The gradual recovery underway since July was halted in October as the EAI contracted by 8.1 percent yoy. Industrial output was down 3 percent yoy, after expanding by 1.8 percent in September, driven by flat mining activity and a 4 percent yoy contraction in manufacturing. Services plummeted by 21 percent yoy in October, the weakest showing since May, affected by a new surge in COVID-19 infections and the escalation of the conflict with Azerbaijan. Construction was a relative bright spot, growing, though barely, by 0.3 percent yoy. Year-to-October, the EAI was down by 6.7 percent, mostly due to declining services.

Quarterly GDP confirms these trends. GDP contracted by 7.1 percent in the year-to-September as compared to a 5.7 contraction for the first half of the year. On the demand side, the contraction has been driven by weak private consumption (9 percent contraction) and weak private investment. This was only slightly offset by import compression and public consumption. On the production side, more than two-thirds of the contraction was due to the decline in services, such as trade, entertainment, real estate, accommodation and transport services.

Mobility in Yerevan has begun to trend upwards recently, with signs of slowdown in COVID-19 infections and cessation of hostilities on November 10. Active COVID-19 infections have shown a declining trend starting in November, falling from 40,000 active cases on November 8 to 20,000 on December 8. While testing efforts appear to have moderated, the lower number of fatalities and a lower test positivity rate appear to suggest a slight improvement in the situation. This, combined with the cessation of hostilities in the Nagorno Karabagh conflict on November 10, may have contributed to an increase in mobility in Yerevan from 52 percent in the first week of November to 62 percent in the first week of December.

Inflation increased slightly from 1.3 percent yoy in October to 1.6 percent yoy in November but remains well below the CBA target band (4 +/- 1.5 percent). The increase was due to higher food (1 percent yoy), health (3 percent yoy) and transport (2 percent yoy) prices. The next Central Bank of Armenia (CBA) board decisions on the policy rate is due on December 15.

Foreign trade weakened in October. After growing by 5.4 percent yoy in September, exports fell by 5 percent yoy in October, driven by a 20 percent yoy contraction in food products and a tepid performance of mineral exports, which grew marginally by 3 percent yoy. Imports remained weak, contracting by 24 percent yoy in October, with a decline in all categories of imports except for machinery and equipment. The trade deficit narrowed to USD189 million in October, a 37 percent improvement from a year ago. Inflow of money transfers (a proxy for remittances) increased by 17 percent yoy in October, helping partially offset lower services receipts, as tourist inflows remaining minimal.

Despite the improved goods trade balance, the dram experienced downward pressure. The dram has been depreciating since the start of the conflict, and more intensively following the ceasefire. By December 11, it was 7.3 percent below its value on September 27, prompting intervention by the CBA to stabilize the currency. Partly due to this, reserves declined to USD 2.28 billion at the end of November, though still provide a comfortable cover of around 4.5 months of imports.

The budget deficit widened to AMD 51 billion in October, as spending increased significantly. Expenditures were up 39 percent yoy in October, as capital spending more than tripled due to higher defense-related expenditures and current spending increased by 15 percent yoy driven by higher interest payments, grants and social payments. Tax revenues were up 1 percent yoy, the first positive growth rate since the start of the pandemic, largely due to a low base effect. Other revenues increased sharply (eight-fold) as part of the “All Armenian Funds” donations were transferred to the budget. The year-to-October deficit was 3.3 percent of annual GDP, up from 2.4 percent of GDP in September, pushing government debt to 60 percent of GDP. The 2021 Budget was approved on December 10 projecting a 3.2 percent growth and 5.3 percent of GDP fiscal deficit reflecting the impact of COVID as well as the lingering consequences of the conflict.

Credit (adjusted for exchange rate changes) increased by 0.9 percent month-over-month in October, while deposits fell by 2.5 percent. Credit growth was driven by construction and mortgage loans, while the decline in deposits was due to lower FX deposits. Non-performing loans have continued to edge up, reaching 6.7 percent in October, weighing also on profitability indicators, though capital and liquidity levels remain robust.
Figure 1. Economic activity deteriorated in October
(Economic activity index, yoy change, in %)

Source: Statistical Committee of RA

Figure 2. Inflation marginally increased but remained below the CBA target band
(CPI inflation, y-o-y change, in %)

Source: CBA

Figure 3. The trade deficit narrowed further as imports contracted more than exports
(in USD million)

Source: Statistical Committee of RA

Figure 4. The budget deficit increased in October reflecting higher spending
(in AMD billion)

Source: MOF

Figure 3. International reserves declined but still provide adequate import cover
(in USD million)

Source: CBA

Figure 4: The dram has come under pressure, especially following the ceasefire
(index, March 2, 2020=100)

Source: CBA