

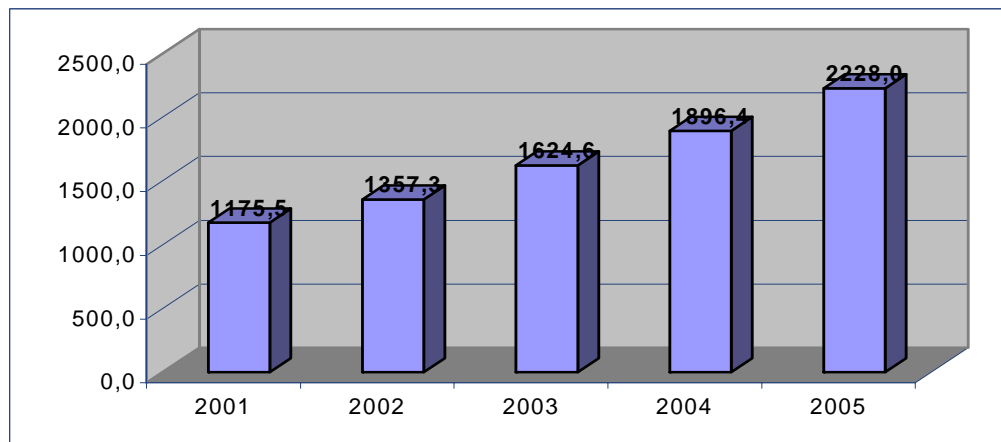
Brief analysis of the economic situation of the RA  
(by the results of 2005)\*

The economic activity results of the Republic of Armenia in the period of January - December, 2005 reaffirmed the tendency of the economic growth stability that took place in recent years.

The production of gross domestic product (GDP) first exceeded two billions and made 2228.0 billion AMD providing the growth by 13.9% in comparison with 2004. The GDP index-deflator for the specified period decreased by 2.9 percentage points and made 103.1%. In 2005 the per capita volume of GDP made 1513 US dollars.

The fact that during 2001-2005 the average annual growth of GDP production made 12.1% versus 5.1% in 1996-2000 confirmed the tendency of stable economic development. In 2005 the growth of GDP made 77.6 % in comparison with 2000.

Diagram 1. The dynamics of GDP production in 2001-2005.



As shown in the mentioned below diagram 2 over the period of 2001-2005 certain shifts occurred in the structure of GDP. In particular, among components of GDP: increased the specific weight of the construction (from 10.7 to 21.6%); remained stable the indices of the transport, communication and other branches; occurred tendencies to the

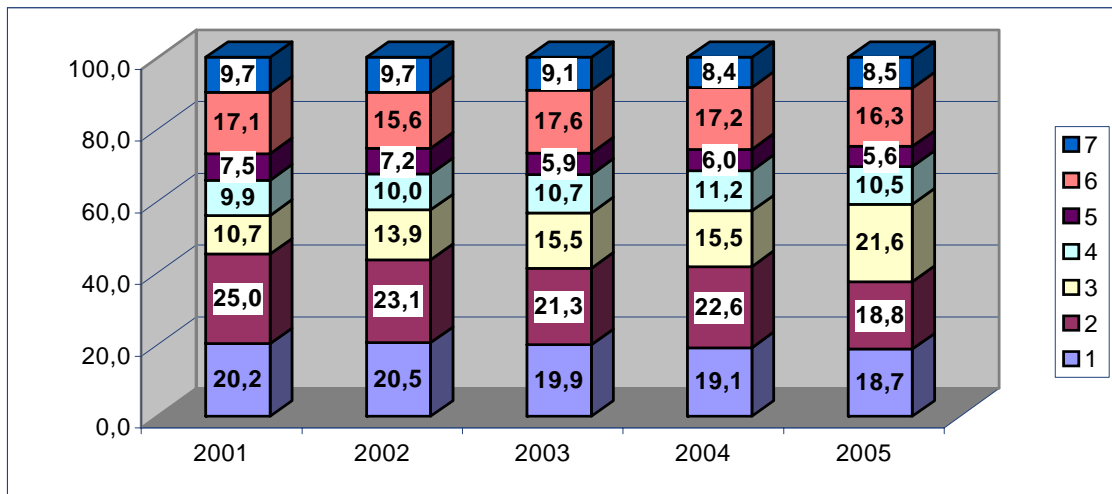
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\* The analysis based on information from National Statistical Service of the RA.

decreasing in the industry, trade and catering, pure taxes. The specific weight of the agriculture decreased essentially by 6.2 percentage points.

Taking into account, that in long-range outlook the constructing sphere can not keep so high rate of the development, it is necessary to create favorable conditions for development of the real sector especially for leading development of the industry and increasing in investment volumes into these spheres.

Diagram 2. Structure of GDP in 2001-2005.



1	Industry	5	Transport and communication
2	Agriculture	6	Other branches
3	Construction	7	Pure taxes
4	Trade and catering		

In 2005 the specific weight of the main basic branches of goods production in GDP structure such as: the industry, agriculture and construction increased by 1.9 percentage points and made 59.1%. Thus its share in a gain of GDP has increased up to 9.3% versus 5.6% in 2004.

The unprecedented high growth rate (134.2%) was fixed in construction, that is higher in 4.6 and 3.1 times than the growth in the industry and agriculture, respectively, and therefore specific weight of construction in GDP (21.6%) exceeds nearly to 3 percentage points of specific weights of the last (18.7% and 18.8%), which specified

parameters was 15.5, 19.1 and 22.6% in 2004, respectively, and the share of construction in the growth of GDP made 5.4% that are nearly equal to the cumulative growth index of the industry, agriculture, trade and catering, transport and communication (5.8%).

Table 1. Structure of GDP and indices of volumes by the main basic branches of economy (%).

	Name of branches	Structure		Volume indexes	
		2004	2005	2004	2005
1	Gross domestic product	100.0	100.0	110.3	111.6
2	Industry	19.1	18.7	102.1	107.4
3	Agriculture	22.6	18.8	114.5	111.2
4	Construction	15.5	21.6	113.4	135.1
5	Transport and communication	6.0	5.6	116.9	113.2
6	Trade and catering	11.2	10.5	110.5	109.6
7	Other branches	17.2	16.3	112.1	110.4
8	Pure taxes	8.4	8.5	102.4	110.6

In 2005 the industrial output (in the current prices) of the Republic made 651.4 billion AMD, and realization made 648.3 billion AMD or 99.2% of produced commodity. The growth of physical volume of the industry by 7.5% (in 2004 it was 2.1%) accompanied by decrease of its specific weight in GDP from 19.1 up to 18.7% and by increase in share of GDP gain from 0.4 up to 1.4%. The price index of manufacturers of production has made 107.4%.

The growth of volume of the industrial output was promoted the production and distribution of the electric power, gas and water - 110.7%, and processing industry - 109.7%. However despite of the achieved results, the analysis of the fixed data shows that on industry growth rates have influenced both positive and certain negative tendencies of economy that were occurred in 2004-2005. In particular, high growth rates were fixed in the chemical industry - 157.1% (in 2004 the growth rate was 154.9%) and in other related to it such as metallurgical industry - 134.9% (102.1%), production of complete metal goods - 133.1% (121.0%), etc., that argued the tendency to the restoration and more total use of the branch potential. Simultaneously, the production growth factor of industrial outputs would be some higher, if it was not affected negatively by the recession of production

volumes in the mining industry - 95.6% (in 2004 growth rate was 108.7%), and also in a number of branches of processing industry: production of textile goods - 74.8% (167.3%), and machinery and equipment - 88.6% (114.2%). It was continued the recession of production volumes in clothes production - 72.3% (96.6%), production of woodworking and wood products - 83.8% (96.6%). Despite of the certain progress the jewellery does not still function at full capacity - 97.4% (84.7%).

As well as for the recent years in the production structure of industrial output predominate processing production, which specific weight increased in comparison with 2004 by 2 percentage points and made 65.1%. The specific weight of the mining industry made 17.4% (decreased by 0.4 percentage points), production and distribution of the electric power, gas and water - 17.5% (decreased by 1.6 percentage points).

In comparison with 2004 in the structure of processing industry the increase in specific weight of metallurgy from 20.5 up to 29.8%, and also decrease of specific weight of the food-processing industry from 49.3 up to 43.2% and jewellery from 4.9 up to 3.3% are remarkable. Other appreciable structural changes have not taken place.

In territorial section the prevailing part of production of industrial commodity falls to the Yerevan city - 47.3%. Growth in comparison with 2004 made 2.1 percentage points. The share in industrial production volume for this period increased only for Syunik marz - from 16.8 to 18.5%. It is proceeded the decrease of participation in the industrial production structure of large in the past industrial centres Shirak (especially Gjumri town) and Lori (Vanadzor town) marzes, which specific weights made 2.1 and 5.5%, having decrease in comparison with 2004 by 0.3 and 0.6 percentage points, respectively. There are remained low specific weights of Tavush - 0.7%, Vayots Dzor - 0.8% and Aragatsotn - 1.2% marzes.

The analysis of the presented indices allows to draw the conclusion that between Yerevan and marzes, (as well as between separate marzes) there are still sharp distinctions in levels of industrial development, which continue to intensify, bearing with themselves still higher differentiation of the general social and economic condition of the population.

As it was already marked, the unprecedented growth was fixed in the construction. In the Republic realized construction works made 426.4 billion AMD, growth - 134.2%, including building and construction works that made 391.5 billion AMD or 91.8% of them. From the total amount of construction works 165.8 billion AMD falls to objects of industrial

purposes, which the share of building and construction works made 137.5 billion AMD or 82.9%.

The floor area of dwelling houses, which have been commissioned during reported period, made 343 thousand sq. m or 117.0% of the area that was commissioned during 2004.

The gross volume of agricultural production made 493 billion AMD, growth rate - 111.2%. The price index of realization of agricultural production by producers made 87.3%.

The share of crop production in gross volume of agricultural production made about 288 billion AMD that exceeded the level of the recent year by 14.9%, which has explaining by favorable weather and climatic conditions in comparison with the previous years. The share of cattle-breeding production made 204.9 billion AMD, growth - 6.4%.

In consumer market of the RA the total amount of trade and the services turnover given to the population made 1392.4 billion AMD, growth rate - 112.1%, including the volume of retail commodity turnover - 886.2 billion AMD, growth rate - 109.3%, and volume of the rendered services - 315.5 billion AMD, rate of growth - 117.1%. The consumer price index made 100.6%.

The consumer demand of the population basically satisfied on shops and consumer markets. In total volume of retail trade the specific weight of the last one made 83.1%. Thus the specific weight of goods purchases on shops as a result of certain structural changes in comparison with 2004 has decreased.

Over 2005 in the structure of services rendered to the population the greatest specific weight kept the services of the transport - 29.1% (91.8 billion AMD) and communications - 25.7% (80.9 billion AMD). It is remarkable as the positive phenomenon the increase of specific weight of public health service in total volume of service. Simultaneously it was fixed the decrease of specific weight of education services.

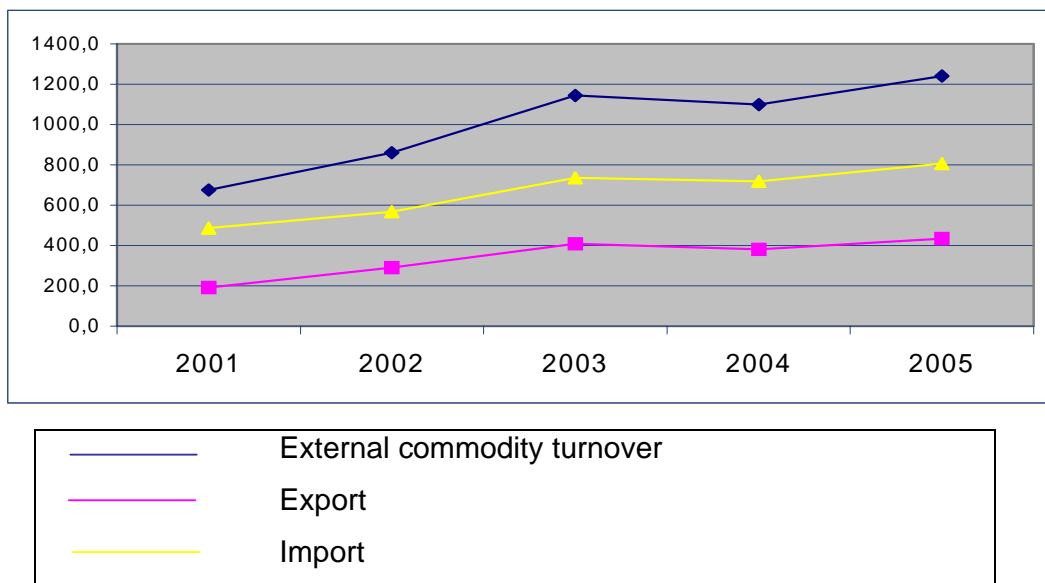
Let's note also that as well as the recent years the prevailing part of the services rendered falls to the share of Yerevan city - 84.8%, which in comparison with the recent year is higher for 10.6 percentage points. The specific weight of services rendered in marzes vary from minimal - 0.4% (Vayots Dzor) to maximal - 2.8 % (Shirak and Kotayk), that testifies to extreme centralization of services rendering infrastructure in capital and low solvency of the marzes population.

As a result of carried out policy in the foreign trade directed on maintenance of leading growth rates of export in comparison with import, diversification structures of

export and establishment of new economic relations in 2005, external commodity turnover of the RA in the current prices made 1240.5 billion AMD (2718.3 million USD), which provided growth by 31.1% in comparison with 2004). The volume of export made 433.4 billion AMD (950.4 million USD), growth - 31.5%, and volume of import - 807.1 billion AMD (1767.9 million USD), growth - 30.9%. In conditions of influence unfavorable market conditions, it was possible to make the tendency of small advancing growth of export above import.

The tendency of advanced growth of export revealed since 1999 promoted in conditions of volume growth of the external commodity turnover in the RA in 2.2 fold, export grown almost in 3 fold, and import - 2 fold in 2001-2005. For this period average annual growth of external commodity turnover made 18.4%, and export and import - 26.8 and 15.3%, respectively. For comparison we shall note that during 1996-2000 the specified average annual parameters was 5.2, 3.4 and 6.3%, respectively.

Diagram 3. External commodity turnover in 2001-2005 (billion AMD)



In 2005 the balance of trade remained negative and made 373.7 billion AMD (817.6 billion US dollars) increasing in comparison with previous year by 37.3 billion AMD (189.7 billion US dollars), while the ration of balance of trade to GDP became better and made 16.8% versus 17.8% in previous year.

In export volume the share of CIS countries was 18.9% (in 2004 - 17.3%), that made 179.7 million dollars, growth 43.7%, and the share of EU - 46.6% (in 2004 - 35.3%), that made 442.6 million dollars, growth 73.4%.

In volume of import separated by goods origin countries the share of the CIS countries was 28.9% (510.6 million dollars), of the total import - 28.6% the last year, growth 32.0%, and the share of EU - 28.5% (503.6 million dollars) versus 25.4% the last year, growth 46.6%.

In volume of export the following commodity groups had the greatest specific weights: precious and semiprecious stones, precious metals and their by products - 35.4% (volume growth rate - 112.4%), not precious metals and their by products - 33.2% (in 2.3 fold), ready foodstuffs - 10.2% (139.7 %), mineral and raw material production - 8.3 % (79.3%). It is necessary to note, significant in comparison with 2004 growth in 1.7 fold of the specific weight of not precious metals and by products in export structure. Specific weights of textile products and other commodity groups have simultaneously decreased as well as specific weights of precious and semiprecious stones, precious metals and by products, mineral and raw material production.

Cover degree factor (the export to import ratio), as well as standardized trade balance (the ratio of trade balance to external commodity turnover), remained at the level of 2004 - 0.54 and 0.3, respectively.

There were not fixed significant changes in the structure of import in 2005. The high specific weights kept the following commodity groups: precious and semiprecious stones, precious metals and by products of-19.6% (volume growth rate are 119.2%), mineral and raw material production - 16.7% (140.9%), machinery, equipment and mechanisms - 12.8 (167.5%), final food production - 8.2% (128.1%), ground, air and water transportation facilities - 8.2% (157.7%), production of chemistry and the industries related to it - 6.5 (135.2), not precious metals and by products - 5.2% (150.8%).

During the reported period the monetary incomes of the population made 1454.9 billion AMD, growth rate - 115.6%, and expenditures - 1405.1 billion AMD, growth rate - 111.8%. The positive tendency of excess of incomes above expenses was kept in 2004.

The major part of used sums of monetary incomes of the population - 79.0% or 1148.6 billion AMD falls to goods purchases and service payment (growth rate - 111.8%). We shall also note that in comparison with 2004 the specific weight of the underlined parameter decreased by 2.2 percentage points.

The average monthly salary of occupied in economy (estimation) made 52040 AMD, growth in comparison with the previous year - 19.5%. The salary occupied in the budgetary organizations made 35781 AMD (growth rate was 123.9%), and in non-budgetary organizations - 64734 AMD (growth rate was 117.1%). The positive tendency of advanced growth rate of the salary of workers of budgetary sphere, in comparison with not budgetary was kept, taking into account its rather low level.

The highest salary (on January - November, 2005) is fixed in sphere of crediting and insurance - 168.5 thousand AMD that was higher in 3.3 fold than the average salary in the Republic in total, and in scope of public health services, physical culture and social service, culture, trade and catering, art which vary between 23.4 and 26.0 thousand AMD or between 46.0% and 51.2% of the average salary. We shall also note that average growth of wages in the specified spheres in comparison with January - November, 2004 made 129.0%, and 123.9% in the Republic totally.

In 2005 (estimation) number of economically active population made 1203.3 thousand person. Officially registered unemployment rate made 8.1% decreasing in comparison with the previous year by 1.5 percentage points. Thus the high level of unemployment among women - 12.0% was kept that in 2.6 fold exceeds the rate of unemployment among men.