

- *Output increased by 8 percent year on year (yoy) in June, slower than in the previous two months.*
- *Slow pace of vaccination, with only 2.1 percent of population fully vaccinated as of August 8, and recent pick up in infections pose risks to the economic recovery.*
- *Inflation picked up further to 8.2 percent yoy in July prompting another 50 bps increase in the policy rate.*
- *Recovery of exports and imports continued in June.*
- *Robust revenue collection helped bring the budget to balance in June and the deficit in the first half of 2021 significantly under budget plan.*
- *FX credit continued to decline, while profitability continued to recover in June.*

**The Economic Activity Index (EAI) grew at 8 percent yoy in June, which was slower than in April and May.** Growth was supported by services excluding trade (12 percent yoy growth), and trade (10 percent yoy growth), even though growth in both sectors moderated when compared to May. Industry grew moderately (1.3 percent yoy), with manufacturing growth flat and mining output growth weak (2 percent yoy) due to a high base effect. Construction growth was also moderate (1.3 percent yoy). In contrast, electricity (6 percent yoy) and water (11 percent yoy) output grew robustly. On the demand side, consumption benefited from a 4 percent yoy increase in real wages (mostly in the private sector) and a more than 130 percent yoy increase in net transfers from abroad. Recovery in tourism revenues supported higher net exports.

**Cumulatively, the EAI was up 5 percent yoy in the first half of the year.** Agriculture registered a significant 6.5 percent growth in this period, in sharp contrast to previous years. High frequency indicators suggest continuation of the recovery. The mobility index in July remained at 90 percent of pre-COVID levels, with a moderate decline in early August (88 percent). Tracked departure flights increased from a daily average of 20 in June to 30 in early August.

**The slow pace of vaccination and rising COVID cases present a risk to the recovery.** Vaccination rollout continues to be slow, with only 2.1 percent of population fully vaccinated and another 2.3 percent receiving one jab, as of August 8. COVID-19 daily infections are increasing, with cases rising from an average of 101 daily cases in the first week of July to 260 in the first week of August, which is still well below the previous peak levels.

**Inflation picked up further in July to 8.2 percent, the highest rate since September 2013.** This is well above the Central Bank of Armenia (CBA) target of 4+/-1.5 percent. Higher inflation was

driven largely by a sharp increase in food prices (13.5 percent yoy increase), which accounted for close to two-thirds of overall inflation in July. This reflected higher external prices but it should be noted that Armenia's food price inflation is higher than its main trading partners. Transport and health price increases also contributed to inflation in July. In response, on August 3<sup>rd</sup>, the CBA increased the policy rate by 50 basis points to 7 percent, the highest level since 2016.

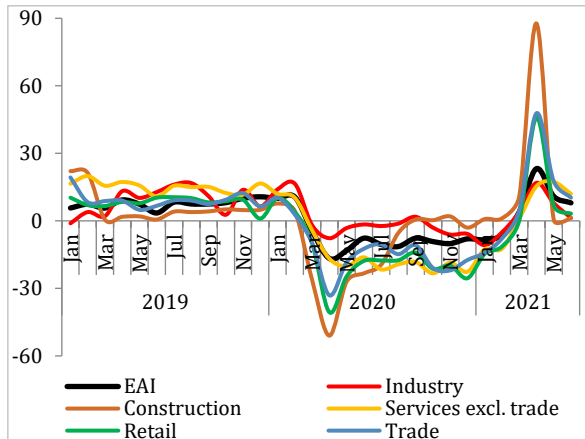
**Goods' foreign trade continued to recover in June.** Turnover increased by 20 percent yoy, with exports picking up by 33 percent yoy and imports by 12 percent yoy. Copper exports value in June picked up by 59 percent yoy, due to high global prices despite a 10 percent decline in exported volumes. Export of agricultural products (up by 70 percent yoy) and textiles (by 90 percent yoy) increased sharply. Import increase was driven by precious stones, minerals and transport. Cumulatively, in the first half of 2021, exports and imports grew by 23 percent and 8 percent yoy respectively, leading to a 11 percent yoy improvement in the trade balance.

**Dram continued to strengthen until late July before depreciating in early August.** The dram strengthened by 2 percent in July, supported by increased tourist arrivals, improvement in the goods trade balance and a sharp increase in net transfers from abroad. However, since July 28, the dram has depreciated by 2 percent. International reserves decreased by USD 26 million in July, but still provided more than 7 months of goods import cover.

**The budget was almost balanced in June.** Revenues were up 38 percent yoy in June supported by strong VAT and profit tax collections, while current and capital expenditures grew by 13 and 10 percent yoy respectively. Cumulatively, the deficit in the first half of 2021 amounted to AMD 75 billion, which is 1.2 percent of annual projected GDP as compared to an annual target of 5.3 percent of GDP. The deficit level is almost 60 percent lower than the budget plan. The lower than planned deficit was supported by robust tax revenue collections, which outperformed the original budget plan by 13 percent, while expenditures were largely executed as planned.

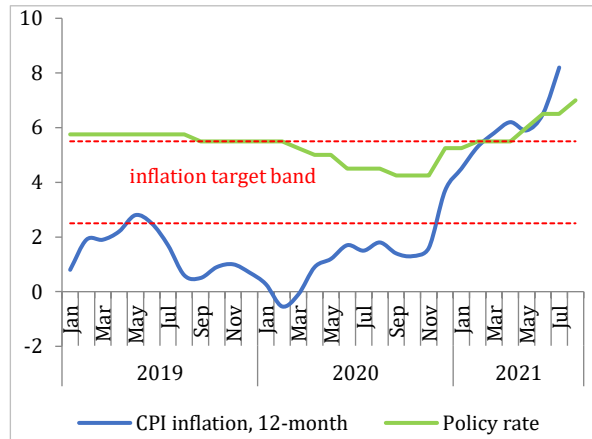
**Banking sector intermediation continued to be sluggish in June, while profitability continued to recover.** Credit contracted by 2 percent in June on mom basis (due to FX credit decline), while deposits registered a sluggish expansion of 2.7 percent on mom basis (both adjusted for FX changes). This continued the trend of sluggish intermediation from May. Overall, the banking sector was profitable in June. However, profits in the first half of the year were halved compared to the same period last year.

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



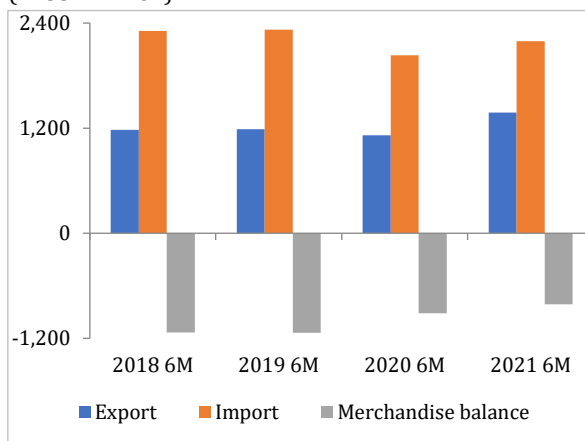
Source: Statistical Committee of RA

**Figure 2. Inflation picked up further in July, prompting further increase in the policy rate**  
(CPI inflation, y-o-y change, in %)



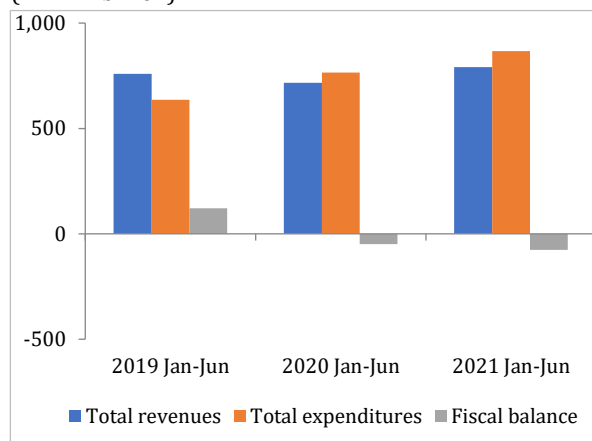
Source: CBA

**Figure 3. Trade deficit narrowed in June as goods export recovery outweighed import growth**  
(in USD million)



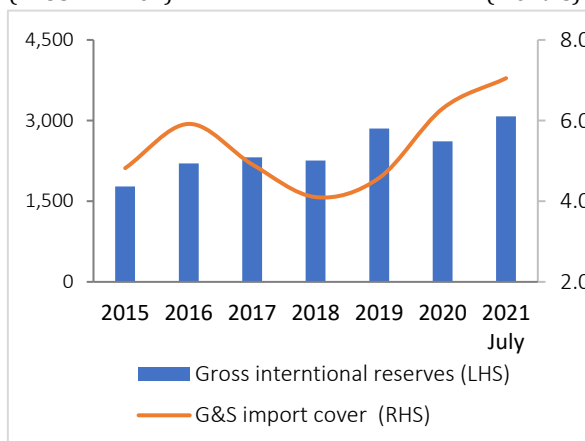
Source: Statistical Committee of RA

**Figure 4. Revenue collection remains strong as the budget deficit remains below projected levels**  
(in AMD billion)



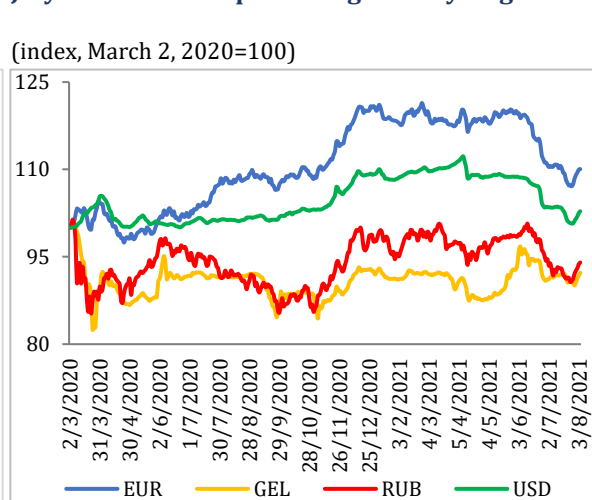
Source: MOF

**Figure 5. International reserves declined slightly in July, but still provided more than 7 months of import cover**  
(in USD million)



Source: CBA

**Figure 6. The dram continued to appreciate in July but started depreciating in early August**  
(index, March 2, 2020=100)



Source: CBA