WORLD BANK GROUP
Macroeconomics, Trade & Investment

- *Growth continued to decelerate, as the economy expanded by 6 percent in July (yoy), compared to 11 percent average growth in the first half of 2023.*
- *Prices registered a 0.2 percent deflation in August, driven mostly by falling food prices.*
- *Merchandise exports and imports expanded at a double-digit rate, driven by trade re-routing.*
- *The budget turned to deficit in July, with flat revenues (yoy) and 87 percent higher capital expenditures (yoy).*
- *Credits and deposits grew slowly, and financial indicators remained sound.*

Economic activity growth in July eased to 6 percent (yoy, in real terms), compared to 6.8 percent (yoy) in June. A contraction of industrial output continued to drag down growth, although the decline in July (2.4 percent, yoy) was smaller than in June (7.4 percent, yoy), as mining activity recovered somewhat in July (2.9 percent growth) following several months of contraction. Construction growth eased slightly, from 18.1 percent in June to 17.8 percent in July (yoy). However, construction still registered the highest growth rate after trade, which expanded by 20.4 percent in July (yoy) (Figure 1). The services sector (excluding trade) grew by 5.8 percent (yoy). Cumulative growth slowed from 11.4 percent (yoy) in H1 2023 to 10.4 percent (yoy) in January-July 2023, with trade recording the strongest growth (23 percent) and industry the lowest (0.5 percent).

On the demand side, growth in H1 2023 was mostly driven by private consumption and investment. This was fueled by an increase in real wages of about 16 percent and an increase in the employment rate. Net exports, however, contributed negatively to the 10.5 percent real growth, as import growth exceeded that of exports.

In July, money transfer inflows from Russia almost halved compared to July 2022, accompanied by a doubling of outflows to Russia from a low base. However, total net money transfers were only 2 percent lower (yoy) due to exceptionally low net inflows in July of 2022. While money transfer inflows and outflows both show significant fluctuation, the dominant trend highlights a reduction in inflows and higher outflows to Russia (Figure 2).

Prices recorded minor deflation (0.2 percent) in August (yoy), bringing average inflation through August down to 3.1 percent (Figure 3). The decline in the overall CPI in August was mainly due to deflation in food prices (4 percent decline, yoy) and communication prices (0.5 percent decline). On the other hand, transport prices picked up slightly (0.7 percent) after three consecutive months of deflation. In response, the Central Bank of Armenia (CBA), in its September 12 board meeting, reduced the policy rate by 50 bps, to 9.75 percent.

Exports and imports of goods continued to experience double-digit monthly growth rates, while moderating compared to the first few months of 2023. Export and import of goods grew by 16 and 20 percent (yoy), respectively, in July, driven by re-exports of machinery and vehicles. Besides these items, some of Armenia's main exports contracted. Copper and ready food product exports decreased by 10 and 8 percent in July, respectively, in nominal terms. Cumulatively, during January-July 2023, exports and imports grew by 62 and 63 percent (yoy), respectively, resulting in a 64 percent (yoy) deteriorated trade balance.

The dram exchange rate was stable against the USD and EUR through August and the first half of September but continued to strengthen against the RUB. As of September 15, the AMD had strengthened by 42 percent compared to the RUB (yoy) (Figure 4). International reserves increased by USD 94 million in August, keeping reserves at a historically high level of USD 4.2 billion, equivalent to 3.5 months of import cover (Figure 5).

In July, the budget turned to an AMD 38 billion deficit, 3.6 times the deficit recorded in July 2022. Total revenues were flat compared to July of last year, while expenditures were 14 percent higher (yoy), mostly driven by 87 percent higher capital expenditures (including defense). Current expenditures were also higher in July by 7 percent (yoy), mostly due to a 13 percent (yoy) increase in social protection spending. Two-thirds of July's deficit was financed by foreign sources. Cumulatively, during January-July 2023 the budget still registered a surplus (AMD 96 billion) despite the budget plan having envisaged a deficit of more than AMD 100 billion. Revenues in the first seven months of 2023 increased by 15 percent (yoy), driven by a higher collection in VAT, profit, and income taxes. In the same period, current and capital expenditures increased by 11 and 27 percent (yoy), respectively.

Financial indicators remained sound, with a slight increase in profitability in July and mild growth in banking credits and deposits. Capital adequacy ratios remained sound at 20.1 percent. The ratio of non-performing loans remained unchanged at 2.85 percent in July, while profitability (return on assets) increased from 2.74 percent in June to 2.96 percent in July. Banking credits in 2023 continue to grow faster than deposits, with credits growing by 2.4 percent (mom) in July, compared with 1 percent (mom) growth in deposits, both in nominal terms.

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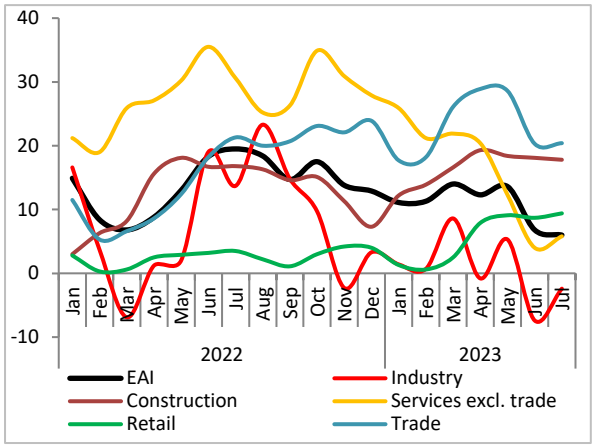
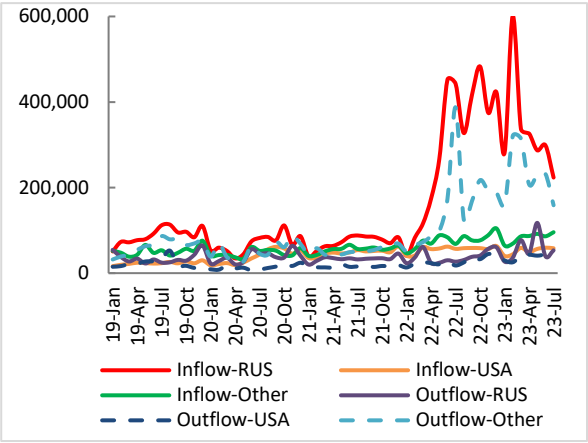
Figure 1. Industrial output contracted in July, while other activities grew
(Economic Activity Index, yoy change, %)



Source: Statistical Committee of the Republic of Armenia

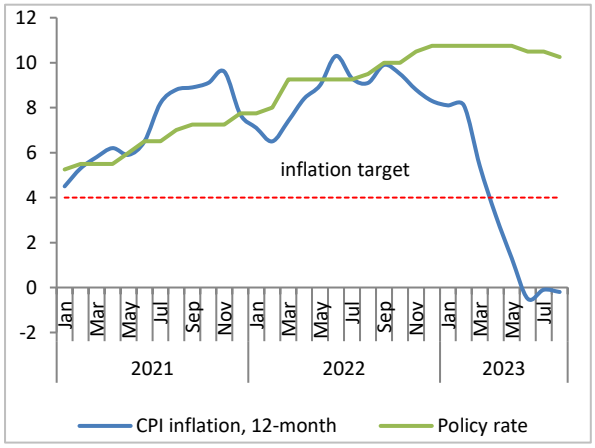
Figure 2. Gross money transfer inflows from Russia continued to decline
(USD thousand)



Source: CBA

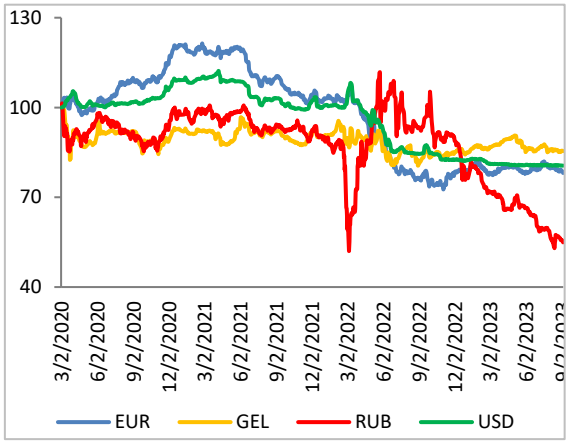
Figure 3. A mild deflation continued in July

(CPI inflation, yoy change, %)



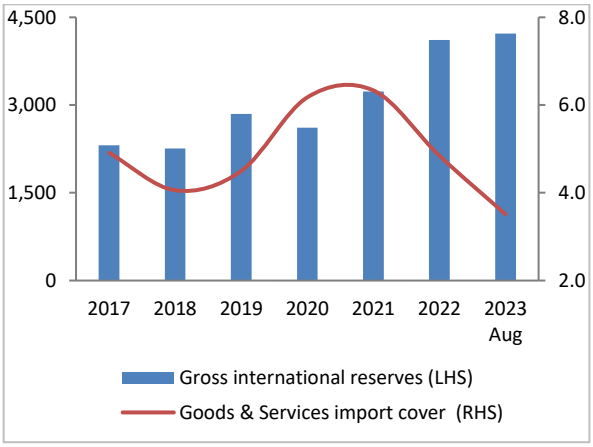
Source: CBA

Figure 4: The AMD remained stable against the USD but strengthened in relation to the RUB
(Index: March 2, 2020 = 100)



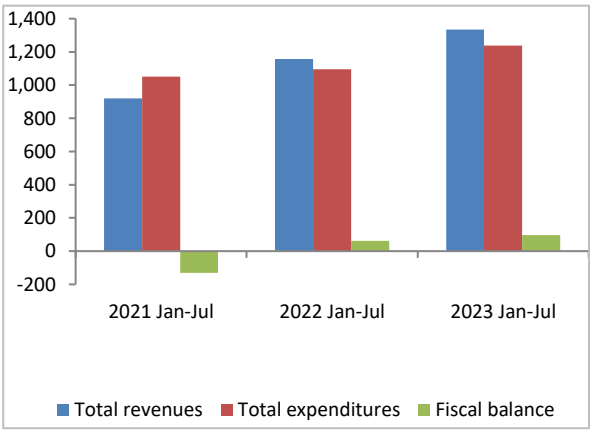
Source: CBA

Figure 5. International reserves increased in August and remained at a historically high level
(USD million) (months of imports)



Source: CBA

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



Source: Ministry of Finance

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