The economy grew robustly by 11 percent yoy in May, but the pace of expansion was slower than in April. The pick-up in the Economic Activity Index (EAI) in May benefited from a rebound in services (up by more than 17 percent yoy) from a low base in May last year. Industry also recovered by 8 percent yoy with strong growth in mining (7 percent yoy), manufacturing (8 percent yoy) and higher output in electricity and water. Construction was the only sector which remained flat as compared to last year. On the demand side, consumption benefited from a modest increase in real wages and resilient remittances, while recovering export of tourism services offset moderating goods export growth.

Cumulatively, the EAI was up by 4.3 percent yoy in the first five months of 2021, prompting an upward revision to projected growth rates. High-frequency indicators suggest continuation of the recovery. The mobility index in June remained at above 90 percent of pre-COVID levels, the same as in May. Tracked departure flights increased to 20 on average in June, compared to 16 in May. The higher than anticipated growth in the year to May resulted in an upward revision of the annual GDP growth projection by the Government from 3.2 percent to 6 percent.

Still, the economic recovery faces downside risks from increase in COVID-19 infections amid a slow vaccination rollout. COVID-19 daily infections remained low as of early July but are showing an increasing trend. The 7-day average of daily infections increased to 114 cases per day in the first week of July from 73 cases per day in the first week of June. This is still well below the peak of 1,000 infections per day in mid-April. The pace of vaccination continues to slow, with only 1 percent of the population fully vaccinated and another 1.6 percent receiving one jab, as of July 11th.

After moderating in May, inflation picked up in June to 6.5 percent, above the Central Bank of Armenia (CBA) target of 4+/-1.5 percent. Higher inflation was driven by an increase in good prices (9 percent yoy increase) and transport prices (12 percent yoy increase). Higher import prices, up by 12.5 percent yoy, in response to recovering global demand and stretched supply chains also contributed. In response, on June 15th, the CBA increased the policy rate by 50 basis points to 6.5 percent, the highest level in the last five years.

Goods foreign trade continued to recover in May. Exports picked up by 37 percent yoy, with two-thirds of the increase driven by an increase in the value of exports of minerals due to higher prices of copper. Imports were up by 35 percent yoy, with a broad-based increase across most categories due to pick-up in domestic demand. In response, the trade deficit widened, yoy, for a second consecutive month in May. Cumulatively, in the first five months, exports and imports grew by 21 percent and 7 percent, respectively, implying an improvement in the trade balance (by 10 percent).

Despite a wider goods trade deficit, the dram strengthened in June. Since early June, the dram appreciated against the USD by 5 percent, supported by the increase in tourists, doubling of net inflow of foreign transfers and the easing of political tensions following the June 20 parliamentary elections. International reserves increased by USD 100 million in June to USD 3.1 billion and provided more than 7 months of goods import cover.

The budget registered AMD 23 billion deficit in May. This brought the deficit in the first five months of 2021 to AMD 75 billion (1.2 percent of annual projected GDP, compared to an annual target of 5.3 percent of GDP). The deficit in May 2021 was almost halved compared to its level a year ago reflecting strong revenue performance (27 percent yoy increase) driven by higher tax collection. Expenditures remained elevated (remaining flat in yoy terms but on a high base in May 2020) with high current expenditures driving the trend. Government debt edged up slightly to around 67 percent of projected GDP.

Banking sector intermediation remained sluggish in May, while profitability recovered. Credit contracted by 1.6 percent in May on mom basis, while deposits grew by 2 percent mom (both adjusted for FX changes). Dram and FX denominated deposits both grew by almost same rate (around 2 percent, mom). Credit and deposit dollarization declined marginally mom, and stand at around 49 and 53 percent, respectively. Deposit interest rates edged up slightly; however, loan interest rates declined, which could suggest greater competition in the market or more difficulties for riskier clients to access loans. Overall, the banking sector returned to profit in May. However, profits in the first five months of the year were halved compared to the same period a year earlier.
Figure 1. Economic recovery remained strong in May, but was slower than April (Economic activity index, y-o-y change, in %)

Source: Statistical Committee of RA

Figure 2. Inflation increased in June and deviated further from the target (CPI inflation, y-o-y change, in %)

Source: CBA

Figure 3. Trade deficit started to widen since April, but in cumulative base (Jan-May 2021) shows improvement, y-o-y (in USD million)

Source: Statistical Committee of RA

Figure 4. Revenue collection remains strong as the budget deficit remains below projected level (in AMD billion)

Source: Statistical Committee of RA

Figure 5. International reserves increased in June and provided more than 7 months of import cover (in USD million)

Source: Statistical Committee of RA

Figure 6. The dram appreciated in June (index, March 2, 2020=100)

Source: CBA