Economic growth accelerated further to 19.4 percent (yoy) in July.

Inflation decelerated to 9.1 percent in July.

While export growth was faster than import growth, the trade deficit widened further in July due to a large import base.

The Armenian dram (AMD) remained relatively stable against the USD in August depreciated since mid-September.

High revenues and subdued expenditures kept the budget in surplus through July.

The banking sector continued to rebound, with sound financial indicators.

Economic activity accelerated further in July to 19.4 percent (yoy) in real terms compared to 18.5 percent (yoy) in June. Growth remains broad-based, with most sectors contributing to total economic activity index growth in high double digits. Non-trade services recorded the highest real growth rate (31 percent), followed by manufacturing, trade and construction (up by 23, 21 and 16 percent yoy, respectively). Mining output continued to show contraction (1.4 percent yoy) following a high base in 2021. The slowdown in mining activities was mostly driven by the closure of the Teghut mine in March this year and lower activity in mining due to the introduction of a new export state duty in September 2021. Among manufacturing sub-industries, growth was driven by yoy increases in the production of food (up by 8 percent), alcoholic beverages (12 percent), non-metallic minerals (2.7 times), and textiles (12 percent). On the demand side, growth was mainly buoyed by private consumption, with a 34 percent increase in net money transfers from abroad and a double-digit increase in the average real wage, the latter driven by a large increase in ICT sector wages as some Russian specialists relocated to Armenia.

After peaking in June, the number of apartments transacted in Yerevan declined in July by 21 percent (mom). It was also lower by 12 percent compared to July last year. The value of apartments in central Yerevan remained almost flat in July (mom) but 19 percent higher than last year (Figure 5).

Inflation slightly decelerated in August for the second consecutive month since February. Year-on-year inflation eased from 9.3 percent in July to 9.1 percent in August. The deceleration was driven by a slowdown in inflation of food and transport services, following an easing in international prices. The CBA raised interest rates by 50 basis points in its September 13th Board meeting, to 10 percent.

In July, for the first time in this year, export growth was faster than import growth. Exports grew by 82 percent (yoy) in nominal terms while imports grew by 59 percent. However, due to a larger import base, the trade balance deteriorated by 19 percent (yoy) in July. Over half of the growth in exports seen in July was due to a significant increase in exports of precious and semi-precious stones and machines, equipment, and devices, which grew by 2.7 and 11 times (yoy), respectively. Imports of machinery also showed a significant increase (2.5 times), probably driven by re-exports, which have picked up since May 2022, with Russia often as the final destination. Exports of agricultural goods and ready food products also grew by 81 and 45 percent, respectively, and contributed to total export growth. Over 60 percent of export growth in July was due to 2.5 times (yoy) increase in exports to Russia. Cumulatively, both exports and imports picked up by 44 and 50 percent (yoy), respectively, through July. This led to a widening of the trade deficit by 60 percent (yoy), which will be partly compensated by a doubling in the number of tourists and an increase in net money transfers.

The dram (AMD) depreciated somewhat in early September, while remaining stronger than a year ago. The AMD was relatively stable against the USD in August. However, after the escalation of tensions at the border with Azerbaijan in mid-September, it depreciated by 3 percent as of 20th September. Nonetheless, it remained 14 percent stronger than the USD (yoy). Meanwhile, the AMD against the ruble (RUB) was about 5 percent weaker than on September 20, 2021. Reserves added up to USD 3.5 billion at the end of July, providing 4.7 months of import cover.

The budget registered a deficit of AMD 10.5 billion in July. Tax revenues grew by 30 percent (yoy) in nominal terms, mostly due to increases in VAT, customs duty, and stamp duties in July (up by 24, 133, and 169 percent, respectively). Expenditures remained flat in nominal terms, while capital expenditures grew by 38 percent (yoy). Lower recurrent spending (-3.4 percent, yoy) resulted from lower interest payments thanks to the appreciation of the dram and a decline in social benefits as support to households impacted by the 2020 Nagorno-Karabakh war was discontinued. Cumulatively, the budget remained in surplus in the year through July, at AMD 62 billion (0.8 percent of annual projected GDP) compared to an initial planned annual deficit of 3.1 percent of GDP. Government bonds net issuances overperformed the plan by over 50 percent, leading to a buildup in treasury deposits.

Banking sector intermediation indicators show a slight growth acceleration in July. Credits and deposits adjusted for FX rates increased by 2 and 4 percent (mom) in nominal terms, respectively. Credit growth was mostly related to expansion in credit to the construction sector and mortgage loans. Financial stability indicators remained sound, with the banking system highly capitalized, liquid, and experiencing increasing profitability.
Figure 1. Economic activity continued to expand
(Economic Activity Index, yoy change, in %)

Figure 2. Inflation decelerated for the second consecutive month
(CPI Inflation, yoy change, in %)

Figure 3. The trade deficit widened further
(in USD million)

Figure 4. The budget remained in surplus during January-July as against a planned deficit
(in AMD billion)

Figure 5. Transactions of apartments in Yerevan slowed down in July
(ths. AMD, per sq meter)

Figure 6: The dram remained relatively stable in August vis-à-vis the USD, EUR, and RUB, before slight depreciation in mid-September
(Index: March 2, 2020 = 100)