- *Economic growth eased to 12.9 percent in December as growth in construction moderated.*
- *Inflation decelerated further, to 8.1 percent in January, driven by lower food price inflation.*
- *Growth in exports and imports remained unusually strong.*
- *The AMD remained stable against the USD in early 2023 but strengthened against the RUB.*
- *The budget deficit reached 1.1 percent of GDP in December, bringing the cumulative deficit to 2.1 percent of estimated GDP in 2022.*
- *Financial indicators largely improved in December.*

Economic activity grew at 12.9 percent (yoy) in real terms in December. This compares to 17.5 in October and 13.8 percent in November**.** The slowdown was mostly driven by deceleration in the construction sector, from 11.3 percent (yoy) in November to 7.3 percent (yoy) in December. Growth in services remained strong while falling slightly (28 percent in December compared to 31 percent in November). In contrast, growth of industrial output accelerated from a 2.3 percent (yoy) contraction in November to 3.3 percent growth in December (Figure 1). This was driven by an increase in both mining and manufacturing sub-sectors, which grew by 10 percent and 4 percent, respectively. In manufacturing, the highest growth rates were in computer, electronic, and optical products (which doubled), and jewelry products (which tripled). Overall, economic activity grew by 14.2 percent in 2022, with the highest growth recorded in services (up 28 percent) and the lowest in agriculture (up 0.4 percent).

On the demand side, private consumption was the highest contributor to growth in December. This was supported, first, by a 13 percent increase in real wages driven by a private sector wage increase (particularly in finance/insurance and IT); and, second, by a continued influx of money transfers from abroad, up four-fold (yoy) and 34 percent (mom) (Figure 2).

While still high, the unemployment rate declined significantly in 2022. The unemployment rate fell to 11.6 percent in Q3 2022, down from 15 percent a year prior, itself an improvement over Q3 2020 (18.2 percent).

Inflation continued to ease in January. Inflation (yoy) decelerated from 8.3 percent in December to 8.1 percent in January, driven mainly by a slowdown in food price inflation. At 9.1 percent, core inflation in January was higher than headline inflation. In its January 31 Board meeting, the Central Bank of Armenia (CBA) left the policy rate unchanged at 10.75 percent (Figure 3).

In December, export growth continued to outpace import growth (at 90 percent and 60 percent, respectively). High growth was driven by re-exportation to Russia, particularly machines, instruments, transport vehicles, and precious stones. Export of agricultural products and minerals continued to decline in December, by 24 percent and 7 percent (yoy), respectively. In minerals, the value of copper exports dropped by 8 percent due to lower international prices (despite a 1 percent increase in volume). In 2022, the export and import of goods picked up by 77 percent and 64 percent (yoy), respectively, resulting in a deterioration of the trade balance deficit by 45 percent. The goods trade deficit was compensated by an improved services balance - mainly due to a 90 percent increase in the number of tourists in 2022 - and a three-fold increase in net money transfers, fueled by a six-fold increase from net inflows from Russia.

Since January 2023, the AMD has remained stable against the USD and had strengthened against the RUB by 4 percent as of mid-February. The AMD was 20 percent stronger than the USD in December (yoy) (Figure 4). International reserves at the end of January 2023 were down by USD 420 million from their peak at end-December, covering 4.4 months of imports (Figure 5).

Despite a significant increase in December, the fiscal deficit narrowed in 2022, closing the year at 2.1 percent of estimated GDP, compared to a 4.6 percent deficit in 2021. The December 2022 budget deficit widened to AMD 93 billion (1.1 percent of estimated GDP), driven by a 57 percent increase in current expenditures compared to November. While slightly lower than in November, capital expenditures in December accounted for 1 percent of estimated GDP in 2022. Tax revenues grew by 19 percent (yoy) in nominal terms, with VAT contributing to more than half of the increase. This was followed by income tax, up by 27 percent. Customs receipts contracted by 30 percent (yoy) given the expiration of a temporary export duty on mining.

Financial sector indicators closed 2022 in a healthy position while credit slowed in December. The share of non-performing loans to total gross loans ratio declined for the second month in a row, down from 3.2 percent in November to 2.8 percent in December. Further, at 20.3 percent, the capital adequacy ratio breached the 20 percent mark for the first time since February 2017. Liquid assets to total assets and return on assets slightly regressed, to 37.0 percent and 4.1 percent, respectively, as of end-2022. FX adjusted credit decreased to 0.7 percent (mom) in December, in line with the yearly average.

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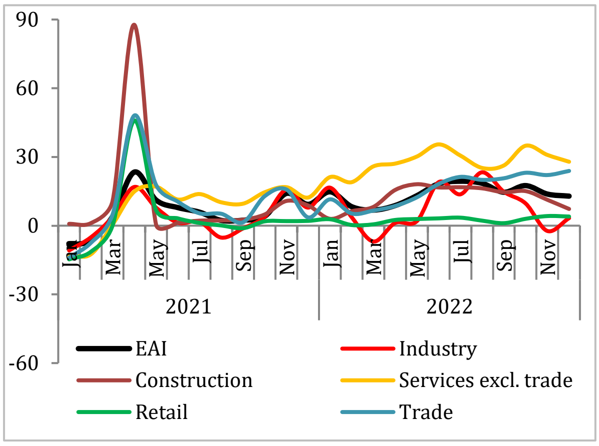
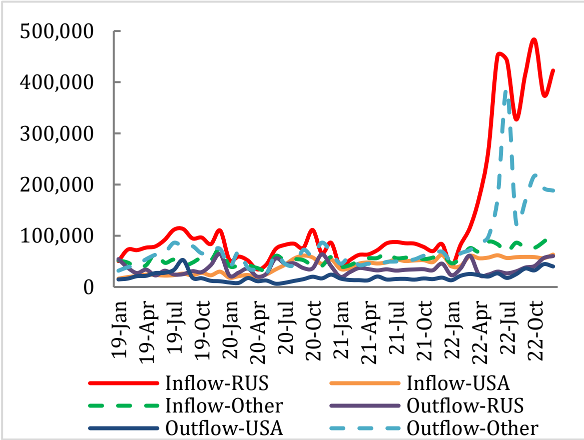
Figure 1. All sectors grew in December, led by services
(Economic Activity Index, yoy change, %)



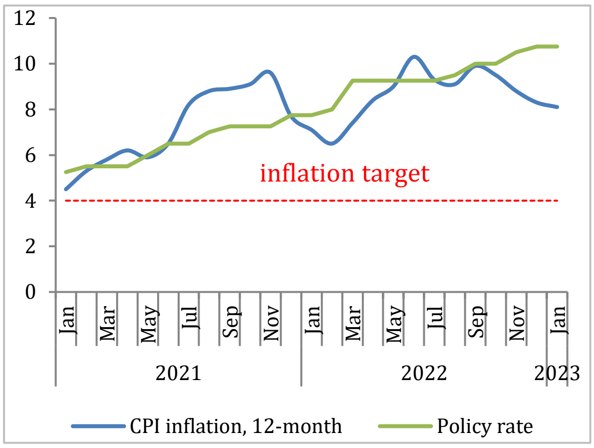
Source: Statistical Committee of RA

Figure 2. Money transfer inflows picked up in December after a November slowdown
(USD thousand)



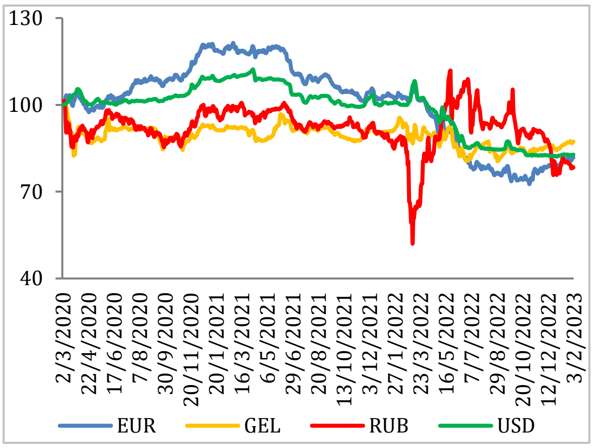
Source: CBA

Figure 3. The inflation rate decelerated further, while remaining above the CBA target
(CPI inflation, yoy change, %)



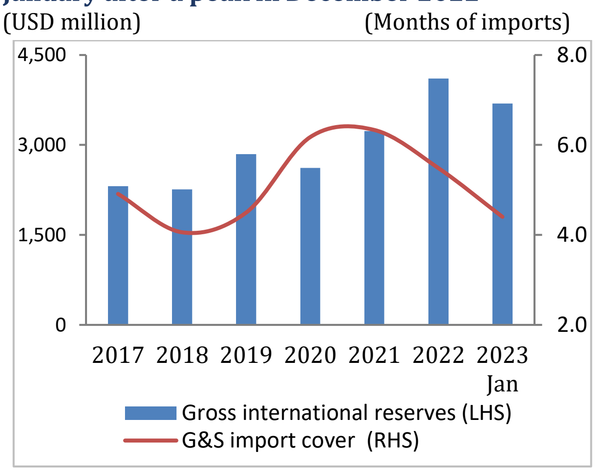
Source: CBA

Figure 4: The AMD has been relatively stable since early 2023
(Index: March 2, 2020 = 100)



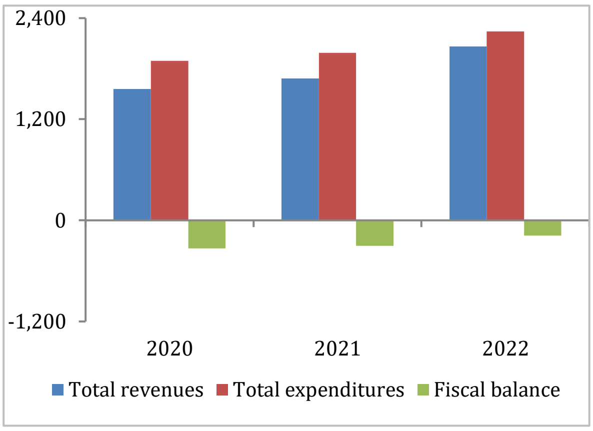
Source: CBA

Figure 5. International reserves declined in January after a peak in December 2022



Source: CB

Figure 6. The 2022 budget deficit was half that of 2021
(AMD billion)



Source: MoF