

- Growth soared in August to 10.9 percent (yoy), driven by services.
- Higher transport prices resulted in slight inflation in August (0.1 percent).
- Merchandise trade slowed, with exports to Russia declining by 20 percent (mom).
- The budget recorded an AMD 25 billion deficit in August, while the cumulative balance remained in surplus (0.8 percent of annual GDP).
- The Nagorno-Karabakh conflict and ensuing refugee influx resulted in a temporary depreciation of the AMD.

**Growth in economic activity soared to 10.9 percent in August (yoy, in real terms), compared to 6 percent (yoy) in July.** This was primarily driven by the non-trade services sector, which experienced a sharp increase in growth, from 5.8 percent in July (yoy) to 13.8 percent (yoy) in August. Growth in the domestic trade sector accelerated from 17.8 percent in July (yoy) to 23.5 percent in August (yoy) (Figure 1). However, industrial output contracted further (from -2.4 percent in July to -3.7 percent in August, yoy) due to a drop of about 10 percent (yoy) in the manufacturing sector, mainly from contraction in production of food and alcoholic beverages and a slow pace of growth in the mining sector (2.8 percent, yoy). Construction growth eased slightly, while remaining high at 17.5 percent (yoy). Cumulative growth in the first eight months of the year reached 10.4 percent (yoy).

**Money transfer inflows and outflows rose significantly in August compared to July, resulting in 52 percent higher net inflows (mom)** (Figure 2). Nonetheless, the net inflow of money transfers in August was 30 percent lower compared to the same period of last year. The reason for this contraction was a 74 percent higher outflow (including a doubling of outflows to Russia from a low base). In August, most money transfers were with Russia, accounting for 66.2 percent of inflows and 20 percent of outflows. The remaining outflows have been directed to the USA, Western Europe, and other countries.

**Price deflation, at 0.2 percent in August, turned to a 0.1 percent inflation in September (yoy).** As a result, average inflation further decreased to 2.8 percent, significantly below the target of 4 percent (Figure 3). The main factor for the slowdown in average inflation was deflation in food prices, which continued in September (yoy), although the pace has been moderating recently. Only transport prices showed increased inflation in September, to 1.3 percent (yoy). The policy rate stayed at 9.75 percent.

**External trade growth moderated in August.** Imports and exports grew at 12 and 6 percent, respectively, in August (yoy), compared to 20 and 18 percent in July, (yoy). Top exports were precious stones (up 64

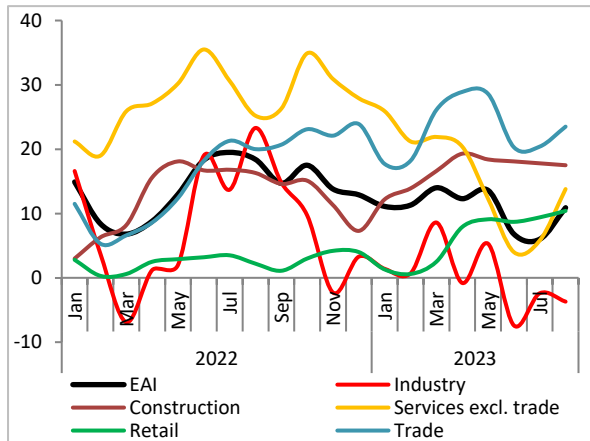
percent) and minerals (up 12 percent), but several export sectors experienced a contraction, such as ready-food products and machinery (an important re-export item in previous months). Top imports were transport means (up 67 percent) and textile products (up 63 percent). Exports to Russia decreased by 20 percent (mom), whereas overall imports from Russia increased by 17.8 percent (mom). Over the January-August period, exports and imports grew cumulatively by 51.8 percent and 53.8 percent, respectively.

**The AMD was temporarily impacted by the September 19 attack on Nagorno-Karabakh, the subsequent refugee crisis, and general uncertainty.** The AMD/USD exchange rate had depreciated 11 percent by October 4 before starting to appreciate again supported by central bank intervention. In mid-October, the exchange rate stood at around AMD 400/USD, just 0.6 percent stronger (yoy) (Figure 4). In September, international reserves decreased by USD 252 million, to about USD 4 billion, equivalent to 3.3 months of import cover (Figure 5).

**The budget recorded an AMD 25 billion deficit in August.** Total revenues and grants grew by 8.5 percent in August (yoy), while expenditures increased by 18 percent. Current expenditures were higher by 14.5 percent (yoy) in August, mostly due to a 25.6 percent (yoy) increase in social allowances and pensions. In the first eight months of 2023, revenues increased by 14.5 percent (yoy), owing to large collections in VAT, and income and profit taxes, while expenditures grew by 14 percent (yoy), resulting in a surplus of AMD 72 billion (0.8 percent of annual projected GDP). Expenditures are bound to increase in the remaining months of the year, owing to the acceleration in current spending to address the refugee crisis following the sudden inflow of ethnic Armenians from Nagorno-Karabakh (about 3.4 percent of the country's population).

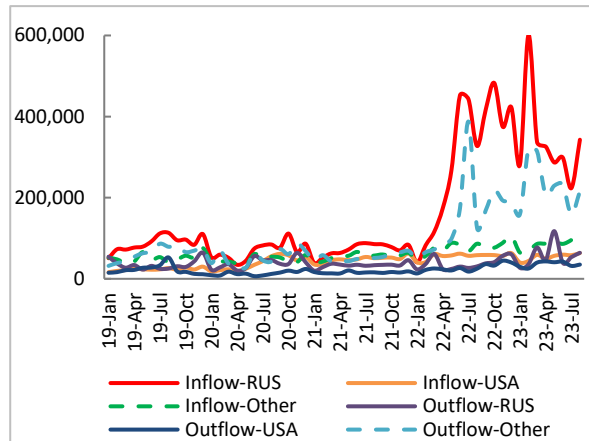
**Financial indicators remained sound, registering marginal changes in capital adequacy and profitability.** The capital adequacy ratio increased marginally by 0.1 percent (mom), to 20.2, while the ratio of non-performing loans (NPLs) marginally decreased from 2.9 in July to 2.8 percent in August. Return to assets also increased slightly from 3 percent in July to 3.1 percent in August. In August, banking credits and deposits grew by 1.6 percent and 2.1 percent (mom), respectively, both in nominal terms, and driven mostly by increases in AMD-denominated credit and deposits that would contribute to de-dollarization.

**Figure 1. Economic activities in most sectors accelerated, while the industry sector contracted**  
(Economic Activity Index, yoy change, %)



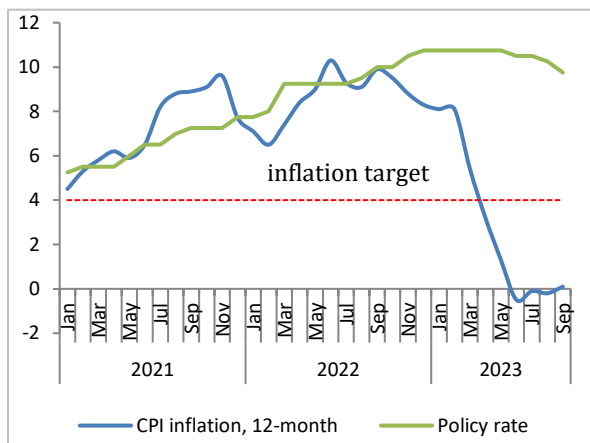
Source: Statistical Committee of RA

**Figure 2. Gross money transfer inflows and outflows surged in August compared to July**  
(USD thousand)



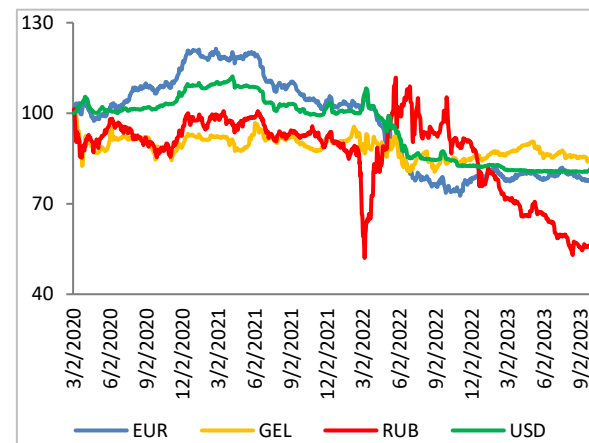
Source: CBA

**Figure 3. Price deflation turned to low inflation in September**  
(CPI inflation, yoy change, %)



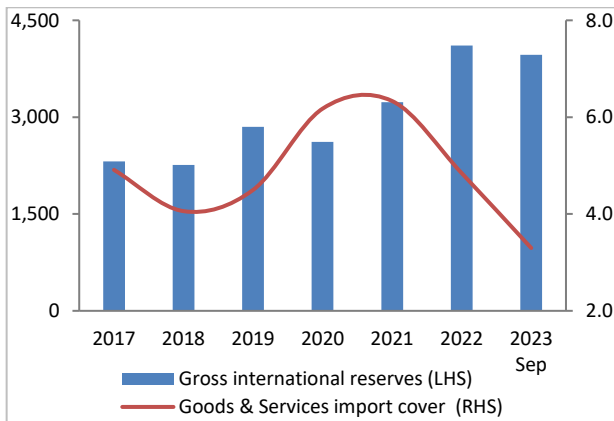
Source: CBA

**Figure 4: AMD under pressure due to the attack on Nagorno-Karabakh and refugee crisis**  
(Index: March 2, 2020 = 100)



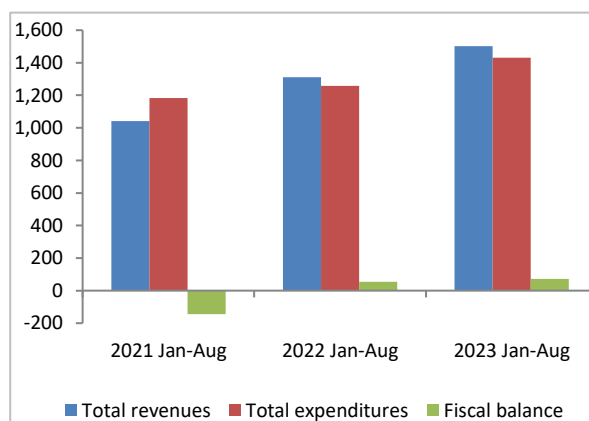
Source: CBA

**Figure 5. International reserves decreased in September but are still relatively high**  
(USD million) (Months of imports)



Source: CBA

**Figure 6. The budget balance remained in surplus through August 2023**  
(AMD billion)



Source: MoF