

- *Output growth picked up slightly in October as compared to previous months but remained weak.*
- *New COVID infections and deaths slowed since end-October while the pace of vaccination remained high.*
- *Inflation picked up further in November with higher food prices a major contributor.*
- *The trade deficit widened in October driven by robust import growth.*
- *The dram started to depreciate since mid-November and lost 3.5 percent of its value by December 6th.*
- *Budget deficit widened in October.*
- *Banking sector intermediation continued to be sluggish in October.*

The Economic Activity Index (EAI) grew by 3.6 percent year on year (yoy), picking up pace from the 2.4 percent yoy growth recorded in September. Growth in October benefited from a low base of activity in 2020, when the effects of the conflict were being felt on the economy. Industry grew by 3.9 percent yoy in October after a 1.2 percent yoy contraction in September. Mining was the only industry sub-sector registering a contraction (5 percent yoy). Manufacturing and construction each grew by 5 percent yoy in October, while non-trade services and trade continued strong performance growing by 15 percent and 13 percent yoy respectively. On the demand side, consumption was weighed down in October due to lower real wages and decline in transfers, and contribution from net exports was negative reflecting the widening trade deficit. Cumulatively, growth slowed to 4.3 percent yoy as at end-October from 4.4 percent yoy as at end-September.

The fourth wave of COVID-19 infections peaked in mid-October but cases have since slowed while vaccination roll-out is robust. Daily reported infections peaked at 2,600 on October 21st and have since slowed significantly to an average of 385 daily reported cases in the first week of December. Average daily deaths have also declined from 48 in early November to 22 in the first week of December. Vaccination rollout continues to be robust, keeping the momentum from October, at an average of 15,000 (including both doses) per day. The share of fully vaccinated adult population remains low: as at December 6th, only 23.6 percent of adults have been fully vaccinated and a further 15 percent have received the first dose.

Inflation increased further to 9.6 percent yoy in November. A sharp increase in food and non-alcoholic beverages prices (by 17 percent yoy) accounted for two-thirds of total inflation. In addition to food and beverages, double-digit inflation was also seen in clothing and footwear, and recreation prices. Even excluding import prices,

inflation was high at 6 percent yoy in October, reflecting a generalized increase in the price of domestic goods. Inflation is well above the higher band of Central Bank of Armenia's target (4+/-1.5 percent).

Goods imports increased sharply in October, contributing to a worsening of the trade balance. Goods imports grew by 30 percent yoy in October, supported by an increase in import of minerals, machineries, and transport vehicles. Goods exports grew at a slower pace than imports (15 percent yoy). This was driven by a sharp yoy increase in export of non-precious metals and transport vehicles (re-exports). Copper exports rebounded slightly in October after a sharp contraction in volumes in September but was still 33 percent yoy below October 2020. Weak copper exports partly reflect a response to the introduction of new export duty for minerals, which became effective in September 2021. Cumulatively, in the year-to-October, exports and imports grew by 17 percent and 12 percent yoy respectively, with the trade balance deteriorating by 5 percent in yoy terms.

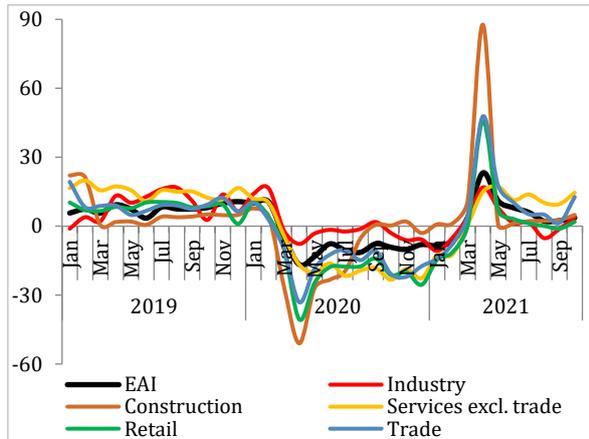
The dram started to weaken since mid-November and by December 6th, it had lost 3.5 percent of its value. The depreciation was driven by the deterioration in the trade balance, decline in net transfers from abroad in October (22 percent yoy decline) and slowdown in tourism related inflows. There were no FX related interventions by CBA in this period. International reserves remained unchanged and robust at USD 3.2 billion as at end-October, providing 7.3 months of import cover.

The budget recorded a AMD 55 billion deficit in October. The deficit was flat in yoy terms as both revenues and expenditures declined. Total collected revenue in October declined by 14 percent yoy. Tax revenues grew by 20 percent yoy driven by higher VAT and state duties collections. This was offset by a 89 percent yoy decline in other revenues due to the large base effect of transfers from the All-Armenian fund to the budget in October 2020. Total expenditures were down by 9 percent, yoy driven by a 66 percent yoy decline in capital expenditures reflecting the base effect of high spending in defense in October 2020. Cumulatively, the deficit as at end-October reached AMD 202 billion, which is 3 percent of projected annual GDP as compared to the 5 percent annual plan.

Banking sector intermediation continued to be sluggish in October. Credit and deposit (both exchange rate adjusted) grew marginally by 0.6 percent and 2 percent month on month (mom) respectively. Financial stability indicators as at end September show low profitability (with Return on Assets at 0.9 percent), adequate capitalization (Capital Adequacy Ratio at 17.2 percent), high liquidity and low NPLs ratio reflecting write-offs.

Figure 1. Economic growth picked up slightly in October, but remained weak

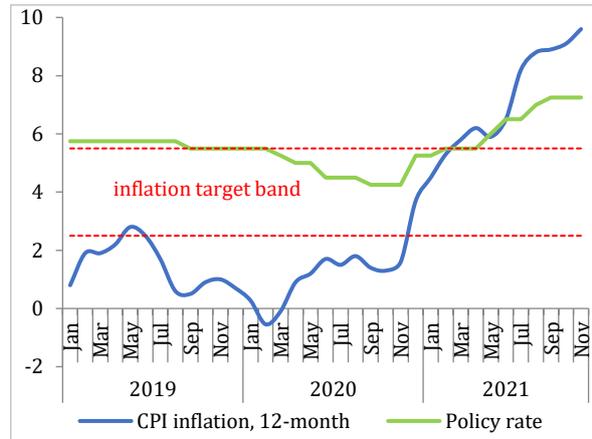
(Economic activity index, yoy change, in %)



Source: Statistical Committee of RA

Figure 2. Inflation increased further in November

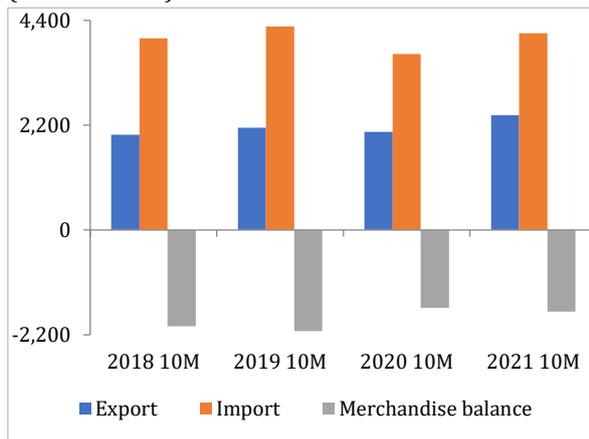
(CPI Inflation, y-o-y change, in %)



Source: CBA

Figure 3. Trade deficit continued widening in October, driven by sharp increase in imports

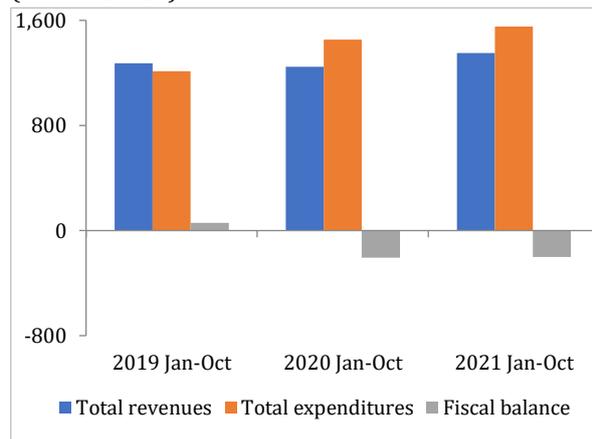
(in USD million)



Source: Statistical Committee of RA

Figure 4. Deficit increased in October

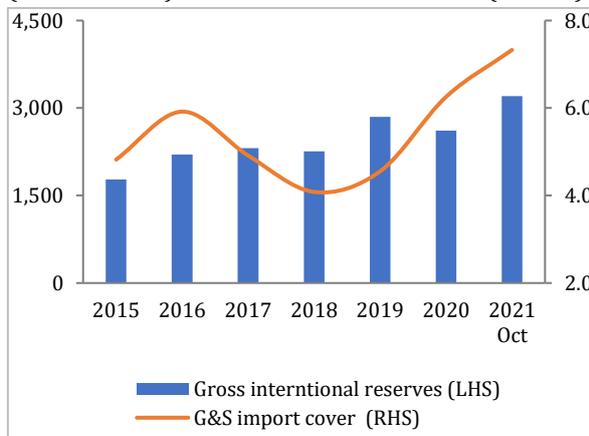
(in AMD billion)



Source: MOF

Figure 5. International reserves remained unchanged and robust

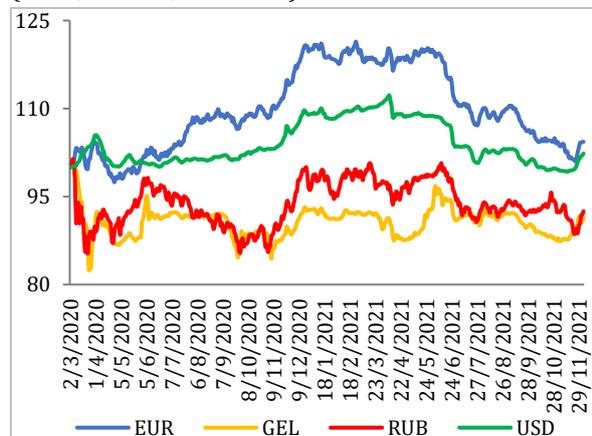
(in USD million) (months)



Source: CBA

Figure 6. The dram started to depreciate since mid-November

(index, March 2, 2020=100)



Source: CBA