Economic growth accelerated further in May, to 13 percent year-on-year (y-o-y) from 8.8 percent y-o-y in April.

Inflation continued to rise in June, reaching 10.3 percent y-o-y.

The trade deficit widened further, driven by high import growth.

The Armenian dram (AMD) continued to appreciate.

The budget was in surplus through May, mostly due to under-execution of expenditures.

The banking sector continued to rebound, with

The real growth rate of the economic activity index accelerated to 13 percent (y-o-y) in May, from 8.8 percent (y-o-y) in April. Growth in May was broad-based. Non-trade services grew at 30.2 percent. Construction and trade also recorded double-digit rates of 18 and 12.4 percent, respectively. In contrast, industry overall expanded only by 2 percent, y-o-y as mining contracted by 11.8 percent (y-o-y) in May. This was compensated by the expansion of manufacturing by 10 percent y-o-y, supported by a pick-up in manufactured food products. On the demand side, growth was mainly driven by consumption, which was buoyed by a 5 percent increase (y-o-y) in real private sector wages and a close to 6-fold surge in net money transfers from Russia. Thus far, the Armenian economy has been resilient to the economic shock caused by the war in Ukraine and associated sanctions. First Quarter GDP data shows that the economy grew by 8.6 percent y-o-y, driven by 10 percent growth y-o-y in private consumption and a 9.4 percent increase in gross capital formation.

Annual inflation continued to accelerate further in June, reaching 10.3 percent, compared to 9 percent in May. The 17 percent increase in food prices (in turn partly driven by international high prices) and alcoholic beverages explained two-thirds of total inflation in May. Utility and transport price inflation (up by 7 and 9 percent, respectively) also contributed significantly. Successive increases in controlled prices for water, electricity, and gas contributed to inflation during the first half of the year. On June 14, the Central Bank of Armenia (CBA) decided to leave the policy rate unchanged at 9.25 percent while committing to adopt the necessary measures to control inflation and maintain inflation expectations anchored.

In May, imports grew faster (53 percent y-o-y in nominal terms) than exports (34 percent y-o-y), resulting in significant deterioration in the trade balance. Export growth was driven mostly by precious stones and non-precious metals, which together grew by 75 percent (y-o-y), mostly due to increases in prices. Manufactured food products grew by 32 percent, recovering after a slowdown in March and April that was probably due to disruptions in export channels and other complications related to the war in Ukraine. Mineral exports (mainly copper) grew by only 4 percent (y-o-y) in May. Import growth was more broad-based, with imports of minerals and stones contributing by one-third to the total import increase. Cumulatively, as of end-May, exports and imports picked up by 27.5 and 42.2 percent y-o-y, respectively, which led to a widening of the trade deficit by 65 percent (y-o-y). Services (mostly tourism-related) and other money transfer inflows (in particular from Russia) continued to be strong, partly offsetting the trade deficit.

The dram (AMD) continued to appreciate significantly against the USD and by July 8 was 17 percent stronger than in the same day of the previous year. A third of that increase took place during the last month, driven by the tourism season, continued large increases in net money transfers from Russia, and lower demand for USD following the switch to the ruble (RUB) for gas import payments. International reserves increased by USD264 million in June and stood at USD3.5 billion, providing a historically high and comfortable 6.4 months of import cover.

The budget balance turned to a modest deficit of AMD 9 billion in May, still lower than the deficit in May last year (AMD 22 billion). Revenues grew by 25 percent in nominal terms due to increases in state duties, income tax, and VAT collection (up by 284, 21, and 12 percent, respectively). Expenditures increased by 11 percent in nominal terms, mostly due to increases in all sub-items in current expenditures. Capital expenditures grew by 40 percent, although their contribution to total expenditure growth remains modest. Cumulatively, in the year through May, the budget remained still in surplus, at AMD 46 billion, compared a planned AMD 104 billion deficit. This was caused by better-than-expected revenue collection (by 7 percent) and some under-execution of expenditures (12 percent). Deficit financing from government bond issuances went as planned and resulted in accumulation in external financing assets. Government debt was reduced by AMD 130 billion over the first five months of 2022, partly benefiting from the appreciation of the dram.

Banking sector intermediation indicators continue to show some improvement. Credit and deposit adjusted for FX rates increased by 2.6 and 5.6 percent mom in nominal terms, respectively. The financial soundness indicators for end-April showed a high (17.8 percent) capital adequacy ratio, a Return on Assets ratio (ROA) of 2.6 percent, and still-low (albeit growing) non-performing loans (NPL) (2.9 percent).
Figure 1. Economic activity continued to be robust in May and above expectations (Economic activity index, yoy change, in %)

Source: Statistical Committee of RA

Figure 2. Inflation accelerated further in June, moving further away from the CBA target. (CPI inflation, yoy change, in %)

Source: CBA

Figure 3. Trade deficit continued to widen

(in USD million)

Source: Statistical Committee of RA

Figure 4. The budget in Jan-May is still registering a surplus, against a planned deficit (in AMD billion)

Source: MOF

Figure 5. International reserves continued to increase, reaching a historical high

(in USD million)

Source: CBA

Figure 6. The dram continued to appreciate against the USD

(index, March 2, 2020=100)

Source: CBA