

Structural Deformation of the Economy as a Factor Deterring the Economic Growth

Tatul Melsik Mkrтчhyan

Abstract—In the modern globalized and highly competitive world, the problems that should be solved in our country to ensure sustainable economic development have worsened significantly. The matter is already not only and not so much about economic growth in general, but rather about developing competitive economy, improving the economic structure and enhancing the quality of growth. Besides, it is important to find out whether it is possible to combine efficiently certain processes such as implementation of progressive structural changes and ensuring high rates of economic growth. Usually, structural economic changes are accompanied or followed by slowdown of the economic growth rates. It doesn't matter whether they are due to objective or subjective reasons.

Keywords—Structural deformation, economic growth, economic development exchange rate, quality of growth.

I. INTRODUCTION

THE studies of the dynamics of economic development in the RA show that the high rates of economic growth in 2002-2007 led to structural shifts in economy, which, in the conditions of the global financial and economic crisis, have caused considerable economic recession and rather slow post-crisis recovery. In the course of the present study, the factors and specifics stipulating the rates and dynamics of economic growth in the RA have been examined.

In terms of economic development, the years 2000-2014 in the RA can be qualified as a period of volatile and disproportionate growth. In particular, in 2002-2007 the GDP increased at double-digit rates; both before and after that period the rates of economic growth were significantly lower, and in 2009 there was an abrupt decline of the GDP -14.2% [4]. Although the main causes of the decline were due to the global financial and economic crisis, still the intensiveness of the recession and the subsequent difficulties in recovery of the economy, in our opinion, are the result of the economic structure developed in the period of double-digit growth.

II. DYNAMICS OF ECONOMIC GROWTH IN RA

Before the double-digit growth stage, in 1997-2001 the average annual rate of economic growth in the RA was 5.9%, and during the years 2002-2007 it was 13.1%. As a result of this, in 2007 the real GDP expressed in AMD doubled as compared with the year 2002 [4].

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Fig. 1. Rates Of Economic Growth In The RA

In the year 2007 the GDP expressed in USD was approximately 3.9 times higher than that of 2002 and about 5.7 times higher than that of 1997. Such disproportion between the rates of GDP growth expressed in AMD and in USD is explained by the abrupt appreciation of AMD towards USD in 2004-2008 [4]

TABLE I
AVERAGE ANNUAL USD EXCHANGE RATE TOWARDS AMD

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
USD exchange rate	539	555	573	579	593	468	416	342	306	349	374	373	402	406	458

If we divide the approximately four-fold growth of the GDP expressed in USD in the years 2002-2007 into two time periods, i.e. 2002-2004 and 2005-2007, then during the first period only 9.6% of the nominal growth can be attributed to the decrease of USD exchange rate, while in the second period it was 58.7%. This is also the reason why although in the time periods of 2002-2004 and in 2005-2007 the rates of the cumulative growth of GDP expressed in AMD were almost the same, i.e. 26% and 28.7% respectively, still the GDP expressed in USD in 2002-2004 increased by 50.5%, and in 2005-2007 it increased nearly by 2.0 times. During this time period, Armenia held a rather high position in the world by GDP growth rates. According to the data of the International Monetary Fund, in 2007 Armenia was the sixth among the 181 countries of the world by the index of GDP growth. For the purpose of comparison, it should be mentioned that in 1997-2001 Armenia ranked the 30th by the average index of GDP growth (5.9%) [1].

In the result of the global financial and economic crisis, the high rates of economic growth in Armenia decreased in the year 2008 and amounted to 6.8% (while economic recession was recorded only in October, as compared with September - 8.3%) [3]. And in the year 2009 there was already significant recession - 14.2%.

Later on, the expansive policy implemented by the government yielded certain results and in 2010 there was a small 2.2% growth of the real GDP and in the subsequent years - 2011-2013 there was even slight acceleration in the rates of economic growth, amounting to 4.7%, 7.2% and 3.5%, respectively. At the same time, during the years 2009-2013 AMD continuously depreciated towards USD and the depreciation reached more than 35%¹, which was almost twice higher than the index of economic growth in the mentioned time period. As a result of it, in 2013 the GDP expressed in USD had not yet recovered up to the pre-crisis level of 2008, while in AMD expression it exceeded the pre-crisis level already in 2011.

After the slight post-crisis activity that was recorded in 2010-2012 due to state assistance to the economy, the task of ensuring economic growth in the RA became much more difficult. This is evidenced both by the actual growth rates in 2011-2014 that were considerably lower than it had been projected, and by the zero growth expected in the years 2015-2017 (and sometimes negative growth) both for Armenia, and for the world in general (especially in those countries, the impact of which on the economy of the RA is very big, for example, Russia) [2],[5]. Of course, this circumstance is mainly due to the global, geopolitical factors and processes (the sanctions applied towards Russia by the USA and the European Union, resulting in weakening of the Russian economy, drop in the prices for oil all over the world, abrupt fluctuations of USD exchange rates, etc.), which, naturally, cannot be influenced by Armenia. However, we are of the opinion that this issue is highly affected also by the significant pre-crisis economic growth, the disproportionate allocation among the economic sectors, and the resulting inefficient structure of the economy.

III. STRUCTURAL CHANGES OF ECONOMY OF RA

Thus, during the years 2002-2008 the economy of the RA experienced significant structural changes, which were caused by the structural shifts recorded in the three main economic sectors – industry, agriculture, and construction (Table 2) [4].

Table II
GDP Structure In 2002-2013

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Industry	20.5	19.3	19.2	18.8	17.9	15.7	13.3	13.8	14.9	17.4	17.7	19.2
Agriculture	23.1	21.5	22.5	18.7	18.6	18.2	16.3	16.6	16.9	17.6	19.1	20.5
Construction	13.9	15.7	15.5	19.6	23.7	24.5	25.3	17.6	16.9	15.4	13.7	10.6
Trade and Services	10.0	10.9	11.2	10.5	10.2	10.2	11.6	12.7	13	13.4	12.6	12.2
Transport and communication	7.2	5.9	6.0	6.0	6.3	6.9	6.8	7.2	6.8	6.9	6.9	7.1
Other branches	15.6	17.6	17.1	16.2	14.6	15.3	15.6	21.4	20.4	18.4	18.6	19.2
Net taxes	9.7	9.1	8.4	8.6	8.2	9.8	11.4	10.7	11.1	10.9	11.0	11.2

In the time period under consideration, the specific weights of industry and agriculture in the GDP decreased continuously. While in the year 2000 these two main sectors of economy together provided for above 50% of GDP, in the year 2008 this index was about 30%. In the mentioned time period there were changes also in the internal structures of these two sectors. In particular, the specific weight of mining products significantly increased in the volume of industrial production – in the year 2002 it was 9.1% and in 2006 it reached 17.6%, which is

explained by decrease of the specific weight of processing industry [4]. The situation is quite the opposite in case of construction: during the years 2000-2008 the specific weight of this sector in the GDP continuously increased and already in 2008 it amounted to more than 1/4 of the GDP [4].

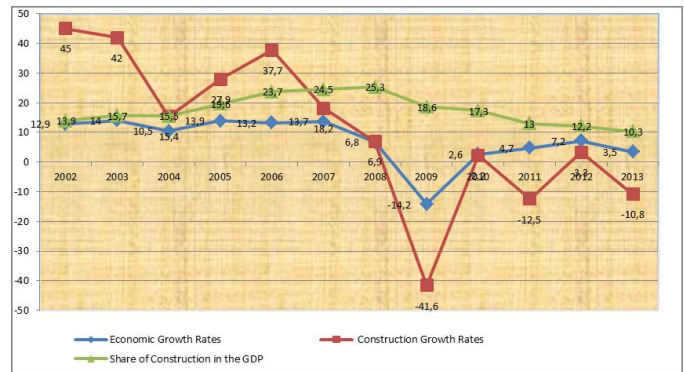


Fig. 2. Rates Of Growth Of The Economy Of The RA And Construction, And Dynamics Of The Share Of Construction In The GDP In 2002-2014

The diagram shows that during the period of 2002-2008 the rate of growth of the construction sector was 1.5-2 times higher than the average index of economic growth. Such unprecedented growth rates didn't only contribute to economic growth, but they also caused constant increase of the specific weight of construction in the GDP. As a result of it, the share of construction in the GDP increased from 13.9% recorded in 2002 to 25% in 2008. In the post-crisis period, the continuous decline in the construction sector reduced also the share of this sector in the GDP, going down to 10% in 2013. In other words, it can be stated that the double-digit growth rates in 2002-2007, as well as the abrupt decline in 2009 and the slow rates of economic recovery in subsequent years are conditioned by the construction sector.

Thus, during the above-mentioned period the increase in the volume of construction was mainly due to the private sector (mostly – the population), different projects of assistance to Armenia (“Lincy” Foundation², Pan-Armenian Foundation, etc.), as well as due to the funds of various state target loan projects. So, most part of the funds invested into construction during those years didn't have Armenian “origin” and termination of those projects, as well as significant reduction of the income of the population (caused by the global financial-economic crisis) “supressed” the growth in the sector. The construction boom in 2002-2007 would not afterwards become a factor impeding the economic growth, if it had not been spontaneous and had been implemented within the scopes of target policy. That is to say, if the growth of construction volumes had been accompanied with economic policy stimulating internal manufacture of construction materials and equipment, then the sources of economic growth would have been more diversified, and the decline caused by the crisis would not have been so severe. Thus, the sector could have really become the “tugboat” of development of the economy in the RA, ensuring commensurate economic

¹Just on March 2-3, 2009 AMD depreciated towards USD by about 20%

² Only with the funds of “Lincy” Foundation, USD 220 million was invested in the construction sector of the RA

development. Especially that Armenia has got a sufficient raw material base (construction materials, iron, and other metals, synthetic rubber, and latex) and previously operating production capacities (manufacture of transmitters, wires, instrument making, machine-tool construction, etc.) and could have produced a considerable part of the raw materials, materials and equipment used in the field of construction.

But in the years 2002-2008 the increase in the volume of construction in the RA was mainly due to import of the required construction materials and equipment.

During that period the volumes of total import in the RA increased by about 4.5 times, and the volumes of import of construction materials – by 8.5 times. For the purpose of comparison it should be mentioned that during the same period the volumes of export increased by about 2 times, and the volumes of internal production of raw materials – by 6 times³.

In the result of the above-mentioned, disruption arose between the rates of growth of construction and those of other sectors of economy (especially those serving the construction sector), which kept on increasing. That is to say, construction exceeded the other sectors of economy with its rates of growth. Only the added value of the construction sector remained in the economy, and in course of time increase of the specific weight of construction in the structure of the GDP was at the expense of decline of the other main sectors of economy, i.e. industry and agriculture. It should be mentioned that during the period under consideration the specific weights of other sectors of economy – trade, transport and communication, services – in the GDP were relatively stable.

All this is the consequence of the fact that within the mentioned time period the main emphasis of the economic policy was specifically on the growth of the construction volumes, instead of development of the complex of construction materials industry based on construction and internal production. Such an approach was the cause of the small multiplier effect of the construction sector on the economy as a whole, since import stimulation resulted in outflow of capital from the country.

IV. CONCLUSION

Thus, the spontaneous growth of the construction volumes in 2002-2008 and the absence of a targeted economic policy resulted in structural deformations of the economy, which in its turn limited the growth opportunities after the economic recession. Under such conditions it can be stated with confidence that economic growth in the country during those years was only the result of the quantitative increase of capital investments in the construction sector and not that of its qualitative alterations. Of course, later on – in the years 2010-2013, mainly due to state assistance to the economy, industry and agriculture (especially, agriculture, and in industry - mining) recorded certain growth (already in 2013 these two important sectors of economy provided for 40% of the GDP). Nevertheless, decline of the construction sector and its large

share in the GDP still considerably limits the opportunities for economic growth in the RA.

It should also be mentioned that in such situation the expansive policy of the state is a partial and temporary solution, since it cannot “work wonders” and merely favors short-term growth of the economy [6]. For the countries that apply this policy, choice of tools ensures different levels of efficiency, since such policy is often based on short-term political “interests”, therefore systemic and more efficient measures are required, aimed at ensuring economic growth by means of development of the sectors which provide for large added value and big “payback” for the economy.

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