Output increased by 5.8 percent year on year (yoy) in July, slower than in May and June.

High frequency indicators point to continued recovery in August, but rising COVID-19 cases and slow vaccination pose risks.

Inflation picked up further in August, with higher food prices a major contributor.

The trade deficit widened in July compared to June, driven by pick-up in imports.

The budget registered a deficit in July, amid slowing growth in both revenues and expenditures.

Banking sector intermediation shows signs of recovery in July, with credit and deposit growth picking up marginally.

The Economic Activity Index (EAI) grew by 5.8 percent yoy in July, slower than in May and June. The slowdown was partly a base effect, reflecting a pick-up in activity in July 2020. Trade grew at 5 percent yoy in July, slowing considerably when compared to the 10.3 percent yoy growth registered in June. Industrial output grew by 1.7 percent yoy in July, with robust growth in mining, electricity and water output counteracting a contraction in manufacturing. Construction sector growth picked up from 1.3 percent yoy in June to 2.2 percent yoy in July. Services, excluding trade, grew robustly at 14 percent, faster than in June. On the demand side, consumption benefited from a modest pick-up in private wages and resilient remittances. Recovery in tourism supported exports but net exports likely acted as a drag on growth on account of strong imports. Cumulatively, the EAI was up 5.2 percent yoy in the first seven months of 2021, outperforming earlier forecasts.

High frequency indicators point to continued recovery in August, but rising COVID-19 cases and slow pace of vaccination post a risk. Mobility in Yerevan remained healthy through August, on average 8 percent above mobility in August 2020, and tracked departure flights remained at July levels. COVID-19 daily infections are increasing, rising from an average of 260 daily cases in the first week of August to 520 in the first week of September, which is still below previous peak levels. Vaccination rollout continues to be slow, with only 4 percent of population fully vaccinated, as of September 12.

Inflation picked up further to 8.8 percent yoy in August, the highest rate since 2013. This is well above the Central Bank of Armenia (CBA) target of 4 +/- 1.5 percent, prompting CBA to further increase the monetary policy rate by 25 basis points in mid-September to 7.25 percent. Food inflation (15 percent yoy increase) was the main driver of inflation, but higher prices of alcoholic beverages and cigarettes, clothing and transport prices (up by about 10 percent yoy each) also contributed. Higher import prices partly explain higher inflation, but even excluding imported prices, prices still show a 5.9 percent yoy increase.

Goods’ imports recovered sharply in July, contributing to a slight worsening of the trade balance. Trade turnover increased by 23 percent yoy, with imports growing by 22 percent yoy and exports by 24 percent yoy. Import growth was significantly faster than in June, driven by precious stones, minerals and transport vehicles. Export growth was driven by copper exports, supported by higher prices, and, to a lesser extent, by export of precious stones, textiles, agricultural and ready foods products. Cumulatively, exports and imports grew by 23 percent and 11 percent yoy respectively in the year to July, still leading to a 5 percent yoy improvement in the trade balance.

The dram has been relatively stable since early August. The stability of the currency was supported by improving tourism proceeds as well as improved sentiments following the early elections, offsetting the slight worsening of the trade balance. In yoy terms, as of mid-September, the dram remains marginally weaker (1 percent yoy), reflecting depreciation in late 2020 and early 2021. International reserves increased by USD 136 million in August, which reflects the receipt of the IMF’s Special Drawing Rights (SDR) allocation, increasing the goods and services import cover to 7.4 months from 7 months in July.

The budget registered a AMD 56 billion deficit in July, following a balanced budget in June. Revenues were up 11 percent yoy in July, slowing when compared to June (38 percent yoy growth). Total expenditures grew by 7 percent yoy in July, as compared to 13 percent yoy in June. This reflected an 11 percent yoy increase in current spending offsetting a 24 percent yoy contraction in capital expenditure in July. Cumulatively, the deficit in the year-to-July amounted to AMD 131 billion, which is 2 percent of projected annual GDP as compared to the 5 percent projected annual deficit. Fiscal performance in the year-to-July has been characterized by lower-than-expected deficit due to robust revenue collection.

Banking sector intermediation shows signs of marginal recovery in July. Credit (adjusted for FX rates) increased by 1.5 percent month on month (mom), with both dram and FX credit growing. This followed a period of contraction from November 2020. Deposits grew at a faster pace, by 3 percent mom (adjusted for FX changes) resulting in an improvement in the loan to deposit ratio to about 1 as July-2021. NPLs as a share of total loans has showed improvement since March, reaching 6.1 percent in June, reflecting increased loan write-offs. Profitability has remained low, with the Return on Assets (ROA) at 0.8 percent.

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Figure 1. Economic recovery continued in July, but pace of expansion was slower than in June
(Economic activity index, yoy change, in %)

![Economic Activity Index](image)

Source: Statistical Committee of RA

Figure 2. Inflation picked up further in August diverging further away from the CBA target range
(CPI Inflation, y-o-y change, in %)

![CPI Inflation](image)

Source: CBA

Figure 3. Trade deficit widened in July compared to June, due to import recovery
(in USD million)

![Trade Deficit](image)

Source: Statistical Committee of RA

Figure 4. Deficit increased in July, with slowing growth in revenue collection
(in AMD billion)

![Deficit](image)

Source: MOF

Figure 5. International reserves increased in August
(in USD million)

![International Reserves](image)

Source: CBA

Figure 6: The dram was relatively stable since early August
(index, March 2, 2020=100)

![Dram Stability](image)

Source: CBA