PROSPECTS OF THE ARMENIAN ECONOMY.
THE PATH TO GROWTH ACCELERATION

Although after the recession of 2020 the RA economy is recovering, the high contact sectors, which were severely affected by the pandemic, are still 10-15% low from their pre-pandemic levels, indicating possible long-term scars from the crisis. Meanwhile, the RA government targets from 7 to 9 percent growth in the medium term, which implies a significant growth acceleration (almost doubling it compared to the past decade). The author, analyzing recent growth literature and current realities, suggests, that this kind of growth acceleration could be achieved by not only tackling the "government failures", which is expressed in the key targets of the government program but also the "market failures". Moreover, following the economic history, the countries that could achieve and sustain a 7-9% growth rate (for example, the "Asian Tigers") adopted the riskiest strategy of economic policy – the "moonshot approach", which is an uncharted territory not only for Armenia.

Narek KARAPETYAN

PhD Student at ASUE

He earned ASUE Master's degree in Macroeconomic analysis in 2019, and started his PhD studies at the chair of Finance. He has been working at Amberd Research Center as a researcher and expert since 2016, and at the RA Ministry of Finance as an economist since 2017. He was a summer intern at the International Monetary Fund in June-August of 2021.

https://orcid.org/0000-0003-4978-6107

After 3 years of robust growth (almost 7 percent on average), the Armenian economy has faced a deep recession in 2020 amid the COVID-19 pandemic, lockdown measures by the government, external shocks associated with the global recession, and the Artsakh war in the autumn. As chart (a) from Figure 1 demonstrates, the growth in 2017-2019 was largely driven by the services sector (including trade). In 2020, the RA economy experienced a 7.4% decline - the services sector driving 5.1 percentage points of the downturn. The chart also shows

a) Growth and its drivers
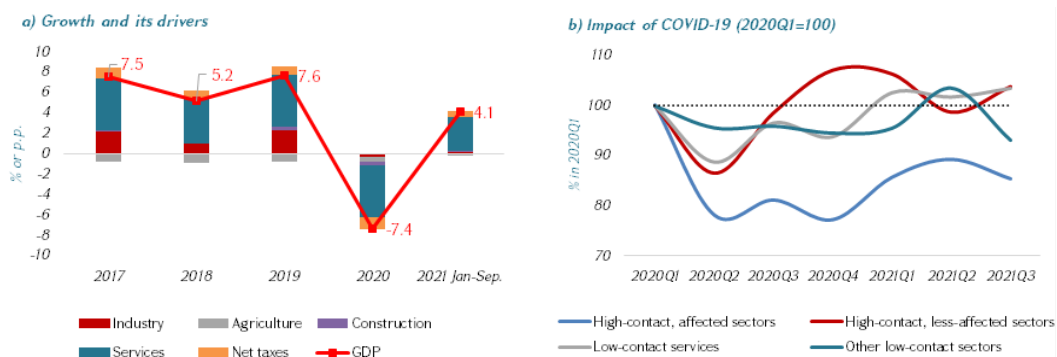
b) Impact of COVID-19 (2020Q1=100)

FIGURE 1

Snapshot of economic developments in RA

Note: In chart b, high-contact, affected sectors are accommodation and food services; arts, entertainment, and other service activities; wholesale and retail trade; and transportation; high-contact, less-affected sectors are construction; and public administration, education, and health care; low-contact services are information and communication; financial and insurance activities; real estate activities; and other professional and scientific activities; other low-contact sectors are agriculture; manufacturing; and mining and utilities.
Source: Armstat and the author's calculations.

that in 2021 the economy is in the recovery phase - growing by 4.1 percent in January-September, but most probably it would be only partly recovering output losses of 2020 till the end of the year.

Chart (b) of Figure 1 demonstrates the impact of Covid-19 shock and the patterns of recovery in different sector groups of the economy. Particularly, the economy was divided into 4 sector groups with respect to the possible level of affection from the pandemic: high-contact, affected sectors, where both supply and demand collapsed simultaneously during the lockdown, high-contact low affected sectors, where supply was constrained but the demand has increased, low-contact services, where supply was mainly unaffected but demand decreased, and other low-contact sectors, where supply was constrained and demand increased or decreased by sector.[1] It can be noticed that if for the 3 other sector groups the losses from the COVID-19 shock were temporary and they generally recovered during 2021, the losses of high-contact, affected sectors seem

to be persistent, as even in 2021 its output remains 10-15 percent lower compared to the first quarter of 2020.

The risks of persistent economic losses, in other words – scarring after COVID-19 shock - is a key issue for economists and policymakers at the global level, as the historical record suggests that most recessions leave persistent scars—largely through lower productivity growth and slower capital accumulation. For example, the IMF anticipates that in 2024 the output will be lower by 3 percent from pre-pandemic projections as the losses in most affected sectors are expected to be permanent. Moreover, developing economies are expected to have deeper scars than advanced economies, reflecting also more muted policy responses. For mitigating the scarring effects IMF suggests investing in human capital, supporting productivity growth, and boosting public investment in infrastructure.[2]

The 2021-26 RA government program targets a 7% economic growth for the program period on average, and 9% - if the

---

[1] IMF (2021). After-Effects of The Covid-19 Pandemic: Prospects For Medium-Term Economic Damage, Chapter 2 from World Economic Outlook Managing Divergent Recoveries. https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021, p. 45.

[2] IMF (2021). After-Effects Of The Covid-19 Pandemic: Prospects For Medium-Term Economic Damage, Chapter 2 from World Economic Outlook Managing Divergent Recoveries. https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021, p. 56.

external conditions would be more favorable. To reach the target, the government is committed to implementing structural reforms and investing in physical and human capital.[3]

From a historical perspective, with favorable external conditions, Armenia experienced even higher growth: economic growth during 2001-2007 was 12.1% on average.[4] However, in 2010-2019, it declined to 4.5%, accounting for around 7% only in 2017-2019. Hence, achieving the target of a 7-9% growth rate will imply a major growth acceleration compared to the last decade.

Economic literature suggests that growth accelerations are not easy to achieve. Defining a growth acceleration as an increase of growth rate by at least 2.5 percentage points and sustaining it for 8 years, Hausmann, Pritchett, and Rodrik found out that the probability of experiencing a growth acceleration during a decade is just 25%, and the vast majority of growth accelerations are unrelated to standard determinants (such as political change and economic reform), and most instances of economic reform do not produce growth accelerations.[5]

The literature suggests that the reason for that might be, that the standard policies, which are largely being advised to the developing countries (for example, improving the business environment and access to finance, macro stability, better institutions, infrastructure, education, etc.), are aimed at fixing the "government failures", but not "market failures". To spur high and sustained growth, the government should aim at alleviating market failures, such as learning externalities and coordination failures.[6]

To tackle market failures, modern literature suggests "Technology and Innovation Policy" which can be implemented with three alternative strategies:

- **"Snail crawl"** approach: gradual approach, where existing industries are supported without radical changes (for example, this is characteristic of Chile, which experienced 5.5% average growth in the 1980s and 1990s).
- **"Leapfrogging"** approach: supporting sectors with comparative advantages, identifying new diversification opportunities (for example, characteristic of Malaysia, which experienced 5.7% average growth in the 1980s and 1990s).
- **"Moonshot"** approach: creating industries and helping domestic firms grow and export way beyond existing comparative advantage sectors with the "leading hand" of the state in development.[7] Asian miracles (Hong Kong, Korea, Singapore, and Taiwan) can be characterized by this approach with 7-8% average growth from the 1960s to the 1990s.[8]

The RA government program sets policies that mainly can be characterized by standard receipts (for example, improving the business environment and access to finance, investing in infrastructure and education), with elements of "Snail crawl" (for example, the goals related to manufacturing industry), and some elements of "leapfrog approach" (for example, the goals related to high technologies and military industry).

But looking at the economic history, the

---

3   RA Government (2021). Programme of the Government of the Republic of Armenia 2021-2026. https://www.gov.am/files/docs/4629.pdf
4   The phenomenon and drivers of high economic growth in Armenia during the 2000s is well documented in Mitra, S. (2007). The Caucasian tiger: sustaining economic growth in Armenia. World Bank Publications.
5   Hausmann, Ricardo, Lant Pritchett, and Dani Rodrik. 2005. "Growth Accelerations" Journal of Economic Growth 10(4): 303–29.
6   The learning externalities imply that firms may not be fully aware of possible productivity gains, which lead to lower output in high-productivity sectors and lower relative incomes over time. The coordination failures imply, that a critical size of the modern sector is needed for a firm to enter it, and if many firms invest together in modern sectors, (a "big push") the economy would reach a higher level of productivity and development. Source: Rodrik, Dani. 2005. "Growth Strategies," in Philippe Aghion & Steven Durlauf (ed.), *Handbook of Economic Growth,* edition 1, volume 1, chapter 14, Oxford: Elsevier, 967–1014.
7   Cherif, R., & Hasanov, F. (2019). The return of the policy that shall not be named: Principles of industrial policy. International Monetary Fund.
8   Growth rates are descriptive for the periods with rapid GDP growth rates. Source is Rodrik, Dani. 2005. "Growth Strategies," in Philippe Aghion & Steven Durlauf (ed.), *Handbook of Economic Growth,* edition 1, volume 1, chapter 14, Oxford: Elsevier, 967–1014.

post-pandemic uncertainties on the global level, and domestic scars from the 2020 recession, this policy mix seems to be insufficient for achieving the ambitious target of almost doubling growth rates of the last decade and reaching 7-9% growth. To reach it, the government needs to design a more ambitious policy package that would more resemble the "Moonshot approach" suggested in the literature. This policy implies intense state intervention for creating new capabilities in technologically sophisticated industries and for focusing on export orientation with a strict accountability and performance assessment after government support. However, adopting these policies first requires specifying a strategy based on the circumstances of the country, also acknowledging the risks, as the road ahead may go to uncharted territory.

REFERENCES

1. RA Government (2021). Programme of the Government of the Republic of Armenia 2021-2026.
https://www.gov.am/files/docs/4629.pdf
2. Cherif, R., & Hasanov, F. (2019). The return of the policy that shall not be named: Principles of industrial policy. International Monetary Fund.
3. Hausmann, Ricardo, Lant Pritchett, and Dani Rodrik. 2005. "Growth Accelerations" Journal of Economic Growth 10(4): 303–29.
4. IMF (2021). After-Effects of the Covid-19 Pandemic: Prospects For Medium-Term Economic Damage, Chapter 2 from World Economic Outlook Managing Divergent Recoveries.
https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021
5. Rodrik, Dani. 2005. "Growth Strategies", in Philippe Aghion & Steven Durlauf (ed.), Handbook of Economic Growth, edition 1, volume 1, chapter 14, Oxford: Elsevier, 967–1014.

Նարեկ ԿԱՐԱՊԵՏՅԱՆ
Ասպիրանտ, ՀՊՏՀ

ՏՆՏԵՍՈՒԹՅԱՆ ԶԱՐԿԵՐԱԿ
ՀԱՅԱՍՏԱՆԻ ՏՆՏԵՍՈՒԹՅԱՆ ԱՃԻ ՀԵՌԱՆԿԱՐՆԵՐԸ: ԱՃԻ ԱՐԱԳԱՑՄԱՆ ՃԱՆԱՊԱՐՀԸ

2020 թվականի ճգնաժամից հետո թեն ՀՀ տնտեսությունը վերականգնման փուլում է, այնուամենայնիվ, բարձր շփման աստիճան ենթադրող ոլորտները, որոնք ամենաշատն են կրել համավարակի տարաբնույթ ազդեցությունները, շուրջ 10-15%-ով ավելի ցածր են մնում իրենց՝ մինչն համավարակն ունեցած մակարդակից՝ հուշելով ճգնաժամ թողած հնարավոր երկարաժամկետ «սպիների» մասին: Միաժամանակ, ՀՀ կառավարությունը միջնաժամկետ հատվածում թիրախավորում է տնտեսական աճի 7-9% ցուցանիշ՝ ակնկալելով աճի տեմպի էական արագացում (նախորդ տասնամյակի համեմատ՝ գրեթե կրկնապատկում): Հեղինակը, վերլուծելով տնտեսական աճի վերաբերյալ վերջին ժամանակների գրականությունն ու ներկա իրողությունները, եկել է այն համոզման, որ աճի նման արագացում հնարավոր է ապահովել ոչ թե միայն «պետության ճախողումների» հաղթահարման (ինչին վերաբերում են առավարության ծրագրի հիմնական թիրախները), այլ միաժամանակ նաեւ «շուկայի ճախողումների» շտկմանը միտված քաղաքականության իրականացմամբ: Ավելին, տնտեսական պատմությունը ցույց է տալիս, որ 7-9% կայուն տնտեսական աճ ապահովված երկրները (օրինակ՝ «Ասիական վագրերը») ժամանակին որդեգրել են տնտեսական քաղաքականության ամենահիսկայինն՝ «իսկա ցատկի» ռազմավարությունը, որը «չքարտեզագրված տարածք» է ոչ միայն Հայաստանի համար:

Հիմնաբառեր. *բարձր շփում ենթադրող ոլորտներ, «տնտեսական սպիներ», «պետության ճախողում», «շուկայի ճախողում», «իսկա ցատկի» մոտեցում*

Нарек КАРАПЕТЯН
Аспирант, АГЭУ

ПУЛЬС ЭКОНОМИКИ

ПЕРСПЕКТИВЫ ЭКОНОМИКИ АРМЕНИИ. ПУТЬ К УСКОРЕНИЮ РОСТА

Несмотря на то, что после рецессии в 2020 году экономика РА восстанавливается, секторы с высоким уровнем контактов, которые серьезно пострадали от пандемии, по-прежнему находятся на 10-15% ниже своего допандемического уровня, что указывает на возможные долгосрочные экономические «шрамы» кризиса. Тем временем, правительство РА в среднесрочной перспективе планирует рост на 7-9%, что предполагает значительное ускорение роста (почти вдвое по сравнению с прошлым десятилетием). Автор, анализируя недавнюю литературу об экономическом росте и текущие реалии, предполагает, что такое ускорение роста может быть достигнуто не только путем устранения «провалов государства», что выражается в ключевых целях программы правительства, но и «провалов рынка». Более того, следуя экономической истории, страны, которые смогли достичь и сохранить темпы роста 7-9% (например, «Азиатские тигры»), приняли наиболее рискованную стратегию экономической политики – подход «большого прыжка», что является неизведанной территорией не только для Армении.

Ключевые слова: *высококонтактные секторы, экономические «шрамы», «провалы правительства», «провалы рынка», подход «большого прыжка»*