WORLD BANK GROUP
Macroeconomics, Trade & Investment

- *Economic activity growth moderated in March, bringing Q1-2022 growth rate to 9.6 percent year on year (yoy).*
- *Inflation picked up in March and April after declining in previous months.*
- *Goods trade deficit widened significantly driven by high import growth.*
- *After appreciating since mid-March, the dram lost some of its gains in early May.*
- *The budget registered a surplus in Q1-2022 due to under execution of expenditures.*
- *Banking sector intermediation slowed down in March.*

Economic growth moderated to a still relatively healthy 6.7 percent yoy in March. This was driven partly by a low base in March 2021 when the economy had still not recovered from the twin shocks of conflict and COVID. Growth was mainly driven by services (excluding trade), which grew at 26 percent yoy, and construction, growing at 8 percent yoy. In contrast, industry contracted by 7 percent yoy, from a moderate base, and retail trade was almost flat (up only by 0.6 percent, yoy). Industrial output decline was mainly driven by 30 percent yoy decline in mining production, driven by the closure of Teghut copper and molybdenum mine in mid-March, and a 13 percent yoy decline in electricity generation. On the demand side, growth was driven by consumption, supported by a 10 percent yoy increase in real private sector wages, doubling of net money transfers from Russia and a significant increase in arrivals from Russia and return of Armenian migrants from Russia and Ukraine. Cumulatively, the Economic Activity Index (EAI) was up by 9.6 percent yoy in Q1-2022. Still, the war in Ukraine is dimming the outlook with the World Bank currently projecting a further slowdown and an expansion of only 1.2 percent yoy in 2022, with balanced upside and downside risks. COVID-19 infections fell sharply to single digits in recent weeks, and the vaccination coverage expanded slowly to reach 45 percent of the adult population by end April.

Inflation has accelerated since March after a period of decline. Inflation reached 8.4 percent yoy in April, mostly driven by food and transport prices (up by 14 and 7 percent, yoy, respectively), picking up from 6.5 percent in February and 7.4 percent in March. This, in turn, reflected higher global commodity prices, including food and fuel prices, following the war in Ukraine. On March 15, the Central Bank of Armenia Board tightened monetary policy, raising the policy rate by 125 basis points, to 9.25 percent in order to anchor inflationary expectations, amid a period of high imported inflation, heightened geopolitical risks in the region and increased uncertainty.

The goods trade deficit widened significantly in March, by 51 percent yoy, also due to higher import prices. This was driven by a sharp pick up in imports (up 23 percent yoy), while export increased by 4.4 percent yoy only. The moderation in export growth was driven by copper (with exports declining 30 percent yoy with the closure of the Teghut mine) with export prices being largely flat. This was compensated partly by an increase in the export of precious and semi-precious stones and metals and export of transport means. Import growth was broad based, with increase in almost all commodities, except oil (42 percent yoy decline) and food products (29 percent yoy decline), also due to a 9 percent yoy increase in import prices. Cumulatively, in Q1-2022, exports picked up by 29 percent yoy and imports by 46 percent yoy. Imports outpaced exports and the trade deficit widened by 76 percent yoy in Q1-2022. Arrivals from abroad in Q1-2022 increased three-fold, with the highest increase from Russia by 3.6 times percent yoy (70,000 more arrivals when compared to Q1-2021).

The dram appreciated significantly during mid-March and April but recently lost some of its gains. After a sharp depreciation in the immediate period (by 8 percent from Feb 24 to mid-March) following the start of the war in Ukraine, the dram appreciated significantly and by early May, the dram was 6 percent stronger against the USD as compared to its pre-war level. However, some of the gains have since been reversed, though the dram is still 1.5 percent stronger compared to February 24, 2022. International reserves fell by USD 90 million in March, but more than recovered by 145 million in April probably partly due to dram appreciated trends in the FX market which allows the CBA to replenish reserves. As at end-April, reserved stood at USD 3.1 billion, providing a comfortable 6.5 months of import cover.

The budget registered AMD 29 billion surplus in Q1-2022 against a planned deficit of AMD 67 billion. This was driven by over-collection of revenues (3 percent higher than plan) and under-execution of expenditures (17 percent lower than plan). Tax collection was robust in March, up 20 percent yoy. Under-execution was evident in both current (15 percent lower than plan) and capital expenditures (38 percent lower than planned). Current and capital expenditures were also significantly lower in yoy terms, by 8 percent and 52 percent respectively.

Banking sector intermediation slowed down in March. Credit (adjusted for FX rates) declined by 0.7 percent month on month (mom), due to a 2 percent decline in FX credit. Deposits (adjusted for FX changes) declined by 3.3 percent mom. The available financial soundness indicators for end-February do not reflect deterioration in the portfolio, with 17.5 percent capital adequacy ratio, low (1.6 percent) NPLs and healthy Return on Asset ratio (ROA) at 2.6 percent.

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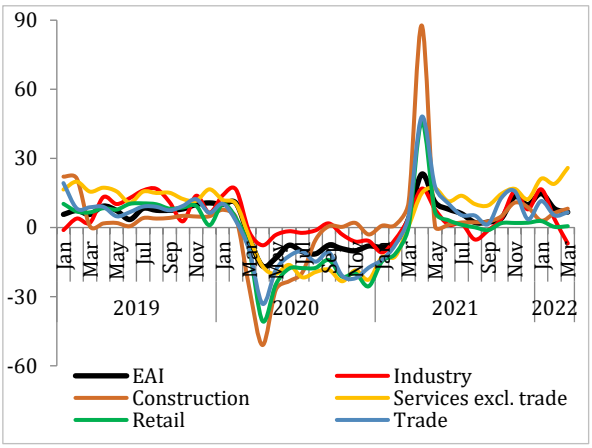
Figure 1. Economic activity was robust in March

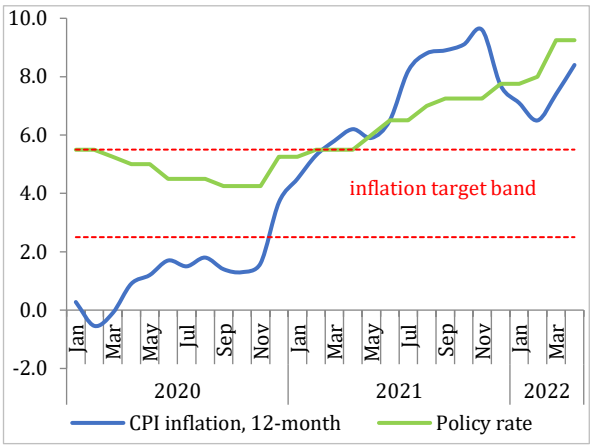
(Economic activity index, yoy change, in %)



Source: Statistical Committee of RA

Figure 2. Inflation accelerated in March and April

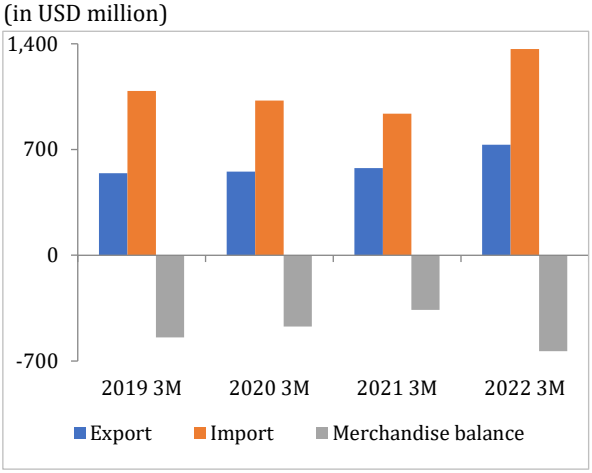
(CPI Inflation, y-o-y change, in %)



Source: CBA

Figure 3. Trade deficit countinues to widen

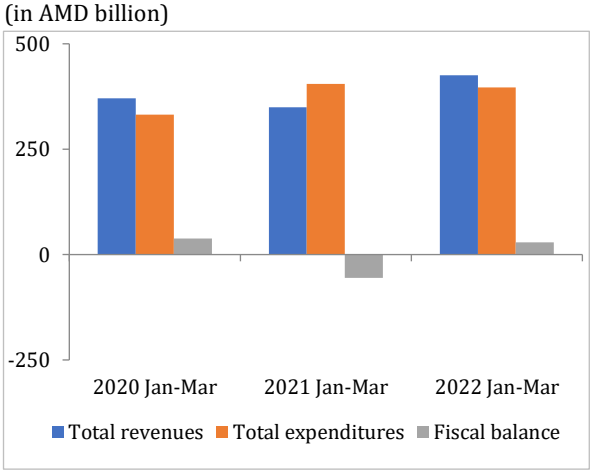
(in USD million)



Source: Statistical Committee of RA

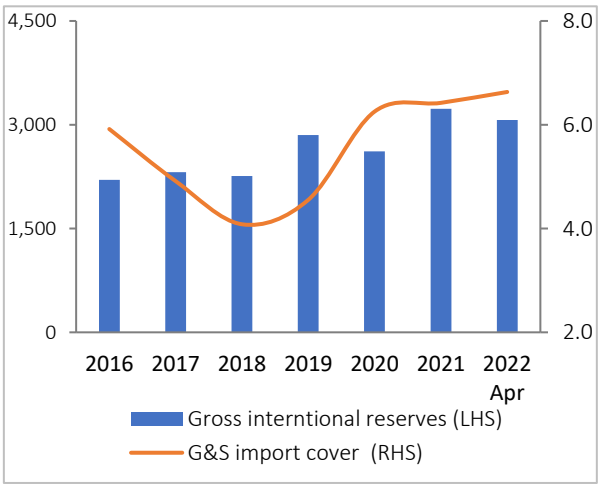
Figure 4. Budget registered a surplus in the first quarter against a planned deficit.

(in AMD billion)



Source: MOF

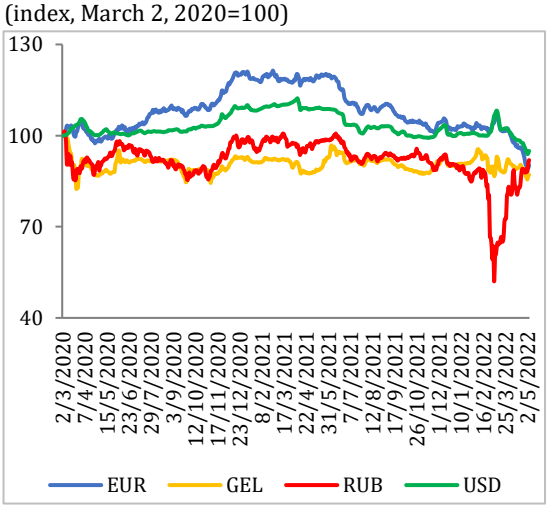
Figure 5. International reserves increased and provided a healthy import cover



Source: CBA

Figure 6: The dram has appreciated significantly since mid-March, getting to a historical strong level

(index, March 2, 2020=100)



Source: CBA