Growth eased slightly in April, to 12 percent (yoy).
Headline inflation continues to drop sharply and reached 1.3 percent in May 2023.
Export and import growth remained exceptionally high.
The dram was almost flat against the USD but appreciated against other currencies.
The budget registered a significant surplus of AMD 109 billion in April, mostly due to one-off factors.
Credit and deposit growth eased in April (mom).

The Economic Activity Index showed slightly decelerated growth in April of 12 percent (yoy) in real terms compared to 14 percent in March. However, cumulative growth remained at 12.2 percent (yoy) for the first four months of 2023. The high pace of growth continued in April in all sectors except for industry, which contracted by 0.8 percent (yoy) driven by a 6.2 percent decline in mining output. Manufacturing growth was also modest at 0.6 percent, compared to 10.6 percent in March, mostly due to a fading of the low base effect last year. Trade, non-trade services, and construction continued to grow at high rates: 29, 28, and 19 percent (yoy), respectively (Figure 1).

On the demand side, the greatest contribution to the 12.1 percent GDP growth in Q1 2023 came from an increase in net exports. Real exports of goods and services grew by 72 percent and outpaced the 49 percent real growth of import of goods and services in Q1. This was followed by 54 percent growth in private consumption, fueled by a 16 percent (yoy) increase in average real wages and a three-fold increase in net money transfers. Government consumption and investment also grew by 13 and 8 percent (yoy), respectively.

Net money transfers from abroad rebounded and tripled in April, after a year-on-year contraction in March, mostly due to lower outflows. In April 2023, money transfer inflows were 4 percent higher (mom) at USD 462 million, while money transfer outflows were 31 percent lower (mom) at USD 296 million (Figure 2).

Despite a significant reduction in rental activities and transactions, real estate prices kept rising, albeit at a slightly slower pace. The number of transacted and rented apartments in Yerevan in April contracted by 44 and 43 percent (yoy), respectively, while apartment prices in central Yerevan remained 11 percent higher (yoy).

Inflation continued to decline sharply, reaching 1.3 percent (yoy) in May 2023 (Figure 3). As a result, average inflation over the first five months of the year declined to 5.2 percent. While inflation in May slowed across product groups, food and transport prices actually declined by about 2 and 3 percent (yoy), respectively. This decline resulted from the high base effect last year as well as tight international financial conditions, which contributed to weaker inflationary pressures from abroad.

Exports and imports of goods continued to grow at exceptionally high rates. For the first time this year, imports (85 percent growth, yoy) slightly outpaced exports (81 percent), with the trade deficit doubling in April as a result (yoy). While exports of precious stones, transport vehicles, and machinery increased 3-, 8-, and 11-fold, respectively, other commodity groups such as products of animal and vegetable origins, oils, and minerals contracted. On the import side, except for declines in imports of products of animal origin, oils, and ready food products, other commodity groups grew, with precious stones registering the highest growth. Cumulatively exports to Russia increased 3.8-fold in the first four months of the year (yoy). The share of exports to Russia increased to around 49 percent during Jan–April of this year, compared to 27 percent in Jan–April 2022.

In May the dram (AMD) remained almost unchanged against the USD but appreciated against other currencies. The AMD strengthened against the ruble (RUB), euro (EUR), and Georgian lari (GEL) by 1.6, 2.8, and 4.1 percent, respectively (Figure 4). International reserves increased by USD 112 million in May 2023, reaching USD 3.7 billion (19 percent higher than the reserves in the same month of the previous year). Import cover increased slightly to 3.9 months in May from 3.8 months at end-April (Figure 5).

The budget recorded a significant surplus of AMD 109 billion in April, driven by a 28 percent (yoy) increase in tax revenue collection and 17 percent lower current expenditures. These trends owed to one-off factors. Extraordinary higher-profit tax collection in April (up by 63 percent) explains most of the tax revenue increase. This resulted from higher business profits in 2022 and the deadline for profit tax payment in April 2023. Lower current expenditures are explained by low domestic interest payments in April as a sizeable interest payment with an April 29 due date fell on a non-working day and was paid on May 2. Capital spending increased by 50 percent in April (yoy), mostly due to increases in defense spending.

Banking credit and deposits were almost flat in April (mom), while banks’ profitability declined (mom). Adjusted for the exchange rate, credit and deposits increased by 0.5 and 1 percent, respectively, in April (mom). Compared to April of last year, they were 18 and 46 percent higher, respectively. Capital adequacy and non-performing loans ratios remained sound (at 20.2 and 2.5 percent, respectively).
Figure 1. Growth remains strong, except in industry
(Economic Activity Index, yoy change, %)

Source: Statistical Committee of the Republic of Armenia

Figure 2. Net money transfers rebounded in April thanks to lower outflows
(USD thousand)

Source: Central Bank of Armenia (CBA)

Figure 3. Headline inflation continued to drop sharply in May
(CPI inflation, yoy change, %)

Source: CBA

Figure 4. The AMD was flat against the USD but appreciated against other currencies
(Index: March 2, 2020 = 100)

Source: CBA

Figure 5. International reserves increased slightly in May
(USD million)

Source: CBA

Figure 6. The significant budget surplus in April contributed to increased cumulative surplus
(AMD billion)

Source: Ministry of Finance