

H igh but Disturbing Economic Growth



International
Center for
Human
Development

a Think Tank

In 2006 Armenia ranked the fifth in the world with the GDP annual growth rate. Azerbaijan ranked the first. Within the last five years Armenia has ranked the fifth and Azerbaijan has been the first in terms of the same indicator.

Economic Growth: Purely quantitative indicator

Armenia has recorded an unprecedented economic growth, and the World Bank experts have even dubbed Armenia a “Caucasian Tiger”. It seems that the Armenia society should have been rather proud with this achievement. However, today the independent economists express their anxiety in whisper and talk of potential risks. There are symptoms which are more cogent, than the purely quantitative indicator called “economic growth”. The issue here is not the fact that Azerbaijan is the first in terms of pace of economic growth and excels Armenia for a number of times. Independent economists are least interested in political populism.

Today we have good quantitative results in terms of GDP growth and it is high time we start worrying about the qualitative aspect of this growth. Azerbaijan, Armenia, Turkmenistan and China are the countries that have surprised the world with their economic growth in the recent five years. If the economic growth in Azerbaijan and Turkmenistan is conditioned with their natural resources, a similar comparison between Armenia and China does not tell much in favor of our country. Armenia’s economic growth does not possess the qualitative features China does. Factors accounting for the economic growth of Armenia do not target spheres and directions which would ensure a high level of competitiveness for the country in the context of international economy. On the contrary, the current economic growth of Armenia is weakening the country’s competitiveness.

Several symptoms of the issue

1. In Armenia the *ratio of broad money and GDP* revolves around 20% for the last seven years. In healthy economies with liquid capitals, where investments stretch beyond concrete and stone, this indicator should excel the GDP, reaching around 200%.
2. Money is centralized and ‘circulated’ in one city – Yerevan. Economic growth is not evenly distributed in Armenia *both in terms of geography and social layers of the population*. Skewed development is pregnant with a series of consequences, including national security which is specifically associated with the risks of internal migration.
3. If in 2001 banks provided loans to the private sector 10 times more, than to the public sector, in 2006 this indicator has reduced for five times. *The public sector, especially the Central Bank, takes loans itself, which comprises half of the loans provided to the private sector*. This is an apparent crowding out effect, which means that the connections between individual savings and real sector is weakening and commercial banks turn into a monetary instrument instead of acquiring the role of effective intermediary of economy.

19 Sayat Nova
Yerevan 0001
Armenia

Tel.: +374 10 582638
Fax: +374 10 527082

mail@ichd.org
www.ichd.org

4. In terms of expenditure components, GDP mostly grows due to import, or more precisely, due to the difference between current consumption, construction expenditures and imports. *Direct or indirect expenditures made due to remittances are the major source of economic growth of Armenia.*
5. In terms of income components, GDP typically grows due to gross profit or to be more descriptive, *it is the rich social layers that are affected by the present pace of the GDP growth.*
6. *Improvement of the welfare of the poor and the middle class is defined with remittances.* The economic growth is accounted for by the same factor, as well. The present economic growth is not conditioned with the development of a competitive real sector.
7. Because of the trends and policies of the fiscal sector the competitiveness of exporting sector of Armenia is declining.

Expectations

For quite a while Armenia is no more a planned economy. The biggest error would have been direct intervention into the activities of the current subjects of economy and an attempt to increase their competitiveness through direct interference. Armenia has a high quantitative growth of economy. However, paradoxically it has an uncompetitive economy, uneven distribution of income and a policy (or the lack of it) which jeopardizes the interests of exporters. This is a specific situation and quite a controversial one in many terms. There are no standard or textbook solutions, not even ones to be drawn from the international experience.

The poor improve their livelihood through labor migration, ensuring economic growth through money remittances. The rich, i.e. capitalists, gain huge profits from the current economic growth. Banks provide for the monetary policy issues, gain profits and care very little about taking over the role of an effective financial intermediary. The budget is replenished with indirect taxes accrued from the growth of consumption and import, conditioned with money remittances. It can be stated that everybody is content and no one realizes that were this dynamics to continue, in ten years this 'miracle' can turn into a real crisis, a true hell...

There is a problem. The solution is very complex. However, before looking for any solution, the issue should be thoroughly scrutinized and understood. The current high, but disturbing economic growth should become number one priority on the state agenda. The key to poverty reduction is the establishment of real competitive economy, which we lack and whatever little there is, it is drastically deteriorating.

The paper is elaborated based on the opinions passed by the participants of the discussion "Two digit economic growth: the trends and concerns of Armenia's economic growth", which took place on July 27, 2007. The roundtable discussion was attended by independent analysts, government officials, and representatives of the international organizations.

The round table was organized with the support of the Friedrich Ebert Foundation