

2. SHORT ANALYSIS OF INDICATORS OF NATIONAL ACCOUNTS SYSTEM OF ARMENIA DURING 1990-1997

Foreword

Formation of independent states and breaking off economic relations between the republics of former Soviet Union during 90s, losses in traditional consumption markets and formation of customs barriers, introduction of national currencies brought to the states' isolation and formation of long-term crisis phenomena in their economy.

As in the other CIS countries, in Armenia also, the economy development level considerably declined and unprecedented reduction in production volumes was recorded during 1990-1993. Positive changes had been noticed since 1994.

In spite of certain economic progress, in the Republic of Armenia, the real volumes of production were lower by 42% at the end of 1997 than in 1990, and the final consumption volumes – by 18,3%.

2.1. Goods and Services Account

“Goods and Services Account” reflects the general resources of goods and services and their using trends. Total volume of goods and services resources in 1997 in comparison with 1994 increased by 3,6 times and comprised 1924 bln. drams, of which more than 75,6% made up domestic resources versus 74.6 % of 1994 and 80,2% of 1990. Using structure of resources available in the Republic is presented in Annex 5 (page 87).

Decline in the share of export volumes of goods and services and stable growth in the share of final consumption expenditures are noticed in the structure of resources. During 1994-1997 the share of import in the total resources fluctuated within the limits of 22-26 %, versus 20% of 1990.

Foreign trade of the Republic during the last years obtained the trend from CIS countries to the rest countries of the world. If the share of foreign trade with the rest countries comprised 28% in 1993, then in 1997 it comprised 65%. In spite of this, the share of both the export volume to CIS countries and the import volume from the CIS countries in 1997 in comparison with 1995 decreased by 65-68%. In 1997 the share of CIS countries in export comprised 40.7%, while in import – 33.5%.

2.2. Production Account

Gross output of goods and services serves as a major source for generation of resources in the Republic. The observation of branchal structure in the production process of goods and services shows that in 1997 83.5% of total volume of goods and services output was produced in 5 main branches of economy (industry, agriculture, construction, transport and communication, trade), versus 89.8% of 1994. By the way, the share of industry over 1990 decreased by more than one third, while the share of construction – by more than twice. The share of output of trade, transport and communication branches increased as well.

At the same time, during 1990-1997 significant fluctuations of intermediate consumption share are noticed in the goods output structure, which directly influences on GDP volume. Thus, decreasing of share of intermediate consumption by 8,8 percent point during 1994-1997, stipulated the increasing of gross value added by more than 90 bln. drams in 1997. Dynamics of structure of goods and services output is presented in Annex 5 (page 87).

At the same time, during 1990-1994 significant increase in share of intermediate consumption was noticed, which was stipulated by decline in volume of the whole production and its productivity. For years, the greatest decline in production was outlined in 1991, 1992 and 1993. During these years under the conditions of insignificant reduction of number of employed in the economy (by 5%), real volumes of GDP production abruptly decreased and as a result, in 1993 over 1990 GDP production in calculation per 1 employed in economy decreased by more than half.

Since 1994, the economy decline processes had been suspended and positive changes, i.e. growth of real GDP had been noticed. Under the conditions of reducing of number of employed in the economy by more than 11% in 1997 in comparison with 1993 the labour productivity increased by 38.6%. However, in spite of this, labour productivity indicator in 1997 comprised only 68.7% of 1990 level.

2.3. Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is an overall indicator of economy development. During 1990-1994 growth of nominal GDP took place only at the expense of price rising, i.e. in fact, physical volume of goods and services decreased. In 1994 in comparison with 1990 prices on consumer goods and services increased by more than 22 ths. times, including only on paid services – by 48 ths. times. GDP deflator comprised 4161% in 1994 and 6.5 ths. – for the mentioned period.

As a result of hard monetary and credit policy conduction, hyperinflation processes were suspended in 1995 and comparably stable situation of prices arose in the economy. Thus, in 1997 in comparison with 1994 CPI increased only by 3.7 times, including the index of paid services – by 10 times.

During the both three last analyzing years and 1991-1997, the highest growth of prices was fixed in spheres of communication, construction, industry and housing and communal services. If during 1990-1993 real volume of GDP (taking into account price factor) decreased by more than twice or by 22.3 percent per year on average, then during 1994-1997 considerable growth of GDP by 23.3 percent or 5.4 % per year on average was noticed in the Republic. *According to the calculation per capita*, GDP amounting to 212 ths. drams was produced in 1997, versus 50 ths. drams in 1994. They made up correspondingly 426 and 172 in USD. However, in spite of this, the real GDP level in 1997 comprised 58% of 1990 level. Rates of growth and changes in GDP structure are presented in Annex 5 (page 87).

The growth of gross value added comprised 118,4% during 1994-1997. By the way, taking into account tax receipts, the growth of GDP comprised 123%. If the share of net taxes in GDP had trend of decreasing during 1990-1994, then since 1995, as a result of definite tax policy conduction in the country, growth in share of taxes has been started, which approach 8.0% in 1997. Growth in tax receipts volume directly and positively influenced on both the growth of GDP and the level of budget deficit. In 1997 the share of indirect taxes in the state budget incomes comprised 42% or twice more than in 1994, while the budget deficit comprised more than 20 bln. drams in 1997 versus 29 bln. drams in 1996 and 31 bln. drams in 1995. The ratio of deficit to GDP comprised 2.5, 4.4, and 6.0 percents correspondingly.

Dynamics of GDP branchal structure shows that during the last years, the share of goods production in its composition had a decreasing tendency, while the share of services, particularly market ones – an increasing tendency. The growth of GDP during 1990-1997 completely was provided at the expense of market services.

In the sphere of market services, the public utilities, trade and transport branches obtained significant advantage. In 1997 in comparison with 1990 the share of these branches increased by 3 times, 2.1 times and by 5 percent correspondingly.

81.5% of gross value added was produced in 5 main branches of economy, in 1990, 90.8% - in 1994 and 83.2% - in 1997. *On the sectoral basis*, approximately 69.5% of gross value added was produced in the non-financial sector, 23.1% - in the households and 7.2% - in the public administration. These indicators for 1994 comprised 72.7, 22.1 and 5.0 percents correspondingly.

Analyzing *of quarterly GDP values, based on production approach*, shows that its prevalent part generally belongs to III and IV quarters. Big gaps observed between the quarters of 1993, started to decrease in the following years. Thus, if 66.8% of GDP was produced in the second six-month of 1992, including 32.7% - in the fourth quarter, then they comprised 85.8% and 53% in 1993. Significant changes in these ratios in 1993 were connected to the national currency introduction in November 1993 and abrupt rising of prices on agricultural outputs. Price index of agricultural output comprised 12353% only in

November 1993 versus 1037% for January-October. As a result, price index on agricultural output in 1993 exceeded the level of price index for January-September 1993 by 3 times.

At the same time, the level of quarterly GDP production is stipulated by seasonality of agriculture, construction, trade reviving in the certain periods of year, as well as by payments of some types of services. As a rule, the process of tax collection revives by the end of year as well. In 1990, 40% of net taxes on goods and services was received in the fourth quarter and only 10% - in the first quarter, while in 1993 - 50.3% and 6.8% correspondingly.

(For the method of implemented calculations at average annual prices of quarterly data, and as well as of seasonal adjustments see page 22)

Adjustments and Additional Calculations of GDP

In the Republic, under the conditions of numerous small- and medium-sized private enterprises formation during 1990-1997, as well as considerable increasing of number of individual entrepreneurs in transition period to market economy, data collection by entire method become impossible and, more often, majority of those is not covered by statistical observation. If the share of private sector in the produced GDP comprised 11.7% in 1990, then in 1997 it comprised already 67.9%.

As of 01.01. 1998, 77.6 ths. economic entities were registered in the State Register of Enterprises (Administrative Register), but only certain part of those is covered by the official statistics. Thus, as a result of the sample survey of small-sized enterprises carried out by the Ministry of Statistics of RA in 1997, it was revealed that only 34% of surveyed entities (selected from the State Register) was actually functioning, by the way, 26% of active entities presented incomplete data. More than 60% of surveyed entities (small, informal business) was dealing with non-registered entrepreneurial activity.

In 1997, the volume of “underrecorded” economy (including individual activity of population) comprised 28.9% of GDP produced in the Republic, versus 34.3% - in 1996. The extension of the official statistics coverage scope and improvement of tax and budget system somehow influenced on decreasing of “underrecorded” economy level in comparison with the previous years.

2.4. Generation of Income Account

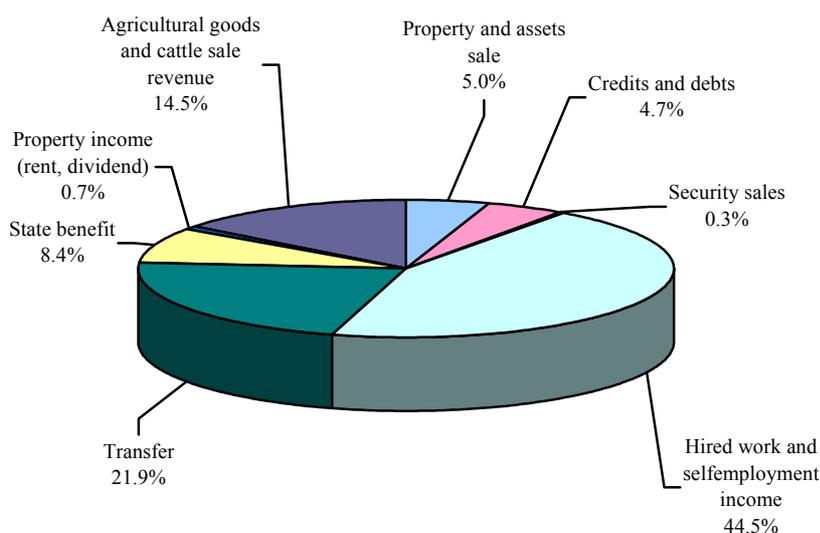
Generation of income account gives a possibility to characterize the GDP from the side of receiving the primary incomes, i.e. by sources of incomes.

For the period of 1990-1997, the share of gross profit at the level of whole economy increased by more than one and half times and the share of compensation of employees obtained a trend of noticeable decreasing. Data characterizing GDP by sources of incomes are presented in Annex 6 (page 88).

As a result of compensation share decreasing, the working level of employees in the economy (ratio of gross profit and net taxes on production and import to compensation) significantly increased during 1990-1997. The working level increased almost by 1.9 times and comprised 139%. It especially increased in financial sector – from 103.3% in 1990 to 440.5% in 1997, in non-financial sector - by 60%, while in the state sector, on the contrary, decreased by more than 30%.

In 1996, monthly gross income per households comprised 38836 drams or per capita – 11964 drams.

Structure of Total Income per Household – for 1998



At the same time it should be noted that the growth in average monthly wages per employee, as well as population incomes in cash considerably conceded the price and tariff indices on consumer goods and services, which brought to the considerable decline in purchasing power by 15 times in comparison with 1990. And since only 1995, as a result of price regulation, a stable growth in real disposable incomes in cash and purchasing power was noticed. During 1995-1997, under the conditions of increasing of average monthly wages per employee by 7.5 times and increasing of population incomes in cash by 5.5 times, the consumer prices increased by 3,7 times.

During 1990-1997, in the structure of value added, 76-82% of the all wages was received by employees of 5 main branches of the economy, where 87-95% of gross profit of the whole economy was generated. Dynamics of the share of wages and profits in the value added composition is presented in Annex 6 (page 88).

2.5. Distribution of Income Account

In the structure of distribution of income account, one of the basic indicators characterizing the economy – *gross disposable income* is formed. *Otherwise, the gross disposable income is the sum of gross domestic product, net transfers receivable and net property incomes.*

Structure of Gross Disposable Income of Households by Its Formation Sources



In 1997 gross disposable income at the level of economy exceeded the level of 1994 approximately by 4 times. By the way, in 1997 the share of GDP in the gross disposable income comprised by 6.6 percent point more than in 1994, which was stipulated by exceeding of GDP growth in comparison with growth of net transfers receivable from the rest of the world.

In 1997, the share of receivable current transfers (less payable ones) in the gross disposable income comprised 8.5% at the level of economy, while in 1994 – 15.4%. During 1994-1997 the current transfers amounting to 656.8 bln. drams were received and paid. The analyzing of the structure of

transfers payable shows that during 1994-1997 18.8% of the all current transfers was paid by financial sector and 20 % - by the state one, 20% - by households and 40% - by the rest of the world.

51% of the total volume of transfers receivable belongs to households sector (by pensions and benefits, grants, humanitarian and private aid from the rest of the world), 42% - to the state sector, (by profit tax, income tax, social insurance payment and etc.), about 4% - to the rest of the world (payment of membership contributions in the international organizations, payment for participation in the international agreements).

During 1994-1997, ratio coefficient of current transfers payable and receivable comprised 8.6 in the non-financial sector; 5.6 – in the financial sector; 10.5 – in the rest of the world sector and 0.4 – in the households sector. According to the given data, the major donors of transfers is the rest of the world and non-financial sector.

Property income. *Property incomes are defined as interests receivable from deposits and credits in banks, from the securities and bonds incomes, stock dividends, rent and etc.*

Share of property income in the gross disposable income is insignificant yet; it fluctuates within the limits of 0.1- 0.2 %. The property incomes are mainly received by financial sector and particularly, by commercial banks. In 1997 net property incomes receivable by financial sector comprised 65% of its disposable income, and 85% - in 1994. In the households their share comprised only 0.01% (0.07% - in 1994), which testifies the low savings level of population.

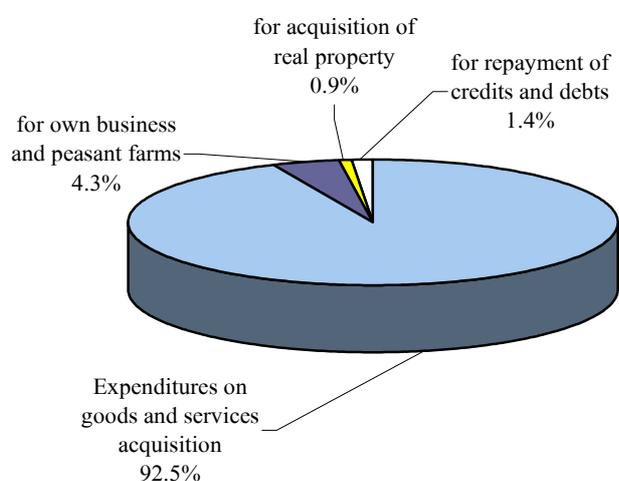
2.6. Use of Income Account

In this account, principal using trends of gross disposable income are reflected. Since 1995, in the Republic, stable tendency of increasing of the share of final consumption expenditures in the gross disposable income is noticed in the economy. If in 1990, 66.3% of disposable income was used for final consumption, then since 1995 the exceeding of the consumption level to the disposable income has been noticed. In 1997 this exceeding comprised about 5%, which was financed at the expense of property sale (financial and non-financial assets) or at the expense of getting credits of the rest of the world. In 1990 the resources use exceeded their production by 11.3%, in 1994 – by 33.8% and in 1997 – by 38.0%.

As a result, negative external trade balance was generated in the Republic, which testifies to the considerable dependence of the Republic on the rest of the world and vulnerability of the financial system.

Internal demand (need) of the Republic was provided mainly *at the expense of import*. During 1994-1997, goods and services amounting to 1300 bln. drams, were imported to the Republic, of which only 36% - in 1997. In 1997 the volume of goods and services import comprised 58% of GDP, in 1994 – 73% and in 1990 – 47%.

Structure of Use of the Total Income per Household for 1998



At the same time, significant decreasing (by 15 percent point) of the share of general government consumption expenditures is noticed in the composition of final consumption, which testifies to certain restriction of the role of government regulations of the economy. Especially, the general government expenditures rendering individual goods and services to the population were abruptly decreased (by 35.5%) during 1994-1997.

As a result of exceeding growth of final consumption expenditures in comparison with disposable income, since 1995, negative savings, i.e. financial deficit at the level of economy, were generated in the economy, which approached the highest value in 1997 – 42.4 bln. drams.

Debts (negative savings) were formed mainly at the expense of high debts of the households, in the economy, as a whole - more than 261.6 bln. drams, in 1997 and to some extent, at the expense of general government and non-profit institutions serving households – 1.3 bln. drams.

2.7. Capital Account

The increasing of the share of final consumption expenditures in the structure of GDP brought to the decreasing of the share of fixed capital formation and inventories. Under the conditions of increasing of final consumption expenditures by 4.7 times in 1997 in comparison with 1994, the gross formation increased by 3.5 times.

It should be noted that during 1990-1997 the growth of gross fixed capital formation comprised 10.7% totally, while during 1994-1997 - 135%, which testifies to the reviving of investment process in the Republic during the last years, stipulated, to some extent by foreign investments. Their volume in the composition of capital investments increased almost by 3 times during 1994-1997, and in 1997 it comprised 55.3% of capital investments or 20% in the gross fixed assets formation. By the way, only 3.7% was assigned for capital investments at the expense of state budget incomes, versus 33.5% in 1994 and 54.3% in 1991.

A number of data for 1990-1997 testifies to the big credits, assigned in our Republic. Particularly, significant credits amounting approximately to 470 bln. drams were assigned during 1994-1997. Ratio of net debts available in the Republic to GDP comprised 13.9% in 1990, 10.4% - in 1994, 22.3% - in 1995, 21.7% - in 1996 and 23.7% - in 1997. Credit debts are mainly formed in the sectors of households and general government. During 1994-1997 these volumes comprised 176 and 660 bln. drams correspondingly.

In non-financial and financial sectors, on the contrary, significant amounts – 335 bln. drams and 95 bln. drams were free, which could serve as internal investment sources for purchasing of fixed assets and industrial construction for both this and other sectors.

Using Structure of Resources Available in the Republic*(as % of total)*

	1990	1994	1995	1996	1997
Resources, total	100	100	100	100	100
<i>including used for</i>					
Intermediate consumption	37.5	40.0	36.3	36.8	33.8
Final consumption	28.3	36.7	46.1	45.2	48.0
Gross formation	20.2	8.1	7.2	8.1	8.0
Export of goods and services	14.8	13.6	9.4	9.4	8.5
Statistical discrepancy	-0.8	1.6	1.0	0.5	1.7

Dynamics of Structure of Goods and Services Output*(as % of total)*

	1990	1994	1995	1996	1997
Goods and services output (at market prices)	100	100	100	100	100
<i>including</i>					
Intermediate consumption	46.8	53.5	48.0	47.6	44.7
Gross Domestic Product	53.2	46.5	52.0	52.4	55.3
<i>of which</i>					
Net taxes	4.2	1.5	1.9	2.9	4.4

Rates of Growth and Changes in GDP structure

	<i>as % of total</i>				<i>in % over the previous year</i>			
	1994	1995	1996	1997	1994	1995	1996	1997
Gross Domestic Product at market prices	100	100	100	100	105.4	106.9	105.9	103.3
<i>including</i>								
1. production of goods	79.5	71.6	65.8	60.2	105.0	102.6	103.9	98.6
<i>of which</i>								
industry	29.1	24.3	23.4	22.5	109.6	102.6	101.1	101.3
agriculture	43.5	40.7	34.8	29.4	103.1	104.0	102.0	95.5
construction	6.7	6.5	7.4	8.1	105.7	94.5	125.2	103.9
Other branches of goods production	0.2	0.1	0.2	0.2	68.2	95.6	137.3	119.4
2. production of services	17.4	24.7	28.7	31.8	110.8	122.6	106.3	104.9
3. net taxes (less subsidies) on goods and services	3.1	3.7	5.5	8.0	89.6	127.8	141.6	151.5

Structure of GDP by Sources of Incomes

(as % of total)

	1990	1994	1995	1996	1997
GDP (at market prices)	100	100	100	100	100
Compensation of employees	57.4	41.5	39.3	40.0	41.8
Net taxes on production and import	10.9	4.6	5.0	6.4	8.9
Gross profit (gross mixed income)	31.7	53.9	55.7	53.6	49.3
Consumption of fixed capital	14.9	14.8	14.3	15.0	14.4
Net profit (net mixed income)	16.8	39.1	41.4	38.6	34.9

Dynamics of the Share of Wages and Profits in the Value Added Composition by the Main Branches of the Economy

(in % over the value added)

	1990		1994		1997	
	Compensation	Gross profit	Compensation	Gross profit	Compensation	Gross profit
Industry	67.9	25.8	44.2	55.3	44.8	53.8
Agriculture	31.3	66.5	29.1	70.0	32.2	66.8
Construction	72.6	24.8	70.1	29.7	69.7	29.4
Trade	59.9	38.3	52.1	47.8	49.6	49.9
Communication	31.7	66.0	23.0	76.9	24.1	74.7
Transport	42.8	53.9	51.6	48.1	43.3	56.0
Housing resources	52.6	45.3	60.2	39.7	4.8	94.7
Public utilities	52.6	45.3	46.1	53.8	46.9	52.5
Crediting	58.6	40.4	27.1	44.7	19.3	80.0
Total	62.4	34.1	42.8	55.6	45.4	53.6