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Update on the Armenian Economy

with

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Armenia is faced with serious economic challenges, including lack of restructuring, low levels of foreign investment, low productivity in the private sector, and long-term challenges to energy supplies including generation, distribution, and dependence on the Russian energy sector. The uncertainty over the future of Nagorno-Karabakh, the growing population drain, relations with neighbors and Russia, and the new prospects for military cooperation with the United States all have major impacts on the country's economy.

The first CSIS Caucasus Project meeting of 2002 is with Mr. Vahram Nercissiantz, Chief Economic Advisor to the President of Armenia, who will give us an overview of the domestic economic conditions in Armenia, then talk about the current political and economic situation in the region, and finally give us his assessment of possibilities for regional cooperation.

As Chief Economic Advisor to the President, Mr. Nercissiantz is responsible for economic legislation, developing policies and strategic directions for Armenia's economic transformation and macroeconomic stability. He has nearly 30 years of service in the World Bank. In the early 1990's he worked for the Eastern Europe/Eurasia region at the World Bank, focusing on Armenia's economic transition. He helped establish the World Bank Resident Mission in Armenia, and he was the Chief of the Resident Mission in 1995-1998.

Overview of the Armenian Economy

- Armenia is the most open economy in the region
 - There is no export tariff
 - Only a few price controls on essential services like utilities and transport, which will be eliminated through privatization of these services
 - Most state enterprises have been privatized
 - Funds can be transferred in and out of Armenia
 - Social assistance programs are targeted to help specific groups and are not merely general assistance programs that throw money at lower income groups
- The framework for a new economic system is in place along the lines of western modes
- Private investment is the backbone of Armenia's economic program
- Since 1998 the inflation percentage has been in the low tens
- Since 1998 the growth rate has been 4-5% annually
- Armenia improved from 115th to 61st on the EIU (?) ranking
- Most external trade is with Europe, the Middle East, and CIS countries. This is due primarily to geographical proximity
- The disparity of income is high

- This is one of the leading economic challenges in Armenia
 - This helps to explain the high rate of emigration Efforts at Improving the Armenian Economy
- Reforms and improvements of the democratic institutions are important to achieving a positive investment climate—we want to achieve double digit growth rates
- Armenia is working to overhaul the government to reduce corruption, redesign the tax code, and to make the civil service more efficient and responsive to the needs of the people, not corrupt directors
- The emphasis has been on micro-economic and confidence building measures
- A High Business Council and a High Technology Council have been created
 - These councils are made up of leading businessmen from these industries and relevant government officials
 - These councils report directly to the President of Armenia.