2001, page 162

¹³ According to the expert assessment of WB specialist Mr R. Yamtsov

5 SUBSIDIES AND ALLOWANCES GRANTED TO POPULATION

RA population and special groups in particular are granted certain privileges in compliance with Resolution N 251 of RA Government dated July 8, 1997.

The first and the second items of the Resolution provides 50% discounts in payments for gas, water and wastewater, wastes collection and telephone services. These privileges are granted to the following groups of population:

- Military personnel disabled during the World War II and military operations in other countries, as well as disabled people participated in military operations and members of the families of the dead military men;
- Military personnel (and persons equated to them) disabled due to wounds, severe injuries and diseases borne at the military service during RA defence or after demobilisation, as well as families (consorts, parents, children) of the military personnel (and persons equated to them) dead discharge of their duties;
- Heroes of the USSR, heroes of socialist labour, national heroes of Armenia, recipients of the orders of battle cross of the first and the second degrees and order of glory of three degrees;
- Personal pensioners.

The above compensations are allocated by the Ministry of Finances and Economy of RA through the pension's provision funds and employment funds and the bodies authorised to set and pay pensions to military personnel.

Today, the system of target subsidising of poor population in HCS services paying is under development.