- *Economic growth accelerated further in June to 18.5 percent year-on-year (yoy)*
- *Inflation decelerated in July to 9.3 percent*
- *The trade deficit widened further driven by high import growth*
- *The Armenian dram (AMD) remained stable in July*
- *The budget was in surplus through June driven by higher revenue collection and lower than planned spending*
- *The banking sector continued to rebound, with sound financial indicators*

The real growth rate accelerated to 18.5 percent (yoy) in June from 13 percent (yoy) in May. This reflected a lower base in June 2021, when growth decelerated, coinciding with the snap election. Growth in June was broad-based. Non-trade services grew by 35.5 percent (yoy). Growth in industrial activity picked up sharply from 2 percent (yoy) in May to 19 percent (yoy) in June. This in turn reflected robust 34 percent (yoy) growth in manufacturing driven by production of manufactured foods, tobacco, and non-metallic minerals. However, mining output contracted by 3.3 percent (yoy) in June. Trade services growth picked up from 12.4 percent (yoy) in May to 18 percent (yoy) in June, while construction continued to expand at a robust rate of 17 percent (yoy) in June. On the demand side, growth was mainly driven by consumption, which was buoyed by a 10 percent (yoy) increase in real private sector wages and a more than 8-fold surge in net money transfers from Russia.

In the first half of 2022, cumulative growth reached 11.8 percent (yoy), higher than expectations. Given the strong economic performance, World Bank growth forecasts are expected to be upgraded during the next round of projections. Growth was broad-based, driven by services, the main contributor, followed by the construction sector. Agriculture was the only sector that contracted in the first half of the year, by 5.5 percent (yoy), driven by the weak performance of horticulture, which contracted by 8.8 percent (yoy), in contrast with the strong performance of the fishery sector, which grew by 26 percent (yoy).

Inflation decelerated in July for the first time since February. Year-on-year inflation eased from 10.3 percent in June to 9.3 percent in July. The deceleration in food and alcoholic beverage prices from 17 percent in June to 13.5 percent in July was the main contributor to the moderation in headline inflation. This in turn was driven by an easing in global food and commodity prices. Despite the deceleration, food and beverage prices still explained more than half of the July inflation. On August 2, the Board of the Central Bank of Armenia (CBA) increased the policy rate by 25 basis points to 9.5 percent while committing to adopt the necessary measures to control inflation.

In June, imports grew faster (73 percent yoy in nominal terms) than exports (68 percent yoy in nominal terms, leading to further deterioration in the trade balance. Half of the growth in exports was driven by precious and semi-precious stones (a nearly four-fold increase), followed by manufactured food products (a nearly 2.5-fold increase, 60 percent of which being due to price hikes). Import growth was more broad-based, with a sharp increase in imports of precious and semi-precious stones (which were then re-exported), followed by an increase in imports of machinery and equipment. Cumulatively, for the first half of 2022, exports and imports picked up by 36 percent (yoy) and 49 percent (yoy) respectively. This led to a widening of the trade deficit by 70 percent (yoy), partly offset by an increase in services exports, with a 2.4 fold (yoy) increase in tourism inflows and net money transfers (largely from Russia), which saw a more than 2.6 fold (yoy) increase in the same period.

The dram (AMD) stabilized against the USD in July, but by August 12 was still 20 percent stronger than on the same day of the previous year. This stability following a period of significant appreciation in June reflects the above-mentioned tourism receipts and net money transfers. Reserves increased by USD 46 million in July and stood at USD 3.54 billion, providing a high and comfortable five months of import cover.

The budget balance registered a surplus of AMD 26.1 billion in June as compared to a deficit in May. Revenues grew by 25 percent (yoy) in nominal terms due to increases in state duties, VAT collection, and environmental taxes (up by 282, 21, and 47 percent, respectively). Expenditures increased by 6.5 percent (yoy) in nominal terms, driven only by an increase in capital expenditures (up by 80 percent) while current expenditures were almost flat, with only social allowances increasing (by 8 percent). Cumulatively, in the year through June, the budget remained in surplus at AMD 72 billion compared to a planned AMD 122 billion deficit. Deficit financing from government bond issuances went as planned and resulted in accumulation of external financing assets.

Banking sector intermediation indicators moderated slightly in June. Credit and deposits adjusted for FX rates increased by 0.8 percent and 4.2 percent (mom) in nominal terms, respectively. Financial soundness indicators for June showed a high (18.6 percent) capital adequacy ratio, a Return on Assets ratio (ROA) of 3.7 percent, and non-performing loans (NPL) at reasonable levels (2.9 percent).

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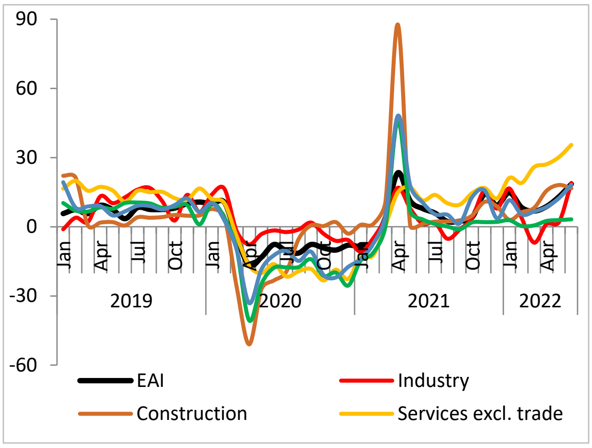
Figure 1. Economic recovery remained robust in June

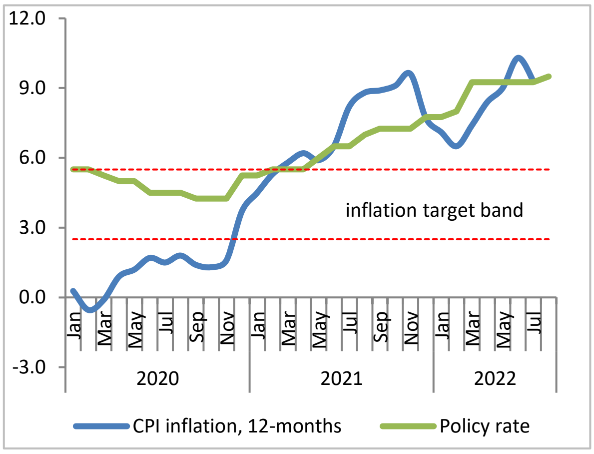
(Economic activity index, yoy change, in %)



Source: Statistical Committee of RA

Figure 2. Inflation decelerated for the first time since February

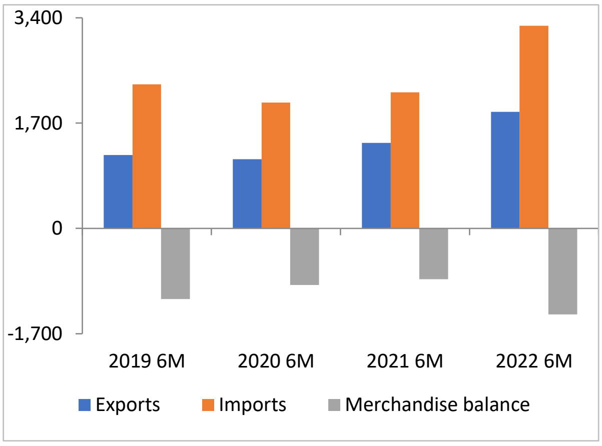
(CPI Inflation, yoy change, in %)



Source: CBA

Figure 3. The trade deficit widened further in June

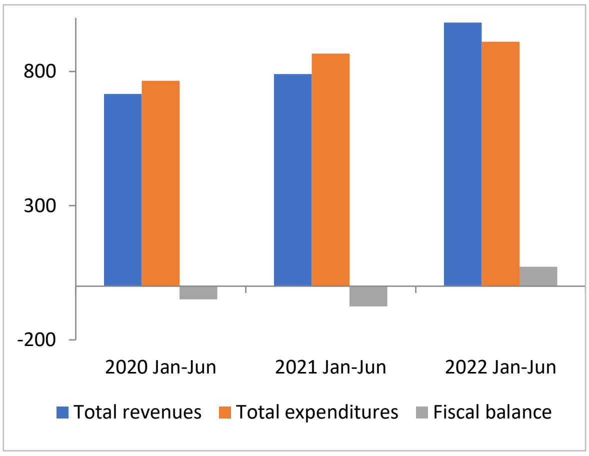
(in USD million)



Source: Statistical Committee of RA

Figure 4. The budget still registers a surplus in Jan-June as against a planned deficit

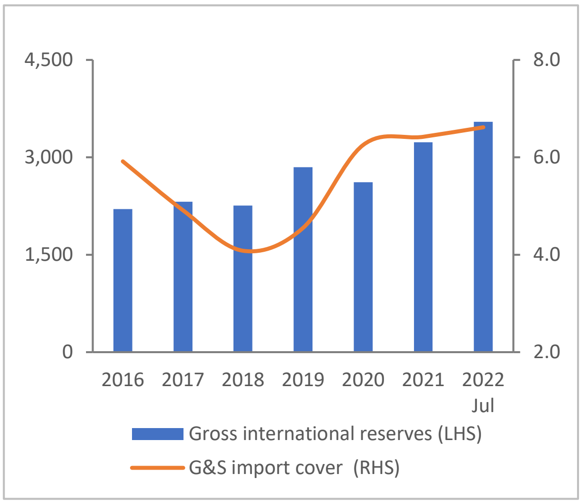
(in AMD billion)



Source: MOF

Figure 5. International reserves continued to increase

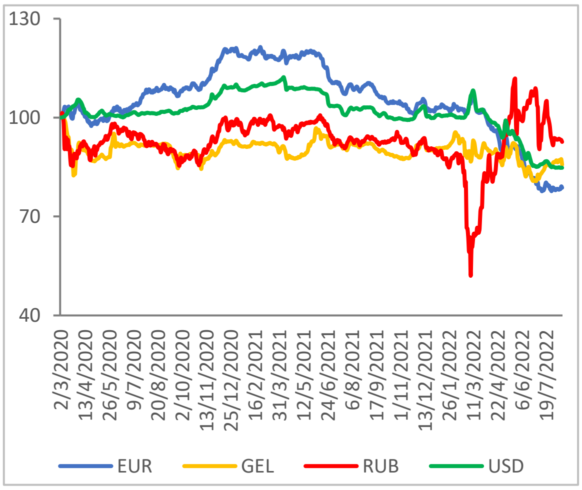
(in USD million) (months)



Source: CBA

Figure 6: The dram remained stable against the USD

(index: March 2, 2020=100)



Source: CBA