

- *Economic growth picked up in April to 8.8 percent year on year (yoy) from 6.7 percent yoy in March.*
- *Inflation continued to accelerate in May, reaching 9 percent yoy.*
- *The trade deficit widened, driven by high import growth.*
- *The dram continued appreciating against the USD.*
- *The budget registered an AMD 27 billion surplus in April, driven by strong revenue collection and under execution of expenditures.*
- *Banking sector intermediation picked up marginally in April.*

Economic growth picked up in April to 8.8 percent yoy from 6.7 percent yoy in March. The increase came on top of a high base of 23 percent yoy growth in April 2021 and was broad-based. Growth was particularly strong in non-traded services (up by 27 percent yoy) and construction (up by 15.6 percent yoy). Trade also picked up to register 8.6 percent yoy growth in April, as compared 6.6 percent in March. After contracting by 7 percent in March, industrial output grew by 1.2 percent yoy. In the industry sector, manufacturing registered 8 percent yoy growth, driven by pick up in manufactured food products. On the demand side, growth was driven by consumption, which was supported by a 3 percent yoy increase in real private sector wages, close to 3.5-fold yoy pick up in money transfers from Russia and increase in government spending.

Cumulatively, the Economic Activity Index (EAI) registered 9.4 percent yoy growth in the year through April, prompting an upward revision in the growth forecast for 2022. The Armenian economy has, thus far, been resilient to the economic shock following the start of the war in Ukraine and has performed better than anticipated. As a result, the World Bank growth forecast for 2022 has been upgraded from 1.2 percent forecast in March to 3.5 percent.

Inflation continued to accelerate in May, reaching 9 percent yoy from 8.4 percent yoy in April. This was driven by increase in food and alcoholic beverage prices, which increased by 14.5 percent, and explained 60 percent of the total inflation. Utility and transport prices also increased sharply, by 7 percent and 8.6 percent respectively, contributing a further 20 percent to total inflation. The increase in food and transport prices was driven, in turn, by the increase in global food and fuel prices following the war in Ukraine. On May 3rd, the Central Bank of Armenia left the policy rate unchanged at 9.25 percent and committed to neutralize any possible risks arising from increases in inflation expectations.

Both exports and imports of goods grew significantly, by 20 and 24 percent, respectively, and the goods trade deficit widened by 31 percent yoy in April. Export growth was driven mostly by precious stones and non-precious metals and, to a lesser extent, by exports of machines and equipment. Exports of manufactured food products was flat and mineral exports registered a 2 percent yoy contraction, reflecting a 20 percent yoy decline in the volume of copper exports in April. Import growth was more-broad based, with imports of agricultural products, mineral, machines and transport vehicles all increasing. Imported volume of wheat grew significantly in April, by 40 percent yoy, resulting in a 2.5 fold increase in cumulative import of wheat in the first four months of 2022. Cumulatively, as at end-April, exports and imports picked up by 25 and 39 percent yoy respectively, which has led to a widening of the trade deficit by 61 percent yoy. Tourism related inflows continued to be strong partly offsetting the trade deficit.

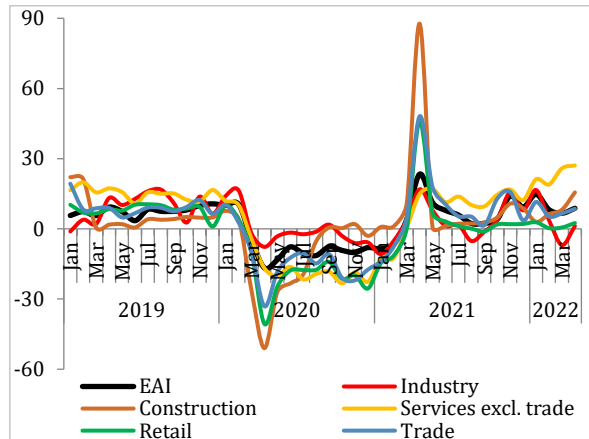
The dram continued to appreciate significantly against the USD and, by June 6th, was 8 percent stronger than its pre-war level. The appreciation is partly explained by large increase in number of tourists and tourism related inflows, tripling of net money transfers from abroad and lower demand of USD following the switch to Ruble for gas import payments. While the dram strengthened against the USD, the currency depreciated against the Ruble, by 18 percent compared to its pre-war level. International reserves increased by USD 83 million in April and stood at USD 3.2 billion, providing a comfortable 5.9 months of import cover.

The budget registered an AMD 27 billion surplus in April. This was driven by 28 percent yoy growth in tax collection, offsetting a 15 percent yoy growth in total spending, which in turn was driven by a 3.5 fold yoy increase in capital spending. The robust tax collection in April was driven by sharp increases in profit taxes (50 percent increase), environmental taxes (two-fold increase) and state duties (3.8-fold increase). Higher defense spending drove total spending. Cumulatively, in the year through April, the budget has registered an AMD 56 billion surplus as against a planned AMD 80 billion deficit, driven by over performance of tax collection and under execution of expenditures.

Banking sector intermediation registered marginal growth in April. Credit and deposit (adjusted for FX rates), both increased by about 1 percent month on month. Credit growth was driven by 3 percent growth of dram denominated credits, which offset the 1 percent reduction in FX credit. Credit dollarization continued to decline, reaching 44.2 percent in end-April from 42.7 percent as at end 2021.

Figure 1. Economic activity continued to be robust in April

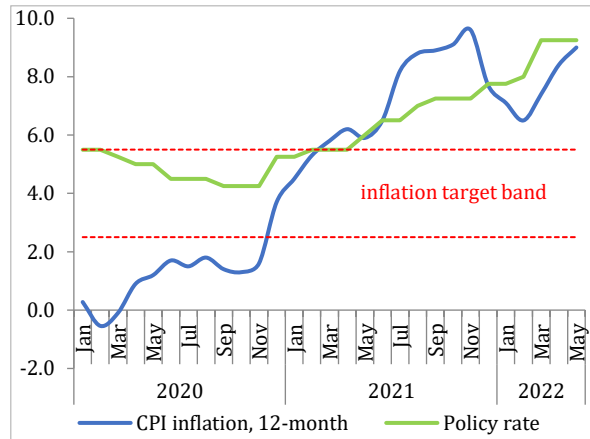
(Economic activity index, yoy change, in %)



Source: Statistical Committee of RA

Figure 2. Inflation accelerated further in May

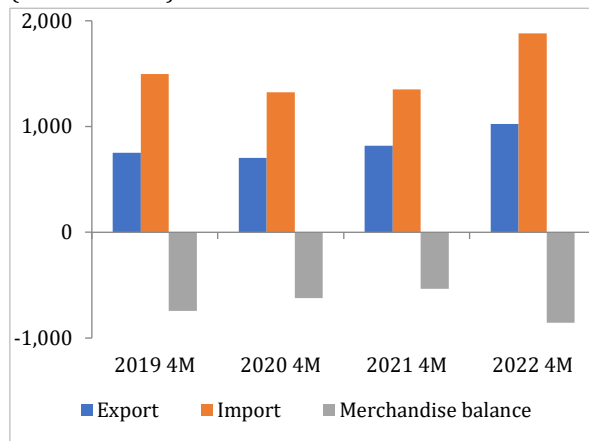
(CPI Inflation, y-o-y change, in %)



Source: CBA

Figure 3. Trade deficit continued to widen

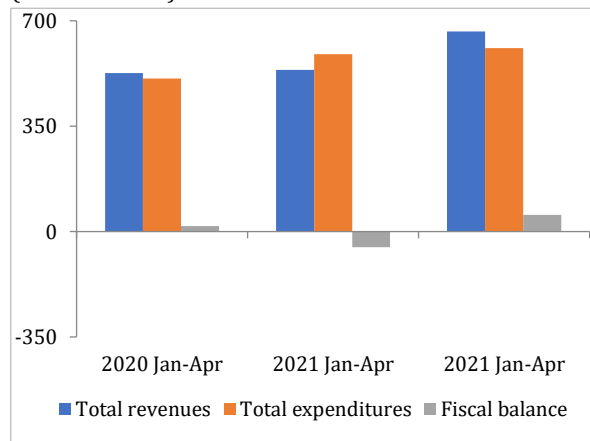
(in USD million)



Source: Statistical Committee of RA

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

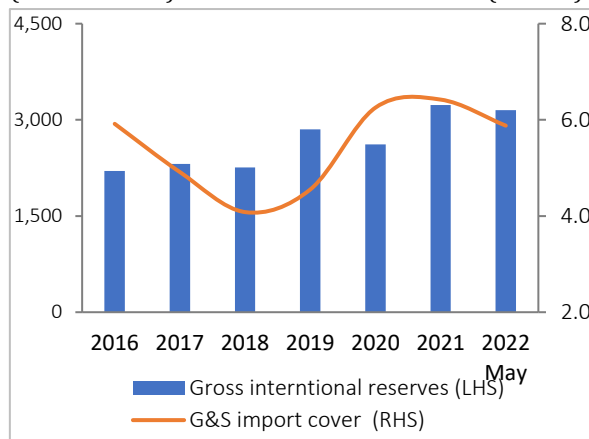
(in AMD billion)



Source: MOF

Figure 5. International reserves continued to increase and provide healthy import cover

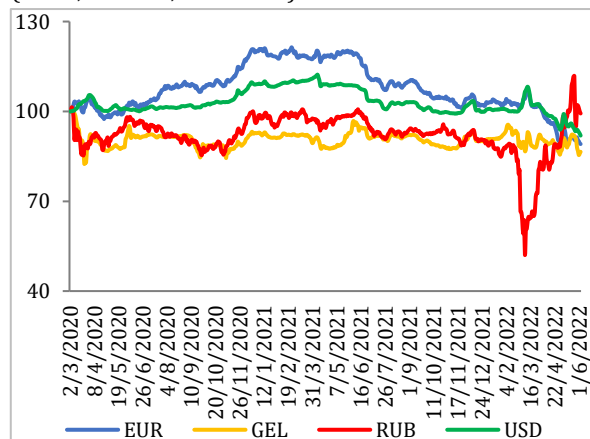
(in USD million) (months)



Source: CBA

Figure 6. The dram continued to appreciate against the USD

(index, March 2, 2020=100)



Source: CBA