Economic activity collapsed by 17 percent in April, yoy, following a 4 percent growth in Q1. Inflation picked-up slightly in May, but still remains low at 1.2 percent. Budget spending grew by 40 percent in April, reflecting the government’s Covid-19 support packages, while revenues declined. The dram was stable since mid-May. Credit and deposit growth moderated in April.

Following a good start to 2020, Covid-19 brought economic activity to a halt. GDP expanded by 3.8 percent year-on-year (yoy) in Q1.2020. Consumption explained 80 percent of the growth with private and public consumptions increasing by 3 and 6 percent, respectively. Investment declined by more than 20 percent in the 2020-Q1. Net exports contributed positively to growth, due to a larger decline in imports than exports (4.4 and 0.7 percent, yoy decline, respectively). However, as containment measures were introduced in mid-March to halt the spread of Covid-19, economic activity slowed sharply. The Economic Activity Index contracted by 4.5 percent yoy in March and 17 percent (yoy) in April, the first full month under lockdown. The construction sector recorded the largest contraction in April with output declining by half, followed by a 35 percent decline in retail trade. Services (excluding retail trade), contracted by 24 percent, while industry output reduced by 8.5 percent. With the strong contraction in April, the cumulative Economic Activity Index in the first four months of 2020 was 1.7 percent lower compared to the same period of last year. On cumulative basis for January-April, only construction and trade declined, services were flat, and industry showed 4 percent increase due to 27 percent hike in mining output. As restrictions were lifted in May, mobility recovered; however, this also coincided with a steep increased in the number of new infections. GDP is projected to contract by 2.8 percent in the baseline; however, a scenario of a prolonged outbreak is increasingly likely and could see output contract by 6.5 percent.

The real estate market was impacted heavily in April. The number of real estate transactions in Yerevan fell by 80 percent, yoy, from 978 transactions in April last year to only 187. Related to this, the outstanding amount of mortgage loans in April declined by 1 percent compared to March.

Inflation increased slightly in May, but at 1.2 percent yoy remains low and well below the CBA inflation target lower band. Food prices increased by 1 percent yoy and explained fully the increase in inflation from 0.9 percent in April to 1.2 percent in May. Meanwhile, transport prices registered a 4 percent decline, reflecting the sharp decline in world oil prices as well as lower mobility in May compared with the pre-lockdown period. Monetary policy remained unchanged. The newly elected Central Bank of Armenia Chairman, Martin Galstyan, will start his term on June 13, 2020.

The contraction in both exports and imports intensified in April. Exports were down around 30 percent as export of all groups, except minerals, declined. A virtual halt in export of jewelry and precious stones and metals accounts for half of the reduction in exports. Mineral exports were up 23 percent yoy in value terms, mainly due to 30 percent higher copper exports. Similarly, imports declined by 30 percent yoy, reflecting lower imports of all product groups, except food which grew by 24 percent yoy. Cumulatively, exports and imports fell by 8 and 11 percent, respectively in the first four months of 2020, narrowing the trade deficit by around 15 percent. However, this was offset by a 65 percent decline in net transfers from Russia in Q1.2020 and suspended tourism inflows.

The exchange rate has remained relatively stable recently. Following a 2 percent depreciation of the dram against the USD in the first half of May, the dram recovered in the second half of the month and has remained stable since. Reserves increased to USD 2.7 billion reflecting the proceeds from the IMF Stand-By Arrangement (SBA) following the completion of the second review in May.

The budget registered an AMD20 billion deficit in April, reducing the cumulative surplus in the first four months to AMD18 billion. Tax revenues declined by 10 percent yoy in April, while expenditures grew by about 40 percent, due to higher social benefits, other transfers and capital spending. This also reflects the government’s Covid-19 response support packages which started to be allocated in April. Government debt at the end of May 2020 was USD 100 million higher compared to end-2019. The completion of the second review of the IMF’s SBA provided budget support financing of around USD280 million which will be available once the ratification by the Armenian Parliament is completed.

Both credit and deposit growth slowed in April. Credit to the economy in April was 16 percent higher yoy, down from 19.4 percent in March, largely due to the appreciation of the dram. Excluding the exchange rate effect, credit growth moderated from 17 percent yoy in March to 16 percent in April. The slowdown was more pronounced on the deposit side, with the growth rate down to 12 percent yoy in April. The financial stability indicators remained adequate in April; however, performance of individual banks could vary, and the impact of the economic slowdown may be reflected at a later stage.
Figure 1. The economy shrunk sharply in April (yoy change, in %)

Figure 2. Prices in May increased slightly (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 still ran a surplus as of end of April (in AMD million)

Source: Statistical Committee of RA

Source: MOF

Figure 5. Credit growth has slowed (in AMD million)

Figure 6: The dram has been stable recently (index, March 2, 2020=100)

Source: CBA

Source: CBA