



HOW ADVANCING LABOR PARTICIPATION COULD ADD UP TO 55% TO ARMENIA'S GROSS VALUE ADDED

Due to the long periods of sluggish economic growth and high unemployment rates, a significant portion of labor resources have been forced out of labor supply in Armenia. Since its independence, the total population of Armenia has been steadily declining, a trend that is particularly acute among working-age population. The decline of the working-age population paralleled with increasing number of over working-age population poses significant challenges for the economy. First, this means higher tax burden on employees; secondly, the required changes in the social policy based on intergenerational solidarity principle. The pension reform adopted in 2014 provides good evidence of this. Thirdly, the level of economic activity declines which further decreases the economy and the value added. The decrease of population has two underlying reasons: high levels of emigration (about 160 thousand Armenians permanently left the country throughout 2011-2017) - and the low levels of birth rate. The fertility rate per woman decreased to 1.57 in 2017 compared to the level of 2.54 in 1990s. In parallel to this, the average maternal age has increased – reaching 27 years.

The depopulation poses serious dangers on the economy, especially combined with the alienation of working-age population from the value creation process. In fact, both economically active population (unemployed population), and economically non-active population (hopeless population), as well as the population that does not belong to any of the mentioned groups (migrant workforce) is left out of the value creation process.

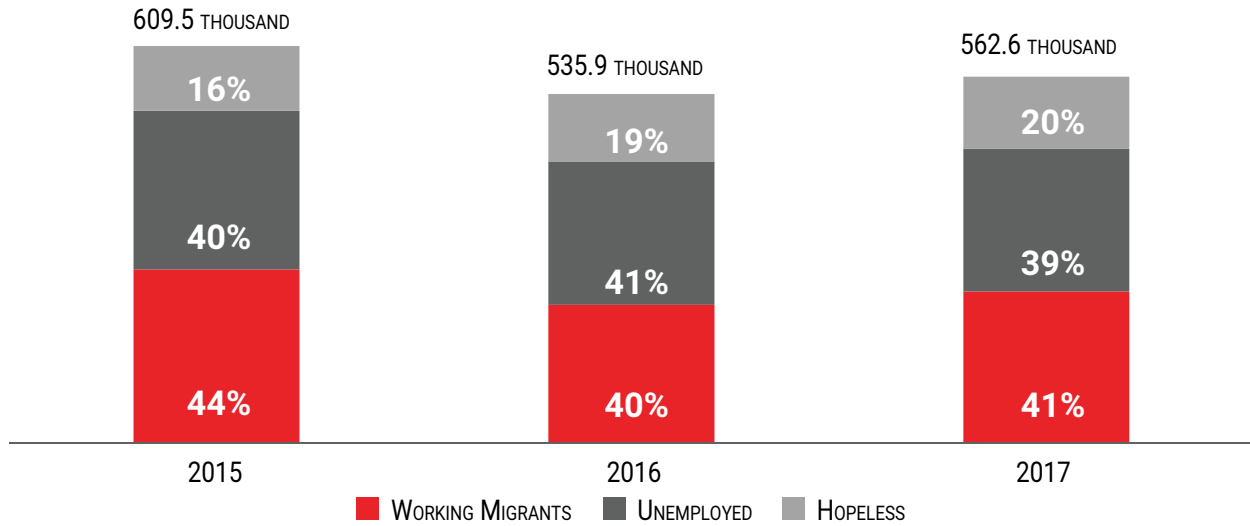
Since the recent economic growth has been largely driven by the productivity increases, it did not contribute to decreasing the unemployment level in the country. This means, there has been no significant increase of jobs as a result of economic growth. One of the negative aspects of this phenomenon is the growing number of migrant workers. Productivity led economic growth has increased the share of economically active population where the hopeless and housekeepers form the majority.

If the latter group is not enough flexible in reorienting towards new jobs, then hopeless ones can rapidly become economically active, as these are the people who have stayed unemployed for a long period of time, lost the hope of finding a job and thus became economically inactive.

In 2017, 562,000 “potentially employable” people were out of economic value creation processes, which resulted in about 55% lower GVA creation compared to the potential level.

Thus, there are three groups in the working-age population who have all the chances and prerequisites to be a part of economic processes. Those are: migrant workforce, unemployed and hopeless people.

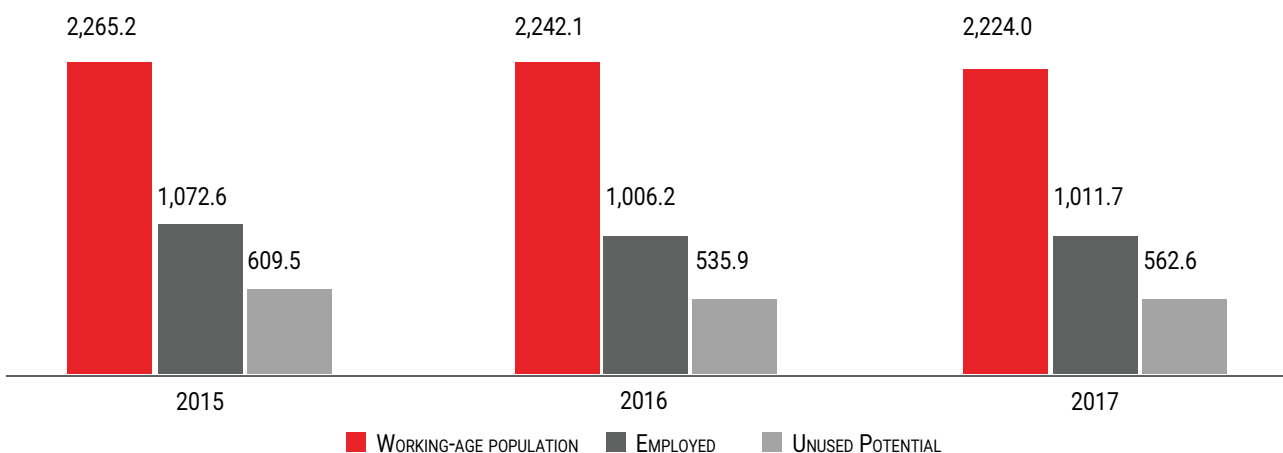
Distribution of unused potential, 2015-2017



Source: Statistical Committee of the Republic of Armenia, "Labour market in the Republic of Armenia", publications of 2015- 2017, Economically non-active population
 Ministry of the Territorial Administration and Development of the RA, Migration Service, Labor Migration in EEU, 2015-2017

According to official statistics, 220,000-250,000 people qualify as working migrants annually, the overwhelming portion of which are travelling to Russia. In particular, this number reached 232,000 in 2017. In the same year, the number of unemployed was 219,000 and the hopeless accounted for 111,000. Altogether, in 2017 the number of unused potential labor resource reached the level of more than 560,000, which constitutes more than 55% of the employee pool of the same year.

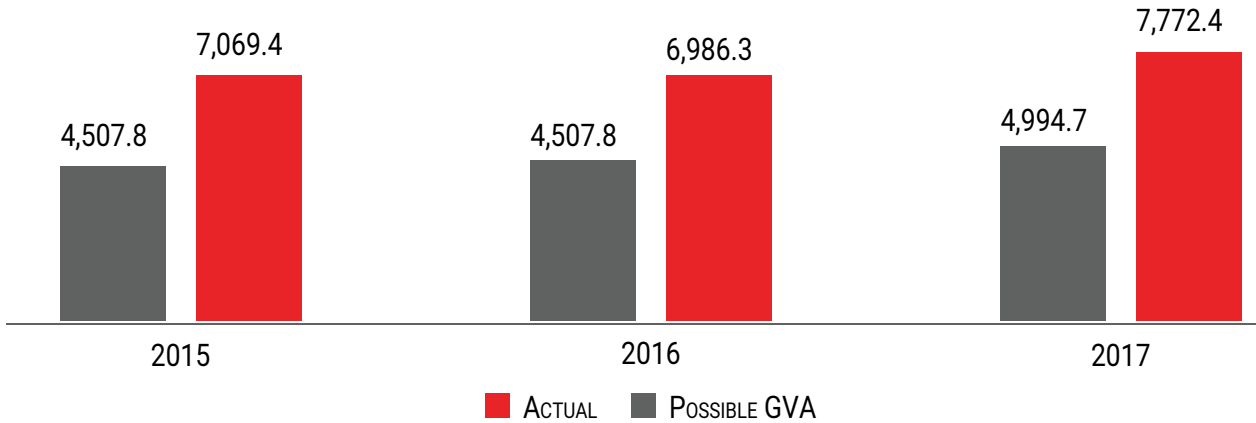
Comparison of unused potential, 1000 people



Source: Statistical Committee of the Republic of Armenia, "Labour market in the Republic of Armenia", publications of 2015- 2017, Labor Resources

To better visualize the consequences of unused workforce for the economy, we assessed the potential loss of gross value add (GVA), assuming constant economic structure and productivity per employee.

Comparison of GVA, billion AMD



Source: Statistical Committee of the Republic of Armenia, " Socio-economic situation of the RA" , publications of 2015-2017.

The comparison of actual and potential GVAs clearly shows that on average 55% of lower than potential value added was created throughout the last three years due to lack of employment opportunities. In other words, the GVA in Armenia at this point is at least 55% lower than its potential level assuming full employment in the country.



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