• Despite a slight recovery in May as compared to April, the Economic Activity Index still declined 13 percent on yoy basis.
• Inflation edged up to 1.7 percent in June. Policy rate was cut to 4.5 percent.
• Underperforming revenues and growing spending turned the budget balance to deficit.
• The dram remains mostly stable.
• Credit grew by 17 percent in May, while deposit growth moderated to 10 percent.

Following the sharpest historical year-on-year (yoy) decline recorded in April, the Economic Activity Index (EAI) recovered slightly in May but remains in strong contractionary territory. The EAI declined by 12.8 percent yoy in May after a 16.3 percent yoy reduction in April. The construction sector, where output was halved on yoy basis in April, saw a 27 percent yoy decline in May as open-air construction activities were allowed starting from May 4. Industrial output contracted by 4 percent yoy in May, but to a lesser extent than April (8.5 percent in reduction). Similarly, retail trade shrunk by 20 percent yoy in May, compared to a 33 percent yoy contraction in April. The contraction in other services deepened from 16 percent yoy in April to 20 percent yoy in May.

With the EAI contracting in three out of five months in 2020, the year to date EAI as at end-May was lower by 3.9 percent yoy. On cumulative basis, only industry shows growth, driven by 26 percent yoy expansion in the mining sector due to the low base in the first half of last year as a major copper mine was closed during that period. This effect will likely dissipate in the second half of 2020 reflecting the mine reopening in July 2019.

The recovery is likely to remain sluggish. The lifting of most mobility restrictions was accompanied by a strong increase in new infections (on average 550 new cases in the first week of July). This remains a barrier to economic recovery with the mobility index for Yerevan showing the recovery plateauing at around 70 percent of pre-COVID levels.

While the real estate market activity remained subdued, this is still not reflected in prices. The number of transactions with apartments in Yerevan fell by 60 percent in May yoy (improving from a 80 percent yoy reduction in April). However, prices were up 12 percent yoy. The slight increase in outstanding mortgage loans (1 percent mom) supported the modest recovery of the market.

Inflation continues to edge up and reached 1.7 percent yoy in June, still below the CBA inflation target band (4+/−1.5 percent). Food prices increased by 2 percent yoy in June and fully explain the change in inflation from 1.2 percent in May to 1.7 percent in June. The Public Services Regulatory Commission (PSRC) approved a more modest gas tariff increase (on average 4.5 percent) compared to the originally requested 11 percent increase by Gazprom Armenia. The tariff will stay unchanged for households but will increase for some businesses effective July 19, 2020. Given the slow recovery of external and domestic demand and the current low inflationary environment, the CBA Board cut the policy rate by 50 basis point to 4.50 percent in June 2020, the lowest level since 2007.

Trade (mainly exports) recovered slightly in May compared to April, resulting in a narrower trade deficit with a stable Dram. Exports in May were down by 9 percent, yoy, mainly due to lower export of textiles and non-precious metals. Exports of minerals (mostly copper and molybdenum) contributed positively to export growth, due to higher volumes, and with recent trend of recovery in metal prices is likely to continue to support exports. Imports declined by 22 percent in May, yoy, reflecting lower imports of all product groups, except for food items. Import compression led to a narrowing of the trade deficit from US$ 153 million in April to US$ 120 million in May. However, this was partly offset by a 35 percent decline in net money transfers from abroad. According to available BOP data, FDI inflows shrank by 24 percent in 2020-Q1. International reserves reduced by US$ 55 million in June but stayed relatively high, providing cover of about five months of projected 2020 imports. The exchange rate remained largely stable, depreciating by less than 1 percent since May.

The budget registered an AMD43 billion deficit in May, turning the cumulative budget balance for the year to deficit at AMD 25 billion. Revenues were down 23 percent yoy in May, reflecting lower collection on most taxes. Expenditures were up by 11 percent yoy due to higher spending on all major categories, except wages and interest payments, reflecting also government’s Covid-response support packages. At the end of June, Parliament ratified the IMF budget support loan of US$280 million and approved a hike in property tax, which is expected to result in a four-fold increase of property tax revenues over the coming six years.

Stock of credit grew by 17 percent yoy as end of May, while deposit growth moderated to 10 percent, driven by AMD deposit growth, and due to Government crisis-support lending programs.

1 The CBA forecast for economic growth in 2020 has been revised down from 0.7 percent to minus 4 percent.
**Figure 1. The sharp decline in economic activities slightly moderated in May 2020**
(Economic activity index, yoy change, in %)

**Figure 2. Inflation edged up in June but remains below the CBA lower band**
(CPI inflation, y-o-y change, in %)

**Source: Statistical Committee of RA**

**Source: CBA**

**Figure 3. Trade deficit narrowed as imports contracted more than export.**
(in USD million)

**Figure 4. Budget balance through May turned to deficit.**
(in AMD million)

**Source: CBA**

**Source: Statistical Committee of RA**

**Source: MOF**

**Figure 5. International reserves declined compared to 2019 but still reasonably high**
(in USD million)

**Figure 6. The dram continues to be stable**
(index, March 2, 2020=100)

**Source: CBA**

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