

- *Growth in economic activity moderated to 9.5 percent in December 2023.*
- *Production and export of jewelry continued to record high growth rates in December 2023.*
- *Prices declined by 0.9 percent in January (yoy).*
- *The exchange rate against the USD has remained relatively stable since early 2024.*
- *The large deficit in December accounted for two thirds of the total deficit in 2023.*
- *Financial sector indicators remain sound.*

Growth in economic activity moderated to 9.5 percent (yoy, in real terms) in December 2023, from 11.2 percent (yoy) in November 2023 (Figure 1). In December, growth in industrial output eased to 20 percent (yoy), from 23.8 percent (yoy) in November, primarily owing to a slowdown in growth in manufacturing as well as electricity and energy production. However, manufacturing still grew by 28 percent, mostly due to a 9.4-fold increase (yoy) in gold and jewelry production, which continued to soar, supported by investments in this sector and diversification in import markets for raw materials. Construction growth remained stable at 11.5 percent (yoy) in December. Trade continued to grow at a fast pace, at 36 percent (yoy) in December, higher than 32 percent (yoy) in November. Services growth (excluding trade) increased to 3.4 percent (yoy) from 2.4 percent (yoy) the previous month.

In 2023, economic activity grew by 9.4 percent (yoy), surpassing expectations. On the demand side, private consumption was fueled by a 12 percent increase in real average wages, improvements in employment, and cash transfers provided by the Government to displaced population in the last quarter of the year.

Net money transfers (both commercial and non-commercial) dropped by 47.2 percent (yoy) in December but were 4 times higher than the previous month. Money transfer inflows contracted 19.4 percent (yoy), driven by a 30 percent drop in inflows from Russia (Figure 2). On the other hand, outflows increased by 9.6 percent (yoy), with Monaco, Russia, the UAE, and the USA as the main destinations.

Prices registered 0.9 percent deflation in January 2024 (yoy) driven by 5.8 percent (yoy) deflation in food prices. The Central Bank of Armenia (CBA) continued easing the monetary stance by reducing the policy rate by 50 basis points (to 8.75 percent) in its January 30th Board session (Figure 3).

Export growth remained exceptionally high owing to high exports of gold and jewelry. Exports of goods

grew 137 percent (yoy) in December 2023. This was driven by an 11-fold increase in exports of precious and semi-precious stones, whose share of total exports rose from 17 percent in December 2022 to 73.2 percent in December 2023. Exports of footwear, textiles, leather, and fur surged by 183 percent, 86 percent, and 74 percent, respectively. The United Arab Emirates is now the leading export destination, with a 15-fold rise in December exports (yoy). Imports increased by 34 percent, mainly driven by precious and semi-precious stones. Cumulatively in 2023, exports and imports grew 55 percent and 40 percent, respectively.

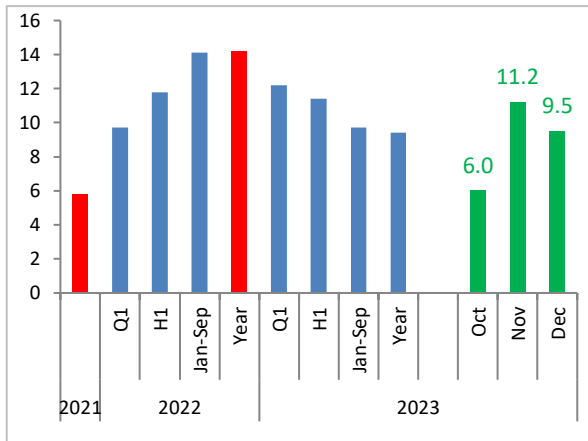
The exchange rate against the USD has been relatively stable since the beginning of 2024 while remaining about 2 percent weaker in yoy terms in early February (Figure 4). International reserves stood at USD 3.6 billion at end-January 2024, similar to the end-2023 level (Figure 5).

A budget deficit of AMD 126 billion was recorded in December 2023, accounting for two thirds of the total 2023 deficit of AMD 189 billion. Tax revenues rose by 25.2 percent (yoy) in December driven by increases across the board. Profit and other taxes grew by 57 percent and 2.6-fold (yoy), respectively, driven by robust economic activity. Official transfers surged by 254 percent (yoy), compensating for the previous months' underperformance in relation to project-linked grants. Expenditures expanded by 29 percent, driven by increases in capital expenditures (76 percent, yoy) primarily due to growth in spending on defense. The 16 percent growth in current expenditures (yoy) was led by a 35 percent increase in social allowances to address the needs of displaced persons. In 2023, the budget registered a cumulative deficit of 2 percent of GDP, which is expected to rise after including the portion of Nagorno-Karabakh¹ financial liabilities settled by the government. The deficit was overfinanced by domestic sources, with AMD 223 billion net amortization in external financing.

The financial system remained sound in December, with a slight deviation in profitability indicators. Loans and deposits grew by 1.9 and 1 percent (mom), respectively, both mostly driven by growth in dram-denominated funds. The capital adequacy ratio fell marginally to 19.9 percent in December from 20.1 percent in November, while the ratio of non-performing loans to total loans improved to 2.4 percent in December from 2.8 percent in the previous month. Return on assets, an indicator of the banking system's profitability, declined to 2.7 percent from 3.3 percent the previous month.

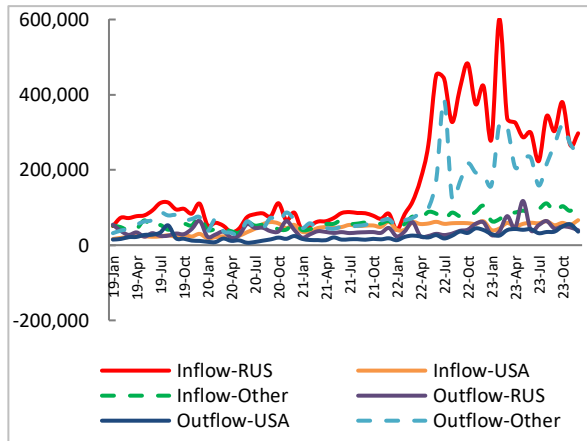
¹ The World Bank does not intend to make any judgment on the legal or other status of concerned territories or to prejudice the final determination of the parties' claims.

Figure 1. Growth in economic activity eased to 9.5 percent in December, still higher than expected
(Economic Activity Index, yoy change, %)



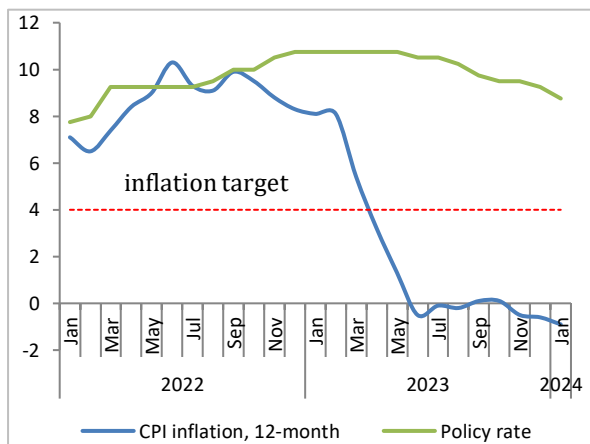
Source: Statistical Committee of RA

Figure 2. Net money transfers contracted in December 2023 compared to last year
(USD thousand)



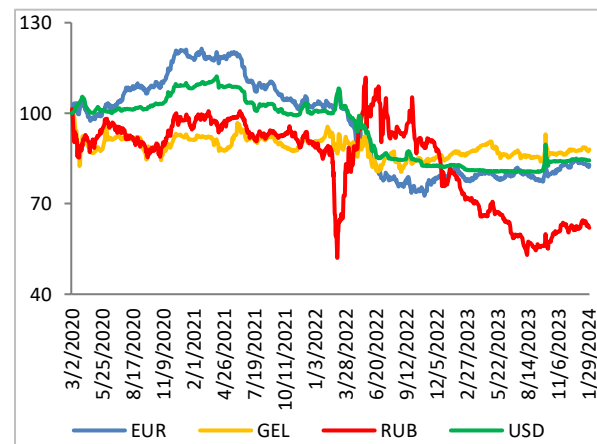
Source: CBA

Figure 3. Prices registered 0.9 percent deflation in January 2024
(CPI inflation, yoy change, %)



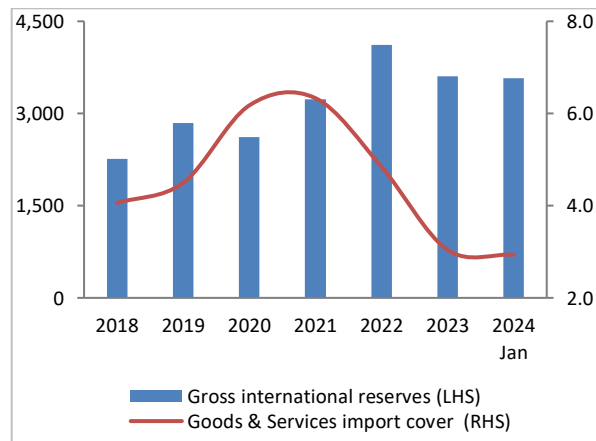
Source: CBA

Figure 4. Exchange rate against the USD has remained relatively stable so far in 2024
(Index: March 2, 2020 = 100)



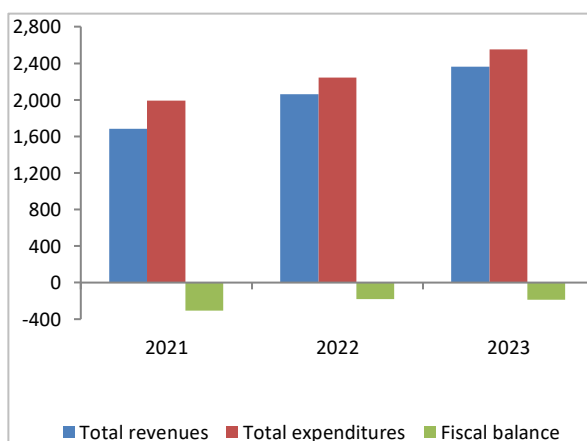
Source: CBA

Figure 5. International reserves were stable in January 2024 compared to end-last year
(USD million) (Months of imports)



Source: CBA

Figure 6. In 2023, the deficit was similar to the 2022 level
(AMD billion)



Source: MoF