- *Growth slowed to 5.3 percent (yoy) in September, due mostly to a sharp decline in services (excluding trade).*
- *Price inflation stabilized at 0.1 percent (yoy) in October.*
- *Export and import of goods grew by 10 percent and 6 percent (yoy), respectively, in September, mostly driven by precious stones and metals.*
- *The budget recorded a surplus of AMD 3 billion in September, following a deficit of AMD 25 billion in August.*
- *The financial system remained solid, with loans to "other sectors" showing significant increase.*

Economic activity growth slowed to 5.3 percent (yoy, in real terms) in September, compared to 10.9 percent (yoy) in August (Figure 1). Growth in services (excluding trade) decelerated to 4.6 percent in September after exceptional double-digit growth in August. Among services, transport declined by 25 percent (yoy), whereas communications grew by 8.7 percent. Although growth rates in the construction and trade sectors also eased, they remained robust at 21.8 percent and 15.7 percent (yoy), respectively. However, industrial output continued to contract (–4.3 percent yoy in September), due to an 8 percent (yoy) decline in manufacturing and shrinkage in the electricity and energy sub-sectors. This was somewhat compensated by slight growth in mining (1.3 percent, yoy). The economic activity index grew by 9.7 percent (yoy) in the January–September period.

Net money transfers by individuals fell by 69 percent (yoy) in September. Money transfer inflows shrank by 19 percent, whereas outflows increased by 43 percent (yoy), in September (Figure 2). The bulk of inflows (66.3 percent) were from Russia, whereas only 12.7 percent of outflows were to Russia.

Price inflation stabilized at 0.1 percent (yoy) in October. This caused average inflation to drop to 2.5 percent, well below the 4 percent target (Figure 3). Food and non-alcoholic beverages were the only product group that fell into deflation in October (3 percent, yoy) and contributed to a slowdown in headline inflation. In its October 31st session, the CBA Board eased the policy rate by 25 basis points to 9.5 percent, the fourth reduction in 2023.

Export growth exceeded that of imports in September. Exports grew by 9.6 percent (yoy) in September, up from 7 percent in August. It was driven by an increase in the export of precious and semi-precious stones (92 percent), non-precious metals (164 percent), and minerals (34 percent). The previous main contributors to export growth – i.e., re-export items such as means of transport and machinery – declined by 34 percent and 31 percent (yoy), respectively. Import growth fell from 13 percent in August to 5.6 percent in September. Top imports also included precious and semi-precious stones (up 149 percent) and, to a lesser extent, the import of means of transport (up 22 percent) and textile products (38 percent). Over the January–September period, exports and imports grew cumulatively by 44.8 percent and 46.4 percent respectively, resulting in a 49 percent deterioration in the balance of trade.

After temporary depreciation following the influx of Nagorno Karabakh (NK) displaced people, the AMD has stabilized. As of November 7, the AMD/USD exchange rate stood at AMD 402.7 to USD 1, which is 4 percent weaker compared to the pre-NK crisis and 1.7 percent weaker yoy (Figure 4). In October, international reserves fell for the second consecutive month, by USD 155 million, bringing reserves down to USD 3.8 billion, or 3.2 months of import cover (Figure 5).

The budget recorded a surplus of AMD 3 billion in September, following a deficit of AMD 25 billion in August. Total revenues and grants grew by 9.3 percent (yoy) in September, driven by growth in profit tax (up 43 percent), income tax (up 16 percent), and VAT (up 15 percent) yoy. However, expenditure grew more slowly (6.4 percent). Whereas capital expenditure expanded strongly (by 60 percent, yoy), partly due to low base effect, current expenditure contracted by 2 percent (yoy). In the first nine months of 2023, revenue and expenditure rose by 13.8 percent and 12.7 percent (yoy), respectively, resulting in a surplus of AMD 74 billion (0.8 percent of annual projected GDP), 45 percent higher than the surplus in the same period in 2022. The Government announced several cash transfer programs for displaced people from NK, including a one-time lump-sum transfer (AMD 100,000 per person); support for rent and utility payments for six-months (AMD 50,000 per person); and expense support for two months (AMD 50,000 per person). These are expected to be reflected in fiscal figures as of October 2023.

The financial system remained solid with loans and deposits growing at 2 percent and 0.6 percent (mom), respectively. The capital adequacy ratio marginally increased by 0.4 percent (mom) in September, and the ratio of non-performing loans to total loans increased from 2.8 percent in August to 3 percent in September. Return on assets also increased by 0.1 percentage points to 3.2 percent in September. Credit growth was mostly driven by an increase in AMD-denominated loans (up 2.2 percent, mom). Total increase in credit to residents was mostly driven by an increase in loans to the services and other unidentified sectors (up 9 percent and 86 percent mom, respectively).

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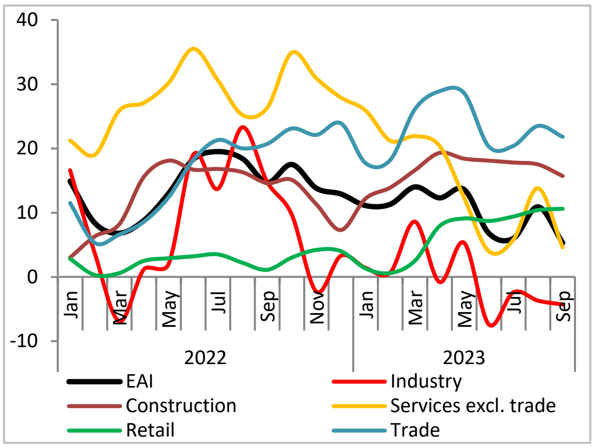
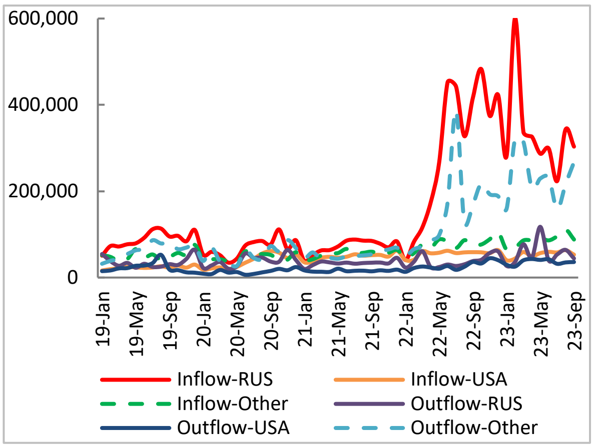
Figure 1. Economic activity halved in September, due to a fall in services (excluding trade)
(Economic Activity Index, yoy change, %)



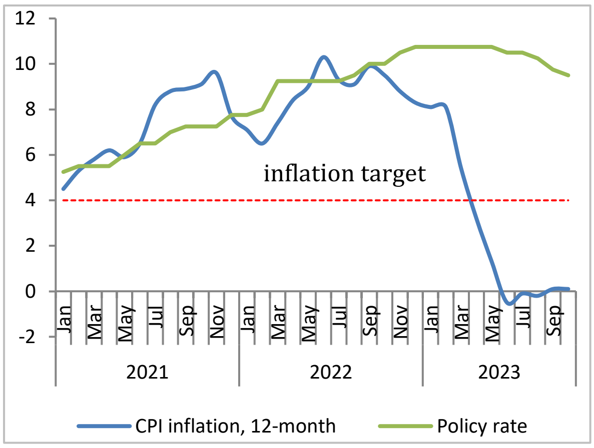
Source: Statistical Committee of RA

Figure 2. Money transfer inflows declined, while outflows surged, in September
(USD thousand)



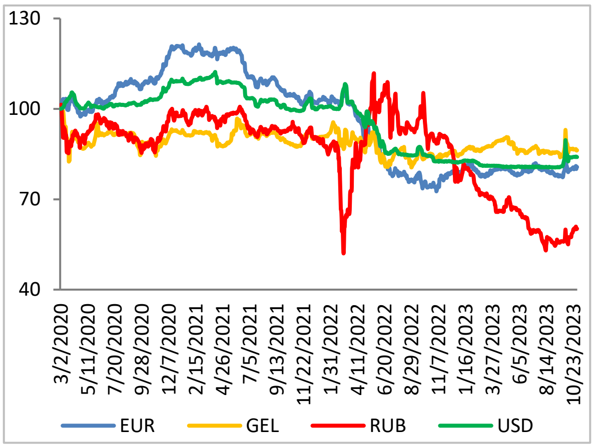
Source: CBA

Figure 3. Price inflation stabilized at 0.1 percent in October
(CPI inflation, yoy change, %)



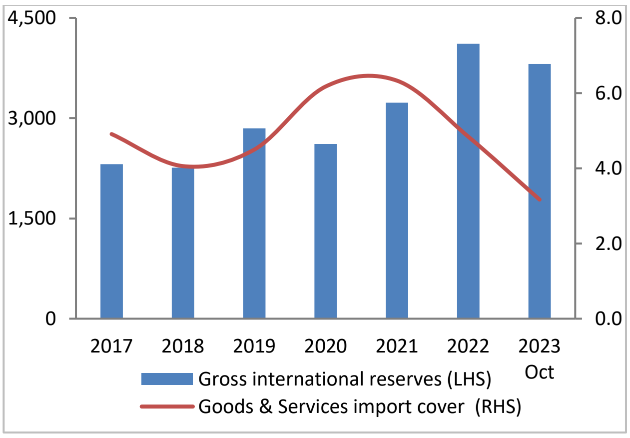
Source: CBA

Figure 4. The AMD stabilized in mid-October after a temporary depreciation
(Index: March 2, 2020 = 100)



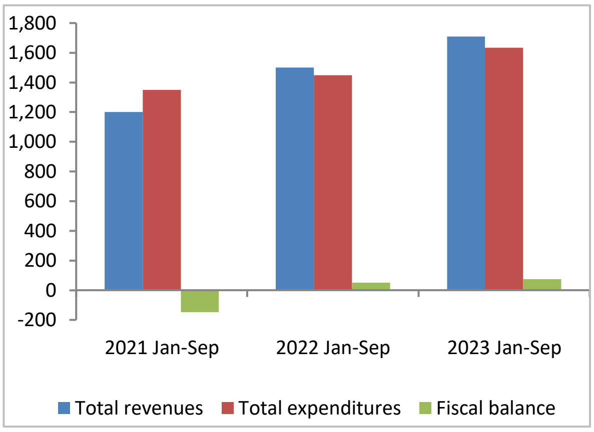
Source: CBA

Figure 5. International reserves continued to decrease in October
(USD million) (Months of imports)



Source: CBA

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



Source: MoF

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