Output surged by 23 percent year on year (yoy) in April, in part due to a low base of activity in April 2020 due to COVID-19 induced lockdowns.

COVID-19 infections have declined, but pace of vaccination remains slow.

Inflation moderated to 5.9 percent yoy in May, due to lower inflation in food prices.

The recovery of exports and imports strengthened in April.

Strong pick up in revenue collection moved the budget to surplus in April.

Banking sector intermediation remained sluggish in April, while profitability slumped.

The Armenian economy is recovering. GDP contracted by 3.3 percent yoy in Q1 2021, an improvement from 8.7 percent yoy contraction in the previous quarter. The contraction in private consumption narrowed to 3 percent yoy in Q1 2021, after a 14 percent contraction in 2020, due to removal of restrictions, improved sentiments following the tensions in 2020 and recovery in net transfers from abroad. Private consumption decline was offset by a 12 percent yoy increase in government consumption in Q1 2021. Despite a modest (4.2 percent yoy) pick up in investment in fixed assets, gross capital formation contracted 33 percent yoy, most likely reflecting declining inventories. Net exports contributed positively to GDP growth, with exports recovering faster than imports.

The recovery picked-up pace in April with the Economic Activity Index (EAI) growing by 23 percent yoy. The sharp expansion was driven by a low base, as April 2020 saw a full month lockdown, but it is important to note that the EAI exceeded April 2019 levels. All sectors represented in the EAI registered high double-digit growth rates, with construction leading the way (87 percent), followed by manufacturing (22 percent) which grew for the first time since February 2020. Services (excluding trade) and mining grew at more modest, but still robust growth rates, of 15 percent and 11 percent yoy, respectively. On a cumulative basis, the EAI turned to growth territory, expanding by 2.6 percent in the first four months of 2021.

The economic recovery is likely to have continued since, as COVID-19 infections declined. The mobility index recovered to 90 percent of pre-COVID levels by mid-April 2021 and remained at this level through early June. Tracked departure flights increased to 18 on average in early June, compared to 16 on average during May and 14 in April. COVID-19 infections continued to decline following a peak in mid-April, with daily infections falling steadily from a peak of over 1,000 cases per day in the second week of April to less than 100 per day in the first week of June, and daily test positivity falling from over 20 percent to 3 percent in the same period. The pace of vaccination has been slow with only 1.6 percent of population receiving at least one jab as of June 6.

Inflation moderated to 5.9 percent in May from, 6.2 percent in April. This still exceeded the target range of the Central Bank of Armenia. The decline was driven by a fall in food and non-alcoholic beverage prices (from 8.3 percent in April to 7.5 percent in May), even as price of transport, clothing and hospitality services continued to increase.

Goods foreign trade jumped by 48 percent in April. Exports grew sharply by 66 percent yoy, with half of the increase explained by higher export of minerals (copper) and precious stones. Imports grew by 39 percent yoy, supported by recovery in domestic demand. Cumulatively, in the first four months, exports and imports grew by 17 and 2 percent, respectively, implying an improvement in the trade balance (by 14 percent).

The dram was relatively stable in May. By June 6, the dram depreciated only marginally (by 0.3 percent) against the USD as compared to a month ago. This reflected the lower trade deficit, a slight rebound in tourist arrivals starting April and a three-fold increase in net transfers from abroad. However, tourism is still well below pre-COVID levels – in Q1 2021, tourist arrivals were 72 percent yoy lower than Q1 2020. International reserves increased slightly in May, and at USD 3 billion covered 7 months of import of goods.

The budget registered AMD 3 billion surplus in April, from a AMD 74 billion deficit in March. This brought the deficit in the first four months of 2021 to AMD 52 billion (0.8 percent of annual projected GDP). The surplus was driven by a sharp increase in revenues (21 percent yoy), with VAT collections registering a 26 percent yoy increase supported by the consumption recovery. Also, the receipt of profit tax liabilities deferred from 2020 (as a COVID response measure) accounted for half of the revenue increase. Expenditures grew by 5 percent yoy in April, from an already high base (April 2020 expenditures were up 40 percent yoy) with capital and current spending registering similar growth rates.

Banking sector intermediation was sluggish in April, with deterioration in profitability. Credit and deposits (adjusted for FX changes) remained flat in April on month-over-month basis but increased by 5 percent and 4 percent respectively in yoy terms. Non-performing loans declined for a second consecutive month, though at 7.1 percent remains rather elevated. Capital adequacy ratio remained sound at 16.8 percent, above the 12 percent minimum threshold. Profitability indicators declined as banks increased provisioning in response to the weakening of the portfolio.
Figure 1. Economic activity picked up sharply in April
(Economic activity index, yoy change, in %)

Source: Statistical Committee of RA

Figure 2. Inflation moderated in May, but remained above the CBA target range
(CPI inflation, y-o-y change, in %)

Source: CBA

Figure 3. With exports recovering faster than imports in 2021, the trade deficit narrowed
(in USD million)

Source: Statistical Committee of RA

Figure 4. Despite strong revenues in April, the budget remained in deficit for the first four months
(in AMD billion)

Source: MOF

Figure 5. International reserves were up slightly in May and provided 7 months of import cover
(in USD million)  (months)

Source: CBA

Figure 6: The dram remained stable against the USD in May
(index, March 2, 2020=100)

Source: CBA