The economy grew by 5.8 percent year on year (yoy) in 2021 and is expected to recover to pre-COVID output levels by mid-2022.

New COVID-19 infections increased sharply in January while daily deaths remained low.

Inflation fell to 7.1 percent in January and monetary conditions tightened further.

Exports grew significantly faster than imports and the trade deficit widened in December.

Budget deficit widened in December but cumulatively, the budget deficit in 2021 was below revised budget plans.

Banking sector intermediation continued to be sluggish in December while dollarization continued to decline.

### The Economic Activity Index (EAI) grew robustly by 9.9 percent yoy in December.
This was slower than in November. Robust yoy growth in November and December reflected the low base of activity at the end of 2020 following the ceasefire and escalation of political instability. Excepting agriculture, all other sectors grew robustly: services (excluding trade) by 12.3 percent yoy, construction by 9 percent yoy and industry by 8 percent yoy. Industrial output was supported by manufacturing (9 percent yoy growth) and electricity generation (20 percent yoy growth), while being weighed down by mining (5 percent yoy contraction). Trade growth slowed in December (3.6 percent yoy) when compared to November (16 percent yoy). On the demand side, growth was supported by consumption, fueled by a 6 percent real increase in private sector salaries in December and 18 percent yoy increase in net inflow of transfers, largely from the USA.

### The economic activity index grew by 5.8 percent yoy in 2021.
This represented a recovery from the 7.5 yoy contraction in 2020, but output is not expected to reach pre-COVID levels until mid-2022. Excepting agriculture and mining, which both contracted by 1 percent yoy, all other sectors registered strong performance. Construction and services each grew by 7.5 percent yoy, while manufacturing expanded at a slower pace (3.4 percent yoy).

### New COVID-19 infections increased sharply in January due to the spread of the Omicron variant.
Reported average daily cases increased from 68 in early January to 3360 at the first week of February, and the positivity rate increased sharply to 42 percent in early February from 2 percent in early January. Average daily deaths also increased but remained low, at an average of 6 in the first week of February as compared to 3 in the first week of January. The pace of vaccination slowed in January, and, as of February 6th, 39 percent of the adult population was fully vaccinated with another 9 percent receiving the first dose.

Inflation declined to 7.1 percent yoy in January from 7.7 percent yoy in December. This represented the second straight month of slowing inflation. The slowdown was driven by slowing food inflation, which fell from 13 percent yoy in December to 12 percent yoy in January. Nevertheless, two-thirds of overall inflation is still driven by higher food prices. The price of other items in the consumption basket also increased significantly, in particular, clothing and footwear (12 percent yoy), recreation and culture (10 percent yoy), and alcoholic beverages and cigarettes (9 percent yoy). Inflation remains above the Central Bank’s target range of 4+/− 1.5 percent.

In response to inflationary pressures and expected increases in regulated prices (water, electricity and gas), the Central Bank increased the refinancing rate by 0.25 percentage point to 8 percent on February 1st.

### The trade deficit widened in December.
Imports grew sharply (28 percent yoy) driven by increase in import of minerals, vehicles and equipment. Exports also grew, but at a slower rate (14 percent yoy), supported by a sharp increase (42 percent yoy) in the value of copper exports. As imports outweighed exports, the trade deficit widened by 44 percent yoy in December. As at end-year 2021, the trade deficit reached 17 percent of GDP as compared to 16 percent of GDP in 2020.

### The dram remained relatively stable in January.
The dram appreciated marginally against the USD in January and reached pre-COVID levels on February 7th. International reserves fell marginally by USD 77 million in January, but at above USD 3 billion still provided a healthy 6.5 months of import cover.

### The budget deficit widened sharply in December by AMD 81 billion.
This is in line with the high deficit (AMD 91 billion) recorded in December 2020. Tax revenues increased by 25 percent yoy driven by VAT, state duties and income tax, offsetting a yoy decline in transfers from a high base. Total expenditures increased by 2 percent yoy, from a high base in December 2020, reflecting a 14 percent yoy increase in capital expenditures even as current expenditures remained flat in yoy terms. Cumulatively, in 2021, revenues grew by 8 percent yoy and expenditures by 5 percent yoy, resulting in a AMD 304 billion deficit (about 4.4 percent of GDP). The deficit is 26 percent below the revised budget plan.

### Banking sector intermediation continued to be sluggish in December.
Deposits grew by 1.5 percent month on month (mom) and credit contracted by 0.5 percent mom (both exchange rate adjusted). Dollarization of credits and deposits fell by 6 percentage points and reached 44 percent and 50 percent, respectively at the end of 2021.

Prepared by: Armineh Manookian, Economist, amanookian@worldbank.org
**Figure 1.** Economic growth remained robust in December but slowed compared to November. (Economic activity index, y-o-y change, in %)

**Figure 2.** Inflation continued to decline in January but remained above target. (CPI inflation, y-o-y change, in %)

**Figure 3.** Imports grew significantly faster than exports and the trade deficit widened. (in USD million)

**Figure 4.** Deficit widened in December but remained below budget in 2021. (in AMD billion)

**Figure 5.** International reserves fell marginally in January 2022, but remained comfortable. (in USD million) (months)

**Figure 6.** The dram remained relatively stable in January. (index, March 2, 2020=100)